Scope and Methodology

This publication is intended to help the public, local government officials, and other policy makers understand county financial operations. The report summarizes, through data tables and charts, the financial operations of Minnesota counties for calendar year 2012.

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, Permanent, and Debt Service Funds. The revenues, expenditures, and debt of these funds are summarized in Table 1. Table 2 presents the data by each individual county.

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 primarily from revenues derived from the sale of goods or services. The financial operations of the public service enterprises are presented in Table 3.

Table 4 lists by county the bonded and other long-term debt outstanding as of December 31, 2012. Other long-term debt refers to liabilities such as long-term lease agreements, installment purchase contracts, and notes.

Tables 5 and 6 present an analysis of the 2011 and 2012 unrestricted fund balances in the General and Special Revenue Funds of counties. The tables show the actual unrestricted fund balances alphabetically by county and a ranking of 2012 unrestricted fund balances as a percent of total current expenditures.

Starting in fiscal year 2011, counties were required to implement the Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement 54 defines the classifications of fund balance based on the focus of the constraints placed on the use of current fund balance. The Statement also identifies the governmental fund type definitions.[1]

Under GASB Statement 54, counties report separate fund balances for all of their governmental funds and denote the amounts that fall under the following classifications: *nonspendable, restricted, committed, assigned, and unassigned*. (Previously the classifications were *reserved, unreserved designated, and unreserved undesignated*.) The *committed, assigned, and unassigned* classifications are considered the unrestricted portion of the fund balance and replace the unreserved classifications previously used for this analysis. Appendix A provides a more detailed discussion of fund balances.

In addition to this publication, the Office of the State Auditor maintains an interactive database containing several years of data. The database can be accessed through the Office of the State Auditor's website at: http://www.auditor.state.mn.us/default.aspx?page=ComparisonTools.

[1]For a more detailed discussion of GASB 54, please see Office of the State Auditor's Statement of Position on the topic, *Statement of Position: Fund Balances for Local Governments Based on GASB Statement No. 54*.

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Executive Summary

Current Trends

- Minnesota county revenues totaled $6.0 billion in 2012. This represents an increase of $43.1 million, or 0.7 percent, over 2011. Increases in revenues derived from taxes, charges for services, special assessments, and licenses and permits offset decreases in all other categories of revenues (pg. 5).

- Counties reported total expenditures of $6.0 billion in 2012. This represents an increase of $26.7 million, or 0.4 percent, over total expenditures in 2011. Between 2011 and 2012, current expenditures increased 2 percent to $4.7 billion; capital outlays decreased 7 percent to $933.5 million; and debt service increased 1 percent to $372.5 million (pg. 8).

- In 2012, Minnesota counties reported outstanding long-term debt of $3.5 billion.[2] This represents a decrease of 1 percent from long-term debt reported in 2011. Of the $3.5 billion in long-term debt, $3.3 billion was outstanding bonded debt, and $243.1 million was other long-term debt (pg. 12).

- Minnesota county enterprises reported operating losses of $6.9 million in 2012. This represents a decrease of 131 percent from the operating income of $22.0 million reported in 2011. The net income of county enterprises totaled $26.0 million in 2012. This represents a decrease of 53 percent from 2011 (pg. 13).

- Minnesota counties' unrestricted fund balances of General Fund and Special Revenue Funds totaled $2.4 billion in 2012. This represents an increase of 4 percent over 2011. The average unrestricted fund balances as a percent of current expenditures for counties was 51 percent in 2012 compared to 50 percent for unreserved fund balances as a percent of total current expenditures in 2011 (pg. 14).

Ten-Year Trends

- In actual dollars, total revenues rose 33 percent from 2003 to 2012. When adjusted for inflation, there was a decrease in total revenues of 4 percent over this period[3] (pg. 6).

- Since 2003, the share of total revenues derived from taxes has increased from 37 percent to 47 percent, while the share of total revenues derived from intergovernmental revenues has decreased from 45 percent to 37 percent (pg. 6).

- In actual dollars, total expenditures increased 31 percent from 2003 to 2012. When adjusted for inflation, county expenditures decreased 5 percent (pg. 9).

- In actual dollars, outstanding long-term debt increased 81 percent from 2003 to 2012. When adjusted for inflation, outstanding long-term indebtedness increased 31 percent (pg. 12).

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[2]Long-term debt includes bonded indebtedness and other long-term debt such as notes or long-term leases.
[3]Constant dollars will refer to data adjusted for inflation using the Implicit Price Deflator for State and Local Governments (N.I.P.A. Table 1.1.9) setting 2003 as the base year.

