

Budget Message



GALLATIN COUNTY

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County Commission

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Final Budget Message

August 26, 2014

Residents of Gallatin County:

This document is the Final Operating, Capital Equipment and Projects Budget for Gallatin County, Montana for the fiscal year ending June 30, 2015 (FY 2015). The document represents the County's continued efforts to provide and maintain quality services to citizens while maintaining or reducing the costs to provide those services. The FY 2015 Final Budget demonstrates the Commission's commitment to balancing the budget and maintaining the County's long-term financial stability, while keeping tax increases to a minimum.

Some changes to the budget from the previous year that are noteworthy include increases in County staffing levels and an increase to taxes. The budget includes an increase of 10.42 Full Time Equivalents (FTE) in County Tax Supported Funds (3 of these are for Three Forks Deputies) and an increase of 2.48 FTE in Non Tax Supported Funds. The result is an overall increase of 12.90 FTE.

Unfortunately, the Commission has found that taxes need to increase by \$602,469 for Operating Budgets (this is mostly from Newly Taxable Property (\$505,187) with the remaining coming from inflationary adjustment, \$296,922 for Permissive Medical Levy and \$83,614 for Debt payments. The increases in taxes are necessary to meet debt payment requirements, health insurance premium increases, increases in Worker's Compensation, unemployment insurance, retirement contributions and Liability Insurance increases. While the budget does increase taxes by 3.68%, the Commissioners did not levy an additional \$2,212,032 (8.0%) in permitted taxes.

The budget document lays out the County's financial goals for the upcoming year. It is a tool for communicating financial plans to the citizens of Gallatin County and assists in the Commission's goal of being an open and transparent government. The document also outlines the policies and procedures that are paramount in understanding how the budget is developed.

A brief summary of the Final Budget follows.

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Overview of Budgeted Resources

The following table depicts beginning balances, estimated revenues, approved expenditures, and projected ending balances for the budget year. All funds of the County are included in the Final budget. The table reflects estimated revenues of \$82.6 million, budgeted expenditures of \$127.6 Million, resulting in a decrease in the ending balance of \$44.96 million. Explanations of the significant changes in fund and cash balances (those greater than 10%) for each of the major fund groups are found immediately following the table.

CHANGES IN FUND BALANCE / CASH BALANCE							
Projected Changes in Fund Balances or Cash Balances							
FY 2015 FINAL BUDGET -- July 1, 2014 through June 30, 2015 (FY 2015)							
	GOVERNMENTAL FUNDS				PROPRIETARY FUNDS	FIDUCIARY FUNDS	TOTAL
	General	Special Revenue	Debt Service	Capital Projects	Enterprise & Internal Funds	Trust & Agency	ALL FUNDS
Beginning Fund Balance (Cash)	\$ 3,470,300	\$ 21,583,855	\$ 1,765,959	\$ 6,624,338	\$ 18,389,985	\$ 8,220,300	\$ 60,054,519
Estimated Revenues	10,852,482	32,096,292	4,513,533	3,096,618	17,993,182	14,090,098	82,642,205
less FY 2014 Final Budget	(12,722,782)	(49,052,555)	(5,899,492)	(9,113,079)	(29,834,629)	(20,979,030)	(127,601,567)
Projected Changes to Fund Balance (Cash)	(1,870,300)	(16,956,263)	(1,385,959)	(6,016,461)	(11,841,447)	(6,888,932)	(44,959,362)
Estimated Ending Fund Balance (Cash)	\$ 1,600,000	\$ 4,627,592	\$ 380,000	\$ 607,877	\$ 6,548,538	\$ 1,331,368	\$ 15,095,375

General Fund

- The General Fund will use \$1,870,300 (53.9%) in working capital to fund \$294,680 in capital outlay, \$393,975 in Bridge replacement / repairs, \$113,840 in retirement costs, \$291,657 in debt service and \$704,000 in one time operational costs. Two factors that will mitigate the potential use of working capital are:
 - The County utilizes conservative revenue estimates with actual revenues normally coming in higher (105.59% in FY 2015).
 - The approved budget is the maximum spending limits for departments. Departments routinely under expend their budgets, which serves to increase ending fund balances (91.68% in FY 14).

Special Revenue Funds

- Special Revenue Funds of \$16.9 (78.5%) million will be used. Rural Improvement District road improvements are \$5.2 million, Road projects and capital accounts for \$1.8 million, with Impact Fee/Gas tax used for improvements at \$0.6 million, PILT payments for loans etc \$3.3 million, \$1.1 million reserved for capital for dispatch center/equipment, City/County Health Fund and Grant expenses \$1.0 million, Open space accounts for \$0.50 million, TIGER (I-90 Interchange) \$0.3 million, with the balance of working capital used by all other special revenue funds, especially Grants.

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Debt Service Funds

- Debt Service Funds collect tax revenues in the previous Fiscal Year for payment in the next Fiscal Year prior to the next tax collection. This is required to make bond payments pursuant to bond agreements. The actual amount of \$1.4 (78.8%) million is lower than last year's.

Capital Project Funds

- Capital Projects will use \$6.0 (90.8%) million for ongoing construction projects. \$2.3 Million will fund capital projects, Core Rolling Stock and Building upgrades, \$1.5 for Detention Center Expansion and Open Space accounts for \$1.8 Million.

Enterprise / Internal Service Funds

- The \$11.8 (64.4%) million for Enterprise Funds/Internal Service Funds will pay for building repairs at the Rest Home, loan reserves, financial assurance reserves and capping of the cells at the Logan Landfill, if needed, and set aside requirements for the West Yellowstone Refuse District Compost Facility. Internal Service working capital will be used to fund health insurance claims, replacement of copiers and motor pool vehicles per replacement schedules and payment of deductibles, if needed.

