Scope

This publication is intended to facilitate an understanding of county financial operations by citizens, policy makers and local government officials. The report summarizes, through data tables and charts, the financial operations of Minnesota counties for calendar year 2003. In addition, the report contains supplemental data showing county 2004 and 2005 budgets.

The data presented in this report is divided into governmental funds and proprietary funds. The governmental funds consist of the General, Special Revenue, Capital Projects, and Debt Service Funds. The financial operations of these funds are summarized in Table 1. Tables 2 and 3 present the data by each individual county. Appendix A lists factors that affect county finances.

The enterprise or proprietary funds of counties are presented separately from the governmental funds. Minnesota counties operate many types of public service enterprises. These enterprises furnish a variety of services that operate completely, or in large part, from revenues derived from the sale of goods or services. The financial operations of the municipal public service enterprises are presented in Tables 4 through 7. Footnotes used in the analysis of the enterprise operations are described at the end of the enterprise fund section.

Table 8 lists by each individual county the bonded and other long-term debt outstanding as of December 31, 2003. Other long-term debt refers to liabilities such as long-term lease agreements, installment purchase contracts, and notes.

Tables 9 and 10 present an analysis of the 2002 and 2003 unreserved fund balances in the General and Special Revenue Funds of counties. The tables show the actual unreserved fund balances, the percentage change in unreserved fund balances from 2002 to 2003, and a comparison to 2003 total current expenditures. Table 10 classifies unreserved fund balances by the standard issued by the State Auditor. Appendix B provides a more detailed discussion of fund balances.

In addition to this publication, the Office of the State Auditor presents an enhanced analysis of county finances on its web site. To provide additional insight into the relative spending and debt level of counties, the web site provides tables that show rankings of county per capita expenditures and debt.[1] Breakdowns by economic development regions are also presented.

The Office of the State Auditor also maintains an interactive database containing several years of data that can be accessed through its web site. The database allows users to customize the presentation of data to their individual needs. For example, a citizen can select a group of counties to compare, and then choose the years and the categories of revenues and expenditures on which to compare them. The query can then be viewed on screen or saved to a file for downloading. The Auditor's web site address is www.auditor.state.mn.us.

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[1] The per capita tables do not incorporate the finances of enterprise funds. The inclusion of enterprise fund spending could significantly affect per capita figures for certain counties. Additionally, counties that provide services to other municipalities may have higher per capita expenditures.

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Overview

Total Governmental Revenues

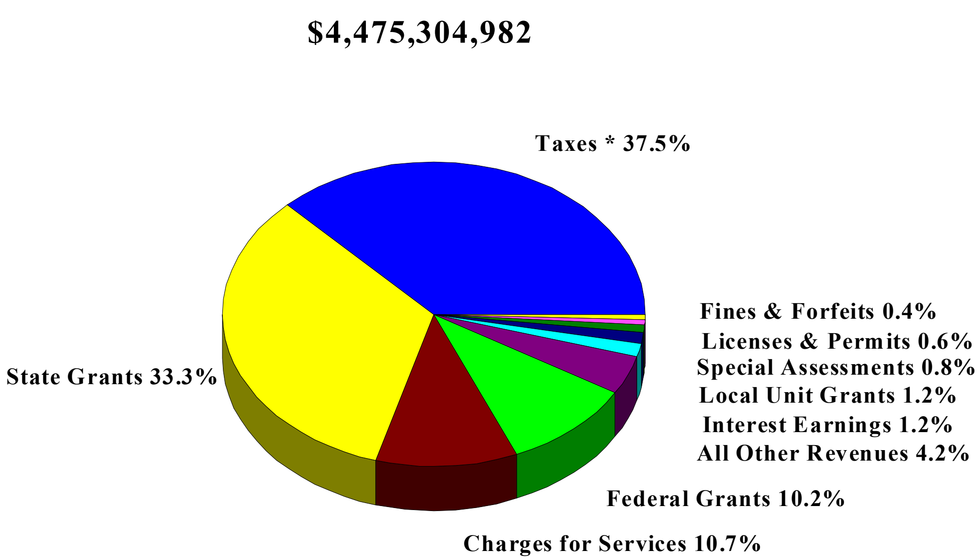
In 2003, Minnesota counties raised total governmental revenues of $4.48 billion to finance county services. This represents an increase of 0.1 percent over the amount raised in 2002.

The composition of revenue 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 accounted for 37.5 and 33.3 percent of total revenues, respectively. Over a five-year period, there were some shifts in the composition of county revenues. Taxes as a percent of total revenues declined from 39.6 percent in 1999 to 37.5 percent in 2003. Total intergovernmental revenues and charges for services both increased in their share of total revenues. Intergovernmental revenues increased its percentage of total revenues from 42.7 percent to 44.7 percent, while charges for services increased from 9.6 percent to 10.7 percent.

