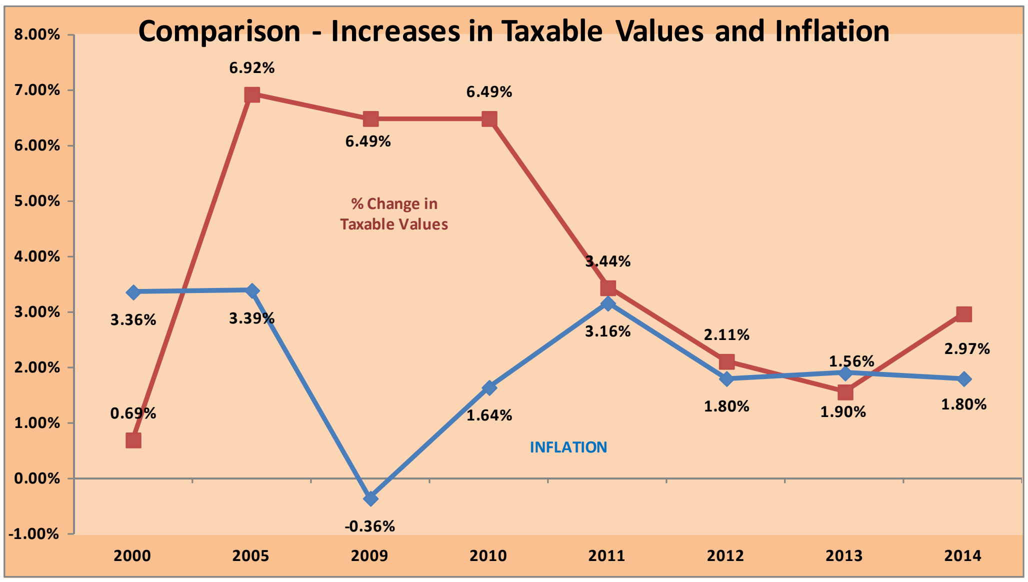
FY 2014

Financial Trend Analysis and Financial Forecast

County of Gallatin, Montana

Tuesday, February 18, 2014

Changes in Certified Taxable Value



Gallatin County Finance Office Ed Blackman, Finance Director

FY 2014 FINANCIAL TREND ANALYSIS

Gallatin County, Montana

February 18, 2014

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Transmittal Letter

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Dear Commissioners,

In 2004, the Gallatin County Commission adopted a mission statement that utilizes strategic planning and performance measures when developing both long and short term financial goals. That mission has since continued with the intention of full implementation by FY 2015. In an effort to support those goals, I respectfully submit the 2014 Financial Trend Analysis for your consideration and approval.

The objective of this document is to provide a clear and concise analysis of past and present financial conditions, to provide a forecast that identifies favorable opportunities and unfavorable challenges facing Gallatin County, and to offer feasible alternatives when areas of concern are presented. The overarching goal of this document is to allow you, the Commission, to make informed budgetary decisions now and into the foreseeable future that align with your dedication to meet the following standards as outlined in the County's mission statement:

- Maintain the public health, safety and welfare of our citizens as required and allowed under state statue and documented public demand;
- Improve and maintain County infrastructure and equipment;
- Ensure that needed transportation infrastructure systems are maintained and enhanced;
- Structurally balance and preserve necessary operating reserve percentages;
- Demonstrate a strong commitment to employee retention through funding of needed wages and / or benefits; and
- Support local and regional economic development efforts.

This analysis uses fiscal year 2000 as a base year, followed by fiscal years 2005 and 2009-2013, in addition to fiscal year 2014 to date. It also covers many different trend indicators, other Montana county comparisons and benchmarks to demonstrate the financial health of Gallatin County. My findings show the County to be in a **FAVORABLE** position, because 15 of 21 trends are in a favorable position. This is an IMPROVEMENT from last year's position.

I look forward to discussing the different aspects of this report as it relates to the upcoming fiscal year's budget preparation, and to receiving any staff or public questions or comments on its contents.

Please note that this report could not have been generated without the capable, competent and timely support of several county departments and offices.

Edward G. Blackman
County Finance Director

Introduction

A trend analysis is the examination of past information to determine if a trend exists and, if so, what the trend indicates. Financial forecasts are the result of a financial trend analysis and provide a projection into the future to facilitate short and long range financial planning.

Gallatin County's use of financial trend analysis' and financial forecasts began in 2004, with the Commissioner's adoption of a mission statement and short and long term goals that incorporate strategic planning and performance measurements. Each year, the Finance Office continues to prepare a Financial Trend Analysis Report for the Commission and the public in an effort to provide a clear and concise analysis and forecast that identifies the County's current and projected financial condition. It can also raise awareness of potential concerns and propose alternative solutions to mitigate them. The Commissioners can then make educated budgeting decisions early on in the budgeting cycle.

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, Human Resources, County Commission and County Administrator Offices, along with the dedicated employees of the Finance Office.

These forecasts are developed using a recent historic environment for revenue, expenses and personnel. The forecasts rely primarily on historic growth patterns, personal knowledge of elected officials and department heads and inflationary projections on current revenues and service levels. The projections this year also take into consideration available information on the new reality of the local economy. 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 the new Detention Centre (staffing and operations)), historic changes associated with 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 1) the University of Montana (U of M) Bureau of Business and Economic Research (BBER), 2) the U.S. Department of Commerce Bureau of Economic Analysis, 3) Woods & Poole and 4) local information available for Gallatin County.

Outlook for Gallatin County

University of Montana

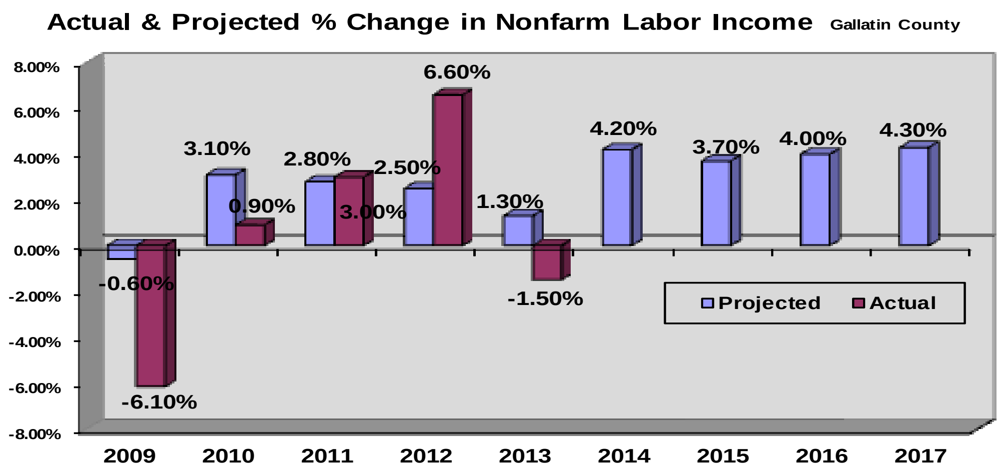
The 39th Annual Montana Economic Outlook Seminar report developed by the U of M, Bureau of Business and Economic Research states the following for Gallatin County;

> **"*Outlook for Gallatin County"***
>
> "The economic growth figures for Gallatin County received a one-time boost due to the sale of RightNow Technologies to Oracle. Because of the way in which the U.S. Bureau of Labor Statistics counts things, the stock options of RightNow employees were included in reported wages during 2011 and 2012. The negative growth in 2013 is simply the arithmetic consequence of the large one-time increases in earlier years. Even after correcting for this event, Gallatin County is tied with Flathead County and trails only Bakken-fueled Yellowstone County in terms of overall economic growth since the recession trough in 2009.
>
> Gallatin County's construction industry was particularly hard hit and has recently only shown a hint of recovery. The recent growth has been due to stability in the traditional basic industries such as Montana State University, nonresident travel and high-tech manufacturing combined with robust expansion in Bozeman's role as a regional trade and service center.

Montana State University is the largest basic industry in Gallatin County, accounting for about 32 percent of total basic earnings. Growth in contract research rather than state funding has maintained the contribution of MSU despite wage freezes and other recession-related impacts on government. Bozeman's high tech sector includes firms in manufacturing and professional services (software), and accounts for another 32 percent of basic earnings.

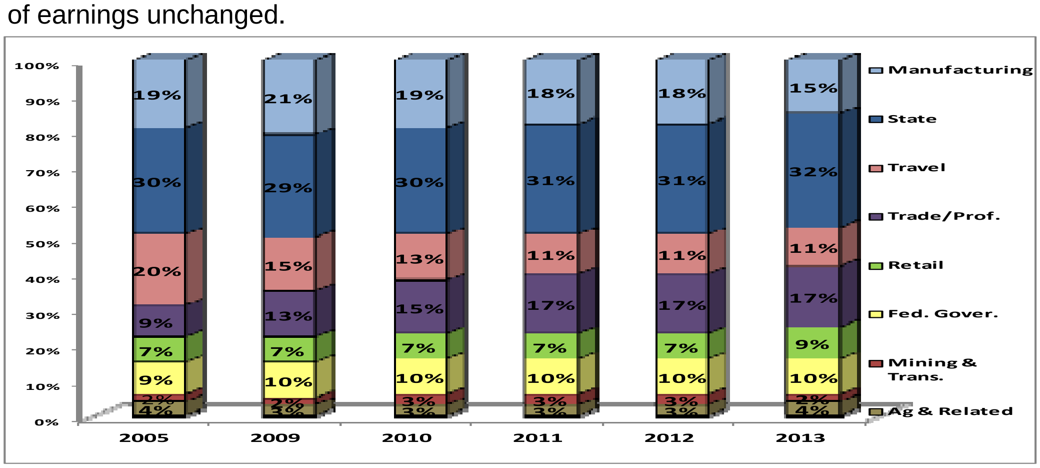
The forecasts call for increases to be 4 percent or greater between 2014 and 2017. Gallatin County is projected to be the fastest growing urban area in the state. The end of the wage freeze at Montana State University, continued moderate recovery in construction, increases in nonresident travel as Americans once again take vacations, and strength in the high-tech industries will fuel the economic growth."

The Bureau has estimated Labor Income Growth in the County at approximately 4.0% for the next 4 years (2014-2017), slightly up from previous projections. County staff think 4.2% is pessimistic and are of the opinion that 4.5% for 2014 is more likely, with an average of 3.5% over the next 4 years being more realistic. The following graph shows a history of Actual and Projected Percent Change in Non-farm Labor Income – Gallatin County, 2008-2017 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 has been significantly off from actual increases in 4 of the last 5 years, with 2011 being very close. FY 2012 would have been more accurate at 2.5% except for the one time stock options resulting from the purchase of Right Now Technologies by Oracle. Important to the County is that labor income over the last 5 years is positive 2.9%.

The report shows that since 2009, earnings have changed, with changes coming in Manufacturing down 4%, State up 2%, Travel down 9%, Trade/Professional up 8%, Retail up 2% and Fed. Govt. up 1% with the balance of earnings unchanged.



Woods and Poole

Woods and Poole for 2014 estimates growth in population will average almost 2.91% per year through 2020:

Description	2000	2010	2013	2015	2020	2025
Population	67,790	89,531	96,436	101,753	116,068	131,816
Income/Capita (current $)	$25,502	$30,953	$31,116	$32,141	$33,071	$35,105
Farm Earning (2005 dollar)	$7.57	$17.14	$18.06	$18.42	$19.55	$21.07
Non-Farm Earn. (2005 $)	$1,478.52	$2,121.14	$2,284.55	$2,415.66	$2,804.83	$3,308.29

County staff believe the 2.91% average growth is optimistic and has calculated a rate based on the last 10 years growth of 2.64%. Consistent with the County's conservative financial outlook, we will be using the lower factor when making estimates.

Gallatin County

Demographics - A comparison of employment for 1980, 1990, 2000, 2005 and 2009 through 2013 shows an increase in the number of persons employed from 18,680 in 1980 to 47,446 in 2013 (Source – Montana Department of Labor & Industry, Research & Analysis Bureau).

	1980	1990	2000	2005	2009	2010	2011	2012	2013
Population (County)	43,146	50,811	68,369	80,748	90,343	89,531	91,377	93,241	93,785
% Pop. Employed	50.36%	57.98%	60.02%	57.71%	53.67%	57.13%	51.72%	53.38%	50.59%
Labor Force (state)		29,459	41,033	46,596	48,487	51,150	47,260	49,769	49,618
Gross Employment	18,680	27,882	39,526	45,326	45,442	47,922	44,352	47,331	47,446
Unemployment Rate		5.4%	3.7%	2.7%	6.3%	6.3%	6.2%	4.9%	4.4%

Tourism - Continues to be a positive factor for the County, with 2013 being status quo. Calendar year 2013 saw Yellowstone National Park have 3.2 million visitors, only down 12.4% from the historic 2010 numbers. Making 2013 the fourth highest year on record. Yellowstone Park visitation was at 3,188,032 in 2013. Entrance through West Yellowstone was 1,260,424 (down 10.47% from 2012). The Institute for Tourism and Recreation states that "When Yellowstone National Park is up, so is Montana nonresident tourism." This is especially true for Gallatin County. For 2013 we saw a continuation of high utilization of lodging in the Park (only down 1.32% from the previous high).

The following table shows the change in Yellowstone Park visitors over the last several years:

	2000	2005	2009	2010	2011	2012	2013
Year to Date Recreation	2,838,233	2,835,651	3,295,702	3,640,183	3,394,321	3,447,729	3,188,032
% Change			9.6%	10.4%	-6.8%	1.5%	-7.53%
West Gate Visitors	1,180,269	1,195,656	1,335,702	1,477,833	1,394,106	1,407,762	1,260,424
% Change			7.9%	10.6%	-5.7%	0.9%	-10.47%
Overnight Stays	1,191,359	1,189,672	1,275,647	1,306,317	1,280,975	1,350,236	1,333,555
% Change Overnight Stays	-3.8%	-1.5%	6.80%	(6.07%)	(1.9%)	5.4%	-1.23%
% Change Lodging	-1.7%	-6.1%	(1.01%)	0.04%	2.7%	3.6%	0.14%
% Change Campgrounds	-5.7%	2.5%	13.98%	2.85%	(2.9%)	6.9%	-0.03%

The decrease in recreation visitors, West Gate visitors and overnight stays are mostly attributable to the federal government shutdown in October which forced the park to close. Overall out of state traveler's increased by 2.3% in 2013.

On a positive note, air traffic at Bozeman Yellowstone International Airport at Gallatin Field was up for calendar year 2013 by 2.0%. This increase comes from park visitation (prior to the shutdown), ski activities and a stabilizing of the national economy. For the time period 2000 – 2013, Gallatin Field had passenger boardings and de-planements increase from 482,669 to 867,117 (79.65%). This has made Gallatin Field the busiest airport in the state, surpassing Billings in 2013.

Construction - The City of Bozeman reports Construction Permits (new construction and addition/remodel) as follows (calendar year):

Year	Residential	Commercial	Total	% Change
2009	$36 Million	$61 Million	$97 Million	
2010	$60 Million	$41 Million	$101 Million	4.12%
2011	$58 Million	$86 Million	$144 Million	42.57%
2012	$103 Million	$56 Million	$159 Million	10.42%
2013	$138 Million	$63 Million	$191 Million	20.12%

Building permits continue to show a significant rebound from the low in 2009, but are still about 21% below the high in 2007 of $243 million, before the economic downturn.

Northwestern Energy reports electrical and gas connections by year were:

	Electrical		Natural Gas	
Year	Numbers	% Change	Numbers	% Change
2013	994	33.10%	678	46.10%
2012	747	40.94%	464	79.15%
2011	530	-14.10%	259	-24.00%
2010	617	-12.11%	341	-10.26%
2009	702	-23.19%	380	-26.07%
2008	914	-31.63%	514	-40.91%
2007	1,337	-18.43%	870	-15.53%
2006	1,639	-13.78%	1,030	-4.45%
2005	1,901		1,078	

Electrical connections are down 47.71% from the high in 2005 and gas connections have decreased by 37.11% since 2005. For 2013, they are both seeing very positive growth compared to the previous 3 years.

Analysis Statements

Current analysis indicates County revenue will be probably be sufficient to meet ***existing*** levels of service in FY 2015, excluding restoring cost savings implemented in FY 2011 and FY 2012. The economic downturn is over with a consensus that our local economy is improving. This improvement is dependent on local economic conditions more than the national economy. FY 2015 Start-Up Budget Projections show the County needing between *$373,847 and $654,928 to meet projected budgets (see table on page 11)* – this is well within the ability of the Commission to address during the budget process, but may require a reallocation of resources. This compares to the same time frame in FY 2013 having a shortfall of $416,621, FY 2012 short $1.3 million and FY 2011 with a projected shortage of $1.2 million. Current estimates are that an upswing in the local economy has started.

Growth in County wages and operations will require $2.2 million dollars over the next five years without any new staff. When projected staff increases are included, personnel costs will increase by $3.1 Million by FY 2019. The projections for new employees include transfer of 4 COPS / CHRP positions from grants to Public Safety, reinstatement of several positions not funded in FY 2011 and 2012 and a reduction in the growth for new employees, based on the last five years actual growth (excluding new positions associated with the new Detention Center). Expenditures for personnel (see graph on page 10) are projected to grow at 2.3% without new employees and 3.3% with new employees. However, fringe benefits are projected to grow at 2.9% for current employees and 4.1% with new employees, primarily from increases in health insurance, Worker's Compensation premiums and increases in retirement contributions. Compensated leave balances are assumed to continue to grow at the FY 2013 rates.

County Elected Officials, Agency Directors and Department Heads need to plan for conservative budgets for the foreseeable future. This will require departments to:

- Request positions **ONLY** when performance measurements clearly show the need and maintain the reduction in staff accomplished over the last several years as long as possible;
- Continue 'Core Equipment' set aside to eliminate increases in operational costs to maintain obsolete equipment and maintain equipment service levels;
- Continue and if possible, increase funding for Bridge Replacement schedule;
- Review maximizing Rural Mills to assure adequate long-term maintenance of existing roads;
- Maintain current percentage Fund Operating Reserves; and
- If absolutely required, increase county-wide taxes either through maximizing mill levies or voted operational levies to fund specific programs, enhancements or capital needs.

In the past, the County balanced budgets through the use of cash and increases in non-tax revenue. For future budgets, cash available to support budgets will be decreasing, and non-tax revenues will be hard pressed to maintain current levels as a percentage of expenses. Estimates show cash down **$1.9 Million** for FY 2015 for County Tax Supported Funds. FY 2014 estimated personnel expenses are 93.72% of budget (FY 2013 came in at 92.56%, with FY 2012 at 93.87%, FY 2011 ended at 103% because of deputy settlement and FY 2010 was 93.47%). Personnel budget percentages have been kept low because of the hiring review process in place, requiring review of vacant positions and approval for advertising by the County Administrator.

Revenues are projected to increase by an average of 2.2%, close to inflation, over the next several years. Non-tax revenues are projected to grow by 2.0% with Tax Revenues growing at 2.5%. Population increases will drive a portion of revenues and 0.86% is added for those revenues.

Capital Outlay and Capital Reserves are projected to see minimal growth. This includes continued support for the 'Core' Rolling Stock Replacement program and Bridge Replacement program. No mill levy increase is anticipated for capital programs, unless the Commission authorizes a set aside for the Court/Law Enforcement building. Operating Reserves are based on the recommendations within the County's Fiscal Policies. The current reserve of $8,034,096 will need to increase to approximately $8.8 million, an increase of $765,904 over 5 years, to remain in compliance with current policies.