Trust and Agency Funds

- Trust and Agency working capital is projected to decrease by \$6.9 (83.9%) million. The use of working capital is for fire districts/service areas and special districts budgeting money for replacement or enhancement of their systems, including use of Fire Impact Fees.

Planning Processes

Gallatin County conducts various planning processes, both short-term and long-term, to help guide the Government and to ensure that decisions are made in the context of the organization as a whole and with a long-term perspective. Four of our plans (the Strategic Planning Process, Growth Plan, Financial Trend Analysis, and Capital Improvement Plan) are discussed below.

Strategic Planning Process

Strategic planning suggests ways (strategies) to identify and to move toward desired future states. It consists of the process of developing and implementing plans to reach goals and objectives. Within government, strategic planning provides guidance for organizational management similar to that for business, but also provides guidance for the evolution or modification of public policy and laws. Areas of such public policy include: funding of infrastructure and rate-setting and functional plans such as the County's Comprehensive Plan for land use, the Bozeman Transportation Plan, the Belgrade Transportation Plan, the County Transportation Plan and the Solid Waste Plan.

The Strategic Planning Process is an ongoing dynamic process that gives residents, taxpayers and interested persons a greater understanding of County government. The Process focuses on performance and provides for measurable goals and objectives the County intends to achieve. Department employees will be held accountable for the implementation and success of the plan. The fiscal year 2015 budget continues the County's Strategic Planning initiatives.

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As part of the Strategic Planning Process, the County created a set of strategies to help guide the organization. These range from philosophical strategies (Mission Statement) down to concrete achievable goals for the coming year. Shown on the following page are the results of the Strategic Planning Process.

In each Department Summary, departments have stated how they plan to meet the Commission's long-term goals. In response to the Commission's short-term goals, departments have developed and are continuing to develop performance measures to identify and track quantitative and qualitative measures of their service delivery performance. Performance budgets emphasize the accomplishment of program objectives. Performance budgeting involves a shift away from inputs (what is going to be purchased), to outcomes (what is going to be accomplished). Performance budgeting is an ongoing process that continues in FY 2015, with incremental changes by departments. The process will be emphasized during FY 2015 with special attention to the difference between 'Workload Indicators' and 'Performance Measurements' being explained and enhanced.

Budget Message

GALLATIN COUNTY
Strategic Direction

Mission Statement

Provide cost effective services, visionary leadership and responsive policies for our diverse residents.

Vision Statement

Gallatin County is dedicated to being a premier county local government.

Long-Term and Short-Term Goals

The County created a set of short-term and long-term goals. Short-term goals are those that guide the development of the budget for the coming year. Long-term goals are more far-reaching in nature and do not change from year to year. Listed below are the long-term and short-term goals of the County that help guide the development of this budget:

Long-Term Goals (Concerns and Issues):

- Align community needs with budgetary decisions
- Adhere to the long-term plans
- Demonstrate exceptional customer service
- Serve as a model of excellence in government
- Improve communication within our County government, other jurisdictions and our public
- Be an employer of choice and improve employee retention

Short-Term Goals (Priorities and Policy Issues for the Budget Year):

- Maintain public health, safety and welfare as a high priority, as required and allowed under state statute and documented public demand, consistent with performance measurements
- Improve and enhance the efficiency, effectiveness and productivity of every County function through budget administration and performance management
- Continue to improve the Criminal Justice system
- Improve and maintain County infrastructure and equipment by dedicating additional property tax revenues from new construction to capital projects, within budgetary constraints
- Ensure that needed transportation infrastructure systems are maintained and enhanced
- Demonstrate a strong commitment to employee retention through funding of needed wage and / or benefits
- Improve management, accountability and oversight to reduce County risk
- Support local and regional economic development efforts

Budget Message

Gallatin County Growth Policy

The County Planning & Community Development Department is the primary department responsible for assisting the Board of County Commissioners with implementation of the County's adopted Growth Policy. The County adopted the Growth Policy in 2003 to provide broad instructions on how to best manage growth and development in the County, consistent with state law.

To implement the Growth Policy, the County has adopted a transportation plan, five neighborhood plans, and established six zoning districts. The County also explored but did not proceed with establishment of a rural zoning regulation that covered the remaining un-zoned portions of the County. The County is continuing to explore creation of a park and trails plan through a joint-planning effort established by County Commission Resolution No. 2008-075.

During FY 2014, the County Commission continued efforts to implement the Growth Policy. These efforts include, but are not limited to: the Planning Board's work to revisit and update the 2003 Growth Policy; continued efforts of the Planning Department and area residents in Gallatin Gateway and Amsterdam/Churchill to establish zoning regulations that implement their respective neighborhood plans; a cooperative planning project in the "Triangle" area with Four Corners and the cities of Belgrade and Bozeman to identify opportunities for better coordination; and continued work to establish a County park and trails plan. Citizen involvement is crucial to the success of all of these projects.

Financial Trend Analysis

Each year, Gallatin County evaluates its current financial condition within the context of existing programs, assesses future financial capacity, and integrates County Commission goals, objectives, and financial policy into its decision making process. Analysis of the County's financial and economic trends is an integral part of this process.

