



State of Main Street 2022

Local Response to Global Crisis

Summary

The COVID-19 pandemic tested local government entities like nothing else in recent history. Most are aware of the work local governments did to protect public health and shore up basic public services and infrastructure affected by COVID-19. Local governments' significant efforts to respond to local economic challenges, however, received less attention. Through our data and during our listening sessions with local governments, it became clear that they recognized that responding to local economic challenges was the third leg of the stool in a meaningful response to COVID-19.

Many entities found ways to get resources into the hands of residents and local businesses to stabilize their finances during massive changes in how, where, and in what ways Minnesotans worked. In fact, many in local government believe that without robust local economic support, public health and infrastructure stabilization efforts would have been less effective.

This interdependency between economic support, public health, and infrastructure stabilization made targeting resources to local government entities a wise policy choice. Being closest to the pandemic's impact on their communities and the implementation of pandemic mitigation programs, local entities were able to see the systemic nature of the activities and customize their actions in response.

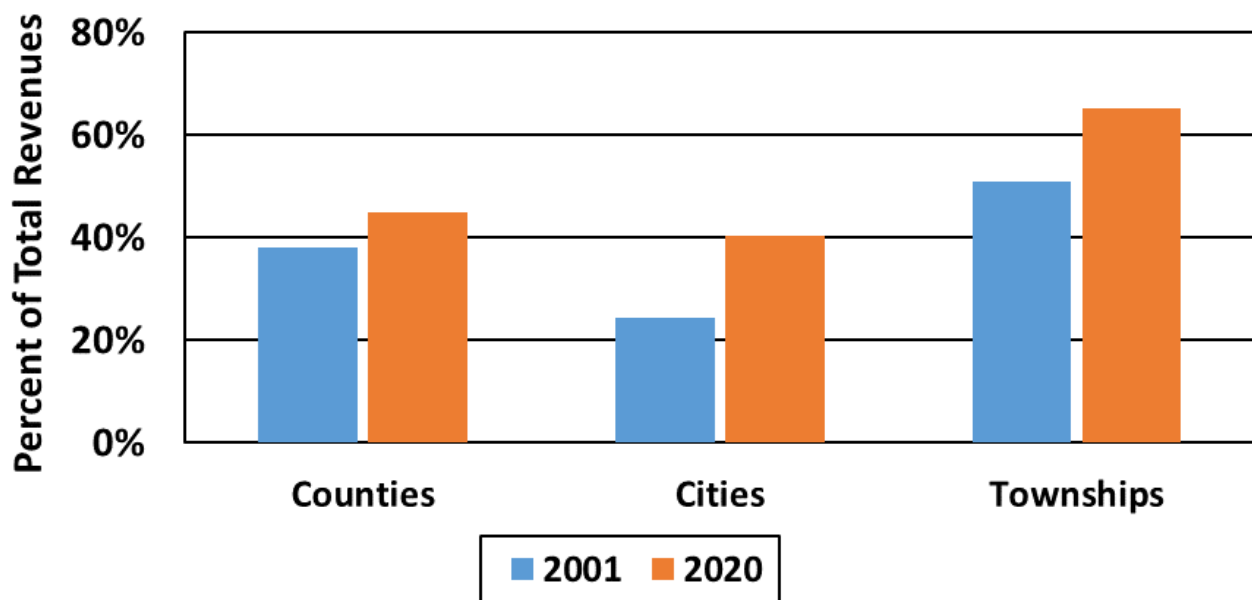
The relatively small changes in debt and tax rates are evidence that local governments' choices during the beginning of the pandemic cushioned the impact of the global health crisis on local budgets. Feedback from local residents and public officials during our listening sessions suggest that economic support during the pandemic was also effective. Altogether, using local governments to respond not only to health and infrastructure issues, but also economic crises has potential to increase the effectiveness of responses to global challenges.

Please note that these are preliminary numbers subject to minor change pending the final county reports.