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Comparison and Overview

Governmental Fund Revenues

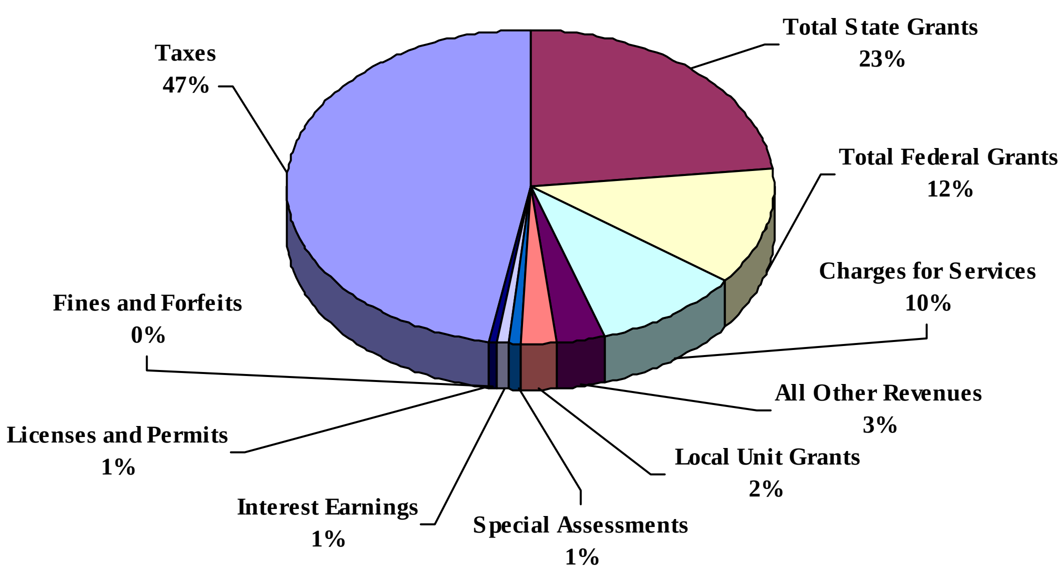
Current and Five-Year Trends

Minnesota county revenues totaled $6.0 billion in 2012. This represents an increase of $43.1 million, or 0.7 percent, over 2011. Increases in revenues derived from taxes, charges for services, special assessments, and licenses and permits offset decreases in all other categories of revenues.

Taxes, state grants, and federal grants were the most significant sources of county revenues, accounting for 83 percent of total revenues in 2012. The share of total revenues derived from federal and state grants decreased slightly between 2011 and 2012, while the share of revenues derived from taxes increased slightly.

Figure 1 below shows the relative shares of total governmental revenues by source.

Figure 1: Total County Revenues, 2012
$5,959,768,855

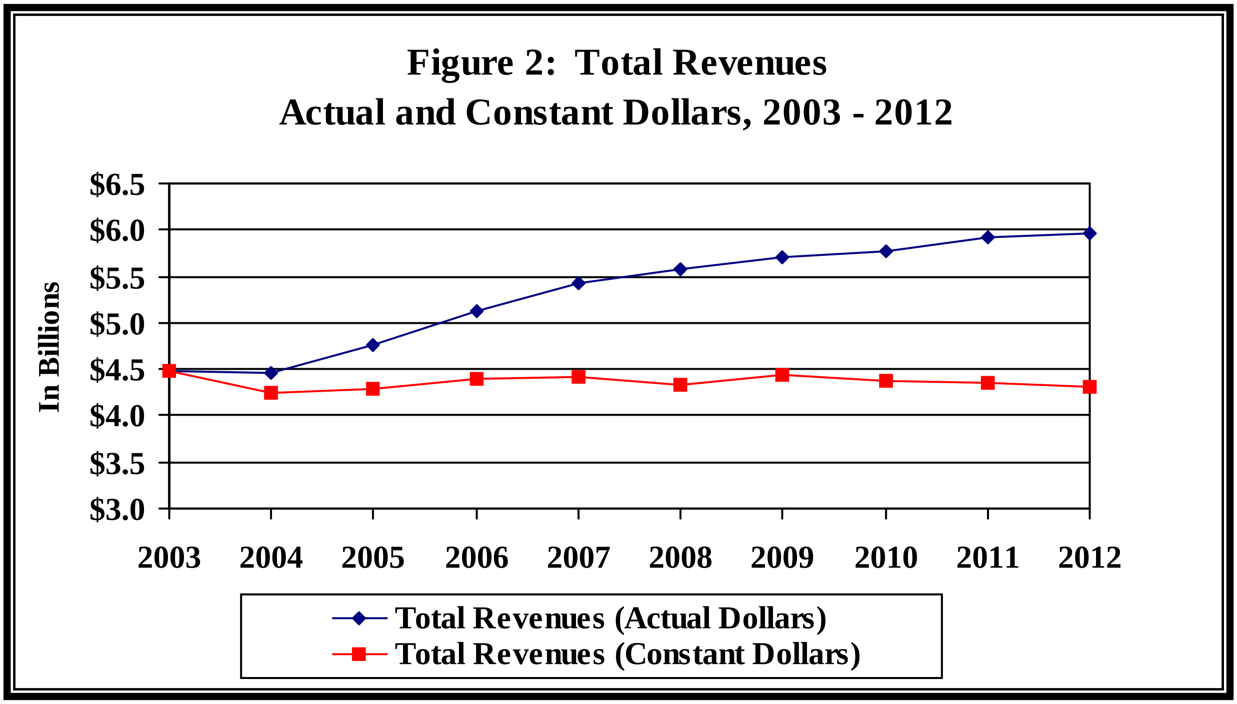


Between 2011 and 2012, revenues derived from federal, state, and local grants decreased $83.9 million, or 4 percent. The decline in state grants was principally attributable to the elimination of the Homestead Market Value Credit program. The program was replaced by the

Homestead Market Value Exclusion program, which is not a state aid program. The decrease in federal and local grants largely reflects the completion of projects related to the Central Corridor light rail line that received federal funding and local matches.

Ten-Year Trends

Figure 2 below shows trends for total county revenues in actual and constant dollars for the years 2003 to 2012. In actual dollars, total revenues rose 33 percent from 2003 to 2012. When adjusted for inflation, there was a decrease in total revenues of 4 percent over this period.[4]



Primary Sources of Revenues

Over the past ten years, the primary sources of revenues for counties have been taxes, state grants, federal grants, and charges for services. Since 2003, the share of total revenues derived from taxes has increased from 37 percent to 47 percent, while the share of total revenues derived from intergovernmental revenues has decreased from 45 percent to 37 percent. The decrease in intergovernmental revenues has resulted in a greater reliance on taxes.

