

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2013**

As financial management of Yellowstone County, Montana, we offer readers of the attached financial statements this narrative overview and analysis of the financial activities of Yellowstone County for the fiscal year ended June 30, 2013 and the financial position as of June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which precedes this report.

**Financial Highlights**

- The general fund increased fund balance by \$470,950. Tax collections were about \$375,000 more than expected because of lower protested tax amounts. The FY13 budget anticipated a 9.1% countywide protest rate but the actual protest rate was 5.8%. FY13 interest collections in the general fund declined from the prior year by \$72,000. Interest earnings in the general fund have declined from \$1,035,800 in FY08 to \$88,734 in FY13 as a result in the drop in interest rates. Justice court fine revenue decreased \$50,000 to \$555,000 in FY13. This revenue is another significant general fund revenue source that has been declining over the last few years. Clerk and recorder document filing fees, which generated about \$1,013,000 for the general fund is a major revenue source and increased \$147,000.
- The road fund balance increased by \$750,716. Some road construction projects were weather delayed into FY14. Most of the increase in reserves is budgeted to be spent in FY14 on road improvement projects.
- The liability insurance fund balance increased \$178,861 as claims activity for FY13 was modest. Current fund reserves are considered adequate for known civil cases.
- Overall, the sheriff's public safety fund balance increased by \$485,259 in FY13 primarily as a result of increased prisoner boarding revenue and a lower than anticipated protest tax amount. Prisoner boarding fees at the county jail increased \$70,000 over FY12. Prisoner populations from non-County sources increased in FY13 and prisoner billing rates have resulted in the increased revenues. Jail population continues to be a area of concern and a jail expansion is being considered. The rebound in the local economy has improved motor vehicle option tax revenues in the sheriff's fund, improving to \$3,828,000 in FY13 from \$3,493,000 for FY12.
- The county attorney's fund is starting to see some stress as increases in major felony crime has created a need for staffing increases and related prosecutorial expenses. The FY14 budget has increased funding for the county attorney to assist with

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some of these workload demands. The county attorney's reserve declined \$176,000 in FY13 to \$1,350,000, which is still adequate for this fund.

- Metra had a successful year with its operations and events. Both cash position and working capital improved over \$400,000 from 6/30/12 to 6/30/13. The FY14 budget shows a \$312,000 deficit, which Metra management hopes to improve upon by finding some additional events.
- The County is starting to see some resolution to protested taxes with the utility and communication companies. One of the two refineries that had a major tax protest has recently resolved their dispute on taxable valuation with the State. CHS, Inc. will receive approximately a refund of \$4.7 million on their outstanding protest of \$16.2 million for tax years 2009-2012. The County's portion of the released tax protest will be about \$3.4 million. CHS, Inc. also negotiated about a 10% decrease in its 2013 tax bill. This will result in a FY14 tax revenue shortfall to the County of about \$300,000. Protests in FY13 amounted to about 6.8% of the County's tax levy in FY13. Protests in FY14 are budgeted to be about 7.5% of countywide tax revenues.

Protest tax resolutions can take an extended period of time to resolve, and as such, delay distribution of property taxes to the affected jurisdictions that can cause cash flow problems. School districts can be particularly hard hit by a large protest from a major taxpayer. Tax protests can grow to have an impact on local taxing jurisdictions budgets. Tax jurisdictions that take tax advances (only school districts currently) also have the potential of creating future tax liabilities to their constituency should the protest succeed in part or in full and necessitate a large refund. See footnote #16 & #17 for further discussion.

### **Explanation of the Financial Statements**

The MD&A is intended to serve as an introduction to the basic financial statements of Yellowstone County. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

**Government-wide financial statements.** The Government-wide financial statements are designed to provide readers with a broad overview of Yellowstone County's finances, in a manner similar to a private sector business on a full accrual accounting basis.

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The statement of net position presents information on all of Yellowstone County's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of Yellowstone County is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (example: uncollected property taxes, and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Yellowstone County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs from user fees and charges (business-type activities). The governmental activities of Yellowstone County include general government, public safety, public works (roads and bridges), public health, social and economic programs, cultural and recreational programs, conservation of natural resources, and community/economic development. The business-type activities include refuse disposal and METRA civic center.

The government-wide financial statements can be found on pages 24-26 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control and account for resources that have been segregated for specific activities or objectives. Yellowstone County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal or contractual requirements. All of the funds of Yellowstone County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current fiscal year inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's recent financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's

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recent financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Yellowstone County maintains many individual governmental funds. The general fund, road fund, property and liability insurance fund, public safety-sheriff fund, RSID Bond Fund, and capital improvement fund are all reported as major funds. Information for the major funds is reported separately in the governmental fund balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances. Each of the major funds also reports the revenues and expenditures on a comparative basis with the annually appropriated budget both original and revised to demonstrate compliance with this budget. The remaining governmental funds are combined in a single aggregate presentation titled other nonmajor governmental funds.

