

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017

We offer readers of the attached financial statements this narrative and analysis of the financial activities of Yellowstone County for the fiscal year ended June 30, 2017 and the financial position as of June 30, 2017. Please 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 decreased fund balance by \$400,702. Operational revenues continued to exceed expenditures in the same proportion as FY16, but the County transferred an additional \$500,000 toward the detention center expansion. This brought the total commitment from the General Fund to \$1.2 million for that effort in FY17. Overall, other revenues and expenditures continued to perform favorably.
- The road fund balance decreased by \$193,395. This was primarily due to a \$185,000 increase in vehicle repairs, mainly for extended motor grader warranties and crusher repairs.
- The liability insurance fund balance decreased slightly, by \$58,576 in total. This was due to a \$250,000 transfer from this fund to that of the County Attorney's fund, within the Board of Commissioners' discretion. The fund remains fiscally sound.
- The Sheriff's public safety fund balance increased by \$1,946,949 in FY17. There are a few factors responsible for this. For the past few years, budgetary efforts have been in place to set up this fund's cash flow in such a way as to be able to consistently fund upcoming debt service payments for the jail expansion and remodel without any need for a tax increase request. Those payments will now begin in July of 2018. Further, the fund witnessed a \$400,000 increase in motor vehicle option tax collections and an additional \$350,000 in prisoner boarding collections from other governments.
- The County Attorney's fund saw virtually no change in fund balance over the course of FY17. This statement, taken on its own is somewhat misleading. Transfers from other funds, predominately the County's general fund of \$2.5 million coupled with a \$193,000 decline in capital outlay expenditures masked this fund's continued negative condition. Early in FY18, the Board of Commissioners unanimously approved a ballot measure, before the voters on November 7, 2017 that sought an 8 mill increase in this fund's property tax collection. This measure was approved by the voters and will correct the longstanding imbalance in this fund's activities.
- Overall, Metra's operations generated an overall increase in its net position of \$301,233. An increase of \$133,000 in taxes and \$558,000 in charges for services and facility use more than offset a \$370,000 increase in operating expenses. With a recent review and adjustment of concession and rental rates, with a commitment for a more consistent review vs. peers and other area venues going forward, Metra is well posed in generate favorable results into the future.

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An infrastructure review and needs assessment was initiated after the end of FY17, which will help the Board and our citizens to better understand needs on that campus for repair, maintenance and expansion of water, sewer, gas, electric and IT connectivity. Results should be available before the end of FY18, and plans will begin to be developed to address the assessment conclusions.

- The County’s protest fund balance has roughly doubled over the past year, increasing from \$12.75 million to almost \$23.3 million. Over 98% of this is due to the protests of CHS, Phillips 66 and Rocky Mountain Pipeline. As mentioned in last year’s report, the CHS protest, totaling over \$6.7 million in the past year alone is likely to take several years to resolve.

**PROTEST FUND ACTIVITY
FOR THE PERIOD 6/30/16 - 6/30/17**

	<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>
Total Protested Taxes 6/30/16		\$ 12,749,095.55				
ALPINE	2016	\$ 83,227.38				
CHS	2016	\$ 6,712,592.46				
PHILLIPS 66	2016	\$ 2,993,280.00				
RICHLAND AVIATION	2016	\$ 9,365.16				
ROCKY MOUNTAIN PIPELINE	2016	\$ 627,135.37				
VISION NET	2016	\$ 56,459.51				
Other Protests Resolved FY17						
Additional Protests - FY17		\$ 47,348.27				
Total Protested Taxes 6/30/17		<u>\$ 23,278,503.70</u>				<u>FY17 \$ -</u>

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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 our 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 declining.

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 23-25 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.

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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 financial performance.

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 financial 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 26-32 of this report.

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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, with refuse disposal and METRA 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 33-37 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 38-39 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 40-94 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 and the Schedule of Proportionate Share of the Net Pension Liability. These schedules are located in the required supplementary information section on pages 95-100 of this report.

