
FY 2010
Financial Trend Analysis and Financial Forecast
Friday, February 19, 2010
County of Gallatin, Montana

WHERE YOUR TAXES GO



SCHOOLS

BOZEMAN

COUNTY

UNIVERSITY

FY 2010 Financial Trend Analysis

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FY 2010 FINANCIAL TREND ANALYSIS

Gallatin County, Montana

February 23, 2010

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Transmittal Letter

I am pleased to present the 2010 Financial Plan to the County Commission, the County Administrator and residents of Gallatin County for review and consideration.

The financial plan is a review of past actions, evaluation of the county's present financial condition, analysis and projection of future opportunities and challenges that affect the finances of Gallatin County. The plan includes a Financial Summary, describing the County's historic and current financial condition. This includes a review of the current budget to actual revenues and expenditures through December (50% of the year). The remaining sections show estimates on the County's financial trend and county financial forecasts. The trends continue to include comparisons of the six largest counties. The Financial Plan is a dynamic document in the sense that it is reviewed annually and modified based on applicable conditions.

The 2010 Financial Plan reports and projects trends affecting Gallatin County. The Plan addresses several issues that have had or are having a substantial impact on the County's financial resources in the near term.

- Effects of Economic Downturn on maintaining current levels of service.
- Criminal Justice System improvements recommended by the Detention Consultant were funded in the FY 2005 through FY 2009 Budgets.
- The construction of the new Detention Center, through the approval of a \$32,000,000 bond. Total cost estimated at \$37,580,000.
- The County Office and Criminal Justice System Space needs assessment projects space needs in five-year increments. Current space needs at the Courthouse have been eliminated with the move to the Courthouse Annex. Law and Justice Office space needs are being analyzed by a Master Plan for the site approved in the FY 2010 Budget. The completion of the dispatch center allows the City of Bozeman to occupy the vacated space for a much needed 2nd Municipal Court. According to experts and the CIP Committee replacement of the Law and Justice Facility continues to be the most important need for the County from a building perspective. Preliminary costs for this facility are estimated at over \$22 Million.
- The Transportation plans for the County, Belgrade, and Bozeman have been developed and updated. One of the highest priorities is the Airport I-90 Interchange, with an estimated cost at \$49.4 million with local sources obligated for over \$20 million.
- Implementation of the County Growth Policy will be ongoing, with costs being identified this Fiscal Year and into the future.

My findings show the County to be in a **FAVORABLE** position, because fewer than 14 Trends are in a Favorable position. This is an improvement from last year's 'WATCH' position.

Positive (Favorable) areas include:

- continued significant growth in taxable values for FY 2010;
- slight increase in population,
- growth in business and personal income greater than the national and state average;
- completion of the dispatch center and construction of the new Detention Center; and

Areas to 'WATCH' include:

- decrease in most construction activity;
- University of Montana - Economic Outlook projections continue to show decrease / elimination of growth for Gallatin County; and
- Interest, License and Permits and One-Time Revenues are down.

Negatives (Unfavorable) that detract from the positive local outlook include:

- Significant shortfall in funds for capital projects – including office space, criminal justice, transportation needs and equipment replacement;
- Residents to Employees and Sworn Officers ratio continues to increase resulting in decreased service levels to current residents;
- Property Tax statistical analysis shows significant change in averages; and,
- Employee moral changing due to economic stress and freeze of wages in FY 2010.

Several issues currently being reviewed at the County include:

- Preliminary programming of replacement of Law and Justice facility;
- Update of transportation plan / system - I-90 Interchange; and,
- County Growth Policy implementation – neighborhood plans.

Costs associated with these items will be researched, identified and funded through the normal budget processes. Costs may require either new revenues including users fees or a general tax levy increase or the Commission may use current revenues by reducing, eliminating or restricting growth of current service / programs. The last vehicle to fund capital would be bonding.

The financial plan shows the County is in need of new revenue. The last 20 years has seen the County focused on maintaining services with frozen Mill Levies, in response to tax levy limitations. The financial plan continues to point to the necessity of planning now for the future. The County must address critical funding needs, such as long-term planning, management and protection of Open Spaces, employee retention and organizational development, and the expansion of county and criminal justice office space in a logical and manageable manner.

The 2010 Financial Plan continues to track a variety of issues requiring the attention of the County Commission and the public. The status of the County's current and projected financial condition is explored and statements and recommendations are put forth to maintain and solidify the County's financial standing.

Without the capable, competent and timely support of the Finance Department staff, this document could not have been generated. I would like to thank Jill Therrien, Budget Coordinator for her fresh eyes on this document along with Wendy Wiedenmeyer, CA Executive Assistant, for her help in editing and reviewing this report.

I want to thank Earl Mathers, County Administrator for his support and the County Commission for their understanding of this time consuming project. I look forward to working with all of you and the residents of Gallatin County to review, amend, implement and modify this document.

Edward G. Blackman

County Finance Director

Introduction:

Any plan, especially a financial plan requires projections or forecasting. These forecasts must be based on known information supported by assumptions from current data projected into the future. The forecasts for this Plan are for revenue, expenses, employees, cash and reserves. The information contained in the following forecast is based on the Budget Analysis and Financial Trend Sections of this report.

A five-year budget projection time frame is used for projections/forecasts. These forecasts provide the County with a frame of reference for evaluating the County's financial condition, which helps facilitate the County Commission's decision-making process.

Development of the Financial Forecast

Financial forecasts provide county residents and the County Commission with a reference point for evaluating the County's financial condition as part of any decision making process. The Finance Office updates forecasts annually with support from the County Clerk & Recorder, County Treasurer, County Auditor, County Commission and County Administrator Offices, along with dedicated County employees.

These forecasts are developed using a status quo environment for Revenue, Expenses and Personnel. Status-Quo information relies primarily on historic growth patterns or inflationary projections on current service levels. The projections this year will also take into consideration available information on the economic downturn. Inflation and historical growth rates are used to predict changes to expenditures and revenues. These factors are adjusted by the elimination of items that will not reoccur – i.e. expansion of the dispatch function, or addition of probable items (new Detention staff/operations) – historical approval of new employees, capital expenses and other items that have changed upward or downward during the previous five years.

Information regarding economic indicators and the performance of the economy are taken from the University of Montana (U of M), Bureau of Business and Economic Research (BBER), U.S. Department of Commerce Bureau of Economic Analysis and Woods & Poole.

The 35th Annual Montana Economic Outlook Seminar report developed by the U of M, Bureau of Business and Economic Research states the following for Gallatin County.

“OUTLOOK FOR GALLATIN COUNTY”

“The housing / real estate bubble was the biggest in Gallatin County. The corresponding bust was particularly stark. By mid-2009, construction employment was down 30 percent (or more than 1,600 jobs) from mid-2008 levels, which themselves were 15 percent below the corresponding 2007 figures. Adding to the “bubble” impacts were sizable declines in retail trade, transportation, and business services in early 2009. Finally, the national recession impacted nonresident travel. The 6.0 percent decline in 2009 in Gallatin County matches the decrease posted by Flathead County. On the bright side, manufacturing employment has been only modestly impacted. Montana State University, other state agencies and the federal government account for about 40 percent of the economic base and contribute to the local economy. Growth is projected to return in 2010 and later, but the growth rates will be far below those posted from 2003-2007.

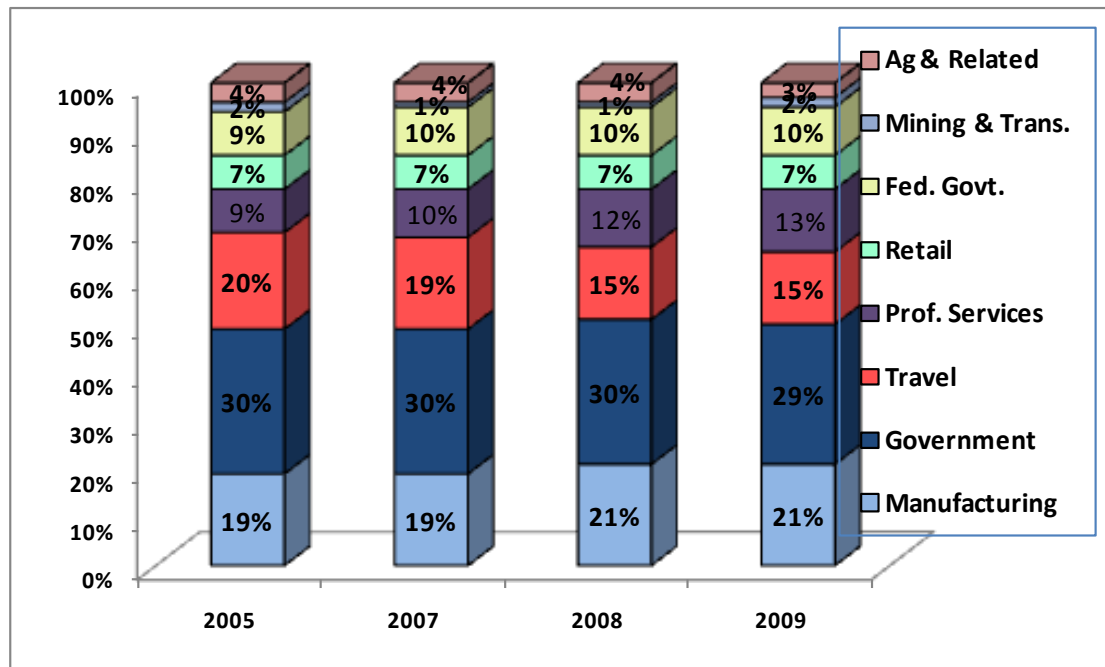
The Bureau has estimated Labor Income growth in the county to be approximately 3.92% for the next 4 years (2010-2013). Significantly UP from the 1.95% Projected in last years report. However, at the presentation on February 3rd the Bureau stated that if they were making projections now the 2010 growth would be at 2% instead of the 3.1% in the report.

The following Graph shows a history of Actual and Projected Percent Change in Non-farm Labor Income – Gallatin County, 2003-2012 from U of M (BBER).



The preceding bar chart gives a historical perspective on the U of M’s accuracy. As can be seen the Bureau’s estimate was under the actual increases in 2 of the 5 years where a comparison is available. In three years they overestimated Labor Income growth. This is especially true of 2008 where the estimate was 6.6% with reality being 1.3%, and 2009 when the estimate was negative growth of -0.6% with actual growth being at negative 6%. More important is that Labor income has grown by 20.2% in the last 5 years, meaning that the average growth in Nonfarm Labor Income has been about 4.0% per year.

The report shows that in recent year’s employment has changed, with increases coming in Manufacturing 2%, Ag & Related down 1%. Travel down 5%. The stacked bar chart below shows changes by industry of employees for 2005- 2009.



Information on potential growth for the County is based on available data and sources. Woods and Poole for 2009 estimates growth in selected areas will be:

Description	2000	2009	2010	2015
Population	67,790	90,650	97,263	114,049
Income/Capita (current \$)	\$24,859	\$35,384	\$37,701	\$45,820
Farm Earnings (Millions)	\$ 9.13	\$ 8.16	\$ 8.32	\$ 6.767
Non-Farm Earn. (Millions)	\$ 1,832.53	\$ 2,947.00	\$ 3,092.80	\$3,804.00

When making forecasts the lowest factor available is used. This is consistent with Gallatin County's conservative financial outlook and allows greater flexibility if factors have been overestimated.

A comparison of Employment for 1980, 1990, 1995, 2000 and 2005 through 2009 shows a dramatic increase in the number of persons employed from 18,680 in 1980 to 49,090 in 2008 (Source – Montana Department of Labor & Industry, Research & Analysis Bureau).

	<u>1980</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2005</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Population Woods)	43,146	50,811	60,644	68,363	80,748	87,359	89,824	93,273
% Pop. Employed	43.29%	54.87%	59.06%	57.82%	56.70%	55.86%	54.15%	51.38%
Labor Force		29,459	36,891	41,033	46,943	49,228	51,473	51,150
Gross Employment	18,680	27,882	35,816	39,526	48,129	47,928	49,090	47,922
Unemployment Rate		5.4%	2.9%	3.7%	2.5%	2.5%	4.6%	6.3%

Tourism is normally a positive factor for the County. Calendar year 2009 saw Yellowstone National Park having almost 3.3 million visitors, up 7.5% from 2008. This makes 2009 the highest year on record. Yellowstone Park visitation was at 3,295,187 in 2009. Entrance through West Yellowstone was at 1,335,037 (up 4.9% from 2008). The Institute for Tourism and Recreation states that "When Yellowstone National Park is up, so is Montana nonresident tourism". This did not hold true for 2009 because stays were shorter, dollars spent per person were down and tourists stayed at campsites instead of motels/hotels. With gas prices down from historic highs in 2008 the prospect for continued high park visitation appears good for 2010.

On a negative note, Air Traffic at Gallatin Field was down for calendar year 2009 by 2.4%. This decrease while of concern is not as dramatic as decreases of 6-7% seen throughout the nation. For the time period 2000 – 2009, Gallatin Field had Passenger Boarding's and Deplanements increase from 482,539 to 683,277 (41.68%). This has made Gallatin Field the second busiest airport, behind Billings, in the state.

The City of Bozeman has reported New Construction Valuation that occurred during 2002-2009 and will come on the tax roles as follows:

<u>Year</u>	<u>Amount</u>	<u>% Change</u>
2002	\$ 86 Million	
2003	\$133 Million	54.65%
2004	\$144 Million	8.27%
2005	\$199 Million	38.19%
2006	\$192 Million	(3.52%)
2007	\$243 Million	26.56%
2008	\$136 Million	(44.03%)
2009	\$100 Million	(26.47%)

Electrical Connections were:

<u>YEAR</u>	<u>Numbers</u>	<u>% Change</u>
2009	702	(23.19%)
2008	914	(31.63%)
2007	1,337	(18.43%)
2006	1,639	(13.78%)
2005	1,901	

Gas connections during this time were

<u>YEAR</u>	<u>Numbers</u>	<u>% Change</u>
2009	380	(26.07%)
2008	514	(40.91%)
2007	870	(15.53%)
2006	1,030	(4.45%)
2005	1,078	

Building permits are down 59% from the high in 2007, but above the 2002 levels, Electrical connections are down 63.07% from the high in 2005 and gas connections have decreased by 64.75% since 2005.

Forecast Summary

Current analysis indicates County revenue will not be sufficient to meet existing levels of service IN FY 2011. This is compounded by the economic downturn which is in its 2nd year, but has stabilized. FY 11 Start Up Budget Projections show the County needing **\$523,322** to meet **current** budgets – needing increasing revenues or decreasing expenses a similar amount. This compares to the same time frame in FY 10 when a shortage of \$1.6 Million was identified. Current estimates are that a significant upswing in the economy is a minimum of 2 years away and that we cannot rely on help from the current economic stimulus package for ongoing expenses.

Growth in wages and operations will require **\$2.5 million** dollars over the next five years without any new staff. With projected staff increases included, Personnel costs will increase by **\$4.9 Million by FY 2015**. The projections for new employees include new Detention Center staffing (which is already funded) and a reduction in the growth for new employees for several years (1/4 of historical growth).

County Elected Officials, Agency Directors and Department Heads need to plan for austere budgets for the next two or three budget years. This will require:

- Reduction in current service levels (including staffing) to meet revenue projections;
- Review of all funds for the possibility of combining tax supported funds to eliminate need for duplicative support functions and reduce operating reserves – Senior Citizens into General Fund – reduce operating reserve by \$30,000 – ONE TIME SAVINGS.
- If absolutely needed look into tax increases either through maximizing mill levies or voted operation levies to fund specific programs, enhancements or capital needs

The County in the past balanced budgets through the use of cash not needed for Operating Reserves. For FY 2011 and into the future cash available to support budgets will be decreasing. Estimates show cash being down **over \$1.1 Million** for FY 2011. The FY 10 actual expenses for Personnel are projected to use **97.86%** of the amount Budgeted (**FY 09 saw 94.27%**). This comes in spite of the Commission requiring all hiring to be authorized by the County Administrator and the Commission prior to being advertised.

Revenues are projected to increase by an average of 2.3%. Non Tax Revenues are projected to grow by 1.1% with Tax Revenues growing at 3.0 to 3.5%. Population increases will drive a portion of revenues and 0.96% is added for those revenues.

Expenditures for Personnel (see graph on page 9) are projected to grow at 3.3% without new employees and 7.2% with new employees. However, Fringe Benefits are projected to grow at 3.7% for current employees and 7.4% with new employees, primarily from increases in Health Insurance, Worker's Compensation premiums and increase in retirement contributions.

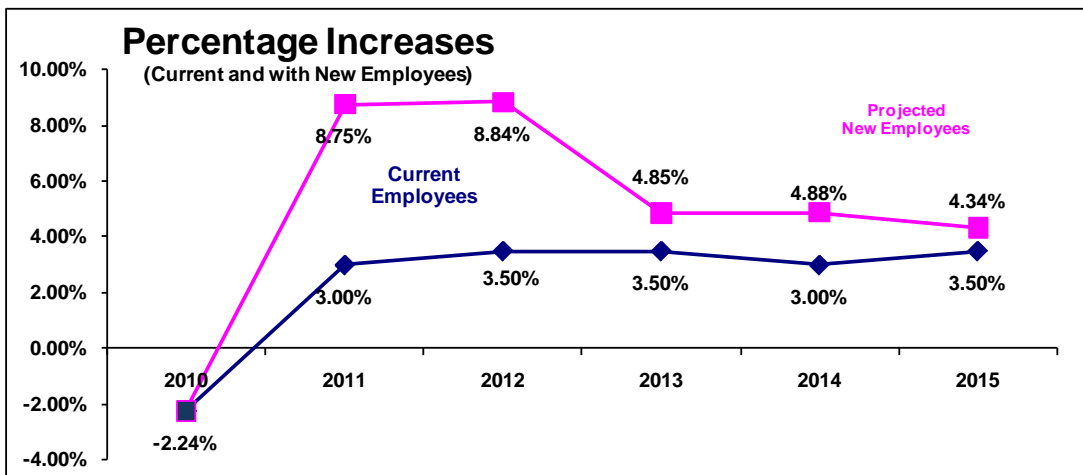
Capital Outlay and Capital Reserves are assumed to grow at similar rates. The funding of the new Detention Center is included in these calculations. Funding for increases in operational expenses associated with the new Detention Center is funded from new valuation taxes of \$1.5 Million already being assessed, and will not require levying of additional taxes.

Operating Reserves are based on the recommendations within the Fiscal Policies. The current reserve of \$5,953,306 needs to increase to approximately \$6.3 million, an increase of \$346,000 over 5 years, without changes in policy or number of funds. Capital Reserves or Capital Equipment budgets are assumed to be funded through current millage or millage from New Construction Taxable Values. Compensated leave balances are assumed to continue to grow at or below the 6-30-09 rates.

The graphs that follow show the dramatic effect incremental personnel increases will have on the overall financial condition of the County. A simple **2.3%** growth in revenues compared to a slightly higher growth in expenses, prior to the addition of new employee results in a **\$1.5 million shortfall in FY 11**, which grows to a **\$5.2 Million** shortfall by 2015. (see page 9) This began adversely affecting County services in FY 10 and will continue into the future.

Growth in Wages:

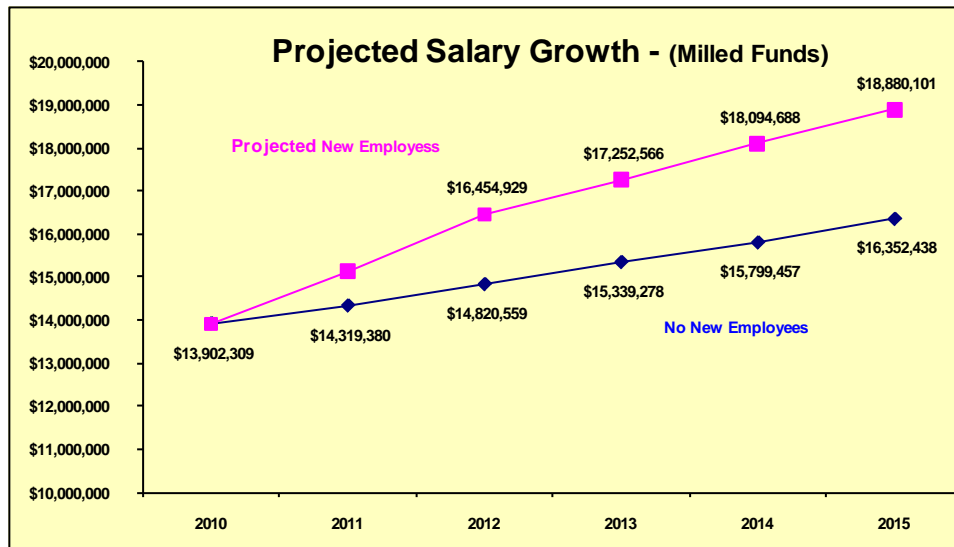
The graph that follows shows the percentage growth for current employees and projected new employees. The projections are based on historic levels of increased staff for **Tax Supported Funds**. The projections include staffing increased in second half of FY 2011 (8.75% increase) and for all of FY 2012 (8.84% increase) for the new detention center.



The percentages show that wages will increase by an average of 3.3% for current employees (with normal turnover taken into consideration). This includes merit increases, longevity and wage adjustments. Adding potential new employees changes the average increase to 6.3%.

Employee Growth in Dollars:

The next graph shows the growth in projected personnel budgets in dollars for the next five years, based on current employees and a projected new employee factor.



This graph shows the effect incremental increases have on salaries. To fund current employee wage adjustments the County Commission needs **\$2.5 million** in new dollars per year by FY 2015. To pay for projected new employees the Commission will need an additional **\$2.5 million by FY 2015**, for a total projected requirement of **\$5.0 Million dollars per year**.

Expense and Revenue Projections:

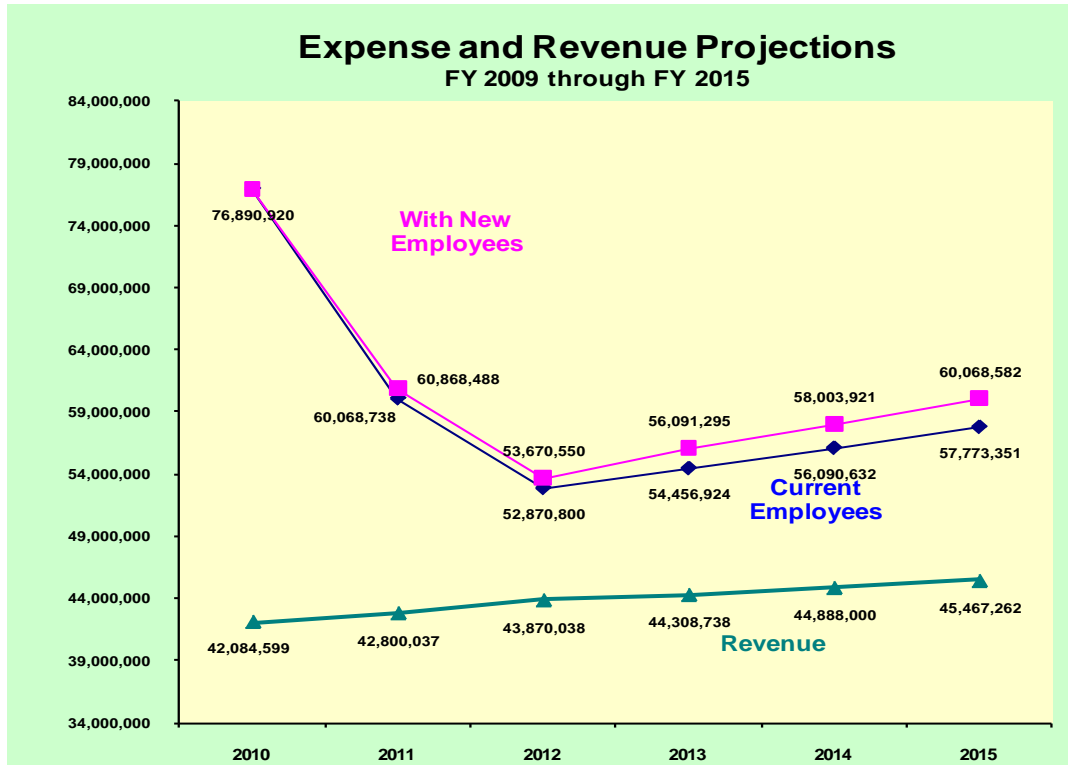
The following chart shows seven years of revenues, cash available for re-appropriation and expenses with the estimated shortfall for each year.

