Overview

Total Governmental Revenues

In 2001, Minnesota counties raised total governmental revenues of $4.31 billion to finance county services. This represents an increase of 6.0 percent over the amount raised in 2000.

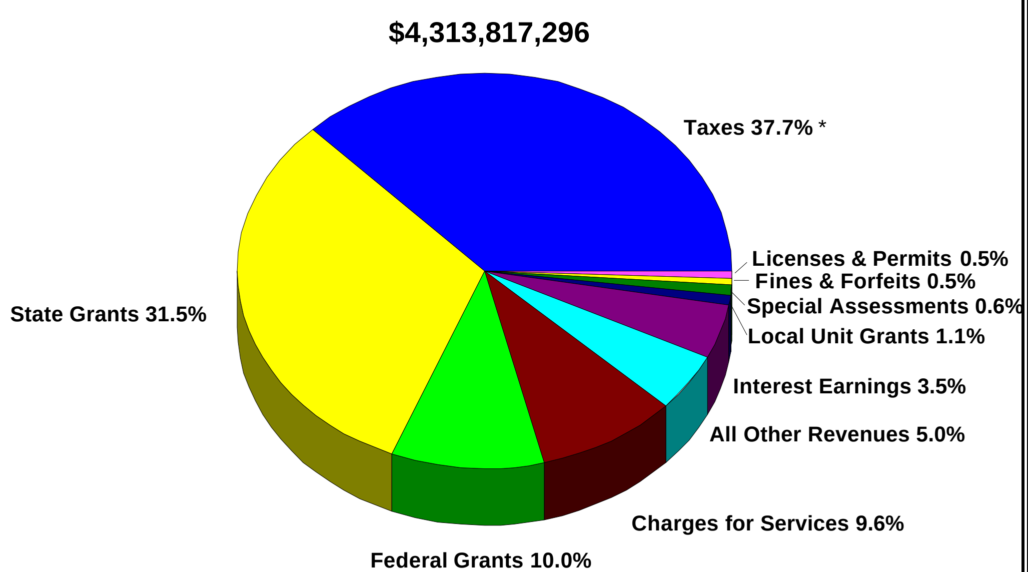
The composition of funding sources for counties generally varies only slightly from year to year. The two largest sources of revenues for counties continue to be taxes and state intergovernmental revenues, which account for 37.7 and 31.5 percent of total revenues, respectively.

Between 2000 and 2001, most categories of county revenue increased, with the exception of fines and forfeits (decreased 15.8 percent), and interest earnings (decreased 22.7 percent). In both of these categories, the trend was widespread, with interest earnings decreasing in 78 of 87 counties and fines and forfeits decreasing in 63 of 87 counties.

The categories of revenues showing the greatest increase between 2000 and 2001 were charges for services (increased 10.1 percent) and "all other revenues"(increased 21.8 percent). Charges for services increased in about two-thirds of counties. The "all other revenues" category is prone to large fluctuations because it includes revenues derived from the sale of land and fixed assets, donations, and other sources that may not be reoccurring.

Figure 1 shows the relative shares of total governmental revenues by source. The underlying data for this pie chart is detailed in Table 1.

Figure 1: Total Governmental Revenues



* This category includes property, sales, gravel taxes as well as tax increments.

Total Governmental Expenditures

Counties provide a variety of services to their citizens. Most services are accounted for in Governmental Funds. In 2001, Minnesota counties expended $4.36 billion from Governmental Funds to provide county services. This represents an increase of 5.0 percent over 2000 total governmental expenditures.

