



State of Main Street

2023 Local Fiscal Trends Analysis

Using one-time funds effectively key to local governments keeping debt in check and reserves intact

The State of Main Street is a project launched in 2020 at the start of the COVID-19 pandemic. A key component of the program is the listening tour across Minnesota where local government officials give feedback on city, county, and township financial data. This annual event provides on-going conversations between the Office of the State Auditor (OSA) and those that guide local budget decisions and policies. This year, our goal was to examine the concerns, obstacles, and successes of the federal pandemic relief programs that impacted local governments across Minnesota.

The listening sessions in 2020 revealed that local governments were concerned about what the pandemic would do to their bottom line and if they would be able to transition back to a time without extra COVID-related funds. Two years later, the data generally shows spending, levels of debt, and reserve levels are like those before the pandemic. These measures of the bottom line indicate that, on average, local governments were able to absorb and use the one-time funding without creating spending commitments that could cause later budget woes.

Using one-time funds effectively was key to local governments keeping their debt in check and reserves intact during global upheaval. Understanding the differences between how one-time and ongoing funding affects local budgets is the first step in managing a local budget well. The benefits of reliable ongoing funding partnerships between the state and local governments (i.e. Local Government Aid (LGA), County Program Aid (CPA), and Township Aid) over one-time money include time for deeper planning and vetting of projects, increased pool of options beyond shovel-ready and short-term projects, and the ability to learn from previous iterations of a project for ongoing improvement.

According to participants during this year's listening sessions, tactics to leverage one-time money to make it act more like ongoing funding included more preparation to increase time to plan, carefully choosing projects that matched both the type of funding available and complement longer term projects, and advocating for flexibility to customize projects for local needs.

Going forward, it would be wise to use this time after the pandemic to analyze the effectiveness of how pandemic funds were spent and if any projects would benefit from being shifted from one-time projects to capital infrastructure planning.

Contents

- Summary of the State of Minnesota's City, County, and Town Finances..... 1
- Recommendations for Grantors 2
- Recommendations for Local Governments (Grantees)..... 2
- Revenue Trends..... 3
- Expenditures Trends 4
- Fund Balance and Debt Trends..... 5
- Major State Aids Trends..... 6
- The State of Main Street Process 7

Recommendations

For Grantors

Extend Timelines

Funding with longer timelines for obligating and spending funds is easier to use effectively. The extra time increases the depth of planning and expands the number of projects that an entity can consider. Generally, projects well-planned and chosen lead to more efficient and effective spending.

Provide Flexibility and Clarity

Clear and complete parameters save time in planning and vetting projects. Difficult to understand application processes, reporting requirements, and spending parameters caused some entities to forego funds they would have qualified for. Flexibility was also key for entities to be able to leverage local government's ability to customize a solution for a local area. Overly restrictive rules about the use of funds meant that entities, particularly smaller ones, were unable to find a local use of the funds that matched their specific needs.

Maintain Ongoing Funding Streams

Ongoing funding provides consistent and reliable revenue on which one-time projects can be built. Projects with the most long-term impact were those that complemented or expanded projects already in existence. Starting systems from scratch under tight timelines and resource pressures led to more errors and less direct benefits than those that were built on existing planning and processes. Funding for long-term needs increases the chance that adequate infrastructure will be able to assist during a crisis.

For Grantees

Prepare for One-Time Opportunities

To increase the time available for a project, reduce the time needed for planning and choosing projects with regular consideration of one-time opportunities. Archiving discussions, decisions, and brainstorming from previous one-time funding opportunities gives an entity a head start on future projects. Including discussion of potential one-time projects in regular planning improves an entity's readiness to seize a one-time opportunity.

Collaborate

As we saw throughout the pandemic, entities that were connected to their peers and other networks were able to respond more effectively to one-time opportunities. Sharing ideas among a wide network and advocating for more flexibility as a group increased creativity and range of options an entity could consider. Pooling resources to dedicate staff to clarify requirements led to fewer false starts and detours due to confusion.

Plan for the End at the Start

Entities that made specific plans for how they would end a project funded with one-time money were able to protect their bottom lines when the project ended. By preventing long-term obligations of a project and ensuring that essential services were not shifted to a time-limited funding stream, entities avoided a spike in debt or a draining of reserves.

