

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

We hereby offer readers of the attached financial statements this narrative overview and analysis of the financial activities of Yellowstone County for the fiscal year ended June 30, 2016 and the financial position as of June 30, 2016. We encourage readers to 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 increased fund balance by \$404,206. Real estate taxes declined from FY15 due to that year's collection of significant multi-year tax protest resolutions. Transfers to the County's capital improvement fund decreased by \$1.4 million, due to lack of one-time proceeds to set aside. Overall, other revenues and expenditures performed favorably, leading to the increase in fund balance.
- The road fund balance increased by \$104,899. This was primarily due to a reduction of amounts spent on road projects from FY15, which represented somewhat of a spike in expenditures due to the ability to increase activity due to protest tax resolutions.
- The liability insurance fund balance decreased (\$146,852). This was due to several material claims against the County being resolved, as approved by the Board of County Commissioners. The fund remains fiscally sound.
- The Sheriff's public safety fund balance increased by \$1,718,625 in FY16. The \$1,061,000 spike in protest property tax collections was replaced by a \$409,000 increase in current year tax collections, a \$284,000 increase in motor vehicle option taxes, and a \$606,000 increase in prisoner boarding fees collected from other taxing jurisdictions. Expenditures in aggregate we held virtually unchanged from FY15, showing a small decline of \$110,588. Jail population will soon be addressed. After a voter rejected request for a tax increase in June of 2015, the County submitted to the voters a request to borrow up to \$9.7 million for a larger jail expansion along with updates, with a commitment to no tax increase. It passed with 57.2% of the vote. Construction will begin near the end of FY17. The County has escalated efforts to divert funds to the capital improvement fund in order to help cover these costs in FY17 and FY18. Total costs of this project are projected to exceed \$18 million.
- The county attorney's fund concerns continue. Revenues were virtually flat from last year at \$3.98 million. Of that, \$2,108,090 represents a transfer from the general fund. As previously stated, this level of support from the general fund is unsustainable in the longer term. Expenditures were up 8.93%, with no single area standing out. Given the ever increasing demands placed upon this office from all directions, Finance projects that a funding solution should be sought and obtained by 2020, if not sooner.

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

- Overall, Metra witnessed a small increase in its net position of \$36,538. Revenues were up approximately 6.8%, excluding Metra capital improvement fund results, with consistent increases in most areas. While the net results were about \$500,000 ahead of the FY16 budget, expenditure increases pose a challenge. Consistent attention in this area in FY17 will be important in order to maintain operational gains. Reserve levels are adequate.
- The County's protest fund balance has climbed by roughly \$2.63 million from the end of FY15. This is due to a 'net' of the resolution of the AT&T protest, covering 2011-2014, and the renewed protests by area refineries, with the majority of that coming from the County's largest taxpayer. In that particular case, the Director of the Montana Department of Revenue told the Yellowstone County Board of Commissioners that the State's position is so far separated from that taxpayer's claim that discussions are not active. It may take up to 5 years for this case to be resolved. The County has had discussions about how to work with the next session of the Montana legislature to see if there can be some method that can be adopted into law that preserves a taxpayer's right to full adjudication of cases such as this, while providing a more timely process for said resolution.

**PROTEST FUND ACTIVITY
FOR THE PERIOD 6/30/15 - 6/30/16**

	<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 6/30/15		\$ 10,115,944.68				
AT&T	2011-2014	\$ (3,754,489.15)	\$ (1,277,663.76)	\$ (2,476,825.39)	65.97%	\$ 550,031
Other Protests Resolved FY16		\$ (2,537,475.81)				
Additional Protests - FY16		\$ 8,925,115.83				
Total Protested Taxes 6/30/16		<u>\$ 12,749,095.55</u>			FY16	<u>\$ 550,031</u>

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

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 deteriorating.

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 what is called 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.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

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.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

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 95-103 of this report.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

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 \$124,635,672 as of June 30, 2016. The change to net position for governmental activities was \$86,119,789, while business-type activities net position stood at \$38,515,883. The net position increase from FY15 to FY16 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 increased from unspent appropriations, while we witnessed a net increase in capital assets of \$2.7 million and a continued pay down of long-term debt. More detail is provided on the comparison on the next page.

