

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

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, 2014 and the financial position as of June 30, 2014. 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 \$132,339. Tax collections were about \$363,000 more than budgeted because of lower protested tax amounts and protest tax settlements. Document filing fees in the Clerk and Recorder's office were \$277,500 below budget as title companies are filing fewer pages. FY14 interest collections in the general fund increased from the prior year by \$86,000 as interest rates have increased. The State provided \$133,000 to the general fund to offset decreases in personal property taxable valuation. The closure of Metra general obligation debt service fund provided \$145,000 in a one-time transfer.
- The road fund balance increased by \$384,813. Collections from protest tax distributions were used to do additional contracted road improvement projects. In FY14 the road fund spent about \$1.5 million more on road projects than a typical year. Tax protest distributions in FY15 and the spending of reserves should allow for about \$1 million of additional road work.
- The liability insurance fund balance increased \$374,796 as claims activity for FY14 was modest and some cases were resolved in the County's favor. Current fund reserves are considered adequate for known civil cases.
- Overall, the sheriff's public safety fund balance increased by \$176,965 in FY14. Tax collections were about \$285,000 more than budgeted because of lower protested tax amounts and protest tax settlements. Prisoner boarding fees at the county jail increased \$290,000 over FY13. Prisoner populations from non-County sources increased in FY14 and prisoner billing rates have resulted in the increased revenues. Jail population continues to be an 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 \$4,038,000 in FY14 from \$3,828,600 for FY13. Cash generated from the additional revenues and savings in the operations budget allowed an additional \$1,255,000 to be transferred to the capital improvement fund for use in the potential jail expansion.

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

- 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 increased funding for the county attorney to assist with some of these workload demands. The county attorney's reserve increased \$248,593 in FY14 to \$1.6 million.
- Metra had a successful year with its operations and events as its net position increased \$3,175. Working capital improved \$441,000 from 6/30/13 to 6/30/14. The FY15 operational budget shows a \$230,000 deficit, which Metra management hopes to improve upon by booking some additional events. Reserve levels are adequate.
- The County has seen some significant resolution to protested taxes with the large tax protests. In FY14 protests of about \$18.5 million were resolved, which resulted in almost \$4 million being distributed to County funds. This was offset by \$7 million in new protests, which reduced budgeted County tax revenues by \$1.7 million or 4.2% of budget. Therefore County funds had a net positive impact in FY14 of \$2.3 million in tax revenues. Much of these one-time distributions was either set aside for capital improvements or distributed to dedicated programs such as seniors, library, planning, mental health or public health services.

In July 2014 the State resolved \$22.1 million of the \$28.5 million in outstanding protest taxes from 6/30/14. This resulted in almost \$3.2 million being distributed to County funds. The budget will likely be adjusted to dedicate these funds for capital improvements or distributed to the programs that are associated with dedicated levies. See chart on next page.

**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**

**PROTEST FUND ACTIVITY  
FOR THE PERIOD 6/30/13 - 7/31/14**

	<u>Tax Years Resolved</u>	<u>All Tax Jurisdictions - Protested Tax Total</u>	<u>Portion Refunded to taxpayer</u>	<u>Distributed to Taxing Entities</u>	<u>% Distr to Taxing Entities</u>	<u>County Portion of Distribution</u>
<b>Total Protested Taxes 6/30/13</b>		\$ 40,090,710.33				
Puget Sound	2005-2012	\$ (2,310,058.11)	\$ (685,799.76)	\$ (1,624,258.35)	70.31%	\$ 500,479
CHS, Inc (D02739)	2009-2012	\$ (16,170,086.45)	\$ (4,741,848.63)	\$ (11,428,237.82)	70.68%	\$ 3,455,694
Protests for FY14	2013	\$ 6,982,991.08				
Other Protests Resolved FY14		\$ (63,026.81)				
<b>Total Protested Taxes 6/30/14</b>		<u>\$ 28,530,530.04</u>			<b>FY14</b>	<u>\$ 3,956,173</u>
Bresnan / Charter	2010-2013	\$ (11,358,300.52)	\$ (2,527,076.68)	\$ (8,831,223.84)	77.75%	\$ 1,634,754
Verizon	2009-2013	\$ (4,298,514.92)	\$ (1,186,894.95)	\$ (3,111,619.97)	72.39%	\$ 664,526
Conoco - Phillips 66	2010-2012	\$ (6,488,490.00)	\$ (3,338,740.74)	\$ (3,149,749.26)	48.54%	\$ 888,404
Other Protests Resolved FY15		\$ (210.28)				
<b>Total Protested Taxes 7/31/14</b>		<u>\$ 6,385,014.32</u>			<b>FY15 thru 7/31/14</b>	<u>\$ 3,187,684</u>

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

**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.

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 26-28 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.

