

# 1997 Finances of Minnesota Counties

## Overview

This report provides information and analysis on the finances of Minnesota's counties. The report includes for the first time a detailed section on the unreserved fund balances of the General and Special Revenue funds of counties. This section replaces a separate report on fund balances that the Office of the State Auditor previously published.

Minnesota's counties ended 1997 in a strong financial condition. The unreserved fund balances in the General and Special Revenue Funds of the counties grew 6.5 percent for a total of \$1.31 billion in 1997. Total revenues grew by 6.1 percent. Total spending by Minnesota's counties rose 5.9 percent.

## Total Governmental Revenues

Counties raised \$3.50 billion to finance public services in 1997. This represents an increase of 6.1 percent over 1996 revenues. The principal sources of revenues for Minnesota counties were: intergovernmental revenues which accounted for 39.6 percent of total revenues; taxes which accounted for 38.4 percent of total revenues; and charges for services which accounted for 9.8 percent of total revenues.

***County revenues grew 6.1 percent between 1996 and 1997.***

**! Intergovernmental revenues.** Intergovernmental revenues were the largest source of revenues for counties in 1997, accounting for 39.6 percent of all county revenues. Intergovernmental revenues, which include grants and aids from federal, state and local governments, totaled \$1.38 billion in 1997. Intergovernmental revenues decreased 1.6 percent between 1996 and 1997. This decrease was due in part to a reclassification of certain federal grants to charges for services. With guidance from the United States Office of Management and Budget (OMB), the counties audited by the Office of the State Auditor have been reclassifying certain federal grants as charges for services.

**State grants and aids.** The largest provider of intergovernmental revenues to counties in 1997 was the State of Minnesota. State grants and aids to counties totaled \$990.6 million in 1997. This represents an increase of \$14.1 million over 1996.

The principal state aids and grants for counties were: highway aid which accounted for 9.0 percent of total county revenues; human services aid which accounted for 7.7 percent of total revenues; and homestead and agricultural credit aid (HACA) which accounted for 5.3 percent of total revenues. Between 1996 and 1997, human services aid decreased 2.4 percent; highway aid decreased 3.9 percent; and HACA increased 2.1 percent.

**Federal grants and aids.** The federal government provided revenues of \$360.8 million to Minnesota counties in 1997, down \$43.0 million or 10.6 percent from 1996. The share of revenues derived from federal grants decreased from 12.3 percent in 1996 to 10.3

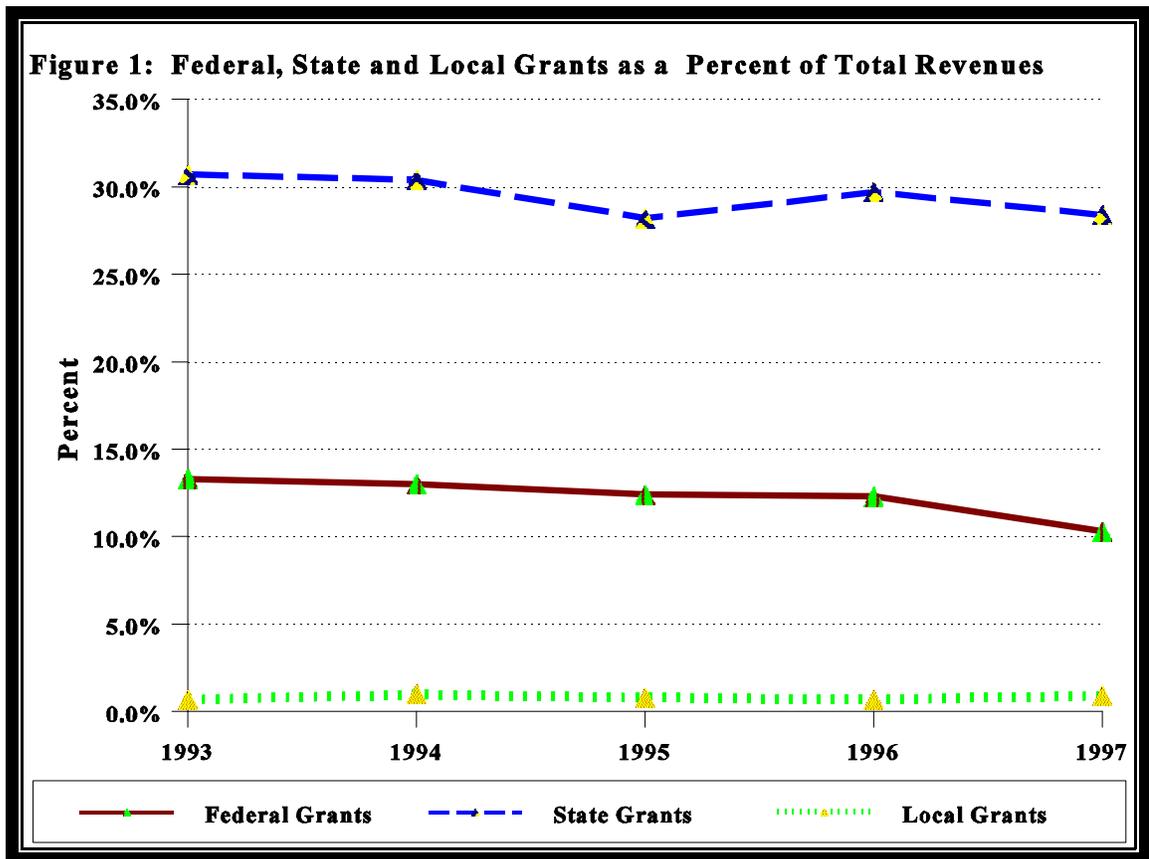
percent in 1997. The large decrease in federal grants reflects a reclassification of certain federal grants as charges for services.