Five Years Projected Revenues, Cash and Expenditures

Year	2009 ACTUAL	2010 BUDGET	2011 ESTIMATE	2012 ESTIMATE	2013 ESTIMATE	2014 ESTIMATE	2015 ESTIMATE
Revenues	39,933,080	42,084,599	42,800,037	43,870,038	44,308,738	45,638,000	46,778,950
(Plus) Beginning Cash	15,489,415	34,806,321	15,795,558	7,897,779	7,108,001	6,397,201	5,757,481
(less) Expenses Current W/ New	59,433,770	76,890,920	60,068,738 60,868,488	52,870,800 53,670,550	54,456,924 56,091,295	56,090,632 58,003,921	57,773,351 60,068,582
Cash End of Year (Shortfall) Current W/ New			(1,473,143) (2,272,893)	(1,102,984) (1,902,733)	(3,040,185) (4,674,555)	(4,055,431) (5,968,719)	(5,236,920) (7,532,151)

The shortfalls are cumulative and will be dramatically decreased as the County Commission balances each year's budget. These projections do not include major Capital Projects, but do anticipate continuation of millage earmarked for Capital Projects or Detention Center Operations.

The graph below shows the projected shortfall in Revenues to projected Expenses (both Current and With New Employees) based on current budgets.



Recap

Gallatin County has funded Capital Projects, new staff and normal operating costs primarily through growth in non-tax and tax revenues and utilizing available cash over the past 15 years. The principle changes to revenue came from reappraisal, changes to State laws associated with motor vehicles and voter approved mill levy increases. Revenues in the past have increased dramatically for growth related fees – Land Record recording, Zoning Fees, etc. These revenues significantly decreased in FY 08 and FY 09 and show a continued decline for the 1st 6 months of FY 10.

The County’s ability to maintain current levels of service will continue to be stressed for the next several years. The economic downturn is now being strongly felt in the County. This has equated to lower inflationary costs during FY 2010, with FY 2011 seeing inflation moving back to an estimated 2% to 3% range. The economic downturn has severely decreased revenues and caused a decrease in cash available for services. In the long run this will mean a dramatic decrease in services and / or the inability of the county to maintain equipment and buildings.

The County has taken steps to reduce costs in prior years and the current fiscal year which will continue into future years. County staff is looking at a number of potential savings that have little or no cost but will positively affect cash either through decreasing expenses or increasing revenues. Examples including combining funds, job sharing, mandatory vacancy savings and reduction in staff where possible.

One area that will adversely affect the County is State Mandates where the state transfers responsibility for task / duty to the County that they no longer can afford to do without the revenue to fully fund the task. With the state budget being strained the tendency and past practice has been to transfer expenses to the county without corresponding revenue. Since the legislature will not meet for another year, this means the governor and departments are making these decisions.

Major factors that will affect the County for the next several years include:

1. Downturn in local, state and national economy;
2. Criminal Justice System –
 - a. Construction of New Detention Facility
 - b. Staffing of new Detention Facility,
 - c. Programming for replacement Law and Justice Facility.
3. County Growth Policy:
 - a. Adoption of neighborhood plans
 - b. Implementation of Programs
4. Transportation System:
 - a. I-90 Airport Interchange
 - b. Replacement of deficient bridges
 - c. Update of roads as stated in transportation plans
5. Discussion on issuing Bonds versus operating levy vote for infrastructure needs (Airport Interchange, Law & Justice, Road / Bridge needs).

The County will see the continued decrease in non-tax revenues, from previous years, over the next 2-3 fiscal years. These reductions will continue until the economic downturn is reversed. At the same time, growth in Tax Revenues will stabilize at a projected 3.0% to 3.5% for 6 years. This means the County must limit expenses to the amount of new revenues received.

During the next five budget years the County Commission will be confronted with:

1. Reducing expenses to match revenues generated by Taxes and Non-Tax sources;
 - a. Identify activities, departments and funds currently funded either directly or through a match for Zero Based Budgeting, using criteria established by the Commission;
 - b. Increase non-tax revenues to fund activities where possible and / or establish the amount or percentage departments will be funded through taxes; and
 - c. Require departments to prepare outcome based performance measurements that are clear, documented and auditable.
2. County Debt load increased dramatically in FY 2010, for Open Lands Bond, Detention Center Bond; and loans for Dispatch and Mental Health (Hope House).
3. The need to maintain PILT payments to fund loans and necessary expenses at current levels after the current 2 year federal allocation is over.
4. Department needs will exceed revenue sources;
 - a. On the average 10% of the services currently being provided need to be reduced or eliminated without new sources of ongoing revenues;
 - b. Operating Reserves, Capital Reserves and Capital Projects will be under greater stress, resulting in deferring of needs causing increased costs now and into the future.
 - c. Cash carry over will decrease, resulting in fewer dollars available for re-appropriation;
 - d. Insurance costs, both liability (5% to 7% increase for FY 11) and health (estimated increase of 5%); and,
5. On a positive note. The County will become a highly desired place to work because of stability and benefits, compared to the private sector.

In closing, while the information provided in this report seems to be doom and gloom, the intent is to act as an early warning to the Public, County Commission, Elected Officials, Department Heads and Employees of Gallatin County.

MISSION STATEMENT

Provide cost effective services, visionary leadership and responsive policies for our diverse residents.

VISION:

Gallatin County is dedicated to being a premier county local government.

Long-Term Goals (Concerns and Issues)

- Equate community needs with budgetary decisions
- Adhere to long-term plans
- Demonstrate exceptional Customer Service
- Serve as a Model for Excellence in Government
- Improve Communication within county government, other jurisdictions and our public
- To be an Employer of Choice and Improve Employee Retention

Short-Term Goals (Priorities and Policy Issues for the Budget Year)

- Maintain public health, safety and welfare as a high priority, as required and allowed under state statute and documented public demand, consistent with performance measurements.
- Improve and enhance the efficiency, effectiveness and productivity of every County function through budget administration and performance management.
- Continue to improve the Criminal Justice System;
- Improve and maintain County Infrastructure by dedicating new property tax revenues from new construction to Capital Projects;
- Ensure that needed transportation infrastructure systems are maintained and enhanced;
- Keep budget structurally balanced by maintaining current operation reserve percentages;
- Demonstrate a strong Commitment to Employee Retention through funding of needed wage and / or benefits;
- Improve management, accountability and oversight to reduce county risk; and,
- Exhibit commitment to implementing Growth Policy.

Process and Schedule

The Financial Trend Analysis and Financial Forecast Plan began through the Commission's decision to utilize strategic planning. The Commission's decision requiring Performance Measurement Budgeting for FY 10 continues. The Finance Office incorporated workload indicators and performance measurements, identified by departments, into the FY 06 Budget document. These were enhanced for FY 08, FY 09, and FY 2010 with the goal of full implementation for FY 11. The County Administrator has committed to the final process including expanded public participation with outcome / workload indicators and the opportunity for the Commission to make decisions based on public input and performance indicators.

For each year since 2004, the County Commission has established Goals for the Budget. Departments are required to identify goals which they are meeting when requesting changes to baseline budgets. The Commission continued this process for FY 10 with the adoption of the short-term goals.

Elected Officials and Department Heads were to use the Commission goals in preparing their budgets. The tying of requests to the goals was not effective in the FY 10 Budget cycle. Unfortunately, the Commission did not use workload indicators or performance measures when making decisions during the 2010 Budget.

The original Strategic Planning Committee identified and recommended goals for Gallatin County. The Goals adopted in FY 02 by the County Commission were modified during FY 04, again in FY 06 and updated for FY 10 to the current language stated on page 13.

The Finance Office is responsible for accurate preparation and distribution of the Annual Budget, the Management Discussion and Analysis component of the Annual Report, the mid-year Financial Trend Analysis/Financial Forecast report and monthly and quarterly reports. The Office submits the County's Annual Budget to the Government Finance Officers Association for consideration under the Association's Distinguished Budget Preparation Award Program. The County was successful in receiving a "Certificate of Recognition for Budget Preparation" for the last four years and is anticipating receipt of the award for FY 2010.

The Finance Office's goal in preparing this Financial Trend Analysis /Financial Forecast report is:

To provide a clear and concise Analysis and Forecast that identifies the County's current and projected financial condition and addresses alternatives to the County's problems. Hereafter referred to as the 'Plan.'

The Plan is developed using Trend Analysis and Financial Forecasts based on ten years of historical information. Recommendations made by staff and the public were incorporated into the Financial Plan, which is the County's Long-Term Strategic Financial plan. (LTSFP)

This Plan was presented to the Public on February 23, 2010. The following schedule was approved by the County Commission in an effort to keep the public informed about the Plan and to encourage public participation in developing an action plan that the County can use for the FY 2011 budget process:

February 18, 2010	Plan submitted to County Administrator, Commission and Finance Committee
February 23, 2010	Presentation of Plan at Public Hearing
March 02, 2010	Acceptance of Financial Plan by Commission

Financial Condition Overview

This section provides a profile of Gallatin County's current financial condition. Also included are recommendations on Financial Programs. Included in this part are:

- Summary
- Overview of Trends
- Current Financial Condition
- Reserve Funding
 - Operating Reserves
 - Capital Reserves
- Finance Director's Recommendations on Financial Programs.

Summary:

The 10th edition of the County's Financial Plan documents the County's current financial position, a brief historical overview and a proposed path for a successful financial future.

The Plan starts with a review of the County's current financial condition, using 6-months actual revenues and expenses for FY 2010, and projects these revenue and expenditure trends for a full year. These projections are used in identifying potential challenges and issues. Based on FY 2010 year-end projections, along with the last 5 years' actual revenues and expenses, projections are created estimating the next five years' cash balances, non-tax, tax revenues and expenses.

The financial plan will be used to:

- Standardize and document assumptions used in future years budgets;
- Document projections using historical trends; and,
- Allow for better decision-making processes by the County Commission.

The 2010 and future Financial Plans are tools in the early detection of financial problems and opportunities. This early identification allows the County to react faster to problems and be proactive versus reactive as problems develop and are identified. Furthermore, financial planning allows the County to logically plan for the future.

FY 2011 to 2015 projections show a number of issues, including funding shortfalls that may occur and will require a substantial dedication of resources in both the short and long-term. The County reduced service levels in FY 2010 to meet revenue estimates and may have to see additional reductions in services unless cost savings are realized or additional revenues are identified. Other issues facing the County include Law and Justice Complex facility improvements, replacement / upgrade of roads/ bridges, retention of key staff to meet workload and demands by public, Transportation Plan- including county match for Airport Interchange; Detention Center construction and operation.

From a financial perspective, Gallatin County was previously in the position of having money to address some infrastructure needs. Areas funded partially or fully within current funding limitations included Courthouse Annex purchase and remodel, Law and Justice carpet, HVAC, roof and boiler improvements, construction of Road Shop and Dispatch Center and improvements at the County Fairgrounds and Open Space preservation. The Plan shows a number of issues requiring voter / Commission action now or in the near future, to meet needs and requirements.

However, the County has limited revenue growth potential to maintain current service levels, let alone pay for identified needs or expansion of programs to meet new needs associated with changes in taxpayer's economic condition. I recommend the Commission

- not consider new staff unless;
 - full ongoing funding is identified – Wages, Benefits, Space, Capital, Indirect Costs, travel etc.;
 - staff requested meet a specific goal and objective of the commission;
 - use of existing staff is anticipated in case of downsizing is required.
- Prior to the beginning of the Budget Process, the Commission should review all departments and identify those for potential reduction or elimination. This will require prioritizing all programs.

The County's outlook is **'Favorable' because** of the positive and negatives aspects previously stated. The General Fund, Road, Bridge and Public Safety fund balances have stabilized with most cash no longer being used for operational expenses. With revenue growth (mainly taxes and fees associated with growth) stabilizing, as shown by the following table, the County's ability to continue current levels of service is in doubt. Unless additional reliable revenue streams are found the Commission will have difficulty in funding the FY 11 and especially the FY 12 budget. The easiest source of reliable revenue would be through an increase in taxes, either from the \$1,120,457 (5 mills) currently not being levied or from new voter approved taxes. However, with public perception about taxes being high this limits the viability of these options.

The decrease in non-tax revenues associated with growth in the County is shown below by comparing the first 6 months Clerk & Recorder Fees, Zoning Fees and Local Option Fees:

	<u>Clerk</u>	<u>Zoning</u>	<u>5% Option MV</u>
FY 2010	\$349,840	78,044	1,431,150
FY 09	396,602	92,821	1,555,470
FY 08	412,249	123,855	1,592,204
FY 07	483,110	133,524	1,545,304
FY 06	584,492	193,399	1,417,305
FY 05	424,467	174,589	1,318,823
FY 04	498,544	126,457	1,171,279
FY 03	442,404	88,924	1,053,719

The Clerk & Recorder Fees are DOWN 11.79% from last year, 20.9% down from 8 years ago and down 40.15% from the FY 06 high. Zoning Fees are down 15.92% from last year and down 59.64% from the high in FY 06. Motor Vehicle Local Option is down slightly. The 7.9% decrease this year is down significantly from FY 07's 9.03% increase. The previous 5 years average increase was 7.19% per year – 15.09% more than this year.

Overall, I am very concerned about the County's ability to maintain current staffing and operations, with limitations of State law, along with the Commissions unwillingness to maximize taxes and the County's inability to receive significant revenues without a vote of the people or the legislature.

As an example -- the ratio of population to County Employees and Sworn Sheriff personnel from tax supported funds shows the following.

Year	County Population	Residents per Sheriff Officer		Residents Per Employee
		ALL	AVAILABLE	
1995	59,273	1,992.10	2,135.65	124.89
2000	68,363	2,071.61	2,357.34	119.48
2004	77,472	1,936.80	2,421.00	160.29
2005	80,748	1,877.86	2,446.91	166.00
2006	84,489	1,836.72	2,484.97	174.78
2007	87,359	1,747.18	2,298.92	184.15
2008	89,824	1,702.82	2,318.04	201.81
2009	91,673	1,797.50	2,182.68	225.15
2010	93,152	1,848.25	2,250.04	251.62

The First Column under 'Residents per Sheriff Officer' - ALL-shows that a sworn officer was responsible for 1,992.10 residents in 1995, with a decrease to 1,848.25 per officer in 2010. This is misleading because of contractual obligations, the Sheriff must assign 5 officers to Big Sky, 3 officers are assigned to meet grant requirements, with one officer assigned to administer the Detention Center. The second column reflects officers available and is a more accurate table of services received by residents. It shows an increase from 2,135.65, in FY 95 to 2,250.04 residents per officer in FY 2010. The County Population for 2008 and 2009 are from Wood's & Poole.

Overall, the success of County Programs comes directly from the exceptional quality and dedication of County Employees. Unfortunately, the dramatic impact on employees from increased demands, recent anxiety over the economic downturn and an increase in technical requirements continues to create tension and dissatisfaction within county government. This is evident from utilization of sick leave, health insurance cost increases, increased errors, turnover of long-term employees, increased irritability and some negative morale among employees. A positive note of the economic downturn is the significant increase in applications for positions, showing that the county is perceived as a highly desirable place of employment due to our stability and benefits.

The 2010 Financial Plan

Finance issues examined this year include:

- Financial Forecast – The County’s five-year financial forecast, based on current operating trends, is in a **‘FAVORABLE’** status, with the County’s fund balances projected to STABILIZE at current levels.
- Financial Condition Report – A profile of current county financial activities and the County financial condition.
- Reserves – Individual operating reserves have improved from five and ten years ago. The Commission’s decision to maintain Operating Reserve Percentages as a part of the Budgetary Goals allows staff to maintain adequate reserves.
- Review of Prior Budgets – A summary of the last five-year budgets with emphasis on the unique changes made each year. Graphs are used to show trends in employees, reserves and capital expenses.
- Financial Trend Analysis – Review of Financial trends as of January 1, 2010.
- Information Systems Plan – The Information Systems Plan identifies Long Term Technology Hardware and Software Strategic Policy / Plan.
- Growth Policy – Approved in FY 07, implementation phase begun.

Future Financial Plans may include:

- Road and Bridge Maintenance and Improvement Program – The County Road office on a yearly basis identifies specific projects to be accomplished during the year.
- Public Safety Strategic Plan – Public Safety Departments are developing a Strategic Plan to meet their needs now and into the future.
- Cost Recovery Fees for Services and or Impact Fee Calculations – The County needs to change State law to allow for full and true cost recovery from fees. Development of Impact Fees is ready for approval.

Current Financial Condition

The County's financial condition as of December 31, 2009 shows that the County continues to feel the effects of the economic downturn. Cash required for the Detention Center, along with construction of the Dispatch Center has decreased available funds in the Public Safety and Capital Projects Funds. The decrease in growth related non-tax revenues and investment earnings has decreased cash in the General Fund.

Current projections show tax-supported operating funds will have a cash balance of **\$9.8 million** at the end of FY 10 compared to \$10.6 million (excluding Capital Projects for FY 09, \$14.6 million for FY 08, \$16.46 million for FY 07, \$15.26 million for FY 06, \$15.0 million in FY 05. Of the \$9.8 million, \$5.98 million is set-aside for Operating Reserves. The decrease in cash for FY 2010 is the second greatest percentage and amount decrease the County has seen. (Remember, these are conservative estimates with actual cash carried over being higher in previous years).

The following table shows the sources of estimated cash balances:

<u>Item</u>	<u>Amount</u>
Operating Reserve (per Budget)	5.98 Million
Capital Reserves (per Budget)	0.57 Million
Decrease in Revenues BELOW Budget	(0.10 Million)
Decrease in Expenses below Budgets	<u>3.35 Million</u>
TOTAL ESTIMATE	\$9.8 Million

The County General Fund will end the year UP an estimated \$110,090 from the beginning of the year. The fund will have a positive fund balance of \$1.9 million, including its \$1,000,000 Operating Reserve.

Estimated year-end cash will be more than Operating Reserves because the County uses conservative revenue estimates when preparing the budget and departments spend less than authorized. This allows the County to assure adequate funding for current service levels into the future. However, non-tax revenues are not exceeding estimates in significant amounts, resulting in limited cash being available for appropriation for FY 11.

The economic downturn and the effects it will have on the County is the County's predominant issue in FY 10. The ramification of the recession has seen, almost, the elimination of construction within the County. This includes commercial, retail and residential. In addition, the county is seeing businesses downsizing and in several cases closing their doors. One positive effect is the recent slow down in development has allowed the County Planning department to expend resources on unresolved issues and problems from 15 years of significant growth in population, demand for services and in development throughout the county.

The 2010 Plan confirms the criteria used for setting Operating Reserves for County General, tax supported special revenue funds (Road, Bridge) and County Enterprise funds. The Financial Plan forecasts the Rest Home, Health Insurance, Communication, Facility and Liability Insurance funds because these funds are an integral part of the County financial plan.

Reserve Funding:

Capital Reserve and Operating Reserve Policies are an important part of the County’s Financial Policy. The following states details about these policies.

Objective – Operating Reserves:

The County Finance Office will analyze and recommend appropriate levels of operating reserves to (a) minimize and eliminate registration of warrants from all possible funds, (b) ensure that adequate reserves are identified for the needs of each fund / program and (c) meet program needs without unnecessarily obligating scarce dollars.

Gallatin County has adopted a formal policy on Operating Reserves and Capital Reserves. The County has included Operating Reserves recommended by the Finance Office in the Budget. State Law authorizes counties to maintain reserves for operations (Operating Reserves) of up to 33% of a fund’s total budget. (7-6-4034(2)(a) MCA) Historically the Finance Office recommends that the Commission maintain reserves in the range of 10% to 30% for Operating Budgets per fund, with actual reserves depending on availability of cash, revenues received during a given month and historic need for reserves.

The County has increased cash reserves from 1995 through the 20010 Budget for the General and Milled/Special Funds. The following table shows the amount reserved by year for the General, County Milled and Milled Special Funds:

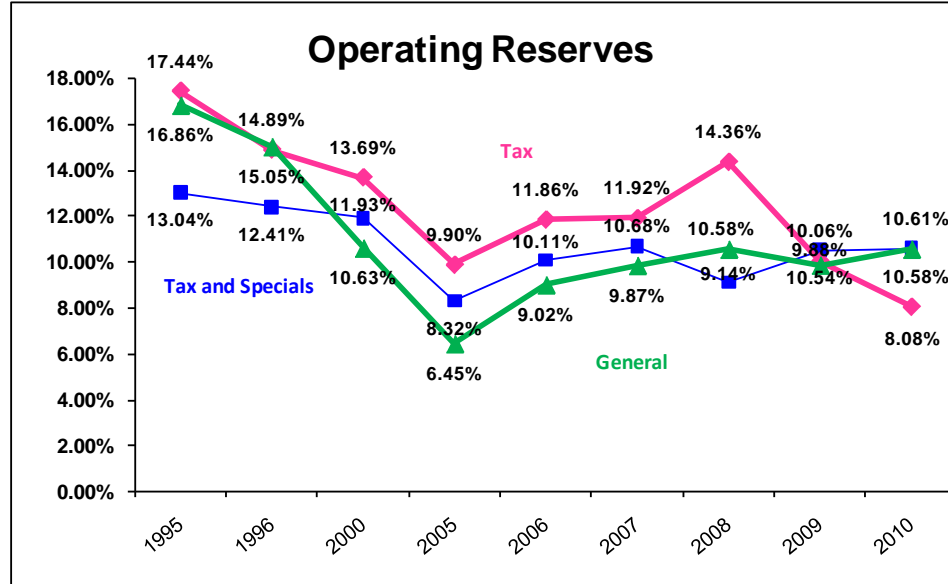
<u>YEAR</u>	<u>RESERVES</u>		
	<u>GENERAL</u>	<u>MILLED</u>	<u>ALL OTHER</u>
1995	900,000	2,641,144	2,754,397
2000	685,137	3,364,815	4,354,585
2002	750,000	2,734,545	4,538,473
2003	800,000	2,793,201	4,640,280
2004	800,000	2,746,764	1,424,659
2005	690,000	3,601,752	2,123,407
2006	750,000	4,301,003	2,805,100
2007	1,000,000	5,378,179	4,308,646
2008	1,100,000	5,791,563	2,749,786
2009	1,000,000	5,977,630	5,663,175
2010	1,000,000	6,214,259	7,677,298

NOTE: General Fund decreased in FY 2000 by separating Public Safety Fund departments from the General Fund. General Fund increase in FY 07 caused from closure of District Court Fund.

