

THE STATE OF COUNTY FINANCES

PROGRESS THROUGH ADVERSITY



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NACo TRENDS ANALYSIS PAPER SERIES, ISSUE 6 • OCTOBER 2016 • www.NACo.org

METHODOLOGY APPENDIX

This research focuses on recent county fiscal conditions to better understand the challenges and opportunities facing county governments. The analysis uses fiscal years 2007 and 2013 data from audited county financial statements; 2007 was the start of the latest national economic downturn and 2013 was the latest year available for the majority of audited county financial statements. This study uses data on county expenses and revenues from the statement of activities of the audited county financial statements for three reasons: (1) the accuracy of the data (the county financial statements are audited), (2) the certainty of the data (these statements report actual expenses and revenues) and (3) because the data show the relationship between county expenses and dedicated sources of revenue. For an explanation and illustration of a typical statement of activities, see the Appendix of *Counting Money: State and GASB Standards for County Financial Reporting*.

The analysis covers 2,112 counties that report their financials in the same format – i.e., basic financial statements. These counties represent 85 percent of all the counties that use basic financial statements. The remaining 590 counties report their financials using state specific reporting formats. For more on county financial reporting, see *Counting Money: State and GASB Standards for County Financial Reporting*. The sample used in this research is large and closely mirrors the population distribution of the universe of counties reporting basic financial statements (Table A1). The audited financial statements for the other 363 counties were not available for both years, 2007 and 2013, at the time of collection.

TABLE A1: POPULATION DISTRIBUTION OF ALL COUNTIES REPORTING BASIC FINANCIAL STATEMENTS AND SAMPLED COUNTIES

POPULATION SIZE	TOTAL COUNTIES	COUNTIES REPORTING BASIC FINANCIAL STATEMENTS	COUNTIES IN THE SAMPLE
LARGE	4%	5%	5%
MID-SIZED	27%	29%	31%
SMALL	69%	66%	63%
TOTAL	3,069	2,479	2,112

Notes: Large counties have more than 500,000 residents; small counties have less than 50,000; and mid-sized counties are in between, based on 2015 U.S. Census Bureau population estimates. This report analyzes only counties with county governments.

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KEY TERMS USED IN THIS STUDY

COUNTY GOVERNMENT: A county government is an organized entity with governmental character, having sufficient discretion in the management of its own affairs to be an independent government unit and which covers the area of a county or county equivalent. Depending on the state, county governments may also be known as parish governments or borough governments. Most often, a county government provides services to residents in both unincorporated areas and incorporated areas (organized as municipalities) within its boundaries. Three thousand and sixty-nine (3,069) counties have county governments, including city-county consolidations, the District of Columbia and independent cities considered county governments under their state constitution or city charter. For ease of use, this study employs interchangeably “county” and “county government.”

BASIC FINANCIAL STATEMENTS: Accounting reports compiled in conformity with the provisions of GAAP issued by GASB. For governments, these reports consist of government-wide financial statements, fund financial statements and notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS: Presentation of a government’s financial information; include all governmental and business-type activities without displaying individual funds or fund types. The information is presented in two statements, the statement of net position and the statement of activities.

STATEMENT OF ACTIVITIES: Financial statement within the government-wide financial statements that demonstrates the gross and net costs by function of the primary government and component units, which are supported by general and program revenues.

PRIMARY GOVERNMENT: A local government with independent authority to determine its own budget, levy taxes and issue bonds.¹

COMPONENT UNITS: Legally separate entities for which the primary government is fiscally accountable.² Examples include school districts, sanitary commissions and housing authorities.

DATA COLLECTION. Between August 2014 and January 2016, NACo collected the fiscal years 2007 and 2013 audited county financial statements and entered the data from the statement of activities into tailored spreadsheet templates. These templates allowed for quality control checks on the inputted data and created a format that could be compiled across counties. Many county financial statements were collected individually from counties due to the absence of financial reports on county or state websites.

The data collection had a goal of gathering 75 percent of county basic financial statements from each state. In the 32 states requiring counties to follow GAAP, this goal meant collecting financial statements from 75 percent of all counties in those states. For more on state requirements for county financial reporting, see *Counting Money: State and GASB Standards for County Financial Reporting*. In states where counties are not required, but can still follow GAAP, the number of reports collected depended on the number of counties that report basic financial statements. For example, only 19 of Washington’s 39 counties follow GASB standards. Of the 32 states requiring counties to report according to GAAP, the 75 percent threshold was achieved for 30 states. Only five of seven (71.4 percent) county financial statements from Massachusetts

and 69 of 95 (72.6 percent) county financial statements from Tennessee were collected. Some county governments in another 13 states choose to follow GAAP and this report includes data from all of the 13 states. In nine of the 13 states where counties have the option to follow GAAP, this research collected 75 percent or more of the county basic financial statements. This report does not include any county data from three states (AR, NJ and VT), because none of the counties in those states report basic financial statements. Counties in Rhode Island and Connecticut do not have county governments; therefore, they are not included in this study.

