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COMMISSION  
ON REFORM  
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- Local services funding, part II :



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## LOCAL SERVICES FUNDING

### PART II: STATE AID TO CITIES

### FINAL REPORT

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1994

JANUARY 1994

# THE CORE VISION OF STATE GOVERNMENT

The Commission on Reform and Efficiency envisions a Minnesota state government that is mission driven, oriented toward quality outcomes, efficient, responsive to clients, and respectful of all stakeholders. These goals are defined below.

## **Mission driven**

State government will have clearly defined purposes and internal organizational structures that support the achievement of those aims.

## **Oriented toward quality outcomes**

State government will provide quality services. It will focus its human, technical, and financial resources on producing measurable results. Success will be measured by actual outcomes rather than processes performed or dollars spent.

## **Efficient**

State government will be cost-conscious. It will be organized so that outcomes are achieved with the least amount of input. Structures will be flexible and responsive to changes in the social, economic, and technological environments. There will be minimal duplication of services and adequate communication between units. Competition will be fostered. Appropriate delivery mechanisms will be used.

## **Responsive to clients**

State government services will be designed with the customer in mind. Services will be accessible, located conveniently, and provided in a timely manner, and customers will clearly understand legal requirements. Employees will be rewarded for being responsive and respectful. Bureaucratic approvals and forms will be minimized.

## **Respectful of stakeholders**

State government will be sensitive to the needs of all stakeholders in providing services. It will recognize the importance of respecting and cultivating employees. It will foster cooperative relationships with local units of government, and nonprofit and business sectors. It will provide services in the spirit of assisting individual clients and serving the broader public interest.

— Feb. 27, 1992

# CORE

STATE OF MINNESOTA  
COMMISSION ON REFORM AND EFFICIENCY

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203 Administration Building, 50 Sherburne Ave., St. Paul MN 55155  
(612) 296-7041 FAX (612) 297-1117

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January 31, 1994

The Honorable Arne Carlson  
Governor  
130 State Capitol  
St. Paul, Minnesota 55155

The Honorable Ember Reichgott Junge  
Minnesota Senate  
Legislative Commission on Planning and Fiscal Policy  
306 State Capitol  
St. Paul, Minnesota 55155

Dear Governor Carlson and Senator Reichgott Junge:

Pursuant to Laws of Minnesota 1991, Chapter 345, Article 1, Section 17, Subdivision 9, the Commission on Reform and Efficiency was directed to recommend long-term actions for improving government efficiency and effectiveness.

This is the second and final report of the CORE Local Services Funding Project, and is the last of the reports issued in response to our charge. Part II of the report describes a new method for distributing state general purpose aid to cities that promotes efficiency and equity. This report makes recommendations for the collection of data from cities and changing how the state provides general purpose aid to cities.

The analysis and recommendations contained in this document represent the best thinking of our diverse and bipartisan group on the issue of local services funding. You will see that we have taken our charge seriously and have not shied away from controversy. We respectfully request your continued support for the much-needed government reform detailed in the commission's reports and recommendations.

Sincerely,



Arend J. Sandbulte  
Commission Chair



Lee Luebke  
Chair  
Working Committee



Debra Rae Anderson  
Commissioner of  
Administration

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. This ensures that the financial statements are reliable and can be audited without issue.

Furthermore, it is noted that the company's financial health is directly linked to the quality of its record-keeping. By keeping detailed accounts, management can identify trends, control costs, and make informed decisions about the future of the business.

The document also highlights the need for regular reconciliation of bank statements and internal ledgers. This practice helps to detect any discrepancies early on, preventing potential errors from escalating into larger problems.

In conclusion, the author stresses that diligent record-keeping is not just a bureaucratic requirement, but a fundamental aspect of sound business management. It provides a clear picture of the company's performance and is essential for long-term success.

The second section of the document focuses on the implementation of internal controls. These controls are designed to prevent fraud, reduce the risk of error, and ensure that the company's resources are used efficiently. Key elements of a strong internal control system include segregation of duties, authorization procedures, and regular monitoring.

It is important to note that internal controls should be tailored to the specific needs and risks of the organization. A one-size-fits-all approach is not effective. Management should regularly assess the effectiveness of its controls and make adjustments as necessary to address changing circumstances.

Additionally, the document discusses the role of the internal audit function. Internal auditors provide an independent and objective assessment of the company's internal controls and financial reporting processes. Their findings are crucial for management to understand areas of weakness and take corrective action.

Finally, the document emphasizes the importance of a strong ethical culture. Employees should be encouraged to report any suspected irregularities or violations of policy. A commitment to integrity and transparency is essential for building trust and maintaining the company's reputation.

**LOCAL SERVICES  
FUNDING  
PART II:  
STATE AID  
TO CITIES**

**FINAL REPORT**

**BY THE  
MINNESOTA  
COMMISSION ON  
REFORM AND EFFICIENCY**

**JANUARY 1994**

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## PREAMBLE

**T**he CORE Local Services Funding Report is a complex document based on two years of analysis of local government spending. Because its recommended formula would make a dramatic change to the way the State of Minnesota supports local governments, the committee principally responsible for the analysis wishes to make explicit the principles and background on which the report is based.

In the future, allocation of state resources will be tightly constrained by rising needs in areas of the state's primary responsibility, such as education, welfare and health care. Non-essential state aids will need to be justified on the basis of the principles of equity, efficiency, and accountability. The present system for allocating state resources for local government aid does not meet those standards.

CORE's formula for general purpose aid to cities was established on the principle that the state's responsibility to cities is limited to the amount needed to provide a "basic, minimum and adequate" level of service. Cities will receive only as much aid as is needed to fill the gap between their "basic spending need" and their "basic revenue-raising capacity."

Basic city services above a minimally adequate level are not a state entitlement like education. The Minnesota Constitution ensures equality of educational opportunity for our children regardless of their location. The level of city services is not an entitlement, and thus the state's help to cities should be limited to basic, minimum and adequate services.

Some cities have more wealth than others, as do some people. They may be able to provide more services, but they will get less state aid under the CORE formula. Just as it is not the state's responsibility to ensure that all citizens have the same income, it is not the state's responsibility to ensure that all cities provide the same level of services. The state should help cities to provide adequate streets, parks, and public safety. Local taxpayers should be responsible for the costs of services above and beyond basic levels.

The CORE formula proposes a significant change to the current local aid formula, which provides state assistance based on spending. Despite some changes over the years, the current process provides incentives to spend more than if voters have to raise the money locally; and it rewards more spending with more state aid. The CORE formula, together with the report's basic spending comparisons between cities, would give citizens a tool for holding local officials accountable for local spending patterns. The effect of the CORE formula and this report would help to eliminate incentives to spend beyond local needs.

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The Local Services Funding Committee believes that this CORE report fulfills these important, and principled, goals and that legislative reliance on the report's recommendations would ensure that the goals are met:

Citizens have a right to facts that will let them make valid comparisons between the spending of Minnesota cities.

Citizens need the ability to hold local officials accountable for local spending.

The distribution of state aids to local units of government should be equitable, based on both the local need and the ability to fund local services locally.

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## EXECUTIVE SUMMARY

**M**innesota citizens have learned to expect high-quality services from their governments. In return for government services, households and businesses pay income, sales and property taxes to different levels of government. State government receives most of its revenues from income and sales taxes; counties, school districts and cities receive the majority of their direct revenue from property taxes, but also receive payments from the state in the form of categorical and general purpose aids.

The Commission on Reform and Efficiency (CORE) believes that Minnesota should continue the policy of providing general purpose aid to cities, but that the system for distributing that aid must be improved. Aid should be sufficient to provide a basic, minimum and adequate level of services for cities that do not have the capacity to finance basic services with local revenues. In contrast to current city aid formulas, the CORE formula described in this report will distribute aid more fairly, increase local accountability for spending and taxing decisions, and encourage the efficient provision of local services.

To establish direction for the local services funding project, CORE adopted a goal for state aid to cities:

*The goal of state aid to cities is to provide basic, minimal support for necessary, adequate, and efficient services to cities whose needs are in excess of their revenue-raising capacity.*

The commitment implicit in this goal is to ensure that all Minnesota cities are able to provide at least a minimum package of basic services to their residents. The goal recognizes that cities vary in their ability to pay for services, and that state aid should be allocated based on cities' needs relative to their ability to raise revenues. The goal also suggests that state aid should not be distributed to pay for nonbasic services or for services above and beyond a basic level.

### Methodology

In the CORE approach, a city's need for aid is measured by the difference between its "basic spending need" and its "basic revenue-raising capacity."

*Aid amount = (basic spending need) - (basic revenue-raising capacity)*

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With the CORE formula, the state would fund the gap between a city's basic spending need and its basic revenue-raising capacity. If there is no gap — that is, basic revenue-raising capacity equals or exceeds basic spending need — then the city would not receive state general purpose aid.

To determine “need,” CORE developed the concept of *basic spending*. In the CORE analysis, basic spending is defined, on a service-by-service basis, as the amount of money a city needs to spend to provide a basic yet adequate level of service to its citizens, due to demand factors beyond its control. To arrive at basic spending need, CORE first established basic spending levels for each of five primary city services — streets, police, fire, parks and recreation, and government administration.<sup>1</sup> For the purposes of determining state aid amounts, the basic spending level for each service is treated as each city's basic spending need.

To determine “capacity,” CORE measured a city's ability to raise revenue locally to meet basic spending needs. *Basic revenue-raising capacity* includes only those revenues associated with basic services. It is intended to measure how much revenue the city *could* raise with reasonable effort and not a measure of how much it actually does raise.

## Recommendations

### 1. State collection of comparison data

To enable continuing comparisons, the state should institute an ongoing data-gathering process to collect the information necessary to measure city workloads and revenue-raising capacities, based on the concepts of the CORE methodology. Through this process, the state should maintain and publish information that is accessible to all Minnesotans and that they can use for comparing their city with others.

### 2. State adoption of the CORE formula

Minnesota should adopt the CORE formula for the distribution of general purpose aid to cities.

- a. The state should provide *only* as much general purpose aid as is needed to support *basic, minimum and adequate* services. This aid should be provided *only* to the extent that the basic spending need to provide these services is greater than a city's basic revenue-raising capacity.

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<sup>1</sup>Each individual service workload is detailed in Part I, Pages 17-38. Part I was issued in November 1993.

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- b. The state should combine local government aid to cities and Homestead and Agricultural Credit Aid to cities into one general purpose aid grant.
- c. The state should NOT mandate any level of service to be provided by cities with their general purpose aid grant.

### **3. Transition to the new aid formula**

The state should adopt a transition period for the shift to the new formula. The change in aid from current amounts should be a maximum of 5 percent of revenues per year. Both increases and decreases should be included in the transition. At the same time, if a city is raising less than the expected basic revenues, that city should not receive more than 50 percent of its total revenues from state general purpose aid.

### **4. Use of the savings from the CORE aid formula**

The savings realized through the redistribution of general purpose aid according to the CORE formula should be used to reduce Minnesota state taxes.

### **5. Minneapolis and St. Paul**

By Dec. 31, 1994, the legislature should determine if Minneapolis and St. Paul have extraordinary needs for state aid that are not addressed through the CORE formula. In this analysis, Minneapolis and St. Paul should be compared with other large metropolitan areas throughout the nation.

### **6. Local flexibility**

The legislature should give Minnesota cities more flexibility in local revenue raising.

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# INTRODUCTION

**T**he charge to the Commission on Reform and Efficiency (CORE) was to develop recommendations to enhance the efficiency and effectiveness of Minnesota state government. In fulfilling this charge, the commission developed five key goals: Minnesota state government would be mission driven, oriented toward quality outcomes, efficient, responsive to clients, and respectful of stakeholders.

As the commission discussed potential projects, local services funding emerged as an important area where state government was being neither efficient nor effective. CORE believes that Minnesota must reform the distribution of the state's general purpose aids to cities, so that the system is both more efficient and equitable. The system of state aids to cities should also encourage local government efficiency and accountability.

The philosophy of basic, minimum and adequate services guided the approach of the local services funding project. State aid should enable cities to provide a basic package of the most important services to residents. If city residents want more than this minimum level of services, they can decide so locally, levying the requisite amount. The aid amount should also not be greater than that necessary to provide those services efficiently, and it should be limited to the amount needed to help cities with spending needs greater than their revenue-raising capacity.

Although the methodology to determine basic spending levels (explained in Part I) focuses on specific services, CORE believes that the state should NOT mandate the level of service to be provided or require cities to use any particular method to provide the service. The aid amount should be determined through the formula, but cities should be free to make their own decisions on how the aid is spent.

## Background

### Why the state provides aid to cities

Because city residents are the primary beneficiaries of their city's services, why does the state intervene at all in the financing of local services, rather than leaving cities to raise revenues locally? The answer is in the history of property tax reform in Minnesota.

Property tax payments in Minnesota spiraled upward until the late 1960s. At the same time, significant disparities in the quality of local government services, especially in school districts, were becoming apparent. Cities with greater property wealth provided enhanced services, while other cities struggled to provide adequate services. Citizens

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objected to their rapidly increasing property tax rates, and the call for property tax reform reached even to the federal government.<sup>2</sup>

From 1967 to 1971, the Minnesota Legislature passed a set of sweeping reforms that have since been referred to as the "Minnesota Miracle." These reforms represented a commitment by the state to a much larger role in collecting taxes and funding local expenditures. They also reduced the dependence of local governments, particularly school districts, on local property wealth for their funding. The program of reform embodied in the Minnesota Miracle had three main elements: (1) a reduction in property taxes, (2) an increase in state allocations to local governments, and (3) limitations on the levying power of local governments.

The Minnesota Miracle demonstrated the commitment of Minnesota citizens to a degree of equity in the availability and cost of local public services across Minnesota, with the state playing a major role in financing these services. This statement of values on the part of citizens provides a major rationale for state aid to cities.

State aid programs are both general purpose and categorical. Categorical aid must be used for specific projects. School districts receive categorical aids for K-12 education, and counties receive a number of categorical aids for human services programs. Cities receive primarily general purpose aid. General purpose aid may be distributed among city programs as the city chooses.

The general purpose aid programs that have been created since the Minnesota Miracle are local government aid (LGA), equalization aid, Homestead and Agricultural Credit Aid (HACA), and Disparity Reduction Aid (DRA). In 1993, these programs for cities with populations of more than 2,500 totalled \$434 million.<sup>3</sup>

## **Reform is still needed**

From 1970 to 1980, the Minnesota Miracle property tax reforms had the desired effect of holding down property tax rates, but in 1980, Minnesota's property tax payments started climbing again.<sup>4</sup> These programs have also had two important unintended and undesirable effects:

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<sup>2</sup>Peterson, George E., ed. *Property Tax Reform*. Washington, D.C.: The Urban Institute, 1973.

<sup>3</sup>Minnesota Department of Revenue, Local Government Services Division.

<sup>4</sup>*Reforming Minnesota's Local Property Tax and State Aid System*. Minnesota Taxpayers Association, December 1992, P. 11.

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*1. Aid is not distributed according to need.*

Although the reforms of the Minnesota Miracle attempted to address equity questions, they did not. The formulas distributed aid on the basis of actual spending and property taxes levied. Actual city spending and property taxes are not good indicators of need because spending and taxes are also driven by inefficiencies or preferences for a high quality or level of services. Cities that were able to raise revenues and provide a higher level of service received more state aid. Cities that could not raise revenues or that were fiscally conservative received smaller amounts of aid. A formula based on actual spending and taxing does not achieve equity.

*2. Spending has increased.*

The aid programs encouraged local spending beyond what cities may have spent. Spending tends to increase when local governments do not face the full cost of their spending decisions. This occurs because a portion of local spending is borne by taxpayers statewide. That is, because of state aid disbursements, local officials can pass a portion of the cost associated with their decisions to the state. City officials act the way the system has encouraged them to act, and city spending is greater than it otherwise would be.

## **The CORE formula**

### **The formula approach to state aid to cities**

The formula approach to city aid developed by the local services funding project is a variation of the “need-capacity” approach used by Ladd et al.<sup>5</sup> and Rafuse.<sup>6</sup> In a need-capacity approach, a city’s need for aid is measured by the difference between its “need” and its revenue-raising “capacity.”

$$\text{City aid amount} = (\text{city need}) - (\text{city revenue-raising capacity})$$

In the CORE approach, a city’s need for aid is measured by the difference between its “basic spending need” and its “basic revenue-raising capacity.”

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<sup>5</sup>Ladd, Helen, Andrew Reschovsky and John Yinger, *Measuring the Fiscal Condition of Cities in Minnesota*, Minnesota Legislative Commission on Planning and Fiscal Policy, 1991; and Ladd, Helen, and John Yinger, *America’s Ailing Cities: Fiscal Health and the Design of Urban Policy*, Johns Hopkins University Press, 1989.

<sup>6</sup>Rafuse, Robert W., *Representative Expenditures: Addressing the Neglected Dimension of Fiscal Capacity*, Advisory Commission on Intergovernmental Relations, 1990.

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The first step in achieving the goal of an equitable distribution of state general purpose aid to cities is to establish what cities *need* to spend to provide basic, minimum and adequate services. Past methods of determining aid amounts used actual city spending as the basis for need. This created an incentive for cities to increase their spending. Need must be defined by objective, measurable standards that are outside the cities' control. In addition, spending need must take into account the unique characteristics and circumstances of each city as much as possible.

The second step in the formula is to determine the amount of revenue cities can raise with reasonable effort to finance their basic spending needs. The methodology used for determining basic revenue-raising capacity recognizes only revenue sources to which all cities have access. Additionally, the expected effort to raise these revenues is measured by the effort all cities are making as a group.

