



# State of the **Cities** REPORT 2008

City Fiscal Conditions,  
Effects of the Foreclosure Crisis,  
& Pursuit of Energy Efficiency



State  
of  
the **Cities**  
REPORT  
2008

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## **State of the Cities Report 2008**

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## Report Highlights

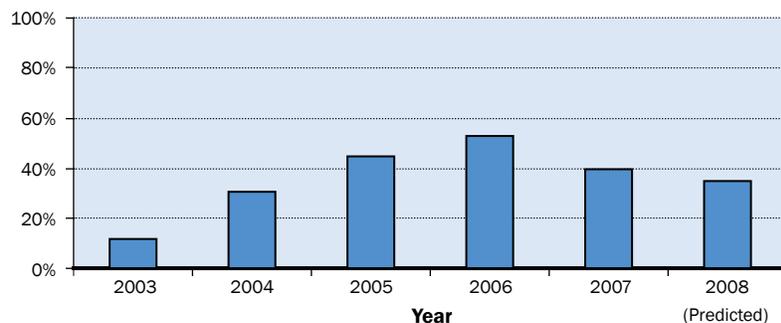
This is the sixth annual *State of the Cities Report*. It describes the findings of the annual fiscal conditions survey, and explores two issues affecting city fiscal conditions: the foreclosure crisis and the pursuit of energy efficiency. Highlights from the report are listed below.

### Chapter 1: City Fiscal Conditions

For the fourth consecutive year, several other state leagues participated in the survey project, allowing for comparisons between Minnesota cities and cities in other states. As the survey reveals, cities are feeling the effects of several challenges, including the lagging economy, increasing health care costs, the bursting of the housing bubble, the foreclosure crisis, rising energy costs, and the state budget. Highlights of Chapter 1 include:

- The share of Minnesota cities reporting improved fiscal conditions in 2007 dropped sharply from slightly more than half in 2006 to 40 percent (see Chart RH-A). The share of cities optimistic about their financial circumstances in 2008 falls even further. This is the smallest share of cities better able to meet financial needs since 2004, the year following a 25 percent cut in state aid.

**Chart RH-A: Percentage of Minnesota cities better able to meet financial needs**



- Cities in other North Central states show a similar pattern to Minnesota cities in the shares reporting worsening fiscal conditions in 2007 and predicted for 2008.
- The share of cities reporting shortfalls increased across all revenue categories; the greatest increase was in the fees and charges category (see Table RH-A). Many cities affected by the foreclosure crisis are experiencing delinquent utility bills. The housing slump is hurting city revenues through a decline in building permit fees.

**Table RH-A: Percentage of Minnesota cities reporting revenue shortfalls\***

	Property taxes	Fees and charges	Sales tax	Local income tax	Lodging and restaurant taxes	State revenues	Federal revenues
2003	28%	17%	3%	n/a	5%	82%	12%
2004	27%	24%	1%	0%	3%	55%	8%
2005	40%	25%	3%	2%	4%	39%	12%
2006	40%	33%	4%	2%	4%	31%	13%
2007	43%	36%	6%	3%	5%	35%	15%

(\*combines shortfalls of greater than and less than 10% of expected revenues)

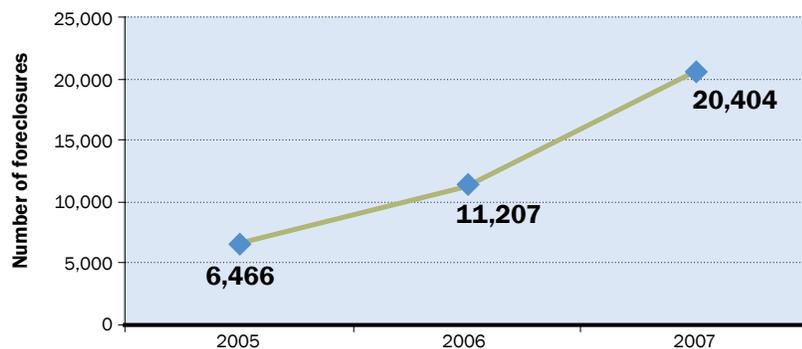
- Budget pressures that increased for most cities in 2007 include infrastructure needs; the cost of employee pensions; and prices, cost of living, and inflation. Cities reporting increases in infrastructure needs and in prices, cost of living, and inflation were more likely to report being less likely to meet financial needs.
- The most common budget-balancing actions taken by Minnesota cities in 2007 were revenue increases such as raising fees or property taxes, increases in efficiency through cooperative agreements with other local governments, and draws on budget reserves.
- Cities in Minnesota rely more heavily on the property tax than do cities in many other states. The share of Minnesota cities that increased property taxes was much greater than the share of other North Central states doing so (79 percent vs. 49 percent).

**Chapter 2: Effects of the Foreclosure Crisis on Cities**

The foreclosure crisis sweeping the country is a major negative trend for cities’ financial health right now. Chapter 2 describes the effects of foreclosures and the housing slump on cities across the state. Highlights of the chapter include:

- Total foreclosures across Minnesota increased 216 percent from 2005 through the end of 2007(see Chart RH-B). Foreclosures are concentrated in the metropolitan region but are occurring statewide.

**Chart RH-B: Total number of foreclosures in Minnesota (2005-2007)**



Source: Housing Link, April 2008.

- Eighty-two percent of the cities responding to the fiscal conditions survey identified one or more negative effects of foreclosures on their communities. Half of these cities reported at least five distinct foreclosure issues.
- The foreclosure issues cited most often by Minnesota cities are: delinquent utility fees and taxes (77 percent of cities with at least one issue); problems collecting delinquent utilities (74 percent); property maintenance issues (62 percent); and delinquent property taxes (50 percent).
- Cities are facing a wide variety of new and additional costs as a result of foreclosures. There is increased demand for public safety services to prevent vandalism and other crimes at vacant homes. There are costs to board up windows and to address neglected maintenance like snow shoveling and garbage removal.

- Vacant foreclosed homes lower the property value of neighboring homes, hurting city tax bases. Minnesota cities are also having revenue problems as a result of foreclosures. Cities experiencing foreclosures are more likely to have seen shortfalls in property tax and fee revenues (see Table RH-B).

**Table RH-B. Revenue shortfalls for cities affected by foreclosures**

	% of cities with at least one foreclosure issue	% of cities overall
Property tax shortfall	45%	43%
Fees, charges, and license shortfall	40%	36%

- The quality of life in many neighborhoods around the state is decreasing as a result of vacant homes and the sight of boarded windows, neglected property maintenance, displaced renters, and fears about crime.
- The dramatic slowdown in housing construction and home sales has affected state and local governments across the country. State sales and income tax returns are lower. Revenues from taxes on real estate transactions are down. Cities have seen significant decreases in building permit fee revenues. In Minnesota, housing starts are down 58 percent from a peak of 41,843 in 2004.
- The foreclosure crisis and related housing slump raise critical questions about the sustainability of heavy reliance on the property tax to fund city services. Taxpayers nationwide, frustrated by the housing market, are increasingly expressing resistance to the property tax.

### Chapter 3: Pursuit of Energy Efficiency

Rising energy costs are increasingly affecting city financial circumstances. Chapter 3 presents several case studies of cities pursuing initiatives to increase their energy efficiency. Highlights of the chapter include:

- Rising energy costs and a growing awareness of climate change have led cities around Minnesota to undertake initiatives to increase their energy efficiency. Fifty-eight percent of Minnesota cities responding to the fiscal conditions survey have implemented at least one initiative to increase their energy efficiency.
- The motivations for undertaking these initiatives vary from city to city. Common goals for many cities include achieving long term cost savings associated with many energy-efficient technologies, combating pollution, and satisfying environmental regulations, creating healthier work environments, and reducing a city's impact on the environment.
- The initiatives undertaken by cities range in scope and cost. Several technologies are easy to implement (e.g., switching to compact fluorescent light bulbs) while others require major renovation to the existing structure (e.g., installing skylights to maximize natural light). The cost savings associated with many energy-efficient building technologies have payback periods of 10 to 15 years or more. This time period may make financial sense when incorporated into buildings that have a long lifespan like municipal facilities and other infrastructure.

- The most frequently cited initiatives by Minnesota cities are: replacing incandescent light bulbs with compact fluorescent ones (56 percent of cities citing at least one initiative), controlling temperature with programmable thermostats (47 percent), using high-efficiency operating systems (39 percent), and installing water-efficient fixtures (24 percent).
- Initiatives that Minnesota cities have implemented to reduce their impact on local air and water quality include: landscaping with native plants (19 percent), using alternative-fuel vehicles (8 percent), collecting stormwater runoff in rain barrels for later use in watering (5 percent), and water recycling through green roofs or pervious paving surfaces (4 percent).
- Seven case studies highlight the range of efforts underway across the state. The cities that agreed to serve as case studies are Anoka, Apple Valley, Elk River, Minneapolis, Northfield, Rushford Village, and Wells. These cities represent different regions of the state, population size, and development patterns. Their stories are offered in order to increase understanding of the various opportunities available for cities to decrease their energy consumption.

# Chapter 1: City Fiscal Conditions

## INTRODUCTION

For the fifth consecutive year the League of Minnesota Cities has asked city officials to report on the fiscal challenges their cities face and the strategies used to address those challenges (see the 2008 survey tool in the appendix). As in the past three years, several other state leagues around the country sent the same fiscal conditions survey to their member municipalities. Overall the response rate to the survey was 36 percent. In Minnesota, the response rate was 56 percent, with 467 cities returning the survey (see the appendix for a list of participating states and response rates). This chapter will discuss the survey results from Minnesota cities, comparing them with both previous data and responses from cities in other North Central states.

With the state budget in trouble, the possibility of state aid cuts weighs heavily on city officials. The state budget is facing a deficit of \$935 million for the 2008-2009 biennium, according to the most recent state budget forecast. Planning estimates for the 2010-2011 budget predict a shortfall of \$1.1 billion. In early February, state economist Tom Stinson commented that the state has entered a recession and that a national recession is likely for the first half of 2008. In 2003, facing a deficit of \$4.5 billion, the Legislature cut local government aid (LGA) by 25 percent. Although funding has been partially restored, it is still far below the 2003 funding level. The current budget forecast raises concern of additional cuts and diminishes hope of further restoration of funding this year.

Cities are facing a wide variety of challenges, some familiar and some new. The lagging economy, increasing health care costs, the bursting of the housing bubble, the foreclosure crisis, rising energy costs, and the state budget are all affecting cities' fiscal outlooks. The foreclosure crisis and housing market collapse are the focus of Chapter 2. Most cities (82 percent) reported that they have experienced at least one issue related to residential foreclosures. The case studies in Chapter 3 highlight actions that cities have taken to positively affect their fiscal conditions by reducing their energy consumption.

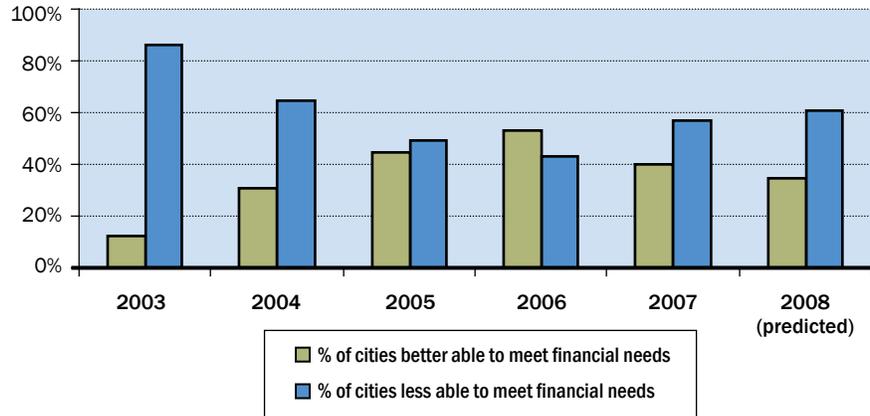
### **In a reversal of the recent trend, the share of Minnesota cities reporting an increased ability to meet their financial needs declines**

The share of Minnesota cities that reported being better able to meet their financial needs fell sharply from 53 percent in 2006 to 40 percent in 2007. This was also a decrease from the share that, on last year's survey, had predicted improved financial conditions for 2007 (47 percent). The picture looks bleak for the year ahead, with just over one in three cities predicting they will be better able to meet needs in 2008. The share of cities predicting improved financial circumstances in 2008 is the lowest since 2004, the year following the drastic cuts to LGA.

*The measure of "better able" or "less able" is a relative comparison between a city's fiscal condition in the current year and in the previous year. In other words, a response of "better able" does not imply that a city's financial circumstances are good, only that they improved over the previous year. Cities are not asked how well they are able to meet needs in any given year.*

Chart 1A shows the shares of Minnesota cities reporting “better able” and “less able” to meet their financial needs over the last several years.

**Chart 1A: Ability of Minnesota cities to meet financial needs**

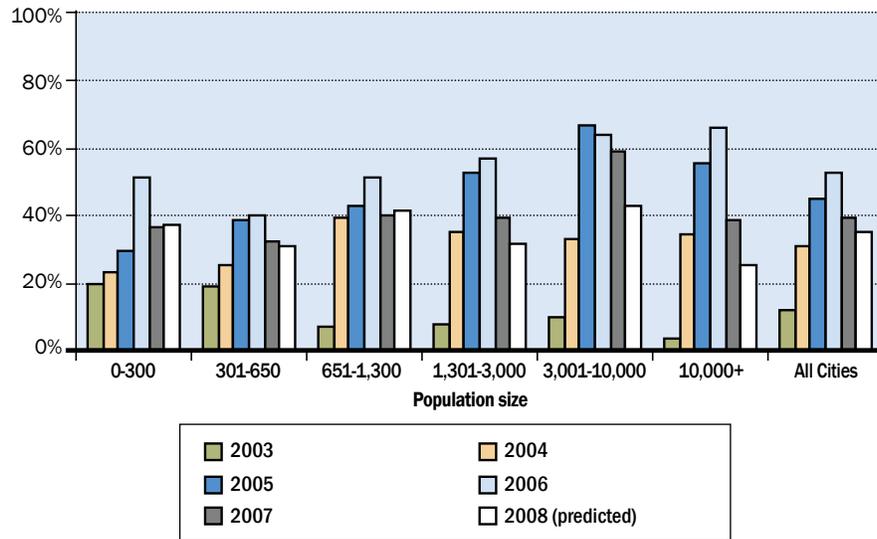


The share of cities better able to meet needs increased steadily through 2006, with the greatest increase occurring between 2003 and 2004. While cities were roughly split between those seeing improvements and those facing more challenges in 2005 and 2006, more than half are now having a harder time meeting the needs of their community. On the 2007 survey, 47 percent of city officials predicted an improvement in city fiscal conditions for 2007. However, on the 2008 survey, just 40 percent reported better financial conditions in 2007. The trend of worsening conditions continues with only about one-third of cities predicting favorable financial circumstances in 2008.

Because the mix of cities responding to the survey varies from year to year, it is helpful to compare overall results with those for the 125 cities that have returned a survey each year. The trend among these repeat cities is similar to the overall trend. Of these cities, 38 percent reported improved conditions in 2007. This is a much smaller share than that which predicted an easier time for 2007 (57 percent). The share predicting positive fiscal conditions for 2008 dropped to 27 percent.

#### **Fiscal conditions worsen for cities of all sizes**

Between 2003 and 2006, cities with populations over 3,000 experienced a greater increase in the share of cities better able to meet needs. In 2007, however, the share reporting improved fiscal conditions in each population size category decreased by at least 5 percentage points (see Chart 1B). For all sizes of cities, the share with a positive outlook in 2007 was smaller than the share that had predicted better times for 2007. In all size categories but one (1,301 to 3,000), the share of cities less able to meet needs in 2007 was greater than the share better able to do so.

