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 2014.

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, 2014, 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 2013 and 2014 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 2014 unrestricted fund balances as a percent of total current expenditures.

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

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Executive Summary

Current-Year Trends

- Minnesota county revenues totaled $6.4 billion in 2014. This represents an increase of $442.4 million, or 7.5 percent, over 2013. Interest earnings (518.3 percent), federal grants (16.4 percent), and state grants (12.2 percent) contributed to the overall increase in county revenues between 2013 and 2014 (pg. 5).

- Counties reported total expenditures of $6.3 billion in 2014. This represents an increase of $100.1 million, or 1.6 percent, over total expenditures in 2013. Between 2013 and 2014, current expenditures increased 2.4 percent to $5.0 billion, capital outlays increased 3.9 percent to $918.7 million, and debt service decreased 11.0 percent to $406.0 million (pg. 8).

- In 2014, Minnesota counties reported outstanding long-term debt of $3.5 billion.[1] This represents a very slight decrease from the long-term debt reported in 2013. Of the $3.5 billion in long-term debt, $3.3 billion was outstanding bonded debt, and $233.2 million was other long-term debt (pg. 12).

- Minnesota county enterprises reported operating income of $3.3 million in 2014. This represents an increase of 109.6 percent from the operating losses of $34.9 million reported in 2013. The net income of county enterprises totaled $37.6 million in 2014. This represents an increase of 629.5 percent over the $7.1 million in net losses reported in 2013 (pg. 13).

- Minnesota counties' unrestricted fund balances of the General Fund and Special Revenue Funds totaled $2.6 billion in 2014. This represents an increase of 6.1 percent over 2013. Among individual counties, unrestricted fund balances as a percent of total current expenditures ranged from 11.4 percent (Pine County) to 116.8 percent (Dakota County) (pg. 14).

Ten-Year Trends

- In actual dollars, total county revenues rose 33.7 percent from 2005 to 2014. When adjusted for inflation, there was an increase in total revenues of 2.8 percent over this period[2] (pg. 6).

- Between 2005 and 2014, the share of total revenues derived from taxes increased from 40.0 percent to 46.2 percent, while the share of total revenues derived from intergovernmental revenues decreased from 41.7 percent to 38.7 percent (pg. 6).

- In actual dollars, total expenditures increased 30.1 percent from 2005 to 2014. When adjusted for inflation, county expenditures showed an increase of less than one percent over the ten-year period. 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. In 2014, these four expenditure categories alone accounted for 78.9 percent of all county expenditures (pg. 9).

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[1]Long-term debt includes bonded indebtedness and other long-term debt such as notes or long-term leases.
[2]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, December 22, 2015) setting 2005 as the base year.

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Comparison and Overview

Governmental Fund Revenues

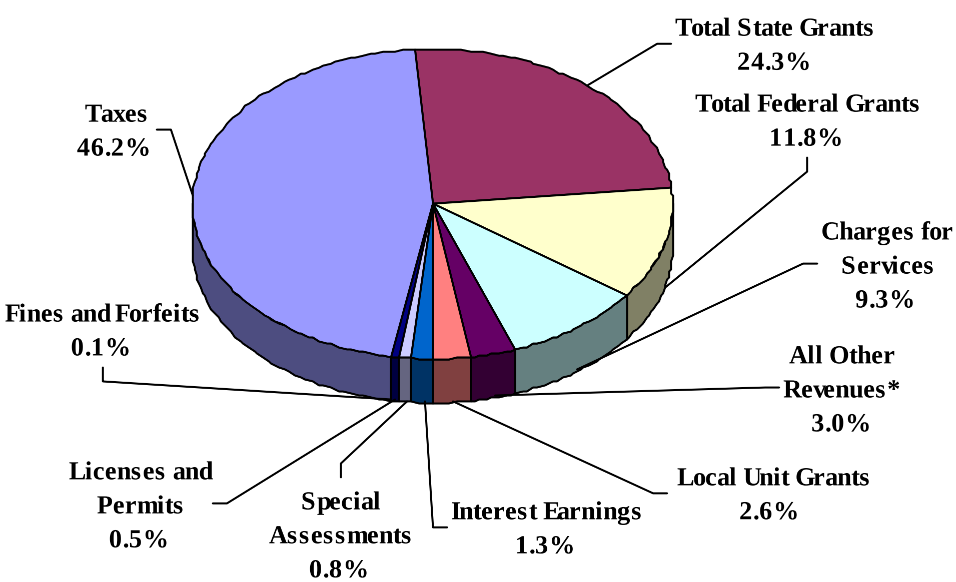
Current-Year Trends

Minnesota county revenues totaled $6.4 billion in 2014. This represents an increase of $442.4 million, or 7.5 percent, over 2013. Interest earnings (518.3 percent), federal grants (16.4 percent), and state grants (12.2 percent) contributed to the overall increase in county revenues between 2013 and 2014.

Taxes, state grants, and federal grants were the most significant sources of county revenues in 2014, accounting for 82.3 percent of total revenues. The share of total revenues derived from taxes decreased slightly between 2013 and 2014, while the shares of revenues derived from federal grants and state grants increased slightly.

