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 2013.

The data presented in this report is divided into governmental funds and proprietary funds. The governmental funds consist of the General, Special Revenue, Debt Service, Capital Projects, and Permanent 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 the bonded and other long-term debt outstanding as of December 31, 2013 by county. 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 2012 and 2013 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 2013 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*. The *committed, assigned, and unassigned* classifications are considered the unrestricted portion of the fund balance. 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 $5.9 billion in 2013. This represents a decrease of $44.2 million, or 0.7 percent, from 2012. Decreases in interest earnings (-139.6 percent), federal grants (-11.3 percent), and all other revenues (-8.9 percent) contributed to the overall decrease in county revenues between 2012 and 2013 (pg. 5).

- Counties reported total expenditures of $6.2 billion in 2013. This represents an increase of $207.5 million, or 3.5 percent, over total expenditures in 2012. Between 2012 and 2013, current expenditures increased 3.7 percent to $4.9 billion; capital outlays decreased 5.3 percent to $884.0 million; and debt service increased 22.4 percent to $456.0 million (pg. 8).

- In 2013, Minnesota counties reported outstanding long-term debt of $3.5 billion.[2] This represents a very slight decrease from the long-term debt reported in 2012. Of the $3.5 billion in long-term debt, $3.3 billion was outstanding bonded debt, and $241.3 million was other long-term debt (pg. 12).

- Minnesota county enterprises reported operating losses of $34.9 million in 2013. This represents an increase of 409.3 percent from the operating losses of $6.9 million reported in 2012. The net losses of county enterprises totaled $7.1 million in 2013. This represents a decrease of 127.4 percent from the $26.0 million in net income reported in 2012 (pg. 13).

- Minnesota counties' unrestricted fund balances of the General Fund and Special Revenue Funds totaled $2.4 billion in 2013. This represents an increase of 0.4 percent over 2012. Among individual counties, unrestricted fund balances as a percent of total current expenditures ranged from 13.0 percent (Faribault County) to 112.2 percent (Mower County) (pg. 14).

Ten-Year Trends

- In actual dollars, total revenues rose 32.6 percent from 2004 to 2013. When adjusted for inflation, there was a decrease in total revenues of 0.9 percent over this period[3] (pg. 6).

- Since 2004, the share of total revenues derived from taxes has increased from 39.8 percent to 48.3 percent, while the share of total revenues derived from intergovernmental revenues has decreased from 42.1 percent to 36.9 percent (pg. 6).

- In actual dollars, total expenditures increased 34.8 percent from 2004 to 2013. When adjusted for inflation, county expenditures increased 0.7 percent. 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 77.1 percent of all county expenditures in 2013 (pg. 9).

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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 2004 as the base year.

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Comparison and Overview

Governmental Fund Revenues

Current and Five-Year Trends

Minnesota county revenues totaled $5.9 billion in 2013. This represents a decrease of $44.2 million, or 0.7 percent, from 2012. Decreases in interest earnings (-139.6 percent), federal grants (-11.3 percent), and all other revenues (-8.9 percent) contributed to the overall decrease in county revenues between 2012 and 2013.

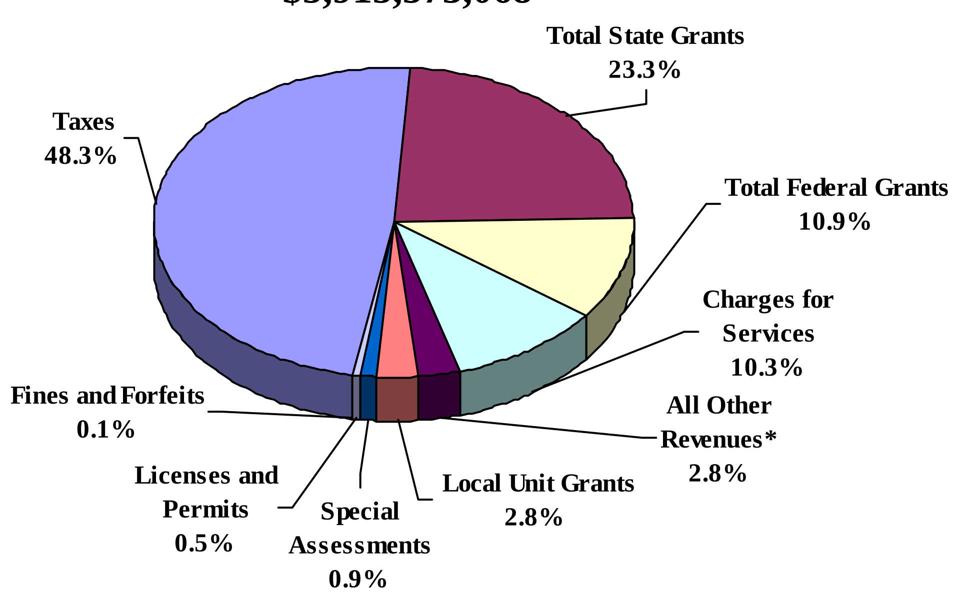
The large decrease in interest earnings, which includes investment income, realized gains and losses on investments, and the net increase or decrease in the fair value of investments, reflects steep declines in bond prices in 2013. The completion of substantial road, bridge, and transit projects that received federal funding in Blue Earth, Dakota, Ramsey, and Todd Counties contributed to the large decrease in federal grants.

