



State of Main Street

Holding Steady...For Now

Executive Summary

Local governments on average have held revenue and expenditures steady over the past twenty years despite external pressures on their financial stability. External pressures include falling state aid, changes in resident demographics, increasing requirements in administering state and federal programs, and unexpected costs due to issues like weather, changes in funding levels due to error, and health and human services needs. In addition, maintenance on infrastructure delayed during the last recession can no longer be put off.

Municipalities have used a number of tactics to weather these pressures including cooperative partnerships, increasing reliance on property taxes, seeking grants, strengthening long term planning, cutting services, and utilizing reserves. But there are increasing pressures on the horizon, and local governments have used many of the easily available budget stabilizing solutions already.

To support continued stability in local government finances, decision makers need to keep five ideas in mind.

- **Local control can be effective in keeping local budgets stable.** Funding sources with minimal strings attached make sense for entities that have been using that kind of flexibility well.
- **Partnerships can reduce local costs.** Supporting joint ventures among local government entities helps municipalities find efficiencies in administering services.
- **Falling intergovernmental aid has shifted local costs to more regressive forms of taxation.** State and federal aid and grants are more likely to be generated from income taxes, while local governments have access to more regressive revenue streams like property and sales tax. If intergovernmental aid falls, the result will be a shift to more regressive taxation or cuts to services.
- **Surprises have a bigger impact than the sticker price.** Unexpected events can have cascading effects including increased interest costs from borrowing, depleted reserves, service cuts, increased expenses due to delayed purchasing, and increased reliance on regressive taxes (property and sales taxes). Whenever possible, the costs of mandates, errors, or sudden changes should be offset by the entity responsible for them.
- **Long term planning, including consideration of emerging issues like climate change, can improve stability.** Communities that have mapped out long term financial plans have increased success in reducing debt, maintaining reserves, and stabilizing tax rates.

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 government throughout the year. Three of our largest reports are our County, City, and Township reports that are released early in the year. This year, we took that data and looked back over the first two decades of this century to identify long term trends.

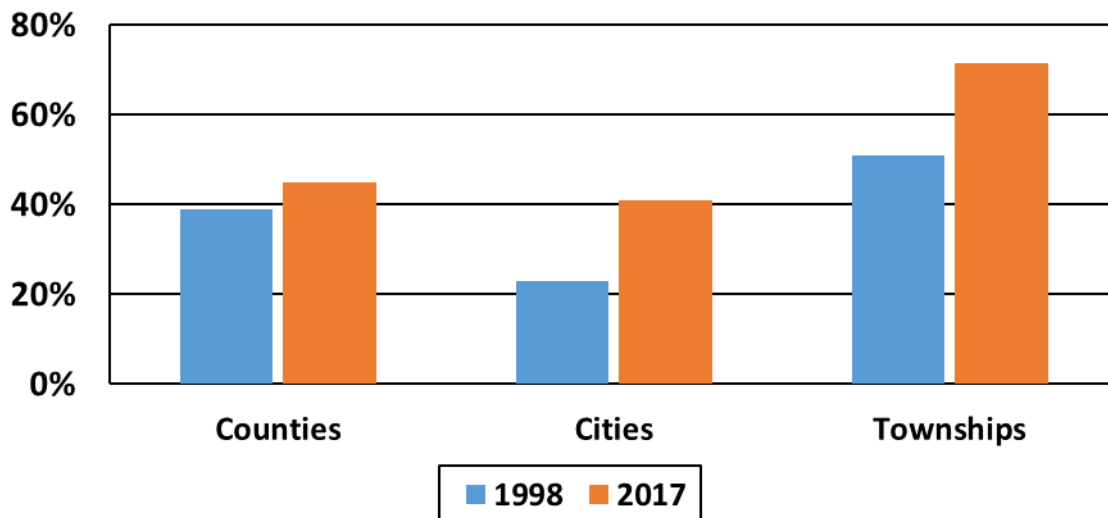
To make better sense of the numbers, we pulled key trends in the areas of revenue, expenditure, debt, and reserves together and invited the public, particularly those who work in local government finance, to give us feedback on our data.

We held six listening sessions across the state and visited Thief River Falls, St. Cloud, Duluth, Saint Paul, Marshall, and Albert Lea. 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.

