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Article for *Minnesota Counties*

State Auditor Otto Releases Report on Minnesota County Finances

~Report shows some positive changes for counties from 2004 to 2005, but 10 year analysis shows noteworthy trends ~

State Auditor Rebecca Otto has released a comprehensive report that summarizes the financial data of Minnesota's 87 counties for calendar year 2005. In addition, the 113-page report examines longer term trends to help place current financial conditions in context.

"Minnesota counties in general have seen some improvement in their fiscal health over the previous year," State Auditor Otto said. "However, our data shows noteworthy long-term trends in revenue and expenditure levels and in the rise of long-term debt. We will share this data with legislators to inform their decision making."

While Minnesota county revenues grew 6.6 percent, expenditures grew 5.2 percent from 2004 to 2005. The revenue growth coupled with slower growth in expenditures allowed counties to increase unreserved fund balances by 5.2 percent. A measure of fiscal health, unreserved fund balances as a percent of current expenditures sits at its highest level in more than 10 years. The overall improvement in financial condition reverses a recent trend in which non-inflation adjusted revenues and expenditures declined.

2005 Revenues, Expenditures, and Debt

Revenues

Minnesota county revenues rebounded in 2005 after posting a decline in 2004. Total revenues for counties grew 6.6 percent to $4.76 billion between 2004 and 2005. However, when adjusted for inflation, county revenues were near 1999 levels.
The growth in revenue was driven primarily by increases in taxes, interest earnings, and federal grants. Taxes, which account for the largest proportion of county revenues, increased by $129.3 million or 7.3 percent between 2004 and 2005. Federal grants, which represent the fourth largest category of county revenues, increased $53.8 million or

12.7 percent from 2004 to 2005. Interest earnings are one of the most volatile sources of revenues for counties and have fluctuated greatly in recent years. Between 2004 and 2005 interest earnings from investments grew $27.9 million or 46.3 percent. While this was a large increase, revenue derived from interest earnings is down 40.9 percent from 2001.

The two largest sources of revenues for counties continue to be taxes and state intergovernmental revenues, which accounted for 40.0 and 30.6 percent of total revenues, respectively.

Expenditures

Counties provide a variety of services to their citizens. Most services are accounted for in Governmental Funds. In 2005, Minnesota counties expended $4.86 billion from Governmental Funds to provide county services. This represents an increase of 5.2 percent over 2004 total governmental expenditures. However, when adjusted for inflation, county expenditures were near 1999 levels. Of the $4.86 billion in total governmental expenditures, $3.92 billion represented current expenditures (day-to-day operations), $716 million represented capital expenditures (construction or purchase of large assets such as buildings or roads), and $223 million represented debt service payments (interest and principal payments on debt). These three types of expenditures increased at roughly the same pace between 2004 and 2005, with current expenditures increasing 5.2 percent, capital outlay expenditures increasing 5.7 percent, and debt service expenditures increasing 5.1 percent.

Outstanding Long-Term Indebtedness

Counties reported a total of $2.2 billion in outstanding long-term debt at the end of 2005. This represents an increase in long-term debt of 6.8 percent over the year 2004. The long-term debt was divided between $2.0 billion in outstanding bonds and $202.8 million in other long-term debt. Counties incurred long-term debt to finance a wide range of capital projects such as road and bridge construction, light rail transit, government buildings, and other infrastructure improvements.

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.

Ten Year Trends

While counties appear to have ended 2005 in improved financial condition, an examination of data between 1996 and 2005 shows some noteworthy trends. When the ten-year period is broken into two five-year segments, 1996 to 2000 and 2001 to 2005, a wide divergence in trends emerges. These trends provide insight into the pre- and post-state government budget deficit and its affect on county government, especially on long-term debt.

From 1996 to 2000, non-adjusted county revenues grew 24 percent compared to 10 percent between 2001 and 2005. Among the two major sources of county revenues, taxes and state aid, large differences are apparent. Taxes (primarily property) grew 19 percent during the first period and 17 percent during the second period while state aids grew 33 percent during the first five-year period but just 7 percent during the second period.

Among expenditures, the trends are similar. Total expenditures, which can be broken into current, capital, and debt service expenditures, grew 25 percent between 1996 and 2000, but only 11 percent between 2001 and 2005. Among the subcategories, current expenditures grew 25 percent during the first five-year period and 10 percent during the second period; capital outlays grew 26 percent during the first period and 14 percent during the second; and, debt service expenditures grew by 24 percent during the first five year period and by 28 percent during the second period.

Long-term debt grew 5 percent from 1996 to 2000, but jumped by 37 percent between 2001 and 2005. The growth in long term debt could indicate that counties have been funding a greater number of capital projects with debt rather than by pay-as-you-go.

For the complete report, which includes tables and graphs, go to http://www.auditor.state.mn.us/default.aspx?page=rptgid05county.