Individual fund reports for each of the nonmajor governmental funds are presented in the combining financial statements in this report.

The basic governmental fund financial statements can be found on pages 27-33 of this report.

**Proprietary funds.** Yellowstone County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Yellowstone County uses enterprise funds to account for operations of the refuse disposal fund and METRA civic center, both of which are reported as major funds. Internal service funds are used to accumulate and allocate costs internally among various government department users or affiliated organizations. The three internal service funds utilized by the county include the health insurance fund, motor pool, and telephone fund. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. Interdepartmental charges for internal service funds have been eliminated from the Statement of Activities.

Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities, but provide more detail in addition to a cash flow statement. Internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund statements for the internal service funds are presented in the combining statements in this report.

The basic proprietary fund financial statements can be found on pages 34-38 of this report.

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**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties and entities outside the government of Yellowstone County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Yellowstone County's own programs.

The basic fiduciary fund financial statements can be found on pages 39-40 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data and reports presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41-78 of this report.

**Required supplementary information.** All required supplementary information precedes the basic financial statements or is included in the basic financial statements and accompanying notes, except the Employee Group Benefits Plan – Other Postemployment Benefits (OPEB) schedule in the required supplementary information section.

**Government-wide Financial Analysis.**

Net position may serve as a useful indicator of a government's financial position, which is one of the reasons why the Governmental Accounting Standards Board (GASB) instituted GASB Statement #34 and required local governments to present net position information. Yellowstone County's net position (assets less liabilities) were \$132,348,843 for the year ended June 30, 2013. The change to net position for governmental and business-type activities for the fiscal year ended June 30, 2013 was \$7,798,482. The net position increase was a result of a \$1.3 million increase in capital assets; a \$580,000 reduction in bonded debt; a \$2.0 million increase in net protest tax receivables; and a \$3.8 million increase in fund reserves among the County's various funds.

Of the County's yearend total net position of \$132,348,843, capital assets net of the related debt accounted for \$88,109,122 or 66.6% of total net position. Capital assets reflect the large investments in facilities and equipment that are necessary to provide large scale programs and services for the community. The restricted net position of \$891,882 or 0.7% are those funds legally required to be used for debt service payments. Unrestricted net position of \$43,347,839 account for 32.7% of the total net position. Unrestricted net position is primarily used as reserves that are used for cash flow purposes in between property tax collections, which are due in 50% installments on November 30 and May 31 of each year, and as reserves to provide against large unforeseen costs or events.

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A comparison of the County's net position follows:

**Yellowstone County Net Position**

	Governmental Activities		Business Activities		Total	
	2013	2012	2013	2012	2013	2012
Current assets	\$ 54,921,212	\$ 47,883,300	\$ 3,478,936	\$ 3,087,733	\$ 58,400,148	\$ 50,971,033
Noncurrent assets	2,175,847	1,920,553	0	0	2,175,847	1,920,553
Capital assets	49,958,630	48,794,355	39,251,825	40,295,915	89,210,455	89,090,270
<b>Total assets</b>	<b>107,055,689</b>	<b>98,598,208</b>	<b>42,730,761</b>	<b>43,383,648</b>	<b>149,786,450</b>	<b>141,981,856</b>
Current liabilities	6,326,453	5,375,387	941,990	1,079,812	7,268,443	6,455,199
Noncurrent liabilities	8,600,262	8,904,742	1,568,902	2,071,554	10,169,164	10,976,296
<b>Total liabilities</b>	<b>14,926,715</b>	<b>14,280,129</b>	<b>2,510,892</b>	<b>3,151,366</b>	<b>17,437,607</b>	<b>17,431,495</b>
Net position:						
Invested in capital assets, net of related debt	48,857,297	47,583,688	39,251,825	40,295,915	88,109,122	87,879,603
Restricted for debt service	891,882	618,469	0	0	891,882	618,469
Unrestricted	42,379,795	36,115,922	968,044	(63,633)	43,347,839	36,052,289
<b>Total net position</b>	<b>\$ 92,128,974</b>	<b>\$ 84,318,079</b>	<b>\$ 40,219,869</b>	<b>\$ 40,232,282</b>	<b>\$ 132,348,843</b>	<b>\$ 124,550,361</b>
<b>Change in net position</b>	<b>\$ 7,810,895</b>		<b>\$ (12,413)</b>		<b>\$ 7,798,482</b>	

