# County Fund Balances

A publication of the Association of Minnesota Counties

Minnesota counties report their fund balances at the close of their fiscal year, which ends December 31. This creates an impression that counties have 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 cycles. Counties must rely on their fund balances to meet expenses 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).

Unlike state government, which collects income tax withholding and sales tax receipts regularly throughout the year, many counties *do not* have a constant flow of revenue from which they are able to fund local government operations. Property tax levies, state aid, and property tax credits comprise the majority of county discretionary revenues. Minnesota laws govern the flow of these major revenue sources into county treasuries.

- Counties receive the first half of property taxes from property owners by May 15 of each year.
- Counties receive the first half of their state aid and property tax credits from the state on July 20 of each year.
- Counties receive the second half of property taxes from property owners by October 15 of each year.
- Counties receive the second half of their state aid and property tax credits from the state on December 26 of each year.

Given this state-controlled flow of revenue, county fund balances (which are measured on December 31) are the primary source of funds available to counties for their operating expenses during the first five months of the next fiscal year. An adequate fund balance will provide counties with the cash flow required to finance expenditures and avoid short-term borrowing.

## Unique Circumstances of Each County Determine the Size of Fund Balance

While counties must rely on the fund balances for cash flow purposes during the first five months of a year, the unique circumstances of each county will determine the size of a fund balance that must be maintained to avoid the need for short-term borrowing and to operate effectively.

The unique fiscal characteristics of individual counties make it impossible to apply a single standard for fund balances to all counties. While some counties may require a fund balance equivalent to 40 percent of their total current expenditures, other counties may need a fund balance equal to only 10 percent of their total current expenditures. Numerous factors must be considered when determining the level of reserves necessary to avoid short-term borrowing.

- If counties receive relatively large amounts of revenue from sources such as fees, fines, charges for services, other intergovernmental grants and aids, or interest on investments during the first five months of the calendar year, then they will be less dependent on their fund balances for cash flow purposes.
- Counties are often able to delay certain purchases until after the initial property tax and state aid payments are received. While payments from employee salaries, wages, and most benefits cannot be delayed during the first five months of the year, purchases of supplies and capital equipment may be delayed.

The individual cash flow needs of a county will determine the minimum fund balance that is necessary for it to operate effectively. Counties may need less reserves in their General and Special Revenue they may borrow or transfer resources, or if they receive significant revenues from sources other than property taxes and state aid payments (i.e. charges for services). Conversely, counties that rely heavily on property taxes and state aid for the majority of their revenues will need relatively large fund balances to meet their cash flow needs from January 1 through June 1 of every calendar year. ◆

*Revised November 2002.*

**Source: Appendix B of Revenues, Expenditures, and Debt of Minnesota Counties for the Year Ended December 31, 2000 written and published by Office of the State Auditor.**

For Your Information

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