There are two primary factors that have caused intergovernmental revenues as a share of total revenues to decrease. First, state and federal human services grants as a percent of total revenues decreased from 18 percent in 2003 to 12 percent in 2012. Second, due to ongoing state budget deficits, the County Program Aid (CPA) and the Homestead Market Value Credit (HMVC) programs were subject to cuts and flat funding over the ten-year period. In addition, after several years of reduced funding levels, the state eliminated the HMVC program in 2012. The CPA and HMVC programs accounted for 6 percent of county total revenues in 2003, compared to 3 percent in 2012.

[4]Constant dollars will refer to data adjusted for inflation using the Implicit Price Deflator for State and Local Governments (N.I.P.A. Table 1.1.9) setting 2003 as the base year.

Figure 3 below shows how the composition of primary sources of revenues for counties has changed between 2003 and 2012.

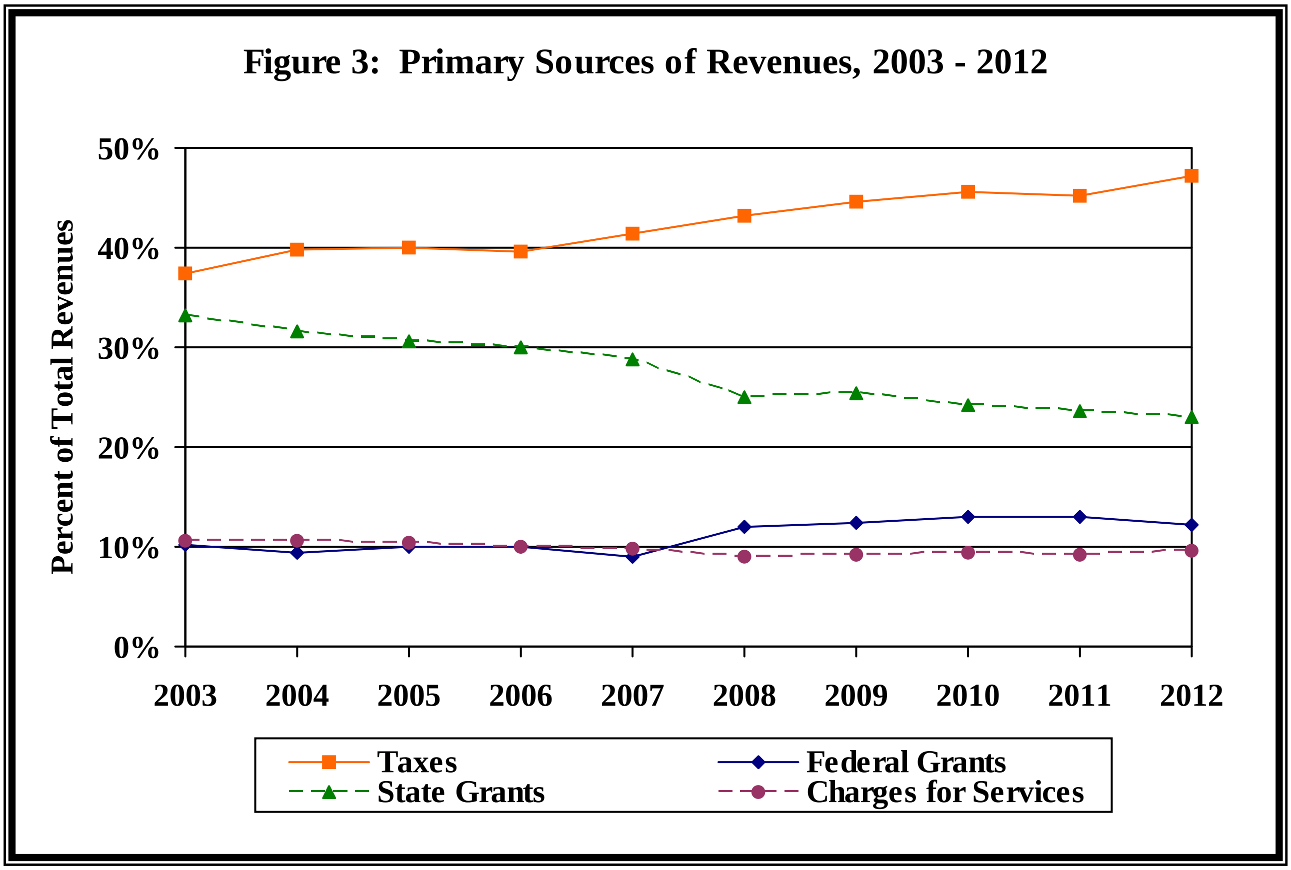


Table 1a below shows the ten-year trend in revenues adjusted for inflation. The table breaks down the data into two five-year segments and the overall ten-year trend.