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

**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 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 29-35 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

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

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 36-40 of this report.

**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 41-42 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 43-80 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.

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

**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) was \$137,226,164 for the year ended June 30, 2014. The change to net position for governmental and business-type activities for the fiscal year ended June 30, 2014 was \$4,877,321. The net position increase was primarily a result of a \$0.56 million decrease in capital assets; a \$1,564,000 reduction in bonded debt; a \$2.0 million decrease in net tax receivables due a \$3.74 million decrease in protest tax receivables; and a \$4.9 million increase in fund reserves among the County's various funds.

Of the County's yearend total net position of \$137,226,164, net investment in capital assets accounted for \$87,663,406 or 63.9% 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 \$9,857,707 or 10% are those funds legally required to be used for a specific purpose. Unrestricted net position of \$37,892,823 account for 39% 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.

A comparison of the County's net position follows:

**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**

**Yellowstone County Net Position**

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 59,134,989	\$ 54,921,212	\$ 4,815,807	\$ 3,478,936	\$ 63,950,796	\$ 58,400,148
Noncurrent assets	1,659,471	2,175,847	0	0	1,659,471	2,175,847
Capital assets	50,310,355	49,958,630	38,339,718	39,251,825	88,650,073	89,210,455
<b>Total assets</b>	<b>111,104,815</b>	<b>107,055,689</b>	<b>43,155,525</b>	<b>42,730,761</b>	<b>154,260,340</b>	<b>149,786,450</b>
Current liabilities	5,954,327	6,326,453	1,908,351	941,990	7,862,678	7,268,443
Noncurrent liabilities	8,076,270	8,600,262	1,095,228	1,568,902	9,171,498	10,169,164
<b>Total liabilities</b>	<b>14,030,597</b>	<b>14,926,715</b>	<b>3,003,579</b>	<b>2,510,892</b>	<b>17,034,176</b>	<b>17,437,607</b>
Net position:						
Net investment in capital assets	49,323,688	48,857,297	38,339,718	39,251,825	87,663,406	88,109,122
Restricted for debt service	9,857,707	7,287,846	0	0	9,857,707	7,287,846
Unrestricted	37,892,823	35,983,831	1,812,228	968,044	39,705,051	36,951,875
<b>Total net position</b>	<b>\$ 97,074,218</b>	<b>\$ 92,128,974</b>	<b>\$ 40,151,946</b>	<b>\$ 40,219,869</b>	<b>\$ 137,226,164</b>	<b>\$ 132,348,843</b>
<b>Change in net position</b>	<b>\$ 4,945,244</b>		<b>\$ (67,923)</b>		<b>\$ 4,877,321</b>	

**Governmental activities.**

The increase in net position for governmental activities of \$4,945,244 was primarily a result of:

- \$200,151 increase in net position of the health insurance fund
- \$1,564,434 increase in net position as a result of payments on long-term debt
- (\$219,670) decrease in net position from booking OPEB implicit rate subsidy for retiree health insurance
- \$351,725 increase in net capital assets
- Distributions of protest tax receivables and unspent appropriations