The significant increase in FY 09 and FY 10 is from enterprise funds, interdepartmental and special district operating reserves for Financial Assurance, Land purchase and equipment replacement.

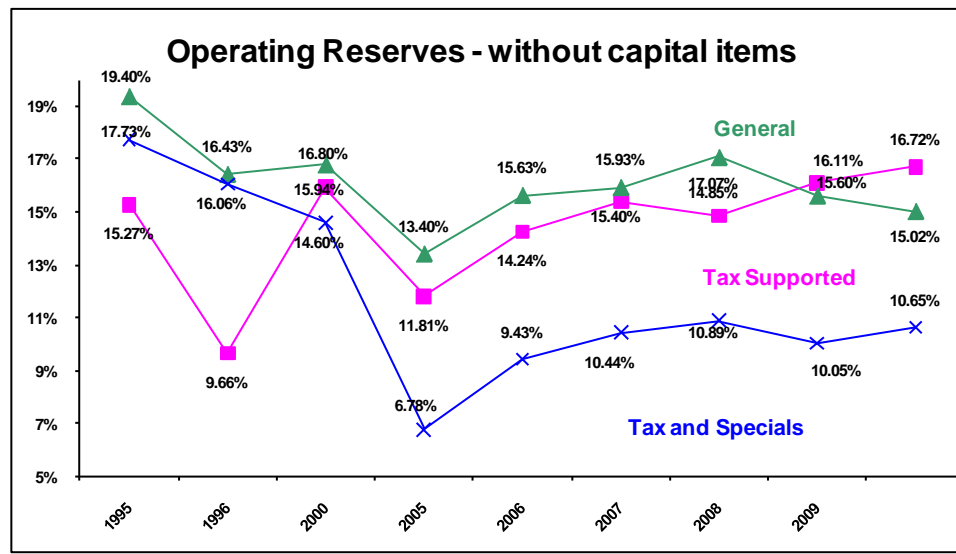
Because approved budgets have grown faster than Operating Reserves, the increase in cash set aside for Operating Reserves has not kept up with the percentage of the Budget. See the two graphs on the next page. The Commissioners continuation of the goal to maintain operating reserve percentages as a component of their Budgetary Goals eliminates this problem for FY 10 and FY 11.

The two graphs that follow show a **downward** trend in Operating Reserve percentages in tax supported funds over the first six to nine years and a stable rate for the last 3. The first graph shows that since 1995 Tax Supported Operating Reserves have decreased from 17.44% to 8.08%. (This is misleading because of Detention Center Capital project inflating expenses). General Fund Operating Reserves have decreased from 16.86% to 10.58%. Tax supported Special Revenue Fund Operating Reserves have decreased from 13.04% to 10.58%.



The next graph, which in my opinion is a more accurate depiction of changes in Operating Reserves, shows Operating Reserves as a total of the same budgets without Capital Outlay, Capital Reserves and Capital Projects. Although the **decline** is still evident, the decrease is less, with the General Fund and Tax Supported funds being closer to 1995. Tax and Specials, in recent years, are slowly increasing as Reserve Policies are implemented in more funds.

Operating Budgets (Excluding Capital Items) to Operating Reserves



OPERATING RESERVES:

The proceeding graphs show the error of not having a policy that Financial Professionals can use in recommending Operating Reserves for each fund. The County Commission adopted Policy complies with their stated Objective of (a) minimizing and eliminating registration of warrants (not running out of cash and having to borrow money), (b) ensuring that adequate reserves are identified for each fund, or program; and (c) meets the needs of the department, activity and program without unnecessarily obligating scarce dollars.

The following comparison shows the percentage of funds that are 'Below Minimum' or 'At or above the Minimum' operating reserve percentage:

	<u>FY 00</u>	<u>FY 05</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>
Below Minimum	4	10	10	10	9	9
At or above Minimum	20	16	15	15	16	17
% At or above Minimum	83%	59%	62%	60%	64%	68%

NOTE: The Fair Fund is below minimum based on requests. The General Fund has absorbed the Public Assistance Fund and District Court Fund. For FY 08, Dispatch Fund was closed to the Public Safety Fund.

Reserve Guidelines:

There are a number of potential events which the County considers in the development of reserves:

- Economic Uncertainty – performance of the regional economy and the impact of that performance on demand for county services and market value - this is going to be very important in FY 10 and FY 11;
- Weather – the amount of rainfall, snow and heat affects the county from snowplowing, fire, flood, availability of water, vehicle accidents (both county owned and law enforcements response to incidents);
- Government Mandates – the impact of federal, state and local regulations has a direct and indirect effect on the County – the legislature is meeting in 2009 and will make changes to county duties and responsibilities;
- Tax Changes – Limitations on the County’s taxing and spending powers through the passage or non-passage of voter referendums and legislative actions further affects the county’s ability to meet demand for services – see previous comment on legislature;
- Operating Costs – Increases in operating and maintenance costs because of inflation, labor agreements or budgetary increases through new programs, expansion or contraction of existing programs; and,
- Tax Cycle – need to allow for the 6-month tax cycle associated with collection of real property taxes in November (5 months after start of fiscal year) and May.

Development of reserve policy objectives show that the County needs to:

- Distinguish between restricted and unrestricted reserves – completed;
- Establish distinct purposes for all reserves – completed;
- Set target levels, such as minimums and maximums, for the accumulation of reserves – completed;
- Identify the events or conditions that prompt the use of reserves;
- Conform with plans to acquire or build capital assets;

- Receive Commission approval of written reserve policies – completed;
- Require periodic review of reserve balances and rationale for maintaining them – ongoing.

The Government Finance Officers Association (GFOA) in its Recommended Practice on Appropriate Level of unrestricted fund balance in the General Fund (2009) states:

“The adequacy of unrestricted fund balance in the general fund should be assessed based upon a governments’ own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.”

Operating Reserves – Policy:

Gallatin County maintains Operating Reserves to mitigate the effects of warrant registration and to meet the needs of the programs. To facilitate this, the County Commission has established this policy for utilization by ALL funds with Budgetary Authority coming from the County.

Because the County has a number of revenue sources for different fund types the following guidelines are set for the County’s Financial Professionals:

<u>TYPE</u>	<u>PERCENTAGE</u>
Funded mostly through monthly charges (Examples: Rest Home, Motor Pool)	8% to 16%
Funded largely through charges and then taxes (Examples: General, Road, Health and Fair)	10% to 18%
Funded from Quarterly Grant Allocations (Example: Communicable Disease, MRDTF)	16% to 24%
Funded largely from Taxes or Seasonal Activity (Example: Bridge, Weed, and Extension)	20% to 30%

The Finance Office makes a recommendation to the County Commission and all County elected officers and department heads for each fund’s Operating Reserve at the beginning of the budget process. The Finance Office prepares all budgets using the recommended Operating Reserves. The recommended Operating Reserves are maintained throughout the budget process, unless amended by the County Commission, as a result of significant increases or decreases to an individual fund budget.

VARIANCE:

If a department cannot fund Operating Reserves or desires to increase or decrease the Operating Reserves from the amount recommended by the Finance Office, a variance request is submitted to the County Commission in May of each year. The Commission reviews the variance, holds a public hearing on the variance and makes a determination to approve, amend or reject the variance.

Capital Reserve:

Capital Reserve is the action of setting aside money on a yearly basis to replace, repair, expand or demolish equipment or facilities, based on availability of funds and the expected life of the equipment. In the past, funding of Capital Outlay/Reserves and Projects were inconsistent. Individual departments set aside money, as it was available, without major consideration to overall County priorities. Equipment was replaced based on individual presentations by departments without regard to utilization and life cycle costing. Facilities were not maintained, remodeled or replaced in a systematic manner. As an example in FY 95 the Capital Outlay Budget was \$1,270,350 plus \$312,518 in Capital Reserves. In FY 2010 Capital Outlay is \$35,506,281 including Capital Projects and Capital Reserves.

Objective – Capital Reserves:

Identify capital needs through yearly review of equipment and facilities, adequately fund or identify future funding sources for (a) equipment replacement, (b) renovation, expansion of current buildings or construction of new buildings and, (c) establish reserves based on future needs as documented from the public and staff, without unnecessarily obligating the County's limited resources.

In changing the historic process of funding equipment and facilities, Gallatin County adopted a Capital Improvement Program (CIP). This includes a citizen / staff CIP committee that recommends projects for consideration and funding. The Commission appoints the committee, which meets twice per month. The Commission funds large capital projects by receiving voter approval for the issuance of General Obligation Bonds, or borrowing through the statutory \$2 million per project statutory provision.

Capital Reserves are a method the county uses to set aside budget authority over several years to fund capital projects. Successful projects funded through this method include Courthouse Annex Remodel; Courthouse remodel; EOC/Search Building; Detention Center Upgrade; Law and Justice HVAC update; purchase of Guenther Memorial and Courthouse Annex; and Road Shop.

Capital Projects currently funded by voter approved bonds include Rest Home 1989 \$1,649,000, Open Space Bond I at \$10,000,000; Open Space Bond II at \$10,000,000 and New Detention Center at \$32,000,000. Loans supporting county projects include \$999,000 for Law & Justice Remodel, \$1,300,000 for Road building, \$1,000,000 for Courthouse Annex, Re-Entry \$800,000, Fairgrounds \$500,000, Dispatch Center \$1,000,000 and \$1,000,000 for the Mental Health (Hope House).

Future debt may include replacement Law & Justice Building \$25,000,000 (+/-); Phase II Courthouse Annex Remodel \$1,000,000; Storage Facility \$2,000,000; enhancements at Fairgrounds \$8,000,000 and Noxious Weed Office / Shop/Storage \$750,000.

Projects with potential debt in excess of \$2,000,000 will require a unanimous vote of the County Commission to put the issue on a ballot. The debt will occur only if a minimum of 40% of the eligible voters vote and 50% or greater cast their votes in favor of the issue.

All of these potential projects are incorporated into the County's approved CIP for FY 2010. Actual costs and the amount of debt involved for each project will be determined after further study of programs and need.

County Debt Policy

The County's Debt Policy is contained within the Capital Improvement Program Policy - Section V – Financial Policy on Capital reserves, funding of capital projects and debt utilization.

The CIP debt policy states:

- a) "Long Term borrowing will not be used to finance current operations, capital outlay not part of the approved CIP or for normal maintenance.
- b) The County Commission will strive not to issue bonds more frequently than once every two Fiscal years."

State law 7-7-2101 MCA "Limitation on amount of county indebtedness" restricts debt by the county to a maximum of "2.5% of the total assessed value of taxable property". The following calculations show the maximum debt available and current and proposed debt for Gallatin County.

DEBT LIMITATION CALCULATIONS			
Maximum Allowed Gallatin County, Montana			
DOR Market Value August, 2009			
Assessed Valuation: FY 2010 Certified Market Value	7,303,040,362	D.O.R. Certification	
Factor allowed for indebtedness	2.50%		
Total Indebtness Allowed:		182,576,009	
Less:			
Rest Home Bond	\$ -	Sep.	
Open Land Bond	2,660,000		
Open Land Bond 2003	3,145,000		
Open Land Bond 2006	4,595,000	Mill	
Open Land Bond 2008	4,000,000		
Open Land Bond 2004 Voted Bond	3,200,000		
Detention Center 2008 Voted Bond	32,000,000	Levy	
Progreba Field Loan	31,871		
Capital Leases (7 graders, 1 loader)	1,320,182	NO	
Road Shop	1,247,310		
Guenther	532,749	Sep.	
Landfill Cell Expansion	-		
Re-entry	592,875	Mill	
Library Loan (5 libraries benefited)	695,893		
Fair Loan	395,892	Levy	
Purchase Annex	875,452		
District Court / L & J Remodel	870,068		
Dispatch Loan	1,000,000		
Compensated Absences	1,663,866		
Warrants (estimate)	1,028,577		
			\$ 59,854,735
Maximum Indebtness Available (12-31-2008)		\$ 122,721,274	
FY 2010	-	NO	
Proposed - Mental Health - Building	1,000,000	Mill	
	-		
	-	Levy	
	-	Levy	
			\$ 1,000,000
Amount Available		\$ 121,721,274	

On January 21, 2009 the County issued \$32.0 Million in General Obligation bonds. Standard and Poor's gave these bonds an "Aa-" rating. An increase from the County's previous "A+" rating. This is a very positive affirmation of the county's financial position. The County has used 32.78% of its debt capacity. With plans to use an additional 0.55% in FY 10. Other projects needing consideration for possible debt include transportation improvement plans, facility master plans and program needs. However, the County's ability to fund infrastructure capital needs is limited to those projects approved by the voters.

Areas not covered by current Policies:

- A policy on when the County Commission will utilize the County's borrowing capacity of up to \$2,000,000 per project that is allowed without a vote?

NOTE

All General Obligation loans, leases or bonds issued reduce the amount of debt available for the County. All debt issued affects the county's interest rate based on our ability to qualify as "Bank Qualified". This will result in higher interest rates on bonds sold beyond the Bank Qualified point that could add .15% to .25%. Also, the yearly payment for loans and leases are paid from current operating revenues rather than a new mill levy as is available for voter-approved bonds.

- A policy on when grants are to be used. Are grants inconsistent with the mission, vision and goals of the County to be pursued? If a grant does not require use of County monetary resources when is it appropriate for the County to act as conduit for the proposal?
- Should Gallatin County establish capital reserves for equipment replacement? Should this be limited to items with a large capital cost (greater than \$20,000? Or \$50,000)? The County currently discontinued the previous practice of funding up to \$300,000 per year for law enforcement vehicle replacement. Should this be reinstated? The County continues to fund \$160,000 for Information Technology Services Department (ITS) computer needs, along with VOIP system reserves, motor pool reserves and copier reserves.

FY 2010 FINANCIAL TREND ANALYSIS

FINANCIAL REVIEW – Prior and Current Budgets

Gallatin County, Montana

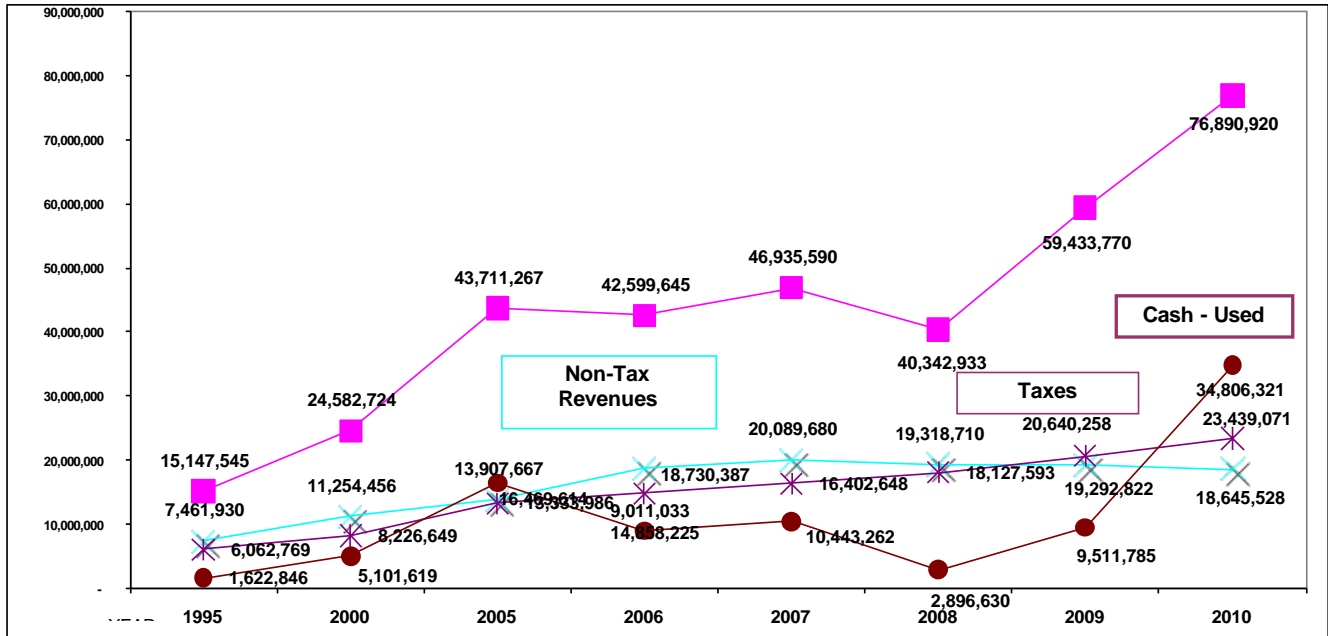
February 23, 2010

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Budgets Vs Actual

Gallatin County prepares an annual budget that by State Law is balanced, with all revenues plus unreserved cash equal to approved expenses. Cash, beyond the amount needed to fund Operating Reserves, pays for a major portion of most budgets. With budgets becoming tighter, cash carry over is declining (excluding capital projects) as shown in the following graph. The table shows the last 6 years budget summary plus 1995, 2000 (ten years ago) and 2010, for major tax funds.

Expenditure and Source of Revenue Comparison Budget Factors County Milled Funds



To provide historical perspective, the information in this section reviews changes in Personnel, Operations, Debt and Capital. The review includes table and graphic presentations for changes in these activities.

The following table shows changes in percentages between Personnel, Operations, Debt and Capital, from 1998 to FY 2010.

<u>YEAR</u>	<u>Personnel</u>	<u>Operations</u>	<u>Debt</u>	<u>Capital</u>
1998	52.96%	34.88%	3.31%	8.85%
2000	48.46	31.08	1.96	18.50
2003	39.96	32.51	2.46	25.07
2004	40.37	30.64	3.71	25.29
2005	37.95	33.00	2.95	26.09
2006	45.23	26.94	3.70	24.14
2007	43.73	26.99	4.09	25.19
2008	47.97	27.81	3.42	20.80
2009	49.36	23.52	4.69	22.43
2010	31.49	16.53	5.89	46.18

Gallatin County is no exception to governments having Personnel as a major percentage of total costs. However, the County saw a significant decrease in the percentage personnel costs are to total expenses through 2005. Since 2005 Personnel percentages have increased. In 1998, Personnel equaled 52.96% of the budget; in FY 2010 this was reduced to 31.49% (mostly because capital is so large this year). Using historic capital amounts of 22% Personnel would be 45.25%. This change is due to increases in Capital and Debt budget/expenses, along with a significant slowing of Operational costs, only slightly from a decrease in Personnel costs.

Gallatin County Financial Plan

PERSONNEL

The Summary Table of Personnel recaps the personnel budgeted in County Departments since 1995.

SUMMARY TABLE OF PERSONNEL (FTE)

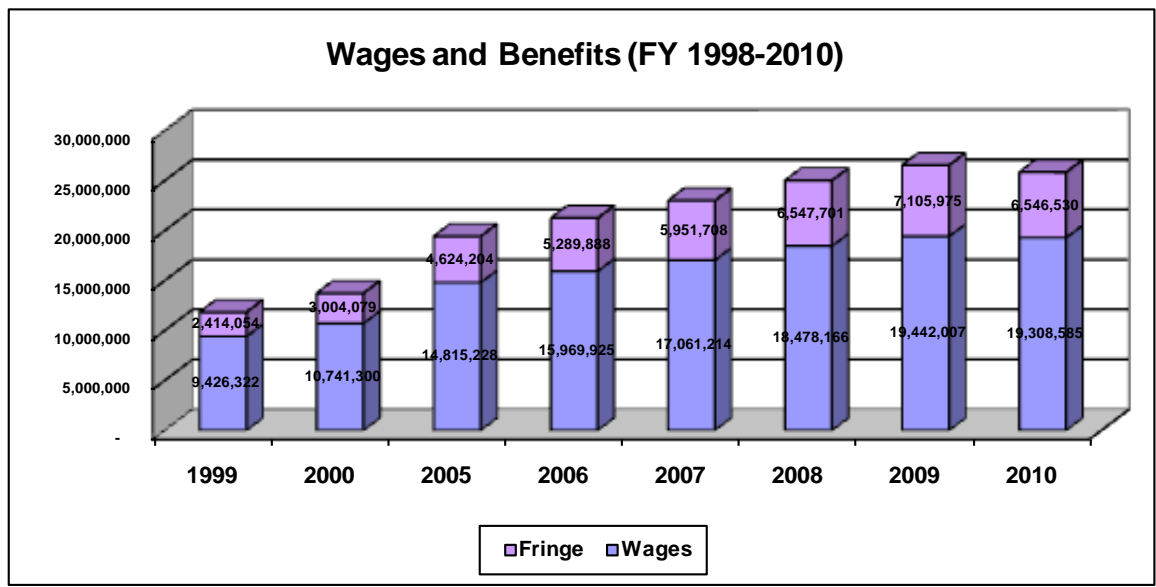
DEPARTMENT / DIVISION	***** BUDGET *****							
	FY 95	FY 2000	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
ATTORNEY	11.00	11.50	16.38	16.80	17.00	18.00	18.00	18.00
AUDITOR	2.00	2.60	3.00	2.50	2.00	2.46	2.50	2.50
BRIDGE	7.00	7.36	7.36	7.36	7.36	7.36	7.36	7.36
CITY/COUNTY HEALTH ADMIN.	1.00	1.59	2.00	2.00	3.00	2.00	3.00	3.83
CLERK AND RECORDER	14.00	14.45	16.00	16.00	16.67	17.21	17.25	13.75
CLERK OF DISTRICT COURT	9.00	10.00	13.00	14.17	15.00	15.00	14.12	13.70
COMMISSION	4.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
COMPLIANCE	-	-	1.00	0.90	1.09	1.10	1.10	1.10
CORONER	0.60	0.60	0.65	0.65	0.65	0.65	-	-
COUNTY ADMINISTRATOR	-	-	2.00	1.50	1.58	2.00	3.00	2.50
COURT SERVICES	-	-	6.00	8.50	10.31	9.90	9.00	9.87
DETENTION CENTER	23.00	21.00	33.50	36.00	32.92	33.00	32.00	31.43
ENVIRONMENTAL HEALTH	6.00	9.41	11.00	11.50	11.06	12.06	11.34	10.17
EXTENSION AGENTS	3.00	3.50	3.50	3.75	4.00	4.50	4.00	4.00
FACILITIES	2.00	2.50	3.65	4.65	3.62	3.62	3.62	3.12
FAIRGROUNDS	4.00	5.00	8.00	8.00	9.34	9.25	10.50	10.00
FINANCE OFFICE	1.00	1.50	2.00	2.00	2.00	2.00	2.00	5.50
GEOGRAPHIC SERVICES	-	2.00	2.75	3.00	4.00	4.00	3.00	3.00
GRANT ADMINISTRATION	-	1.50	2.00	2.00	2.00	2.38	1.90	1.85
HEALTH GRANTS	10.55	9.97	11.49	12.24	8.21	10.76	11.06	10.43
HUMAN RESOURCES	3.00	3.25	5.00	5.00	5.75	5.75	5.00	4.75
HUMAN SERVICES - HEALTH	5.87	7.18	7.19	6.69	6.85	7.61	6.41	6.37
ITS	4.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
JOINT DISPATCH	20.50	22.18	28.50	28.00	28.00	28.63	29.00	30.00
JUSTICE COURT	6.50	7.50	10.00	10.75	11.00	11.00	11.00	11.00
MISCELLANEOUS	-	0.25	0.27	0.25	0.25	0.25	0.25	0.05
NOXIOUS WEED	1.50	2.00	2.00	2.00	2.50	3.40	3.00	2.25
PLANNING	5.00	7.00	9.00	9.00	10.00	10.00	10.50	7.75
PRE TRIAL	-	-	-	-	-	-	-	-
PUBLIC DEFENDERS	-	-	10.00	11.00	-	-	-	-
PUBLIC SAFETY GRANTS	4.00	6.00	3.00	3.00	6.50	6.50	6.50	4.00
REST HOME	89.18	108.09	80.50	90.30	89.80	91.70	97.90	102.90
ROAD MAINTENANCE	26.00	25.11	24.85	26.60	26.11	26.11	26.11	25.11
SHERIFF	33.90	36.00	43.49	47.58	51.35	52.25	51.50	50.41
SOLID WASTE SYSTEM	-	-	8.50	10.50	12.50	16.50	18.00	20.50
SUPERINTENDENT OF SCHOOL	2.00	2.00	2.00	2.25	2.00	2.00	2.00	2.00
TREASURER	13.00	15.00	17.21	17.21	17.21	17.46	17.96	16.96
OTHER	16.97	17.99	10.12	11.60	14.77	5.78	8.78	10.73
TOTAL	329.57	376.03	418.91	447.25	448.35	454.19	460.66	458.90

During this time Personnel has grown from 329.57 in FY 95 to 458.90 for FY 2010 a 39.24% increase). Population from FY 95 to FY 2008, (the last year population estimates are available), grew from 59,273 to 89,824 (52% increase). New departments include County Administrator 2.50; Grant Administration 1.90; G.I.S. 3.00; Compliance 1.10; Court Services 9.87, Joint Dispatch 9.5 and Solid Waste 20.50. In addition, positions funded by Contracts or Grants have increased as follows: Victim Witness 2, Big Sky Law Enforcement 3, and Health Grants .5 FTE. Departments eliminated during this time include Youth Probation and District Court. Without these new service areas, employees for existing departments increased by 24.60%, or about ½ the rate population grew.