**Chart 1B: Percentage of Minnesota cities better able to meet financial needs (by population size)**

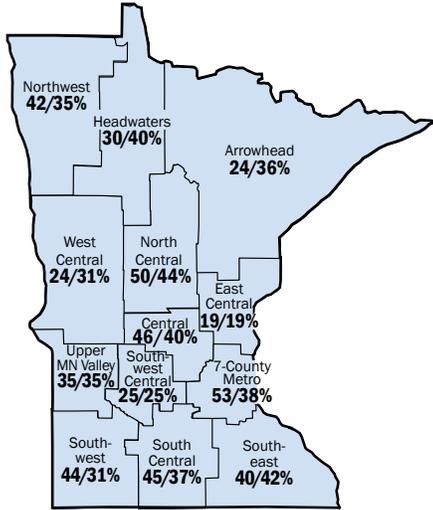
The gap between large and small cities appears to be narrowing in terms of the share experiencing favorable circumstances. For the smallest cities (under 300) the share reporting improved financial conditions decreased 15 percentage points from 2006 (51 percent) to 2007 (36 percent). For the largest cities (over 10,000) the share reporting “better able” fell 28 percentage points, from 66 percent in 2006 to 38 percent in 2007. Looking toward 2008, 72 percent of the largest cities predict a decline in fiscal condition while 54 percent of the smallest cities predict conditions will be worse in 2008. The specific reasons the gap is narrowing are unknown. Some of the advantages of being a large city may be having less of an impact. While large cities generally have more options for adjusting their spending and diversifying their revenues, these advantages may not be strong enough for many of the challenges cities currently face.

As described above, the overall proportion of cities with a positive outlook dropped for 2008. This is true for most sizes of cities. However, cities with populations under 300 and between 651 and 1,300 show an increase in the share predicting more favorable conditions in 2008. The decline in the share of cities predicting “better able” is greatest for larger cities. Just 25 percent of the largest cities predict improving conditions for 2008 (38 percent reported that conditions improved in 2007). For cities with populations of 1,301 and over, the share of “less able” increases annually from 2006 to 2008 (predicted).

### Regional differences

Slightly more than half of cities in the seven-county metro area reported they were better able to meet their financial needs in 2007 than in 2006. Just 36 percent of greater Minnesota cities reported improved financial conditions in 2007. Looking to 2008, the difference between metro and outstate is less pronounced, with 39 percent of metro cities and 34 percent of greater Minnesota cities predicting an improvement in their ability to meet financial needs.

**Map 1A: Percentage of cities better able to meet financial needs in 2007/2008 (predicted)**



A city’s status as a metropolitan statistical area<sup>1</sup> (MSA) and its ability to meet financial needs has followed the same trend over time (see Table 1A). A larger share of MSA cities than non-MSA cities has typically reported improving conditions. This holds true for 2007—46 percent of MSA cities and 34 percent of non-MSA cities reported improvement in 2007. The disparity between MSA and non-MSA cities is more pronounced than in past years. The gap narrows again when looking ahead to 2008.

**Table 1A: Percentage of Minnesota cities better able to meet needs (by MSA status)**

	2004	2005	2006	2007	2008 (predicted)
MSA cities	35%	48%	57%	46%	37%
All cities	31%	45%	53%	40%	35%
Non-MSA cities	29%	43%	50%	34%	34%

Most non-MSA cities in Minnesota are outside the seven-county metro area. While the share of all cities predicting improved conditions in 2008 is almost as low as the share “better able” in 2004 (the year following the state aid cuts), the share of non-MSA cities is almost at this low level in 2007. The drop from 2006 to 2007 in the share reporting more favorable conditions is much sharper for non-MSA cities, suggesting that fiscal worries are growing more quickly in greater Minnesota.

While 40 percent of Minnesota cities overall reported better fiscal conditions in 2007, differences in fiscal outlook exist within the metro and out-state regions (see Map 1A). Less than one-third of cities in the Headwaters, Arrowhead, West Central, Southwest Central, and East Central regions reported they were better able to meet financial needs in 2007 than in 2006. Conversely, half of cities in the North Central region and just over half of cities in the seven-county metro region reported improved conditions in 2007.

Overall, city officials in Minnesota are pessimistic about their ability to fund the services their communities need in 2008. Again, there are regional differences. In contrast to the overall trend, the Headwaters, Arrowhead, West Central, and Southeast regions show an increase in the share of cities with an optimistic view of their fiscal conditions. Most of these regions encompass cities that are in amenities or growth areas. The Northwest, North Central, Central, Southwest, South Central, and seven-county metro regions show a decrease in the share of cities that are optimistic about 2008. The East Central, Southwest Central, and Upper Minnesota Valley regions show no change in the proportion of cities with positive outlooks.

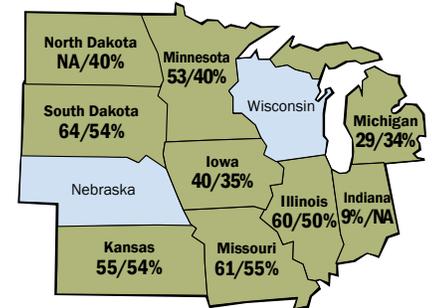
***Comparison with cities in other North Central U.S. states***

This report compares the fiscal conditions of Minnesota cities with those of cities in several other North Central states—Illinois, Iowa, Kansas, Michigan, Missouri, North Dakota, and South Dakota.

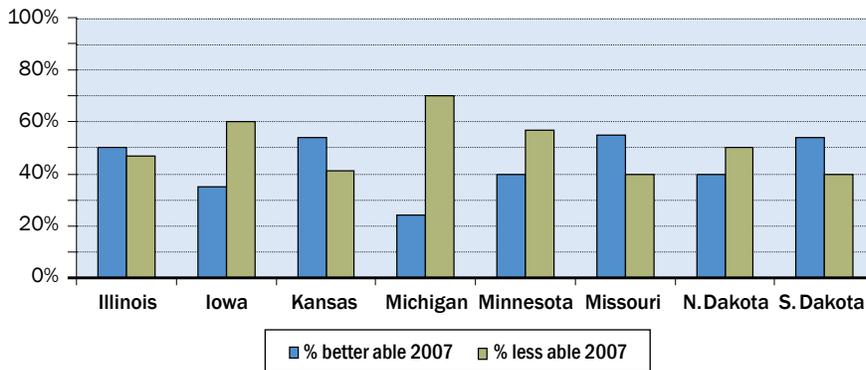
Overall, the trends for this comparison group are similar to those for Minnesota cities. Fewer than half (44 percent) of the cities in North

Central states overall were better able to meet their financial needs in 2007 than in 2006. Looking toward 2008, an even smaller proportion (39 percent) predicts favorable fiscal conditions. As Chart 1C shows, Illinois, Kansas, Missouri, and South Dakota had larger proportions of cities reporting improved conditions in 2007. As in Minnesota, the proportion of cities in North Central states overall with positive fiscal outlooks for 2008 is smaller than the share optimistic in 2007. As Map 1B shows, this is also true when comparing 2006 and 2007. The share reporting favorable conditions is smaller in 2007 for each state.

**Map 1B: Percentage of cities better able to meet financial needs in 2006/2007 in North Central states**



**Chart 1C: Ability of cities in North Central states to meet financial needs**



**Common revenue shortfalls**

The share of Minnesota cities reporting shortfalls increased across all categories of revenue (see Table 1B). This is the first time that each category saw an increase in the percentage of cities reporting shortfalls. As in the past four years, cities in Minnesota identified the top three areas of revenue shortfalls in the last fiscal year as property taxes, fees and charges, and state revenues. A majority (72 percent) of cities identified at least one area where they experienced revenue shortfalls.

**Table 1B: Percentage of Minnesota cities reporting revenue shortfalls\***

	Property taxes	Fees and charges	Sales tax	Local income tax	Lodging and restaurant taxes	State revenues	Federal revenues
2003	28%	17%	3%	n/a	5%	82%	12%
2004	27%	24%	1%	0%	3%	55%	8%
2005	40%	25%	3%	2%	4%	39%	12%
2006	40%	33%	4%	2%	4%	31%	13%
2007	43%	36%	6%	3%	5%	35%	15%

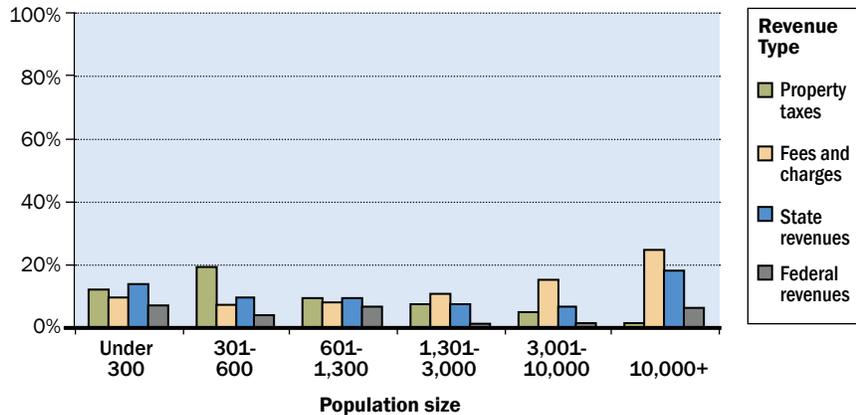
(\*combines shortfalls of greater than and less than 10 percent of expected revenues)

Of the cities reporting a shortfall in property tax revenues, 24 percent experienced a shortfall that was greater than 10 percent of expected revenues. The share of cities reporting shortfalls greater than 10 percent of expected revenues from property taxes increased from 9 percent in 2006 to 10 percent in 2007. More than one-third of cities reported a shortfall

in revenue from fees and charges. Delinquent property taxes and utility fees due to foreclosures may contribute to both of these trends, as 63 percent of cities reported delinquent utility fees due to foreclosures, and 41 percent reported delinquent property tax payments. The bursting of the housing bubble has also led to a decrease in building permits and building-related fees. A recent article in the *Pioneer Press* reported that the value of construction permits fell by 20 percent in 2007 for areas covered by state building codes.<sup>2</sup>

Cities under 600 in population were more likely than larger cities to report shortfalls of 10 percent or more than expected in property taxes (see Chart 1D). One-quarter of the largest cities (population over 10,000) reported shortfalls of 10 percent or more than expected revenues from fees and charges. Of the cities with populations over 10,000 that reported shortfalls in this revenue source, 52 percent have a three-year average annual population growth rate of greater than 2 percent.<sup>3</sup> This suggests that even large, growing cities are seeing shortfalls. The foreclosure crisis and housing slump may be among the factors to blame.

**Chart 1D: Percentage of Minnesota cities reporting revenue shortfalls greater than 10 percent of expected revenue (by population size and revenue type)**



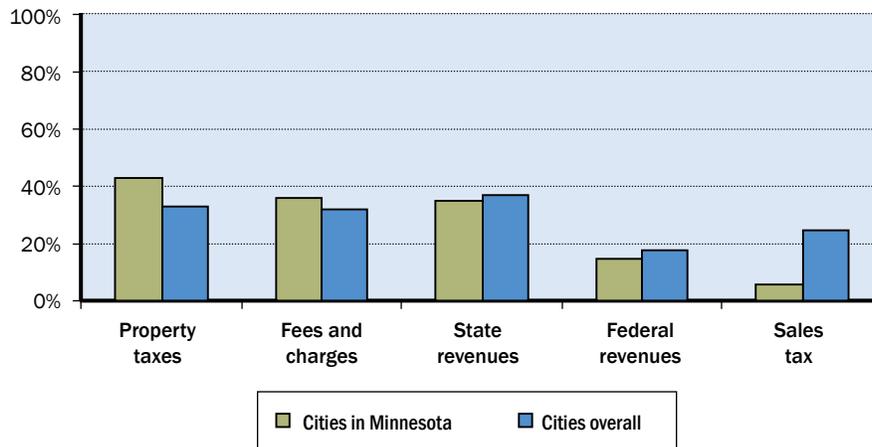
Shortfalls in state and federal revenues were both more common in 2007 than in 2006. The largest proportion of cities reported federal revenue shortfalls than in any prior year. While the share of cities reporting shortfalls in state revenues increased, it is still far below the peak of 82 percent in 2003, when LGA was dramatically cut. Cities may have reported a shortfall in state revenue due to the anticipated increase in LGA in the Legislature’s 2007 omnibus tax bill, which was ultimately vetoed.

**Shortfalls in other states**

Cities in other North Central states cited the same top three areas of revenue shortfall as cities in Minnesota—property tax (33 percent), fees and charges (32 percent), and state revenue (37 percent). Minnesota and North Dakota cities reported property tax shortfalls at greater rates than cities in other states (43 percent and 41 percent, respectively). Half of cities in Iowa and two-thirds of cities in Michigan reported shortfalls in state revenue. Although the cuts to state-shared revenues received by Iowa cities occurred back in 2003, it is possible cities are still feeling the loss. Cities in Michigan have lost over \$2 billion in revenue-sharing funds over the last six years.

As illustrated in Chart 1E, slightly larger shares of Minnesota cities reported shortfalls in property tax and fee revenue than cities in North Central states overall. Conversely, Minnesota cities were less likely to identify shortfalls in state and federal revenues. While the local sales tax is not a major source of revenue for Minnesota cities, it is a major source for cities in several other states. One-quarter of cities in North Central states overall and almost half of cities in Missouri reported shortfalls in sales tax revenue.

**Chart 1E: Percentage of cities reporting shortfalls in various revenue sources**



### Changes in budget factors

Cities were asked to identify whether a wide variety of budget factors increased, decreased, or remained the same from fiscal year 2006 to fiscal year 2007. The most recent findings are very similar to those reported in the past with a few exceptions. Most of the budget factor trends are negative, causing fiscal pressure for cities. On the positive side, more cities reported an increase in the value of the city tax base than a decrease (64 percent vs. 7 percent, respectively). The share reporting an increase in value is, however, smaller than it was in 2006 (73 percent).

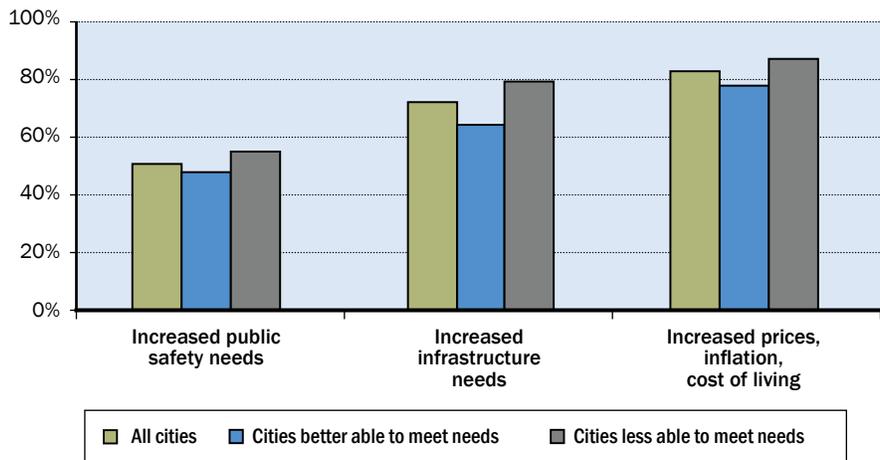
The share of cities indicating an increase in infrastructure needs grew from 66 percent in 2006 to 72 percent in 2007. A much greater share of the largest cities (93 percent) experienced an increase in infrastructure needs than of the smallest cities (44 percent). Large shares of all cities also reported increases in prices, cost of living, and inflation (83 percent); the cost of employee wages and salaries (80 percent); and the cost of employee health benefits (63 percent).

For 2007, a smaller proportion of cities reported an increase in local economic health than in 2006. While 22 percent of cities indicated an increase in this factor in 2006, just 13 percent experienced an increase in 2007. This sharp drop likely reflects broad economic problems. Because of the economic slowdown, cities may have had fewer housing starts and more business closings. Fewer cities identified increases in other growth indicators as well. As mentioned, the share of cities reporting an increase in the value of their tax base also notably decreased, from 73 percent in 2006 to 64 percent in 2007. This may be reflective of the housing bubble burst and the resulting slowdown of increases in value and in new construction

starts. The share of cities reporting an increase in service needs for new developments also decreased in 2007 from 43 percent to 34 percent. This is likely due in part to decreased demand for new housing. On a more positive note, the share of cities reporting increased public safety needs dropped from 57 percent in 2006 to 51 percent in 2007.

Changes in all of these factors influence a city’s ability to meet financial needs in a given year. As Chart 1F illustrates, the percentage reporting increased needs and costs in several areas was greater among those cities indicating a decline in their financial condition in 2007. In other words, cities that reported they were less likely to meet their financial needs see increases in these factors more often. For example, almost 80 percent of cities with negative financial outlooks in 2007 experienced increased infrastructure needs, while just 64 percent of cities reporting more favorable conditions cited higher infrastructure needs.