**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
<b>Program revenues:</b>						
Special assessments	\$ 852,064	\$ 1,165,043	\$ 565,997	\$ 563,714	\$ 1,418,061	\$ 1,728,757
Licenses and permits	49,558	59,546	0	0	49,558	59,546
Intergovernmental	866,506	860,507	0	0	866,506	860,507
Fines and forfeitures	695,445	684,403	0	0	695,445	684,403
Charges for services	10,218,178	10,027,862	4,201,044	4,011,367	14,419,222	14,039,229
Operating grants and contributions	1,137,483	1,107,097	0	0	1,137,483	1,107,097
Capital grants and contributions	372,062	610,450	0	0	372,062	610,450
<b>Total program revenues</b>	<b>14,191,296</b>	<b>14,514,908</b>	<b>4,767,041</b>	<b>4,575,081</b>	<b>18,958,337</b>	<b>19,089,989</b>
General revenues:						
Property taxes	38,467,664	36,835,575	2,676,347	2,580,199	41,144,011	39,415,774
Licenses and permits	4,225,977	4,020,645	0	0	4,225,977	4,020,645
Intergovernmental	3,275,028	2,711,190	66,408	31,994	3,341,436	2,743,184
Other revenues	731,134	1,479,220	228,133	208,520	959,267	1,687,740
<b>Total general revenues</b>	<b>46,699,803</b>	<b>45,046,630</b>	<b>2,970,888</b>	<b>2,820,713</b>	<b>49,670,691</b>	<b>47,867,343</b>
<b>Total revenues</b>	<b>60,891,099</b>	<b>59,561,538</b>	<b>7,737,929</b>	<b>7,395,794</b>	<b>68,629,028</b>	<b>66,957,332</b>
<b>Expenses:</b>						
General government	14,060,917	12,520,333	0	0	14,060,917	12,520,333
Public Safety	25,149,487	24,092,219	0	0	25,149,487	24,092,219
Public Works	7,849,946	8,363,267	0	0	7,849,946	8,363,267
Public Health	3,214,277	2,986,687	0	0	3,214,277	2,986,687
Social and Economic	3,390,554	1,726,982	0	0	3,390,554	1,726,982
Culture and Recreation	1,561,252	1,371,932	0	0	1,561,252	1,371,932
Community Development	458,829	386,634	0	0	458,829	386,634
Conservation of Natural Resources	113,224	119,889	0	0	113,224	119,889
Interest on Long-Term Debt	203,027	241,746	0	0	203,027	241,746
Sanitation, refuse disposal	0	0	617,095	524,306	617,095	524,306
Civic center, METRA	0	0	7,133,099	6,824,855	7,133,099	6,824,855
<b>Total expenses</b>	<b>56,001,513</b>	<b>51,809,689</b>	<b>7,750,194</b>	<b>7,349,161</b>	<b>63,751,707</b>	<b>59,158,850</b>
<b>Increase (decr.) in net position before transfers and extraordinary gain</b>	<b>4,889,586</b>	<b>7,751,849</b>	<b>(12,265)</b>	<b>46,633</b>	<b>4,877,321</b>	<b>7,798,482</b>
Transfers	55,658	59,046	(55,658)	(59,046)	0	0
<b>Increase (decrease) in net position</b>	<b>4,945,244</b>	<b>7,810,895</b>	<b>(67,923)</b>	<b>(12,413)</b>	<b>4,877,321</b>	<b>7,798,482</b>
<b>Beginning 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>Ending net position</b>	<b>\$97,074,218</b>	<b>\$92,128,974</b>	<b>\$40,151,946</b>	<b>\$40,219,869</b>	<b>\$137,226,164</b>	<b>\$132,348,843</b>

