



City Fee Report State of Minnesota 2001 - 2004



**Cluster Analysis for Minnesota Cities
By Fee Category**

MINNESOTA • REVENUE

February 2006

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To: Senate Finance and Tax Committees
House Appropriations and Tax Committees

This report provides a comprehensive summary and comparison of all fees and related charges imposed by Minnesota cities during the four-year period from 2001 to 2004. The primary source of information for the report is data from the Office of the State Auditor.

The report was required by the 2005 Legislature, Special Session, Chapter 3, Article 11, Section 7, Subdivision 3. Minnesota Statutes, Section 3.197 specifies that a report to the Legislature must include the cost of its preparation. The approximate cost of preparing this report was \$20,000.

Sincerely



Daniel A. Salomone,
Commissioner

cc: Secretary of the Senate
Chief Clerk of the House
Legislative Reference Library

Executive Summary

This report examines recent changes in fee revenue in Minnesota’s 853 cities. Results are reported separately for Minneapolis and St. Paul. The other cities are separated into 14 separate groups of cities, each sharing similar demographic and economic characteristics. The League of Minnesota Cities developed the methodology for identifying these “city clusters,” and they provide a way to show how the level and growth in fee revenue varies in different types of cities.

This report responds to a legislative requirement directing the Commissioner of Revenue to conduct a study of the level and growth of fees and charges imposed by city governments in the most recent four years.¹ Information from the Office of the State Auditor is the primary source of data. Results are presented for 2001 through 2004. They are generally shown in per capita terms, facilitating the comparison between cities of different size.

Overall City Finances

Figures 1-E and 2-E show the mix of city governmental fund revenue in 2001 and 2004. The three major sources of revenue are property taxes, fees and charges, and intergovernmental grants (federal, state, and county). Recent budget deficits and reforms in Minnesota led to a decline in state grants to cities, which fell by 11 percent between 2001 and 2004. City officials responded to these changes in a variety of ways. Overall, the mix of Minnesota city revenue changed significantly between 2001 and 2004.

- City revenue increased slowly, rising by 2.1 percent per year.
- Cities relied increasingly on fees and charges, which rose by an average of 6.6 percent per year. Their share of city revenue rose from 20.8 percent to 23.6 percent.
- Cities relied increasingly on property tax revenue, which rose by an average of 8.4 percent per year. The property tax share of city revenue rose from 24.3 percent to 29.1 percent.
- Tax increments as a share of total revenue fell from 8.2 percent to 6.2 percent.
- Despite the reduction in state grants, total intergovernmental payments (federal, state, and local) declined only slightly due to increased federal grants and grants from other local governmental units. As a share of city revenue, though, total intergovernmental grants fell from 30.6 percent to 28.3 percent.

Figure 1-E
2001 City Government Fund Revenue

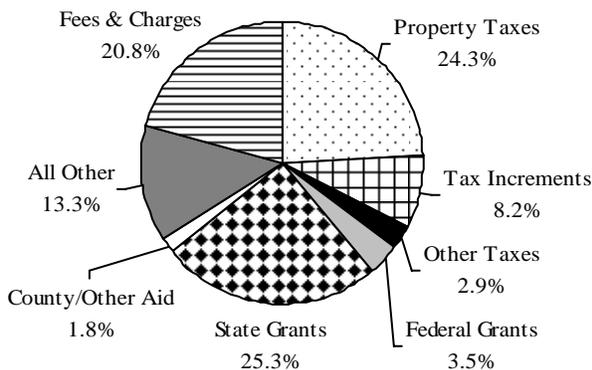
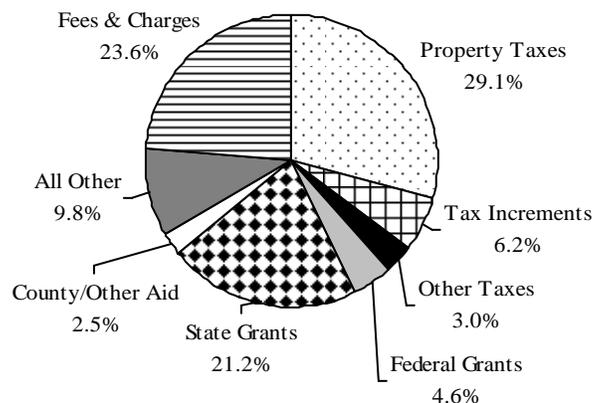


Figure 2-E
2004 City Government Fund Revenue



¹ 2005 Special Session, Chapter 3, Article 11, Section 7, Subd. 3.

City Fees in 2001 and 2004

The report looks more specifically at five categories of fees and charges: A) city service charges, B) special assessments, C) licenses and permits, D) city franchise charges, and E) fines and forfeits. Statewide, these city fees and charges increased from \$782 million in 2001 to \$948 million in 2004, an increase of 21.3 percent over three years. This represents an average annual increase of 6.6 percent.

The report focuses on fees and charges – by type of fee – in per capita terms. For all five categories combined, per capita fees and charges increased from \$196 in 2001 to \$228 in 2004. The totals by fee category are shown in *Table 1-E*.

Table 1-E
Per Capita Fees and Charges in 2001 and 2004
(governmental funds)

Type of Fee or Charge	2001	2004	3-Year Change*	Average Annual Change
A. City Service Charges	\$ 76	\$ 89	16.8%	5.3%
B. Special Assessments	58	69	18.9%	6.0%
C. Licenses and Permits	33	40	19.9%	6.2%
D. City Franchise Charges	18	20	10.0%	3.2%
E. Fines and Forfeits	10	10	6.1%	2.0%
Total	\$196	\$228	16.8%	5.3%

*Change calculated using dollars before rounding.

The increase in total *per capita* fees and charges (16.8 percent over three years) differs from the increase in *total* fees and charges (21.3 percent) because city population increased by 3.8 percent.

The level and increase in fees and charges varied across the city clusters.

- Average per capita fees and charges in 2004 were higher in metro cities (\$238) than in greater Minnesota cities (\$211).
- Among metro cities, 2004 per capita fees were highest in Minneapolis and St. Paul (\$320 and \$327) and in high growth cities (\$288); they were lowest in high-income cities (\$128).
- Among greater Minnesota cities, 2004 per capita fees were highest in high-income and urban fringe cities (\$364 and \$322); they were lowest in small and stable cities (\$100 and \$149).
- Between 2001 and 2004, per capita city fees and charges increased more rapidly in greater Minnesota than in metro cities (24 percent compared to 14 percent).
- The largest percentage increases (exceeding 30 percent over three years) were in small metro cities, small cities in greater Minnesota, and subregional centers in greater Minnesota.

The results summarized above are limited to fees and charges deposited in governmental funds. This means that enterprise fund charges are excluded. Sewer, water, refuse, and many other city services are provided by enterprise funds. Enterprise fund services are generally financed through user charges. The role of city enterprise funds statewide is discussed in this report, but no city cluster analysis is included. Enterprise fund revenues (excluding city liquor stores) are roughly three times as large as governmental fund fees and charges, averaging \$650 per city resident in 2004. Most of that revenue is from user charges, and between 2001 and 2004 it increased almost as fast as the governmental fund fees and charges discussed above (15.8 percent compared to 21.3 percent).

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City Fee Report

Cluster Analysis for Minnesota Cities by Fee Category

Reason for the Report

In 2005, the legislature directed the Commissioner of Revenue to conduct a study of the fees and other charges imposed by city governments and the revenue derived from those fees for each of the most recent four years (Special Session, Chapter 3, Article 11, Section 7, Subd. 3).

Overview of City Finances

Figures 1 and 2 show the mix of city governmental fund revenue in 2001 and 2004. The three major sources of revenue are property taxes, fees and charges, and intergovernmental grants (federal, state, and county). Recent budget deficits and reforms in Minnesota led to a decline in state grants to cities, which fell by 11 percent between 2001 and 2004. City officials responded to these changes in a variety of ways. Overall, the mix of Minnesota city revenue changed significantly between 2001 and 2004.

- City revenue increased slowly, rising by 2.1 percent per year.
- Cities relied increasingly on fees and charges, which rose by an average of 6.6 percent per year. The fee and charges share of city revenue rose from 20.8 percent to 23.6 percent.
- Cities relied increasingly on property tax revenue, which rose by an average of 8.4 percent per year. The property tax share of city revenue rose from 24.3 percent to 29.1 percent.
- Tax increments as a share of total revenue fell from 8.2 percent to 6.2 percent.
- Despite the reduction in state grants, total intergovernmental payments (federal, state, and local) declined only slightly, due to increased federal grants and grants from other local governmental units. As a share of city revenue, though, total intergovernmental grants fell from 30.6 percent to 28.3 percent.

