

July 26, 2002

**YELLOWSTONE COUNTY
FISCAL YEAR 2002-2003
FINAL BUDGET
EXECUTIVE SUMMARY**

The Fiscal Year 2002-2003 (FY03) final budget is herein presented to the Board of County Commissioners and the citizens of Yellowstone County for their review and approval.

The budget has been compiled by the Finance Department with budget requests originating from the various County departments. The final budget requests were presented at budget hearings held May 28 through June 3, 2002. The final budget must be adopted by the later of the second Monday in August (12th), 2002, or 45 after the State provides certified taxable values (Aug. 22). The final budget includes changes from the preliminary budget as a result of salary and benefit changes for personnel; evaluation of capital, personnel, and operating needs; taxable valuation changes; and year-end cash positions.

REVENUE BUDGET

New construction growth, which is available to offset service growth and inflation trending, was determined by the Department of Revenue to be 3.01%. The actual growth was inline with the preliminary budget estimate growth of 2.5%. The final inflation factor allowed by the legislature for FY03 was 1.27% and this was computed into the final mill calculation. The preliminary budget included the inflation factor at 1.28%. Entitlement growth is included in the final FY03 budget at 3.0%. Under current operating conditions, these growth factors allow to County maintain service at historical levels while allowing for some minor incremental growth.

REVENUE BUDGET,continued

The overall revenue is estimated at \$45.0 million in FY03 compared to \$43.5 million in FY02, which represents a 3.45% increase. Many historical revenue sources have been reapportioned in order to implement legislative changes. Levy authority has been reallocated to account for the State assumption of district court costs in the FY03 budget. In several funds, entitlement revenue has been replaced by levy authority moved from the district court fund.

The final budget projects an overall millage increase in the countywide levy of **6.46 (9.5%)** mills. This includes **\$741,216 (3.65 mills)** increase in taxes for the County health insurance fund. This levy was authorized by new legislation in response to health costs consuming significant portions of available budget dollars to local governments. The balance of the mill increase is from personal property reimbursement reductions, inflation, loss in prior year base taxable value, and unused FY02 authority (see breakdown on mill levy summary page). Like the FY02 budget, the final budget has not included the levy authority for the loss of taxes from the change to the flat fee for motor vehicles (\$171,759 overall). The overall taxes levied in FY02 was \$16.11 million versus \$17.77 million for FY03.

Revenue sources from the State that may be tenuous include the district court reimbursement program, prisoner boarding, alcohol rehab, and probably others. The State's financial problems have a tendency to become County financial problems. As the legislature meets in special session in August 2002, certain aspects of our budget may become impacted and need revision.

EXPENDITURE BUDGETS

County departments were asked to submit budgets for FY03, which did not exceed their FY02 budget. Requests from departments for needs that exceeded their FY02 budget were evaluated and discussed. Approved requests for budget increases above FY02's level are delineated under the department's budget note and recapped on budget summary sheets. FTE and capital requests are also specified on the department's budget notes and on budget summary sheets.

The overall County FY03 budget is \$53.1 million compared to \$52.2 million in FY02, which is a 1.7% increase. It should be noted that overall budget totals can be significantly impacted by changes in capital spending and transfers and should not be overly relied upon for assessing budget trends.

EXPENDITURE BUDGETS,continued

The district court judges support staff and court services budgets have become State assumed costs as of July 1, 2002. The State has assumed 33 FTE from these budgets plus 3 court services grant positions. In FY02 these departments represented about \$1.5 million of the district court budget, which will now be administered by the State. Funding for this change was deducted from the State entitlement distribution to the County.

The public defender's office costs are slated to be assumed in FY04, which is necessary for balancing the FY04 County budget. I suspect the occurrence of this coming to fruition without requiring County funding is unlikely. The lack of full State cost assumption in FY04 will cause a strain on next year's budget of about \$250,000.

The health insurance levy fund will account for tax revenues, which are utilized for funding eligible costs of the health insurance plan allowed under HB409 from 2001 session.

The mental health fund was separated from the general fund to allow for growth in taxable value to be designated as funding available for those programs.

The blight abatement fund was created to account for costs and cost recovery of the County's blight program.

The County general fund is utilizing up to \$400,000 of one-time capital funding to update the heating and cooling systems of Metrapark. Any future assistance for Metra capital projects will have to be evaluated on an annual basis.

Cost areas that are problematic because they exceed normal inflationary growth are health insurance, prisoner medical costs, jail detention, mental health treatment, and criminal defense. Funding of capital replacement and providing for event promotion at Metrapark continues to be an issue.

Many of the budgets which show large funding deficits include large contingency budgets which are not anticipated, but is possible, to be spent within FY03. This is a practice consistent with prior years and simply allows for unforeseen uncontrollable expenditures (i.e. Liability Insurance, Health Insurance).

OVERVIEW

Although many departments are able to continue stable operations, there are some particular areas of concern. Medical costs and treatment in all facets is a major funding problem. Cost shifting and underfunding by other governments is becoming more frequent as entities look to balance their own budgets. Jail overcrowding becomes more and more prevalent. Detention expansion must be married to the additional operational costs of a larger facility. Legal indigent defense costs are escalating quickly and will likely be underfunded by the State. METRA has several operational and capital funding issues that will need to be addressed in order to provide long-term economic and facility viability.

As conditions currently exist, the budget is balanced and sustainable; however, the County is likely to have some negative financial impacts as a result of the State's financial problems unless the State implements new revenue sources. Hopefully, the State will resolve its budget problems through prudent decisions and not simply pass them onto local governments.

I'd like to thank all the County departments and the County Commissioners for their planning, dedication, and effort into building this budget with the goal of providing the best services and facilities for the community with the resources available.

Respectfully submitted,

Scott Turner - Finance Director