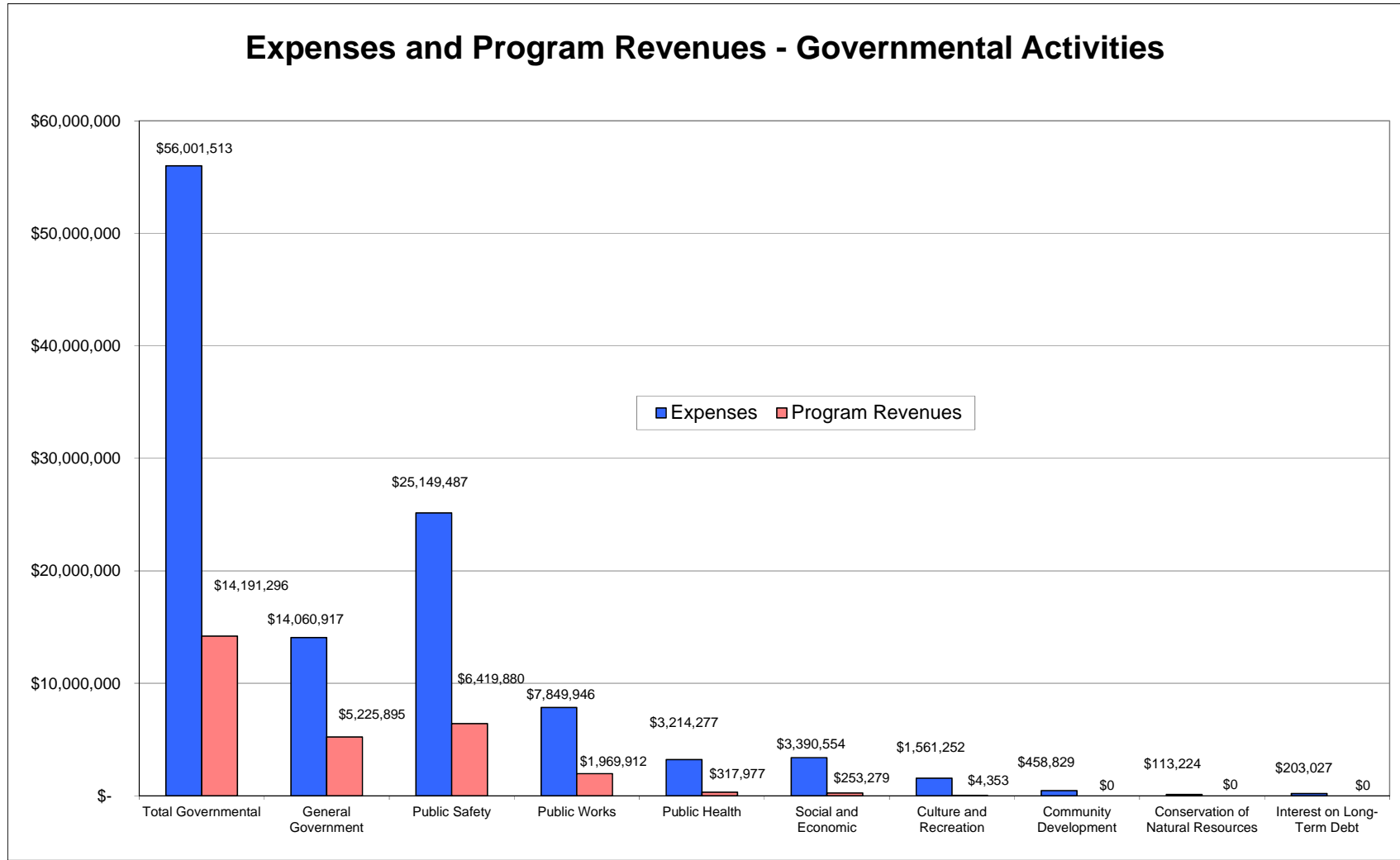
**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

Of the County's \$56.0 million in expenses for governmental activities, \$14.2 million (25.3%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (82.4% of the general revenues), or the use of reserves. The major sources of program revenues (and change from prior year) include:

- Gas tax: \$288,898 / (+\$3,388)
- Justice Court fines: \$566,919 / (+\$11,529)
- Clerk & Recorder filing fees: \$954,453 / (-\$277,477)
- Health insurance premiums less County funded premium for employees: \$2,572,345 / (-\$400,226)
- Adult detention boarding fees: \$3,222,285 / (+\$279,258)
- Youth detention and secure shelter boarding and program fees: \$1,715,859 / (+\$93,384)
- RSID assessments: \$1,029,178 / (-\$135,865)
- Operating grants: \$1,137,483 (+\$30,386)
- Capital grants and contributions: \$372,062 (-\$238,388)

