



Budget-Balancing Strategies for Cities: A Resource Guide

Introduction

Minnesota cities have faced difficult financial circumstances in recent years. In 2003, the state Legislature made substantial reductions to Local Government Aid (LGA) and Market Value Homestead Credit (MVHC) reimbursements to cities. At the same time, cities over 2,500 population faced severe levy limits through 2004. Due to the state's budget troubles, cities lost LGA through unallotment and legislative action in December 2008, 2009 and 2010. The 2011 special session resulted in cuts to 2011 and 2012 payments as well as a permanent reduction to the LGA appropriation. The 2012 legislature passed an LGA freeze for 2013 distributions. Beginning in 2013, increases have been made to the LGA appropriation - \$80 million for 2014 and about \$8 million for 2015 and beyond. While the MVHC reimbursement program was eliminated beginning with taxes payable in 2012 the Legislature and the governor made significant reductions to the reimbursement amounts for cities between 2003 and 2011. Going forward, qualifying homeowners will receive a partial homestead market value exclusion instead of the credit offset.

Cities over 2,500 population faced levy limits in 2009, 2010, and 2011 and in 2014. There are no levy limits for 2015 or 2016 under current law. However, additional budget pressures also come from larger economic trends such as the slow recovery in the housing market, continuing residential foreclosures and the rising cost of energy, forcing cities to look for new ways to balance the budget and meet their needs efficiently.

Cities faced with difficult financial circumstances often employ a combination of strategies for meeting these challenges, including:

- Reducing or even eliminating some services
- Increasing reliance on user fees and other non-aid, non-tax sources of revenue
- Developing a transitional fiscal strategy
- Pursuing alternative service delivery methods
- Finding more efficient ways to operate the city

Each strategy has its attractions, but also complications and pitfalls for the unwary. This guide lists resources offered by the League and other organizations that may be helpful to cities in evaluating the various strategies. Resources are grouped into the following broad categories:

- Reducing or Eliminating Services
- Revenue Enhancements
- Transitional Fiscal Strategies
- Alternative Service Delivery Methods
- Consolidation
- Other Strategies for Efficiency

Reducing or Eliminating Services

Budget challenges from declining LGA, economic forces, increasing energy costs and the housing downturn and foreclosure crisis may lead cities around the state to contemplate cuts to services, capital improvements, and/or personnel.

League Resources

- [HR Reference Manual](#)
 - Chapter 6, [Personnel Policies](#), includes questions a city should consider in preparation for layoffs.
 - Chapter 4, [Compensation & Benefits](#), contains a section on continuation of benefits which is relevant for cities considering layoffs.
- [Meetings of City Councils](#) (pdf)
Reducing staff or services can introduce important liability considerations for the city. This memo includes a discussion on immunity and the importance of recordkeeping. See section III-B-3, *Making a good record*.
- [LMCIT Liability Coverage Guide](#) (pdf)
If a city opts to use volunteers following layoffs, there may be important liability concerns. These concerns are covered in section III-U, *Volunteers* of this memo from the League of Minnesota Cities Insurance Trust.
- [Reducing LMCIT Premium Costs](#) (pdf)

Other resources

- Equal Employment Opportunity Commission
<http://www.eeoc.gov>
Cities considering using early retirement incentives should visit the EEOC website to learn more about necessary requirements for this strategy.
- Minnesota Unemployment Insurance Employer Handbook
<http://www.uimn.org/uimn/employers/publications/emp-hbook/index.jsp>
The handbook provides information on estimating an employee's potential unemployment benefits.
- Minnesota Department of Employment and Economic Development
<http://www.deed.state.mn.us/index.htm>

Revenue Enhancements

Cities faced with budget challenges may consider enhancements to revenue. Cities may institute new fees and service charges as well as raise existing fees. Cities may also pursue the refund available for tax on gasoline used in vehicles for off-highway business use. Raising the property tax can be difficult due to levy limits and taxpayer resistance to increases. Cities over 2,500 were subject to levy limits for 2009, 2010, and 2011 and 2014.

League Resources

- [*LMC Handbook for Minnesota Cities*](#)
 - Chapter 20, [*Sources of Revenue*](#)
 - Chapter 22, [*Property Tax Levy*](#)
- [*Budget Guide for Cities*](#) (pdf)
Includes fuel tax forms in appendices H & I
- [*Ideas for Generating Alternative Revenues*](#) (pdf)

Other Resources

- [*Revenue Recapture Program*](#), MN Department of Revenue

Transitional Fiscal Strategies

Cities may consider different fiscal strategies to meet fiscal challenges. As part of a single- or multi-year strategy, cities could decide to use fund balances, increase their reliance on debt, or pursue a combination of these options.