COMPARISON 10 YEARS – WAGES AND BENEFITS:

The following graph shows the growth in wages and benefits from FY 1998 through the FY 2010 Budget. The growth comes from four areas. They are:

- 1) Population – as stated previously population in the county has grown by an estimated 52%. New residents have a higher expectation of services from local government which relates to increased demand for services than previously seen in the county.
- 2) Inflationary Increases – indicates costs increased at 31.62% from January 1, 1999 through December 31, 2009;
- 3) Contractual / Grant obligations – the previous page shows the number of positions increased due to contractual / grant obligations as being 5.5 Full time equivalents; and,
- 4) Local Economy – the economy of the county has dramatically changed, requiring payment of higher wages and salaries to retain and recruit qualified employees in all positions.



The four factors stated above resulted in an increase of \$9,882,663 in wages and \$4,132,476 in Benefits for Gallatin County. This equals a doubling of wages and almost a tripling of benefits.

Benefits increased greater than wages from an increase in Health insurance from \$1,860 in 1998 to \$6,055/FTE in 2010, a 225% increase, without including the \$2,183 per employee contribution from the Permissive Medical levy. Other factors negatively impacting FTE benefits include increase for Unemployment Insurance and Worker's Compensation rates, along with significant increases for Sheriff Retirement and a transfer of Detention Officers to the higher costing Sheriff's Retirement System. Fringe Benefit Costs have increased from 26.31% of wages / salaries in 1998 to 33.90% of wages / salaries in 2010.

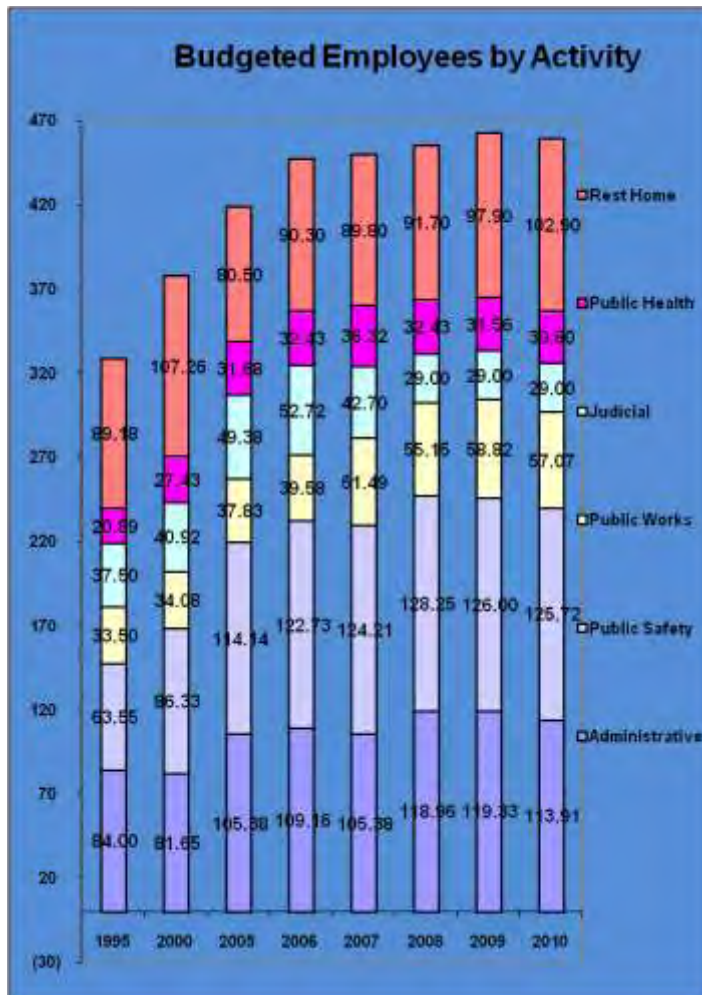
The County has implemented cost control measures to reduce future increases in Health Premiums. They include early prevention activities, well childcare, payment for flu shots, rewards for staying healthy, Health Fair, doubling of deductibles, and other similar cost reduction actions. For FY 08 and FY 2010 this resulted in the County's not increasing premiums for employees or dependents and in FY 09 only a 5% increase was required.

Gallatin County Financial Plan

Historical Staffing Levels:

The impact on staffing has changed over the last eight years with the County experiencing record growth. The increase in population has brought a more diverse and demanding resident that is accustomed to a higher level of service than previous residents. The new resident wants and expects some or all of the services they received in metropolitan areas to be available **now, with no increase in taxes**. New residents are under the impression that they are already paying for this higher level of service, and cannot understand a need to increase taxes to support their demands.

Unfortunately staffing levels, graphed below, have not allowed a significant expansion to service levels.



The Budgeted Employees by Activity graph above shows a 39.80% increase in staff from FY 95 through FY 2010. As stated in previous sections, county population has grown from 59,273 in 1995 to a projected 89,824 in FY 08, a 51.54% increase. In addition, personnel numbers shown above are misleading because new programs have been added during this time. New programs include Enhanced 9-1-1 (22 employees), Grants Department (1.9), Geographic Information Services Department (3), Court Services (9.8), Victim Witness (2.75) Compliance (1.1), County Administrative Office (3), and grants/contracts associated with the Health and Sheriff Offices (11).

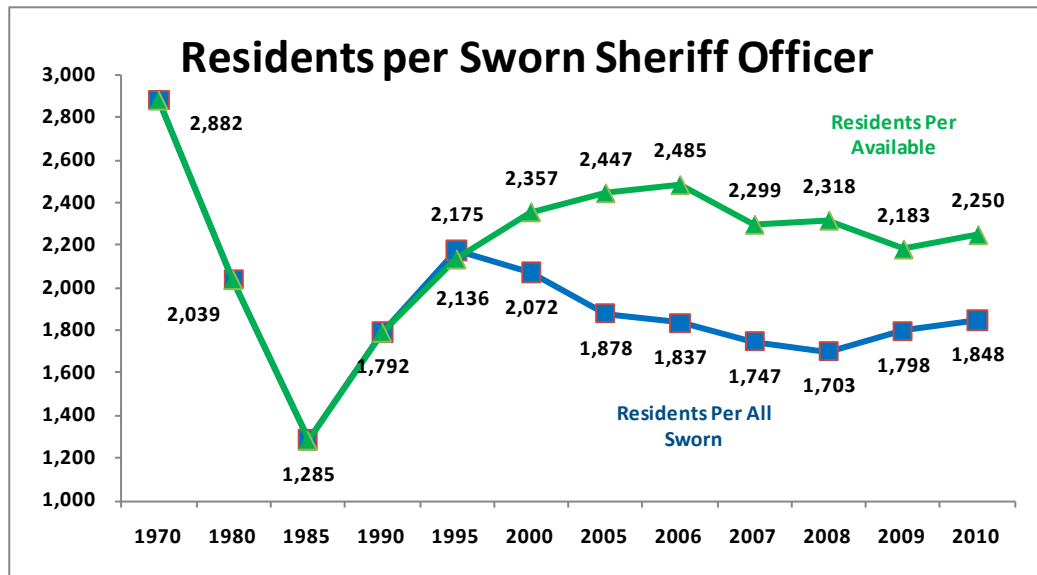
The increase in the number of Public Safety employees comes from combining the City and County Dispatch and Records and implementation of Enhanced 9-1-1. This increased the number of employees from 7.50 in FY 96 to 30 employees in FY 2010. In addition, new activities paid from grants or contracts added 11 full time employees.

In comparing departments existing in FY 1995 to their budgeted FY 2010 employees approximately 16.35% comes from new employees, with a number of offices having the same number of employees as in FY 95. This compares to a 51.54% increase in population.

So the question IS - Are Core County services, based on population, actually maintaining service levels for residents of the county?

In evaluating this question, we need to look closer at the preceding graph. It shows Public Safety employees increasing from 64.54 in FY 95 to 125.72 in FY 2010 – this includes sworn officers increasing from 29.75 in FY 95 to 50.40 for FY 2010, a 69.41% increase.

As stated before, this is misleading. The Sheriff must assign deputies funded by grants or contracts such as - (5) Big Sky Resort/Madison County, (1) Freedom From Fear Grant, (2) Missouri River Drug Task Force, (1) Detention Center Administrator, and (1) Misdemeanor Probation, to do the tasks required by the grant or contract. These sworn officers are not available for normal patrol duties. The number of deputies available for normal activities is 40.40, a growth of 10.65 (35.80%) with population growth estimated at 52%.



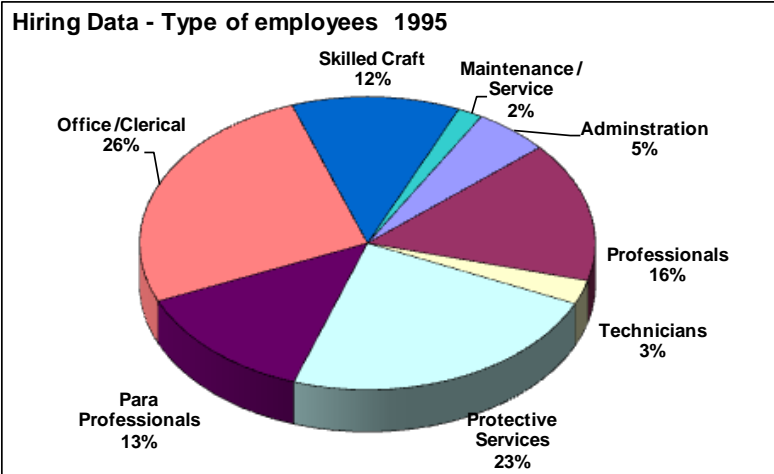
In actuality the Sheriff has seen a decrease in staff available to provide service for the residents of the county, based on available deputies to total population. Currently, each of the AVAILABLE sworn-officers is protecting over 2,250 residents, plus their proportionate share of tourists. The graph shows the historical number of residents per sworn officer, from 1970 to the 2010 Budget.

Unfortunately, grant and contract revenues tend to decrease or stay static over time and not fully support the activity costs Administrative Costs, Capital Costs and Operating costs. This causes earmarking an ever increasing portion of Public Safety Revenue to support grant activities.

Gallatin County Financial Plan

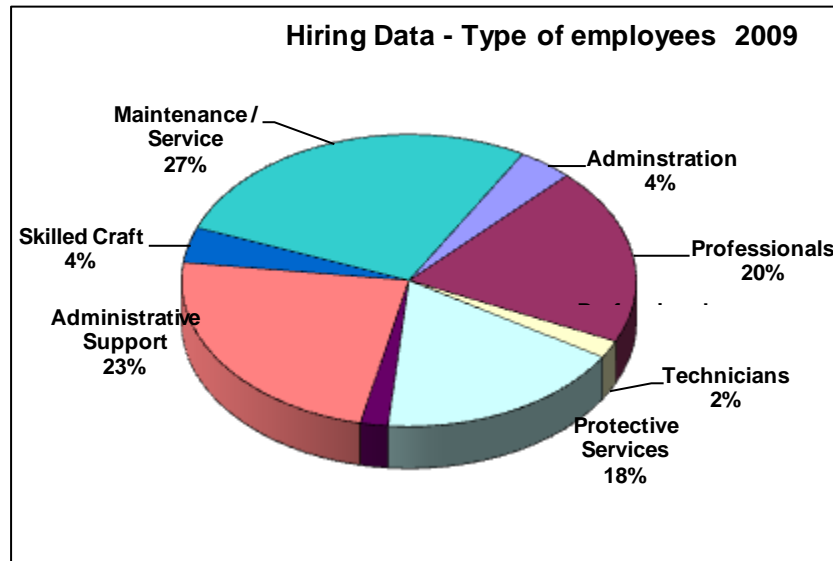
Changes in Hiring Percentages for Personnel

The two graphs that follow are taken from the EEO report prepared by the County Human Resources Office on a yearly basis. The report shows the type of Personnel hired in a Fiscal Year. The two graphs are from 1995 and 2008 EEO reports. The graphs do not include seasonal, part-time or temporary employees. The graphs show a change in hiring from Para-Professional to Office /Clerical and Maintenance, with Protective Services increasing by 8% between the two years.



The information in these graphs is based on hiring during the year. Unfortunately this may include the hiring of the same position over and over again. The County had 371 full time employees on the payroll at the time of the EEO report. During the 2009 fiscal year the county hired 51 employees. This would give the county a 14% turnover rate. However, with the certified nursing aids representing 17 hires out of 24 positions the turnover rate would be 71%, but the number of positions filled was actually 11. They same position turned over a number of

times. Using the 11 positions, the turnover rate is 45% for Certified Nurse Aides.

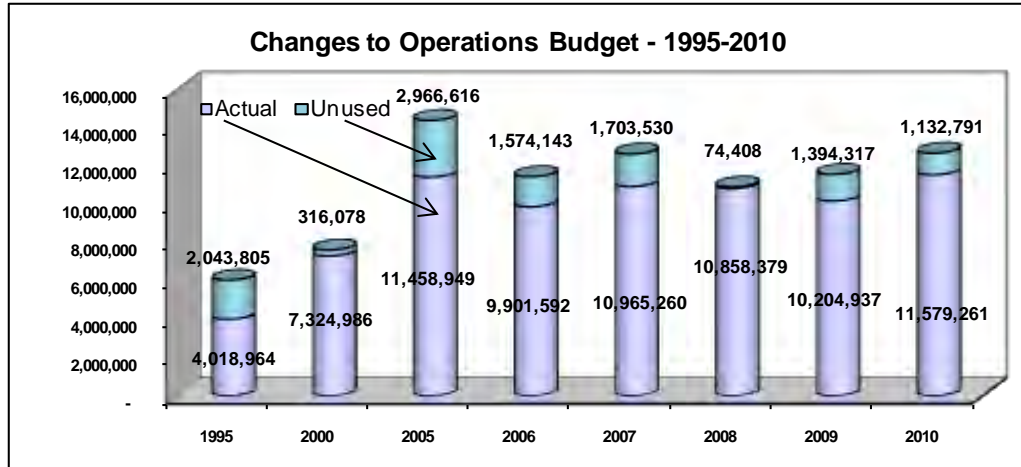


The following table shows successfully hired employees by type in each year:

Employee Types	FY 95	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08
Administrators	4	1	-	1	-	2	1
Professionals	11	9	13	13	9	8	11
Technicians	1	2	-	-	2	2	2
Protective Services	7	22	12	20	19	27	8
Para-Professional	10	-	1	-	-	-	-
Admin. Support	13	24	25	21	20	27	22
Skilled Craft	6	7	5	9	5	11	8
Maintenance / Service	-	8	5	13	10	10	5
TOTAL	52	73	61	77	65	87	57
% of FTE's	15.78%	19.31%	15.56%	18.38%	14.53%	19.40%	12.55%

OPERATIONS

Operating costs, as seen in the graph below, have a great degree of variance from year to year. The significant increase of \$2.7 million in FY 2005 is from the sale of county property and the transfer of this revenue from the General to Capital Projects fund.



Overall, operating costs have not kept up with the rate of inflation when new programs and mandates are taken into consideration. New programs / mandates include Court Services \$428,718 (Re-Entry \$206,000 of the increase), Detention Center inmates at other facilities \$500,000, Detention Center Medical \$260,000 and Rest Home Bed Tax to State of Montana \$257,508. The increase in FY 09 from FY 08, of less than one percent, comes from the increase costs associated with Detention meals and prisoner rooms. FY 09 Budget is below the FY 07 Operational Budget. FY 09 projections are based on historic activity.

Operating Costs have grown from \$6.9 million in 1999 to \$11.6 million in 2009. This is a 68% increase over 10 years. Inflation has grown at 30.32%, with Population increasing at 44%. Areas that have seen the largest change include:

FUEL / INSURANCE: The following is a comparison of Fuel and Insurance costs for the Road and Sheriff Departments during this period of time:

YEAR	<u>ROAD</u>		<u>SHERIFF</u>	
	Fuel	Insurance	Fuel	Insurance
1997	100,882	41,377	34,486	25,230
2000	115,661	40,338	47,072	49,207
2004	163,753	53,098	74,608	72,853
2005	222,899	55,931	89,320	72,900
2006	298,306	59,990	110,150	74,051
2007	310,253	53,784	121,333	73,794
2008	374,190	64,637	100,000	74,096
2009	314,769	65,930	139,064	82,835
Budget 2010	375,000	65,930	150,000	74,149
Percent Change 97-09	270.92%	56.21%	189.97%	193.68%
Percent Change 97-10	212.02%	59.34%	303.25%	228.32%

The table shows fuel costs have increased over 200%, even with increased fuel-efficient engines. A partial factor may be an increase in the fleets, but this only accounts for part of the increase. The change in Insurance is variable because law enforcement costs increase at a faster percentage than other areas due to utilization for vehicle repairs and known risks.

Gallatin County Financial Plan

Utilities – Cost of Utilities have seen a significant increase in the last 11 years, with the biggest increases to felt in FY 08. The Information that follows shows the changes in the Road, Fair and Facilities gas and electric costs for the period FY 2000 through FY 2009 for actual expenses and the FY 2010 Budget:

<i>UTILITIES</i>			
YEAR	Road	Fair	Facilities
2000	12,433	42,049	125,471
2001	16,479	54,985	146,394
2002	14,609	50,345	141,620
2003	15,774	52,692	152,332
2004	24,435	63,654	195,020
2005	23,715	62,332	210,247
2006	29,831	82,801	251,801
2007	26,441	54,515	245,861
2008	36,391	74,121	308,041
2009	31,912	76,571	312,557
FY 10 Budget	40,050	97,900	316,449
change 00-09	193%	76%	146%
change 00-2010	222%	133%	152%

Contracts – Detention medical, Juvenile Detention and Food/Room costs have increased dramatically during the period 2000- 2009. FY 2000 Medical costs for FY 2000 are higher than norm due to a claim costing over \$80,000. Without this claim costs have increased by 239%. Costs from FY 2004 forward include a contract for a Physician Assistant, Registered Nurse and professional support at the Detention Center. This has helped control costs and decreased problems with inmates.

YEAR	Detention			Library	Senior	Mental
	Medical	Juv. Det.	Food/Board	Contracts	Programs	Health
2000	165,010	10,560	148,265	445,290	107,508	50,481
2001	79,015	43,100	130,806	487,400	116,957	50,463
2002	141,357	43,983	200,297	519,089	117,508	76,415
2003	171,332	79,156	211,050	545,043	139,301	79,831
2004	197,535	123,847	199,910	546,678	149,185	99,000
2005	214,265	177,865	228,759	571,678	150,905	195,000
2006	281,094	255,411	518,807	598,544	165,890	199,727
2007	317,970	304,777	549,634	625,410	192,076	210,697
2008	326,838	525,047	650,249	650,426	216,700	215,075
2009	383,800	230,952	700,350	675,442	203,052	215,075
FY 10 Budget	289,000	401,256	701,754	675,313	202,679	203,052
change 00-09	133%	2087%	372%	52%	89%	326%
change 00-10	75%	3700%	373%	52%	89%	302%

Library Contracts have increased based on taxable valuation changes. The amount shown does not include the county's repayment of up to \$140,000 per year for the library loan. This loan was used to support construction of the new library in Bozeman, expansion of the Belgrade Library, relocation of the West Yellowstone Library and capital improvements in the Manhattan and Three Forks Libraries.

Senior Programs increased by taxable valuations plus costs that were justified. These include transportation costs associated with the Galavan and West Yellowstone Galavan programs, and expansion of Senior Citizen programs to maintain needed programs.

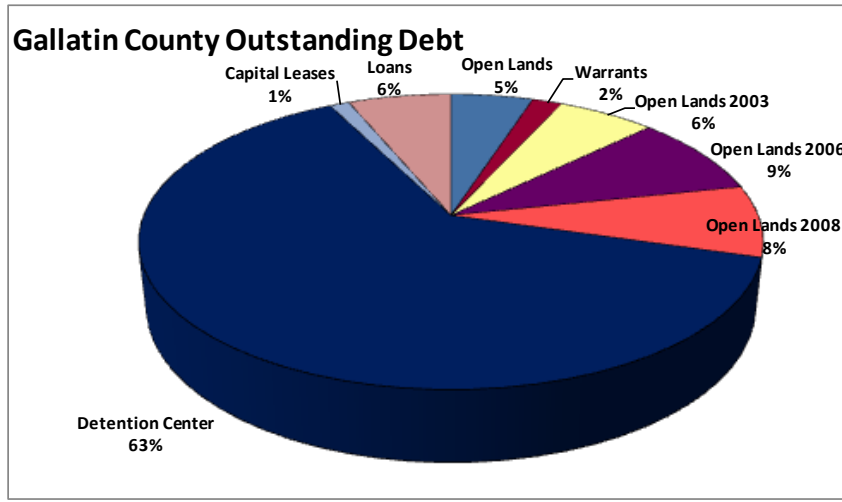
Mental Health has expanded significantly from FY 2000 when support was limited to \$1 per person. Today, funding includes the \$1 per person, plus \$100,000 for crisis stabilization and weekend coverage and \$30,000 for Adult Case Management. Also, funded is \$12,000 for youth needs.