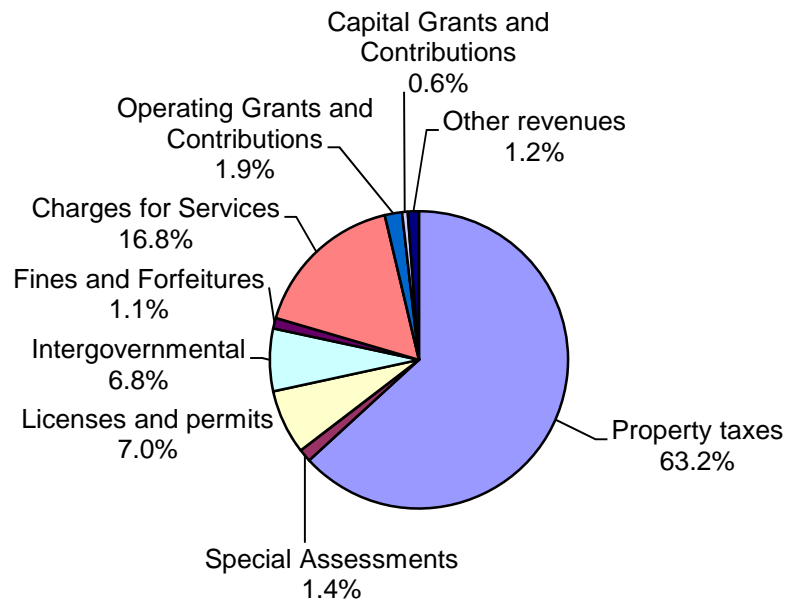
See the Statement of Activities on page #28 for additional detail information regarding revenues and expenditures.

**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**



YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014

## Total Revenues by Source - Governmental Activities

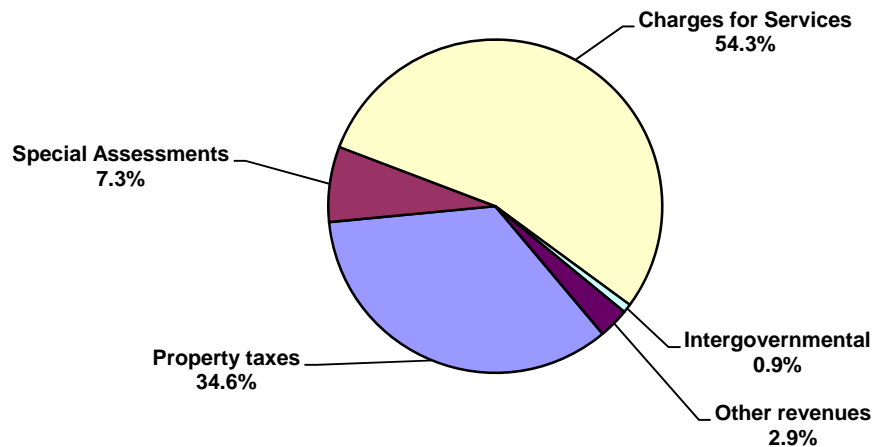


**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**

**Business-type activities.**

Total revenues of \$7,737,929 funded total expenses of \$7,805,852, which resulted in a decrease in net position of (\$67,923) for business-type activities. METRA had a FY14 increase of \$3,175 in net position. The increase in net position for METRA has two major components: \$171,086 related to operations and (\$167,911) related to facility maintenance and capital depreciation.

### Total Revenues by Source - Business Type Activities



**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**

**Fund Financial Statement Analysis**

**Governmental funds.**

Overall, Yellowstone County's governmental funds' change in fund balance for FY14 was an increase of \$5,182,224 resulting in an ending total governmental fund balance of \$41,170,615. Funds that receive property tax revenues benefitted from the settlement of a couple large tax protests and a resultant decrease in current year tax protests.

The general fund increased fund balance by \$132,339 during fiscal year 2014 due primarily to the reduction in protested taxes and protest tax settlements (see financial highlights section above).

The road fund increased its fund balance by \$384,813 due primarily to the reduction in protested taxes, protest tax settlements, and a delay in finishing some road projects before fiscal yearend.

Fund balance in the sheriff's public safety fund increased \$176,965 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 \$374,796. Fund balance for the fund is currently anticipated to be stable for FY14 but claims always have some level of unpredictability, however, this fund's reserves appear to be sufficient for known cases.