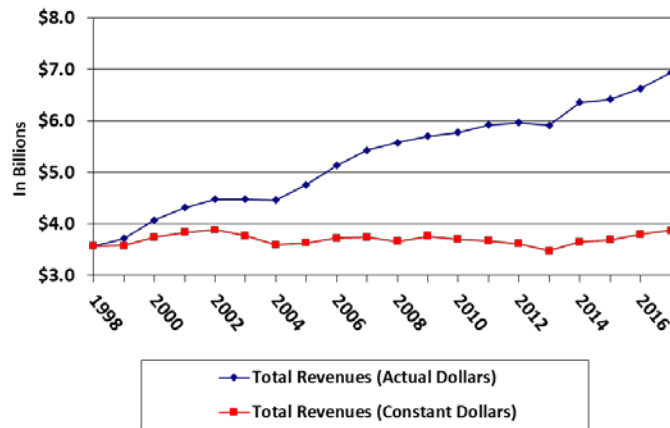
Dataset #1: Revenue

- ◆ The share of city, county, and township revenue from property taxes is increasing 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 change has remained relatively flat over the past 20 years.
 - Counties have seen an increase in revenue in constant dollars.
 - Cities have seen a decrease in revenue in constant dollars.
 - Townships have seen an increase in revenue in constant dollars.

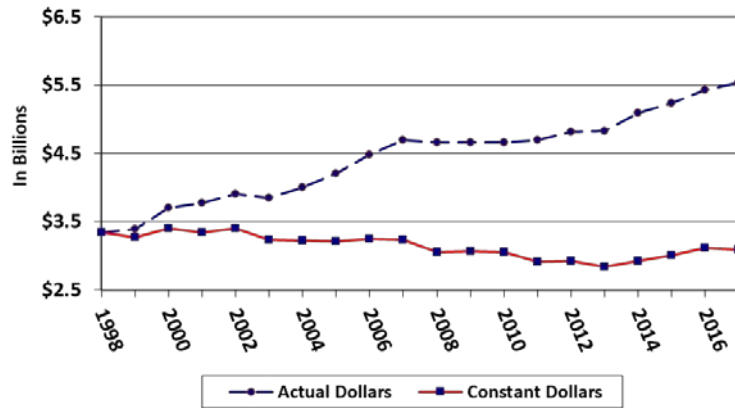
Percent of Total Revenues Derived From Property Taxes - 1998 and 2017



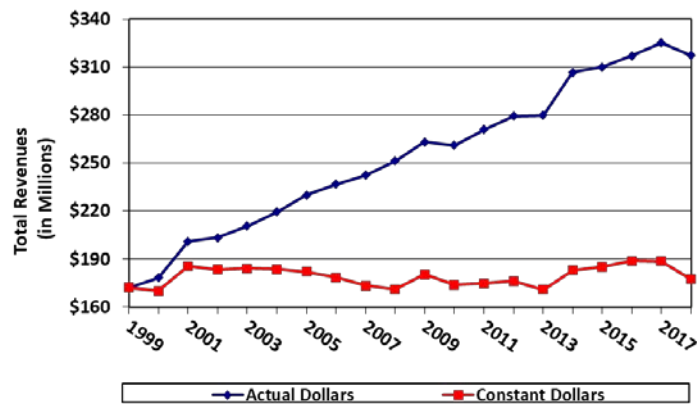
Change in Total Revenues (Counties)
Actual and Constant Dollars, 1998 - 2017



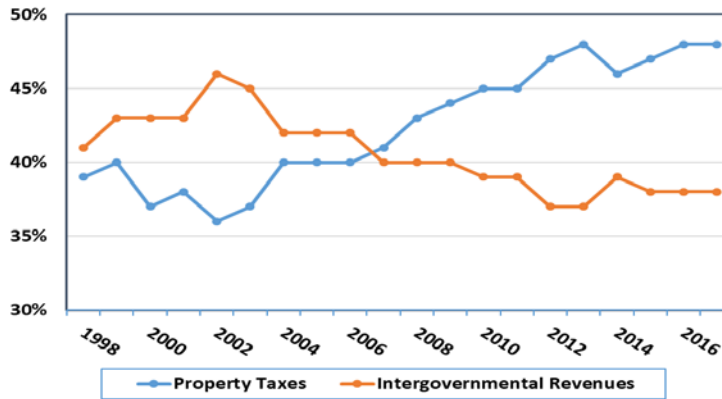
Change in Total Revenues (Cities)
Actual and Constant Dollars - 1998 to 2017