### **Qualities of a 'fair' formula; why this approach works**

The purpose of using a formula as the tool for distribution of state aid to cities is to ensure "fairness." To accomplish fairness, a formula must have the following characteristics:

- the formula must be based on objective, reliable data;
- the formula must use valid statistical techniques and be replicable from year to year as needed; and
- the measure of basic spending need in the formula must be defined as a function of factors outside cities' control, such as population characteristics.

The CORE aid formula meets all these criteria. Applying this formula will result in an equitable redistribution of aid to cities by directing more aid to cities with higher need-capacity gaps. This formula:

- equalizes the access of all residents to a basic level of local public services at reasonable tax burdens; and
- creates incentives for city managers to provide services in an efficient manner.

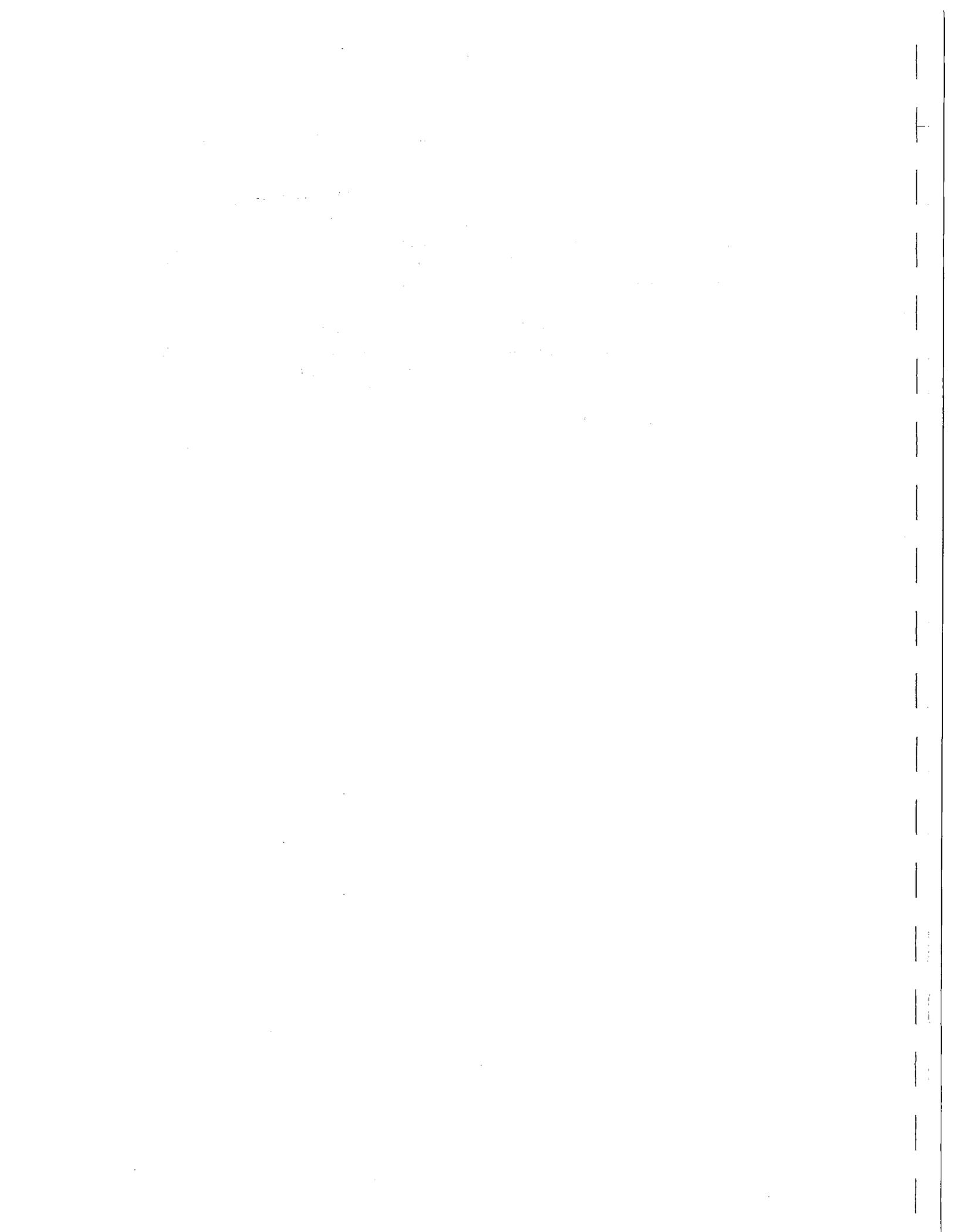
The CORE approach to determining state aid amounts does not limit city choices. Cities can choose the level of service they want to offer and may use a variety of methods to provide services. Through this formula the state is not mandating any particular type or level of service. However, if the city spends more than what is necessary to provide minimum and adequate services, city residents must fund the excess.

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Because spending decisions for above-adequate services will be returned to the local level, city officials will be required to explain any additional service expenditures and to win citizen support for additional or enhanced services. At the same time, through the development of the data necessary for the formula, meaningful city comparison data will become more available to the public, further increasing local accountability.

Part I of this report, *Comparing City Expenditures*, describes in more detail the concept of city basic spending need. To receive a copy, or any of the CORE reports, contact the Department of Administration, Management Analysis Division, 203 Administration Building, 50 Sherburne Avenue, St. Paul 55155, telephone (612) 296-7041. TDD relay is (612) 297-5353.

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## BASIC SPENDING NEED

**S**tate aid to cities should be based on the difference between a city's "basic spending need" and its "basic revenue-raising capacity." Part I of CORE's Local Services Funding report, *Comparing City Expenditures*, describes a methodology for measuring a city's basic spending need. CORE defines "basic spending need" as *the amount a city needs to spend to provide a basic, minimum and adequate level of service for a given workload*.

This section briefly summarizes Part I's general methodology for establishing basic spending levels for five major city services. The services were street, police, fire, parks and recreation, and general administration. Basic spending levels were also established for a category of related service expenditures and interest on debt. Street services are used to illustrate the steps in the methodology.

The determination of basic spending for each city service follows a set pattern:

- adjust city expenditures for a service;
- identify the factors that contribute to spending for the service;
- determine the relative importance of each factor for spending;
- select cities for the "pool" for determining a basic spending level; and
- calculate the basic spending level, using regression techniques.

### Adjust city expenditure data

City expenditure data was taken from annual reports submitted by cities to the Office of the State Auditor. Three types of adjustments were made to the city expenditure data because of differences in labor costs, the cyclical nature of capital outlays, and the costs of providing services outside city boundaries. Specifically:

CORE adjusted the prevailing wage rate for each city to the rate of the Minnesota city with the highest rate (St. Paul) to account for differences in the cost of labor between cities.

CORE calculated an eight-year average of capital outlays for each service to compensate for the cyclical nature of capital outlays.

And CORE subtracted contract revenues from city expenditures to prevent a city's expenditures from appearing inflated by the compensation received for providing services to other entities.

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## Identify workload factors

CORE defined “workload” as *a measurement of the factors that can affect the need for spending on a specific city service*. City spending can be influenced by many different factors. One city may spend more than another because of uncontrollable city characteristics that require more costly methods of service, because of different citizen service expectations, or simply because of service inefficiency. CORE’s workload methodology focuses on city characteristics that are outside a city’s control.

Workloads were identified with the help of experts in each of the city service areas. Each service workload went through a rigorous process that included outside comment and literature review. To determine the workload factors for street services, CORE met with a number of city engineers and experts at the state Department of Transportation.

Experts believe that the relative costs for street service are determined primarily by the size of the street system, the use of the system, and construction and maintenance costs. To capture these costs, the workload for streets is made up of two components: traffic volume, which is a measure of both size and use, and soil type, which affects construction costs.

As discussed in more detail in Pages 18-32 of Part I, the workload factors identified for the remaining services are:

police	demographic characteristics; incoming workers; shoppers; and tourists
fire	type and age of structures; traffic volume
parks and recreation	population; poverty; population “draw”
general administration	population
related expenditures	population

## Determine workload formulas

Once the workload factors were identified, CORE assigned a relative importance to each factor. With these “weights” assigned, the factors could then be put into a formula for calculating a city’s total workload for each service. Weights were determined through discussions with experts and using state and national statistics.

For street services, traffic volume captures the demand for streets by city residents

and visitors. The soil weight is based on the predominant soil type in a city, and gives additional spending need to cities with poorer quality of soil, which affects the construction and maintenance costs of a street.

**Equation for street services workload formula:**

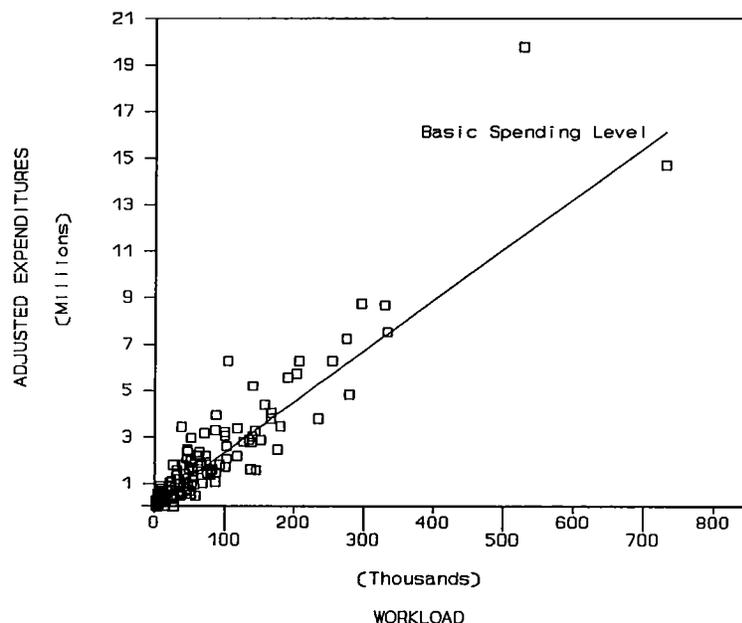
$$( \text{traffic volume} )( 1 + \text{soil weight} )$$

## Select cities for the basic spending 'pools'

To ensure that the basic spending levels were reasonable for all cities, CORE calculated these levels using selected cities. Cities were included in the basic spending "pools" if they provided an adequate level of service (measured differently for each service), if their expenditures were not excessive, and if there were no apparent problems with their spending data that CORE could not correct.

For street services, the basic spending level was determined with data from 117 cities. Excluded from the pool were 20 cities due to accounting problems, 17 cities because capital outlays for construction were less than 10 percent, and 25 cities because of high expenditures. In addition, Minneapolis and St. Paul were excluded from all determinations of basic spending levels because their size resulted in an inordinate influence on the analysis.

**Figure 1. Basic spending level for street services**



## Calculate basic spending levels

The determination of an individual city's basic spending need uses a graph of the basic spending level. For each service, the basic spending formula is created with two parts; both are calculated through regression analysis. The first part is a number that stands alone, called the "intercept." It is the point at which the graph's basic spending line crosses the vertical axis. The intercept may be considered to roughly represent "fixed," or "overhead," costs. For example, in the street service analysis, \$155,618 represents the spending a city would incur simply to have street service available, even if the city has no workload.

The formula's second part is a number, called the "slope," that is multiplied by the city's workload. It represents the spending need per unit of workload. That is, for street service, as a city's workload increases by one unit, the city's spending need increases by \$21.82. A city's basic spending need for street service is the sum of the fixed amount plus its workload times \$21.82.

The basic spending need for a city's street service is:

$$\text{BASIC SPENDING NEED} = \$94,397 + \$27.84(\text{WORKLOAD})$$

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## BASIC REVENUE-RAISING CAPACITY

**E**stablishing basic spending levels for Minnesota cities with more than 2,500 population is only one side of the aid formula. Cities also have some ability to finance basic services on their own. This ability, called “basic revenue-raising capacity,” is defined by CORE as *the amount of money the state can expect a city to raise from all sources associated with basic services, except state general purpose aid, to pay for a basic, minimum and adequate level of services.*

### Sources of city revenues

Minnesota cities’ primary tools to raise revenue are property taxes, special assessments, and fees (including fines, forfeits, and licenses). Additionally, all Minnesota cities can provide services to nearby cities or townships for a price, earn interest on fund balances, levy franchise taxes, make profits on activities such as a municipally owned utility, rent out some of their building space, and receive donations.

Some means of raising revenue are restricted by the Minnesota Legislature. Cities can levy a sales tax only if they first obtain specific legislative authority and dedicate the revenues toward the completion of a specific project. Cities can levy a hotel–motel tax only if they dedicate the revenue to marketing or promoting the city as a tourist or convention center. Cities can use tax increment financing, a complex financing mechanism related to the property tax, only if they have a taxpayer-approved and legislatively sanctioned plan for spending the revenues and dedicate the revenues toward the completion of the plan.

Federal, state, county and other local governments provide revenue to cities through a number of programs. Some intergovernmental aids and grants are formula-driven, some are competitive, some are semi-competitive with an extensive application process, and some provide reimbursement for spending of a certain type. Intergovernmental aid is another major source of city revenue.

Table 1 on the next page shows total 1990 city revenues by source for cities with more than 2,500 population. Cities report this information annually to the Minnesota state auditor.

(Appendix A has a table of city revenue sources for all cities of more than 2,500 population, which excludes Minneapolis and St. Paul because these two cities account for 34.7 percent of the total revenues in Table 1.)

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**Table 1. Revenues by source for Minnesota cities with more than 2,500 population, 1990**

<b>SOURCE</b>	<b>AMOUNT</b>	<b>PERCENT</b>
<b>TAXES</b>		
Property taxes	\$477,042,264	22.07
Special assessments	173,810,552	8.04
Tax increments	168,992,868	7.82
Local sales taxes	17,032,831	0.79
Hotel-motel taxes	10,250,264	0.47
<b>FINANCING REVENUES</b>		
Interest earnings	197,733,291	9.15
<b>INTERGOVERNMENTAL AID</b>		
Federal aid - Community Dvlpmnt Block Grants	31,973,397	1.48
Federal aid - other	83,484,487	3.86
State aid - local government aid	272,875,214	12.62
State aid - Homestead/Agri. Credit Aid	124,104,204	5.74
State aid - disparity reduction aid	9,441,513	0.44
State aid - taconite relief and aids	4,378,005	0.20
State aid - Small City Dvlpmnt Grants	3,848,607	0.18
State aid - highways	84,139,771	3.89
State aid - other	82,516,909	3.82
County aid - gravel taxes	171,290	0.01
County aid - highways	5,043,914	0.23
County aid - other	16,186,486	0.75
Local aid - highways	82,977	0.00
Local aid - Iron Range RRB	1,701,994	0.08
Local aid - other	7,440,249	0.34
<b>CONTRACT REVENUES</b>		
Police and fire contracts	7,137,367	0.33
Street department sales and charges	13,549,945	0.63
<b>CHARGES and OTHER REVENUES</b>		
General government charges	31,521,952	1.46
Public safety charges	8,456,223	0.39
Sanitation department charges	20,013,405	0.93
Parks and recreation charges	24,449,883	1.13
Library charges	704,791	0.03
Airport fees and charges	717,240	0.03
Miscellaneous charges	34,757,496	1.61
Franchise fees	33,931,989	1.57
Licenses and permits	47,413,074	2.19
Fines and forfeits	24,018,201	1.11
Miscellaneous revenue	111,300,263	5.15
Transfers from enterprise funds	31,749,086	1.47
<b>TOTAL REVENUES</b>	<b>\$2,161,972,002</b>	<b>100.00</b>

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## Components of basic revenue-raising capacity

The types of revenues included in basic revenue-raising capacity are only those that all cities have the potential to collect and that are associated with basic services. Basic revenue-raising capacity has four components: (1) property wealth, which determines the extent to which the city can raise property taxes and special assessments; (2) the number of businesses and non-impooverished people in the city, which determines the capacity of the city to raise revenues from fees, fines and forfeits, licenses, franchise taxes, enterprise funds, and other miscellaneous sources such as rent and donations; (3) the amount of interest a city can be expected to earn; and (4) the amount of non-competitive intergovernmental aid (not including state general purpose aid) the city receives or for which it is eligible.

### Property taxes and special assessments

Of the five different taxes shown in Table 1, only two are included in basic revenue-raising capacity: property taxes and special assessments. In CORE's determination of basic revenue-raising capacity, cities are expected to raise 0.23 times their "net property tax capacity" from property taxes and special assessments.

Net property tax capacity is defined by the Minnesota Department of Revenue. The tax capacity of a piece of property is that property's assessed value multiplied by its state-determined classification rate. For example, a homestead valued at \$60,000 in 1993 has a classification rate of 1 percent. The tax capacity of this homestead is \$600 or \$60,000 x 1 percent. A *city's* property tax capacity is the sum of the tax capacities of all properties inside its boundaries. A city's *net* property tax capacity is its capacity less net contributions of capacity to the Fiscal Disparities Pool, powerline credit value, and the tax increment financing incremental value.<sup>7</sup>

Special assessments are combined with property taxes because the services financed by special assessments could also be financed by the property tax. Furthermore, both the property tax and special assessments tax property value, although in different ways. As a result, the two types of taxes are substitute means of taxation. The formula treats cities equally by considering special assessments as a substitute for property taxes. It would be unfair to expect a growing city, which may have a greater

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<sup>7</sup>The Fiscal Disparities Pool is a revenue-sharing mechanism that distributes 40 percent of the tax capacity of commercial-industrial property built after 1971 in the seven-county Twin Cities area among all local governments in this area. The powerline credit is received by homesteads that are crossed by a high-voltage powerline; unlike with other types of property tax credits, cities do not receive a reimbursement for forgone property taxes due to this credit. In a tax increment financing district, a city receives the property taxes from new real estate development that would otherwise go to the county or school district.

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ability to collect special assessments from new residents, to raise the same amount of property taxes as a stable city with a similar tax capacity, plus an additional amount in special assessments.

