



State of Main Street

2024 Local Fiscal Trends Analysis

As the effects of the pandemic wane, local governments rebuild to both recover from the pandemic and prepare for future challenges.

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 where local entities are placing their priorities as they recover from the last challenges and prepare for the next.

This year’s analysis focused primarily on current budget numbers where available for the most up to date picture of local government leaders’ budget choices. Using data from the OSA city and county budget reports gives insight into local government leaders’ thoughts about the near future. Townships are not required under Minnesota law to send budget numbers to the OSA, so we used 20 years of actual township data to obtain a picture of their budget decisions. We are grateful that so many township representatives participated in the listening sessions to share anecdotal information.

According to participants during this year’s listening sessions, key challenges on the horizon for all levels of local government include an aging population, affordable housing, housing shortages, unpredictable weather conditions, and materials cost increases. Specific examples of the impacts of age demographic changes included shortages of workers and increased ambulance costs. Recent extremes in winter weather, heavy snow last season and little snow this season, have made budgeting more difficult. Increases in the cost of materials and inflation have made road work more expensive and slowed the ability to increase local housing stock.

Being in a period of relative calm, local governments can prepare now for the next challenge by replenishing resources, including reserves, and having short-term and long-term strategic plans in place for future emergencies and one-time monies. While maintaining resources, including positive reserves, is easy to see as a hedge against emergencies, effective infrastructure for the day-to-day operations and long-term stability also ensures a solid foundation for building crisis response. A balance of both saving and building would position local governments well in the face of looming challenges.

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Recommendations

Plan and build infrastructure for daily operations and maintenance of services

Lessons from the Pandemic

During the pandemic, entities that had instituted strategic planning and had assets in place to address emergencies were able to respond to the crisis more effectively. Those that needed to build programs or facilities from the ground up struggled to respond quickly. Entities should continue to plan for emergencies and one-time monies.

Make Hay While the Sun Shines

Infrastructure for daily operations and maintenance of services often needs to be increased in a crisis. Expanding existing infrastructure requires far fewer resources than building and creating new infrastructure. Having robust facilities, programs, and processes means that in a crisis, resources won't be lost to hurried, expensive building.

Build Connections

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 expanded the range of options an entity could consider. Pooling resources and expertise to clarify requirements led to fewer false starts and detours due to uncertainty. Relationships and partnerships can be considered another key type of infrastructure and should be shored up and continued during this time of relative calm.

Rebuild and maintain adequate resources

Lessons from the Pandemic

Historic COVID funding from federal and state sources and financial reserves were key to weathering the unique challenges brought by pandemic. Adequate cashflow helped entities take advantage of scarce resources before COVID funding was in place.

Replenish Reserves

Entities should work towards maintaining strong reserve balances. However, focusing on building reserves at the expense of maintaining infrastructure will merely mean that, in a crisis, infrastructure will need to be built in a hurry. Rushed infrastructure can be more expensive, and often less effective. Hence, the benefit of additional reserves, if put away at the expense of infrastructure, may be negated by the costs of hurrying in a crisis.

Maintain Ongoing Funding Streams

Ongoing funding, such as local government aid (LGA), county program aid (CPA), and town aid, provides consistent and reliable revenue that can help keep property tax levies lower. 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 during a pandemic or other emergency may lead to errors and fewer direct benefits than those 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.



State of Main Street

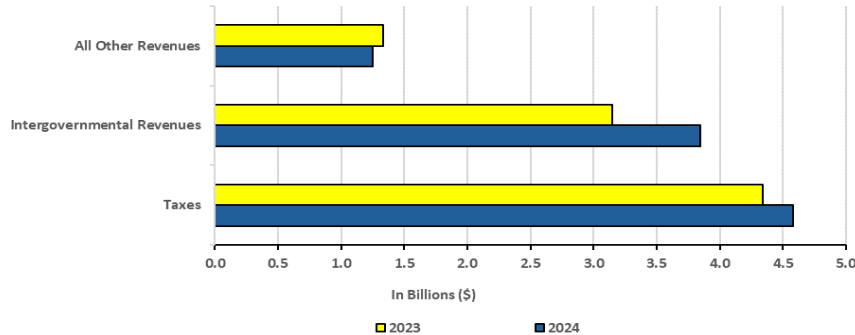
2024 Local Fiscal Trends Analysis

Dataset #1: Budgeted Revenues

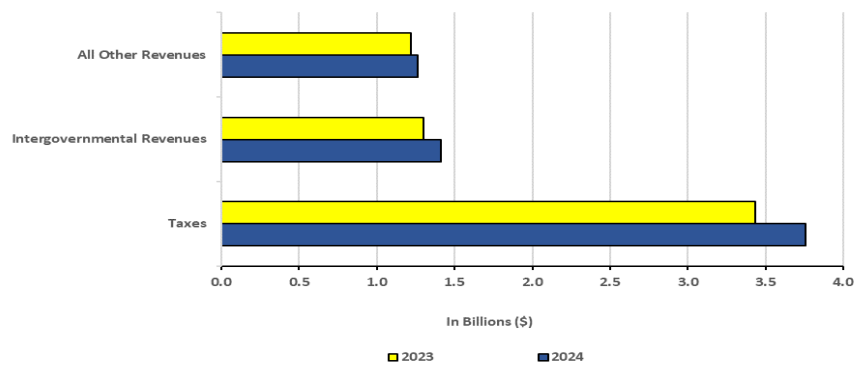
The principal sources of budgeted revenues for counties and cities in both 2023 and 2024 were Taxes and Intergovernmental revenues (IGR).