The majority of federal aid to counties is in the form of human services grants. Human services grants and aids to counties totaled \$247.5 million in 1997, down from \$300.5 million in 1996. This represents a decrease of 17.6 percent from 1996. This large decrease reflects the reclassification of certain federal grants to charges for services discussed previously. Federal highway grants decreased \$30.1 million or 54.0 percent between 1996 and 1997. The significant decrease in federal highway grants reflects the completion of a large number of road construction projects which were underway in 1996.

Federal disaster payments were up significantly in 1997. Federal disaster aid to counties totaled \$32.6 million in 1997. This represents an increase of 666.8 percent over 1996. The majority of this aid was directed to counties in the Red River Valley and those bordering the Minnesota River. These counties were severely impacted by flooding in the spring of 1997.

**Local unit grants.** Grants from local governments to counties totaled \$31.3 million in 1997. This represents an increase of 28.1 percent over 1996.

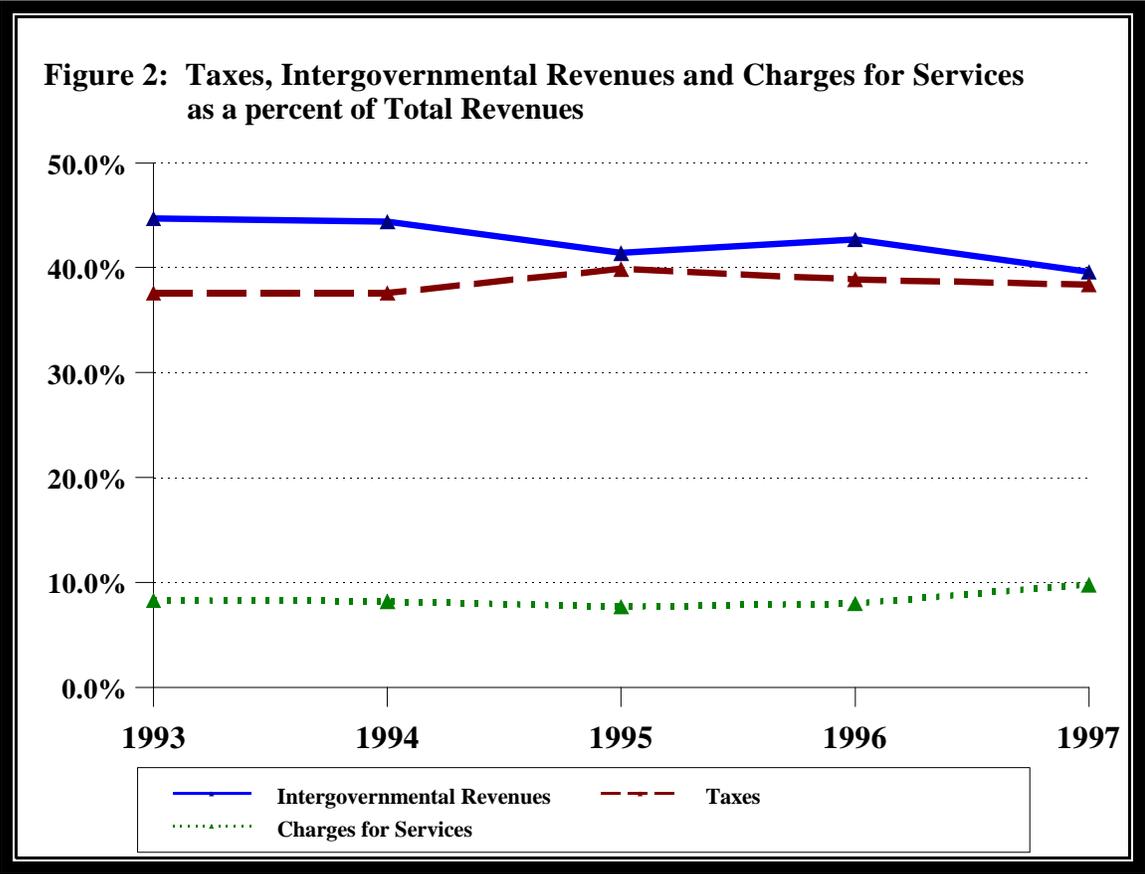
Figure 1 illustrates federal, state, and local grants as a percent of total revenues for the years 1993 through 1997.



