

Washington County Finances

2006 Revenues, Expenditures, Debt and Ten-Year Trends



Washington
 County

Fall 2007

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Scope

This document is intended to facilitate an understanding of Washington County financial operations by citizens, policy makers, and local government officials. The report summarizes, through data tables and charts, the financial operations of the county for calendar year 2006. In addition, the report examines longer-term trends to help place current financial conditions in context.

An analysis of the revenues and expenditures of Washington County began in 2003 as part of the county's work on long-term finance strategic issues. The information in this document is updated annually to serve as a baseline for the county's forecasting work. An important step in anticipating future revenues and expenditures is to have a good understanding of historical trends. Data in this report covers the time period from 1997 – 2006. The revenues and expenditures reported in this document are unaudited year-end figures taken from the county's financial management system. They may differ slightly from the audited figures contained in the county's Comprehensive Annual Financial Report (CAFR) due to reporting requirements established by the Government Accounting Standards Board (GASB) and criteria set forth by the Government Finance Officers Association (GFOA). The differences do not change the actual amounts of revenue and expenditure transactions; rather they are simply categorized differently when reported in the county's CAFR.

Executive Summary

Current Trends

In aggregate, Washington County revenues grew 13.8 percent while expenditures grew 24.6 percent from 2005 to 2006. Total fund balance of the county remained stable, decreasing by less than 3 percent. However, as a measure of fiscal health, the general fund and special revenue funds unreserved fund balances as a percent of current expenditures sit at their highest levels in more than ten years.

Overall, county revenues totaled \$165.6 million, expenditures totaled \$168.4 million, and unreserved fund balances totaled \$74.8 million in 2006. The amount of outstanding long-term debt totaled \$66.7 million at the end of 2006.

Ten-Year Trends

While the county appears to have ended 2006 in good financial condition, an examination of trends between 1997 and 2006 shows that, when adjusted for inflation, revenue and expenditure levels remain near 2001 levels.

When the ten-year period is broken into two five-year segments, 1997 to 2001 and 2002 to 2006, a divergence in trends emerges. From 1997 to 2001, non-adjusted county revenues grew 22.3 percent compared to 23.5 percent between 2002 and 2006. Among the two major sources of county revenues, taxes and state aid, large differences are apparent. Taxes (net property tax) grew 25.5 percent during the first period and 25.6 percent during the second period while state intergovernmental revenues, including county program aid, grew 18.6 percent during the first five-year period but just 1.5 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 16 percent between 1997 and 2001, and 12.7 percent between 2002 and 2006. However, among the subcategories there is a wide divergence in trends. Current expenditures grew 24.3 percent during the first five-year period, but only 6.2 percent during the second period; capital outlays declined 22 percent during the first period and grew nearly 177 percent during the second; and, debt service expenditures grew by 4.4 percent during the first five year period and decreased by nearly 63 percent during the second period due to restructuring of the county's debt.

Long-term debt declined 27.2 percent from 1997 to 2001, and grew by 31.6 percent between 2002 and 2006. The growth in long-term debt indicates that the county is funding a greater number of capital projects with debt rather than by pay-as-you-go.

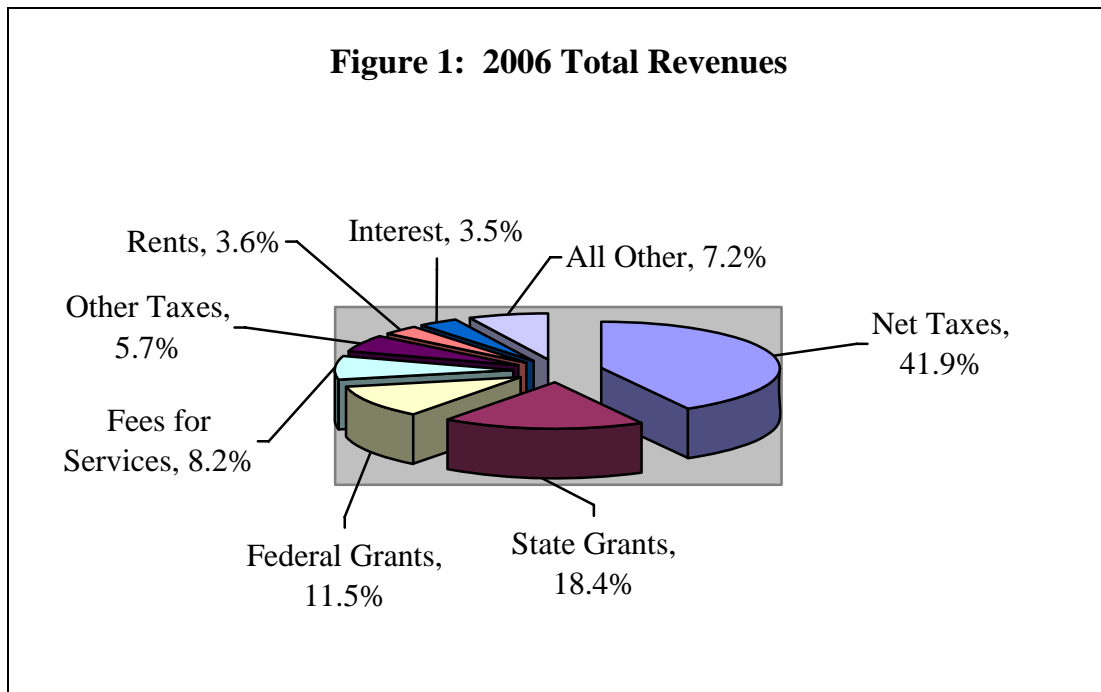
Total Government Revenues

Current Trends

Total revenues for the county grew 13.8 percent to \$165.6 million between 2005 and 2006. However, when adjusted for inflation, county revenues were near 2001 levels.