Table 1a: County Revenues Summary (Constant Dollars), 2003 - 2012

Revenues	2003	2007	2008	2012	2003 - 07 5-Year Change	2008 - 12 5-Year Change	10-Year Change
Taxes	$1,676,681,514	$1,836,283,622	$1,872,779,744	$2,039,414,675	9.5%	8.9%	21.6%
Special Assessments	35,960,236	32,012,086	31,185,478	36,423,607	-11.0%	16.8%	1.3%
Licenses and Permits	25,016,386	22,097,496	20,263,718	21,377,722	-11.7%	5.5%	-14.5%
Total Federal Grants	457,027,427	399,943,591	521,972,134	525,091,979	-12.5%	0.6%	14.9%
Total State Grants	1,491,022,610	1,277,327,100	1,086,132,005	996,441,003	-14.3%	-8.3%	-33.2%
Local Unit Grants	51,659,560	71,812,377	102,312,257	93,892,476	39.0%	-8.2%	81.8%
Charges for Services	476,745,917	440,434,950	395,125,447	413,602,968	-7.6%	4.7%	-13.2%
Fines and Forfeits	19,398,179	6,927,193	6,668,016	5,646,817	-64.3%	-15.3%	-70.9%
Interest Earnings	52,145,845	163,947,253	115,997,498	35,782,573	214.4%	-69.2%	-31.4%
All Other Revenues	189,647,308	176,776,956	173,754,382	148,552,963	-6.8%	-14.5%	-21.7%
Total Revenues	**$4,475,304,982**	**$4,427,562,624**	**$4,326,190,679**	**$4,316,226,783**	**-1.1%**	**-0.2%**	**-3.6%**

Governmental Fund Expenditures

Current Trends and Five-Year Trends

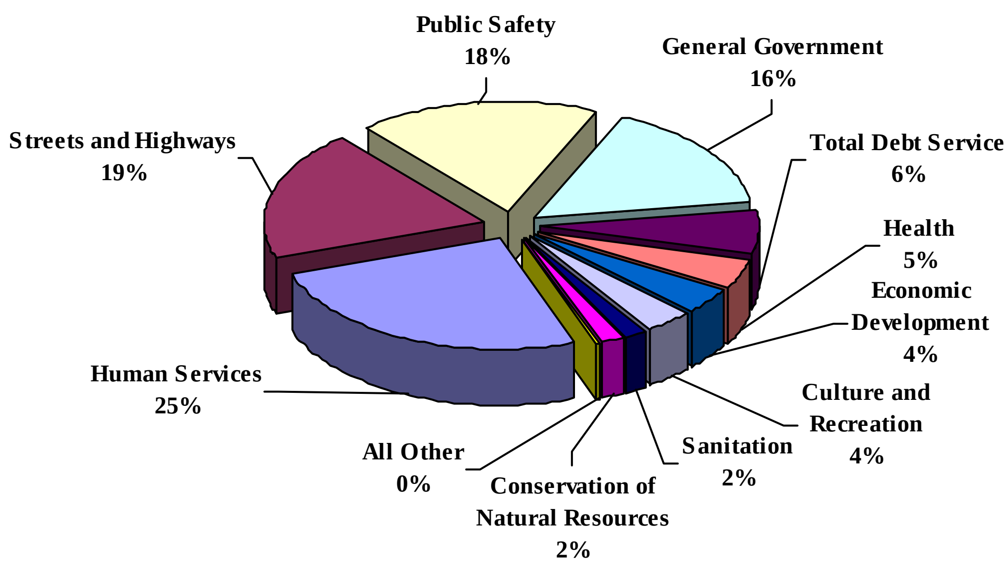
Counties reported total expenditures of $6.0 billion in 2012. This represents an increase of $26.7 million, or 0.4 percent, over total expenditures in 2011. Total county expenditures include current expenditures (day-to-day operations); capital outlays (expenditures on large fixed assets such as buildings and equipment); and total debt service (principal paid on bonds, other long-term debt, and interest and fiscal charges). Between 2011 and 2012, current expenditures increased 2 percent to $4.7 billion; capital outlays decreased 7 percent to $933.5 million; and debt service increased 1 percent to $372.5 million.

Two categories of expenditures showed double-digit decreases between 2011 and 2012. The all other expenditures category decreased 18 percent and economic development and housing decreased 10 percent. The conservation of natural resources category increased 13 percent and represented the only double-digit increase. Overall, six categories of expenditures increased, while five decreased between 2011 and 2012.

Figure 4 below provides a breakdown of total county expenditures in 2012.