The value 0.23 is the average rate of property tax and special assessment use in Minnesota. That is, for 1990, 0.23 is the value of:

$$\frac{\text{All property taxes collected} + 65\% \text{ of all special assessments collected}}{\text{Sum of all net tax capacities}}$$

There are three things to note about this calculation:

- Three of the 181 cities considered in this study were not part of the pool for which this or any of the following averages were determined: Delano, Minneapolis and St. Paul.<sup>8</sup>
- The term “all property taxes collected” includes regular city property taxes as well as all revenue from the Disparity Reduction Credit, County Conservation Credit, Enterprise Zone Credit, and Taconite Homestead Credit programs. These credits are in fact property taxes that, by agreement, are paid by the state on behalf of the recipient households and/or businesses.
- Only 65 percent of special assessments are recognized because research indicated that approximately 35 percent of special assessment revenue is used to fund sewer and water projects,<sup>9</sup> two spending areas not considered in basic spending levels.

## Charges and other revenues

The revenues included in the “charges” category are: government administration service charges; parks and recreation service charges; sanitation service charges; other public safety service charges; other services’ service charges; fines and forfeits; licenses; franchise taxes; transfers from enterprise funds; and miscellaneous revenues. (For more detail, see Appendix B.)

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<sup>8</sup>Delano did not file a report with the state auditor in 1990. Minneapolis and St. Paul would have an inordinate effect on the calculation because of their size.

<sup>9</sup>The 65 percent was estimated from a sample of forms cities submit to the State Auditor’s Office on the use of special assessment bond proceeds for road and bridge construction. These forms show the cost of the total project and the amounts for streets, water utilities and sanitary sewers. The forms submitted by 20 cities for recent years were analyzed, and a weighted average of 65 percent was determined as the cost of streets, sidewalks and related infrastructure. Calls to a sampling of cities confirmed that this was how special assessments were generally used.

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Cities are expected to raise from these sources \$85.39 per business and non-impooverished person residing in their boundaries. The value \$85.39 is the average amount of revenues raised from these sources in 1990.

That is, for 1990, \$85.39 is the value of:

$$\frac{\textit{Sum of all user fees collected}}{\textit{Sum of all non-impooverished residents and businesses}}$$

Businesses and non-impooverished residents, rather than per capita income, were used as the base for this combination of revenue sources because research showed that most fees do not vary by per capita income of city residents. CORE included non-impooverished residents because city fee levels are often set with residents' income in mind.

### **Interest earnings**

The interest a city earns on its fund balances can represent a significant proportion of total city revenues. Because these earnings are not dedicated toward any specific spending, they can be used by cities to offset basic spending need. Rather than calculate expected fund balances and expected interest rates, previous-year interest earnings are used as an estimate of current-year interest earnings. For future use, the state departments of Finance and Revenue could devise a more sophisticated method of estimating interest earnings.

### **Intergovernmental aid**

"Intergovernmental aid" refers to aids and grants that are transferred from one government unit to another, such as federal grants, state aid, or county grant programs. With respect to intergovernmental aid, CORE recommends that:

- Local Government Aid and Homestead and Agricultural Credit Aid programs for cities be sunsetted, to be replaced by the aid formula described in this report;
  - all noncompetitive general purpose aids that are not sunsetted be fully recognized in basic revenue-raising capacity;
  - categorical aids that are formula-driven or based on a reimbursement of costs be recognized at 90 percent of full value in basic revenue-raising capacity; and
  - all remaining intergovernmental aids be excluded from basic revenue-raising capacity.
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## General purpose aid

The state general purpose city aid programs recommended for sunseting are local government aid to cities and Homestead and Agricultural Credit Aid to cities.<sup>10</sup> Although these aids are each intended to help a city meet its general purpose needs, they fail to distribute aid money on the basis of true need, that is, the difference between a city's basic spending level and its basic revenue-raising capacity. Moreover, the multiple formulas add unneeded complexity and administrative cost to the system. The basic revenue-raising capacity numbers prepared here assume that these aids are, in fact, sunsetted. *Should one of them be continued, city revenues from the continued source should be included in basic revenue-raising capacity at full value.*

State aid to Minneapolis through the Minneapolis Employees Retirement Fund (MERF) should also be considered a state general purpose aid program. This aid cannot be viewed as categorical because the purpose of categorical grants is to encourage specific activities. In this case, the state agreed to pay an obligation that was incurred by Minneapolis prior to the aid program. The funding, therefore, does not encourage any particular activity but serves to free up resources for general purpose needs.

The basic revenue-raising capacity numbers prepared by CORE assume that MERF, however, is NOT sunsetted. Should it be sunsetted, Minneapolis' basic revenue-raising capacity should be reduced by the full value of this grant.

## Grants

CORE obtained a comprehensive listing of grants and aids to cities through a survey of cities and state agencies. Each source of intergovernmental aid was evaluated as to whether it was competitive, categorical or general purpose, or dedicated to an excluded service. CORE also considered the extent of the application process. Based on this evaluation, grants and aids were included or excluded from the determination of basic revenue-raising capacity according to the taxonomy in Figure 2.

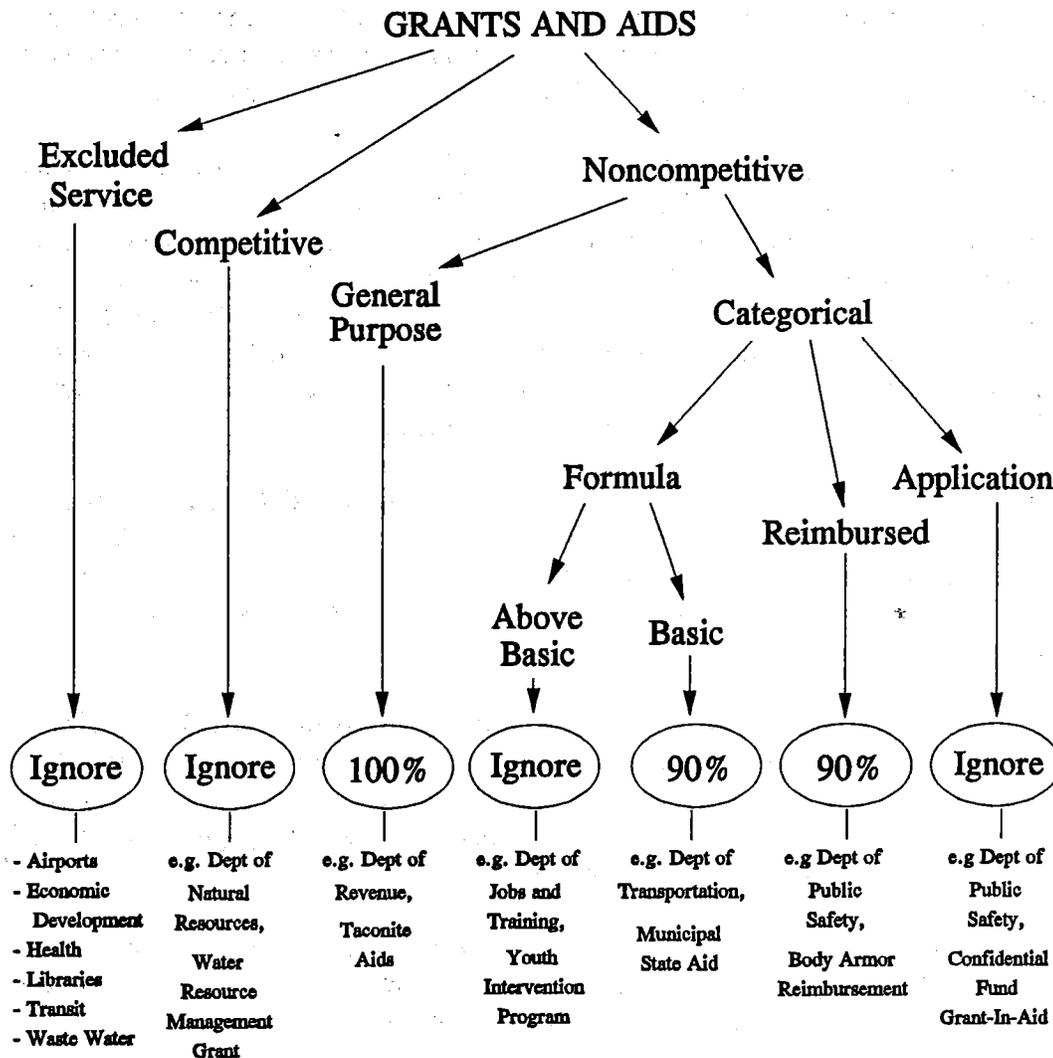
Other noncompetitive general purpose aids are fully recognized because a city need not expend any effort to acquire them and the money can, by definition, be used at the city's discretion. The state can thus expect the city to use them to offset basic spending needs.

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<sup>10</sup>Disparity Reduction Aid and Equalization Aid were folded into local government aid in 1993.

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Figure 2. Taxonomy of grants and aids to Minnesota cities



The only grant of this sort identified is taconite production tax distributions (that is, taconite aids) to cities. Taconite production taxes are paid on concentrates or pellets produced by various taconite companies. They are paid "in lieu of" property taxes. The revenues are distributed by statutory formulas to various cities, townships, counties and school districts within taconite tax relief areas and to the Iron Range Resources and Rehabilitation Board. The Department of Revenue calculates the amount to be paid by each company and the aid payment due to each jurisdiction; counties distribute the funds to each eligible city accordingly.

Categorical aids that are formula-driven or based on a reimbursement of costs are recognized at or near full value as long as the "category" encompasses an included service and the level of service being encouraged is not above basic. The state can

reasonably expect that cities use these funds to offset basic spending needs. If cities are required to submit some paperwork — that is, incur administrative costs — to attain the grant (for instance, submitting the number of police officers on force), only 90 percent of receipts are recognized. If no paperwork is required and the city need only wait for a check to be issued, 100 percent of receipts are recognized.

The noncompetitive, categorical formula or reimbursement grants that require some paperwork are: Body Armor Reimbursements; Video Gaming Local Reimbursement; Federal Anti-drug Training Grants; Peace Officer Standards and Training Grants; Police Relief Association Aid; Fire Relief Association Aid; Fire Insurance Surcharge Aid to Fire Relief Associations; Amortization Aid to Police and Paid Firefighters' Pension Plans; Supplemental Amortization Aid to Police and Paid Firefighters' Pension Plans; State, County and Local Highway Aids; and Other County Aids to Cities. (See Appendix C for descriptions of these grants.)

Gravel tax distributions are the only example of a categorical formula-driven grant that requires no effort on the part of cities to receive. Gravel taxes are levied on aggregate material removed from gravel pits or deposits in 22 counties. Thirty percent of the proceeds are distributed to cities by the county board for maintenance and construction of city roads and bridges.

Competitive grants and grants that are not strictly competitive but that require an extensive application to prove eligibility are excluded because to do otherwise would set up a disincentive for cities to either compete for them or to submit the required paperwork to establish eligibility. Moreover, these grants tend to be project-based and cities cannot rely on the revenue from year to year.

Noncompetitive grants for non-basic services are excluded. These revenue sources should not be considered part of basic revenue-raising capacity because they fund services not considered in the determination of basic spending levels.

### **Contract revenues**

Revenue from contracts with other local governments to provide service to residents outside city boundaries is treated as an expenditure reduction. As such, these revenues are subtracted from a city's expenditures rather than added to its basic revenue-raising capacity.

Aid to cities should be based, to the extent possible, on the city's need to provide services within its own boundaries. When contract revenues are subtracted from expenditures, the remainder is the cost associated with spending for local residents if the city is correctly pricing its services. CORE received anecdotal evidence suggesting that, in some cases, the reimbursements that cities receive are not covering the full

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cost of providing services. If the city underprices its services, this methodology will cause its expenditures for services to local residents to look high when compared with other cities, which should encourage cities to price their contracted services at full cost. Importantly, however, general purpose aid will not compensate the city for subsidizing surrounding areas.

### **Excluded revenues**

In addition to excluding revenues specifically associated with non-basic services, cities are not expected to use tax increments, local sales taxes or hotel-motel taxes to offset the basic spending level.

Tax increment financing revenues are excluded because Minnesota law requires cities to have a taxpayer-approved and legislatively sanctioned plan for spending the revenues before this revenue-raising tool may be used. It would not be appropriate to expect cities to use this "dedicated" revenue to offset basic spending needs. Furthermore, Minnesota law permits the use of tax increment financing for a number of different types of projects, but the vast majority is for redevelopment, economic development and/or housing projects, none of which are considered part of basic spending.

Local sales taxes are excluded because Minnesota law requires cities to obtain special legislative authority in order to levy them and dedicate the revenues toward the completion of a specific authorized project. As with tax increment financing revenues, it would be inappropriate to expect cities to use a dedicated revenue to offset basic spending needs. Also, most of the projects authorized are economic development projects, a service area not recognized in basic spending level. Moreover, because the legislature allows cities to use a local sales tax only with special permission, the spending that it finances must be viewed as "exceptional" and therefore "above-basic."

Hotel-motel taxes are excluded because the revenues must be dedicated to marketing or promoting the city as a tourist or convention center. Such activities are considered part of a city's "economic development" program.

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## Summary of basic revenue-raising capacity

A city's basic revenue-raising capacity was determined according to the following equation:

- + (0.23318) *Net property tax capacity*
- + (85.3854) *Non-impooverished persons plus businesses*
- + *Previous year's interest earnings*
- + *Previous year's gravel tax distribution*
- + *MERF grants*
- + *Taconite aids*
- + (.9) *Body armor reimbursement*
- + (.9) *Video gaming reimbursement*
- + (.9) *Federal anti-drug training reimbursement*
- + (.9) *Peace Officer Standards & Training Grant*
- + (.9) *Police state aid*
- + (.9) *Fire state aid*
- + (.9) *Insurance surcharge*
- + (.9) *Amortization state aid*
- + (.9) *Supplemental amortization state aid*
- + (.9) *State and county highway aid*
- + (.9) *Other county grants*

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*Basic revenue-raising capacity*

Table 2 on Page 28 compares actual revenues that cities of more than 2,500 population received in 1990 with their value in CORE's determination of basic revenue-raising capacity. The actual revenue figures exclude the revenues that are not components of basic revenue-raising capacity. The basic revenue-raising capacity was calculated using 1990 data, with adjustments as discussed on the preceding pages.

The most noticeable difference between actual revenues and basic revenue-raising capacity concerns the components for property taxes/special assessments and fees.

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The expectation of what cities should raise in property taxes and special assessments is \$30 million, or 5.1 percent, less than what the cities actually raised in 1990. For fees, licenses, and franchise taxes, expected revenues are \$126 million, or 34 percent, less than actual revenues from these sources.

The differences can be mostly explained by the exclusion of Minneapolis and St. Paul from the calculation of the property tax rate and the fee-raising rate. Both cities have higher tax rates than the .23 that was used for basic revenue-raising capacity. St. Paul had a rate of .35 while Minneapolis had a rate of .25 in 1990. (These rates were calculated with 100 percent property taxes and 65 percent of special assessments.)

Minneapolis and St. Paul also raise more in fees per business and non-impooverished individual than other cities. Actual 1990 fees in Minneapolis per business and non-impooverished person were \$305, compared with the \$85 used for basic revenue-raising capacity. For St. Paul, actual fees were \$179 per business and non-impooverished person. As a result of using lower revenue-raising rates for the determination of basic revenue-raising capacity, the basic revenue-raising capacities of the state's two largest cities are two-thirds the size of their actual 1990 revenues.

Finally, most grants and aids are 10 percent lower for basic revenue-raising capacity because the actual 1990 value was included at 90 percent. Interest earnings and gravel taxes in basic revenue-raising capacity are lower than 1990 actuals because 1989 data was used for these two types of revenue sources as proxies for what can be expected for 1990. Appendix D compares each city's basic revenue-raising capacity with its 1990 actual revenues.

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**Table 2. Comparison of basic revenue-raising capacity with actual 1990 revenues**

Type of revenue	Basic revenue-raising capacity	Percent of total revenue capacity	1990 actual revenues <sup>11</sup>	Percent of actual revenues	Difference	Percent difference
Property taxes, special assessments, certain credits	\$560,801,167	50.8	\$590,955,739	46.4	(\$30,154,572)	-5.1
Fees, licenses, miscellaneous revenues	\$240,240,756	21.8	\$366,219,344	28.7	(\$125,978,588)	-34.4
Interest earnings	\$187,218,164	17.0	\$197,733,291	15.5	(\$10,515,127)	-5.3
Street aids	\$59,479,177	5.4	\$66,087,974	5.2	(\$6,608,799)	-10.0
Police aid	\$15,524,554	1.4	\$17,249,504	1.4	(\$1,724,950)	-10.0
Other county aid	\$14,567,837	1.3	\$16,186,486	1.3	(\$1,618,649)	-10.0
Fire aid	\$7,597,778	0.7	\$8,441,976	0.7	(\$844,198)	-10.0
Taconite aid	\$4,353,359	0.4	\$4,353,359	0.3	\$0	0.0
Amortization aid	\$3,377,847	0.3	\$3,753,163	0.3	(\$375,316)	-10.0
Police training reimb.	\$1,570,408	0.1	\$1,744,898	0.1	(\$174,490)	-10.0
Insurance surcharge	\$954,548	0.1	\$1,060,609	0.1	(\$106,061)	-10.0
Suppl. amort. aid	\$681,214	0.1	\$756,904	0.1	(\$75,690)	-10.0
Gravel taxes	\$169,010	0.01	\$171,290	0.01	(\$2,280)	-1.3
Body armor reimbursement	\$68,846	>0.01	\$76,496	0.01	(\$7,650)	-10.0
Video gaming reimbursemt	\$21,933	>0.01	\$24,340	>0.01	(\$2,437)	-10.0
Anti-drug training reimb.	\$6,580	>0.01	\$7,311	>0.01	(\$731)	-10.0
Mpls. Retirement Fund <sup>12</sup>	\$7,508,071	0.7	\$0	0	\$7,508,071	
<b>TOTAL</b>	<b>\$1,104,141,222</b>	<b>100.0</b>	<b>\$1,274,822,684</b>	<b>100.0</b>	<b>(\$170,681,462)</b>	<b>-13.4</b>

<sup>11</sup>Actual revenues do not include revenues that were excluded from basic revenue-raising capacity, such as TIFs. Total governmental fund revenues in 1990 were \$2.16 billion.