Between 2002 and 2003, revenue decreased in more categories than it increased. The revenue categories showing the greatest increases were local units grants (37.1 percent), special assessments (25.4 percent), and licenses and permits (14.0 percent). The categories showing the greatest decrease were interest earnings (54.1 percent), fines and forfeits (5.1 percent), and state grants (4.1 percent). Taxes increased by 5.0 percent from 2002 to 2003.

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, gravel and sales taxes, as well as tax increments

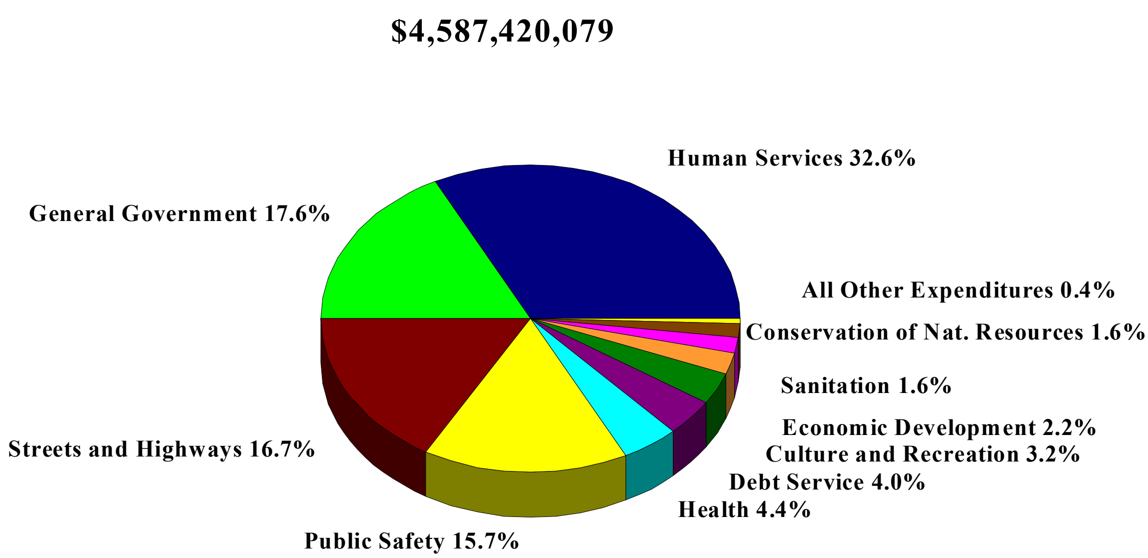
Total Governmental Expenditures

Counties provide a variety of services to their citizens. Most services are accounted for in Governmental Funds. In 2003, Minnesota counties expended $4.59 billion from Governmental Funds to provide county services. This represents a decrease of 3.4 percent from 2002 total governmental expenditures. The three types of expenditures that constitute total governmental expenditures all decreased in 2003. Current expenditures decreased 0.6 percent, capital outlay expenditures decreased 8.7 percent, and debt service expenditures decreased 29.6 percent.

Expenditures in the subcategories varied between 2002 and 2003, with four categories seeing an increase in spending and six seeing a decrease in spending. The largest decrease was in the "all other" category at 52.7 percent. The "all other" category is more volatile than other categories because one-time expenditures or expenditures that are hard to classify, are often placed in this category. Debt service also decreased significantly, at 29.6 percent. For all other categories of expenditures, the change in spending (increased or decreased) was relatively small, with only two categories exceeding a five percent change.