**Chart 1F: Cities reporting they were less able to meet financial needs had larger increases in many budget factors**

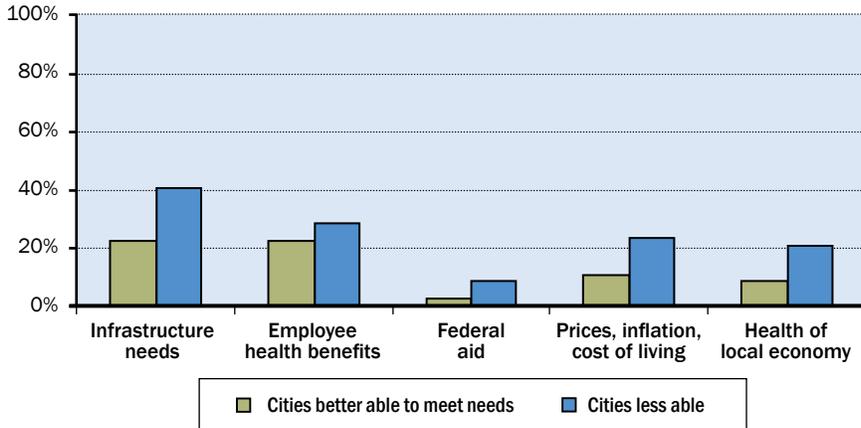


Changes in budget factors are felt differently by cities, depending on their unique circumstances and the particular combination of cost pressures. Larger shares of cities in 2007 than in 2006 reported at least moderate impacts on their budgets due to changes in the health of the local economy, infrastructure, and education needs. The share of cities experiencing major impacts due to changes in the health of their local economy increased from 9 percent in 2006 to 15 percent in 2007. Most of these cities also indicated that they faced less favorable financial circumstances in 2007 (78 percent). One-quarter of these cities predict that their financial circumstances will improve in 2008 (24 percent).

A smaller share of cities in 2007 than in 2006 indicated that changes in development needs had at least a moderate impact on their budgets. This is likely due to the slowdown in the housing market and decline in new development. The top factors identified as having at least a moderate impact on cities’ budgets in 2007 are prices, inflation, and cost of living (78 percent); infrastructure needs (73 percent); cost of employee wages and salaries (73 percent); cost of benefits (62 percent); and tax base changes (56 percent). The same factors were identified by most cities in 2006.

A city’s overall fiscal condition is greatly influenced by impacts from various budget factors. Across all budget factors, cities citing major impacts more often indicated worse financial conditions in 2007. Chart 1G shows the factors where the difference is the greatest between cities better able to meet needs and those less able to do so. The greatest disparity is between cities indicating major impacts due to changes in infrastructure needs.

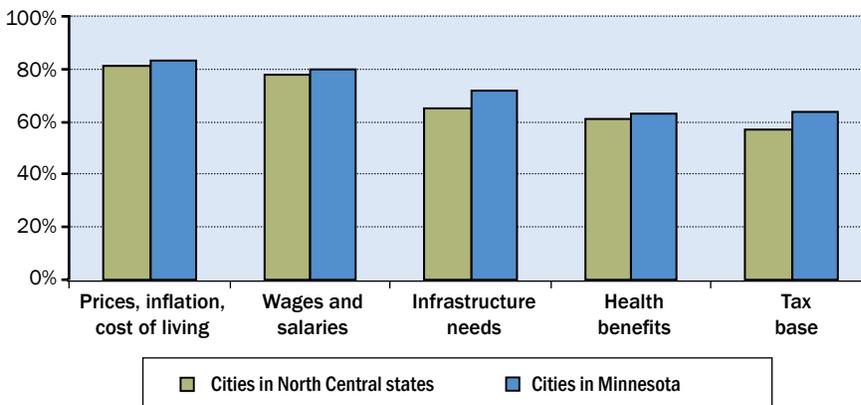
**Chart 1G: Cities more likely to identify major impacts from budget factors were less able to meet needs**



**Other states**

Cities in other North Central states identified the same top five increasing budget factors as Minnesota cities. As shown in Chart 1H, the share of Minnesota cities is slightly greater than the share of cities in other North Central states for each of these factors—prices, inflation, and cost of living; employee wages and salaries; infrastructure needs; employee health benefits; and value of the city tax base. For budget factors that decreased, the top factors are also the same for both Minnesota and the region as a whole. The shares of Minnesota cities are again larger for each item than those of cities in North Central states overall. Thirty-seven percent of Minnesota cities and 31 percent of cities in North Central states overall reported declines in the health of the local economy. Population losses were reported by 16 percent of Minnesota cities and 14 percent of cities in North Central states overall. Decreases in federal aid were experienced by 16 percent of Minnesota cities and 13 percent of cities in North Central states overall.

**Chart 1H: A greater percentage of cities in Minnesota than cities in North Central states experienced increases in the top five budget factors**



**Cities respond to challenges**

Familiar challenges, including uncertainty surrounding state aid and rising costs, continue to face cities. Cities in Minnesota and across the country are also experiencing the negative effects of the downturn in the housing market and increased foreclosure rates. Cities can respond to fiscal challenges in many ways, including by cutting services, reducing investment in infrastructure, partnering with other entities to provide services, and increasing property taxes and user fees. As detailed in Chapter 3, cities can also implement initiatives that decrease both the amount and cost of energy consumed. Each city’s unique circumstances demand a unique strategy to mitigate its fiscal challenges.

In many cities, the reliance on property taxes to help mitigate shortfalls places a burden on homeowners. The average homestead property tax has increased 70 percent between 2002 and 2008.<sup>4</sup> Part of this increase is due to increases in property values. This burden is troubling to homeowners because of the time lag between when market values are assessed and taxes are payable. In other words, market values for taxes payable in 2008 were set in January of 2007. Thus, even though property values may have actually declined in some areas, the values used for taxation are reflective of a stronger housing market. Cities are challenged to balance the burden placed on homeowners and their need to raise revenue. The property tax system is the only real tool through which to raise revenue for many Minnesota cities.

In addition to raising revenue through property taxes, cities may use a number of other budget-balancing strategies. Cities were asked which strategies they used in preparation for 2008. Many of these strategies can be grouped into broad categories. The trends in these categories over the last five years are shown in Table 1C. Revenue increases include property tax increases and increases in fees, charges, and license fees. The spending decreases category includes cuts in infrastructure, public safety, and other spending, as well as reductions in the overall growth rate of spending. Increasing efficiencies includes increases to productivity levels, contracting out or privatizing, and increasing inter-local agreements.

**Table 1C: Budget-balancing actions taken by Minnesota cities (2003-2007)**

	Revenue increases	Spending decreases	Increasing efficiencies	Workforce cuts	Service cuts	Draw down reserves
FY2003	85%	55%	33%	26%	20%	60%
FY2004	84%	47%	34%	22%	15%	46%
FY2005	83%	12%	32%	5%	9%	33%
FY2006	83%	11%	31%	5%	3%	31%
FY2007	85%	12%	32%	6%	6%	32%

The share of cities implementing revenue increases has remained very steady, as has the share of cities increasing efficiencies. The shares implementing strategies in the other categories—workforce cuts, service cuts, spending decreases, and reliance on reserves—were much higher in 2003 and 2004, the years surrounding the state aid cuts. Although the share of cities predicting improved financial circumstances for 2008 is the lowest since 2004, the use of budget-balancing strategies is not at 2004 levels.

In terms of revenue increases, 79 percent of cities reported implementing tax increases for 2008; 30 percent of these cities reported significant increases. This is slightly greater than for 2007. Slightly more than one-third of cities (36 percent) increased fees and charges for 2008. This is a decrease from the share that did so for 2007 (38 percent).

While more than half of cities cut spending in 2003, only 12 percent did so in 2007. In fact, more than half of cities increased spending on infrastructure and public safety. Sixty-one percent increased the growth rate of their operating spending. While a slightly higher percentage of cities sought ways to become more efficient, the share undertaking any one strategy in this category changed very little from last year. The share of cities making workforce cuts increased slightly while the share adding to their workforce decreased. There was a slight increase (3 percent and 6 percent, respectively) in the percentage of cities making service cuts between 2006 and 2007.

### *Similar strategies in other North Central states*

The most common budget-balancing actions among cities in all other North Central states are to increase taxes; draw down on reserves; and increase fees, charges, and license fees (see Table 1D). The least common actions overall are to cut public safety spending, cut infrastructure spending, decrease the growth rate of spending, and decrease other spending.

**Table 1D: Cities in Minnesota and in North Central states overall used similar budget-balancing strategies**

	Increase in taxes	Increase in reliance on reserves	Increase in fees/charges	Decrease in growth rate of spending	Decrease in infrastructure spending	Decrease in public spending	Decrease in other spending
Cities in Minnesota	79%	32%	36%	5%	6%	3%	4%
Cities in North Central states	49%	34%	34%	7%	7%	4%	7%

A far larger share of Minnesota cities raised property taxes than cities in North Central states overall (79 percent vs. 49 percent). Illinois had the second-largest share of cities (53 percent) implementing tax increases. Minnesota cities were also slightly more likely than the region overall to increase fees and charges (36 percent vs. 34 percent). Half of Michigan cities reported increasing this form of revenue. While just 12 percent of Minnesota cities reported increases in privatizing or contracting out, 23 percent of Michigan cities did.

## CONCLUSION

In a reversal of a recent trend, fewer Minnesota cities are seeing improvement in their financial circumstances. A pessimistic outlook is more common for cities of certain sizes and in certain areas of the state. For cities with populations over 10,000, the share that reported being better able to meet financial conditions in 2007 is 28 percentage points smaller than the share “better able” in 2006. Among the smallest cities (populations under 300), this share decreased by 15 percentage points from 2006 to 2007. Metro cities were more likely to report more favorable conditions for 2007 than greater Minnesota cities.

This reversal of the general trend is seen among cities in other North Central states as well. Less than half of these cities were better able to meet their financial needs in 2007 than in 2006 and even fewer look toward 2008 with optimism about their fiscal condition. Minnesota cities employ various strategies to balance their budgets. Actions taken in 2007 continue to follow many of the same trends as the past two years.

City budgets across the state are affected by many factors, familiar and unfamiliar. Some of these are local while others, such as state budget worries and the housing slump, are statewide or national in scale. Factors that had at least a moderate impact on city budgets include increasing prices and inflation, infrastructure needs, employee wages and salaries, and the cost of employee health benefits. The same factors were cited most frequently by cities in other North Central states. Two of the newer challenges impacting cities—the foreclosure crisis and related housing slump—are the focus of Chapter 2.

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- 1 A metropolitan statistical area (MSA) is defined by the U.S. Census Bureau as a geographical area containing at least one urbanized area of at least 50,000 inhabitants with a total area population of at least 100,000. The area consists of one or more counties. The seven MSAs that include at least one Minnesota county are: Duluth-Superior, Fargo-Moorhead, Grand Forks, La Crosse, Minneapolis-St. Paul, Rochester, and St. Cloud.
  - 2 Shaw, Bob. East Metro: Inspectors’ jobs at risk in some suburbs. *Pioneer Press*. March 10, 2008.
  - 3 The three-year average annual population change for all cities responding to the survey is 0.77 percent. It is 2 percent for cities over 10,000. The years included are 2003-2004, 2004-2005, and 2005-2006.
  - 4 Van Wychen, Jeff. *Sticker Shock: Why Property Taxes are Going Through the Roof in Minnesota*. Minnesota 2020, February 2008.

## Chapter 2: Effects of the Foreclosure Crisis on Cities

### INTRODUCTION

As described in Chapter 1, Minnesota city officials reported challenging financial circumstances in 2007 more often than they have in the past three years. Looking ahead to 2008, there is a pronounced increase in the share of city officials expressing pessimism about the future. Reports of declining local economies were also more frequent in 2007. This chapter focuses on one of the underlying causes for these findings: the mortgage foreclosure crisis. Nationally and in Minnesota, it is one of the most significant trends for city fiscal conditions. This chapter outlines the foreclosure problem and describes the effects foreclosures have on Minnesota cities. It also includes a discussion of the revenue problems for cities caused by the housing slump and considers questions about the sustainability of the property tax.

### Background on the housing bubble

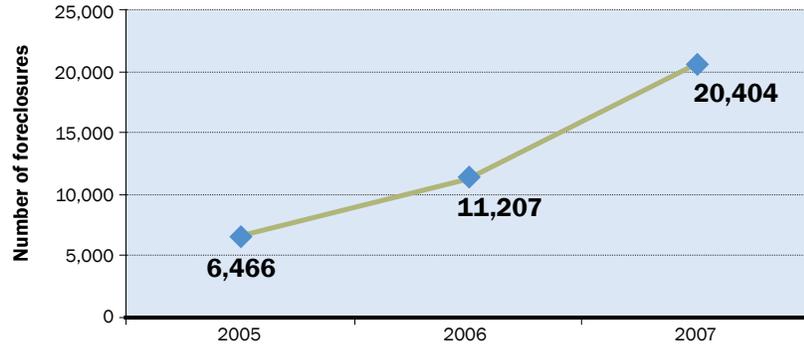
Nationwide and in Minnesota, several years of low mortgage interest rates fueled demand for homes. First-time buyers were able to afford mortgages at the historically low rates. Existing homeowners, able to purchase homes of greater value because of the relatively low cost of debt, “traded up” or bought second homes. The increased demand, in turn, drove up housing prices. Rapidly escalating home prices attracted investors. Renovating and quickly selling houses at tremendous profit (house flipping) became common. In the Midwest, sales of existing homes soared almost 30 percent between 2000 and 2005.<sup>1</sup> The real estate boom extended to new home construction, including condominiums. Over the same time period, sales of new single-family homes in the region grew more than 32 percent.<sup>2</sup> In Minnesota, housing starts (new construction) increased 28 percent between 2000 and 2004.<sup>3</sup>

The mortgage industry responded to the incredible demand for homes with several new mortgage products. These included adjustable rate mortgages (ARMs) featuring extremely low interest rates for the first year or two, no down payment mortgages, balloon loans, and interest only loans. Financial institutions also extended loans to numerous buyers who did not meet the credit requirements for more traditional home mortgages, even to buyers who could not provide proof of employment or assets. Nationwide, such subprime lending grew from roughly \$35 billion in 1994 to an incredible \$665 billion in 2005—an increase of 1,800 percent.<sup>4</sup> Unscrupulous lenders marketed risky loan packages to individuals, who were persuaded that they were making a sound financial decision.

Then the bubble burst. Homeowners holding risky adjustable rate mortgages started facing huge increases in their monthly payments as their interest rates jumped. Borrowers with subprime loans began to miss payments. The market was quickly swamped with homes for sale as owners overwhelmed by their mortgage burdens sought to get rid of their homes. With the flood of homes onto the market outpacing demand, many owners were unable to sell. Foreclosure filings increased. Total foreclosures across Minnesota increased 216 percent from 2005 through the end of 2007

(see Chart 2A). In 2007, there was one mortgage foreclosure for every 100 households in Minnesota. Statewide, there were almost 20,500 foreclosures that year. Housing Link estimates that there will be slightly more than 28,000 new foreclosures in 2008. That would represent a 39 percent increase in a one-year period.

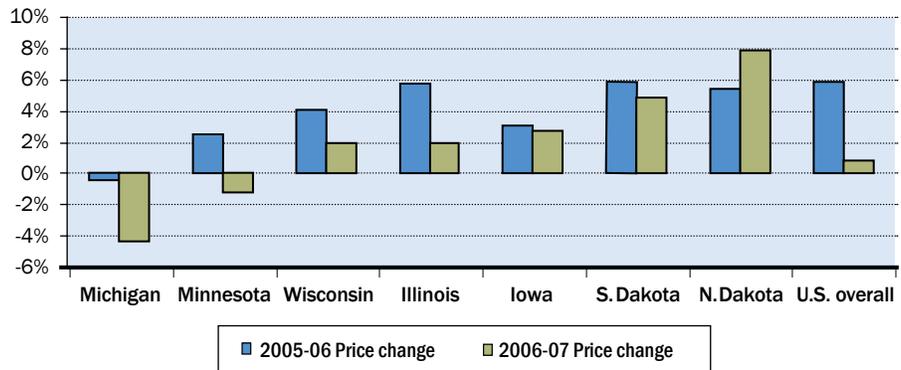
**Chart 2A: Total number of foreclosures in Minnesota (2005-2007)**



Source: HousingLink, April 2008.