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

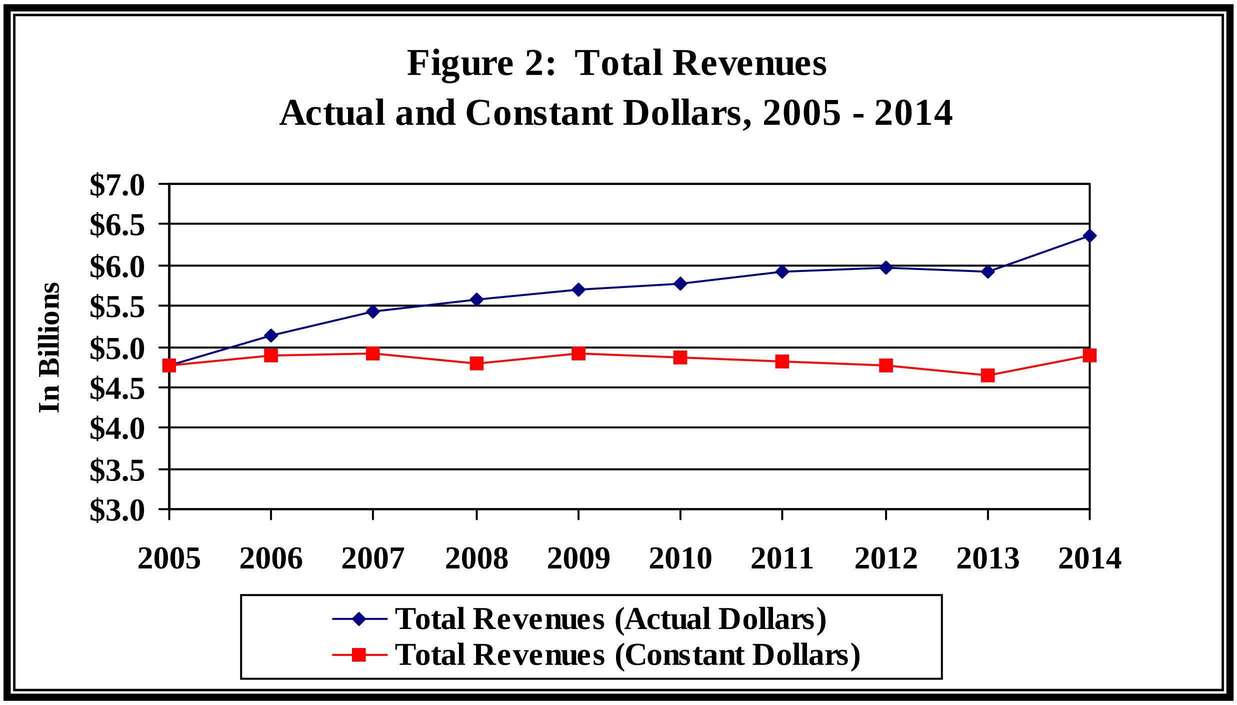
Figure 1: Total County Revenues, 2014*
$6,357,950,996



*Due to rounding, the sum of the percentages is less than100 percent.

Ten-Year Trends

Figure 2 below shows trends for total county revenues in actual and constant dollars for the years 2005 to 2014. In actual dollars, total county revenues rose 33.7 percent from 2005 to 2014. When adjusted for inflation, there was an increase in total revenues of 2.8 percent over this period.[3]



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 2005 and 2014, the share of total revenues derived from taxes increased from 40.0 percent to 46.2 percent, while the share of total revenues derived from intergovernmental revenues decreased from 41.7 percent to 38.7 percent. The decrease in intergovernmental revenues has resulted in a greater reliance on taxes.

One factor that might have caused intergovernmental revenues as a share of total revenues to decrease is the reduced State funding for the County Program Aid (CPA) and the Homestead Market Value Credit (HMVC) programs. Due to ongoing state budget deficits, the CPA and the 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.[4] The CPA and HMVC programs accounted for 7.4 percent of county total revenues in 2005, compared to 3.5 percent in 2014.

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[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, December 22, 2015) setting 2005 as the base year.
[4]Although the HMVC was eliminated, the Market Value Agricultural Credit program is still in existence.

Figure 3 below shows how the composition of primary sources of revenues for counties has changed between 2005 and 2014.

