

1998 Finances of Minnesota Counties

Governmental Revenues

Counties raised \$3.57 billion to finance public services in 1998. This represents an increase of 2.3 percent over 1997 revenues. The principal sources of revenues for Minnesota counties were: intergovernmental revenues, which accounted for 41.4 percent of total revenues; taxes, which accounted for 39.2 percent of total revenues; and charges for services, which accounted for 8.9 percent of total revenues.

! ***Intergovernmental revenues.*** Intergovernmental revenues were the largest source of revenues for counties in 1998, accounting for 41.4 percent of all county revenues. This category, which includes grants and aids from federal, state and local governments, totaled \$1.48 billion in 1998. Intergovernmental revenues increased 6.9 percent between 1997 and 1998.

State grants and aids. The state provided the largest share of intergovernmental revenues to counties in 1998. State grants and aids to counties totaled \$1.14 billion and accounted for 77.4 percent of intergovernmental revenues in 1998. This represents an increase of \$153.9 million over 1997. This increase was due in part to a reclassification of certain charges for services and federal grants as state human services grants.

The principal state aids and grants for counties were: human services aid, which accounted for 10.9 percent of total revenues; highway aid, which accounted for 8.9 percent of total revenues; and all other state aid, which accounted for 5.5 percent of total revenues. Between 1997 and 1998, human services aid increased 44.3 percent; highway aid increased 1.4 percent; and all other state aid increased 8.6 percent.

The categories showing the greatest percent increase were Public Employee Retirement Association (PERA) aid and police aid, which increased 900.5 percent and 52.9 percent respectively. PERA aid was initiated in 1997 to compensate local governments for an increase to the employer contribution rate for PERA. The changes to the employer contribution share went into effect July 1, 1997, and counties received PERA aid for the six remaining months of 1997. In 1998, counties received the full 12 months of PERA aid. The increase in police aid is the result of legislative changes to the formula used to compensate local governments for the pension costs of peace officers.

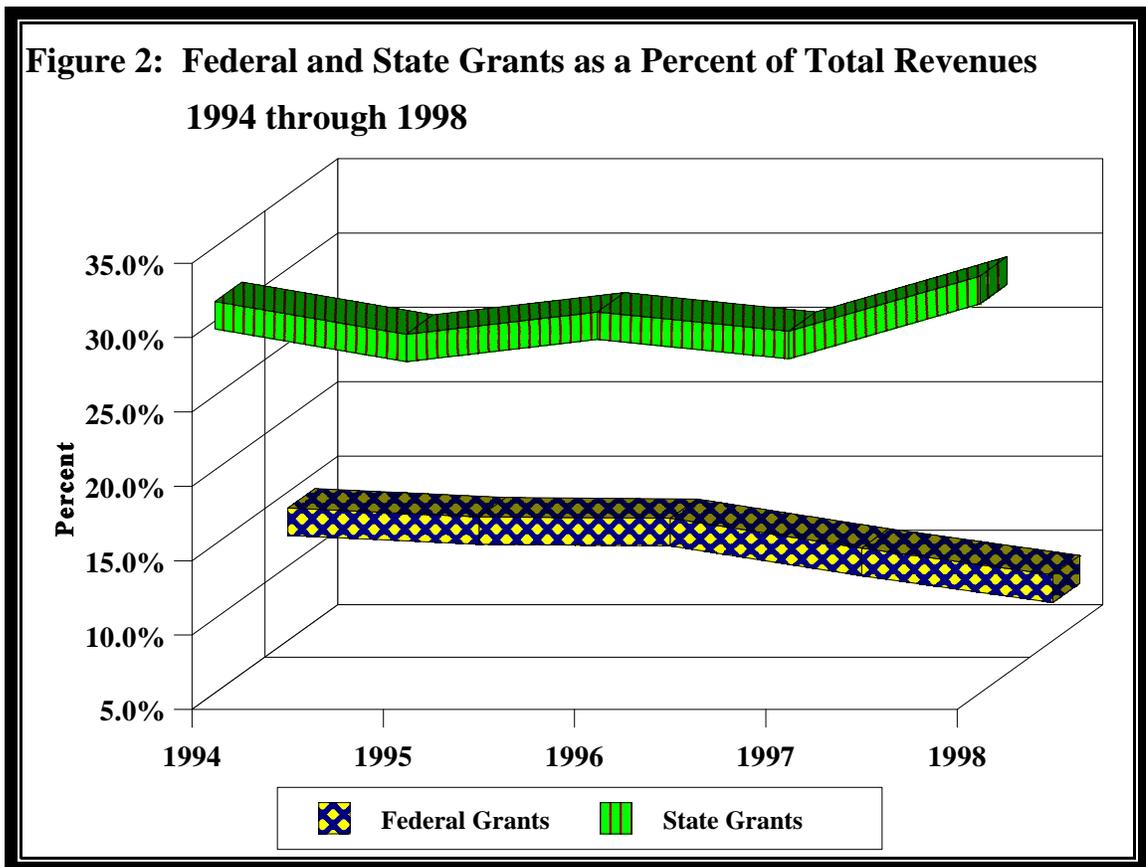
Federal grants and aids. The federal government provided revenues of \$301.7 million to Minnesota counties in 1998, down \$59.0 million or 16.4 percent from 1997. The share of revenues derived from federal grants decreased from 10.3 percent in 1997 to 8.5 percent in 1998.