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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 \$131,873,033 as of June 30, 2017. The net position for governmental activities was \$93,046,013, while business-type activities net position stood at \$38,827,020. The net position increase of \$7,237,361 from FY16 to FY17 was due, in the broadest sense, to overall revenues from all sources exceeding expenditures. The way this increase was reflected in the activity involving our asset and liability accounts throughout our operations follows. Primarily, our cash and investment positions remained relatively static, while tax receivables rose \$2.375 million. The construction-in-progress area of our capital assets increased by \$5.5 million. This was due to the acquisition of a new headquarters for the Sheriff's operations yet to be placed into service, and construction amounts incurred for the expansion of our detention facility, approved by the voters in June of 2016. More detail is provided on the comparison on the next page.

Of the County's year-end total net position of \$131,873,033, net investment in capital assets accounted for \$97,875,876 or 74.2% 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. This percentage will continue to increase in FY18, with the completion of the expansion and remodel of the detention facility. The restricted net position of \$12,968,873 or almost 10% of total net position represent those funds legally required to be used for a specific purpose, and remained virtually unchanged from FY16. Unrestricted net position of \$21,028,284 accounts for 15.95% of the total net position. Unrestricted net position is primarily used as reserves for cash flow purposes in between real estate 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	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 67,776,562	\$ 65,530,304	\$ 6,883,770	\$ 6,346,655	\$ 74,660,332	\$ 71,876,959
Noncurrent assets	875,230	1,030,734	0	0	875,230	1,030,734
Capital assets	62,141,112	55,645,570	36,350,763	37,352,549	98,491,875	92,998,119
Deferred Outflows	12,073,774	5,174,632	511,036	152,543	12,584,810	5,327,175
Total assets and deferred outflows	142,866,678	127,381,240	43,745,569	43,851,747	186,612,247	171,232,987
Current liabilities	6,547,197	5,804,387	1,638,141	2,544,163	8,185,338	8,348,550
Noncurrent liabilities	40,579,144	30,234,345	3,271,400	2,589,519	43,850,544	32,823,864
Deferred Inflows	2,694,324	5,222,719	9,009	192,182	2,703,333	5,414,901
Total liabilities and deferred inflows	49,820,665	41,261,451	4,918,550	5,325,864	54,739,215	46,587,315
Net position:						
Net investment in capital assets	61,525,112	54,901,570	36,350,764	37,352,549	97,875,876	92,254,119
Restricted	12,968,873	12,521,799	0	0	12,968,873	12,521,799
Unrestricted	18,552,028	18,696,420	2,476,256	1,163,334	21,028,284	19,859,754
Total net position	\$ 93,046,013	\$ 86,119,789	\$ 38,827,020	\$ 38,515,883	\$ 131,873,033	\$ 124,635,672
Change in net position	\$ 6,926,224		\$ 311,137		\$ 7,237,361	

Governmental activities.

The increase in net position for governmental activities of \$6,926,224 was due, in part to:

- An increase in FY17 of \$779,546 in charges for services
- An increase of \$2,338,881 in property taxes

Business activities.

The increase in net position for business activities of \$311,137 was the result \$133,478 in additional taxes, \$558,545 more in charges for services and facility use offsetting \$370,342 in additional expenses, largely from salary and benefit increases.