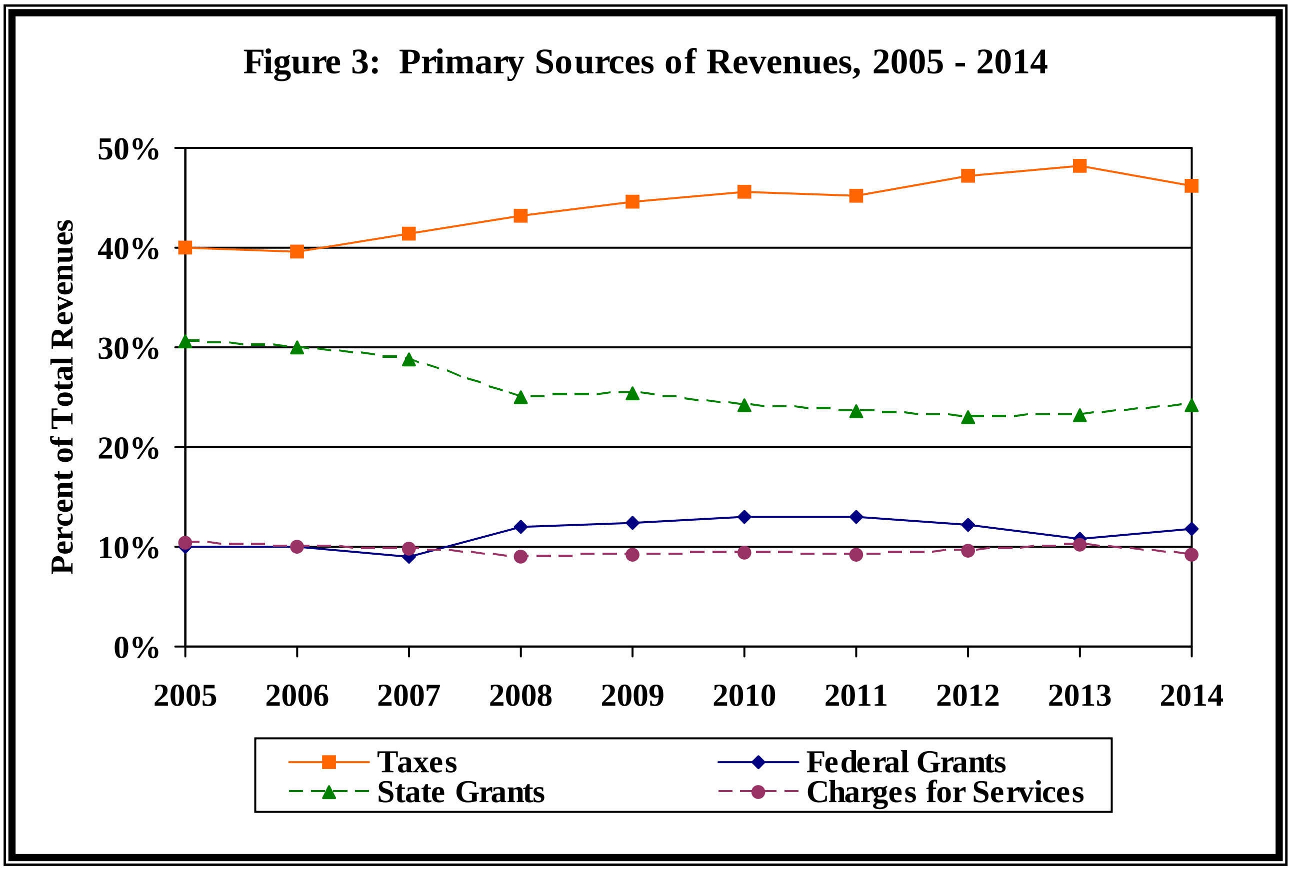


Table 1a below shows the ten-year trend in revenues adjusted for inflation. The table breaks down the data into two five-year segments and the overall ten-year trend.

Table 1a: County Revenues Summary (Constant Dollars), 2005 - 2014

Revenues	2005*	2009*	2010*	2014*	2005 - 09 5-Year Change	2010 - 14 5-Year Change	10-Year Change
Taxes	$1,904,061,809	$2,198,713,511	$2,213,177,827	$2,259,304,702	15.5%	2.1%	18.7%
Special Assessments	36,189,217	35,670,841	36,705,578	38,584,530	-1.4%	5.1%	6.6%
Licenses and Permits	29,013,006	22,504,646	21,964,155	25,669,078	-22.4%	16.9%	-11.5%
Total Federal Grants	476,849,483	615,290,591	629,758,366	575,610,182	29.0%	-8.6%	20.7%
Total State Grants	1,457,400,357	1,248,088,456	1,174,115,848	1,188,656,533	-14.4%	1.2%	-18.4%
Local Unit Grants	51,276,317	85,620,463	92,900,197	127,329,247	67.0%	37.1%	148.3%
Charges for Services	497,436,358	452,082,981	456,678,691	456,362,001	-9.1%	-0.1%	-8.3%
Fines and Forfeits	10,047,529	7,343,024	6,432,087	5,796,998	-26.9%	-9.9%	-42.3%
Interest Earnings	88,178,374	57,233,147	42,147,115	62,955,233	-35.1%	49.4%	-28.6%
All Other Revenues	206,683,994	198,405,423	180,166,754	148,106,672	-4.0%	-17.8%	-28.3%
Total Revenues	**$4,757,136,444**	**$4,920,953,082**	**$4,854,046,618**	**$4,888,375,176**	**3.4%**	**0.7%**	**2.8%**