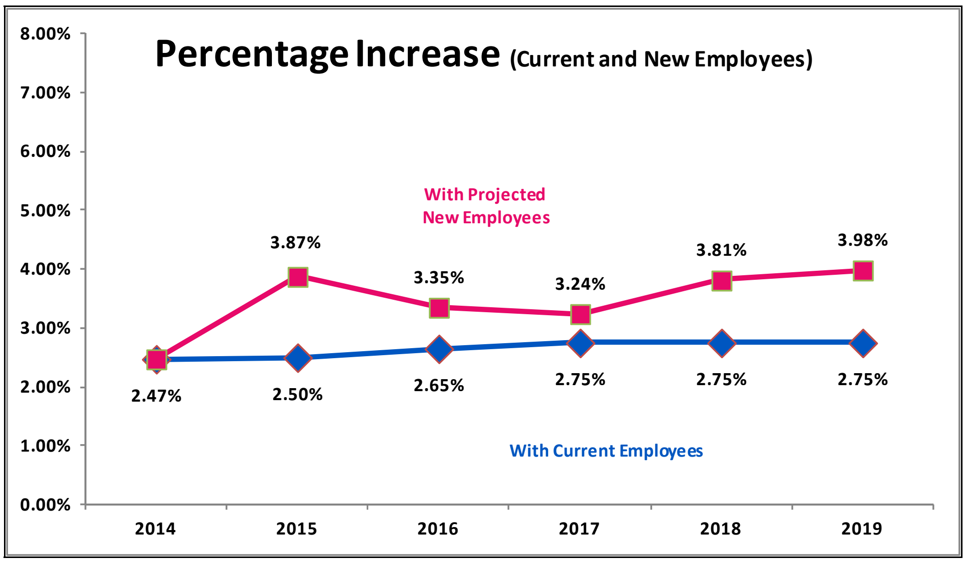
Forecast Summary

Gallatin County Wage Adjustments & Forecasts

The graphs that follow show the dramatic effect incremental personnel increases will have on the overall financial condition of the County. A simple 2.2% growth in revenues compared to a slightly higher growth in expenses, prior to the addition of new employees, results in a decrease in operating reserve from $8.0 million in FY 2014 to a negative of $1.6 million in FY 2016, and an even greater negative balance in FY 2019 of $4.8 million (see page 11).

Growth in Wages

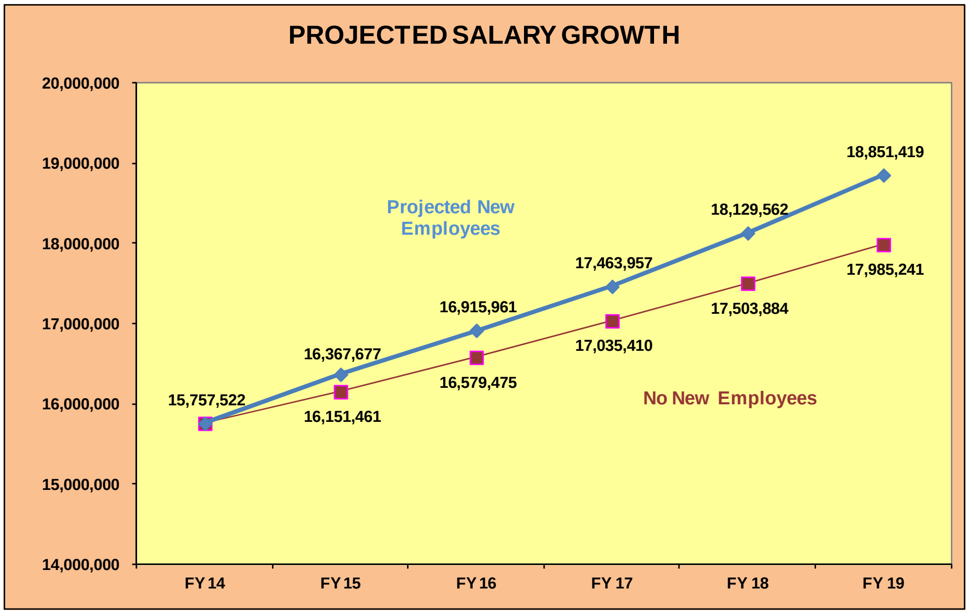
The graph that follows shows a possible percentage growth for current and projected new employees. The projections are based on minimal levels of increased staff for **Tax Supported Funds**. The projections include normal wage adjustments and staffing increases at levels seen in the last five years, excluding new employees required for the new detention center.



The percentages show that wages are projected to increase by an average of 2.3% for current employees (with normal turnover taken into consideration). This includes merit increases, longevity, wage adjustment and increases in fringe. Adding new employees changes the average increase to 3.30%. Both these increases will be low if health insurance premiums increase by over an annual rate of 4.0% per year.

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. The growth factors have been adjusted for the Projected Salary Growth graph to more accurately reflect the last five years wage and staffing changes. This has resulted in projections of need **decreasing** by over $0.7 Million for current employees and a total of $1.1 Million for current employees plus new employees.



This graph shows the effect incremental increases have on salaries. To fund current employee wage adjustments the County Commission needs **$2.2** million in new dollars per year by FY 2019. To pay for potential new employees the Commission will need an additional **$0.9 million by FY 2019**, for a total projected requirement of **$3.1 Million dollars per year by FY 2019.**

Revenue and Expense Projections

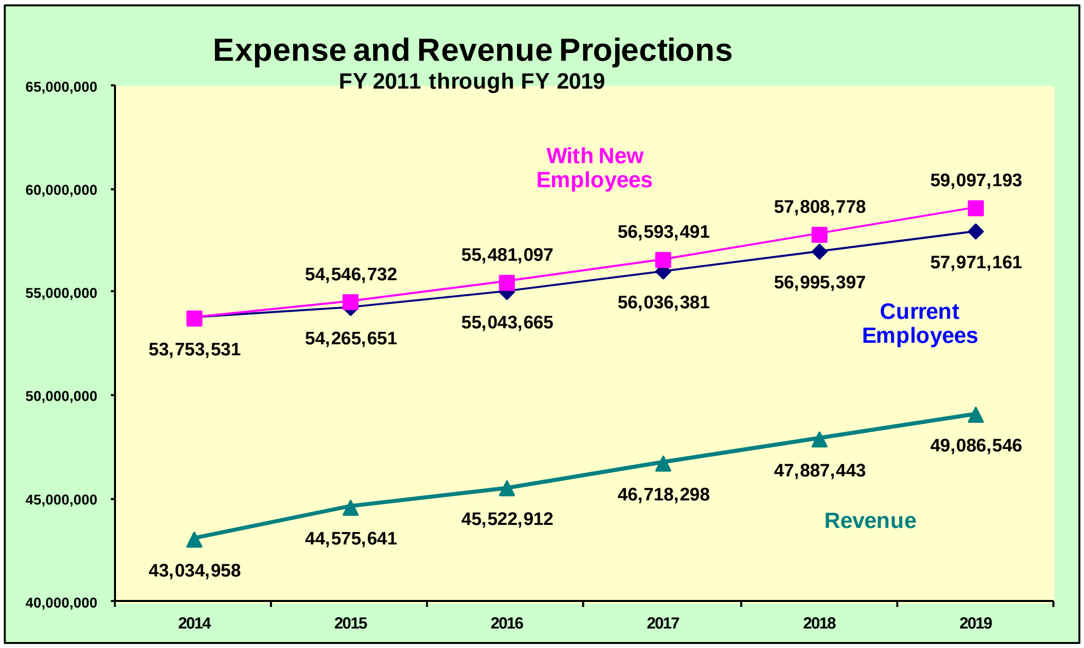
The following chart shows seven years of revenues, cash available for re-appropriation and expenses with the estimated shortfall for each year.

Five Years Projected Revenues, Cash and Expenditures

Year	2013 ACTUAL	2014 BUDGET	2015 ESTIMATE	2016 ESTIMATE	2017 ESTIMATE	2018 ESTIMATE	2019 ESTIMATE
Revenues	41,887,626	43,034,958	44,575,641	45,522,912	46,718,298	47,887,443	49,086,546
(Plus) Cash	17,350,302	10,718,573	9,316,163	7,918,739	7,126,865	5,345,149	4,008,861
(Less) Expenses							
Current	51,565,482	53,753,531	54,265,651	55,043,665	56,036,381	56,995,397	57,971,161
W/ New			54,546,732	55,481,097	56,593,491	57,808,778	59,097,193
Cash End of Year (Shortfall)	7,672,446	0					
Current			(373,847)	(1,602,014)	(2,191,218)	(3,762,805)	(4,875,754)
W/ New			(654,928)	(2,039,446)	(2,748,329)	(4,576,186)	(6,001,785)

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 and 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 18 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 starting in FY 2008, with the decline ending in FY 2011, but the County has seen significant increases in these fees in FY 2013 which have continued for the first 6 months of FY 2014.

The County's ability to maintain current levels of service will be tight for FY 2015 and stressed in FY 2016. As stated earlier, the economic downturn has come to an end in the County. The downturn continues to equate to low inflationary costs during FY 2014, with FY 2015 seeing inflation moving to a 2 to 2.5% range. The economic downturn decreased revenues and caused a decrease in cash available for services. The long term effects of the downturn will most likely be seen by continued limiting of services to available revenues, with an increased ability of the County to maintain and update infrastructure.

The County has taken steps to reduce costs in prior years and the current fiscal year which will continue into future years. This has included eliminating positions, delaying hiring, no wage increase, delaying health insurance changes, reviewing operational expenses for efficiencies, and combining purchases for lower costs.

One area that will adversely affect the County will be the State Legislature meeting in January 2015. Normal legislative actions result in State mandates where the state transfers responsibilities and duties to the County that the State can no longer afford to do, requiring local governments to do the work with little or no compensation. Since the legislature will be in session for FY 2015 and several current and potential legislators have indicated a desire to reduce expenses, local government revenues may see reductions and the State will be assigning additional duties, without adequate revenues to compensate for the true costs. This could include additional district court judge, mental health responsibilities and increased land use requirements.

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

1. Continued moderate growth for the local economy and slow growth for the State and national economies;
2. Legislative session - will State decrease County revenues and increase County responsibilities?
    a. Changes mandated for Public Employee Retirement, Teachers Retirement and will increase costs to the County;
3. Criminal Justice System – design of replacement Law and Justice Facility;
4. County Growth Policy;
    a. Design, presentation and adoption of neighborhood plans;
    b. Implementation of programs;
5. Transportation System;
    a. I-90 Airport Interchange;
    b. Replacement of deficient bridges;
    c. Update of roads as stated in transportation plans – 31 miles of gravel roads improved to millings and chip seal hard surface in calendar year 2013;
6. Discussion on issuing bonds for infrastructure needs (Law Enforcement / Criminal Justice Building).

The County will see moderate growth in non-tax revenues, except for legislative actions. At the same time, growth in tax revenues will stabilize at a projected rate of 2.5 to 3.0% for the next 2 years. This means the County will need to limit growth in expenses to the amount of anticipated new revenues.

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

1. Reducing expenses to match revenues generated by taxes and non-tax sources – PAY AS YOU GO concept;
    a. Identify activities, departments and funds currently funded either directly or through matching County money for elimination, reduction or change, using established Commission criteria;
    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. Increase the Commissioners' utilization of workload indicators and performance measurements when making budgetary decisions.
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). County debt increased for FY 2014 with the sale of the I-90 bond and the Fair – BAHA bond. Projected future debt would be for the replacement Law & Justice Center.
3. The need to maintain PILT payments to fund loans and necessary expenses at current levels after the current federal allocation ends.
4. Current projections show department needs exceeding revenue sources in FY 2015 forward:
    a. Current services will need to be reduced or eliminated without new sources of ongoing revenues, based on the $4.8 to $6.1 Million shortage shown on page 11;
    b. Operating Reserves, Capital Reserves and Capital Projects will be under greater stress. This has been mitigated by the Commission's funding of 'Core Equipment' and Bridge Replacement from Newly Taxable Valuations.
    c. Cash carry over will decrease, resulting in fewer dollars available for re-appropriation;
    d. Insurance costs, both liability (8% increase for FY 2014) and health (estimated increase of 5% for FY 2015) will continue to need funding; and,
5. On a positive note, the County will continue to be a highly desired place to work because of stable employment and good benefits, compared to the private sector.

Process and Schedule

The Financial Trend Analysis and Financial Forecast began through the Commission's decision to utilize strategic planning. The Commission's decision requiring performance measurement budgeting for FY 2014 continues. The Finance Office incorporated workload indicators and performance measurements identified by departments into budget documents. These were enhanced for FY 2014 with the goal of full implementation for FY 2015. The County Administrator 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.

Since 2004, the County Commission has established goals for the budget early in the budget process. Departments are required to identify goals which they are meeting when requesting changes to Start-Up budgets. The Commission continued this process for FY 2014 with the adoption of the short-term goals. Elected Officials and Department Heads used the short-term in preparing their budgets. Unfortunately, the tying of requests to goals was not effective in the FY 2014 budget cycle, primarily because the Commission did not consistently use workload indicators or performance measures when making decisions during budget work sessions. The Finance Office will continue to remind and encourage the Commission to look at these factors for the FY 2015 budget work sessions.

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 'Analysis.'**

The Analysis is developed using trend analysis and financial forecasts based on a minimum of ten years of historical information. Recommendations made by staff and the public were incorporated into the Financial Analysis, which is the County's Long-Term Strategic Financial Analysis (LTSFA).

This Analysis was presented to the public on February 18, 2014. The following schedule was approved by the County Commission in an effort to keep the public informed about the Analysis and to encourage public participation in developing an action plan that the County can use for the FY 2015 budget process:

February 18, 2014	Analysis submitted to County Administrator, Commission and FAAcT Committee,
February 25, 2014	Presentation and acceptance of Long Term Strategic Financial Analysis by County Commission

Gallatin County Mission Statement – Vision – Goals

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 and Short-Term Goals

The County created a set of short-term (budget) and long-term (plans) goals. Short-term goals guide the development of the budget. Long-term goals are of a far-reaching nature and do not change from year-to-year.

Long-Term Goals (Concerns and Issues)

- Align community needs with budgetary decisions
- Adhere to long-term plans – continue commitment to Growth Policy
- Demonstrate exceptional Customer Service
- Serve as a Model for Excellence in Government
- Improve Communication within County government, other jurisdictions and our public
- 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 statue 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 and Equipment by dedicating additional property tax revenues from new construction to capital projects, within budgetary constraints.
- Ensure that needed transportation infrastructure systems are maintained and enhanced.
- Keep budget structurally balanced by maintaining current operating reserve percentages.
- Demonstrate a strong commitment to employee retention through funding of needed wage and / or benefit.
- Improve management, accountability and oversight to reduce County risk.
- Support local and regional economic development efforts.

Financial Condition Overview

This section provides a profile of Gallatin County's current financial condition. Also included are recaps of several important financial programs and reserve funding, both Operating Reserves and Capital Reserves.

The Analysis starts with a review of the County's current financial condition, using 6-months of actual revenues and expenses for FY 2014, and projects the revenue and expenditure trends for a full year. These projections are used in identifying potential challenges and issues. Based on FY 2014 year-end projections, along with the last five years' actual revenues and expenses, projections are created estimating the next five years' cash balances, non-tax revenues, tax revenues and expenses.

The Financial Analysis is used to:

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

The 2014 and future Financial Analysis are tools in the early detection of financial threats and opportunities. This early identification allows the County to be proactive versus reactive as problems arise. Furthermore, financial planning allows the County to logically plan for the future.

FY 2015 to 2019 projections show a number of issues including funding shortfalls that may occur and will require a substantial dedication of resources or reductions in services for both the short and long-term. The summary information on pages 9 and 11 recaps estimates for revenues and expenses based on the stated assumptions. However, since every budget must be balanced with available resources (new revenues plus re-appropriated cash), these numbers overstate any shortfall. This is documented by the County's reduction of service levels in FY 2010, FY 2011 and FY 2012 to deal with increased costs and to meet revenue estimates. Issues facing the County include funding of Law and Justice Complex, replacement / upgrade of roads and bridges, retention of key staff to meet workload and demands by public, and Transportation Plan- I-90 East Belgrade (Airport) Interchange.

From a financial perspective, Gallatin County continues to be in the position of having money to address some infrastructure needs. In the past, areas funded partially or fully within current funding limitations include 'Core Rolling Stock' Replacement plan; Bridge Replacement Program; Courthouse Annex purchase and remodel; Law and Justice - carpeting, HVAC, roof and boiler improvements; construction of Road Shop and Dispatch Center; improvements at the County Fairgrounds; improvements to libraries throughout the County; and Open Space preservation.

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 taxpayers' needs and wants. It is recommended that the Commission:

- Not consider new staff unless;
    - full ongoing funding is identified – wages, benefits, space, capital, indirect costs, travel etc.;
    - requested staff meet specific goals and objectives of the Commission;
    - reallocating work to existing staff is not a possibility;
- Anticipate need to address wage adjustment, merit adjustment, liability and health insurance premium increases early in the budget process, preferably prior to setting the limitations for the FY 2015 Start-Up Budget; and,
- Recidivism Plan for repeat offenders at the Detention Center.

- The County's financial outlook is **'FAVORABLE'** due to the decrease in the number of 'Watch' and 'Unfavorable' trends previously stated. The General Fund, Road, Bridge and Public Safety fund balances have stabilized with most cash no longer being used for ongoing operational expenses. With revenue growth (mainly taxes, detention bed revenue and fees associated with growth) stabilizing, as shown by the following table, the County's ability to continue current levels of service for FY 2015 is not in doubt. However, unless additional **reliable** revenue streams are found, the Commission will have difficulty funding the FY 2016 and especially the FY 2017 budget. The easiest source of reliable revenue would be through an increase in taxes, either from the $2,143,210 (8.69 mills) currently not being levied or from new voter approved taxes. However, with public perception about taxes being high, this limits the viability of this option.

The reversal of 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:

	Clerk	Zoning	% Option MV
FY 2014	$389,460	$161,569	$1,652,829
FY 2013	426,649	75,376	1,537,996
FY 2011	311,047	76,739	1,511,942
FY 2010	349,840	78,044	1,431,150
FY 2009	396,602	92,821	1,555,470
FY 2008	412,249	123,855	1,592,204
FY 2005	424,467	174,589	1,318,823

The Clerk & Recorder Fees are down 8.7% from last year, down 8.24% from 10 years ago and down 28.99% from the FY 2006 high. Zoning Fees are up 114% from last year but still down 16.47% from the high in FY 2006. Motor Vehicle Local Option is up 7.46%. This increase brings MV Local Option to the highest amount ever – up 3.8% from the previous high in FY 2008. The increase from FY 2013 to FY 2014 brings this revenue source % increase back to the historic levels of FY 2008 and prior.

An example of the County's changes in services is shown by looking at historic ratio of population to County employees and sworn Sheriff personnel from tax supported funds. This comparison shows the following:

Year	County Population	Residents per Sheriff Officer		Residents Per Employee
		ALL	AVAILABLE	
2000	67,831	2,055	2,339	181.84
2005	80,748	1,878	2,447	192.30
2010	89,513	1,776	2,162	193.38
2011	91,377	1,898	2,335	192.24
2012	92,701	1,926	2,368	193.01
2013	93,785	1,944	2,389	193.70
2014	95,470	1,854	2,417	197.52

The first column under 'Residents per Sheriff Officer' - **ALL**-shows that a sworn officer was responsible for 2,055 residents in 2000, with a decrease to 1,854 per officer in 2014. Contractual obligations require the Sheriff to assign 5 officers to Big Sky, 5 officers are assigned to meet grant requirements, with one officer assigned to administer the Detention Center and three officers are assigned to the Three Forks area. The second column reflects officers **AVAILABLE** and is a more accurate table of services received by residents. It shows an increase from 2,339 in FY 2000 to 2,417 residents per officer in FY 2014. **The County Population for 2013 and 2014 comes from the State Department of Labor.**

Overall, the County's ability to maintain current staffing and services is cause for concern, with limitations of State law, the Commission's decision to not increase taxes and the County's inability to receive significant revenues without a vote of the people or the legislature. The next legislative session will pose concerns for both reduction in revenues and increases in mandated requirements, in spite of the State's projected surplus.