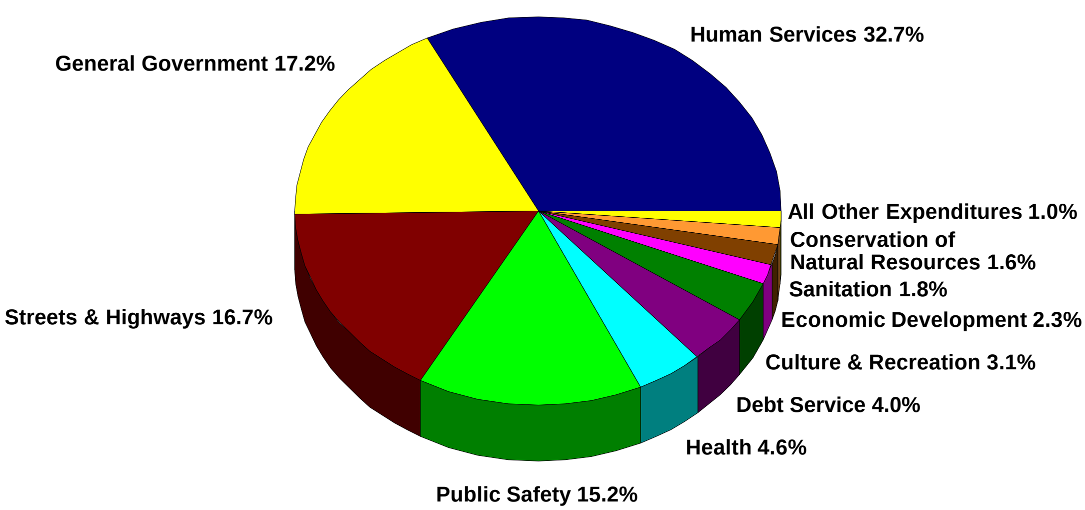
The relative shares of total governmental expenditures change very little from year to year. Over time, the priorities or roles of counties in delivering services may change and relative shares of total spending shift to reflect these new priorities and roles. Human services remain by far the largest expenditure for counties, but the category has decreased from 43.3 percent of total expenditures in 1991 to 32.7 percent in 2001.

Due to a major reclassification of expenditures in Hennepin County in 2001, expenditures in the public safety category decreased by 10.2 percent, and increased in the general government category by 20.5 percent. As a percent of total expenditures, general government rose from 15.0 percent in 2000 to 17.2 in 2001, and public safety expenditures decreased from 17.8 percent in 2000 to 15.2 percent in 2001. Hennepin County affected the statewide trends because it accounts for over a quarter of all spending in these two categories. To examine these and other trends, refer to Table 1.

Figure 2 shows the relative shares of total governmental expenditures by function. The underlying data for this pie chart is detailed in Table 1.

Figure 2: Total Governmental Expenditures *

$4,360,314,734



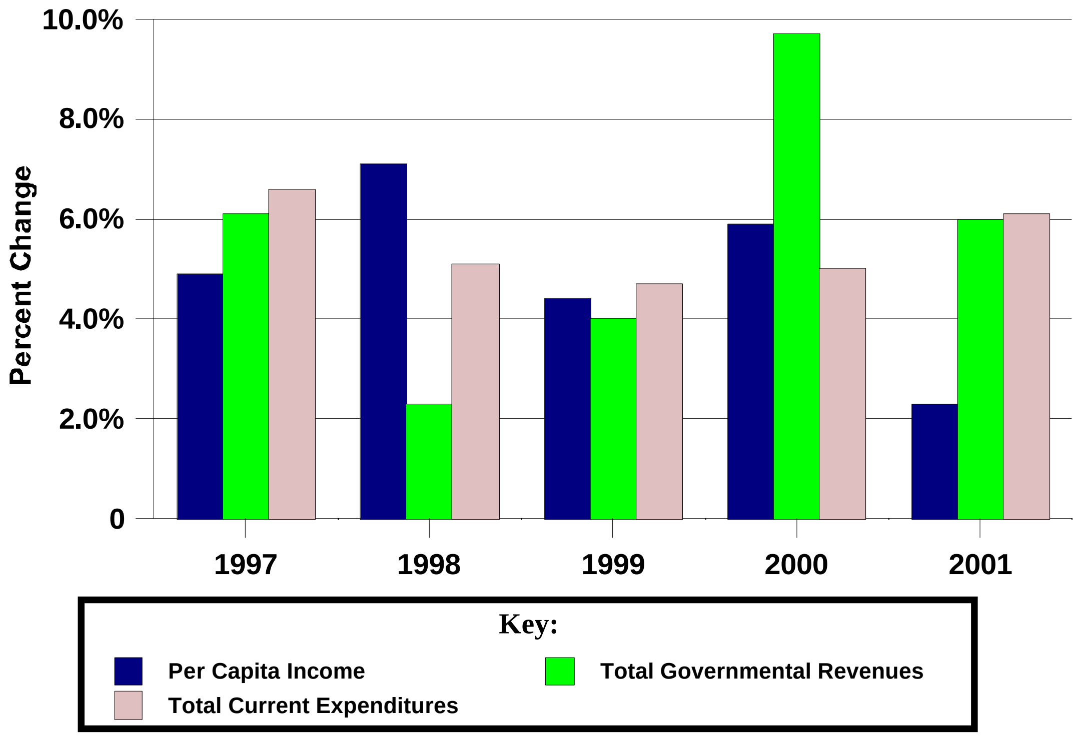
* Includes current expenditures, capital outlays, and debt service.