! **Taxes.** Counties collected tax revenues of \$1.34 billion in 1997, which was an increase of \$60.0 million or 4.7 percent over 1996. Taxes as a share of total revenues decreased from 38.9 percent in 1996 to 38.4 in 1997. This category represented the second largest source of revenues for counties.<sup>1</sup>

! **Charges for services.** Counties received revenues from charges for services totaling \$342.7 million in 1997. This represents an increase of \$80.7 million or 30.8 percent over 1996. As discussed earlier, the large increase was the result of a reclassification of certain federal grants as charges for services. The results of this reclassification were most pronounced in Dakota and Ramsey counties. Charges for services increased 143.2 percent in Dakota County and 102.3 percent in Ramsey County. These two counties accounted for over half of the total increase. Twenty-seven counties had implemented the accounting change during this reporting period.

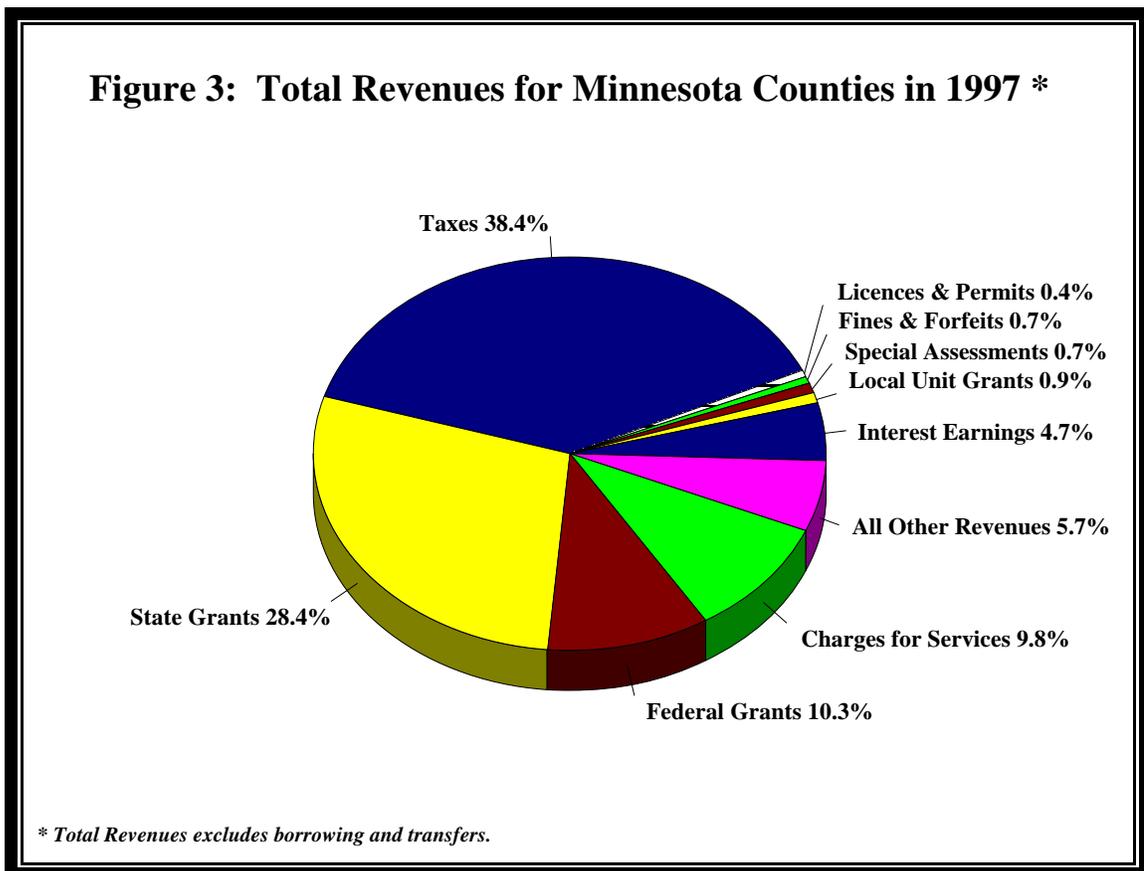
Figure 2 provides a comparison of taxes, intergovernmental revenues, and charges for services as a percent of total revenues for the years 1993 through 1997.



