September 7, 2004

YELLOWSTONE COUNTY
FISCAL YEAR 2004-2005
FINAL BUDGET
EXECUTIVE SUMMARY

The Fiscal Year 2004-2005 (FY04) final budget is herein presented to the Board of County Commissioners and the citizens of Yellowstone County for their review and approval.

The budget has been compiled by the Finance Department with budget requests originating from the various County departments. The preliminary hearings were held June 14-17, 2004. The final budget is scheduled to be adopted on Tuesday September 14th, 2004 after holding public hearings on September 13, 2004 @ 5:30pm in Room 105 of the Yellowstone County Courthouse and another public hearing held on September 14th, 2004 @ 9:45am in Room 403 of the Yellowstone County Courthouse. The final budget has included include changes from the preliminary budget resulting from salary and benefit changes for personnel; evaluation of capital, personnel, and operating needs; taxable valuation changes; and year-end cash positions. Year-end cash positions and amounts reported as actual for FY04 are as of this date. The amounts for fiscal year 2004 have not been audited by independent auditors as of this date.

REVENUE BUDGETS

Tax revenues have increased $1.724 million from FY04 to FY05 due primarily to four factors. Taxes on new construction will generate $887,300 in revenue; revenue from replacement of the State's personal property replacement revenue phase-out is $122,000; the State allowed inflation adjustment of 0.968% is $180,000; and the permissive health levy has an impact of $573,000. Millage impacts and comparisons are shown in the summary section.

REVENUE BUDGET, continued

The final budget sets the **countywide** FY05 mill levy at **89.23** mills, which is an increase of **4.29 (5.1%)** mills from FY04's levy of **84.94**. The changes to the countywide mill levy include the following five factors:
1) loss in base taxable value from the prior fiscal year. The resultant countywide **0.77** mill increase is included in order to collect the same tax revenue base as the prior year.
2) The amount of the statutorily authorized mill levy increase for employee health insurance is **2.54** mills. This levy was authorized by the legislature in response to health costs consuming significant portions of available budget dollars to local governments.
3) The mill increase is from personal property reimbursement reductions is **(0.50)** mills.
4) a statutorily authorized inflation adjustment of **0.76** mills.
5) a decrease of **0.28** mills in the METRA general obligation debt service levy.

The same factors of base property value loss, inflation adjustment, and replacement of State personal property tax reimbursement had the effect of increasing the levy of other taxing districts, such as the road fund, library, planning districts, and BSEDA.

Like the previous budgets, the final budget has not included the available levy authority for the loss of taxes from the change to the flat fee for motor vehicles ($171,759 overall).

The total taxes levied for County funds for FY05 is $21,897,979 versus $20,173,090 for FY04. Total nontax revenues for FY05 are estimated at $29,490,185 compared to $28,059,943 for FY04.

The FY05 levy for BSEDA is proposed to be 2.71 mills to generate $574,448 in tax revenue versus 2.46 mills for FY04 which generated $504,406. The Board of County Commissioners has dedicated the increase in BSEDA funding to be used as matching revenues for new private business development projects.

REVENUE BUDGET, continued

County entitlement revenues have increased 4.3% from FY04 to a total of $1,808,455 for FY05. This is a significant source of replacement revenue to county budgets and we'll need to watch the legislature to make certain they understand that this funding was a reimbursement for revenues that once belonged to local governments but now are collected by the State and was intended to be revenue neutral.

The district court reimbursement program is critical to the county's budget. The State is forecasting significant shortfalls in funding, however, we're being assured that the State will fund this as statute mandates and will not become a funding shortfall to the counties. This program should return close to $1.3 million back to county for expenditures on the public defender's office, jury costs, and legal defense for individuals charged with parental neglect.

Most other revenue streams are similar to the FY04 budget.

EXPENDITURE BUDGETS

Most County departments' FY05 operating budgets do not exceed their FY04 operating budget, exclusive of salary and benefit cost increases approved by the Commissioners. Approved operating budget increases above FY04's level are delineated under the department's budget note and recapped on budget summary sheets. Approved FTE changes and capital are also specified on the department's budget notes and on budget summary sheets.

The total County appropriation budget for FY05 is $60,219,869, exclusive of grants. The total original FY04 appropriation budget for FY04 was $56,822,437 before grants.

Total approved FY05 capital is $8.0 million versus $7.8 million for FY04. Please see detailed capital list in summary section.

A total of an additional 8.375 FTE and other personnel changes have been included at a cost of $492,199. The general fund added 5 positions with 3 new positions (one FTE each in auditing, justice court, and human resources) being funded with available general fund revenues , one position in Information Technology will be funded by departments being supported by the new position, and one facilities maintenance position being transferred from the museum budget. The sheriff's department represents 4.0 FTE and $236,533 of the total. One of the sheriff's new deputy positions is a primarily grant-funded school resource officer. The public defender is adding an additional criminal defense attorney and a half-time assistant. A half-time FTE is in the GIS department is being funded subject to funding availability for the rural addressing project and automated vehicle locator technology for the sheriff's department See the FTE change worksheet in the summary section for additional detail on personnel changes.

Many of the budgets which show large funding deficits include large contingency budgets which are not anticipated, but is possible, to be spent within FY05. This is a practice consistent with prior years and simply allows for unforeseen uncontrollable expenditures (i.e. Liability Insurance, Health Insurance). The capital projects fund also appropriates the full available reserve on an annual basis although many of these reserves are not anticipated to be utilized during the year.

The Air Quality department has been transferred to the City/County Health Department for administrative purposes. The County and Cities of Billings and Laurel will continue to provide local funding through an interlocal agreement

Most of the County’s funds are able to support existing levels of operations and have adequate reserve levels. There are, however, a few noteworthy exceptions that must be mentioned.

METRA operations through recent years has not been able to produce a positive cash flow. Much attention has been directed to the operations of METRA and there is some optimism that the fiscal operations will improve. Although the operational reserve of METRA on 6/30/04 was a deficit of ($101,851), changes have been made that are expected to eliminate the deficit by the end of fiscal year 2005. While the next budget year has been addressed, METRA still needs a significant additional operational revenue source to be able to build a reasonable desired reserve for the long-term.

Youth Services fund, while having had an additional $100,000 of County funds being added to its revenue sources, may still require close review of its fiscal operations. The facility director is hopeful in bringing in a balanced budget for FY05, but occupancy rates are always a key factor.

Fiscal results for FY04 in the health insurance fund were substantially worse than expected and resulted in a $452,000 loss. This has placed the reserve at a level, which cannot sustain losses in excess of $349,000 for FY05 without a cash infusion from unbudgeted sources. The risk of loss above the available reserve is approximately $91,000.

The Liability Insurance fund is currently budgeted in deficit spending position based on projected reinsurance premium increases and expected claim activity. Although this fund has adequate reserves to sustain some deficit spending, it may require changes in the future to bring the fund back into balance.

Once again, I'd like to thank all the County departments for their assistance and input into building this budget and for the community’s support of county operations.

Respectfully submitted,

Scott Turner - Finance Director