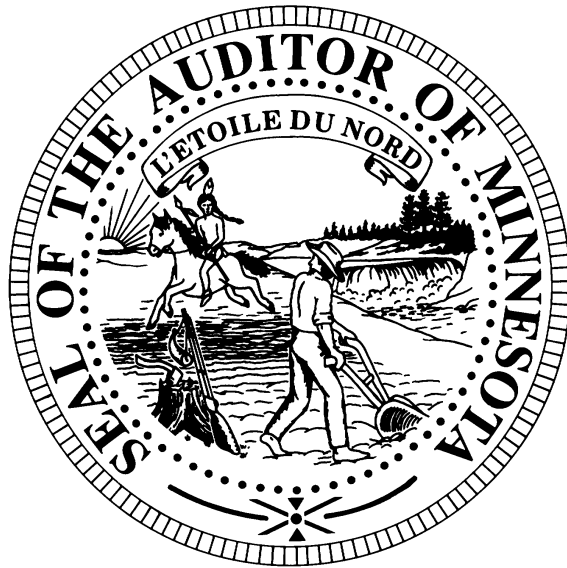


Further Analysis
**Effect of Local Government Aid and Market
Value Credit Cuts on Minnesota Cities**



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The Effect of Local Government Aid and Market Value Credit Cuts for year-ended 2003

In February 2003, the State Auditor released a report entitled, “Local Government Aid and Its Effect on Expenditures” that showed those cities that received the highest levels of local government aid also spent significantly higher amounts per capita on “non-essential” services as well as “essential” services. Essential services were defined as current expenditures in the areas of general government, public safety, and streets and highways. All other current expenditures were defined as non-essential services. The report argued that cities could absorb aid cuts without raising property taxes or cutting essential services by reducing their level of spending on non-essential services down to the median level.

In 2003, faced with a state budget deficit of over \$4 billion, the legislature approved a budget measure that cut city Local Government Aid (LGA) and other general-purpose aids and tax credits, imposed limits on city tax levies, and revamped the LGA distribution formula. This report examines two aspects of the legislation enacted in 2003. First, it shows how cities responded to the first round of aid cuts enacted in the second half of 2003. Second, it examines changes in city tax levies before and after the aid cuts.

Local Government Aid and Market Value Credit Cuts

The LGA cut in 2003 reduced the pool of money distributed to cities from \$586.8 million to \$469.9 million – a mid-year reduction of \$121.9 million. In addition, city market value credits (MVC) were reduced by \$20 million. For 2004 and beyond, the total amount of LGA available to cities was set at \$437 million with no built-in inflationary increases. Also, after a period of transition, all of the LGA dollars will be distributed according to the new formula. The new formula will result in fewer dollars going to metro cities and more going to cities in greater Minnesota. The legislature kept the reduction of \$20 million in MVC for 2004, but restored the program dollars for 2005.

For 2003, the reductions in LGA and MVC were generally equal to 9.3 percent of a city’s 2003 certified levy plus its general-purpose aids (LGA, low-income housing aids, and taconite aids). Reductions were limited to no more than 3.7 percent of general fund revenues for cities with populations of 1,000 or less, or whose average annual growth in levy plus aid over the previous three years was less than 2 percent; or 5.25 percent for all other cities.

Between 2002 and 2003, LGA and MVC payments decreased by an average of \$31 per capita, or 20 percent. The \$31 per capita reduction equaled about 3 percent of the \$937 in total revenues per capita raised by cities in 2003. Because statewide averages often mask what is occurring for individual or groups of cities, this supplemental analysis uses city clusters to help put the changes in perspective.¹ The clusters group cities with similar demographic and property mixes together for a more meaningful comparison. Among the city clusters, the range in per capita reductions of LGA and MVC ranged from \$45 for the central cities cluster to \$12 for the metro high-income cluster.

¹ This cluster model was developed by Pat Dalton of the Minnesota House Research Department and refined further by the research department of the League of Minnesota Cities. More information on clusters can be found in the appendix. A full discussion of how the clusters were determined can be found at: <http://www.lmnc.org/pdfs/ClusteringMinnesotaCities0803.pdf>

On average, the aid cuts equaled about 3.4 percent of city revenues per capita. Among the clusters, the range was from 2.1 percent for the metro high-income cluster to 4.0 percent for the Greater Minnesota moderate growth cluster and the metro smaller cities cluster. Because there is a relatively small variance between the clusters in the percentage of total revenues lost by the aid cuts, cities had to adjust their budgets approximately the same amount. The following table summarizes the aid reductions by city cluster.

Analysis of 2002 and 2003 LGA and MVC Per Capita by Cluster									
Cluster Name	Number of Cities	2003 Population	2002 LGA & MVC *	2003 LGA & MVC *	Difference	Percent Change	2003 Total Revenues	LGA & MVC cuts as a Percent of 2003 Total Revenues	LGA & MVC as a Percent of 2003 Total Revenues
Greater Minnesota Established	209	341,657	318	286	-32	-10.1%	915	3.5%	31.3%
Greater Minnesota High Income	26	116,946	109	81	-28	-25.9%	888	3.2%	9.1%
Greater Minnesota Major Cities	3	241,969	239	205	-34	-14.2%	1,110	3.1%	18.4%
Greater Minnesota Moderate Growth	59	136,727	202	170	-32	-15.8%	802	4.0%	21.2%
Greater Minnesota Regional Centers	22	381,842	297	260	-37	-12.3%	931	3.9%	27.9%
Greater Minnesota Small Cities	359	76,469	215	196	-19	-9.0%	809	2.4%	24.2%
Greater Minnesota Sub-Regional Centers	27	92,983	219	176	-43	-19.8%	1,193	3.6%	14.7%
Greater Minnesota Urban Fringe	10	61,059	64	39	-25	-39.4%	962	2.6%	4.1%
Metro Diversified	15	204,284	48	23	-25	-52.3%	767	3.3%	3.0%
Metro High Growth	35	535,225	36	13	-23	-65.0%	784	3.0%	1.6%
Metro High Income	20	61,002	14	2	-12	-87.1%	592	2.1%	0.3%
Metro Large Cities	12	725,676	31	8	-23	-73.1%	736	3.1%	1.2%
Metro Old Cities	13	295,671	98	71	-27	-27.2%	717	3.7%	10.0%
Metro Smaller Cities	41	156,943	97	69	-29	-29.4%	717	4.0%	9.6%
Central Cities	2	669,899	295	250	-45	-15.1%	1,477	3.0%	17.0%
All Cities	853	4,098,352	161	129	-31	-19.6%	937	3.4%	13.8%

* Local government aid and agricultural and homestead market value credits.

City Responses to 2003 LGA and MVC Reductions

Essential Services²

As discussed previously, aid cuts went into effect half way through the 2003 fiscal year. Since this was after levies had been certified for the year, increasing property taxes to address the 2003 aid reductions was not possible. As a result, there were limited options for responding to the aid cuts. In general, the options were to cut spending, reduce the growth of spending, find new efficiencies, delay projects, hope for an increase in other revenue sources, or tap fund balances. The following discussion focuses on cities as a whole, while later analysis looks at each cluster separately.

² For this analysis of city responses to aid cuts, we have added libraries to the essential services group (general government, public safety, and streets and highways).

Further Analysis: Effect of Local Government Aid and Market Value Credit Cuts on Minnesota Cities

- In the aggregate, cities increased per capita spending on essential services between 2002 and 2003. The average increase per capita among all cities was 3.4 percent. A total of 498 cities increased spending on essential services while 355 cities decreased spending.
- Among the individual categories of essential services, the category most often cut was streets and highways. More cities decreased spending in this category than increased spending (454 to 399). While more cities cut spending than increased it for streets and highways, the category still showed an overall increase of 3.6 percent.
- A clear majority of cities increased spending on public safety in 2003 -- 540 increased spending while 302 decreased spending and 11 spent the same as in 2002. On average, public safety spending per capita increased 1.9 percent.
- Statewide, there was a decrease in spending on libraries of 5.2 percent. While there was a decrease in the aggregate, far more cities increased spending on libraries than decreased it (167 to 98).