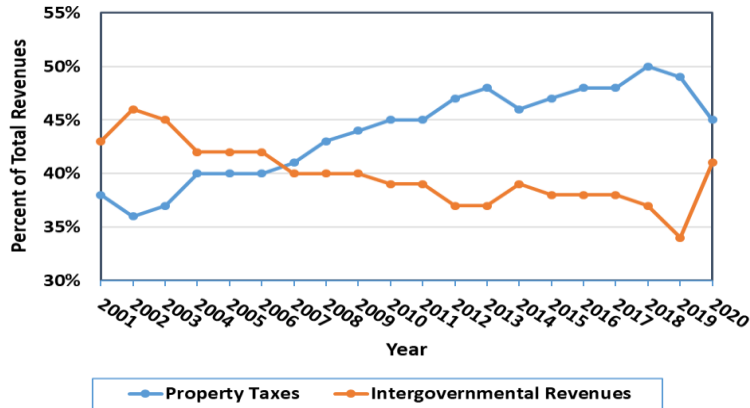
Dataset #1: Revenue

- ◆ The share of city, county, and township revenue from property taxes increased as the share of revenue from state and other sources decreased over the past 20 years.
- ◆ When adjusted for inflation, total city, county, and township revenue grew over the past 20 years.
 - Counties have seen an increase in revenue in constant dollars.
 - Cities have seen an increase in revenue in constant dollars.
 - Townships have seen an increase in revenue in constant dollars.

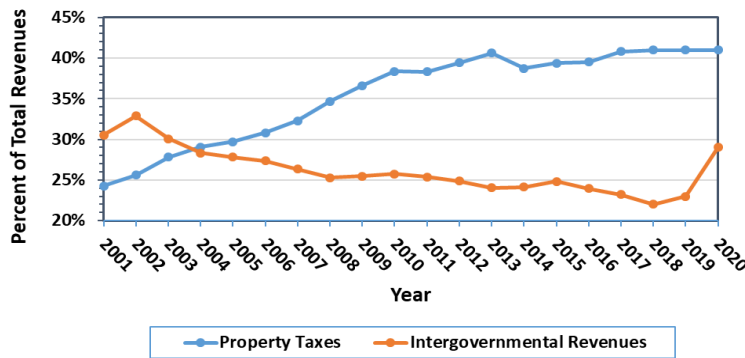
Percent of Total Revenues Derived From Property Taxes, 2001 - 2020



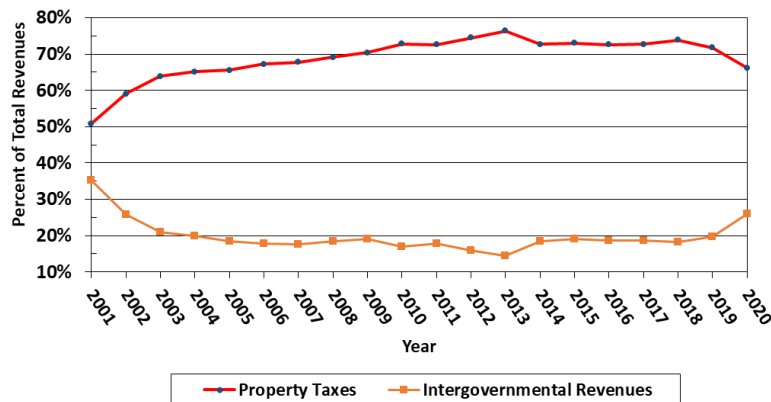
County Property Taxes and Intergovernmental Revenues as a Percent of Total Revenues, 2001 - 2020