Human services grants were the largest source of federal aid for counties. Human services grants and aids to counties totaled \$194.8 million in 1998, down from \$247.5 million in 1997. This large decrease reflects the continuing reclassification of certain federal grants as state human services aid.

Federal disaster payments were substantially less in 1998. Federal disaster aid to counties totaled \$11.3 million in 1998. This represents a decrease of 65.3 percent from 1997. Federal disaster aid was unusually high in 1997 due to weather-related events that resulted in disaster declarations for seventy-five counties.¹

Local unit grants. Grants from local governments to counties totaled \$31.6 million in 1998. This represents an increase of 1.0 percent over 1997.

Figure 1 illustrates federal and state grants as a percent of total revenues for the years 1994 through 1998.



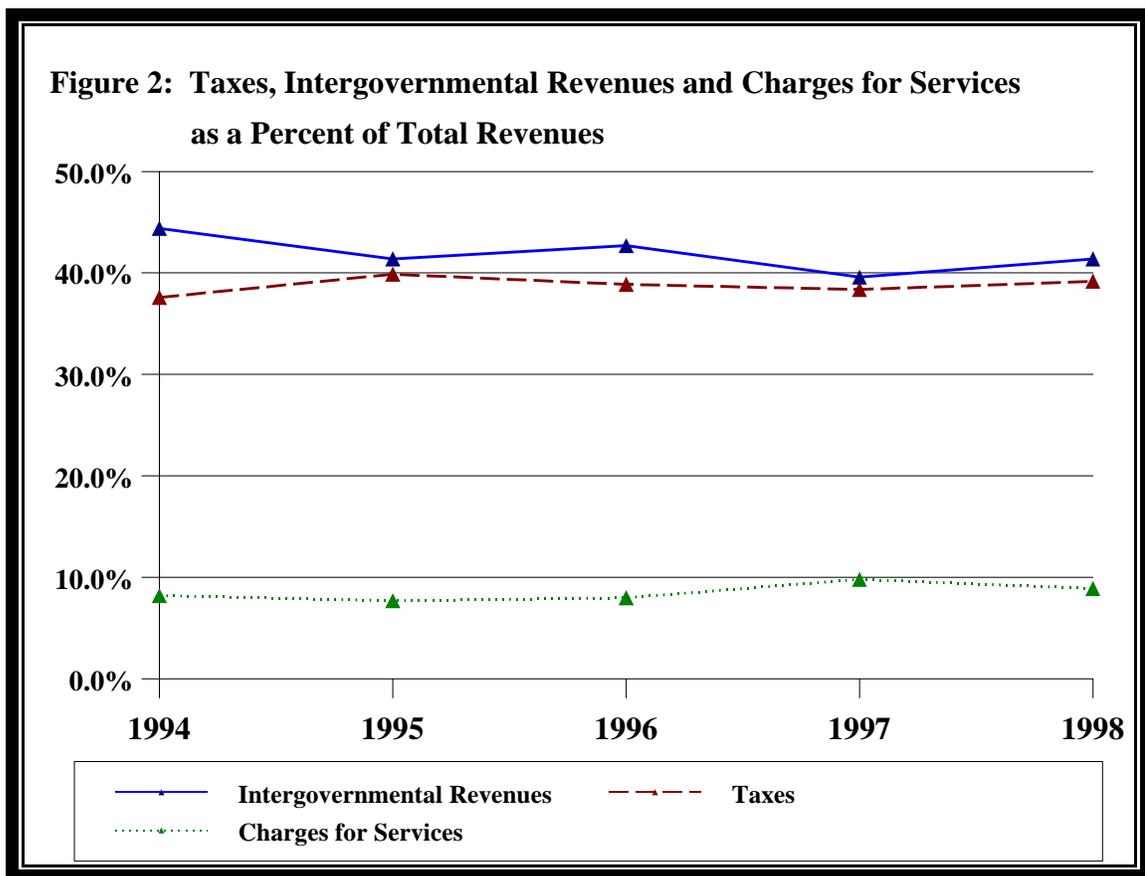
! **Taxes.** Tax revenues, which totaled \$1.40 billion in 1998, accounted for 39.2 percent of county revenues.² Tax revenues increased \$58.9 million or 4.4 percent between 1997 and 1998.