**Governmental activities.**

The increase in net position for governmental activities of \$7,810,895 was primarily a result of:

- \$746,347 increase in net position of the health insurance fund
- \$346,511 increase in net position as a result of payments on long-term debt
- (\$276,568) decrease in net position from booking OPEB implicit rate subsidy for retiree health insurance
- \$1,194,612 increase in net capital assets
- \$2,485,270 increase in tax receivables primarily from protest tax receivables

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**Yellowstone County's Change in Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Special assessments	\$ 1,165,043	\$ 799,465	\$ 563,714	\$ 450,630	\$ 1,728,757	\$ 1,250,095
Licenses and permits	59,546	58,671	0	0	59,546	58,671
Intergovernmental	860,507	917,951	0	0	860,507	917,951
Fines and forfeitures	684,403	631,851	0	0	684,403	631,851
Charges for services	10,027,862	9,517,443	4,011,367	4,322,531	14,039,229	13,839,974
Operating grants and contributions	1,107,097	1,599,100	0	0	1,107,097	1,599,100
Capital grants and contributions	610,450	1,073,355	0	0	610,450	1,073,355
<b>Total program revenues</b>	<b>14,514,908</b>	<b>14,597,836</b>	<b>4,575,081</b>	<b>4,773,161</b>	<b>19,089,989</b>	<b>19,370,997</b>
<b>General revenues:</b>						
Property taxes	36,835,575	35,171,952	2,580,199	2,438,771	39,415,774	37,610,723
Licenses and permits	4,020,645	3,684,093	0	0	4,020,645	3,684,093
Intergovernmental	2,711,190	2,598,745	31,994	22,152	2,743,184	2,620,897
Other revenues	1,479,220	652,773	208,520	490,544	1,687,740	1,143,317
<b>Total general revenues</b>	<b>45,046,630</b>	<b>42,107,563</b>	<b>2,820,713</b>	<b>2,951,467</b>	<b>47,867,343</b>	<b>45,059,030</b>
<b>Total revenues</b>	<b>59,561,538</b>	<b>56,705,399</b>	<b>7,395,794</b>	<b>7,724,628</b>	<b>66,957,332</b>	<b>64,430,027</b>
<b>Expenses:</b>						
General government	12,520,333	12,002,290	0	0	12,520,333	12,002,290
Public Safety	24,092,219	22,801,598	0	0	24,092,219	22,801,598
Public Works	8,363,267	7,486,540	0	0	8,363,267	7,486,540
Public Health	2,986,687	2,973,546	0	0	2,986,687	2,973,546
Social and Economic	1,726,982	1,642,537	0	0	1,726,982	1,642,537
Culture and Recreation	1,371,932	1,321,039	0	0	1,371,932	1,321,039
Community Development	386,634	370,700	0	0	386,634	370,700
Conservation of Natural Resources	119,889	124,678	0	0	119,889	124,678
Interest on Long-Term Debt	241,746	257,376	0	0	241,746	257,376
Sanitation, refuse disposal	0	0	524,306	521,445	524,306	521,445
Civic center, METRA	0	0	6,824,855	6,967,646	6,824,855	6,967,646
<b>Total expenses</b>	<b>51,809,689</b>	<b>48,980,304</b>	<b>7,349,161</b>	<b>7,489,091</b>	<b>59,158,850</b>	<b>56,469,395</b>
<b>Increase (decr.) in net position before transfers and extraordinary gain</b>	<b>7,751,849</b>	<b>7,725,095</b>	<b>46,633</b>	<b>235,537</b>	<b>7,798,482</b>	<b>7,960,632</b>
Transfers	59,046	65,664	(59,046)	(65,664)	0	0
<b>Increase (decrease) in net position</b>	<b>7,810,895</b>	<b>7,790,759</b>	<b>(12,413)</b>	<b>169,873</b>	<b>7,798,482</b>	<b>7,960,632</b>
<b>Beginning net position</b>	<b>84,318,079</b>	<b>76,527,320</b>	<b>40,232,282</b>	<b>40,062,409</b>	<b>124,550,361</b>	<b>116,589,729</b>
<b>Ending net position</b>	<b>\$92,128,974</b>	<b>\$84,318,079</b>	<b>\$40,219,869</b>	<b>\$40,232,282</b>	<b>\$132,348,843</b>	<b>\$124,550,361</b>