The success of County programs comes directly from the ***exceptional quality and dedication*** of County employees. The economic upturn has had a positive impact on employees. Turnover has decreased in most departments including Rest Home and Detention Center. Utilization of sick and annual leave has stabilized, excluding termination payouts and workers' compensation hours. The County continues to anticipate the retirement of long-term employees, with departments utilizing career ladders to train replacements where available. The County continues to see a high applicant response to most support staff positions, showing that the County is a highly desirable place of employment due to our stability and excellent benefits.

The 2014 Financial Analysis

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 encourages staff to maintain adequate reserves.
- *Review of Prior Budgets* – A summary of the last five 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, 2014.
- *Core Rolling Stock Plan* – The Core Rolling Stock Plan identifies the methodology and process used for establishing, implementing and updating of the rolling stock included in the plan.
- *Bridge Replacement Program* – The Bridge Replacement program is funding the replacement of large bridge structures (those greater than 30 feet). The County funds may be used to leverage state and federal funds and to deal with emergencies.
- *Growth Policy* – Approved six years ago with Planning Department and Board working on neighborhood plans.

Future Financial Analysis 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. The County established, in FY 2013, a long-term funding mechanism for major bridge replacement that accommodates known deficiencies and required updates.
- *Public Safety Strategic Plan* – Public Safety Departments are developing a Strategic Plan to meet their needs now and into the future. The implementation of the 'CORE' Rolling Stock program has allowed the County to replace law enforcement, fire and related vehicles in a systematic manner.
- *Cost Recovery Fees for Services and / or Impact Fee Calculations* – The County needs lobby the State to change State law to allow for full and true cost recovery from fees.

Current Financial Condition

The County's financial condition as of December 31, 2013 shows that the County has weathered the effects of the economic downturn. The decrease of the use of cash for ongoing operations has improved the County's long-term financial position. The modest growth in non-tax revenues, excluding investment earnings, is having a positive effect on cash balances.

Current projections show tax-supported operating funds will have a cash balance of $15.8 million at the end of FY 2014 compared to $17.2 Million in FY 2013, $16.6 for FY 2012, $22.4 for FY 2011 and $29.6 million in FY 2010 (including Capital Projects). Of the $15.8 million, $8.0 million is set-aside for Operating Reserves (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:

Item	Amount
Operating Reserves (per Budget)	8.03 Million
Capital Reserves (per Budget)	1.20 Million
Increase in Revenues Above Budget	.30 Million
Decrease in Expenses below Budgets	6.27 Million
TOTAL ESTIMATE	**$15.8 Million**

Using three projection methods (conservative, probable and optimistic) for the General Fund we show year-end cash decreasing between $100,000 and $600,000. The General Fund will have a positive fund balance of at least $2.5 million, including its $1,500,000 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 only marginally exceeding estimates at this time, resulting in limited cash being available for appropriation in FY 2015.

The modest growth in the economy and the effects it is having on the County is the County's predominant financial issue for FY 2014 and FY 2015. The County is seeing new businesses, mostly in the service area, along with business expansion in some cases and fewer businesses closing.

The 2014 Analysis confirms the need for the criteria used in setting Operating Reserves for the County General Fund, tax supported special revenue funds (Road, Bridge), and County Enterprise Funds. The Financial Analysis forecasts the Rest Home, health insurance, communication, facility, and liability insurance funds because these funds are an integral part of County operations.

Capital Reserves

Capital Reserve is the setting aside of money on a yearly or periodic basis to replace, repair, expand or demolish equipment or facilities, based on availability of funds and the expected life of the buildings and equipment. The County is dealing with a significant portion of the need to finance equipment replacement through the setting aside of dollars on a yearly basis. The County has identified that when current funds are not adequate for a project, a loan or bond will be approved prior to the beginning of the project.

These set asides include:

- Communication fund (routers, servers, internal systems/software) with equipment reserves – current set aside $500,000 for VOIP;
- Computer replacement supported by $115,000 yearly replacement account in PILT;
- Rolling Stock (CORE) fully funded at $612,000 per year plus departments contributing $382,300;
- Copiers funded through per copy charge for a majority of County copiers;

- Bridge Replacement Program funded at $300,000 for FY 2014; and,
- Major building renovation reserves at $0.95 per square foot for the Courthouse, Annex, Guenther, Law and Justice Center and 9-1-1 buildings (total of $800,000 reserved to date). Along with facility fund setting aside working capital for Facility Condition Index items.

Areas to be dealt with in future years include – full funding of Bridge Replacement program, Law and Justice Replacement and Fair/Park/Recreation Maintenance and Improvement plan.

Debt Policy

The County's 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 debt for Gallatin County.

- Assessed Valuation $8,851,636,614
- Maximum Debt Factor 2.50%
- Maximum Debt Authorized $221,290,915
    - less - June 30, 2013 General Obligation Debt - 49,151,376
- Unused Debt $172,139,539 (77.79%)

The County has outstanding debt as follows:

GENERAL OBLIGATION			**$43,098,800:**		
Progreba Field	07/07/2005	$ 2,250	Hope House	07/01/2010	890,000
Open Space	06/28/2005	695,000	Open Space	04/12/2011	1,910,000
Open Space	12/15/2008	3,415,000	Open Space	10/23/2012	2,390,000
Progreba–Fence	07/29/2008	6,215	Open Space	06/19/2013	3,390,000
Detention Center	02/01/2009	28,415,000	I-90	12/18/2012	2,000,000
LOANS			**$ 3,004,432:**		
Guenther Purchase.		111,695	Libraries		284,461
Re-Entry		274,220	Fairgrounds		163,775
Courthouse Annex		505,972	9-1-1 Center		634,174
Road & Bridge Shop		782,061	Search & Rescue Bldg – West		248,094
OTHER DEBT			**$ 3,048,145:**		
Capital Lease		1,039,307	Compensated Balance		2,008,838

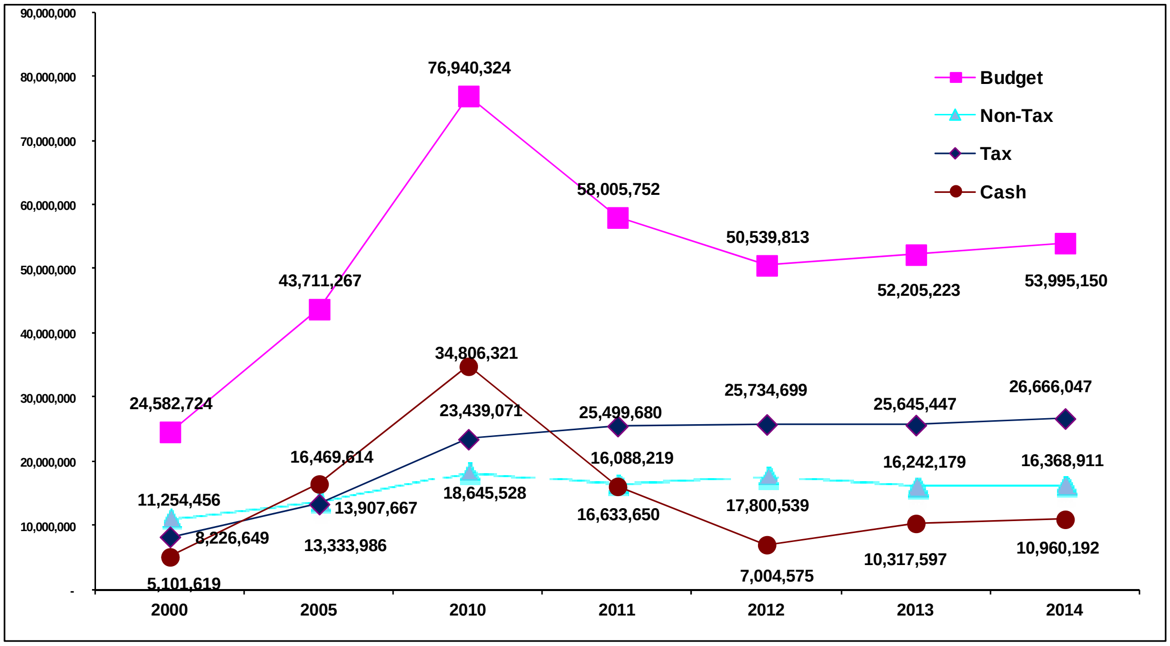
Areas Not Covered By Current Policies

- 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 (Loans/Capital Leases)
- A policy on when grants are to be used:
    - Are grants being pursed consistent with the mission, vision and goals of the County?
    - If a grant does not require use of County monetary resources, when is it appropriate for the County to act as conduit for the funds?
- Should Gallatin County establish capital reserves for equipment replacement? This would be for equipment with a value of less than $25,000 (threshold for Core Rolling Equipment and Bridge Replacement). The County continues to fund Information Technology Services Department (ITS) computer needs, along with VOIP system reserves, motor pool reserves and copier reserves.

Recap of Changes to Budgets – Budget 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 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 5 years budget summary plus 2000 and 2005, for county tax supported 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 these activities.

The following table shows changes in percentages between personnel, operations, debt and capital, from FY 2000 to FY 2013.

Percentage of Total Expenses (2000 – 2014)

Year	Personnel %	Operations %	Debt %	Capital %
2000	48.46	31.08	1.96	18.5
2005	37.95	33.00	2.95	26.09
2009	49.36	23.52	4.69	22.43
2010	31.49	16.53	5.89	46.18
2011	44.27	22.16	5.72	27.85
2012	51.95	26.36	10.67	11.01
2013	49.85	28.16	10.20	11.79
2014	49.56	28.29	10.08	12.06

Gallatin County is no exception to personnel being a major percentage of costs. However, the County saw a significant decrease in the percentage of personnel costs to total expenses through 2005. Since 2005 personnel percentages have increased. In 1998, personnel equaled 52.96% of the budget; in FY 2014 this was reduced to 49.56%. This change is due to increases in debt, capital and operations budget/expenses, along with a slowing of personnel costs.

Expenses

Personnel

The Summary Table of Personnel recaps the personnel **budgeted** in County Departments since FY 2000.

TABLE OF PERSONNEL (FTE)

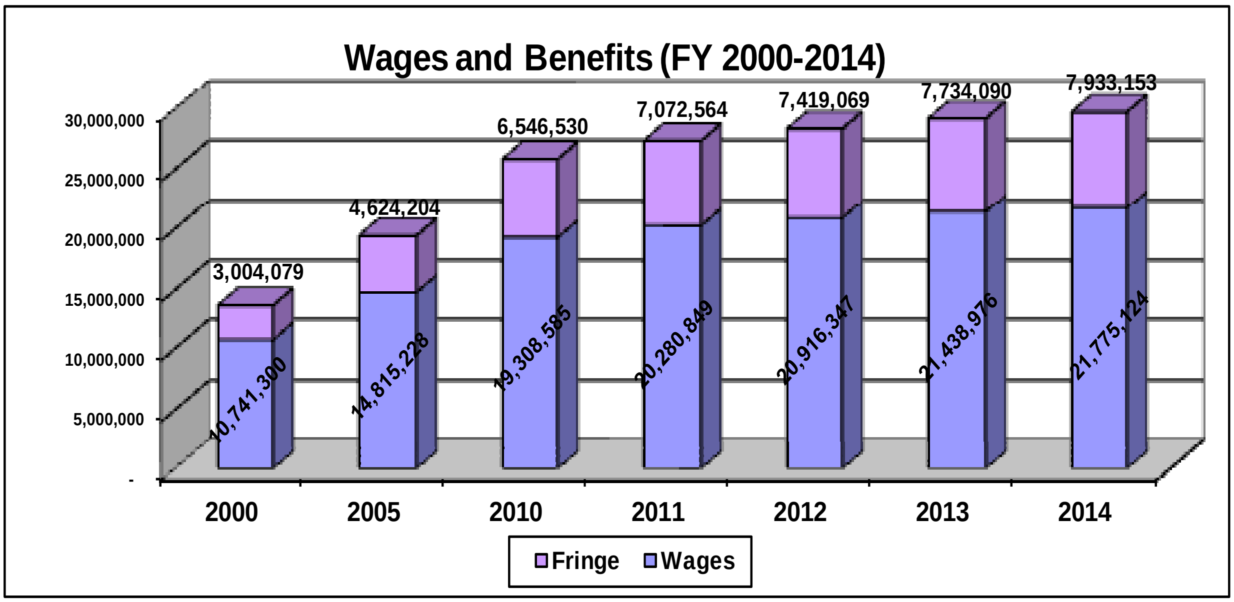
	******************************			BUDGET	******************************		
DEPARTMENT / DIVISION	FY 2000	FY 05	FY 10	FY 11	FY 12	FY 13	FY 14
ATTORNEY	11.50	16.38	18.00	18.00	17.00	17.00	17.00
AUDITOR	2.60	3.00	2.50	2.50	2.50	2.67	2.67
BRIDGE	7.36	7.36	7.36	7.36	7.36	7.36	7.41
CITY/COUNTY HEALTH ADMIN.	1.59	2.00	3.83	3.00	3.00	3.00	3.00
CLERK AND RECORDER	12.45	13.00	13.75	13.75	12.75	12.75	12.75
CLERK OF DISTRICT COURT	10.00	13.00	13.70	13.90	12.90	12.90	12.90
COMMISSION	5.00	5.00	5.00	5.00	4.00	4.00	4.00
COMPLIANCE	-	1.00	1.10	1.10	1.10	1.10	1.07
CORONER	0.60	0.65	-	-	-	-	-
COUNTY ADMINISTRATOR	-	2.00	2.50	2.00	2.00	2.00	2.00
COURT SERVICES	-	6.00	8.87	9.00	10.08	10.00	10.00
DETENTION CENTER (excl. sworn)	20.00	33.50	30.43	44.00	53.00	52.00	52.00
DISPATCH / L.E. RECORDS	22.18	28.50	30.00	29.50	29.50	30.50	31.75
ENVIRONMENTAL HEALTH	9.41	11.00	10.17	10.00	9.75	10.00	10.00
EXTENSION SERVICE	3.50	3.50	4.00	4.00	3.50	3.00	3.00
FACILITIES	2.50	3.65	3.12	5.54	6.74	6.74	6.49
FAIRGROUNDS	5.00	8.00	10.00	10.00	10.00	10.25	10.00
FINANCE OFFICE	1.50	2.00	2.00	2.00	2.00	2.00	2.00
FINANCE - Accounting	2.00	3.00	3.50	3.50	3.50	4.00	3.50
GEOGRAPHIC SERVICES	2.00	2.75	3.00	3.00	3.00	3.00	3.00
GRANT ADMINISTRATION	1.50	2.00	1.85	1.85	2.00	2.00	2.00
HEALTH GRANTS	9.97	11.49	10.43	11.46	12.14	12.83	10.48
HUMAN RESOURCES	3.25	5.00	4.75	4.00	4.00	4.00	4.00
SEARCH & RESCUE		-			-	-	-
HUMAN SERVICES - HEALTH	7.18	7.19	6.37	6.56	7.08	7.73	8.97
ITS	7.00	7.00	7.00	7.00	7.00	7.04	7.10
JUSTICE COURT	7.50	10.00	11.00	11.00	11.00	10.97	11.00
MISCELLANEOUS	0.25	0.27	0.05	0.05	0.05	0.05	0.05
NOXIOUS WEED	2.00	2.00	2.25	3.00	3.00	2.88	2.75
PLANNING	7.00	9.00	7.75	7.25	6.90	6.90	6.43
PUBLIC SAFETY GRANTS -W/O S	6.00	3.00	4.00	4.49	7.01	5.51	5.51
REST HOME	108.09	80.50	102.90	105.70	105.77	106.68	106.68
ROAD MAINTENANCE	25.11	24.85	25.11	25.11	25.39	26.14	26.14
SHERIFF - Support Staff	6.00	6.00	6.50	6.50	6.50	6.50	7.25
SHERIFF - Sworn (non grant)	29.00	35.49	46.91	44.60	41.64	42.00	43.91
SHERIFF - Sworn - Grant	2.00	7.00	3.00	3.00	6.50	5.25	4.92
SOLID WASTE SYSTEM	-	8.50	20.50	18.00	18.00	19.00	18.00
SUPERINTENDENT OF SCHOOL	2.00	2.00	2.00	2.00	1.75	1.75	1.75
TREASURER	15.00	17.21	16.96	16.96	16.61	17.14	17.46
OTHER	14.99	6.12	9.73	9.65	4.28	5.54	4.40
TOTAL	**373.03**	**419.91**	**461.89**	**475.33**	**480.30**	**484.18**	**483.34**

During the time period FY 2000 to FY 2014, the number of employees grew 29.57%. Population from FY 2000 to FY 2012, (population estimates are available not yet available for 2013), grew from 67,831 to 92,512 (36% increase). One the reasons for increases staffing comes from New departments - County Administrator 2.00; Compliance 1.10; Court Services 10.00; Solid Waste 18.00 and New Detention Center 32.00. In addition, positions funded by contracts or grants have increased as follows: Victim Witness 2, Law Enforcement Contracts/Grants 7, and Health Grants .51 FTE. Departments eliminated during this time include Youth Probation and District Court. Without these new service areas, employees for existing departments increased by less than 8.68% or about 1/3rd the rate the population grew.

Comparison 2000 Through 2014 Years – Wages And Benefits

The following graph shows the growth in wages and benefits from FY 2000 through the FY 2014 budget. The growth comes from five areas. They are:

1) Population – as stated previously, the population in the County has grown by an estimated 36%;
2) Inflationary Increases – inflation equaled 35.30% from January 1, 2000 through December 31, 2013;
3) Contractual / Grant obligations – the previous page shows the number of positions increased due to contractual / grant obligations to 7.60 Full Time Equivalents (FTE);
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; and,
5) New Detention Center – 30.00 Full Time Equivalents through FY 2014.



The five factors stated above resulted in an increase of $7,008,965 in wages and $4,369,999 in benefits in the last ten years for Gallatin County. Inflation accounts for $3.6 million, grants $902,000, employee health insurance premiums account for $2.4 million, retirement system $823,475, and Detention Center $2.1 million.