Selling a home became even more difficult when lenders, facing enormous losses due to foreclosures, implemented stricter eligibility criteria for new loans. Seeing the problems caused by predatory subprime lending, policy-makers restricted the types of loans banks were able to offer. It was no longer so easy for buyers to obtain credit. According to research from the National Association of Realtors, existing home sales across the country fell 22 percent between December 2006 and December 2007.<sup>5</sup> They fell 21 percent in the Midwest during that time period. Tens of thousands of new homes around the country went unsold. As a result of the large supply of homes on the market and the credit crunch, home prices started to stagnate and then fall. Chart 2B shows the home price appreciation rates for states in the Midwest region from 2005-06 and from 2006-07.<sup>6</sup>

**Chart 2B: Change in house prices in Midwest states (2005-06 and 2006-07)**



Source: Office of Federal Housing Enterprise Oversight, 4th Quarter 2006 and 4th Quarter 2007 reports

In the United States overall and all Midwest states except North Dakota, the one-year price change from 2006 to 2007 was smaller than that from 2005 to 2006. In both Michigan and Minnesota, there was an actual decline in value between 2006 and 2007. For Minnesota, this contrasts with the 2.5 percent increase in the house price index in the previous year. Homeowners around the country are finding themselves owning homes worth less than the value of their mortgages. Refinancing in these cases is often impossible, leading to more foreclosures. May and June of 2008 will bring a new wave of interest rate adjustments, potentially boosting foreclosure numbers even higher.

The foreclosure crisis is in the media almost constantly, and profiles abound of those whose lives are turned upside down by foreclosure. While the stories of families and individuals, including renters, struggling to stay in their homes are certainly poignant, the foreclosure crisis also has significant implications for cities. The housing bubble had been a boon for government at all levels.<sup>7</sup> Growth in housing starts (new construction) meant new construction jobs and income tax revenues for state and federal budgets. State and local sales tax revenues benefited from the huge demand for construction materials and consumer goods associated with home purchases, such as large appliances and furnishings. The strong growth in home values boosted property tax revenues. The heavy investment in housing was very positive for state and local governments that tax real estate transactions.

For cities, the foreclosure crisis is both a revenue and a cost problem. From declining property tax revenues due to an increase in the number of vacant homes to additional costs for nuisance concerns like grass growing wild and public safety concerns like people holing up in boarded houses, cities in Minnesota and across the country are feeling the pain. At the most recent meeting of the United States Conference of Mayors, the president described the foreclosure problem as “an economic tsunami that is hitting our cities.”<sup>8</sup>

### **Foreclosure crisis affects Minnesota cities in many ways**

In addition to questions related to city revenue shortfalls and budget-balancing strategies, this year’s fiscal conditions survey asked city officials to identify the challenges their communities are experiencing as a result of residential foreclosures. The survey presented cities with a list of foreclosure-related issues, including increased service demands for things such as utility reconnection and public safety, delinquent taxes, and conversion of owner-occupied units to rental units. Overall, 382 of the 467 cities responding to the survey (82 percent) cited one or more negative effects of foreclosures in their communities. Half of these cities identified at least five separate issues created by foreclosures.

Among cities reporting at least one foreclosure issue, 39 percent indicated that they were better able to meet their financial needs in 2007. Looking ahead to 2008, only about a third of cities experiencing one or more foreclosure issues predict improvement in their fiscal condition. These figures echo the overall trend among cities.

Table 2A shows that the four issues most frequently identified by cities overall were: delinquent utility fees and taxes (77 percent of cities with at least one foreclosure issue), problems collecting delinquent utility

payments (74 percent), property maintenance issues (62 percent) and delinquent property taxes (50 percent). Of these, the first three were the most common for both metro and greater Minnesota cities. Cities in the metro area differed slightly from cities overall and from greater Minnesota cities. Delinquent property taxes was not one of the top four issues identified by metro cities, but declines in property values were reported. Almost half of metro cities reported falling property value as a result of foreclosures in their communities. According to one recent analysis, home values fall nine-tenths of one percent for every foreclosed home within one-eighth of a mile.<sup>9</sup>

**Table 2A: Issues in cities as a result of foreclosures**

Issue	# Cities	% of cities with 1+ issue
Delinquent utility service fees and/or taxes	294	77%
Problems collecting delinquent utility bills	283	74%
Property maintenance problems	238	62%
Delinquent property tax payments	192	50%
Declining property value	159	42%
Difficulty in attracting new residents and/or businesses	150	39%
Increase in dangerous property conditions	110	29%
Costs to reconnect homes to utilities	100	26%
Conversion of owner-occupied units to rental	93	24%
Delinquent nuisance abatement charges	81	21%
Increase in vandalism to vacant properties	69	18%
Increased demand for public safety services	61	16%
Foreclosure of rental properties	59	15%
Increased crime rates	30	8%
Increase in arson of vacant properties	6	2%
Other (e.g., water shut off; wage cost increases; development projects stalled)	18	5%

City officials also indicated which issue has had the most impact on their community. Twenty percent of cities identifying at least one issue related to foreclosures said that delinquent utility fees and/or taxes had the biggest impact. Problems collecting late utility bills was the issue that had the greatest impact in almost 22 percent of cities reporting. Similarly, nearly 18 percent reported that the biggest impact came from property maintenance problems after foreclosures.

Statewide, about 4 in 5 responding cities identified at least one issue related to foreclosures in their communities. Nearly 100 percent of responding cities in the South Central region did so. Similarly, almost all cities in both the seven-county metro region and in the East Central region reported at least one foreclosure impact. In these three regions (South Central, metro, East Central) as well as three regions that are immediately contiguous to the seven-county metro region, (Southeast, Central, and Southwest Central), a third of cities have experienced at least seven different foreclosure issues.

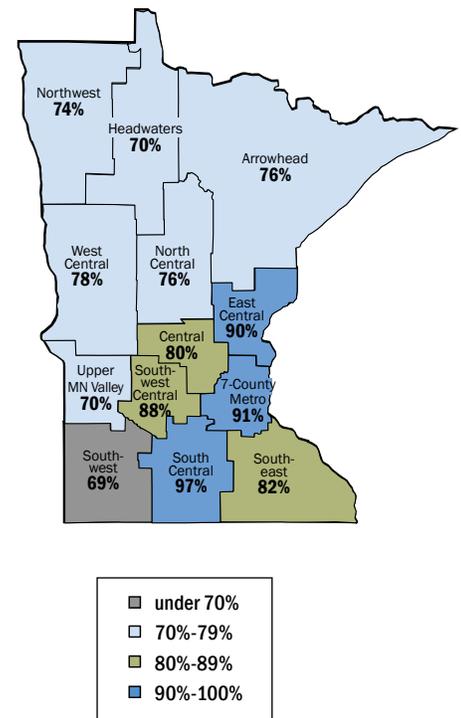
For most of the foreclosure issues in Table 2A, the largest share of cities experiencing them are in the seven-county metro region. For example, 39 percent of the cities that reported an increased demand for public safety services are in this region. The next-largest share is 11 percent in the South Central region. Although foreclosures seem to be concentrated in the metro area, they are also becoming more frequent in greater Minnesota (see Map 2A). In more rural areas of the state, foreclosures can be a hidden problem as only one or two homes in a community may be involved. Because foreclosures are more scattered in greater Minnesota, the effects on the community may be less severe, but certainly still a problem.<sup>10</sup>

### Cities facing additional costs as a result of foreclosures

The foreclosure crisis is creating both cost pressures and revenue problems for cities across the state. Cities face new or additional costs associated with addressing problems at vacant foreclosed homes. These homes can attract vandalism, such as ripping out copper pipes, and other criminal activity. To protect their neighborhoods and the quality of life in their communities, cities must often increase their public safety services. In many communities, boarding up windows of foreclosed homes has become extremely time-consuming for law enforcement and other officials. According to a recent story in the *Star Tribune*, the cost to Minneapolis alone for boarding up abandoned homes in 2007 was \$1 million.<sup>11</sup>

Homes in foreclosure are often not maintained, creating problems such as noxious weeds and accumulation of garbage. More than 230 cities reported that they are seeing property maintenance issues in their communities. As Table 2B shows, for nearly a third of these, it was the foreclosure issue with the greatest impact. Maintenance problems create extra work for city personnel (and extra costs for the city), including issuing citations, mowing grass, shoveling snow, and clearing away trash. When homes are resold, a city can face costs to reconnect that home to public utilities, including water service. One hundred cities reported that they have had these reconnection costs. As spring nears, one maintenance problem is cropping up in foreclosed and vacant homes around the state—damage from frozen pipes. In houses where owners did not turn off the water before abandoning their homes, burst pipes and flooding can cause severe damage (e.g., collapsed ceilings, warped floors, and mold) and significantly reduce property value.

Map 2A: Percent of cities reporting foreclosure issues (by region)



Further, foreclosures create the potential for the quality of life in entire neighborhoods to suffer.<sup>12</sup> It is difficult to attract and retain residents or businesses to an area where foreclosure signs and boarded-up windows are easy to spot. Safety concerns stemming from increased crime at vacant properties threaten community stability. One consequence of foreclosures that is not as obvious is the conversion of owner-occupied houses to rental property. When homeowners lose their properties to foreclosure, the buyers of those homes can be rental companies looking to increase their holdings. An increase in rental property can have a significant impact on the feel of a neighborhood. Rental properties have seen higher rates of foreclosures, too. About a quarter of cities with foreclosure problems have experienced conversion. When landlords file for foreclosure, tenants are often kicked out of their units. The result is an increase in renters looking for homes, another trend that hurts the stability of neighborhoods.

**Table 2B: Top five foreclosure issues having greatest impact on cities**

Foreclosure issue	Number of cities with that issue	% identifying it as issue with greatest impact
Problems collecting delinquent utility bills	283	29%
Property maintenance problems	238	29%
Delinquent utility service fees and/or taxes	294	26%
Declining property value	159	20%

### Revenue problems affecting cities with foreclosures

Revenue problems stemming from foreclosures are also striking cities across the state. Roughly three-quarters of the cities reporting at least one issue as a result of foreclosure had problems with delinquent utility fees and/or taxes and problems collecting delinquent utility bills. For almost one-third of the cities, the issue that had the greatest impact was delinquent utility payments. When there are fewer users of city utilities such as water and sewer, cities struggle to cover their fixed costs for the infrastructure associated with those utilities. Forty percent of cities with at least one foreclosure issue cited shortfalls in revenues from fees, charges, and licenses. This contrasts with 36 percent of cities overall that had a fee shortfall (see Table 2C).

**Table 2C: Revenue shortfalls for cities affected by foreclosures**

	% of cities with at least one foreclosure issue	% of cities overall
Property tax shortfall	45%	43%
Fees, charges, and license shortfall	40%	36%

Property tax revenues are affected in two ways. First, the maintenance problems described above eat away at not only the foreclosed homes' property value but also the value of surrounding homes. Additionally, vacant homes in the neighborhood can lower home values. The impact on a city's tax base can be significant. More than 150 cities cited declining property values as a problem brought about by foreclosures in their communities. For one-fifth of these cities, it was the foreclosure issue with the greatest impact. Second, homeowners in foreclosure are frequently delinquent in paying their property taxes. About half of cities with foreclosure problems cited property taxes being paid late. It can also be difficult and time-consuming to collect delinquent taxes on homes in foreclosure. One challenge is tracking down the current owner. Financial institutions often sell their loans to other lenders, who in turn may re-sell them. Overall, 43 percent of cities reported that property tax revenues fell short of budget amounts in 2007. Among cities with at least one foreclosure issue, the share of cities with property tax shortfalls was slightly higher at 45 percent.

### **City officials look to fight the pain caused by foreclosures**

Cities around the country and in Minnesota are developing initiatives to tackle the multi-faceted foreclosure problem by helping homeowners stay in their homes, going after bad lenders, and clamping down on property maintenance problems. A recent piece in the *Wall Street Journal* highlighted other efforts in cities around the country to protect affordable housing: a San Diego city-county task force is working to purchase vacant homes before investors do so, and Providence, R.I., is working to transfer foreclosed properties to community development organizations.<sup>13</sup> Other cities around the country, including Baltimore and Cleveland, are pursuing lawsuits against negligent lenders.<sup>14</sup>

In Minnesota, the city of Eden Prairie sought permission from the U.S. Department of Housing and Urban Development to use Community Development Block Grant funds to make small loans to homeowners facing foreclosure.<sup>15</sup> Permission was denied but city officials continue to look for ways to maintain neighborhood stability. The Community Action Partnership of Hennepin County is working with several cities to educate people about foreclosure options.<sup>16</sup> A north Minneapolis neighborhood organization filed suit against a mortgage lender for negligent lending practices that have led to numerous foreclosures in the area.<sup>17</sup> The city of Minneapolis recently announced that it will raise the annual fee on vacant and boarded housing, and impose a new \$1,000 fee on residences that convert to rental properties. City officials say the fee is necessary to cover the cost of an immediate inspection.<sup>18</sup> Green Isle, in Sibley County, is invoicing banks for the costs of maintenance done on foreclosed properties. When the banks don't pay, the city assesses the costs to the property tax owed.

**Minnesota legislators also consider policy solutions to foreclosure crisis**

The Foreclosure Working Group, comprised of local government representatives, housing advocates, banking associations, and elected officials, began meeting in 2007 to discuss the foreclosure problem. The group came to consensus on several legislative remedies. Early in the 2008 legislative session, legislators introduced bills to address mortgage foreclosures across the state. Several bills centered on assisting homeowners in understanding the foreclosure process. Other bills dealt with forming a foreclosure data collection system and ensuring tenant rights during foreclosure. Legislators also introduced a bill that would freeze foreclosures and allow homeowners to make reduced payments for up to one year to allow them time to get back on their feet.

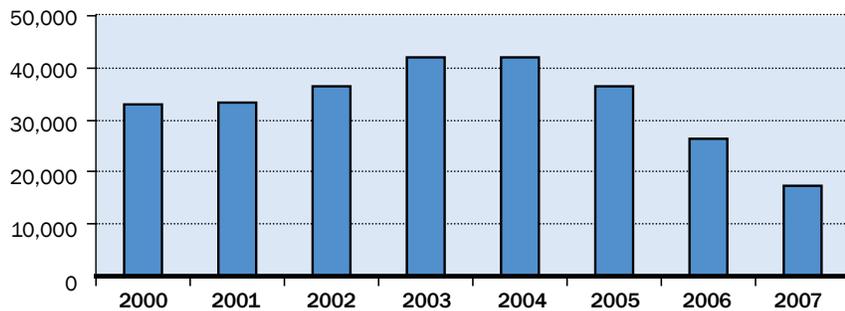
**City revenue streams affected by housing slump**

It is worth considering the depressed housing market separately from the problems caused by foreclosures. In late 2007, a report commissioned by the U.S. Conference of Mayors suggested that the housing slump nationwide is hurting state and local economies in several ways.<sup>19</sup>

The housing slump is creating tax woes for state and local governments around the country. States that impose taxes on real estate transactions are experiencing sharp decreases in that revenue stream. State sales tax revenues are shrinking as homeowners plan fewer home improvements and forgo large purchases of home furnishings.<sup>20</sup> The dramatic slowdown in housing construction means fewer state sales tax dollars from sales of construction equipment and materials. Fewer construction jobs mean fewer state income tax dollars. According to state economist Tom Stinson, the weakness in the Minnesota economy is widespread but the decline in the construction sector has been the most pronounced.<sup>21</sup>

The most recent state budget forecast shows Minnesota is facing a deficit of \$935 million for the 2008-2009 biennium.<sup>22</sup> Individual and corporate state income tax revenues showed the biggest declines. The Department of Finance included the weak housing market in its list of factors hurting the state’s economy. As Chart 2C shows, housing starts across Minnesota have fallen dramatically since 2004. Between 2000 and 2007, Minnesota housing starts peaked in 2004 at 41,843. By 2007, that number had fallen to 17,529—a 58 percent decrease.

