

STRONG TOWNS

For those passionate about the future of America's towns and neighborhoods.

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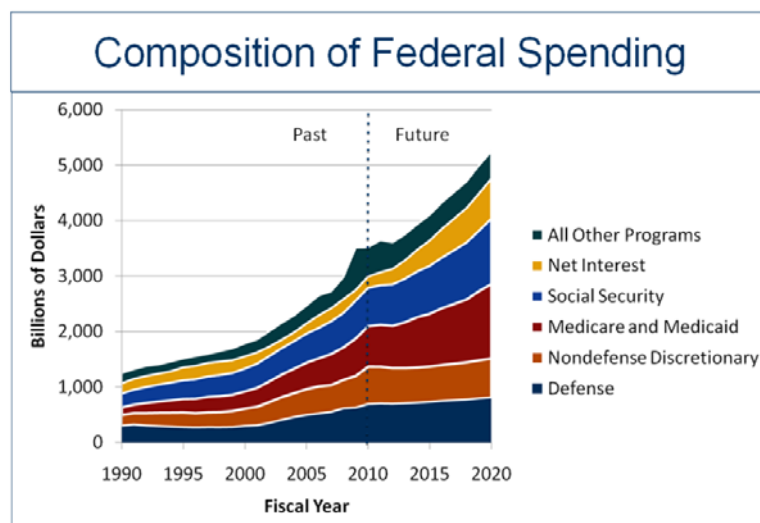
VULNERABLE CITIES:

Reliance On State and Federal Sources Places Minnesota's Cities And Towns At Risk

At Strong Towns, our focus is identifying ways communities can improve and strengthen, and how local leaders can most effectively cultivate a secure, prosperous future. As we've outlined in examples in Strong Towns Blog posts and in our [Placemaking Principles](#) on the website, Strong Towns are financially durable. Residents are able to reduce costs associated with inefficient land use, transportation and development, and reinvest these savings to strengthen their long-term position in the global marketplace.

Our latest analysis, "Minnesota's Most Vulnerable Cities," illustrates that many local governments are exposed to a risky dependence on state and federal funding that grows less sustainable – and less predictable – by the year. Many local governments have developed a financial structure that's highly exposed to the risk that state and federal funding diminishes in the future. These communities rely on state and federal funds to provide services that include streets and highways, parks and open spaces, economic development and public safety.

With a growing, structural state budget shortfall, Minnesota is likely to reduce aid to local governments in the 2010 legislative session and beyond; cuts passed this legislative session will reduce local government aid (LGA) to Minnesota cities by \$113 million in the next three years; this compounds cuts



Sources: Data from the Congressional Budget Office *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, and from Office of Management and Budget *Historical Tables: Fiscal Year 2010*. Compiled by PGPF.

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exceeding 30% in LGA between 2002 and 2007.¹ State funding of local government activities has waned, placing intense pressure on cities to reduce services and raise revenue using their primary source of local funding: Property taxes. All of this takes place in the context of ongoing budget shortfalls, with significant deficits projected for the 2012-13 biennium.

As a long-term partner to Minnesota cities, the federal government's involvement also appears likely to be increasingly strained by fiscal limits. The burden of programs for defense and health care will continue to rise, placing demands on funding for cities across the country. Aids and grants to local governments will fall as the burden of entitlement programs and debt service powerfully squeeze the national purse.

Consider with us the following question: If state and federal aids disappeared tomorrow, and citizens wished to maintain the same level of services, how large a property tax increase would be required? How vulnerable are communities to federal and state revenue reductions?

- The 50 Minnesota cities most reliant on state and federal aids and grants are all cities with population under 5,000.
- In Browns Valley, Minnesota (one of the state's most reliant cities on state and federal funds for its operations), a typical homeowner would have his or her property taxes increase 170%, from roughly \$3,560 to over \$9,690.²
- Minnesota's two biggest cities – Minneapolis and St. Paul – are each less reliant on state and federal revenues than the state median. The state median impact of removing state and federal aids is a \$813 property tax increase for a typical household.

Some of our colleagues will respond that this is a spending problem, and others will argue that local governments are forced to rely on state and federal sources because their primary funding mechanism – property taxes – is insufficient to provide the

¹ Jeff Van Wychen. 2002-7 figures are inflation-adjusted.

² Reflects homestead property taxes (city only) on a median-priced home, using rates for taxes payable in 2009.

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services their citizens demand. Our view at Strong Towns is that both perspectives are accurate.

It's a revenue problem because property taxes are clumsy, regressive mechanisms that create a direct disincentive to more efficient land use. It's a spending problem because we as citizens are accustomed to consuming local police protection, clean water and well-maintained streets which we do not fully fund through local property taxation.

It's also a productivity problem. The most vulnerable Minnesota places produce local tax revenues that are less than what voters there demand. Using state and federal subsidy to meet core public needs is a way of addressing inequities, perceived or real. It also effectively tables discussion of how communities need to redesign their physical layout, infrastructure, or human capital to fund a higher percentage of total public services consumed.

How do cities manage the risk inherent to reliance on state and federal revenues? Every community is unique. A sample of ideas that may strengthen many Minnesota places includes this pair:

- Reflect Minnesota's tradition of local control in governance with expanded responsibility for fiscal affairs, and an expanded tool box for boosting productivity in the process. The ability to establish local sales taxes, for example, will give authority for public investment in places to the people who know and care most about those places: Local leaders. A marketplace for attractive, effective, productive places will come into focus for residents and owners of homes, property and businesses – and this marketplace will replace political rhetoric in defining ideal levels of public and private investment in communities.
- Minnesota requires cities in the seven-county metropolitan region to develop and submit a decennial comprehensive plan, addressing current conditions and future projected needs for transportation, land use, water and sewers, and parks and open space. An implementation section is also mandated to “describe public programs, fiscal devices and other specific actions to be undertaken in stated sequence to implement the comprehensive plan.”³ All of Minnesota's cities would benefit from concerted comprehensive planning – in fact, some of the

³ M.S. 473.859, Subd. 2-4.

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most acute needs for thoughtful planning exist outside of the seven-county area. Moreover, it is critical to raise our land use patterns and development goals as part of a community discussion about the future. Strong Towns couple development (and redevelopment) planning with detailed financial analysis, so that liabilities in the long and short term are funded – without reliance on state and federal aids.

We also may need to face the reality that some of our most vulnerable cities are not viable in a 21st Century Minnesota. This is a difficult subject, but one that should be examined in the face of rising budget constraints.

The primary challenge to fiscal health involves revenues, spending, and productivity. Our level of economic growth, our system of state and federal support, have until recently insulated us from this reality: Minnesota's places need to become more productive. Our land use must make the most of existing infrastructure. Our expectations for what public services we consume must better reflect what we are willing to fund locally.

The intent of programs that share state and federal revenue with local governments is generally to address inequities across the state or its regions, and to ensure that essential public services are provided to citizens in hamlets and large cities alike. This is a critical element of a fair, productive system of taxation and public investment.

Still, communities' reliance on state and federal revenues is a wanton gamble, both for the cities themselves and for the state and federal taxpayers on the other end of the bargain. As these revenues diminish due to political and budget pressure, communities must be prepared to rely primarily on local revenues to fund their activities.

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Attached: List of Minnesota cities by tax impact and by alphabetical order.

The mission of Strong Towns is to support a model for growth that allows America's towns to become financially strong and self-sufficient. We're a nonpartisan, nonprofit organization advocating for a new model of development that allows America's towns to become financially strong and self-sufficient. Visit [Strong Towns online](#), on [Twitter](#), and on [Facebook](#).