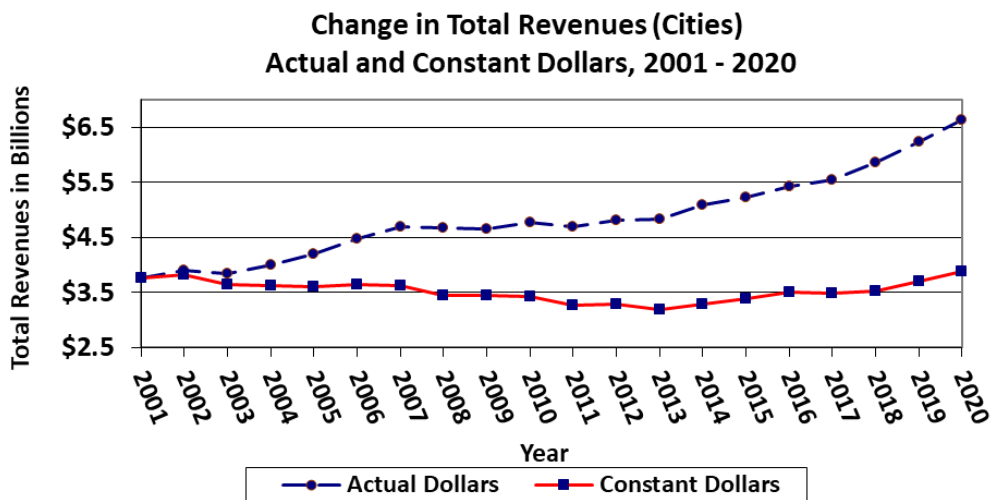
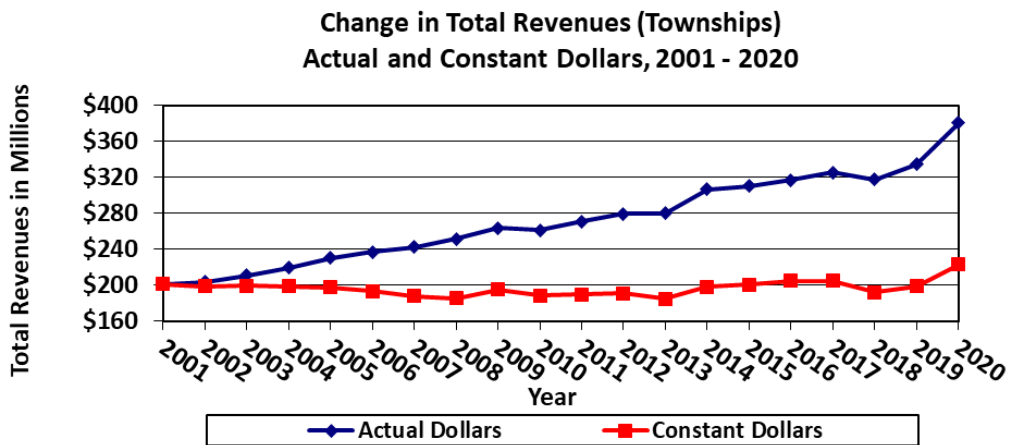
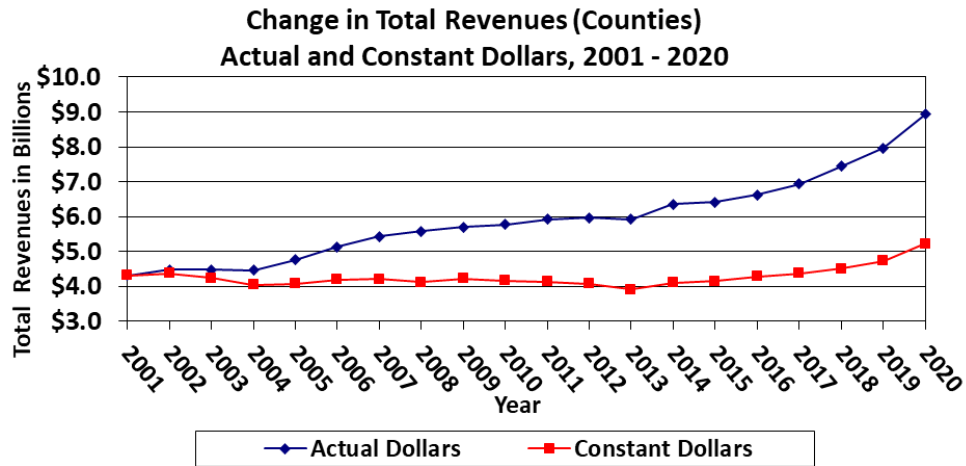


City Property Taxes and Intergovernmental Revenues as a Percent of Total Revenues, 2001 - 2020