Taxes, state grants, and federal grants were the most significant sources of county revenues in 2013, accounting for 82.5 percent of total revenues. The share of total revenues derived from federal grants decreased slightly between 2012 and 2013, while the share of revenues derived from taxes and state grants increased slightly.

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

Figure 1: Total County Revenues, 2013**

$5,915,573,068

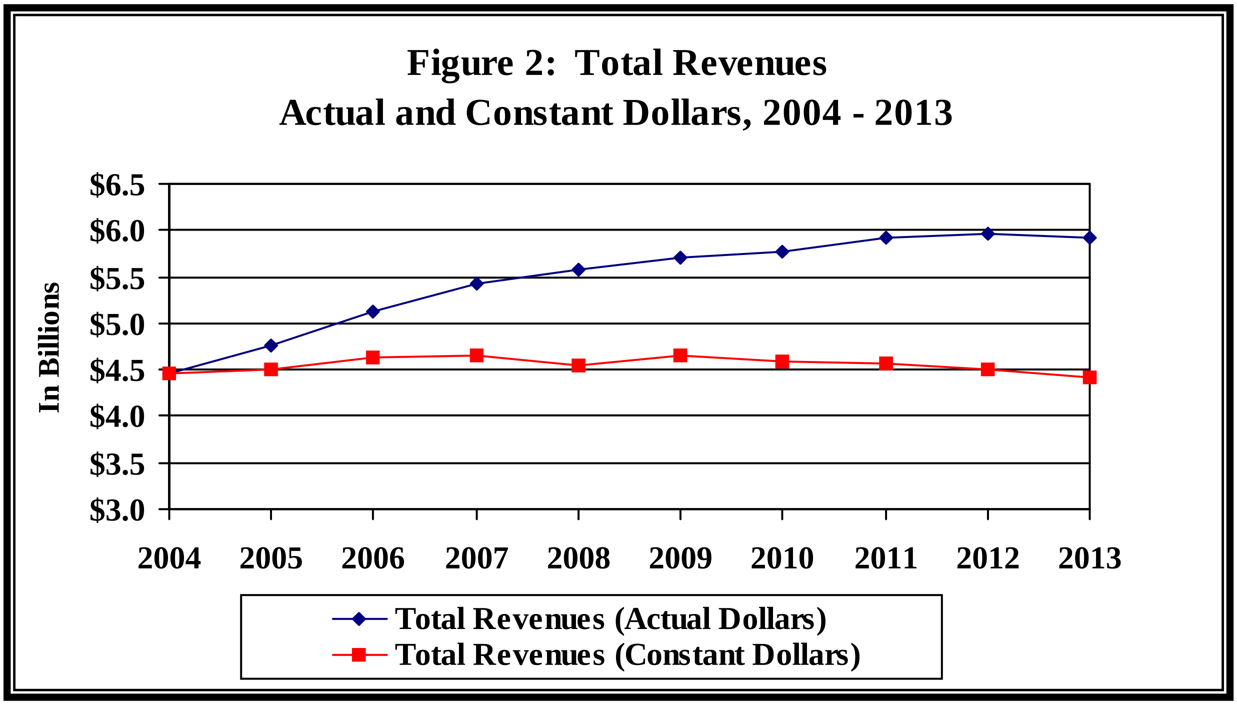


*All other revenues includes interest earnings for this chart.

**Due to rounding, the sum of the percentages may not total 100 percent.

Ten-Year Trends

Figure 2 below shows trends for total county revenues in actual and constant dollars for the years 2004 to 2013. In actual dollars, total revenues rose 32.6 percent from 2004 to 2013. When adjusted for inflation, there was a decrease in total revenues of 0.9 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. Between 2004 and 2013, the share of total revenues derived from taxes increased from 39.8 percent to 48.3 percent, while the share of total revenues derived from intergovernmental revenues decreased from 42.1 percent to 36.9 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 16.7 percent in 2004 to 11.9 percent in 2013. 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 6.0 percent of county total revenues in 2004, compared to 3.0 percent in 2013.

[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 2004 as the base year.

Figure 3 below shows how the composition of primary sources of revenues for counties has changed between 2004 and 2013.