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Yellowstone County's Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Special assessments	\$ 989,581	\$ 1,056,771	\$ 227,877	\$ 214,668	\$ 1,217,458	\$ 1,271,439
Licenses and permits	35,782	79,978	0	0	35,782	79,978
Intergovernmental	1,296,578	1,335,276	0	0	1,296,578	1,335,276
Fines and forfeitures	792,872	776,330	0	0	792,872	776,330
Charges for services	12,057,751	11,278,205	5,929,760	5,371,215	17,987,511	16,649,420
Operating grants and contributions	1,155,785	1,005,070	0	0	1,155,785	1,005,070
Capital grants and contributions	496,256	0	0	0	496,256	0
Total program revenues	16,824,605	15,531,630	6,157,637	5,585,883	22,982,242	21,117,513
General revenues:						
Property taxes	42,089,773	39,750,892	2,910,868	2,777,390	45,000,641	42,528,282
Licenses and permits	5,270,652	4,828,934	0	0	5,270,652	4,828,934
Intergovernmental	3,900,245	3,757,162	141,910	137,391	4,042,155	3,894,553
Other revenues	444,834	1,271,965	179,531	187,376	624,365	1,459,341
Total general revenues	51,705,504	49,608,953	3,232,309	3,102,157	54,937,813	52,711,110
Total revenues	68,530,109	65,140,583	9,389,946	8,688,040	77,920,055	73,828,623
Expenses:						
General government	17,966,136	14,394,420	0	0	17,966,136	14,394,420
Public Safety	24,998,001	25,577,747	0	0	24,998,001	25,577,747
Public Works	9,476,431	7,799,749	0	0	9,476,431	7,799,749
Public Health	4,375,353	4,416,311	0	0	4,375,353	4,416,311
Social and Economic	2,285,711	1,834,029	0	0	2,285,711	1,834,029
Culture and Recreation	1,592,009	1,458,819	0	0	1,592,009	1,458,819
Community Development	733,910	455,297	0	0	733,910	455,297
Conservation of Natural Resources	119,858	129,915	0	0	119,858	129,915
Interest on Long-Term Debt	148,095	148,560	0	0	148,095	148,560
Sanitation, refuse disposal	0	0	197,973	191,196	197,973	191,196
Civic center, METRA	0	0	8,789,217	8,418,875	8,789,217	8,418,875
Total expenses	61,695,504	56,214,847	8,987,190	8,610,071	70,682,694	64,824,918
Increase (decr.) in net position before transfers and extraordinary gain	6,834,605	8,925,736	402,756	77,969	7,237,361	9,003,705
Transfers	91,619	37,959	(91,619)	(37,959)	0	0
Increase (decrease) in net position	6,926,224	8,963,695	311,137	40,010	7,237,361	9,003,705
Prior Period Adjustment	0	0	0	0	0	0
Beginning net position	86,119,789	77,156,094	38,515,883	38,475,873	124,635,672	115,631,967
Ending net position	\$93,046,013	\$86,119,789	\$38,827,020	\$38,515,883	\$131,873,033	\$124,635,672