Of the County's yearend total net position of \$124,635,672, net investment in capital assets accounted for \$92,254,119 or 74.0% 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 increase beginning in FY17, with the acquisition of a new facility for the sheriff's operations and the commencing of construction of the women's addition to the detention facility. The restricted net position of \$12,521,799 or 10% of total net position represent those funds legally required to be used for a specific purpose. Unrestricted net position of \$19,859,754 accounts for 15.9% of the total net position. Unrestricted net position is primarily used as reserves for cash flow purposes in between 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.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

A comparison of the County's net position follows:

Yellowstone County Net Position

	Governmental Activities		Business Activities		Total	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 65,530,304	\$ 61,132,698	\$ 6,346,655	\$ 5,708,590	\$ 71,876,959	\$ 66,841,288
Noncurrent assets	1,030,734	1,137,294	0	0	1,030,734	1,137,294
Capital assets	55,645,570	52,021,414	37,352,549	38,253,018	92,998,119	90,274,432
Deferred Outflows	5,174,632	1,618,713	152,543	144,115	5,327,175	1,762,828
Total assets and deferred outflows	127,381,240	115,910,119	43,851,747	44,105,723	171,232,987	160,015,842
Current liabilities	5,804,387	6,311,364	2,544,163	2,711,179	8,348,550	9,022,543
Noncurrent liabilities	30,234,345	23,800,571	2,589,519	2,457,056	32,823,864	26,257,627
Deferred Inflows	5,222,719	8,642,090	192,182	461,615	5,414,901	9,103,705
Total liabilities and deferred inflows	41,261,451	38,754,025	5,325,864	5,629,850	46,587,315	44,383,875
Net position:						
Net investment in capital assets	54,901,570	51,154,747	37,352,549	38,253,018	92,254,119	89,407,765
Restricted	12,521,799	11,374,754	0	0	12,521,799	11,374,754
Unrestricted	18,696,420	14,626,593	1,163,334	222,855	19,859,754	14,849,448
Total net position	\$ 86,119,789	\$ 77,156,094	\$ 38,515,883	\$ 38,475,873	\$ 124,635,672	\$ 115,631,967
Change in net position	\$ 8,963,695		\$ 40,010		\$ 9,003,705	

Governmental activities.

The increase in net position for governmental activities of \$8,963,695 was due, in part to:

- An increase in FY16 of \$974,764 in charges for services
- An increase of \$2,429,089 in property taxes
- A decrease in numerous areas of general government and public works expenditures resulting in a \$1,689,756 savings over the previous fiscal year

Business activities.

The increase in net position for business activities of \$40,010 was the result of overall net positive activity at Metra, with the increases from charges for services exceeding the costs associated with such gains.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

Yellowstone County's Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Special assessments	\$ 1,056,771	\$ 905,851	\$ 214,668	\$ 214,216	\$ 1,271,439	\$ 1,120,067
Licenses and permits	79,978	63,804	0	0	79,978	63,804
Intergovernmental	1,335,276	1,361,946	0	0	1,335,276	1,361,946
Fines and forfeitures	776,330	761,279	0	0	776,330	761,279
Charges for services	11,278,205	10,303,441	5,371,215	4,921,521	16,649,420	15,224,962
Operating grants and contributions	1,005,070	1,044,089	0	0	1,005,070	1,044,089
Capital grants and contributions	0	164,913	0	0	0	164,913
Total program revenues	15,531,630	14,605,323	5,585,883	5,135,737	21,117,513	19,741,060
General revenues:						
Property taxes	39,750,892	37,321,803	2,777,390	2,667,477	42,528,282	39,989,280
Licenses and permits	4,828,934	4,527,657	0	0	4,828,934	4,527,657
Intergovernmental	3,757,162	3,622,161	137,391	134,291	3,894,553	3,756,452
Other revenues	1,271,965	1,147,635	187,376	222,017	1,459,341	1,369,652
Total general revenues	49,608,953	46,619,256	3,102,157	3,023,785	52,711,110	49,643,041
Total revenues	65,140,583	61,224,579	8,688,040	8,159,522	73,828,623	69,384,101
Expenses:						
General government	14,394,420	15,503,344	0	0	14,394,420	15,503,344
Public Safety	25,577,747	25,680,633	0	0	25,577,747	25,680,633
Public Works	7,799,749	8,380,581	0	0	7,799,749	8,380,581
Public Health	4,416,311	3,428,311	0	0	4,416,311	3,428,311
Social and Economic	1,834,029	1,831,444	0	0	1,834,029	1,831,444
Culture and Recreation	1,458,819	1,521,973	0	0	1,458,819	1,521,973
Community Development	455,297	530,260	0	0	455,297	530,260
Conservation of Natural Resources	129,915	130,976	0	0	129,915	130,976
Interest on Long-Term Debt	148,560	238,315	0	0	148,560	238,315
Sanitation, refuse disposal	0	0	191,196	188,202	191,196	188,202
Civic center, METRA	0	0	8,418,875	7,579,592	8,418,875	7,579,592
Total expenses	56,214,847	57,245,837	8,610,071	7,767,794	64,824,918	65,013,631
Increase (decr.) in net position before transfers and extraordinary gain	8,925,736	3,978,742	77,969	391,728	9,003,705	4,370,470
Transfers	37,959	(92,889)	(37,959)	92,889	0	0
Increase (decrease) in net position	8,963,695	3,885,853	40,010	484,617	9,003,705	4,370,470
Prior Period Adjustment	0	(23,803,977)	0	(2,160,690)	0	(25,964,667)
Beginning net position	77,156,094	97,074,218	38,475,873	40,151,946	115,631,967	137,226,164
Ending net position	\$86,119,789	\$77,156,094	\$38,515,883	\$38,475,873	\$124,635,672	\$115,631,967