<sup>1</sup> County tax revenues include property taxes, tax increments, gravel taxes, mortgage registry taxes, deed taxes, and interest and penalties from delinquent taxes.

- ! **Fines and forfeits.** Revenues from fines and forfeits totaled \$23.0 million in 1997, which was an increase of 9.9 percent over the amount collected in 1996.
- ! **Interest earnings.** Interest earnings were up an average of 33.3 percent between 1996 and 1997. Interest earnings totaled \$164.5 million in 1997, which was \$41.0 million more than in 1996. Hennepin County's interest earnings increased by \$29.2 million between 1996 and 1997 and accounted for 71.0 percent of the statewide increase. Hennepin County indicated that the large increase in its interest earnings was a result of implementing an accounting change which requires recognition of unrealized gains and losses from investments at market value. This accounting change affects or will affect other counties as it is implemented.
- ! **Other sources of revenues.** Other sources of county revenues that rose between 1996 and 1997 were: "all other revenues" which increased 22.8 percent; special assessments which increased 10.6 percent; and licenses and permits which increased 6.1 percent.

Figure 3 illustrates the proportion of revenue that each source provides.



# **Total Governmental Expenditures**

## **Current Expenditures**

Minnesota's 87 counties had total current expenditures of \$2.86 billion in 1997.<sup>2</sup> This represents an increase of \$177.3 million or 6.6 percent over 1996.

- ! ***Human services programs.*** Counties spent \$1.16 billion on human services programs in 1997, which was more than double any other current expenditure. Human services expenditures were up 2.8 percent between 1996 and 1997.

The category of human services expenditures is made up of social services, income maintenance, and "other" human services expenditures. Between 1996 and 1997, counties decreased expenditures for income maintenance programs by 6.2 percent. Counties "other" human services current expenditures rose by 15.2 percent, and social services expenditures increased by 2.6 percent.

- ! ***General government services.*** Counties spent \$482.4 million on general government services in 1997, accounting for 16.9 percent of all current expenditures. Spending on general government services rose \$26.0 million or 5.7 percent between 1996 and 1997.

- ! ***Public safety.*** Spending on public safety, which includes expenditures for sheriff, corrections, and other safety-related services, totaled \$527.6 million in 1997. This was an increase of \$44.7 million or 9.3 percent over 1996.

Public safety continues to consume a greater proportion of county budgets. In 1993, public safety accounted for 15.8 percent of current expenditures; in 1997, public safety represented 18.4 percent of current expenditures. During those five years, public safety current expenditures rose 35.1 percent.

- ! ***Streets and highways.*** Current expenditures for street and highway administration and maintenance totaled \$277.0 million in 1997. This category of spending increased \$39.3 million or 16.5 percent between 1996 and 1997. Street and highway current expenditures do not include expenditures for street and highway construction, which accounted for another \$302.9 million in spending for counties in 1997.

- ! ***Other current expenditures.*** Between 1996 and 1997, Minnesota counties increased spending on culture and recreation activities by \$3.1 million or 3.5 percent, conservation of natural resources by \$6.8 million or 12.4 percent, and health by \$15.1 million or 12.0 percent. Counties decreased spending on economic development by \$896,351 or 2.8 percent.

---

<sup>2</sup> Current expenditures exclude capital outlays, interest payments and fiscal charges on debt, and transfers to other funds.