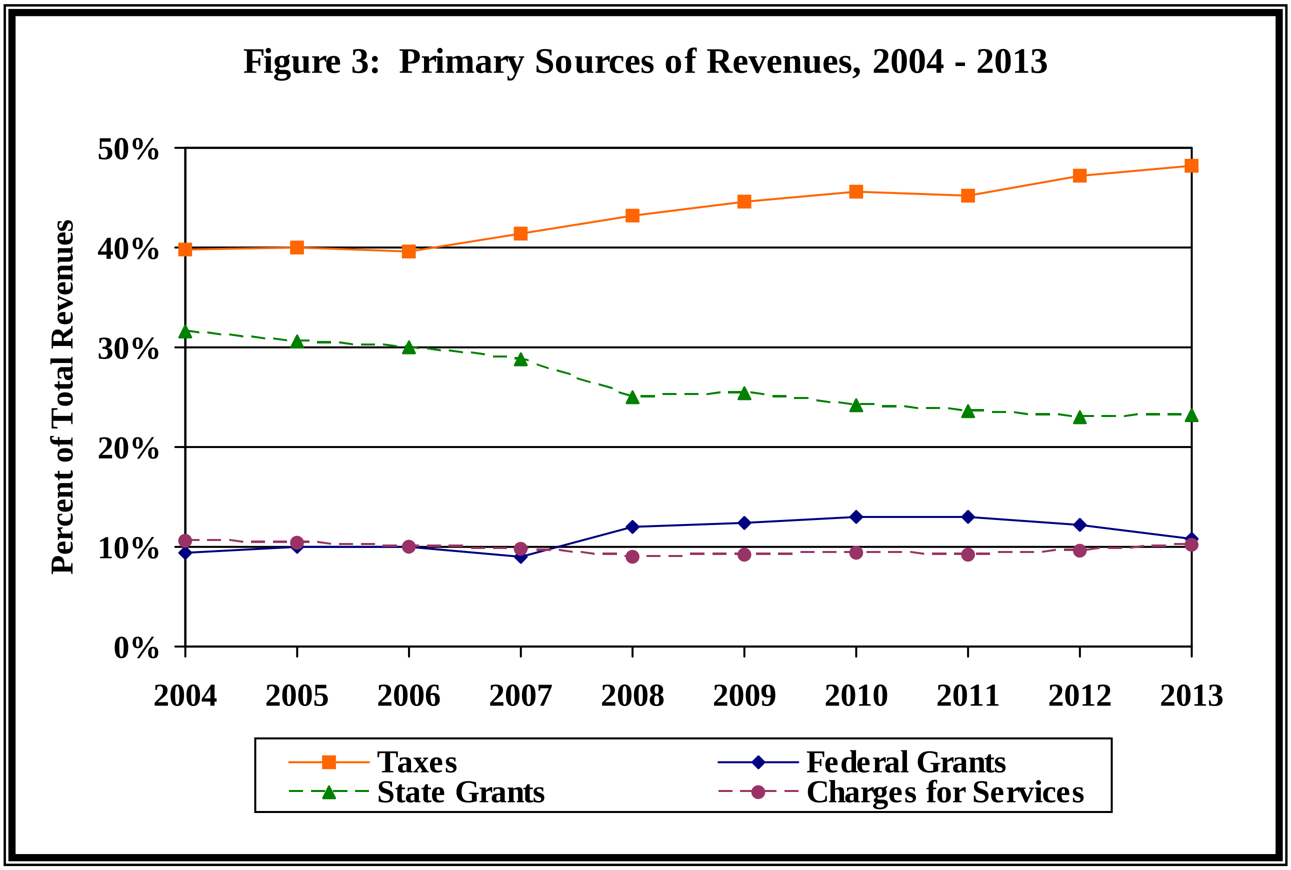


Table 1a below shows the ten-year trend in revenues adjusted for inflation. The table breaks down the data into two five-year segments and the overall ten-year trend.

Table 1a: County Revenues Summary (Constant Dollars), 2004 - 2013

Revenues	2004*	2008*	2009*	2013*	2004 - 08 5-Year Change	2009 - 13 5-Year Change	10-Year Change
Taxes	$1,774,769,845	$1,968,103,393	$2,081,204,979	$2,136,239,028	10.9%	2.6%	20.4%
Special Assessments	35,639,201	32,772,805	33,764,441	40,334,410	-8.0%	19.5%	13.2%
Licenses and Permits	27,275,273	21,295,132	21,301,903	23,655,052	-21.9%	11.0%	-13.3%
Total Federal Grants	423,053,235	548,540,282	582,406,864	480,715,157	29.7%	-17.5%	13.6%
Total State Grants	1,413,179,887	1,141,415,637	1,181,385,340	1,029,018,422	-19.2%	-12.9%	-27.2%
Local Unit Grants	42,210,926	107,519,905	81,044,544	123,141,052	154.7%	51.9%	191.7%
Charges for Services	473,364,532	415,237,155	427,921,758	455,841,578	-12.3%	6.5%	-3.7%
Fines and Forfeits	14,960,423	7,007,415	6,950,582	5,746,843	-53.2%	-17.3%	-61.6%
Interest Earnings	60,253,189	121,901,718	54,174,366	-14,624,380	102.3%	-127.0%	-124.3%
All Other Revenues	197,124,036	182,598,402	187,801,800	139,643,704	-7.4%	-25.6%	-29.2%
Total Revenues	**$4,461,830,547**	**$4,546,391,845**	**$4,657,956,576**	**$4,419,710,867**	**1.9%**	**-5.1%**	**-0.9%**

*Due to rounding, the totals may not equal the sum of the individual categories.