<sup>12</sup>The Minneapolis Employee Retirement Fund grant from the state is not a revenue actually received by Minneapolis, but an expense paid on behalf of the city.

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## RESULTS

**W**ith both basic spending levels and basic revenue-raising capacities determined, CORE was able to calculate what general purpose aid amounts would have been in 1990 if the CORE formula had been applied.

### Reverse adjustment for labor costs

The first step in the calculation of aid amounts is to reverse the adjustment made to spending amounts for labor costs. This adjustment was initially made to enable a fair comparison among cities: The adjusted spending figures and basic spending needs show what a city's spending would be if it was faced with the prevailing wage rate in St. Paul, which had the highest prevailing wage rate. A city's need for aid must be based on actual prevailing wage conditions. Basic spending need is accordingly adjusted downward for every city (except St. Paul) based on its actual prevailing wage rate before it is compared to basic revenue-raising capacity and aid amounts are determined. (See Appendix E for the actual reverse adjustment formula.)

### Total changes in aid

The CORE formula is designed to distribute aid equitably and be sufficient enough to allow cities to provide a basic, minimum, and adequate level of services. Compared with the current aid formulas, the CORE formula would redistribute aid to cities that need it, and would reduce the total cost of state general purpose aid programs by saving aid that finances above-basic levels of service or non-basic services.

The difference between city basic spending levels (or basic spending "need"<sup>13</sup>) and city basic revenue-raising capacity for all Minnesota cities of more than 2,500 population is **\$279.7 million**. This is what general purpose aid to cities with more than 2,500 population would have cost in 1990 using the CORE formula. The actual amount spent by the state in 1990 for local government aids<sup>14</sup> to those cities was \$419.2 million. This means that *\$139.5 million more aid was distributed to cities in 1990 than was needed to provide basic, minimum and adequate services.*

The final results of this formula should not be surprising, given the current system

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<sup>13</sup>In Part II, a city's basic spending level is assumed to be its basic spending need.

<sup>14</sup>Includes local government aid, Homestead and Agricultural Credit Aid, disparity reduction aid, and equalization aid.

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Figure 3. CORE formula results for 29 cities

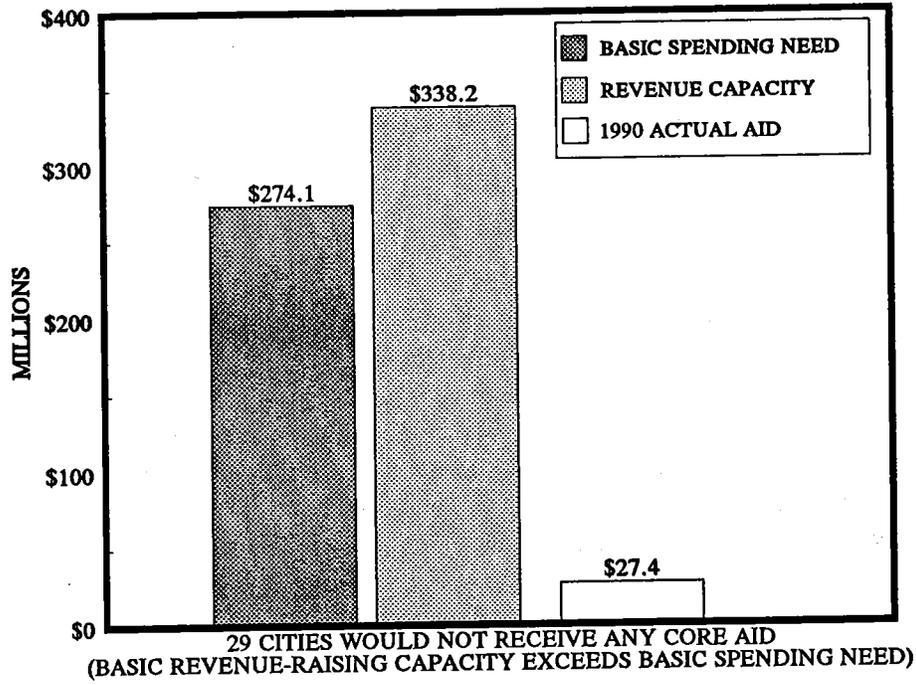
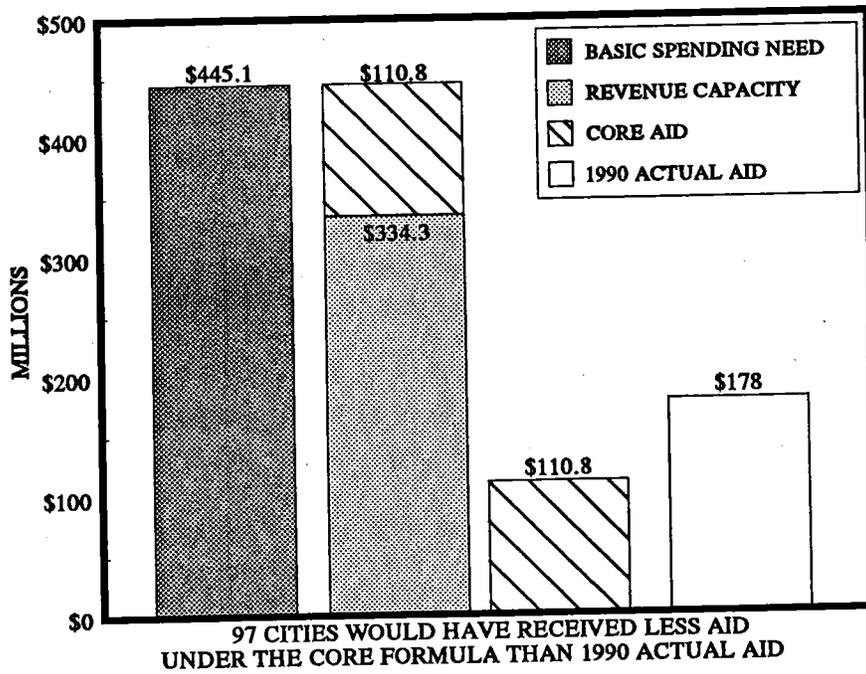


Figure 4. CORE formula results for 97 cities



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for distributing aid. A major argument for developing a new general purpose aid formula is that the aid amounts currently are determined according to what cities received in the past, rather than related to need. This formula represents a significant departure from the past and consequently will result in significant changes.

The \$139.5 million includes hypothetical reductions in aid (\$165.6 million) to 124 cities that received more aid than necessary to support basic services, plus a hypothetical increase in aid (\$26.1 million) to 53 cities that received less aid than necessary to support basic services. The four cities that received no aid in 1990 also would not have received any aid under the CORE formula.

## Effects on cities

Cities with more than 2,500 residents (excluding Minneapolis and St. Paul) were grouped into three categories for the purpose of describing the changes in aid that would have occurred under the CORE formula. Cities were grouped according to whether: (1) they would have received no general purpose aid in 1990; (2) they would have received less general purpose aid in 1990; or (3) they would have received more general purpose aid in 1990.

The first group is composed of 29 cities (16 percent) that had the ability to meet their basic spending need entirely with their basic revenue-raising capacity; these cities would not have received any general purpose aid (Figure 3). In 1990, the total aid received by these 29 cities was \$27.4 million. The \$27.4 million represents 16.5 percent of the \$165.6 million in aid reductions.

The second group is composed of cities that would have received some general purpose aid, but less than their 1990 actual aid amounts (Figure 4). Ninety seven cities, or 54 percent of the total, had basic spending needs in excess of their basic revenue-raising capacities, but where the difference was less than their 1990 aid. Aid for these cities would decrease from \$178 million to \$110.8 million, or by 38 percent. Total aid reduction for this group of cities is \$67.2 million, or 40.6 percent of the total aid reductions.

The third group contains 53 cities, or about 30 percent of the total. These cities all would have received general purpose aid amounts larger than their 1990 amounts (Figure 5). The basic spending needs of these cities exceeded their basic revenue-raising capacities, and the 1990 aid amounts were insufficient to make up the difference. Additional aid for these cities would have been necessary to enable them to provide a basic level of service. The aid for these cities would have increased by \$26.1 million, from a total of \$66.7 million in aid to \$92.8 million.

One result of the formula is a change in the distribution of total aid. Although the

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Figure 5. CORE formula results for 53 cities

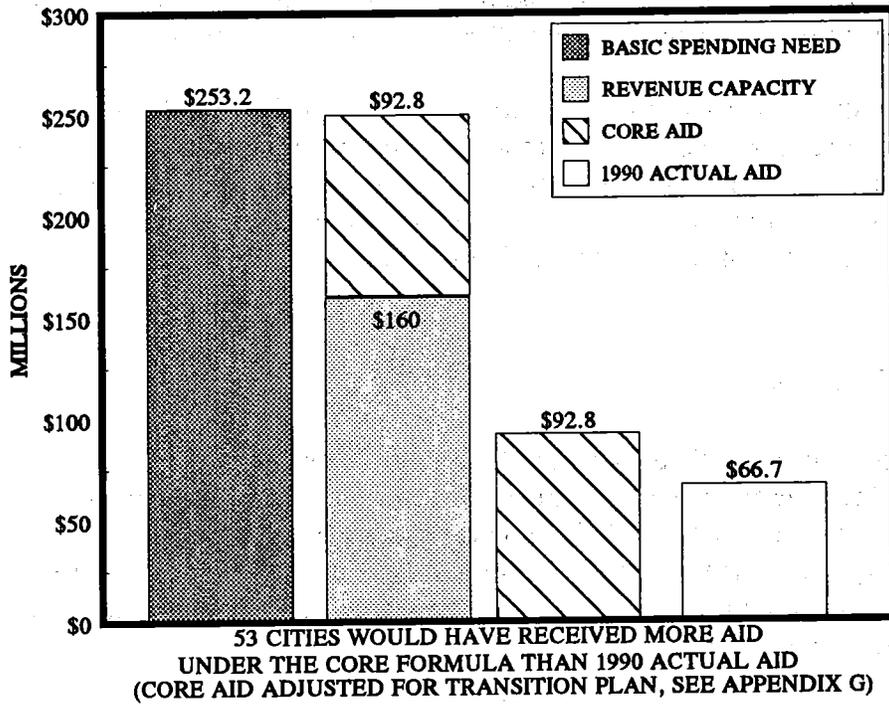
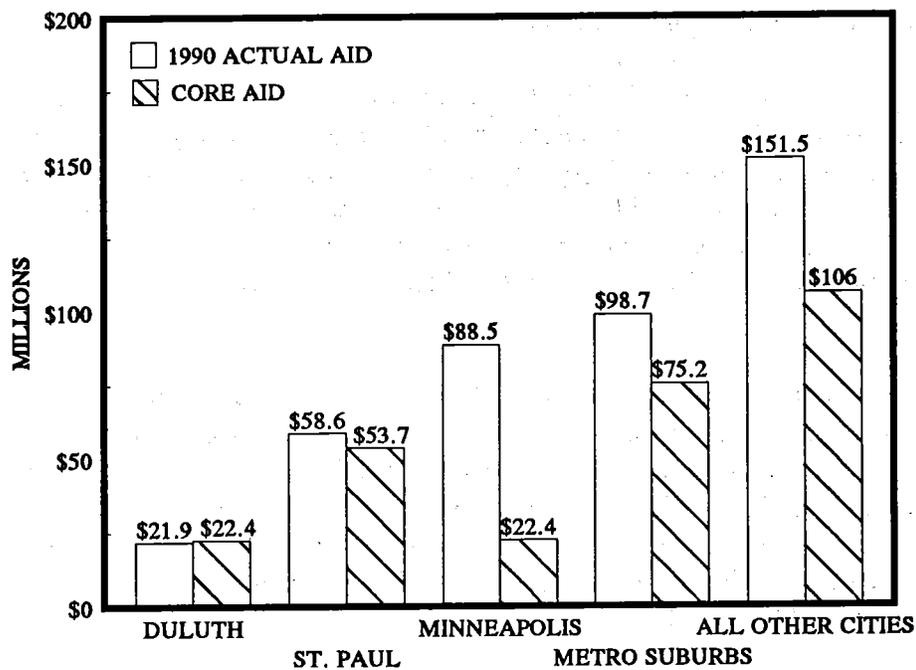
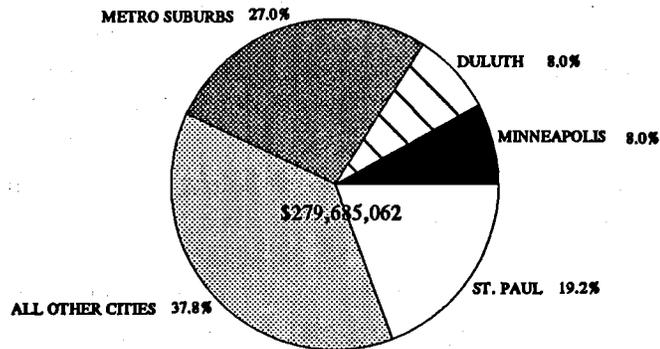


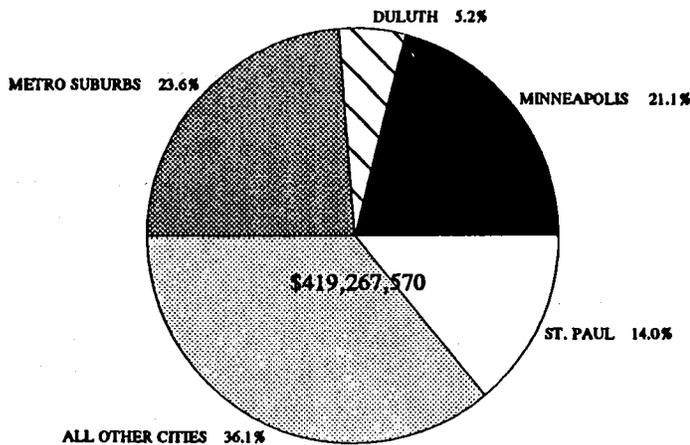
Figure 6. Comparison of 1990 actual aid to CORE aid



**Figure 7. Distribution of CORE aid to Minnesota cities of more than 2,500 population**



**Figure 8. Distribution of 1990 actual aid to Minnesota cities of more than 2,500 population**



total amount of aid decreases with the CORE formula, some cities experience a greater decrease in aid than others. Figures 6, 7, and 8 show the aid amounts and the proportion of the total aid going to different groups of Minnesota cities. (Appendix F contains aid information for each city.)

## Minneapolis and St. Paul

A significant portion of the aid reductions is the result of a decrease in the level of support for Minneapolis. In 1990, Minneapolis received \$88.5 million in aid. The CORE general purpose aid formula shows that Minneapolis has a basic revenue-raising capacity very close to its basic spending need. Using the CORE formula for Minneapolis in 1990, its general purpose aid amount would have been \$22.4 million, or a difference of \$66.1 million from the amount actually received. The \$66.1 million is 40 percent of the total hypothetical aid reductions under the CORE formula.

Under the CORE formula, St. Paul would not have experienced a large change in its aid. The capacity of St. Paul to support basic spending needs is not as great as the capacity of Minneapolis. St. Paul would have received \$53.7 million in general purpose aid in 1990, compared with the \$58.6 million in aid it did receive, or a difference of \$4.9 million (3 percent of the total aid reductions). Figures 9 and 10 show the results for the state's two largest cities under the CORE formula.

As explained in Part I of this report, basic spending need encompasses only the services that all cities provide (street, police, fire, parks and recreation), and the support services necessary to provide them. These services cost approximately 64 percent of the total budget of Minneapolis, and 77 percent of the budget for St. Paul.<sup>15</sup>

Minneapolis and St. Paul have some additional, significant expenditures. For example, library and health expenditures combined make up 5 to 7 percent of their budgets. These services were excluded from the determination of need because they are often provided by counties. Although many cities that provide libraries and health services might want to consider consolidation with their county, this issue has been difficult for the two central cities. Consolidation of city and county health services has often been discussed for St. Paul and Ramsey County, but is not yet accomplished. Minneapolis and Hennepin County have integrated some health services, and are studying possibilities for future consolidations. Neither Minneapolis nor St. Paul has immediate plans to consolidate library services with its respective county.

Minneapolis and St. Paul also have large expenditures for economic development. Economic development often serves regional needs, particularly in the Twin Cities metropolitan area. Because Minneapolis and St. Paul play such an important role in the overall economic health of Minnesota, state support of economic development activities for these cities should receive its own focus apart from discussions of general purpose aid.

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<sup>15</sup>Based on 1990 data submitted to the state auditor.