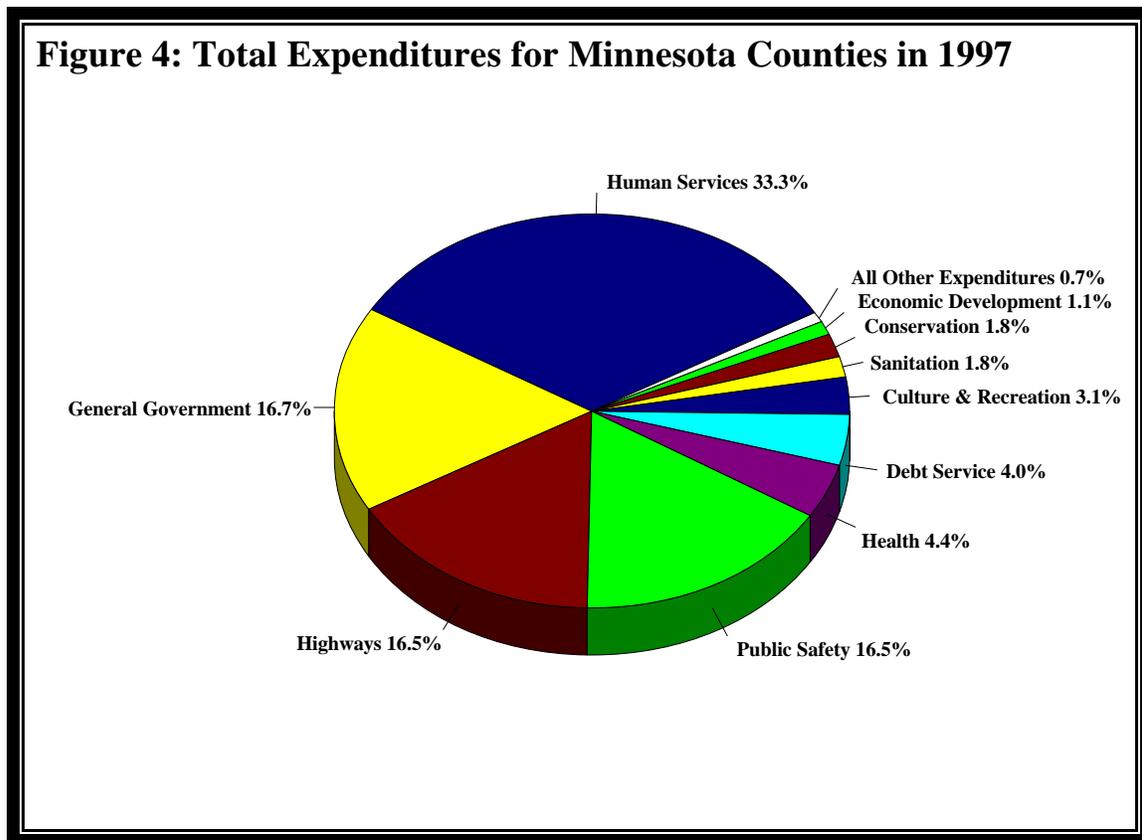
## Capital Outlay and Debt Service

In addition to current expenditures of \$2.86 billion, counties spent \$511.8 million on capital projects and \$141.5 million on debt service in 1997.<sup>3</sup> Capital spending was up \$18.7 million or 3.8 percent, and debt service expenditures rose 0.6 percent between 1996 and 1997.

The largest category of capital spending for counties was streets and highways. Counties spent \$302.9 million on street and highway capital projects in 1997, which accounted for 59.2 percent of all county capital outlays. Counties increased capital outlays for general government projects by \$35.3 million or 50.3 percent, public safety by \$23.1 million or 78.0 percent, projects related to health by \$7.8 million or 108.9 percent, and economic development by \$6.5 million or 713.1 percent. Counties decreased capital outlays for culture and recreation by \$676,665 or 4.5 percent, sanitation by \$119,643 or 18.2 percent, and human services projects by \$70,524 or 1.0 percent.

*Street and highway capital projects accounted for 59.2 percent of all capital outlays for counties in 1997.*

Figure 4 provides a summary of total governmental expenditures that includes current expenditures, capital outlays, and debt service.



<sup>3</sup>

Debt service does not include enterprise fund debt service payments.