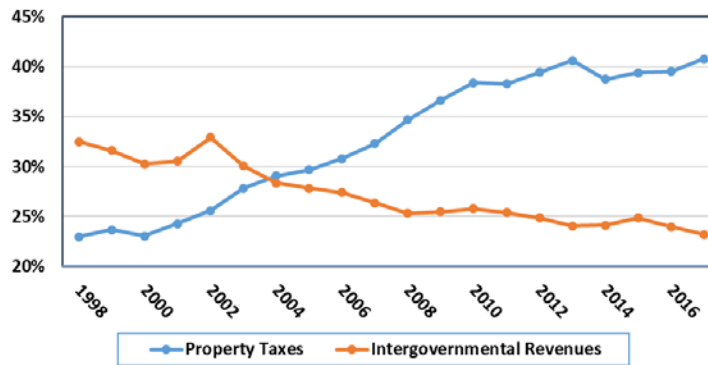
Change in Total Revenues (Townships)
in Actual and Constant Dollars, 1999 - 2018



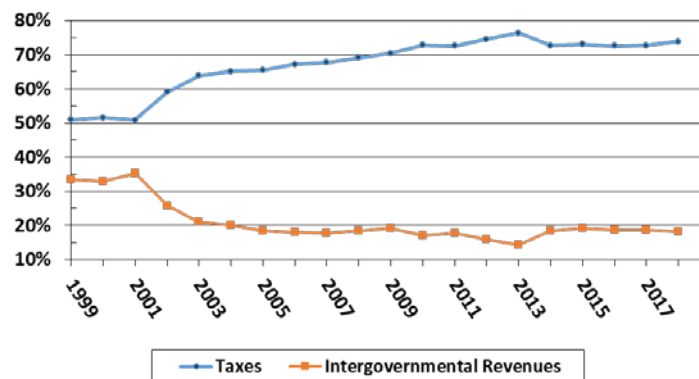
County Property Taxes and Intergovernmental Revenues as a Percent of total Revenues - 1998 to 2017



City Property Taxes and Intergovernmental Revenues as a Percent of total Revenues - 1998 to 2017



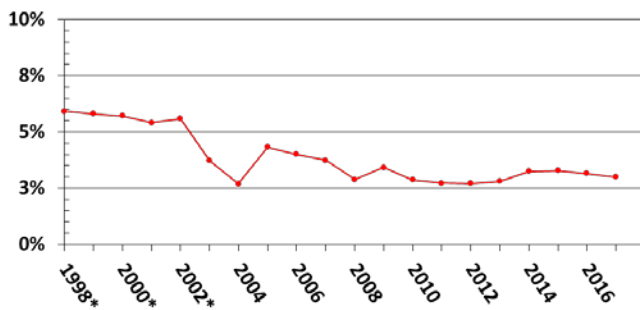
Township Primary Category of Revenue as a percent of Total Revenues, 1999- 2018



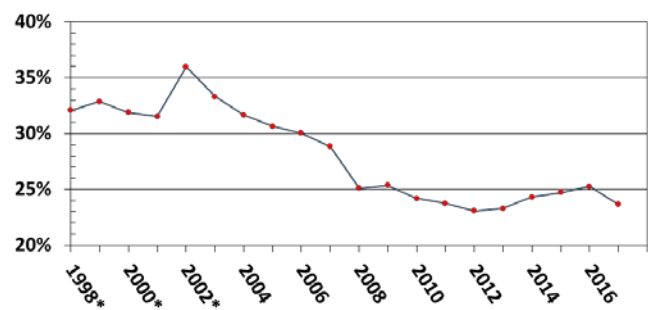
Dataset #3: Intergovernmental Aid

- ◆ Intergovernmental aid, which includes County Program Aid (CPA) and Local Government Aid (LGA), has trended downward in terms of percentage of total revenue and also constant dollars for counties, cities, and townships.

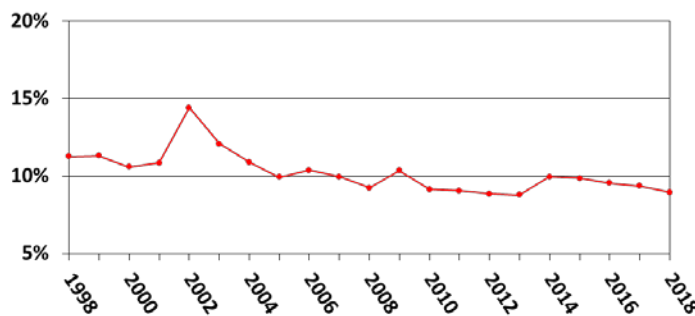
County Program Aid (CPA) as a Percent of Total County Revenues, 1998- 2017