Non-Essential Services

Overall, cities reduced spending per capita on non-essential services by 0.4 percent between 2002 and 2003. Among all cities that had expenditures on non-essential services, 419 decreased spending while 425 increased spending. The overall decrease in non-essential services and increase in essential services indicates that essential services were spared when cities needed to reduce spending to offset the aid cuts. This supports the general premise of the LGA study that predicted that non-essential services could be cut while maintaining or increasing essential services.

Overall, spending on essential and non-essential services was above the previous year. While this means that spending grew, cities may have had to significantly slow the growth or cut spending in some categories to fund growth in others. There was no pattern of how clusters responded to the aid cuts, and even within the clusters, there were often significant variations. The following cluster summaries show how similar cities adjusted their expenditures in response to the aid cuts.

Cluster Name	Current Expenditures (Essential Services)				Total Essential Services	Total Non-Essential Services	Total Current Expenditures
	General Government	Public Safety	Streets & Highways	Libraries			
	Greater Minnesota Established	0.5%	8.5%	-4.2%			
Greater Minnesota High Income	-3.5%	3.6%	0.3%	3.4%	0.6%	-4.0%	-0.5%
Greater Minnesota Major Cities	-4.0%	0.6%	-3.7%	-7.2%	-1.6%	-4.8%	-2.5%
Greater Minnesota Moderate Growth	0.5%	3.8%	-2.4%	1.9%	1.3%	-11.6%	-2.0%
Greater Minnesota Regional Centers	1.3%	1.9%	0.7%	-2.8%	1.2%	-9.5%	-1.9%
Greater Minnesota Small Cities	4.8%	8.3%	5.1%	-0.6%	5.9%	8.5%	6.5%
Greater Minnesota Sub-Regional Centers	8.2%	-2.3%	-9.8%	5.9%	-1.4%	5.4%	0.4%
Greater Minnesota Urban Fringe	-2.4%	14.0%	34.1%	-0.6%	13.1%	-7.1%	8.9%
Metro Diversified	2.1%	7.3%	6.2%	0.0%	5.7%	-5.7%	2.6%
Metro High Growth	-1.8%	3.0%	3.6%	-30.0%	1.7%	4.7%	2.4%
Metro High Income	0.4%	3.4%	-6.5%	0.0%	0.5%	-19.2%	-1.5%
Metro Large Cities	-9.6%	2.7%	29.8%	0.0%	4.8%	9.8%	6.3%
Metro Old Cities	-7.2%	3.0%	2.3%	2.7%	0.7%	43.8%	13.4%
Metro Smaller Cities	-3.6%	0.8%	0.0%	24.7%	0.0%	5.9%	1.3%
Central Cities	40.6%	-0.2%	-0.7%	-7.7%	7.6%	-6.3%	2.3%
All Cities	7.8%	1.9%	3.6%	-5.2%	3.4%	-0.4%	2.2%

Cluster Summaries

The following tables examine the interaction of various components of city finances to help illustrate how cities responded to the aid cuts of 2003. Each table provides summary information for the cluster of cities examined. It is important to note that while the cluster analysis provides more insight to underlying trends among cities than statewide totals, there are still wide variations within each cluster.

The overall change among cities from 2002 to 2003 was an increase in spending on essential services per capita of 3.4 percent, a decrease of 0.4 percent on non-essential services per capita, and an increase of 4.9 percent in the unreserved fund balances of the general and special revenue funds.

Greater Minnesota Established Cities Cluster³

In 2003, this cluster received the highest level of LGA/MVC aid per capita at \$286. The reduction in aid between 2002 and 2003 totaled \$32 per capita. In the aggregate, cities in this cluster did not reduce their level of essential or non-essential expenditures to respond to the aid cuts. Both essential and non-essential expenditures per capita increased by 2.7 percent. Among the essential services categories, only streets and highways, which had a 4.2 percent reduction, showed a decrease.

Growth in other revenue categories helped offset the aid cuts, but total revenues still decreased by 1.7 percent. While there was an overall reduction in revenues and an increase in expenditures, the unreserved fund balances of the general and special revenue funds grew by 2 percent between 2002 and 2003. These contrary trends indicate that without the aid reductions, spending and/or fund balances would have grown at a greater rate.

Greater Minnesota Established Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	209	209			
Population	341,427	341,657	230	0.1%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	117	118	1	0.5%	7.8%
Public Safety	180	195	15	8.5%	1.9%
Streets and Highways	116	111	(5)	(4.2%)	3.6%
Libraries	22	23	1	2.4%	(5.2%)
Total Essential Services Expenditures	434	446	12	2.7%	3.4%
Total Non-Essential Services Expenditures	157	161	4	2.7%	(0.4%)
Total Current Expenditures	591	607	16	2.7%	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	160	173	13	8.1%	5.5%
Local Government Aid and Market Value Credits	318	286	(32)	(10.1%)	(19.6%)
Total Services Charges	74	80	6	8.4%	2.9%
Total Revenues	931	915	(16)	(1.7%)	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	442	450	9	2.0%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	74.6%	73.7%	(0)	(1.2%)	2.6%

* In the general and special revenue funds.

³ See the appendix for a list of cities in this cluster. Cities in this cluster have an average population of 1,600 with little population growth. (i.e. Chisholm and Ortonville.)

Greater Minnesota High Income Cities Cluster⁴

Among greater Minnesota clusters, the high income cluster received the second lowest level of LGA & MVC aid per capita at \$81. This represented about nine percent of the cluster's revenues. The aid reductions between 2002 and 2003 amounted to \$28 per capita. Cities in this cluster responded to the aid cuts with a combination of expenditure reductions and revenue increases. Essential services actually increased a slight 0.6 percent, while non-essential services declined by 4.0 percent. Combined, total current expenditures per capita decreased 0.5 percent.

Even with the aid cuts, total revenue for this cluster rose 6.6 percent. Property taxes, special assessments, and charges for services all showed sizable growth between 2002 and 2003. The combination of expenditure reductions in non-essential services and the increase in total revenues allowed cities in this cluster to increase their unreserved fund balances per capita by an average of 11.3 percent. Unreserved fund balances as a percent of total current expenditures now stands at 103 percent.

Greater Minnesota High Income Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	26	26			
Population	111,759	116,946	5,187	4.6%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	102	98	(4)	(3.5%)	7.8%
Public Safety	142	147	5	3.6%	1.9%
Streets and Highways	83	83	0	0.3%	3.6%
Libraries	5	5	0	3.4%	-5.2%
Total Essential Services Expenditures	332	334	2	0.6%	3.4%
Total Non-Essential Services Expenditures	107	103	(4)	(4.0%)	-0.4%
Total Current Expenditures	439	436	(2)	(0.5%)	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	260	276	17	6.4%	5.5%
Local Government Aid and Market Value Credits	109	81	(28)	(25.9%)	-19.6%
Total Services Charges	115	143	27	23.5%	2.9%
Total Revenues	833	888	55	6.6%	-3.0%
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	406	452	46	11.3%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	92.9%	103.1%	0	11.0%	2.6%

* In the general and special revenue funds.

⁴ **Greater Minnesota High Income Cities:** Avon, Buffalo, Byron, Cannon Falls, Clearwater, Courtland, Crosslake, Delano, Dundas, East Gull Lake, Elk River, Hanover, Hermantown, La Prairie, Mantorville, Medford, Monticello, Nisswa, North Mankato, Oronoco, Otsego, Rice, Sauk Rapids, St. Augusta, St. Stephen, Wyoming.

Greater Minnesota Major Cities Cluster⁵

This cluster represents just three cities, Duluth, Rochester and St. Cloud. The level of LGA and MVC received by this cluster was the third highest among greater Minnesota clusters. The amount of aid per capita decreased from \$239 in 2002 to \$205 in 2003, a reduction of \$34 per capita. Increases in other revenue sources provided the cluster an average increase in total revenues per capita of 0.2 percent.

To help offset the loss of aid and the general slow down in revenue growth, this cluster cut both essential and non-essential services. Essential services were cut 1.6 percent, while non-essential services were cut 4.8 percent. The reduction in total current expenditures was 2.5 percent. With the slight rise in revenues and the reductions in current expenditures, cities in the cluster were able to bolster their unreserved fund balances by 3.6 percent. Unreserved fund balances as a percent of total current expenditures were 56.4 percent in 2003.