DEBT

Gallatin County is relatively debt free. County Voters have approved 4 bond issues in the last 20 years. They are - Rest Home for \$1,490,000 in 1989 (expired FY 09), Open Space in 2001 for \$10,000,000, Opens Space in 2005 for \$10,000,000 and Detention Center in 2008 for \$32,000,000. In recognition of the County's good financial condition, Standard and Poor's upgraded our bond rating from A+ to Aa- as of January 2009.

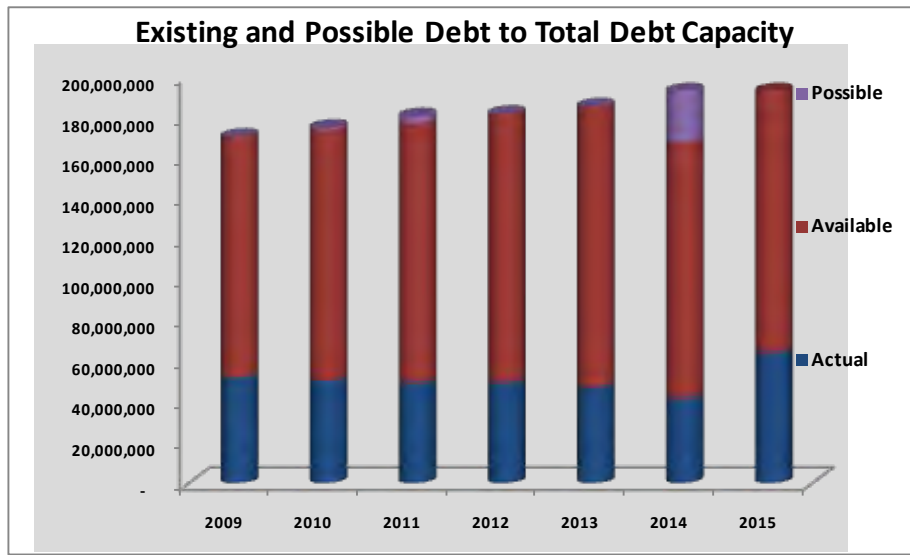
Outstanding Debt

The following pie chart shows the county's indebtedness by purpose. In reality, Gallatin County has a relatively low level of outstanding debt, which is more fully described below & on the next page.



Debt Capacity

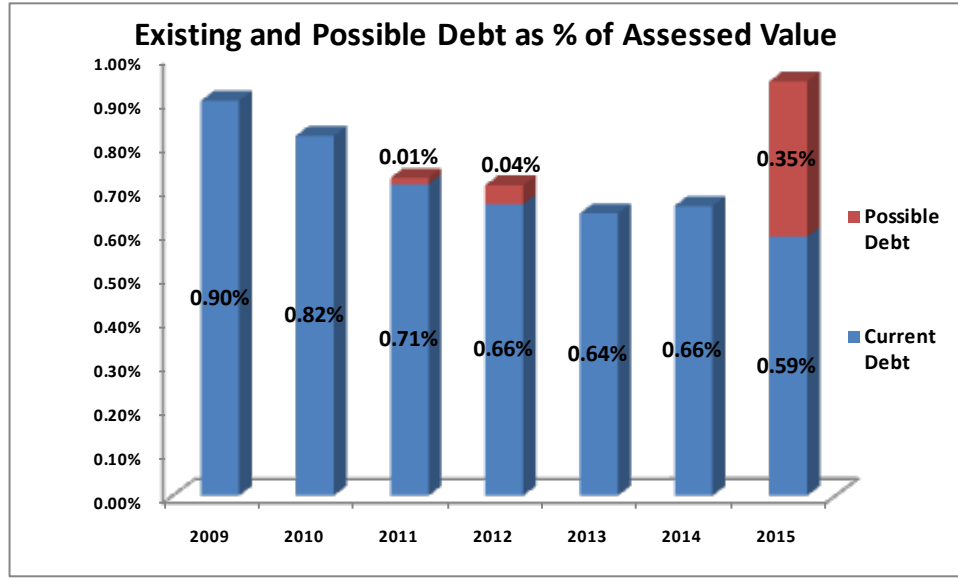
The following bar chart of the county's existing debt, possible debt, and a projection of the county's projected debt capacity (legal debt limit) for the budget year and five years beyond. The graph shows that, even if all possible bond issues were approved, the county would have debt capacity remaining. This reflects the County Commissions philosophy to hold debt levels down for taxpayers, despite the county's rapid development and growing population.



Gallatin County Financial Plan

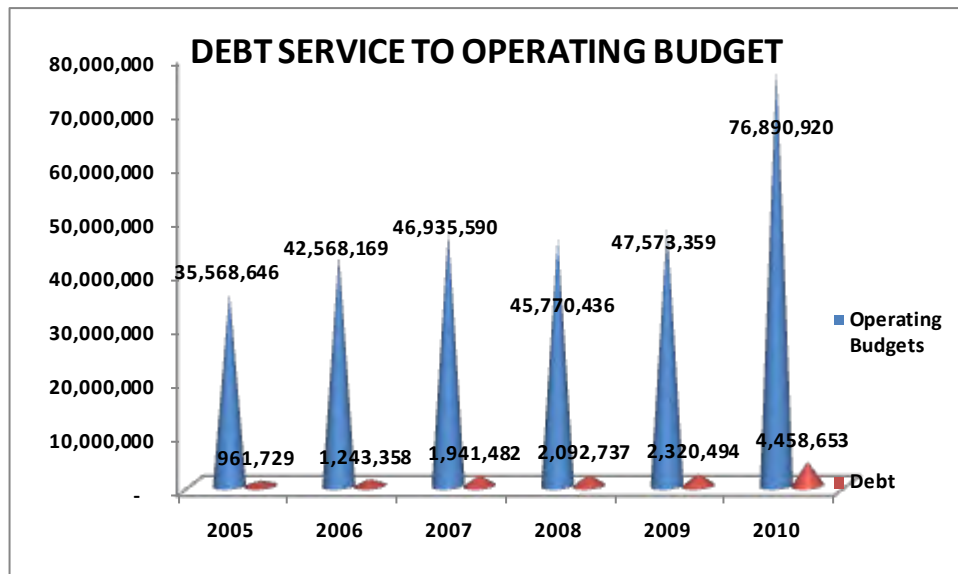
Debt as a Percentage of Assessed Value

The Existing and Possible Debt graph below shows County debt as a percentage of assessed valuation. In essence, this reflects the county's debt as compared to the wealth of the county. It shows that even with possible debt, the County's overall debt will be below 1% — well below the 2.50% statutory limits.



Debt Service Costs Contrasted with the County's Operating Budget

Rating agencies also look at Counties by comparing Debt payments (principal and interest) to total Operating Budget, and determine if a County is carrying a high debt load. The graph below illustrates the County's debt in relation to its operating budget. Debt payments by the county are a small fraction of its operating budget. This reflects the County's efforts to keep debt service payments at a manageable level.



CAPITAL

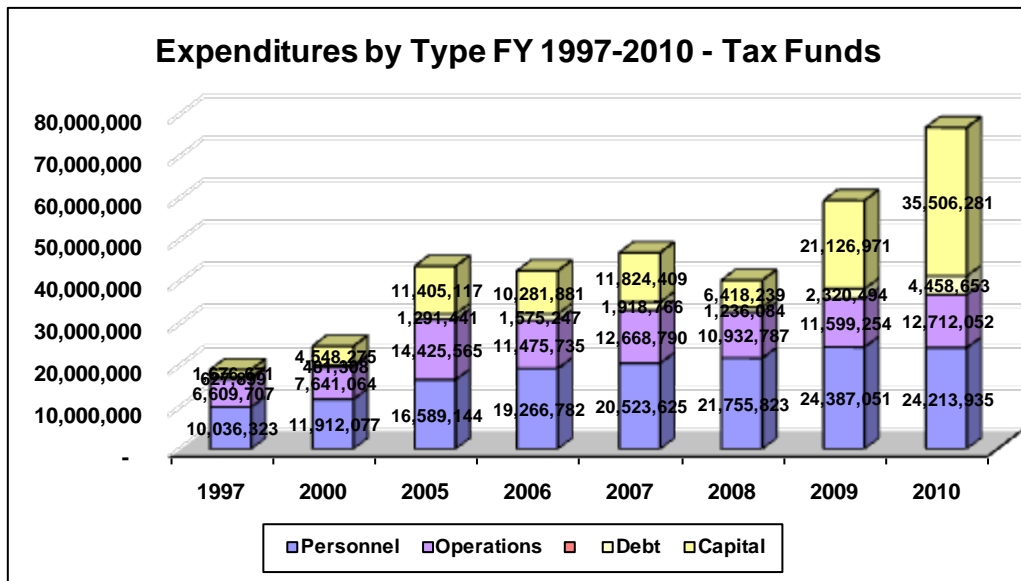
Gallatin County is committed to adequately fund the capital needs of departments and facilities. This is a major change from 15 years ago when capital equipment was replaced on an intermittent basis with little consideration to a systemic replacement schedule. The County now has replacement schedules for a significant number of ongoing capital needs. The Sheriff's vehicle's are on a 5-6 year schedule, computers are replaced on an as needed basis, Computer infrastructure (routers, controllers, servers) are on a 5-6 year schedule, copiers are on a copy replacement schedule, road graders are on a 5 year lease program, and the County Voice/Data (VOIP) system is on a 5-8 year replacement schedule.

To insure consideration of all costs associated with discussion on new positions, the county now requires requests for new positions to include Personnel, Operations, Space and Capital costs for each position. This has allowed the County Commission to look at the potential total costs for a position instead of having to fund operations and capital needs associated with positions on a piece-meal basis.

CAPITAL EXPENDITURES CONTRASTED WITH TOTAL COUNTY OPERATING EXPENDITURES

The investment by the county in its capital and infrastructure is of primary importance to insure the long-term viability of service levels. The amount of capital expenditures in relation to the budget is a reflection of the county's commitment to this goal.

Gallatin County strives to provide for adequate maintenance of facilities / equipment and for their orderly replacement. The graph below illustrates the County's historical investment in capital. The graph depicts actual capital expenditures and capital projects as part of the county budget. The graph shows budgets over the last six years plus FY 97 and FY 00 for comparison.



The Graph depicts the amount budgeted- not the amount actually spent. The difference for capital can be significant. The budget to actual difference is significant primarily because of the County's reserving capital money for several years to fund a

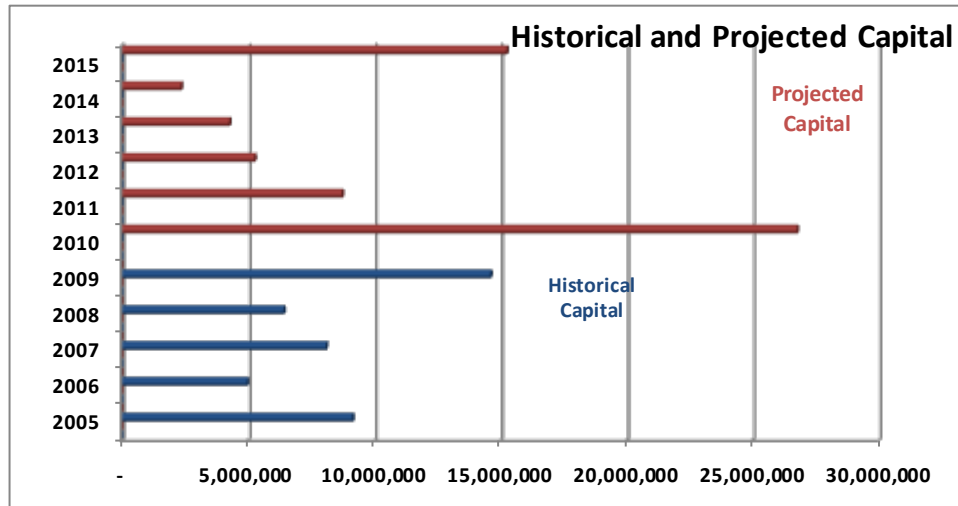
project. This included the County Road Shop, E.O.C./ Search and Rescue Building, Courthouse Remodel, Copier replacement and Voice / Data System Replacement-Enhancement.

The County also budgets for projects that are actually constructed over multiple years. Examples of these projects include the Detention Center, Courthouse remodel, Courthouse Annex purchase and Remodel, E.O.C. / Search and Rescue Building, and Fairground improvements.

Gallatin County Financial Plan

CAPITAL IMPROVEMENT PROGRAM (NEXT FIVE YEARS) CONTRASTED WITH HISTORICAL CAPITAL SPENDING (PREVIOUS FIVE YEARS)

Another indicator of Gallatin County's commitment to providing for the adequate maintenance of facilities and equipment and for orderly replacement is the level of projected capital spending over the next five years as compared to the previous five-year period. The next graph shows historical capital spending (last five years) with the capital spending identified in the Capital Improvement Program (the next five years).



Readers should note that Historical Capital Spending indicates actual expenses for the year -not costs of Projects included in the CIP Program. This is significant for most years. As an example, FY 2006 shows expenditures of \$5.7 Million. The approved Capital Projects and Capital Equipment Budget was \$21 million.

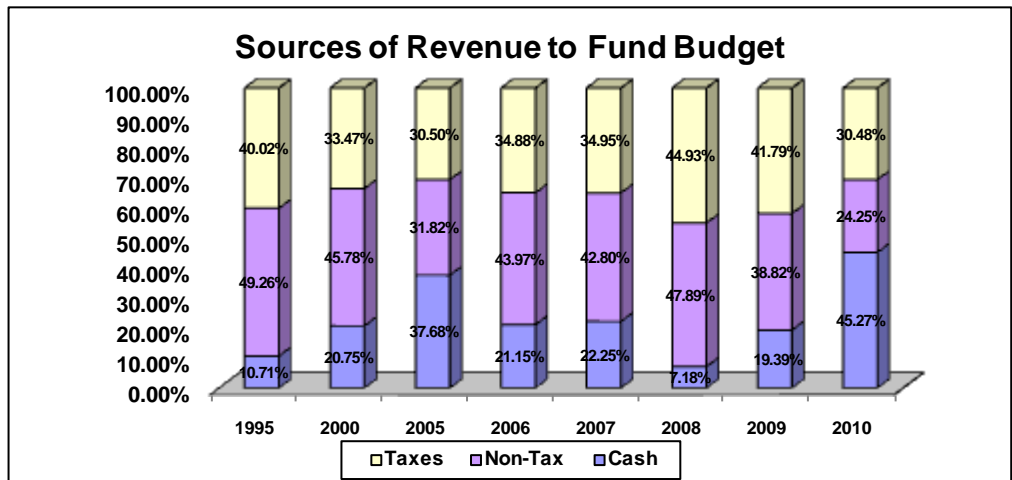
Also, readers should know that Proposed CIP Projects included above are separated into years, but the FY 10 Budget incorporated all projects from 2010 through 2015. This comes to approximately \$107,404,529.

The last area, and in my opinion the most important, reviewed for County Budgets deals with changes in Revenues over the same time frame as expenditures.

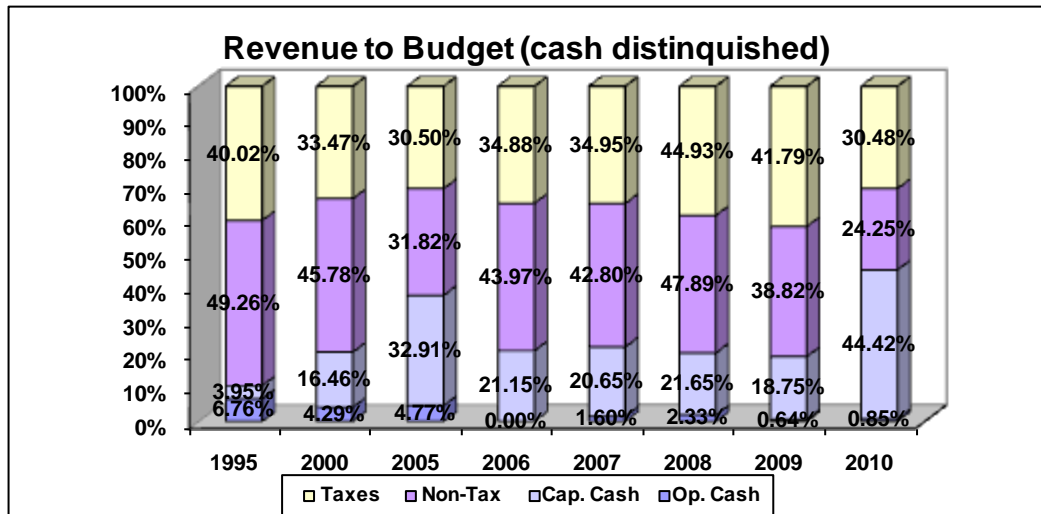
REVENUES

The County uses 6 major funding sources (revenue sources) to fund the approved budget. The Revenue Sources are Taxes, Licenses and Permits, Intergovernmental, Fines/Forfeitures, and Interest / Other Revenues and Cash. Expenses are funded through Tax Revenues, Non-Tax Revenues and cash re-appropriated to fund the current budget.

A comparison of Revenue Sources for 1995 through 2010 Budgets show a decrease from 40.02% to 30.48% on the County's reliance on tax revenues. During this time, the County decreased Non-tax sources from 49.26% to 24.25%. The largest source showing an increase is cash utilized to balance the budget, which increased from 10.71% to 45.27%. However, the majority of cash is used to fund Capital Outlay / Capital Purchases, not ongoing Operational Expenses.

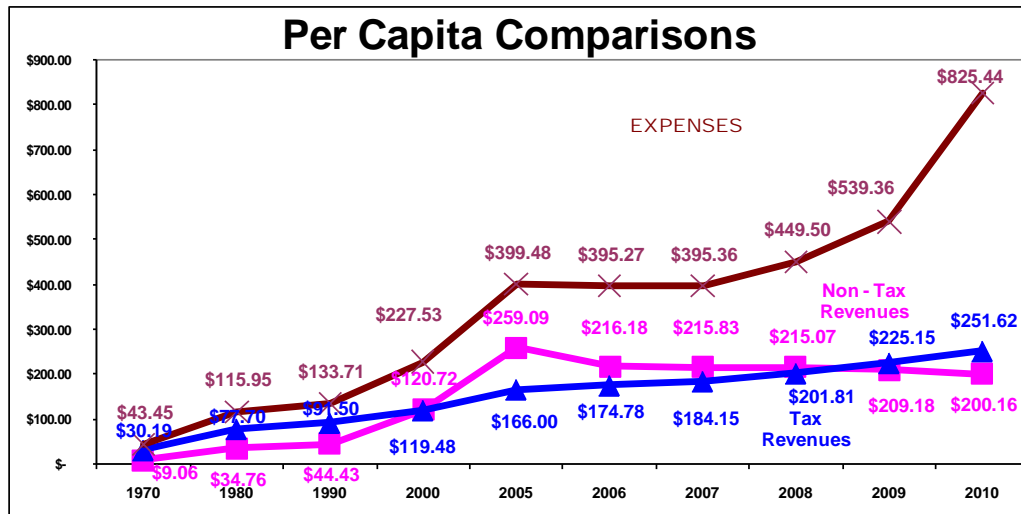


A more accurate view of Revenue Sources is shown in the graph that follows. This graph distinguishes between cash used for Operations (Op. Cash) and cash used to fund Capital (Cap. Cash). In FY 2009, cash supported .64% of Operating Expenses.



Gallatin County Financial Plan

The Per Capita graph that follows has not been adjusted for inflation.



The cost per person for actual expenses in the last 39 years has increased from \$43.45 in 1970 to \$539.36 in 2009, a twelve-fold increase. The FY 10 Budget has \$825.44 per person which would equal a 19-fold increase. However, a significant portion of the budget is for capital projects and other activities not expected to happen in FY 11.

Actual Tax Revenues have changed from \$30.19 per person to \$225.15 during this same time, a 7-fold increase. With FY 10 taxes projected at \$251.62, the increase from 1970 is an 8-fold increase. Non-Tax Revenues started at \$9.06 per person and are now at \$209.18 for FY 09, with FY 10 estimated at \$200.16 per person. This is a 23.09-fold increase from FY 97 to FY 09 and a 22-fold increase is projected for FY 10. The 1970 through 2009 numbers are based on actual taxes, revenues and expenses, while the FY 2010 numbers come from Estimated or BUDGETED revenues and expenses. Actual expenses will be significantly lower than the \$825.44 shown for 2010 Budget. AS AN EXAMPLE: The amount budgeted for FY 2000 was \$314.15, (27% below the amount actually spent) with the amount budgeted for FY 2001 being \$344.10, (22% below the amount actually spent). Based on these calculations the actual FY 10 expenses will be between \$602 and \$643 per person.

Gallatin County's Taxable Value increased from \$94,965 in FY 1995 to the \$223,245 in FY 2010

	<u>Taxable Valuation</u>	<u>1 yr %</u>	<u>2 yr %</u>
Base Year 1995	94,965		
1996	101,149	6.51%	
1997	107,513	6.29%	13.21%
1998	112,346	4.49%	11.07%
1999	117,800	4.85%	9.57%
2000	118,618	6.94%	5.58%
2001	117,796	(.01)%	0.00%
2002	124,219	5.45%	4.72%
2003	133,587	7.54%	13.41%
2004	144,665	8.29%	16.45%
2005	154,680	6.92%	15.79%
2006	166,682	7.76%	15.21%
2007	181,081	8.63%	17.07%
2008	196,866	8.71%	18.11%
2009	209,639	6.48%	15.77%
2010	223,245	6.49%	13.40%

The Average increase for ten years is 6.63% on a yearly basis.

The FY 2010 Taxable Valuation is overstated because of the reappraisal cycle that was completed for 2010. The County Treasurer has stated they are receiving numerous adjustments from the Department of Revenue resulting from tax appeals being completed. Presently (through 12/31/2009) tax bills have seen reductions of 1% since the bills were issued in October. The Department of Revenue will not complete the appeal process until late summer.

FY 2010 FINANCIAL TREND ANALYSIS**FINANCIAL TREND ANALYSIS****Gallatin County, Montana****February 23, 2010**

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Gallatin County Financial Plan

Trend Analysis Introduction

Trend Analyses are prepared to depict the financial condition quantitatively through the utilization of financial trend monitoring. The analysis uses 20 trends using Favorable, Watch and Unfavorable rankings. Trends may be expanded in future years as workload indicators and performance measurement information is made available.

The analysis of these indicators is designed to measure the financial health of Gallatin County Government. The analysis that follows and the conclusions and recommendations involve analyzing the relevant factors to determine the financial health of the County. The factors used to analyze trends include:

- **Working Capital (Cash)** -Balances and reserve amounts used to fund budget;
- **Revenue** – Types, amount of revenue, revenue per capita, property tax revenue and comparison of Non Tax revenues;
- **Expense** –Trends, type of expenditures, expenses per capita, employees per capita, fringe benefits, compensated leave balances, as well as cost of salaries;
- **Capital - Outlay, Reserve, projects and adherence to plans; and**
- **Growth – Population, taxable value, and millage**

This report examines the preceding items and others in determining the current financial condition of the County. The County's adopted financial policies, as well as relevant national standards, are considered in the analysis and trend data.