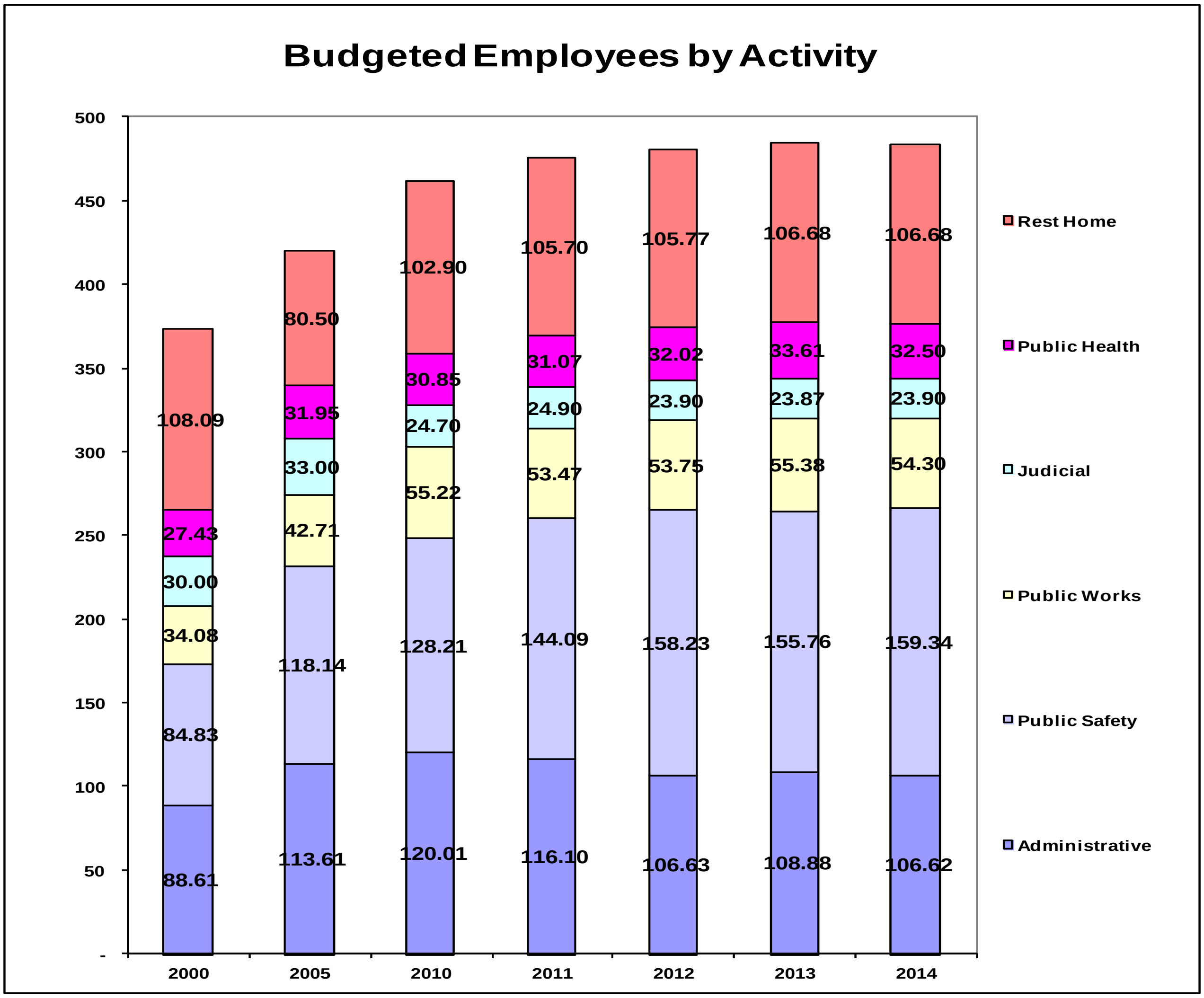
The percentage growth of benefits was greater than for wages due to an increase in health insurance from $2,580 in 2000 to $8,400/FTE in 2014, a 326% increase. Other factors negatively impacting FTE benefits include increases for Unemployment Insurance and Worker's Compensation rates, along with significant increases for Public Employee Retirement, Sheriff Retirement and a transfer of Detention Officers to the higher costing Sheriff's Retirement System. General Fund fringe benefits have increased from 23.59% of wages in 2000 to 34.72% of wages in 2014.

The County has implemented cost control measures to reduce future increases in health premiums. They include early prevention activities, well childcare, rewards for staying healthy and increases in deductibles. Unfortunately, estimates show a 5% increase in premiums is necessary for FY 2015 and possibly FY 2016.

Historical Staffing Levels

The impact of population growth on staffing has changed over the last twelve years. 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.

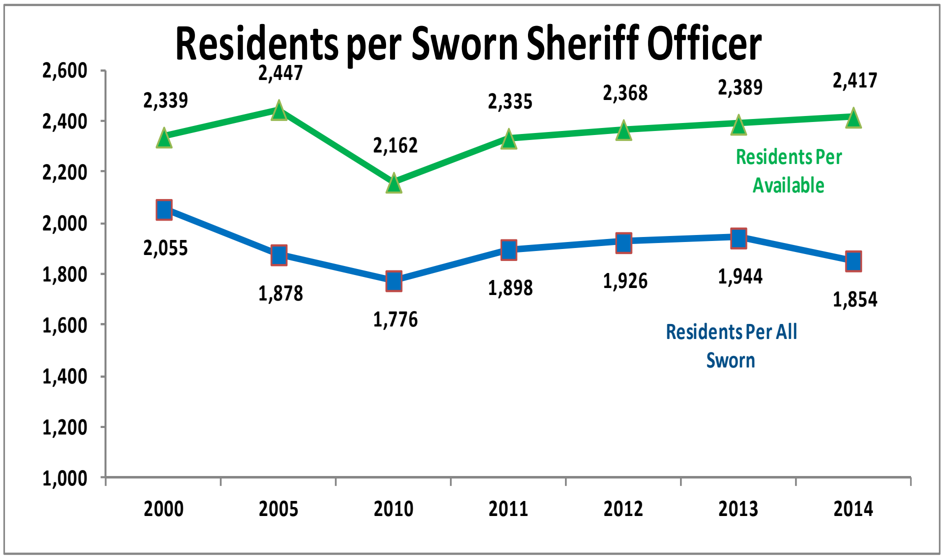


The Budgeted Employees by Activity graph above shows a 29.56% increase in staff from FY 2000 through FY 2014. As stated in previous sections, County population has grown by 36.38%.

Administrative staff changes are 11% below inflation. Public Safety as a percentage of County employees grew by 51.34% greater than population growth because of new grants, new detention officers, and combining the City and County Dispatch / Records activity. Public Works grew 23.33% more than population with the 20.50 employees associated with Solid Waste. Judicial Services decreased by 20%. Public Health grew at 22.53% (12% below population growth). Finally, the Rest Home decreased employees by 1.34%. In comparing existing departments in FY 2000 to their budgeted FY 2014 employees, the number of employees grew by 79.24 FTE which is 21.24% (14.06% below inflation and 14.76% lower than population growth). A number of offices have fewer employees than in FY 2000 and several are at the same number.

<u>So the question is - Are core County services, based on population, actually maintaining service levels for residents of the County?</u>

In evaluating this question, we need to look closer at the table on page 24 and the preceding graph. They show Public Safety employees increasing from 84.83 in FY 2000 to 159.34 in FY 2014 – this includes sworn officers increasing from 31 in FY 2000 to 48.83 for FY 2014, a 57.52% increase.



As stated before, this is misleading. The Sheriff must assign deputies funded by grants or contracts such as - Big Sky Resort / Madison County (6), Freedom from Fear Grant(1), Missouri River Drug Task Force (1), Detention Center Administrator (1), Town of Three Forks contract (3) and CHRP (COPS) grant (4), to do the tasks required by the grant or contract. These sworn officers are not available for normal patrol duties. The number of deputies <u>available</u> for normal activities is 37.08, a growth of 6.08 (19.61%) compared with population growth estimated at 36%.

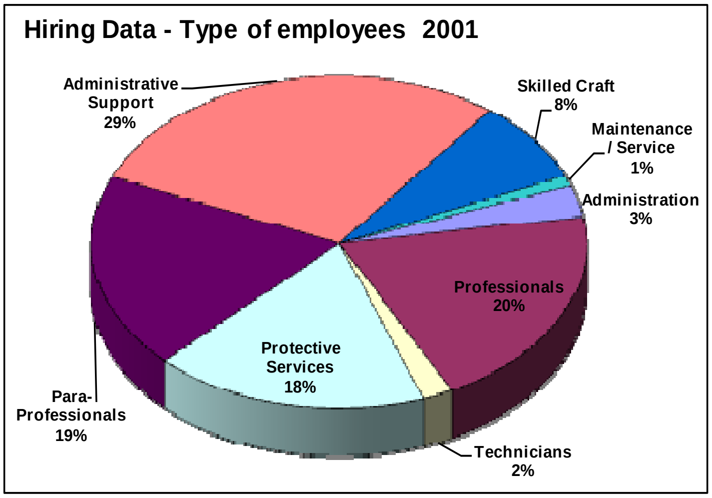
In actuality, the Sheriff has seen a decrease in staff available to provide service for the residents of the County based on available deputies to total population. Currently, each of the <u>AVAILABLE</u> sworn-officers is protecting 2,414 residents, plus their proportionate share of tourists. The graph shows the historical number of residents per sworn officer, from 2000 to the 2014 budget.

Unfortunately, grant and contract revenues tend to decrease or stay static over time and not fully support the actual costs (administrative, capital and operating). This causes earmarking an ever increasing portion of Public Safety revenue to support grant activities, or lose those sworn officers.

So the answer to the question is that while residents per sworn officer are up from the low in 2008-2009, they continue to be below the high in 2005. The small increase can be reasonably offset with improved technology like mobile phones with each officer and Mobile Data Terminals (MDT's) in patrol vehicles.

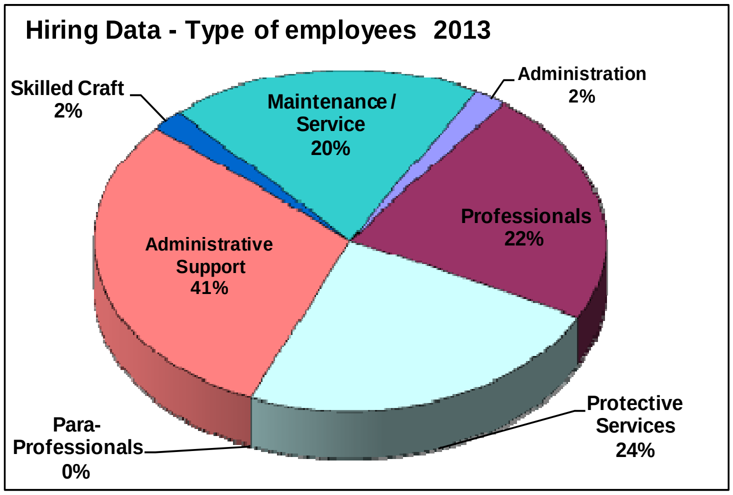
Changes in Hiring Percentages for Personnel

The two graphs that follow are taken from the Equal Employment Opportunity (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 2001 and 2013 EEO reports. The graphs do not include seasonal, part-time or temporary employees. The graphs show a change in hiring from Para-Professional to Administrative and Maintenance and Protective Services decreasing by 15% between the two years.



The information in these graphs is based on hiring during the year. As can be seen in 2001 (the first year available) Administrative Support, Professionals, Para-Professionals and Protective Services accounted for 86% of hiring. For 2012 these 4 areas accounted 75% of the positions hired.

The County had 414 full time employees at the time of the 2013 payroll report. During the 2013 fiscal year the County hired 50 employees. This gives the County a 12.08% turnover rate. Unfortunately in some cases the same position was filled several times during the year, causing the percentage to be higher than if these hires are counted only as one. By taking duplicate hires out of the calculation the adjusted turnover rate comes to 10.28%.

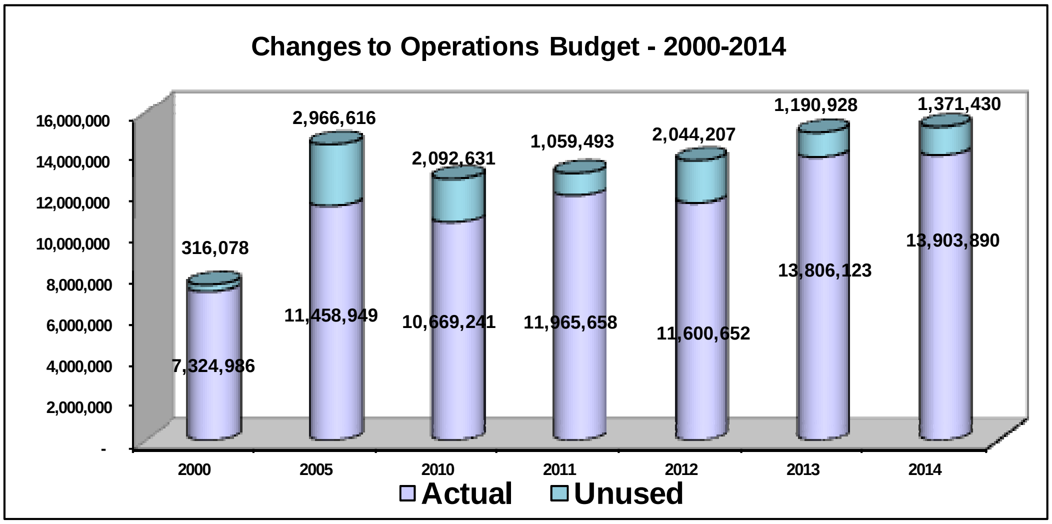


The following table shows employees hired by type in each year:

Employee Types	FY 05	FY 09	FY 10	FY 11	FY 12	FY 13
Administration	1	2	1	0	1	1
Professionals	13	10	4	7	3	11
Technicians	0	1	1	0	0	0
Protective Services	20	9	3	28	11	12
Para-Professionals	0	1	1	0	1	0
Administrative Support	21	12	16	8	18	15
Skilled Craft	9	2	0	2	3	1
Maintenance / Service	13	14	9	13	7	10
TOTAL	77	51	35	58	44	50
% of FTE's	18.38%	14.12%	7.58%	12.20%	9.16%	10.33%

Operations

Operating costs, as seen in the graph below, have a 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. The increase in FY 2011, which continues for FY 2014, comes from operational costs associated with the new Detention Center.



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 $1,159,455 (Re-Entry -- State Prisoners in Gallatin County is $454,000 of the increase), Detention Center medical, facilities and systems costs $748,000 and Rest Home Bed Tax to State of Montana $257,000. FY 2011 actual shows 11.81% increase from FY 2010 because of the new Detention Center. FY 2014 'Unused' projections are based on current estimates at calendar year end (6 months).

Budgeted operating costs have grown from $7.6 million in 2000 to $15.2 million in 2014. This is a 100% increase over 15 years. Inflation has grown at 35.30%, with population increasing at 36%. 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:

	Road		Sheriff	
Year	**Fuel**	**Insurance**	**Fuel**	**Insurance**
2000	115,661	40,338	47,072	49,207
2005	222,899	55,931	89,320	72,900
2009	277,891	65,930	139,064	82,835
2010	280,230	69,930	137,934	74,149
2011	306,230	65,936	140,708	84,077
2012	407,835	69,223	159,185	88,281
2013	376,290	72,684	173,957	88,181
Budget 2014	**420,000**	**75,877**	**159,772**	**106,136**
Percent Change 00-13	225.34%	80.19%	269.56%	79.20%
Percent Change 00-14	**263.13%**	**88.10%**	**239.42%**	**115.69%**

The table shows fuel costs have increased over 239%, even with increased use of fuel-efficient engines. A partial factor may be an increase in the fleets, but this only accounts for part of the increase. The insurance change is variable because law enforcement costs increase at a different percentage than other areas due to utilization for vehicle repairs, increase in vehicle values and known exposures.

Utilities – Cost of utilities have increased in the last 15 years, with the biggest increases felt in FY 2008. The information that follows shows the changes in the Road, Fair and Facilities gas and electric costs for the period FY 2000 through FY 2013 for actual expenses and the FY 2014 Budget:

GAS AND ELECTRIC UTILITIES			
YEAR	ROAD	FAIR	FACILITIES
2000	12,433	42,049	125,471
2005	23,715	62,332	210,247
2008	36,391	74,121	308,041
2009	31,912	76,571	312,557
2010	26,798	60,439	248,623
2011	39,453	64,658	351,138
2012	42,738	57,784	338,621
2013	40,092	56,590	308,996
Budget 2014	**45,100**	**63,800**	**371,300**
% change 00-13	222%	35%	146%
% change 00-2014	**263%**	**52%**	**196%**

Contracts – Detention Medical, Juvenile Detention and Detention Center food costs have increased dramatically during the period 2000- 2014. FY 2000 Medical costs are higher than normal due to a claim costing over $80,000. Without this claim, costs have increased by 680%. Costs from FY 2005 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. Food costs for FY 2014 increased with implementation of additional contracts with non-Gallatin County detention inmates.

	DETENTION			LIBRARY	SENIOR	MENTAL
YEAR	Medical	Juv. Det.	Food	CONTRACTS	PROGRAMS	HEALTH
2000	165,010	10,560	148,265	445,290	107,508	100,669
2005	214,265	177,865	228,759	571,678	150,905	244,313
2008	326,838	525,047	650,249	650,426	216,700	268,765
2009	389,800	230,952	700,350	675,442	203,052	311,601
2010	343,570	263,834	781,286	675,442	226,496	341,560
2011	432,039	191,415	663,072	713,215	233,800	356,960
2012	551,794	276,132	155,804	769,612	222,950	246,597
2013	663,648	151,910	200,601	759,380	232,450	345,711
Budget 2014	**539,800**	**176,470**	**230,000**	**798,139**	**236,950**	**295,270**
% change 00-13	302%	1339%	35%	71%	116%	243%
% change 00-2014	**227%**	**1571%**	**55%**	79%	120%	193%

Library contracts have increased based on taxable valuation changes. The amount shown does not include the County's repayment of up to $105,000 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 justified costs for most programs. These include transportation costs for the Galavan and West Yellowstone Galavan programs, and expansion of senior citizen programs to maintain needed services.

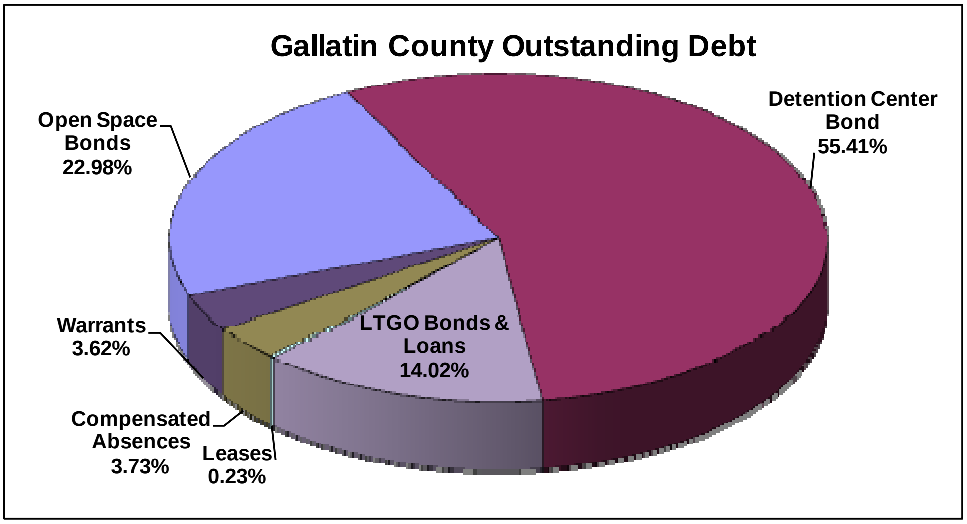
Mental Health has expanded significantly from FY 2000 when support was limited to $1 per person, plus mental evaluations. Today, funding includes the $1 per person, plus $100,000 for crisis stabilization and weekend coverage, $30,000 for adult case management and mental evaluations/holding.

Debt

Gallatin County is relatively debt free. County voters have approved 4 bond issues in the last 26 years. They are - Rest Home for $1,490,000 in 1989 (paid off in FY 2009), Open Space in 2001 for $10,000,000, Open 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 & Poor's upgraded our bond rating to AA in July 2013 for the $1,150,000 Fair / Ice Facility Limited General Obligation Bond.