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

Governmental Fund Expenditures

Current-Year Trends

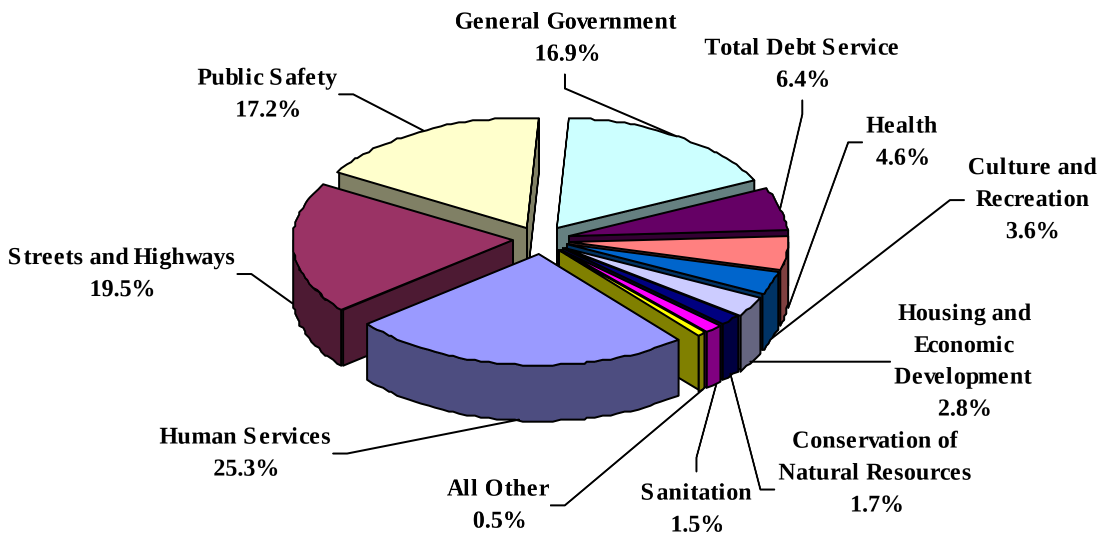
Counties reported total expenditures of $6.3 billion in 2014. This represents an increase of $100.1 million, or 1.6 percent, over total expenditures in 2013. Total county expenditures include current expenditures (day-to-day operations); capital outlays (expenditures on large fixed assets such as buildings and equipment); and total debt service (principal paid on bonds, other long-term debt, and interest and fiscal charges). Between 2013 and 2014, current expenditures increased 2.4 percent to $5.0 billion, capital outlays increased 3.9 percent to $918.7 million, and debt service decreased 11.0 percent to $406.0 million. Overall, eight categories of expenditures increased, while three decreased between 2013 and 2014.

The largest expenditure increases were in the categories of streets and highways and human services. Streets and highways expenditures increased $75.2 million between 2013 and 2014. This increase was primarily the result of a number of counties undertaking major road and bridge construction projects in 2014. Human services expenditures increased $58.7 million over the two-year period. A significant portion of this increase reflects Hennepin County's regionalization plan to move direct services to community-based sites and to handle the projected increase in the new Medical Assistance cases resulting from the implementation of MNsure.

Figure 4 below provides a breakdown of total county expenditures in 2014.

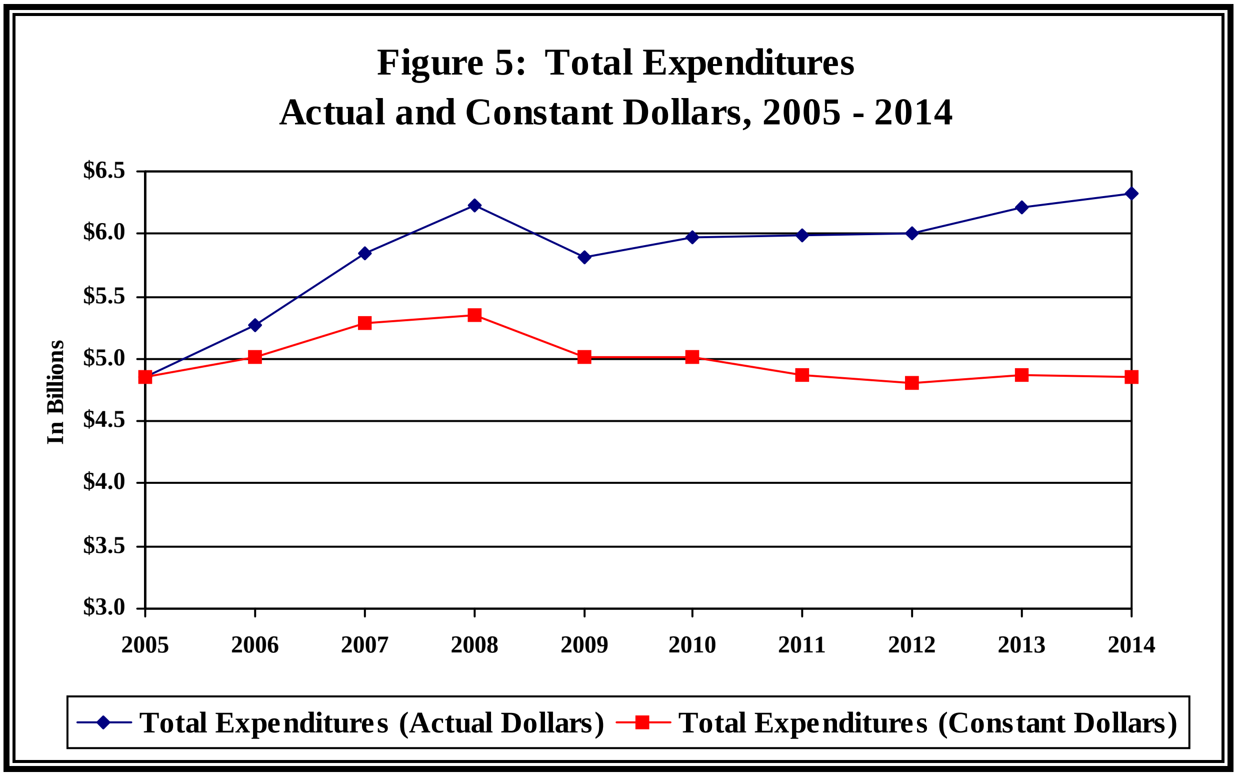
Figure 4: Total County Expenditures, 2014