Specific information and data were taken from the County's audited financial statements and the approved budget document. The years reviewed are from 1970 through the current fiscal year. Trend analysis is based primarily on annual reports and budgets from 1997-98 through 2008-09 with the current budget used as the basis for projections.

Summary of analysis:

The trend analysis that follows will provide the Public, County Commission, County Administrator, Elected Officials, Departments and County Employees a glimpse into the County's financial position. The analysis allows the County to identify specific areas where new policies are desired, where current policies need revision, and where policies need to be eliminated.

Each financial indicator has been assigned a rating. The ratings are Favorable, Watch, or Unfavorable.

- **Favorable** is given to trends that adhere to the County mission, vision, goals, objectives and policies. A favorable overall ranking requires 14 or more Favorable indicators;
- **Watch** is a trend that is in transition and may be in a downward cycle, but the trend has not reached unfavorable status. A watch for the overall rating occurs when individual ratings are given a 'Watch or Favorable' rating for 11 to 14 items.
- **Unfavorable** is assigned to trends that are downward or negative and immediate attention is needed to address the trend. An Unfavorable overall rating occurs when 10 or less indicators are Favorable;

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TRENDS:

The following table shows a summary of indicators for 99-00 through the 09-2010 budget years. The table illustrates the ratings assigned by indicator and year.

Indicators:	FY 96-97	FY 2000	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues:								
Per Capita	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Property Tax	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Watch	Fav.
License and Permits	Fav.	Fav.	Watch	Fav.	Fav.	Watch	Watch	Unfav.
One-Time Revenue	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Watch	Watch
Inter-Government	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Cash for Operations	Watch	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.
Expenses:								
Per Capita	Unfav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
By Category	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Employees / Capita	Unfav.	Fav.	Fav.	Fav.	Fav.	Unfav.	Unfav.	Unfav.
Sworn Officers/Capita	Fav.	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.
Fringe Benefits	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Fav.	Fav.
Capital Outlay	Fav.	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.
Compensated Absences	Unfav.	Unfav.	Watch	Watch	Unfav.	Unfav.	Unfav.	Unfav.
Economic:								
Property Values	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Residential Values to total property values	Watch	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Fav.
Property Tax Statistical Analysis			Fav.	Fav.	Fav.	Fav.	Unfav.	Watch
Debt	Fav.	Fav.	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.
Population	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Benchmark:								
Taxes per resident							Fav.	Fav.
Percent Taxes are to Budget							Fav.	Fav.
TOTAL FAVORABLE	11	12	11	13	14	12	12	14

Factors determining a Favorable Ranking:

- Revenues per Capita – an increase in revenues per capita shows growth;
- Property Tax Revenue – an increase in dollars generated shows growth in the County tax base;
- License and Permit Revenue – an increase greater than inflation, shows growth in the economy;
- One Time Revenue – decrease or status quo in one-time revenue used for operating expenses indicates current revenues ability to support current expenses;
- Inter-Governmental Revenues – increase of revenues shows less reliance on taxation;
- Utilization of Cash – a decrease of cash used for Operations or other on-going expenses;
- Expenses per Capita – increase in expenses per capita greater than inflation, shows growth in commitment to services provided by government;
- Employees per Capita – decrease in residents served per employee is favorable. If trend shows increase for two or more years, unfavorable rating is warranted.
- Sworn Officers per Capita – maintain 1 officer per 2,200 residents, or less (See pages 22 & 24);
- Fringe Benefits – decrease or status quo of percentage benefits are to salaries;
- Capital Outlay – funding at greater than 10% of operating budgets;
- Compensated Absences – decrease or status quo, after inflation, compared to previous year;
- Property Values – Increase in property values greater than rate of inflation;
- Residential values – decrease in percentage residential values are of total taxable value;
- Property Tax Statistical Analysis – growth in Average Taxable Value and Median Taxable value shows sustainable growth in tax base;
- Debt – debt principal and interest maintained below 20% of operating expenses;
- Population – increase in population show growth in area

The rating of these factors for FY 2009-10 is '**FAVORABLE**' - The original Factors show 12 indicators are Favorable, 1 is in a Watch status and 5 indicators are Unfavorable. This is an upturn from FY 09 when 10 indicators were Favorable.

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BENCHMARKS:

The following comparisons (BENCHMARKS) compare Gallatin County to Yellowstone, Missoula, Flathead, Cascade and Lewis and Clark in specific areas. These comparisons appeared in the Trend analysis for the first time in 2009. Comparisons come from Local Government Profile prepared by Local Government Services at MSU. Population numbers come from the United States Department of Commerce, Bureau of the Census.

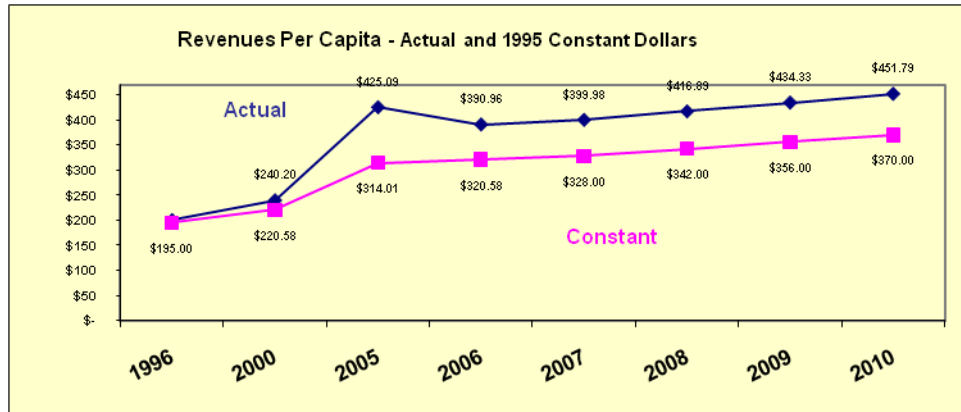
- Taxes per resident – Gallatin County maintains low tax per resident (maximum of 2nd lowest urban county);
- Percent taxes are to total budget – Gallatin County levy’s taxes to total budget at the lowest possible percentage (maximum of 2nd lowest urban county);

The rating of all factors for FY 2009-10 is **‘FAVORABLE’** - The original Factors plus the two new factors show 14 indicators are Favorable, 1 is in a Watch status and 5 indicators are Unfavorable. This cannot be compared to previous years, other than FY 09, because the two new factors were not included in previous year’s analysis.

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REVENUES

Revenues Per Capita:



Finding: ***Favorable***: Revenues per capita reflect an increase when analyzing both actual and constant dollars for FY 1996 through FY 2009. The calculation for FY 2010 is based on the approved budget.

The chart shows a gradual growth in actual dollars generated per capita from FY 1996 through FY 2009. Constant dollars, using 1995 as the base year, show a smaller increase each year.

Revenues actually received have seen increases including the following:

- Intergovernmental Revenues – money received from Federal, State, and Local Governments increased from \$1,022,810 in FY 96 to \$2,502,732 in FY 09. A 2.5 fold increase in 12 years. The increase for FY 05 and future years is from State Entitlement for lost MV Revenues. FY 09 revenues are up almost \$500,000 (25%) from the previous year.
- Charges for Services – Clerk and Recorder fees, Clerk of District Court Fees, Sheriff Services etc. have increased to \$3,164,665 in FY 09, a 111% increase from FY 00. This is down \$809,000 from FY 07 (20.6%). Rest Home charges are excluded from this number from FY 03 forward.
- Fines and Forfeitures – revenues from the Justice Court increased 142% from \$322,078 in FY 96 to actual collection of \$777,894 in FY 2009. A small increase of less than 4% from FY 08.
- Other revenues that have increased include Investment Interest by 38.62% for the General Fund and Local Option MV fees have increased by \$1,389,118 in the last 9 years. Investment will go down as interest rates decline and cash is used to fund ongoing operating costs.

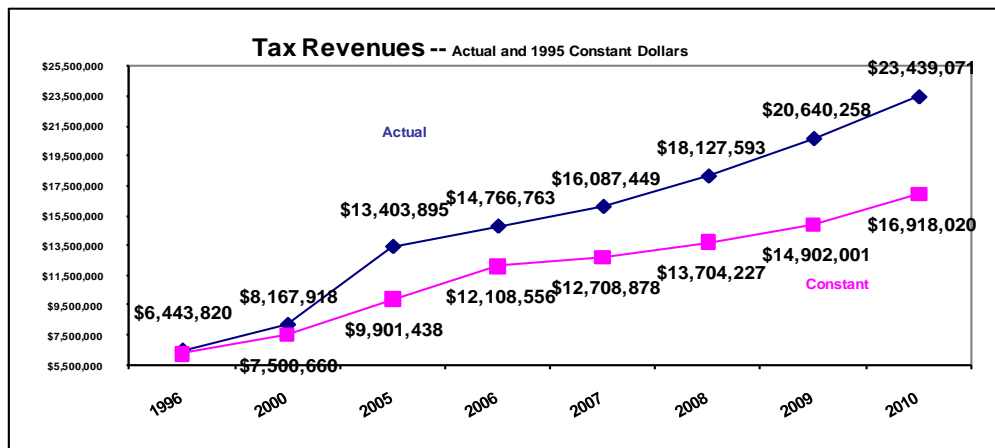
Favorable = a gradual increase in the actual and constant dollars spent by each resident indicates the county is maintaining or improving revenue generation.

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Property Tax Revenues:

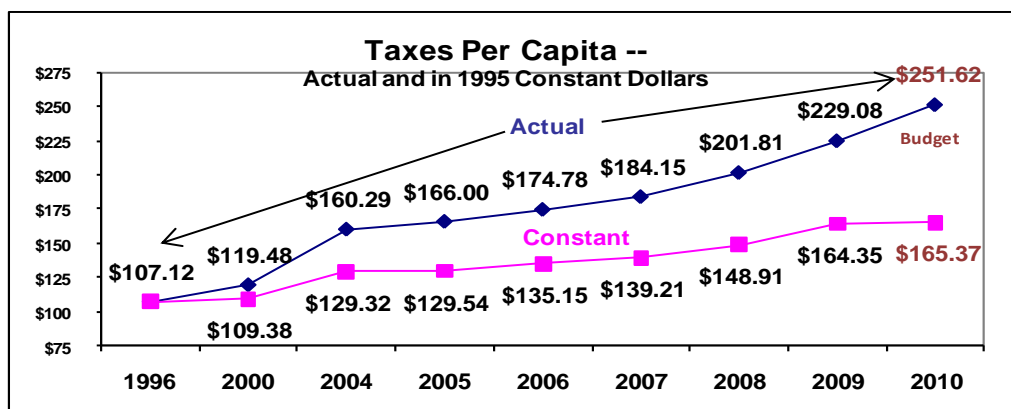
The Tax Revenue chart shows the actual dollars collected for FY 96 through FY 2009, with FY 2010 using Budgeted Tax Revenues. The graph also shows revenues based on calculating constant dollars using 1995 as the base year. Items that have affected tax revenues include:

- 1997 Voter approved 3.50 mill increase for Library
- 2000 Use of Floating Millage to maintain revenue service levels
- 2004 Added \$485,000 for Bricks and Mortar tied to public safety
- 2005 Used New Construction for operations and maximized millage to maintain service
- 2006 New construction for Capital Projects, Permissive Medical and Floating mills.
- 2007 Did not use \$535,450 in operation taxes and \$33,923 in Road/Library taxes.
- 2008 Increased by 9 mills taxes for voter approved Dispatch Levy.
Did not use \$724,500 in operation taxes and \$73,034 in Road/Library taxes
- 2009 Did not use \$ 843,000 in county operational taxes – used maximum Road taxes
- 2010 Did not use \$1,080,636 in county operational and \$39,820, in Road (Rural) taxes.



Finding: Favorable Property Tax Revenues have increased for 14 years and are budgeted to increase for FY 2010. With the ability to levy the unused taxes from FY 09 this positive trend should continue for FY 11. The slowing of the economy especially in the construction area will significantly affect revenue increases in the future.

The next graph shows taxes per capita using actual taxes and taxes in constant (1995) dollars.



The graph shows that in constant dollars, residents are paying \$57.23 more in taxes than 13 years ago, (\$4.40 per year). Actual tax dollars paid increased by \$121.96 (\$9.38 per year) from 1996 through 2009.

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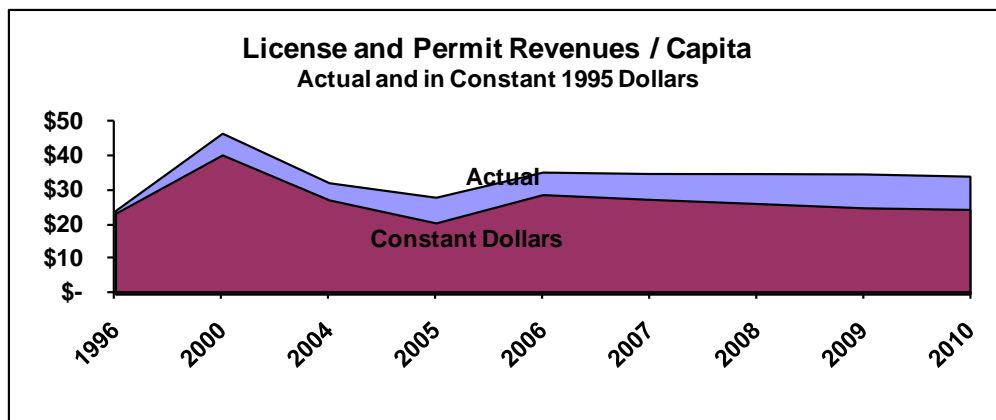
Favorable = tax revenues and Taxes per capita show an increase to offset inflation and to allow for growth caused by increase in population.

License and Permit Revenues:

Revenues generated through collection of Licenses and Permits saw consistent increases in previous years. The two major revenue sources were the 1.4% Ad Valorem Tax on Motor Vehicles and the ½ of one-percent Local Option Tax on Motor Vehicles. Both revenues were growing at an average of 10%+ per year. The 1.4% Ad Valorem Tax was eliminated in FY 02 with this revenue being sent directly to the State of Montana.

The State gives the County an entitlement plus a yearly adjustment. As noted above, Gallatin County was seeing a 10% increase in Motor Vehicle revenues, compared to the 4.55% increase for the FY 09 Entitlement. Other revenues included in this area were increasing an average of 35%, except for Personal Property Tax reimbursement, which decreased by 14%. Taking all factors into account, the County has not seen the growth from the entitlement compared to previous revenue sources.

The County did not see increased revenue from local option tax (down 4.25%) for FY 09. This resulted from the downturn in the economy resulting in fewer new vehicles being purchased. Mid – year collections shows a continued decrease of 3.83% from FY 2009. If this continues for the balance of the year, revenues from local option tax will be below conservative estimates.



Finding: Unfavorable License and Permit Revenues show a slight decrease in growth for FY 08 and FY 2009. The Constant Dollar calculation also shows a decrease in revenue. I am concerned because the slowing of growth in the local economy has continued the elimination of growth in local option revenue for the first 6 months of FY 10.

Current estimates are that Licenses and Permits will not continue to increase for the next several years. Licenses and Permits have not increased greater than inflation through 12/31/09. The \$24.10 per person in FY 1996 would be \$ 32.95 through calendar year 2009. The FY 2009 per person rate is \$34.63, with the FY 10 Budget set at \$33.99 per person.

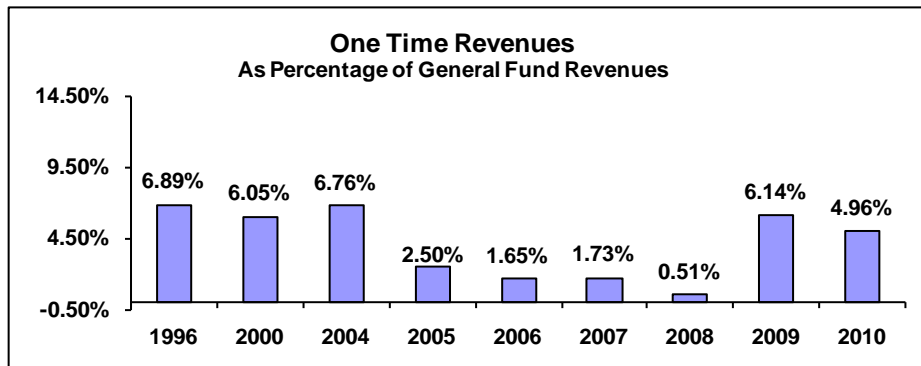
Favorable = an increase greater than inflation in the actual and constant dollars received from the License and Permits, non-tax revenue source will maintain service levels.

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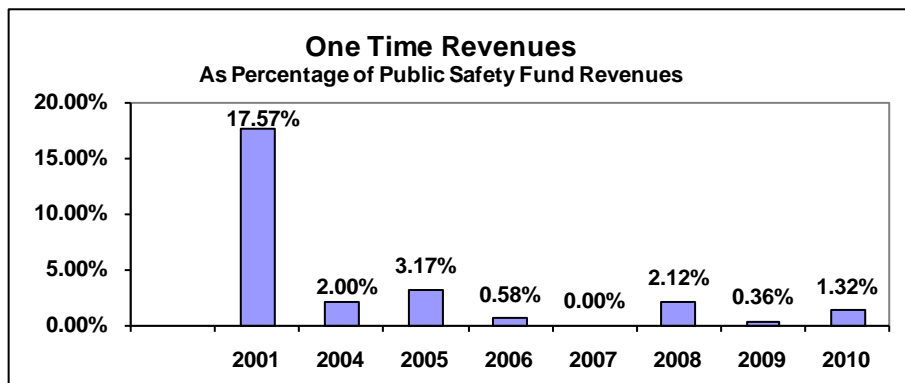
One Time Revenues:

Revenues that are considered 'one-time' include grant funds not awarded for multiple years, transfers in from other funds sale of assets or leases and cash available for re-appropriation. The General Fund in prior fiscal years and Public Safety Fund in FY 2000 through FY 2003 received significant amounts of revenue from this source.

When recommending the amount to be funded at the beginning of the budget process, the Finance Office recommends use of one-time revenues to fund expenses that will only occur in the proposed budget year. (One-Time Expenses)



Finding: **Watch** Decreases in one-time revenue is seen for the next several years. The County could close additional funds resulting in using current reserves to fund budgets, but this will not be sustainable beyond one year.



The decrease of one-time revenues in the Public Safety Fund is the result of the County Commission decision to levy taxes in the Public Safety fund instead of levying in the General Fund, Employer Contributions and transferring to the Public Safety Fund.

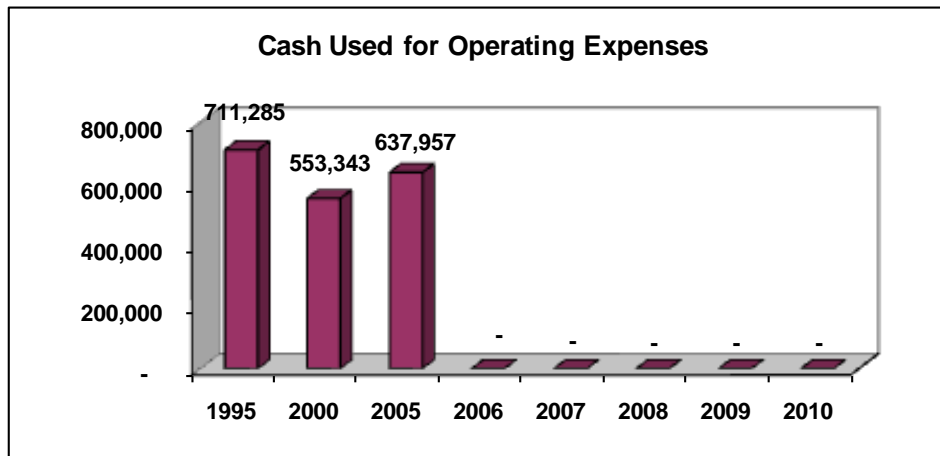
Consistent with the County's and National Budgeting Standards, money generated by one-time revenues is primarily used for non-reoccurring expenses like updating the Courthouse and similar activities. Therefore, the rating is favorable.

Favorable = a gradual decrease in the actual percentage one - time revenues are to the total General Fund and / or Public Safety Fund Revenues.

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Utilization of Cash:

Expenditure of cash for ongoing operating costs has been variable in the last 15 years. These numbers are actual and do not include the amount budgeted, except in FY 10. The FY 07 Budget anticipated using \$752,000 cash for Operating Expenses. Actual expenses show that cash was not used in FY 07 to pay for Operations. The Budget for FY 10 does not anticipate using cash for Operating expenses. This continues the county's shift from using cash to fund operating expenses to fund one time expenses. The County continues to use cash for the purchase of Capital equipment for most departments supported by tax revenues. While this is not shown in the graph the utilization of cash for capital should be eliminated, except for money set aside on a yearly basis for specific items – Detention Center replacement, Sheriff Vehicle replacement schedule, road equipment reserves, copier reserves, etc



Without cash re-appropriated, the Commission could not have funded the FY 10 Capital Budget. This is especially true of PILT where a majority of cash is used to pay for ITS servers / routers and loan payments for capital projects. As the County Budget becomes tighter, cash available to fund future capital items will decrease, resulting in a possible decline in services.

Finding: ***Favorable***. The decrease of Cash as a revenue source for the FY 10 Operating Budget shows the Commission's commitment to using current revenues to fund non-recurring expenses, and using one-time revenues and cash to fund one-time expenses. For future years less reliance on cash for ongoing capital equipment needs will further enhance the county's ability to have sustainable budgets. The payment of dispatch capital equipment and building construction through the voted mill levies has helped to meet the goal of funding all department needs with ongoing revenue.

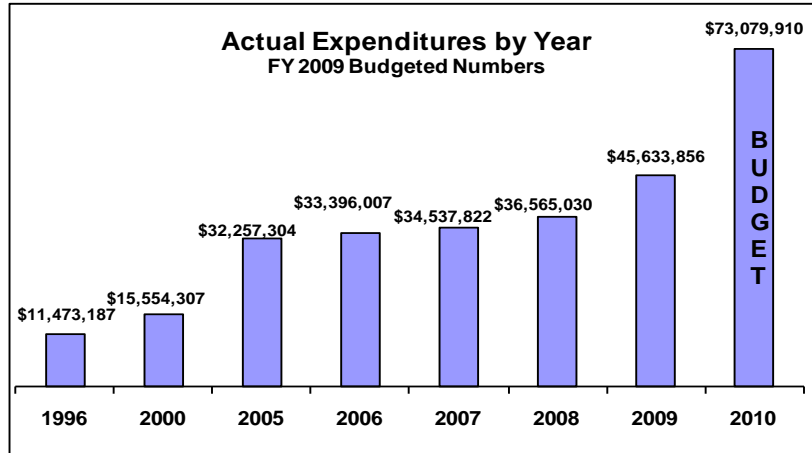
Favorable = the utilization of cash to pay for ongoing operational expenses is the exception not the rule based on prior year actual utilization and the FY 08 budget.