League Resources

- [*City Fund Balances 101*](#) (pdf)
Provides an overview on how the state auditor reports fund balances, uses for fund balances, and the role of a fund balance in a city's overall financial health.
- [*LMC Handbook for Minnesota Cities, Chapter 24: Debt and Borrowing*](#)

Alternative Service Delivery Methods

Cities may look at alternative ways to meet the needs of residents and businesses in their communities. Cities in Minnesota have the authority to enter into joint powers agreements with other cities, counties, townships, school districts, and special purpose districts ([MS 471.59](#), Joint Powers Act).

While some cities are considering cooperative agreements with other local governments, private entities or community organizations for the first time, many cities have been collaborating with public and private entities for several years. There are several different ways to deliver services that cities can consider: entering into cooperative agreements or contracts with other units of local government, consolidating with other local units, and contracting out to the private sector. Utilizing volunteers is another option for cities looking for alternative ways to deliver services.

League Resources

- [City Collaboration Lookup Tool](#)
The League developed this interactive tool to that allows users to search for city examples of collaboration by service category or city name.
- [LMC Handbook for Minnesota Cities, Chapter 17: Intergovernmental Cooperation](#) (pdf)
- [Intergovernmental Cooperative Agreements memo](#) (pdf)
- [LMCIT Liability Coverage Guide](#) (pdf) See Section III-I: Joint powers entities
- [LMCIT Model Mutual Aid Agreement](#) (pdf)
- [Making and Managing City Contracts](#) (pdf)
- [LMCIT Liability Coverage Guide](#) (pdf)
- [LMCIT Workers' Compensation Coverage Guide](#) (pdf)

Other Resources

- [Best practices reviews](#), Office of the Legislative Auditor
Features examples of and recommendations for cooperation (fire services, snow and ice removal, 911 dispatching, local e-government).
- Office of the State Auditor
 - [Best Practices Review: Cooperative Efforts in Public Service Delivery](#)
 - [Best Practices Review: Collaboration, Part 1: Initiating, Building and Maintaining Governmental Relationship](#)
 - [Best Practices Review: Collaboration, Part 2: Getting it Right](#)
- Saint Paul Area Chamber of Commerce
<http://saintpaulmncoc.weblinkconnect.com/cwt/external/wcpages/wcwebcontent/webcontentpage.aspx?contentid=162>

2008 Shared Services Survey of Ramsey County Cities, School Districts, County and City of Oakdale (pdf)

- [Advancing Engagement of Volunteers by Cities](#), Minnesota Association for Volunteer Administration (MAVA)
A collection of resources on starting or building a volunteer program in cities. This collection was established as part of MAVA research project funded by a Bush Foundation Community Innovation Grant.

Consolidation

Minnesota cities are granted the authority to consolidate with other cities and/or with townships ([MS 414.041](#)). Consolidation is one way that local units can try to save administrative costs and reduce duplication. By combining to form a larger unit of government, small jurisdictions can achieve economies of scale for providing services. In order to pursue consolidation, cities must share a common boundary with at least one of the other cities participating. Recently consolidated cities include Norwood Young America (1996), Rockville (2001), and Elko-New Market (2007).

League resources

- [Handbook for Minnesota Cities: Chapter 2, Change of Boundaries, Status, and Name](#)

Other Strategies for Efficiency

Local units of government are granted the authority to purchase supplies or equipment without going through the competitive bidding process if they form a joint powers agreement to make purchases through a national municipal association's purchasing alliance or cooperative ([MS 471.345](#) subd. 15). The purchases under such an agreement must be made from more than one supplier on the basis of competitive bids or quotations. Cities can also take advantage of joint purchasing programs established by other units of government to make purchases of supplies, equipment or materials.

Cities may also utilize various technology applications to increase the efficiency of city services. Technology can potentially speed up government processes and improve the quality of services. Automating services can save significant staff time. Further, if services are available online at any time, citizens may be able to more easily access information and services.

League resources

- [Competitive Bidding Requirements in Cities](#) (pdf)
Includes a section on the application of joint powers in purchasing.
- [GovOffice Web Site Development Tool](#)
Developed by the League along with private vendors, GovOffice is designed to enable cities to create websites and administer them easily and with flexibility. Cities can post information on city services, provide online forums for citizens to submit information and feedback, and conduct opinion polls online.

Other resources

- Minnesota Cooperative Purchasing Venture
<http://www.mmd.admin.state.mn.us/cpv2.htm>
The Cooperative Purchasing Venture (CPV) allows members to make purchases of different supplies under contracts that the state has established through its bidding processes. There is no membership fee. Any local unit of government is eligible for membership in the program. Items commonly purchased through CPV have included vehicles, large tractors and trucks, computers, and office supplies.
- Local Government Information Systems (LOGIS)
<http://www.logis.org/>
LOGIS enables cities to share in the costs of data processing. Consortium members can take advantage of hardware and software purchasing services, consultation and planning services, and installation and monitoring services. Members may also receive website hosting and high-speed Internet access.