$6,318,354,331



Ten-Year Trends

In actual dollars, total expenditures increased 30.1 percent from 2005 to 2014. When adjusted for inflation, county expenditures showed an increase of less than one percent over the ten-year period.[5] Figure 5 below illustrates trends in total county expenditures using actual and constant dollars from 2005 to 2014.



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. In 2014, these four expenditure categories alone accounted for 78.9 percent of all county expenditures.

In constant dollars, human services expenditures declined 19.0 percent between 2005 and 2014, while streets and highways, general government, and public safety expenditures increased 10.7 percent, 1.2 percent, and 0.9 percent, respectively. The decrease in human services expenditures contributed to its share of total expenditures declining from 31.2 percent in 2005 to 25.3 percent in 2014.

[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, December 22, 2015) setting 2005 as the base year.

Figure 6 below illustrates the changing composition of county expenditures between 2005 and 2014. Table 2a provides a ten-year analysis of total county expenditures in constant dollars.

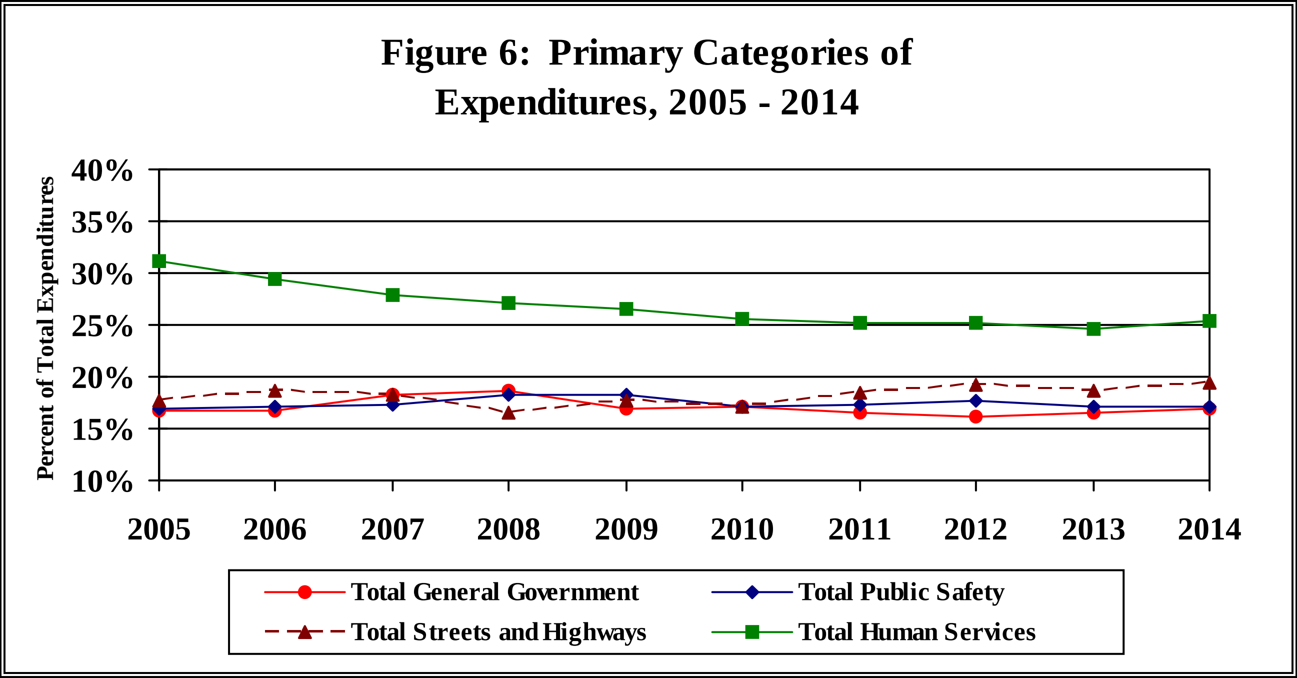


Table 2a: County Expenditures Summary (Constant Dollars), 2005 - 2014

Expenditures	2005*	2009*	2010*	2014*	2005 - 09 5-Year Change	2010 - 14 5-Year Change	10-Year Change
General Government	$811,865,652	$848,963,303	$863,920,278	$821,807,257	4.6%	-4.9%	1.2%
Public Safety	826,294,731	913,226,281	864,670,232	833,526,349	10.5%	-3.6%	0.9%
Streets and Highways	857,918,462	885,950,474	862,888,925	949,533,332	3.3%	10.0%	10.7%