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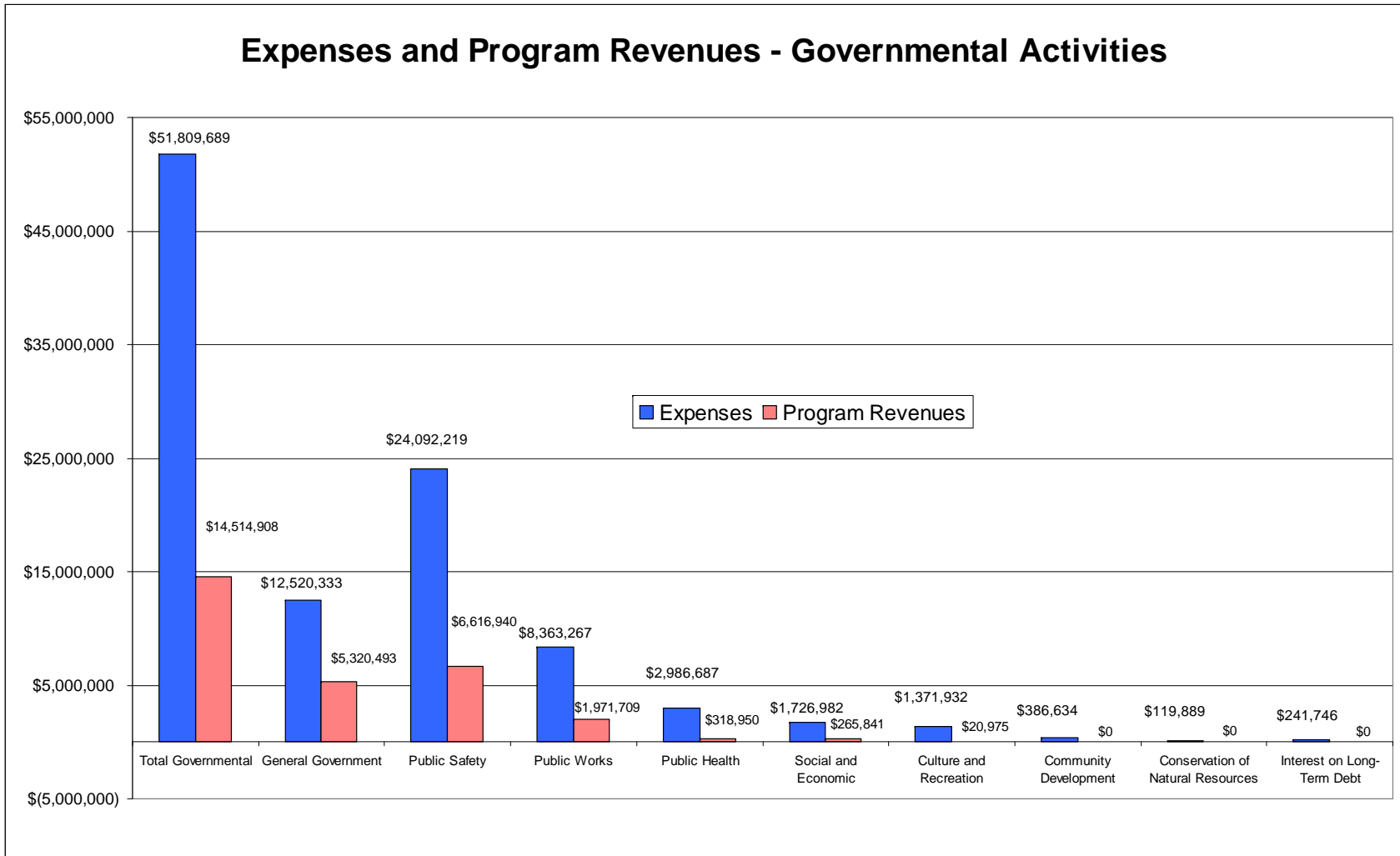
Of the County's \$51.81 million in expenses for governmental activities, \$14.5 million (28.0%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (81.7% of the general revenues), or the use of reserves. The major sources of program revenues (and change from prior year) include:

- Gas tax: \$285,510 / (+\$32)
- Justice Court fines: \$555,390 / (-\$49,816)
- Clerk & Recorder filing fees: \$1,231,900 / (+\$173,077)
- Health insurance premiums less County funded premium for employees: \$2,972,571 / (+\$316,452)
- Adult detention boarding fees: \$2,943,027 / (+\$70,519)
- Youth detention and secure shelter boarding and program fees: \$1,622,475 / (+\$96,598)
- RSID assessments: \$1,165,043 / (+\$365,578)
- Operating grants: \$1,107,097 (-\$492,003)
- Capital grants and contributions: \$610,450 (-\$462,905)

See the Statement of Activities on page #26 for additional detail information regarding revenues and expenditures.

