



## State of the Cities 2011 In-depth Analysis: Preferences and Expectations

### Background

For the 8<sup>th</sup> year, the League of Minnesota Cities sent its members a fiscal conditions survey. The annual survey asks several core questions about key revenue shortfalls, budget-balancing actions, and general fiscal outlook. The 2011 survey also asked city officials about many timely issues, including collaboration and resident views of taxes. The main findings of the core survey questions are available from the [League](#). Results for the additional questions will be released separately in mini reports. The topics are:

- Barriers to Collaboration
- Drivers of Change in Cities
- Property Taxes and Service Expectations

This short paper relays the findings on two questions from the fiscal conditions survey. The first focused on resident preferences for property tax increases or service cuts or some combination of those two options. The second asked respondents to gauge the extent to which a disconnect between service expectations and willingness to pay property taxes for those services exist among community members.

### Budget-Balancing Approaches

In considering solutions to the state's budget problem—a deficit of \$5.1 billion for the current biennium—state policymakers largely focus their debate on the merits of raising new revenues as opposed to reducing the number and/or level of services provided. While the state has multiple major revenue sources to examine, the options for cities on the revenue side are much more limited. The major revenue sources for cities are property taxes, fees and charges, and state aid. Only the first of these two are within local officials' control. The table below shows city officials' perception of how residents in their communities view the revenue vs. cuts debate at the local level.

Preferred budget-balancing approach	Share of respondents
Prefer higher property taxes in order to avoid service cuts	6%
Prefer service cuts in order to avoid any increase in property taxes	25%
Prefer combination of the 2 approaches—some cuts, some tax increases	44%
Don't know/not sure	21%

Nearly half of the city officials that responded to the survey indicated that residents of their communities preferred an approach to budget challenges that included some tax increases and some service cuts. That only six percent perceive residents wanting to pay higher taxes in order to avoid reductions to local services likely reflects two trends. Resistance to the property tax has been growing in recent years. The economic recession and slow recovery have also taken a significant toll on the financial stability of homeowners and businesses. Paying more in property taxes is just not feasible for many and city officials take that into consideration when deliberating over property tax increases.

The 2011 fiscal conditions survey also asked city officials to judge the accuracy of the following statement for residents in their communities: *There is a disconnect between what people demand/expect from their city government and what they are willing to pay for.* The table below summarizes their responses.

<b>Response</b>	<b>Share of respondents</b>
True for most residents of my city	32%
True for some residents of my city	39%
True for only a few residents of my city	14%
Not true for any residents of my city	1%
Don't know/not sure	11%

As the table shows, just over one third of city officials think that a disconnect exists between service expectations and willingness to pay for some residents of their communities. About a third perceive that the statement is true for most residents. Almost three out of four city officials, therefore, report that at least some residents don't closely connect what they expect and demand from government with what they are willing to pay for. Clearly, this issue complicates the discussions going on around the state about how to address ongoing and serious budget challenges, including cuts to state aid, ongoing resistance to the property tax, the impact of the economy, and demographic changes that result in new and/or growing service needs.

As the state's own budget problems continue to result in significant reductions to state aid and credit reimbursements, city leaders are having to make very tough choices about what services to provide, how to provide them and at what level. Those choices are made more complicated because local officials know that overall the property tax is the least favored tax and that residents and businesses are also still reeling from the effects of the economic recession and slow recovery. Further, the aging of the population and the increasing diversity of the population create new and changing service needs. Older residents, for example, are more likely to demand additional sidewalk lighting or more benches in parks. Increasing ethnic diversity raises the need for things like translation services.