**Chart 2C: Housing starts in Minnesota (2000-2007)**



Source: Housing Units Authorized: U.S. Department of Commerce

In many states, including Minnesota, local governments are, in large part, reliant on the state for funding basic services. When the state government budget hurts, local governments often hurt, too. A previous state budget crisis occurred in 2003 with a deficit of \$4.5 billion. As part of the budget fix, the Legislature reduced funding for local government aid (LGA) by 25 percent. Since the current LGA appropriation is still \$102 million below the original 2003 level, many cities around the state continue to feel the effects of those cuts. One of the reasons that more Minnesota cities are experiencing tougher financial conditions may be a growing concern about future state aid cuts.

For cities that impose building-related fees and charges, a slowdown in home construction means less revenue. A greater share of cities across the state reported shortfalls in fee revenues during 2007 than in 2006. Some of this increase could be attributable to a loss of building permit and other building-related fee revenues. According to research by the *Star Tribune* in late 2007, the number of new home building permits in the Twin Cities region for 2007 was less than half of the 2003 level. In 2003, the number of building permits peaked at 17,000.<sup>23</sup> Suburbs that had rapid growth over the last few years are now seeing some of the sharpest declines in the value of new construction and, therefore, in revenue from building permits and fees. Lake Elmo, for example, has laid off two building inspectors, and the Woodbury City Council has decided not to fill four open inspection positions.<sup>24</sup>

Cities may also struggle to pay for capital improvements they made in anticipation of development that has not happened. Without new homeowners to pay special assessments and taxes for infrastructure like streets, cities are placed in a difficult financial situation. Cities that bonded for street, utility, or other kinds of improvements for new development may lack the revenue stream to meet debt obligations.

### **Foreclosure crisis and housing slump raise important questions about the property tax**

Minnesota cities are more reliant on the property tax than cities in some other states. For cities in Missouri, for example, a major revenue source is the local sales taxes. In Minnesota, only a handful of cities have authority for a sales tax. The foreclosure crisis and housing slump raise questions about the sustainability of the property tax to fund public services. Both will affect how much cities are able to turn to the property tax to fund current programs as well as meet any new costs they are facing as a result of foreclosures. They will also determine to what extent cities can use property tax increases to make up for lost revenue from other sources such as building permit fees.

The property tax has largely been seen as the most stable of the major state and local taxes. Falling home prices over the last couple of years, however, have eaten away at city tax bases. Further, as the tax base shrinks due to foreclosures, the property tax burden is spread over fewer tax payers. In some cases, cities are struggling to fill budget holes created by shortfalls in building permit fee revenues and to meet debt obligations on improvements made for development that didn't occur. As mentioned earlier, cities are also facing new costs, including maintenance on foreclosed properties and increased public safety demands created by vacant properties.

Increasing anti-tax sentiment and changing demographics are other issues that raise questions about whether heavy reliance on the property tax is good policy. At the same time that cities are seeing their tax bases decline and incurring new costs associated with foreclosures and the housing slowdown, property owners' resistance to the property tax is growing.<sup>25</sup> In its most recent survey of taxpayer sentiment, the Department of Revenue found that almost half of Minnesota taxpayers were dissatisfied with the amount of property taxes they paid.<sup>26</sup> This was up from 42 percent in 2003.

The lag time between when assessments are made and when tax bills are calculated creates tension between Minnesota property taxpayers and local governments, including cities. Many homeowners perceive that the value of their homes has decreased due to the housing slump. The most recent property tax bills, however, were calculated using assessment data from before values started falling much. Frustration over assessments that haven't caught up with the market is a national trend.<sup>27</sup> Recently, growing taxpayer frustration has spurred policymakers to act.<sup>28</sup> State legislatures across the country have considered various property tax relief strategies, including limiting local property taxes (Florida) and requiring reassessment of all properties (Indiana).

Demographic trends are a concern as well. The ability of homeowners living on fixed incomes to pay property taxes will be a growing problem as Minnesota's population ages. According to the most recent projections, the fastest population growth will be for ages over 65.<sup>29</sup> In many communities, older residents already make up a significant portion of homeowners. Baby boomers, those born between 1946 and 1964, have created huge demand for housing in each stage of the life cycle. As baby boomers start to retire, and in some cases, move from the housing market to rentals or assisted living facilities, there are fewer buyers to purchase their homes. Younger generations are smaller and have lower home-buying rates due to lower overall median household incomes.<sup>30</sup>

## CONCLUSION

The foreclosure crisis is having a significant impact on Minnesota cities. While foreclosures are concentrated in the seven-county metropolitan area, they are occurring all across the state. The latest data show that the number of foreclosure filings in the state will eclipse 30,000 during 2008.<sup>31</sup> Foreclosures are causing a wide range of problems for cities, including delinquent utility bills, neglected property maintenance, and loss of property tax base. Many cities are looking for ways to help homeowners stay in their homes and to stave off the devastating consequences of foreclosures on the vitality of neighborhoods. State and federal policymakers are considering legislation to freeze foreclosures, increase homeowner education on the foreclosure process, prevent predatory subprime lending, and secure loans for homeowners at risk of foreclosure.

The housing slump is highly intertwined with the foreclosure crisis. The oversupply of homes on the market and the credit crunch has lowered home values, hurting local tax bases. Development-related revenues, like

building permit revenues, are falling short. In some communities, development that was planned for with investments in new infrastructure, such as streets and utilities, hasn't materialized. In those cases, cities are faced with debt obligations without additional revenue to meet them.

Both foreclosures and the slowdown in housing raise critical questions about the sustainability of heavy reliance on the property tax to fund local services. The effects of foreclosed vacant homes and falling home values have eroded local property tax bases. At the same time, cities are seeing their costs increase as they struggle to deal with the problems that foreclosures are causing. Resistance to the property tax is growing around the state and across the country at the same time that more cities are turning to property tax increases to meet these rising costs and the demand for services.

It is likely that Minnesota cities will be dealing with the challenges created by foreclosures and a stalled housing market for quite some time. The foreclosure crisis has brought the U.S. economy to the brink of recession, and financial markets are struggling. A tightening of credit for even traditional mortgages will mean more houses staying on the market longer. Experts don't foresee a turnaround in the housing market until late 2009.

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## Chapter 3: Pursuit of Energy Efficiency

### INTRODUCTION

The 2007 fiscal conditions survey asked cities to identify the technologies and initiatives they have implemented in order to increase energy efficiency. The first part of this chapter summarizes the survey results and gives some background on the energy efficiency movement among cities in Minnesota. The remainder of the chapter presents several case studies of Minnesota cities. The purpose of these case studies is to highlight efforts underway in cities across the state and to demonstrate that cities large and small have found ways to reduce their energy consumption. The cities that agreed to serve as case studies are Anoka, Apple Valley, Elk River, Minneapolis, Northfield, Rushford Village, and Wells.

### Background

As described in the first chapter of this report, 83 percent of Minnesota cities reported increases in prices, inflation, and cost of living in 2007. Rising energy costs are a component of the overall increase in the cost of doing business for cities. Local governments, including cities, are also increasingly aware of how their operations may contribute to climate change. Reports of cities increasing their energy efficiency and undertaking “green” initiatives abound. As of 2007, over 800 mayors in the United States and Puerto Rico had signed the U.S. Conference of Mayors Climate Protection Agreement.<sup>1</sup> Among the signees are 36 Minnesota mayors, who pledge to encourage state and federal leaders to enact policies to reduce greenhouse gas emissions.<sup>2</sup>

Facing rising energy costs, cities across the country are looking for ways to cut back on their energy consumption. Some technologies to increase energy efficiency may cost more upfront but offer significant cost savings down the road. For example, LED (light-emitting-diode) bulbs cost more initially than the incandescent bulbs traditionally used in traffic signals. Over its estimated seven-year lifespan, however, an LED bulb can save approximately 70 percent in energy costs and consume 80 percent to 90 percent less energy.<sup>3</sup> Changes that bring savings in 10 to 15 years or longer may make financial sense for projects that have a long lifespan like municipal buildings and other infrastructure. Several case studies cited long term cost savings as motivation. Cities may be eligible for rebates from the state or federal governments for implementing certain technologies aimed at cutting energy use. For example, Minneapolis received rebates from the state of Minnesota for installing solar panels on three of its buildings.

Efforts to improve energy efficiency may lead to job and economic opportunities for cities and their residents. As more cities and private entities implement technologies designed to reduce the need for energy, the demand for a workforce to develop, produce, install and maintain these technologies will grow. Growth in “green-collar jobs” could help boost local, state, and the national economies. The mayors of Minneapolis and St. Paul established a partnership in 2006 to find ways to encourage the development of a green manufacturing industry in the Twin Cities area. The city of Elk River has used its designation as Energy City as an economic development tool. The word “green” is sometimes politically charged, but the definition of “green”

*The Energy Star web site offers a calculator tool for users to estimate the lifetime cost saving of using compact fluorescent bulbs compared to incandescent bulbs: [www.energystar.gov/ia/business/bulk\\_purchasing/bpsavings\\_calc/CalculatorCFLs.xls](http://www.energystar.gov/ia/business/bulk_purchasing/bpsavings_calc/CalculatorCFLs.xls).*

goes beyond simply being environmentally friendly. A green building, for example, is one that is not only environmentally sustainable but also one that enhances the health and comfort of its occupants.

Other motivations to be green include a desire to combat pollution, meet environmental rules and regulations, create healthier work environments, and reduce a community’s impact on the environment. Cities can also play a significant role by setting an example and providing educational resources and support to individuals and groups.

**Actions by Minnesota cities**

The fiscal conditions survey asked Minnesota cities to describe the energy-efficient technologies and initiatives that they have implemented. The initiatives identified by cities range in cost and scope but even the smallest have the potential to make a positive impact. Replacing incandescent bulbs with compact fluorescents, for example, is a low-cost initiative that 56 percent of the 273 Minnesota cities that are pursuing at least one strategy to reduce energy consumption have already implemented. In fact, it was the most common energy-reducing action taken by cities. If 110 million American households replaced one 60-watt incandescent bulb with a 15-watt compact fluorescent bulb, the energy savings could power 2.5 million homes.<sup>4</sup> Several case study cities, including Anoka, Apple Valley, Northfield, and Wells, are using compact fluorescent light bulbs.

Many technologies, including compact fluorescent light bulbs, can be implemented in existing buildings without requiring major renovations.<sup>5</sup> Facilities can be fairly easily retrofitted with programmable thermostats and motion sensor lights. Both of these allow for unused portions of buildings to be “turned off” in order to conserve energy. Installing high-efficiency fixtures (e.g., low-flow toilets) and appliances also does not require major construction work. Many Minnesota cities are currently incorporating these technologies into their facilities (see Table 3A). Wells replaced an old heating and cooling system at its community center with two high-efficiency roof-top units.

**Table 3A: Percentage of Minnesota cities with building-related energy-efficient technologies/initiatives\***

Programmable thermostats	High-efficiency heating & cooling systems	Water efficient fixtures	Maximized use of natural light	High levels of insulation	Motion sensor lights	Window glazing	Wind turbines
47%	39%	24%	23%	20%	19%	12%	4%

(\*Throughout this chapter the percent of cities is of those that identified at least one energy-efficient technology/initiative.)

Other building improvements are more complicated. In order to maximize the use of natural light, some remodeling like adding skylights or moving office walls may be necessary. Apple Valley and Rushford Village designed their municipal buildings to maximize the use of natural daylight. Use of solar power for either heating or electricity generation is reported by 3 percent of Minnesota cities. Installing high quality insulation of sufficient thickness, glazing windows to minimize heat loss, and generating power with wind turbines are other initiatives that require larger up-front investments. Duluth recently installed six wind turbines on the roof of the city’s government center in hopes of saving on energy costs and emissions.<sup>6</sup>

Beyond making their buildings more energy efficient, cities can interact with the outdoor environment in several ways to reduce their negative impacts on air and water quality. For example, using native plants in landscaping has several benefits.<sup>7</sup> Native plants have adapted to survive local weather swings and are best equipped for the area's soil and water conditions. Maintaining native plants often costs less over time because they tend to be hardier, requiring less water and fertilizer. Nineteen percent of cities are using native plants (see Table 3B).

**Table 3B: Percentage of Minnesota cities with non-building-related energy-efficient initiatives**

Landscaping with native plants	Alternative fuel vehicles	Rain barrels	Water recycling	Expanded commuter options
19%	8%	5%	4%	4%

Other outdoor initiatives cities were asked about on the survey included water recycling (through green roofs or pervious paving surfaces), use of rain barrels, and alternative fuel vehicles. Using pervious surfaces or decreasing impervious surface area helps decrease water runoff. Reducing runoff lessens the loss of soil and nutrients, and protects groundwater. The city of Wells recently kicked off a community effort to plant rain gardens as a way to manage stormwater runoff. Rain barrels are another way to collect runoff from downspouts, storing it for later use in watering.<sup>8</sup> Green roofs can benefit both the outdoors, by reducing stormwater runoff and improving air quality, and its host building, through decreased energy costs and a longer roof lifetime.<sup>9</sup> Green roofs are growing in popularity in Minnesota. In 2007, a green roof was incorporated into the expansion of the Empire Wastewater Treatment Plant in Farmington.<sup>10</sup> St. Cloud has a green roof on its new community library.

Air quality is also improved through the use of alternative fuel vehicles. On the survey, 21 Minnesota cities indicated that their fleet includes alternative fuel vehicles. Several case study cities, including Minneapolis, Apple Valley, and Northfield have added alternative fuel and/or hybrid vehicles to their fleets. Anoka's public golf course will begin using electric golf carts this summer. Elk River's municipal utility company produces electricity from landfill gas.

A small share of cities are offering expanded commuter options such as expanded bus routes, carpooling, and park-and-ride options. All of these remove cars from the road, decreasing emissions and easing congestion. Getting people out of their cars and walking or biking to work, school, and other places can improve both the physical and environmental health of a community. The national Safe Routes to School initiative aims to make walking to school safer and more attractive to youth. Other goals include improving the air quality around schools by reducing the number of idling vehicles dropping off and picking up students, and reducing childhood obesity.<sup>11</sup> Rodgers, Mountain Iron, and Rochester are among 27 Minnesota cities that received funding in 2008 for projects to encourage walking to school.<sup>12</sup>

Cities across the state offered up other examples of their work to improve sustainability. Three cities reported performing energy audits. Doing an audit can provide a good baseline from which to measure future initiatives and identify areas in need of improvement. Babbitt reported using a geothermal heating and cooling system in its municipal building. Another city reported on its current effort to build an efficient water treatment plant that will recycle 90 percent of the community's backwashed water. Other responses included the use of low-energy lighting; conversion to LED bulbs in all traffic signals; peak energy management plans; use of in-floor heat; and installation of new doors, windows, and insulated roofing on municipal and community buildings.

Finally, Minnesota cities are also incorporating energy efficiency and sustainability into planning activities. Low-impact development (LID) is being embraced by communities seeking to meet state and federal environmental regulations. Andover recently hosted a forum on LID for city officials and developers.<sup>13</sup> Cities that have implemented LID concepts shared their projects and experiences. Burnsville partnered with residents to plant rain gardens as part of a street reconstruction project. Blaine is currently testing four pervious parking stalls in a city parking lot. Such stalls absorb storm water, decreasing runoff. Other communities are developing at higher densities, reducing sprawl and preserving land. A city's unique circumstances determine which initiatives are the most appropriate and feasible.

### **Case studies**

For the second time, the *State of the Cities* report includes several case studies featuring Minnesota cities. The case studies that follow highlight the range of energy efficiency initiatives pursued by cities across the state. Anoka, Apple Valley, Elk River, Minneapolis, Northfield, Rushford Village, and Wells were selected because they represent different regions of the state, population size, and development patterns. Their stories are offered to illustrate the kinds of opportunities that exist to reduce energy consumption, and to provide guidance to other cities that want to reduce their energy use. Each case study begins with a brief city profile and includes a short list of highlights to guide readers interested in particular initiatives.



## Anoka: Golfing Here is Green, on and off the Greens

### About the city

The city of Anoka, the Anoka County seat, is located where the Rum and Mississippi rivers meet in the northern Twin Cities metro area. Prior to its incorporation as a city in 1874, the land was claimed by the Dakota and Ojibwa tribes. The name “Anoka” comes from A-NO-KA-TAN-HAN, a Dakota word meaning on both sides of the river, and ON-O-KAY, the Ojibwa word for working waters. The city is home to more than 18,000 people and over 500 businesses. Major employers include Anoka Hennepin School District #11, Anoka County, Hoffman Enclosures, and Federal Cartridge Company. Anoka’s dual riverfront location and parks and trail system provide residents and visitors with many recreational opportunities.