The Finance Office performs financial trend analysis each year in conjunction with the annual mid-year budget analysis. The Financial Trend Analysis utilizes budgetary and financial information to create a series of local government indicators to monitor changes in Gallatin County's financial condition. These indicators, when considered as a whole, help interested stakeholders gain a better understanding of the County's overall financial condition. This analysis of key financial trends and other community factors is similar to the approach taken by credit rating agencies to determine Gallatin County's bond rating.

Using this trend analysis and the framework of the financial policies adopted by the County Commission, management is able to strategically plan and budget, provide solutions to negative trends, and ultimately preserve the financial health of Gallatin County. It is a 'report card' of the County's current financial condition and a reference point as staff begins work on the next year's budget.

Most importantly, the Financial Trend Analysis assists the County Commission and County administration in focusing on the "Big Picture" of the County's financial operations. The Finance Office continues to expand the plan by including statistical information from the Chamber of Commerce, Planning Office activities, Zoning District activities, Yellowstone National Park tourist activities and the local airport boarding / deplaning numbers.

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Capital Improvement Program

In order to best serve the public, Gallatin County maintains its capital infrastructure through the Planned Maintenance Projects list and the County's Capital Improvement Program (CIP) which comprises 4 elements: Building Projects, the Core Rolling Stock Equipment program, the Bridge Replacement Plan and the Capital Equipment Listing.

The County uses both the Planned Maintenance Projects list and the CIP Plan for evaluating capital improvements to County buildings. The Planned Maintenance Projects list is compiled and maintained by the County Facilities Department and is updated throughout the year as necessary projects are identified. This allows the Facilities Department to address immediate concerns and plan for future repairs and maintenance as required. The Department has added compliance with the Americans Disability Act (ADA) as required by state, federal and local regulations, as part of each building evaluation.

The CIP Plan is developed through a formalized process each year. The CIP Committee, consisting of 7 residents, 1 elected official and 1 department head, invite Departments to submit proposals for building improvement projects valued at \$50,000 or above and a useful life of five years or greater. The proposals are then reviewed by the committee and ranked based on set criteria. The Committee then provides a prioritized list to the Commission for their consideration during the budget process. During the second phase of the process, the Commission considers the proposed projects in light of available funding as well as priority ranking.

The Plan includes the current fiscal year's approved projects plus the next 5 years' projected projects. The CIP Plan is a multi-year capital projects plan that forecasts, but does not obligate, future spending for anticipated capital projects. The proposed six-year Plan uses conservative financial forecasts and reflects only those projects with the highest priority and most realistic expectation for completion during the next six years. This approach avoids raising expectations for projects that are not well defined or that the operating budget will not support.

As in recent years, the County continues to review numerous capital project funding requests. At the same time, the County has finite resources to fund the operating costs for many of the proposed capital projects. The proposed six-year CIP Plan attempts to continue, and even expedite, priority projects while ensuring long-term sustainability of each project by including estimated operational savings or cost increases in the plan. The County is working towards a lifecycle cost process.

The Core Rolling Stock Equipment program, included in the CIP Plan, was approved by the CIP Committee and established in FY 2011. Core Equipment is defined as vehicles needed to maintain the minimum level of service by the Road, Sheriff, Noxious Weed, Fair, Parks, County Fire and other activities. Department equipment qualifies for inclusion if the vehicle, inclusive of necessary add-ons/attachments, is valued at \$25,000 or more and has an expected useful life of five years or more. The County lists 'Core Equipment' planned for replacement in order to sustain public health and safety. This equipment includes road graders, sheriff cruisers / SUVs, plows, dump trucks, etc. For FY 2015, the Commission will continue funding the program through \$612,000 in taxes to maintain a sustainable 'Core Equipment' replacement plan.

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The 'Bridge Replacement Plan' (BRP) is a similar concept that was also approved by the CIP Committee. The BRP is the planned funding of replacement of bridges longer than 30' in the County. Funding comes from \$300,000 per year in taxes set aside in the Capital Projects Fund for bridge replacement.

A final component of the CIP Plan is the listing of Capital Equipment. Capital Equipment is defined as any piece of machinery or equipment valued at \$1,000 or greater, inclusive of all accessories. Departments request these purchases during the budget process and the list of approved items is included in the Capital section of the Budget and in each department's summary.

The Capital Budget includes the approved capital projects included in the CIP for the year, as well as the anticipated funding sources for the projects. If approved in the Annual Budget, the capital items appear in the Annual Operating Budget, which constitute the formal spending authority. A summary of the significant capital projects included in the FY 2015 Final Operating Budget is included in the Capital Project Section of the budget. The current year projects are followed by projects for the next five years to show the total Capital Plan as recommended by the CIP Committee and adopted by the County Commission.

Staffing Changes

The Final budget includes an increase of 10.42 employees in County Tax Supported Funds. The positions increased include 3 Sheriff Deputies for the town of Three Forks, 1.50 Detention Center Support positions, Administrative Clerk in Motor Vehicle, Human Resources Specialist 0.5, Clerk of the Justice Court 1.00, Planning 1.05, Radio Technician for dispatch, and changes in various activities. Non-tax supported positions increased by 2.48. The total change in employees is an increase of 12.90 FTE's. The table below shows the change in Full Time Equivalents (FTEs). On the next page you will see a table showing each department's full time equivalent for 2000, 2005, and 2010 - 2015. A detailed listing of employees is located in the Appendix.