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

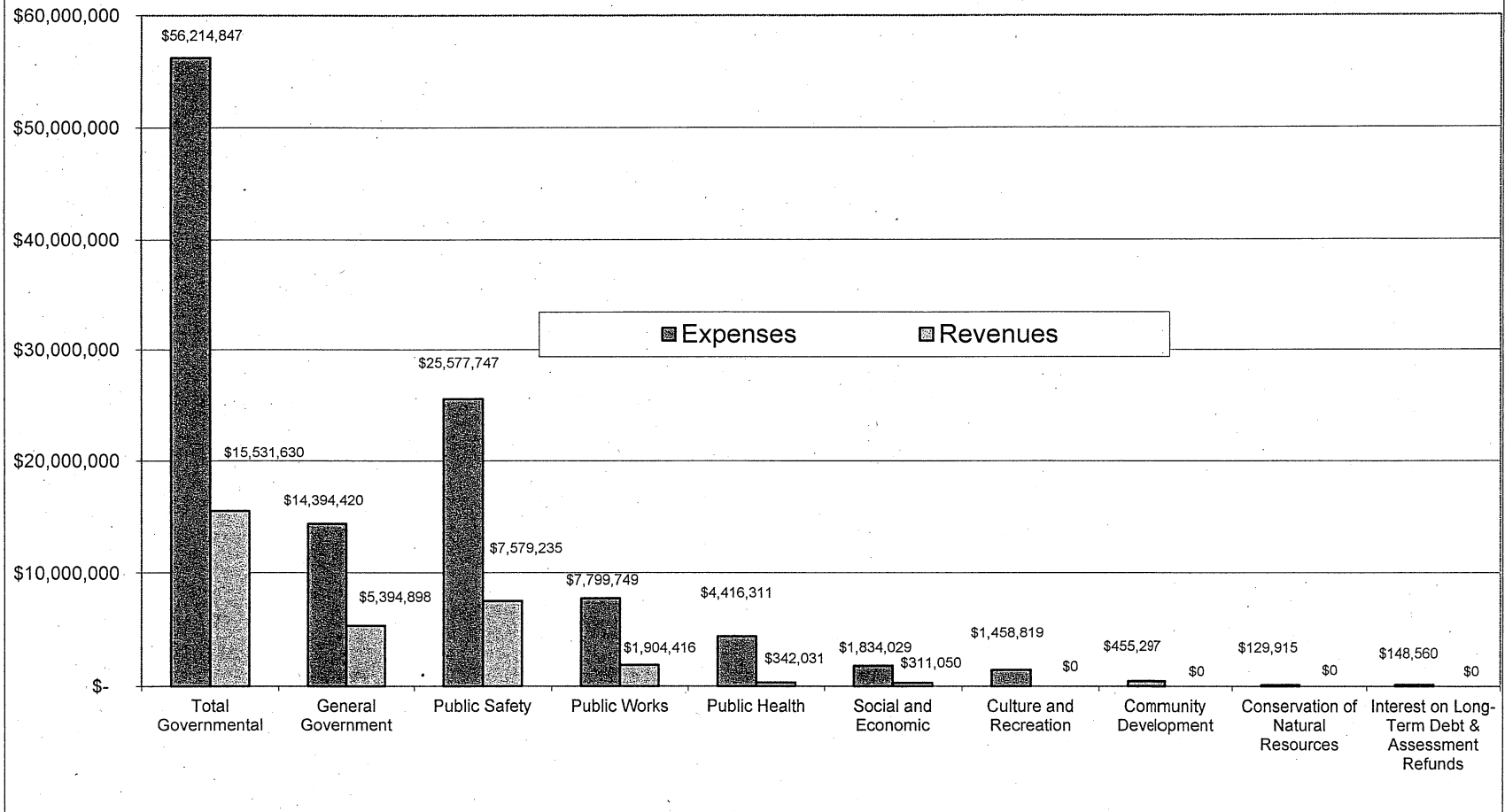
Of the County's \$56.2 million in expenses for governmental activities, \$15.5 million (27.6%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (80.1% of the general revenues). The major sources of program revenues (and change from prior year) include:

- Gas tax: \$296,190 / (+\$7,828)
- Justice Court fees: \$650,386 / (+\$57,485)
- Clerk & Recorder filing fees: \$1,074,323 / (+\$61,448)
- Adult detention boarding fees: \$3,948,874 / (+\$606,866)
- Youth detention and secure shelter boarding and program fees: \$1,975,205 / (+\$189,328)
- RSID assessments: \$1,158,487 / (+\$59,069)
- Operating grants: \$1,005,070 (-\$39,019)

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

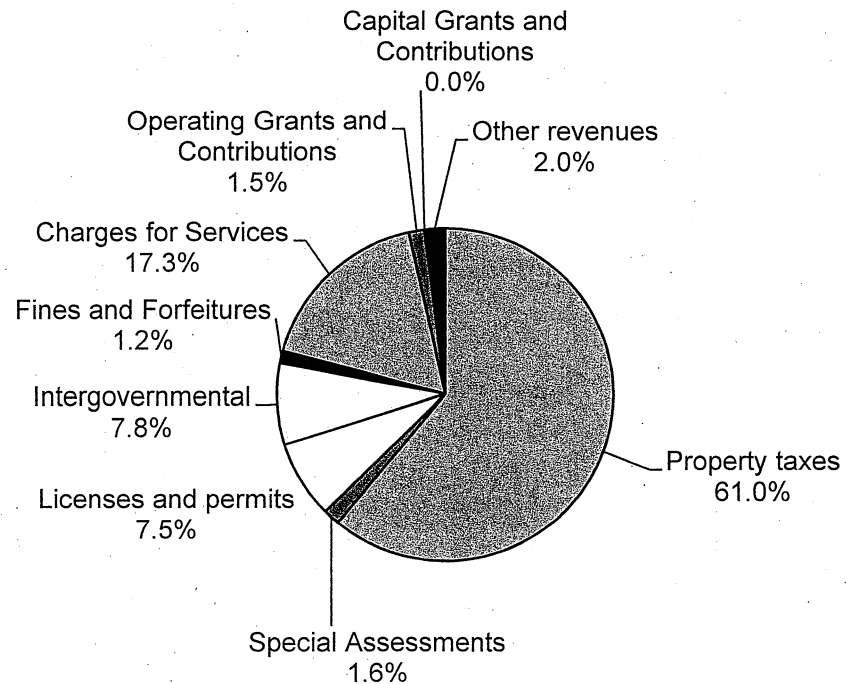
**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