Growth in Government

During the five-year period of 1997 to 2001, total governmental revenues and total current expenditures increased every year.[1] The rate at which they increased varied from 2.3 percent to 9.7 percent. To place this growth in perspective, Figure 3 below includes a bar showing the growth in per capita personal income for Minnesotans.[2] Per capita income is an indicator of the ability of citizens to pay for increased governmental spending. Generally, when expenditures grow faster than per capita personal income, citizens must spend a greater proportion of their income on governmental services. If non-tax sources of revenue keep pace or grow faster than expenditures, however, the increased spending may not result in a greater tax burden for citizens.

Figure 3 compares the change in total current expenditures and total governmental revenues to the change in Minnesota per capita personal income. Total current expenditures grew faster than per capita income for three of the five years. Total revenues also grew faster than per capita income for three of the five years.

Figure 3: Percentage Change - Total Governmental Revenues, Total Current Expenditures, and Per Capita Income - 1997 to 2001



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1 The chart excludes capital outlay as this category is more prone to yearly fluctuations. The chart also excludes revenues derived from borrowing because counties are prohibited from borrowing for current expenditures. Most capital projects are funded through the issuance of bonds or other types of borrowing such as certificates of participation.

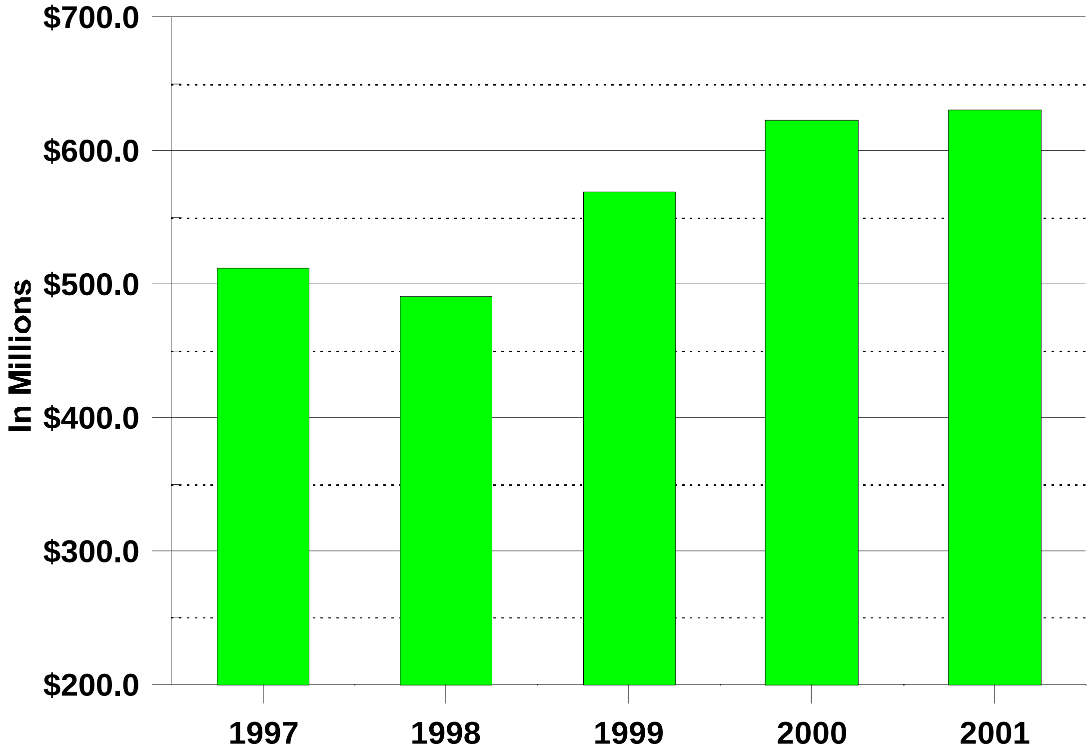
2 Per capita income is calculated by dividing Minnesota total personal income by its total midyear population. The figure is calculated by the Bureau of Economic Analysis which is a part of the U. S. Census Bureau.

Capital Outlay Expenditures

Counties expended $630.7 million on capital investments in 2001, representing an increase of 1.2 percent over the level expended in 2001. Capital outlays are more likely than current expenditures to vary significantly from year to year because capital projects tend to be large in size but infrequent in nature. Some of the factors that influence the level of capital investments include the need for infrastructure improvements, public safety concerns, demands for public meeting places and facilities, the need to replace aging infrastructure, and damage to public facilities caused by fire, floods, and storms.

Figure 4 illustrates the trend in capital spending for the years 1997 through 2001.