The growth in revenue was driven primarily by increases in taxes, state grants, and interest earnings. Net property taxes, which account for the largest proportion of county revenues, increased by \$3.6 million or 5.5 percent between 2005 and 2006. State grants, including county program aid which represents the second largest category of county revenues, increased \$5.9 million or 24 percent from 2005 to 2006. Interest earnings are one of the most volatile sources of revenues for the county and have fluctuated greatly in recent years. Between 2005 and 2006 interest earnings from investments grew \$3.8 million or 51.5 percent. The \$5.7 million in revenue derived from interest earnings in 2006 is the largest amount posted in the last ten years; the lowest amount posted was seen in 2003 at just \$1.2 million.

The two largest sources of revenues for the county continue to be property taxes and state intergovernmental revenues, which accounted for 41.9 and 18.4 percent of total revenues, respectively. Figure 1 shows the relative shares of total governmental revenues by source. The underlying data for this pie chart is detailed in Table 1 on page 6.

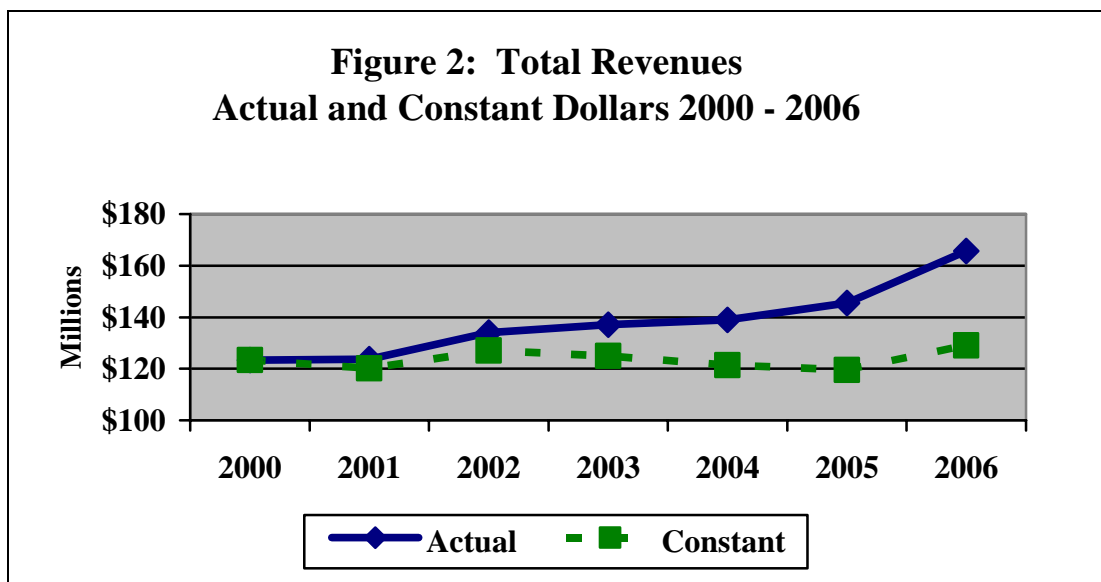


Ten-Year Trends

Aside from the increase in 2006 due to state grant reimbursements for various road projects, even in actual dollars county revenues have been relatively flat since 2001. The county has responded to this through service reductions and funding more projects through the issuance of debt. As Figure 2 shows, when adjusted for inflation, revenues declined in 2003, 2004, and 2005 while rising slightly in 2006.

An examination of county revenues between 1997 and 2006 shows that those revenue streams that are tied more closely to the beneficiaries of particular services have increased at a much greater pace than general revenues. During the ten-year period, revenues derived from licenses and permits have risen 84 percent. In contrast, revenues derived from gross taxes and state grants have risen 58.6 and 42 percent, respectively.

When broken into two five-year segments and adjusted for outliers such as one-time reimbursements for road projects, the 1997 to 2001 period shows more growth than the 2002 to 2006 period – 22 percent to 16 percent respectively. The slow down in revenue growth primarily reflects actions taken by the governor and legislature to deal with the state’s fiscal crises in 2002. As part of a package to address the large state deficit, aid to counties was significantly reduced in 2003 and 2004. In addition, the state imposed levy limits from 2002 to 2004 which restricted the amount of revenue the counties could collect in property taxes. To address the funding shortfalls caused by the state’s actions, county reliance on other sources of revenues increased and service reductions were enacted. Table 1 on page 6 provides the underlying data for this analysis.



Primary Sources of Revenues

Since 1997 the primary sources of county revenues are taxes, state grants, fees for services, and federal grants. Over this period there has been some fluctuation in the proportion of total

revenues represented by these four categories. Revenues derived from net property taxes now represent nearly 42 percent of all county revenues. Revenues derived from the state currently stand at 18.4 percent of all revenues, relatively steady over the past ten years. Revenue from fees for services has shown steady growth – rising from a low of \$9.4 million in 2000 to a high of \$13.6 million in 2006. Revenues derived from the federal government now stand at 11.5 percent of all revenues. While not at its highest point, this category has been trending upward since 1997, primarily due to reimbursements received for federal transit projects. Figure 3 shows how the makeup of primary county revenues changed between 1997 and 2006.