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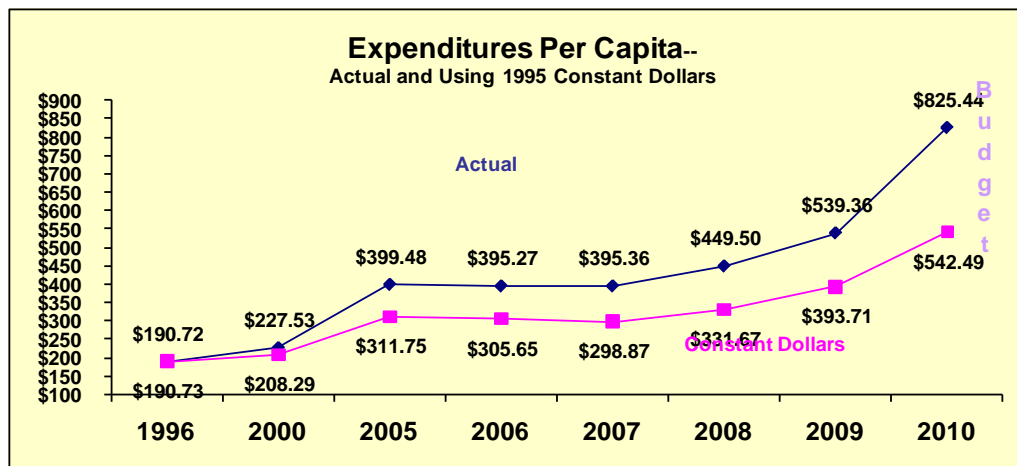
EXPENDITURES

Expenses by year:

Actual expenses during the proceeding 14 years and the FY 10 Budget show growth of expenses in actual dollars and in per capita. The FY 10 Budget does not include the amount of Operating Capital Reserves funded in the Budget. This adjustment more accurately reflects actual expenses made during each fiscal year. All calculations use only expenses from the County's tax supported funds – excludes grants, and district etc.



County expenses in **actual** dollars increased from \$11.5 million in FY 96 to \$45.6 million in FY 09 a 298% increase in thirteen years. In constant dollars the increase would be \$21.4 million (187%). The major differences above normal growth include creation of the Administrator's, Compliance, Court Services, Grants, Public Defenders, Joint Dispatch Offices, Changes to Juvenile Detention, Prisoner Room / Medical, an increase in capital expenditures, a significant increase in oil related costs and \$460,000 for Sworn Deputy Officers and Elected Officials salary increases in FY 02.



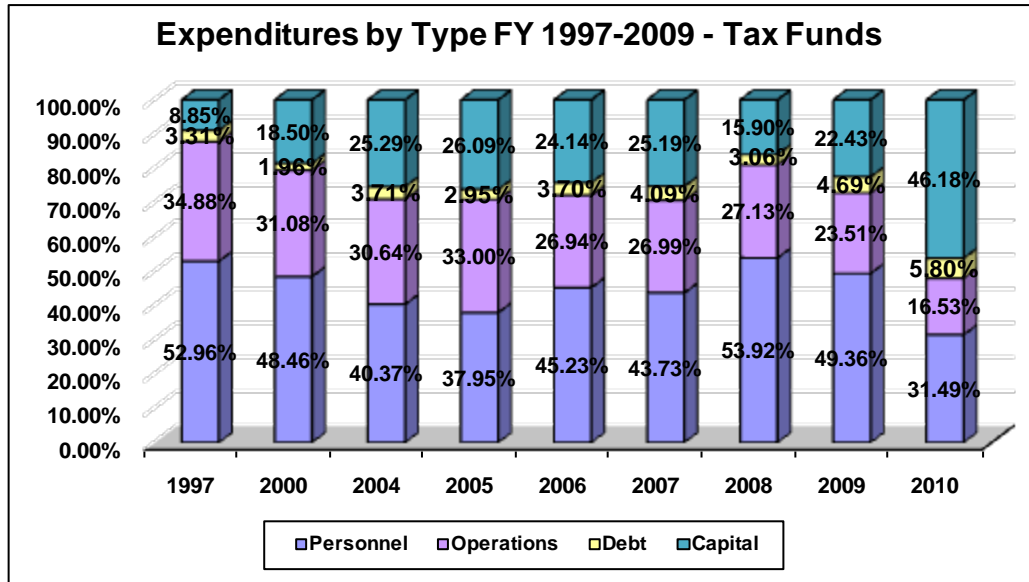
Finding: **Favorable.** Expenditures per capita in actual dollars and constant dollars have increased. The \$97.55 per capita increase for FY 2009 comes from **budget versus actual expenses**. The final numbers will be lower. Also, in FY 2009 projects are in construction phase rather than in planning stages.

Favorable = a gradual increase in the actual and constant dollars spent by each resident indicates the county is maintaining or improving its costs for services.

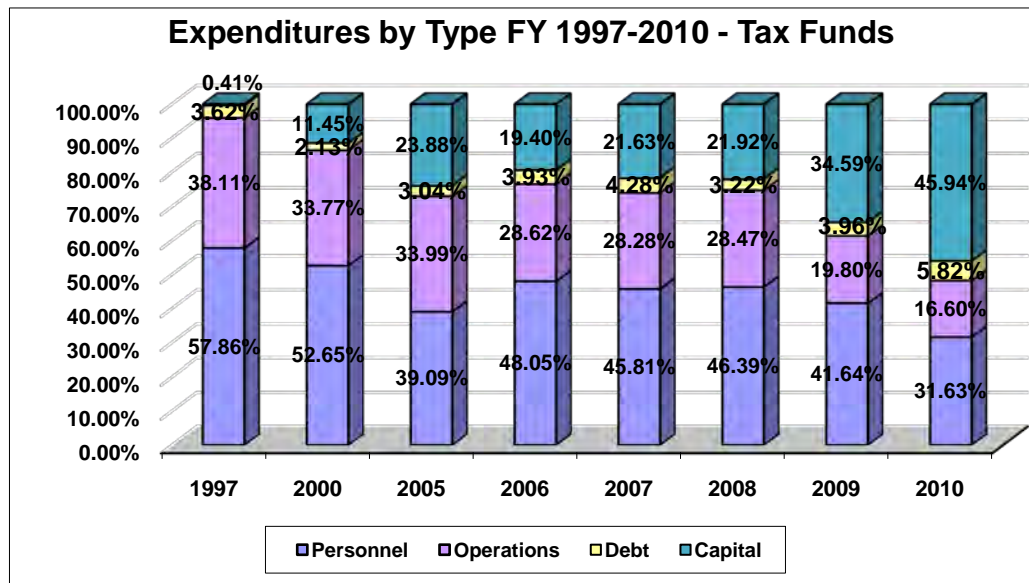
Financial Trend Analysis

Expenditures By Category:

The chart shows Personnel costs, the largest cost for Gallatin County, decreasing from 62.94% in FY 95 to 31.49% in the FY 2010 Budget.



The graph above was not adjusted for Capital Reserves that are set aside for future budgets. This overstates Capital Outlay and understates Debt Service, Operations and Personnel percentages. The graph below is adjusted by the removal of Capital Reserves. With Capital Reserves eliminated, Personnel costs continue to show a significant decline from 57.96% in FY 97 to the 50.24% in FY 2009.



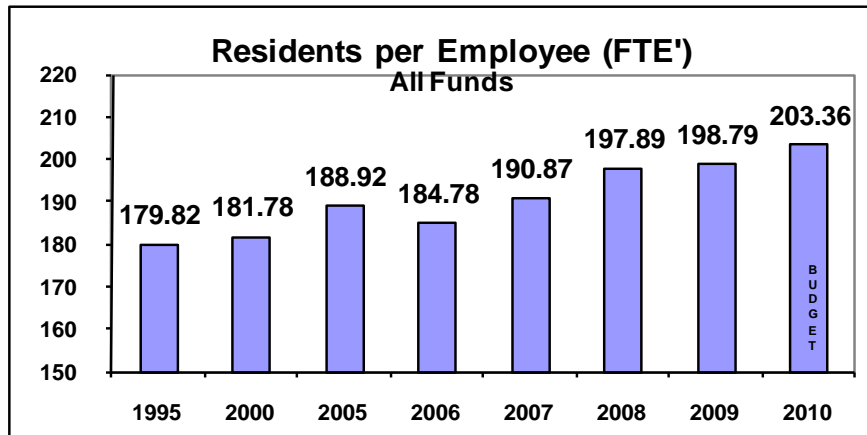
Finding: **Favorable.** Expenditures by category for Actual expenses show a decrease in the percentage being spent on Personnel. FY 08 numbers are based on the approved budget and will decrease before year-end.

Employees Per Capita:

A comparison of the number of residents per employee indicates the ability of a Government to maintain service levels, provided all factors remain equal. In the years FY 95 through the FY 10 Budget, services have increased where needed. During this time the County added 128.43 employees. Increases came mostly from new departments - Administrator, Compliance, Court Services, Grants, Joint Dispatch / Records, Big Sky Deputies and other tax supported activities. Small growth, less than the growth in population, is attributable to existing departments.

The most accurate comparison for the increase in employees is to compare how many residents are being served by each employee. The graph above shows changes in residents per employee for tax supported funds. This is the most accurate comparison of the service levels residents receive compared to the growth in all funds because this compares employees that are dedicated to all residents instead of including those dedicated to specific tasks because of grants, contracts, etc.

The graph below represents residents per employee for all activities under the control of the County Commission. It includes grants, enterprise funds and other personnel employed by the County.



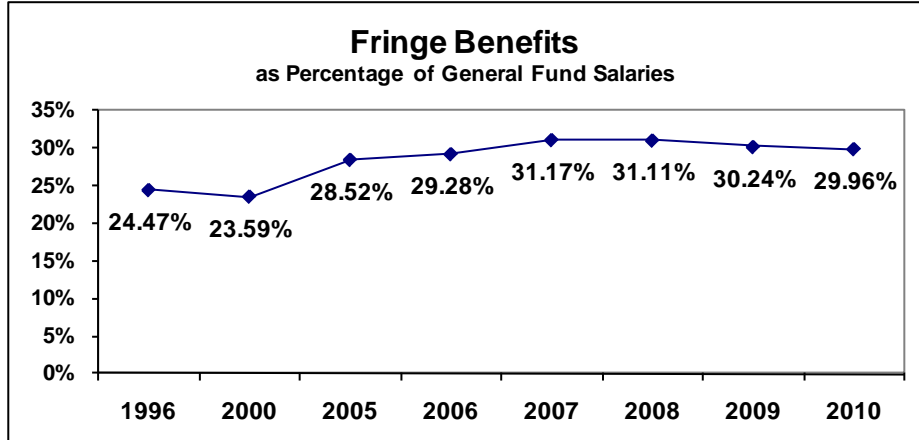
Finding: Unfavorable – Both graphs show increases in residents per employee. Even though new employees were added for new programs, overall the number of residents per employee increased.

Favorable = static or decrease in the number of residents per employee.

Expenditures for Fringe Benefits:

Fringe Benefits under ideal conditions would increase at a percentage equal to or below the increase in Personnel (Favorable rating). When Fringe Benefits increase faster than Personnel Costs this results in an Unfavorable rating.

The following graph shows Fringe Benefit costs as a percentage to General Fund Salaries. Fringe Benefits include Unemployment Insurance, Worker's Compensation, and Employer Contribution to Health Insurance, Public Retirement System, and Social Security / Medicare costs.



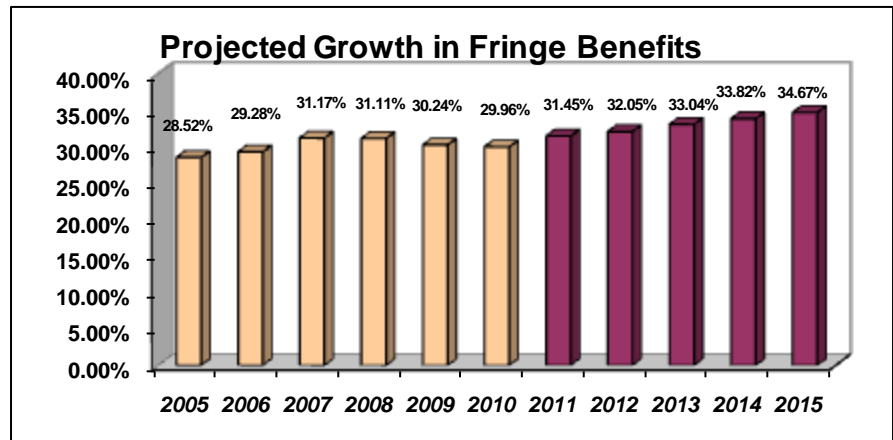
These calculations do not include the costs for the statutory 15 days vacation, 12 days sick and 10 holidays. Adding these costs to the benefit package adds 14.17% to each of the years shown, and do not change without the state legislatures action.

Finding: ***Favorable.*** Fringe Benefit percentages stabilized over the last 3

years. The slight decrease in FY 08, FY 09 and FY 10 is from the County not increasing Employer Contribution for Health Insurance to budgets. The County did use the Permissive Medical Levy instead. If the millage paid by the county from this Levy was added to the current cost per employee for insurance the Fringe Benefit percentage would be 34.17% for FY 10.

Comments: The continued increase in health insurance costs will adversely affect the County's ability to adequately fund future year's budgets. The 10.06% increase in Fringe Benefits from 1996 to 2010 equals \$176,038 for the General Fund and an estimated \$565,028 countywide.

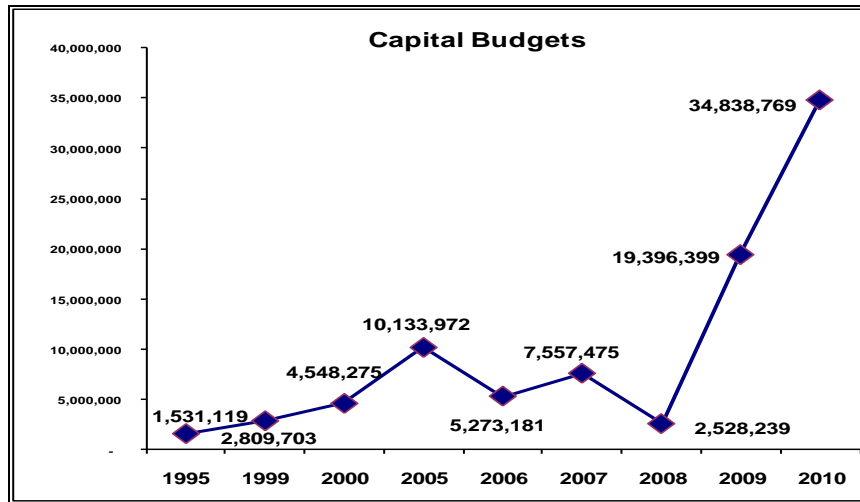
Favorable = a static or decrease in the percentage employee contributions are to total wages paid



The County will need to take a very active role in decreasing health insurance premium cost increases to change the unfavorable ranking. Because the majority of cost increases come from areas not under the county's control, such as utilization, prescription, cost for new drugs and current medical inflation, the county will not be able to make a significant change in this indicator.

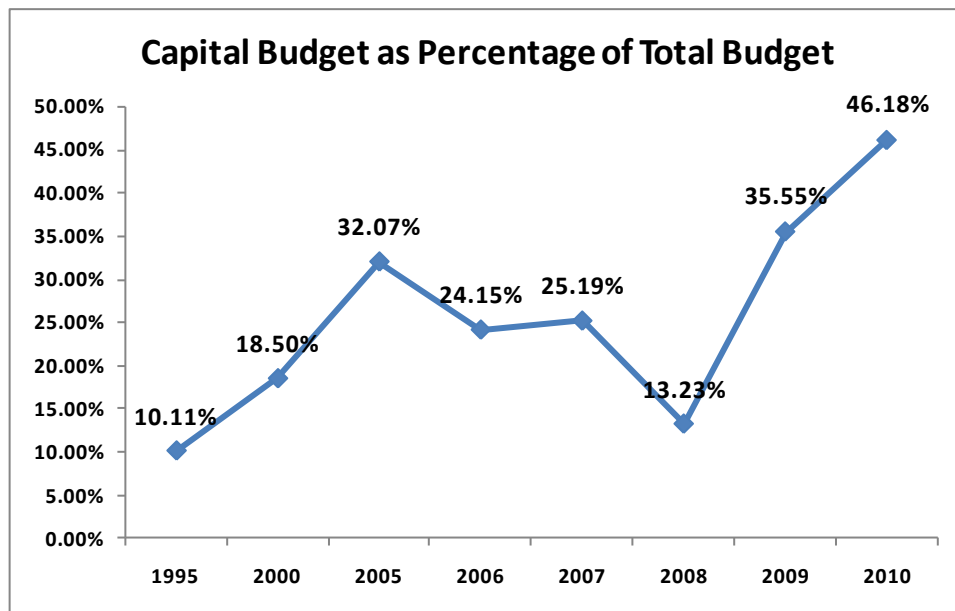
Capital Outlay and Capital Reserves:

Capital Outlay and Capital Reserves in Gallatin County have changed dramatically in the last 14 years. Prior to 1996 the County rarely set aside funds unless a specific need was identified. In 1996 the County set aside \$180,000 for future capital needs. In 1998 and again in 2000 the County formalized the Capital Improvement Program policy (the CIP) setting aside revenues generated from new construction taxes for approved Capital Improvement Projects. This changed in FY 05 but for FY 06 forward the Commission again used these tax dollars to fund capital projects.



Finding: ***Favorable.*** The Commission continues to levy taxes for capital projects associated with growth in the County's taxable value as certified by the State of Montana Department of Revenue. These funds include an additional \$300,000 for the Detention Center set aside, bringing the amount levied in FY 10 to \$1,500,000.

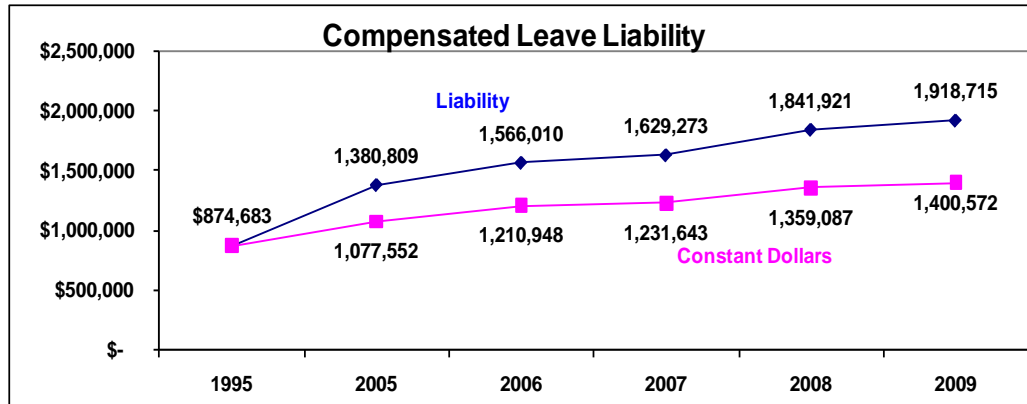
The following graph shows Capital Budgets compared to total budgets.



Favorable = a level or increase in the percentage capital outlay/reserves are to total budget

Compensated Leave Balances:

The County's compensated leave balances normally would increase at the rate wages increase. During the previous 2 years, compensated leave balances increased at a rate less than the rate wages increased. The increase of 4.16% for the beginning of FY 10 is well above the 1.2% for inflation and the 3.228% increase in total wages seen in FY 09.



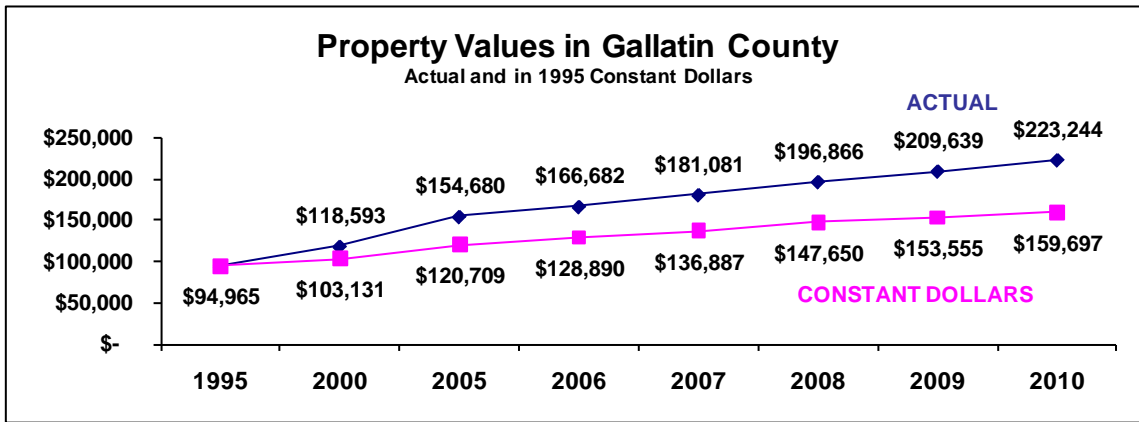
A comparison of the last five years shows leave hours and costs have increased, with the largest percentage increase being Fringe costs. The major increase in FY 08 is from inclusion of Retirement Fringe Benefit costs that were not reported previously.

	Sick Leave		Annual Leave		Compensatory Leave		Fringe
	Hours	Cost	Hours	Cost	Hours	Cost	
2005	76,070	\$ 352,993	46,117	\$ 815,774	4,013	\$ 72,514	\$139,528
2006	75,846	384,166	46,246	893,541	4,013	78,929	154,088
2007	79,475	405,864	47,432	928,612	3,865	77,446	164,959
2008	83,251	448,255	49,026	1,011,978	4,081	83,459	298,229
2009	85,545	467,623	49,494	1,050,371	4,220	90,061	310,660
% of Total	61.43%	30.95%	35.54%	65.32%	3.03%	5.60%	
Change	(2,294)	(\$ 19,368)	(468)	(\$ 38,393)	(139)	(\$ 6,602)	(\$12,431)
%	(2.76%)	(4.32%)	(0.95%)	(3.79%)	(3.41%)	(7.91%)	(4.16%)

Finding: ***Unfavorable:*** While the graph clearly shows that the trend continues upward the county has limited ability to make significant change to leave balances. Sick and Annual leave are set by state statute. Consideration of a policy requiring employees to take a minimum of two-thirds their annual vacation accrual could have a positive effect. Compensatory time policy could be changed, but would only represent 5.60% of the total and with most compensatory time and cost associated with unions, Elected Official staff, Agencies, and Landfill/Refuse, the Commission could only affect 43% of compensatory liability (2.41% of total liability). Sick hours are the highest number of hours but the cost is significantly lower because state law only requires payout at 25% of accrued sick leave upon termination.

Favorable = a static or decrease in the liability from Compensated Leave in dollars.