Figure 1

2001 City Government Fund Revenue

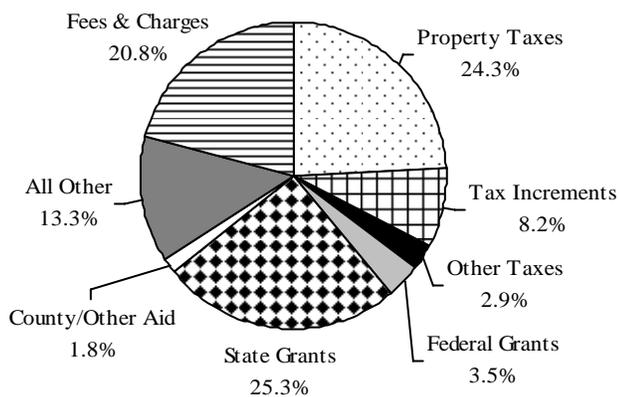
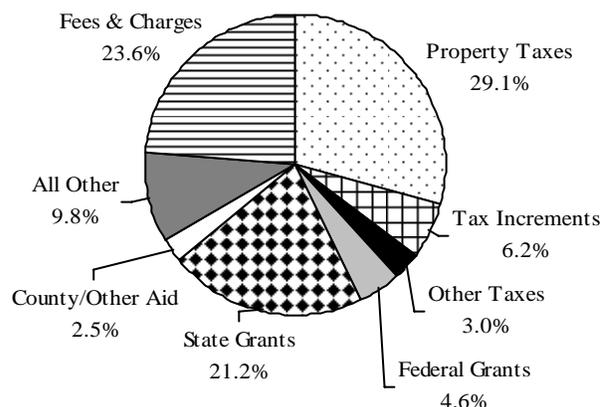


Figure 2

2004 City Government Fund Revenue



Scope of the Report: Defining Fees and Charges

The legislature directed the commissioner to report on the fees and charges imposed by cities, but it did not specify which sources of revenue to include. This report adopts a definition of fees and charges that is quite broad. It includes the following (listed in decreasing order of magnitude):

- A. City Service Charges
 - 1. Recreation Service Charges
 - 2. General Government Service Charges
 - 3. Public Safety Service Charges
 - 4. Street and Highway Service Charges
 - 5. Other Service Charges
- B. Special Assessments
- C. Licenses and Permits
- D. Franchise Charges
- E. Fines and Forfeits

There is some question whether either special assessments or franchise charges should be included in the definition of fees and charges. Special assessments can be levied only if it can be demonstrated that the improvement they pay for will raise the value of the property by at least the amount of the assessment. In addition, unlike most other fees and charges, they are neither voluntary nor avoidable. Franchise charges are imposed on public utilities for use of public property. The Office of the State Auditor (OSA) defines these as a tax, rather than a fee. Although this report includes both special assessments and franchise charges in its definition of fees, someone wanting to exclude them can easily subtract either or both of them from the reported results.

The core of the report is limited to fees and charges (as listed above) that are deposited in governmental funds. This means that enterprise fund fees and charges are excluded. Most cities use enterprise funds to finance water and sewer services. Many cities also use enterprise funds to finance streets and highways and economic development, along with sanitation, electric, health, cultural, and recreation services. Over 200 cities own liquor stores, which are also operated as enterprise funds. Most enterprise funds are designed to be self-sustaining through fees and user charges, with the goal of covering their costs rather than earning a profit. In some cases, though, enterprise funds regularly earn profits, which are then transferred to a governmental fund to help finance other city services. This report includes a separate section that analyzes enterprise fund revenues, but totals for enterprise funds are reported separately and are not combined with the totals for governmental funds that form the core of the report.

Methodology

The Office of the State Auditor publishes annual reports showing the revenue, expenditures, and debt of each Minnesota city. In recent years, OSA has also made city-specific datasets available on their website (www.osa.state.mn.us). For this report, the Department of Revenue consolidated the OSA city data for the latest four years (2001 through 2004).² Data for 2005 will not be available until December 2006.

Several adjustments are made to the OSA data. First, we exclude fees paid by one local government to another for police and fire services. These government-to-government contracts, which grew from \$30 million to \$39 million between 2001 and 2004, are financed from other revenues (such as property taxes). Second, we adjust some of the reported fee and charges for Minneapolis, to make their reporting in the first three years match that reported by other cities. Third, we combine Pleasant Lake and Rockville data for 2001 and 2002, prior to their merger.

Results are generally reported in per capita terms, to facilitate comparisons between cities of different sizes. Presentation in per capita terms does not imply, though, that the cost of these fees and charges all falls on city residents. Some fees are paid by visitors or by nonresidents who work in the city. Some fees are also paid by businesses, and the owners may not be city residents or be able to pass the costs on to their customers.

Separate results are reported for Minneapolis and St. Paul. The other cities are separated into 14 separate groups of cities, each sharing similar demographic and economic characteristics. The League of Minnesota Cities developed the methodology for identifying these “city clusters,” and this allows us to show how the level and growth in fee revenue varies in different types of cities.

The cluster method reorganizes the 853 cities into relatively homogeneous groups, based on a combination of demographic and financial characteristics (i.e., census population, population growth, household income, and property values) with Minneapolis and St. Paul separately classified. The classification method is intended to remove limitations of grouping cities by size or location alone. There are seven city clusters for the seven-county metropolitan area and eight clusters for the cities outside of the seven-county metro area. Profiles for the clusters are listed in *Table 1*.

To provide some perspective on the rate of increase in city fees, the report shows the rate of increase for “benchmarks” during the same three years. Benchmarks include: 1) city property taxes, 2) city revenue, 3) city expenditures, 4) personal income, 5) inflation as measured by the consumer price index, and 6) inflation as measured by the implicit price deflator for state and local government purchases.

² Although the statutory language required each city to report fee revenue to the Commissioner of Revenue, this report is instead based on existing OSA data. Conversations between the commissioner, legislative staff, and other interested parties concluded that the OSA data would be more useful than any new data collected under such a tight time constraint.

**Table 1
Cluster Profiles**

Name	2000 Census Population (Average)	Population Growth Rate 1990-2000 (Percent)	1999 Median Household Income	C/I Market Value Per Capita	Number of Cities in the Cluster
Metropolitan Cities					
Central Cities	334,885	4.7%	\$38,374	\$10,772	2
Large Cities	58,192	20.1	65,710	16,247	12
Old Cities	22,396	1.3	47,924	7,901	13
High Growth Cities	13,887	74.0	67,969	6,699	35
Diversified Cities	12,834	1.6	53,498	20,043	15
High Income Cities	2,910	6.7	102,990	2,570	20
Smaller Cities	3,836	5.8	50,003	5,058	<u>41</u>
					138
Greater Minnesota Cities					
Major Cities	77,277	14.7%	\$40,067	\$8,402	3
Regional Centers	16,977	6.2	35,768	7,075	22
Subregional Centers	3,165	13.0	30,374	12,366	27
Urban Fringe	4,578	174.1	52,563	5,998	10
High Income Cities	3,956	36.1	51,934	7,248	25
Moderate Growth Cities	2,140	22.0	42,031	4,146	60
Established Cities	1,616	2.4	32,314	3,169	209
Small Rural Cities	214	1.7	31,858	3,113	<u>359</u>
					715

More information on the clustering method can be found on the League of Minnesota Cities website (www.lmnc.org/pdfs/ClusteringMinnesotaCities0803.pdf)

Summary of Results

Governmental Fund Fees and Charges

As shown in *Table 3* on the next page, total city fees and charges as defined in this report (excluding enterprise funds) increased from \$782 million in 2001 to \$948 million in 2004, an increase of 21.3 percent over three years. This represents an average annual increase of 6.6 percent. As shown by the benchmarks listed at the bottom of that table, fees and charges for all cities combined increased more rapidly than city revenue (which grew by an average of 2.1 percent per year), city expenditures (2.3 percent per year), or Minnesota personal income (4.3 percent per year). Fees also increased faster than inflation, whether measured by the consumer price index (2.2 percent per year) or the implicit price deflator for state and local purchases (3.2 percent per year). In contrast, city fees increased more slowly than city property taxes (8.4 percent per year).

Table 2 shows the average level and change in statewide city fees and charges in per capita terms. For all five categories combined, per capita fees and charges increased from \$196 in 2001 to \$228 in 2004, an increase of 16.8 percent over three years (average of 5.3 percent per year). Licenses and permits and special assessments grew more rapidly; franchise charges, and fines and forfeits grew more slowly.

Table 2
Per Capita Fees and Charges in 2001 and 2004
By Fee Category
(governmental funds)

Type of Fee or Charge	2001	2004	3-Year Change*	Average Annual Change
A. City Service Charges	\$ 76	\$ 89	16.8%	5.3%
B. Special Assessments	58	69	18.9%	6.0%
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Total	\$196	\$228	16.8%	5.3%

*Change calculated using dollars before rounding.