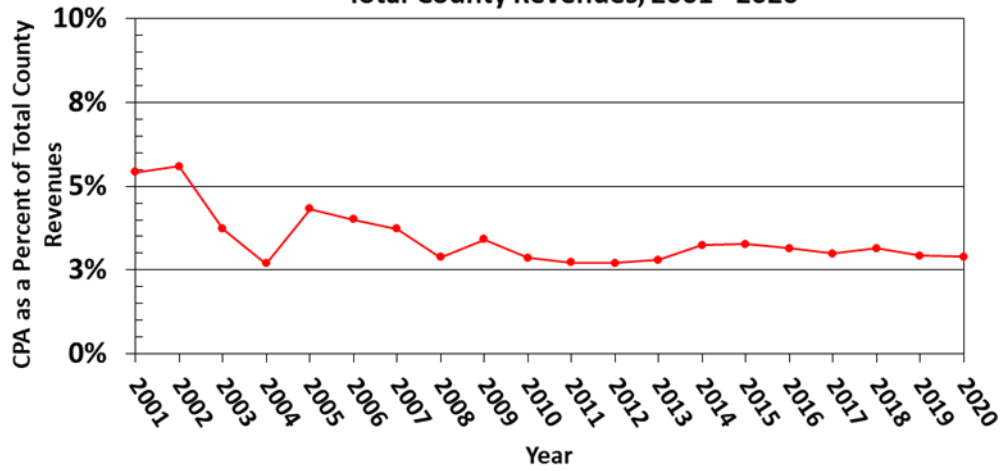
Township Property Taxes and Intergovernmental Revenues as a percent of Total Revenues, 2001 - 2020



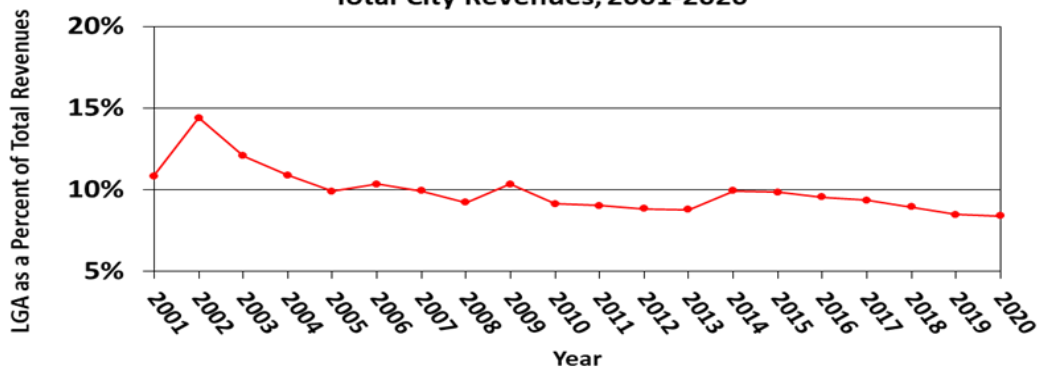


Primary State Aid

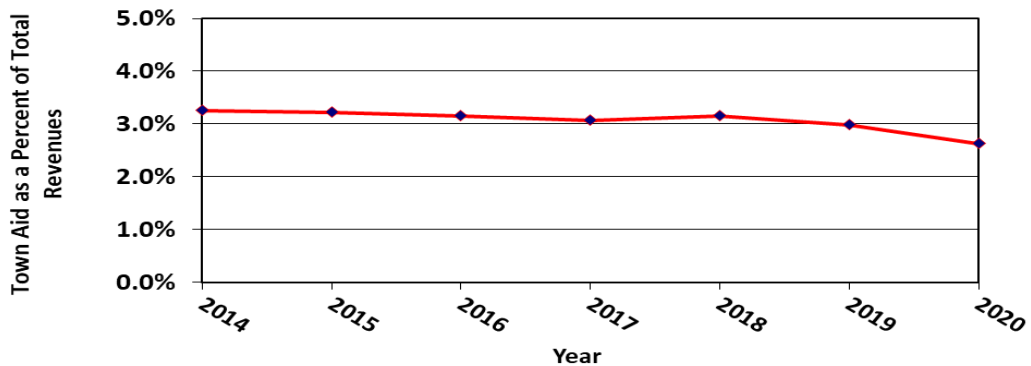
County Program Aid (CPA) as a Percent of Total County Revenues, 2001 - 2020