Figure 3: Primary Sources of Revenues as a Percent of Total Revenues 1997 - 2006

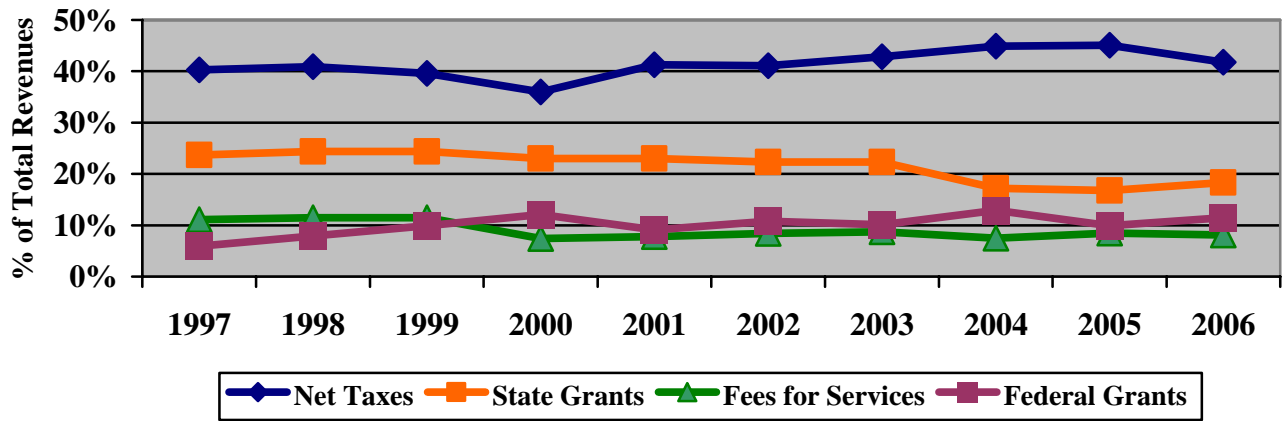


Table 1: County Revenue Summary 1997 – 2006

Revenues	1997	2001	2002	2006	1997-01 5-Year Change	2002-06 5-Year Change	10- Year Change
Net Tax	\$ 40,651,500	\$ 51,005,927	\$ 55,171,850	\$ 69,320,665	25.5%	25.6%	70.5%
Other Taxes (1)	\$ 1,806,062	\$ 6,099,153	\$ 6,490,368	\$ 9,494,883	237.7%	46.3%	425.7%
Licenses and Permits	\$ 1,972,606	\$ 2,468,882	\$ 2,653,706	\$ 3,634,168	25.2%	36.9%	84.2%
State Grants (2)	\$ 23,963,017	\$ 28,423,012	\$ 29,966,881	\$ 30,409,939	18.6%	1.5%	26.9%
Federal Grants (2)	\$ 6,029,879	\$ 11,164,318	\$ 14,492,393	\$ 19,079,885	85.1%	31.7%	216.4%
Local Grants (2)	\$ 3,977,882	\$ 1,817,342	\$ 2,448,214	\$ 5,529,961	-54.3%	125.9%	39.0%
Fees for Services	\$ 11,227,044	\$ 9,735,118	\$ 11,328,860	\$ 13,552,894	-13.3%	46.8%	20.7%
Fines/Forfeitures (3)	\$ 996,593	\$ 1,243,355	\$ 1,440,257	\$ 390,691	24.8%	-72.9%	-60.8%
Interest Earnings	\$ 4,191,361	\$ 3,133,042	\$ 2,120,527	\$ 5,741,161	-25.3%	121.2%	37.0%
Rents (4)	\$ 4,864,098	\$ 4,969,580	\$ 5,287,681	\$ 5,914,245	2.2%	11.8%	21.6%
Miscellaneous (5)	\$ 1,111,691	\$ 3,239,077	\$ 2,642,220	\$ 2,529,540	191.4%	-4.3%	127.5%
Total Revenues	\$100,791,733	\$123,298,806	\$134,042,957	\$165,598,032	22.3%	23.5%	64.3%

Notes:

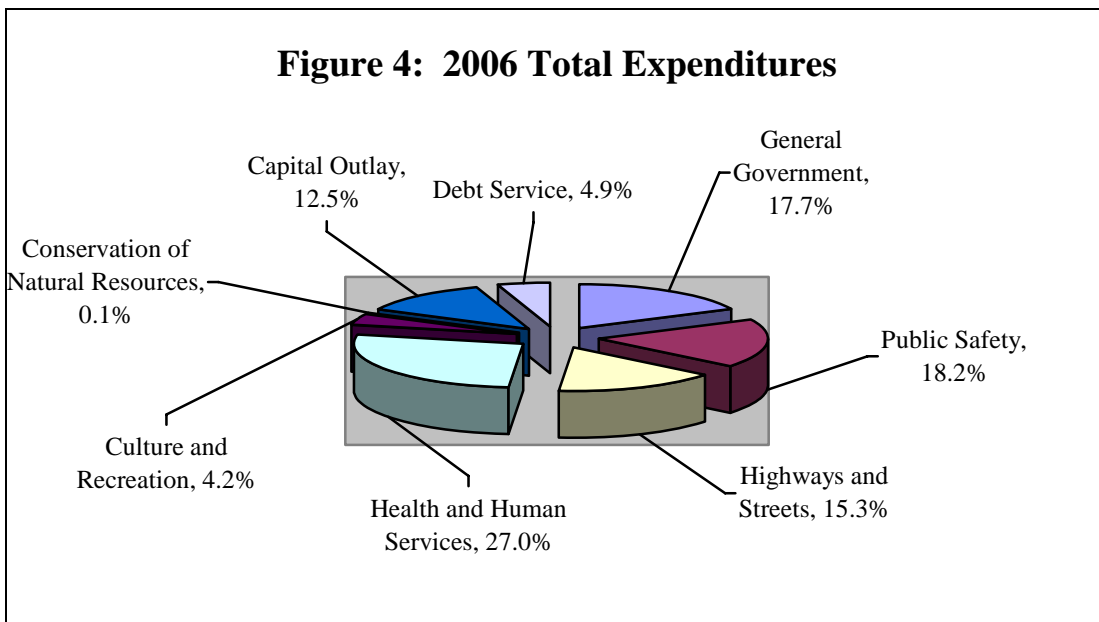
- (1) *Other Taxes include delinquent taxes, mortgage and deed taxes, wheelage tax, and the solid waste management fee/tax which was re- categorized from Fees for Services to Other Taxes in 2000.*
- (2) *State, Federal, and Local grants make up “Intergovernmental Revenue” including County Program Aid, all of which fluctuates greatly based on various reimbursable programs and projects in any given year.*
- (3) *The State of Minnesota took over the Courts area during 2003 which included associated revenues from court fines and forfeitures.*
- (4) *Rents are primarily interdepartmental charges for office space at county-owned facilities.*
- (5) *Miscellaneous revenues include restitution and recovery collections, donations, dividends, and any other revenue not accounted for elsewhere.*

Total Government Expenditures

Current Trends

Washington County provides a variety of services to its citizens. In 2006 the county expended \$168.4 million to provide these services. This represents an increase of 24.6 percent over 2005 total expenditures. Of the \$168.4 million in expenditures, \$119.1 million represented current expenditures (day-to-day operations), \$41 million represented capital expenditures (construction in progress, purchase of assets over \$5,000, and/or infrastructure such as buildings and roads), and \$8.3 million represented debt service payments (interest and principal payments on debt). Of these three types of expenditures, current expenditures and debt service expenditures increased at roughly the same pace between 2005 and 2006, at 2.5 percent and 3.0 percent respectively, while capital outlay expenditures, including those in the Highways and Streets category, increased 219.7 percent due to major road and construction projects.