Governmental Fund Expenditures

Current Trends and Five-Year Trends

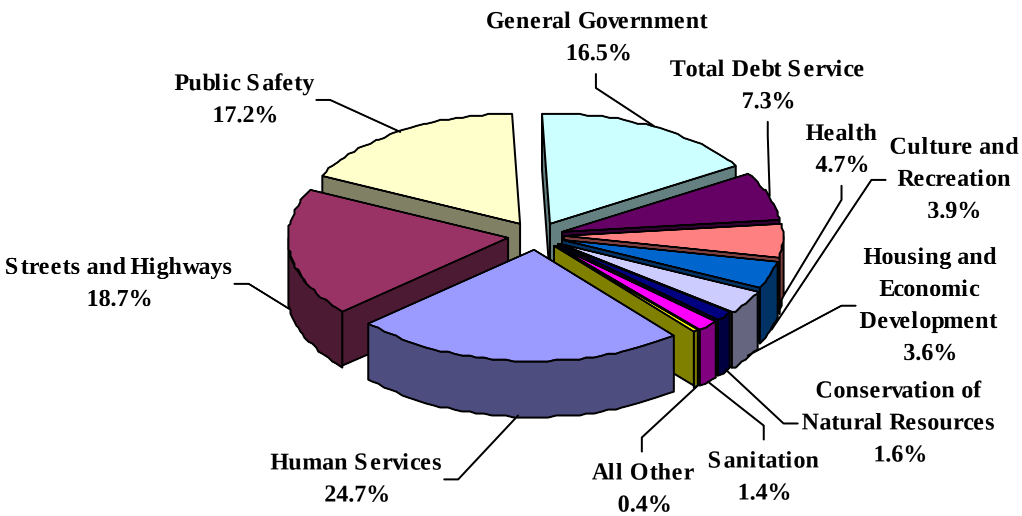
Counties reported total expenditures of $6.2 billion in 2013. This represents an increase of $207.5 million, or 3.5 percent, over total expenditures in 2012. Total county expenditures include current expenditures (day-to-day operations); capital outlays (expenditures on large fixed assets such as buildings and equipment); and total debt service (principal paid on bonds, other long-term debt, and interest and fiscal charges). Between 2012 and 2013, current expenditures increased 3.7 percent to $4.9 billion; capital outlays decreased 5.3 percent to $884.0 million; and debt service increased 22.4 percent to $456.0 million.

The largest dollar increases were in the categories of debt service and general government expenditures. Debt service expenditures increased $83.5 million between 2012 and 2013. The large increase in debt service expenditures was primarily the result of a number of counties issuing refunding bonds and the corresponding principal payments to pay off existing bonds in 2013. General government expenditures increased $58.8 million over the two-year period. A significant portion of the increase reflects contributions from Hennepin County to the Metropolitan Council as part of cost sharing agreements for various projects. Overall, eight categories of expenditures increased, while three decreased between 2012 and 2013.

Figure 4 below provides a breakdown of total county expenditures in 2013.

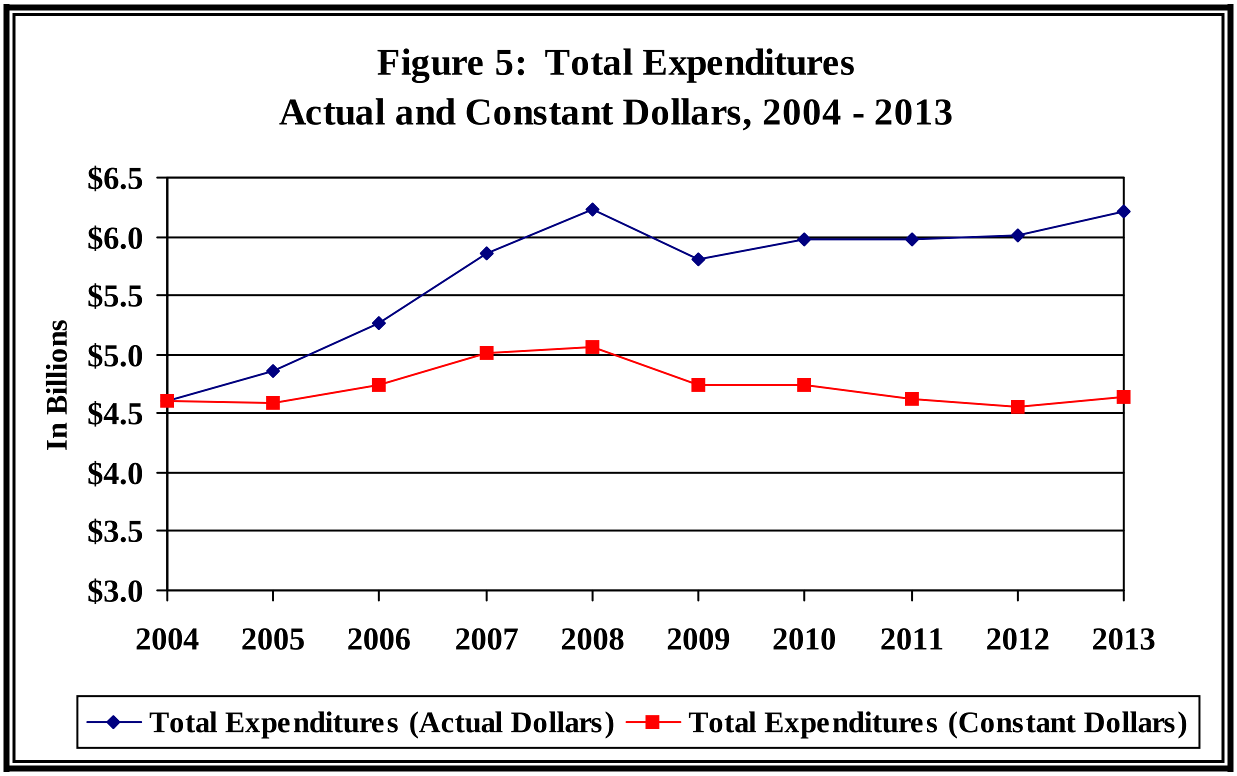
Figure 4: Total County Expenditures, 2013