The increase in total *per capita* fees and charges (16.8 percent over three years) differs from the increase in *total* fees and charges (21.3 percent) because city population increased by 3.8 percent.

Table 3
Total Fees and Charges
(governmental funds)
(dollars in thousands)

All Cities	\$ 781,649	\$ 819,950	\$ 895,223	\$ 947,780	21.3%	6.6%
Metro	\$ 541,627	\$ 565,524	\$ 605,445	\$ 637,399	17.7%	5.6%
Minneapolis	108,209	102,104	107,697	122,245	13.0%	4.1%
St. Paul	81,774	83,413	87,815	94,063	15.0%	4.8%
Metro Suburban Cities	\$ 351,643	\$ 380,007	\$ 409,933	\$ 421,091	19.7%	6.2%
Diversified	32,994	34,845	38,276	41,227	25.0%	7.7%
High Growth	120,820	133,613	154,614	160,016	32.4%	9.8%
High Income	7,707	8,558	8,014	7,942	3.0%	1.0%
Large	125,489	137,492	138,399	133,106	6.1%	2.0%
Old	41,850	39,878	43,675	47,726	14.0%	4.5%
Small	22,784	25,622	26,955	31,074	36.4%	10.9%
Greater Minnesota	\$ 240,023	\$ 254,426	\$ 289,778	\$ 310,380	29.3%	8.9%
High Income	31,096	27,158	34,518	44,478	43.0%	12.7%
Moderate Growth	21,325	23,184	25,161	26,001	21.9%	6.8%
Major	43,676	47,063	51,029	53,265	22.0%	6.8%
Regional Centers	64,229	69,321	73,921	81,662	27.1%	8.3%
Sub-Regional Centers	18,208	21,173	23,332	25,257	38.7%	11.5%
Small	5,741	6,457	6,859	7,658	33.4%	10.1%
Stable	40,166	42,577	48,937	50,861	26.6%	8.2%
Urban Fringe	15,583	17,493	26,021	21,200	36.1%	10.8%

<i>City Property Taxes</i>	<i>\$ 914,533</i>	<i>\$ 1,000,178</i>	<i>\$ 1,068,255</i>	<i>\$ 1,163,881</i>	<i>27.3%</i>	<i>8.4%</i>
<i>Total City Revenue</i>	<i>3,766,406</i>	<i>3,908,640</i>	<i>3,841,115</i>	<i>4,004,225</i>	<i>6.3%</i>	<i>2.1%</i>
<i>Total City Expenditures</i>	<i>4,467,319</i>	<i>4,547,874</i>	<i>4,638,540</i>	<i>4,776,435</i>	<i>6.9%</i>	<i>2.3%</i>
<i>Minnesota Personal Income</i>	<i>162,577,516</i>	<i>166,980,128</i>	<i>173,300,030</i>	<i>184,514,849</i>	<i>13.5%</i>	<i>4.3%</i>
<i>Inflation</i>						
<i>Implicit Price Deflator</i> <i>(state & local purchases)</i>					<i>9.9%</i>	<i>3.2%</i>
<i>Consumer Price Index</i>					<i>6.7%</i>	<i>2.2%</i>

Per capita fee levels and their growth rates vary across types of cities. Some general observations include:

- Average per capita fees and charges in 2004 were higher in metro cities (\$238) than in greater Minnesota cities (\$211).
- Among metro cities, 2004 per capita fees were highest in Minneapolis and St. Paul (\$320 and \$327) and in high growth cities (\$288); they were lowest in high-income cities (\$128).
- Among greater Minnesota cities, 2004 per capita fees were highest in high-income and urban fringe cities (\$364 to \$322); they were lowest in small and stable cities (\$100 and \$149).
- Between 2001 and 2004, per capita city fees and charges increased more rapidly in greater Minnesota than in metro cities (24 percent compared to 14 percent).
- The largest percentage increases (exceeding 30 percent over three years) were in small metro cities, small cities in greater Minnesota, and subregional centers in greater Minnesota.

More detailed results by city cluster are shown on pages 11-27, both for total fees and for each of the five fee categories. Separate tables also provide additional detail for the first fee category (city service fees), showing per capita amounts for each of five subcategories.

Enterprise Fund Revenues and Transfers

The results summarized above are limited to fees and charges deposited in governmental funds. This means that enterprise fund charges are excluded. Enterprise funds provide sewer, water, refuse, and many other city services, and those services are generally financed through user charges. The statewide role of city enterprise funds is discussed on pages 29-32, but no city cluster analysis is included. City liquor store enterprise funds are examined separately. Unlike most enterprise funds, their primary purpose is to raise revenue rather than provide city services.

Enterprise fund revenues are roughly three times as large as the governmental fees and charges described above – over \$650 per capita in 2004 (excluding liquor stores). Enterprise fund revenue (excluding liquor stores) increased by 15.8 percent between 2001 and 2004, somewhat slower than governmental fund fees (at 21.3 percent).

Most enterprise funds are designed to break even, setting charges roughly equal to their costs. Some enterprise funds consistently earn a profit, though, and transfer this profit to governmental funds to help pay for other city expenditures. In 2004, net transfers totaled \$88.7 million, an average of \$21 per city resident. Although liquor stores transferred the largest share of their net income (86 percent), they accounted for only 18 percent of the 2004 transfers (\$16 million). Net transfers from sewer, water, and electric enterprise funds totaled \$90 million in 2004, offset by significant negative transfers from three categories of enterprise funds (development, culture and recreation, and other).

Between 2001 and 2004, liquor store net income fell by 8.1 percent and their net transfers to governmental funds increased by 12 percent (\$1.7 million). The share of their net income transferred to governmental funds rose from 71 percent to 86 percent. Between 2001 and 2004, the net income for other city enterprise funds fell by 25.3 percent and their net transfers to governmental funds fell by 9 percent (\$7.3 million). The share of their net income transferred to governmental funds rose from 28 percent to 34 percent.

Net transfers from enterprise funds are an important source of revenue for cities. As a share of total governmental fund revenue, though, net transfers from enterprise funds fell from 2.5 percent to 2.2 percent between 2001 and 2004.

Results and Observations

Governmental Funds

Total Per Capita Fees and Charges (governmental funds)

Includes: Service charges, special assessments, licenses and permits, franchise charges, and fines and forfeits.

All-City Average

- \$228 per person in 2004.
- About 80 percent as large as property tax revenues per capita.
- Growing slower than property taxes, but faster than either inflation or city spending.

Metro vs. Greater Minnesota

- Slightly higher level in metro than in greater Minnesota.
- Metro suburban level same as greater Minnesota.
- Higher growth rate in greater Minnesota.

Individual City Categories

- Minneapolis, St. Paul, and high growth suburbs are significantly higher than metro average.
- High income and old suburbs are significantly below metro average.
- Small suburbs have the highest growth rate in metro.
- Greater Minnesota high income and urban fringe cities are more dependent than greater Minnesota average.
- Lower dependence in small and stable greater Minnesota cities.
- Small greater Minnesota cities and subregional centers have highest growth rates.

Figure 3
Total Per Capita City Fees and Charges
(governmental funds)