Figure 4 shows the relative shares of total expenditures by function. The underlying data for this pie chart is detailed in Table 2 on page 10.

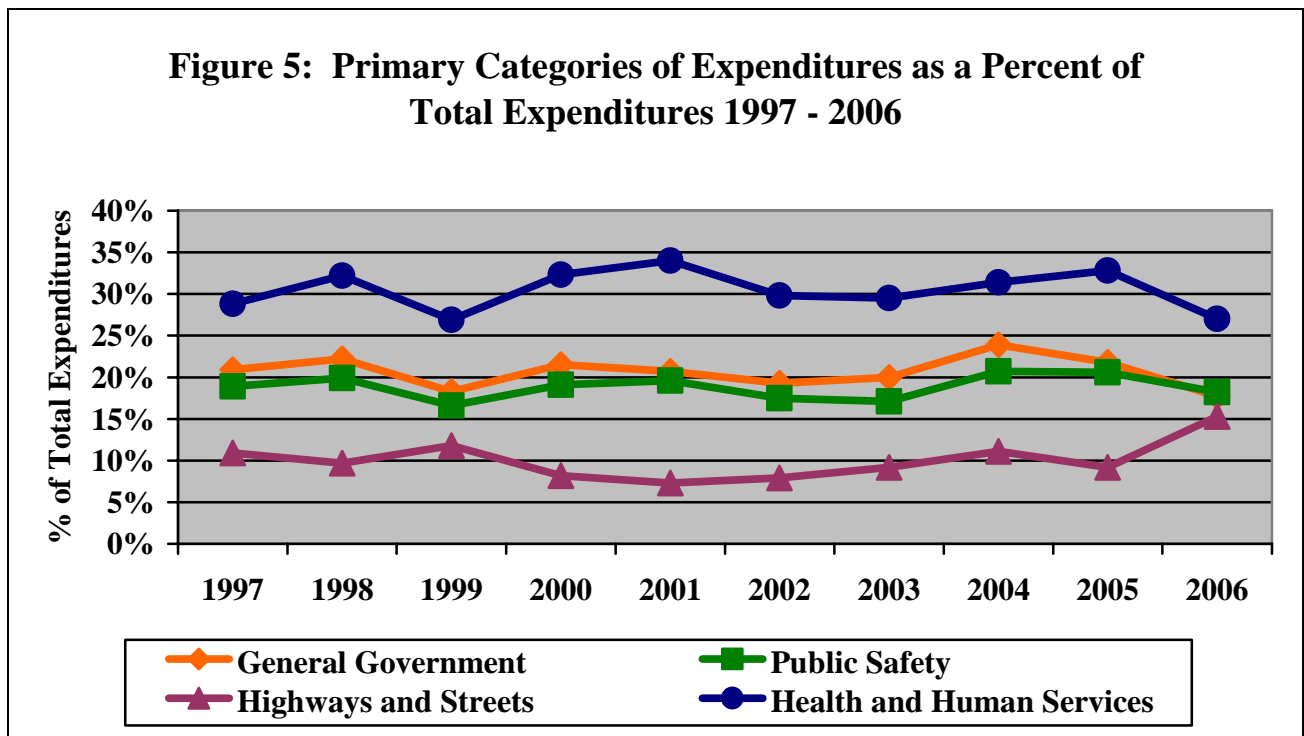


Ten-Year Trends

Over the past ten years, expenditures related to health and human services have dominated county spending. While this category of expenditure has remained the largest for the county, as a percent of total expenditures it fluctuates from year to year. This trend reflects changes in human services programs both in how they are funded and stricter eligibility requirements. While the county picks up the administrative costs of human service programs, almost all the

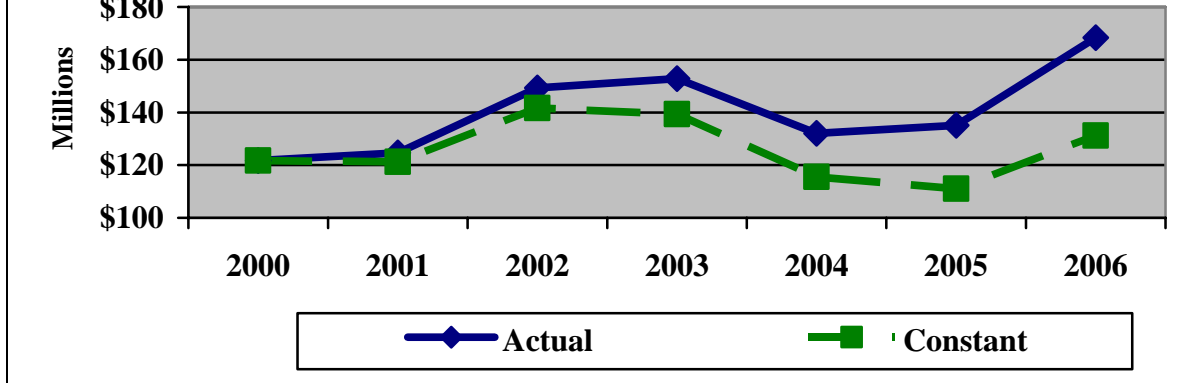
benefits are now paid by the federal and state governments. Stricter eligibility requirements have also meant fewer recipients of services.

