

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2025

We offer readers of Yellowstone County's financial statements this narrative and analysis of the financial activities of the County for the fiscal year ended June 30, 2025, and the financial position as of June 30, 2025. 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's fund balance increased by \$953,000. This is a result of increased property tax revenue in the amount of \$953,326 over the prior year largely due to significant gross proceeds received from a local mine.
- The road fund balance increased by \$2,544,391. Approximately \$800,000 is attributable to an increase in property tax revenues; however, a vast majority is due to a decrease of approximately \$1,600,000 in expenditures. Project activity decreased, but is ramping up in fiscal year 2026.
- The liability insurance fund balance increased by \$397,933. This is due to an increase in tax revenues of \$99,000 and a reduction in interfund transfers compared to the prior year.
- The COVID-19 fund is predicted to be completely spent by December 2025.
- The Public Safety fund balance increased by \$1,388,644. Tax revenues, charges for services, and grant revenues included in Other Revenues increased \$704,000, \$599,000, and \$173,000, respectively. This was in-part offset by a \$1,887,000 increase in expenditures primarily consisting of capital outlay increases of \$664,000 and payroll increases. Additionally, the Public Safety fund received an additional \$1,052,000 in interfund transfers over the prior year.
- The County Attorney's fund experienced an increase in its fund balance of \$205,883 as a result of approximately \$200,000 in unspent capital expenditure funds.
- The R.S.I.D Maintenance fund balance decreased \$51,741 due to a large number of RSID maintenance projects.
- Metra experienced another favorable increase in its net position of \$19,827,628, due to ARPA projects transferred into Metra's capital asset balance. The year was successful enough that Metra was able to transfer \$2,750,000 from its operations to Metra's CIP to assist in funding capital expenditure needs on campus.

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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 the METRA civic center.

The government-wide financial statements can be found on pages 21-23 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, COVID-19/ARPA 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 24-30 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 solid waste disposal fund and the METRA civic center. 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, geographical information system fund and the technology 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 31-35 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 36-37 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 38-94 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, including the Employee Group Benefits Plan – Other Postemployment Benefits (OPEB) schedule, the Schedule of Proportionate Share of the Net Pension Liability, and the Budgetary Comparison schedules.

These schedules are located in the required supplementary information section on pages 95-102 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 No. 34 and required local governments to present net position information. Yellowstone County's net position (assets less liabilities) was \$259,492,800 as of June 30, 2025. The net position for governmental activities was \$196,785,712, while business-type activities' net position stood at \$62,707,088. The net position increase of \$25,767,223 from FY24 to FY25 was due in a large part to the inclusion in net investment in capital assets of \$15.6 million in construction in progress projects.

The County manages and budgets its resources in such a way as to provide for an overall increase in the County's net financial position as part of its financial structure. This aligns with the conservatism principle within Generally Accepted Accounting Principles (GAAP). We work toward the goal of achieving revenue slightly above projections where possible and also controlling expenditures which may come in less than estimates.

The net financial position growth provides the County the opportunity to accomplish several things. Reserves can be increased where needed to strengthen some funds, and resources can be accumulated to cover periodic, larger capital asset maintenance. Finally, monies can be transferred to the County CIP fund in order to provide for property acquisitions and major asset replacement or refurbishment.

Of the County's net financial position of \$259,492,800 at June 30, 2025, net investment in capital assets totaled \$160,619,224 or 61.90% of total net financial position. Capital asset investments in facilities and equipment are necessary to provide large scale programs and services for the community. The restricted net position represents those funds legally required to be used for a specific purpose. That balance of \$19,110,061 was approximately 7.36% of net position compared to 6.64% in FY24. Unrestricted net position of \$79,763,515 was 30.74% of the total net position which was a decrease from 32.49% in FY24. Unrestricted net position is primarily used for cash reserves between periods of real estate property tax collections, which are due in 50% installments on November 30 and May 31 of each year, and as reserves for any large unanticipated costs that may arise.