City LGA as a Percent of Total City Revenues, 2001-2020



Town Aid as a Percent of Total Town Revenues, 2014 - 2020

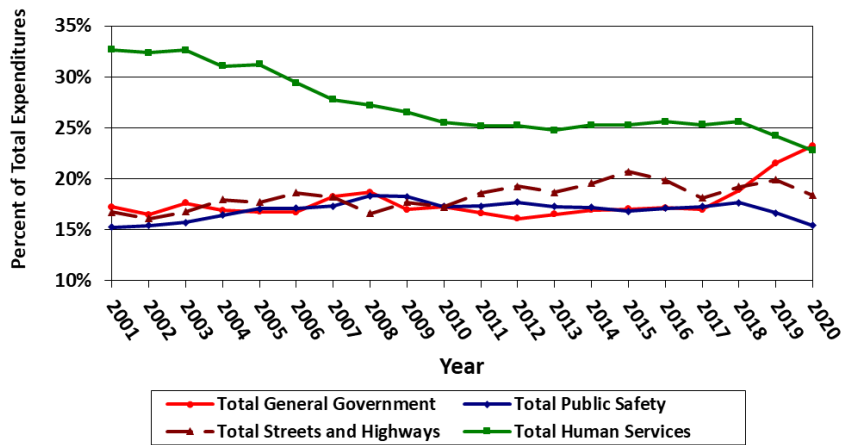


Dataset #2: Expenditures

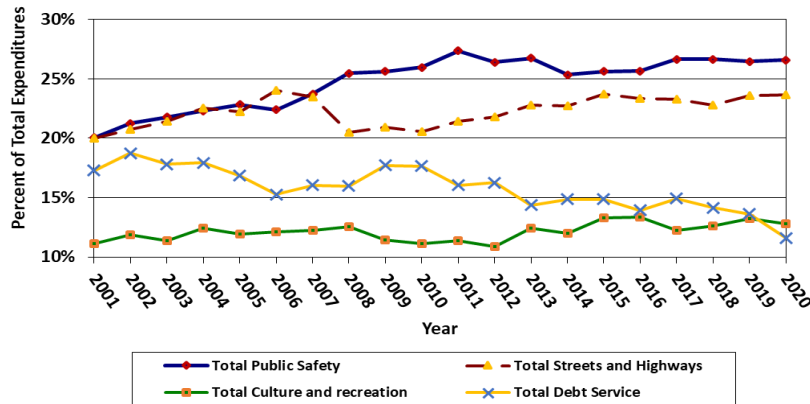
- ◆ **There have been some shifts in the proportion of the largest expenditures of counties, cities, and townships.**
 - The proportion of county expenditures on human services decreased over the past twenty years while the proportion spent on general government increased.
 - The proportion of city expenditures on public safety increased over the past twenty years while the proportion spent on debt service decreased.
 - The proportion of township expenditures on roads increased over the past twenty years.

- ◆ **When adjusted for inflation, total city, county, and township expenditure change has remained relatively flat over the past 20 years.**
 - Counties have seen an increase in expenditures in constant dollars.
 - Cities have seen a decrease in expenditures in constant dollars.
 - Townships have seen an increase in expenditures in constant dollars.

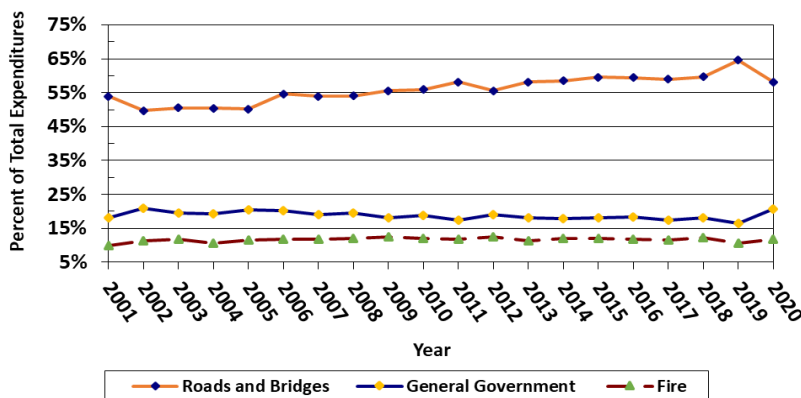
County Primary Categories of Expenditures, 2001 - 2020