- For counties, the percentage of total budgeted revenues from taxes decreased, while IGR increased from 2023 to 2024.
- For cities, the percentage of total budgeted revenues from taxes and IGR remained the same from 2023 to 2024.
- For counties, the revenue categories showing the greatest percentage increases were IGR's (federal, state, and local grants) and interest on investments.
- For cities, the revenue categories showing the greatest percentage increases were all other Taxes (local sales, franchise, hotel/motel, gambling, and gravel taxes) and interest on investments.

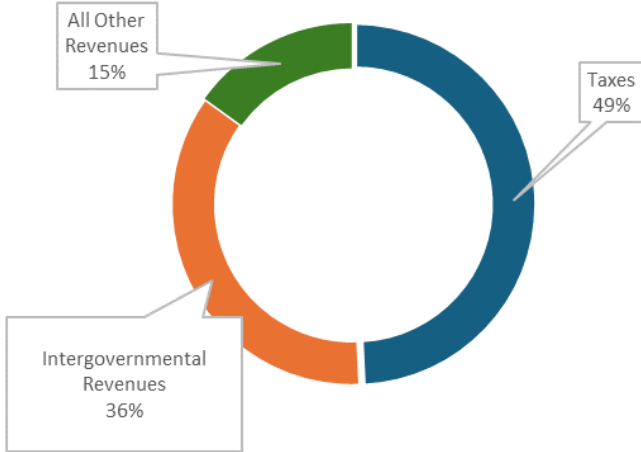
2023 and 2024 County Budgeted Revenues



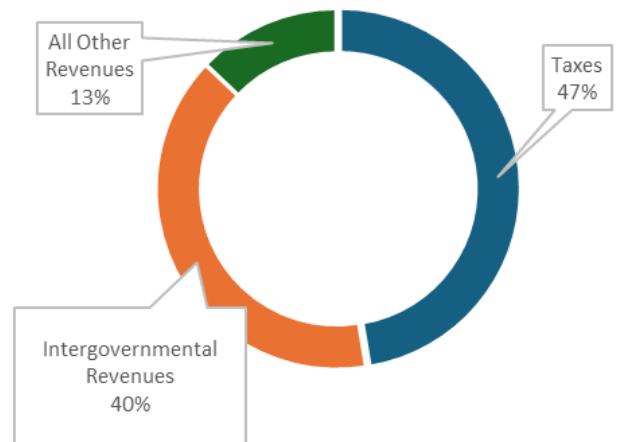
2023 and 2024 City Budgeted Revenues



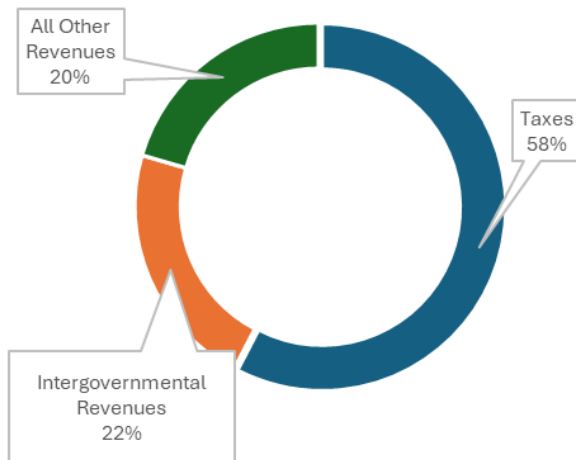
2023 County Revenue Sources as a Percent of Total Revenues



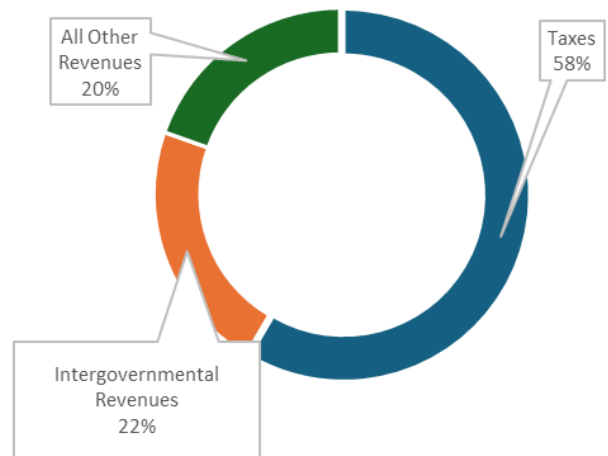
2024 County Revenue Sources as a Percent of Total Revenues