¹ Source: *A Decade of Minnesota Disasters - A Historical Look at Minnesota Disasters in the 1990's*, Division of Emergency Management, Minnesota Department of Public Safety.

² County tax revenues include property taxes, tax increments, gravel taxes, mortgage registry taxes, deed taxes, and interest and penalties from delinquent taxes.

! **Charges for services.** Counties received revenues from charges for services totaling \$315.9 million in 1998. This represents a decrease of \$26.8 million or 7.8 percent from 1997. The large decrease was primarily the result of a reclassification of certain human services charges as state human services grants. There has been an on-going reclassification of certain payments or reimbursements made to counties for services they provide on behalf of the state and federal government. In 1997, twenty-seven counties classified these payments as charges for services and the others classified them as federal human services grants. In 1998, all but two counties classified these revenues as state human services grants.

Figure 2 provides a comparison of taxes, intergovernmental revenues, and charges for services as a percent of total revenues for the years 1994 through 1998.



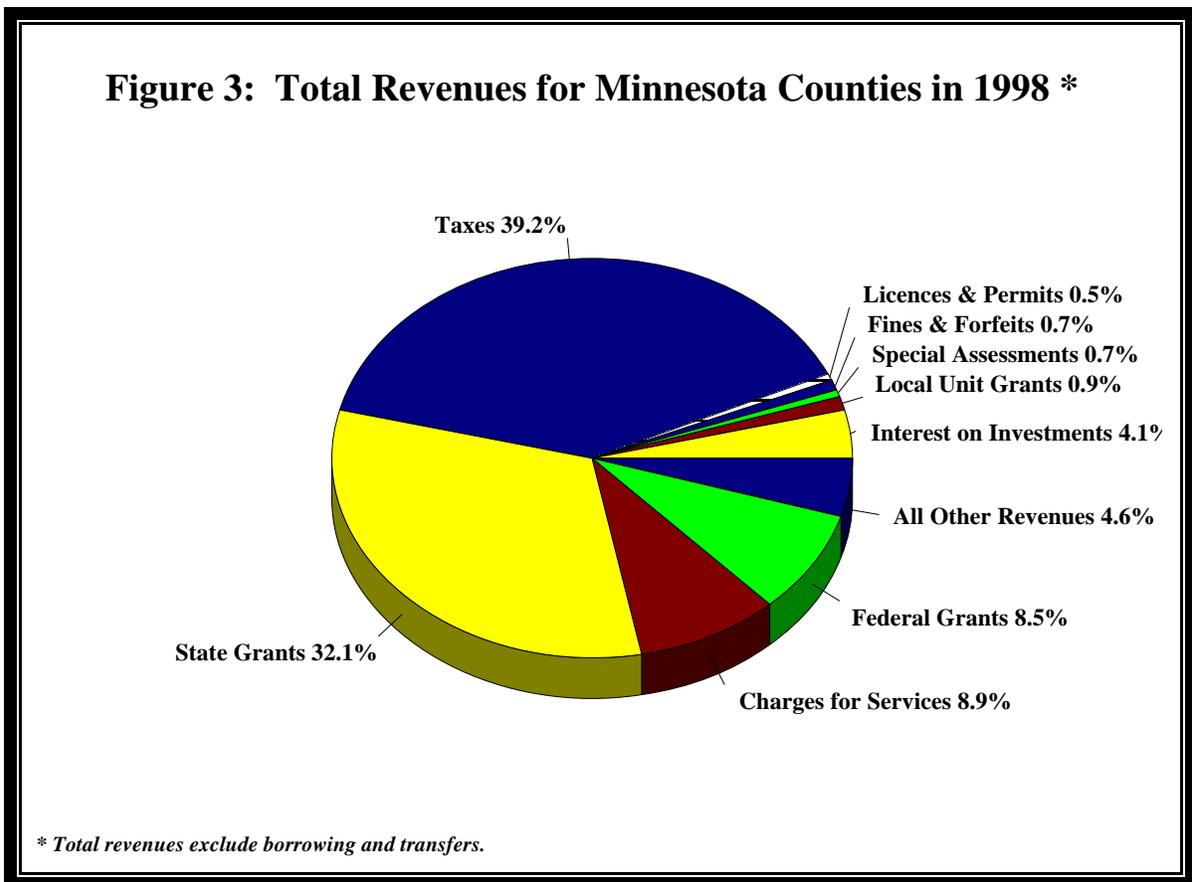
! **Fines and forfeits.** Revenues from fines and forfeits totaled \$24.9 million in 1998. This represents an increase of 8.3 percent over the amount collected in 1997.

! **Interest on investments.** Interest on investments totaled \$145.9 million in 1998. This represents a decrease of \$18.6 million or 11.3 percent from 1997. The decrease in this category is largely attributable to Hennepin County. If Hennepin County is removed from the statewide totals for interest on investments, the category actually increased \$2.1 million or 2.0 percent between 1997 and 1998.