Trends

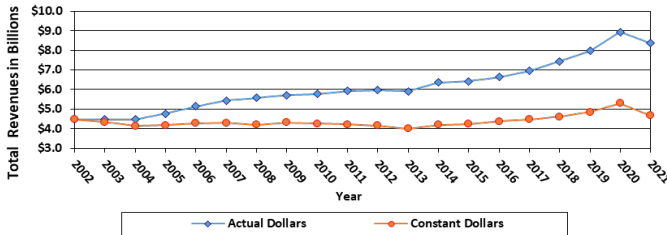
Revenues

- The share of city, county, and township revenue from property taxes increased as the share of revenue from intergovernmental revenues decreased over the past 20 years.
- When adjusted for inflation, total county and township revenue increased over the past 20 years, while city revenue decreased:
 - Counties have seen an increase in revenue in constant dollars.
 - Cities have seen a decrease in revenue in constant dollars.
 - Townships have seen an increase in revenue in constant dollars.

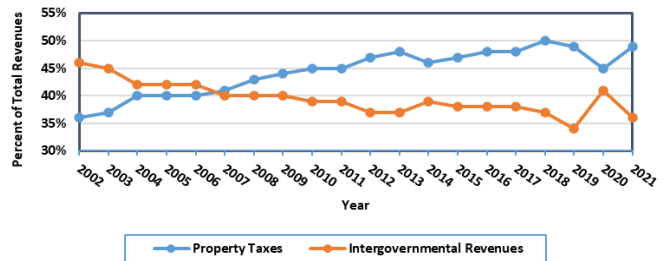
Percent of Total Revenues Derived From Property Taxes, 2002 - 2021



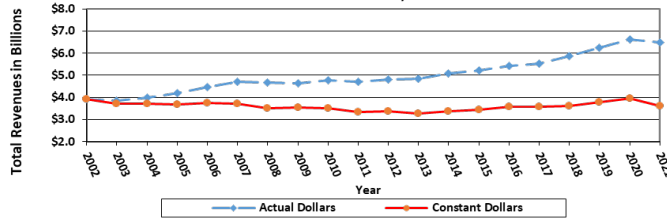
Change in Total Revenues (Counties)
Actual and Constant Dollars, 2002 - 2021



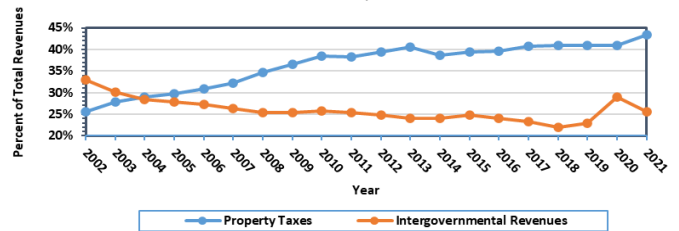
County Property Taxes and Intergovernmental Revenues as a Percent of Total Revenues, 2002 - 2021



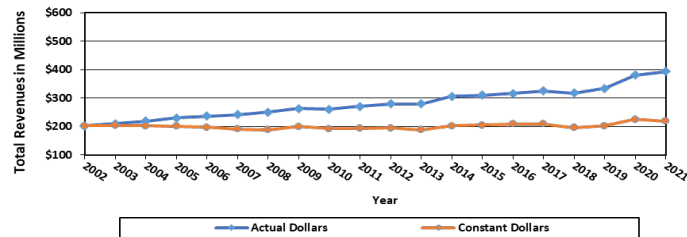
Change in Total Revenues (Cities)
Actual and Constant Dollars, 2002 - 2021



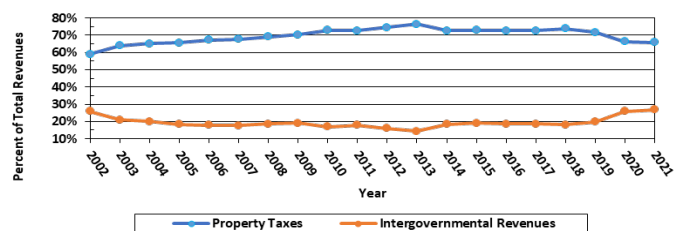
City Property Taxes and Intergovernmental Revenues as a Percent of Total Revenues, 2002 - 2021



Change in Total Revenues (Townships)
Actual and Constant Dollars, 2002 - 2021



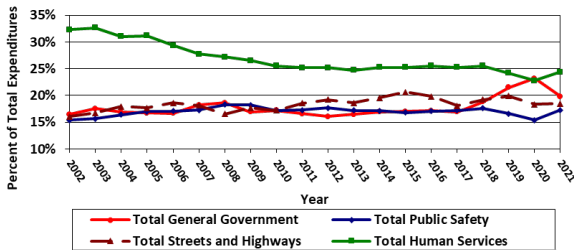
Township Property Taxes and Intergovernmental Revenues as a Percent of Total Revenues, 2002 - 2021