In addition to the factors listed above, another reason that the human services share of total expenditures fluctuates is that spending on other county functions has also fluctuated over the years. While human service expenditures grew 47.3 percent between 1997 and 2006, other county functions also grew quickly. During the ten-year period, general government spending grew by 32.4 percent, public safety spending grew by 50.9 percent, and highways and streets grew by 121.3 percent. As a result, these categories may interchange in ranking. Often the change in ranking is determined by the level of capital expenditures during a given period. Items such as jails, license centers, and large road projects can push one category above another for a period of time but then drop back down when the project is complete. Figure 5 examines this trend.



The spending trends during the period of 1997 to 2006 reflect those of the revenues. From the period of 1997 to 2002 current expenditures had fairly steady growth. As the state’s fiscal crises hit in 2002 and state aid cuts and levy limits were put in place, the county was forced to reduce staff and services, resulting in expenditures remaining relatively flat for the next few years. When adjusted for inflation, the county is now spending about what it did in 2001. Figure 6 shows the slow down in expenditures since 2002 in both actual and constant dollars.

**Figure 6: Total Expenditures
Actual and Constant Dollars 2000 - 2006**



If the ten-year period is divided into two segments, 1997 to 2001 and 2002 to 2006, one sees a wide divergence in trends (see Table 2 on page 10). During the first period, county expenditures grew by 16 percent compared to 12.7 percent during the second period. When expenditures are broken out among current expenditures, capital outlays, and debt service, the trends are not the same. Current expenditures grew by 24.3 percent during the first period but by just 6.2 percent during the second period. Capital outlays decreased by 22 percent during the first period and then rebounded by growing 176.5 percent during the second period. Debt service payments increased by 4.4 percent during the first period and then substantially decreased by 62.9 percent as the county restructured some of its outstanding debt during the second period. Figure 9 on page 13 reflects the changes in long-term debt over the ten-year period.

Table 2: County Expenditure Summary 1997 – 2006

Function	1997	2001	2002	2006	1997-01 5-Year Change	2002-06 5-Year Change	10- Year Change
General Government	\$ 22,487,675	\$ 25,861,169	\$ 28,831,831	\$ 29,770,635	15.0%	3.3%	32.4%
Public Safety	\$ 20,274,713	\$ 24,382,569	\$ 26,173,972	\$ 30,593,352	20.3%	16.9%	50.9%
Highways/Streets (1)	\$ 11,669,078	\$ 9,155,221	\$ 11,867,517	\$ 25,819,047	-21.5%	117.6%	121.3%
Health/Human Svcs	\$ 30,905,245	\$ 42,418,783	\$ 44,471,223	\$ 45,521,099	37.3%	2.4%	47.3%
Culture/Recreation	\$ 5,130,471	\$ 5,811,167	\$ 5,841,665	\$ 7,057,365	13.3%	20.8%	37.6%
Consrv of Nat'l Res	\$ 732,677	\$ 428,822	\$ 370,961	\$ 206,579	-41.5%	-44.3%	-71.8%
Capital Outlay (2)	\$ 4,252,279	\$ 8,928,375	\$ 9,396,014	\$ 21,106,754	110.0%	124.6%	396.4%
Debt Service (3)	\$ 12,004,116	\$ 7,672,629	\$ 22,389,959	\$ 8,304,821	-36.1%	-62.9%	-30.8%
Total Expenditures	\$107,456,254	\$124,658,735	\$149,343,142	\$168,379,652	16%	12.7%	56.7%
Total Current Exp	\$ 84,007,154	\$104,437,610	\$112,114,451	\$119,045,123	24.3%	6.2%	41.7%
Total Capital Outlay (4)	\$ 16,102,400	\$ 12,548,496	\$ 14,838,732	\$ 41,029,708	-22.1%	176.5%	154.8%
Total Debt Service (3)	\$ 7,346,700	\$ 7,672,629	\$ 22,389,959	\$ 8,304,821	4.4%	-62.9%	13.0%
Total Expenditures	\$107,456,254	\$124,658,735	\$149,343,142	\$168,379,652	16%	12.7%	56.7%

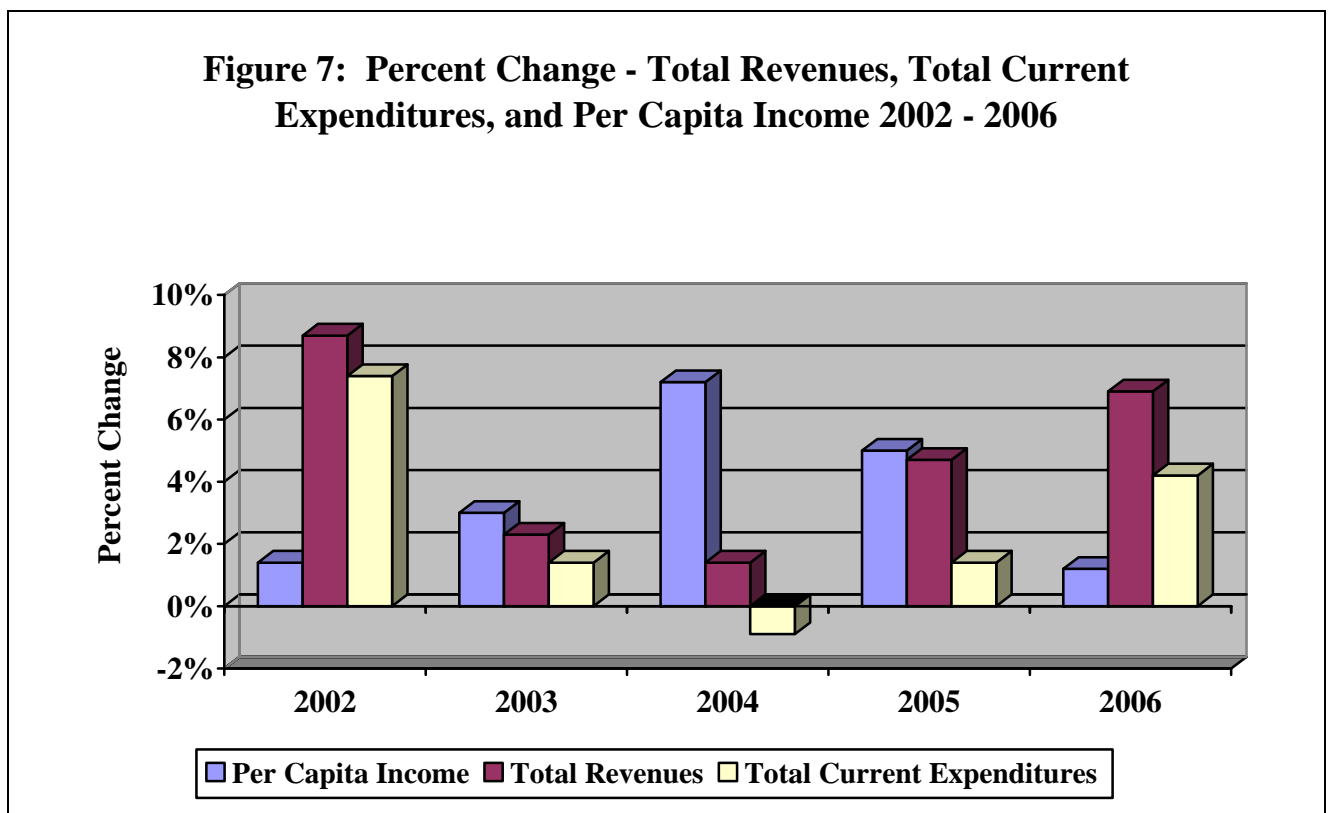
Notes:

- (1) *Highways and Streets function includes the capital outlay necessary for road projects.*
- (2) *The county sold bonds in 2003 and 2005 to fund various capital projects.*
- (3) *Even with additional bond issuances, the county has been able to take advantage of various economic factors, lowering the amount of debt-service payments made annually.*
- (4) *Includes all capital expenditures from all functions.*

Growth in Government

During the five-year period of 2002 to 2006, total governmental revenues and total current expenditures fluctuated greatly. To place this fluctuation in perspective, Figure 7 below includes a bar showing the growth in per capita personal income for the residents of Washington County. Per capita income is an indicator of the ability of citizens to pay for increased governmental spending. Generally, when expenditures grow faster than per capita personal income, citizens must spend a greater proportion of their income on governmental services. If non-tax sources of revenue keep pace or grow faster than expenditures, however, the increased spending may not result in a greater tax burden for citizens.

Figure 7 compares the change in total current expenditures and total governmental revenues to the change in per capita personal income. There is a marked difference for the years 2003 and 2004 compared to other years. The growth in revenues declined mostly due to reductions in state and federal aid. Many of the county's programs are based on aid, therefore spending was adjusted to reflect the decrease in revenue.



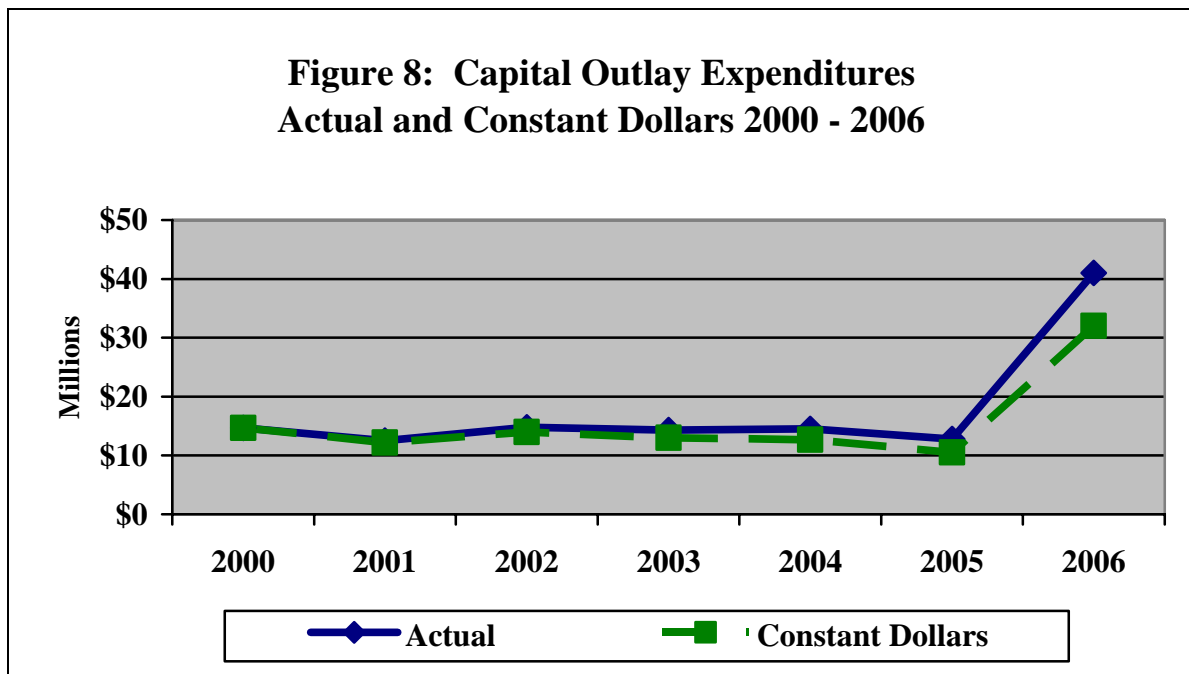
Note:

The chart excludes capital outlay, as this category is more prone to yearly fluctuations. Total revenues for 2006 were reduced by \$10 million as these funds were also tied to capital outlay projects in the Highways and Streets areas.