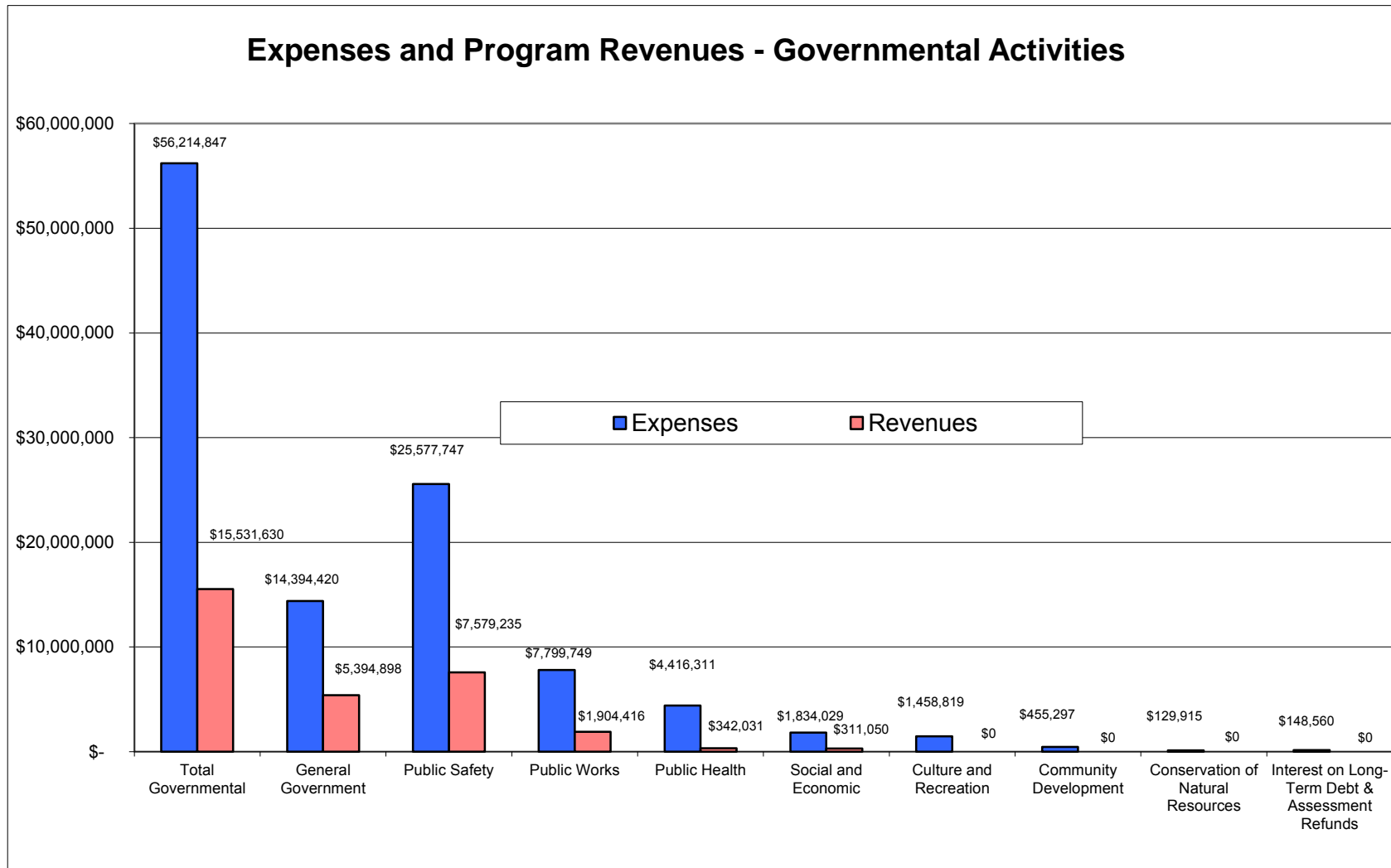
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Of the County's \$61.7 million in expenses for governmental activities, \$16.8 million (27.2%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (81.4% of the general revenues). The major sources of program revenues (and change from prior year) include:

- Gas tax: \$296,911 / (+\$721)
- Justice Court fees: \$697,656 / (+\$47,270)
- Clerk & Recorder filing fees (General Fund & Rec Preservation Fund): \$1,079,157 / (+\$4,834)
- Adult detention boarding fees: \$4,323,460 / (+\$374,586)
- Youth detention and secure shelter boarding and program fees: \$2,212,153 / (+\$236,948)
- RSID assessments: \$1,150,300 / (-\$8,187)
- Operating grants: \$1,615,782 (+\$610,712)

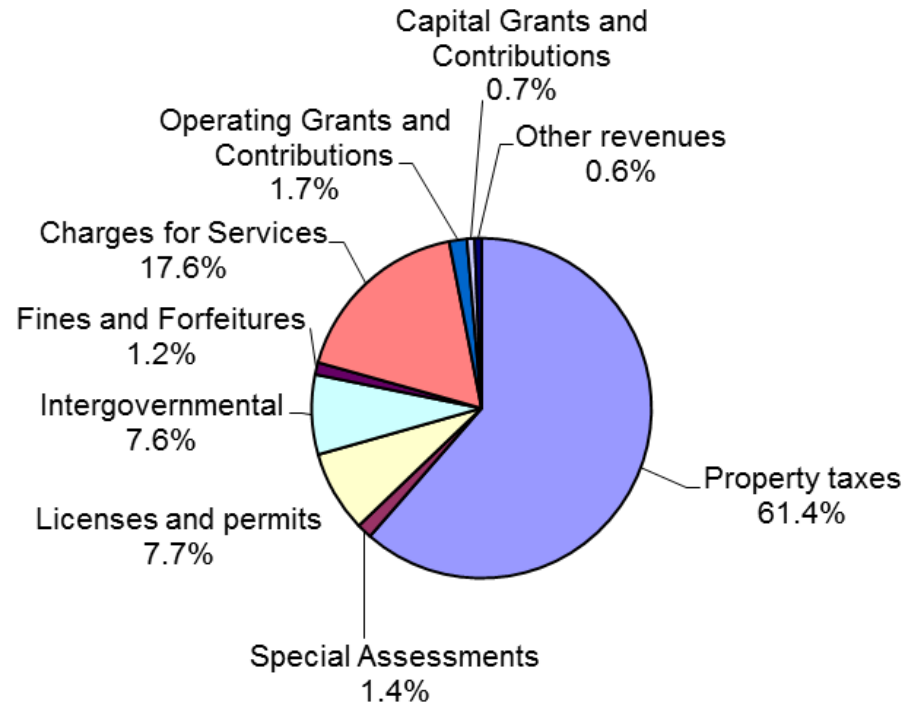
See the Statement of Activities on page 25 for additional detail information regarding revenues and expenditures.