Greater Minnesota Major Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	3	3			
Population	238,556	241,969	3,413	1.4%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	109	104	(4)	(4.0%)	7.8%
Public Safety	289	291	2	0.6%	1.9%
Streets and Highways	103	100	(4)	(3.7%)	3.6%
Libraries	33	31	(2)	(7.2%)	-5.2%
Total Essential Services Expenditures	534	525	(9)	(1.6%)	3.4%
Total Non-Essential Services Expenditures	192	182	(9)	(4.8%)	-0.4%
Total Current Expenditures	726	708	(18)	(2.5%)	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	171	178	8	4.5%	5.5%
Local Government Aid and Market Value Credits	239	205	(34)	(14.2%)	-19.6%
Total Services Charges	81	82	1	1.5%	2.9%
Total Revenues	1,108	1,110	2	0.2%	-3.0%
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	385	399	14	3.6%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	53.0%	56.4%	0	6.4%	2.6%
* In the general and special revenue funds.					

⁵ **Greater Minnesota Major Cities:** Duluth, Rochester, St. Cloud.

Greater Minnesota Moderate Growth Cities Cluster⁶

The average level of LGA and MVC per capita for this cluster of cities was \$170 in 2003. This was down \$32 from the level it received in 2002. Increases in other revenue sources helped offset the aid reductions but there was still a net reduction in total revenues of 1.2 percent between 2002 and 2003.

To respond to the aid reductions, cities in this cluster reduced spending on non-essential services by an average of 11.6 percent. The amount spent on essential services increased a slight 1.3 percent. Overall, current expenditures decreased by 2.0 percent between 2002 and 2003.

While revenues and expenditures both decreased during the two-year period, unreserved fund balances grew by 7.9 percent. Unreserved fund balances as a percent of total current expenditures grew from 86.9 percent in 2002 to 95.9 percent in 2003.

Greater Minnesota Moderate Growth Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	59	59			
Population	134,047	136,727	2,680	2.0%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	102	102	0	0.5%	7.8%
Public Safety	146	151	6	3.8%	1.9%
Streets and Highways	78	76	(2)	(2.4%)	3.6%
Libraries	15	15	0	1.9%	(5.2%)
Total Essential Services Expenditures	340	345	4	1.3%	3.4%
Total Non-Essential Services Expenditures	116	103	(13)	(11.6%)	(0.4%)
Total Current Expenditures	457	448	(9)	(2.0%)	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	201	220	19	9.5%	5.5%
Local Government Aid and Market Value Credits	202	170	(32)	(15.8%)	(19.6%)
Total Services Charges	78	93	15	19.2%	2.9%
Total Revenues	811	802	(10)	(1.2%)	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	394	425	31	7.9%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	86.9%	95.9%	0	10.4%	2.6%
* In the general and special revenue funds.					

⁶ **Greater Minnesota Moderate Growth:** Annandale, Brownsville, Buffalo Lake, Center City, Chatfield, Chisago City, Cohasset, Cokato, Cold Spring, Cottonwood, Dassel, Dodge Center, Emily, Eyota, Foley, Gaylord, Glencoe, Glyndon, Goodhue, Goodview, Harris, Henderson, Holdingford, Howard Lake, Isle, Kasson, Kenyon, La Crescent, Lake City, Lake Shore, Le Center, Le Sueur, Lester Prairie, Lewiston, Lindstrom, Lonsdale, Madison Lake, Maple Lake, Nicollet, Pine Island, Plainview, Redwood Falls, Richmond, Rockford, Rush City, Rushford, Sandstone, Sauk Centre, Stacy, Stewartville, Stockton, St. Charles, St. Clair, St. Joseph, Taylors Falls, Wanamingo, Waverly, Winsted, Zumbrota, Zumbrota

Greater Minnesota Regional Centers Cluster⁷

This cluster of cities received the second highest level of LGA plus MVC in 2003 at \$260 per capita. This was down from \$297 in 2002 – a decrease of \$37 per capita. Increases in other revenue categories still left this cluster with a decrease in total revenues of 3.0 percent.

Cities responded to the drop in revenues by cutting spending on non-essential services by 9.5 percent and limiting the growth in essential services to 1.2 percent. Overall, current expenditures decreased by 1.9 percent between 2002 and 2003. Even though total revenues and total current expenditures decreased, cities in this cluster were able to bolster their unreserved fund balances by 5.6 percent. Unreserved fund balances as a percent of total expenditures increased from 67.4 percent in 2002 to 72.5 percent in 2003.

Greater Minnesota Regional Centers Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	22	22			
Population	378,724	381,842	3,118	0.8%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	80	81	1	1.3%	7.8%
Public Safety	222	226	4	1.9%	1.9%
Streets and Highways	106	107	1	0.7%	3.6%
Libraries	28	27	(1)	(2.8%)	(5.2%)
Total Essential Services Expenditures	436	441	5	1.2%	3.4%
Total Non-Essential Services Expenditures	178	161	(17)	(9.5%)	(0.4%)
Total Current Expenditures	614	602	(12)	(1.9%)	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	155	169	14	9.0%	5.5%
Local Government Aid and Market Value Credits	297	260	(37)	(12.3%)	(19.6%)
Total Services Charges	81	80	(1)	(1.5%)	2.9%
Total Revenues	959	931	(28)	(3.0%)	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	414	437	23	5.6%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	67.4%	72.5%	0	7.6%	2.6%

* In the general and special revenue funds.

⁷ **Greater Minnesota Regional Centers:** Albert Lea, Austin, Bemidji, Brainerd, Cloquet, Fairmont, Faribault, Fergus Falls, Hibbing, Hutchinson, Little Falls, Mankato, Marshall, Moorhead, New Ulm, Northfield, Owatonna, Red Wing, Virginia, Willmar, Winona, Worthington.

Greater Minnesota Small Cities Cluster⁸

This is the largest cluster of cities, accounting for 359 of the 853 cities. The cuts to LGA and MVC seemed to have very little overall impact on the revenue and expenditure growth of this cluster. LGA and MVC per capita totaled \$196 in 2003, a decrease of \$19 from the level it received in 2002. Even with the aid cuts, the total revenues of this cluster grew 6.5 percent.

On the expenditure side, spending on essential services grew by 5.9 percent while expenditures on non-essential services grew by 8.5 percent. Overall, total current expenditures increased by 6.5 percent.

The unreserved fund balances of this cluster jumped 10.5 percent between 2002 and 2003. At the end of 2003, the unreserved fund balances represented 126.7 percent of total current expenditures.

Greater Minnesota Small Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	359	359			
Population	76,584	76,469	(115)	(0.2%)	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	155	162	7	4.8%	7.8%
Public Safety	113	122	9	8.3%	1.9%
Streets and Highways	97	102	5	5.1%	3.6%
Libraries	3	3	(0)	(0.6%)	(5.2%)
Total Essential Services Expenditures	367	389	22	5.9%	3.4%
Total Non-Essential Services Expenditures	108	117	9	8.5%	(0.4%)
Total Current Expenditures	475	506	31	6.5%	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	158	174	16	10.2%	5.5%
Local Government Aid and Market Value Credits	215	196	(19)	(9.0%)	(19.6%)
Total Services Charges	83	90	6	7.6%	2.9%
Total Revenues	759	809	50	6.5%	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	673	744	71	10.5%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	121.2%	126.7%	0	4.5%	2.6%
* In the general and special revenue funds.					

⁸ See the appendix for a full listing of the cities in this cluster. These 359 cities have a small populations, low growth, a small commercial-industrial tax base per capita, and below average household income.

Greater Minnesota Sub-Regional Centers Cluster⁹

Cities in this cluster received one of the largest per capita cuts in LGA and MVC. The level of aid per capita decreased from \$219 in 2002 to \$176 in 2003. Even with this large aid reduction, increases in other revenue sources left the cluster with an average increase in total revenues per capita of 4.9 percent.

Cities in this cluster reduced expenditures in 2 of the 4 essential services categories. Public safety expenditures per capita decreased 2.3 percent and streets and highways decreased 9.8 percent. Overall, essential services were cut by 1.4 percent. The reductions reflect a return to historical levels after a number of cities had particularly high levels of spending in 2002 related to natural disasters and other infrequent occurrences. Spending on non-essential services increased by 5.4 percent.

Cities in this cluster were able to increase their unreserved fund balances by 10.1 percent between 2002 and 2003. Unreserved fund balances as a percent of total current expenditures increased from 76.9 percent to 84.6 percent during this period.