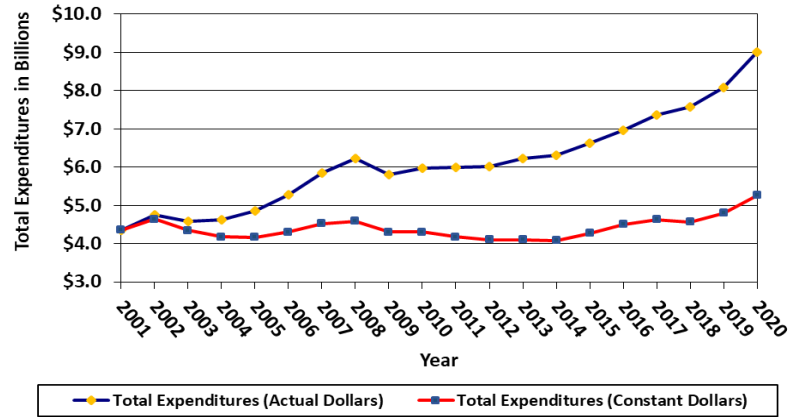
City Primary Categories of Expenditures, 2001 - 2020



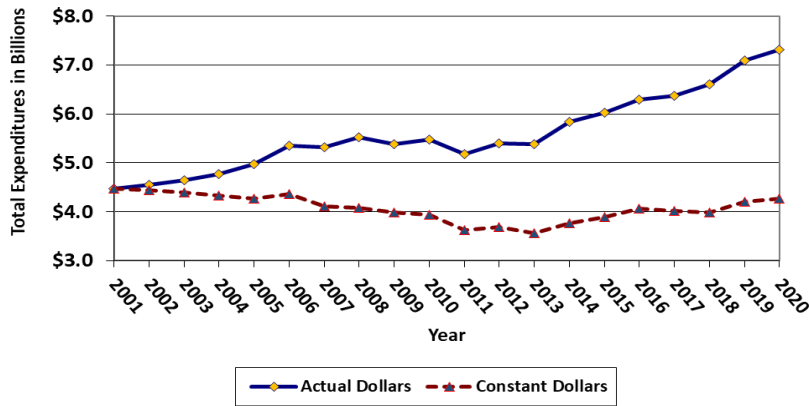
Township Primary Categories of Expenditures, 2001 - 2020



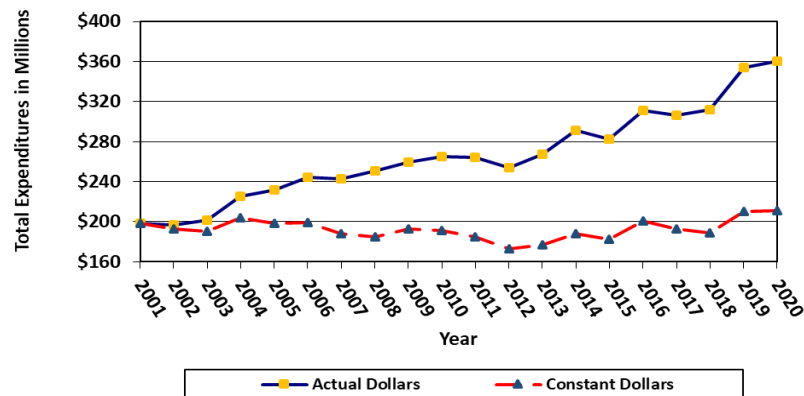
Change in Total Expenditures (Counties)
Actual and Constant Dollars, 2001 - 2020



