September 2 2005

YELLOWSTONE COUNTY
FISCAL YEAR 2005-2006
FINAL BUDGET
FINANCIAL SUMMARY

The Fiscal Year 2005-2006 (FY06) 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 1-6, 2005. The final budget is scheduled to be adopted on Tuesday September 13th, 2005 after holding public hearings on September 6, 2005 @ 5:30pm in Room 105 of the Yellowstone County Courthouse and another public hearing held on September 13th, 2005 @ 9:45am in Room 403 of the Yellowstone County Courthouse. The final budget has included changes from the preliminary budget resulting from salary and benefit modifications 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 FY05 are as of this date and not final figures. The actual amounts for fiscal year 2005 have not been audited by independent auditors as of this date.

REVENUE BUDGETS

Tax revenues have increased $2.06 million from FY05 to FY06 due primarily to four factors. Taxes on new construction will generate $1,278,324 in revenue; revenue from replacement of the State's personal property replacement revenue phase-out is $121,960; the State allowed inflation adjustment of 1.251% is $247,562; and the permissive health levy has an impact of $413,492. Millage impacts and comparisons are shown in the summary section.

REVENUE BUDGET, continued

The final budget sets the **countywide** FY06 mill levy at **92.66** mills, which is an increase of **3.43 (3.8%)** mills from FY05's levy of **89.23**. 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 **0.49** 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 **1.53** 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 **0.47** mills.
4) a statutorily authorized inflation adjustment of **0.99** mills.
5) a decrease of **0.06** 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 FY06 is $23,962,167 versus $21,897,979 for FY05. Total nontax revenues for FY06 are estimated at $29,625,879 compared to $29,490,185 for FY05.

The FY06 levy for BSEDA is proposed to be 2.76 mills to generate $618,031 in tax revenue compared to 2.71 mills for FY05 which generated $574,448. The Board of County Commissioners has dedicated the increase in BSEDA funding to be used as matching revenues for new private business development projects.

County entitlement revenues have increased 3.97% from FY05 to a total of $1,880,337 for FY06. This is a significant source of replacement revenue to county budgets, which is a reimbursement for revenues that once belonged to local governments but now are collected by the State and was intended to be revenue neutral.

REVENUE BUDGET, continued

An additional $150,000 has been allocated to the Youth Services Center for funding the juvenile detention and shelter care facility. Increased levels of Yellowstone County juveniles, reductions in State funding, and increased personnel costs as a result of a countywide compensation study necessitated an increased County contribution to this budget.

Metra's FY06 budgeted event revenues are down $665,000 from FY05 budgeted event revenues. The expense budget has been adjusted accordingly to reflect the change. Event revenues are based on both known, and anticipated but currently not contracted events. The event revenues projected for FY06 appear to be reasonable based on historical activity levels.

Most other revenue streams are similar to the FY05 budget.

EXPENDITURE BUDGETS

Most County departments' FY06 operating budgets do not exceed their FY05 operating budget, exclusive of salary and benefit cost increases approved by the Commissioners. Approved operating budget increases above FY05'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 FY06 is $63,378,826, exclusive of grants. The total original FY05 appropriation budget for FY05 was $60,219,869 before grants.

Total approved FY06 capital is $9.2 million versus $8.0 million for FY05. The long term capital projects fund represents $5 million of the $9.2 capital budget. Only $1 million of the capital projects capital budget is anticipated to be spent in FY06. See capital projects list for detailed FY06 projects.

There is a net decrease of 2.25 FTE to personnel levels from FY05. New positions include an LPN at the detention facility, a 1/2 time sheriff records clerk, a county attorney's office victim-witness coordinator for misdemeanor offenses, and a ½ time accounting technician at Metra. Personnel reductions include a cashier in the treasurer's office, a ½ time GIS rural addressing tech, a Metra event coordinator, and 2.75 FTEs in Metra catering.

EXPENDITURE BUDGETS, continued

The general fund in prior years was able to transfer unspent appropriations and any available reserves to capital projects at higher level than currently budgeted for FY06. This is due to budget tightening within the departments and lower reserve levels. The current reserve level in the general fund should attempt to be maintained.

Many of the budgets which show large funding deficits include large contingency budgets which are not anticipated, but is possible, to be spent within FY06. 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.

OVERVIEW

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.

Much effort is being dedicated to review and improve Metra's operations, including internal control audit reviews and management reviews. Metra would have improved it's FY05 yearend reserve level, however, $89,000 in June 05 promotion event losses resulted in close to a static position between 6/30/04 and 6/30/05 reserve level. In Metra's operating fund, the 6/30/04 reserve deficit was ($101,851) compared to 6/30/05's deficit of ($103,553). 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 6/30/05 has a deficit, the budget projects results that are expected to eliminate the deficit by the end of fiscal year 2006. 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.

OVERVIEW, continued

Metra's capital and maintenance needs far exceed the facilty's ability to adequately provide funding. A major roof replacement is anticipated to cost $1 million, which will have to be financed. The near term financing costs of existing debt and new debt will require most of the revenue stream that we are generating from the Metra improvement fee. The improvement fee generates approximately 1/3 of the necessary estimated funding to provide Metra's long term capital and maintenance needs.

Fiscal results for FY05 in the health insurance fund were positive and resulted in a $732,000 gain in net assets. This improves the 6/30/05 net assets of the fund at $1.08 million, which provides a more reasonable reserve level to be able to absorb potential net losses in FY06 if they were to occur. Reserve levels can move significantly during any fiscal year, however, the current net asset level is certainly a substantial improvement over the prior year.

With the acquisition of a new liability reinsurance carrier on January 1, 2005, the Liability Insurance fund was able to improve its reserve during FY06. When last year's budget was set, it appeared that the cost of reinsurance would cause a deficit in the FY05 budget. Although we were pleased to obtain alternative cost effective coverage, the cost of reinsurance will be a concern for future budgets.

Mounting negative inflationary impacts from especially the energy and insurance sectors will place increasing pressure on everyone to manage and control inflationary costs. It'll take a concerted effort to continue to provide cost effective and efficient community programs and services during FY06 and the years to come.

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