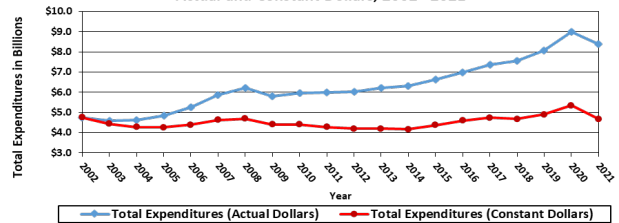
Expenditures

- When adjusted for inflation (constant dollars) over the past 20 years:
 - Counties have seen a decrease in expenditures in constant dollars.
 - Cities have seen a decrease in expenditures in constant dollars.
 - Townships have seen a decrease in expenditures in constant dollars.
- There have been some shifts in the proportion of the largest expenditures of counties, cities, and townships.
 - The proportion of county expenditures on human services decreased over the past twenty years while the proportion spent on general government increased.
 - The proportion of city expenditures on public safety increased over the past twenty years, while the proportion spent on debt service decreased.
 - The proportion of township expenditures on roads and bridges increased over the past 20 years.

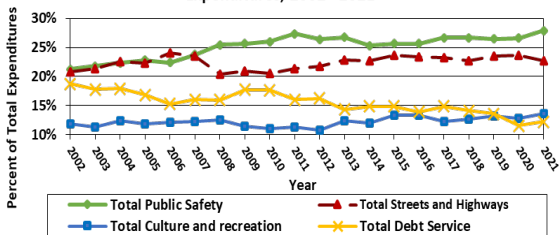
County Primary Categories of Expenditures, 2002 - 2021



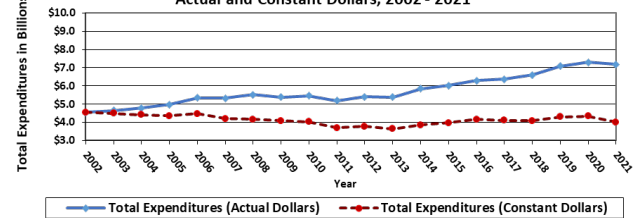
Change in Total Expenditures (Counties) Actual and Constant Dollars, 2002 - 2021



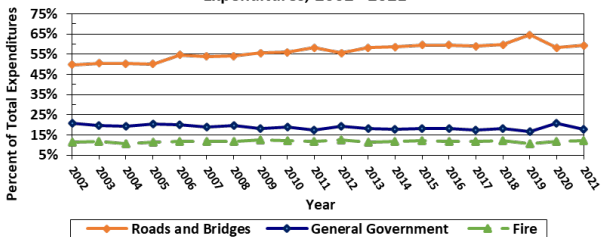
City Primary Categories of Expenditures, 2002 - 2021



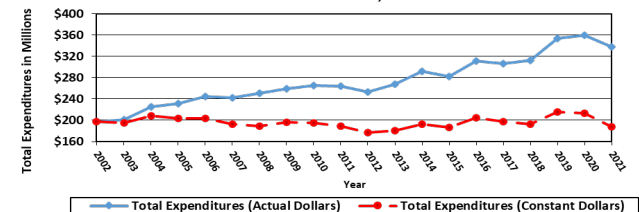
Change in Total Expenditures (Cities) Actual and Constant Dollars, 2002 - 2021



Township Primary Categories of Expenditures, 2002 - 2021



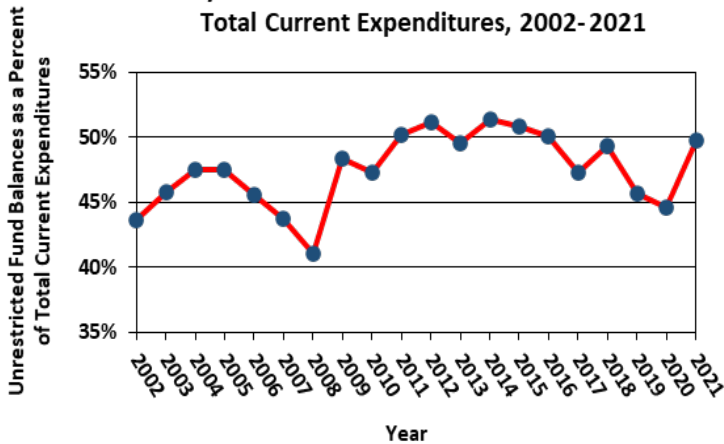
Change in Total Expenditures (Townships) Actual and Constant Dollars, 2002 - 2021