Figure 4: Total County Expenditures, 2012

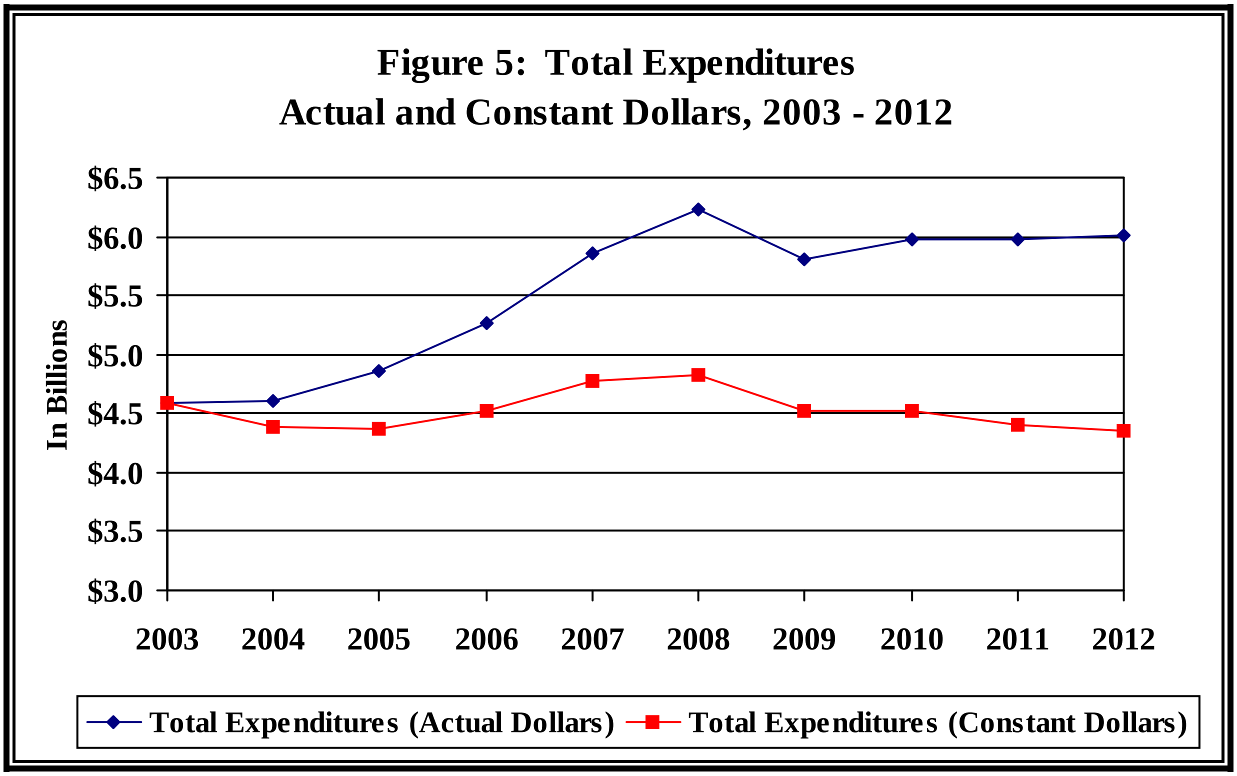
$6,010,813,446



Due to rounding, the sum of the percentages is more than 100 percent.

Ten-Year Trends

In actual dollars, total expenditures increased 31 percent from 2003 to 2012. When adjusted for inflation, county expenditures decreased 5 percent.[5] Figure 5 illustrates trends in total county expenditures using actual and constant dollars from 2003 to 2012.



Primary Categories of Expenditures

The primary categories of expenditures for counties over the ten-year period were consistently human services, streets and highways, public safety, and general government expenditures. Together, these four expenditure categories accounted for 78 percent of all county expenditures in 2012.

In constant dollars, human services and general government expenditures declined 27 and 13 percent, respectively, between 2003 and 2012, while streets and highways and public safety expenditures increased 9 percent and 7 percent, respectively. The decrease in human service expenditures contributed to its share of total expenditures declining from 33 percent in 2003 to 25 percent in 2012.

[5]Constant dollars will refer to data adjusted for inflation using the Implicit Price Deflator for State and Local Governments (N.I.P.A. Table 1.1.9) setting 2003 as the base year.

Figure 6 below illustrates the changing composition of county expenditures between 2003 and 2012. Table 2a provides a ten-year analysis of total county expenditures in constant dollars.