Hennepin County's interest on investments decreased \$20.6 million or 35.3 percent between 1997 and 1998. The decrease in part reflects the county's decision to exclude a deferred compensation expendable trust fund from its financial statements. The county determined that the plan was an annuity contract rather than an expendable trust and did not need to be included in the county's financial statements. The expendable trust had a \$109 million fund balance that earned a significant amount of interest income during 1997.

! **Other sources of revenues.** Other sources of county revenues that changed significantly between 1997 and 1998 were: special assessments, which increased 9.9 percent; licenses and permits, which increased 8.3 percent; and "all other revenues," which decreased 17.8 percent;

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



Governmental Expenditures

Current Expenditures

Minnesota's 87 counties had total current expenditures of \$3.01 billion in 1998.³ This represents an increase of \$145.5 million or 5.1 percent over 1997.

- ! ***Human services programs.*** Counties spent \$1.20 billion on human services programs in 1998. This was more than double any other current expenditure. Human services expenditures rose 2.6 percent between 1997 and 1998.

The category of human services expenditures is made up of social services, income maintenance, and "other" human services expenditures. Between 1997 and 1998, counties decreased expenditures for income maintenance programs by 24.7 percent. Counties "other" human services current expenditures rose by 12.7 percent and social services expenditures increased by 13.3 percent.

- ! ***General government services.*** Counties spent \$537.5 million on general government services in 1998, accounting for 17.9 percent of all current expenditures. Spending on general government services rose \$55.1 million or 11.4 percent between 1997 and 1998.

- ! ***Public safety.*** Spending on public safety, which includes expenditures for sheriff, corrections, and other safety-related services, totaled \$578.9 million in 1998. This was an increase of \$51.3 million or 9.7 percent over 1997.