### Establishing the green strategy

Anoka has owned a public golf course, Green Haven, since 1935. In addition to providing a gathering space for golfers, the clubhouse is host to many private meetings, banquets, weddings, and other events throughout the year. Green Haven experienced a decline in the number of golfers on its course from 2004 to 2006 as more golf courses opened. While the number of rounds played began to pick up in late 2006, the golf course’s aging infrastructure posed additional challenges. The city faced approximately \$600,000 in repair and maintenance costs to keep the clubhouse functional with the existing systems. These significant maintenance costs, along with high energy costs, motivated the city to look at other options.

Green Haven staff discussed energy-efficient building technologies with Johnson Controls, a company providing energy-efficient building technologies worldwide. The company studied the energy efficiency of the clubhouse and made recommendations for improvements to inefficient systems. Plans for the renovation included replacing the boiler and chiller with a high-efficiency computer-controlled system, replacing the current incandescent lighting with fluorescent lighting, and eliminating some doors and windows. The heating and cooling system would be controllable from any computer with an Internet connection, allowing staff to check in on the building at any time from any location. Energy efficiency would be increased by the ability to control the temperature in various parts of the building separately.

All recommendations were presented to the City Council at public meetings. Reaction to the proposal from elected officials was positive, largely because the energy and operating savings are expected to cover the cost of the project over the next 15 years. The recommendations included an estimate of annual cost savings—approximately \$35,600 in energy savings and \$39,900 in operations. Coupled with the expected environmental benefits, the significant cost savings made the decision to renovate an easy one. The projects fit very well with Anoka’s initiative to become more efficient in all areas of city spending. Finally, Johnson Controls guaranteed the savings



## Highlights of Anoka's Green Strategy

- *Computer-controlled, high-efficiency heating and cooling system*
- *Energy-efficient fluorescent lighting*
- *Computer-controlled, high-efficiency irrigation system*

and will reimburse the city should there be a shortfall. The contract was approved on a unanimous vote by the City Council in August 2007.

### Specific projects

To cover the estimated \$1 million cost of the renovations as well as the costs for other projects at the golf course, Anoka sold \$2.3 million in bonds. These other projects will also contribute to greater energy efficiency in the golf course operations. The outdated irrigation system is scheduled for replacement in the fall of 2008. The current system is very inefficient; approximately 60 percent of the water required by the system never makes it onto the course. Some of this water is lost each time the system requires maintenance because the system must be drained and then refilled. In addition to wasting water, the system consumes significant electricity. The new system is comprised of 950 sprinkler heads that are computer-controlled, allowing staff to target watering to just those areas that need it. The new system will not need to be completely shut down for maintenance, saving both water and electricity.

The city recently authorized the lease of a fleet of 54 electric golf carts. The city will own the golf carts after four years. Use of these new carts is expected to bring about significant savings on fuel, cut down on emissions, and reduce maintenance hours. Another project will increase the golf course's accessibility through a remodel of the back entrance at the clubhouse and the designation of handicap parking spaces.

### Ongoing efforts

The majority of the renovations to the clubhouse operating systems were completed in early February 2008. While it is too soon to determine whether the actual savings are equal to the projected savings, Green Haven staff and visitors are enjoying a more comfortable and reliable building. Now the city wants to expand the energy and cost savings to other city facilities. Johnson Controls is studying the energy efficiency of all other city buildings, and will make recommendations on potential improvements. The city will also conduct a space needs analysis to identify any inefficiencies stemming from the location and size of city facilities.

### Community awareness

City residents and golfers were informed of the various projects at Green Haven through news stories and posters that highlighted the cost and energy savings. Citizen reaction was similar to that of the Council—the environmental and cost benefits made it easy to support the effort. Because the upgrades to the operating systems were primarily behind the scenes, the clubhouse was able to operate as usual during renovation.

Cities may be motivated to undertake a project similar to the renovations at Green Haven by environmental or long term cost considerations. Green Haven staff suggests other cities looking to increase efficiencies in energy consumption and/or expenditures ask a lot of questions and examine similar projects. Cities should consider current technologies as well as those under development. The Green Haven project has raised awareness among staff of the potential ways to achieve cost and energy savings.



## Apple Valley: Green behind the Scenes

### About the city

The city of Apple Valley is located in Dakota County, a 20-minute drive from both downtown St. Paul and downtown Minneapolis. While it only recently became a statutory city (1974), Apple Valley has grown quickly and is now home to approximately 50,000 people. The city boasts over 700 shops and businesses and offers 50 parks. Two of the city's best known attractions are the Minnesota Zoo and Great Clips IMAX Theatre. Apple Valley is also home to the School of Environmental Studies (SES), located at the Minnesota Zoo.

### Establishing the green strategy

There are many reasons why the city sees going green as the right thing to do. Green initiatives bring not only environmental benefits, but they also improve the health and comfort of people. In addition, there are economic benefits to this strategy. Although green technologies and building materials can cost more up front, many bring cost savings in the long term. These are some of the reasons the city used green architecture when building its new municipal center. The city is also in the process of constructing a new liquor store and planning a new senior center, both with many green design elements.

Motivation for including green architectural features in the Apple Valley Municipal Center can be viewed from a multitude of perspectives. Municipal staff wanted to incorporate technologies and design features that contribute to a pleasant work environment. Maintenance staff sought mechanical controls that would increase their work efficiency and reduce operating costs over the long term. Elected officials wanted a building that was a good cost value and would serve the community for many years to come. City officials and the architect were concerned about environmental issues and wanted to create sustainable buildings with minimal negative environmental impact. These perspectives are also influencing how the city plans and designs its new liquor store and senior center projects.

### Specific projects

There is no plaque at the municipal center certifying its "greenness," and most of the technologies do not look out of the ordinary. The first thing many visitors to the municipal center do notice is the abundance of natural light. It's not until staff explain the environmental, health, and cost benefits of using natural light that visitors have an "ah-ha" moment and realize the green aspect of the lighting. This is just one of the many green features incorporated into the building, most of which are not as obvious. Except for students from SES, who regularly tour the building to learn about green technologies and see them in operation, most visitors do not notice all the features that make the municipal center green. Other elements of the green architecture include carpet made from recyclable materials and adhered with low-volatile organic compound adhesive, controllable heating and lighting systems to minimize use during non-occupied hours, and a system of drywells to encourage onsite infiltration of stormwater. Each of these features is green, in part, because they increase the livability and comfort of the building.



## Highlights of Apple Valley's Green Strategy

- *Maximized use of natural light*
- *Recycled-content carpeting*
- *Onsite stormwater management*
- *Zoned building controls*

Construction of the municipal center was completed approximately two years after the initial planning. The city did not encounter any unusual barriers related to permitting. As with most construction projects, however, certain elements posed challenges. For example, most activity at the facility occurs during weekdays, but City Council and other public meetings are usually held in the evenings. The city wanted to use controls that adjust heating and cooling based on occupancy. Therefore, the building had to be divided into zones with separate air-handling units. A building's location and other factors can place restraints on the type of technologies included. For example, the design of the municipal center used the existing police station, which limited the type of efficient lighting that could be installed.

The city has most recently faced weighing the costs and benefits of various green technologies for the liquor store project. For example, a rooftop garden was weighed against another concept that would incorporate more natural lighting through solar tubes, but would require more traditional roofing. Both concepts are green, but the city had to look at which better served its objectives. In the end, the city chose rooftop solar tubes that will capture sunlight and channel it down into the building, providing natural light and improving the environment for employees and patrons.

### Ongoing efforts

When the municipal center was in the planning stages, the city's architect developed an interest in energy-efficient design and became a Leadership in Energy and Environmental Design Accredited Professional (LEED AP). His knowledge allowed him to present the city with the best options given its goals and limitations. All of these objectives were realized in the design of the municipal center. Because green architecture is really about maximizing the use of the building for the long term, Apple Valley officials see consideration of green technologies as part of the city culture going forward.

The long term cost savings offered by many green alternatives motivates the city to continue a green strategy for future building design processes. The city looks beyond the green label to evaluate the cost efficiencies of each component. While some technologies have pay-back periods of five to 10 years, the 30- to 40-year life cycle of a public building makes them attractive despite the higher upfront costs. For example, the design for the liquor store project specifies a ground-source heat pump that will use the earth's temperature to heat and cool the building. While there are additional upfront costs associated with this investment, the city will not incur the cost of natural gas in heating the building. The goal in designing the liquor store is to maximize profits of the store over the long run. This will be met, in part, by incorporating green and energy-efficient components into the building, which reduce operating costs.

Other efforts to increase energy efficiency, improve health, and reduce costs are ongoing. The aforementioned SES high school—a partnership between the city, school district, and state—is dedicated to enhancing the relationship between people and their environment. It is powered in part by a wind turbine and solar panels. The city is also collaborating with other cities in Dakota County through the High Performance Partnership Project to develop and implement a countywide action plan to seek energy efficiencies and reduce greenhouse gases.

### Community awareness

While residents may be unaware of some green efforts, Apple Valley has other well-known environmental programs. The city has an active recycling program and highlights energy efficiency activities, such as the addition of a hybrid truck to the city's fleet, in its community newsletter. Several of these activities, including workshops on rain gardens and native plants, are featured on the city's web site.



## Elk River: This Is Energy City

### About the city

Elk River, the Sherburne County seat, is home to over 22,500 people. Established as a trading post at the junction of the Elk and Mississippi rivers, the city now covers 44 square miles. With over 500 businesses, the city had promoted itself as *The Light Industrial Hub of the Northwest Metro* and has now become a destination for energy- and technology-related businesses. An Elk River landmark, Great River Energy's (GRE) Elk River Station, was home to the nation's first rural nuclear power plant. The power plant at GRE began burning fuel derived from refuse in the 1980s, contributing to the designation of Elk River as "Energy City." GRE is one of the city's largest employers, with Independent School District 728, Sherburne County, Wal-Mart, and Guardian Angels of Elk River rounding out the top five.

### Establishing the green strategy

In 1996, the Minnesota Environmental Initiative sought a community that was willing to demonstrate leading-edge alternative energy and energy-efficient technologies. Elk River was selected from a list of over 30 communities and was named "Energy City" in 1997. The basic premise behind Energy City is that solutions to environmental problems need to make economic sense to be truly sustainable. Energy City is a unique coalition made up of governmental entities, industries, and environmentalists that meets on a monthly basis to identify potential leading-edge technologies and ideas that can have a positive impact on the environment.

The Energy City coalition is not focused on a single project but is instead an ongoing commitment to finding solutions to environmental problems that make economic sense. In this way, Energy City has become an integral part of the Elk River community. Today, 18 different technologies are demonstrated at 28 sites in the city, 25 of which are active and toured by groups from around the world. Energy City has evolved from a geographic focus point for demonstration projects to an integral part of city functions. City officials say it is difficult for city staff and officials not to be involved in resource conservation and renewable energy because of the Energy City demonstrations.

### Specific projects

Multiple examples of energy-efficient technologies can be found in Elk River. A utility-scale wind turbine, built in 2001, serves as a demonstration of renewable sources of energy. GRE uses fuel produced from municipal solid waste to generate power for approximately 30,000 homes. Elk River Municipal Utilities installed a landfill gas electric generating plant at the Elk River Landfill in 2002 to use this otherwise wasted resource. This facility currently serves 15 percent of the community's needs.

Elk River is home to the first gold LEED-certified library in the State, and one of the few gold LEED-certified school buildings in the country. Several municipal buildings are heated and cooled with geothermal heat pumps, which use the earth's temperature for heating and air conditioning. A rain garden demonstration project covering 14 acres at Elk River Ford dealership eliminated runoff at the site.



## Highlights of Elk River's Green Strategy

- *Refuse-derived fuel*
- *Wind turbine*
- *LEED standards*
- *Geothermal heat pumps*
- *Educational tours/  
demonstrations*

### Ongoing efforts

With support of the City Council, Elk River established the Energy City Commission in 2005 to manage Energy City activities. Through monthly meetings, the commission provides technical assistance to municipal and private-sector projects. The city's environmental and economic development departments provide support to Energy City coalition activities and use the coalition as a public relations tool. In turn, city staff, commission members, and corporate partners provide equipment, expertise, volunteers, and financial support for Energy City initiatives. The city will add an Energy City Coordinator position in 2008 to aid in program development and to increase transfer of demonstrated technologies to citizens and schools.

Funding for Energy City initiatives comes largely from the city of Elk River and other partners. Not relying on grants is intentional. The programs promoting energy-efficient and renewable energy technologies, services, and products, as well as other green technologies, have to make economic sense to truly be sustainable. City officials have found that relying on grant money can change the focus of projects, diluting their original intent.

### Community awareness

Much has been learned in the 11 years since the conception of Energy City. Its strength is in technical issues but it has had less success in promoting technologies. Going forward, the Energy City coalition will better utilize its partners with communication expertise. A reporter at the local paper has been involved in meetings for Energy City initiatives and routinely publishes editorials on activities in the paper. Tours of the demonstration sites and the Energy Expo increase awareness among residents. Residents and visitors can also learn about the city's initiatives by visiting the Energy City web site and the Environmental Learning Center.

Another partner in the Energy City coalition, Elk River Municipal Utilities, distributes information on energy efficiency to its customers. Over the last five years, the entity has provided over 8,000 compact fluorescent light bulbs, 750 air conditioner tune-ups, and 1,500 energy star appliance rebates. Raising public awareness is a key component of the Energy City coalition's latest initiative.

This latest initiative will turn the entire Elk River community into a "Green Community." The effort will start with a pilot project aimed at decreasing the use of electricity and natural gas, reducing the use of water, shrinking the waste stream, and cutting consumption of transportation fuel by homeowners. The pilot group will consist of 30 families who will receive a variety of resource conservation tips through workshops and home audits sponsored by the Energy City coalition. Leading-edge off-the-shelf devices and ideas will be identified to help participants achieve a high level of success. Results will be measured and shared frequently between participants and with the community at large on a periodic basis. Following the one-year pilot program, goals will be finalized and the community will be challenged to be green as part of a five-year program. The Energy City coalition will measure communitywide results and share them with the public.



## Minneapolis: Environmental Stewardship in the City of Lakes

### About the city

Minneapolis marks its sesquicentennial in 2008. The City has grown significantly in both population and land area over the past 150 years. From a riverfront milling town to a major urban center and the Hennepin County seat, the city now covers 59 square miles. Over 387,000 people call Minneapolis home and many more work in and visit the city. Minneapolis is also home to many regional and national corporate headquarters, 12 colleges and universities, 22 lakes, numerous parks, and diverse neighborhoods.

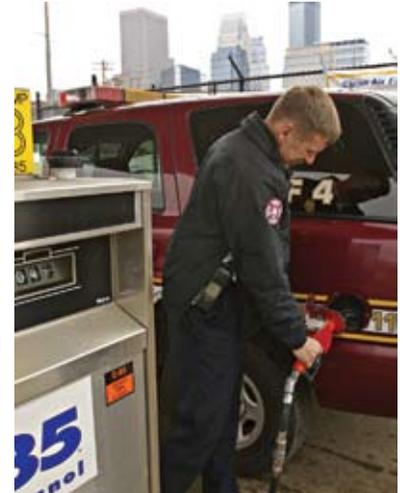
### Establishing the green strategy

Minneapolis is a leader in efforts to reduce climate change and find ways for local government to operate in a sustainable way. It was among the first 10 cities in the nation to sign the U.S. Conference of Mayors Climate Protection Agreement. In early 2008, it was named among the top green cities in the country. The city formalized its commitment to a sustainable future with the City Council's establishment of the Sustainability Initiative in 2003. Since then, the mayor and Council have created 24 sustainability indicators for evaluating the city's achievements. These indicators include climate change, renewable energy, air quality, tree canopy, permeable surfaces, brownfield sites, asthma, and lead poisoning. Each city department is required to incorporate those key indicators into its business plans.

