

# *Yellowstone County*



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## **YELLOWSTONE COUNTY FISCAL YEAR 2016-2017 FINAL BUDGET SUMMARY**

The Fiscal Year 2016-2017 (FY17) 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 budget requests were presented at budget hearings held June 14 through June 16, 2016, and further reviewed during a working session on August 25, 2016. The final budget must be adopted by the later of the first Thursday in September or 30 days after the State provides certified taxable values, the last correction being in mid-August this year.

The final FY17 budget is scheduled for adoption on September 6, 2016. The final budget includes changes from the preliminary budget resulting from salary and benefit changes, the evaluation of capital, personnel, operating needs, taxable valuation changes, and year-end cash positions.

## REVENUE BUDGETS

FY17 tax revenues are budgeted at slightly more than \$46 million, before accounting for estimated protests. This represents an increase of \$2.9 million, or 6.8% from FY16. This is due to an increase in taxable value in the county as a whole from newly taxable property of almost 3%, and a known 0.50% inflation factor (this figure has been set by the State, and available under statute) for FY17. Overall tax revenue increased by 1.47% due to a voter approved levy for senior activities in June, 2016. The FY17 tax revenue base was increased by \$262,000, which corrected a longstanding miscalculation of countywide levies relating to gross proceeds tax assessments. Finally, it is important to note that a significant share of growth this year is from properties outside of the cities. Therefore, those funds such as the Road Fund saw larger revenue growth because their tax base percentage increase exceeded that of the countywide funds. Entitlement growth from the State of Montana is 4.47% higher for FY17.

These changes brought slight increases in most levies. FY17 will witness an increase in the countywide levy of 4.14 mills, or 3.82% from last year's levy total.

The tax levy for the Big Sky Economic Development Authority is 2.95 mills, which represents a levied increase in funding of almost \$55,800 to that entity, while remaining below its statutorily allowed mills. \$25,000 of this increase was directed toward BSEDA's BillingsWorks program. State entitlement dollars increased by almost \$9,300 to BSEDA.

The permissive medical levy is at 10.6 mills. This level has been in place for the last several years, even though the County could assess an amount in excess of 14 mills for this program by law. Careful administration of that fund by the Board and our HR department has allowed us to keep that levy unchanged.

During FY16, CHS Inc. protested well in excess of half of its property tax bill. CHS's continued position causes the County to increase its estimated overall protest level to 6.05%, from last year's estimate of 4.1%. The Montana Department of Revenue recently informed the Board of County Commissioners that this dispute may well not be resolved until 2019 – 2021. The difference in the State's valuation and CHS's claim is so large, that the two parties are not in active dialogue. Until resolved, significant property tax dollars will be at risk.

Overall, non-tax revenues reflect a 5.25% increase. In sum, our total revenues available from all sources are projected to increase 6% from FY16's budgeted totals.

## EXPENDITURE BUDGETS

County departments were asked to submit preliminary FY17 budgets which did not exceed their FY16 budget. Finance took the additional step this year of reviewing areas where historically material lines of expenditure were allocated, but no material spending took place. It would be counterproductive to notify departments of this consideration long before such a review took place, as it may create abnormal spending patterns to justify continued spending in future years. This activity was received very positively in almost every circumstance, with several departments recommending additional cuts themselves. This provided reductions of over \$65,000 in the General Fund alone, and approximately \$280,000 overall.

After budget hearings, many adjustments took place as Justice Court, the Sheriff's office and Metra agreed to reductions in their initial requests.

Total base appropriations approved by the Board were \$88.3 million, or a 5.50% increase from FY16's budget of \$83.7 million. It is worth noting that almost \$1.9 million of this increase is due to bridge construction and increases driven by the voter approved senior activities levy.

The new staff levels approved by the Board include: (1) new concession worker and (1) new event coordinator for Metra, (1) additional sheriff sergeant and (2) new detention officers at the detention facility, and (1) additional justice court position. This results in an increase of 6.0 FTEs, down from 8.75 FTEs requested during June budget hearings.

There were many large new non-personnel impacts to budget expenditures over FY16. These include \$114,975 in subsidies for the Justice Court jail diversion program, which will fund up to 35 slots to assist in reducing the population at the detention facility. \$1.3 million is allocated for Laurel Road bridge work, and \$75,000 in additional mental health spending is authorized to support detention facility mental health programs.

Slightly over \$2 million is allocated for the acquisition and retrofitting of a new office building to house Sheriff's office operations. This will allow the County more options in dealing with future district court growth decided upon by the 2017 Legislature, and beyond.

Further, the County is allocating \$4.5 million out of capital improvement funds to commence construction of the recently approved women's addition to the

detention facility. This expansion is now possible due to overwhelming support of the County's June, 2016 ballot measure that sought approval from the voters to borrow up to \$9.7 million for construction activities at the detention facility. This was coupled with a commitment of no tax increase being needed to fund the repayment of the loan. A smaller proposal, but which required a levy increase was soundly defeated in June of 2015, gaining only 44.8% of the vote. This new approach, which provided for substantial expansion to serve this County's needs long into the future, garnered 57.2% of the vote.

In order to account for property tax funding that may not be received in FY17, contingency expenditure budgets have been created in all of the tax levied funds. The budget reflects the anticipated amount of FY17 impact from protested property taxes, since it is likely that these funds will not be available in FY17 to fund operations. The budget reflects only the anticipated property tax shortfall for FY17 and does not include the shortfalls from prior year protested taxes.