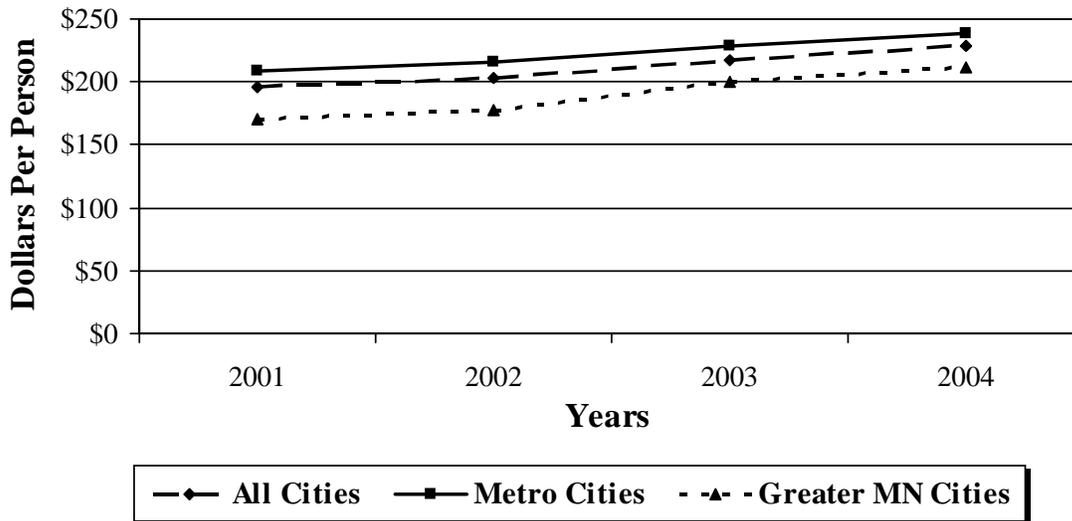


Table 4
Total Per Capita Fees and Charges
 (governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 196	\$ 203	\$ 218	\$ 228	16.8%	5.3%
Metro	\$ 209	\$ 216	\$ 229	\$ 238	13.6%	4.4%
Minneapolis	283	267	282	320	13.0%	4.2%
St. Paul	285	290	305	327	15.0%	4.8%
Metro Suburban Cities	\$ 184	\$ 196	\$ 207	\$ 210	14.3%	4.5%
Diversified	164	172	187	201	22.7%	7.1%
High Growth	240	258	289	288	20.2%	6.3%
High Income	130	142	131	128	-1.5%	-0.5%
Large	178	193	191	182	2.4%	0.8%
Old	143	135	148	162	13.2%	4.2%
Small	150	166	172	196	30.5%	9.3%
Greater Minnesota	\$ 170	\$ 178	\$ 200	\$ 211	24.0%	7.4%
High Income	291	243	295	364	25.2%	7.8%
Moderate Growth	162	173	184	186	15.2%	4.8%
Major	185	197	211	218	17.6%	5.6%
Regional Centers	171	183	194	212	24.2%	7.5%
Sub-Regional Centers	204	234	251	267	30.6%	9.3%
Small	75	84	90	100	34.2%	10.3%
Stable	118	125	143	149	26.1%	8.0%
Urban Fringe	298	307	426	322	7.9%	2.6%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator</i> <i>(state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

A. City Service Charges (All Categories) (governmental funds)

Includes: Public safety, art and recreation, general government, street and highway, and all other (sanitation, libraries, airport, transit, etc.).

All-City Average

- \$89 per person in 2004.
- About 1/3 the level of property taxes.
- Growth slower than property taxes, but greater than inflation, city spending, and per capita income.

Metro vs. Greater Minnesota

- Growth faster in greater Minnesota.
- Greater Minnesota city dependence started out lower than metro in 2001, but now is roughly the same.

Individual City Categories

- Minneapolis, St. Paul and high growth metro cities are significantly above metro average.
- No growth in St. Paul.
- Metro growth highest in high-growth, high-income, small cities, and Minneapolis.
- Greater Minnesota high income, urban fringe cities, and subregional centers are most dependent, well above greater Minnesota average.
- Greater Minnesota high-income cities dependence almost twice that of city average.
- Growth rates for all greater Minnesota city types are higher than all city average.

Figure 4
Per Capita City Service Charges
(governmental funds)

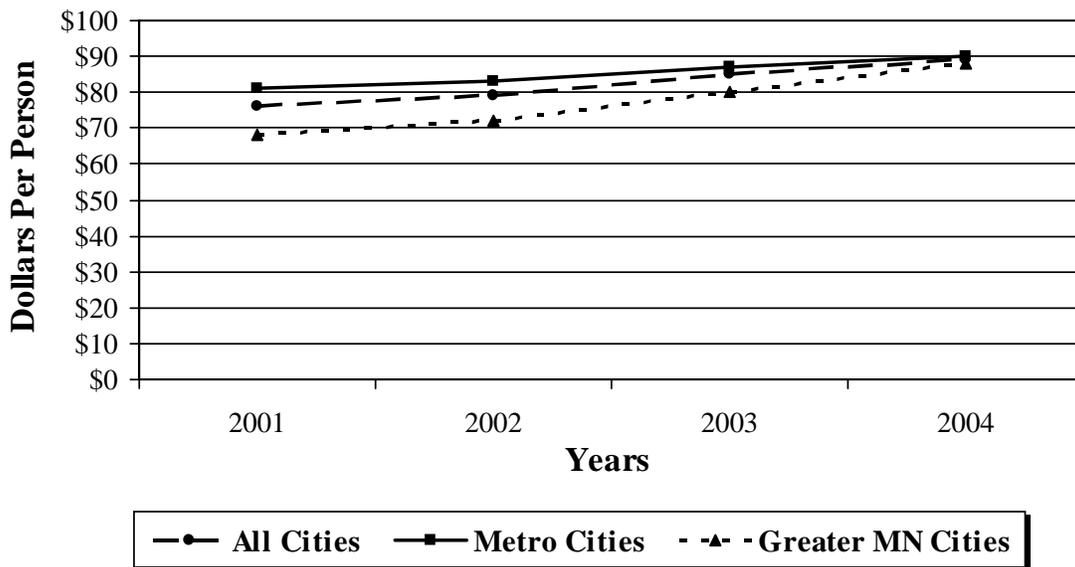


Table 5
(A) Total Per Capita City Service Charges (All Categories)
(governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 76	\$ 79	\$ 85	\$ 89	16.8%	5.3%
Metro	\$ 81	\$ 83	\$ 87	\$ 90	11.3%	3.6%
Minneapolis	109	102	104	133	21.2%	6.6%
St. Paul	119	114	113	119	-0.2%	-0.1%
Metro Suburban Cities	\$ 69	\$ 74	\$ 80	\$ 78	11.9%	3.8%
Diversified	75	81	89	88	16.7%	5.3%
High Growth	93	104	114	117	25.6%	7.9%
High Income	35	40	39	43	23.4%	7.3%
Large	59	64	66	54	-8.8%	-3.0%
Old	63	59	68	68	7.6%	2.5%
Small	55	53	61	67	20.7%	6.5%
Greater Minnesota	\$ 68	\$ 72	\$ 80	\$ 88	28.8%	8.8%
High Income	131	98	125	183	39.6%	11.8%
Moderate Growth	53	59	74	73	36.8%	11.0%
Major	67	75	75	80	19.8%	6.2%
Regional Centers	69	77	76	82	18.2%	5.7%
Sub-Regional Centers	78	86	108	111	43.1%	12.7%
Small	40	43	43	51	27.7%	8.5%
Stable	54	58	62	69	27.0%	8.3%
Urban Fringe	94	104	166	116	23.4%	7.3%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator</i> <i>(state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

Table 6
(A-1) Per Capita Recreation Service Charges
(governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 18	\$ 19	\$ 20	\$ 22	19.2%	6.0%
Metro	\$ 17	\$ 18	\$ 19	\$ 21	20.3%	6.4%
Minneapolis	7	6	8	8	12.3%	3.9%
St. Paul	4	7	7	10	123.2%	30.7%
Metro Suburban Cities	\$ 21	\$ 22	\$ 23	\$ 25	16.8%	5.3%
Diversified	22	20	18	20	-9.0%	-3.1%
High Growth	21	22	26	33	58.3%	16.5%
High Income	5	5	8	7	46.0%	13.5%
Large	22	22	21	20	-8.7%	-3.0%
Old	25	27	27	33	30.8%	9.4%
Small	20	19	22	20	-1.1%	-0.4%
Greater Minnesota	\$ 20	\$ 21	\$ 22	\$ 23	17.2%	5.4%
High Income	29	28	33	51	77.3%	21.0%
Moderate Growth	16	16	18	18	12.2%	3.9%
Major	24	25	25	28	17.0%	5.4%
Regional Centers	19	20	17	17	-12.1%	-4.2%
Sub-Regional Centers	22	29	34	23	2.5%	0.8%
Small	12	12	13	12	-2.6%	-0.9%
Stable	18	17	19	20	16.3%	5.2%
Urban Fringe	25	35	35	36	44.6%	13.1%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator</i> <i>(state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

Table 7
(A-2) Per Capita General Government Service Charges
(governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 13	\$ 15	\$ 14	\$ 19	45.4%	13.3%
Metro	\$ 15	\$ 18	\$ 17	\$ 22	48.3%	14.0%
Minneapolis	21	38	28	60	185.7%	41.9%
St. Paul	16	17	29	34	113.1%	28.7%
Metro Suburban Cities	\$ 14	\$ 14	\$ 13	\$ 14	-1.7%	-0.6%
Diversified	18	28	24	25	34.0%	10.3%
High Growth	23	22	21	22	-3.4%	-1.2%
High Income	11	15	11	16	42.9%	12.6%
Large	9	7	5	5	-39.1%	-15.2%
Old	9	10	10	10	10.9%	3.5%
Small	9	8	9	11	23.9%	7.4%
Greater Minnesota	\$ 9	\$ 9	\$ 9	\$ 12	36.6%	11.0%
High Income	12	12	16	14	16.6%	5.3%
Moderate Growth	5	5	5	12	165.4%	38.5%
Major	18	19	19	17	-3.8%	-1.3%
Regional Centers	10	11	9	10	-3.3%	-1.1%
Sub-Regional Centers	6	7	10	28	343.1%	64.3%
Small	1	2	2	3	156.1%	36.8%
Stable	3	3	3	6	113.4%	28.7%
Urban Fringe	8	7	8	10	29.5%	9.0%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator (state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