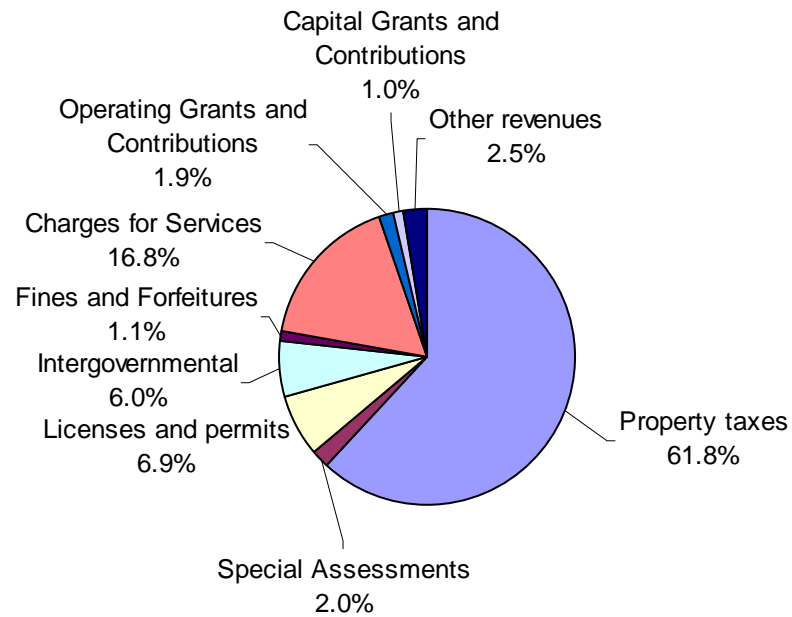


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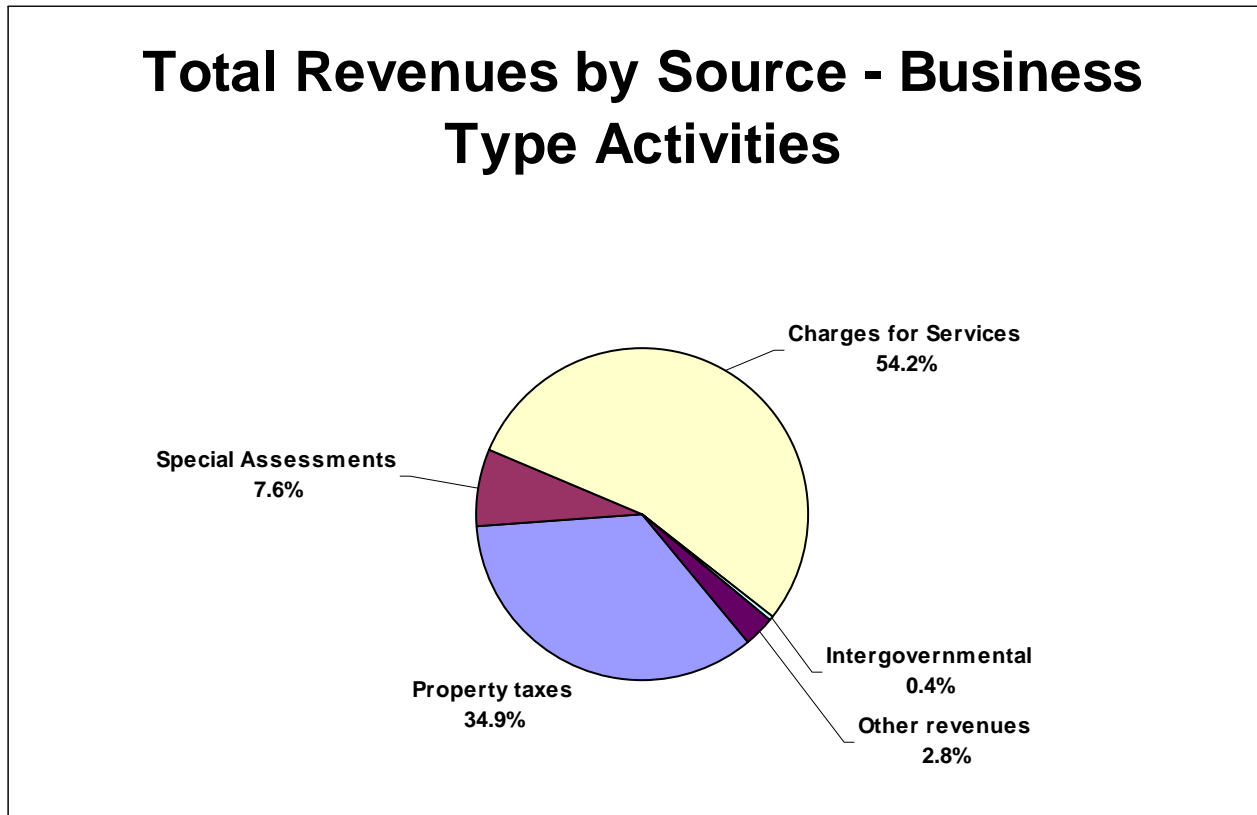
## Total Revenues by Source - Governmental Activities