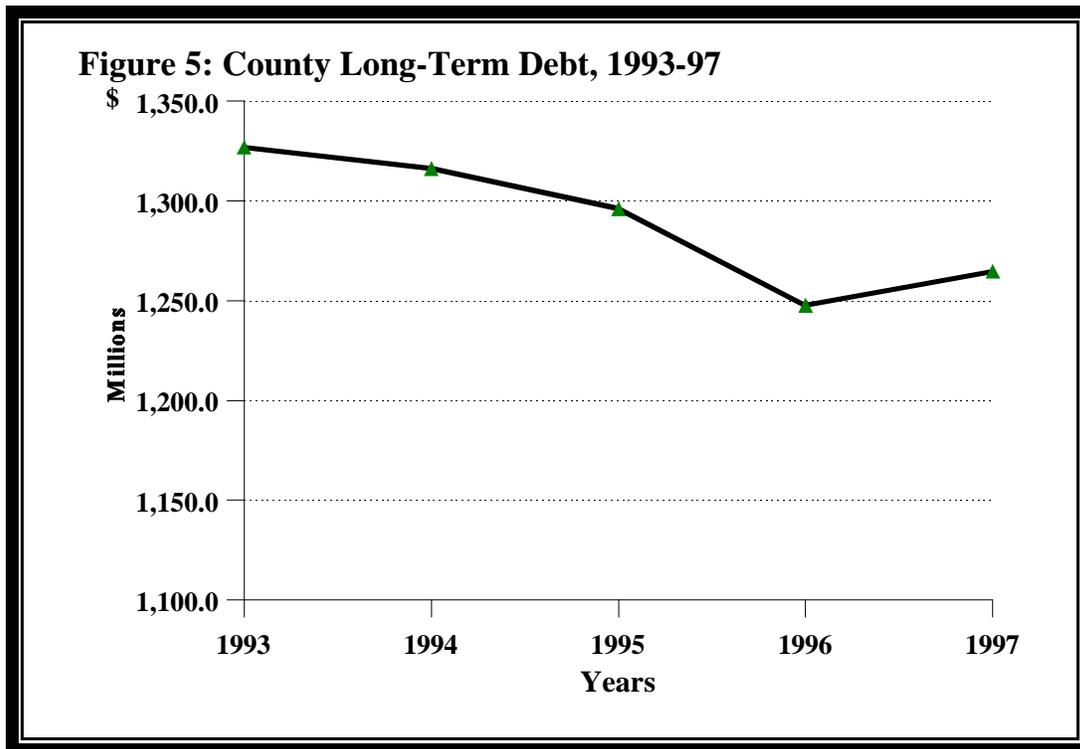
## **Borrowing and Indebtedness**

The amount of bonds and other long-term debt issued by counties totaled \$201.8 million in 1997. This represents an increase of \$83.2 million or 70.1 percent over 1996.<sup>4</sup> Counties issued bonds totaling \$148.3 million and other long-term debt of \$53.5 million in 1997.

Counties reported total bonded indebtedness of \$1.04 billion as of December 31, 1997. This was an increase of \$46.8 or 4.7 percent over 1996. Counties retired bonds totaling \$101.6 million in 1997, compared to \$111.5 million in 1996. Counties also reported liabilities for compensated absences totaling \$207.1 million and other long-term debt totaling \$222.7 million in 1997.

On a per capita basis, there was a wide variance among counties in the amount of long-term debt held. The average per capita long-term debt for counties (excluding compensated absences) was \$267. Per capita long-term debt ranges from a high of \$3,389 in Cook County to no debt in six counties. Cook County has a per capita long term-debt that is more than three times higher than any other county and almost thirteen times as much as the average for counties. The long-term debt issued by Cook County is primarily for three projects: the Superior National Golf Course at Lutsen, the Northshore Hospital and Nursing Home, and the county government center/jail.

Figure 5 summarizes county long-term debt for the years 1993 through 1997.



<sup>4</sup> Does not include borrowing by enterprise funds.

## **Public Service Enterprises**

Counties also provided services through county-established enterprises that are intended to be self-sustaining through fees and user charges. Hospitals, nursing homes, and solid-waste management facilities are commonly operated as enterprises.

In 1997, county enterprise operations had operating expenses of \$654.5 million and operating revenues of \$622.4 million, resulting in an operating loss of \$32.1 million. County enterprises had nonoperating expenses of \$11.9 million and nonoperating revenues of \$42.6 million, resulting in a net loss of \$1.4 million. Net income decreased 110.9 percent between 1996 and 1997. The majority of the decrease in net income is attributable to Hennepin County's Solid Waste Enterprise Fund. The county entered in to contracts which resulted in a net loss of \$16.6 million in its solid waste enterprise fund.