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A comparison of the County's net position follows:

Yellowstone County Net Position

	Governmental Activities		Business Activities		Total	
	2025	2024	2025	2024	2025	2024
Current assets	\$ 140,654,934	\$ 139,079,178	\$ 14,282,141	\$ 15,043,891	\$ 154,937,075	\$ 154,123,069
Noncurrent assets	179,637	288,139	-	-	179,637	288,139
Capital assets	112,690,327	117,327,634	54,402,376	33,952,206	167,092,703	151,279,840
Deferred outflows	6,948,904	7,613,518	417,406	388,928	7,366,310	8,002,446
Total assets and deferred outflows	260,473,802	264,308,469	69,101,923	49,385,025	329,575,725	313,693,494
Current liabilities	17,890,543	23,627,500	3,085,893	3,213,236	20,976,436	26,840,736
Noncurrent liabilities	43,405,058	44,522,720	3,156,973	3,089,774	46,562,031	47,612,494
Deferred inflows	2,392,488	2,474,686	151,969	166,854	2,544,457	2,641,540
Total liabilities and deferred inflows	63,688,089	70,624,906	6,394,835	6,469,864	70,082,924	77,094,770
Net position:						
Net investment in capital assets	106,216,848	110,047,259	54,402,376	33,952,206	160,619,224	143,999,465
Restricted	19,110,061	15,720,648	-	-	19,110,061	15,720,648
Unrestricted	71,458,804	67,915,656	8,304,712	8,962,955	79,763,516	76,878,611
Total net position	196,785,713	193,683,563	62,707,088	42,915,161	259,492,801	236,598,724
Restatement for GASB 101 implementation	(2,746,405)	-	(126,740)	-	(2,873,145)	-
Change in net position	\$ 5,848,555	\$ 24,157,217	\$ 19,918,667	\$ 1,047,298	\$ 25,767,222	\$ 25,204,515

Governmental activities.

The increase in net financial position for governmental activities of \$5,848,555 is due primarily to vacancies and reduced spending.

Business activities.

The net financial position in business activities increased in FY25 \$19,918,667 largely because of the transfer of completed capital assets funded by the American Rescue Plan Act of 2021 (ARPA) from Governmental assets to Business assets which were primarily related to the MetraPark campus.

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Yellowstone County's Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
<u>Revenues:</u>						
<u>Program revenues:</u>						
Special assessments	\$ 1,516,481	\$ 1,528,034	\$ 430,299	\$ 419,561	\$ 1,946,780	\$ 1,947,595
Licenses and permits	77,457	86,169	-	-	77,457	86,169
Intergovernmental	1,993,831	1,933,549	-	-	1,993,831	1,933,549
Fines and forfeitures	652,337	579,805	-	-	652,337	579,805
Charges for services	13,167,810	12,707,839	6,510,939	7,322,312	19,678,749	20,030,151
Operating grants and contributions	14,270,741	13,246,558	-	-	14,270,741	13,246,558
Capital grants and contributions	3,223	-	-	-	3,223	-
Total program revenues	31,681,880	30,081,954	6,941,238	7,741,873	38,623,118	37,823,827
General revenues:						
Property taxes	67,331,150	62,363,062	4,254,683	3,976,290	71,585,833	66,339,352
Licenses and permits	7,114,069	7,086,236	-	-	7,114,069	7,086,236
Intergovernmental	5,292,914	5,060,739	170,729	195,125	5,463,643	5,255,864
Other revenues	12,025,261	9,246,476	430,587	266,572	12,455,848	9,513,048
Gain/(Loss) on disposal of assets	(13,528)	345,507	-	(9,643)	(13,528)	335,864
Total general revenues	91,749,866	84,102,020	4,855,999	4,428,344	96,605,865	88,530,364
Total revenues	123,431,746	114,183,974	11,797,237	12,170,217	135,228,983	126,354,191
<u>Expenses:</u>						
General government	15,896,151	22,774,067	-	-	15,896,151	22,774,067
Public Safety	43,991,808	41,156,842	-	-	43,991,808	41,156,842
Public Works	15,177,657	12,627,028	-	-	15,177,657	12,627,028
Public Health	16,514,723	6,953,873	-	-	16,514,723	6,953,873
Social and Economic	3,123,030	3,281,656	-	-	3,123,030	3,281,656
Culture and Recreation	2,228,582	2,314,510	-	-	2,228,582	2,314,510
Community Development	564,738	709,855	-	-	564,738	709,855
Conservation of Natural Resources	170,454	159,840	-	-	170,454	159,840
Interest on Long-Term Debt	183,422	207,944	-	-	183,422	207,944
Sanitation, solid waste disposal	-	-	391,000	362,670	391,000	362,670
Civic center, METRA	-	-	11,205,602	10,601,391	11,205,602	10,601,391
Total expenses	97,850,565	90,185,615	11,596,602	10,964,061	109,447,167	101,149,676
Increase (decr.) in net position before transfers	25,581,181	23,998,359	200,635	1,206,156	25,781,816	25,204,515
Transfers	(19,732,626)	158,858	19,718,032	(158,858)	(14,594)	-
Increase (decrease) in net position	5,848,555	24,157,217	19,918,667	1,047,298	25,767,222	25,204,515
Beginning net position	193,683,563	169,526,346	42,915,161	41,867,863	236,598,724	211,394,209
Restatement for GASB 101 implementation	(2,746,405)	-	(126,740)	-	(2,873,145)	-
Ending net position	\$ 196,785,713	\$ 193,683,563	\$ 62,707,088	\$ 42,915,161	\$ 259,492,801	\$ 236,598,724