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**Business-type activities.**

Total revenues of \$7,395,794 funded total expenses of \$7,408,207, which resulted in a decrease in net position of \$(12,413) for business-type activities. METRA had a FY13 decrease of (\$26,821) in net position. The decrease in net position has two major components: \$141,046 related to operations and (\$167,867) related to facility maintenance and capital depreciation.



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**Fund Financial Statement Analysis**

**Governmental funds.**

Overall, Yellowstone County's governmental funds' change in fund balance for FY13 was an increase of \$3,287,803 resulting in an ending total governmental fund balance of \$35,988,391.

The general fund increased fund balance by \$470,950 during fiscal year 2013 due primarily to the reduction in protested taxes.

The road fund increased its fund balance by \$750,716 due primarily to the reduction in protested taxes and delay in finishing some road projects before fiscal yearend.

Fund balance in the sheriff's public safety fund increased \$485,259 due primarily to the reduction in protested taxes and increased prisoner billings and motor vehicle option taxes (see financial highlights section above).

The property and liability insurance fund had an increase in fund balance of \$178,861. Fund balance for the fund is currently anticipated to be stable for FY13 but claims always have some level of unpredictability, however, this fund's reserves appear to be sufficient for known cases.

The youth services fund had an increase in fund balance of \$29,373 in FY13 due to an additional \$150,000 from a general fund transfer to shore up reserves. The youth services fund did see an increase in charge for services (+\$96,598) between FY13 and FY12. The youth services director believes that billable days will improve in FY14. The general fund has budgeted a contingent transfer of \$50,000 in FY14 if budget shortfalls occur.

Fund balance in the capital improvement fund increased \$563,725. The capital improvement fund sets aside cash reserves for future capital replacement needs.

See financial highlights section above for discussion related to other notable changes to governmental fund balances.

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**Proprietary funds.**

The refuse disposal fund had an increase in net position of \$14,408 for FY13. This fund has total net position of \$430,122 on June 30, 2013. The targeted reserve level is \$250,000. The solid waste board increased its assessment rate from \$28 to \$35 per unit for FY13. The solid waste board left the FY14 assessment static at \$35 per unit although the City increased the landfill charge by 19%, which will create deficit spending in FY14. The solid waste board desires to revise the methodology for the city to charge commercial waste beginning in FY15.

METRA had a decrease in net position of (\$26,821) in FY13. Results of operations before depreciation were good for FY13, as operating and capital replacement cash positions improved from FY12.

The health insurance fund had a net position increase of \$746,347 for FY13 to bring the ending net position to \$6,459,359. For FY13, the health plan is again funded to cover costs based on a projected cost level determined by our health plan third party administrator. The premium rates for FY14 were increased about 3% over FY13 for most coverages. As long as claims experience and cash reserves allow, the County desires to keep premium increases on a par with salary increases. The County carries specific stop-loss insurance for health claims at \$270,000 per claim. Medical inflation remains a major concern and continues to present challenges to maintain a health plan that provides good benefits at competitive premiums. Health insurance and medical costs are a nationwide systemic concern. The County reviews the health plan every year to review premium rates, benefits, and plan administration. On January 1, 2011 the County implemented as an option to participating members, the option to select a high-deductible health savings plan at a reduced premium. The choice was made available to encourage participants to move to consumer driven health care, which studies show substantive savings over traditional plan designs. Results have been encouraging.