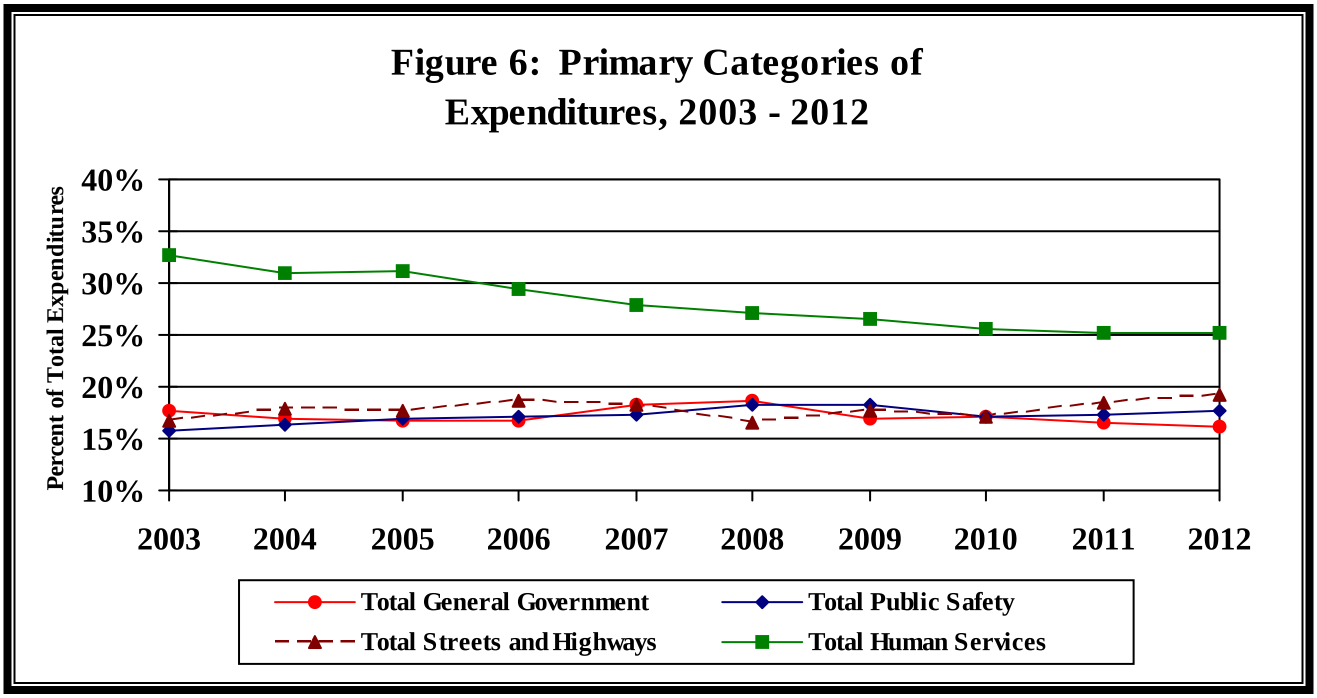


Table 2a: County Expenditures Summary (Constant Dollars), 2003 - 2012

Expenditures	2003	2007	2008	2012	2003 - 07 5-Year Change	2008 - 12 5-Year Change	10-Year Change
General Government	$805,758,125	$868,692,433	$898,466,297	$699,883,966	7.8%	-22.1%	-13.1%
Public Safety	719,247,895	823,213,503	882,698,898	769,413,396	14.5%	-12.8%	7.0%
Streets and Highways	767,364,229	866,262,185	799,421,877	837,843,702	12.9%	4.8%	9.2%
Sanitation	74,841,871	74,292,284	72,727,945	65,837,825	-0.7%	-9.5%	-12.0%
Human Services	1,497,081,176	1,323,321,113	1,312,655,569	1,096,495,062	-11.6%	-16.5%	-26.8%
Health	202,948,681	164,592,940	210,862,891	201,719,292	-18.9%	-4.3%	-0.6%
Culture and Recreation	145,154,646	141,661,393	168,982,383	157,024,480	-2.4%	-7.1%	8.2%
Cons. of Natural Resources	72,039,083	72,806,977	67,144,314	75,617,387	1.1%	12.6%	5.0%
Housing and Econ. Dev.	100,887,149	162,719,601	86,335,301	166,326,375	61.3%	92.7%	64.9%
All Other	16,919,077	54,367,848	28,294,483	13,233,631	221.3%	-53.2%	-21.8%
Total Debt Service	185,178,147	215,113,331	297,290,242	269,799,547	16.2%	-9.2%	45.7%
Total Expenditures	$4,587,420,079	$4,767,043,608	$4,824,880,200	$4,353,194,663	3.9%	-9.8%	-5.1%
Total Current Expenditures	$3,742,233,551	$3,557,123,134	$3,716,895,930	$3,407,304,677	-4.9%	-8.3%	-8.9%
Total Capital Outlay	660,008,381	994,807,143	810,694,028	676,090,439	50.7%	-16.6%	2.4%
Total Debt Service	185,178,147	215,113,331	297,290,242	269,799,547	16.2%	-9.2%	45.7%
Total Expenditures	$4,587,420,079	$4,767,043,608	$4,824,880,200	$4,353,194,663	3.9%	-9.8%	-5.1%

Capital Outlay Expenditures

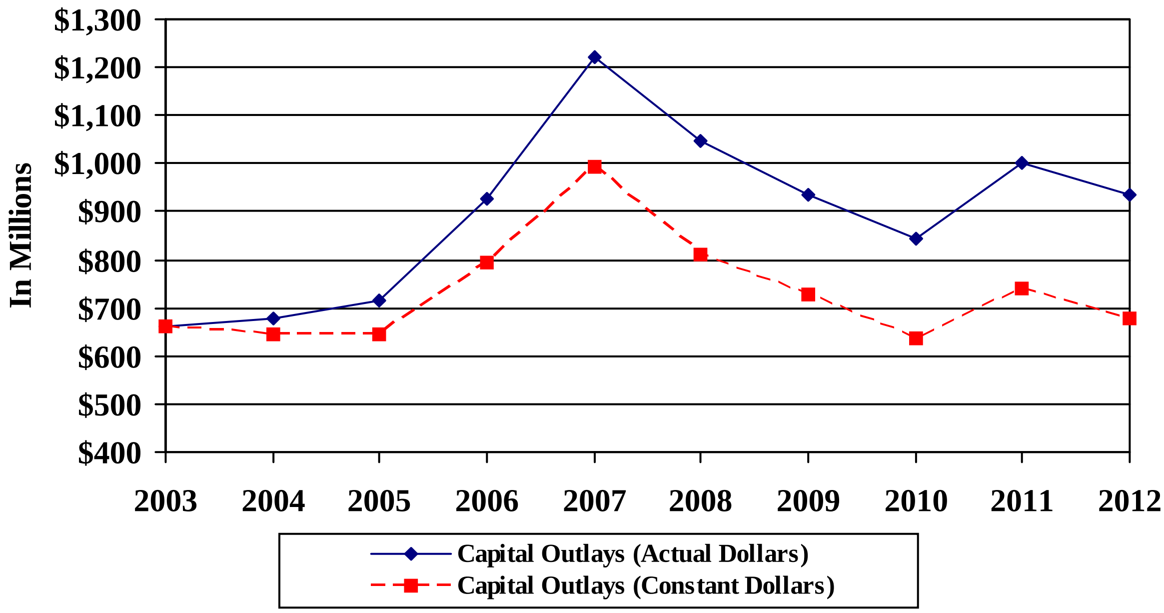
Capital outlay expenditures include the purchase, construction, or permanent improvements of buildings, equipment, machinery, and land. Between 2011 and 2012, capital outlays decreased $69.9 million, or 7 percent, to total $933.5 million.

The largest category of capital outlay expenditures in 2012 was streets and highways, which represented 77 percent of total capital outlays. Housing and economic development and general government were the next two largest categories of capital outlay expenditures, accounting for 8 percent and 7 percent of total capital outlays, respectively.

Capital outlay expenditures, because they include large construction projects and purchases, can show significant swings from one year to the next. Among those categories of capital outlay expenditures showing double-digit increases were health (1,116 percent), all other (95 percent), parks and recreation (75 percent), and conservation of natural resources (43 percent). Among those categories showing double-digit decreases were human services (-84 percent), sanitation (-73 percent), general government (-38 percent), libraries (-35 percent), and housing and economic development (-17 percent). Overall, the largest dollar increase in capital outlay expenditures was $10.1 million for health, while the largest dollar decrease was $40.1 million for general government.