$6,218,263,666



Ten-Year Trends

In actual dollars, total expenditures increased 34.8 percent from 2004 to 2013. When adjusted for inflation, county expenditures increased 0.7 percent.[5] Figure 5 illustrates trends in total county expenditures using actual and constant dollars from 2004 to 2013.



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 77.1 percent of all county expenditures in 2013.

In constant dollars, human services and general government expenditures declined 19.8 and 1.5 percent, respectively, between 2004 and 2013, while streets and highways and public safety expenditures increased 4.7 percent and 5.8 percent, respectively. The decrease in human services expenditures contributed to its share of total expenditures declining from 31.0 percent in 2004 to 24.7 percent in 2013.

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[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 2004 as the base year.

Figure 6 below illustrates the changing composition of county expenditures between 2004 and 2013. Table 2a provides a ten-year analysis of total county expenditures in constant dollars.

Figure 6: Primary Categories of Expenditures, 2004 - 2013

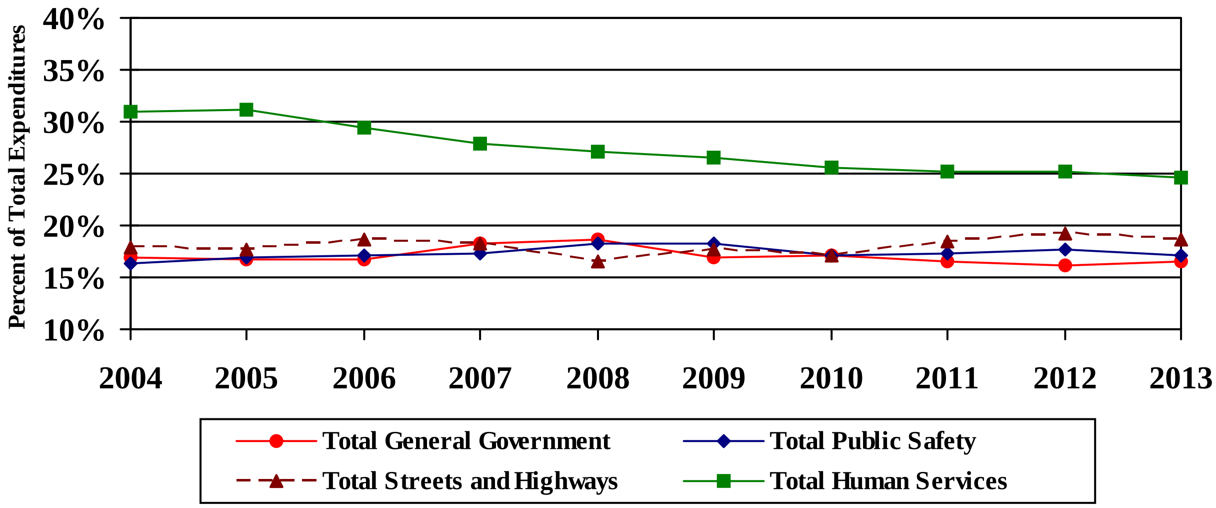


Table 2a: County Expenditures Summary (Constant Dollars), 2004 - 2013

Expenditures	2004*	2008*	2009*	2013*	2004 - 08 5-Year Change	2009 - 13 5-Year Change	10-Year Change
General Government	$777,913,897	$944,197,828	$803,591,120	$765,968,885	21.4%	-4.7%	-1.5%
Public Safety	756,139,535	927,627,876	864,419,613	800,230,606	22.7%	-7.4%	5.8%
Streets and Highways	827,856,634	840,112,092	838,601,540	866,510,263	1.5%	3.3%	4.7%
Sanitation	78,591,430	76,429,765	71,529,230	67,004,494	-2.8%	-6.3%	-14.7%
Human Services	1,432,774,148	1,379,469,148	1,259,491,668	1,148,734,487	-3.7%	-8.8%	-19.8%
Health	203,541,571	221,595,718	213,714,140	216,043,699	8.9%	1.1%	6.1%
Culture and Recreation	142,609,176	177,583,510	185,510,405	181,731,292	24.5%	-2.0%	27.4%
Cons. of Natural Resources	66,305,934	70,561,929	69,155,872	74,514,915	6.4%	7.7%	12.4%