Table 8
(A-3) Per Capita Public Safety Service Charges
(governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 8	\$ 8	\$ 9	\$ 9	15.5%	4.9%
Metro	\$ 7	\$ 7	\$ 8	\$ 8	7.5%	2.4%
Minneapolis	1	2	2	2	92.1%	24.3%
St. Paul	31	35	38	40	32.4%	9.8%
Metro Suburban Cities	\$ 5	\$ 4	\$ 4	\$ 4	-15.8%	-5.6%
Diversified	8	12	10	10	26.1%	8.0%
High Growth	3	1	2	2	-42.2%	-16.7%
High Income	2	2	2	3	37.5%	11.2%
Large	5	5	5	6	7.2%	2.4%
Old	7	4	5	2	-71.1%	-33.8%
Small	1	1	1	2	44.6%	13.1%
Greater Minnesota	\$ 9	\$ 10	\$ 10	\$ 12	26.5%	8.1%
High Income	1	0	1	3	274.5%	55.3%
Moderate Growth	10	10	11	11	17.5%	5.5%
Major	6	9	9	12	91.6%	24.2%
Regional Centers	13	13	14	14	10.0%	3.2%
Sub-Regional Centers	13	13	13	14	5.0%	1.6%
Small	8	9	11	13	73.6%	20.2%
Stable	10	10	11	13	31.6%	9.6%
Urban Fringe	4	3	1	0	-93.9%	-60.6%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator (state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

Table 9
(A-4) Per Capita Street and Highway Service Charges
(governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 8	\$ 7	\$ 8	\$ 9	16.9%	5.3%
Metro	\$ 9	\$ 8	\$ 9	\$ 10	8.8%	2.8%
Minneapolis	16	13	18	17	8.0%	2.6%
St. Paul	12	10	12	13	3.9%	1.3%
Metro Suburban Cities	\$ 7	\$ 7	\$ 7	\$ 8	11.6%	3.7%
Diversified	4	5	6	11	153.0%	36.3%
High Growth	14	13	11	10	-26.8%	-9.9%
High Income	2	2	2	4	141.0%	34.1%
Large	6	7	7	6	-8.8%	-3.0%
Old	2	1	7	9	298.3%	58.5%
Small	3	1	5	4	67.3%	18.7%
Greater Minnesota	\$ 5	\$ 5	\$ 5	\$ 7	42.7%	12.6%
High Income	7	2	6	18	157.1%	37.0%
Moderate Growth	2	2	1	1	-58.5%	-25.4%
Major	9	8	7	7	-18.3%	-6.5%
Regional Centers	8	8	8	12	44.5%	13.1%
Sub-Regional Centers	3	2	5	10	172.1%	39.6%
Small	1	1	1	2	76.6%	20.9%
Stable	3	3	3	3	27.3%	8.4%
Urban Fringe	1	-	1	4	385.9%	69.4%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator</i> <i>(state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

Table 10
(A-5) Per Capita All Other Service Charges
(governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 30	\$ 30	\$ 35	\$ 31	3.3%	1.1%
Metro	\$ 32	\$ 31	\$ 35	\$ 29	-9.6%	-3.3%
Minneapolis	65	42	49	46	-29.1%	-10.8%
St. Paul	55	46	27	21	-61.7%	-27.4%
Metro Suburban Cities	\$ 22	\$ 27	\$ 33	\$ 27	21.8%	6.8%
Diversified	22	16	31	22	-2.3%	-0.8%
High Growth	32	46	55	50	54.1%	15.5%
High Income	15	16	16	13	-13.6%	-4.8%
Large	17	22	28	17	2.5%	0.8%
Old	19	18	20	13	-29.1%	-10.8%
Small	23	23	24	30	31.9%	9.7%
Greater Minnesota	\$ 25	\$ 27	\$ 34	\$ 34	33.2%	10.0%
High Income	82	57	70	96	17.2%	5.4%
Moderate Growth	22	27	39	31	43.2%	12.7%
Major	10	14	14	16	54.9%	15.7%
Regional Centers	19	25	26	29	54.4%	15.6%
Sub-Regional Centers	33	35	47	37	14.0%	4.5%
Small	17	18	16	20	16.0%	5.1%
Stable	21	25	27	26	21.7%	6.8%
Urban Fringe	57	59	122	66	16.3%	5.1%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator (state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

B. Special Assessments (governmental funds)

Includes: Assessments made against specific properties to defray cost of improvements.
Includes any penalties or interest.

All-City Average

- \$69 per person in 2004.
- Generally small relative to property tax (25%).
- Growth slower than property tax but faster than inflation or total spending.

Metro vs. Greater Minnesota – Averages

- More reliance in greater Minnesota.
- Growth rate is about the same in metro and greater Minnesota cities.

Individual City Categories

- St. Paul and high growth metro cities are significantly above metro average.
- Metro high income and old cities are below metro average.
- Metro growth is highest in diversified cities and St. Paul.
- Greater Minnesota high income, urban fringe, and subregional centers are well above all city and greater Minnesota averages.
- In greater Minnesota, highest growth rate is in small cities, but per capita well below greater Minnesota average.
- Regional centers also have high growth rate.

Figure 5
Per Capita Special Assessments
(governmental funds)

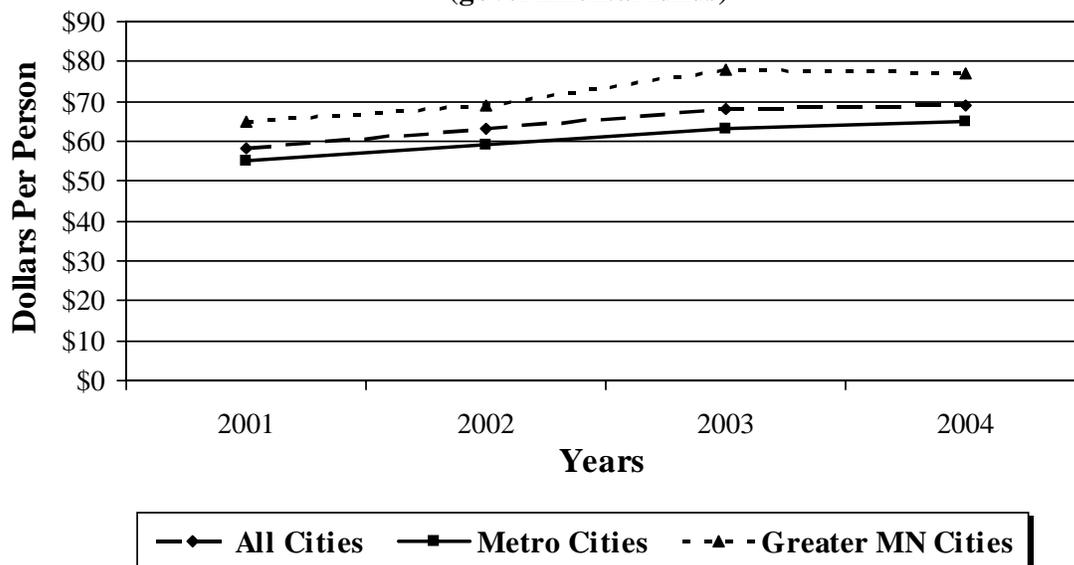


Table 11
(B) Per Capita Special Assessments
 (governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 58	\$ 63	\$ 68	\$ 69	18.9%	6.0%
Metro	\$ 55	\$ 59	\$ 63	\$ 65	18.7%	5.9%
Minneapolis	27	30	29	30	11.2%	3.6%
St. Paul	57	61	74	81	40.7%	12.1%
Metro Suburban Cities	\$ 60	\$ 65	\$ 68	\$ 69	15.8%	5.0%
Diversified	33	33	40	49	48.8%	14.2%
High Growth	87	91	108	97	12.0%	3.9%
High Income	28	30	23	17	-38.8%	-15.1%
Large	63	73	68	71	11.4%	3.7%
Old	35	33	34	41	16.6%	5.3%
Small	45	60	50	60	32.6%	9.9%
Greater Minnesota	\$ 65	\$ 69	\$ 78	\$ 77	19.2%	6.0%
High Income	105	92	114	113	7.3%	2.4%
Moderate Growth	82	85	78	76	-7.3%	-2.5%
Major	64	70	83	79	23.8%	7.4%
Regional Centers	63	68	75	83	32.2%	9.8%
Sub-Regional Centers	89	106	100	106	18.8%	5.9%
Small	23	28	30	32	41.7%	12.3%
Stable	40	43	52	50	25.8%	8.0%
Urban Fringe	141	136	175	126	-10.4%	-3.6%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator (state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

C. License and Permit Revenue (governmental funds)

Includes: Revenues from liquor licenses, cigarette sales licenses, other local business licenses, street use permits, and building permits.