Property Values in Gallatin County:

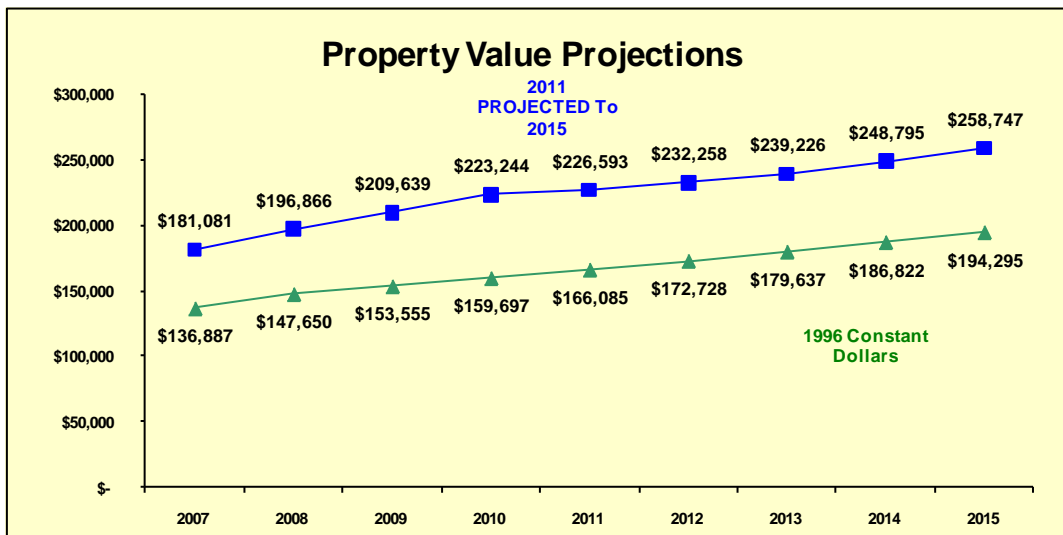


The increase in taxable value from FY 09 for FY 10 is 6.48%. This increase comes in commercial and residential property values. The following is a comparison from 99-00 to 09-10 of the change in taxable values

Fiscal Year	% Change
99-00	.64%
00-01	(.06)%
01-02	5.57%
02-03	7.80%
03-04	7.64%
04-05	7.17%
05-06	8.33%
06-07	8.64%
07-08	8.72%
08-09	6.48%
09-10	6.49%

Finding: **Favorable.** The ability to increase the number of mills to compensate for inflation, health insurance premium increases and for Dispatch maintains this factor as 'Favorable'. Ability to increase taxes in future years without requiring a vote of the residents while unpopular allows a great deal of flexibility for the Commission.

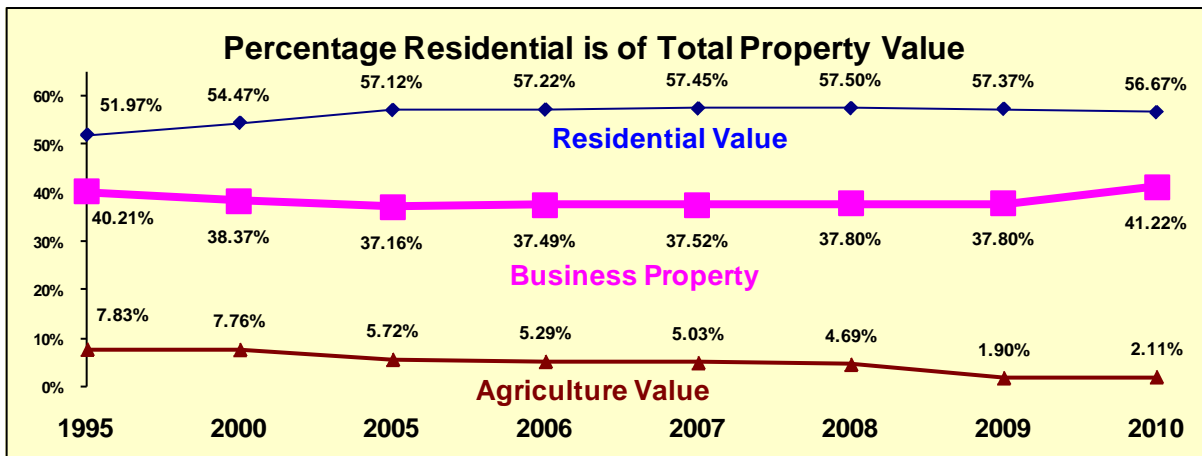
Favorable = an increase in the taxable value of the county, inclusive of known changes relative to the previous legislative actions.



Residential Property Values:

House Bill 124 and other Legislative Bills implemented changes in the method DOR uses to calculate property values. These changes resulted in an increase in the reliance of Gallatin County on taxes generated by Residential Property. The changes also affected the Floating Mill Levy, and the Inflationary Millage allowed by HB 124. They resulted in more taxes being paid by residents than ever before. Residential tax percentages have increased from 51.97% in 1995 to 57.720% in 2009, plus with the number of mills increasing, further causing an adverse affect on residential property payers.

The increase in the County's reliance on residential property values may cause the voter's of the County to not support needed Local Government initiatives in the future.



Finding: ***Favorable.*** The decrease of the percentage residential is of the total tax burden should continue through this reappraisal process, without legislative change.

Comment: Decisions by the County can only peripherally affect the costs to residential property owners. One decision the Commission made is to not levy the maximum millage for FY 07, FY 08, FY 09 and FY 2010. The County Commission, Elected Officials and Department Heads need to be aware of the full effect of decisions they make, as it relates to increased costs to Residential Property taxpayers.

The almost 5% increase in the amount of taxes paid by residential property taxpayers does have a positive impact. It is decreasing the shortfall identified in 1996 between the \$1.16 cost for services required by residential development, to the \$1.00 in taxes they pay.

Favorable = a decrease or static percentage Residential Property taxes are to the total County Taxable Values.

Gallatin County Financial Plan

Property Tax Statistical Analysis:

The County Treasurer has identified a method to calculate the Average Parcel Taxable Value and Median Parcel Taxable Value for Residential property for Gallatin County. These calculations show a significant change between Tax Year 2005 and the current Tax Year 2008 (FY 2009)

The table shows County-wide Real Estate Taxable Values, Real Estate Parcels Billed, Average parcel information, and Average General Tax using average Residential and Commercial bills for Tax Year 2005, 2006, 2007 and 2008.

Real Property Tax - Statistical Analysis									
	2006		2007		2008		2009		
Real Estate Taxable Value	176,293,222		191,110,330		202,345,872		217,239,538		
Residential & N/Q Ag	107,734,744	61%	120,822,354	63%	132,354,002	65%	142,749,564	66%	
Commercial and Other	68,558,478	39%	70,287,976	37%	69,991,870	35%	74,370,060	34%	
Number Parcels Billed	41,490		45,773		48,057		49,159		
Residential & N/Q Ag	35,267	85%	39,822	87%	38,651	80%	40,817	83%	
Commercial and Other	6,223	15%	5,951	13%	9,406	20%	8,342	17%	
Average Parcel Taxable Value	4,249		4,328		3,405		3,497		
Residential & N/Q Ag	3,055		3,029		3,424		3,497		
Commercial and Other	11,017		11,845		7,441		8,915		
Average Parcel General Tax	\$ 1,959.41	4.95%	\$ 2,434.67	24.26%	\$ 1,896.93	-22.09%	\$ 1,892.87	-0.21%	
Residential & N/Q Ag	1,408.71	2.13%	1,426.68	1.28%	1,653.47	15.90%	1,658.04	0.28%	
Commercial and Other	5,080.36	18.97%	5,578.86	9.81%	3,593.05	-35.60%	4,226.58	17.63%	

The comparison shows that:

1. Real Estate Taxable Values have increased by 23.22% from 2006 to 2009, with Residential growing from 61% in 2006 to 66% for 2009 and Commercial decreasing from 39% to 34%
2. The number of bills created jumped by 1,102 from last year, a 2.29% increase, but about ¼ the 10.32% increase we saw in 2007.
3. Average Parcel Taxable Values per parcel increased by 2.13% for Residential but increased by 19.81% for Commercial. – Still significantly below the 2007 levels
4. Average General Tax decreased by \$4.06 (-0.21%) with Residential increasing by \$4.57 (0.28%) and Commercial increasing by \$633.53 -17.63%. Again still significantly below 2007.

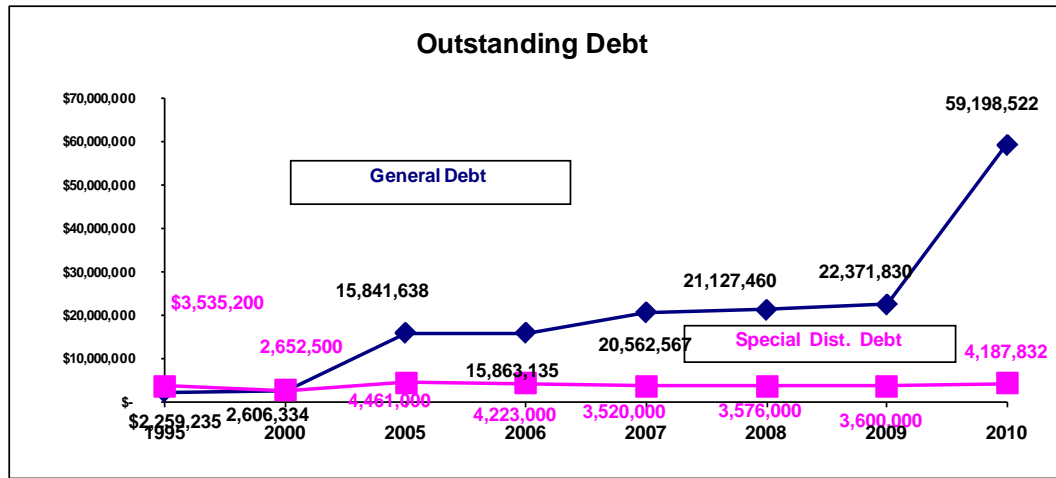
Finding: **Watch.** The increase in value of the Average Parcel Taxable Value offset by the slight decrease in taxes generated by the Average Parcel conflicts with each other. Resulting in a watch condition for this area. Also Commercial & Other growth has been exceeded by Residential growth in Taxable Value but not in General Tax.

Favorable = growth in Average Parcel Taxable Value shows growth in tax base;

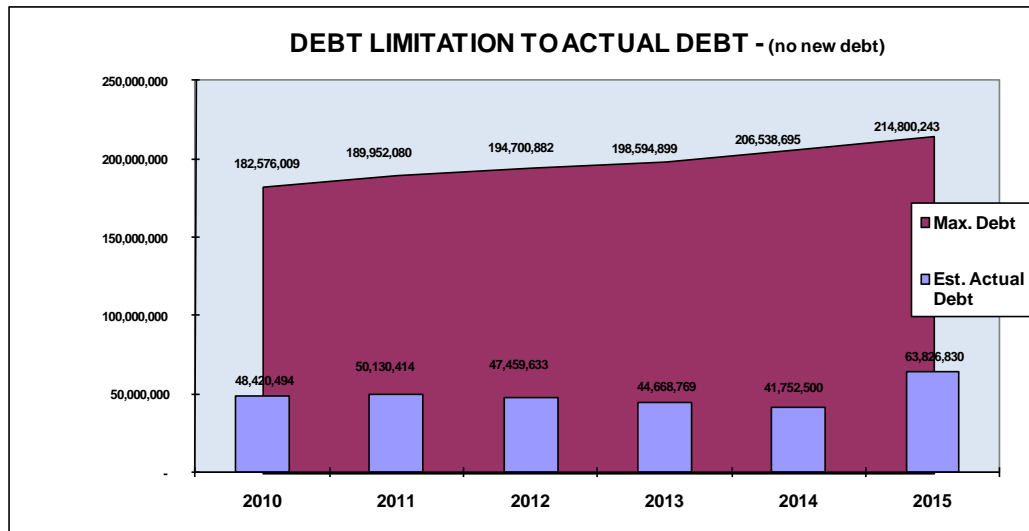
Debt Service – General Obligation Debt

State law sets the maximum debt for Gallatin County at 2.50% of the County’s Assessed Valuation. As of June 30, 2009 the County had \$59.2 million in debt, plus the Open Space bonds of \$3.2 million authorized in Nov. 05, but not used. Outstanding Debt is taken from the Audited financial statements for the period ending June 30 of the prior fiscal year. The County had debt of \$122,721,274 available as of June 30, 2009.

The County intends to issue \$1,000,000 for the Mental Health Center Hope House and may borrow the \$3.2 Million left for Open Space before year end. The County also has made payments on current debt of \$1.2 Million.



The voters approved the \$32,000,000 Detention Center Bond in November 2008. This was the third vote on this issue.



Finding: ***Favorable*** –The County will stay significantly below the statutory maximum of 2.50% of assessed value even with the issuance of a projected bonding for a new Law and Justice Center.

BENCHMARKS

Comparison of Urban Counties

The FY 2010 Trend Analysis, for the second year, includes a comparison (Benchmarks) of Gallatin County to Yellowstone, Missoula, Flathead, Cascade and Lewis and Clark (Urban Counties), along with the entire State of Montana in several comparisons. Two areas have been selected, by the County Finance Professionals, for comparison. They are:

- 1) Taxes per Resident; and,
- 2) Percent taxes are to Total Budget.

The data was generated from the U.S. Census Bureau for population and the Montana Local Government Profiles produced by the Local Government Center of MSU.

The analysis performed includes data on changes to populations, Per Capita Income, Taxable Values, Total Mills Levied, Total Budget, Total Taxes, Ratio of Taxes to Budget, Taxable Values, Total Budget and Total Taxes. The data shows that Gallatin County has:

- Populations – Comparison to entire state population - moved from 6.32%, #5 in 1991, to 9.02%, #3 in 2008 of state population;
- Per Capita Income – Comparison to average of 6 Urban Counties - 92.46% in 1991 (lowest) to 102.49% of the urban county average (2nd highest);
- Taxable Values – Comparison to entire state Taxable values - moved from 4.49% (2nd lowest) in 1991 to 9.31% of the taxable value of Montana;
- Total Mills – Comparison to average of 6 Urban Counties – 78.38% (lowest) in 1991 now at 70.29% (lowest) in 2008;
- Total Budget – Comparison to average of 6 Urban Counties – 81.45% (lowest) in 1991, moved to 121.86 (2nd) in 2008 – primarily because of capital expenses – New Detention Center/Dispatch Center;
- Total Taxes - Comparison to All taxes levied for counties – 0.90% in 1991 (lowest) increased to 8.59% (2nd lowest) in 2008;
- Tax to Budget Ratio – Comparison between county's of the amount taxes are of the total budget – 43.89% in 1991 (lowest) moved down to 44.01% in 2008 (lowest);
- Taxable Values per Resident – 1991 Taxable value per resident was \$1.42 (second lowest), for 2008 this increased to \$2.26 (highest in state);
- Budget \$ per Resident – for 1991 \$231.29 (second lowest), with a change to \$555.55 in 2008 (3rd highest); and,
- Tax \$ per Resident – for 1991 the County levied \$101.50 per resident (lowest). In 2008 the County levied \$244.49 per resident (2nd lowest).

We have chosen Tax \$ per Resident and Percentage Taxes are to total budget for inclusion in the Trend Analysis. These two areas are significantly under the control of the County through imposition of taxes. The County does not have direct control over changes in populations, Per Capita Income or Taxable Values.

All years from 1991 are included in the analysis. However, for brevity the comparisons shown are 1991 (Base year), 1995, 2000, 2001, 2002, 2003, 2004, 2005, 2006 and 2007. Additional years will be added as information becomes available from the U.S. Census Bureau and the MSU Local Government Center.

Financial Trend Analysis

Comparison of Taxes Per Resident

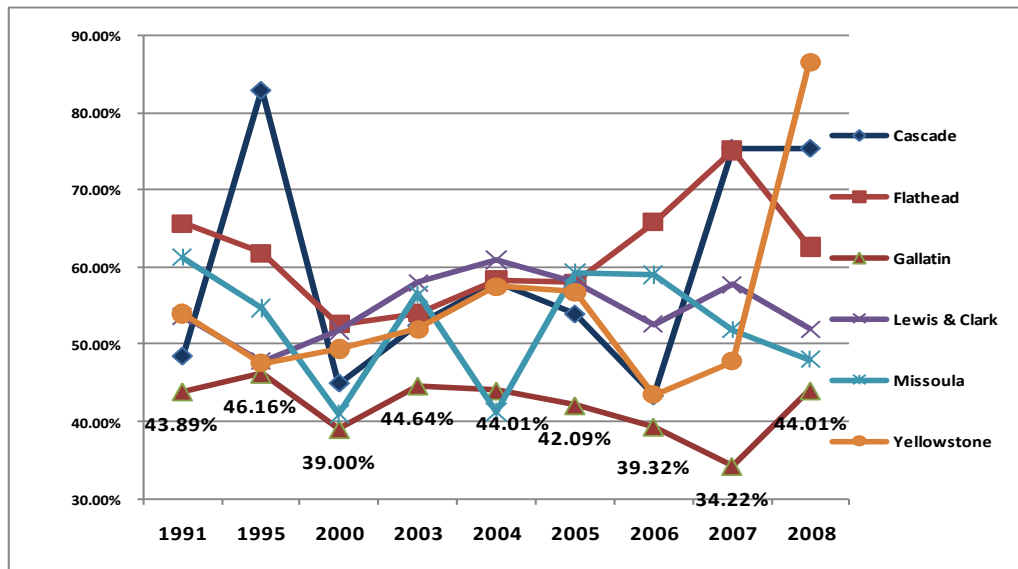
The following table shows a comparison of the six urban counties and the amount of taxes required by each resident based on the approved mill levies. The comparison may be distorted in years when county's begin new levy's for bonds or operations approved by a vote of the people, or when bond levy's end.

Montana Urban County Comparison Per Resident / Employee:

	1991	1995	2000	2005	2006	2007	2008
Tax \$ Per Resident							
Cascade	\$ 110.80	\$ 141.48	\$ 147.06	\$ 187.90	\$ 197.85	\$ 244.63	\$ 237.45
Flathead	160.44	176.57	185.45	244.27	268.68	289.73	317.79
Gallatin	101.50	115.82	138.85	185.41	199.72	184.75	244.49
Lewis & Clark	140.15	115.18	161.29	266.71	284.70	294.12	332.00
Missoula	147.77	173.34	176.31	254.85	271.14	284.15	300.11
Yellowstone	135.23	136.79	137.04	195.46	151.93	169.71	258.80

This table shows that residents of Gallatin County have seen taxes per resident increase by \$142.99 over 17 years. This compares to inflation during the same period requiring taxes to increase to \$160.45. During this time the taxpayers approved increases in taxes for 1) Library 3.50 mills (\$7.25); 2) Open space bond I and Open Space Bond II (\$12.60) and 3) Dispatch mills 9.00 (\$18.64) for an estimated voter approved increase of \$38.49. The combination of inflation and voter approved taxes would have the county resident paying \$198.94 each compared to the \$244.49 of taxes for 2007. Favorable = Gallatin County being in the lowest 1/3 of Urban County's

The next area we are using to compare Gallatin County to our counter parts is the Percentage taxes are to the approved budgets for each county. Funding for approved budgets comes from 3 sources. The first is Non-Tax Revenues generated by charges for services, payments by the state or federal government, fines and forfeitures, County Option Tax of 0.5% on motor vehicles, investment earnings and misc. incomes. The second is cash on hand not needed for Reserves.



The graph above shows the percentage taxes are to the total budget of the 6 urban counties. As can be seen, Gallatin County starts at 43.89% in 1991 and ends at 44.01% in FY 08. Gallatin County has the lowest % of taxes to budget in all years except 2004.

Favorable = Gallatin County being in the lowest 1/3 of Urban County's

FY 2010 FINANCIAL TREND ANALYSIS

Gallatin County, Montana

February 23, 2009

IV. Appendix

Comparative Information Statistics:

City of Bozeman Construction Permits

Populations Cities and Counties

Bank Deposits

Population Changes

CITY OF BOZEMAN CONSTRUCTION PERMITS
= from Building Permit Report

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Single Family					
Units	332	324	278	219	---
Value in Millions	\$62.2	\$66.6	\$58.1	\$42.7	\$__.
Duplexes					
Buildings	64	96	64	31	__
Units	128	192	128	62	__
Value in Millions	\$18.5	\$15.3	\$10.9	\$10.6	\$__.
Multifamily					
Units	489	470	422	180	__
Value in Millions	\$50.0	\$53.7	\$49.1	\$18.1	\$__.
Commercial					
Building	34	41	41	40	34
Value in Millions	\$49.3	\$34.1	\$51.2	\$64.7	\$__.
Addition/Remodel					
Residential Units		143	172	163	
Value		\$ 2.7	\$ 5.0	\$ 6.1	
Commercial Units		131	167	178	
Value		\$19.1	\$22.5	\$21.2	
Median Price	\$233,000	\$245,000	\$259,000	\$252,379	

COUNTY PLANNING / ZONING ACTIVITY- from County Planning:

	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>
Preliminary Plats	18	27	18	26	36	40	38	33	
Land Use Permits	288	285	357	402	454	307	200	172	
Final Plats	21	17	17	23	19	33	25	27	
Concept Reviews							125	104	
Zoning Applications						439	269	59	
Subdivision Application						178	177	93	

								ESTIMATED
Populations								
County	2000	2005	2006	2007	2008	2009	2010	2015
Yellowstone	129,530	136,543	138,114	139,936	139,766	141,588	143,410	146,437
Missoula	95,168	102,239	104,068	105,650	105,638	107,220	108,802	111,791
Gallatin	67,831	80,748	84,489	87,359	87,243	90,113	92,983	98,602
Flathead	74,471	82,601	84,633	85,314	86,766	87,447	88,128	91,036
Cascade	80,357	81,822	81,898	79,385	81,784	79,271	76,758	75,227
Lewis & Clark	55,716	58,150	59,003	59,998	59,929	60,924	61,919	63,583
Ravalli	36,070	39,940	40,582	40,938	40,331	40,687	41,043	41,491
Silver Bow	34,606	33,093	32,982	32,680	32,602	32,300	31,998	31,522
								ESTIMATED
City	2000	2005	2006	2007	2008	2009	2010	2015
Billings	91,683	98,721	100,148	101,778	103,205	104,632	106,059	107,486
Missoula	57,249	62,923	64,081	67,141	68,299	69,457	70,615	71,773
Great Falls	56,697	56,338	58,536	58,779	60,977	63,175	65,373	67,571
Bozeman	27,686	33,535	35,061	38,037	39,563	41,089	42,615	44,141
Butte	33,892	32,393	32,291	31,997	31,895	31,793	31,691	31,589
Helena	25,898	27,383	27,885	28,713	29,215	29,717	30,219	30,721
Kalispell	14,900	18,480	19,432	20,292	21,244	22,196	23,148	24,100
Belgrade	5,728	7,033	7,323	8,036	8,326	8,616	8,906	9,196

Bank Deposits in Millions				
	Bozeman	% Change	Gallatin County	% Change
2008	1,599,000	-2.20%	2,027,528	-2.20%
2007	1,635,000	33.75%	2,073,176	33.75%
2006	1,222,400	17.85%	1,550,000	17.85%
2005	1,037,244	12.42%	1,315,223	12.06%
2004	922,658	14.67%	1,173,694	15.75%
2003	804,655	13.63%	1,013,982	12.53%
2002	708,147	16.13%	901,110	15.48%
2001	609,766	15.22%	780,347	13.83%
2000	529,222	0.00%	685,528	5.03%
1999	529,222		652,684	