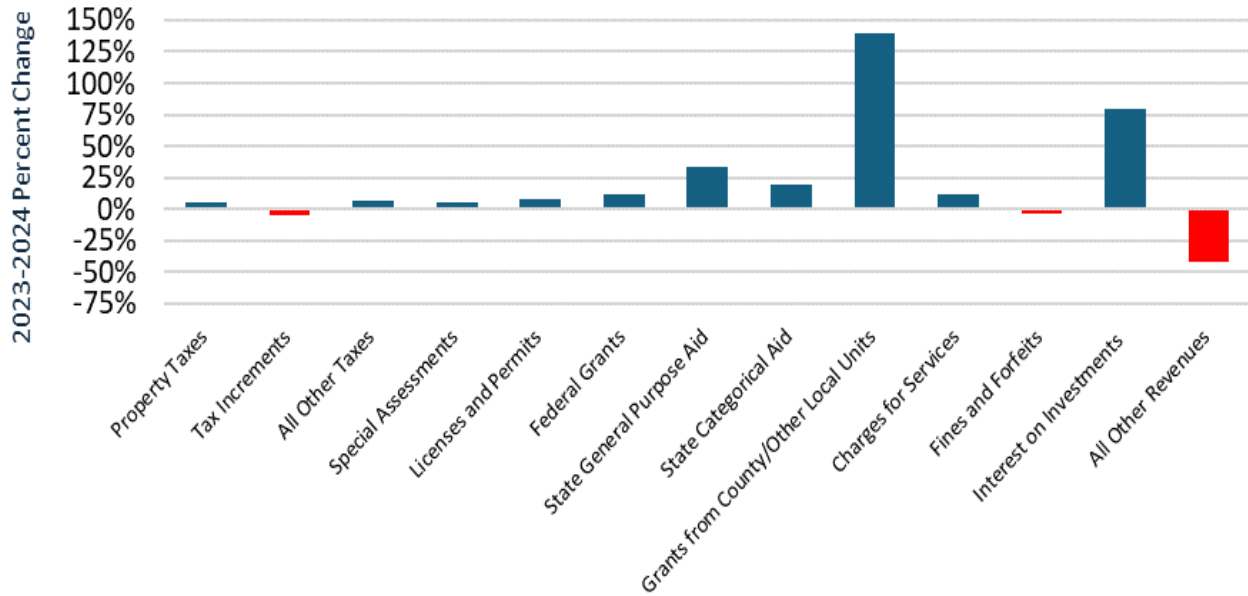
2023 City Revenue Sources as a Percent of Total Revenues



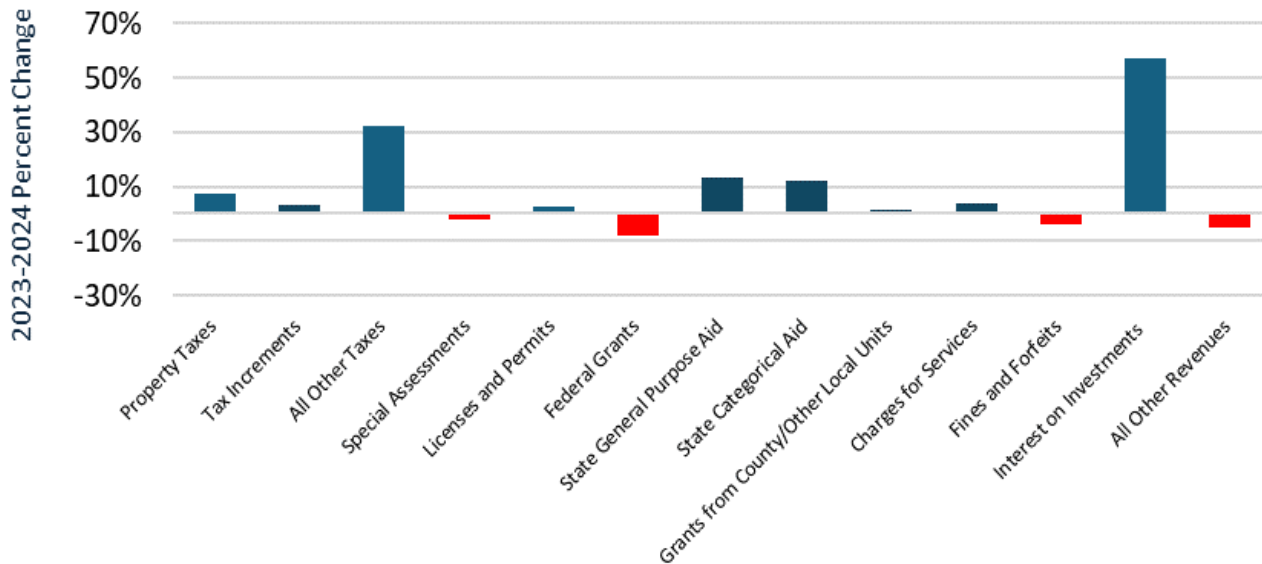
2024 City Revenue Sources as a Percent of Total Revenues