Housing and Econ. Dev.	109,450,671	90,729,729	125,372,087	167,246,715	-17.1%	33.4%	52.8%
All Other	6,991,029	29,734,659	45,697,190	17,181,027	325.3%	-62.4%	145.8%
Total Debt Service	212,343,389	312,422,182	269,091,490	340,694,159	47.1%	26.6%	60.4%
Total Expenditures	$4,614,517,414	$5,070,464,436	$4,746,174,354	$4,645,860,542	9.9%	-2.1%	0.7%
Total Current Expenditures	$3,724,852,305	$3,906,084,264	$3,713,642,344	$3,644,718,501	4.9%	-1.9%	-2.2%
Total Capital Outlay	677,321,720	851,957,990	763,440,520	660,447,882	25.8%	-13.5%	-2.5%
Total Debt Service	212,343,389	312,422,182	269,091,490	340,694,159	47.1%	26.6%	60.4%
Total Expenditures	$4,614,517,414	$5,070,464,436	$4,746,174,354	$4,645,860,542	9.9%	-2.1%	0.7%

*Due to rounding, the totals may not equal the sum of the individual categories.

Capital Outlay Expenditures

Capital outlay expenditures include the purchase, construction, or permanent improvements of buildings, equipment, machinery, and land. Between 2012 and 2013, capital outlays decreased $49.6 million, or 5.3 percent, to total $884.0 million.

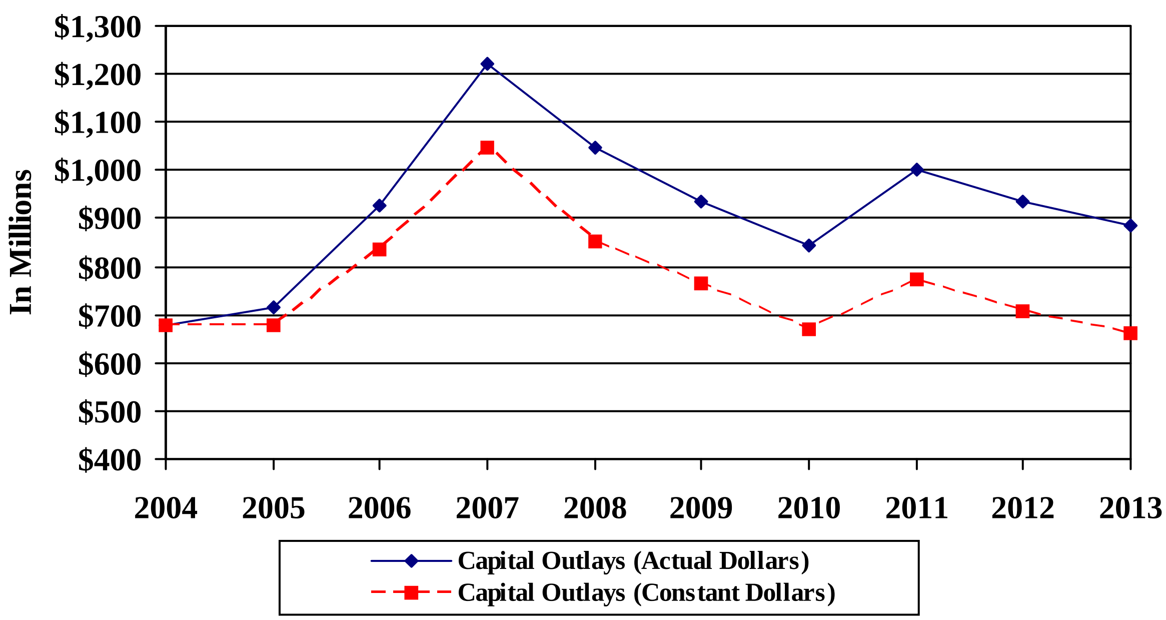
The largest category of capital outlay expenditures in 2013 was streets and highways, which represented 76.8 percent of total capital outlays. General government and culture and recreation were the next two largest categories of capital outlay expenditures, accounting for 7.9 percent and 5.3 percent 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 human services (173.2 percent), culture and recreation (114.6 percent), and public safety (39.8 percent). Among those categories showing double-digit decreases were health (-93.5 percent), housing and economic development (-59.7 percent), all other (-55.7 percent), sanitation (-33.0 percent), and conservation of natural resources (-32.6 percent). Overall, the largest dollar increase in capital outlay expenditures was $25.1 million for culture and recreation, while the largest dollar decrease was $44.8 million for housing and economic development.