Sanitation	86,092,527	75,567,897	73,442,916	75,089,573	-12.2%	2.2%	-12.8%
Human Services	1,515,382,785	1,330,604,806	1,279,925,271	1,227,255,596	-12.2%	-4.1%	-19.0%
Health	183,317,930	225,780,820	270,654,339	222,624,338	23.2%	-17.7%	21.4%
Culture and Recreation	153,874,930	195,984,652	198,158,087	174,657,278	27.4%	-11.9%	13.5%
Cons. of Natural Resources	74,597,621	73,060,536	70,058,135	81,318,631	-2.1%	16.1%	9.0%
Housing and Econ. Dev.	118,748,536	132,450,818	118,163,106	134,209,422	11.5%	13.6%	13.0%
All Other	4,778,135	48,277,334	155,568,570	25,754,958	910.4%	-83.4%	439.0%
Total Debt Service	223,115,885	284,284,874	259,849,031	312,154,144	27.4%	20.1%	39.9%
Total Expenditures	$4,855,987,194	$5,014,151,795	$5,017,298,890	$4,857,930,878	3.3%	-3.2%	0.0%
Total Current Expenditures	$3,917,078,949	$3,923,321,192	$4,049,607,093	$3,839,407,598	0.2%	-5.2%	-2.0%
Total Capital Outlay	715,792,360	806,545,729	707,842,765	706,369,135	12.7%	-0.2%	-1.3%
Total Debt Service	223,115,885	284,284,874	259,849,031	312,154,144	27.4%	20.1%	39.9%
Total Expenditures	$4,855,987,194	$5,014,151,795	$5,017,298,890	$4,857,930,878	3.3%	-3.2%	0.0%

*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 2013 and 2014, capital outlays increased $34.7 million, or 3.9 percent, to total $918.7 million.

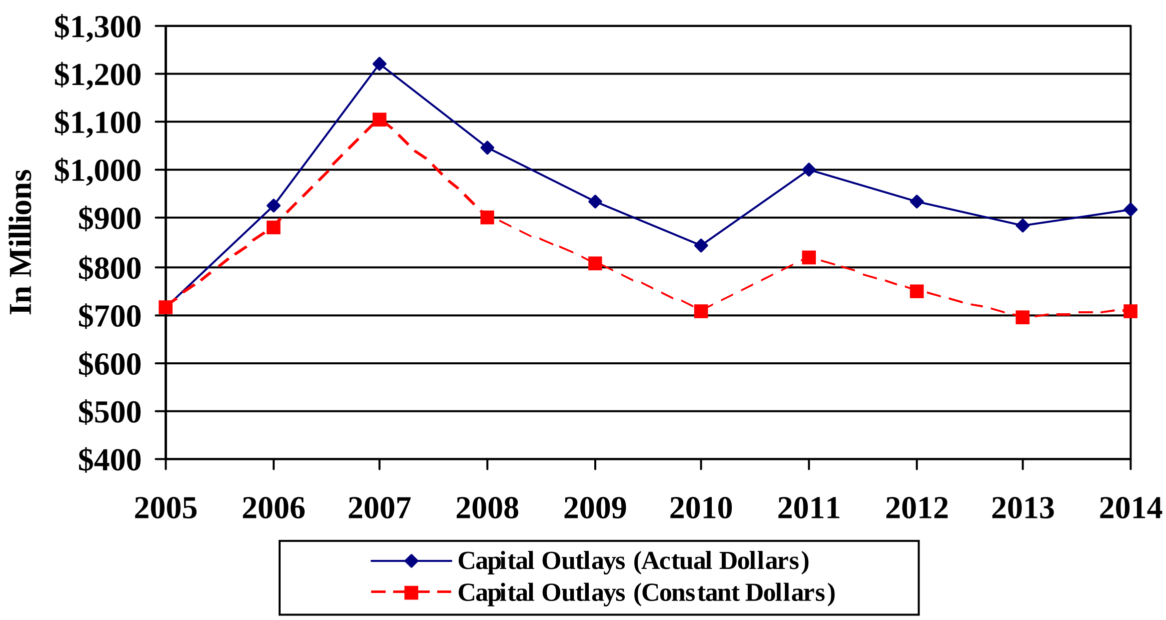
The largest category of capital outlay expenditures in 2014 was streets and highways, which represented 80.6 percent of total capital outlays. General government and public safety were the next two largest categories of capital outlay expenditures, accounting for 11.0 percent and 3.9 percent of total capital outlays, respectively.