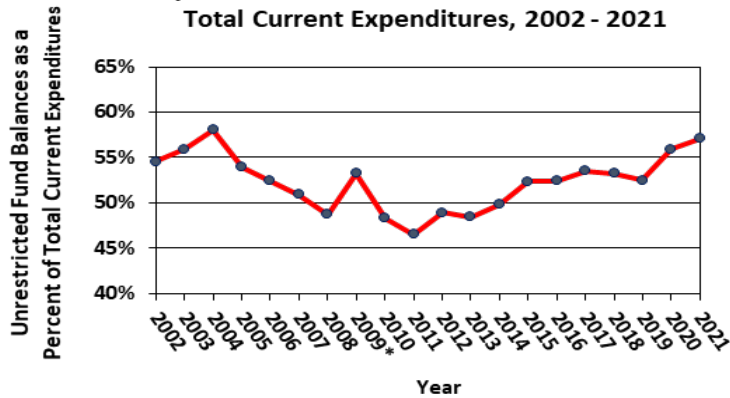
Fund Balance and Debt

- Unrestricted fund balance proportions in cities and counties (GAAP basis) have varied over the past 20 years.
 - County unrestricted fund balances as a proportion of current expenditures are at 50%, which is close to the highest level reported in 2014.
 - City unrestricted fund balances as a proportion of current expenditures are at the highest level since 2004.
- Debt as a proportion of revenues for counties, cities, and townships has varied significantly over the past 20 years.
 - County debt as a proportion of revenues increased over the past 20 years.
 - City debt as a proportion of revenues decreased over the past twenty years but is much higher than that of counties (155 percent to 50 percent).
 - Township debt as a proportion of revenues decreased over the past 20 years.

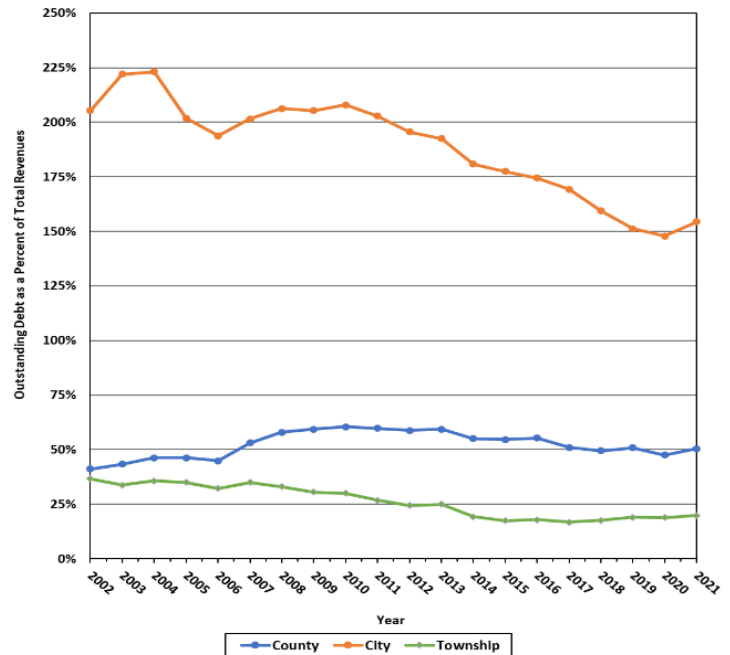
County Unrestricted Fund Balances as a Percent of Total Current Expenditures, 2002-2021



City Unrestricted Fund Balances as a Percent of Total Current Expenditures, 2002 - 2021