Change in Total Expenditures (Cities)
Actual and Constant Dollars, 2001 - 2020

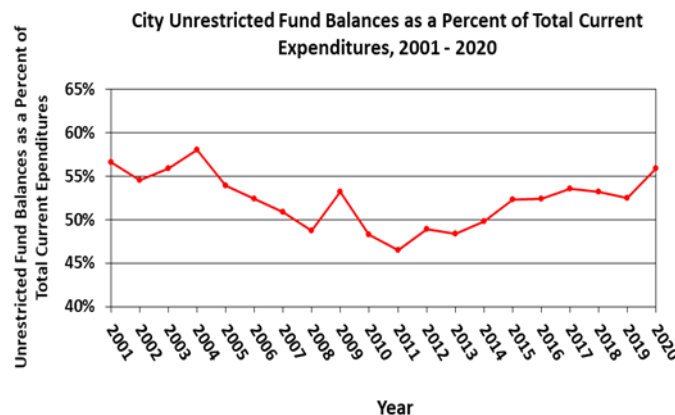
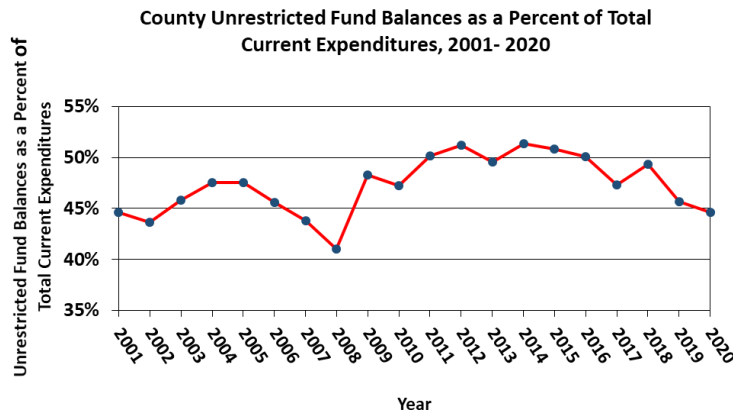


Change in Total Expenditures (Townships)
Actual and Constant Dollars, 2001 - 2020

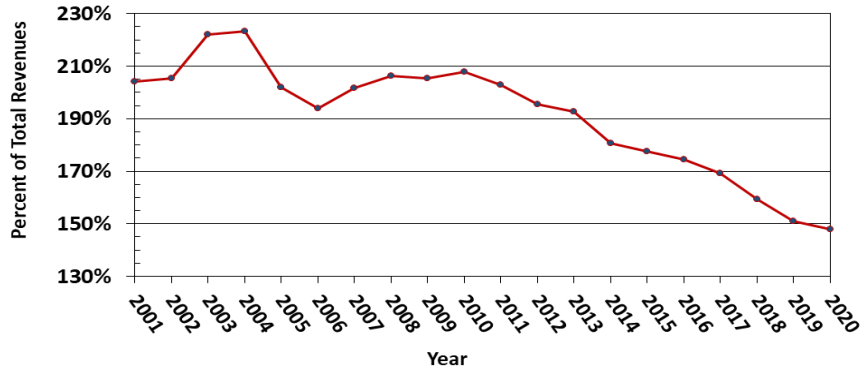


Dataset #3: Reserves and Debt

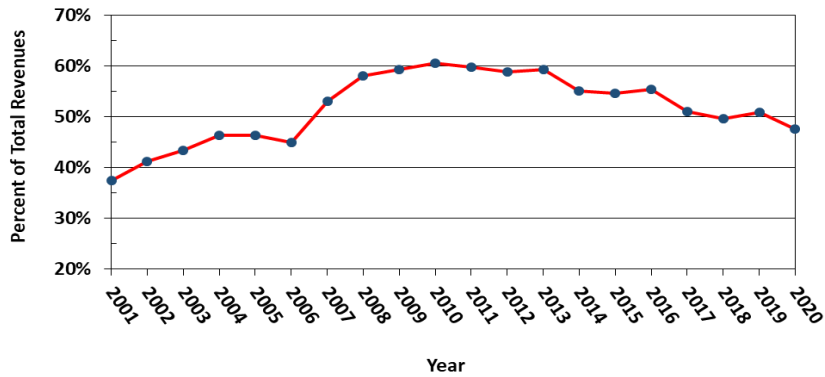
- ◆ **Unreserved fund balance proportions in cities and counties have varied over the past twenty years but are close to where they were in 2001.**
 - County unreserved fund balances as a proportion of current expenditures are at their lowest level since 2008.
 - City unreserved fund balances as a proportion of current expenditures are at their highest level since 2004.
 - The vast majority of townships work on a cash basis of accounting, where fund balances are not reported in this way, so we are not including data on township fund balances.
- ◆ **Debt as a proportion of revenues for counties, cities, and townships has varied significantly over the past twenty years.**
 - County debt as a proportion of revenues increased over the past twenty years.
 - City debt as a proportion of revenues decreased over the past twenty years but is much higher than that of counties (148 percent to 48 percent)
 - Township as a proportion of revenues debt decreased over the past twenty years.