The city hosted public roundtables to develop the indicators and brainstorm a 50-year vision for the city. The Environmental Coordinating Team, formed in 1994, is comprised of representatives of various departments and makes recommendations on the indicators program. The public is welcome to attend the team's meetings. Citizens also impact the city's plans through serving on the Citizens Environmental Advisory Committee. The Sustainability Initiative has guided the City Council in strengthening city ordinances to address climate change, changing the city's internal practices, and fostering partnerships with a wide variety of organizations working to reduce carbon emissions.

### Specific projects

One area the city has focused its green efforts on is transportation. The city has cut its fleet and replaced many of the remaining fleet with 25 hybrid and 132 flex-fuel vehicles. The city, along with Hennepin County, installed a joint E-85 (fuel that is 85 percent ethanol) fleet fueling station for their vehicles. A new anti-idling ordinance restricts idling time for many vehicles, including most city equipment. All diesel vehicles, including the fire trucks, use at least 20 percent biodiesel in the summer months and



## Highlights of Minneapolis' Green Strategy

- *Sustainability Initiative as part of city business model*
- *Alternative-fuel and hybrid vehicles*
- *LEED standards*
- *LED street signals*
- *Solar energy*

10 percent during the winter. Finally, the city has made more affordable the costs of public transportation (bus and light rail) for city employees and in 2007 employee participation increased by 20 percent. The mayor even drives a plug-in electric hybrid car!

Buildings are another focus of the city's efforts. The city has adopted LEED silver standards for new or renovated city facilities. The LEED program sets national benchmarks for high-performance green buildings. Many city staff members have taken LEED/green building training and some have become LEED certified. This knowledge base is critical to the city in incorporating LEED and green building standards into its various programs. A new maintenance facility will be LEED gold certified. City facilities use Energy Star appliances. The city has installed green roofs which lower heating and cooling costs, as well as rain gardens and pervious pavers, which reduce runoff into the groundwater. It also makes use of natural lighting in city buildings.

The city has completed solar energy projects at three of its buildings—a fire station and two public works facilities. Funding for all three projects came partially from a \$100,000 Great Cities Program grant administered by the U.S. Environmental Protection Agency. The city also received \$25,000 in solar energy rebates from the state. The energy cost savings to the city are estimated at \$62,000 over the life of the solar systems. The city recently received a \$2 million grant from the Xcel Energy Renewable Development Fund to build a 3,000-panel solar array on the roof of one of its larger facilities. When complete, it will be the largest urban solar array in the Upper Midwest and generate enough electricity to power about 80 homes. One option for the electricity that will be produced by the solar array is to recharge plug-in hybrid vehicles. The city, in partnership with St. Paul, was recently awarded a federal Department of Energy Solar Cities grant to help realize the goal of greatly increasing solar power in the area.

### Ongoing efforts

The city has also been implementing energy conservation improvements by replacing older equipment with newer technologies. For instance, nearly all of the street signals in Minneapolis have been changed from incandescent bulbs to LEDs. As a result, the city has reduced energy consumption nearly 6.8 million kilowatt-hours (kWh) per year—equivalent to the electrical consumption of 809 Minnesota homes. That saves \$484,000 per year and eliminates nearly 7,285 tons of carbon dioxide emissions. City parking ramps have made significant progress as well. The improvements at just one of the downtown ramps provide 1.35 million kWh per year worth of electricity savings. The changes implemented at the ramp include lighting modifications, evening setback of temperatures in heated and cooled areas, and modifications to control strategies on fans. Energy efficiency in city facilities is coordinated through the city's energy manager and there is an ongoing effort to identify and implement new technologies in the remainder of city facilities. The city's efforts also include planting 15,000 trees since 2003 in partnership with the Minneapolis Park and Recreation Board and others.

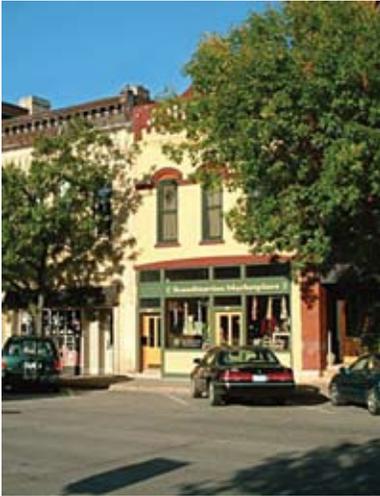
**Community awareness**

In addition to its efforts to reduce the carbon footprint of city facilities, Minneapolis officials also work to educate the public on green building strategies. The city web site offers a wide range of information on how to build or remodel a home with the environment in mind, including tips on solar power, low-flow shower heads, energy-efficient appliances, rain barrels, and roofing. In addition, Minneapolis participated in and promoted the first international Earth Hour on March 29, 2008, as a tool to encourage energy conservation among businesses and the general public. It has also hosted an international green roofs conference and implemented a pilot project with a nonprofit car-share program. City employees routinely give global warming presentations in the community.

Another way that Minneapolis is a leader in environmental stewardship and has created community awareness of green technologies is through its Climate Change project. The city became the first in the nation to offer small grants to grassroots groups working on promoting efforts to reduce greenhouse gas emissions to the public. In 2007, the program's first year, the city funded 25 projects and saw a 211 percent return on investment. Each grantee committed to promoting the Minnesota Energy Challenge, an interactive web site that allows users to calculate their carbon footprint and identify ways to reduce it. In total, the grant recipients registered 1,418 participants in the Challenge. The wide range of activities funded by grants included block parties and special events focused on energy conservation, teaching Somali women to ride bicycles, sharing electric lawnmowers, promoting mass transit to theater-goers, and door knocking to raise awareness of climate change. The city anticipates funding at least another 25 projects in its 2008 grant program.



## Northfield: Old Buildings, New Energy



### About the city

Northfield, located on the Cannon River in Rice County, is 42 miles south of Minneapolis and St. Paul. It was platted in 1855 as a milling town. The city is proud of its history, celebrating with an annual Defeat of Jesse James event to commemorate early residents' success in thwarting James's robbery attempt at the First National Bank. Northfield promotes itself as a city with both a small-town feel and a progressive urban atmosphere. The city is home to over 19,400 residents, approximately 4,000 of which are students at Carleton and St. Olaf colleges. Both campuses are powered partially by wind turbines. Major employers in the city include Malt-O-Meal, Multek, the two colleges, Northfield Public Schools, and the city itself.

### Establishing the green strategy

Northfield residents expect a lot from their city in terms of energy efficiency and want to see the city government work toward minimizing its carbon footprint. Over the past few years, the city has made some changes to increase its energy efficiency. First, the city's diesel fleet, including the city transit vehicles, was transitioned to biodiesel. This has resulted in lower maintenance costs at the public works facilities since the vehicles don't spew grit anymore. The city, however, is seeing significant increases in the price of biodiesel fuel as a result of the rise in ethanol production.) Second, the city replaced all of the traditional lights at its 1970s-era ice arena with energy-efficient bulbs. As a result, it has seen roughly a 3 percent to 4 percent energy savings.

### Specific projects

Northfield currently has several projects underway to reduce energy consumption in many of its older buildings, and secure better financial control over its operations. It worked with Johnson Controls, a firm specializing in identifying opportunities for reducing energy use in public and private buildings. The City Council approved multiple projects recommended by the company. Support for the city to work with Johnson Controls grew as a result of the local school district's successful projects with the firm.

All of the downtown street lights will soon feature high-efficiency fluorescent bulbs. The city will be installing new energy-management computer systems in its city hall, the water division, public works buildings, and the community resource building. The systems will allow city staff to monitor the heating and cooling mechanicals and turn off the systems when buildings are unoccupied.

### Ongoing efforts

Several building-specific changes are in the works as well. The Northfield City Hall is in an old elementary school building. The single-paned glass windows are very inefficient. The city plans to replace all of the windows with energy-efficient double-paned glass. The amount of glass will be reduced as well. The city's ice arena, built in the 1970s, will be updated in a couple of ways. The city will add insulation to the structure and install both a new compressor for ice making and a new dehumidification system. These high-efficiency systems will allow the city to maintain the ice for longer periods of time with less energy.

The community resource building will soon get new high-efficiency boilers, low-flow water conservation controls, and automated lighting controls to reduce energy consumption and save on utility costs. A dual fuel air quality system will be implemented at the wastewater treatment plant. The system, which can run on either electricity or propane gas, will allow the city to only use electricity during "off-peak" periods. Electricity use peaks at certain times of the day, typically the mid- to late-afternoon. During those times, the system can switch to propane gas. Finally, the city is home to two pools—one indoor and one outdoor. The water used to heat the pools will soon be warmed by solar power. Solar collectors will warm the base temperature of the pool water, requiring less energy to maintain the pool temperature.

Northfield has faced two main challenges in its efforts to become more energy efficient. First, the old mechanical systems in its various facilities did not have the capability for collecting data on how the systems were running. In other words, the city did not have benchmark data on energy use in its buildings. The city is gradually establishing databases in order to set benchmarks for evaluating the new mechanical systems. Second, convincing elected officials to support higher short-term costs in order to realize cost savings in the long term is difficult. That is often the place city staff find themselves when presenting energy efficiency initiatives to city councils. Elected officials must prioritize all the requests for spending that they receive. Northfield city staff worked hard to make the case that investments in the energy-efficient mechanicals and other systems were just as important as a new park or additional police officer.

A few Northfield City Council members are very supportive of carbon-reducing changes and championed the merits of the various energy-reducing projects during debate. Also, Johnson Controls has guaranteed the projected energy savings that the city will realize through implementing the different efficiency measures. The city will also look at financing future projects through the state Energy Investment Loan Program. These loans are designed to help cities, counties, and school districts finance energy efficiency improvements including heating and air conditioning systems, lighting modifications, and conversion to alternative fuels.

## Highlights of Northfield's Green Strategy

- *Biodiesel fleet*
- *Energy-efficient lighting*
- *Computer-controlled, high-efficiency heating and cooling system*
- *Dual fuel air quality system at wastewater treatment plant*
- *Energy Task Force*

### Community awareness

The broader Northfield community is very engaged in the topic of energy efficiency. Individuals and groups are active in finding ways to reduce energy consumption and raise awareness of climate change. The city has a long standing Environmental Quality Commission, which looks at a wide range of environmental and energy issues affecting the city and its residents. The two colleges each work on several initiatives to reduce energy consumption and each relies on a wind turbine for generating at least part of the electricity used on campus. In fact, St. Olaf is considering installing a second wind turbine, which may allow the school to be self-sufficient in terms of electricity (on windy days!). Also, the two major industrial employers, Malt-O-Meal and Multek, are looking at ways to recover and reuse their waste stream to reduce costs and energy waste.

In 2007, individuals and groups in this progressive community approached the mayor with an idea for a citizen group on energy efficiency. In response, the mayor formed the Energy Task Force and charged it with identifying ways that the community as a whole could reduce its carbon production. The group, comprised of private citizens and representatives of the two colleges, has been meeting over the past year and discussing ideas like new franchise fees on energy use and alternative energy sources. One of its first efforts was to determine what the carbon footprint of the community actually was. Compared to the two colleges and the community at large, city government has a fairly small footprint. The Energy Task Force will make recommendations to the City Council in the spring of 2008. Those recommendations will involve the entire community and not be limited to only things that city government should do.



## Rushford Village: Small Steps Make a Big Energy-Saving Impact

### About the city

The city of Rushford Village is located in rural Fillmore County, approximately 26 miles north of the Iowa border and 30 miles west of the Wisconsin border. The city is largely agricultural, with a small manufacturing sector and several small businesses. Recreation opportunities abound in the city, thanks to its location along state bike trails, a snowmobile trail, and the Root River. The city is subject to occasional minor flooding from the Root River and, in 2007, suffered major damage from the flooding of Rush Creek.

### Establishing the green strategy

With fewer than 800 residents, the city of Rushford Village is an example of the potential for cities of all sizes to be “green.” The city’s multiple small-scale projects have added up to large impact. Many of the city’s efforts are possible thanks to the “do what we can” attitude of the City Council. Rushford Village’s maintenance manager brings the same environmentally conscious ethic to his work. The combined knowledge base of elected and appointed officials and a shared awareness of green initiatives make pursuing such projects easier.

### Specific projects

The city has built two new city facilities with green technologies. The new city hall facility, built in 2001, has energy-efficient glass windows and skylights. The skylights often provide enough light in the summer months for staff to work without using the electric lights. The new maintenance facility has in-floor heat and is fully insulated. The old maintenance building had no insulation, making the building very inefficient.

While many cities finance energy-efficient projects and expect the cost savings to cover those obligations, Rushford Village saved for the new maintenance building over several years. The city operates off a small budget and tries to keep property taxes low. Keeping costs down and approving projects that the city can afford is important to the Council. Energy-efficient initiatives fit very well with this culture as they are often cost efficient over the long term.

The city’s Zoning Board encourages the inclusion of green and energy-efficient technologies when evaluating building permits. A recent example is the new headquarters facility for the Tri-County Electric Cooperative, which is under construction in the city’s industrial park. The building will incorporate several green technologies. Temperature will be controlled with a ground source heat pump, and the roof will have a reflective white coating to reduce heat absorption. In addition, the building will have centrally controlled energy-efficient lighting. The facility will also collect rainwater for onsite irrigation. The city will soon repave and widen the entrance to the industrial park and will recycle the existing blacktop paving.



## Highlights of Rushford Village's Green Strategy

- *Maximized use of natural light*
- *High levels of insulation*
- *In-floor heat*
- *Energy-efficient policies and practices for building operations*

One initiative that residents are actively involved in is the city's recycling program. Several years ago the city began to explore options for a citywide garbage pick-up program. The city had a serious problem with individuals, mostly non-residents, dumping garbage and unwanted large appliances in roadside ditches. After evaluating the costs of several different options, the Council decided to offer weekly garbage and recycling collection. The program is fully funded with tax dollars so there are no charges to residents and no time, money, or paper wasted in sending out monthly bills. Unlike programs in neighboring communities, the city's program collects recyclables in plastic totes, and garbage in wheeled bins, instead of requiring residents to purchase plastic bags for collection. This keeps the additional bags out of landfills and animals out of the garbage. Now in its fourth year, support for the program has been overwhelming. Staff feel that the program is one of the best initiatives the city has undertaken. Employees of the company that runs the service have commented that Rushford Village is now one of the cleanest rural areas they've seen.

In addition to weekly recycling, the city holds two community clean-up weekends each year. Residents can drop off large appliances and other unwanted refuse for a fee. Clean-up days not only keep these appliances and other rubbish out of the ditches but help fund the city's parks. Maintenance staff sort through collected materials and sell any salvageable metals. The city recently ordered a new play park using funds from selling recyclable metals to cover the \$6,077 cost. Although saving for the equipment took five years, using funds from sales of recyclables helps the city limit growth in its tax levy.

### Ongoing efforts

The city finds numerous small ways to reduce both energy consumption and cost. One example is lighting the 30 miles of streets in the city. Previously, when a light would burn out, the city would replace just that bulb, incurring both the expense of the replacement bulb and the services of the electric company. Now when one goes out, all bulbs are replaced. Instead of calling the electric company as often as once a month, the city only needs replacement services every few years. This system yields better service because older bulbs consume the same amount of energy as newer bulbs but give off less light, decreasing visibility and safety.

Other small initiatives that contribute to increased energy efficiency include a dusk-to-dawn schedule for streetlights, maintaining a temperature of 50 degrees at the community center when it is not in use, and turning off all power strips in city hall at night. These efforts eliminate unnecessary energy use and save on costs. To minimize pollutants in the groundwater, the city's maintenance manager controls weeds by cutting them as low as possible instead of using chemicals.

No large projects or new city facilities are planned for Rushford Village in the near future. The city continues to look for energy efficiencies and environmentally responsible options in all areas of city operation. One idea that has been discussed recently is using fly ash, a residual material produced by coal-burning electric plants, in concrete. Adding the fly ash to concrete decreases the amount of cement needed. The production of cement requires large amounts of energy. This would also avoid disposing of fly ash in a landfill.

**Community awareness**

The city evaluates options for projects and programs, choosing the energy-efficient alternative when it makes sense from a practical and cost standpoint. These decisions can add up to substantial benefit. For example, choosing the recycling program that uses totes instead of bags keeps an estimated 15,600 bags out of the landfills each year and minimizes waste along the roadways. The city hopes to build enthusiasm and support for future green projects. Updates on projects and programs are published in the city newsletter, and residents are invited to meetings.