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 *



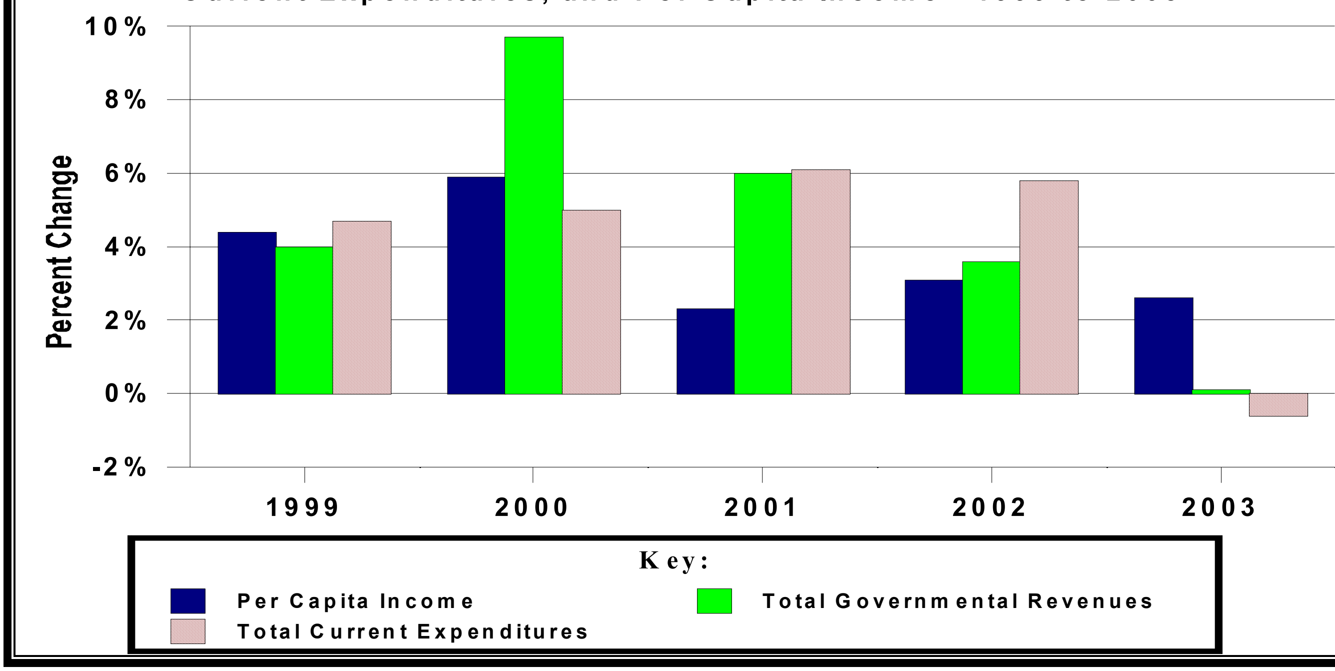
* Includes current expenditures, capital outlays, and debt service

Growth in Government

During the five-year period of 1999 to 2003, total governmental revenues and total current expenditures increased every year except 2003.[1] 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. There is a marked difference for the year 2003 compared to other years. The percent change in revenue and current expenditures was relatively flat between 2002 and 2003. This is the first year that one, or both total current expenditures and total revenues did not grow faster than per capita income. The growth in revenues has declined mostly due to reductions in state and federal aid. Many county programs are based on aid. Counties would adjust their spending to reflect the decrease in revenue.

Figure 3: Percentage Change - Total Governmental Revenues, Total Current Expenditures, and Per Capita Income - 1999 to 2003



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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.

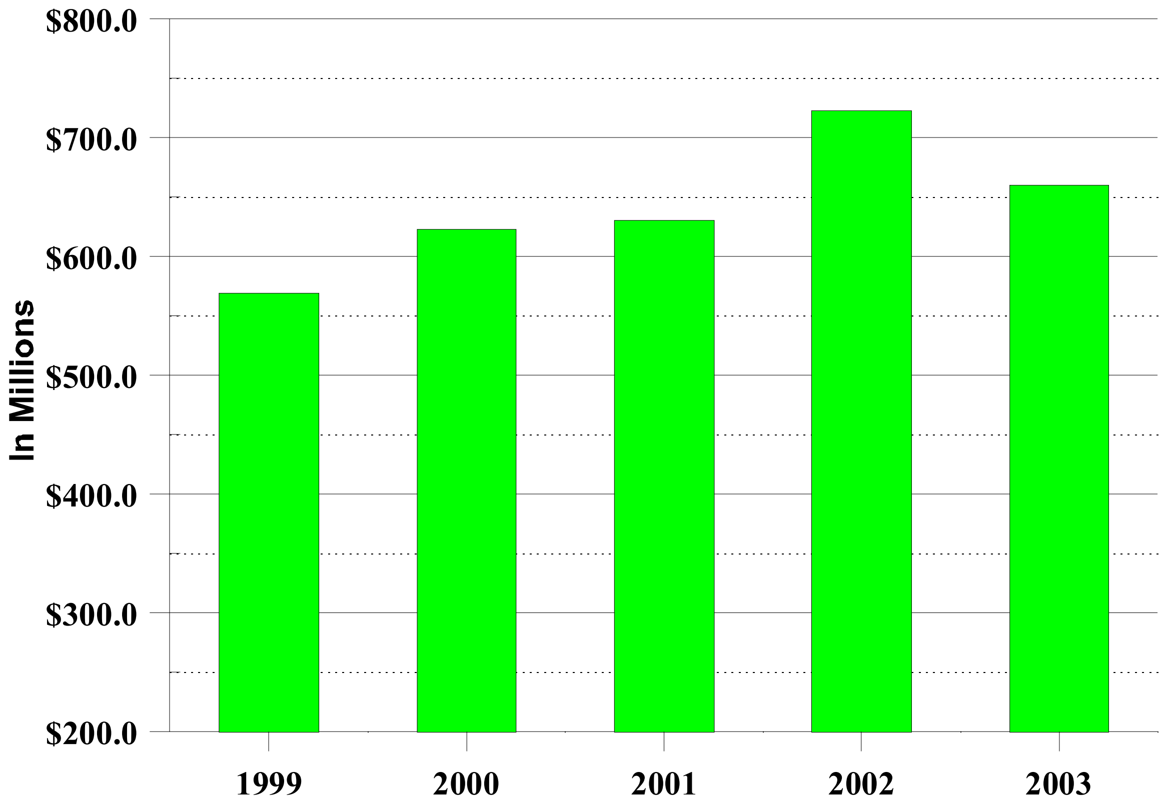
[2] Per capita income is calculated by dividing Minnesota total personal income by its total midyear population. The Bureau of Economic Analysis calculates the figure, which is a part of the U. S. Census Bureau.