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Figure 9. CORE formula results for Minneapolis

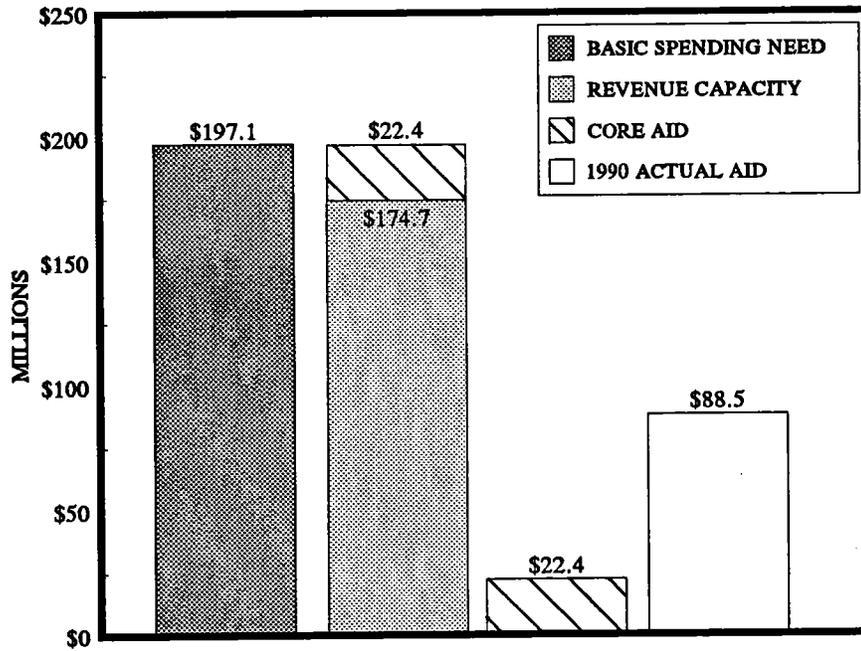
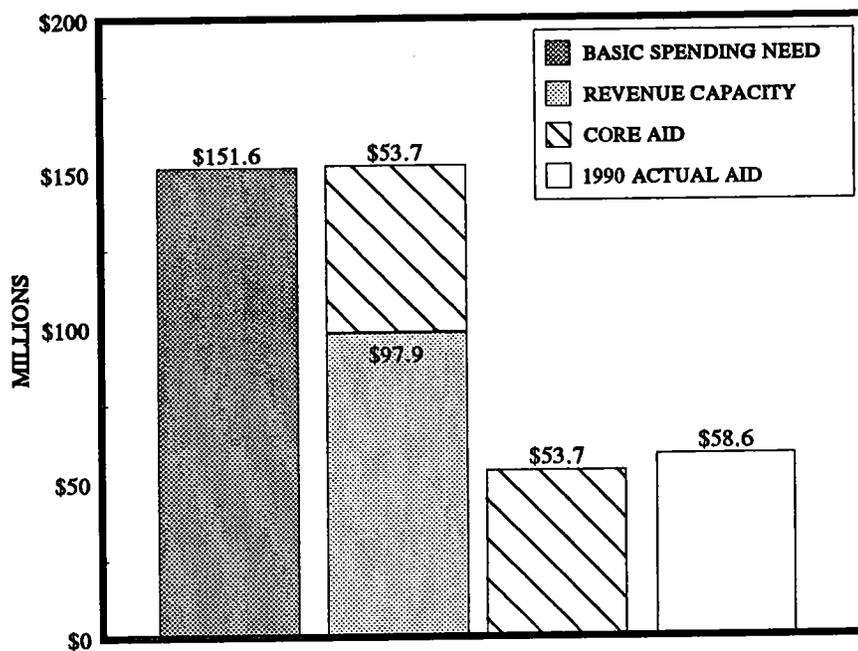
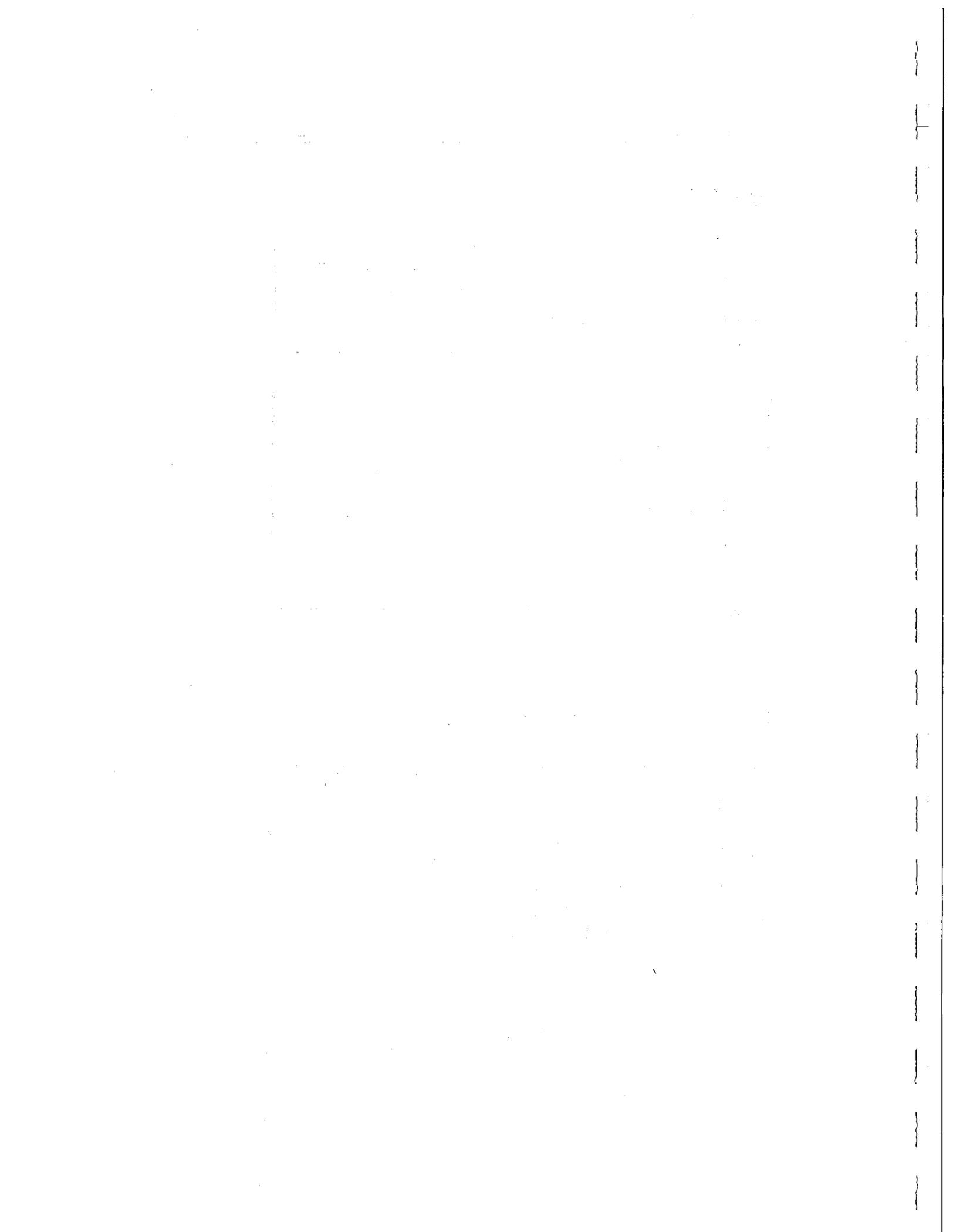


Figure 10. CORE formula results for St. Paul





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# RECOMMENDATIONS

## 1. State collection of comparison data (*from Part I*)

### CORE recommends:

To enable continuing comparisons, the state should institute an ongoing data-gathering process to collect the information necessary to measure city workloads [and revenue-raising capacities], based on the concepts of the CORE methodology. Through this process, the state should maintain and publish information that is accessible to all Minnesotans and that they can use for comparing their city with others.

CORE has developed a methodology for determining basic spending levels for Minnesota cities with more than 2,500 people. Through this methodology, the state can provide Minnesota city residents with information about their city's spending practices compared with CORE's determination of basic spending levels.

CORE's concept of basic spending makes meaningful city comparisons possible. City spending patterns can be compared with each other as well as against a standard: the basic spending level.

Meaningful comparisons are an important step toward improving local accountability. Comparisons of city spending patterns give taxpayers a starting point for discussions with city officials. When a city's spending is well above the basic spending level for a service, citizens might ask if they are receiving more services in exchange for the greater cost. If city spending is below the basic spending level, citizens might question whether enough services are being provided. In either case, the comparisons provide an opening for greater citizen understanding of each city's unique circumstances.

## 2. State adoption of the CORE formula

### CORE recommends:

Minnesota should adopt the CORE formula for the distribution of general purpose aid to cities.

- a. The state should provide *only* as much general purpose aid as is needed to support *basic, minimum and adequate* services. This aid should be provided *only* to the extent that the basic spending need to provide these services is greater than a city's basic revenue-raising capacity.
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- b. The state should combine local government aid to cities and Homestead and Agricultural Credit Aid to cities into one general purpose aid grant.**
- c. The state should NOT mandate any level of service to be provided by cities with their general purpose aid grant.**

CORE has defined a formula for an equitable distribution of state aid to cities of more than 2,500 population, based on their workloads and revenue-raising capacities. The current system for distributing state general purpose aid to cities is flawed. Aid is distributed primarily based on what cities have been spending, not on what they need to spend. Through the development of basic spending levels and basic revenue-raising capacity, CORE has made possible a state general purpose aid distribution according to spending needs.

The CORE formula limits the state's role to supporting a minimum and adequate level of basic services. This does not mean that cities will or must provide citizens with only the minimum level of basic service. It only means that it is the state's responsibility to ensure that cities *can* provide adequate levels of basic services. A city may opt not to provide a service at all, or it may choose to provide much more than a basic level of service. Those are local decisions. When a city wants to spend more than what is required for a minimum and adequate level of basic service, it should be at local taxpayers' expense and with their knowledge and approval.

### **3. Transition to the new aid formula**

**CORE recommends:**

**The state should adopt a transition period for the shift to the new formula. The change in aid from current amounts should be a maximum of 5 percent of revenues per year. Both increases and decreases should be included in the transition. At the same time, if a city is raising less than the expected basic revenues, that city should not receive more than 50 percent of its total revenues from state general purpose aid.**

CORE has developed a transition plan to phase in the changes in aid cities would experience. A transition plan is necessary because several cities that rely heavily on state general purpose aid would experience significant reductions in aid, while other cities that have traditionally relied on other sources of revenue would receive large increases in general purpose aid.

CORE developed three criteria for the transition period:

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1. No city should experience an aid change in any one year that is greater than 5 percent of its 1990 revenues.
  2. The 5 percent limit should apply whether a city receives an aid decrease or an aid increase.
  3. If a city is not raising the expected amount of basic revenues, that city would not receive more than 50 percent of its revenues from the aid program proposed by CORE. That is, general purpose aid should not be greater than a city's total revenues from all other sources unless it is already raising the expected amount.

Appendix G summarizes the results of using a transition to phase in the CORE formula.

#### **4. Use of the savings from the CORE aid formula**

**CORE recommends:**

**The savings realized through the redistribution of general purpose aid according to the CORE formula should be used to reduce Minnesota state taxes.**

As the state shifts to the CORE formula emphasizing aid for the provision of basic, minimal and adequate services, local taxpayers may be asked to pay for local services above the basic level. Therefore, a reduction in state taxes is needed to keep the overall tax burden from increasing.

#### **5. Minneapolis and St. Paul**

**CORE recommends:**

**By Dec. 31, 1994, the legislature should determine if Minneapolis and St. Paul have extraordinary needs for state aid that are not addressed through the CORE formula. In this analysis, Minneapolis and St. Paul should be compared with other large metropolitan areas throughout the nation.**

When CORE aid amounts are compared with past state general purpose aid amounts, it is clear that significant changes are being recommended. In particular, significant cuts occur in aid to Minneapolis and to a lesser degree to St. Paul. The size of the aid involved for Minneapolis, in particular, requires more specific analysis to verify whether Minneapolis has special needs for which it should receive additional state funding.

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The CORE workload formulas for determining basic spending levels reflect basic, minimum and adequate services. Minneapolis and St. Paul may need to provide more services than other cities because of their unique role in the state and region. Thus, these two cities may have extraordinary spending needs not captured in a basic spending formula nor appropriately addressed through a general purpose aid program.

As the CORE workloads for determining basic spending levels were developed, special attention was given to the basic spending needs of Minneapolis and St. Paul. Based on research and discussion with experts, CORE has reason to believe that Minneapolis and St. Paul may have some spending needs that are not comparable with those of other Minnesota cities.

The concentration of poverty in the urban core is one feature of the central cities that may affect city expenditures in all areas. About 18 percent of the population in Minneapolis and 16 percent in St. Paul live below poverty level. In contrast, the average suburb's poverty rate is 4 percent.<sup>16</sup> The exact relationship between concentrated poverty and city expenditures, however, is unclear and difficult to quantify.

Minneapolis and St. Paul also function as the economic and cultural center of the state and region. As such, they support cultural institutions and sports facilities and promote economic development. These services are beyond basic and are not addressed in the basic spending formulas. That is not to say that they are unnecessary services for Minneapolis and St. Paul to offer.

## **6. Local flexibility**

### **CORE recommends:**

**The legislature should give Minnesota cities more flexibility in local revenue raising.**

Municipal governments in Minnesota are highly dependent on the property tax for revenue, and this dependence is rapidly increasing. Estimates from the Department of Revenue show the property tax increasing faster than any other major local tax revenue source. Heavy reliance on the property tax causes city revenue systems as a whole to be inflexible. Current legislative restrictions, however, inhibit cities from diversifying their revenue sources. The CORE formula for determining state aid could create additional pressure for cities to find other sources of city revenues.

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<sup>16</sup>Of the 25 largest metro areas nationwide, Minneapolis' share of metro-wide poverty ranks among the highest, surpassed only by Boston, Cleveland, Detroit, Washington, and Atlanta.

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## APPENDICES

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### A. CITY REVENUES BY SOURCE, EXCLUDING MINNEAPOLIS AND ST. PAUL, 1990

SOURCE	AMOUNT	PERCENT
<b>TAXES</b>		
Property Taxes	\$326,038,887	23.09
Special Assessments	150,701,950	10.67
Tax Increments	104,472,381	7.40
Local Sales Taxes	16,150,853	1.14
Hotel/Motel Taxes	9,047,421	0.64
<b>FINANCING REVENUES</b>		
Interest Earnings	136,685,226	9.68
<b>INTERGOVERNMENTAL AID</b>		
Federal Aid - Community Dev. Block Grants	11,716,651	0.83
Federal Aid - Other	17,803,590	1.26
State Aid - Local Government Aid	162,537,432	11.51
State Aid - Homestead & Agricultural Credit Aid	87,294,064	6.18
State Aid - Disparity Reduction Aid	8,410,914	0.60
State Aid - Taconite Relief and Aids	4,378,005	0.31
State Aid - Small City Dev. Grants	3,848,607	0.27
State Aid - Highways	60,676,404	4.30
State Aid - Other	51,371,408	3.64
County Aid - Gravel Taxes	171,290	0.01
County Aid - Highways	2,586,376	0.18
County Aid - Other	8,411,130	0.60
Local Aid - Highways	50,519	0.00
Local Aid - Iron Range RRB	1,701,994	0.12
Local Aid - Other	4,164,087	0.29
<b>CONTRACT REVENUES</b>		
Police & Fire Contracts	6,469,963	0.46
Street Department Sales & Charges	6,838,925	0.48
<b>CHARGES &amp; OTHER REVENUES</b>		
General Government Charges	15,946,926	1.13
Public Safety Charges	4,374,838	0.31
Sanitation Department Charges	4,705,521	0.33
Parks & Recreation Charges	23,210,619	1.64
Library Charges	394,348	0.03
Airport Fees and Charges	717,240	0.05
Miscellaneous Charges	18,962,289	1.34
Franchise Taxes	8,198,295	0.58
Licenses and Permits	33,617,903	2.38
Fines and Forfeits	15,247,666	1.08
Miscellaneous Revenue	83,678,497	5.93
Transfers from Enterprise Funds	21,376,007	1.51
<b>TOTAL REVENUES</b>	<b>\$1,411,958,226</b>	<b>100.00</b>

## B. DESCRIPTION OF USER FEES

*Government administration service charges:* various government charges, including filing fees, auto registration, and city hall rentals.

*Parks and recreation service charges:* charges for the use of recreational facilities, and park dedication fees.

*Sanitation service charges:* service charges to city residences for providing government fund garbage services, recycling, and other refuse removal. (Cities with a government fund garbage service are excluded in determining revenue-raising capacity from this source.)

*Other public safety service charges:* service charges to other local units for providing fire runs, police calls, ambulance services, etc., *exclusive of* police and fire contracts. (Forty cities with a government fund ambulance service were excluded in determining revenue-raising capacity from this source.)

*Other services service charges:* miscellaneous charges for services not included in another category; includes such things as cemetery care and sewer availability charges. Does *not* include airport or library fees, which are excluded from the CORE analysis.

*Fines and forfeits:* fines and forfeits received by the city. Library fines were included because they are not reported to the state auditor separately from other fines.

*Licenses:* licenses and permits issued for business and non-business purposes such as liquor licenses and building permits.

*Franchise taxes:* taxes levied on the gross earnings of utilities (NSP, Minnegasco, Minnesota Power, etc.) operating in the city and on the gross earnings of cable companies.

*Transfers from enterprise funds:* net operating transfers from enterprise funds.

*Miscellaneous revenue:* examples are rental of other city properties and donations. (Thirty-one cities with more than 10 percent of its revenues recorded as miscellaneous were excluded in determining revenue-raising capacity from this source.)

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## C. DESCRIPTIONS OF GRANTS AND AIDS TO CITIES INCLUDED IN BASIC REVENUE-RAISING CAPACITY

### Street aids

Municipal State Aid Street System — Minnesota Municipal Street Aid is allocated to cities with populations of 5,000 or more people. This aid can be used for the construction, improvement, and maintenance of the municipal state-aid street system. Half the aid is distributed on a per capita basis. The other half is distributed on anticipated street construction needs of the next 25 years (M.S. 162.09). **Treatment: 90%**

Federal County Road and Bridge Account — The Federal County Road and Bridge Account is used by the state Department of Transportation to accept and disburse federal money on behalf of cities for the construction, improvement, and maintenance of roads and bridges. Payments from the account are reimbursements to cities for the costs of eligible projects. **Treatment: 90%**

County Highway Aids — County highway aids are reimbursements to cities for the cost of maintaining county or other local government roads within their boundaries. **Treatment: 90%**

### Police and fire aids

Police and fire aids are provided to cities to help with the costs of pension plans for police and fire department employees. A city is obligated to cover the difference between the financial requirements of the relief association and the contributions of its members, less any state police or fire aid.

