



NAIOP

COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION

MINNESOTA CHAPTER

Exploring the Relationship Between Local Government Spending Decisions and Rising Property Taxes and Revenue Demands



with research support from



Why do local property taxes go up?
What are the key factors driving local government costs?

Local budgets are typically presented by program area such as public safety, parks, public works, etc.

To complement spending information by program, we propose that object code information be added.

We have created an object code-based budget presentation which would:

- Highlight cost drivers and trends
- Connect cost drivers to property tax changes
- Enable taxpayers to easily:
 - Identify critical issues
 - Ask questions with confidence
 - Better understand the financial challenges confronting local elected officials, now and in the years to come

How Property Taxes Fit Into a Local Government's Budget

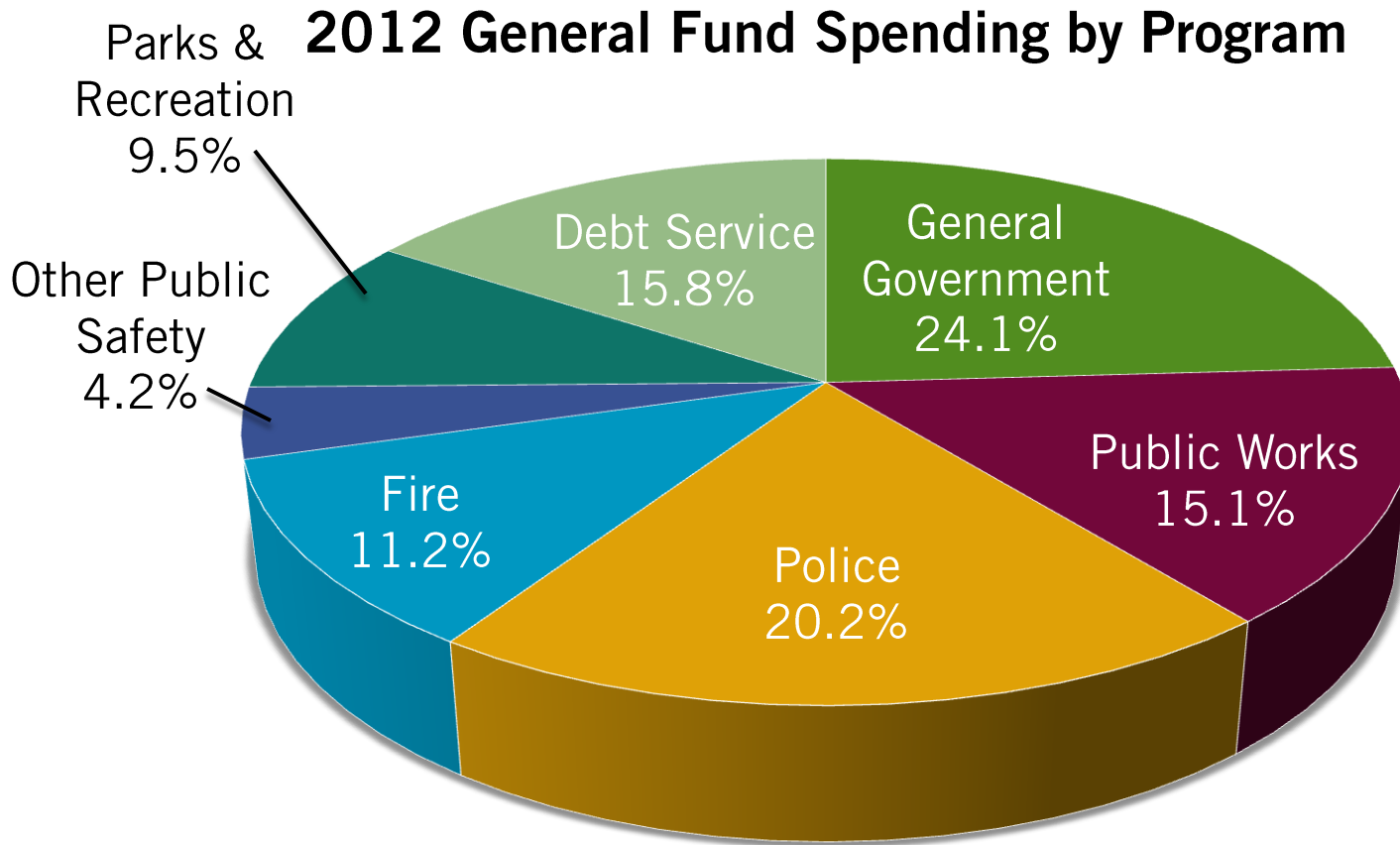
In Thousands (\$000)