2023-2024 County Revenue Source Percent Change



2023-2024 City Revenue Source Percent Change

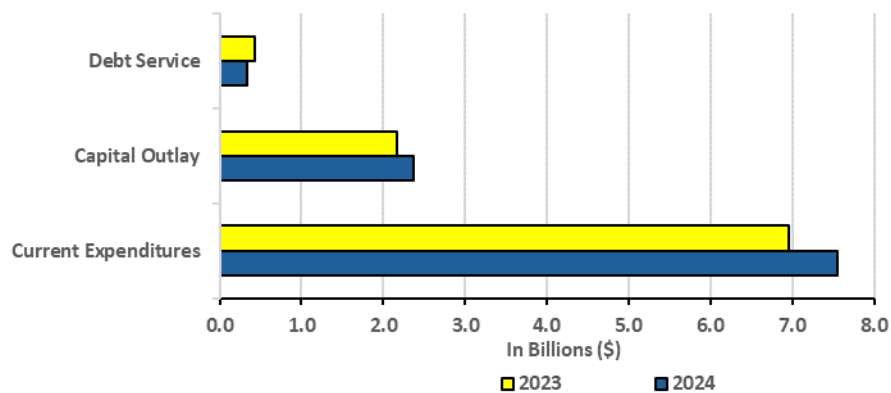


Dataset #2: Budgeted Expenditures

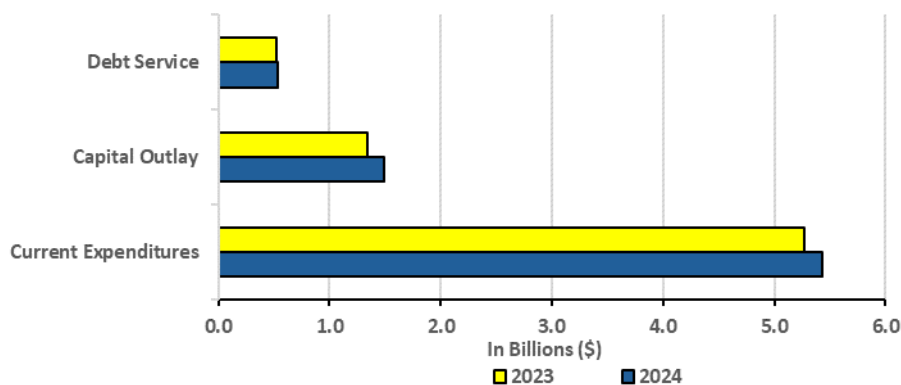
Major categories of budgeted expenditures for counties and cities in 2023 and 2024 were Current Expenditures and Capital Outlay.

- For counties, the percent of total budgeted expenditures increased slightly for current expenditures from 2023 to 2024.
- For cities, the percent of total budgeted expenditures decreased slightly for current expenditures while capital outlay increased slightly from 2023 to 2024.
- For counties, the budgeted expenditure categories showing the greatest percentage increases were streets and highways capital outlay, general government, and health current expenditures.
- For cities, the budgeted expenditure categories showing the greatest percentage increases were human services and conservation of natural resources current expenditures and all other capital outlay.

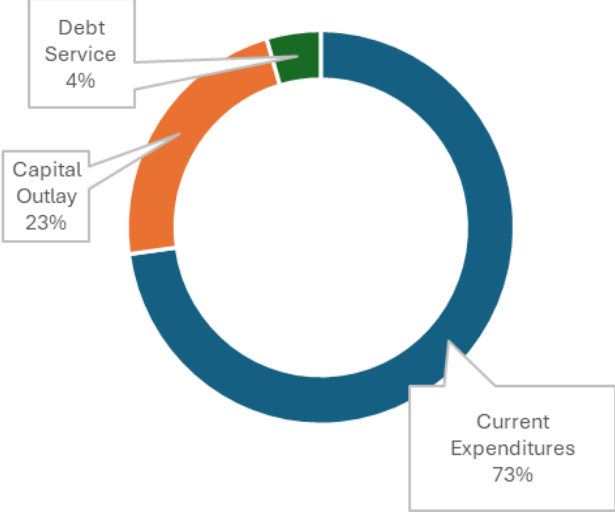
2023 and 2024 County Budgeted Expenditures



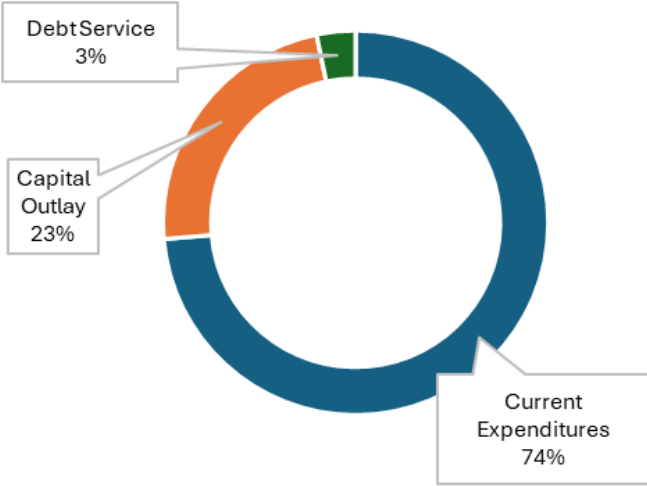
2023 and 2024 City Budgeted Expenditures