Staffing Changes (FTE)

DEPARTMENT/DIVISION	Net Increase (Decrease)
COMPLIANCE	0.03
DETENTION CENTER	1.50
DISPATCH / RECORDS	1.00
FAIRGROUNDS	(1.00)
HUMAN RESOURCES	0.50
HEALTH - HUMAN SERVICES	(0.58)
INFORMATION TECHNOLOGY SERVICES (ITS)	0.75
JUSTICE COURT	1.00
PLANNING	1.05
SHERIFF	5.63
TREASURER	0.54
TOTAL COUNTY TAX SUPPORTED PERSONNEL	10.42
FACILITIES	0.25
HEALTH - CITY/COUNTY - GRANTS	2.53
PUBLIC SAFETY GRANTS	(1.96)
REST HOME	1.00
OTHER CHANGES	0.66
TOTAL NON TAX SUPPORTED PERSONNEL	2.48
TOTAL CHANGES IN PERSONNEL	12.90

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The following chart shows employees budgeted by department for all County departments for 2000, 2005, and 2010-2015. The listing shows the number of positions budgeted, not the number actually employed throughout each fiscal year.

TABLE OF PERSONNEL (FTE)								
DEPARTMENT / DIVISION	***** BUDGET *****							
	FY 2000	FY 05	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
ATTORNEY	11.50	16.38	18.00	18.00	17.00	17.00	17.00	17.00
AUDITOR	2.60	3.00	2.50	2.50	2.50	2.67	2.67	2.67
BRIDGE	7.36	7.36	7.36	7.36	7.36	7.36	7.41	7.41
CLERK AND RECORDER	12.45	13.00	13.75	13.75	12.75	12.75	12.75	12.75
CLERK OF DISTRICT COURT	10.00	13.00	13.70	13.90	12.90	12.90	12.90	12.90
COMMISSION	5.00	5.00	5.00	5.00	4.00	4.00	4.00	4.00
COMPLIANCE	-	1.00	1.10	1.10	1.10	1.10	1.07	1.10
CORONER	0.60	0.65	-	-	-	-	-	-
COUNTY ADMINISTRATOR	-	2.00	2.50	2.00	2.00	2.00	2.00	2.00
COURT SERVICES	-	6.00	8.87	9.00	10.08	10.00	10.00	10.00
DETENTION CENTER (excl. sworn)	20.00	33.50	30.43	44.00	53.00	52.00	52.00	53.50
DISPATCH / L.E. RECORDS	22.18	28.50	30.00	29.50	29.50	30.50	31.75	32.75
EXTENSION SERVICE	3.50	3.50	4.00	4.00	3.50	3.00	3.00	3.00
FACILITIES	2.50	3.65	3.12	5.54	6.74	6.74	6.49	6.74
FAIRGROUNDS	5.00	8.00	10.00	10.00	10.00	10.25	10.00	9.00
FINANCE - ADMINISTRATION	1.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
FINANCE - ACCOUNTING	2.00	3.00	3.50	3.50	3.50	4.00	3.50	3.50
GEOGRAPHIC SERVICES	2.00	2.75	3.00	3.00	3.00	3.00	3.00	3.00
GRANT ADMINISTRATION	1.50	2.00	1.85	1.85	2.00	2.00	2.00	2.00
HEALTH - ADMINISTRATION	1.59	2.00	3.83	3.00	3.00	3.00	3.00	3.00
HEALTH - HUMAN SERVICES	7.18	7.19	6.37	6.56	7.08	7.73	8.97	8.39
HEALTH - ENVIRONMENTAL	9.41	11.00	10.17	10.00	9.75	10.00	10.00	10.00
HEALTH - GRANTS	9.97	11.49	10.43	11.46	12.14	12.83	10.48	13.01
HUMAN RESOURCES	3.25	5.00	4.75	4.00	4.00	4.00	4.00	4.50
ITS	7.00	7.00	7.00	7.00	7.00	7.69	8.00	8.75
JUSTICE COURT	7.50	10.00	11.00	11.00	11.00	10.97	11.00	12.00
MISCELLANEOUS	0.25	0.27	0.05	0.05	0.05	0.05	0.05	0.05
NOXIOUS WEED	2.00	2.00	2.25	3.00	3.00	2.88	2.75	2.75
PLANNING	7.00	9.00	7.75	7.25	6.90	6.90	7.10	8.15
PUBLIC SAFETY GRANTS -W/O SWORN	6.00	3.00	4.00	4.49	7.01	5.51	5.51	5.51
REST HOME	108.09	80.50	102.90	105.70	105.77	106.68	106.68	107.68
ROAD MAINTENANCE	25.11	24.85	25.11	25.11	25.39	26.14	26.14	26.14
SHERIFF - Support Staff	6.00	6.00	6.50	6.50	6.50	6.50	6.50	6.50
SHERIFF - Sworn (non grant)	29.00	35.49	46.91	44.60	41.64	42.00	43.91	49.54
SHERIFF - Sworn - Grant	2.00	7.00	3.00	3.00	6.50	5.25	4.92	2.96
SOLID WASTE SYSTEM	-	8.50	20.50	18.00	18.00	19.00	18.00	18.00
SUPERINTENDENT OF SCHOOL	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.75
TREASURER	15.00	17.21	16.96	16.96	16.61	17.14	17.46	18.00
OTHER	14.99	6.12	9.73	9.65	4.28	4.89	4.40	5.06
TOTAL	<u>373.03</u>	<u>419.91</u>	<u>461.89</u>	<u>475.33</u>	<u>480.30</u>	<u>484.18</u>	<u>484.16</u>	<u>497.06</u>