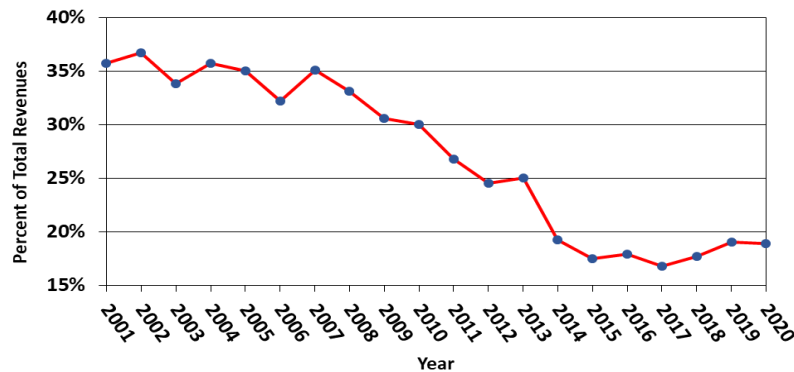
City Outstanding Debt as a Percent of Total Revenues, 2001 - 2020



County Outstanding Debt as a Percent of Total Revenues, 2001 - 2020



Township Outstanding Debt as a Percent of Total Revenues, 2001 - 2020



Recommendations

Continue Using Local Government to Customize Crises Responses: To manage a global crisis, the workload needs to be divided up to respond effectively. When the components of the response are dependent on each other, it makes sense to have smaller entities handle each component as a system, as opposed to having large entities manage a single component alone. Local governments are well structured to handle customized, systemic responses as they function in that role normally. Federal and state lawmakers should consider targeting resources directly to local government as possible during global crises.

Tailor Federal Grants to Local Needs: To make federal dollars go furthest at the local level, federal grants need to have three components: flexibility in how the funds can be used; clarity in use, deadlines, and reporting requirements; and adequate time to both plan for the funds' uses and make expenditures.

Build Collaborative Connections Before a Crisis: In each listening session, attendees noted a variety of ways they worked with other local government entities, non-governmental groups, and private industry to understand, plan for, and implement their pandemic responses. Because Minnesota has a long tradition of governmental associations, joint powers work, and other forms of collaboration, our local governments had partnerships to help manage increased complexity and workload during the pandemic. Maintaining those relationships is good preparation for future challenges.

Capture Results of Pandemic Responses: This is the time to analyze local responses to the pandemic in order to memorialize successes, learn from failures, and fix any lingering issues. In order for local government to be prepared to respond to future crises, this is the time to solidify the processes and tools to handle federal funds, reorganize budgets, and collaborate with community partners.

Protect Intergovernmental Funding Sources: One of the most common comments from those who participated in our listening sessions was how essential the increase in revenue from the CARES and ARPA acts were to responding to the pandemic. During economic challenges it can be tempting for state and federal lawmakers to pull back on funding local government. The relative stability of local government treasuries at this point in the pandemic is a testament to the potential benefits of well-timed infusions of resources to the local level.

The State of Main Street Process

The Office of the State Auditor is the constitutional office that oversees nearly \$40 billion in local government finances for Minnesota taxpayers. 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 a number of reports that analyze the data we collect from local governments throughout the year.

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

We held five virtual listening sessions across the state and heard from Minnesotans in the northwest, northeast, southwest, southeast, and metro areas. A majority of the attendees were local government financial staff and local elected officials. Though we heard regional differences in local government experiences, a number of clear trends emerged. The feedback from those sessions, along with our data, helped us develop our recommendations to maintain stable local government finances.

To find the OSA county, city, and township annual reports as well as past State of Main Street analyses, visit www.osa.state.mn.us.