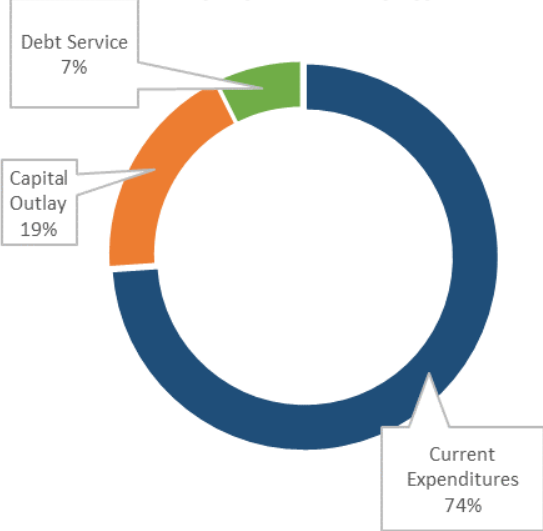
2023 County Expenditures by Type



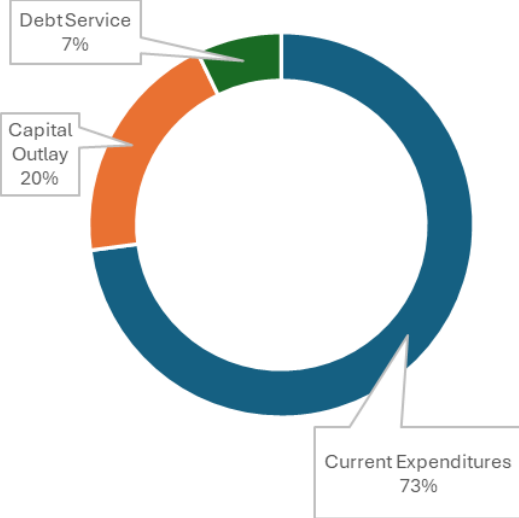
2024 County Expenditures by Type



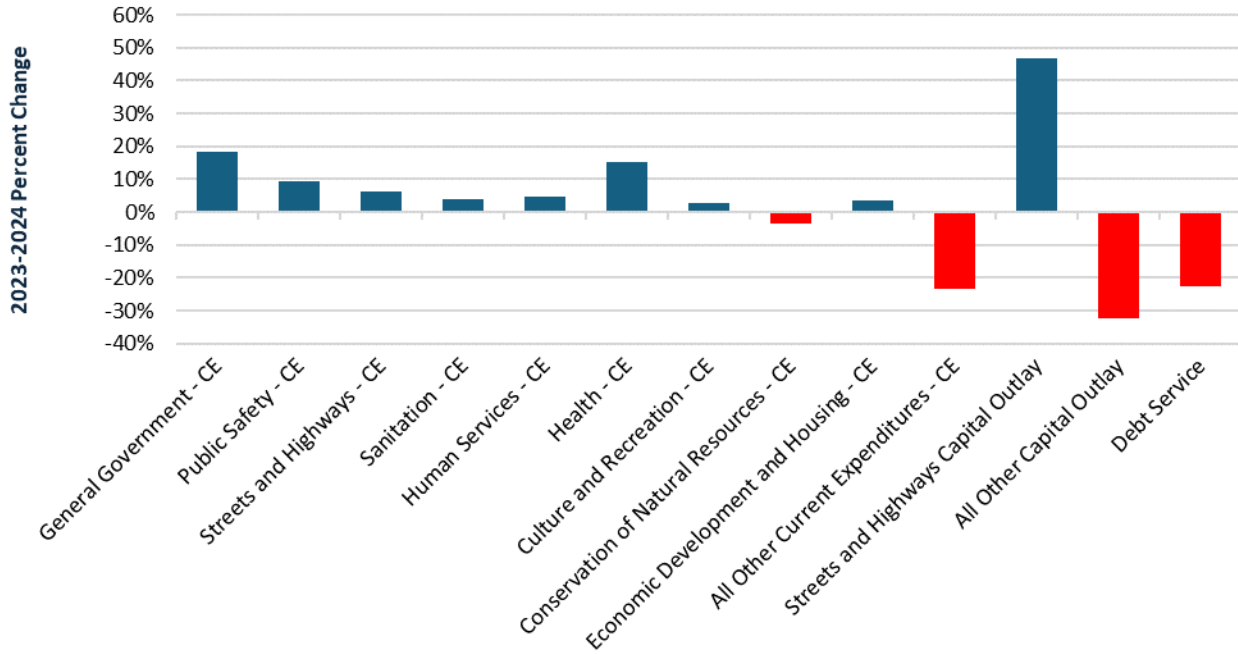
2023 City Expenditures by Type



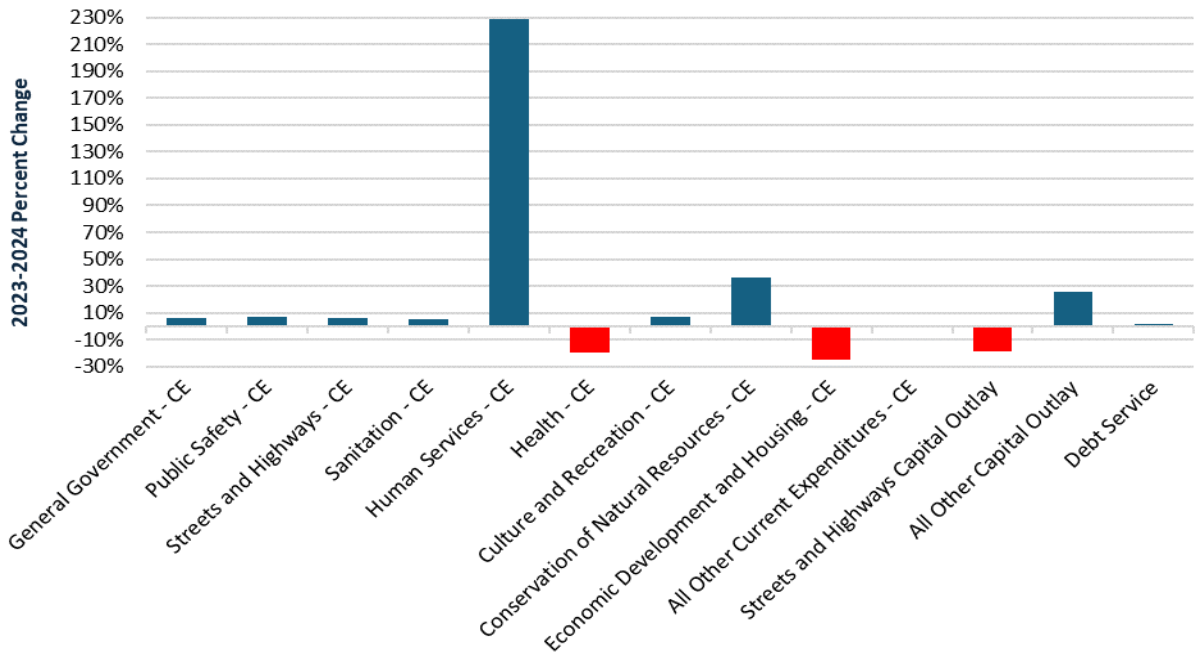
2024 City Expenditures by Type



2023-2024 County Expenditures Percent Change



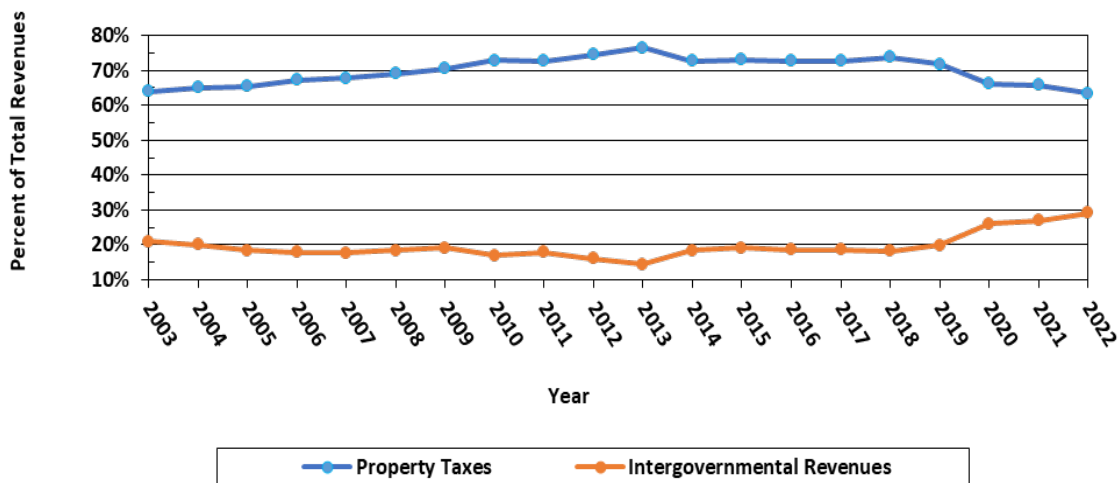
