APPENDIX A

FACTORS INFLUENCING COUNTY FINANCES

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The finances of counties are affected by many different factors. Some of the variation results from decisions made by county officials. Some is due to factors outside the control of the elected officials such as state mandates, a county's size, the economic status of its residents, or the proximity of similar services provided elsewhere. The amount of revenue available may be influenced by rising or falling property values, the use of fee-based services, intergovernmental grants for projects, and many other interrelated factors. Expenditures may be affected by the demographic, geographic, historical or political landscape of the county. Large swings in expenditures may reflect demands caused by extraordinary weather events such as floods and tornados, high levels of snowfall, public safety events such as forest or brush fires, or large-scale investigations of high-profile crimes. Some factors have an on-going effect on county finances, while others might be one-time events.

A. Demographics

Age of Housing. In the metropolitan area, the average age of housing in a county reflects not only the probable condition of the county's infrastructure, but several other conditions as well. The League of Minnesota Cities (LMC) found the average age of housing to be indicative of a variety of characteristics, including a higher relative rate of poverty, more tax exempt property, more subsidized housing, and a declining population base. Each of these factors tends to contribute to a demand for public services.

Population. Counties with larger populations face certain challenges not encountered by smaller counties. Simply dealing with large amounts of traffic is one challenge that can become very costly, depending upon the burden carried by an area's streets and highways. Large populations may also indicate high population densities that in turn are associated with higher poverty and crime rates. Conversely, counties with sparse populations spread over large land areas may face higher costs per citizen served and fewer taxpayers to pay for the services.

Population Decline. A large loss of population can have a very significant effect upon a county's spending. The costs of a county's infrastructure and many of its services do not go down immediately when a number of county residents move away. Consequently, the county must often curtail services or raise the property taxes on the remaining taxpayers to maintain the existing level of services. Counties experiencing population loss are commonly home to an aging population that is more likely to live on fixed incomes. This population may require more services while at the same time have fewer resources to afford them.

Income. Income is indirectly related to a county's ability to raise revenues. Where incomes are lower, property values may also be depressed, reducing a county's tax capacity. Poverty rates, in turn, will be higher, creating greater demand for public services.

Crime Rate. Higher crime rates require a correspondingly high level of public safety services. Counties that host entertainment events, such as outdoor concerts, can draw large crowds of nonresidents and create unusual public safety service demands. Higher levels of poverty are also associated with the crime rate of a county and contribute to an overall greater demand for police protection. In addition to these demands, expenditures can be affected by a number of different factors including: the number, type, and use of personnel; the scope of services; and the amount of shared services.

B. Geographic Location

Different areas of the state often operate within quite different economic environments. Just the presence of one large business or industry can impact an entire region. Declines in industries or companies that dominate local economies may result in a higher demand for public assistance and at the same time reduce the tax capacity of the area. Trends in agriculture may result in lower property values and a decline in revenues for counties in regions where economies are primarily based on agriculture. Counties located in these areas may experience difficulty raising revenues at the same time that they face higher demands for public services.

C. Revenue Sources

Tax Capacity. The amount of money any individual or entity spends is directly related to the amount that is available to spend. Likewise, the costs of doing business are directly related to the amounts of revenue that can be generated to meet the costs. The greater the amount and types of revenue available to a county, the more it will spend. Counties with significant amounts of tax-exempt property, such as state and federal parks and forests, churches, and academic institutions, may not receive enough revenue from the parcels to cover the costs of the services provided to them.

Enterprise Funds. Services provided through enterprise funds allow counties to pass the costs of services directly onto the users of the services. By using this type of accounting mechanism, counties may be able to keep down the level of general property taxes needed to provide services.

D. Shared Services, Joint Powers Agreements

A significant practice among counties is the sharing of services and the use of joint powers agreements to provide necessary services. "Joint exercise of powers" is defined in Minnesota Statutes § 471.59. Such arrangements allow counties to provide services jointly with other counties and thus pool their resources. For example, certain counties operate joint solid waste facilities while others provide human services through jointly-operated boards.

Shared service arrangements are not necessarily formal; some counties provide services to other jurisdictions on an informal basis. By sharing the costs of services, counties can achieve greater economies of scale and avoid duplicating services and capital investments. Counties that provide a service to a number of entities may show higher expenditures for that service, but will have these costs defrayed by revenues provided by the other participating entities.

E. Proximity to Regional or State-Run Programs/Facilities

Counties that are located near regional or state-run facilities may decide to have their citizens take advantage of those facilities and services rather than provide them on their own. Counties may also take advantage of services offered by county urban centers or neighboring counties.

The degree of isolation experienced by a community, whether geographic or technological (i.e., lack of advanced telecommunications capability), can also affect service demands and costs. Counties that are remote from other communities may not have the opportunity to participate in joint powers arrangements or have access to urban amenities, and thus may need to provide a wider range of services out of their own budgets.

F. Source of Labor

Numerous factors can impact local governments' levels of expenditures for labor. Use of part-time employees, reliance on volunteers, unionization of workers, retention of workers, and use of independent contractors for specific projects or general services can all effect the salary and fringe benefit costs paid by local governments.

G. Other Factors

The effects of weather and natural disasters can significantly affect the expenditures for certain services over a period of time. Counties affected by floods and tornadoes may have higher public safety, streets and highways, and other infrastructure costs. During winters in which there is an unusually high snow fall, counties may have increased expenditures for snow removal. There are many other incidental factors not included in this list. Explanations of differences in county expenditures should be pursued with county officials.