Capital Outlay Expenditures

Washington County expended \$41 million on capital outlays in 2006, representing nearly an increase of 220 percent over the level expended in 2005. Capital expenditures are more likely than current expenditures to vary significantly from year to year because capital projects tend to be large in size but infrequent in nature. Some of the factors that influence the level of capital investment include the need for infrastructure improvements, public safety concerns, demands for public meeting places and facilities, and the need to replace aging infrastructure.

As discussed previously, the trends in capital expenditures mirrored those of current expenditures except with a little more volatility. While both capital outlays and total current expenditures remained steady between 2000 and 2005, capital expenditures increased significantly in 2006. The county is able to increase spending on capital projects more quickly than current expenditures because it can borrow for these types of projects. Figure 8 shows the trend in capital outlays from 2000 to 2006 in both actual and current dollars. Table 2 on page 10 summarizes the trends for all expenditures over the ten year period.



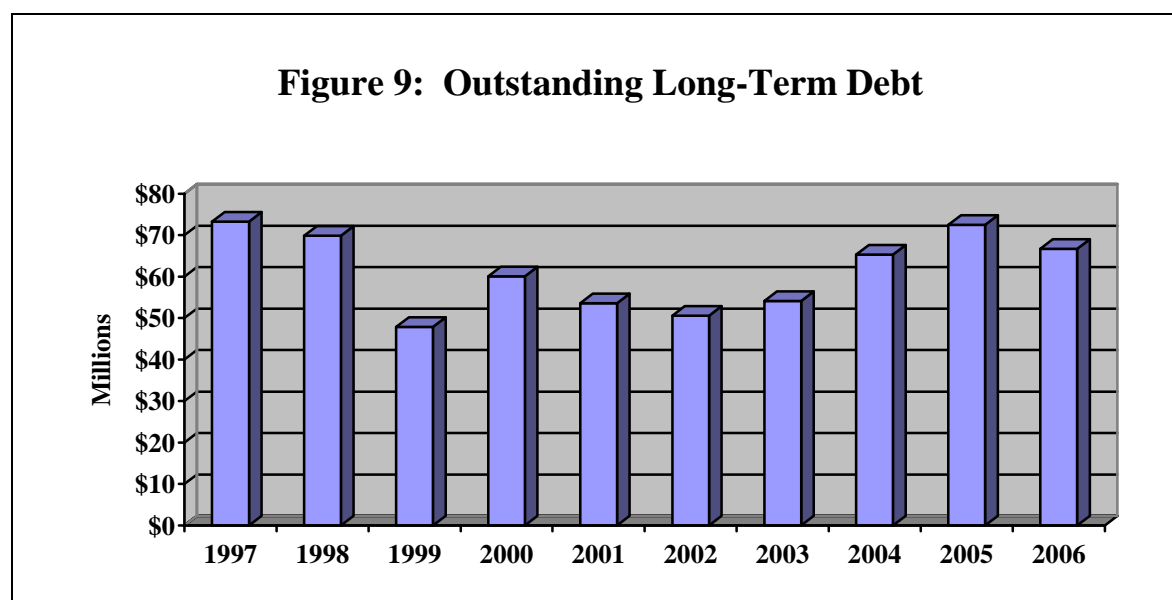
Outstanding Long-Term Indebtedness

Current Trends

Washington County reported a total of \$66.7 million in outstanding long-term debt at the end of 2006. This represents a decrease in long-term debt of 8 percent over 2005. The county incurs long-term debt to finance a wide range of capital projects such as road and bridge construction, government buildings, parks and parkland, and other infrastructure improvements. The county may only borrow to finance capital projects and purchases because the law restricts it from borrowing for current expenditures. However, the amount of outstanding debt affects a county's current expenditures because it must make principal and interest payments to service the debt.

Ten-Year Trends

Between 1997 and 2001 the level of outstanding debt decreased by 27.2 percent. However, during the next five-year period, the overall level of county indebtedness increased by nearly 32 percent. The changes in outstanding debt have been primarily due to a combination of restructuring/retiring older debt issues while taking advantage of the market when issuing new debt. The county's most recent bond issuance took place in 2003. Proceeds of that issuance were used to primarily fund the construction of two new county service centers and a new county library. Additional bond issues are currently planned for 2007 and 2009. Figure 9 shows the county's level of long-term indebtedness over the full ten-year period.



Unreserved Fund Balances of the General Fund and Special Revenue Funds

The county maintains reserves for several reasons. The primary reason for these reserves is that property tax and state aid payments are not received until May/June. The county reports its fund balance at the close of the fiscal year, which ends December 31. This creates an impression that the county has excessive amounts of revenue held in reserve. In reality, county fund balances should be relatively large at the end of the year because of local government cash flow. Sizeable year-end fund balances are necessary in order to meet expenditures occurring during the first five months of the following year. In addition, the county relies on reserves to provide a cushion for unforeseen revenue shortfalls or emergencies. The unreserved fund balance of Washington County's general and special revenue funds totaled \$62.4 million in 2006. This represents an increase of 12.7 percent over the level in 2005.

Although this section discusses only one type of fund balance, the county actually reports three different classifications of fund balances. The *unreserved, undesignated fund balance* includes all funds remaining at the close of the fiscal year for which no legally binding commitment has been made, nor has the County Board passed a resolution designating those funds for a specific purpose. The *unreserved, designated fund balance* includes all funds remaining at the close of the fiscal year for which no legally binding commitment has been made; however, these funds have been designated by the County Board for a specific future use. The *reserved fund balance* includes all funds remaining at the close of the fiscal year for which there is a legally binding external commitment of those funds, such as a signed contract for services or equipment.

Comparing the county's unreserved fund balances to its current expenditures helps put the fund balance in perspective and provides insight on the relative health of the county. The county's unreserved fund balances as a percent of current expenditures was 52.5 percent in 2006. This is the highest level during the 1997 to 2006 period.

The Office of the State Auditor recommends that counties maintain an unreserved fund balance in their general and special revenue funds of between 35 and 50 percent of total current expenditures. From a financial condition standpoint, a very low fund balance is a greater concern than high fund balance. Washington County has policies in place regarding fund balances so that county officials and citizens can evaluate how fund balance levels conform to the county's stated policies.