Fund balance in the capital improvement fund increased \$2,941,571. The large increase was from tax funds, particularly the general fund and sheriff public safety fund, transferring funds from the protest tax distributions to the capital improvement fund. The capital improvement fund sets aside cash reserves for future capital replacement needs. The Commissioners intend to use the one-time tax settlements on capital needs. Expansion of the jail is a high priority. The projected cost for an additional 100 bed expansion is \$7 million and about \$1 million annual increase in operating costs. The Commissioners are considering on asking for a public safety levy vote for the additional operating cost of an expansion.

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

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

**Proprietary funds.**

The refuse disposal fund had a decrease in net position of (\$71,098) for FY14. This fund has total net position of \$359,024 on June 30, 2014. The targeted reserve level is \$250,000. The solid waste board has contracted with the City of Billings to revise the methodology for charging for commercial waste beginning in FY15. Commercial properties will contract with a refuse hauler or pay the City directly for disposal. As a result the annual landfill agreement has been reduced from \$592,300 to \$166,845 to charge for access for users. This reduced allowed the solid waste board to decrease its assessment rate from \$35 to \$15 per unit for FY15. Residential users will see an increase in their hauling rate, which should approximate the \$20 annual reduction in the County refuse charge.

The health insurance fund had a net position increase of \$200,151 for FY14 to bring the ending net position to \$6,659,510. For FY15, 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 FY15 were increased about 5.75% over FY14 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. The County offers 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. Health insurance options to retirees over 65 for Medicare advantage or supplement plans is likely to reduce enrollment of retirees in the County's health plan. Options to retirees under 65 in the health insurance exchange may provide viable health insurance alternatives to those individuals as well.

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

**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 \$1.7 million of revenue and expenditure appropriations to the FY14 budget. Some major grants included in the fiscal year 2014 budget were:

- \$450,000 CDBG Lockwood Water and Sewer Grant
- \$182,361 CTEP Hillner Lane Sidewalk & Bike/Pedestrian Safety Campaign Grants
- \$116,786 Project CALM Grant
- \$112,035 FEMA Hazard Mitigation Grant Program
- \$105,332 Yellowstone County Victim Witness Program
- \$80,127 Yellowstone County Salt Cedar Management Project

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

- Tax protest settlement distributions netted with FY14 tax protests resulted real estate property tax revenue being about \$2.3 million more than the original County property tax budgets (see financial highlights section above)..
- (\$190,000) budget shortfall in clerk & recorder filing fees generated by activity in the local housing and real estate market and refinancings as a result of fewer pages being filed.
- \$86,000 over budget in general fund and \$19,000 extra in capital improvement fund interest earnings due to improving interest rate environment
- \$494,600 of State Senate Bill 96 revenue among the various funds to offset tax collection shortfalls related to personal property tax reductions
- \$733,191 in unearned grant revenues
- \$290,000 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
- Motor vehicle option tax revenues in the sheriff's fund was \$209,000 over budget



**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**

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

- \$499,500 in total unexpended tax protest contingency expenditure budgets in the tax levy funds established to account for protest taxes
- \$924,000 of unspent road budget in multiple cost areas. Savings from employee vacancy savings, various operational costs, and budgeted equipment not expended or delivered by yearend.
- \$733,000 in unspent grant budgets that were carried over into FY15
- \$682,000 in various unspent sheriff's budget lines
- \$9.18 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
- \$535,000 in unspent bridge budget, which is carried forward to the next budget cycle
- \$1,818,000 in unspent Property & Liability Insurance Fund contingency and claims loss budget
- \$444,000 in unspent budget from the county attorney's office from vacancy savings and delayed capital items
- \$549,500 in unspent RSID Maintenance Fund budgets because many of the RSID road chip seals were completed in August 2014

**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**

**Capital Assets**

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

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 3,665,796	\$ 3,665,796	368,574	368,574	\$ 4,034,370	\$ 4,034,370
Buildings	10,762,706	11,177,467	35,283,638	36,176,279	46,046,344	47,353,746
Improvements other than buildings	1,760,262	3,330,520	1,885,634	1,975,566	3,645,896	5,306,086
Equipment and vehicles	8,199,572	8,074,238	724,369	569,714	8,923,941	8,643,952
Infrastructure	25,865,923	23,600,972	0	0	25,865,923	23,600,972
Construction in progress	56,097	109,637	77,503	161,692	133,600	271,329
<b>Total Capital Assets</b>	<b>\$ 50,310,355</b>	<b>\$ 49,958,630</b>	<b>\$ 38,339,718</b>	<b>\$ 39,251,825</b>	<b>\$ 88,650,073</b>	<b>\$ 89,210,455</b>