Capital Outlay Expenditures

Counties expended $660 million on capital investments in 2003, representing a decrease of 8.7 percent over the level expended in 2002. 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 1999 through 2003.

Figure 4: Total Capital Outlay Expenditures, 1999-2003



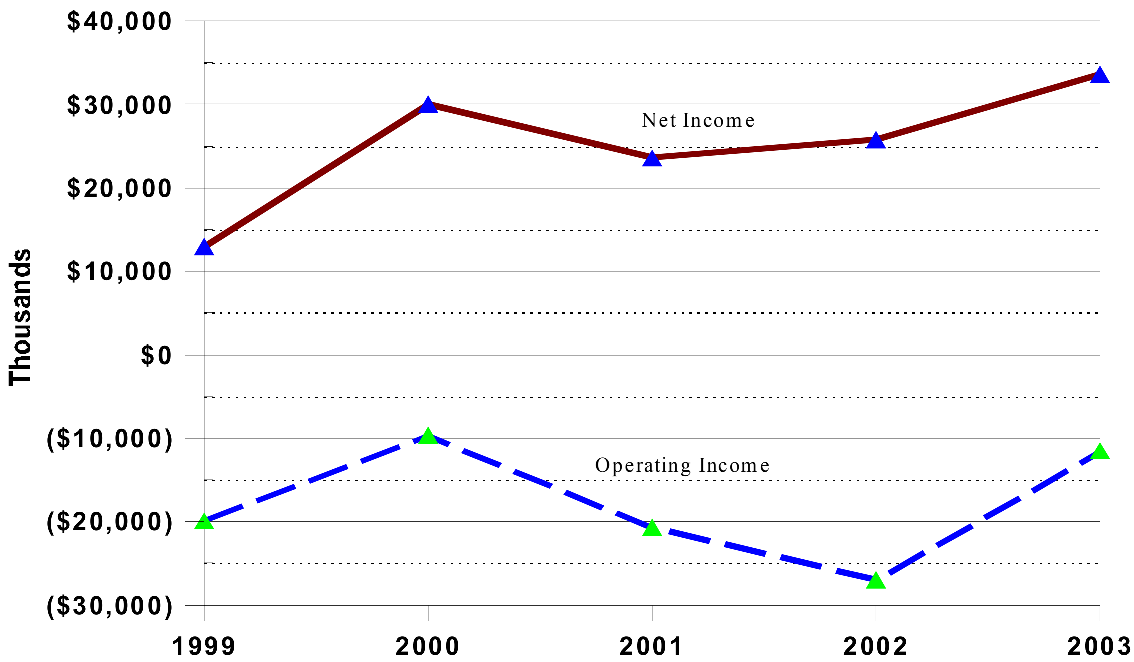
Public Service Enterprises

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, and management control. The most common enterprises created by counties include hospitals, nursing homes, nursing services, and solid waste.

