This profile captures key financial trends before, during, and after the Great Recession for Minneapolis, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

# Minneapolis

## Minneapolis faces ongoing fiscal challenges after intergovernmental aid dwindled

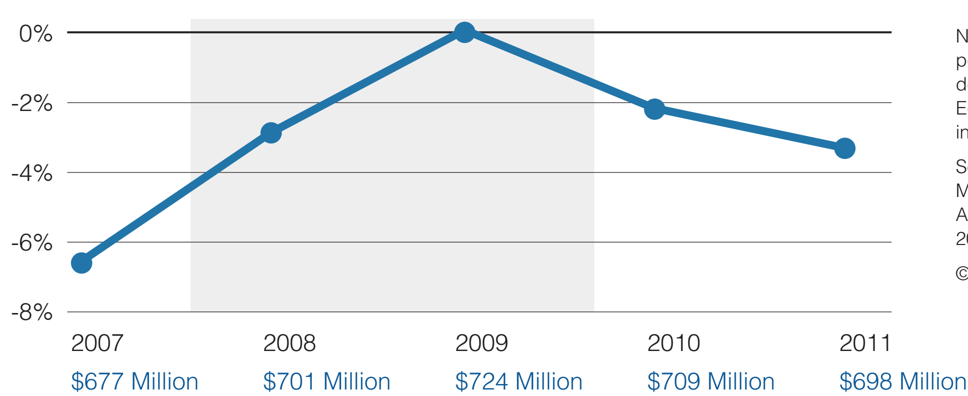
Against the backdrop of declining intergovernmental aid, swings in Minneapolis' most important own-source revenue categories challenged the city through the Great Recession and beyond. Even two years after the end of the downturn, revenue was still falling. Significant reductions in debt service payments outweighed modest spending growth in other areas, allowing reserve levels to grow modestly. But funding of some long-term obligations fell short and is an ongoing fiscal challenge.[1]

## Intergovernmental aid continued to fall despite stimulus spending

Total revenue fell 4 percent between the 2009 peak and the low point in 2011. (See Figure 1.) Two drivers of that loss were intergovernmental aid and property taxes. Intergovernmental aid dropped $18 million (10 percent) after adjusting for inflation. Even the American Recovery and Reinvestment Act, which sent $65 million in federal money to Minneapolis between 2009 and 2011, could not offset the decline.[2] This sudden drop perpetuated the uncertainty of city officials who had seen continual fluctuation in aid from other governments throughout the previous decade, requiring them to revise budgets and propose alternate ones on several occasions.[3]

FIGURE 1

**Minneapolis Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11**



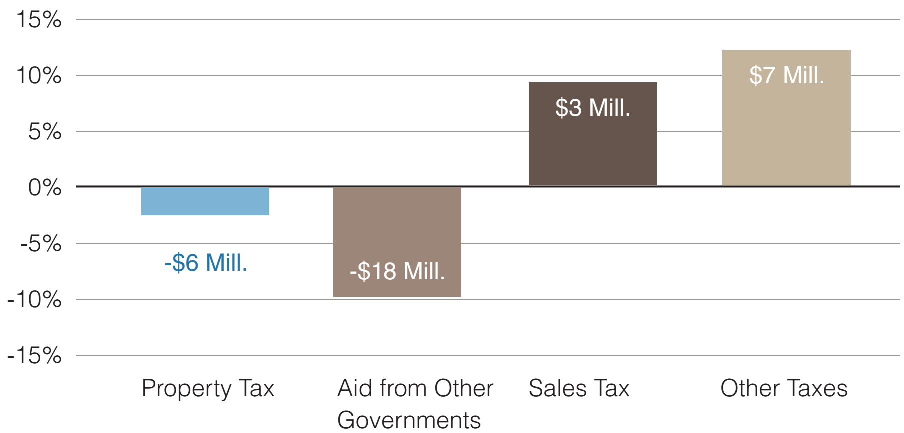

Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Minneapolis' Comprehensive Annual Financial Reports for fiscal 2007-11.

As state support declined, property tax collections peaked in 2009 after growing rapidly through much of the decade.[4] They dropped sharply in 2010, when the city's total assessed real estate valuation fell 10 percent, but then rebounded slightly the next year, in part because of a 5 percent tax rate increase.[5] The sales tax and a collection of other taxes helped partially offset losses, growing a combined $9 million between 2009 and 2011. (See Figure 2.)

FIGURE 2

**Key Drivers of Change in Minneapolis' Revenue, 2009-11**




Source: Pew calculations from Minneapolis' Comprehensive Annual Financial Reports for fiscal 2007-11.



In 2009, as revenue was peaking, the city began to pay off more than $100 million in outstanding general obligation debt.[6] By 2011, debt service payments had decreased significantly, which largely accounted for a $16 million reduction in operating spending just as revenue was declining between 2009 and 2011. The reduction in debt service payments was large enough to outweigh smaller increases in spending on public safety, housing and economic development, and most other expenditure categories.

## Managing the future: Reserves were strong, but pension funding dipped during the recession

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Minneapolis' fiscal future. Several long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

Despite the continued decline in revenue through 2011, city reserves grew slightly, to $72 million from $69 million, in 2009. The city's long-term retirement obligation funding fell short, however. Minneapolis' pension plans were 76 percent funded in 2010, down from 86 percent three years earlier, and the city had not set aside any assets for retiree health care benefits.[7] In an effort to make reforms in 2010 and 2011, Minneapolis consolidated three closed pension plans into the state-run system.[8]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

## Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Minneapolis, 2011 Council Adopted Budget, 79, http://www.minneapolismn.gov/www/groups/public/@finance/documents/webcontent/convert_277144.pdf.

3 Intergovernmental aid increased $36 million between 2008 and 2010, then dropped $26 million in 2011. Moody's Investors Service, "Moody's Assigns Aaa Rating to the City of Minneapolis' (MN) $5.5 Million GO Improvement Bonds, Series 2012," new issue (Nov. 2, 2012), http://www.moodys.com/research/Moodys-assigns-Aaa-rating-to-the-City-of-Minneapolis-MN-New-Issue--NIR_900785232.

4 Ibid. Moody's reported that Minneapolis' property taxes were generally more stable and predictable than aid from the state.

5 Ibid.

6 In 2009, the city's outstanding general obligation bonds totaled $1,011,818,000. City of Minneapolis, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2009* (2010), 21, http://www.minneapolismn.gov/www/groups/public/@finance/documents/webcontent/wcms1p-096741.pdf. In 2011, the outstanding general obligation debt was $883,358,000. City of Minneapolis, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2011* (2012), 22, http://www.minneapolismn.gov/www/groups/public/@finance/documents/webcontent/wcms1p-096739.pdf. These figures are nominal.

7 For more information about and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls*, (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

8 Public Employees Retirement Association of MN, "MERF Now a Separate PERA 'Division,' " news release (May 18, 2010), http://www.mnpera.org/index.asp?Type=B_BASIC&SEC={1A8D55BC-4C02-42B8-9DA6-01F39F6D85F8}#merf2.