Governmental capital assets increased \$351,725 in total during the year as a result of the addition of new capital assets in the governmental funds of \$6,708,008 while being offset by depreciation of \$4,799,572 and a net loss on disposal of assets of \$1,556,711, which was primarily the result of transferring the veteran's cemetery to the federal government.

Some of the larger capital acquisitions / (dispositions) in the governmental activities were:

- \$3.86 million in infrastructure improvements for county roads
- Bridge and culvert replacements \$915,869
- 911 Center Improvements - \$103,625
- Digital Scanners for Elections - \$286,725
- Dump Truck for Road Department- \$122,475
- Motor Graders for Road Department- \$2.18 million
- Transferring the veteran's cemetery to the federal government (\$1,923,191)

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

- Livestock Panels- \$120,569
- Catwalk System \$203,402
- North Parking Lot- \$164,412

See footnote 7 (pages 61-62) for additional information on capital assets.

**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**

**Long-term Debt**

As of June 30, 2014 the County has \$9,909,626 of long-term liabilities. Governmental funds account for \$9,573,803 and the enterprise funds account for \$335,823.

The largest component of long-term debt is \$4,040,000 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 \$2,190,00 is funded by the general fund. The other limited tax general obligation bond, which has a balance \$1,850,000 was issued to develop the veteran's cemetery and to improve seating at Metra.

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 funding requirements as specified by law. As of 6/30/14 the County has \$1,497,225 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$327,295. The County issued no new RSID bonds during FY14.

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 FY14.

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 \$280,000 for all cases. Fund balance increased by \$374,796 in FY14 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 increased \$36,009 (1.6%) in FY14. The amount of this liability at yearend was \$2,331,831. 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.

See footnote #8 (pages 63-67) for additional information on long-term debt.

**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**

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

Overall countywide taxable value, as determined by the Montana Department of Revenue for FY15, grew 0.55%, which was lower than FY14's growth rate of 2.23%. Overall taxable value was negatively impacted by reductions in personal property taxable value, however, the State has replaced the revenue lost from reducing the personal property valuation

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.

Energy development in the Bakken region and surrounding areas are definitely supporting business and trade activity in the Yellowstone County region. Unemployment is low at 3.7% as of June 2014. The need exists in the area for skilled workers and tradesmen as new businesses having been adding jobs to the region causing salary growth.

Big Sky Economic Development has commissioned an industrial park feasibility study for consideration of a possible development site. The study indicates the need exists for companies searching for industrial sites with good transportation capabilities including rail, air, and highway and that their needs are not being fulfilled because of the lack of a proper site and trans loading facilities. Discussions are being held to determine how and if a site can be developed.

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.

Some of the more significant financial items for fiscal year 2015 include:

- Tax protests are budgeted at 2.0% of FY15 property tax revenues. This is a decrease from last year's estimate of 7.5% because of the recent tax protest valuation settlements between the large protestors and the State. This year's tax protests will be more than 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 possible jail expansion.

**YELLOWSTONE COUNTY, MONTANA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**JUNE 30, 2014**

- Countywide FY15 taxable valuation grew at 0.55%, which was down from FY14's 2.23%. Overall growth was negatively impacted by reductions in personal property valuation reductions and valuation adjustments from protested tax settlements.
- 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.
- \$50,000 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 3.0 FTEs related to staffing needs in the county detention facility. 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 will cost \$1.1 million.
- In order to create additional office space within the courthouse, a \$500,000 office building for the county extension office is being considered on the Metrapark campus.
- 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. The County has been setting aside one-time protest tax settlements in the capital improvement fund as possible funding for a jail expansion.

The budget remains in good overall condition with public safety needs, particularly the detention facility, remaining as a funding concern.

**YELLOWSTONE COUNTY, MONTANA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
JUNE 30, 2014**

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