Greater Minnesota Sub-Regional Centers Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	27	27			
Population	90,479	92,983	2,504	2.8%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	117	127	10	8.2%	7.8%
Public Safety	218	213	(5)	(2.3%)	1.9%
Streets and Highways	127	115	(12)	(9.8%)	3.6%
Libraries	19	20	1	5.9%	(5.2%)
Total Essential Services Expenditures	481	474	(7)	(1.4%)	3.4%
Total Non-Essential Services Expenditures	177	187	9	5.4%	(0.4%)
Total Current Expenditures	658	661	3	0.4%	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	269	284	15	5.5%	5.5%
Local Government Aid and Market Value Credits	219	176	(43)	(19.8%)	(19.6%)
Total Services Charges	107	130	22	20.6%	2.9%
Total Revenues	1,137	1,193	56	4.9%	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	507	558	51	10.1%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	76.9%	84.6%	0	10.0%	2.6%
* In the general and special revenue funds.					

⁹ **Greater Minnesota Sub-Regional Centers:** Aitkin, Alexandria, Appleton, Baudette, Baxter, Cambridge, Deerwood, Detroit Lakes, Grand Marais, Grand Rapids, Hinckley, International Falls, Long Prairie, Mahnomon, Mora, Motley, Park Rapids, Pequot Lakes, Perham, Pine City, Pine River, Princeton, Roseau, Spicer, Waite Park, Walker, Warroad.

Greater Minnesota Urban Fringe Cities Cluster¹⁰

This cluster received the least amount of LGA and MVC aid per capita of any cluster of cities in greater Minnesota. The level of aid decreased from \$64 per capita to \$39 per capita. Even with the \$25 per capita aid cut, this fast growing cluster of cities saw an increase in total revenues of 8.9 percent. Charges for services related to new development accounted for most of the growth in revenue.

The aid cuts did not affect the level of spending on essential services as expenditures increased 13.1 percent. Reflecting the rapid growth and accompanying need for additional services, public safety expenditures per capita grew 14.0 percent and spending on streets and highways grew by 34.1 percent. While essential services increased significantly, spending on non-essential services showed a decrease of 7.1 percent.

Unreserved fund balances for this cluster of cities increased 3.6 percent. While unreserved fund balances increased, their proportion of total expenditures decreased from 104.3 percent to 99.1 percent.

Greater Minnesota Urban Fringe Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	10	10			
Population	56,976	61,059	4,083	7.2%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	85	83	(2)	(2.4%)	7.8%
Public Safety	126	144	18	14.0%	1.9%
Streets and Highways	58	78	20	34.1%	3.6%
Libraries	1	1	(0)	(0.6%)	(5.2%)
Total Essential Services Expenditures	271	307	36	13.1%	3.4%
Total Non-Essential Services Expenditures	72	67	(5)	(7.1%)	(0.4%)
Total Current Expenditures	344	374	30	8.9%	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	272	285	13	4.7%	5.5%
Local Government Aid and Market Value Credits	64	39	(25)	(39.4%)	(19.6%)
Total Services Charges	113	178	65	57.1%	2.9%
Total Revenues	883	962	79	8.9%	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	357	370	13	3.6%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	104.3%	99.1%	(0)	(5.0%)	2.6%
* In the general and special revenue funds.					

¹⁰ **Greater Minnesota Urban Fringe Cities:** Albertville, Becker, Big Lake, Breezy Point, Isanti, North Branch, Rockville, Sartell, St. Michael, Zimmerman.

Metro Diversified Cities Cluster¹¹

Cities in this cluster have a diversified tax base with a strong commercial-industrial presence. Because this is counter to what the LGA formula rewards, this cluster received the fourth lowest level of LGA and MVC per capita. The aid reductions reduced the level of aid from \$48 per capita in 2002 to \$23 per capita in 2003. The aid cuts contributed to an overall reduction in total revenues of 2.3 percent.

In response to the reductions in aid, cities in this cluster reduced non-essential services by 5.7 percent. In contrast, essential services were given a 5.7 percent increase. The net result was an increase of 2.6 percent in total current expenditures.

Even with the reduction in total revenues, cities in this cluster were able to increase their unreserved fund balances by an average of 5.4 percent. Unreserved fund balances as a percent of total current expenditures increased from 62.2 percent to 63.8 percent between 2002 and 2003.

Metro Diversified Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	15	15			
Population	203,322	204,284	962	0.5%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	102	104	2	2.1%	7.8%
Public Safety	194	208	14	7.3%	1.9%
Streets and Highways	73	77	5	6.2%	3.6%
Libraries	0	0	0	---	(5.2%)
Total Essential Services Expenditures	369	390	21	5.7%	3.4%
Total Non-Essential Services Expenditures	135	127	(8)	(5.7%)	(0.4%)
Total Current Expenditures	503	517	13	2.6%	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	285	298	13	4.4%	5.5%
Local Government Aid and Market Value Credits	48	23	(25)	(52.3%)	(19.6%)
Total Services Charges	83	93	10	11.8%	2.9%
Total Revenues	785	767	(18)	(2.3%)	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	313	330	17	5.4%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	62.2%	63.8%	0	2.6%	2.6%

* In the general and special revenue funds.

¹¹ **Metro Diversified Cities:** Arden Hills, Coates, Forest Lake, Fridley, Gem Lake, Golden Valley, Lilydale, Long Lake, Maple Plain, Maplewood, Oak Park Heights, Osseo, Roseville, St. Louis Park, Wayzata

Metro High Growth Cities Cluster¹²

This cluster of cities is characterized by rapid population growth. The level of LGA and MVC per capita provided to cities in this cluster is the third lowest. The aid cuts reduced LGA and MVC from \$36 per capita in 2002 to \$13 per capita in 2003. Growth in other categories of revenues helped offset the aid cut. Overall, total revenues per capita grew by 1.7 percent.

Cities responded to the slow growth in revenues by limiting increases in essential services to 1.7 percent. In contrast, spending on non-essential services grew 4.7 percent. Overall, current expenditures increased 2.4 percent.

In general, cities in this cluster did not tap reserves to help offset the aid cuts. In fact, cities were able to increase their unreserved fund balances by an average of 6.3 percent. Cities in this cluster hold on average unreserved fund balances equaling 73.6 percent of total current expenditures.

Metro High Growth Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	35	35			
Population	519,889	535,225	15,336	2.9%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	81	79	(1)	(1.8%)	7.8%
Public Safety	134	139	4	3.0%	1.9%
Streets and Highways	67	69	2	3.6%	3.6%
Libraries	0	0	(0)	(30.0%)	(5.2%)
Total Essential Services Expenditures	283	288	5	1.7%	3.4%
Total Non-Essential Services Expenditures	77	81	4	4.7%	(0.4%)
Total Current Expenditures	360	368	9	2.4%	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	254	270	16	6.5%	5.5%
Local Government Aid and Market Value Credits	36	13	(23)	(65.0%)	(19.6%)
Total Services Charges	108	117	9	8.2%	2.9%
Total Revenues	770	784	13	1.7%	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	255	271	16	6.3%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	70.9%	73.6%	0	3.8%	2.6%

* In the general and special revenue funds.

¹² **Metro High Growth Cities:** Andover, Carver, Centerville, Champlin, Chanhassen, Chaska, Cologne, Cottage Grove, East Bethel, Elko, Farmington, Greenfield, Ham Lake, Hugo, Inver Grove Heights, Lakeville, Lino Lakes, Mahtomedi, Medina, Mendota Heights, New Market, Oak Grove, Oakdale, Prior Lake, Ramsey, Rogers, Rosemount, Savage, Shakopee, St. Bonifacius, St. Francis, Vadnais Heights, Victoria, Waconia, Woodbury.

Metro High Income Cities Cluster¹³

This cluster received the least amount of LGA and MVC per capita in 2003. The cuts reduced the per capita amount of aid from \$14 to \$2. The reduction in aid helped keep total revenue growth to 0.2 percent.

Cities responded to the flat revenue growth by limiting increases in essential services to 0.5 percent and reducing non-essential services spending by 19.2 percent. Overall, current expenditures per capita were cut by 1.5 percent.