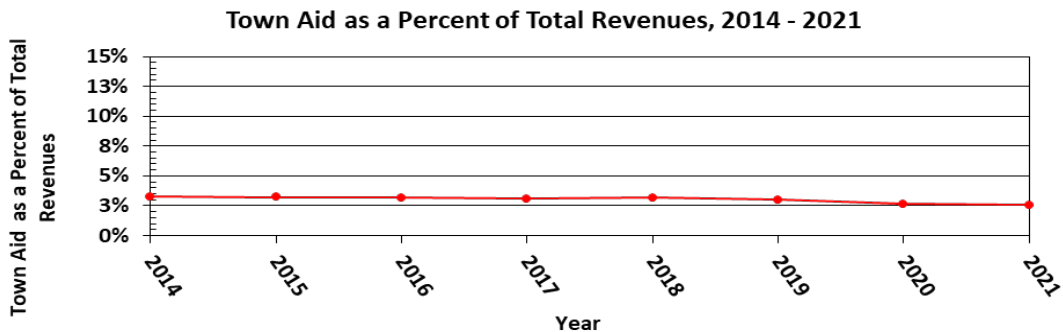
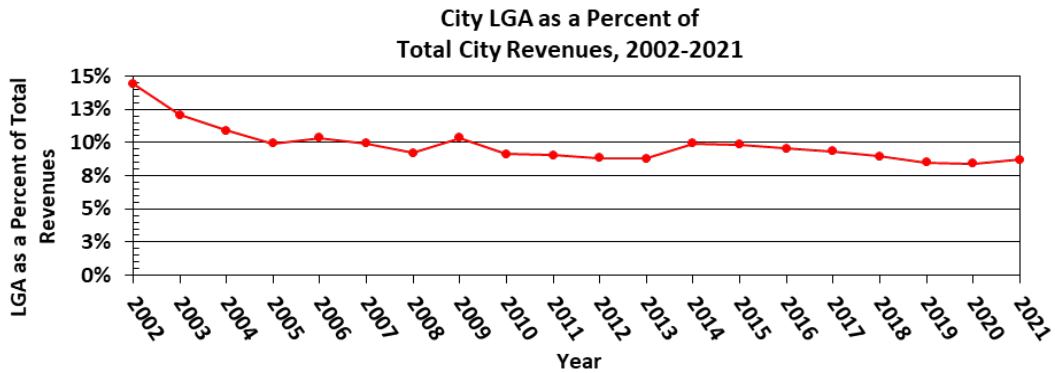
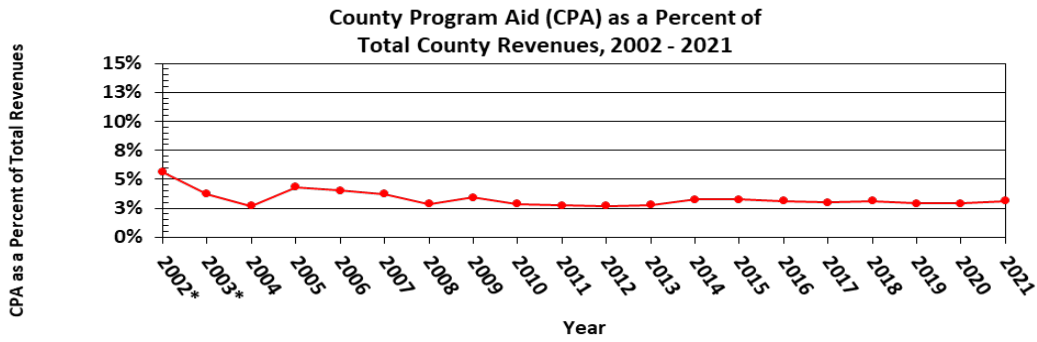


Outstanding Debt as a Percent of Total Revenues, 2002 - 2021



Major State Aids

- Over the past twenty years, County Program Aid, Local Government Aid, and Town Aid (since 2014), have been an increasingly smaller share of total county, city, and town revenues.



The State of Main Street Process

The Office of the State Auditor is the constitutional office that oversees more than \$40 billion spent annually by local governments and approximately \$20 billion in federal dollars spent by the State of Minnesota. The Office of the State Auditor helps to ensure financial integrity and accountability in local government financial activities. We accomplish that mission with examinations like audits and investigations; education and training; technical support and oversight; and data collection and analysis.

A key role of the Office of the State Auditor is to collect and analyze local government data to aid Minnesotans in making decisions based on clear facts presented in context. To serve that purpose, our Government Information Division produces several reports that analyze the data we collect from local governments throughout the year.

To make better sense of the numbers, we pull together key trends in the areas of revenue, expenditure, debt, and reserves, and invite the public, particularly those who work in local government finance, to give us feedback on our data.

This year we held four virtual listening sessions across the state and heard from local leaders in northern, southern, and central Minnesota as well as the Twin Cities metro. Participants were local government financial staff and local elected officials. Though we heard regional differences in local government experiences, a few clear trends emerged. The feedback from those sessions, along with our data, helped us develop our recommendations to maintain stable local government finances.