Public safety continues to consume a greater proportion of county budgets. In 1994, public safety accounted for 16.4 percent of current expenditures; in 1998, public safety represented 19.3 percent of current expenditures. During those five years, public safety current expenditures rose 38.7 percent.

- ! ***Streets and highways.*** Current expenditures for streets and highways totaled \$255.4 million in 1998. This category of spending decreased \$21.6 million or 7.8 percent between 1997 and 1998. The decrease reflects unusually high expenditures in 1997 due to weather-related costs such as snow removal and flood repairs that were not repeated in 1998.

Streets and highways current expenditures do not include expenditures for road construction and equipment purchases. Counties spent \$305.4 million on these activities in 1998.

- ! ***Other current expenditures.*** Between 1997 and 1998, Minnesota counties increased spending on culture and recreation activities by \$6.1 million or 6.5 percent, conservation of natural resources by \$4.2 million or 6.8 percent, and health by \$15.2 million or 10.8 percent.

³ Current expenditures exclude capital outlays, debt service, and transfers to other funds.

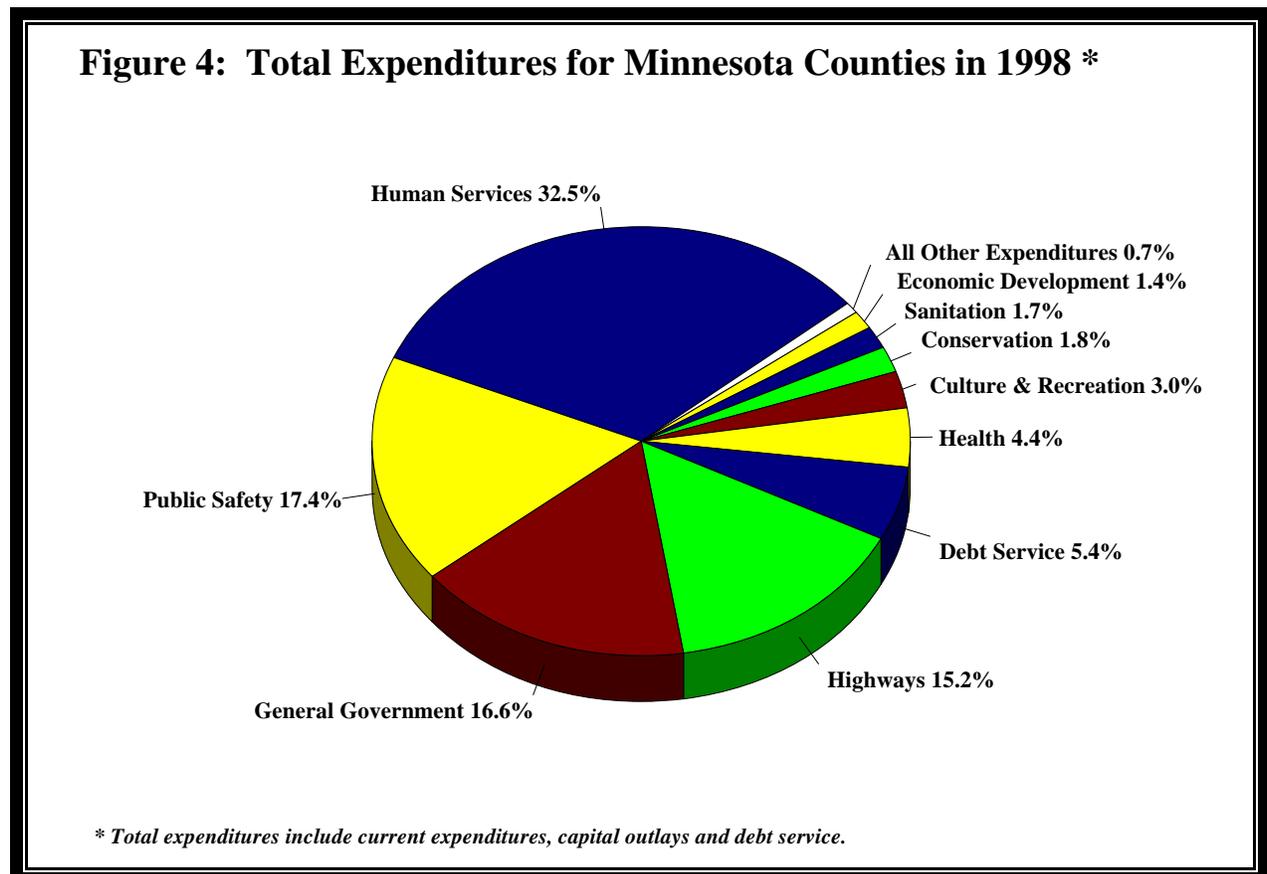