The reduction in expenditures allowed cities in this cluster to increase their unreserved fund balances an average of 11.7 percent. Unreserved fund balances as a percent of total current expenditures increased from 68.7 percent in 2002 to 77.9 percent in 2003.

Metro High Income Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	20	20			
Population	60,083	61,002	919	1.5%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	111	111	0	0.4%	7.8%
Public Safety	183	189	6	3.4%	1.9%
Streets and Highways	76	71	(5)	(6.5%)	3.6%
Libraries	0	0	0	---	(5.2%)
Total Essential Services Expenditures	369	371	2	0.5%	3.4%
Total Non-Essential Services Expenditures	40	32	(8)	(19.2%)	(0.4%)
Total Current Expenditures	409	403	(6)	(1.5%)	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	296	324	29	9.7%	5.5%
Local Government Aid and Market Value Credits	14	2	(12)	(87.1%)	(19.6%)
Total Services Charges	59	58	(0)	(0.6%)	2.9%
Total Revenues	591	592	1	0.2%	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	282	315	33	11.7%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	68.7%	77.9%	0	13.4%	2.6%

* In the general and special revenue funds.

¹³ **Metro High Income Cities:** Afton, Birchwood, Corcoran, Deephaven, Dellwood, Grant, Greenwood, Independence, Lake Elmo, Lakeland, Lakeland Shores, Minnetonka Beach, Minnetrista, North Oaks, Orono, Pine Springs, Shorewood, Sunfish Lake, Tonka Bay, Woodland.

Metro Large Cities Cluster¹⁴

This cluster of cities received the second lowest amount of LGA and MVC per capita in 2003. The level of aid was reduced from \$31 per capita to \$8 per capita between 2002 and 2003. The reduction in aid contributed to an overall decrease in total revenue per capita of 2.7 percent.

Cities in this cluster generally did not reduce current expenditures to offset the decrease in revenues. Spending on essential services rose 4.8 percent and increased 9.8 percent on non-essential services. Total current expenditures increased 6.3 percent.

This is one of only two clusters that responded to the aid cuts by tapping reserves. Unreserved fund balances decreased 5.0 percent between 2002 and 2003. As a result of using reserves, unreserved fund balances as a percent of total current expenditures decreased from 56.7 percent in 2002 to 50.6 percent in 2003.

Metro Large Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	12	12			
Population	715,372	725,676	10,304	1.4%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	77	70	(7)	(9.6%)	7.8%
Public Safety	158	162	4	2.7%	1.9%
Streets and Highways	58	75	17	29.8%	3.6%
Libraries	0	0	0	---	(5.2%)
Total Essential Services Expenditures	293	307	14	4.8%	3.4%
Total Non-Essential Services Expenditures	132	145	13	9.8%	(0.4%)
Total Current Expenditures	425	452	27	6.3%	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	295	305	10	3.2%	5.5%
Local Government Aid and Market Value Credits	31	8	(23)	(73.1%)	(19.6%)
Total Services Charges	65	68	2	3.5%	2.9%
Total Revenues	756	736	(20)	(2.7%)	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	241	229	(12)	(5.0%)	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	56.7%	50.6%	(0)	(10.8%)	2.6%

* In the general and special revenue funds.

¹⁴ **Metro Large Cities:** Apple Valley, Blaine, Bloomington, Brooklyn Park, Burnsville, Coon Rapids, Eagan, Eden Prairie, Edina, Maple Grove, Minnetonka, Plymouth.

Metro Old Cities Cluster¹⁵

Among the metro clusters, only the central cities cluster received more LGA and MVC per capita than this one. Aid cuts reduced the level of LGA and MVC from \$98 in 2002 to \$71 in 2003. The aid cuts coupled with a reduction in interest earnings greater than the aid cuts resulted in a decrease in total revenues per capita of 8.4 percent.

Cities in this cluster did not reduce essential or non-essential expenditures, which increased 0.7 percent and 43.8 percent respectively. The only category of expenditure that was reduced was capital outlay which decreased 31.7 percent.

Even with the large decrease in total revenues and increase in total current expenditures, cities in this cluster increased their unreserved fund balances by an average of 14.4 percent.

Metro Old Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	13	13			
Population	294,665	295,671	1,006	0.3%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	68	64	(5)	(7.2%)	7.8%
Public Safety	195	200	6	3.0%	1.9%
Streets and Highways	57	58	1	2.3%	3.6%
Libraries	4	4	0	2.7%	(5.2%)
Total Essential Services Expenditures	323	326	2	0.7%	3.4%
Total Non-Essential Services Expenditures	134	193	59	43.8%	(0.4%)
Total Current Expenditures	457	518	61	13.4%	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	255	258	3	1.1%	5.5%
Local Government Aid and Market Value Credits	98	71	(27)	(27.2%)	(19.6%)
Total Services Charges	66	76	9	14.3%	2.9%
Total Revenues	782	717	(66)	(8.4%)	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	263	301	38	14.4%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	57.4%	58.0%	0	1.0%	2.6%

* In the general and special revenue funds.

¹⁵ **Metro Old Cities:** Anoka, Brooklyn Center, Columbia Heights, Crystal, Hastings, Hopkins, New Brighton, New Hope, Richfield, Shoreview, South St. Paul, West St. Paul, White Bear Lake.

Metro Small Cities Cluster¹⁶

Among the metro clusters, the small cities cluster most resembles the old cities cluster. The level of LGA and MVC per capita received by the cluster was \$2 less than that of the old cities cluster. The level of aid per capita dropped from \$97 to \$69 due to the aid cuts. Although other categories of revenue increased, they were not enough to offset the aid cuts. As a result, total revenues per capita decreased 2.4 percent between 2002 and 2003.

Cities in this cluster responded to the aid cuts by keeping essential services spending virtually flat and increasing spending on non-essential services by 5.9 percent. Total current expenditures increased by 1.3 percent. In addition to limiting the growth in spending, cities in this cluster used a small amount of their unreserved fund balances to offset some of the aid cut. Unreserved fund balances decreased 0.6 percent between 2002 and 2003.

Metro Small Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	41	41			
Population	154,203	156,943	2,740	1.8%	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	95	92	(3)	(3.6%)	7.8%
Public Safety	180	182	1	0.8%	1.9%
Streets and Highways	56	56	0	0.0%	3.6%
Libraries	8	9	2	24.7%	(5.2%)
Total Essential Services Expenditures	339	339	(0)	(0.0%)	3.4%
Total Non-Essential Services Expenditures	100	106	6	5.9%	(0.4%)
Total Current Expenditures	439	445	6	1.3%	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	253	267	15	5.8%	5.5%
Local Government Aid and Market Value Credits	97	69	(29)	(29.4%)	(19.6%)
Total Services Charges	66	75	9	13.2%	2.9%
Total Revenues	734	717	(18)	(2.4%)	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	323	321	(2)	(0.6%)	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	74.2%	73.2%	(0)	(1.3%)	2.6%
* In the general and special revenue funds.					

¹⁶ **Metro Smaller Cities:** Bayport, Belle Plaine, Bethel, Circle Pines, Dayton, Excelsior, Falcon Heights, Hamburg, Hampton, Hilltop, Jordan, Lake St. Croix Beach, Landfall, Lauderdale, Lexington, Little Canada, Loretto, Marine On St. Croix, Mayer, Medicine Lake, Mendota, Miesville, Mound, Mounds View, New Germany, New Prague, New Trier, Newport, North St. Paul, Norwood Young America, Randolph, Robbinsdale, Spring Lake Park, Spring Park, Stillwater, St. Anthony, St. Mary'S Point, St. Paul Park, Vermillion, Watertown, Willemie.

Central Cities Cluster¹⁷

At \$45 per capita, the central cities received the largest aid cut of all the city clusters. Coupled with decreases in other categories of revenues, there was an overall decrease in revenues of 7.5 percent for the central cities.

In response to the decrease in revenues, the cities decreased spending in three of the four categories of essential services. Public safety spending decreased by 0.2 percent, street and highway spending decreased by 0.7 percent, and library spending decreased by 7.7 percent. Spending on general government increased by 40.6 percent but that was an aberration caused by a \$29.1 million contribution by the city of Minneapolis into the Minneapolis Employees Retirement Fund. The contribution was funded by proceeds from the sale of taxable pension obligation bonds. Overall, spending on essential services rose by 7.6 percent and spending on non-essential services decreased by 6.3 percent.