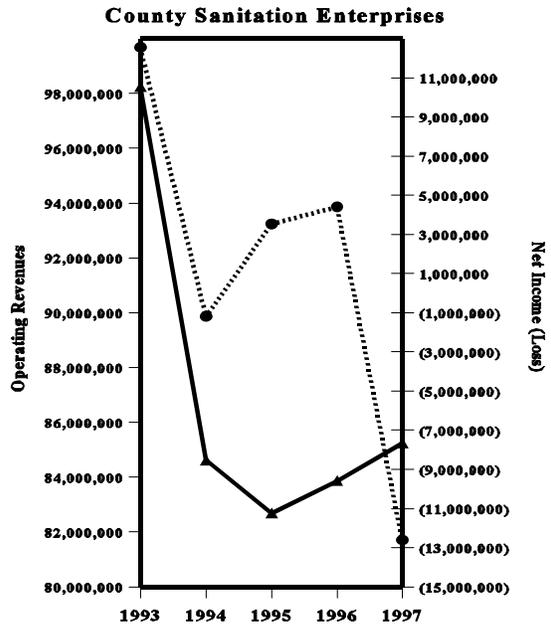
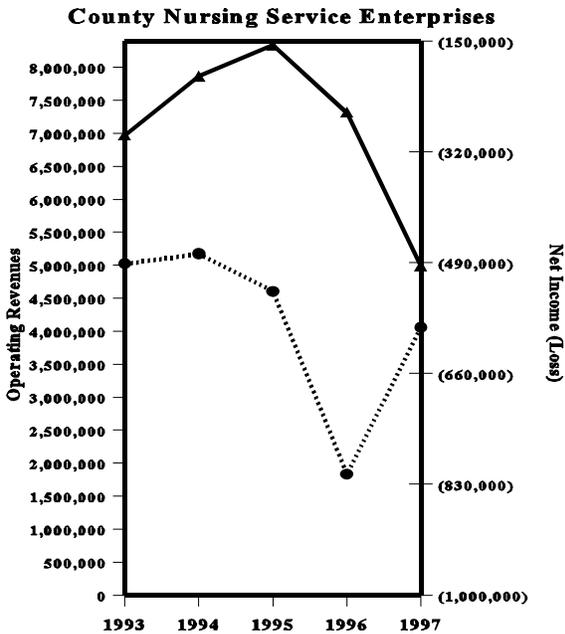
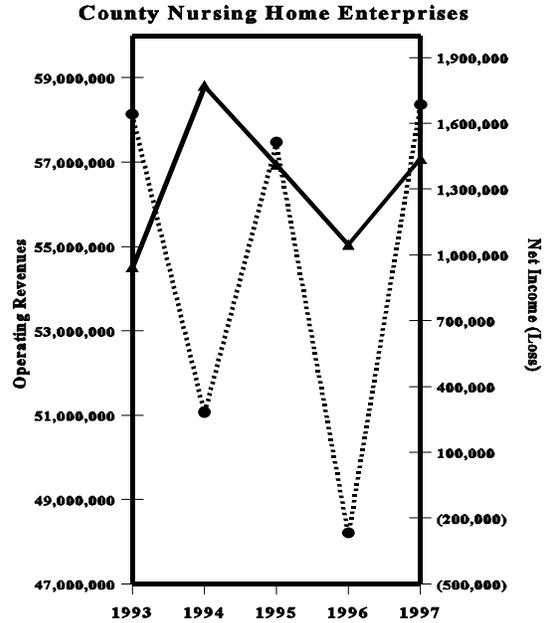
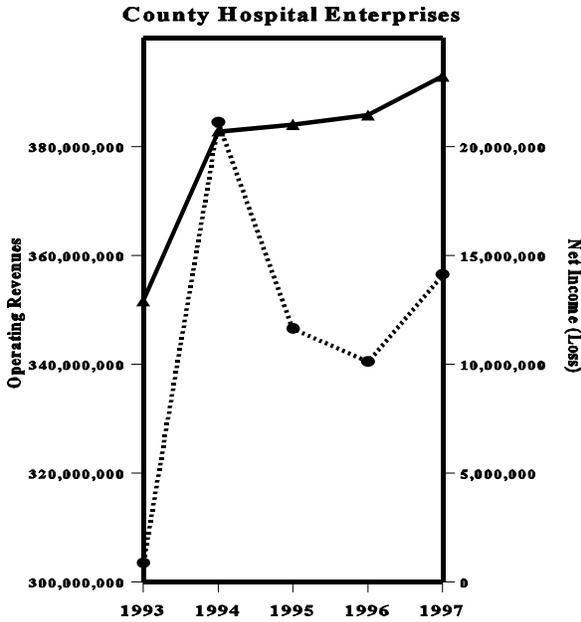
In county enterprise funds, revenues derived from user fees and charges are often supplemented by taxes and intergovernmental grants. When these additional revenues are not enough to cover expenses, counties must draw down fund balances, transfer revenues from other funds, or borrow.

Figure 6 on page 9 and figure 7 on page 10 summarize county enterprise operations.