A couple of the budgets which show large funding deficits, include a large contingency budget which is not anticipated, but is possible, to be spent within FY17. This is a practice consistent with prior years and simply allows for unforeseen uncontrollable expenditures (i.e. Liability Insurance, Health Insurance).

## OVERVIEW

The FY17 budget will witness a growing trend in protested taxes, which is now estimated to be 6.05%. This, coupled with a projected growth in centrally assessed property of 13% over FY16, raises concerns that may cloud the County's capacity to respond to many areas of growing need in the near to intermediate term.

On a related topic, real estate valuations make up over 79% of the County's overall tax base subject to levy. While centrally assessed growth was quite large, growth in real estate was less than ½ of 1% from last year.

Protests of value and levels of taxation in the centrally assessed area can often take years to be resolved. In May of this year, representatives of the Montana Department of Revenue appeared before the Board of County Commissioners to outline the situation over the protest filed by the County's largest taxpayer. Their conclusion is that it could take 3 to 5 years to resolve. The Finance Department understands due process and making sure every taxpayer has adequate time to present and follow its case through the processes allowed to them under Montana law and administrative rules. However, it is hard to imagine that a property solely domiciled in Yellowstone County could not have its issue resolved in a timeframe much shorter than that. We urge the Board and our legislators to consider some sort of accelerated process when it involves at least those few taxpayers that are so material to a county's or school district's tax base that it potentially impairs its operations until resolution is reached. Simply "borrowing" against the protest fund doesn't resolve the issue.

Our larger building projects were mentioned in the "Expenditure Budgets" section. Metra looks to move its shop for safety concerns and for efficiency gains, while grandstand repairs and pavement replacement continues to occupy center stage of their capital replacement plans. New items specifically identified for FY17 at Metra will total \$1,488,000. Revenues at Metra appear sufficient to meet their capital needs.

Budgets that currently have funding issues include:

The sheriff's FY17 budget shows a base expenditure budget deficit, which excludes contingency for protested taxes of (\$313,000). Given the conservative nature of our budget process, this base deficit should end the year lower than projected.

The County Attorney's budget continues to present the largest structural budget deficit issue in the County. Even with a one-time transfer from the Liability Fund of \$250,000, the County Attorney's reserve projects to drop from an estimated 30% of appropriations last year to 27% for the end of FY17. Further Board action in this area will be needed in the next year or two.

Metra's FY17 operations budget currently projects a shortfall of (\$434,000) with the current event projections. This is quite similar to last year. FY16's results allowed Metra's add to its reserves again. Due to the conservative nature of budgeting for that enterprise, we will likely come close to a break-even there in FY17.

The health insurance has a projected deficit. However, the fund reserves are strong so the exposure risk can be tolerated at the projected deficit level.

Over this past year, circumstances did not permit time to consider replacing our Telephone Fund, with a Technology Fund. Methods of communications, and information processing and transmission demand we constantly look for ways to provide for future needs in integrated ways that make us more efficient and more cost effective in our work. With a new IT Director soon to be in place, we look forward to developing that concept by the end of FY17.

Another looming issue presses the County. Analysis by the State of Montana has been conducted, and it is deemed that our judicial district, currently with six judges, is still six judges short. In our estimation, especially given the State's financial position, it is extremely unlikely that the next legislative session will see a move to address most of that shortage. It is, however, reasonable to assume that one or two judges may be added in the next two years. The County is required to provide space for these placements, and related support staff and courtroom space.

Finance recommended to the Board that we acquire a nearby office building that provides almost 19,000 square feet of space with considerable parking. It was further recommended that this building be utilized by the Sheriff's office, which has outgrown its current space in the building next to the courthouse's parking lot. This will also allow Sheriff staff to gain quicker access to roads heading in every direction in the case of emergencies.

The soon to be vacated building will be held without improvement until plans for the district court become clearer. The longer term option for that space is for moving a floor of offices out of the courthouse. By current estimates, this will

allow for up to five judges and two ADA compliant courtrooms to be added in the courthouse. The fourth floor is the most likely candidate for remodel in that it would be the least expensive to alter. The County will be getting estimates for such a remodel in order that we have costs available to present to the State, seeking participation. We feel that this approach would demonstrate our commitment to accommodate district court growth, at the lowest cost. To make room for just one or two judges would be shortsighted against the longer term real need for space. We believe that our approach will give us a long term solution that will provide for needs throughout the next decade, and perhaps beyond.

Finally, having completed an entire budget process for the first time, I would be remiss in not expressing my thanks to the taxpayers and to our employees at all levels in the building this budget, and development of some longer term goals. We remain committed to providing excellent service and value for the tax dollar to the County and its residents.

Finally, I want to add my personal thanks to staff. Jennifer Amundsen, our comptroller is an enormous asset to this County and its citizens. Joining her are Kelly Campbell, Steve Krogstad, James Matteson, Theresa Covington, Cari Carlson, and our most recent addition, Tim Hofferber. I appreciate their level of knowledge, commitment to our county, and patience in this complex process.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kevan Bryan". The signature is written in black ink and is positioned above the typed name.

Kevan Bryan, Finance & Budget Director