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**Governmental Fund Budgetary Highlights**

Differences between original and final revised budget are primarily a result of state and federal grant awards and related match funding being added to the original budget. The original budget does not include either new or continuing grant activity and is subsequently amended into the budget by resolution of the Board of County Commissioners. New grants added \$2.6 million of revenue and expenditure appropriations to the FY13 budget. Some major grants included in the fiscal year 2013 budget were:

- \$653,221 NE Billings Site Build Out/Microwave Hops Tower
- \$450,000 CDBG Lockwood Water and Sewer Grant
- \$315,630 HB130 Crisis Center Grant
- \$260,287 Project CALM Grant
- \$226,868 CTEP Hillner Lane Sidewalk & Bike/Pedestrian Safety Campaign Grants
- \$140,550 FEMA Hazard Mitigation Grant Program

Some of the significant final budget to actual revenue variances include:

- Tax protests impacted real estate property tax revenue collections being short of County property tax budgets by about \$2.55 million (-6.8%).
- \$147,000 of additional clerk & recorder filing fees generated by activity in the local housing and real estate market and refinancings
- (\$26,200) shortfall in general fund and (\$31,000) shortfall in capital improvement fund interest earnings due to historically low interest rate environment
- (\$44,600) shortfall in general fund justice court fines
- (\$833,500) in unearned grant revenues
- \$303,000 in additional prisoner boarding fees for sheriff's detention facility due to increased populations in inmates from jurisdictions paying boarding fees and an increase in our daily rates from Federal and non-Yellowstone County prisoners

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The appropriation final budget to actual expenditure variances of significance include:

- \$3.8 million in total tax protest contingency expenditure budgets in the tax levy funds established to account for protest taxes
- \$93,500 in unspent general fund contingency budgets, which are budgets set aside for unforeseen expenditures
- \$100,000 of unspent budget committed to funding bench connector project. Still awaiting final billing on project.
- \$1,110,000 of unspent road budget in multiple cost areas. Savings from mild winter and delayed projects.
- \$1,133,000 in unspent grant budgets that were carried over into FY14
- \$682,000 in various unspent sheriff's budget lines
- \$7.56 million in unspent capital project fund budget, which is typically reserves appropriated in the current year but not necessarily scheduled to be spent in the current year
- \$325,000 in unspent bridge budget, which is carried forward to the next budget cycle
- \$1,662,000 in unspent Property & Liability Insurance Fund contingency and claims loss budget
- \$426,000 in RSID Maintenance Fund budgets because reserves are budgeted in the event maintenance needs to be done

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**Capital Assets**

A comparison of capital assets for the last two fiscal years is presented below:

	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Total</b>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 3,665,796	\$ 3,665,796	368,574	368,574	\$ 4,034,370	\$ 4,034,370
Buildings	11,177,467	11,825,454	36,176,279	37,250,614	47,353,746	49,076,068
Improvements other than buildings	3,330,520	2,929,493	1,975,566	2,248,662	5,306,086	5,178,155
Equipment and vehicles	8,074,238	8,032,779	569,714	407,329	8,643,952	8,440,108
Infrastructure	23,600,972	22,277,497	0	0	23,600,972	22,277,497
Construction in progress	109,637	63,336	161,692	20,736	271,329	84,072
<b>Total Capital Assets</b>	<b>\$ 49,958,630</b>	<b>\$ 48,794,355</b>	<b>\$ 39,251,825</b>	<b>\$ 40,295,915</b>	<b>\$ 89,210,455</b>	<b>\$ 89,090,270</b>

Governmental capital assets increased \$1,164,275 in total during the year as a result of the addition of new capital assets in the governmental funds of \$5,768,348 while being offset by depreciation of \$4,506,106 and a net loss on disposal of assets of \$67,630.

Some of the larger capital acquisitions in the governmental activities were:

- \$2.79 million in infrastructure improvements for county roads
- Bridge and culvert replacements \$817,092
- New Chiller for Detention Facility - \$94,050
- New Software for Clerk & Recorder - \$102,847
- Server Equipment for IT Department- \$139,207
- Soil Stabilizer for Road Department \$392,170
- Backhoe with Hammer for Bridge Department \$88,823
- Pneumatic Roller for Road Department \$86,780



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Some of the larger capital acquisitions in the business activities were:

- Boiler \$52,352
- Aloha Point-of-Sale System \$123,487
- HVAC system for Yellowstone Room \$44,789
- Access Control Systems for the Expo & Pavillion \$45,314

See footnote 7 for additional information on capital assets.

### **Long-term Debt**

As of June 30, 2013 the County has \$10,959,325 of long-term liabilities. Governmental funds account for \$10,959,325 and the enterprise funds account for \$334,773.

The largest component of long-term debt is \$5,275,000 of limited general obligation (G.O.) bonds issued by the County. In 2011 the County issued a \$3,000,000 limited tax general obligation bond for the purposes of dedicating \$2,000,000 for Metrapark facility improvements and \$1,000,000 for the Bench Connector road and bridge project. The debt service for this bond which has a balance of \$2,475,00 is funded by the general fund. The other limited tax general obligation bond, which has a balance \$2,065,000 was issued to develop the veteran's cemetery and to improve seating at Metra. The 2009 Unlimited Tax G.O. Refunding Bond for the Metra expansion has an outstanding balance \$735,000 on June 30, 2013 and has one final debt payment to make in June 2014. This voter approved debt is being funded by an annual tax levy on citizens within the County. Law requires an annual levy sufficient to service the general obligation bond.