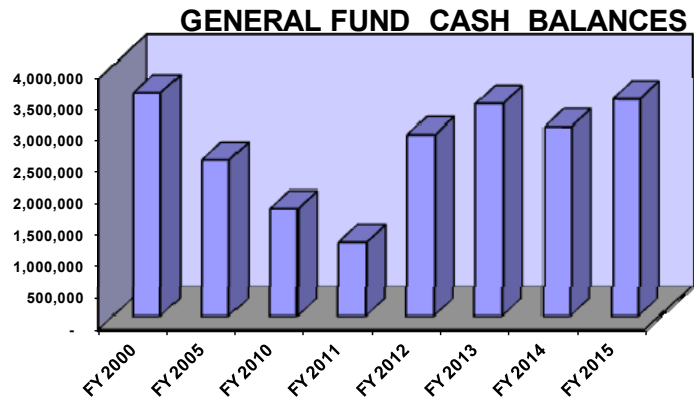
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Budgetary Trends

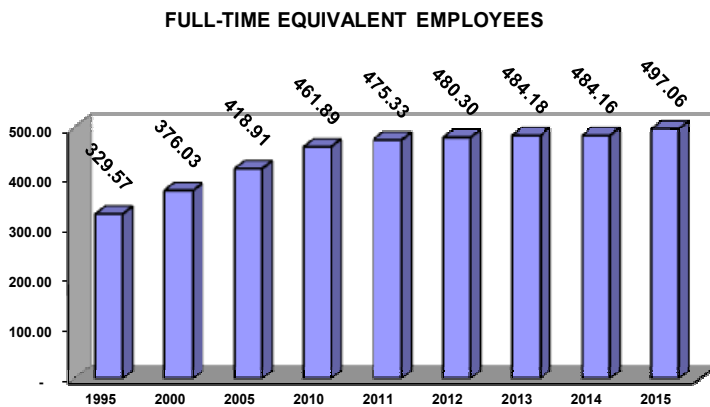
Shown below and in the following pages are a series of key financial indicators and budgetary trends that affect the ability of the County to sustain current service levels while maintaining financial stability.

Fund balance measures the net financial resources available to pay for expenditures of future periods. Rating agencies examine fund balance when considering the credit quality of the County.



The general fund balance represents the best indicator of the County's overall financial health. Shown in the graph on the left is the County's actual General Fund cash balance over the course of the last several years. The reduction in General Fund balance from fiscal year 00 to 05 resulted from the separation of a major component of the General Fund into a separate Special Revenue Fund entitled "Public Safety". In FY 2012, the Commission consolidated a number of Special Revenue Funds into the General

Fund (Bridge, Extension, Senior Programs and Airport) which increased the County's efficiency by utilizing scarce cash for needed one-time expenses. The General Fund will maintain a consistent operating reserve percentage of 12.58% going into fiscal year 2015 – this compares to 10.58% for FY 2010.



Full-time equivalent employees (FTE) is another key indicator (that should closely mirror the population growth in Gallatin County). As shown by the graph, total FTE grew from 376.03 in fiscal year 2000 (base year) to 497.06 in 2015, for a 32.18% increase over this period.

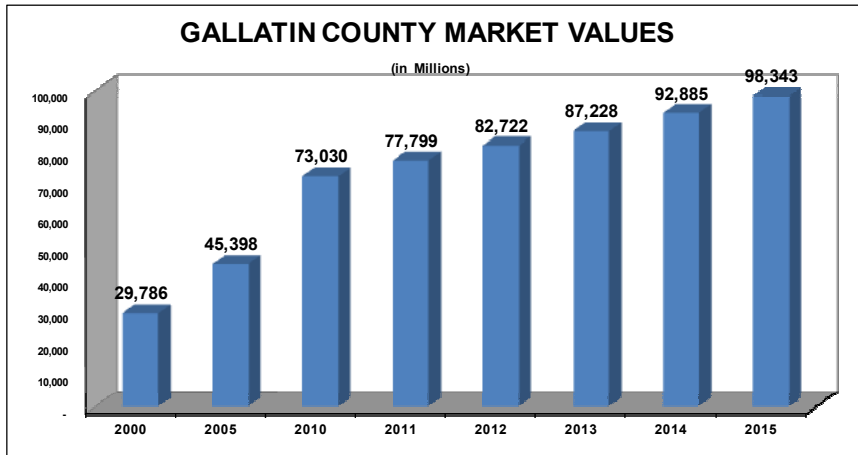
The increase of 13.43 FTE's for FY 2011, along with the 7.07 FTE's for FY 2012 comes strictly from opening the new Detention Center. The 12.90 increase in FTE's for FY 2015 is detailed previously.

One of the principle challenges continually facing the County is the on-going financial obligation of new employees necessary to meet the service demand that accompanies the growth in the County. All indications are that the growth of Gallatin County has slowed, but will continue, at a significant rate, for the foreseeable future (Woods & Poole; University of Montana – Business and Economics Department and State of Montana projections). Additional information can be seen in the Appendix.