	2009 Actual	2010 Actual	2011 Estimated	2012 Budgeted	2011-2012 Change		2009-2012 Change	
					Amount	Pct	Amount	Pct
Total Spending	40,554	41,555	39,478	42,069	2,591	6.4%	1,515	3.7%
Total Non-Property Tax Resources	11,018	11,143	9,256	12,938	3,682	33.4%	1,920	20.7%
Property Taxes Needed to Make up the Difference	29,536	30,412	30,222	29,131	(-1,091)	(-3.7%)	(-405)	(-1.3%)

Breakdown of Local Government Revenue Sources

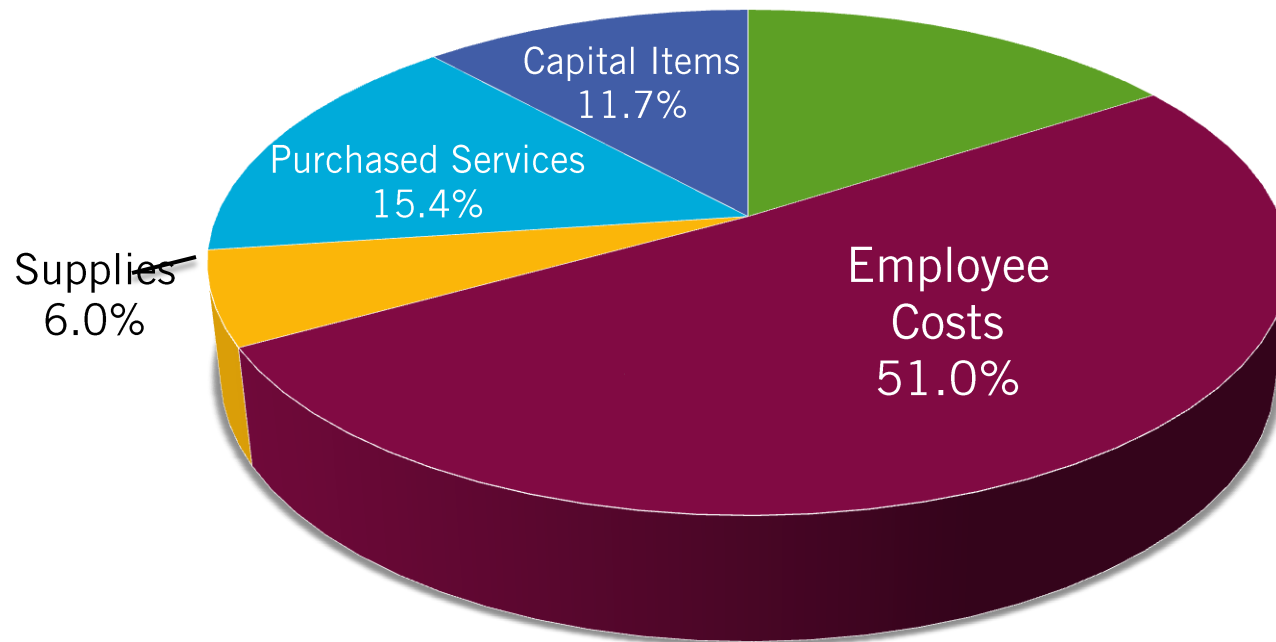
Revenue Source	2009 Actual	2010 Actual	2011 Estimated	2012 Budgeted	2011-2012 Change		2009-2012 Change	
					Amount	Pct	Amount	Pct
Property Taxes	29,536	30,412	30,222	29,131	(-1,091)	(-3.6%)	(-405)	(-1.4%)
Special Assessments	565	1,509	1,817	1,817	<1	<0.1%	1,253	221.9%
Franchise Taxes	647	668	640	650	10	1.6%	3	0.4%
Local Government Aid	0	0	0	0	0	NA	0	NA
Other State Grants/Aids	806	780	770	721	(-49)	(-6.4%)	(-85)	(-10.6%)
Federal Grants/Aids	203	383	197	197	0	NA	(-6)	(-2.8%)
County & Local Grants/Aids	69	68	68	105	37	54.1%	36	51.4%
Fees and Charges	3,040	2,759	2,795	2,734	(-61)	(-2.2%)	(-306)	(-10.1%)
Licenses and Permits	2,886	2,081	2,321	2,309	(-11)	(-0.5%)	(-576)	(-20.0%)
Fines and Forfeits	1,073	1,225	1,173	1,027	(-146)	(-12.4%)	(-46)	(-4.3%)
Investment Income	826	277	270	297	27	9.8%	(-530)	(-64.1%)
Operating Revenues	4	3	314	3	(-310)	(-99.0%)	(-1)	(-17.8%)
All Other Revenues	371	488	411	410	(-2)	(-0.4%)	38	10.2%
Subtotal – Revenues	40,026	40,653	40,998	39,401	(-1,596)	(-3.9%)	(-625)	(-1.6%)
Transfers from Other Funds	1,213	969	765	765	0	NA	(-448)	(-36.9%)
Use of (Addition to) Fund Balance	(686)	(66)	(2,285)	1,903	4,188	NA	2,589	NA
Total Resources Available	40,554	41,555	39,478	42,069	2,591	6.6%	1,515	3.7%