Capital outlay expenditures can show significant swings from one year to the next since they include large construction projects and purchases. Among those categories of capital outlay expenditures showing double-digit increases were conservation of natural resources (167.8 percent), sanitation (162.1 percent), and general government (45.1 percent). Among those categories showing double-digit decreases were housing and economic development (-93.0 percent), all other (-76.5 percent), culture and recreation (-47.9 percent), public safety (-18.6 percent), and health (-10.5 percent). Overall, the largest increase in capital outlay expenditures was $61.0 million for streets and highways, while the largest decrease was $28.1 million for housing and economic development.

In actual dollars, capital outlay expenditures increased 28.4 percent from 2005 to 2014. When adjusted for inflation, capital outlay expenditures decreased 1.3 percent over this period.

Figure 7 below shows capital outlay expenditures in actual and constant dollars from 2005 to 2014.

Figure 7: Capital Outlay Expenditures
Actual and Constant Dollars, 2005 - 2014



Outstanding Long-Term Indebtedness

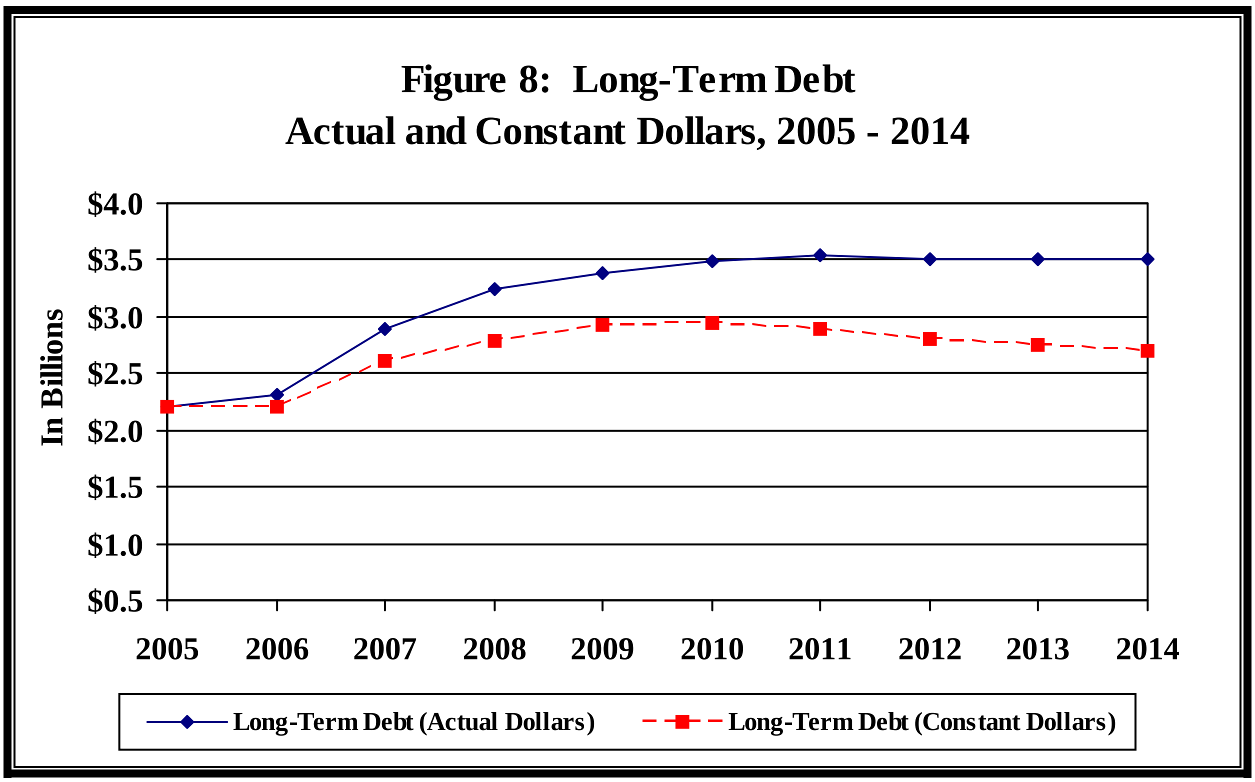
Current-Year Trends

Counties incur long-term debt through the financing of capital projects such as the construction of government buildings, bridges, and other infrastructure improvements. In 2014, 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 2013. Of the $3.5 billion in long-term debt, $3.3 billion was outstanding bonded debt, and $233.2 million was other long-term debt.

Ten-Year Trends

In actual dollars, outstanding long-term debt increased 58.9 percent from 2005 to 2014. When adjusted for inflation, outstanding long-term indebtedness increased 22.2 percent over this period.[7] As a result of the increase in long-term debt, interest and principal payments increased 82.0 percent in actual dollars, and 39.9 percent in constant dollars, over the ten-year period.

Figure 8 below shows outstanding long-term debt in actual and constant dollars from 2005 to 2014.



[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 non-operating revenues, such as taxes and grants. The most common types of enterprises maintained by counties are housing and redevelopment authorities and hospitals/nursing homes.