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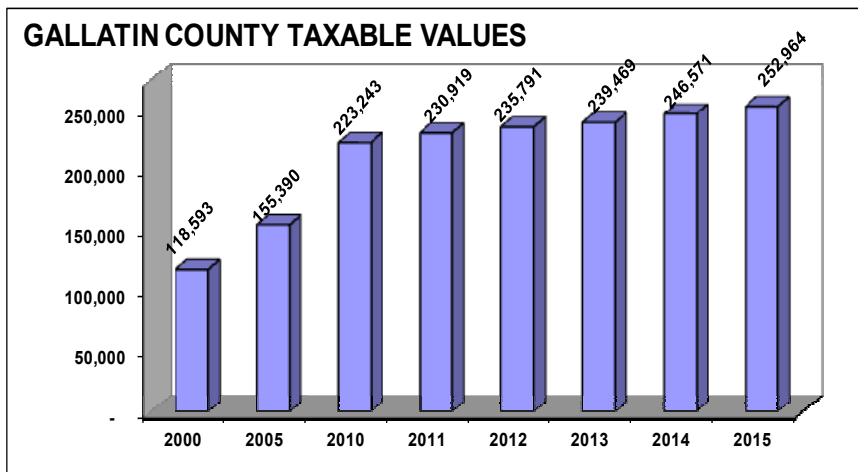
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As a general rule, all real and personal property in the State of Montana is subject to taxation by the State and its counties, municipalities and other political subdivisions. Property is classified according to its use and character, and the different classes of property are taxed at different percentages of their market valuation.



Property valuations are based on appraisals of all taxable property and are performed by the Department of Revenue on a 6-year re-appraisal cycle. The Department of Revenue certifies market and taxable values to each county on or before the 1st Monday in August. Gallatin County's market value trend is shown by the adjacent graph. As reflected in the graph, the

County's market value has increased from \$29.8 billion in fiscal year 2000 to \$98.3 billion in fiscal year 2015, for a 230% increase in 16 years. The market value in the County reflects the rapid growth the County has experienced over the last 20 years.



The graph of taxable values reflects the County's ability to raise general tax revenue necessary to support the demand for government services. The taxable value for property is determined by applying a statutorily established percentage ratio to the market value of the property, according to its classification. The applicable ratio for most commercial and residential properties is

currently 2.54%. Shown above is a history of the County's actual taxable value since 2000. The increase in taxable values does not coincide with the increase in market values shown earlier. The County's taxable value (per mill) has increased from \$118,593 million in 2000 to \$ 252,964 in 2015 for a 113% increase in 16 years. The difference between Market and Taxable values comes from adjustments to the percentage ratio and changes in tax policy approved by the State Legislature. Taxable values (as opposed to market values) more accurately reflect the ability of the County to generate tax revenues. The FY 2015 Final Budget is based on January, 2014 Valuations received from the State Department of Revenue in August, 2014.

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Mill Levy Decisions

The County Commission approved the Final Budget based on its stated goal to maintain taxes at the same dollar amount for individual taxpayers as paid in the previous year, unless inflationary millage is needed. Unfortunately the Commission has found that taxes needed to increase for debt payment on the I-90 Interchange (\$228,000), Legislative required increase in retirement payments (\$112,000), Employee Health Insurance costs associated with the Affordable Care Act (\$34,000), and Road operating costs (\$25,000). The Commission also approved maximizing the Search and Rescue Mill (\$33,357).

The Commission decided not to levy the following taxes:

Calculation of unused Taxes:

FY 07 - 10	Inflation/Operation Levy	3.38	855,763
FY 10-15	Permissive Medical Levy	3.15	796,961
FY 11 -14	Inflationary Levy	1.92	484,572
FY 15	Inflationary Levy	0.21	53,039
	Operation Taxes not Levied		2,190,335
FY 14	Unused Rural Mill Levy	0.08	11,770
FY 15	Unused Rural Mill Levy	0.08	10,927
FINAL	TOTAL TAXES NOT LEVIED		<u>2,213,032</u>

As a result of these decisions, the general taxpayer will see a change in taxes for Gallatin County. Total taxes will increase by an estimated \$983,005. Individual taxpayers may also see increased taxes for schools, special districts (fire, etc.) or Cities. The following table shows the tax dollars the County will be levying compared to the amount the Commission could levy:

<u>Type of Levy</u>	<u>Amount Allowed</u>	<u>Amount Charged</u>	<u>Difference</u>
County - Wide Levies	20,202,229	18,808,855	1,393,374
Road/Library Levies	3,785,467	3,762,770	22,697
Permissive Medical Levy	2,329,802	1,532,841	796,961
Bond Levies	<u>3,544,586</u>	<u>3,544,586</u>	<u>-0-</u>
TOTAL	<u>29,862,084</u>	<u>27,649,052</u>	<u>2,213,032</u>

The Commission DID NOT levy 5.51 mills (\$1,393,374) for County-Wide Funds plus 3.15 mills (\$796,961) for Permissive Medical Levy in the Final Budget. The Commission DID NOT levy 0.16 mills (\$22,697) available for support of Road activities (taxpayers outside cities and towns). County levies that are not levied this year can be imposed in future years, if the County Commission determines an increase is in the best interest of the County. The net effect of the Commission not levying these taxes means a taxpayer inside a city or town with a house appraised by the Department of Revenue at \$100,000 will save about \$11.99 in FY 2015.

Budget Message

Economic Factors

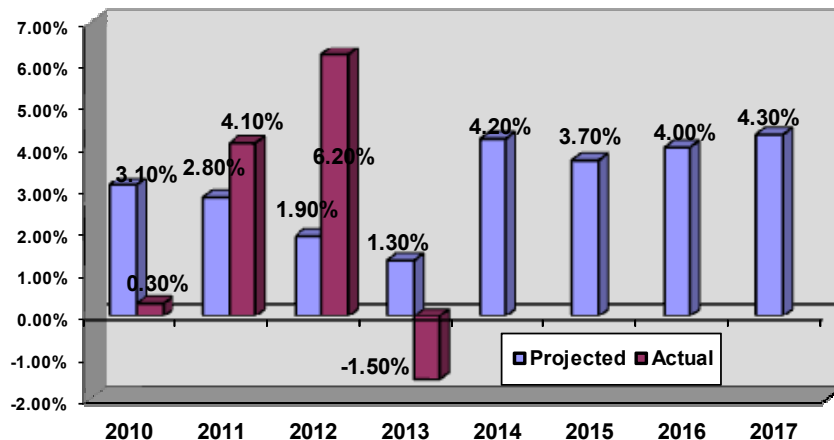
The Bureau of Business and Economic Research (BBER) is the research and public service branch of the University of Montana’s School of Business Administration. The Bureau is regularly involved in a wide variety of activities, including economic analysis and forecasting. Excerpts from the Bureau’s forecasts contained in the winter 2014 issue of the Montana Business Quarterly relating to Gallatin County are restated below.

