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

State Auditor Otto Releases Report on City Finances

~Report shows noteworthy long-term trends affecting property tax levels ~

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ST. PAUL (1/15/2009) – State Auditor Rebecca Otto today released the 2007 Minnesota City Finances Report. 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 financial operations of Minnesota cities for calendar year 2007 and examines long-term trends as well. **“Property tax levels are an ongoing concern for Minnesotans. Between 1998 and 2007, actual revenues derived from property taxes for cities grew 98 percent compared to 14 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, especially during these difficult budgetary times.”**

Highlights from the report include:

Current Trends

- Total revenues of the governmental funds for all Minnesota cities amounted to \$4.69 billion in 2007. This represents an increase of 4.7 percent over 2006 revenues. Total revenues of cities over 2,500 in population increased 4.9 percent, while revenues of cities under 2,500 in population increased 3.1 percent.
- Total expenditures of the governmental funds for all cities totaled \$5.32 billion in 2007. This represents a decrease of 0.7 percent from 2006. Total expenditures of cities over 2,500 in population decreased 0.4 percent, while total expenditures for cities under 2,500 decreased 3.1 percent.

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- The largest expenditure categories for both groups of cities are streets and highways and public safety. For large cities, streets and highways accounted for 23 percent of total expenditures, and public safety accounted for 24 percent. For small cities, streets and highways accounted for 26 percent of total expenditures, and public safety accounted for 20 percent.
- The unreserved fund balances of large cities' General and Special Revenue Funds totaled \$1.32 billion in 2007. This represents an increase of 0.4 percent over the level reported in 2006. Large city unreserved fund balances as a percent of total current expenditures averaged 48 percent in 2007, compared to 50 percent in 2006).

Ten-Year Trends

Governmental Revenues

- While cities appear to have ended 2007 in good financial condition with revenues growing 5 percent and expenditures decreasing 1 percent, an examination of city finances between 1998 and 2007 reveal a noteworthy trend. In particular, when adjusted for inflation, 2007 revenue and expenditure levels are below 1998 levels. Inflation-adjusted total city revenues decreased 3 percent between 1998 and 2007, while total city expenditures, when adjusted for inflation, decreased 4 percent through the same period.
- Between 1998 and 2007, actual revenues derived from property taxes grew 98 percent, compared to 14 percent for revenues derived from intergovernmental sources. When revenues are adjusted for inflation, the ten-year period shows a 37 percent increase in property tax revenues, while intergovernmental revenues decreased 21 percent. When put into constant dollars, the level of revenues in 2007 was less than in 1998.
- As 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 1998 to 32 percent in 2007. During this same time frame, revenues derived from intergovernmental sources decreased from 33 percent of total revenues to 26 percent.

Governmental Expenditures

- Total city expenditures grew from \$3.83 billion in 1998 to \$5.32 billion in 2007. This represents an increase of 39 percent. When adjusted for inflation, total expenditures decreased 4 percent.
- When the three components of city spending (total current expenditures, total capital outlays, and total debt service) are looked at individually, only total current expenditures showed growth when adjusted for inflation. Over the ten-year period, when adjusted for inflation, total current expenditures grew 10 percent, while total capital outlays decreased 16 percent, and total debt service decreased 21 percent.

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To view the complete report, which includes an Executive Summary and graphs, go to:

<http://www.auditor.state.mn.us/default.aspx?page=20090114.001>.

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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>