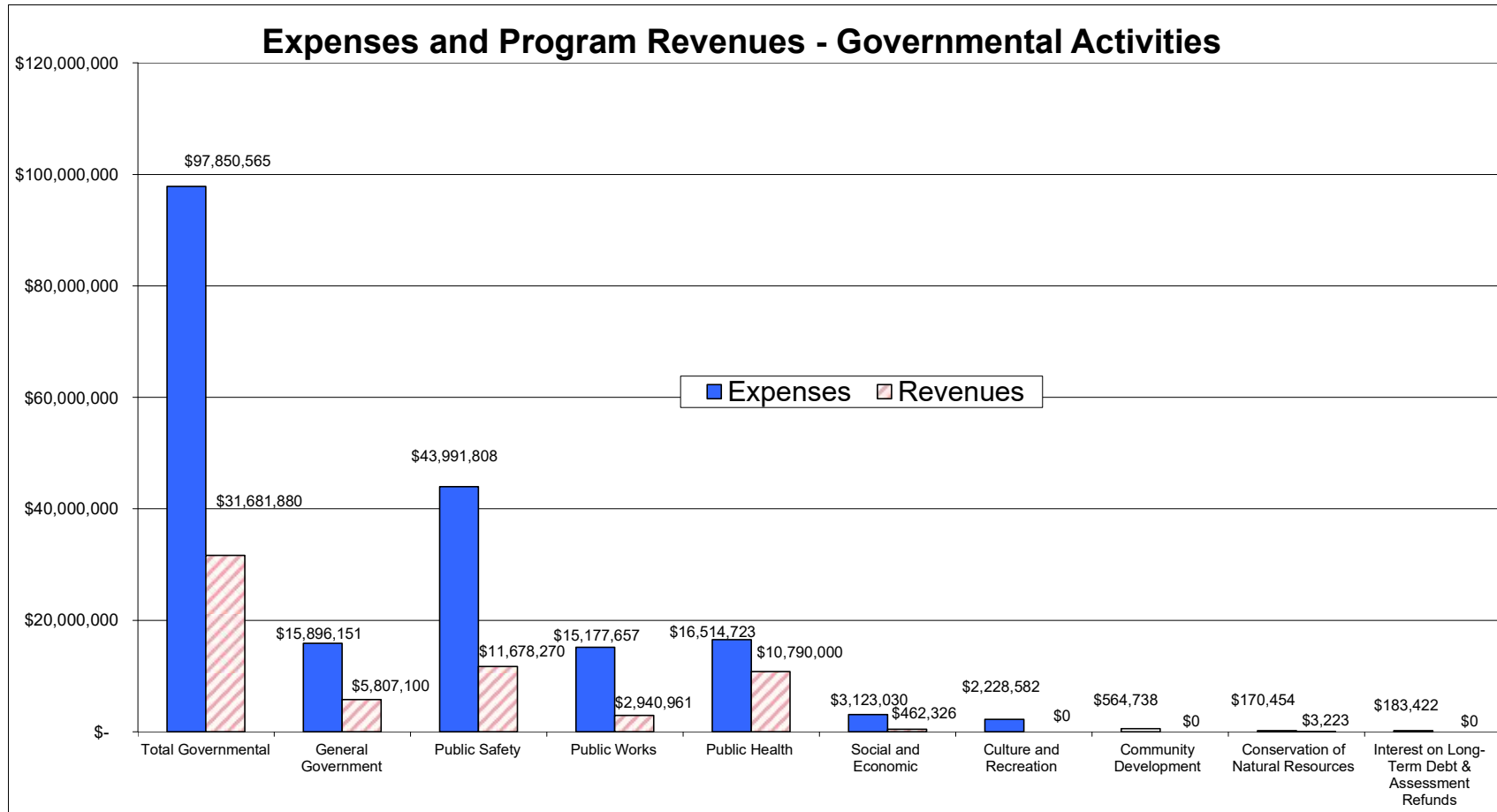
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Of the County's \$97.85 million in expenses for governmental activities, \$31.68 million (32.4%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (64.9% of total revenues). The major sources of program revenues and change from prior year (shown in parentheses below) include:

- Clerk & Recorder filing fees (General Fund & Rec Preservation Fund): \$944,214 / (+\$117,923)
- Adult detention boarding fees: \$4,816,451 / (+\$607,486)
- Youth detention and secure shelter boarding and program fees: \$1,926,942 / (+\$162,521)
- RSID assessments: \$1,472,644 / (-\$269,027)
- Operating grants (including the American Rescue Plan Act \$10,551,884): \$14,270,741 / (+\$1,024,183)

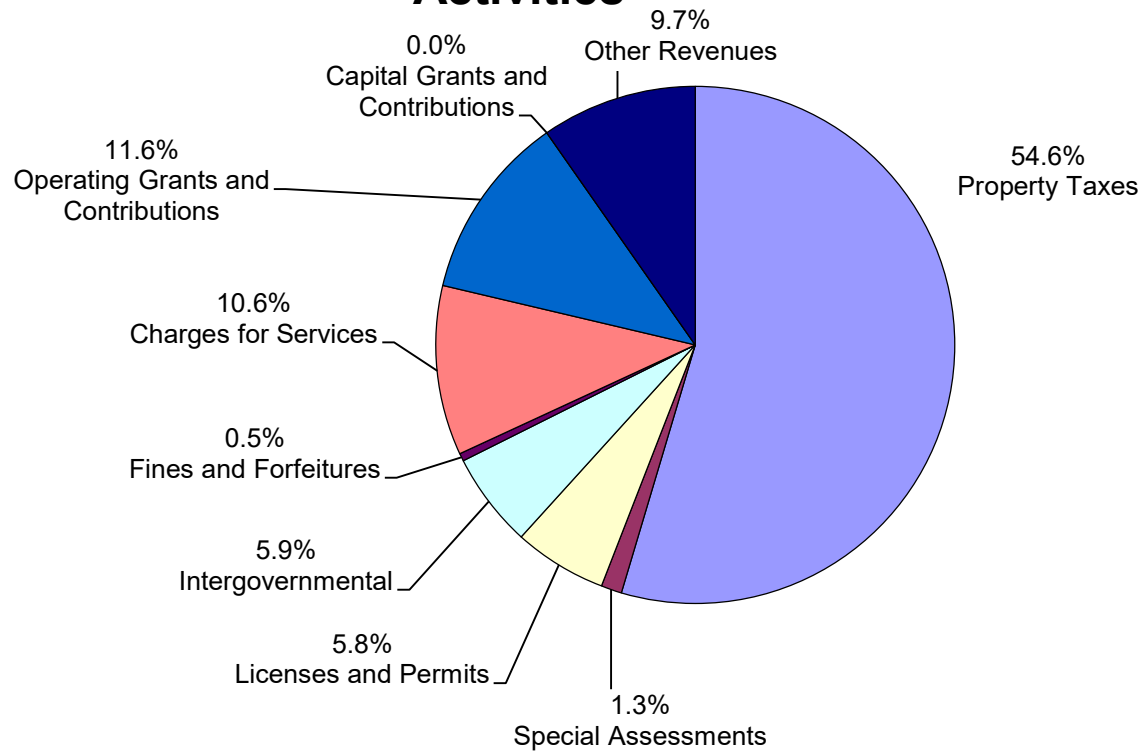
See the Statement of Activities on page 23 for additional detailed information regarding revenues and expenditures.