In actual dollars, capital outlay expenditures increased 41 percent from 2003 to 2012. When adjusted for inflation, capital outlay expenditures increased 2 percent over this period. Figure 7 below shows capital outlay expenditures in actual and constant dollars from 2003 to 2012.

Figure 7: Capital Outlay Expenditures
Actual and Constant Dollars, 2003 - 2012



Outstanding Long-Term Indebtedness

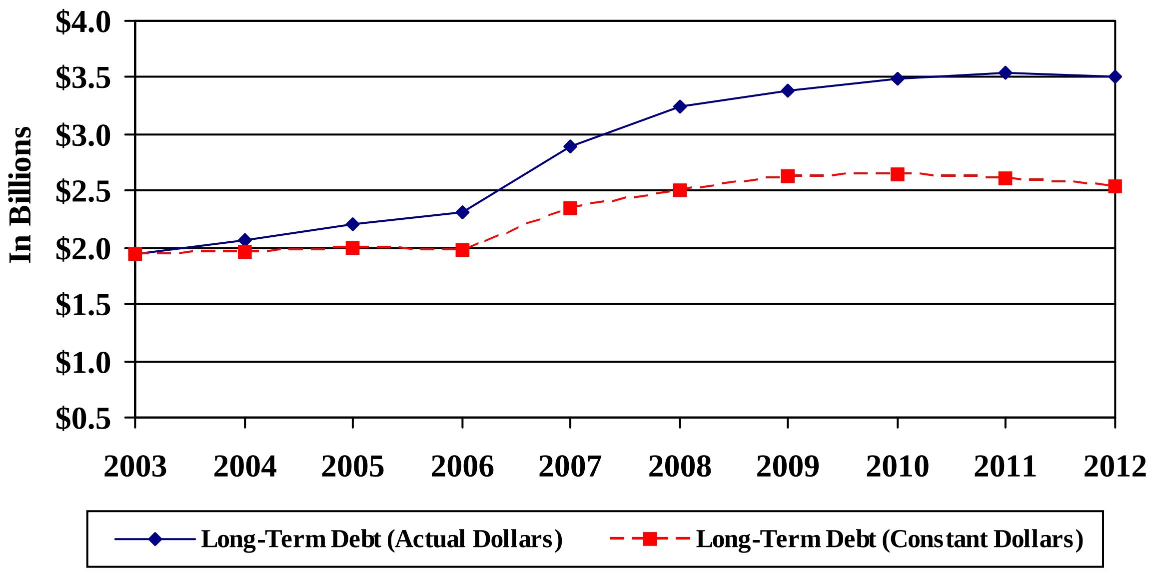
Current and Five-Year Trends

Counties incur long-term debt through the financing of capital projects such as the construction of government buildings, bridges, and other infrastructure improvements. In 2012, Minnesota counties reported outstanding long-term debt of $3.5 billion.[6] This represents a decrease of 1 percent from long-term debt reported in 2011. Of the $3.5 billion in long-term debt, $3.3 billion was outstanding bonded debt, and $243.1 million was other long-term debt.

Ten-Year Trends

Between 2011 and 2012, long-term debt decreased by 1 percent. This represents the only year-to-year decrease in long-term debt during the ten-year period of 2003 to 2012. In actual dollars, outstanding long-term debt increased 81 percent over this period. When adjusted for inflation, outstanding long-term indebtedness increased 31 percent over this period. When compared to the 4 percent decrease in constant total revenues during this period, the trend suggests that counties issued long-term debt to finance capital expenditures.[7] As a result of the increase in long-term debt, interest and principal payments increased 101 percent in actual dollars, and 46 percent in constant dollars, over the ten-year period.

Figure 8: Long-Term Debt
Actual and Constant Dollars, 2003 - 2012



[6] Long-term debt includes bonded indebtedness and other long-term debt such as notes or long-term leases.
[7] Counties primarily issue bonds to fund capital projects and purchases. Counties may issue tax anticipation certificates for current operations, but they must be repaid within 15 months of the certification of the property tax levy.

Public Service Enterprises

Some counties utilize public service enterprises, which are financed and operated in a manner similar to private business enterprises. The financial activities of these enterprises are accounted for in enterprise funds, which use accounting principles that provide more detailed financial information than governmental funds. Enterprise funds are generally intended to be self-sustaining operations maintained through fees for services and user charges. Many public enterprises, however, do not generate sufficient income to cover operating costs. In these cases, counties supplement operating revenues with transfers from other funds and nonoperating revenues, such as taxes and grants. The most common types of enterprises maintained by counties are housing and redevelopment authorities and hospitals/nursing homes.