Ten-Year Trend

Unreserved fund balances remained relatively flat between 1997 and 2001. However, during the second period the unreserved fund balances showed steady growth which was an intentional strategy by the county to bring its unreserved fund balance within the acceptable ranges recommended by the State Auditor's office. Aside from a small decline in 1998, in no other year was there an actual decline. Unreserved fund balances as a percent of total current expenditures have shown the same trend, indicating that unreserved fund balances have grown at the same pace as current expenditures. Figures 10 and 11 illustrate how these trends have interacted.

Figure 10: Unreserved Fund Balances as a Percent of Current Expenditures 1997 - 2006

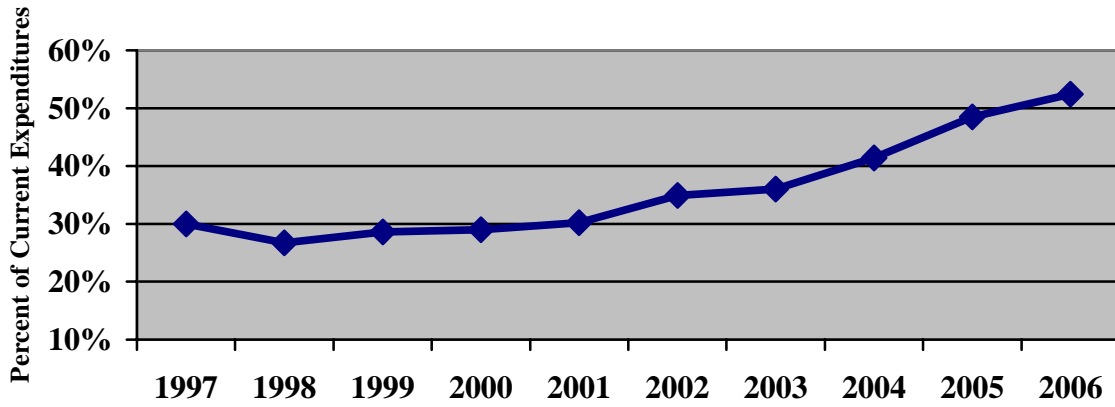
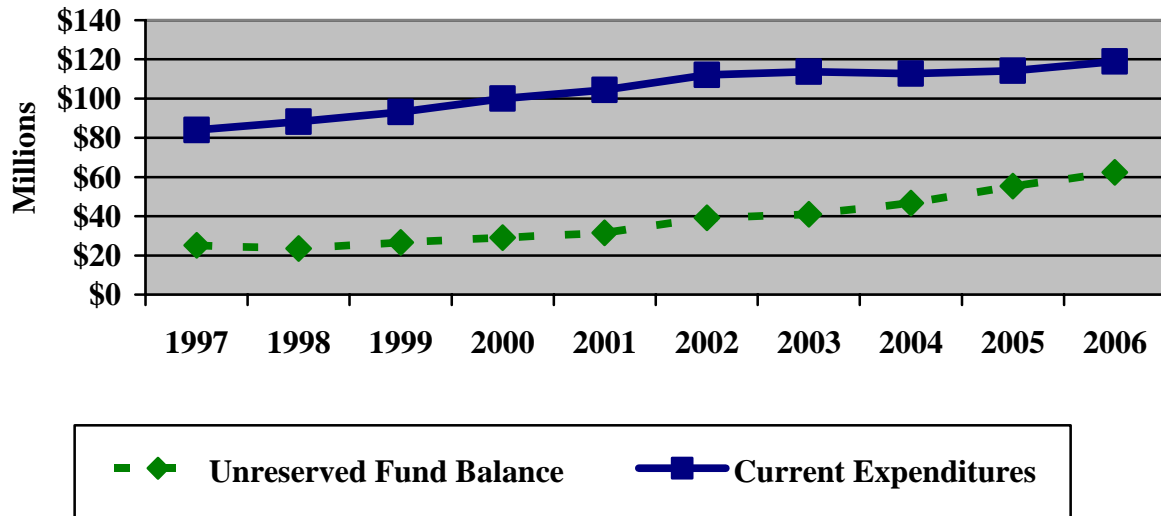


Figure 11: Unreserved Fund Balance and Current Expenditures 1997 - 2006



Factors Influencing County Finances

As illustrated throughout this document, the finances of Washington County are affected by many different factors. Some of the variations result 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 also cause expenditures to increase significantly for a year or more. Some factors have an ongoing effect on county finances, while others might be one-time events. Table 3 below shows the five-year changes in Washington County's finances compared to statewide changes (due to availability of statewide data, information is presented for the years 2001-2005). During the five-year period, the county has increased its revenue sources at a faster pace than statewide. Factors influencing this may include interest earnings on the 2003 bond proceeds and intergovernmental revenues related to highways and street projects. While county revenues grew faster, the same is not true of expenditures. In all three categories, the five-year change has been less than those posted statewide. The largest increases statewide are in the capital and debt service categories, indicating that, statewide, counties are funding more of their capital projects with debt.

Table 3: 2001 – 2005 FIVE YEAR CHANGES		
REVENUES	COUNTY	STATEWIDE
Taxes	28.8%	17.2%
Licenses and Permits	38.6%	38.4%
Federal Grants	30.1%	10.4%
State Grants and Aids	-14.0%	7.1%
Local Grants	105.2%	5.3%
Fees for Services	27.3%	20.5%
Fines and Forfeitures	-23.4%	-51.3%
Interest Earnings	21.0%	-40.9%
All Other	15.7%	24.4%
Total Revenues	18.0%	10.3%
EXPENDITURES		
Current Expenditures	9.4%	10.2%
Capital Outlay	2.3%	13.5%
Debt Service	5.0%	28.2%
Total Expenditures	8.4%	11.4%
UNRESERVED FUND BALANCE (as a percent of total current expenditures)	2005 Actual 48.5%	2005 Average 47.5%