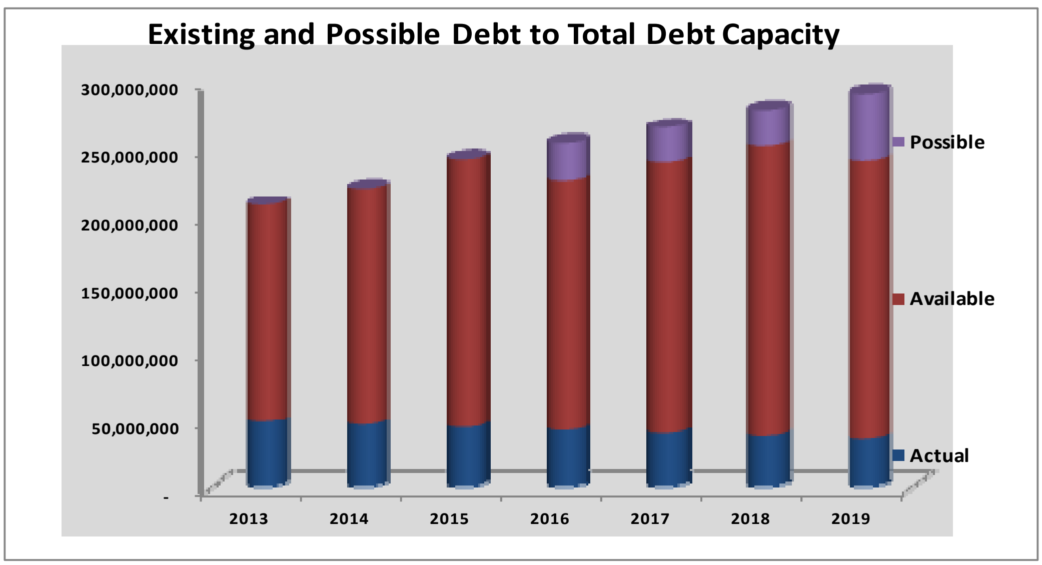
Outstanding Debt

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 and on the next page.



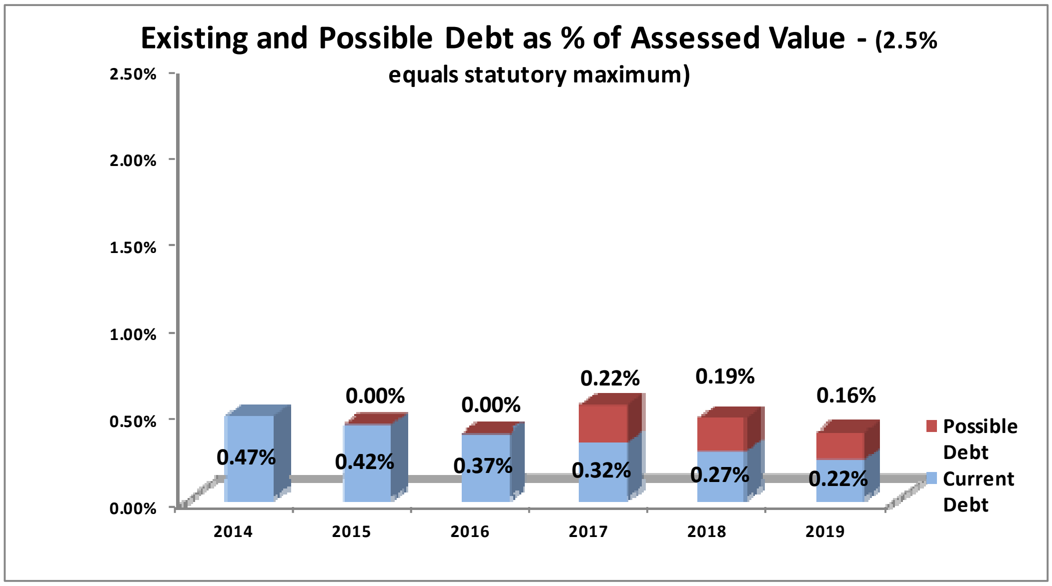
Debt Capacity

The bar chart below illustrates 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 a bond for the Public Safety / Justice building (only bond being considered at this time) were approved, the County would have debt capacity remaining. This reflects the Commission's philosophy to hold debt levels down for taxpayers despite the County's rapid development and growing population.



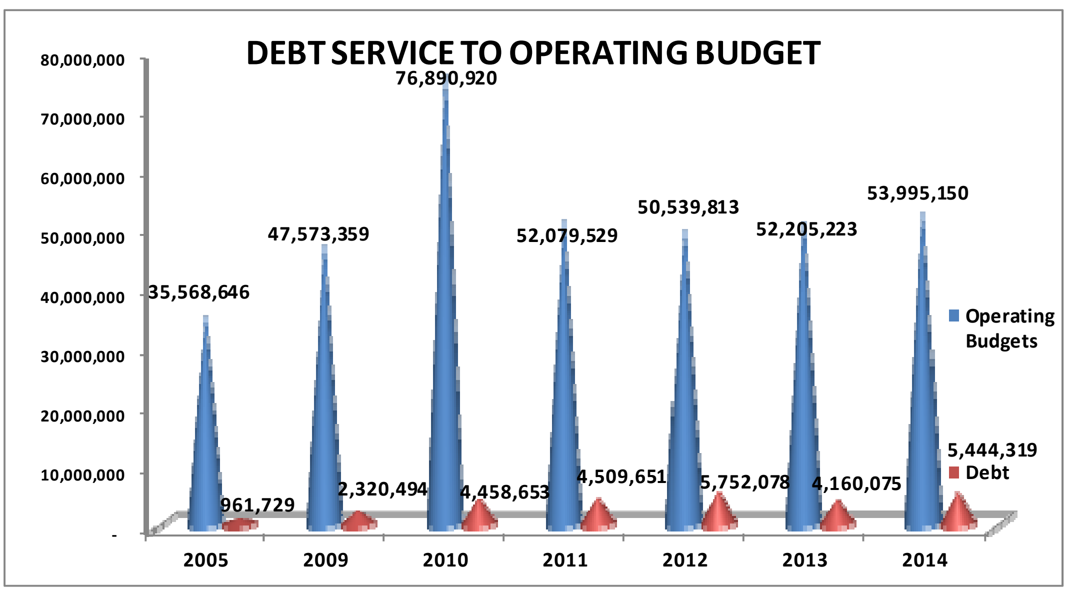
Debt as a Percentage of Assessed Value

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, to 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.



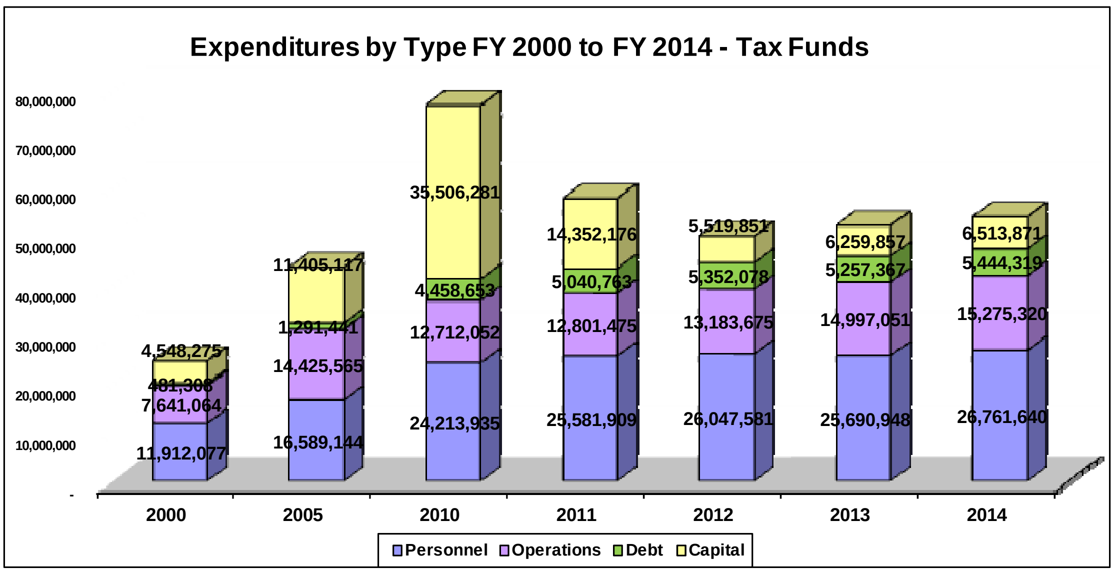
Capital

Gallatin County is committed to funding the capital needs of departments and facilities. The County now has replacement schedules for a significant number of ongoing capital needs. To insure consideration of all costs associated with discussion and decisions on new positions, the County requires new position requests to include personnel, operations, space *and* capital costs. This has allowed the County Commission to look at the total costs, instead of only costs of personnel and fringe benefits.

Capital Expenditures Contrasted With Total County Operating Expenditures

County investment in its capital and infrastructure is important 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 depicts budgets over the last five years plus FY 2000 and FY 2005 for comparison.

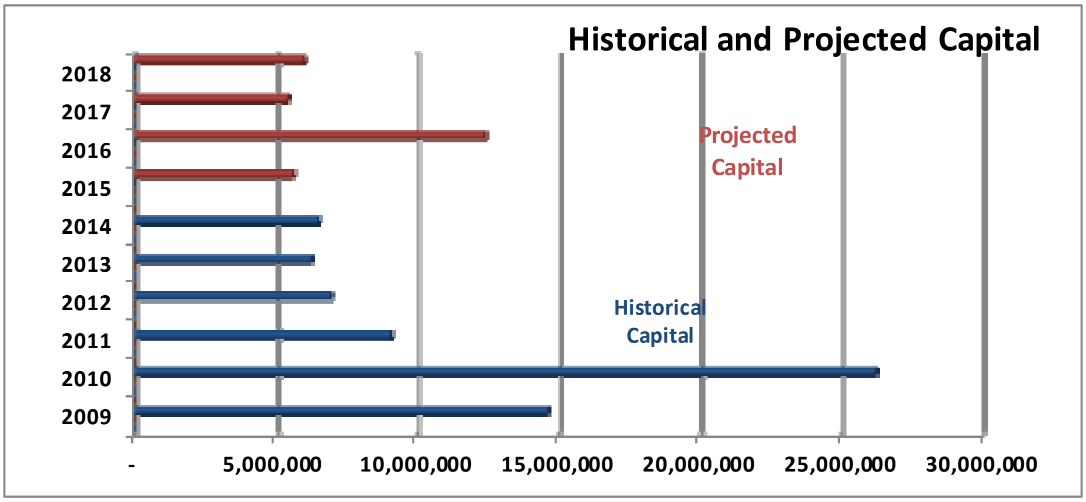


The Graph depicts the amount budgeted, not the amount actually spent. The difference for capital can be significant primarily because of the County's reserving capital money for several years to fund a project. This funded the County Road Shop, E.O.C. / Search and Rescue Building, Courthouse remodel, 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.

Capital Improvement Program (Projections - Next Five Years) Contrasted With Historical Capital Spending (Previous Five Years)

Another indicator of Gallatin County's commitment to providing for 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, which is significant for most years. As an example, FY 2009 shows expenditures of $14.6 Million. The approved capital projects and capital equipment budget was $30.4 million.

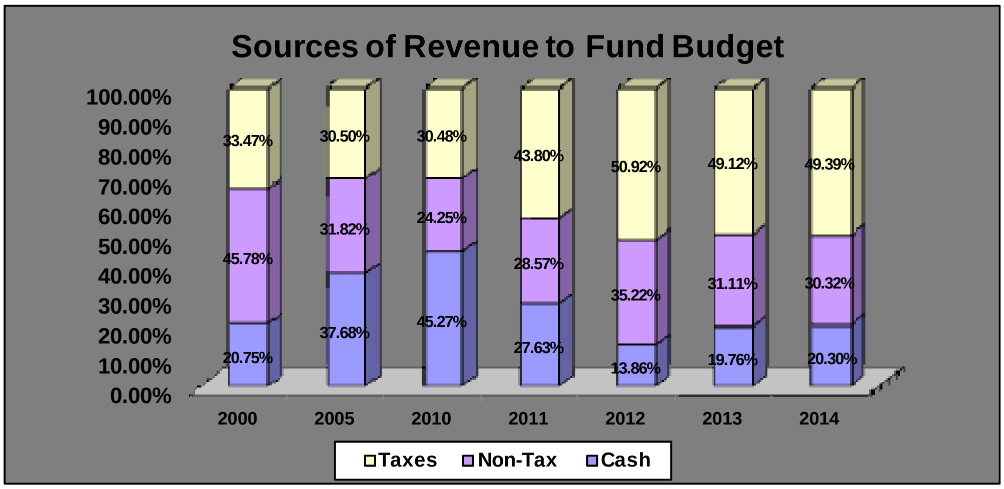
Also, readers should know that projected CIP projects included above are separated into years, but the FY 2014 budget incorporates only the approved amount in the budget, which does not include $101 million in costs to be funded in future years to pay for all projects.

The next area, and arguably the most important, is a review of changes in revenues over the same time frame as expenditures.

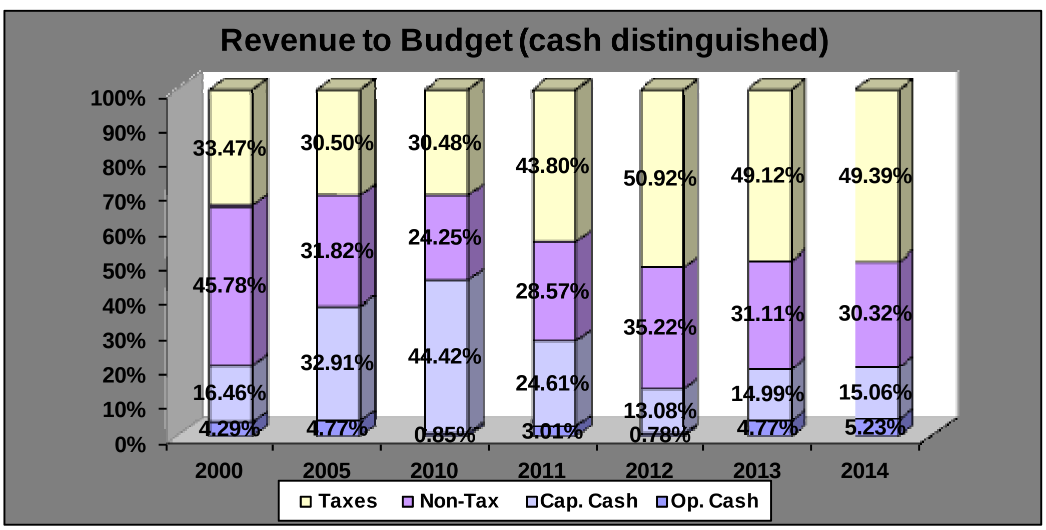
REVENUES

The County uses 6 major funding sources (revenue sources) to support the approved budget. They are Taxes, Licenses and Permits, Intergovernmental revenues for Grants, Fines/Forfeitures, Charges for Services, Interest / Other Revenues, and Cash. Expenses are funded through Tax Revenues, Non-Tax Revenues and cash re-appropriated to fund the approved budget.

A comparison of revenue sources for the 2000 through 2014 budgets show an increase from 33.47% to 49.40% for the County's reliance on tax revenues. A significant part of the tax percentage comes from bond payments. During this same time, the County decreased non-tax revenue percentages from 45.78% to 30.32%. The source showing a minimal change is cash utilized to balance the budget, which decreased from 20.75% to 20.28%. However, the majority of cash is used to fund capital outlay / capital purchases, not ongoing operational expenses.

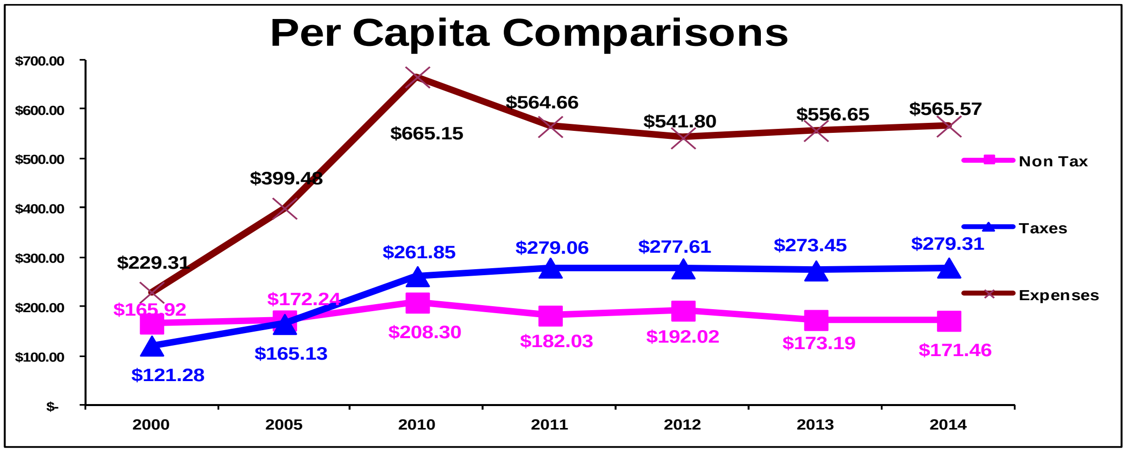


A more accurate view of revenue sources is shown in the graph below. This graph distinguishes between cash used for Operations (Op. Cash) and cash used to fund capital (Cap. Cash). In FY 2013, cash supported 4.77% of Operating Expenses. FY 2014 shows the county budget needing 5.23% cash to support the budget.



Per Capita Comparisons

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



The cost per person for **actual expenses** in the last 14 years has increased from $229.31 in 2000 to $563.76 in 2013, a 142% increase. The **FY 2014 budget shows** $563.76 per person which would equal a 146% increase. However, historically budgets are not fully spent meaning the actual number will be lower. The major increases in FY 2010 and FY 2011 came from construction projects, debt payments and funding of operational costs associated with the new Detention Center.

Actual expenses will be lower than the $563.76 shown for 2014 budget, and actual revenues tend to be higher than estimated. As an example, the amount budgeted for FY 2012 expenses was $567.31 - 6% above the amount actually spent and the amount budgeted for FY 2011 was $632.26 or 11% above the amount actually spent. Based on these calculations, actual FY 2014 expenses should be between $530 and $540 per person.

Taxable Valuations

Tax Revenues – Actual tax revenues have increased from $121.28 per person to $272.75 between 2000-2013; a 125% increase. With FY 2014 taxes projected at $279.67 per resident, the increase from 2000 is projected as an increase of 131%. The following is a comparison of taxable values from the 2000 base year.

Gallatin County's Taxable Value increased from $118,618 in FY 2000 to $246,571 in FY 2014

	Taxable Valuation	1 yr %	2 yr % AVG
Base Year 2000	118,618		
2005	154,680	6.92%	15.79%
2009	209,639	6.49%	15.77%
2010	223,245	6.49%	13.40%
2011	230,919	3.44%	10.15%
2012	235,791	2.11%	5.62%
2013	239,468	1.56%	3.70%
2014	246,571	2.97%	4.57%
10 Year Average		**6.34%**	

Non-Tax Revenues – Actual receipts started at $165.92 per person in 2000 and are now at $172.74 for FY 2013, with FY 2014 estimated at $171.67 per person. This is a 4.11% increase from FY 2000 to FY 2013 and only a 3.46% increase projected for FY 2014. The 2000 through 2013 numbers are based on **actual** taxes and non-tax revenue, expenses, while the FY 2014 numbers come from **Estimated** or **Budgeted** revenue and expenses.

Trend Analysis Introduction

The Trend Analysis is prepared to depict the financial condition quantitatively through the utilization of financial trend monitoring. 21 trends are analyzed 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 the trends and the conclusions and recommendations involve reviewing the relevant factors to determine the financial health of the County. The factors used to analyze trends include:

- **Revenues** – Type of revenue, amount of revenue, revenue per capita, property tax revenue and comparison of non-tax revenues, working capital balances, cash used to fund budget and operating reserves;
- **Expenses** – Type of expenditures, expenses per capita, employees per capita, fringe benefits, compensated leave balances, as well as cost of salaries, and capital outlay, reserve, projects and adherence to plans;
- **Economic** – Growth – population, taxable value, debt, and millage; and
- **Benchmark** – Taxes per resident and percent taxes to budget.

The County's adopted financial policies, as well as relevant national standards, are considered in the analysis of the 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, with only 2000 through 2013 shown. Trend analysis is based primarily on annual reports and budgets from 2000-2001 through 2012-13, along with the first 6 months of actual revenues and expenses being the basis for projections.