“The economic growth figures for Gallatin County received a one-time boost due to the sale of Right Now Technologies to Oracle . The negative growth in 2013 is simply the arithmetic consequence of the large one-time increases in earlier years. Even after correcting for this event, Gallatin County is tied with Flathead County and trails only Bakken-fueled Yellowstone County in terms of overall economic growth since the recession trough in 2009. Gallatin County’s construction industry was particularly hard hit and has recently only shown a hint of recovery. The recent growth has been due to stability in the traditional basic industries such as Montana State University, nonresident travel, and high-tech manufacturing combined with robust expansion in Bozeman’s role as a regional trade and service center.

The forecasts call for increases to be 4 percent or greater between 2014 and 2019. Gallatin County is projected to be the fastest growing urban area in the state. The end of the wage freeze at Montana State University, continued moderate recovery in construction, increases in nonresident travel as Americans once again take vacations, and strength in high-tech industries will fuel the economic growth.”

The University of Montana Bureau of Business and Economic Research (U of M or BBER) labor income projections have consistently understated the actual growth in Gallatin County, through 2007. BBER projects an increase for 2013 through 2017. Global Insight (the State of Montana’s contracted firm) projected acceleration of growth in the County through 2007 and continued growth in the 2.8 to 2.9 percent per year range to 2013. The Bureau does project that Gallatin County will continue to lead Montana in population growth over the next several years, with the slowing of our average growth to about 2.1%.

Actual & Projected % Change in Nonfarm Labor Income Gallatin County



EXECUTIVE SUMMARY

Budget Message

Financial Trend Analysis and Financial Forecast Findings

The *Financial Trend Analysis and Financial Forecast* is prepared on an annual basis to assess the County's current and future financial position. A major portion of the document focuses on indicators of financial health and assigns each indicator a rating. The trend analyses are prepared to depict the financial condition of the County quantitatively through the utilization of financial trend monitoring. The ratings are explained below.

- **Favorable** is given to trends that adhere to the County mission, vision, goals, objectives and policies. An overall ranking for the County's financial health of favorable requires 15 or more Favorable indicators;
- **Watch** is a trend that is in transition and may be in a downward cycle, but the trend has not reached unfavorable status. A watch for the overall rating occurs when individual ratings are given a 'Watch or Favorable' rating for 11 to 14 indicators.
- **Unfavorable** is assigned to trends that are downward or negative and attention is needed to address the trend. An unfavorable overall trend occurs when 10 or less indicators are Favorable;

The following table shows a summary of indicators for FY 2000 through the FY 2014 budget. The table recaps ratings by indicator and year.

Indicators:	FY 2000	FY 2005	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	
Revenues:									
Per Capita	Fav.	Fav.	Fav.	Fav.	Fav.	Unfav.	Watch	Watch	
Property Tax	Fav.	Fav.	Watch	Fav.	Fav.	Fav.	Fav.	Fav.	
License and Permits	Fav.	Watch	Watch	Unfav.	Fav.	Fav.	Fav.	Fav.	
One-Time Revenue	Fav.	Fav.	Watch	Watch	Watch	Watch	Fav.	Fav.	
Inter-Government	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	
Cash for Operations	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	
Operating Reserves	Watch	Unfav.	Watch	Watch	Watch	Watch	Fav.	Fav.	
Expenses:									
Per Capita	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	
By Category	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	
Employees / Capita	Fav.	Fav.	Unfav.	Unfav.	Fav.	Watch	Unfav.	Unfav.	
Sworn Officers/Capita	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Watch	Unfav.	Unfav.	
Fringe Benefits	Unfav.	Unfav.	Fav.	Fav.	Watch	Unfav.	Unfav.	Unfav.	
Capital Outlay	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	
Compensated Absences	Unfav.	Watch	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Watch	
Economic:									
Property Values	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	
Residential Values to total property values	Unfav.	Unfav.	Unfav.	Fav.	Unfav.	Unfav.	Unfav.	Watch	
Property Tax Statistical Analysis		Fav.	Unfav.	Watch	Fav.	Fav.	Fav.	Fav.	
Debt	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	
Population	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	
Benchmark:									
Taxes per resident			Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	
Percent Taxes are to Budget			Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	
TOTAL FAVORABLE	12	11	12	14	14	13	15	15	

Budget Message

Factors determining a Favorable Ranking for each Indicator are:

- Revenues per Capita – an increase in revenues per capita shows growth - Watch;
- Property Tax Revenue – an increase in dollars generated shows growth in the County tax base;
- License and Permit Revenue – an increase greater than inflation, shows growth in the economy;
- One Time Revenue – decrease or status quo in one-time revenue used for operating expenses indicates current revenues ability to support current expenses;
- Intergovernmental Revenues – increase of revenues shows less reliance on taxation;
- Cash for Operations – a decrease of cash used for Operations or other on-going expenses;
- Operating Reserves – maintain operating reserves within range for greater than 75% of funds;
- Expenses per Capita – increase in expenses per capita greater than inflation, shows growth in commitment to services provided by government;
- Expenditures by Category – Personnel is below 60% of expenses for two (2) of the last three (3) years
- Employees per Capita – decrease in residents served per employee is favorable. If trend shows increase for two or more years, unfavorable rating is warranted – Unfavorable;
- Sworn Officers per Capita – goal 1 ‘Available’ officer per 2,150 to 2,250 residents, or less - Unfavorable;
- Fringe Benefits – decrease or status quo of percentage benefits are to salaries - Unfavorable
- Capital Outlay – budget w/o projects and percentages see increase for two years or more;
- Compensated Absences – decrease or status quo, after inflation, compared to previous years – Watch:
- Property Values – Increase in property values greater than rate of inflation;
- Residential values – maintaining or decreasing percentage residential values are of total taxable value- Watch;
- Property Tax Statistical Analysis – growth in Average Taxable Value and Median Taxable value shows sustainable growth in tax base;
- Debt – debt principal and interest maintained below 20% of operating expenses;
- Population – increase in population shows growth in area.

The rating of these factors for FY 2014 is **FAVORABLE**. The nineteen indicators show 13 are Favorable, 3 are in a Watch status and 3 indicators are Unfavorable. This is an upturn from FY 2013.

The Analysis includes possible methods to improve the current Financial Condition with a goal of having more Favorable Indicators over time. Indicators in a ‘Watch’ or ‘Unfavorable’ status have been identified and ideas and recommendations are given on how or if the County can mitigate the indicator into a ‘Favorable’ status.

- Per Capita Revenues – ‘Unfavorable’ – The County should increase revenues by a minimum of \$640,000 to offset losses from FY 2010 to FY 2012. To accommodate this the County can:
 - Review all non-tax revenues to ensure that all appropriate fees are being charged;
 - Decrease the approval of grant subsidies of Indirect Cost Allocation Program (ICAP);
 - Increase appropriate taxes for Permissive Medical Levy and Transportation (Road / Bridge).
- One-Time Revenues – ‘Watch’ – The County can eliminate usage of one-time revenues (which includes cash re-appropriated) for ongoing operating expenses. Dedication of these revenues through approved policy requiring all one-time revenues to be used for infrastructure or one-time contractual expenses.

Budget Message

- Employees/Capita – ‘Watch’ – At the present time, there is no apparent need to increase staffing. It appears the County has ‘RIGHT SIZED’ staff based on the new economic reality. However, reductions in staff may have to occur if non-tax revenues continue to be below expectations for FY 2014 forward.
- Sworn Officers/Capita – ‘Unfavorable’ – The current deputy staffing, while not ideal, is meeting the current needs of the county as represented by low crime statistics. Response times would be improved if additional officers were hired but a significant reduction in response would require a large increase in staff. The County should strive to maintain an officer to resident ratio of 1 officer to 2,150 to 2,250 residents or less.
- Fringe Benefits – ‘Unfavorable’ – the County can only control two areas of fringe benefits. These are 1) Worker’s Compensation - the County has controlled this area, with the mod factor being 0.75%. Future reductions in costs are dependent on continuation of low utilization and changes in MACO’s philosophy, and 2) Employee Health Insurance Premiums – the County has to balance employee costs with maintaining competitiveness for recruitment. In FY 2012, changes to the plan mitigated costs. This may mean cost retention by employees through life style actions, changes in deductibles and possibly premium increases, but should keep the County’s plan competitive with local plans.
- Compensated Absences – ‘Unfavorable’ – As previously stated the County has very limited control over this trend.
- Residential Property Values to Total Property Values – ‘Unfavorable’ – this is controlled by the State, however, the County should highlight the low taxing residents have compared to other large counties and the low percentage tax revenues are to the total budget.

FINANCIAL CHALLENGES – Recommendations:

- Maintain Infrastructure
 - I-90 Interchange – fully funded – Fund payment of \$2 million loan in FY 2014 forward;
 - Bridge Replacement – Establish funding from Newly Taxable Property starting in 2013 – goal to have \$500,000 per year – similar to ‘CORE’;
- Criminal Justice System – new buildings – Commission authorize up to 2 mills (\$500,000) per year be earmarked for building starting in 2015;
- Maximize Growth in area – Use all avenues to maintain and add business opportunities;
- Implement Growth Policy – Continue funding;
- Retain and Hire Qualified employees – Maintain Health Insurance Premiums by not charging future cost increases on current budgets, but authorize limited increase in levy; and,
- Equalize Revenues to Expenses – (PAY AS YOU GO) Increase revenues and reduce costs to balance with ongoing revenues
 - Create policy to dedicate re-appropriated cash to infrastructure, wherever possible.

Closing


We hope the information contained in the FY 2015 Final Budget is of benefit to all interested parties. We want to encourage you to look at the end of the Budget Highlights section to see what has changed in this budget from last year.

EXECUTIVE SUMMARY

Budget Message

In closing, we want to inform the public that our utilization of Workload Indicators and Performance Measurements started in previous years continue to be reflected in the FY 2015 document. We will be actively pursuing a Performance Based Management / Budget process for FY 2015. We strongly encourage each and every person using County services to inform us of their ideas, level of satisfaction and concerns.

Respectfully,
Gallatin County Commission


Pierre Martineau, Chairman
Joe P. Skinner
R. Stephen White

EXECUTIVE SUMMARY

Organizational Chart