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 2003, the operating losses of county enterprises totaled $11.5 million. County enterprise operations received non-operating revenues (taxes, federal and state grants, interest, etc.) of $80.0 million to cover operating losses. After the inclusion of non-operating revenues, county enterprises posted a net income of $33.6 million in 2003. Approximately half of all county enterprises had operating losses in 2003. 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 County Enterprises, 1998 to 2002



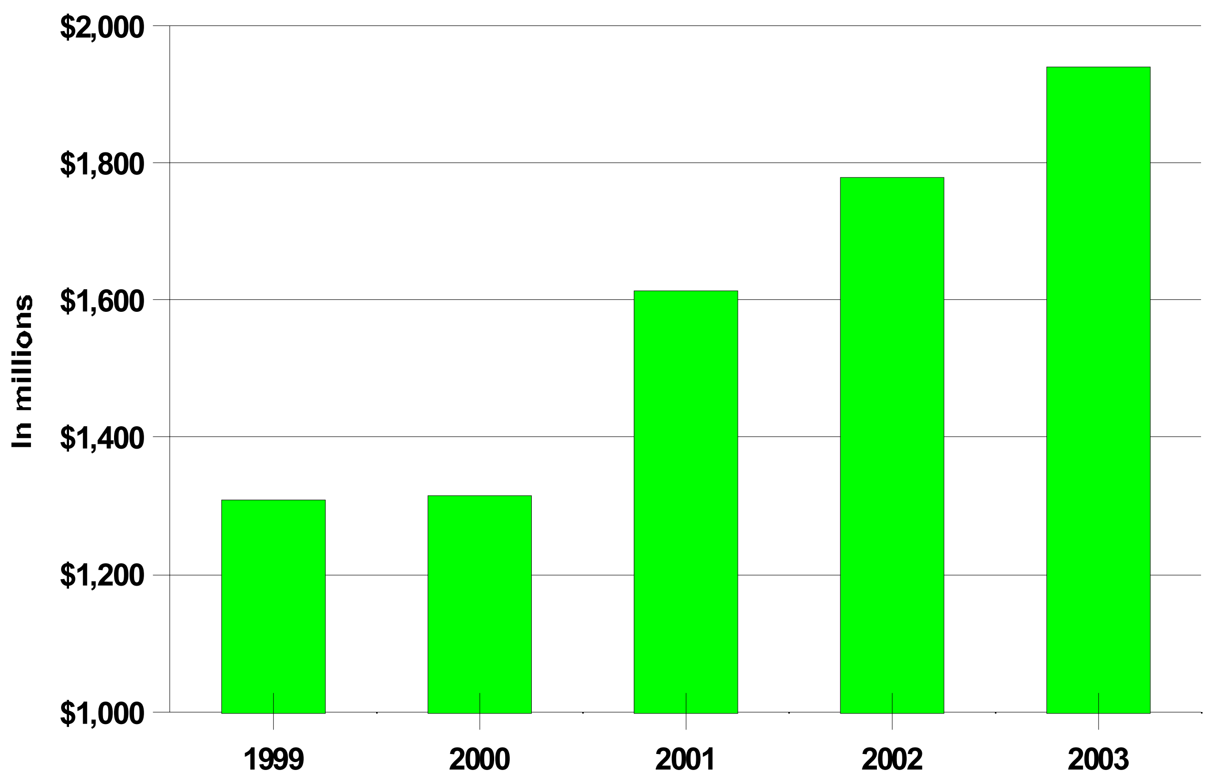
Outstanding Long-Term Indebtedness

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 $1.94 billion in outstanding long-term debt at the end of 2003. This represents an increase in long-term debt of 8.9 percent over the year 2002. The long-term debt was divided between $1.72 billion in outstanding bonds and $220.0 million in other long-term debt. Counties incurred long-term debt to finance a wide range of capital projects such as roads, light rail transit, government buildings, and other infrastructure improvements. Table 8 details outstanding debt by 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, 2003 *



* 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 unforeseen needs and setting aside resources for future capital investments. The unreserved fund balances of counties' General and Special Revenue Funds totaled $1.71 billion in 2003.[3] This represents an increase of 4.5 percent over the level in 2002.

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 45.8 percent in 2003. Among individual counties, unreserved fund balances as a percent of total current expenditures ranged from 18.9 percent (Traverse County) to 180.4 percent (Blue Earth County). Overall, Minnesota counties fall within the correct range.

The following table shows the State Auditor's classifications of county unreserved fund balances in the General and Special Revenue funds and the number of counties within each range. 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 2003	Number of Counties Previous Year	Percent Change 02-03
Extremely Low Fund Balance	Below 20%	2	0	-
Low Fund Balance	20% to 35%	12	17	-29.4%
Acceptable Fund Balance	35% to 50%	15	13	15.4%
Moderately High Fund Balance	50% to 65%	22	28	-21.4%
High Fund Balance	65% to 100%	26	20	30.0%
Very High Fund Balance	100% to 150%	9	8	12.5%
Extremely High Fund Balance	Above 150%	1	1	0.0%

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[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, 1999 to 2003