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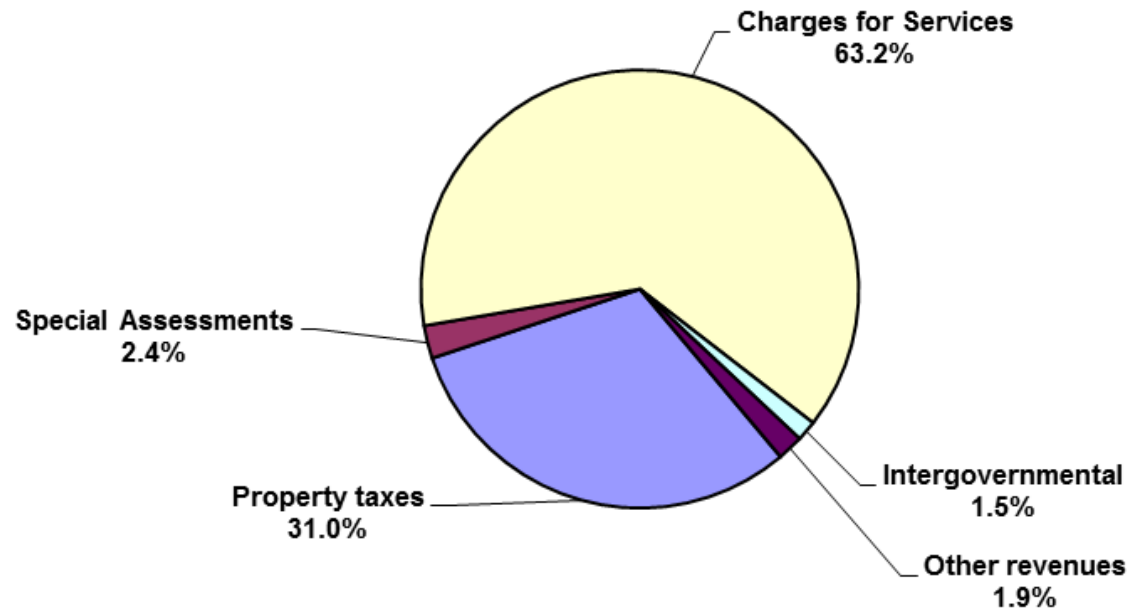
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Total Revenues by Source - Governmental Activities



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Total Revenues by Source - Business Type Activities



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Fund Financial Statement Analysis

Governmental funds.

Yellowstone County's governmental funds' change in fund balance for FY17 was a decrease of \$1,126,281 resulting in an ending total governmental fund balance of \$47,688,615.

The general fund saw a decrease in fund balance of \$400,702 during fiscal year 2017, due mainly to a \$500,000 increase, for a total of \$1.2 million, in transfers to the capital improvement fund for current and future building needs.

The road fund decreased by \$193,395 in the current year, in part due to a \$252,678 increase in vehicle fuel, oil and repairs.

