



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 reveals increasing pressure on property taxes~

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

ST. PAUL (1/14/2010) – State Auditor Rebecca Otto today released the Minnesota City Finances Report, which summarizes the financial operations of Minnesota cities for calendar year 2008. In addition, the report examines long-term trends to help place current financial conditions in context.

“Minnesota cities deliver some of our most essential services like public safety and street and highway maintenance,” said State Auditor Otto.

The 2008 City Finances Report revealed two noteworthy long-term trends. One trend is that 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. Between 1999 and 2008, actual revenues derived from property taxes grew 102 percent, compared to 10 percent for revenues derived from intergovernmental sources.

Also, from 1999 to 2008, the proportion of total revenues derived from property taxes grew from 24 percent in 1999 to 35 percent in 2008. During this same time frame, revenues derived from intergovernmental sources decreased from 32 percent of total revenues to 25 percent.

“Property tax levels are an ongoing concern for Minnesotans,” reported Auditor Otto. “If this trend continues, it will further increase the reliance on property taxes as a source of revenue. With the foreclosure crisis and the tight economy, this trend is troubling,” Otto warned.

Another long-term trend revealed in the report is that during the ten-year period between 1999 and 2008, when adjusted for inflation, 2008 revenue and expenditure levels are below 1999 levels. Inflation-adjusted total city revenues and expenditures decreased 7 percent between 1999 and 2008.

“The State is facing a large budget deficit. If the Legislature and Governor further cut local government aids, this will continue the trend of a greater reliance on property taxes,” Auditor Otto said. “I will meet with Legislative leaders to share this very important information for consideration in budget negotiations.”

Other highlights from the report include:

Current Trends

- Total revenues of the governmental funds for all Minnesota cities totaled \$4.66 billion in 2008. This represents a decrease of 1 percent from 2007 revenues. Total revenues of cities over 2,500 in population decreased 1 percent, while revenues of cities under 2,500 in population increased 2 percent.
- Total expenditures of the governmental funds for all cities totaled \$5.53 billion in 2008. This represents an increase of 4 percent over 2007. Total expenditures of cities over 2,500 in population increased 4 percent, while total expenditures for cities under 2,500 increased 3 percent.
- The largest expenditure categories for both groups of cities are streets and highways and public safety. For large cities, streets and highways accounted for 20 percent of total expenditures, and public safety accounted for 26 percent. For small cities, streets and highways accounted for 24 percent of total expenditures, and public safety accounted for 21 percent.
- The unreserved fund balances of large cities' General and Special Revenue Funds totaled \$1.39 billion in 2008. This represents an increase of 5 percent over the level reported in 2007. Large city unreserved fund balances as a percent of total current expenditures averaged 46 percent in 2008, compared to 48 percent in 2007.

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

<http://www.auditor.state.mn.us/default.aspx?page=20100114.000>.

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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>.