## Wells: Rainy Days Will Be Green Days



### About the city

Wells, home to just over 2,500 residents, is located in rural Faribault County, approximately 35 miles north of the Iowa border. Wells was originally incorporated in 1871 and, as the first railroad town in the county, became a grain shipping hub. The community honors its agricultural industry with an annual Kernel Days celebration. In addition to its agricultural industry, the community has a municipal airport, two large parks, and a central business district with an active main street. With a tax base that is largely residential, the city is promoted as a welcoming community a short commute away from larger employment centers.

### Establishing the green strategy

Although a smaller community, Wells city staff and residents are taking steps to make the city green inside and out. Many motivators have been behind the city's efforts—cost savings, environmental concerns associated with runoff, and a desire to improve indoor air quality and health. The city's efforts started with making improvements at the Wells Community Center, since it had some obvious inefficiencies. Some of these improvements were made possible through a grant from the Public Utilities Commission (PUC). The city has also made changes to manage stormwater, and it is currently planning improvements to its old City Hall building.

### Specific projects

The Wells Community Center has received two upgrades in the last several years that increase the building's energy efficiency and decrease operating costs. The center's old heating and cooling system was very inefficient—the heat would come on in the summer and, despite cool temperatures outside, the air conditioning would kick on in the winter. The community center offers daily senior dining services and is available to rent for meetings, receptions, and other events but is not used for long periods every day. Even though it is not occupied as often as other city facilities, the community center had the highest electric bills of any municipal building.

Based on these high energy bills, city staff brought the idea of a more efficient operating system to the City Council. After putting out a request for proposals and reviewing several bids, the Council decided to replace the outdated system with two rooftop units. The upfront cost of \$22,500 was offset by an estimated payback period of 5 to 7 years. The new system has performed better than expected—the city saved approximately \$5,000 in energy costs in the first year. The payback period is now expected to be between 4 and 5 years.

The community center got a second energy-efficient upgrade in early 2008, thanks to the Wells PUC. The PUC, a member of the Southern Minnesota Municipal Power Agency (SMMPA), has funds for projects that increase energy efficiency. SMMPA is dedicated to providing efficient and environmentally sensitive power to its member municipal utility providers through a culture they describe as “finding a better way.” The Wells PUC approached the city about replacing 73 light fixtures in the community center with new efficient fixtures and bulbs. The PUC paid for all materials—approximately 200 light bulbs were installed—and performed the retrofit at no cost to the city.

Another major initiative has to do with stormwater management. Visitors to Wells may soon notice many new gardens on both public and private land. The city’s community development director recently organized a group of residents to look at planting rain gardens throughout the city. Rain gardens do more than add color to the landscape. They serve as catch-basins for runoff from flat roofs, parking lots, and other impervious surfaces, filtering the water as it seeps down to the groundwater. By capturing runoff, rain gardens help keep pollutants out of rivers, lakes, and streams and increase groundwater levels. Planting a rain garden is a relatively simple yet effective measure that both public entities and private citizens can take. Educating residents on stormwater management is also part of a countywide program offered by the Faribault County Soil and Water Conservation District.

The city’s high-rise apartment complex is one potential candidate for a rain garden. Planting a rain garden would help mitigate impact from the additional runoff created by a new impervious parking lot at the site. Another potential site is the Wells Golf Course, where the garden would also function as a water hazard. The city will hold a community meeting this spring to educate residents on planting and maintaining a residential rain garden. The city’s clay soil may pose a challenge for installing rain gardens but one the city and community are up for. Making the outdoors more environmentally friendly through rain gardens is the first community driven “green” effort in Wells.

### **Ongoing efforts**

A rain garden is also one of the strategies the city is considering for improving environmental sustainability at city hall. The city may purchase the vacant lot next door to its offices for a small park with a rain garden to catch runoff from the facility. The building is also in need of other upgrades. Built in 1956, City Hall is showing its age. The building is controlled by an old inefficient operating system that heats in the summer and cools in the winter. Employees and visitors to the building suffer from a lack of ventilation and good air quality. Built before accessibility requirements were established, the building is neither handicap-accessible nor compliant with the federal Americans with Disabilities Act. City staff recently brought these concerns to the attention of the City Council.

## Highlights of Wells' Green Strategy

- *High-efficiency rooftop operating systems*
- *Energy-efficient lighting*
- *Communitywide rain garden project*
- *Hired architect with green building experience for future projects*

Early on, the city explored constructing a new facility but abandoned the idea because a new building wouldn't solve problems with the existing facility. Wells is now working with Paulsen Architects, a Mankato-based firm and U.S. Green Building Council member, which designs with environmental, fiscal, and physical health in mind. The firm is helping the city sort through options—such as a green roof—to improve the efficiency of the existing structure. Initial cost estimates on proposals for the City Hall project have come back twice what was expected, raising concern over how to finance the project.

With concerns about the economy and jobs on the minds of residents, spending on streets or sewer projects is often an easier sell for city officials. Like the lighting project at the community center, funding may come from outside the city. The City Council has proposed asking the PUC to replace the lighting at City Hall. Grant programs through the U.S. Department of Agriculture and a financing program with Honeywell are also being explored as options. While funding for the City Hall project is still uncertain, the Council is open to pursuing the improvements because of the positive experiences the city has had improving energy efficiency at the community center.

### Community awareness

While residents are actively engaged in the rain garden effort, most are unaware of the energy efficiency upgrades at the community center. The City Hall project has received slightly more attention, likely because it is a longer project and involves a hired architect. There is a general understanding in the community of the need to upgrade city facilities.

## CONCLUSION

Cities across Minnesota are making changes both big and small to increase their energy efficiency. One motivation for these changes is the rising energy costs cities face. Other motivations for doing so include growing operating and maintenance costs associated with inefficient systems, increasing awareness of climate change, and a desire to create healthier indoor environments and to fulfill environmental regulations.

More than half of Minnesota cities responding to the fiscal conditions survey indicated that they've implemented at least one initiative to increase energy efficiency. The most common initiatives reported were building-related technologies or techniques, such as programmable thermostats, high-efficiency heating and cooling systems and water efficient fixtures. Landscaping with natural plants was the top non-building-related initiative identified by cities. Other initiatives included adding alternative-fuel vehicles to the city fleet; expanding commuter options; and recycling water through rain barrels, rain gardens, or green roofs.

The case studies highlighted seven cities' efforts to increase energy efficiency. Anoka recently completed an energy-efficient retrofit of the city's public golf course; electric golf carts will be added this summer. Apple Valley's municipal building incorporates many green architectural features, many of which will also be included in future city facilities. Elk River is host to multiple energy-efficient demonstration projects, coordinated by the city's Energy City coalition, and will soon kick off a citywide green challenge. Minneapolis has also implemented many projects to increase efficiency, including the city's Sustainability Initiative, incorporation of LEED standards in building city facilities, and use of alternative-fuel and hybrid vehicles. Northfield is in the process of giving many older city buildings energy-efficient upgrades. In addition to incorporation of several energy-efficient building technologies, Rushford Village also offers citywide recycling and biannual community clean-up days. The city of Wells recently launched a communitywide rain garden project that will help control the city's stormwater runoff. These stories show the possibilities for cities of all sizes to reduce energy consumption.

- 1 Mayors Climate Protection Center. [www.usmayors.org/climateprotection](http://www.usmayors.org/climateprotection). 2007.
- 2 Mayors of the following 35 Minnesota cities had signed the U.S. Mayors Climate Protection Agreement as of April 2008: Apple Valley, Aurora, Austin, Bemidji, Buhl, Burnsville, Chisholm, Duluth, Eagan, Eden Prairie, Edina, Golden Valley, Hibbing, Hutchinson, International Falls, Lake City, Mahtomedi, Milan, Minneapolis, Mountain Iron, Nevis, Park Rapids, Red Wing, Rochester, Rosemount, Roseville, Sauk Rapids, St. Cloud, St. Paul, Sunfish Lake, Tower, Turtle River, Virginia, White Bear Lake, Winona and Woodbury.
- 3 Consortium for Energy Efficiency. [www.cee1.org/gov/led/led-cost.pdf](http://www.cee1.org/gov/led/led-cost.pdf). 2002.
- 4 Mayors for Climate Protection: Cool Leaders, Profitable Solutions. [www.coolmayors.com/common/11061/?clientID=11061](http://www.coolmayors.com/common/11061/?clientID=11061). 2007.
- 5 The Minnesota Pollution Control Agency offers extensive information on sustainable building costs, benefits, practices, products, and materials and other information, including case studies, financing information, and other resources. [www.pca.state.mn.us/oea/greenbuilding/index.cfm](http://www.pca.state.mn.us/oea/greenbuilding/index.cfm).
- 6 "Duluth government center adds wind turbines to supply electricity." *Star Tribune*. February 14, 2008. [www.startribune.com/templates/Print\\_This\\_Story?sid=15634687](http://www.startribune.com/templates/Print_This_Story?sid=15634687).

- 7 The Minnesota Office of Environmental Assistance produced a fact sheet with information on the benefits of native plants and resources for landscaping. [www.pca.state.mn.us/oea/greenbuilding/eco-home-landscape.pdf](http://www.pca.state.mn.us/oea/greenbuilding/eco-home-landscape.pdf).
- 8 More information on rain barrels can be found on the University of Minnesota Extension Services web site: [www.extension.umn.edu/info-u/environment/BD459.html](http://www.extension.umn.edu/info-u/environment/BD459.html).
- 9 The Minnesota Green Roofs Council offers information on the benefits and types of green roofs and other resources: [www.mngreenroofs.org/](http://www.mngreenroofs.org/).
- 10 Minnesota Green Roofs Council: Online Green Roofs Directory: [www.mngreenroofs.org/node/269](http://www.mngreenroofs.org/node/269).
- 11 Safe Routes to School Guide. [www.saferoutesinfo.org/guide/index.cfm](http://www.saferoutesinfo.org/guide/index.cfm). 2006.
- 12 “Rodgers to receive \$171,500 for Safe Routes to School projects.” *Press & News*. March 17, 2008.
- 13 Hagen, Eric. “Ecologically friendly development tips discussed at forum in Andover.” *ABC Newspapers*. December 26, 2007.

# Appendix: Fiscal Conditions Survey

Table APP-A: Survey response rates for all participating states

	Completed Surveys	Total Members	Response Rate
Connecticut	38	143	27%
Illinois	563	1,298	43%
Iowa	336	875	38%
Kansas	199	627	32%
Michigan	152	533	29%
Minnesota	467	830	56%
Missouri	168	652	26%
North Dakota	80	357	22%
Oregon	72	241	30%
Pennsylvania	26	83	31%
South Dakota	114	310	37%
Tennessee	84	347	24%
West Virginia	44	232	19%
<b>Total</b>	<b>2,343</b>	<b>6,528</b>	<b>36%</b>

## 2008 Multistate Fiscal Conditions Survey—All States

**1. Overall, would you say that your city is better or less able to...**

a. Meet financial needs in fiscal year 2007 than last year? (*check one*)  Better Able  Less Able

b. Address its financial needs in the next fiscal year (2008) compared to this fiscal year? (*check one*)  Better Able  Less Able

**2. Please indicate whether FY2006 revenue shortfalls in the following areas were less than 10% or greater than 10% as a percentage of funding expected from each revenue source:**

*Check one box for each item on the list below. Shortfall = actual receipts fell below predicted or budgeted receipts. Not all revenue sources are available to cities in all states—in this case, please mark “not authorized.”*

	No Shortfall	Shortfall <10% of Expected	Shortfall >10% of Expected	Not authorized in my city
a. Property Tax Revenues.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Fees, charges, license revenues.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Sales tax revenues.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Local income/commuter tax revenues .....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Lodging, restaurant, amusement, other tourist-related taxes...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. State revenues.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Federal revenues.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**2008 Multistate Fiscal Conditions Survey**

**3. Please indicate in Part A whether there has been an increase, a decrease, or no change in an item between FY2006 and FY2007 for your city. Please indicate in Part B whether it had no impact, a moderate impact, or a major impact on your city's overall FY2007 budget.**

*Check one box in Part A and one box in Part B for each item.*

	<u>PART A: CHANGE</u>			<u>PART B: IMPACT</u>		
	Increase	No Change	Decrease	No Impact	Moderate Impact	Major Impact
a. Value of city tax base	<input type="checkbox"/>					
b. Service needs of new development	<input type="checkbox"/>					
c. Amount of federal aid to city	<input type="checkbox"/>					
d. Federal environmental mandates	<input type="checkbox"/>					
e. Federal non-environ. mandates	<input type="checkbox"/>					
f. State environmental mandates	<input type="checkbox"/>					
g. State non-environ. mandates	<input type="checkbox"/>					
h. Restrictiveness of state tax and expenditure limits on cities	<input type="checkbox"/>					
i. Public safety needs	<input type="checkbox"/>					
j. Infrastructure needs	<input type="checkbox"/>					
k. Human service needs	<input type="checkbox"/>					
l. Education needs	<input type="checkbox"/>					
m. Cost of employee pensions	<input type="checkbox"/>					
n. Cost of employee health benefits	<input type="checkbox"/>					
o. Employee wages and salaries	<input type="checkbox"/>					
p. Prices, inflation, cost of living	<input type="checkbox"/>					
q. Population (# of people in city)	<input type="checkbox"/>					
r. Health of local economy	<input type="checkbox"/>					

**4. Please indicate which actions your city has taken in FY2007 for the 2008 fiscal year:**

*Check one box for each item on the list; if your city does not have authority to take action regarding an item, please check the "not authorized" box.*

	Significant Increase in 2008	Slight Increase in 2008	Maintain	Slight Decrease in 2008	Significant Decrease in 2008	Not Auth. in my city
a. Taxes.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Reliance on ending balances/reserves....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Fees/charges/licenses increases.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Growth rate of operating spending.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Actual infrastructure spending.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Actual public safety spending.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Other spending.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Service cutbacks/elimination.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Privatizing or contracting out.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Productivity levels.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Number and/or scope of interlocal agreements or other cost-sharing plans...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l. Size of city government workforce.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**2008 Multistate Fiscal Conditions Survey—Minnesota Add-On Questions**

**5. Please indicate which of the following issues your city has experienced as a result of residential foreclosures:** *Check all that apply.*

- a. Costs to reconnect homes to utilities
  - b. Increased demand for public safety services
  - c. Property maintenance problems
  - d. Increased crime rates
  - e. Increase in dangerous property conditions
  - f. Increase in vandalism to vacant properties
  - g. Increase in arso ting new residents and/or businesses
  - h. Foreclosure of rental n of vacant properties
  - i. Declining property value
  - j. Difficulty in attrac properties
  - k. Conversion of owner-occupied units to rental
  - l. Delinquent utilities service fees and/or taxes
  - m. Problems collecting delinquent utility bills
  - n. Delinquent property tax payments
  - o. Delinquent nuisance abatement charges
  - p. Other
- (please specify): \_\_\_\_\_

**6. Of the issues that you selected above, which ONE has had the greatest impact on your city?**  
 (Indicate corresponding letter): \_\_\_\_\_

**7. Please estimate your city’s total revenues from cable and video franchise operations in FY2007:**  
 \$ \_\_\_\_\_

**8. Many local governments are working to become more energy efficient. Please indicate which of the following your city has implemented. Please also indicate if you would be willing to be a case study city for a League project that will highlight local initiatives related to energy efficiency.**

*Please check all that apply.*

- a. High levels of insulation
  - b. Window glazing to minimize heat loss
  - c. Maximized use of natural light
  - d. Solar heating (of either air or water)
  - e. Solar electricity generation
  - f. Wind turbines
  - g. Water efficient fixtures
  - h. High efficiency heating and cooling systems
  - i. Motion sensor lights
  - j. Programmable thermostats
  - k. Compact fluorescent light bulbs
  - l. Alternative fuel vehicles (ethanol, hybrid technology)
  - m. Expanded commuter options
  - n. Water recycling through green roofs or pervious paving
  - o. Landscape with native plants
  - p. Rain barrels to collect and reuse rainwater
  - q. Other
- (please specify): \_\_\_\_\_
- r. **Yes, my city is willing to be a case study city.**

**9. The League is working with the Association of Minnesota Counties and the Minnesota School Boards Association to highlight local government collaborations. If your city has undertaken a cost- or service-sharing collaboration with a county, a school district, or both – regardless of its success – please tell us about it:**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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