The public safety fund balance increased \$1,946,949, due to a \$374,586 increase in prisoner boardings from other jurisdictions, an increase in motor vehicle option tax collections of \$429,340, and a decline in capital expenditures of \$204,618.

The property and liability insurance fund remained stable, with a small decrease in fund balance of \$58,576.

The fund balance in the capital improvement fund decreased \$1,938,901. This was expected, due to increased expenditures in the public safety area. This decline will continue throughout FY18, as the County completes its move of the Sheriff's headquarters to a newly purchased building, the completion of jail expansion and remodeling, remodeling in the courthouse necessary to accommodate new district court judges and the relocation of current 4th floor courthouse departments in order to provide the space for said district court expansion.

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 witnessed a small increase of \$9,904, generating an ending balance of \$378,414.

The health insurance fund had a modest fund balance increase of \$290,789, resulting in an ending balance of \$7,996,899 as of 6/30/17. This was due to slowing of reserve growth in this area brought on by premium increases averaging 6% for active employees generating \$368,801 more in revenue offset by an increase in health claims of \$865,875. The premium rates for FY18 were held at FY17 rates for active full-time employees, while increasing by varying amounts for active part-time employees and retirees, reducing the previous subsidies of these rates. This was done to make the fund more consistent and to add to the actuarial soundness of the plan.

The County carries specific stop-loss insurance for health claims at \$270,000 per claim. 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.

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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 & carry-over grants added \$1.6 million of revenue and expenditure appropriations to the FY17 budget. Some major grants included in the fiscal year 2017 budget were:

- \$315,592 Crisis Intervention & Jail Diversion Grant
- \$ 80,000 Yellowstone County Victim Witness Program
- \$496,256 TSEP – Laurel Bridge
- \$98,671 Homeland Security (DES)

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

- Tax protests, virtually all from large, centrally assessed taxpayers decreased tax collections.
- Clerk & recorder fees (Gen Fund & Rec Preservation Fund) exceeded budget by \$164,000
- Motor vehicle option tax revenues in the sheriff's fund exceeded projections by \$848,000
- Prisoner boarding fees were \$800,000 above budget
- Interest revenue collections from governmental funds came in \$240,000 above budgeted amounts

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

- \$1,931,000 of unspent road budget in multiple cost areas. Savings from fuel costs and various other operational costs, and budgeted equipment not expended or delivered by end of FY17
- \$754,000 in detention medical costs decline and from facility staffing, due to the challenges of attracting and keeping a full staff
- \$2.6 million in unspent capital project fund budget, primarily due to jail construction expenditures behind projections
- Over \$347,000 in unspent bridge budget, in various line items, including project related expenditures
- \$1,590,000 in unspent Property & Liability Insurance Fund contingency and claims loss budget
- \$338,000 in unspent budget from the county attorney's office mainly from unspent contingency line items and not being fully staffed throughout the year

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Capital Assets

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

	Governmental Activities		Business Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 3,563,344	\$ 3,516,624	\$ 368,574	\$ 368,574	\$ 3,931,918	\$ 3,885,198
Buildings	10,986,520	11,452,983	33,301,354	34,243,105	44,287,874	45,696,088
Improvements other than buildings	1,883,268	1,991,942	1,449,017	1,606,930	3,332,285	3,598,872
Equipment and vehicles	7,152,315	7,753,908	843,113	944,057	7,995,428	8,697,965
Infrastructure	33,024,504	30,765,520	0	0	33,024,504	30,765,520
Construction in progress	5,531,161	164,593	388,705	189,883	5,919,866	354,476
Total Capital Assets	\$ 62,141,112	\$ 55,645,570	\$ 36,350,763	\$ 37,352,549	\$ 98,491,875	\$ 92,998,119

Governmental capital assets increased by a net amount of \$6,495,542 during the year as a result of the addition of new capital assets in the governmental funds, offset by depreciation of \$5,574,428.