ANALYSIS. This research examines the individual performance of counties between 2007 and 2013 and uses counts of counties that had the same growth trajectory or medians of the growth rates across counties. Because the 2,112 counties analyzed in this report use different methods of accounting, this study does not show combined revenues or expenses of counties, report aggregate dollar amounts or compare the reported revenues and expenses across counties. The overwhelming majority of counties (90 percent) use an accrual basis of accounting, following GAAP standards. For more on variation in the methods of accounting used by counties, see *Counting Money: State and GASB Standards for County Financial Reporting*. Another five percent of counties use a cash basis of accounting and the remaining counties follow a modified cash basis of accounting. All the growth rates reported in this study are inflation-adjusted, using the state and local price index for government consumption expenditures and gross investment from the U.S. Bureau of Economic Analysis. This study uses the median of county growth rates given the skewed distribution of the values.

The analysis focuses on general revenues, main sources of general revenues (property taxes and sales taxes), total expenses, expenses by activity, program revenues (charges, operating and capital grants and contributions) and the relationship between operating and capital grants and contributions and expenses (total and by activity) of the primary government. While some counties include investment income and income derived from the sale of property in their general revenue, this study excludes these sources of income from the general revenue analysis. The financials of the county component units are not included.

KEY TERMS USED IN THIS STUDY RELATED TO COUNTY REVENUES

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GENERAL REVENUES: Unrestricted revenues generated by taxes, unrestricted grants and contributions and in some counties, transfers and special items.

TAX REVENUES: Revenue generated by the taxes levied by the county. Most common are property taxes (assessed ad valorem on property within county borders), sales and use taxes (imposed on sales of goods within the county, or on the use of personal property not subject to a sales tax; also includes taxes related to hospitality), other taxes (include specific ownership taxes, severance taxes, transfer taxes, litigation taxes, inheritance taxes, insurance premium taxes and others). Less common county taxes include excise taxes (levied on goods/services for the purpose of controlling their provision (e.g., motor fuel taxes)), licenses and permits (taxes which may be imposed by a county on a given class of business type or occupation; includes business license taxes and professional taxes), franchise taxes (imposed on public utilities, or for the use of public rights-of-way) and income taxes (based on income earned within county borders).

KEY TERMS USED IN THIS STUDY RELATED TO COUNTY REVENUES

TRANSFERS: The movement of financial resources between governmental and business-type activities, as well as the primary government's component units. The statement of activities reports transfers within the general revenues section.

INVESTMENT INCOME: Earnings from interest of county financial investments.

FINANCIAL REVENUE: Generated by the sale/disposal of capital assets, insurance recoveries and investment income.

PROGRAM REVENUES (DEDICATED FUNDING): Fees or charges to the customers who use a specific government service and grants and contributions restricted for specific program use, for operational or capital purposes.³

CAPITAL GRANTS AND CONTRIBUTIONS: A type of program revenue encompassing grants and contributions from other governments or organizations restricted for capital purposes (construction, purchasing or renovations for capital assets) associated with a specific program. The statement of activities reports capital grants and contributions.

OPERATING GRANTS AND CONTRIBUTIONS: A type of program revenue encompassing multi-purpose grants and contributions from transactions with other governments or organizations restricted for specific program use for operating expenses or capital assets. The statement of activities reports operating grants and contributions.

DEDICATED GRANTS: Operating grants and contributions and capital grants and contributions.

CHARGES FOR SERVICES: Government entity charges for services provided or for the use of government assets, such as road tolls, park entry fees and parking charges.

This research analyzes an activity's revenues and expenses (for example, transportation) including flows related to both governmental activities and business-type activities. While the main funding structures differ, combining them shows the full extent of county expenses in a specific function. All counties report governmental activities and about half report business-type activities. Further, both types may receive restricted funding (charges and operating/capital grants). For example, a third of counties in the sample receive restricted grants for their business-type activities

KEY TERMS USED IN THIS STUDY RELATED TO COUNTY EXPENSES

GOVERNMENTAL ACTIVITIES: Services primarily funded through a dedicated tax revenue stream.

ENTERPRISE (OR BUSINESS-TYPE) ACTIVITIES: Services funded mainly by user fees (such as road tolls, park entry fees and parking charges).