Expenses and Program Revenues - Governmental Activities



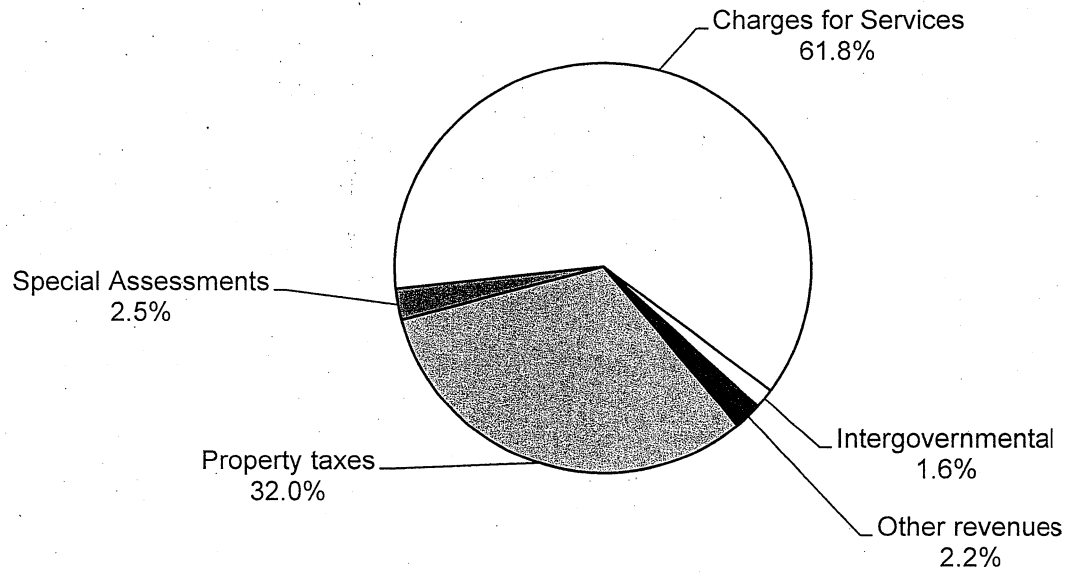
YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

Total Revenues by Source - Governmental Activities



YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

Total Revenues by Source - Business Type Activities



**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

Fund Financial Statement Analysis

Governmental funds.

Yellowstone County's governmental funds' change in fund balance for FY16 was an increase of \$2,991,561 resulting in an ending total governmental fund balance of \$48,814,897.

The general fund increased fund balance by \$404,206 during fiscal year 2016, due mainly to reduced expenditures in the general government arena.

The road fund increased by \$104,899 in the current year, and continues to be consistently stable.

The public safety fund balance increased \$1,718,625, due in large measure to a \$607,000 increase in prisoner boardings from other jurisdictions, coupled with an increase in motor vehicle option tax collections totaling \$284,241.

The property and liability insurance fund had a decrease in fund balance of \$146,852. This is due to increased payments to settle litigation claims. Reserves are deemed adequate.

The fund balance in the capital improvement fund decreased \$166,229. This was predicted in last year's notes, and is due to dealing with several deferred capital projects. Beginning in FY17, the County will begin spending significant amounts for jail expansion and remodeling. This is an area of significant need, and with the successful ballot measure authorizing \$9.7 million in borrowing, and contributions from the capital improvement funds, this need is soon to be addressed.

See financial highlights section above for discussion related to other notable changes to governmental fund balances.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

Proprietary funds.

As was the case last year, the refuse disposal fund remained almost unchanged in FY16, ending at \$368,510. This represents an increase of only \$3,472. The targeted reserve level is \$250,000.

The health insurance fund had a material fund balance increase of \$1,153,301, ending at \$7,706,110 as of 6/30/16. This was due to a large decline in health claims over the previous year amounting to \$1,096,662. FY17, the health plan is again funded to cover costs based on a projected cost level determined by our health plan third party administrator. The premium rates for FY16 were increased about 6% over FY16 for most coverage.

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.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

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 \$733,000 of revenue and expenditure appropriations to the FY16 budget. Some major grants included in the fiscal year 2016 budget were:

- \$ 50,000 CDBG Planning TEDD
- \$353,593 Crisis Intervention & Jail Diversion Grant
- \$116,862 Yellowstone County Victim Witness Program
- \$113,828 Yellowstone County Salt Cedar Management Projects (2)

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

- Tax protests, predominantly from large, centrally assessed taxpayers decreased tax collections.
- Clerk & recorder fees exceeded budget by \$161,000
- Motor vehicle option tax revenues in the sheriff's fund exceeded projections by \$418,000
- Prisoner boardings were \$824,000 above budget

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

- \$1,450,000 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 FY16
- \$150,000 in detention facility staffing, due to the challenges of attracting and keeping a full staff
- \$12.2 million in unspent capital project fund budget, which is typically reserves appropriated in the current year but not necessarily scheduled to be spent in the current year
- Over \$1,500,000 in unspent bridge budget, in various line items, of which project related expenditures are carried into FY17 budget
- \$2,200,000 in unspent Property & Liability Insurance Fund contingency and claims loss budget
- \$226,000 in unspent budget from the county attorney's office from various unspent contingency line items
- \$300,000 in unspent RSID Maintenance Fund budgets