A city receives police and fire aid if each department meets certain requirements. Requirements for fire departments include having 10 or more paid or volunteer members, certain types of firefighting equipment and frequent drills in firefighting methods. Police departments must be "duly organized" (M.S. 69.011). **Treatment: 90%**

### Other county aids and grants

Cities receive a variety of aids from their counties. Examples include recycling and emergency preparation grants. **Treatment: 90%**

### Taconite aid

Cities located in a taconite relief area receive taconite aids in place of forgone property taxes from exempt mining properties. Mining companies do not pay pro-

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perty taxes on land, buildings or equipment, but instead pay a tax on the amount of taconite that is mined and processed (M.S. 298.24). **Treatment: 100%**

#### **Peace Officer Standards and Training (POST) Board reimbursements**

POST Board reimbursements help cities pay for training for their police officers. An additional penalty of 15 percent on fines for traffic violations is directed to a special fund for the reimbursements. To receive the funds, all cities submit the number of officers who meet specific work and training requirements. Each city receives an equal amount per officer. The per officer calculation is determined by the total number of qualifying officers and the total amount of money available (M.S. 626.861). **Treatment: 90%**

#### **Insurance surcharge**

A surcharge is added to the fire insurance premiums written in Minneapolis, St. Paul, and Duluth. The fire relief association of the city receives the total amount of the surcharge raised from fire premiums written in its city (M.S. 69.54). **Treatment: 90%**

#### **Amortization aid**

Amortization aid is provided to cities with police and paid firefighters to help reduce any "unfunded actuarial accrued liabilities" as of Dec. 31, 1978, by the year 2010. Once the unaccrued amount is retired, the city is no longer eligible for aid (M.S. 423.02). **Treatment: 90%**

#### **Supplemental amortization aid**

Supplemental amortization aid is based on unfunded liabilities measured as of Dec. 31, 1983. The aid is given in proportion of a city's unfunded liabilities out of the unfunded liabilities of all cities at that date (M.S. 423.02). **Treatment: 90%**

#### **Body armor reimbursement program**

The body armor reimbursement program partially shares the costs to cities and individual officers of purchases of soft body armor. Upon receiving an application from the city or individual officer, the state reimburses an amount equal to the lesser of one-third of the purchase or \$165 (M.S. 299A.38). **Treatment: 90%**

#### **Video gaming local reimbursement**

The video gaming reimbursement is based on the number of video games of chance located in each city and county, which must be reported to the commissio-

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ner of public safety each year. The commissioner pays to each city and county \$30 per video game of chance (M.S. 349.52(3b)). **Treatment: 90%**

As of January 1992, all video games of chance were declared contraband (M.S. 349.61).

#### **Federal anti-drug training grants**

Federal anti-drug money is available to local law enforcement agencies for the purpose of sending officers to training courses that involve drug enforcement, drug demand reduction, and drug education. The fund reimburses approved applicants 75 percent of the cost of attending the course. **Treatment: 90%**

#### **Minneapolis Employee Retirement Fund Grant**

The state makes an annual contribution to the Minneapolis Employee Retirement Fund. The amount is the difference between the contributions of the city and employees and the accrued liability of the fund (M.S. 422A.101). The state also pays a supplemental amount for employees whose retirement benefits were computed under laws in effect before March 1974 (M.S. 356.865). **Treatment: 100%**

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### D. COMPARISON OF 1990 ACTUAL BASIC REVENUES WITH BASIC REVENUE-RAISING CAPACITY

City	Basic revenue-raising capacity	1990 actual basic revenues	Difference	Percent difference
Afton	\$858,946	\$544,058	\$314,888	57.9%
Albert Lea	\$4,309,753	\$6,811,259	(\$2,501,507)	-36.7%
Alexandria	\$2,467,704	\$2,580,488	(\$112,783)	-4.4%
Andover	\$4,385,373	\$5,524,162	(\$1,138,788)	-20.6%
Anoka	\$4,601,356	\$5,167,299	(\$565,943)	-11.0%
Apple Valley	\$10,570,169	\$13,325,478	(\$2,755,309)	-20.7%
Arden Hills	\$4,395,405	\$2,586,756	\$1,808,649	69.9%
Austin	\$5,337,249	\$6,247,225	(\$909,976)	-14.6%
Baxter	\$1,009,116	\$1,232,479	(\$223,362)	-18.1%
Bayport	\$1,071,659	\$1,071,837	(\$179)	0.0%
Belle Plaine	\$619,993	\$834,573	(\$214,580)	-25.7%
Bemidji	\$2,858,766	\$3,392,750	(\$533,985)	-15.7%
Benson	\$573,118	\$992,015	(\$418,897)	-42.2%
Big Lake	\$712,405	\$1,043,356	(\$330,952)	-31.7%
Blaine	\$10,781,518	\$11,140,747	(\$359,229)	-3.2%
Bloomington	\$51,520,332	\$46,785,193	\$4,735,139	10.1%
Blue Earth	\$1,255,377	\$1,671,665	(\$416,288)	-24.9%
Brainerd	\$3,150,075	\$3,288,035	(\$137,961)	-4.2%
Breckenridge	\$654,662	\$1,077,950	(\$423,289)	-39.3%
Brooklyn Center	\$10,918,798	\$8,230,799	\$2,687,999	32.7%
Brooklyn Park	\$16,007,364	\$16,076,587	(\$69,224)	-0.4%
Buffalo	\$1,490,937	\$1,985,333	(\$494,396)	-24.9%
Burnsville	\$21,884,078	\$18,710,708	\$3,173,370	17.0%
Caledonia	\$554,788	\$508,796	\$45,992	9.0%
Cambridge	\$1,228,156	\$1,249,417	(\$21,261)	-1.7%
Cannon Falls	\$993,709	\$1,665,863	(\$672,154)	-40.3%
Champlin	\$3,959,133	\$7,898,470	(\$3,939,337)	-49.9%
Chanhausen	\$4,858,217	\$6,003,060	(\$1,144,843)	-19.1%

City	Basic revenue-raising capacity	1990 actual basic revenues	Difference	Percent difference
Chaska	\$5,731,132	\$7,742,473	(\$2,011,341)	-26.0%
Chisholm	\$1,368,855	\$1,377,119	(\$8,265)	-0.6%
Circle Pines	\$1,059,493	\$845,422	\$214,071	25.3%
Cloquet	\$2,682,495	\$2,896,231	(\$213,737)	-7.4%
Columbia Heights	\$5,431,014	\$6,712,940	(\$1,281,926)	-19.1%
Coon Rapids	\$13,199,730	\$14,620,068	(\$1,420,338)	-9.7%
Corcoran	\$1,136,182	\$1,166,331	(\$30,149)	-2.6%
Cottage Grove	\$5,640,313	\$8,454,633	(\$2,814,319)	-33.3%
Crookston	\$1,750,700	\$2,372,017	(\$621,317)	-26.2%
Crystal	\$6,703,604	\$5,877,733	\$825,871	14.1%
Dayton	\$893,307	\$771,758	\$121,549	15.7%
Deephaven	\$1,851,373	\$1,375,551	\$475,822	34.6%
Delano <sup>1</sup>				
Detroit Lakes	\$1,824,439	\$2,497,980	(\$673,541)	-27.0%
Dilworth	\$437,197	\$422,699	\$14,498	3.4%
Duluth	\$21,380,570	\$22,980,835	(\$1,600,265)	-7.0%
Eagan	\$20,623,273	\$24,067,391	(\$3,444,118)	-14.3%
East Bethel	\$1,828,679	\$1,257,408	\$571,270	45.4%
East Grand Forks	\$2,845,416	\$5,158,092	(\$2,312,676)	-44.8%
Eden Prairie	\$23,046,519	\$22,012,036	\$1,034,483	4.7%
Edina	\$27,777,478	\$18,947,432	\$8,830,046	46.6%
Elk River	\$3,904,822	\$4,754,479	(\$849,657)	-17.9%
Ely	\$824,901	\$822,174	\$2,727	0.3%
Eveleth	\$1,089,261	\$1,406,432	(\$317,171)	-22.6%
Fairmont	\$2,944,522	\$3,608,989	(\$664,467)	-18.4%
Falcon Heights	\$1,541,026	\$1,021,842	\$519,184	50.8%
Faribault	\$4,174,552	\$5,270,855	(\$1,096,303)	-20.8%
Farmington	\$1,447,389	\$2,751,979	(\$1,304,590)	-47.4%

<sup>1</sup>The city of Delano did not submit complete data to the Office of the State Auditor in 1990.

City	Basic revenue-raising capacity	1990 actual basic revenues	Difference	Percent difference
Fergus Falls	\$2,850,660	\$3,201,540	(\$350,881)	-11.0%
Forest Lake	\$1,847,149	\$731,972	\$1,115,177	152.4%
Fridley	\$11,883,291	\$9,024,139	\$2,859,151	31.7%
Glencoe	\$961,799	\$1,074,585	(\$112,786)	-10.5%
Glenwood	\$426,324	\$701,847	(\$275,523)	-39.3%
Golden Valley	\$14,038,156	\$13,992,438	\$45,719	0.3%
Goodview	\$627,156	\$1,017,684	(\$390,528)	-38.4%
Grand Rapids	\$3,069,628	\$3,929,164	(\$859,536)	-21.9%
Granite Falls	\$725,727	\$639,302	\$86,426	13.5%
Ham Lake	\$1,862,281	\$1,128,987	\$733,294	65.0%
Hastings	\$4,045,728	\$4,767,771	(\$722,043)	-15.1%
Hermantown	\$2,561,977	\$2,591,626	(\$29,648)	-1.1%
Hibbing	\$5,182,967	\$5,190,617	(\$7,650)	-0.1%
Hopkins	\$6,530,756	\$9,686,442	(\$3,155,686)	-32.6%
Hugo	\$1,186,858	\$1,076,874	\$109,984	10.2%
Hutchinson	\$3,004,199	\$5,260,180	(\$2,255,981)	-42.9%
Independence	\$763,618	\$700,244	\$63,374	9.1%
International Falls	\$1,948,904	\$2,825,248	(\$876,344)	-31.0%
Inver Grove Heights	\$7,866,983	\$8,880,307	(\$1,013,324)	-11.4%
Jackson	\$1,140,033	\$1,229,466	(\$89,433)	-7.3%
Jordan	\$517,019	\$917,715	(\$400,696)	-43.7%
Kasson	\$659,296	\$663,514	(\$4,217)	-0.6%
La Crescent	\$734,232	\$676,001	\$58,232	8.6%
Lake City	\$1,162,379	\$1,606,460	(\$444,082)	-27.6%
Lake Elmo	\$1,863,850	\$1,299,550	\$564,300	43.4%
Lakeville	\$8,622,636	\$11,301,710	(\$2,679,074)	-23.7%
Lauderdale	\$620,804	\$312,745	\$308,059	98.5%
Le Sueur	\$741,623	\$1,255,244	(\$513,622)	-40.9%
Lino Lakes	\$2,203,105	\$4,548,012	(\$2,344,908)	-51.6%
Litchfield	\$1,282,774	\$1,410,418	(\$127,643)	-9.1%

City	Basic revenue-raising capacity	1990 actual basic revenues	Difference	Percent difference
Little Canada	\$3,149,233	\$3,702,854	(\$553,621)	-15.0%
Little Falls	\$2,173,758	\$2,282,448	(\$108,691)	-4.8%
Long Prairie	\$601,458	\$457,879	\$143,579	31.4%
Luverne	\$854,706	\$2,648,488	(\$1,793,782)	-67.7%
Mahtomedi	\$1,586,150	\$1,692,746	(\$106,596)	-6.3%
Mankato	\$8,137,748	\$10,676,343	(\$2,538,595)	-23.8%
Maple Grove	\$13,818,064	\$19,094,740	(\$5,276,676)	-27.6%
Maplewood	\$12,465,857	\$11,180,617	\$1,285,240	11.5%
Marshall	\$3,804,435	\$4,292,765	(\$488,330)	-11.4%
Medina	\$1,611,310	\$2,217,947	(\$606,637)	-27.4%
Melrose	\$786,549	\$977,841	(\$191,291)	-19.6%
Mendota Heights	\$4,585,702	\$4,326,212	\$259,490	6.0%
Minneapolis	\$174,662,101	\$257,225,554	(\$82,563,454)	-32.1%
Minnetonka	\$30,213,676	\$21,408,901	\$8,804,776	41.1%
Minnetrissa	\$1,416,248	\$1,308,870	\$107,379	8.2%
Montevideo	\$1,082,730	\$1,227,449	(\$144,719)	-11.8%
Monticello	\$4,625,988	\$3,668,750	\$957,237	26.1%
Moorhead	\$7,995,465	\$10,341,076	(\$2,345,611)	-22.7%
Mora	\$677,783	\$661,834	\$15,949	2.4%
Morris	\$849,561	\$1,341,197	(\$491,636)	-36.7%
Mound	\$3,102,235	\$2,828,271	\$273,964	9.7%
Mounds View	\$3,387,730	\$2,745,801	\$641,929	23.4%
Mountain Iron	\$1,286,945	\$1,438,783	(\$151,838)	-10.6%
New Brighton	\$9,007,535	\$6,164,208	\$2,843,327	46.1%
New Hope	\$8,967,275	\$8,227,357	\$739,918	9.0%
New Prague	\$706,392	\$833,743	(\$127,351)	-15.3%
New Ulm	\$3,529,226	\$4,577,831	(\$1,048,605)	-22.9%
Newport	\$1,208,030	\$960,510	\$247,520	25.8%
North Mankato	\$2,709,781	\$3,272,245	(\$562,464)	-17.2%
North Oaks	\$1,647,269	\$637,459	\$1,009,810	158.4%

City	Basic revenue-raising capacity	1990 actual basic revenues	Difference	Percent difference
North St. Paul	\$2,953,938	\$2,642,003	\$311,936	11.8%
Northfield	\$3,192,434	\$5,655,351	(\$2,462,916)	-43.6%
Oak Park Heights	\$2,191,987	\$1,888,759	\$303,227	16.1%
Oakdale	\$5,339,014	\$7,130,929	(\$1,791,915)	-25.1%
Olivia	\$559,438	\$607,541	(\$48,103)	-7.9%
Orono	\$4,135,838	\$2,836,768	\$1,299,070	45.8%
Osseo	\$849,269	\$652,797	\$196,472	30.1%
Owatonna	\$5,528,674	\$6,328,789	(\$800,115)	-12.6%
Park Rapids	\$682,761	\$805,861	(\$123,100)	-15.3%
Pine City	\$624,130	\$504,041	\$120,088	23.8%
Pipestone	\$793,637	\$1,271,395	(\$477,758)	-37.6%
Plainview	\$549,731	\$678,256	(\$128,524)	-18.9%
Plymouth	\$27,088,652	\$23,739,899	\$3,348,753	14.1%
Princeton	\$906,655	\$821,918	\$84,738	10.3%
Prior Lake	\$3,339,429	\$4,496,251	(\$1,156,822)	-25.7%
Proctor	\$469,049	\$519,205	(\$50,156)	-9.7%
Ramsey	\$3,195,198	\$2,950,210	\$244,987	8.3%
Red Wing	\$9,088,563	\$11,439,165	(\$2,350,602)	-20.5%
Redwood Falls	\$1,029,928	\$1,707,008	(\$677,080)	-39.7%
Richfield	\$12,109,567	\$11,426,185	\$683,382	6.0%
Robbinsdale	\$3,800,149	\$4,441,393	(\$641,244)	-14.4%
Rochester	\$23,586,027	\$30,694,659	(\$7,108,632)	-23.2%
Rockford	\$464,418	\$551,995	(\$87,577)	-15.9%
Rosemount	\$3,561,321	\$4,068,004	(\$506,683)	-12.5%
Roseville	\$16,975,198	\$13,206,699	\$3,768,499	28.5%
Sartell	\$1,546,470	\$1,610,542	(\$64,072)	-4.0%
Sauk Centre	\$653,272	\$798,994	(\$145,723)	-18.2%
Sauk Rapids	\$1,650,398	\$1,974,039	(\$323,641)	-16.4%
Savage	\$3,151,209	\$3,671,543	(\$520,334)	-14.2%
Shakopee	\$5,633,805	\$5,749,716	(\$115,911)	-2.0%