Capital Outlay and Debt Service

In addition to current expenditures of \$3.01 billion, counties spent \$491.3 million on capital purchases and projects and \$198.9 million on debt service in 1998.⁴ Capital spending was down \$20.5 million or 4.0 percent, and debt service expenditures rose \$57.4 million or 40.5 percent between 1997 and 1998.

The largest category of capital outlays for counties was streets and highways. Counties spent \$305.4 million on street and highway capital projects in 1998. This represented 62.2 percent of all county capital outlays. General government capital outlays totaled \$75.1 million and accounted for 15.3 percent of capital outlays.

Streets and highways capital projects accounted for 62.2 percent of all capital outlays for counties in 1998.

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



⁴ Debt service does not include enterprise fund debt service payments.

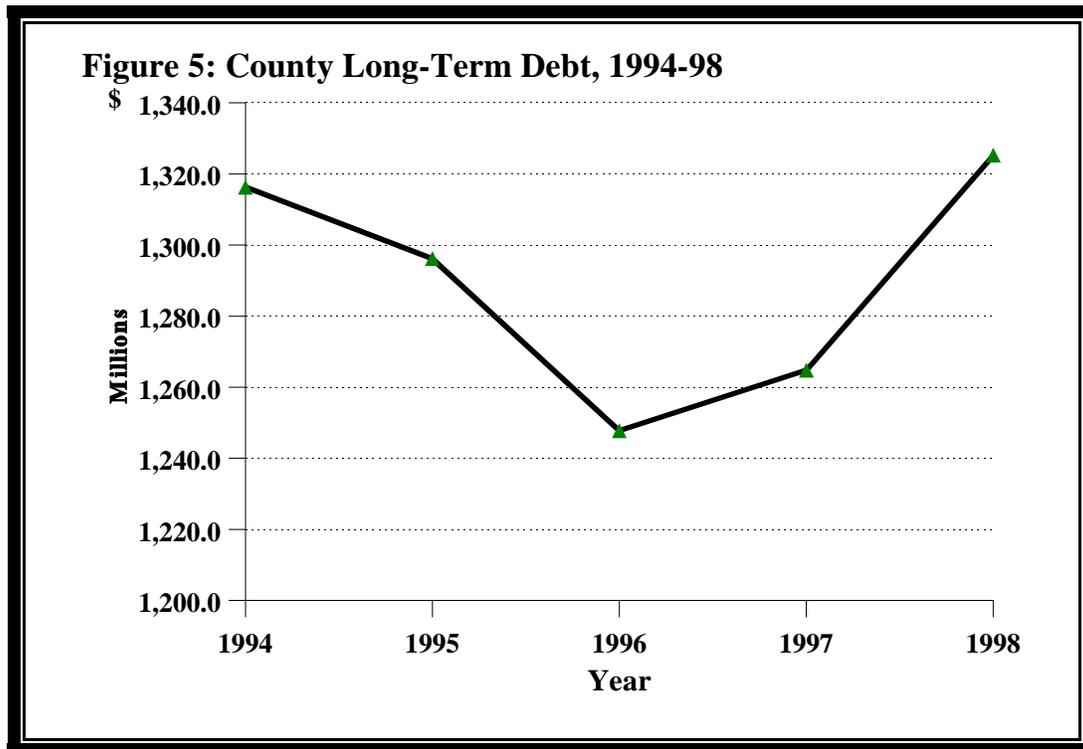
Borrowing and Indebtedness

The amount of bonds and other long-term debt issued by counties totaled \$244.9 million in 1998. This represents an increase of \$43.1 million or 21.4 percent over 1997.⁵ Counties issued bonds totaling \$188.2 million and other long-term debt of \$56.7 million in 1998.