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

Capital Assets

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

	Governmental Activities		Business Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 3,516,624	\$ 3,526,624	368,574	368,574	\$ 3,885,198	\$ 3,895,198
Buildings	11,452,983	10,076,614	34,243,105	34,044,507	45,696,088	44,121,121
Improvements other than buildings	1,991,942	1,705,428	1,606,930	1,768,385	3,598,872	3,473,813
Equipment and vehicles	7,753,908	8,096,207	944,057	881,845	8,697,965	8,978,052
Infrastructure	30,765,520	28,344,252	0	0	30,765,520	28,344,252
Construction in progress	164,593	272,289	189,883	1,189,707	354,476	1,461,996
Total Capital Assets	\$ 55,645,570	\$ 52,021,414	\$ 37,352,549	\$ 38,253,018	\$ 92,998,119	\$ 90,274,432

Governmental capital assets increased \$3,624,156 in total during the year as a result of the addition of new capital assets in the governmental funds of \$9,202,932 while being offset by depreciation of \$5,352,428 and a net gain on disposal of assets of \$107,353 and the trade in value of \$333,701.

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

- \$5.04 million in infrastructure improvements for county roads
- Bridge and culvert replacements \$390,259
- Various vehicles for Road Department- \$537,367
- Detention facility security upgrades \$1,007,396
- Detention property acquisition \$252,813

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

- Ag Building-Metra \$1,151,204
- Horse stalls-Metra \$118,218
- Basketball floor with backboards- \$136,524

See footnote 7 (pages 58-59) for additional information on capital assets.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016

Long-term Debt

As of June 30, 2016 the County has \$8,395,379 of long-term liabilities. Governmental funds account for \$7,793,818 and the enterprise funds account for \$601,561.

The largest component of long-term debt is \$3,000,000 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 \$1,605,000 is funded by the general fund. The other limited tax general obligation bond, which has a balance \$1,395,000 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+.

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 6/30/16 the County has \$1,150,000 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$327,451. The County issued no new RSID bonds during FY16.

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 \$285,965 as of June 30, 2016.

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 (\$146,852) in FY16.

Compensated absences is the amount of the liability for unpaid vacation and sick leave at yearend. The liability increased \$116,218 (4.8%) in FY16. The amount of this liability at yearend was \$2,527,215. 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.

See footnote #8 (pages 60-64) for additional information on long-term debt.

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

Economic Factors and Next Year's Budget

Overall countywide taxable value, as determined by the Montana Department of Revenue for FY17, grew 2.94%, which was in line with historical increases outside of a statewide reappraisal year.

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. With the exception of healthcare, many of those factors are softening at this time.

Energy development in the Bakken region and surrounding areas are supporting business and trade activity in the Yellowstone County region, although continued price declines are slowing in employment and capital expenditure growth in that industry.

Unemployment is low at 3.9% as of June, 2016.

Some of the more significant financial items for fiscal year 2017 include:

- Tax protests are budgeted at 6.05% of FY17 property tax revenues. This is an increase from last year's estimate of 4.1% because, mainly due to continuing protested payments from one of our area's refineries.
- The Board of County Commissioners, after the voters rejected a mill levy increase to expand and staff a 100 bed detention facility expansion adopted a new approach, developed by the Finance department. It called for a commitment to no increase in taxes, a request to the voters to borrow \$9.7 million for a new 148 bed addition for women detainees, a new kitchen/laundry addition and remodeling of the existing facility. The plan called for utilizing this larger addition to dedicate 30 beds to outside jurisdictions' prisoners in order to generate funds to cover the increased costs of operations. This measure passed in June of 2016, with 57.2% of voters approving the plan. The County is well underway in planning this addition, going out for bids in January of 2017.
- Last year in this space, we mentioned that office space within the courthouse will continue to require attention as the next Legislature looks to add one or two new district court judges to Yellowstone County's current total. By law, we are 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. We have taken action to initially address part of this issue with a long-term solution as well. The County will be purchasing a 19,000 square foot office building, with more than 60 parking spots located within a few blocks of the courthouse in November of 2016. The Sheriff's office will move into this larger facility, thus vacating their current 15,000 square foot building next to the courthouse. The County will leave that facility vacant until the Legislature's actions on the district court staffing issues are addressed in early 2017.

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2016**

The County's budget remains in good overall condition. Borrowing and expending capital improvement funds are slated to be utilized in FY17 and 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