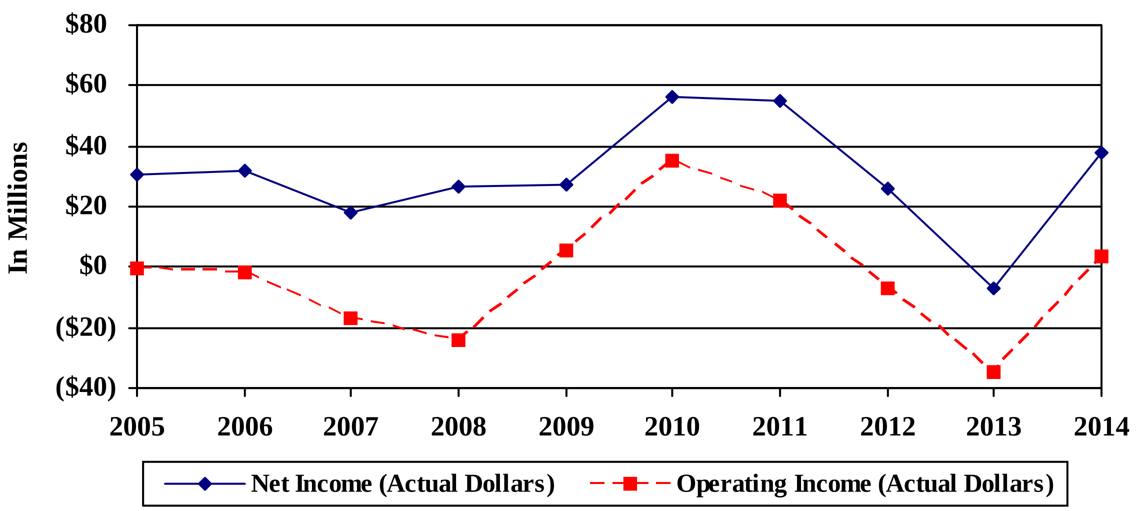
Current-Year Trends

Minnesota county enterprises reported operating income of $3.3 million in 2014. This represents an increase of 109.6 percent from the operating losses of $34.9 million reported in 2013. The net income of county enterprises totaled $37.6 million in 2014. This represents an increase of 629.5 percent over the $7.1 million in net losses reported in 2013. The large increases in operating income and net income are primarily due to the Hennepin County Medical Center (HCMC). In 2014, operating income and net income for HCMC totaled $8.7 million and 14.7 million, respectively. Between 2013 and 2014, operating income and net income for HCMC increased $34.8 million and $33.6 million, respectively.

Ten-Year Trends

Figure 9 below shows net income and operating income in actual dollars from 2005 to 2014 (includes the HCMC).

Figure 9: Net Income and Operating Income of County Enterprises, 2005 - 2014



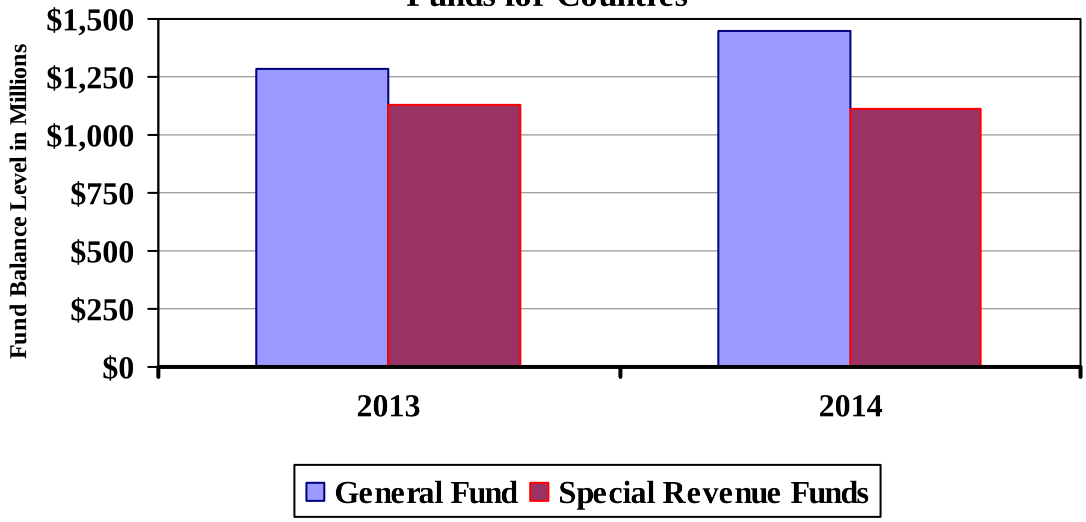
Unrestricted Fund Balances of the General Fund and Special Revenue Funds

Minnesota counties' unrestricted fund balances of the General Fund and Special Revenue Funds totaled $2.6 billion in 2014. This represents an increase of 6.1 percent over 2013. 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 balance as a percent of current expenditures for counties was 51.3 percent in 2014 compared to 49.5 percent in 2013. Among individual counties, unrestricted fund balances as a percent of total current expenditures ranged from 11.4 percent (Pine County) to 116.8 percent (Dakota 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. 67).

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

Figure 10: 2013 and 2014
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*.