Counties held bonded debt of \$1.08 billion at the end of 1998. This was an increase of \$37.7 million or 3.6 percent over 1997. Counties retired bonds totaling \$149.2 million in 1998, compared to \$101.6 million in 1997. Counties also reported liabilities for compensated absences totaling \$218.0 million and other long-term debt totaling \$245.5 million in 1998.

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 \$277. Per capita long-term debt ranged from a high of \$3,271 in Cook County to no debt in seven counties. Cook County's per capita long term-debt was more than double that of any other county, and almost twelve times as high 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 1994 through 1998.



⁵ 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 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.

In 1998, county enterprise operations had operating expenses of \$650.4 million and operating revenues of \$627.5 million, resulting in an operating loss of \$22.9 million. County enterprises had nonoperating expenses of \$9.8 million and nonoperating revenues of \$41.5 million, resulting in a profit of \$8.8 million. Net income increased 728.6 percent between 1997 and 1998.

The majority of the increase in net income was attributable to Hennepin County's solid waste enterprise fund. The county had unusually high expenditures in 1997 due to the settlement of two lawsuits related to the county's waste designation ordinance. The costs of the settlement created a significant net loss for the enterprise fund that affected the aggregate profit/(loss) for all enterprise funds. The large settlement expenditures were not repeated in 1998 resulting in a significant increase in the statewide net profit for all public service enterprises. Hennepin county's enterprise funds posted a net loss of \$13.7 million in 1997, compared to a net profit of \$115,851 profit in 1998.

Figure 6 on page 8 and figure 7 on page 9 summarize county enterprise operations.