Methodology

The report provides the public, County Commission, County Administrator, elected officials, departments and County employees a glimpse into the County's financial position. The information 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 15 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 through 14 indicators.
- **Unfavorable** is assigned to trends that are downward or negative and attention is needed to address the trend. An Unfavorable overall trend occurs when 10 or less indicators are Favorable;

Trends

The following table shows a summary of indicators for FY 2000 through the FY 2014 budget. The table recaps ratings by indicator and year.

Indicators:	FY 2000	FY 2005	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues:								
Per Capita	Fav.	Fav.	Fav.	Fav.	Fav.	Unfav.	Watch	Watch
Property Tax	Fav.	Fav.	Watch	Fav.	Fav.	Fav.	Fav.	Fav.
License and Permits	Fav.	Watch	Watch	Unfav.	Fav.	Fav.	Fav.	Fav.
One-Time Revenue	Fav.	Fav.	Watch	Watch	Watch	Watch	Fav.	Fav.
Inter-Government	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Cash for Operations	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Operating Reserves	Watch	Unfav.	Watch	Watch	Watch	Watch	Fav.	Fav.
Expenses:								
Per Capita	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
By Category	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Employees / Capita	Fav.	Fav.	Unfav.	Unfav.	Fav.	Watch	Unfav.	Unfav.
Sworn Officers/Capita	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Watch	Unfav.	Unfav.
Fringe Benefits	Unfav.	Unfav.	Fav.	Fav.	Watch	Unfav.	Unfav.	Unfav.
Capital Outlay	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Compensated Absences	Unfav.	Watch	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Watch
Economic:								
Property Values	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Residential Values to total property values	Unfav.	Unfav.	Unfav.	Fav.	Unfav.	Unfav.	Unfav.	Watch
Property Tax Statistical Analysis		Fav.	Unfav.	Watch	Fav.	Fav.	Fav.	Fav.
Debt	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Population	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Benchmark:								
Taxes per resident			Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Percent Taxes are to Budget			Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
TOTAL FAVORABLE	**12**	**11**	**12**	**14**	**14**	**13**	**15**	**15**

Factors determining a Favorable Ranking for each Indicator are:

- Revenues per Capita – an increase in revenues per capita shows growth - Watch;
- 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;
- Intergovernmental Revenues – increase of revenues shows less reliance on taxation;
- Cash for Operations – a decrease of cash used for operations or other on-going expenses;

- Operating Reserves – maintain operating reserves within range for greater than 75% of funds;
- Expenses per Capita – increase in expenses per capita greater than inflation, shows growth in commitment to services provided by government;
- Expenditures by Category – personnel is below 60% of expenses for two (2) of the last three (3) years;
- Employees per Capita – decrease in residents served per employee is favorable. If trend shows increase for two or more years, unfavorable rating is warranted – Unfavorable;
- Sworn Officers per Capita – goal 1 ‘Available’ officer per 2,150 to 2,250 residents, or less - Unfavorable;
- Fringe Benefits – decrease or status quo of percentage benefits are to salaries – Unfavorable;
- Capital Outlay – budget without projects and percentages see increase for two years or more;
- Compensated Absences – decrease or status quo, after inflation, compared to previous years – Unfavorable;
- Property Values – increase in property values greater than rate of inflation;
- Residential values – maintaining or decreasing percentage residential values are of total taxable value – Unfavorable;
- 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; and,
- Population – increase in population shows growth in area.

The rating of these factors for FY 2013-14 is **‘FAVORABLE’ –** The nineteen indicators show 13 are Favorable, 3 are in a Watch status and 3 indicators are Unfavorable. This is a positive change from FY 2012-2013.

Benchmarks

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

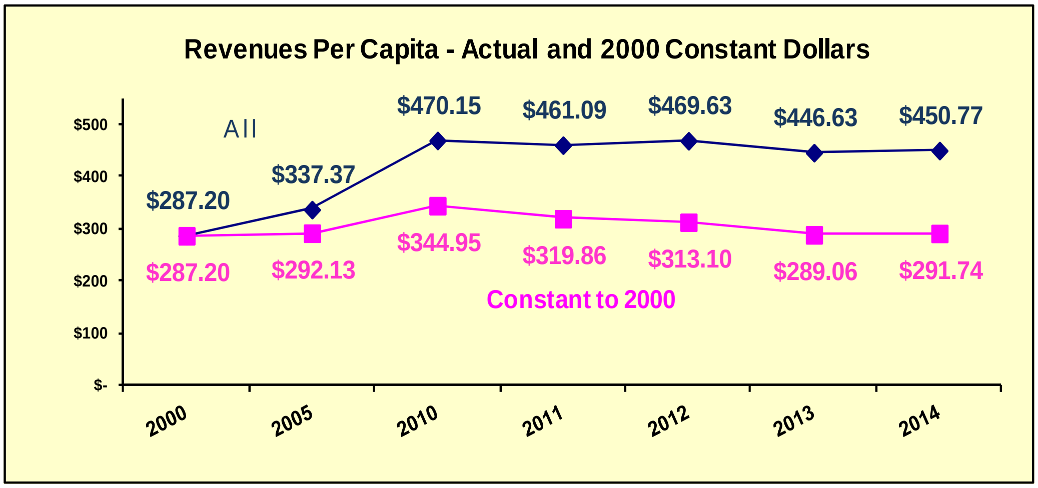
1) Taxes per resident – Gallatin County maintains low tax per resident (maximum of 2nd lowest urban County);

2) Percent taxes are to total budget – Gallatin County levies taxes to total budget at the lowest possible percentage (maximum of 2nd lowest urban County);

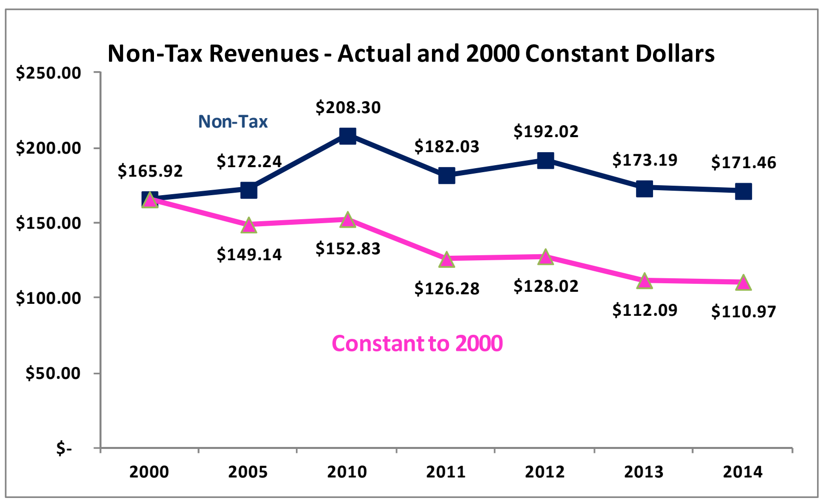
The rating of ALL Indicators for FY 2013-14 Benchmarks is **‘FAVORABLE’** - The nineteen original Indicators plus the two new indicators show 15 are Favorable, 3 are in a Watch status and 3 indicators are Unfavorable. Benchmarks are compared to fiscal years after 2008.

Revenues Per Capita

Finding: ***WATCH*** – Revenues per capita reflect an increase for FY 2014 for Budgeted Revenue and an increase in constant dollars. Non-Tax Revenues per capita have decreased to $171.67, slightly below revenues per capita in FY 2005. Tax Revenues per capita continue to increase. These revenue sources taken together are a significant change from FY 2000 through FY 2010, when Per Capita Revenues increased every year. The calculation for FY 2014 is based on the approved budget, but historically the County has seen revenues received higher than the amount in the budget. However, it is unlikely that revenues altogether will increase enough to significantly change the per capita revenues.



The chart shows a gradual decrease in actual dollars generated per capita from FY 2000 through FY 2014. Constant dollars, using 2000 as the base year, show a change year to year but still a gradual decrease since the high in 2010. This has changed for FY 2014, with projections seeing an increase with anticipation being an increase to $455 or higher. The decrease in constant dollars is mostly from lower taxes for debt.



Revenues actually received have seen changes over time including the following:

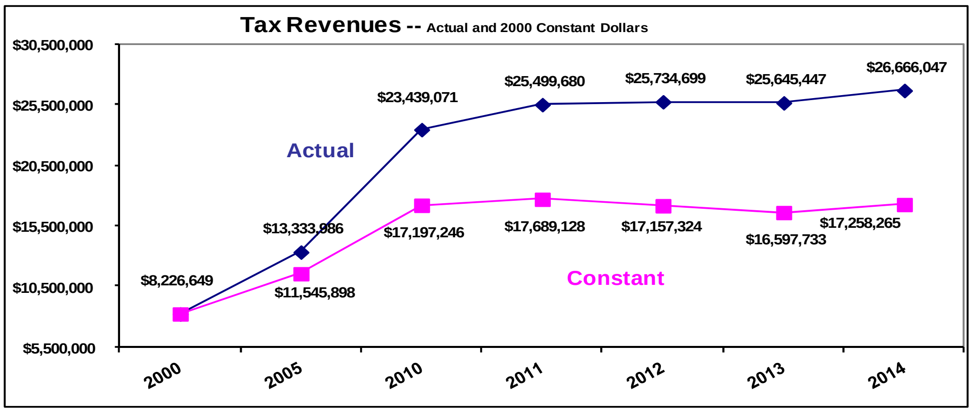
- Intergovernmental Revenues – receipts from Federal, State, and Local Governments increased from $1,376,807 in FY 2000 to $2,846,402 in FY 2013, a more than 2 fold increase in 14 years. FY 2014 revenues are up slightly from FY 2013 for new state allocation associated with changes in personal property.
- Charges for Services –include Clerk and Recorder, Clerk of District Court, Sheriff Services etc. and have increased to $4,868,034 in FY 2013, a 118% increase from FY 2000. FY 2014 receipts are up compared to FY 2013.
- Fines and Forfeitures – Justice Court revenues increased to $474,086 for FY 2013, reversing the significant decrease from FY 2009's $755,000. The decrease comes from bond forfeitures being split with the state and a decrease in citations issued. FY 2014 shows a continuation of the increase for fines with a $75,000 increase over budget possible.
- Other revenues that have increased include Investment Interest by 38.62% for the General Fund and Local Option MV fees have increased by $1,419,118 in the last 14 years. Investment will go down as interest rates decline and cash is used to fund ongoing operating costs.

Favorable is a trend showing a gradual increase in the actual and constant dollars spent by each resident which indicates that the County is maintaining or improving revenue generation.

Property Tax Revenues

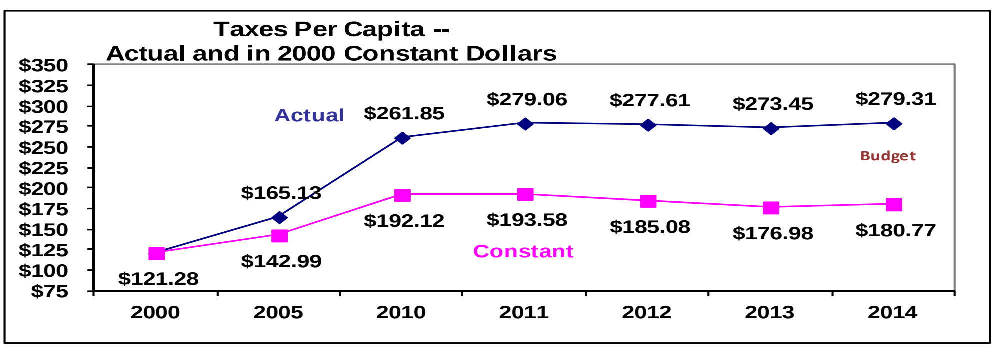
The Tax Revenues chart shows the actual dollars collected for FY 2000 through FY 2013, with FY 2014 using Budgeted Tax Revenues. The graph also shows revenues based on calculating constant dollars using 2000 as the base year. Items that have affected tax revenues include:

2005 & 2006	Used New Construction for operations and maximized millage to maintain service
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
2011	Did not use $1,438,578 in County operational and $92,188 in Road/Library taxes
2012	Did not use $1,594,159 in County operational and $92,345 in Road/Library taxes
2013	Did not use $1,763,435 in County operational and $25,541 in Road/Library taxes
2014	Did not use $1,791,611 in County operational and $11,770 in Road/Library taxes



Finding: ***Favorable*** – Property Tax Revenues have increased except for decreases associated with debt for 13 years and are budgeted to increase for FY 2014. With the ability to levy the unused taxes from FY 2014 this positive trend should continue for FY 2015. However, while Taxes Per Capita show an increase in actual, we are seeing a decrease in constant dollars for FY 2013 and FY 2014. The improvement in the local economy continues to exceed most expectations, with construction improving dramatically in calendar year 2013. This will positively affect the County's valuations in for the FY 2015 and FY 2016 budget cycle.

The next graph shows taxes per capita using actual taxes and taxes in constant (2000) dollars.



The graph shows that in constant dollars, residents are paying $46.80 more in taxes than 15 years ago, ($3.12 per year). Actual tax dollars paid increased by $158.39 ($10.56 per year) from 2000 through 2014. The decrease in FY 2012 and FY 2013 comes from decreases in debt payments.

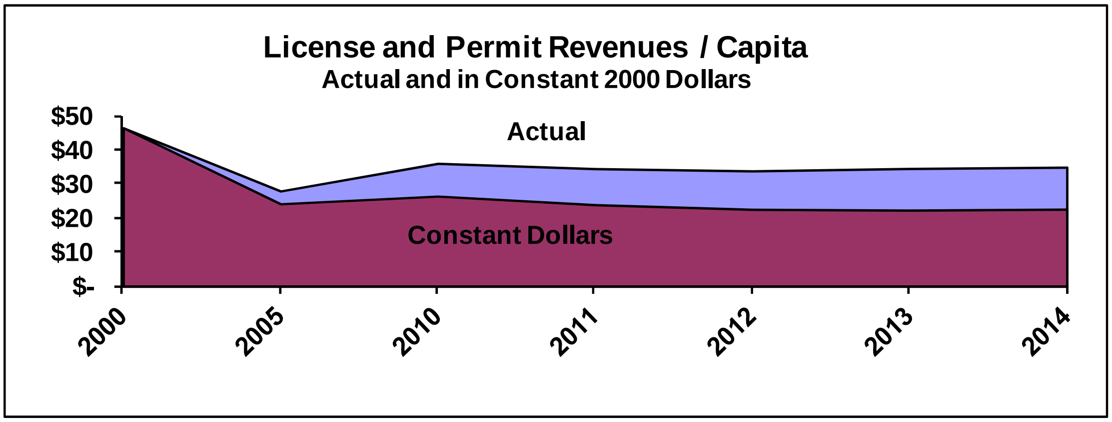
Favorable = tax revenues and taxes per capita show an increase to offset inflation and to allow for growth caused by increase in population, when adjusted for debt service.

License & Permit Revenues Per Capita

Revenues generated through collection of licenses and permits saw consistent increases in previous years. The two major revenue sources were the 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, however the 1.4% Ad Valorem Tax was eliminated in FY 2002 and this revenue is now being sent directly to the State of Montana. In its place, 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 3.4% increase for the FY 2011 Entitlement. Other license and permit revenues were increasing on average 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 largest component of Licenses and Permit revenues is the Local Option Tax on Motor Vehicles. For FY 2011 the County saw a reversal of the decrease in this revenue source (up 2.98%). This resulted from the stabilizing of the local economy and the purchase of vehicles delayed during the downturn. Mid – year collections for FY 2014 show continuation of this trend, a 2.67% increase from estimated revenues is being seen for FY 2014. If this continues, revenues from local option tax will be 3-5% higher than estimates



Finding: ***Favorable*** – License and Permit Revenues show a slight increase in growth from FY 2009 to FY 2013. This is continuing into the first six (6) months of FY 2014. The Constant Dollar calculation shows a slight increase as inflation is lower than the estimated increase. This indicates a continuation of incremental growth in the local economy for FY 2014.

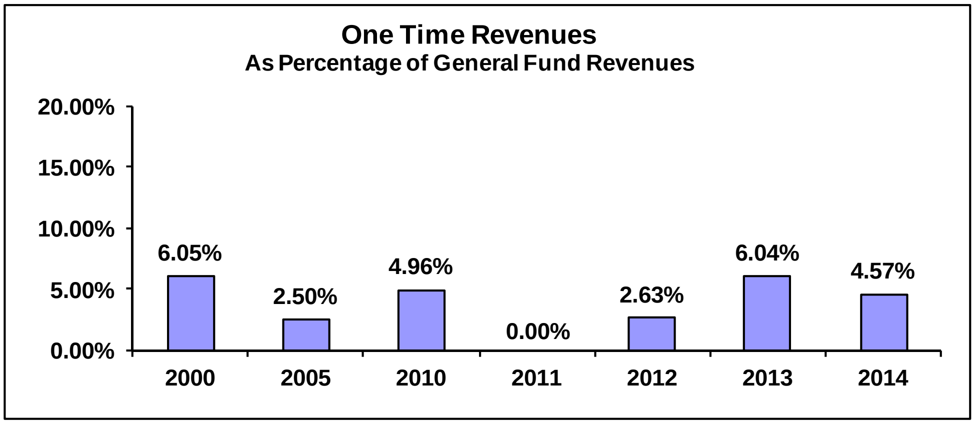
Current estimates indicate licenses and permits will continue to increase, slightly, for the next several years. Licenses and permits have increased faster than inflation through the first six months of FY 2014.

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.

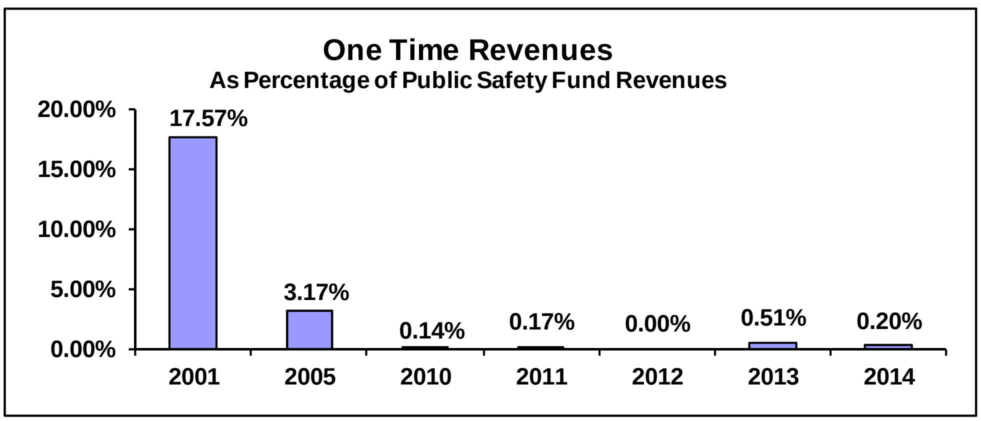
One Time Revenues

Revenues that are considered 'one-time' include grant funds not awarded for multiple years, transfers in from other funds and sale of assets or leases. The General Fund in prior fiscal years and Public Safety Fund in FY 2000 through FY 2004 received significant amounts of revenue from these sources.

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: ***Favorable*** – The percentage of one-time revenues to total revenues shows a gradual decrease from FY 2010 5.10% to FY 2014 4.77%, with FY 2011 and FY 2012 being significantly lower.