All-City Average

- \$40 per person in 2004.
- Small relative to property tax (14%).
- Growing almost as fast as the property tax.

Metro vs. Greater Minnesota

- Metro much higher level than greater Minnesota.
- However, growth rate is much higher in greater Minnesota.

Individual City Categories

- Minneapolis, high income, and high growth metro cities rely on this revenue more than other metro cities.
- In metro, growth rate is highest in St. Paul, small cities, and high-growth cities.
- In greater Minnesota, urban fringe cities are most dependent on these revenues (almost three times the greater Minnesota average). Next highest are greater Minnesota high income and subregional centers.

Figure 6
Per Capita City License and Permit Revenue
(governmental funds)

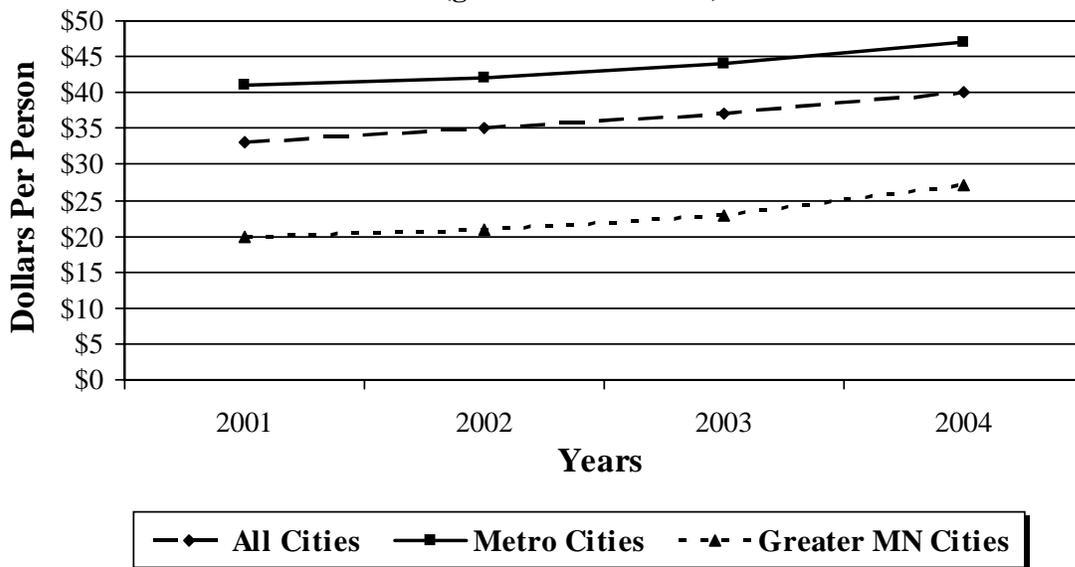


Table 12
(C) Per Capita License and Permit Revenue
 (governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 33	\$ 35	\$ 37	\$ 40	19.9%	6.2%
Metro	\$ 41	\$ 42	\$ 44	\$ 47	16.0%	5.1%
Minneapolis	55	56	60	65	17.4%	5.5%
St. Paul	28	31	34	40	42.1%	12.4%
Metro Suburban Cities	\$ 40	\$ 41	\$ 43	\$ 45	13.1%	4.2%
Diversified	43	44	45	46	8.9%	2.9%
High Growth	48	51	56	61	26.8%	8.2%
High Income	55	59	55	54	-1.4%	-0.5%
Large	39	39	39	39	1.6%	0.5%
Old	26	26	26	27	3.4%	1.1%
Small	32	37	39	41	28.4%	8.7%
Greater Minnesota	\$ 20	\$ 21	\$ 23	\$ 27	34.9%	10.5%
High Income	47	44	46	58	23.2%	7.2%
Moderate Growth	17	20	23	26	48.7%	14.1%
Major	22	20	20	25	13.6%	4.3%
Regional Centers	17	18	20	23	40.2%	11.9%
Sub-Regional Centers	24	27	29	33	38.0%	11.3%
Small	11	12	15	15	45.5%	13.3%
Stable	9	10	11	14	44.4%	13.0%
Urban Fringe	58	62	75	69	19.9%	6.2%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator</i> <i>(state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

D. Franchise Charges (governmental funds)

Includes: Charges imposed on public utilities (electric, gas, cable TV) for use of public property (usually right of way).

All-City Average

- About \$20 per person in 2004.
- Small relative to property tax (7%).
- Growth close to inflation (lower than property tax).

Metro vs. Greater Minnesota – Averages

- Much more prevalent in metro, especially core cities.
- Metro average growth rate close to inflation, but great variation among city clusters.

Individual City Categories

- Minneapolis and St. Paul are largest users of franchise revenues.
- In greater Minnesota, franchise charges are most prevalent in major cities (Duluth, St. Cloud, Rochester) and regional centers.

Figure 7
Per Capita Franchise Charges
(governmental funds)

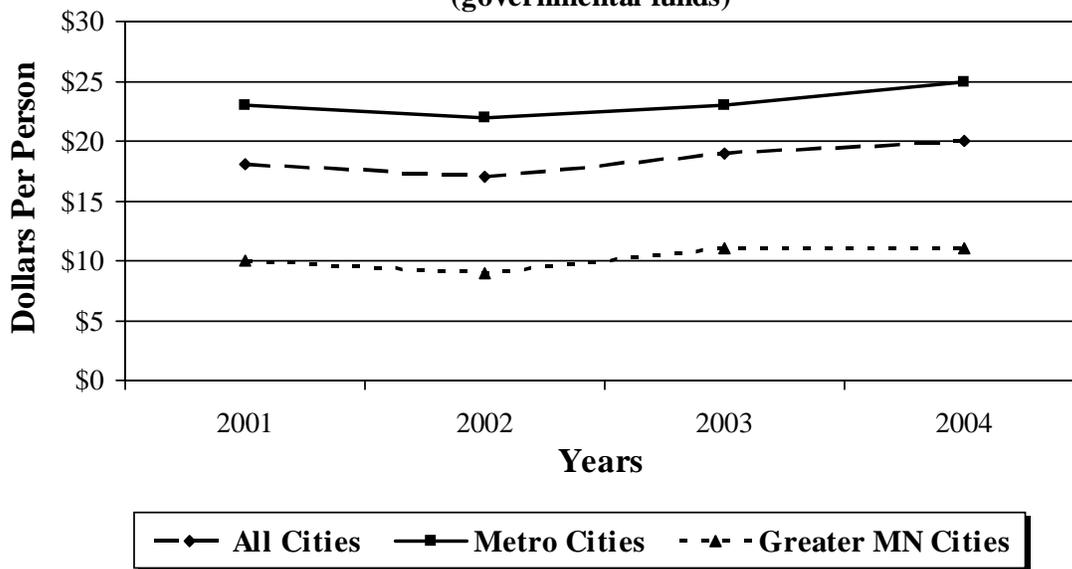


Table 13
(D) Per Capita Franchise Charges
 (governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 18	\$ 17	\$ 19	\$ 20	10.0%	3.2%
Metro	\$ 23	\$ 22	\$ 23	\$ 25	8.9%	2.9%
Minneapolis	67	57	63	66	-1.8%	-0.6%
St. Paul	68	71	71	72	6.7%	2.2%
Metro Suburban Cities	\$ 8	\$ 8	\$ 8	\$ 11	39.1%	11.6%
Diversified	5	6	5	10	117.9%	29.6%
High Growth	6	6	6	7	20.2%	6.3%
High Income	1	2	3	4	219.3%	47.3%
Large	9	9	9	9	5.6%	1.8%
Old	12	11	13	19	63.5%	17.8%
Small	7	7	11	17	149.9%	35.7%
Greater Minnesota	\$ 10	\$ 9	\$ 11	\$ 11	15.5%	4.9%
High Income	3	4	5	6	78.7%	21.4%
Moderate Growth	3	3	4	5	65.0%	18.2%
Major	22	21	22	22	2.3%	0.7%
Regional Centers	13	11	13	14	11.7%	3.8%
Sub-Regional Centers	4	4	4	7	75.9%	20.7%
Small	0	0	0	0	23.7%	7.4%
Stable	8	8	11	9	20.3%	6.3%
Urban Fringe	2	1	7	6	159.0%	37.3%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator</i> <i>(state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

E. Fines and Forfeits (governmental funds)

Includes: Receipts from the payment of penalties for law violations, non-observance of contracts, and forfeited deposits.

All-City Average

- \$10 per person in 2004.
- Vary small relative to property tax (4%).
- Growth rate below inflation.

Metro vs. Greater Minnesota – Averages

- Higher in metro than in greater Minnesota, especially in core cities.
- Growth rate is faster in metro.