2023-2024 City Expenditures Percent Change



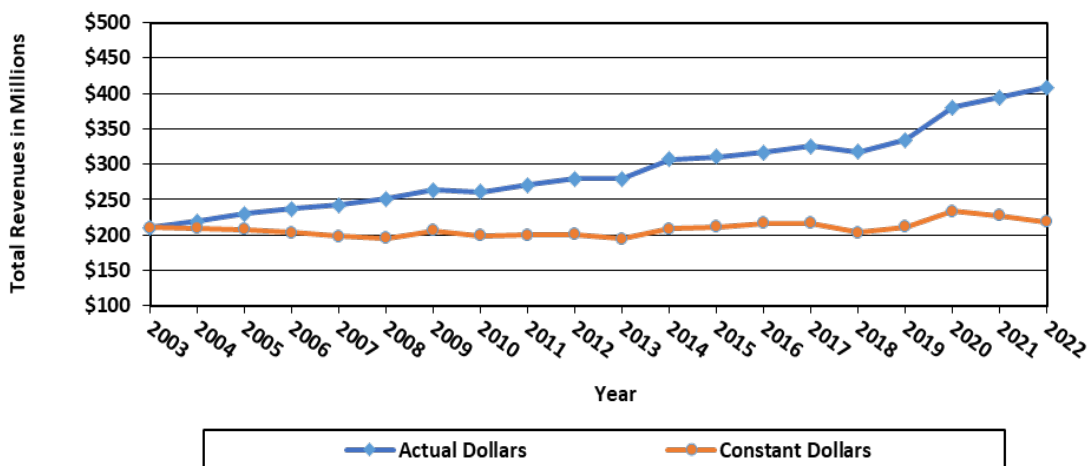
Dataset #3: Township Revenues

- The share of township revenue from property taxes decreased as the share of revenue from intergovernmental revenues increased over the past 20 years. This trend has accelerated since 2019.
- When adjusted for inflation, total township revenue increased over the past 20 years.