EXPENSES: Includes expenses for primary government activities (such as judicial and public safety programs) and business-type activities (such as waste disposal and collection services).

CHANGE IN NET POSITION: Shows how the financial position of the organization has changed over the fiscal year.

ENDING NET POSITION (ENDING BALANCE): Shows the financial position of the organization at the end of the fiscal year.

COUNTY FUNCTIONS. The functions of a county differ across the country, depending on the primary government's functions and programs, as well as the county's business-type activities. Counties usually report generic functions in their statement of activities and do not provide detail of what comprises that activity. For example, the fiscal year 2013 statement of activities of Prince George's County, Md., presents seven primary governmental activities, such as "health and human services," "public safety" and "infrastructure and development." Alternatively, Calvert County, Md., financial statement for fiscal year 2013 listed 11 different primary governmental activities and reported separately "social services" and "health and hospital," instead of "health and human services." In both cases, the statement of activities does not provide detail of what is included in the "public safety" function. Because of the lack of detail in reporting, the amounts of expenses and restricted grant revenues reported for each category are not comparable across counties.

This research creates overarching categories of functions for ease of analysis of the expenses and restricted funding of main county services. It uses the definitions and explanations of classification from the U.S. Census Bureau's "Government Finance and Employment Classification Manual" as a guide to group the reported functions in audited county financial statements. For example, the functional class "transportation" contains all items pertaining to mass transit including public transportation, roads, highways, streets, airports, bridges, waterways, ports and docks. Due to the nature of financial statements, there is limited information on what services or activities are represented in functional groups listed in the basic financial statements. Not all counties in the sample report all these functions. For example, only 1,192 counties report any expenses and restricted funding related to any activities that would qualify under "transportation." The analysis by county service in this research limits itself to the number of counties that report financials for activities that qualify under that service. In the "transportation" case, this research analyzes growth rates of the transportation expenses for the 1,192 counties.

KEY TERMS USED IN THIS STUDY RELATED TO COUNTY SERVICES⁴

ADMINISTRATION: includes general governmental staff, services and functions such as county commissioners; treasurers; auditors; county clerks; councils; tax assessors, collectors; record and deed preservation; as well as financial and legislative departments. This category excludes functions that are specific to other categories such as courts (Justice & Public Safety); education and school boards (Education); and public works (Other); but otherwise encompasses all other central, legislative and executive activities and staff of the local county government.

EDUCATION: Refers to county expenses and restricted revenues with regards to a school district; school board; a particular secondary school or institution of higher education (including community colleges); and various extension programs (agriculture, university programs).

FINANCIAL: Includes activities related to financing (debt payments; interest payments; expenses/revenues related to bonds; general debt servicing); tax collections and revolving tax funds; investing activities; sale/disposal of assets; and joint ventures. County finance departments are omitted, as they are included in the administration category.

HEALTH AND HUMAN SERVICES: Includes services related to healthcare (hospitals; mental health services; services for the physically disabled; indigent care; nursing, assisted living homes); veteran's aid and services; pest, rodent, animal and weed control; animal shelters; environmental protection and improvement for purposes of public health; air pollution; welfare services; and child care and support.

HOUSING, COMMUNITY AND ECONOMIC DEVELOPMENT: Includes services that provide housing support and development (housing authorities, building services, low-rent, zoning activities). This category also includes services provided to help advance, develop, and support the community (planning, promotion, enrichment), as well as the economy (economic development, tourism/promotion activities).

JUSTICE AND PUBLIC SAFETY: Includes sheriff, police and related services (impound, task forces, general law enforcement and patrol); emergency management and medical services; 911 communications; fire protection; detention centers and related commissaries, stores and inmate services. Also included in this class are judicial functions: judges; attorneys; prosecutors; justices; court clerks; probate courts; courthouses; warrant services and law libraries.

OTHER: Includes general government buildings and related maintenance and operations; general capital assets and outlay; employee benefits including post-retirement; insurances; activities related to voting and elections; public works departments; fiber optic, broadband, wireless and other communication networks; and items designated as "other" or "miscellaneous" by the county.

KEY TERMS USED IN THIS STUDY RELATED TO COUNTY SERVICES

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PUBLIC AMENITY: Includes both free and paid facilities for public use: parks; golf courses; conference, civic and community centers; stadium and event centers; libraries; museums; aquariums; recreational docks; marinas and harbors; campgrounds, zoos. Public amenity also includes environmental conservation efforts; agriculture and livestock; natural resources (minerals, natural gas, forestry); recreational activities; cultural activities; fairs; and farmer markets.