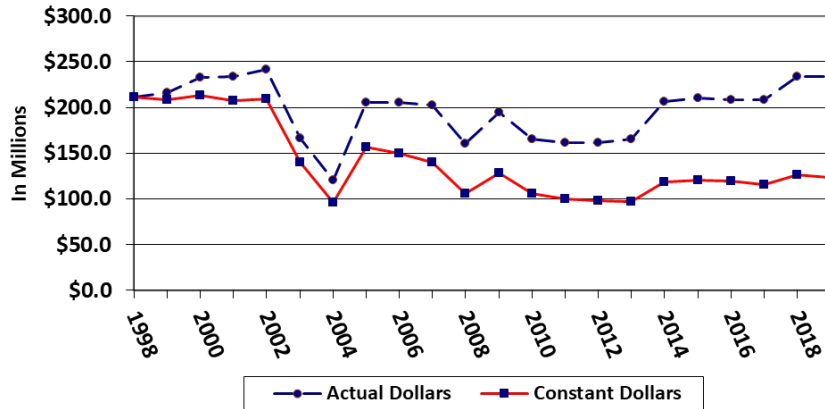
Total State Aid to Counties as a Percent of Total County Revenues, 1998- 2017



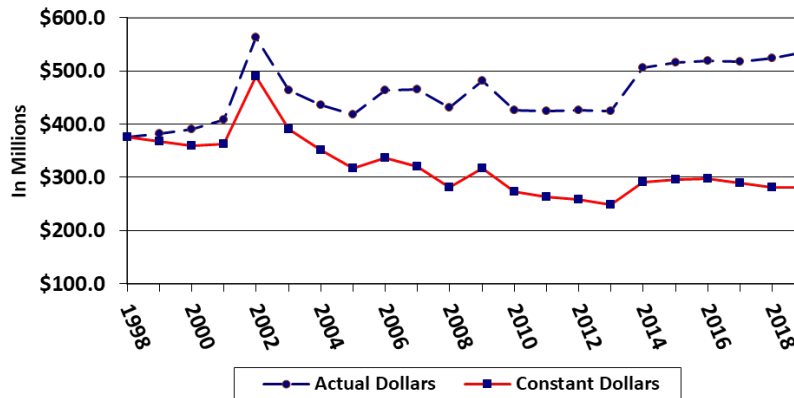
City Local Government Aid (LGA) as a Percent of Total City Revenues, 1998- 2018



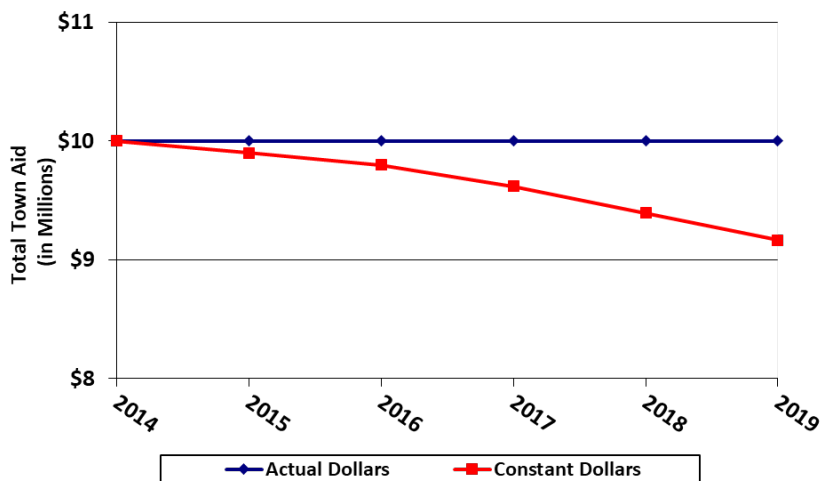
**Change in County Program Aid (CPA)
Actual and Constant Dollars - 1998 to 2019**



