

August 22, 2003

**YELLOWSTONE COUNTY
FISCAL YEAR 2003-2004
FINAL BUDGET
EXECUTIVE SUMMARY**

The Fiscal Year 2003-2004 (FY04) 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 preliminary hearings were held May 30 through June 4, 2003. The final budget is scheduled to be adopted on Tuesday September 16th, 2003 after public hearings held on September 2, 2003 @ 5:30pm in Room 105 of the Yellowstone County Courthouse and another public hearing held on September 16th, 2003 @ 9:45am in Room 403 of the Yellowstone County Courthouse. The final budget has included include changes from the preliminary budget resulting from salary and benefit changes for personnel; evaluation of capital, personnel, and operating needs; taxable valuation changes; and year-end cash positions.

REVENUE BUDGETS

Tax revenues have increased \$2.4 million from FY03 to FY04 due primarily to two factors. Taxes on new construction will generate \$1.07 million in revenue and the new voter approved public health levy of 4.75 mills will generate \$974,000 in additional funding to support community health programs. Replacement tax funding related to the phase-out of State personal property tax reimbursements is \$121,846. Also included in the tax computation is a statutorily allowed 1.22% inflation factor which will provide \$200,000 in additional funding. The permissive medical levy also increased by \$211,860 to allow for the increased funding costs of eligible County health plan members. Tax revenues of \$125,000 were reduced to the Road and Library funds due to annexation of property within those taxing districts.

REVENUE BUDGET,continued

The final budget sets the **countywide** FY04 mill levy at **84.94** mills while the FY03 levy was **74.59** mills. This results in an overall millage increase for the countywide levy of **10.35 (13.9%)** mills. This includes **\$973,954 (4.75 mills)** increase in taxes for the voter approved levy for public health services. This voter approved levy accounts for 46% of the increase in mills. Another major component of the millage increase is related to the loss in base taxable value from the prior fiscal year. The resultant countywide **3.26** mill increase is included in order to collect the same tax revenue base as the prior year. The amount of the statutorily authorized mill levy increase for employee health insurance is **1.00** mill. This levy was authorized by the legislature in response to health costs consuming significant portions of available budget dollars to local governments. The balance of the projected mill increase is from personal property reimbursement reductions (**0.52**) and a statutorily authorized inflation adjustment (**0.85**). There is a small decrease of **.03** mills in the METRA general obligation debt service levy. Like the previous budgets, 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 total taxes levied for County funds for FY04 is \$20,173,090 versus \$17,772,237 for FY03. The FY04 levy for BSEDA is proposed to be 2.64 mills to generate \$542,077 in tax revenue versus 2.48 mills for FY03 which generated \$504,392.

The same factors of base property value loss, inflation adjustment, and replacement of State personal property tax reimbursement had the effect of increasing the levy of other taxing districts, such as the road fund, library, planning districts, and BSEDA.

Significant area of change in revenue projections include a substantial decrease to interest earnings, an increase to clerk and recorder filing fees, and a substantial increase in district court reimbursement proceeds. The district court budget is heavily dependent upon full reimbursement of eligible program costs but is supposed to be fully reimbursed for eligible costs for FY04. Adequate funding appears to be available for FY04 from the State to reimburse the County for most public defense costs.

EXPENDITURE BUDGETS

Most County departments' FY04 operating budgets do not exceed their FY03 operating budget. Approved operating budget increases above FY03's level are delineated under the department's budget note and recapped on budget summary sheets. Approved FTE changes and capital are also specified on the department's budget notes and on budget summary sheets.

Resources dedicated for METRA capital replacement and improvement projects have been separated into a new fund (5811). This was done in order to better match operating costs with operating revenues and also to account for fees designated for capital replacement and improvement. It should also facilitate an easier understanding of financing proceeds, debt service, and capital expenses related to METRA.

Total approved FY04 capital is \$7.8 million versus \$6.5 million for FY03. Please see detailed capital list in summary section.

A total of an additional 5.925 FTE and other personnel changes have been included at a cost of \$288,508. The sheriff's department represents 2.5 FTE and \$103,610 of the total. Another 1.5 FTE is in the GIS department, but these positions are related to the rural addressing project which is expected to be completed by the end of the fiscal year. METRA includes many changes to staffing with the net impact of a .5 FTE increase at a cost of \$40,958. METRA staffing levels are expected to be reviewed at midyear budget review to determine if any additional changes are necessitated. See the FTE change worksheet in the summary section for additional detail.

The Air Quality budget reflects 7 months of appropriations pending a new interlocal agreement, which is desired by the three local governments (Cities of Laurel and Billings, and Yellowstone County) that created the Air Quality Board. A new agreement is desired by Jan. 1, 2004. The revenue budget reflects six months of revenues. A mid-year budget amendment will likely be necessary.

Many of the budgets which show large funding deficits include large contingency budgets which are not anticipated, but is possible, to be spent within FY04. This is a practice consistent with prior years and simply allows for unforeseen uncontrollable expenditures (i.e. Liability Insurance, Health Insurance). The capital projects fund also appropriates the full available reserve on an annual basis although many of these reserves are not anticipated to be utilized during the year.

OVERVIEW

The FY04 budget is balanced and able to support current operational levels with the possible exception of METRA. At this time I am very concerned that METRA is not able to support its operational needs. The unacceptable low level of cash reserve and precariously thin projected revenues over expenses make this a likely fund to experience a deficit position by yearend. Much management attention is being paid to METRA and its operations, however, it is an extremely difficult balancing act for all parties involved.

An additional long term issue regarding the going concern aspect of the County's largest taxpayer may cause cash flow issues in some County funds, but reserves should be adequate in the County's major funds to account for this issue. It is likely to be a concern for other noncounty taxing jurisdictions if delinquencies continue for an extended period.

Once again, I'd like to thank all the County departments for their assistance and input into building this budget and for the community's support of county operations.

Respectfully submitted,

Scott Turner - Finance Director