TRANSPORTATION: Includes activities pertaining to mass transit and public transportation; roads, streets, highways, toll roads, maintenance and operation of roads; bridges; airports; parking facilities; ports, docks, waterways which include commercial use; bridges; and parking facilities.

UTILITIES: Includes electric and gas utilities, as well as power services and gas pipelines.

WATER, SEWAGE AND SOLID WASTE: Includes county water management (storm water, municipal water treatment and supply); drains and sewers; solid waste; recycling; disposal sites and landfills; trash collection; and waste to energy conversion programs.

COMPARING CENSUS OF GOVERNMENTS FINANCE DATA TO THE DATA FROM BASIC FINANCIAL STATEMENTS.

Since 1957, the United States Census Bureau has distributed a Census of Governments to the entire universe of governments – states, counties, municipalities, townships, special districts and school districts – in years ending in “2” and “7.” In other years, the Bureau surveys a sample of the nearly 100,000 governments across the United States.⁵ The Census of Governments’ detailed finance data for each county are released with at least a two-year delay.

The Census surveys governments to report finance information on revenues, expenditures, debts and financial assets. When responding to the Census, counties report all funds and accounts except for any employee retirement funds administered. Governments do not report refunds and transfers between funds or accounts of their own government. Governments responding can report their finances on a cash or accrual basis, but the released data by the U.S. Census of Governments do not report the method of accounting based on which the data has been calculated. The Bureau also makes an effort to report funds on a cash basis, contrasting with the 90 percent of counties in this sample which use an accrual method of accounting.

Census data is collected from a survey via mail, the web and centrally from state sources. In slightly more than half of states, local government data is reported by state agencies. The remaining local governments respond via the mailed questionnaires or the Internet. In cases when data are questionable or incomplete, Bureau analysts obtain data from Comprehensive Annual Financial Reports (CAFRs) or through supplementary secondary sources. Census analysts edit data which appear inconsistent. When unresolved,

contact is made with respondents about the data. For values that are missing, data is imputed using historical values and growth rates. If historical data do not exist, a randomly selected similar government's data value is selected and adjusted based on the population ratios of the two. Census flags imputed data made public. For small counties, these imputations can vary widely from the county situation.

While both the U.S. Census of Governments finance data and the audited county financial data are released with a delay, the sample of counties used in this research is the largest for the latest year available (2013). Further, it includes the financials for 63 percent of small counties, a much larger sample than the U.S. Census of Governments (32 percent of small counties). The data used in this analysis come directly from the audited financial reports, whereas county employees or in many cases state agencies report the data to Census. The finances reported for each functional group by Census' respondents can differ from those reported under the basic financial statements. While respondents to Census are to report funding based on the functional groups established by Census' questionnaire, these can differ from the functional groups reported in a county's financial statement.

County basic financial statements and the Census of Governments also differ in how they report the transfer of funds to and from component units and other governments. The Census of Governments finance data reports expenses and revenues in aggregate for counties and their component units and does not report county transfers to county component units. Unlike the Census of Governments, basic financial statements record transfers between the county government and its component units and document expenses and revenues for them separately. In this way, basic financial statements allow for an analysis on the county government's core functions and the component units separately. In addition, the Census of Governments finance data do not allow for analysis of dedicated revenue sources, those passed through the state and federal government, for specific services. Through the program revenues reported by activity, the data from the statement of activities allow for this analysis and for trends in the coverage of specific expenses from earmarked grants.

ENDNOTES

¹ Michigan Department of Treasury, "Definition of the Local Government Financial Reporting Entity" (November, 1993) available at http://www.michigan.gov/treasury/0,4679,7-121-1751_2194_3449_3464-7611--,00.html (January 19, 2016)

² Governmental Accounting Standards Board, "GASB Statement Concludes Review of Standards Defining the Financial Reporting Entity" (March, 2011) available at <http://www.gasb.org/cs/BlobServer?blobkey=id&blobwhere=1175822186077&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs> (January 19, 2016)

³ Commonwealth of Puerto Rico, "Basic Financial Statements and Required Supplementary Information" p. 57 (2013) available at <http://emma.msrb.org/EA614904-EA481549-EA878168.pdf>

⁴ This list is not comprehensive, as there are reported categories in county financial statements that did not fit into any of these categories. For example, a number of Texas counties reported "infrastructure and environmental services" together, which could not be grouped in any of the major categories.

⁵ For more on the Census of Governments finance data methodology see U.S. Census Bureau, 2012 Census of Governments: Finance Methodology available at http://www2.census.gov/govs/local/2012_local_finance_methodology.pdf

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