Figure 4: Total Capital Outlay Expenditures, 1997 to 2001



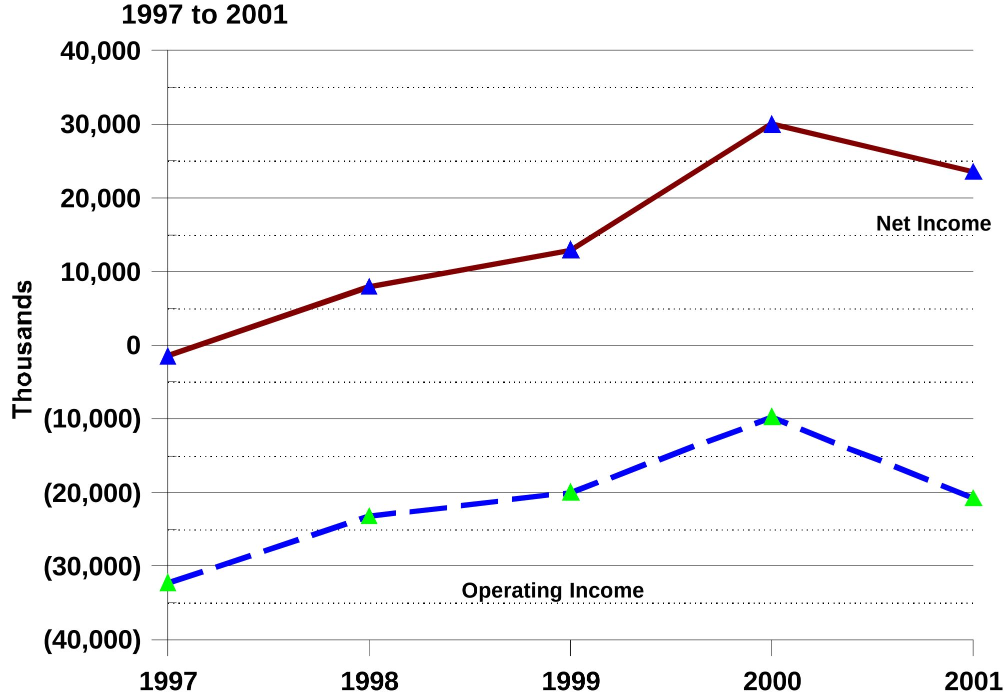
Public Service Enterprises

In addition to Governmental Funds, many counties establish Enterprise Funds to account for services that are financed and operated in a manner similar to private business enterprises. These enterprises are intended to be self-sustaining through fees and user charges. Although some enterprises generate net income, most have the objective of breaking even. Enterprise Fund accounting is also used to provide more detailed financial information on operations where there are concerns in regard to issues such as public policy, accountability, management control. The most common enterprises created by counties include hospitals, nursing homes, nursing services, and solid waste. Other enterprises include recreation facilities, housing, and economic development.

Public service enterprises provide a good or service for a charge. Most enterprises are designed to recoup the costs of providing the service through charges to the user. Many county enterprises, however, do not recoup all the costs of the service and need to supplement the operating revenues with transfers from other funds and non-operating revenues such as taxes and intergovernmental revenues. In 2001, the operating losses