City	Basic revenue-raising capacity	1990 actual basic revenues	Difference	Percent difference
Shoreview	\$8,662,436	\$7,375,407	\$1,287,029	17.5%
Shorewood	\$2,477,063	\$2,709,716	(\$232,653)	-8.6%
Sleepy Eye	\$714,462	\$791,082	(\$76,620)	-9.7%
South St. Paul	\$5,568,487	\$6,280,468	(\$711,981)	-11.3%
Spring Lake Park	\$2,239,548	\$2,056,951	\$182,597	8.9%
Staples	\$549,314	\$634,320	(\$85,006)	-13.4%
Stewartville	\$1,011,987	\$892,458	\$119,530	13.4%
Stillwater	\$4,291,975	\$5,264,022	(\$972,047)	-18.5%
St. Anthony	\$2,689,330	\$1,869,734	\$819,596	43.8%
St. Charles	\$518,411	\$616,446	(\$98,034)	-15.9%
St. Cloud	\$15,388,446	\$20,677,298	(\$5,288,852)	-25.6%
St. Francis	\$480,492	\$744,542	(\$264,050)	-35.5%
St. James	\$910,448	\$1,050,817	(\$140,369)	-13.4%
St. Joseph	\$584,127	\$495,840	\$88,287	17.8%
St. Louis Park	\$18,623,840	\$15,524,366	\$3,099,474	20.0%
St. Michael	\$433,376	\$448,720	(\$15,344)	-3.4%
St. Paul	\$97,942,263	\$145,171,012	(\$47,228,749)	-32.5%
St. Paul Park	\$1,033,638	\$1,165,801	(\$132,163)	-11.3%
St. Peter	\$1,910,597	\$2,338,641	(\$428,044)	-18.3%
Thief River Falls	\$1,876,977	\$2,999,112	(\$1,122,135)	-37.4%
Two Harbors	\$753,022	\$1,176,782	(\$423,760)	-36.0%
Vadnais Heights	\$4,439,813	\$3,793,016	\$646,796	17.1%
Virginia	\$3,736,163	\$4,667,860	(\$931,697)	-20.0%
Waconia	\$1,291,022	\$1,615,569	(\$324,546)	-20.1%
Wadena	\$727,874	\$845,281	(\$117,407)	-13.9%
Waite Park	\$1,572,920	\$2,210,910	(\$637,990)	-28.9%
Waseca	\$1,857,859	\$1,700,416	\$157,443	9.3%
Wayzata	\$2,812,397	\$2,507,169	\$305,228	12.2%
West St. Paul	\$6,684,935	\$5,828,615	\$856,321	14.7%
White Bear Lake	\$6,882,714	\$5,990,197	\$892,518	14.9%

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City	Basic revenue-raising capacity	1990 actual basic revenues	Difference	Percent difference
Willmar	\$4,660,045	\$5,600,475	(\$940,430)	-16.8%
Windom	\$804,004	\$1,194,466	(\$390,462)	-32.7%
Winona	\$6,132,042	\$7,267,298	(\$1,135,257)	-15.6%
Woodbury	\$7,594,763	\$10,295,307	(\$2,700,544)	-26.2%
Worthington	\$2,885,023	\$3,250,879	(\$365,856)	-11.3%
<b>TOTAL</b>	<b>\$1,104,141,222</b>	<b>\$1,274,822,684</b>	<b>(\$170,681,462)</b>	<b>-13.4%</b>

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## E. REVERSE ADJUSTMENT FOR LABOR COSTS

As described on Pages 60 and 61 of Part I, city spending was adjusted for labor costs before basic spending need was calculated. This means that the "basic spending need" assigned to each city describes how much the city would need to spend were it faced with the prevailing wage rate in St. Paul. These amounts must be "reverse adjusted" before they are compared with basic revenue-raising capacity and for determining aid amounts. The "reverse adjusted" basic spending amounts are how much the city needs to spend to provide a basic adequate level of service given actual prevailing wage rates. This reverse adjustment is calculated as:

$$\text{Unadjusted spending need} = \frac{\text{Basic spending need}}{(\text{Labor cost percentage})(\text{labor cost index}) + (1 - \text{labor cost percentage})}$$

For fire, the percentage of expenditures due to labor costs differs for volunteer, part paid and fully paid departments. As a result, the norm is reversed using a labor cost percentage of 0.55, which is the percentage of expenditures due to labor costs in volunteer or paid chief departments.

## F. COMPARISON OF CORE AID WITH 1990 ACTUAL AID

City	CORE aid	1990 Aid	Difference in aid amounts	Percent change in aid
Afton	\$551,297	\$92,280	\$459,017	526.7%
Albert Lea	\$2,539,385	\$4,518,057	(\$1,978,672)	-43.8%
Alexandria	\$1,321,671	\$1,458,865	(\$137,194)	-9.4%
Andover	\$1,937,939	\$459,530	\$1,478,409	321.7%
Anoka	\$1,412,980	\$1,668,427	(\$255,447)	-15.3%
Apple Valley	\$1,698,337	\$2,543,679	(\$845,342)	-33.2%
Arden Hills	\$0	\$4,160	(\$4,160)	-100.0%
Austin	\$3,600,709	\$5,412,646	(\$1,811,937)	-33.5%
Baxter	\$599,787	\$288,840	\$310,947	107.7%
Bayport	\$227,940	\$180,200	\$47,740	26.5%
Belle Plaine	\$625,704	\$410,962	\$214,742	52.3%
Bemidji	\$2,329,927	\$2,371,489	(\$41,562)	-1.8%
Benson	\$409,506	\$888,721	(\$479,215)	-53.9%
Big Lake	\$452,009	\$415,940	\$36,069	8.7%
Blaine	\$1,277,818	\$2,471,763	(\$1,193,945)	-48.3%
Bloomington	\$0	\$2,696,510	(\$2,696,510)	-100.0%
Blue Earth	\$81,658	\$902,977	(\$821,319)	-91.0%
Brainerd	\$1,609,569	\$2,400,755	(\$791,186)	-33.0%
Breckenridge	\$555,250	\$1,107,851	(\$552,601)	-49.9%
Brooklyn Center	\$1,987,072	\$2,980,654	(\$993,582)	-33.3%
Brooklyn Park	\$5,900,701	\$4,018,127	\$1,882,574	46.9%
Buffalo	\$1,082,633	\$785,229	\$297,404	37.9%
Burnsville	\$809,906	\$2,701,229	(\$1,891,323)	-70.0%
Caledonia	\$467,895	\$565,169	(\$97,274)	-17.2%
Cambridge	\$757,974	\$496,530	\$261,444	52.7%
Cannon Falls	\$299,649	\$583,921	(\$284,272)	-48.7%
Champlin	\$2,306,145	\$1,149,700	\$1,156,445	100.6%
Chanhassen	\$0	\$651,005	(\$651,005)	-100.0%

City	CORE aid	1990 Aid	Difference in aid amounts	Percent change in aid
Chaska	\$0	\$565,648	(\$565,648)	-100.0%
Chisholm	\$919,581	\$1,924,420	(\$1,004,839)	-52.2%
Circle Pines	\$480,988	\$453,239	\$27,749	6.1%
Cloquet	\$2,263,120	\$2,761,441	(\$498,321)	-18.0%
Columbia Heights	\$1,727,790	\$2,877,082	(\$1,149,292)	-39.9%
Coon Rapids	\$3,848,192	\$4,174,398	(\$326,206)	-7.8%
Corcoran	\$1,660,659	\$221,815	\$1,438,844	648.7%
Cottage Grove	\$4,177,000	\$2,196,230	\$1,980,770	90.2%
Crookston	\$1,143,966	\$2,307,624	(\$1,163,658)	-50.4%
Crystal	\$2,465,260	\$2,802,807	(\$337,547)	-12.0%
Dayton	\$863,185	\$236,158	\$627,027	345.5%
Deephaven	\$0	\$42,371	(\$42,371)	-100.0%
Delano	\$23,323	\$478,065	(\$454,742)	-95.1%
Detroit Lakes	\$1,056,151	\$1,337,636	(\$281,485)	-21.0%
Dilworth	\$462,181	\$514,446	(\$52,265)	-10.2%
Duluth	\$22,384,398	\$21,877,885	\$506,513	2.3%
Eagan	\$0	\$1,417,814	(\$1,417,814)	-100.0%
East Bethel	\$1,302,753	\$228,838	\$1,073,915	636.3%
East Grand Forks	\$247,539	\$1,915,780	(\$1,668,241)	-87.1%
Eden Prairie	\$0	\$173,764	(\$173,764)	-100.0%
Edina	\$0	\$0	\$0	0.0%
Elk River	\$658,474	\$764,780	(\$106,306)	-13.9%
Ely	\$811,741	\$1,175,875	(\$364,134)	-31.0%
Eveleth	\$342,100	\$1,421,628	(\$1,079,528)	-75.9%
Fairmont	\$2,058,616	\$2,528,554	(\$469,938)	-18.6%
Falcon Heights	\$659,981	\$348,554	\$311,427	89.3%
Faribault	\$3,447,496	\$3,930,356	(\$482,860)	-12.3%
Farmington	\$980,259	\$712,962	\$267,297	37.5%
Fergus Falls	\$1,676,444	\$2,882,304	(\$1,205,860)	-41.8%

City	CORE aid	1990 Aid	Difference in aid amounts	Percent change in aid
Forest Lake	\$568,027	\$550,602	\$17,425	3.2%
Fridley	\$0	\$2,609,577	(\$2,609,577)	-100.0%
Glencoe	\$713,388	\$953,744	(\$240,356)	-25.2%
Glenwood	\$455,439	\$659,194	(\$203,755)	-30.9%
Golden Valley	\$0	\$1,623,967	(\$1,623,967)	-100.0%
Goodview	\$475,706	\$367,749	\$107,957	29.4%
Grand Rapids	\$714,939	\$1,703,652	(\$988,713)	-58.0%
Granite Falls	\$283,620	\$590,291	(\$306,671)	-52.0%
Ham Lake	\$1,498,016	\$373,943	\$1,124,073	300.6%
Hastings	\$1,766,702	\$2,151,660	(\$384,958)	-17.9%
Hermantown	\$818,886	\$687,453	\$131,433	19.1%
Hibbing	\$4,187,503	\$5,103,234	(\$915,731)	-17.9%
Hopkins	\$692,722	\$1,515,301	(\$822,579)	-54.3%
Hugo	\$677,682	\$246,459	\$431,223	175.0%
Hutchinson	\$1,643,969	\$2,144,275	(\$500,306)	-23.3%
Independence	\$841,340	\$171,260	\$670,080	391.3%
International Falls	\$1,121,041	\$2,653,564	(\$1,532,523)	-57.8%
Inver Grove Heights	\$471,980	\$1,366,553	(\$894,573)	-65.5%
Jackson	\$0	\$1,066,046	(\$1,066,046)	-100.0%
Jordan	\$601,162	\$387,898	\$213,264	55.0%
Kasson	\$469,585	\$642,825	(\$173,240)	-26.9%
La Crescent	\$447,459	\$504,106	(\$56,647)	-11.2%
Lake City	\$290,452	\$886,517	(\$596,065)	-67.2%
Lake Elmo	\$712,179	\$161,215	\$550,964	341.8%
Lakeville	\$1,096,399	\$1,804,111	(\$707,712)	-39.2%
Lauderdale	\$448,217	\$113,302	\$334,915	295.6%
Le Sueur	\$487,411	\$739,108	(\$251,697)	-34.1%
Lino Lakes	\$1,070,954	\$573,268	\$497,686	86.8%
Litchfield	\$885,623	\$1,207,317	(\$321,694)	-26.6%

City	CORE aid	1990 Aid	Difference in aid amounts	Percent change in aid
Little Canada	\$337,059	\$410,243	(\$73,184)	-17.8%
Little Falls	\$1,170,438	\$1,747,385	(\$576,947)	-33.0%
Long Prairie	\$415,508	\$572,485	(\$156,977)	-27.4%
Luverne	\$422,827	\$1,078,446	(\$655,619)	-60.8%
Mahtomedi	\$660,937	\$359,355	\$301,582	83.9%
Mankato	\$8,603,960	\$6,210,320	\$2,393,640	38.5%
Maple Grove	\$2,283,870	\$2,055,268	\$228,602	11.1%
Maplewood	\$0	\$2,086,691	(\$2,086,691)	-100.0%
Marshall	\$517,613	\$1,826,449	(\$1,308,836)	-71.7%
Medina	\$90,276	\$153,847	(\$63,571)	-41.3%
Melrose	\$207,878	\$571,976	(\$364,098)	-63.7%
Mendota Heights	\$0	\$263,441	(\$263,441)	-100.0%
Minneapolis	\$22,449,372	\$88,524,265	(\$66,074,893)	-74.6%
Minnetonka	\$0	\$1,553,267	(\$1,553,267)	-100.0%
Minnetrissa	\$345,186	\$235,038	\$110,148	46.9%
Montevideo	\$1,253,438	\$1,310,091	(\$56,653)	-4.3%
Monticello	\$0	\$2,848	(\$2,848)	-100.0%
Moorhead	\$2,707,989	\$5,022,675	(\$2,314,686)	-46.1%
Mora	\$386,754	\$463,028	(\$76,274)	-16.5%
Morris	\$1,376,864	\$1,251,644	\$125,220	10.0%
Mound	\$983,997	\$727,928	\$256,069	35.2%
Mounds View	\$813,800	\$932,865	(\$119,065)	-12.8%
Mountain Iron	\$62,030	\$359,372	(\$297,342)	-82.7%
New Brighton	\$0	\$1,415,560	(\$1,415,560)	-100.0%
New Hope	\$257,990	\$1,840,153	(\$1,582,163)	-86.0%
New Prague	\$696,851	\$745,682	(\$48,831)	-6.5%
New Ulm	\$1,387,320	\$3,031,009	(\$1,643,689)	-54.2%
Newport	\$292,593	\$376,321	(\$83,728)	-22.2%
North Mankato	\$934,627	\$2,078,914	(\$1,144,287)	-55.0%

City	CORE aid	1990 Aid	Difference in aid amounts	Percent change in aid
North Oaks	\$0	\$0	\$0	0.0%
North St. Paul	\$1,504,403	\$963,363	\$541,040	56.2%
Northfield	\$2,395,882	\$2,071,275	\$324,607	15.7%
Oak Park Heights	\$0	\$0	\$0	0.0%
Oakdale	\$2,272,824	\$1,353,557	\$919,267	67.9%
Olivia	\$476,789	\$629,231	(\$152,442)	-24.2%
Orono	\$0	\$0	\$0	0.0%
Osseo	\$469,847	\$175,009	\$294,838	168.5%
Owatonna	\$1,646,569	\$3,914,823	(\$2,268,254)	-57.9%
Park Rapids	\$410,043	\$499,696	(\$89,653)	-17.9%
Pine City	\$281,726	\$445,059	(\$163,333)	-36.7%
Pipestone	\$477,943	\$984,887	(\$506,944)	-51.5%
Plainview	\$371,360	\$460,586	(\$89,226)	-19.4%
Plymouth	\$0	\$507,777	(\$507,777)	-100.0%
Princeton	\$197,962	\$527,329	(\$329,367)	-62.5%
Prior Lake	\$982,660	\$749,038	\$233,622	31.2%
Proctor	\$680,164	\$600,441	\$79,723	13.3%
Ramsey	\$1,428,294	\$717,895	\$710,399	99.0%
Red Wing	\$0	\$617,746	(\$617,746)	-100.0%
Redwood Falls	\$472,302	\$1,209,209	(\$736,907)	-60.9%
Richfield	\$1,984,609	\$4,983,055	(\$2,998,446)	-60.2%
Robbinsdale	\$2,082,476	\$2,365,786	(\$283,310)	-12.0%
Rochester	\$9,069,549	\$9,432,462	(\$362,913)	-3.8%
Rockford	\$416,614	\$398,056	\$18,558	4.7%
Rosemount	\$215,838	\$940,540	(\$724,702)	-77.1%
Roseville	\$0	\$1,364,059	(\$1,364,059)	-100.0%
Sartell	\$85,831	\$427,488	(\$341,657)	-79.9%
Sauk Centre	\$686,864	\$865,549	(\$178,685)	-20.6%
Sauk Rapids	\$1,371,379	\$1,236,108	\$135,271	10.9%

City	CORE aid	1990 Aid	Difference in aid amounts	Percent change in aid
Savage	\$290,428	\$583,086	(\$292,658)	-50.2%
Shakopee	\$0	\$646,823	(\$646,823)	-100.0%
Shoreview	\$0	\$932,722	(\$932,722)	-100.0%
Shorewood	\$0	\$209,767	(\$209,767)	-100.0%
Sleepy Eye	\$495,599	\$898,700	(\$403,101)	-44.9%
South St. Paul	\$1,455,179	\$3,503,550	(\$2,048,371)	-58.5%
Spring Lake Park	\$289,249	\$441,437	(\$152,188)	-34.5%
Staples	\$517,426	\$767,447	(\$250,021)	-32.6%
Stewartville	\$633,848	\$682,916	(\$49,068)	-7.2%
Stillwater	\$1,993,042	\$1,655,664	\$337,378	20.4%
St. Anthony	\$824,218	\$527,441	\$296,777	56.3%
St. Charles	\$516,523	\$430,261	\$86,262	20.0%
St. Cloud	\$5,695,340	\$8,058,470	(\$2,363,130)	-29.3%
St. Francis	\$648,706	\$112,227	\$536,479	478.0%
St. James	\$359,361	\$880,011	(\$520,650)	-59.2%
St. Joseph	\$525,198	\$430,821	\$94,377	21.9%
St. Louis Park	\$0	\$4,575,228	(\$4,575,228)	-100.0%
St. Michael	\$371,324	\$207,973	\$163,351	78.5%
St. Paul	\$53,692,487	\$58,631,063	(\$4,938,576)	-8.4%
St. Paul Park	\$703,682	\$607,808	\$95,874	15.8%
St. Peter	\$1,199,492	\$1,488,852	(\$289,360)	-19.4%
Thief River Falls	\$1,288,580	\$1,585,105	(\$296,525)	-18.7%
Two Harbors	\$256,964	\$1,138,485	(\$881,521)	-77.4%
Vadnais Heights	\$0	\$292,076	(\$292,076)	-100.0%
Virginia	\$1,037,922	\$4,180,481	(\$3,142,559)	-75.2%
Waconia	\$320,735	\$457,933	(\$137,198)	-30.0%
Wadena	\$642,323	\$672,423	(\$30,100)	-4.5%
Waite Park	\$386,976	\$523,732	(\$136,756)	-26.1%
Waseca	\$1,281,523	\$1,659,743	(\$378,220)	-22.8%

City	CORE aid	1990 Aid	Difference in aid amounts	Percent change in aid
Wayzata	\$0	\$77,188	(\$77,188)	-100.0%
West St. Paul	\$0	\$2,025,319	(\$2,025,319)	-100.0%
White Bear Lake	\$1,881,631	\$1,570,652	\$310,979	19.8%
Willmar	\$3,218,809	\$2,778,806	\$440,003	15.8%
Windom	\$792,992	\$962,858	(\$169,866)	-17.6%
Winona	\$3,410,464	\$5,816,747	(\$2,406,283)	-41.4%
Woodbury	\$1,662,530	\$1,087,523	\$575,007	52.9%
Worthington	\$706,346	\$2,463,761	(\$1,757,415)	-71.3%
<b>Total</b>	<b>\$279,685,062</b>	<b>\$419,267,570</b>	<b>(\$139,582,508)</b>	<b>-33.3%</b>

## G. TRANSITION RESULTS

- Over half the cities of more than 2,500 population that would have received less aid in 1990 would complete their phase-in period within two years. That is, 67 cities, or 55 percent of the 123 cities with aid decreases, would have experienced an aid decrease of 10 percent or less of their total 1990 revenues. By the end of the third year of transition, almost 72 percent of the cities that would have received less aid would have completed the transition to the new aid formula amounts.
- Only 19 cities, or 15.5 percent of the 123 cities that would have received less aid, would have had aid changes of more than 20 percent of their revenues. These cities would be allowed more than four years to phase in their aid changes.
- More than half of the 53 cities that would have received more aid would complete the transition period by the second year. That is, 28 cities, or 53 percent of the cities that would have received more aid, would have had an increase that was less than 10 percent of their 1990 revenues.
- Twelve cities of the 53 would have had aid increases greater than 20 percent of their 1990 revenues. These cities would have transition periods longer than four years.

