

## **APPENDIX A**

### **FACTORS INFLUENCING COUNTY FINANCES**

This page left blank intentionally

# Appendix A

## Factors Influencing County Finances

The finances of counties are affected by many different factors. Some of the variation results from decisions made by county officials, and some are due to factors outside the control of the elected officials such as state mandates, county size, economic status of residents, and the proximity of similar services provided elsewhere. The amount of revenue available may be influenced by changes in property values, the use of fee-based services, intergovernmental grants for projects, and other interrelated factors. Expenditures may be affected by the demographic, geographic, historical or political landscape of the county. One-time events such as floods, fires, and tornadoes that create demand for cleanup and reconstruction may cause expenditures to increase significantly for a year or more. Some factors have an on-going effect on county finances, while others might be one-time events.

### A. Demographics

**Population.** Counties with higher populations face different challenges than smaller populated counties. Dealing with high traffic numbers imposes a greater cost depending on the burden carried by an area's highways. Higher population density is also associated with higher poverty and crime rates.

**Population decline.** Infrastructure costs do not decrease automatically when population decreases, and even if costs do remain the same; per capita spending will increase because the costs are distributed over a smaller population base.

**Income.** The average per capita income of a county's residents is related to a county's expenditure level in several ways. Per capita income is indirectly related to a county's ability to raise revenues. Where incomes are lower, property values may also be depressed, which reduces a county's tax capacity. Poverty rates, in turn, will be higher, thus creating greater demand for public services.

### B. Geographic location

Different areas of the state often operate within quite different economic environments. The presence of one large business or industry can impact an entire region.

Certain regions of Minnesota may experience economic difficulties while other regions may prosper. Declines in industries or companies that dominate local economies may result in a higher level of need for public assistance. Trends in agriculture could result in lower property values and a decline in revenues for counties in regions where the economy is primarily based on agriculture. Counties located in these areas may have more difficulty raising revenues and also may face higher demands for public services.

## **C. Revenue sources**

**Tax Capacity Per Capita.** 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. The more it costs to provide services in a county, the more funds the county will need to raise.

**Enterprise Funds.** The per capita tables do not reflect expenditures accounted for in enterprise funds. The most common enterprise funds provide sanitation, hospital, nursing home, and nursing services. Other enterprises include recreation facilities, housing, and economic development. Counties that offer these services and account for them in the General Fund or Special Revenue Funds will show higher per capita expenditures in the per capita tables than those that provide the services through enterprise funds.

## **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, section 471.59. Such arrangements allow counties to provide services jointly with other counties and thus pool their resources.

Shared service arrangements are not necessarily formal; some counties provide services to other jurisdictions on an informal basis. The importance of shared services and joint powers agreements on this per capita analysis of county expenditures relates to the population figure used to determine the per capita rates. If a county of 10,000 provides services to neighboring cities or counties with populations totaling 5,000, the size of the population served is actually 15,000. If the county providing the service does not reduce its expenditures by the amount spent providing the service to the other jurisdictions, the calculated per capita rate will be too high. This result occurs because the calculation for the per capita rate uses the population of the county providing the service and not the combined population of all jurisdictions served.

The Office of the State Auditor does not collect information on joint powers agreements such that it would enable us to divide every expenditure by the actual recipient population figure. It is imperative, therefore, that in those instances where one county's expenditures appear higher than the average, the reader exercise caution in interpreting the numbers and investigate further into the possible sharing of services and/or the use of joint powers.

## **E. Proximity to county, regional, or state-run programs/facilities**

If your neighbor has a pool and they are willing to let you use it, you probably won't install one of your own. Counties are subject to the same effect of proximity. Similarly, counties located close to a regional or state park may opt not to develop or expand their own park program.

The degree of isolation experienced by a community, whether geographic or technological (e.g., lack of advanced telecommunications capability), can also affect service needs 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**

The extent to which a county depends upon other than full-time, salaried employees will affect the levels of expenditures. The following types of arrangements can reduce the full-time complement of staff: extensive use of part-time employees, significant reliance on volunteers, and use of contracts for specific projects or general services. Besides lower wages to part-time employees, an important reduction in costs created through these types of arrangements is in the area of fringe benefits, which are not generally paid either to part-time employees, volunteers, or individuals hired on a contract basis.

Some employee arrangements may increase, rather than reduce costs. Some counties' expenditures are affected by the extensive unionization of their work force. Because of the role of the unions, salary costs may be more difficult to control for these counties.

## **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 natural disasters, such as floods, may have higher public safety, streets and highways, and infrastructure costs. There are many other incidental factors not included in this list. Explanations of differences in county expenditures should be pursued with county officials to better understand each county's per capita expenditures.