of county enterprises totaled $20.7 million. County enterprise operations received non-operating revenues (taxes, federal and state grants, etc.) of $58.1 million to cover operating losses. After the inclusion of non-operating revenues, county enterprises posted a net income of $23.6 million in 2001. Tables 4 through 7 provide detailed financial information on Enterprise Fund operations.

Figure 5 examines the five-year trend in the operating income and net income or loss of municipal enterprises. The gap between the operating income line and the net income line shows the amount that counties contributed in the form of non-operating revenues to county enterprises.

Figure 5: Net Income and Operating Income of Municipal Enterprises, 1997 to 2001



Outstanding Long-Term Indebtedness

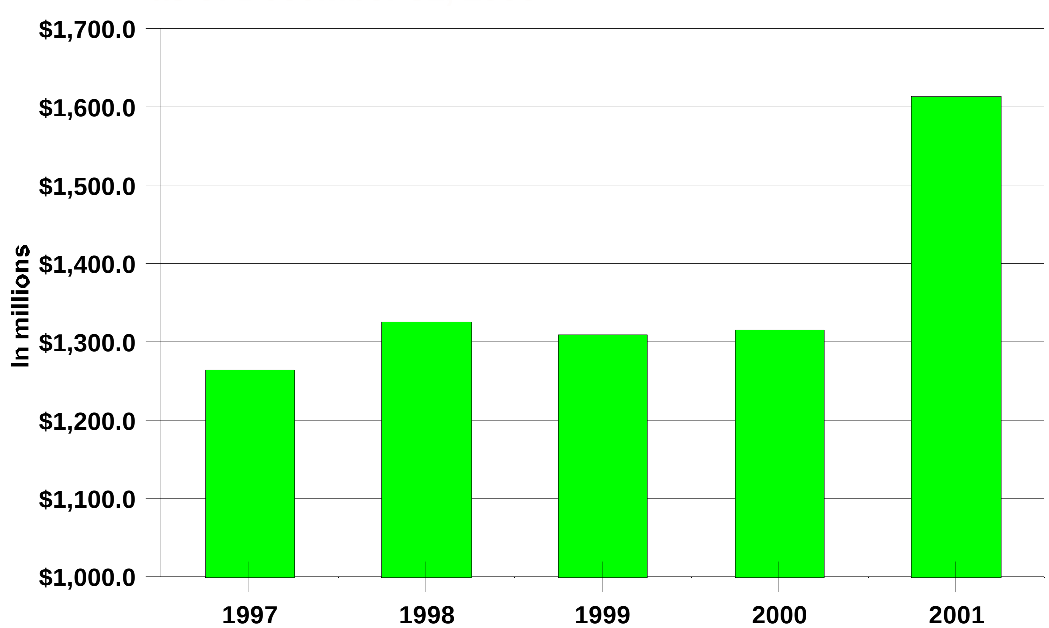
Counties incur long-term debt through the issuance of bonds and notes, certificates of indebtedness, and tax anticipation certificates. Long-term lease agreements are also classified as long-term debt. Counties may only borrow to finance capital projects and purchases because the law restricts them from borrowing for current expenditures. The amount of outstanding debt affects a county's expenditures because counties must make principal and interest payments to service the debt.