**Change in Local Government Aid (LGA)
Actual and Constant Dollars - 1998 to 2019**



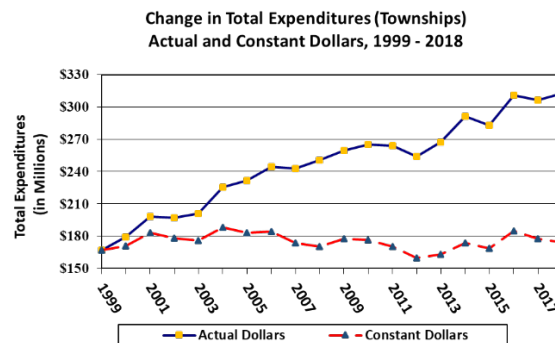
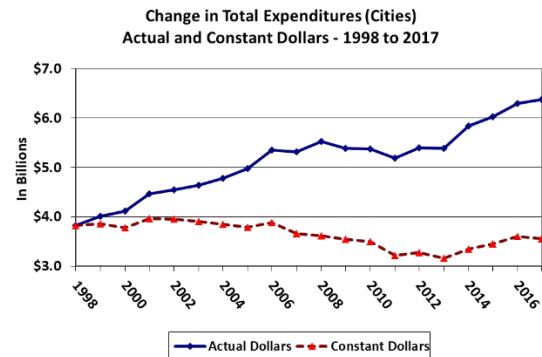
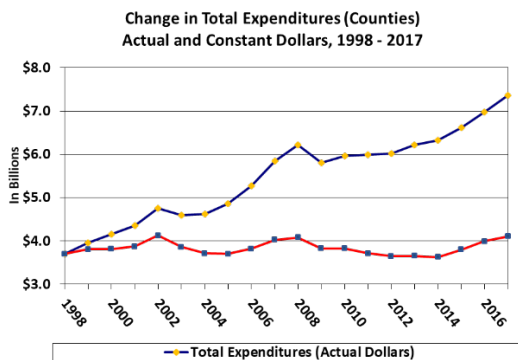
**Change in Township Aid
in Actual and Constant Dollars, 2014 - 2019**



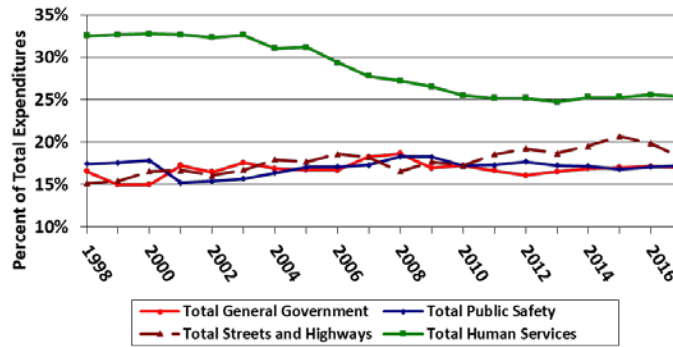
Dataset #3: Expenditures

- ◆ **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. Much of this is due to partnerships which shift federal dollars directly to the joint organization instead of passing through county budgets. The overall costs of human services is not decreasing.
 - The proportion of city expenditures on public safety increased over the past twenty years.
 - The proportion of township expenditures on roads increased over the past twenty years.

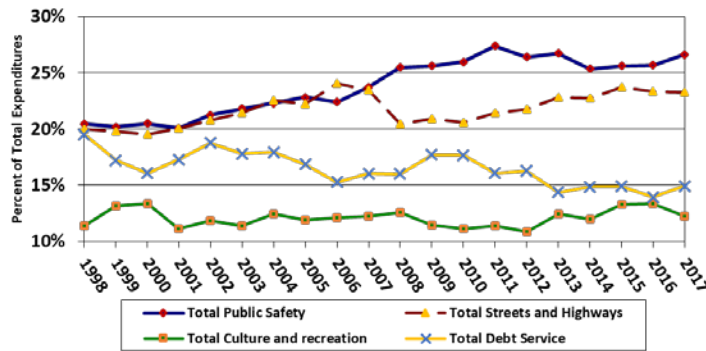
- ◆ **When adjusted for inflation, total city, county, and township expenditure change has remained relatively flat over the past 20 years.**
 - Counties have seen an increase in expenditures in constant dollars.
 - Cities have seen a decrease in expenditures in constant dollars.
 - Townships have seen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



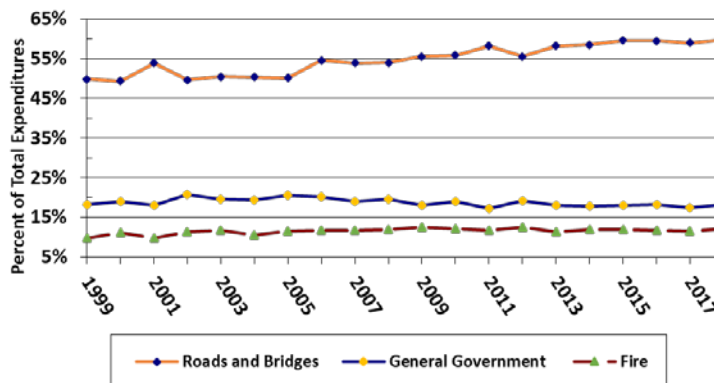
County Primary Categories of Expenditures, 1998-2017