Township Property Taxes and Intergovernmental Revenues as a percent of Total Revenues, 2003 - 2022



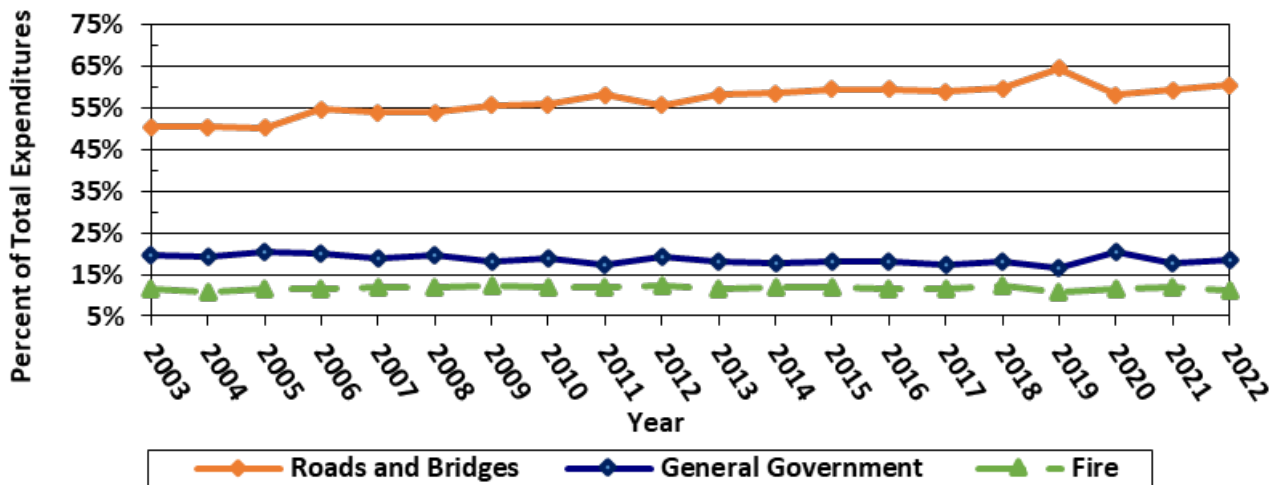
Change in Total Revenues (Townships)
Actual and Constant Dollars, 2003 - 2022



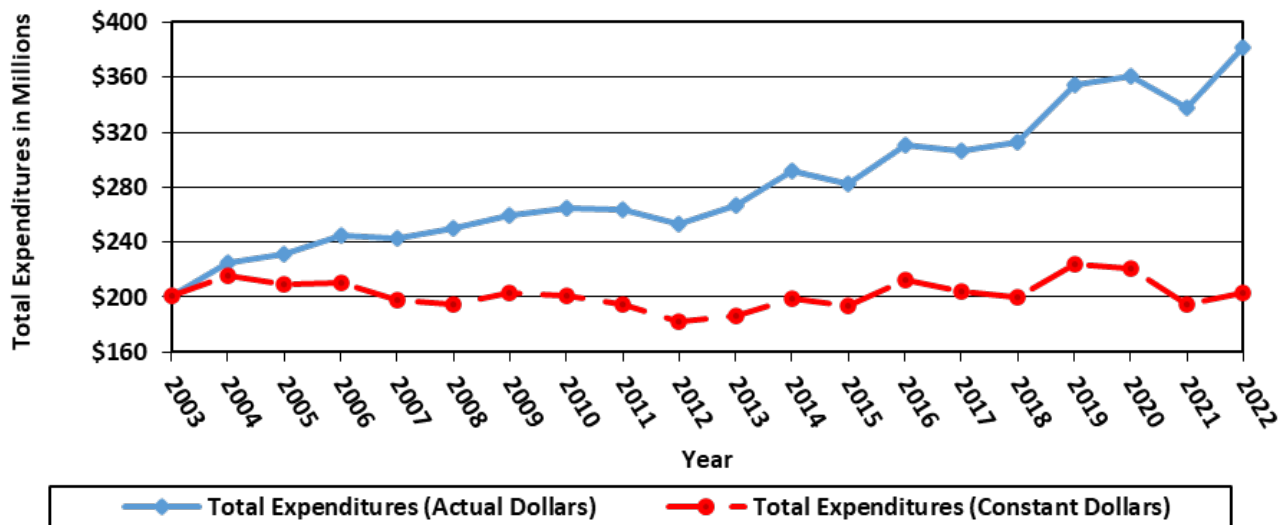
Dataset #4: Township Expenditures

- The proportion of township expenditures on roads and bridges increased over the past 20 years. When adjusted for inflation, total township revenue increased over the past 20 years.
- When adjusted for inflation, total township expenditures increased over the past 20 years.