### Comparison of total 1990 revenues with changes in aid

Type of aid change	Number of cities	1990 total revenues	Aid change	Change as % of revenues	Number of cities with more than 3 years of transition	Average number of transition years
No change	4	\$27,363,696	\$0	0%	0	0
More aid	53	\$324,761,098	\$26,066,425	8%	16 (30%)	2.1
Less aid	123	\$1,809,847,208	\$-165,194,192	-9.1%	35 (28%)	2.2
<b>TOTAL</b>	<b>180</b>	<b>\$2,161,972,002</b>	<b>\$-139,127,766</b>	<b>-6.4%</b>	<b>51 (28%)</b>	<b>2.2</b>

Aid change amounts have been adjusted for the 50 percent maximum, which resulted in \$598,303 less in general purpose aid for three cities that would have received more aid under the CORE formula than in 1990.

The City of Delano is not included in these tables because it did not submit data to the state auditor in 1990.

Total revenues are the actual revenues cities received in 1990, including all intergovernmental aid. Total revenues do not include borrowed funds.

### Cities that would have received more aid in 1990

Transition year	Aid change	% of total change	Number of affected cities	% of total affected cities
First year	\$11,162,565	43%	53	100%
Second year	\$6,029,018	23%	37	70%
Third year	\$2,891,861	11%	25	47%
All remaining years	\$5,982,982	23%	16	30%
<b>TOTAL</b>	<b>\$26,066,426</b>	<b>100%</b>	<b>53</b>	<b>100%</b>

### Cities that would have received less aid in 1990

Transition year	Aid change	% of total change	Number of affected cities	% of total affected cities
First year	-\$73,486,072	45%	123	100%
Second year	-\$48,132,586	29%	86	70%
Third year	-\$31,836,529	19%	56	46%
All remaining years	-\$11,739,005	7%	35	28%
<b>TOTAL</b>	<b>-\$165,194,192</b>	<b>100%</b>	<b>123</b>	<b>100%</b>

### Cities that reach the 50 percent maximum

City	1990 revenues excluding LGA	CORE aid	CORE aid with 50% limit	Decrease in CORE aid	%
Afton	\$551,297	\$578,321	\$551,297	\$-27,024	-4.7%
Dayton	\$863,185	\$1,052,182	\$863,185	\$-188,997	-18%
East Bethel	\$1,302,753	\$1,685,036	\$1,302,753	\$-382,283	-22.7%
<b>TOTAL</b>	<b>\$3,274,511</b>	<b>\$3,315,538</b>	<b>\$2,717,235</b>	<b>\$-598,303</b>	<b>-18%</b>

For this table, 1990 revenues exclude LGA, HACA, DRA, and EA.

## H. COMPARISON OF BASIC REVENUE-RAISING CAPACITY WITH BASIC SPENDING NEED

City	Basic spending need (BSN)	Revenue- raising capacity (RRC)	Difference between RRC and BSN
Afton	\$1,437,267	\$858,946	\$578,321
Albert Lea	\$6,849,138	\$4,309,753	\$2,539,385
Alexandria	\$3,789,375	\$2,467,704	\$1,321,671
Andover	\$6,323,312	\$4,385,373	\$1,937,939
Anoka	\$6,014,336	\$4,601,356	\$1,412,980
Apple Valley	\$12,268,506	\$10,570,169	\$1,698,337
Arden Hills	\$3,745,422	\$4,395,405	(\$649,983)
Austin	\$8,937,958	\$5,337,249	\$3,600,709
Baxter	\$1,608,903	\$1,009,116	\$599,787
Bayport	\$1,299,599	\$1,071,659	\$227,940
Belle Plaine	\$1,245,697	\$619,993	\$625,704
Bemidji	\$5,188,693	\$2,858,766	\$2,329,927
Benson	\$982,624	\$573,118	\$409,506
Big Lake	\$1,164,414	\$712,405	\$452,009
Blaine	\$12,059,336	\$10,781,518	\$1,277,818
Bloomington	\$42,080,342	\$51,520,332	(\$9,439,990)
Blue Earth	\$1,337,035	\$1,255,377	\$81,658
Brainerd	\$4,759,644	\$3,150,075	\$1,609,569
Breckenridge	\$1,209,912	\$654,662	\$555,250
Brooklyn Center	\$12,905,870	\$10,918,798	\$1,987,072
Brooklyn Park	\$21,908,065	\$16,007,364	\$5,900,701
Buffalo	\$2,573,570	\$1,490,937	\$1,082,633
Burnsville	\$22,693,984	\$21,884,078	\$809,906
Caledonia	\$1,022,683	\$554,788	\$467,895
Cambridge	\$1,986,130	\$1,228,156	\$757,974

City	Basic spending need (BSN)	Revenue-raising capacity (RRC)	Difference between RRC and BSN
Cannon Falls	\$1,293,358	\$993,709	\$299,649
Champlin	\$6,265,278	\$3,959,133	\$2,306,145
Chanhassen	\$4,692,897	\$4,858,217	(\$165,320)
Chaska	\$4,436,982	\$5,731,132	(\$1,294,150)
Chisholm	\$2,288,436	\$1,368,855	\$919,581
Circle Pines	\$1,540,481	\$1,059,493	\$480,988
Cloquet	\$4,945,615	\$2,682,495	\$2,263,120
Columbia Heights	\$7,158,804	\$5,431,014	\$1,727,790
Coon Rapids	\$17,047,922	\$13,199,730	\$3,848,192
Corcoran	\$2,796,841	\$1,136,182	\$1,660,659
Cottage Grove	\$9,817,313	\$5,640,313	\$4,177,000
Crookston	\$2,894,666	\$1,750,700	\$1,143,966
Crystal	\$9,168,864	\$6,703,604	\$2,465,260
Dayton	\$1,945,489	\$893,307	\$1,052,182
Deephaven	\$1,592,964	\$1,851,373	(\$258,409)
Delano	\$901,077	\$877,754	\$23,323
Detroit Lakes	\$2,880,590	\$1,824,439	\$1,056,151
Dilworth	\$899,378	\$437,197	\$462,181
Duluth	\$43,764,968	\$21,380,570	\$22,384,398
Eagan	\$18,192,314	\$20,623,273	(\$2,430,959)
East Bethel	\$3,513,714	\$1,828,678	\$1,685,036
East Grand Forks	\$3,092,955	\$2,845,416	\$247,539
Eden Prairie	\$17,884,993	\$23,046,519	(\$5,161,526)
Edina	\$21,292,432	\$27,777,478	(\$6,485,046)
Elk River	\$4,563,296	\$3,904,822	\$658,474
Ely	\$1,636,642	\$824,901	\$811,741
Eveleth	\$1,431,361	\$1,089,261	\$342,100

City	Basic spending need (BSN)	Revenue- raising capacity (RRC)	Difference between RRC and BSN
Fairmont	\$5,003,138	\$2,944,522	\$2,058,616
Falcon Heights	\$2,201,007	\$1,541,026	\$659,981
Faribault	\$7,622,048	\$4,174,552	\$3,447,496
Farmington	\$2,427,648	\$1,447,389	\$980,259
Fergus Falls	\$4,527,104	\$2,850,660	\$1,676,444
Forest Lake	\$2,415,176	\$1,847,149	\$568,027
Fridley	\$9,914,889	\$11,883,291	(\$1,968,402)
Glencoe	\$1,675,187	\$961,799	\$713,388
Glenwood	\$881,763	\$426,324	\$455,439
Golden Valley	\$10,930,109	\$14,038,156	(\$3,108,047)
Goodview	\$1,102,862	\$627,156	\$475,706
Grand Rapids	\$3,784,567	\$3,069,628	\$714,939
Granite Falls	\$1,009,347	\$725,727	\$283,620
Ham Lake	\$3,360,297	\$1,862,281	\$1,498,016
Hastings	\$5,812,430	\$4,045,728	\$1,766,702
Hermantown	\$3,380,863	\$2,561,977	\$818,886
Hibbing	\$9,370,470	\$5,182,967	\$4,187,503
Hopkins	\$7,223,478	\$6,530,756	\$692,722
Hugo	\$1,864,540	\$1,186,858	\$677,682
Hutchinson	\$4,648,168	\$3,004,199	\$1,643,969
Independence	\$1,604,958	\$763,618	\$841,340
International Falls	\$3,069,945	\$1,948,904	\$1,121,041
Inver Grove Heights	\$8,338,963	\$7,866,983	\$471,980
Jackson	\$1,056,022	\$1,140,033	(\$84,011)
Jordan	\$1,118,181	\$517,019	\$601,162
Kasson	\$1,128,881	\$659,296	\$469,585
La Crescent	\$1,181,691	\$734,232	\$447,459
Lake City	\$1,452,831	\$1,162,379	\$290,452

City	Basic spending need (BSN)	Revenue- raising capacity (RRC)	Difference between RRC and BSN
Lake Elmo	\$2,576,029	\$1,863,850	\$712,179
Lakeville	\$9,719,035	\$8,622,636	\$1,096,399
Lauderdale	\$1,069,021	\$620,804	\$448,217
Le Sueur	\$1,229,034	\$741,623	\$487,411
Lino Lakes	\$3,274,059	\$2,203,105	\$1,070,954
Litchfield	\$2,168,397	\$1,282,774	\$885,623
Little Canada	\$3,486,292	\$3,149,233	\$337,059
Little Falls	\$3,344,196	\$2,173,758	\$1,170,438
Long Prairie	\$1,016,966	\$601,458	\$415,508
Luverne	\$1,277,533	\$854,706	\$422,827
Mahtomedi	\$2,247,087	\$1,586,150	\$660,937
Mankato	\$16,741,708	\$8,137,748	\$8,603,960
Maple Grove	\$16,101,934	\$13,818,064	\$2,283,870
Maplewood	\$11,065,739	\$12,465,857	(\$1,400,118)
Marshall	\$4,322,048	\$3,804,435	\$517,613
Medina	\$1,701,586	\$1,611,310	\$90,276
Melrose	\$994,427	\$786,549	\$207,878
Mendota Heights	\$4,303,023	\$4,585,702	(\$282,679)
Minneapolis	\$197,111,473	\$174,662,101	\$22,449,372
Minnetonka	\$21,227,686	\$30,213,676	(\$8,985,990)
Minnetrista	\$1,761,434	\$1,416,248	\$345,186
Montevideo	\$2,336,168	\$1,082,730	\$1,253,438
Monticello	\$2,053,987	\$4,625,988	(\$2,572,001)
Moorhead	\$10,703,454	\$7,995,465	\$2,707,989
Mora	\$1,064,537	\$677,783	\$386,754
Morris	\$2,226,425	\$849,561	\$1,376,864
Mound	\$4,086,232	\$3,102,235	\$983,997

City	Basic spending need (BSN)	Revenue- raising capacity (RRC)	Difference between RRC and BSN
Mounds View	\$4,201,530	\$3,387,730	\$813,800
Mountain Iron	\$1,348,975	\$1,286,945	\$62,030
New Brighton	\$7,636,542	\$9,007,535	(\$1,370,993)
New Hope	\$9,225,265	\$8,967,275	\$257,990
New Prague	\$1,403,243	\$706,392	\$696,851
New Ulm	\$4,916,546	\$3,529,226	\$1,387,320
Newport	\$1,500,623	\$1,208,030	\$292,593
North Mankato	\$3,644,408	\$2,709,781	\$934,627
North Oaks	\$1,552,433	\$1,647,269	(\$94,836)
North St. Paul	\$4,458,341	\$2,953,938	\$1,504,403
Northfield	\$5,588,316	\$3,192,434	\$2,395,882
Oak Park Heights	\$1,477,795	\$2,191,987	(\$714,192)
Oakdale	\$7,611,838	\$5,339,014	\$2,272,824
Olivia	\$1,036,227	\$559,438	\$476,789
Orono	\$3,376,521	\$4,135,838	(\$759,317)
Osseo	\$1,319,116	\$849,269	\$469,847
Owatonna	\$7,175,243	\$5,528,674	\$1,646,569
Park Rapids	\$1,092,804	\$682,761	\$410,043
Pine City	\$905,856	\$624,130	\$281,726
Pipestone	\$1,271,580	\$793,637	\$477,943
Plainview	\$921,091	\$549,731	\$371,360
Plymouth	\$22,065,114	\$27,088,652	(\$5,023,538)
Princeton	\$1,104,617	\$906,655	\$197,962
Prior Lake	\$4,322,089	\$3,339,429	\$982,660
Proctor	\$1,149,213	\$469,049	\$680,164
Ramsey	\$4,623,492	\$3,195,198	\$1,428,294
Red Wing	\$6,748,094	\$9,088,563	(\$2,340,469)
Redwood Falls	\$1,502,230	\$1,029,928	\$472,302

City	Basic spending need (BSN)	Revenue- raising capacity (RRC)	Difference between RRC and BSN
Richfield	\$14,094,176	\$12,109,567	\$1,984,609
Robbinsdale	\$5,882,625	\$3,800,149	\$2,082,476
Rochester	\$32,655,576	\$23,586,027	\$9,069,549
Rockford	\$881,032	\$464,418	\$416,614
Rosemount	\$3,777,159	\$3,561,321	\$215,838
Roseville	\$12,460,099	\$16,975,198	(\$4,515,099)
Sartell	\$1,632,301	\$1,546,470	\$85,831
Sauk Centre	\$1,340,136	\$653,272	\$686,864
Sauk Rapids	\$3,021,777	\$1,650,398	\$1,371,379
Savage	\$3,441,637	\$3,151,209	\$290,428
Shakopee	\$4,508,006	\$5,633,805	(\$1,125,799)
Shoreview	\$7,565,041	\$8,662,436	(\$1,097,395)
Shorewood	\$2,413,687	\$2,477,063	(\$63,376)
Sleepy Eye	\$1,210,061	\$714,462	\$495,599
South St. Paul	\$7,023,666	\$5,568,487	\$1,455,179
Spring Lake Park	\$2,528,797	\$2,239,548	\$289,249
Staples	\$1,066,740	\$549,314	\$517,426
Stewartville	\$1,645,835	\$1,011,987	\$633,848
Stillwater	\$6,285,017	\$4,291,975	\$1,993,042
St. Anthony	\$3,513,548	\$2,689,330	\$824,218
St. Charles	\$1,034,934	\$518,411	\$516,523
St. Cloud	\$21,083,786	\$15,388,446	\$5,695,340
St. Francis	\$1,129,198	\$480,492	\$648,706
St. James	\$1,269,809	\$910,448	\$359,361
St. Joseph	\$1,109,325	\$584,127	\$525,198
St. Louis Park	\$17,864,185	\$18,623,840	(\$759,655)
St. Michael	\$804,700	\$433,376	\$371,324

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City	Basic spending need (BSN)	Revenue- raising capacity (RRC)	Difference between RRC and BSN
St. Paul	\$151,634,750	\$97,942,263	\$53,692,487
St. Paul Park	\$1,737,320	\$1,033,638	\$703,682
St. Peter	\$3,110,089	\$1,910,597	\$1,199,492
Thief River Falls	\$3,165,557	\$1,876,977	\$1,288,580
Two Harbors	\$1,009,986	\$753,022	\$256,964
Vadnais Heights	\$3,674,886	\$4,439,813	(\$764,927)
Virginia	\$4,774,085	\$3,736,163	\$1,037,922
Waconia	\$1,611,757	\$1,291,022	\$320,735
Wadena	\$1,370,197	\$727,874	\$642,323
Waite Park	\$1,959,896	\$1,572,920	\$386,976
Waseca	\$3,139,382	\$1,857,859	\$1,281,523
Wayzata	\$1,822,341	\$2,812,397	(\$990,056)
West St. Paul	\$6,492,031	\$6,684,935	(\$192,904)
White Bear Lake	\$8,764,345	\$6,882,714	\$1,881,631
Willmar	\$7,878,854	\$4,660,045	\$3,218,809
Windom	\$1,596,996	\$804,004	\$792,992
Winona	\$9,542,506	\$6,132,042	\$3,410,464
Woodbury	\$9,257,293	\$7,594,763	\$1,662,530
Worthington	\$3,591,369	\$2,885,023	\$706,346

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