While there was a decrease in total revenues, total unreserved fund balances increased by 7.8 percent between 2002 and 2003.

Central Cities Cluster					
	<u>2002</u>	<u>2003</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Statewide Percent Change</u>
Number of Cities	2	2			
Population	670,700	669,899	(801)	(0.1%)	1.3%
<u>Current Expenditures Per Capita</u>					
General Government	146	206	59	40.6%	7.8%
Public Safety	406	405	(1)	(0.2%)	1.9%
Streets and Highways	93	92	(1)	(0.7%)	3.6%
Libraries	55	51	(4)	(7.7%)	(5.2%)
Total Essential Services Expenditures	700	753	54	7.6%	3.4%
Total Non-Essential Services Expenditures	429	402	(27)	(6.3%)	(0.4%)
Total Current Expenditures	1,129	1,155	26	2.3%	2.2%
<u>Revenues Per Capita</u>					
Property Taxes	306	324	18	6.0%	5.5%
Local Government Aid and Market Value Credits	295	250	(45)	(15.1%)	(19.6%)
Total Services Charges	140	117	(23)	(16.3%)	2.9%
Total Revenues	1,595	1,477	(119)	(7.5%)	(3.0%)
<u>Unreserved Fund Balances Per Capita *</u>					
Total Unreserved Fund Balance	319	344	25	7.8%	4.9%
Unreserved Fund Balance as a Percent of Total Current Expenditures	28.3%	29.8%	0	5.3%	2.6%
* In the general and special revenue funds.					

¹⁷ **Central Cities:** Minneapolis, St. Paul.

“Triple Whammy” Cities

While most cities were able to absorb the aid cuts and still maintain spending levels and increase their fund balances, there was a group of 20 cities that had to cut essential and non-essential services as well as tapped their fund balance. For these cities, the aid cuts often compounded other decreases in revenues. The following table shows those cities hit the hardest by the aid cuts based on these criteria.

The Triple Whammy Cities									
Cities That Cut Essential and Non-Essential Services, and Tapped Their Unreserved Fund Balances									
City	Cluster	2002 to 2003 Change In Expenditures Per Capita			2002 to 2003 Change In Revenues Per Capita			2002 to 2003 Fund Balance	
		Essential Services	Nonessential Services	Total Current Expenditures	LGA MVC	Interest	Total Revenues	General Fund	Spec. & Gen.
								Unreserved Fund Balance	Unreserved Fund Balance
RICE	Greater Minnesota High Income	(66)	(45)	(111)	(25)	5	(88)	17	(52)
CLOQUET	Greater Minnesota Regional Centers	(42)	(50)	(92)	(32)	1	(75)	29	(93)
ROUND LAKE	Greater Minnesota Small Cities	(10)	(65)	(75)	(27)	(112)	(179)	(265)	(257)
ULEN	Greater Minnesota Established	(37)	(34)	(72)	(10)	(14)	34	(263)	(263)
FOSSTON	Greater Minnesota Established	(16)	(53)	(69)	(27)	(6)	(268)	47	(29)
BLAINE	Metro Large Cities	(60)	(1)	(62)	(27)	(15)	(48)	31	(49)
SAVAGE	Metro High Growth	(32)	(10)	(42)	(19)	(10)	76	56	(12)
CALEDONIA	Greater Minnesota Established	(25)	(17)	(42)	(17)	4	(4)	(38)	(38)
JENKINS	Greater Minnesota Small Cities	(9)	(29)	(38)	(19)	(3)	(34)	67	(8)
OTSEGO	Greater Minnesota High Income	(32)	(4)	(36)	(7)	(9)	194	4	(100)
ORONOCO	Greater Minnesota High Income	(18)	(16)	(34)	(20)	(1)	59	(51)	(22)
MOOSE LAKE	Greater Minnesota Established	(5)	(22)	(27)	(21)	2	(86)	(8)	(8)
CANBY	Greater Minnesota Established	(13)	(14)	(27)	(13)	(6)	(114)	(131)	(128)
FARIBAULT	Greater Minnesota Regional Centers	(2)	(24)	(26)	(41)	(13)	(21)	(26)	(33)
BROWNTON	Greater Minnesota Established	(17)	(8)	(25)	(29)	(18)	(34)	(309)	(349)
WORTHINGTON	Greater Minnesota Regional Centers	(0)	(21)	(21)	(35)	(25)	(51)	(17)	(12)
COLOGNE	Metro High Growth	(3)	(14)	(17)	(35)	10	60	(7)	(7)
ROLLINGSTONE	Greater Minnesota Established	(9)	(4)	(14)	(21)	(17)	252	22	(249)
ST. PETER	Greater Minnesota Established	(10)	(1)	(12)	(42)	(2)	153	(36)	(102)
ST. PAUL	Central Cities	(0)	(9)	(9)	(37)	(28)	(22)	(12)	(8)

Property Taxes

Because the aid cuts were enacted halfway through the 2003 fiscal year, after tax levies had been certified, raising property taxes was not an option for responding to the cuts in 2003. However, the first year in which cities had the opportunity raise property taxes to address the aid cuts, the overall increase was actually less than the previous year. In actual dollars, city net tax levies increased 7.8 percent between 2002 and 2003, compared to 7.7 percent between 2003 and 2004. On a per capita basis, the increase was 6.5 percent compared to 7.7 percent. It is difficult to determine if cities had anticipated cuts in LGA and therefore levied an amount greater than what was needed for 2003, but the increase between 2002 and 2003 was almost exactly the same as between 2003 and 2004.

The laws that reduced LGA and MVC also had a levy limit provision that applied to cities with a population greater than 2,500. For these cities, there was a strict levy limit of 60 percent of the aid cut. The levy limit did little to change the trends for cities above and below 2,500 in population. In general, city net tax levies per capita have grown much faster among cities under 2,500 than for those above 2,500. For cities with levy limits, net tax levies per capita rose 5.7 percent between 2002 and 2003, and 7.5 percent between 2003 and 2004. For cities without levy limits, the net tax levies per capita rose 13.9 percent between 2002 and 2003, and 10.6 percent between 2003 and 2004. It is interesting to note that the cities over 2,500 had a higher rate of growth with the levy limit than

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without, and cities under 2,500 had a smaller increase the second year of the aid cuts. The table on the following page shows the five-year trend for cities over and under 2,500 in population.

Net Tax Levies Per Capita *										
	Per Capita					Percent Change				
	2000 Net Tax Levy	2001 Net Tax Levy	2002 Net Tax Levy	2003 Net Tax Levy	2004 Net Tax Levy **	2000-01	2001-02	2002-03	2003-04	2000-04
Cities Over 2,500	\$194	\$207	\$238	\$252	\$271	6.7%	15.0%	5.7%	7.5%	39.4%
Cities Under 2,500	179	189	219	249	275	6.0%	15.3%	13.9%	10.6%	53.9%
All Cities	\$193	\$205	\$236	\$252	\$271	6.6%	15.0%	6.5%	7.7%	40.7%

* The city net levy is computed by subtracting the fiscal disparity distribution levy (if applicable) from each city's certified levy.

** The 2004 per capita amount was calculated using 2003 population figures.

Property Tax Growth Among Cities Clusters

As is the case in all years, looking at statewide averages masks trends among individual cities as well as clusters of cities. The following table helps put the trends in perspective.