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

- \$4.24 million in infrastructure improvements for county roads
- Laurel Bridge Replacement \$961,096
- Culvert replacements for 21 Mile Rd., Indian Creek and Bench Canal \$245,216
- Various vehicles for Road Department \$308,780
- Various IT and Software acquisitions \$196,030
- Detention facility boiler, and glass & security upgrades \$188,146
- Construction in progress includes acquisition of a new headquarters for the Sheriff, yet to be complete and initial expenditures for the detention facility expansion

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

- Grandstand Patio and Grandstand work \$105,307
- Sound system \$30,490

See footnote 7 (pages 59-60) for additional information on capital assets.

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Long-term Debt

As of June 30, 2017 the County has \$7,871,025 of long-term liabilities. Governmental funds account for \$7,321,248 and the enterprise funds account for \$549,777.

The largest component of long-term debt is \$2,455,000 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 \$1,300,000 is funded by the general fund. The other limited tax general obligation bond, which has a balance \$1,155,000 was issued to develop the Veteran's Cemetery and to improve seating at Metra.

The County's bond rating from Standard and Poor's is AA+, and was re-affirmed in FY18.

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 6/30/17 the County has \$972,000 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$334,675. The County issued no new RSID bonds during FY17.

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 one note payable owed to Montana Board of Investments with an outstanding balance due of \$227,163 as of June 30, 2017.

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 \$475,000 for all cases. Fund balance decreased by (\$58,576) in FY17.

Compensated absences is the amount of the liability for unpaid vacation and sick leave at yearend. The liability decreased \$45,827 (1.8%) in FY17. The 6/30/17 balance was \$2,481,388. Generally, 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. This year was an exception.

See footnote #8 (pages 61-65) for additional information on long-term debt.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2017

Economic Factors and Next Year’s Budget

Overall countywide taxable value, as determined by the Montana Department of Revenue for FY18, grew 4.57%, of which about 2.34% represented new growth, with the rest coming from increased values on existing properties.

The economy of Yellowstone County continues to be driven by oil development and refining, agricultural prices, the benefits of being a regional retail hub, transportation industry, and the expansive medical facilities in Billings. Retail and medical remain strong, while oil related activities and the agriculture sector remain quite soft.

Unemployment is low at 3.6% as of June, 2017.

Some of the more significant financial items for fiscal year 2018 include:

- Tax protests are budgeted at 4.65% of FY18 property tax revenues. This is an decrease from last year’s estimate of 6.05%. Two area refineries and a pipeline company account for over 98% of protests at this time.
- The County will see the completion of the \$18.8 million detention facility expansion and remodel in late spring of 2018.
- The County finally has some clarity as it relates to district court judges. The recent Legislature approved funding for two more judges, out of the six that our district was determined to need. Both positions will be filled by the voters in November of 2018, and will be sworn in in January of 2019. The County is obligated to provide office space for those positions mandated by the State of Montana, along with any support staff required to carry on those judicial functions. Recognizing the likelihood of court expansion, the County has completed its acquisition and remodel of a nearby building into which we moved the Sheriff’s headquarters. The vacated Sheriff’s building may soon house courthouse staff. The County is committed to vacating the 4th floor of the courthouse for district court use. We will be considering finishing out the entire floor which will provide space for up to four judges and two courtrooms for current use and future growth approved by the Legislature. The Legislature provided no funding for this undertaking, and costs will be covered through the County’s CIP Fund. Current occupants of the 4th floor will be moved outside of the courthouse. As of this time, the destination for this “administrative annex” is out for proposal. Various lease and purchase options will be reviewed and considered in November and December of 2017, including the abovementioned old Sheriff’s facility.
- The Board of County Commissioners placed a request for an additional 8 mills in support of the County Attorney’s Fund on the ballot for November 7, 2017. This levy passed, and will add an additional \$2.8 million to that fund’s revenue, will allow for growth needed due to increased caseloads, statutory changes and additional district court judges. It will also provide some relief to the General Fund’s continued subsidy of its operations. It will result in increased funds for FY19.

**YELLOWSTONE COUNTY, MONTANA
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The County's budget remains in good overall condition. Borrowing and expending capital improvement funds are slated to be completed in FY18 to address public safety needs, particularly the detention facility, and future demands for office space as required by legislative action.

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