Counties reported a total of $1.61 billion in outstanding long-term debt at the end of 2001. This represents an increase in long-term debt of 22.8 percent over the year 2000. The long-term debt was divided between $1.36 billion in outstanding bonds and $255.8 million in other long-term debt.

The large increase in long-term debt was influenced by several counties. Anoka, Dakota, and Hennepin counties significantly increased their long-term debt to finance capital projects such as roads, light rail transit, government buildings, and other infrastructure improvements. Classification changes in one county also affected the statewide level of long-term debt. Table 8 details outstanding debt by individual county.

Figure 6 shows the five-year trend of outstanding long-term debt for Minnesota counties.

Figure 6: Outstanding Long-Term Indebtedness as of December 31, 2001 *



*** Includes bonds and other types of debt such as certificates of participation, long-term leases, and notes.**

Unreserved Fund Balances of the General Fund and Special Revenue Funds

Counties maintain cash reserves for several reasons. Counties should have relatively large fund balances at the end of the year in order to meet expenditures occurring in the first five months of the next fiscal year, before the first property tax and state aid payments are received. Additional reasons include contingency funds for unforseen needs and setting aside resources for future capital investments. The unreserved fund balances of counties' General and Special Revenue Funds totaled $1.59 billion in 2001.[3] This represents an increase of 9.2 percent over the level in 2000.

Comparing counties' 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. County unreserved fund balances as a percent of total current expenditures averaged 44.6 percent in 2001. Among individual counties, unreserved fund balances as a percent of total current expenditures ranged from 20.9 percent to 176.4 percent.

The following table shows the State Auditor's classifications of county unreserved fund balances in the General and Special Revenue funds. The State Auditor recommends an unreserved fund balance of between 35 and 50 percent of total current expenditures. Tables 9 and 10 list individual counties by their unreserved fund balance as a percent of total current expenditures.

Fund Balance Classification	Range of Unreserved Fund Balance as a Percentage of Total Current Expenditures	Number of Counties
Extremely Low Fund Balance	Below 20%	0
Low Fund Balance	20% to 35%	15
Acceptable Fund Balance	35% to 50%	14
Moderately High Fund Balance	50% to 65%	24
High Fund Balance	65% to 100%	26
Very High Fund Balance	100% to 150%	7
Extremely High Fund Balance	Above 150%	1

[3] Although this section discusses only one type of fund balance, Minnesota counties actually report three different classifications of fund balances in the General and Special Revenue Funds. The ***unreserved, undesignated fund balances*** include all funds remaining at the close of the fiscal year for which no legally-binding commitment has been made, nor has the governing body passed a resolution designating those funds for a specific purpose. The ***unreserved, designated fund balances*** include all funds remaining at the close of the fiscal year for which no legally-binding commitment has been made; however, these funds have been designated by the governing body for a specific future use. The ***reserved fund balances*** include all funds remaining at the close of the fiscal year for which there is a legally-binding external commitment of those funds, such as a signed contract for services or equipment.

Figure 7 shows the five-year trend of unreserved fund balances as a percent of total current expenditures.

Figure 7: Unreserved Fund Balances of the General and Special Revenue Funds as a Percent of Total Current Expenditures, 1997 to 2001