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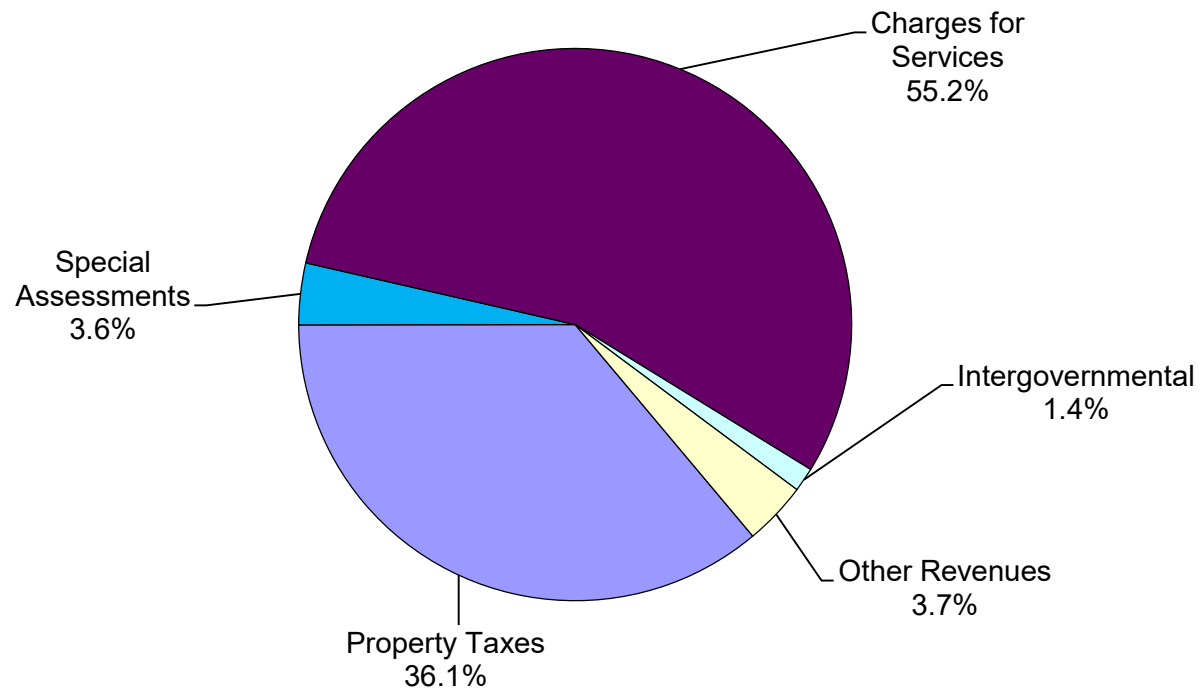
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**Total Revenues by Source - Governmental
Activities**



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Total Revenues by Source - Business Type Activities



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Fund Financial Statement Analysis

Governmental funds.

Yellowstone County's change in governmental fund balance for FY25 was an increase of \$7,172,760 resulting in a total governmental fund balance of \$105,968,528.

The general fund balance increased by \$953,000 during fiscal year 2025, which was mostly due to increased property tax revenue.

The road fund increased by \$2,544,391 in FY25. The road fund continues to be stable while the fund has transferred over \$2 million to the road CIP fund for future projects.

The public safety fund balance increased by \$1,388,644 and is sustained by continuing support from the general fund via interfund transfers.

The property and liability insurance fund increased by \$397,933. Insurance claims are largely unpredictable by nature. In FY25 there were no large payouts on insurance claims.

The fund balance in the capital improvement fund increased \$1,038,156 primarily due to interfund transfers for capital improvement projects and acquisitions. The capital improvement fund maintains 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 decreased \$35,701 to a fund balance of \$491,344 on June 30, 2025. The fund remains capable of providing for the contract with the City of Billings, however assessments will need to be analyzed in the coming years in order to keep pace with the contract.

The health insurance fund experienced a slight fund balance increase of \$19,568, resulting in an ending balance of \$15,009,855 on June 30, 2025. The fund balance was maintained in FY25 even as larger health insurance claims were processed. Health insurance premiums will increase in fiscal year 2026.

The County carries specific stop-loss insurance for health claims at \$350,000 per claim. The County analyzes the health insurance plan every year to review premium rates, benefits, and plan administration. The County offers options to participating members to select a high-deductible health savings plan at a reduced premium or select a traditional plan. This encourages participants to move to consumer driven health care, which can lead to substantial savings over traditional plan designs. Health insurance is not available to retirees over 65, with the exception of coverage offered to an employee's spouse under the age of 65 or any qualifying dependents of the employee.

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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	
	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>	<u>2025</u>	<u>2024</u>
Land	\$ 5,854,721	\$ 5,552,186	\$ 357,388	\$ 357,388	\$ 6,212,109	\$ 5,909,574
Buildings	31,819,083	35,230,060	31,463,155	27,392,772	63,282,238	62,622,832
Improvements other than buildings	1,873,953	2,843,594	18,375,018	4,337,094	20,248,971	7,180,688
Equipment and vehicles	9,503,181	10,185,459	1,785,746	1,485,321	11,288,927	11,670,780
Infrastructure	45,645,638	46,980,737	-	-	45,645,638	46,980,737
Construction in progress	17,749,260	15,916,594	2,421,069	379,631	20,170,329	16,296,225
Intangible lease assets	159,606	446,638	-	-	159,606	446,638
Intangible subscription assets	84,885	172,366	-	-	84,885	172,366
Total Capital Assets	\$ 112,690,327	\$ 117,327,634	\$ 54,402,376	\$ 33,952,206	\$ 167,092,703	\$ 151,279,840

Governmental capital assets decreased by \$4,637,307 during the year because of the movement of \$19.9 million in completed ARPA project assets associated with the MetraPark campus from Governmental to Business capital assets, offset by the work done on the John V. Ostlund Yellowstone County Administrative Building and the Short-Term Detention Facility.