Total City Net Levy Per Capita - 2000 to 2004 *										
Cluster Name	Total City Net Levy Per Capita					Percent Change				
	2000 Total Levy	2001 Total Levy	2002 Total Levy	2003 Total Levy	2004 Total Levy **	00-01	01-02	02-03	03-04	00-04
Greater Minnesota Established	\$163	\$175	\$184	\$203	\$222	7.4%	5.3%	10.1%	9.6%	36.5%
Greater Minnesota High Income	217	229	270	286	320	5.4%	17.6%	5.9%	12.1%	47.2%
Greater Minnesota Major Cities	164	177	187	197	210	8.1%	5.5%	5.4%	6.7%	28.3%
Greater Minnesota Moderate Growth	205	193	219	240	263	-5.5%	13.5%	9.6%	9.6%	28.8%
Greater Minnesota Regional Centers	175	188	171	190	210	7.8%	-9.1%	11.0%	10.5%	20.2%
Greater Minnesota Small Cities	140	149	185	185	201	6.7%	24.1%	-0.1%	8.7%	43.8%
Greater Minnesota Sub-Regional Centers	231	251	285	303	336	8.6%	13.8%	6.4%	10.9%	45.8%
Greater Minnesota Urban Fringe	260	270	278	296	319	4.0%	2.8%	6.5%	8.0%	23.0%
Metro Diversified	205	210	281	289	310	2.3%	34.1%	2.9%	7.3%	51.5%
Metro High Growth	165	181	234	249	271	10.0%	28.8%	6.8%	8.7%	64.4%
Metro High Income	232	245	295	321	347	5.7%	20.5%	8.8%	7.8%	49.4%
Metro Large Cities	222	237	282	287	302	6.8%	18.8%	1.8%	5.2%	36.0%
Metro Old Cities	152	165	233	231	252	8.6%	41.1%	-1.1%	9.2%	65.5%
Metro Smaller Cities	156	172	224	249	279	9.8%	30.4%	11.4%	11.9%	78.4%
Central Cities	227	241	250	281	296	6.0%	3.9%	12.3%	5.5%	30.4%
All Cities	\$193	\$205	\$236	\$252	\$271	6.6%	15.0%	6.5%	7.7%	40.7%

* The city net levy is computed by subtracting the fiscal disparity distribution levy (if applicable) from each city's certified levy.

** The 2004 per capita amount was calculated using 2003 population figures.

Summary

Despite aid cuts that occurred mid-year, most cities were able to spare essential services from cuts in 2003. In the aggregate, cities responded to the 2003 aid cuts by slowing the rate of growth in spending, targeting service cuts in non-essential services, and building up reserves to help cushion possible future cuts. In addition, the overall rate of growth in tax levies between 2003 and 2004 was less than the increase in the year prior to the aid cuts.

The fact that cities were not forced to tap reserves and often increased them instead, is an indicator that municipalities had built some cushion into their 2003 budgets. Whether cities had anticipated aid cuts and levied accordingly were able to find new efficiencies in service delivery, or find other ways of saving money, the financial position of many cities actually improved after the aid cuts. While this was true in the aggregate, there were certain cities that were very adversely affected.

As the “triple whammy” analysis showed, certain cities were particularly hard hit by the cuts. These cities were in the minority, however. Only 20 of the 853 cities were forced to cut both essential and non-essential services, and tap their unreserved fund balances. For these 20 cities, a return to structural balance will require that they find new efficiencies, continue to reduce service levels, and/or increase their revenues.

Current trends indicate that most cities are relying more on property tax revenues and service charges, and less on intergovernmental revenues. This shift makes the cost of governmental services more transparent to citizens and may result in greater spending restraint. As cities look for ways to maintain service levels, we expect that they will continue to look for ways in which they can work cooperatively with other entities to provide services. In addition, cities have indicated that they will push for revenue diversification such as local option sales taxes to counter flat revenue growth.

Appendix: Cluster Definitions and Listing of Cities Within Each Cluster

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.

Metro Large Cities – Cities with large populations and above average commercial-industrial property value per capita.

Metro Large Cities: Apple Valley, Blaine, Bloomington, Brooklyn Park, Burnsville, Coon Rapids, Eagan, Eden Prairie, Edina, Maple Grove, Minnetonka, Plymouth

Metro Old Cities – Low population growth and low median household income.

Metro Old Cities: Anoka, Brooklyn Center, Columbia Heights, Crystal, Hastings, Hopkins, New Brighton, New Hope, Richfield, Shoreview, South St. Paul, West St. Paul, White Bear Lake.

Metro High Growth Cities – High rate of population growth between 1990 and 2000 and slightly higher than average median household income.

Metro High Growth: Andover, Carver, Centerville, Champlin, Chanhassen, Chaska, Cologne, Cottage Grove, East Bethel, Elko, Farmington, Greenfield, Ham Lake, Hugo, Inver Grove Heights, Lakeville, Lino Lakes, Mahtomedi, Medina, Mendota Heights, New Market, Oak Grove, Oakdale, Prior Lake, Ramsey, Rogers, Rosemount, Savage, Shakopee, St. Bonifacius, St. Francis, Vadnais Heights, Victoria, Waconia, Woodbury.

Metro Diversified Cities – Above average commercial-industrial market value per capita.

Metro Diversified Cities: Arden Hills, Coates, Forest Lake, Fridley, Gem Lake, Golden Valley, Lilydale, Long Lake, Maple Plain, Maplewood, Oak Park Heights, Osseo, Roseville, St. Louis Park, Wayzata.

Metro High Income Cities – Much higher than average median household income.

Metro High Income: Afton, Birchwood, Corcoran, Deephaven, Dellwood, Grant, Greenwood, Independence, Lake Elmo, Lakeland, Lakeland Shores, Minnetonka Beach, Minnetrista, North Oaks, Orono, Pine Springs, Shorewood, Sunfish Lake, Tonka Bay, Woodland.

Smaller Cities – Cities with smaller than average populations and generally fall lower than average in the other categories.

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Metro Smaller Cities: Bayport, Belle Plaine, Bethel, Circle Pines, Dayton, Excelsior, Falcon Heights, Hamburg, Hampton, Hilltop, Jordan, Lake St. Croix Beach, Landfall, Lauderdale, Lexington, Little Canada, Loretto, Marine On St. Croix, Mayer, Medicine Lake, Mendota, Miesville, Mound, Mounds View, New Germany, New Prague, New Trier, Newport, North St. Paul, Norwood Young America, Randolph, Robbinsdale, Spring Lake Park, Spring Park, Stillwater, St. Anthony, St. Mary'S Point, St. Paul Park, Vermillion, Watertown, Willernie.

Greater Minnesota Clusters:

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

Greater Minnesota Major Cities – Duluth, Rochester, and St. Cloud

Greater Minnesota 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

Greater Minnesota Regional Centers: Albert Lea, Austin, Bemidji, Brainerd, Cloquet, Fairmont, Faribault, Fergus Falls, Hibbing, Hutchinson, Little Falls, Mankato, Marshall, Moorhead, New Ulm, Northfield, Owatonna, Red Wing, Virginia, Willmar, Winona, Worthington

Greater Minnesota Sub-Regional Centers – Highest average commercial-industrial market values per capita among greater MINNESOTA cities.

Greater Minnesota Sub-Regional Centers: Aitkin, Alexandria, Appleton, Baudette, Baxter, Cambridge, Deerwood, Detroit Lakes, Grand Marais, Grand Rapids, Hinckley, International Falls, Long Prairie, Mahnomon, Mora, Motley, Park Rapids, Pequot Lakes, Perham, Pine City, Pine River, Princeton, Roseau, Spicer, Waite Park, Walker, Warroad

Greater Minnesota Urban Fringe – High growth cities with above average household income

Greater Minnesota Urban Fringe Cities: Albertville, Becker, Big Lake, Breezy Point, Isanti, North Branch, Rockville, Sartell, St. Michael, Zimmerman.

Greater Minnesota High Income Cities – Highest average household income.

Greater Minnesota High Income: Avon, Buffalo, Byron, Cannon Falls, Clearwater, Courtland, Crosslake, Delano, Dundas, East Gull Lake, Elk River, Hanover, Hermantown, La Prairie, Mantorville, Medford, Monticello, Nisswa, North Mankato, Oronoco, Otsego, Rice, Sauk Rapids, St. Augusta, St. Stephen, Wyoming

Greater Minnesota Moderate Growth Cities – Slightly higher than average population growth and household income.

Greater Minnesota Moderate Growth: Annandale, Brownsville, Buffalo Lake, Center City, Chatfield, Chisago City, Cohasset, Cokato, Cold Spring, Cottonwood, Dassel, Dodge Center, Emily, Eyota, Foley, Gaylord, Glencoe, Glyndon, Goodhue, Goodview, Harris, Henderson, Holdingford, Howard Lake, Isle, Kasson, Kenyon, La Crescent, Lake City, Lake Shore, Le Center, Le Sueur, Lester Prairie, Lewiston, Lindstrom, Lonsdale, Madison Lake, Maple Lake, Nicollet, Pine Island, Plainview, Redwood Falls, Richmond, Rockford, Rush City, Rushford, Sandstone, Sauk Centre, Stacy, Stewartville, Stockton, St. Charles, St. Clair, St. Joseph, Taylors Falls, Wanamingo, Waverly, Winsted, Zumbrota, Zumbrota.