Current Trends

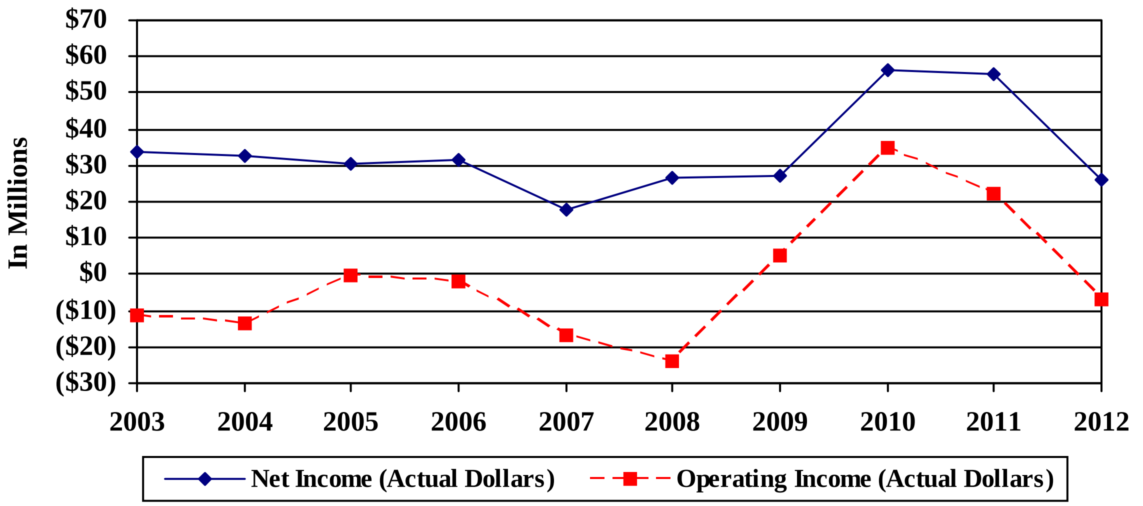
Minnesota county enterprises reported operating losses of $6.9 million in 2012. This represents a decrease of 131 percent from the operating income of $22.0 million reported in 2011. The net income of county enterprises totaled $26.0 million in 2012. This represents a decrease of 53 percent from 2011.

The Hennepin County Medical Center (HCMC) accounted for the large decreases in operating and net income. The HCMC trends often affect statewide trends because its operating revenues and expenses are greater than all other county enterprises combined. If the HCMC is removed from the analysis in 2011 and 2012, operating income still shows a decrease of 91 percent, but net income shows an increase of 16 percent.

Ten-Year Trends

Figure 9 below shows net income and operating income in actual dollars from 2003 to 2012 (includes the HCMC).

Figure 9: Net Income and Operating Income of County Enterprises, 2003 - 2012



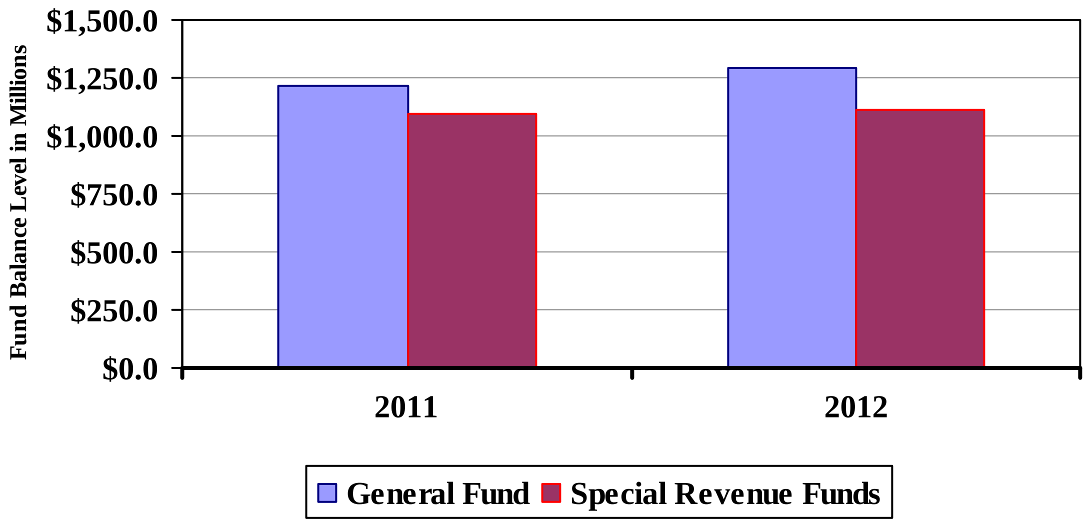
Unrestricted Fund Balances of the General Fund and Special Revenue Funds

Minnesota counties' unrestricted fund balances of General Fund and Special Revenue Funds totaled $2.4 billion in 2012. This represents an increase of 4 percent over 2011. Comparing fund balance levels to total current expenditures helps to put fund balances in perspective and provides insight on the relative financial health of Minnesota counties. The average unrestricted fund balances as a percent of current expenditures for counties was 51 percent in 2012 compared to 50 percent for unreserved fund balances as a percent of total current expenditures in 2011. Among individual counties, unrestricted fund balances as a percent of total current expenditures ranged from 10 percent (Faribault County) to 116 percent (Mower County).

The Office of the State Auditor recommends that counties maintain an unrestricted fund balance in their General Fund and Special Revenue Funds of between 35 and 50 percent of operating revenues, or no less than five months of operating expenditures (similar to current expenditures).[8] Counties must rely on their fund balances to meet expenditures during the first five months of the next fiscal year until they receive the first property tax payments (May) and aid payments from the state (July). Maintaining adequate fund balances can also help counties better manage a financial crisis or emergency. Counties should have policies regarding fund balance levels to guide financial decisions, and to provide a way for officials and the public to evaluate fund balances.[9] Appendix A provides a more detailed discussion of fund balances and GASB 54 (pg. 69).

Figure 10 below shows the unrestricted fund balances for the General Fund and Special Revenue Funds by type.

Figure 10: 2011 and 2012 Unrestricted Fund Balances of the General and Special Revenue Funds for Counties



[8] Due to data limitations, this analysis uses current expenditures when examining unrestricted fund balance levels as a proxy for operating expenditures.
[9] The Office of the State Auditor has issued a Statement of Position (SOP) on Local Government Fund Balances. See: *http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf*.