**Figure 6: County Public Service Enterprises, 1996-97**

<u>Public Service Enterprise</u>	<u>1996 Amount</u>	<u>1997 Amount</u>	<u>Percent Change</u>
<b>Hospitals</b>			
Operating Revenues	\$385,820,226	\$392,968,643	1.9%
Operating Expenses	<u>392,502,338</u>	<u>397,225,840</u>	<u>1.2%</u>
Operating Income (Loss)	(6,682,112)	(4,257,197)	36.3%
Non-operating Revenues	22,432,470	22,334,852	-0.4%
Non-operating Expenses	<u>5,627,488</u>	<u>3,951,076</u>	<u>-29.8%</u>
Net Income (Loss)	<u><u>10,122,870</u></u>	<u><u>14,126,579</u></u>	<u><u>39.6%</u></u>
<b>Nursing Homes</b>			
Operating Revenues	55,046,938	57,086,658	3.7%
Operating Expenses	<u>55,341,913</u>	<u>55,668,424</u>	<u>0.6%</u>
Operating Income (Loss)	(294,975)	1,418,234	580.8%
Non-operating Revenues	350,566	590,193	68.4%
Non-operating Expenses	<u>322,941</u>	<u>323,852</u>	<u>0.3%</u>
Net Income (Loss)	<u><u>(267,350)</u></u>	<u><u>1,684,575</u></u>	<u><u>730.1%</u></u>
<b>Nursing Services</b>			
Operating Revenues	7,321,519	4,992,593	-31.8%
Operating Expenses	<u>11,171,095</u>	<u>8,322,638</u>	<u>-25.5%</u>
Operating Income (Loss)	(3,849,576)	(3,330,045)	13.5%
Non-operating Revenues	3,043,458	2,741,301	-9.9%
Non-operating Expenses	<u>8,233</u>	<u>498</u>	<u>-94.0%</u>
Net Income (Loss)	<u><u>(814,351)</u></u>	<u><u>(589,242)</u></u>	<u><u>27.6%</u></u>
<b>Sanitation Services</b>			
Operating Revenues	83,876,859	85,244,465	1.6%
Operating Expenses	<u>89,905,805</u>	<u>107,647,656</u>	<u>19.7%</u>
Operating Income (Loss)	(6,028,946)	(22,403,191)	-271.6%
Non-operating Revenues	16,424,087	15,506,376	-5.6%
Non-operating Expenses	<u>5,980,000</u>	<u>5,711,815</u>	<u>-4.5%</u>
Net Income (Loss)	<u><u>4,415,141</u></u>	<u><u>(12,608,630)</u></u>	<u><u>-385.6%</u></u>
<b>Other Enterprise Services</b>			
Operating Revenues	81,745,393	82,069,594	0.4%
Operating Expenses	<u>79,418,650</u>	<u>85,667,701</u>	<u>7.9%</u>
Operating Income (Loss)	2,326,743	(3,598,107)	-254.6%
Non-operating Revenues	2,593,351	1,445,271	-44.3%
Non-operating Expenses	<u>5,364,988</u>	<u>1,880,756</u>	<u>-64.9%</u>
Net Income (Loss)	<u><u>(444,894)</u></u>	<u><u>(4,033,592)</u></u>	<u><u>-806.6%</u></u>

**Figure 7: Five Year Trend of County Enterprise Operations:  
Operating Revenues and Net Income**



Operating Revenues Net Income (Loss)

—▲— -●-

## Fund Balances of the General Fund and Special Revenue Funds

The unreserved fund balances in the General and Special Revenue Funds (hereinafter unreserved fund balances) of counties totaled \$1.31 billion in 1997. This represents an increase of 6.5 percent over the unreserved fund balances in 1996. The largest unreserved fund balance increase was posted by Traverse County, whose fund balance increased by 66.3 percent between 1996 and 1997. The largest fund balance decrease was recorded by Cottonwood County, whose fund balance dropped by 46.0 percent between 1996 and 1997. From 1996 to 1997, 68 counties increased their unreserved fund balance and 19 counties decreased their fund balance.

Comparing county unreserved fund balances to their total current expenditures helps put the fund balances in perspective and provides insight on the relative financial health of Minnesota's counties. Counties should have relatively large fund balances at the end of the year because they must rely on them to meet expenditures during the first five months of the next fiscal year until they receive the first property tax and state aid payments. County unreserved fund balances as a percent of total current expenditures averaged 45.9 percent in 1997. Unreserved fund balances as a percent of total current expenditures ranged from 140.2 percent in Mower County to 13.9 percent in Polk County. Mower County had total current expenditures of \$21.7 million and an unreserved fund balance of \$30.4 million. Polk County had total current expenditures of \$28.3 million and an unreserved fund balance of \$3.9 million. For a further discussion of fund balances, please see Appendix A.

Figure 8 shows a five-year trend in the unreserved fund balances in the General and Special Revenue Funds of counties.