Government Spending Reported by Both Program and Object Code



Government Spending Reported by Both Program and Object Code

2012 General Fund Spending by Major Object Code Categories



Present Spending by Major Object Code with Detail on Employee Costs, the Largest Cost Driver

Spending by Object	2009 Actual	2010 Actual	2011 Estimated	2012 Budgeted	2011-2012 Change		2009-2012 Change	
					Amount	Pct	Amount	Pct
Employee Costs	20,335	20,450	20,730	21,462	731	3.5%	1,126	5.5%
<i>Salaries & Wages</i>	16,134	16,321	16,282	16,692	410	2.5%	559	3.5%
<i>Pension</i>	1,396	1,484	1,518	1,641	123	8.1%	244	17.5%
<i>FICA</i>	718	713	710	793	83	11.7%	74	10.3%
<i>Healthcare</i>	1,541	1,506	1,755	1,954	199	11.4%	413	26.8%
<i>Other</i>	546	476	465	382	(-83)	(-17.9%)	(-164)	(-30.1%)
Supplies	2,459	2,190	2,492	2,528	35	1.4%	68	2.8%
Purchased Services	6,582	6,685	6,870	6,498	(-372)	(-5.4%)	(-84)	(-1.3%)
Capital Items	2,081	2,242	4,115	4,942	827	20.1%	2,861	137.5%
Debt Service	8,622	9,189	5,271	6,640	1,369	26.0%	(-1,981)	(-23.0%)
Transfers to Other Funds	475	750	0	0	0	NA	(-475)	(-100.0%)
Total Expenses	40,554	41,555	39,478	42,069	2,591	6.6%	1,515	3.7%

Provide Descriptive Detail on Key Labor-Related Items—e.g. Employee Health Care

- Premium Cost
- Employee/Employer Cost Share
- Key Plan Features/Details (max out-of-pocket, co-pays, etc.)
- Other Post Employment Benefits (OPEB)

Issues Surrounding Current Object Code Reporting

Object Code data already exists in most local budget documents, but is often insufficient:

- Insufficient detail—e.g. a lump sum line item labeled “personal services” covers all employee labor cost elements
- Detailed information is provided at the department level, but not totaled to provide a complete budget perspective
- Simple year-over-year comparisons mask important longer term spending and revenue trends
- Information doesn’t provide context for the dollar total—(e.g. employee health care plan features and cost-sharing provisions)
- Complexity of government accounting is challenging to average taxpayers

Benefits to Taxpayers of Object Code Reporting

- Citizens would be able to make well-informed judgments about local spending and the use of their property tax dollars
- Citizens would have a new and accurate understanding of local government cost structures, along with spending and revenue trends
- It would be easier for taxpayers to pinpoint responsibility for tax increases to appropriate parties
- Taxpayers would be able to better evaluate local spending efficiency and effectiveness

Support for Object Code Reporting

“More details, more power to the people”

“Support for the idea of more specifics in public budgets”

~St. Paul Pioneer Press editorial 4/28/2011

- “Keeping a foot on the brake of local spending is one important way to keep property taxes within reason.”
- “If taxpayers could understand more easily where the dollars are going via a different way of reporting expenses and seeing trends over time, they could more easily exert pressure to apply the brakes.”
- “However this information is gathered, the public deserves and needs the best data on how property tax dollars are being spent.”



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