In actual dollars, capital outlay expenditures increased 30.5 percent from 2004 to 2013. When adjusted for inflation, capital outlay expenditures decreased 2.5 percent over this period.

Figure 7 below shows capital outlay expenditures in actual and constant dollars from 2004 to 2013.

Figure 7: Capital Outlay Expenditures
Actual and Constant Dollars, 2004 - 2013



Outstanding Long-Term Indebtedness

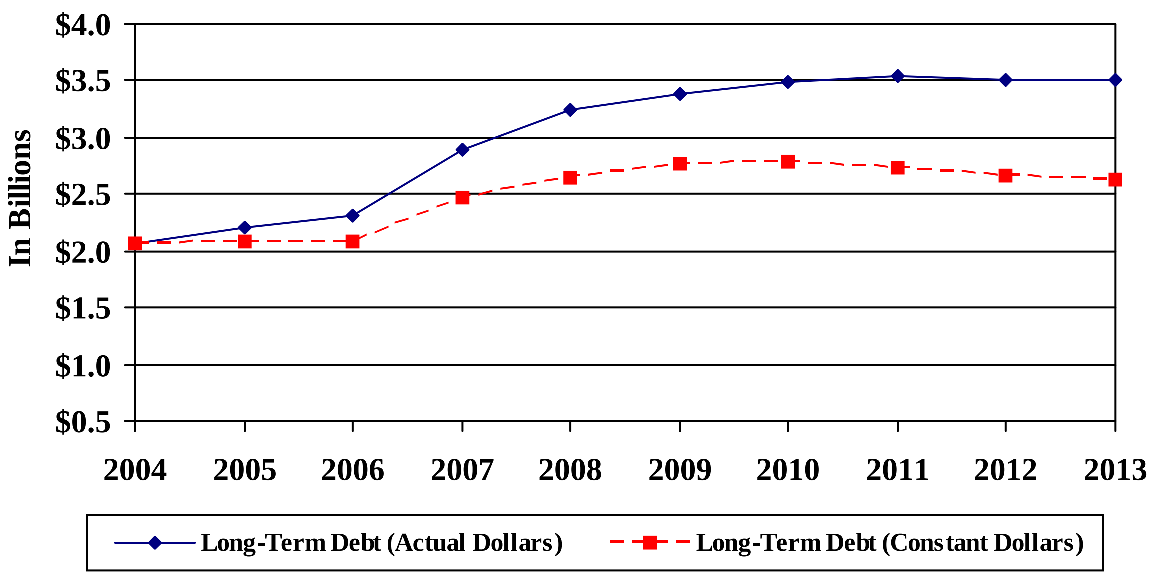
Current and Five-Year Trends

Counties incur long-term debt through the financing of capital projects such as the construction of government buildings, bridges, and other infrastructure improvements. In 2013, Minnesota counties reported outstanding long-term debt of $3.5 billion.[6] This represents a very slight decrease from the long-term debt reported in 2012. Of the $3.5 billion in long-term debt, $3.3 billion was outstanding bonded debt, and $241.3 million was other long-term debt.

Ten-Year Trends

In actual dollars, outstanding long-term debt increased 69.9 percent from 2004 to 2013. When adjusted for inflation, outstanding long-term indebtedness increased 26.9 percent over this period. When compared to the 0.9 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 114.7 percent in actual dollars, and 60.4 percent in constant dollars, over the ten-year period.

Figure 8: Long-Term Debt
Actual and Constant Dollars, 2004 - 2013



[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/certificates of indebtedness 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.