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

- \$4.1 million in infrastructure improvements for County roads
- \$10,388,645 in construction work on the John V. Ostlund Yellowstone County Administrative Building
- The completion of \$5,167,495 of work on the Short-Term Detention Facility
- Sheriff patrol vehicle replacements totaling \$872,949

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

- The completion of the Northwest Concessions Beer Garden and Floor Beer Garden for a total of \$385,055
- Floor sweeper/scrubber at a cost of \$82,583

Intangible lease assets continue to decrease as annual lease payments are made and received.

See footnote 7 (pages 55-57) for additional information on capital assets.

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Long-term Liabilities

As of June 30, 2025, total long-term liabilities at the County were \$9,735,070, excluding OPEB and net pension liability on the government-wide statement of net position. Of the total, the governmental and enterprise funds long-term liability balances were \$9,477,978 and \$257,092, respectively.

The largest component of long-term debt is the balance of \$6,030,000 of limited general obligation bonds issued in 2017 for detention center expansion and improvements.

The County's bond rating from Standard and Poor's is AA+, which was re-affirmed in FY25. Additionally, the County's bond rating is verified to credible external sources by the County in March and September each year.

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 at any time or ratably over the life of the bond. 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 June 30, 2025, the County had \$100,000 of outstanding RSID bonds and the RSID Revolving Fund had a fund balance of \$56,800. The County issued no new RSID bonds during FY25.

Notes payable are occasionally used to finance capital needs 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 \$228,263 as of June 30, 2025.

The claims and judgments liability is an estimate of amounts needed to pay for known liability cases pending against the County. The liability at June 30, 2025 was \$500,000 for all known liability cases pending. The claims and judgments liability is included in the accrued payables in the liability fund. Fund balance in the liability fund increased by \$397,933 in FY25.

Compensated absence liability represents accrued vacation and sick leave earned but not yet used by employees. Implementation of GASB 101 required restating beginning balances by \$2,746,407 for governmental activities, \$126,740 for business-type activities, and \$17,375 for internal service funds. During the year, the liability decreased \$72,445 in governmental activities and increased \$26,305 in business-type activities. The total compensated absences liability at June 30, 2025 was \$5,886,318

See footnote #8 (pages 57-61) for additional information on long-term debt.

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Economic Factors and Next Year's Budget

The inflation allowance by Montana Code Annotated was 2.80% for fiscal year 2025. This resulted along with new growth led to a slight increase mills levied over the previous fiscal year.

The economy of Yellowstone County continues to be driven by the refining and agricultural prices, the benefits of being a regional retail hub, the transportation industry, and the expansive medical facilities in Billings.

The County continues to be benefitted by Metra's improved operations due to cost controls and the increased number of hosted events. We saw another year of higher-than-expected investment yields, which benefitted many funds. Anticipated rate cuts led by the FOMC are being estimated for next fiscal year.

Unemployment has fluctuated throughout the last year but is reporting at 3.0% as of August 2025 in Yellowstone County. This is similar to the unemployment rates reported by other Montana counties and to the state of Montana that reported an unemployment rate of 2.9% as of August 2025.

Some of the more significant financial items for fiscal year 2026 include:

- Tax protests are budgeted at 3.25%-3.75% of property tax revenues, increased over fiscal year 2025 due to implementation of new property tax bills.
- In FY26, the larger construction of buildings and other projects will continue. Work on the John V. Ostlund Building is nearing completion with anticipated occupancy in December of 2025. The remodel of the Courthouse has also begun and will be able to serve future judges and staff for many years to come. The County and City of Billings completed an expansion of the detention facility to house short-term inmates.
- A ballot measure will be presented to taxpayers in 2026 for additional expansion of the Detention Facility.

The County's financial health overall is strong, although a long-term solution to our public safety fund will be necessary in the coming fiscal years.

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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