Individual City Categories

- Minneapolis is the only category with significant fine and forfeit revenue (about three times all city average).

Figure 8
Per Capita City Fines and Forfeits
(governmental funds)

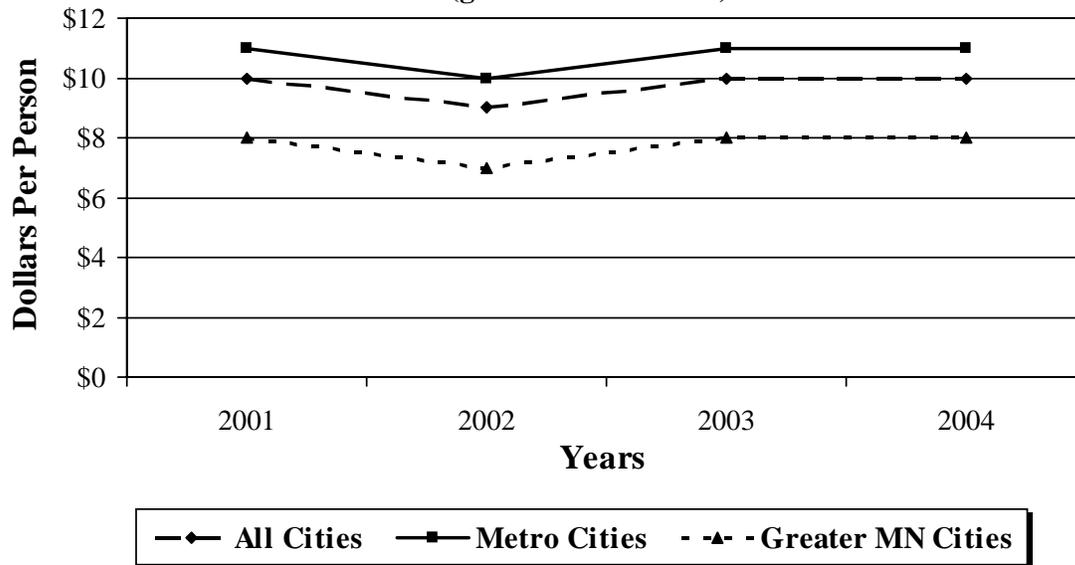


Table 14
(E) Per Capita Fines and Forfeits
 (governmental funds)

League of Minnesota Cities Category	2001	2002	2003	2004	3 Year Change	Average Annual Change
All Cities	\$ 10	\$ 9	\$ 10	\$ 10	6.1%	2.0%
Metro	\$ 11	\$ 10	\$ 11	\$ 11	7.1%	2.3%
Minneapolis	25	22	25	27	8.4%	2.7%
St. Paul	13	12	14	16	24.5%	7.6%
Metro Suburban Cities	\$ 7	\$ 7	\$ 8	\$ 8	4.2%	1.4%
Diversified	8	8	8	8	-8.9%	-3.1%
High Growth	6	6	6	6	1.2%	0.4%
High Income	11	11	11	10	-7.6%	-2.6%
Large	8	8	9	9	15.2%	4.8%
Old	7	7	7	7	-2.4%	-0.8%
Small	10	10	11	10	0.5%	0.2%
Greater Minnesota	\$ 8	\$ 7	\$ 8	\$ 8	3.7%	1.2%
High Income	4	5	5	5	5.6%	1.8%
Moderate Growth	6	6	6	6	7.3%	2.4%
Major	11	11	11	12	6.6%	2.2%
Regional Centers	9	9	9	10	2.9%	1.0%
Sub-Regional Centers	10	10	10	10	3.7%	1.2%
Small	1	1	1	1	10.4%	3.3%
Stable	6	6	6	6	-0.1%	0.0%
Urban Fringe	4	4	3	5	24.7%	7.6%

Comparative Per Capita Benchmarks (Statewide Average)						
<i>City Property Taxes</i>	\$ 229	\$ 247	\$ 261	\$ 281	22.6%	7.0%
<i>Total City Revenue</i>	943	967	937	965	2.4%	0.8%
<i>Total City Expenditures</i>	1,118	1,125	1,132	1,151	3.0%	1.0%
<i>Per Capita Income</i>	32,609	33,229	34,221	36,173	10.9%	3.5%
<i>Inflation</i>						
<i>Implicit Price Deflator (state & local purchases)</i>					9.9%	3.2%
<i>Consumer Price Index</i>					6.7%	2.2%

Results and Observations

Enterprise Funds

Enterprise Funds

In addition to governmental funds, many cities establish enterprise funds for services that can be financed and operated in much the same way as private business enterprises. Enterprises are generally designed to be self-sustaining through user charges. Although some enterprises earn a net profit, most have a goal of breaking even. Liquor stores are shown separately in the tables below, because their primary purpose is to earn a profit rather than to provide city services.

The most common enterprise funds are for sewer and water services, but the funds are used for many other purposes as well, as shown in *Table 15*. In 2004, city enterprise funds (excluding liquor stores) had \$2.7 billion in revenue, \$2.5 billion in costs, and \$200 million in net income. Enterprise fund revenues (excluding liquor stores) are roughly three times as large as the governmental fees and charges described earlier in this report, equaling \$655 per city resident. Almost all of this revenue is from user charges.

There were 226 liquor store enterprise funds in 2004, with net income of \$18.6 million.

In 2004, enterprise funds transferred \$88.7 million to governmental funds, equaling \$21 per city resident. Municipal liquor stores, with net income of \$18 million, transferred the highest share of net income (86 percent) to other funds, but they accounted for only 18 percent of all net transfers. Net transfers from sewer, water, and electric enterprise funds totaled \$90 million in 2004, while several categories of enterprise funds (development, culture and recreation, and other) had negative net transfers.

Table 16 summarizes the financial trends for enterprise funds in Minnesota between 2001 and 2004. Excluding liquor stores, total revenue rose by 15.8 percent, but costs rise even faster and net income fell by 25.3 percent. Net transfers fell by 9 percent. In 2001, net transfers equaled 28 percent of net income; in 2004, net transfers had risen to 34 percent of net income.

Liquor store net income fell by 8.1 percent between 2001 and 2004, while net transfers rose by 12 percent. Net transfers as a percent of net income rose from 71.5 percent to 86 percent.

As shown in *Table 16*, net transfers from enterprise funds provide an important source of governmental fund revenue for cities. Net transfers to governmental funds fell from 2.5 percent of governmental fund revenue in 2001 to 2.2 percent of governmental fund revenue in 2004. Net transfers from liquor stores rose faster than total governmental fund revenue, but net transfers from other enterprise funds declined.

Table 17 shows enterprise totals in per capita terms. In 2004, total revenue (excluding liquor stores) – at \$655 per capita – is almost three times per capita governmental fund fees and charges (at \$228).

Table 15
2004 City Enterprise Funds by Type of Fund*
(dollars in thousands)

Type	Number of Funds	Total Revenue	Total Expenses	Net Income	Net Income as Percent of Total Revenue	Transfer In	Transfer Out	Net Transfer	Net Transfers as a Percent of Net Income
Street & Highway	142	\$ 59,577	\$ 42,290	\$ 17,287	29.0%	\$ 2,972	\$ 13,558	\$ 10,587	61.2%
Water	708	522,935	443,916	79,019	15.1%	10,587	40,949	30,362	38.4%
Sewer	723	444,789	381,392	63,397	14.3%	8,927	37,903	28,975	45.7%
Electric	129	669,542	616,534	53,008	7.9%	514	30,845	30,331	57.2%
Refuse	273	82,233	78,697	3,536	4.3%	1,025	3,118	2,093	59.2%
Health Service	54	443,183	429,029	14,154	3.2%	177	123	(54)	-0.4%
Development	131	126,275	126,003	273	0.2%	17,711	8,238	(9,474)	-3470.3%
Other ³	175	255,429	261,867	(6,438)	-2.5%	24,547	13,459	(11,088)	172.2%
Culture & Rec.	132	111,253	121,774	(10,521)	-9.5%	12,776	3,673	(9,103)	86.5%
Subtotal	2,467	\$ 2,715,216	\$ 2,501,502	\$ 213,715	7.9%	\$ 79,236	\$ 151,866	\$ 72,629	34.0%
Liquor ²	226	\$ 259,142	\$ 56,500	\$ 18,570	7.2%	\$ 377	\$ 16,417	\$ 16,040	86.4%
Total	2,693	\$ 2,974,358 ¹	\$ 2,558,002	\$ 232,285	7.8%	\$ 79,613	\$ 168,283	\$ 88,669	38.2%

¹Compares to about \$4 billion in governmental fund revenues in 2004 (excluding borrowing).

²For municipal liquor stores, cost of goods sold is subtracted in calculating net income.