Greater Minnesota Established Cities – Average population size of about 1,600 with little growth.

Greater Minnesota Established: Ada, Adams, Adrian, Albany, Alden, Amboy, Argyle, Arlington, Atwater, Aurora, Babbitt, Bagley, Balaton, Barnesville, Barnum, Battle Lake, Belgrade, Benson, Bird Island, Biwabik, Blackduck, Blooming

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Prairie, Blue Earth, Bovey, Braham, Breckenridge, Brewster, Brooten, Browerville, Browns Valley, Brownsdale, Brownton, Buhl, Butterfield, Caledonia, Canby, Carlton, Cass Lake, Chisholm, Clara City, Claremont, Clarissa, Clarkfield, Clarks Grove, Clearbrook, Cleveland, Coleraine, Cook, Cosmos, Crookston, Crosby, Danube, Dawson, Deer River, Dilworth, Eagle Bend, Eagle Lake, East Grand Forks, Eden Valley, Edgerton, Elbow Lake, Elgin, Ellendale, Ellsworth, Elmore, Ely, Evansville, Eveleth, Fairfax, Fertile, Floodwood, Fosston, Frazee, Fulda, Gibbon, Gilbert, Glenville, Glenwood, Good Thunder, Graceville, Grand Meadow, Granite Falls, Greenbush, Grove City, Hallock, Halstad, Hancock, Harmony, Hawley, Hayfield, Hector, Hendricks, Henning, Heron Lake, Hills, Hoffman, Hokah, Houston, Hoyt Lakes, Ivanhoe, Jackson, Janesville, Jasper, Kandiyohi, Karlstad, Kasota, Keewatin, Kerkhoven, Kiester, Kimball, Lafayette, Lake Benton, Lake Crystal, Lake Park, Lakefield, Lambertson, Lanesboro, Leroy, Litchfield, Littlefork, Luverne, Lyle, Mabel, Madelia, Madison, Mapleton, Marble, Mazeppa, Mc Intosh, Melrose, Menahga, Milaca, Minneota, Minnesota Lake, Montevideo, Montgomery, Montrose, Moose Lake, Morgan, Morris, Morristown, Mountain Iron, Mountain Lake, Nashwauk, New London, New Richland, New York Mills, Olivia, Onamia, Ortonville, Osakis, Parkers Prairie, Paynesville, Pelican Rapids, Pennock, Pierz, Pipestone, Preston, Proctor, Randall, Raymond, Red Lake Falls, Renville, Rock Creek, Rollingstone, Royalton, Rushford Village, Sacred Heart, Scanlon, Sebeka, Sherburn, Silver Bay, Silver Lake, Slayton, Sleepy Eye, Spring Grove, Spring Valley, Springfield, Staples, Starbuck, Stephen, Stewart, St. James, St. Peter, Thief River Falls, Tracy, Trimont, Truman, Twin Valley, Two Harbors, Tyler, Ulen, Verndale, Wabasha, Wabasso, Wadena, Walnut Grove, Warren, Waseca, Waterville, Watkins, Welcome, Wells, West Concord, Westbrook, Wheaton, Windom, Winnebago, Winthrop

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

Greater Minnesota Small Cities: Akeley, Alberta, Aldrich, Alpha, Altura, Alvarado, Arco, Ashby, Askov, Audubon, Avoca, Backus, Badger, Barrett, Barry, Beardsley, Beaver Bay, Beaver Creek, Bejou, Bellechester, Bellingham, Beltrami, Belview, Bena, Bertha, Big Falls, Bigelow, Bigfork, Bingham Lake, Biscay, Blomkest, Bluffton, Bock, Borup, Bowlus, Boy River, Boyd, Brandon, Bricelyn, Brook Park, Brooks, Brookston, Bruno, Buckman, Burtrum, Callaway, Calumet, Campbell, Canton, Carlos, Cedar Mills, Ceylon, Chandler, Chickamaw Beach, Chokio, Clear Lake, Clements, Climax, Clinton, Clitherall, Clontarf, Cobden, Comfrey, Comstock, Conger, Correll, Cromwell, Currie, Cuyuna, Cyrus, Dakota, Dalton, Danvers, Darfur, Darwin, De Graff, Deer Creek, Delavan, Delhi, Denham, Dennison, Dent, Dexter, Donaldson, Donnelly, Doran, Dover, Dovray, Dumont, Dundee, Dunnell, Easton, Echo, Effie, Eitzen, Elba, Elizabeth, Elkton, Elmdale, Elrosa, Elysian, Emmons, Erhard, Erskine, Evan, Farwell, Federal Dam, Felton, Fifty Lakes, Finlayson, Fisher, Flensburg, Florence, Forada, Foreston, Fort Ripley, Fountain, Foxhome, Franklin, Freeborn, Freeport, Frost, Funkley, Garfield, Garrison, Garvin, Gary, Geneva, Genola, Georgetown, Ghent, Gilman, Gonvick, Goodridge, Granada, Grasston, Green Isle, Greenwald, Grey Eagle, Grygla, Gully, Hackensack, Hadley, Halma, Hammond, Hanley Falls, Hanska, Harding, Hardwick, Hartland, Hatfield, Hayward, Hazel Run, Heidelberg, Hendrum, Henriette, Herman, Hewitt, Hill City, Hillman, Hitterdal, Holland, Hollandale, Holloway, Holt, Humboldt, Ihlen, Iona, Iron Junction, Ironton, Jeffers, Jenkins, Johnson, Kelliher, Kellogg, Kennedy, Kenneth, Kensington, Kent, Kerrick, Kettle River, Kilkenny, Kinbrae, Kingston, Kinney, La Salle, Lake Bronson, Lake Henry, Lake Lillian, Lake Wilson, Lancaster, Laporte, Lastrup, Lengby, Leonard, Leonidas, Lewisville, Lismore, Long Beach, Longville, Louisburg, Lowry, Lucan, Lynd, Magnolia, Manchester, Manhattan Beach, Mapleview, Marietta, Maynard, Mc Grath, Mc Gregor, Mc Kinley, Meadowlands, Meire Grove, Mentor, Middle River, Milan, Millerville, Millville, Milroy, Miltona, Minneiska, Minnesota City, Mizpah, Morton, Murdock, Myrtle, Nashua, Nassau, Nelson, Nerstrand, Nevis, New Auburn, New Munich, Newfolden, Nielsville, Nimrod, Norcross, Northome, Northrop, Odessa, Odin, Ogema, Ogilvie, Okabena, Oklee, Ormsby, Orr, Oslo, Ostrander, Ottertail, Palisade, Pease, Pemberton, Perley, Peterson, Pillager, Plato, Plummer, Porter, Prinsburg, Quamba, Racine, Ranier, Regal, Remer, Revere, Richville, Riverton, Ronneby, Roosevelt, Roscoe, Rose Creek, Rothsay, Round Lake, Rushmore, Russell, Ruthton, Rutledge, Sabin, Sanborn, Sargeant, Seaforth, Sedan, Shafer, Shelly, Shevlin, Skyline, Sobieski, Solway, South Haven, Spring Hill, Squaw Lake, Steen, Storden, Strandquist, Strathcona, Sturgeon Lake, St. Anthony [Stearns], St. Hilaire, St. Leo, St. Martin, St. Rosa, St. Vincent, Sunburg, Swanville, Taconite, Tamarack, Taopi, Taunton, Tenney, Tenstrike, Thomson, Tintah, Tower, Trail, Trommald, Trosky, Turtle River, Twin Lakes, Underwood, Upsala, Urbank, Utica, Vergas, Vernon Center, Vesta, Viking, Villard, Vining, Wahkon, Waldorf, Walters, Waltham, Wanda, Warba, Watson, Waubun, Wendell, West Union, Westport, Whalan, Wilder, Williams, Willow River, Wilmont, Wilton, Winger, Winton, Wolf Lake, Wolverton, Wood Lake, Woodstock, Wrenshall, Wright, Wykoff, Zemple, Zumbro Falls

This clustering model was developed by Pat Dalton of the Minnesota 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>