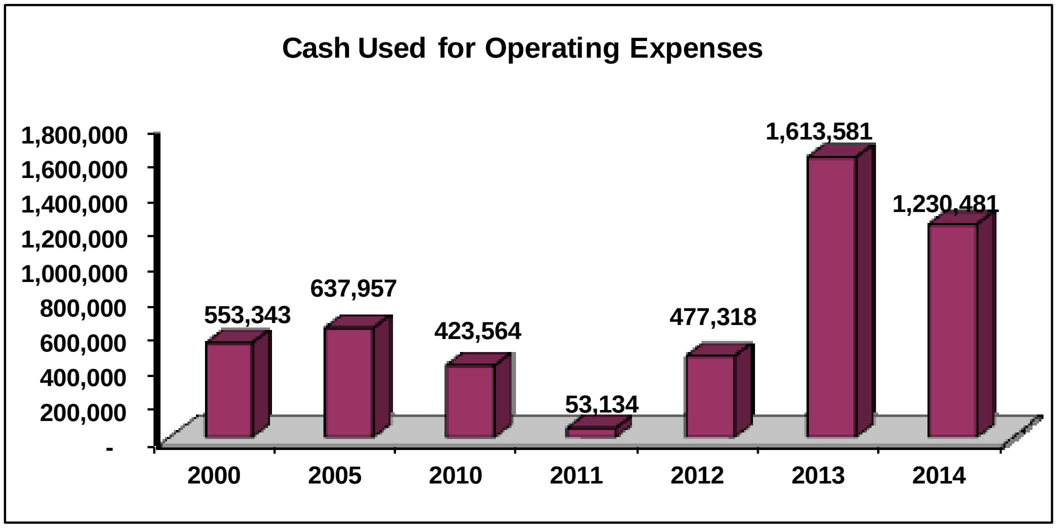
The decrease of one-time revenues in the Public Safety Fund is the result of the County Commission's decision to levy taxes in the Public Safety fund instead of levying in the General Fund and elimination of a separate fund for employer contributions.

Consistent with County and National Budgeting Standards, money generated by one-time revenues should be primarily used for non-reoccurring expenses like updating the Courthouse and similar activities.

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

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 2014 which anticipates using cash for operating expenses. The County has decreased its reliance on cash for purchasing large equipment with the implementation of the 'Core Equipment Plan.' This eliminates a major concern about sustainability of equipment for rolling stock needing replacement on a planned basis.



Without cash re-appropriated, the County Commission could not have funded the FY 2014 Capital and Debt Budgets. 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 use of cash for one-time expenses is consistent with the County's goal to not fund ongoing expenses with cash. The FY 2014 budget shows the County 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, a decrease in reliance on cash for capital equipment needs has been implemented and further enhances the County's ability to have sustainable budgets. The payment of dispatch capital equipment and building construction, along with funding of the Core Equipment Plan through mill levies, are major steps in meeting the County's goal of funding all ongoing departmental needs with sustainable 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 2008 budget.

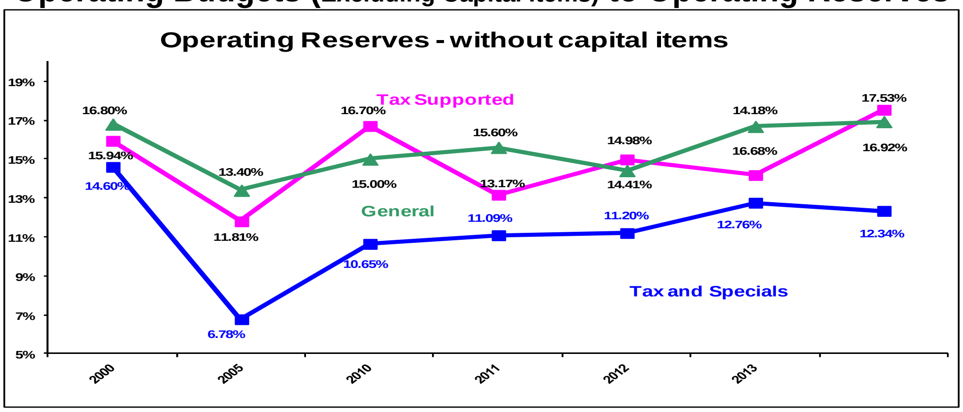
Operating and Capital Reserves

Operating Reserve Policies are an important part of the County's Financial Policy. The following gives details about these policies.

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

The graph that follows shows a reversal of the downward trend in Operating Reserve percentages in tax supported funds. The graph shows Operating Reserves as a total of the budget without Capital Outlay, Capital Reserves and Capital Projects. This graph shows all percentages increasing back to the FY 2000 levels. 'Tax and Specials' Operating Reserves are slowly increasing as Reserve Policies are implemented in more funds.

Operating Budgets (Excluding Capital Items) to Operating Reserves



Favorable = 75% of funds Operating Reserves maintained within designated range

Importance of Operating Reserve Policies

Finding: ***Favorable*** – The County has maintained all reserves at or above the percentage stated in our reserve policy for FY 2013 and FY 2014 budgets.

The preceding graphs show the error of not having a policy that financial professionals can use in recommending operating reserves for each fund. The County Commission's 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, and (c) meeting the needs of the department, activity and program without unnecessarily obligating scarce dollars.

The following comparison shows a history of the County compliance with the Operating Reserve Policy using a percentage of funds 'Below Minimum' or 'At or above the Minimum' operating reserve:

	FY 00	FY 05	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Below Minimum	10	10	9	8	8	4	0	0
At or above Minimum	20	16	16	17	17	11	15	15
% At or above Minimum	67%	62%	64%	68%	68%	73%	100%	100%

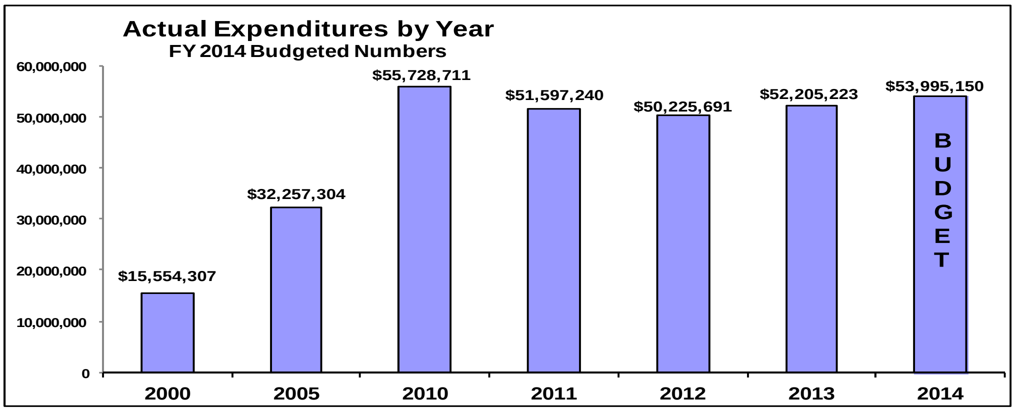
NOTE: FY 2012 shows a decrease to 15 Funds with the elimination or consolidation of funds into General, Health and Public Safety. Funds being tracked are General, Fair, Health, Public Safety and Road with reserves of 10-18%, Noxious Weed and Library reserves of 20-30%, Capital Projects, Rest Home, P.I.L.T., Employee Health Insurance and Facilities at 8-16%, with County Wide Debt Service reserves of 5-10%.

No funds are currently below the minimum operating reserve policy ranges.

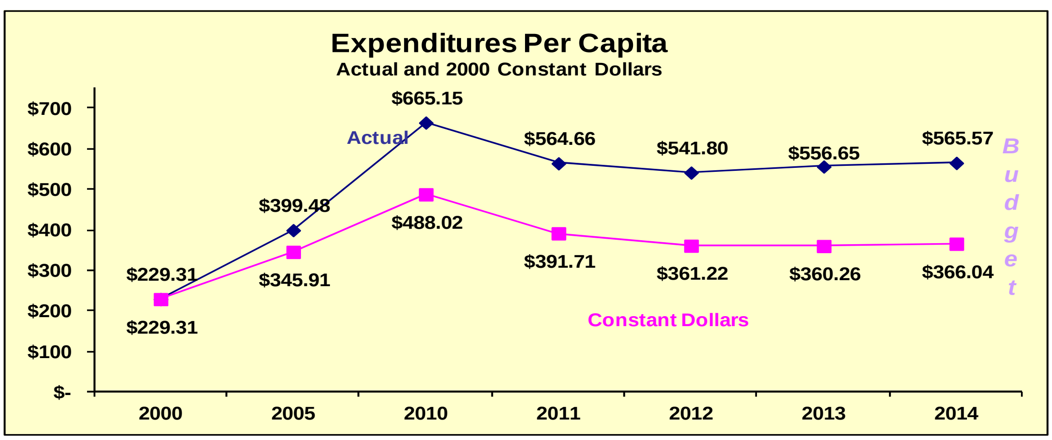
Expenditure History & Current Expenses

Expenditures

Actual expenses during the preceding thirteen years and the FY 2014 budget show growth of expenses in actual dollars and in per capita, when capital projects are excluded. FY 2010 and FY 2011 included $38 million in construction costs associated with the New Detention center. The FY 2014 Budget does not include approved Capital Reserves. 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 districts etc.



County expenses in **actual** dollars increased from $15.5 million in FY 2000 to $51.6 million in FY 2013, a 231% increase in fourteen (14) years. The major differences for above normal growth include 1) creation of the County Administrator, Compliance, Court Services, Grants, Public Defenders and Joint Dispatch Offices; 2) Changes to Juvenile Detention; Prisoner Room / Medical expenses, increase in 2009, 2010 and 2011 for adult detention and detention capital expenditures; 3) a significant increase in oil related costs and 4) increases for Sworn Deputy Officers in FY 2002 and again in FY 2011, new detention center staffing and FY 02 Elected Officials salary increases.

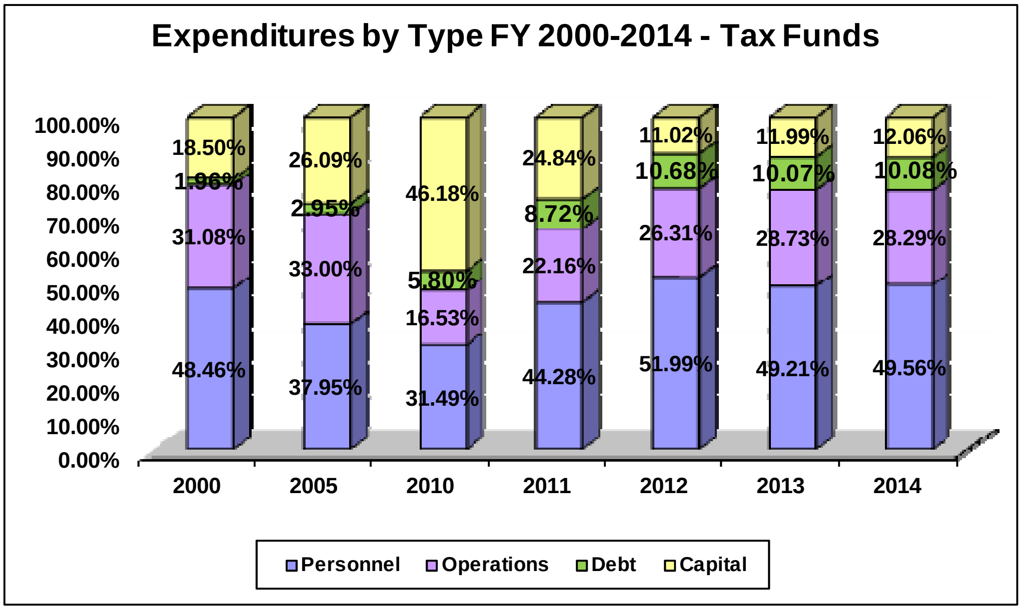


Finding: ***Favorable*** **–** Expenditures per capita in actual dollars and constant dollars have increased, when adjusted for Capital and Debt expenses. The significant per capita increase from FY 2005 to FY 2010 is from construction of the Detention Center. The increase shown for FY 2014 will be significantly less when actual expenses are known. This trend is shown as Favorable because the decrease from FY 2010 and 2011 comes from completion of the Detention Center and gradual decreases in debt costs, with normal operating expenses continuing to show a gradual increase.

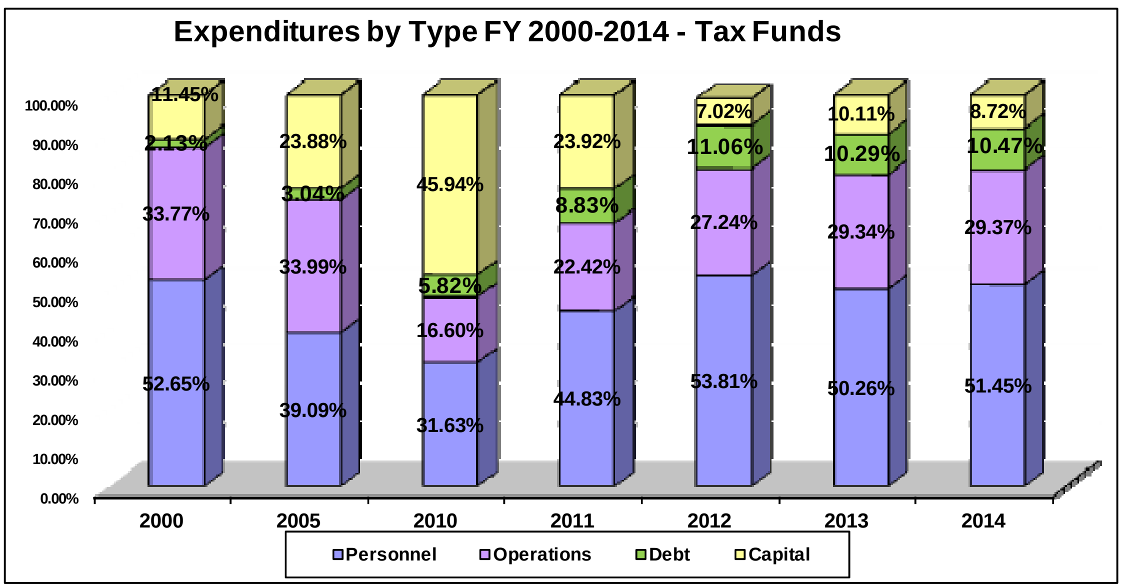
Favorable = a gradual increase in the actual and constant dollars spent by each resident indicates the County is maintaining or improving its costs for services.

Expenditures By Category

The following charts show personnel costs, the largest cost for Gallatin County, increasing slightly from 48.46% in FY 2000 to 49.58% in the FY 2014 Budget. This comes primarily from debt becoming a larger part of the budget. The percentage of personnel to the total budget has not decreased more because of costs associated with fringe benefits - worker's compensation, retirement contributions and health insurance.



The graph above is not adjusted for capital reserves 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 show a slight decline from 52.65% in FY 2000 to the 50.60% in FY 2014.

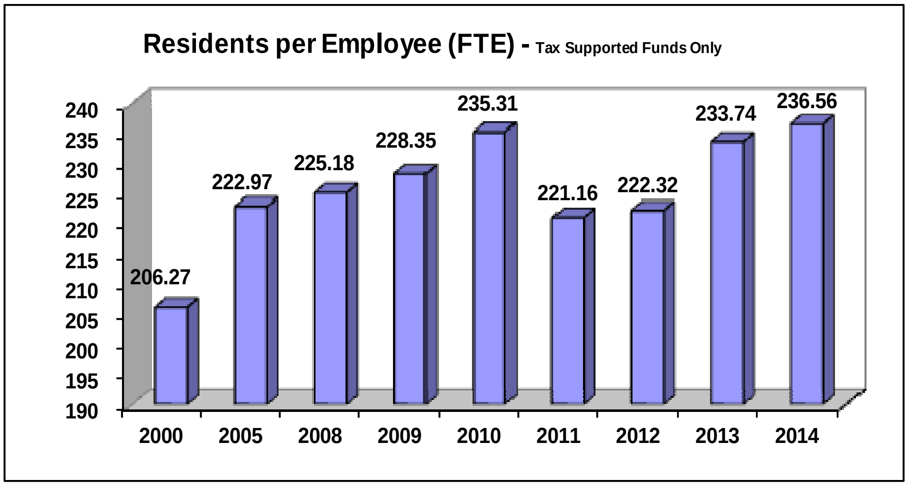


Finding**:** ***Favorable*** – Expenditures by category for actual expenses show a decrease in the percentage being spent on personnel. FY 2014 numbers are based on the approved budget and will decrease before year-end.

Favorable = **Expenditures by Category – Personnel remains below 55% of all expenses for all of the last 5 years.**

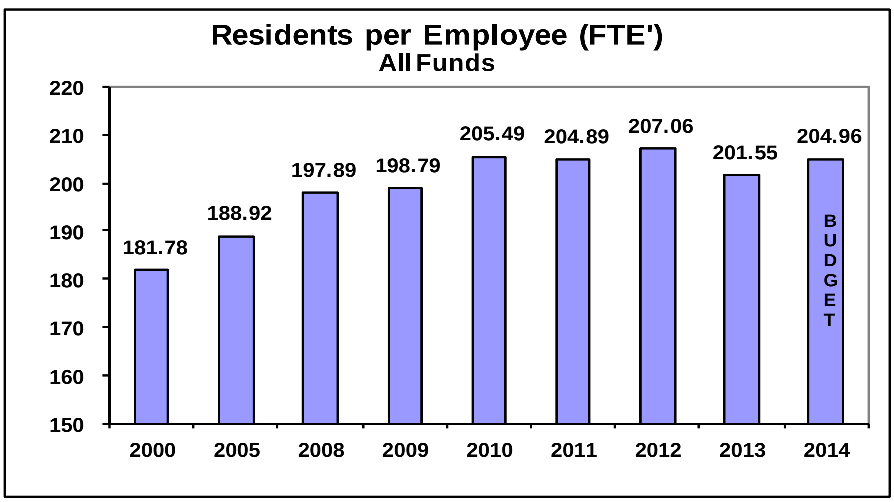
Employees Per Capita

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 FY 2000 through the FY 2014 Budget, services have increased where needed. During this time the County added 49.53 employees. Increases, except for the new detention employees added during FY 2011, came mostly from new departments – County Administrator, Compliance, Court Services, Big Sky Deputies, Three Forks 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 the number of employees as this compares employees that are dedicated to all residents instead of including those dedicated to specific tasks because of grants, contracts, etc. This shows resident's service as decreasing by 14.68% since FY 2000.

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



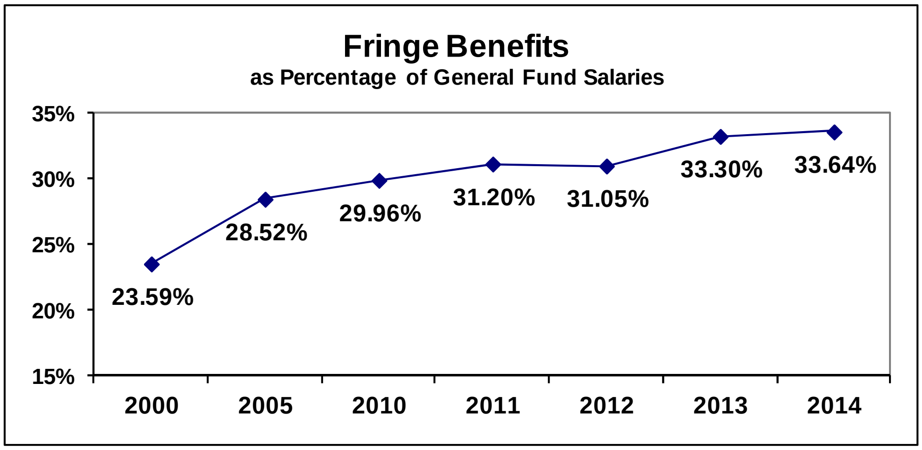
Finding: ***<u>Unfavorable</u>*** **–** Both graphs show increases in residents per employee. This is even with the addition of new detention officers and maintenance support. A decrease for FY 2013 was anticipated but reduction in staff in other departments offset detention officer and support staff increases.