³Other enterprises include airports, gas and steam utilities, parking, license bureaus, communication, cemeteries, laundromats, docks, transit, and more.

*Excludes internal funds.

Table 16
City Enterprise Fund Summary*
(dollars in millions)

Type	2001	2002	2003	2004	3 Year Change	Average Annual Change
Public Service Activities						
Number of Funds	\$ 2,375	\$ 2,365	\$ 2,401	\$ 2,467	3.9%	1.3%
Revenues	\$ 2,344	\$ 2,474	\$ 2,564	\$ 2,715	15.8%	5.0%
Expenses	2,058	2,205	2,347	2,502	21.5%	6.7%
Net Income	\$ 286	\$ 269	\$ 217	\$ 214	-25.3%	-9.2%
Transfer Out (to governmental funds)	\$ 135.6	\$ 142.8	\$ 144.9	\$ 151.9	12.0%	3.8%
Transfer In (from governmental funds)	55.8	57.8	69.0	79.2	41.9%	12.4%
Net Transfer to Governmental Funds	\$ 79.9	\$ 85.0	\$ 75.9	\$ 72.6	-9.0%	-3.1%
<i>Net transfer as percent of:</i>						
<i>Net Income</i>	27.9%	31.6%	35.0%	33.9%		
<i>Total Governmental Fund Revenue</i>	2.1%	2.2%	2.0%	1.8%		
Liquor Stores						
Number of Funds	\$ 234	\$ 234	\$ 230	\$ 226	-3.4%	-1.2%
Revenues	\$ 236	\$ 244	\$ 253	\$ 259	9.9%	3.2%
Cost of Goods Sold	167	173	179	184	10.2%	3.3%
Expenses	49	52	55	57	15.0%	4.8%
Net Income	\$ 20	\$ 19	\$ 19	\$ 19	-8.1%	-2.8%
Transfer Out (to governmental funds)	NA	\$ 14.4	\$ 15.8	\$ 16.4	NA	NA
Transfer In (from governmental funds)	NA	0.4	0.4	0.4	NA	NA
Net Transfer to Governmental Funds	\$ 14.3	\$ 14.1	\$ 15.4	\$ 16.0	12.0%	3.9%
<i>Net transfer as percent of:</i>						
<i>Net Income</i>	71.5%	74.2%	81.1%	86.0%		
<i>Total Governmental Fund Revenue</i>	0.4%	0.4%	0.4%	0.4%		

*Internal enterprise funds have been excluded.

Table 17
Per Capita City Enterprise Fund Summary*

Type	2001	2002	2003	2004	3 Year Change	Average Annual Change
Public Service Activities						
Revenues	\$ 587	\$ 612	\$ 626	\$ 655	11.6%	3.7%
Expenses	515	545	573	603	17.1%	5.4%
Net Income	\$ 72	\$ 67	\$ 53	\$ 52	-28.0%	-10.4%
Transfer Out (to governmental funds)	\$ 33.9	\$ 35.3	\$ 35.4	\$ 36.6	7.9%	2.6%
Transfer In (from governmental funds)	14.0	14.3	16.8	19.1	36.8%	11.0%
Net Transfer to Governmental Funds	\$ 20.0	\$ 21.0	\$ 18.5	\$ 17.5	-12.4%	-4.3%
Liquor Stores						
Revenues	\$ 59	\$ 60	\$ 62	\$ 62	5.6%	1.8%
Cost of Goods Sold	42	43	44	44	6.1%	2.0%
Expenses	12	13	13	14	10.8%	3.5%
Net Income	\$ 5	\$ 5	\$ 5	\$ 4	-11.5%	-4.0%
Transfer Out (to governmental funds)	NA	\$ 3.6	\$ 3.8	\$ 4.0	NA	NA
Transfer In (from governmental funds)	NA	0.1	0.1	0.1	NA	NA
Net Transfer to Governmental Funds	\$ 3.6	\$ 3.5	\$ 3.8	\$ 3.9	7.9%	2.6%
All Enterprise Funds						
Net Transfer to Governmental Funds	\$ 23.6	\$ 24.5	\$ 22.3	\$ 21.4	-9.3%	-3.2%

*Internal enterprise funds have been excluded. Per capita is calculated by dividing total enterprise fund dollars by total city population, so the population of cities without enterprise funds is included in the denominator.

Appendix: Definitions and Data Sources

This report uses a variety of terms and phrases from the Office of the State Auditor and other sources. The most important terms are defined here. Links to some of the underlying data sources are included, as well.

Terms and Phrases

Governmental Funds – The office of the state auditor divides city revenue data into governmental and proprietary funds (i.e., enterprise funds). The governmental funds consist of the following funds: general revenue, special revenue, capital projects, and debt service.

Fees & Charges Included in This Study

- A. Charges for Services** – Examples include rent payments to use city hall, fire calls, recreation fees, park dedication fees, etc.
Note that this study excludes police and fire contract payments, which are received from other local governments, even though the State Auditor includes them in this category.
- B. Special Assessments** – Levies made against certain properties to defray all or part of the costs of a specific improvement, such as new sewer and water mains, deemed to benefit primarily those properties. The amount includes the penalties and interest paid on the assessments.
- C. Licenses and Permits** – Receipts from liquor and cigarette licenses, other business licenses, street use permits, building permits, and other non-business licenses and permits.
- D. Franchise Taxes** – Charges imposed on public utilities (e.g., electric utilities, gas utilities, cable TV) for use of public property.
These are included in this study even though the State Auditor classifies them as taxes.
- E. Fines and Forfeits** – Receipts from the payment of penalties for law violations, non-observance of contracts, and forfeited deposits.

Enterprise Funds (excluding Internal Funds) – Funds established to account for operations financed and operated in a manner similar to private business. Examples include water, sewer, and electric utilities, refuse and sanitation services, and city liquor stores. Expenses are primarily financed by user charges (i.e., the sale of goods and services).

Total Revenues – Includes all sources of revenue, both operational and non-operational. Borrowing and transfers between funds are not included in total revenues.

Net Income – Total revenues minus total costs. For liquor stores, costs include the cost of goods sold.

Net Transfer – Transfer of dollars from enterprise funds to governmental funds (net of any transfers in from governmental to enterprise funds).

Internal Funds – A fund used to provide goods and services to other funds, departments, or agencies of the city. Payments for these goods and services come from other city funds; they are not new revenue. The analysis in this report excludes these funds.

Benchmarks – Statewide

City Property Taxes – Property taxes levied and collected by all cities in the state. Amounts exclude both tax increment finance (TIF) revenue and special assessments. *Per capita city property taxes* equal the total divided by the population of Minnesota cities.

Total City Revenue – Total revenue received by governmental funds in Minnesota cities, including property taxes, tax increments, other tax revenue, fees and charges (as defined in this report), police and fire contracts, intergovernmental aid, and interest income. This excludes revenue received by enterprise funds, even if transferred to governmental funds. *Per capita total city revenue* equals the total divided by the population of Minnesota cities.

Total City Expenditures – Total spending through governmental funds. This does not include enterprise fund spending. Total expenditures can exceed total revenue if the city increases its debt. *Per capita total city expenditures* equal the total divided by the population of Minnesota cities.

Personal Income – Total wages and salaries, proprietor income, interest and dividends, rental income, and transfer income such as social security, less social security and Medicare taxes. Personal income includes both taxable and nontaxable income. It does not include capital gains. This report shows the total for the entire state (not just cities), as measured by the U.S. Bureau of Economic Analysis (BEA). *Per capita personal income* is the total divided by the population of Minnesota.

Implicit Price Deflator for State and Local Purchases – BEA price index for the types of goods and services purchased by state and local governments.

Consumer Price Index – Price index for consumer goods and services as measured by the U.S. Bureau of Labor Statistics (BLS). The study uses the U.S. price index (CPI-U), not a Minnesota-specific measure.

Other Terms and Phrases

Intergovernmental Grants – Grants to cities from the federal, state, county, and other local governmental units. This does not include payments for services provided by one city for another local unit of government (such as police and fire contracts).

State Grants – Total payments from the state to Minnesota cities, including Local Government Aid (LGA), the Market Value Credit, police and fire aid, taconite aid, state highway aid, and others programmatic payments.

Local Grants – Payments to cities from counties or other local units (such as a school district or the IRRRB).

Population – The study uses city population as shown in the State Auditor data, which is based on city boundaries in the year in question. City population may grow partly due to annexation.

Links to Related Websites

Office of the State Auditor (OSA)
Minnesota State Demographic Center
League of Minnesota Cities
Department of Revenue
Bureau of Economic Analysis (BEA)
Bureau of Labor Statistics (BLS)

www.osa.state.mn.us
www.demography.state.mn.us
www.lmnc.org
www.taxes.state.mn.us
www.bea.gov
www.bls.gov