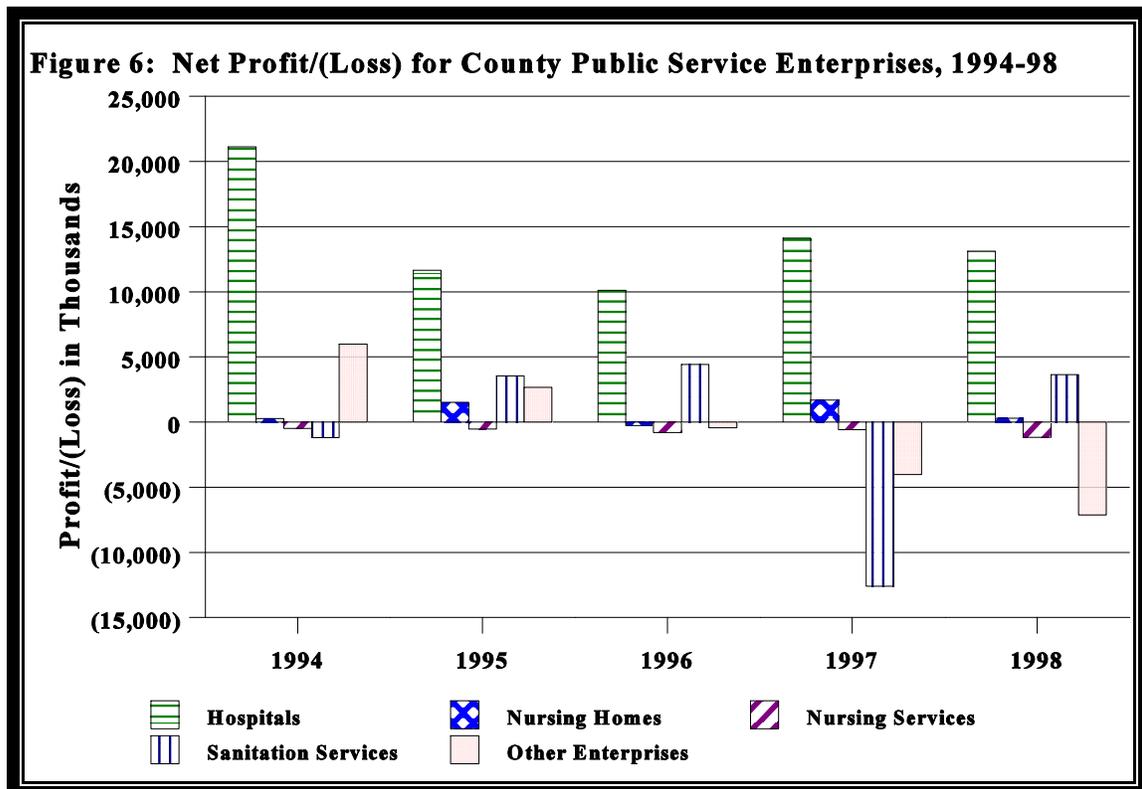


Figure 7: County Public Service Enterprises, 1997-98

Public Service Enterprise	1997 Amount	1998 Amount	Percent Change
Hospitals			
Operating Revenues	\$392,968,643	\$404,356,856	2.9%
Operating Expenses	397,225,840	410,517,571	3.3%
Operating Income (Loss)	(4,257,197)	(6,160,715)	-44.7%
Non-operating Revenues	22,334,852	22,622,247	1.3%
Non-operating Expenses	3,951,076	3,344,166	-15.4%
Net Income (Loss)	<u>14,126,579</u>	<u>13,117,366</u>	<u>-7.1%</u>
Nursing Homes			
Operating Revenues	57,086,658	54,003,651	-5.4%
Operating Expenses	55,668,424	53,856,201	-3.3%
Operating Income (Loss)	1,418,234	147,450	-89.6%
Non-operating Revenues	590,193	246,595	-58.2%
Non-operating Expenses	323,852	95,959	-70.4%
Net Income (Loss)	<u>1,684,575</u>	<u>298,086</u>	<u>-82.3%</u>
Nursing Services			
Operating Revenues	4,992,593	3,505,301	-29.8%
Operating Expenses	8,322,638	6,985,950	-16.1%
Operating Income (Loss)	(3,330,045)	(3,480,649)	-4.5%
Non-operating Revenues	2,741,301	2,328,518	-15.1%
Non-operating Expenses	498	0	-100.0%
Net Income (Loss)	<u>(589,242)</u>	<u>(1,152,131)</u>	<u>-95.5%</u>
Sanitation Services			
Operating Revenues	85,244,465	79,342,821	-6.9%
Operating Expenses	107,647,656	86,440,978	-19.7%
Operating Income (Loss)	(22,403,191)	(7,098,157)	68.3%
Non-operating Revenues	15,506,376	14,878,154	-4.1%
Non-operating Expenses	5,711,815	4,135,056	-27.6%
Net Income (Loss)	<u>(12,608,630)</u>	<u>3,644,941</u>	<u>128.9%</u>
Other Enterprise Services			
Operating Revenues	82,069,594	86,298,398	5.2%
Operating Expenses	85,667,701	92,638,961	8.1%
Operating Income (Loss)	(3,598,107)	(6,340,563)	-76.2%
Non-operating Revenues	1,445,271	1,406,924	-2.7%
Non-operating Expenses	1,880,756	2,192,443	16.6%
Net Income (Loss)	<u>(4,033,592)</u>	<u>(7,126,082)</u>	<u>-76.7%</u>

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 \$1.38 billion in 1998. This represents an increase of 5.1 percent over the unreserved fund balances in 1997. The largest unreserved fund balance increase was posted by Cottonwood County, whose fund balance increased by 136.0 percent between 1997 and 1998. The largest fund balance decrease was recorded by Kandiyohi County, whose fund balance dropped by 23.1 percent between 1997 and 1998. From 1997 to 1998, 67 counties increased their unreserved fund balance and 20 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 1998. Unreserved fund balances as a percent of total current expenditures ranged from 160.9 percent in Mower County to 21.4 percent in Stearns County. Mower County had total current expenditures of \$20.8 million and an unreserved fund balance of \$33.5 million. Stearns County had total current expenditures of \$58.7 million and an unreserved fund balance of \$12.5 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.

