



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

*****PRESS RELEASE*****

State Auditor Otto Releases Report on City Finances *~Report shows noteworthy long-term trends that affect property tax levels ~*

Contact: Jim Levi, Office of the State Auditor, (651) 297-3683, jlevi@osa.state.mn.us

ST. PAUL (07/11/2008) – State Auditor Rebecca Otto today released a report on City Finances for calendar year 2006. The report is intended to help citizens, local government officials and policy makers understand city financial operations. **“Minnesota cities deliver some of our most essential services like street and highway maintenance and public safety,”** said State Auditor Otto.

The report summarizes the financial operations of Minnesota cities for calendar year 2006, and examines long-term trends as well. **“Property tax levels are an ongoing concern for Minnesotans. Between 1997 and 2006, actual revenues derived from property taxes for cities grew 90 percent compared to 19 percent for revenues derived from intergovernmental sources,”** reported Auditor Otto. **“If this trend continues, it will further increase the reliance on property taxes as a source of revenue. We will share this important information with lawmakers as they make important budget and policy decisions.”**

A few of the report’s highlights include:

Current Trends – All Cities

- Total revenues of the governmental funds for all Minnesota cities amounted to \$4.48 billion in 2006. This represents an increase of 6.4 percent over 2005 revenues. Total revenues of cities over 2,500 in population increased 6.2 percent, while revenues of cities under 2,500 in population increased 8.4 percent (pg. 5).
- Total expenditures of the governmental funds for all cities totaled \$5.35 billion in 2006. This represents an increase of 7.6 percent over 2005. Total expenditures of cities over 2,500 in population increased 7.5 percent, while total expenditures for cities under 2,500 increased 8.5 percent (pg. 5).
- The largest expenditure categories for both groups of cities were streets and highways and public safety. For large cities, streets and highways accounted for 24 percent of total expenditures, and public safety accounted for 23 percent. For small cities, streets and highways accounted for 24 percent of total expenditures, and public safety accounted for 19 percent (pgs. 5-6).

Current Trends – Cities Over and Under 2,500 in Population

- The largest category of current expenditures for cities over 2,500 in population was public safety, while streets and highways dominated capital outlay expenditures. Public safety accounted for 38 percent of all current expenditures, more than double that of any other category. Streets and highways accounted for 57 percent of all capital expenditures, over six times greater than any other category of capital outlay (pg. 12).
- In 2006, the four largest expenditure categories for cities under 2,500 in population were streets and highways, public safety, general government, and debt service. These four categories together accounted for 74 percent of all expenditures in 2006 (pg. 19).

Ten-Year Trends – All Cities

Governmental Revenues

- While cities appear to have ended 2006 in good financial condition with strong growth in revenues, an examination of city finances between 1997 and 2006 reveal a noteworthy trend. In particular, when adjusted for inflation, revenue and expenditure levels remain near 1998 levels. Inflation-adjusted total city revenues grew just 1 percent between 1997 and 2006, while total city expenditures, when adjusted for inflation, grew 5 percent through the same period. In addition, during the last five years of this time frame, these trends were more pronounced. From 2001 to 2006, when adjusted for inflation, revenues *decreased* 6 percent and expenditures *decreased* 3 percent (pg. 7).
- As the federal and state governments have reduced the amount of aid to cities, the result has been a greater reliance on revenues derived from property taxes. The proportion of total revenues derived from property taxes grew from 23 percent in 1997 to 31 percent in 2006. During this same time frame, revenues derived from intergovernmental sources decreased from 33 percent of total revenues to 27 percent (pg. 7).
- During the five-year period of 2002 to 2006, there was a significant slowdown in the growth of revenues as compared to the 1997 to 2001 period. This was in part due to the State's fiscal crises in 2002 and 2003 when budget cuts were made in state aid to cities. While property taxes and other sources of revenues were increased to counter the cuts, revenues did not grow at a rate to keep up with inflation (pgs. 8-9).

Governmental Expenditures

- Total city expenditures grew from \$3.62 billion in 1997 to \$5.35 billion in 2006. This represents an increase of 48 percent. When adjusted for inflation, the increase was just 5.2 percent (pg. 9).

For the complete report, which includes tables and graphs, go to:

<http://www.auditor.state.mn.us/default.aspx?page=20080711.000>.

The Office of the State Auditor is a constitutional office that is charged with overseeing more than \$20 billion spent annually by local governments in Minnesota. The Office of the State Auditor does this by performing audits of local government financial statements, and by reviewing documents, data, reports, and complaints reported to the Office. The financial information collected from local governments is analyzed and is the basis of statutory reports issued by the Office of the State Auditor.

Rebecca Otto is Minnesota's 18th State Auditor. A high-resolution official photo is available for download at http://www.auditor.state.mn.us/images/otto_hires.jpg. To learn more about State Auditor Otto, see <http://www.auditor.state.mn.us/default.aspx?page=bio>.