The County's bond rating from Standard and Poor's was AA+ and was reaffirmed on our \$3,000,000 2011 L.T.G.O. issue.

Another major component of long-term debt includes rural special improvement district (RSID) bonds issued to provide property improvements to properties located within a specified area. Repayment of this debt is assessed to the benefited property owners, which can be repaid over the life of the bond or the remaining principal assessment against the property can be repaid anytime. The County provides additional bond debt service collateralization with the County's RSID Revolving Fund and other contingent

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funding requirements as specified by law. As of 6/30/13 the County has \$1,819,434 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$327,295. The County issued one RSID bond during FY13 for \$1,015,434.

Notes payable are occasionally used to finance equipment that a particular fund may not have adequate reserves or funding to acquire within a budget cycle. The County has no outstanding notes payable and no new notes payable were issued during FY13.

Claims and judgments represent the amount of the estimated liability established that is expected to pay for the known liability cases pending against the County. The amount of the estimated liability at year end was \$375,000 for all cases. Fund balance increased by \$178,861 in FY13 in the property and liability insurance fund.

Compensated absences is the amount of the liability for unpaid vacation and sick leave at yearend. The liability decreased \$95,456 in FY13. The amount of this liability at yearend was \$2,295,822. The amount of the liability normally increases on an annual basis as a result of increasing wages and a general growth in number of total compensable hours; however, FY13 was an exception.

See footnote #8 for additional information on long-term debt.

**Economic Factors and Next Year's Budget**

New construction taxable value as determined by the Montana Department of Revenue for FY14 was 2.23%, which was an improvement over FY13 growth rate of 0.68%. Commercial and residential construction has improved over the last 2 years with growth coming from industries supporting the Bakken oil fields in eastern Montana and western North Dakota.

The 2013 Montana Legislature passed legislation adding funding to the Public Employees Retirement System and reducing benefits for both existing retirees and current employees. The benefit reductions part of the legislation has resulted in litigation. Pension fiscal deficiencies will likely bring additional funding and benefits changes in the next session as well. It would not be unexpected for participating employers to see additional future pension contribution rate increases, but I don't expect the rate increases to impair Yellowstone County's budget to any significant degree.

The economy of Yellowstone County is helped significantly by oil development and refining, strong agricultural prices, local retail stores, transportation industry, and the expansive medical facilities in Billings.

Some of the more significant financial items for fiscal year 2014 include:

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- Tax protests were anticipated at 7.5% of budgeted property tax revenues, however actual November 2013 tax protests were 4.2%. This year's tax protests will be offset from the resolution of some large long standing tax protests. I expect the one-time tax distributions from these prior year tax protests will be primarily used for funding capital projects such as a jail expansion, new metra agricultural building, and courthouse office move to make more space for the county attorney staff.
- Countywide FY14 taxable valuation grew at 2.23%, which was better than FY13's 0.68%. New construction for residential and commercial has increased in the last 24 months.
- In the latest 2013 legislative session, funding and benefit changes were made to the Public Employees Retirement System (and Teachers Retirement System). The employer contribution rate for PERS increased 1% and the State contributed substantially more dollars to the retirement plans. Benefit changes to active employee and retirees were also made; however, these will likely have to withstand a legal challenge. Shortfalls in the various pension systems will likely result in future contribution rate increases for local governments as the State addresses these pension financial problems.
- \$75,000 for a general fund transfer to the youth services fund to assist with declining fund reserves and operational funding shortfalls.
- There was an increase of 4.5 FTEs related to staffing needs in public safety in county attorney and sheriff's offices. Community growth is impacting public safety issues.
- The Commissioners have approved engaging an architect for the construction of a new building at Metrapark to be used for agricultural events. The new building is expected to cost less than \$1 million.
- The sheriff is striving to deal with jail population through work release programs as well as considering various jail expansion options. The Commissioners have approved engaging an architect for designing a possible jail expansion wing. A jail expansion would also result in additional staffing needs that would have to be funded with existing revenue streams if the voters are not asked for additional tax authority.

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Requests for Information

This financial report is designed to provide a general overview of Yellowstone County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Yellowstone County Finance Director  
P.O. Box 35003  
Billings, MT 59107