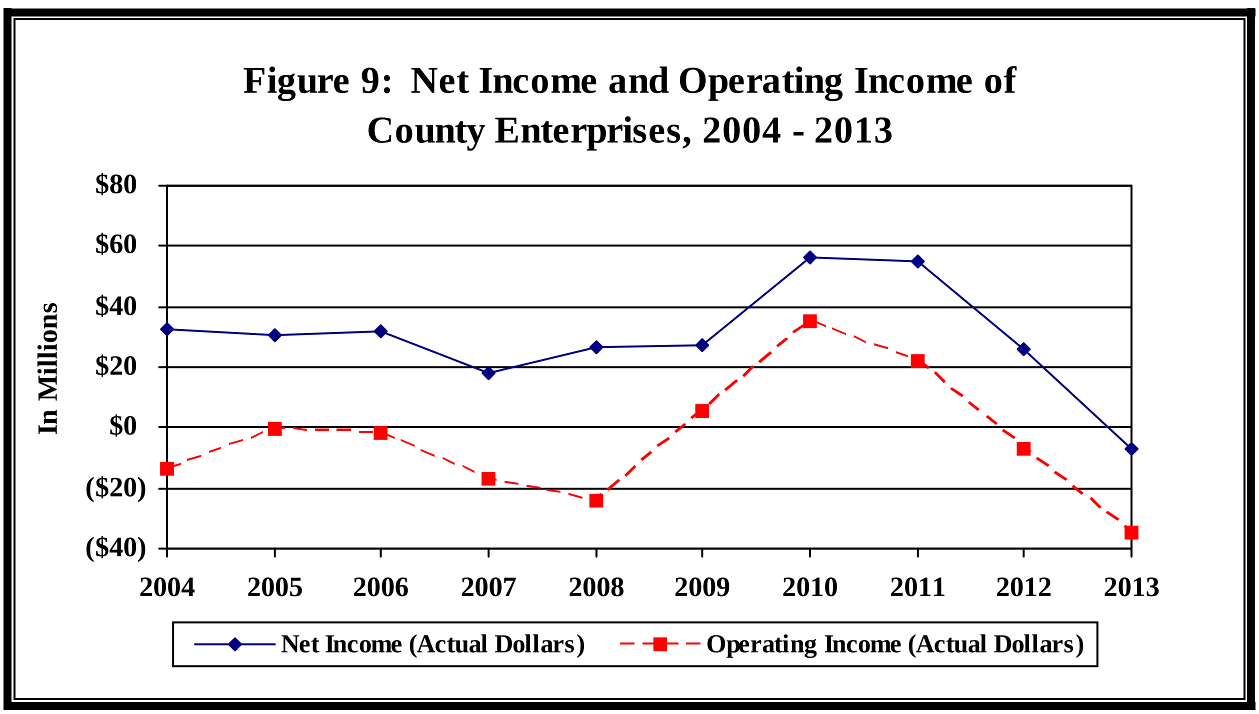
Current Trends

Minnesota county enterprises reported operating losses of $34.9 million in 2013. This represents an increase of 409.3 percent from the operating losses of $6.9 million reported in 2012. The net losses of county enterprises totaled $7.1 million in 2013. This represents a decrease of 127.4 percent from the $26.0 million in net income reported in 2012.

The Hennepin County Medical Center (HCMC) accounted for the large decreases in operating and net income. The HCMC often skews statewide totals because its operating revenues and expenses are greater than all other county enterprises combined.

Ten-Year Trends

Figure 9 below shows net income and operating income in actual dollars from 2004 to 2013 (includes the HCMC).



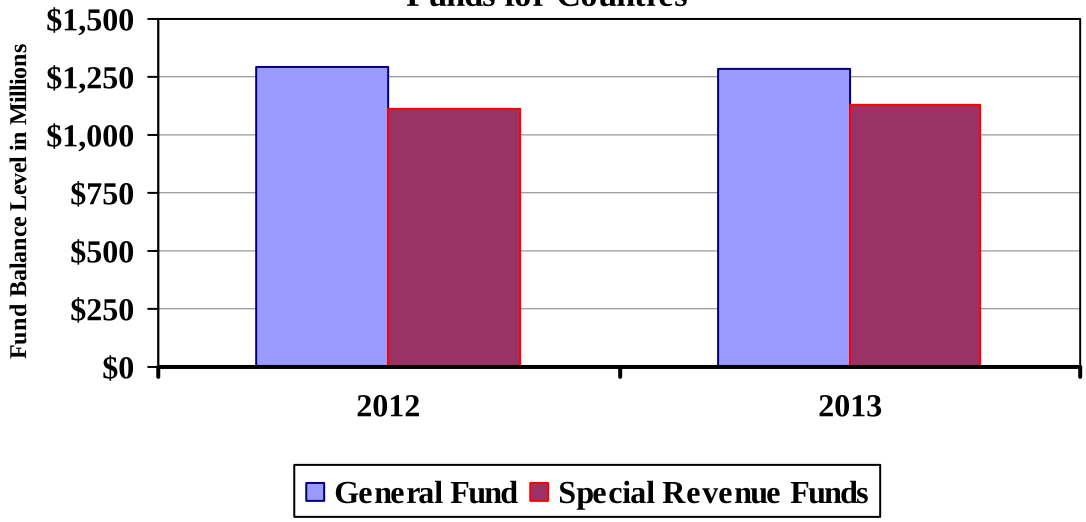
Unrestricted Fund Balances of the General Fund and Special Revenue Funds

Minnesota counties' unrestricted fund balances of the General Fund and Special Revenue Funds totaled $2.4 billion in 2013. This represents an increase of 0.4 percent over 2012. 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 49.5 percent in 2013 compared to 51.2 percent for unreserved fund balances as a percent of total current expenditures in 2012. Among individual counties, unrestricted fund balances as a percent of total current expenditures ranged from 13.0 percent (Faribault County) to 112.2 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: 2012 and 2013
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 on Local Government Fund Balances. See: *Statement of Position: Fund Balances for Local Governments Based on GASB Statement No. 54*.