City Primary Categories of Expenditures, 1998-2017



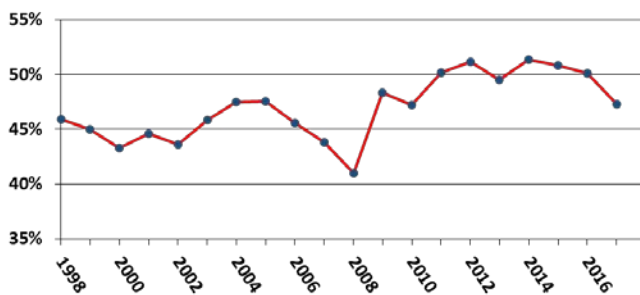
Townships Primary Categories of Expenditures, 1999-2018



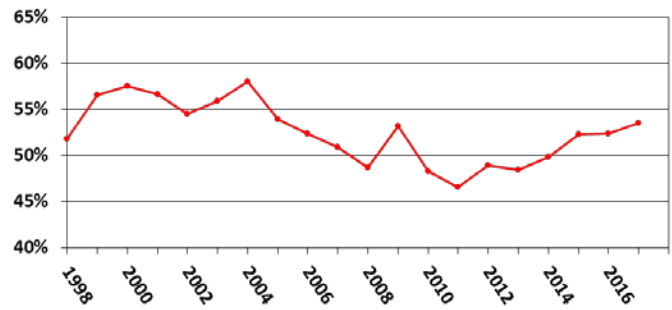
Dataset #4: Reserves and Debt

- ◆ **Unreserved fund balance proportions in cities and counties have varied over the past twenty years but are close to where they were in 1998.**
 - County unreserved fund balances as a proportion of current expenditures are up slightly over the past twenty years.
 - City unreserved fund balances as a proportion of current expenditures are up slightly over the past twenty years.
 - 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 a proportion of revenues increased over the past twenty years.
 - City debt as a proportion of revenues decreased over the past twenty years.
 - Township as a proportion of revenues debt decreased over the past twenty years.

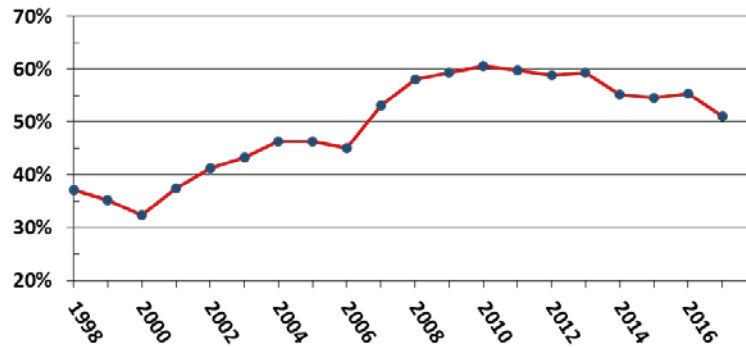
County Unreserved Fund Balances as a Percent of Total Current Expenditures, 1998- 2017



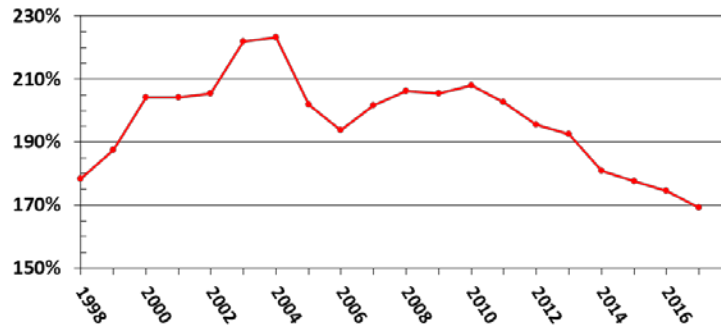
City Unreserved Fund Balances as a Percent of Total Current Expenditures, 1998- 2017



County Outstanding Debt as a Percent of Total Revenues, 1998- 2017



City Outstanding Debt as a Percent of Total Revenues, 1998- 2017



Township Outstanding Debt as a Percent of Total Revenues, 1998- 2018