Township Primary Categories of Expenditures, 2003 - 2022



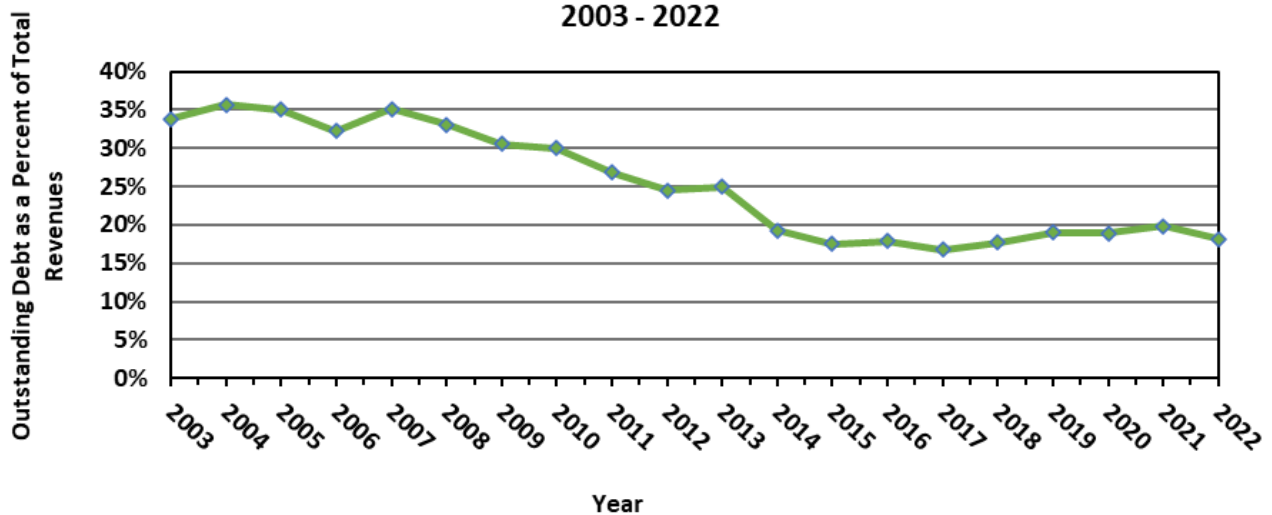
Change in Total Expenditures (Townships)
Actual and Constant Dollars, 2003 - 2022



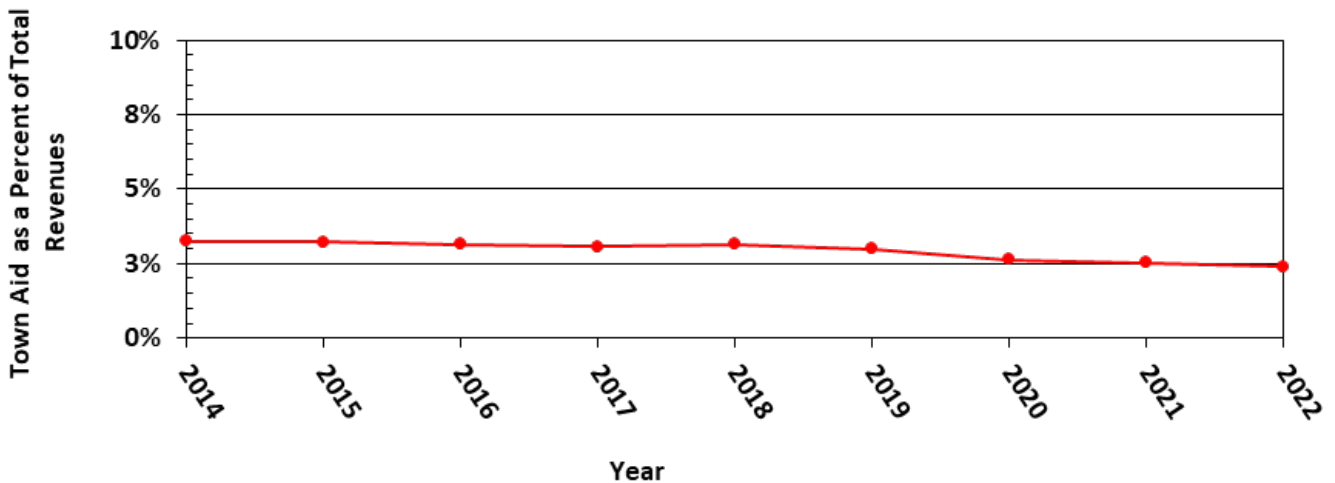
Dataset #5: Township Debt & Major State Aids

- Township debt as a proportion of revenues decreased over the past 20 years.
- Over the past twenty years, County Program Aid, Local Government Aid, and Town Aid (since 2014), had been an increasingly smaller share of total county, city, and town revenues. Recent legislative action has reversed that trend this year.

Outstanding Debt as a Percent of Total Revenues (Townships), 2003 - 2022



Town Aid as a Percent of Total Revenues, 2014 - 2022



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 three virtual listening sessions across the state and heard from local leaders across the geographic and population size spectra. Participants were local government financial staff and local elected officials. Though we heard regional and type of entity 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.