<u>Favorable = trend is a static or decrease in the number of residents per employee, for tax supported funds.</u>

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 of 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.

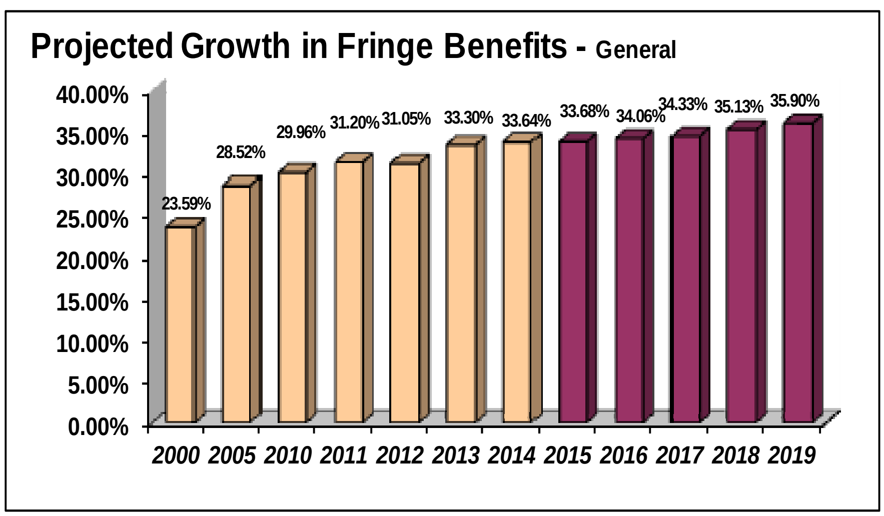


These calculations do not include costs for the statutory 15 vacation, 12 sick and 10 holidays. Adding these costs to the benefit package adds 14.17% to each of the years shown, and do not change without state legislatures action.

Finding: ***Unfavorable*** **–** Fringe benefit percentages have increased in FY 2014. This has eliminated the slight increases seen in FY 2011 and FY 2012. For FY 2014, the state required a 1% increase in Public Employee Retirement System (PERS) Contribution by the County and the County increased health insurance premiums. It is currently estimated that Health Insurance Premiums need to increase by a minimum of **5% in FY 2015 and FY 2016,** to offset medical cost increases. In addition the County will be increasing PERS by 0.10% each year for the next 10 years per state statute. This continued increase in fringe benefits costs will adversely affect the County's ability to adequately fund future years' budgets. The 11.13% increase in Fringe Benefits from 2000 to 2014 equals $1,486,644 countywide.

Finding: ***Unfavorable*** **–** Both graphs show increases in fringe benefit costs.

The County will need to take a very active role in decreasing health insurance premium costs to avoid continuation of the Unfavorable ranking. The County may have to explore changes in deductibles, cost retention by employees and preferred providers to maintain low costs. The County will also have to maintain current low Worker's Compensation rates and watch the 2015 Legislature's action on changes to retirement plans.

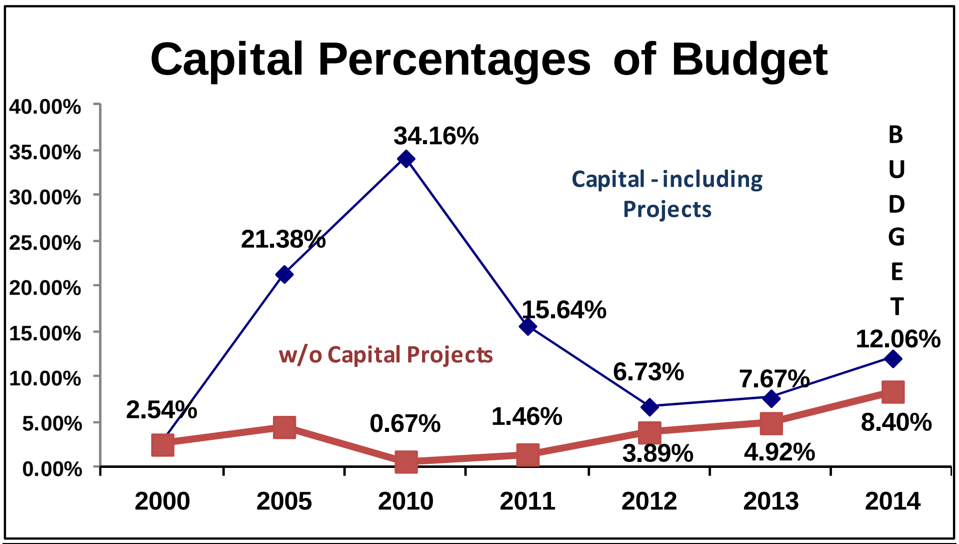


Favorable = is when the percentage of employer contributions to total wages paid remains static or decreases.

Capital Outlay & Capital Reserves

Capital Outlay and Capital Reserves have changed in the last fifteen (15) years. Previously, the County rarely set aside funds unless a specific need was identified. In 2000 the County formalized a Capital Improvement Program policy (the CIP) setting aside revenues generated from new construction taxes for approved Capital Improvement Projects. This was continued for 14 of the next 15 budget cycles. The decision to include 'Core Rolling Stock' and 'Bridge Replacement Program' in capital planning and funding them through newly taxable property has increased the County's ability to maintain service levels. This will also add to the County's ability to maintain County infrastructure.

The following graph shows capital budgets compared to total budgets. This graph is misleading in that the FY 2014 Budget has focused capital expenses for needed equipment replacement. Also, the County is in the planning stages for the new Law and Justice building.



Favorable = requires an increase or stable dollar and percentage of budget dedicated to capital with variables associated with capital projects (bonds) taken into consideration (percentage 'w/o Capital Projects')

Capital Reserve is the setting aside of money on a yearly or periodic basis to replace, repair, expand or demolish equipment or facilities, based on availability of funds and the expected life of the equipment. The County is dealing with a significant portion of our need to finance equipment replacement through the setting aside of dollars on a yearly basis. These set asides include:

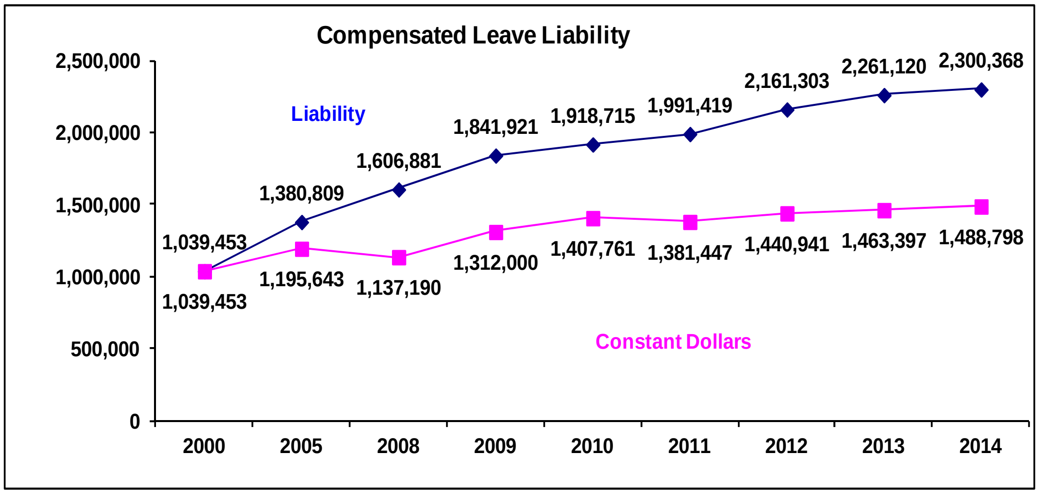
- Communication fund with equipment reserves – current set aside $500,000 for VOIP;
- Computer replacement supported by $150,000 yearly replacement account in PILT;
- Rolling Stock (CORE) fully funded at $612,000 per year plus departments contributing $382,300;
- Copiers funded through per copy charge for a majority of County copiers;
- Bridge Replacement Program funded at $300,000 for FY 2014; and,
- Major building renovation reserves at $0.95 per square foot for the Courthouse, Annex, Guenther, Law and Justice Center and 9-1-1 buildings (total of $800,000 reserved to date).

Areas to be dealt with in future years include – increase of Bridge Replacement program, Law & Justice Replacement and Fair/Park/Recreation Maintenance and Improvement plan.

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.

Compensated Leave Balances

The County's compensated leave balances normally would increase at the rate wages increase. During the previous two (2) years, compensated leave balances increased at a rate higher than the rate wages increased. The increase of 1.73% for the beginning of FY 2014 is slightly below 1.8% for inflation and the 2.85% increase in total wages seen in FY 2014.



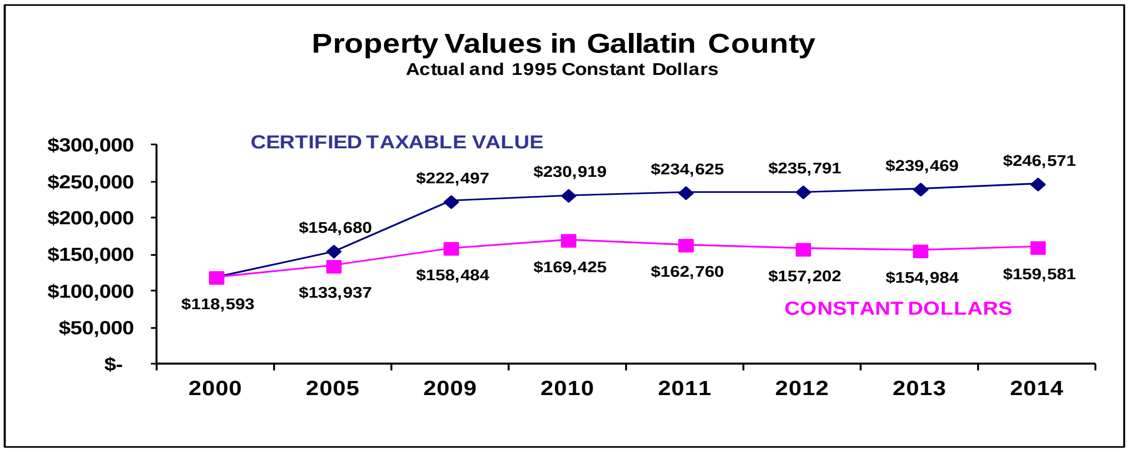
Below are comparisons of the last eight (8) years leave hours and costs. The table shows leave hours and costs have increased, with the largest percentage increase being fringe costs.

	Sick Leave		Annual Leave		Compensatory Leave		Fringe
	Hours	Cost ($)	Hours	Cost ($)	Hours	Cost ($)	Cost ($)
2005	76,070	352,993	46,117	815,774	4,013	72,514	139,528
2009	85,545	467,623	49,494	1,050,371	4,220	90,061	310,660
2010	90,487	491,882	53,198	1,104,376	3,506	67,566	327,595
2011	97,458	549,906	55,180	1,184,305	3,923	78,409	348,683
2012	102,473	588,575	57,334	1,246,812	4,071	81,029	344,704
2013	104,027	602,189	56,324	1,255,609	3,992	88,693	353,877
% of Total	63.30%	30.94%	34.23%	64.51%	2.47%	4.55%	
Change $	1,554	13,614	(1,010)	8,797	(79)	7,664	9,173
%	1.52%	2.31%	-1.70%	0.71%	-1.94%	9.45%	2.66%

Finding: ***WATCH:*** While the graph shows an upward trend, the change for FY 2013 was only 1.74% slightly below inflation. In addition, the County has a limited ability to make significant changes 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 4.55% 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 38% of compensatory liability (1.7% 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 = trend requires a static or decrease in the liability from Compensated Leave in dollars.

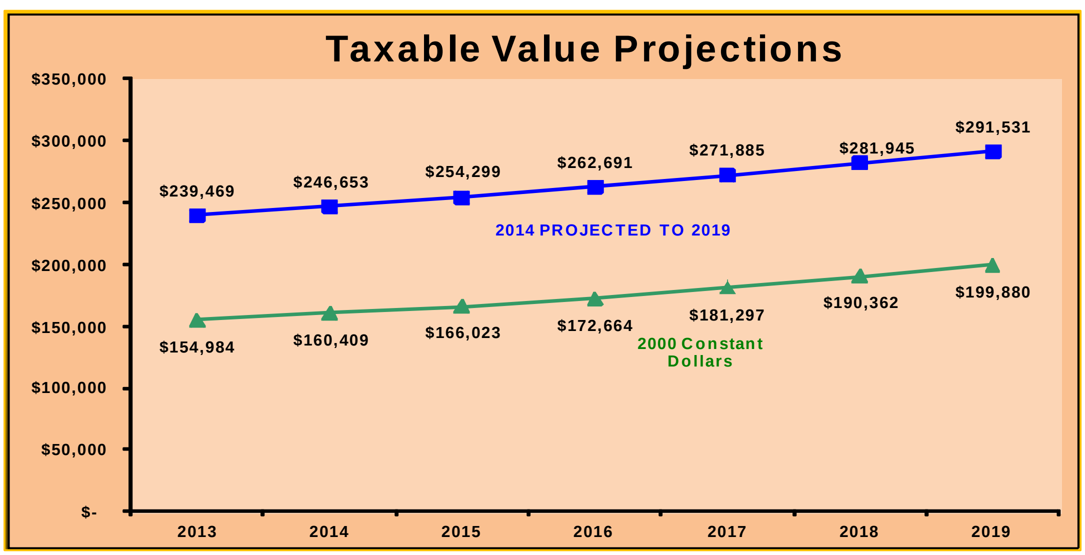
Property Values in Gallatin County



The increase in taxable value from FY 2013 to FY 2014 is 2.96% and is from commercial and residential property values. The following is a comparison of changes in taxable values from FY 2000 to FY 2013:

Fiscal Year	% Change	Fiscal Year	% Change
2000	0.64%	2001	-0.06%
2002	5.57%	2003	7.80%
2004	7.64%	2005	7.17%
2006	8.33%	2007	8.64%
2008	8.72%	2009	6.48%
2010	6.49%	2011	3.43%
2012	2.10%	2013	1.56%
2014	2.96%		

Finding:***Favorable*** – The increase in taxable value in all years except one in the last 13 years shows that the County has a stable tax base, with growth funding increased demands and needs.



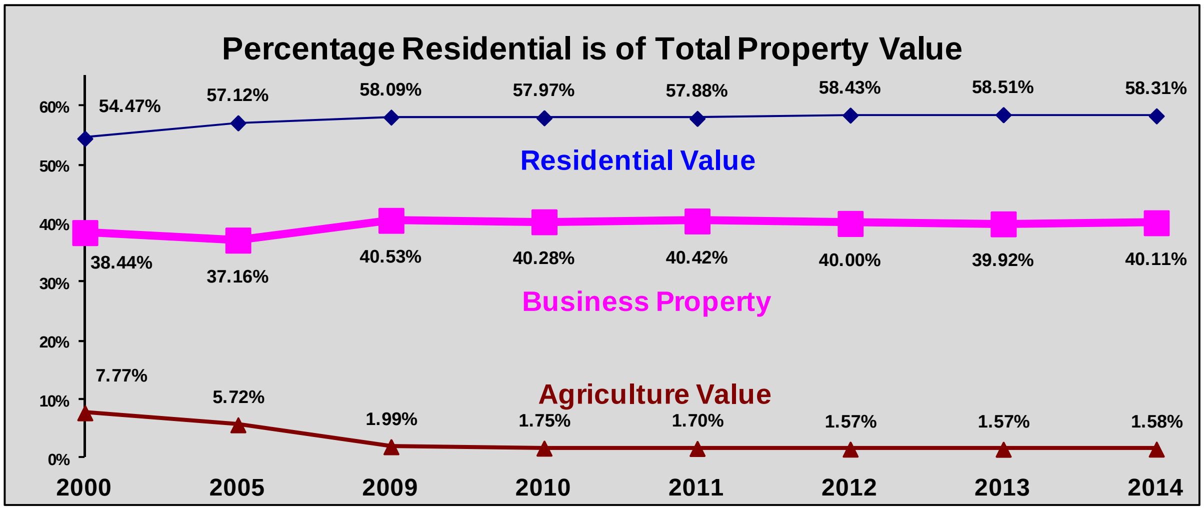
Favorable = an increase in taxable value greater than inflation

Threat *- Projections show growth in taxable values close to inflation, resulting in increases in Taxable Valuation only meeting current needs.*

Residential Property Values

The Legislature has required changes to the method the State of Montana Department of Revenue (DOR) uses to calculate property values. These changes resulted in an increase in the reliance of Gallatin County on taxes generated by Residential Property Taxpayers. The changes also affect the Floating Mill Levy (the Inflationary Millage allowed by state law) resulting in more taxes being paid by residents than before. Residential tax percentages have increased from 54.47% in 2000 to 58.31% in 2014 (FY 1995 (first year information available was at 51.78%). This increase, in addition to the number of mills increasing, further causes an adverse affect on residential property tax payers.

The increase in the County's reliance on residential property values may cause the voters of the County to not support needed local government initiatives in the future.



Finding: ***WATCH*** – The decrease for FY 2014 in the percentage of residential property taxes to the total property taxes shows an estimated change in the County's reliance on residential taxes. The actual percentage will be known when the DOR publishes its biannual report for the Legislature.

Decisions by the County can only peripherally affect costs to residential property owners. One decision the Commission made is to not levy the maximum millage for FY 2007 through FY 2014. 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 3.84% 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 to $1.34 costs for services required by residential development, to the $1.00 in taxes they pay.

Favorable = trend is positive when the percentage Residential Property Values to total Taxable Values stays at a constant percentage or decreases.

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.

The table below 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, 2010, 2011 and 2012.

Real Property Tax - Statistical Analysis

	2005		2010		2011		2012		2013	
Real Estate Taxable Value	**162,161,048**		**226,669,945**		**232,669,945**		**238,750,101**		**245,383,477**	
Residential & N/Q Ag	99,598,380	61%	147,348,705	65%	152,171,894	66%	156,294,969	65%	161,040,467	66%
Commercial and Other	62,562,668	39%	79,321,240	35%	80,198,101	34%	82,455,132	35%	84,342,990	34%
Number Parcels Billed	**39,744**		**49,575**		**49,866**		**49,817**		**48,436**	
Residential & N/Q Ag	33,040	83%	41,114	83%	41,189	83%	41,348	83%		
Commercial and Other	6,704	17%	8,461	17%	8,677	17%	8,469	17%		
Average Parcel Taxable Value	**4,080**		**4,765**		**4,844**		**4,967**		**5,086**	
Residential & N/Q Ag	3,014		3,584		3,694		3,780			
Commercial and Other	9,332		9,375		9,243		9,736			
Average Parcel General Tax	**$ 1,866.95**	**5.60%**	**$ 2,289.87**	**20.97%**	**$ 2,314.80**	**22.29%**	**$ 2,383.32**	**4.08%**	**$ 2,510.04**	
Residential & N/Q Ag	1,379.34	5.66%	1,722.28	3.87%	1,765.48	6.48%	1,813.75	5.31%		
Commercial and Other	4,270.11	17.90%	4,505.21	6.59%	4,416.76	4.50%	4,671.68	3.70%		
MEDIAN MILL LEVY				481.73		473.77		479.83		493.77

The comparison shows that:

1. Real Estate Taxable Values have increased by 8.25% from 2010 to 2013, with Residential moving to 66%, the same as in 2011 and Commercial decreasing to 34% ;
2. The number of bills created decreased by 1,381 from last year, a 02.27% decrease. This could be due to a change in the programs generating the reports;
3. 2013 Average Parcel Taxable Values increased by 5.32% from the decrease in bills and the increase in taxable value; and
4. The Average General Tax increased by $126.72 (5.31%) similar to the increase in valuations, however the number of mills increased to 493.77 with increases in School debt and operating costs.

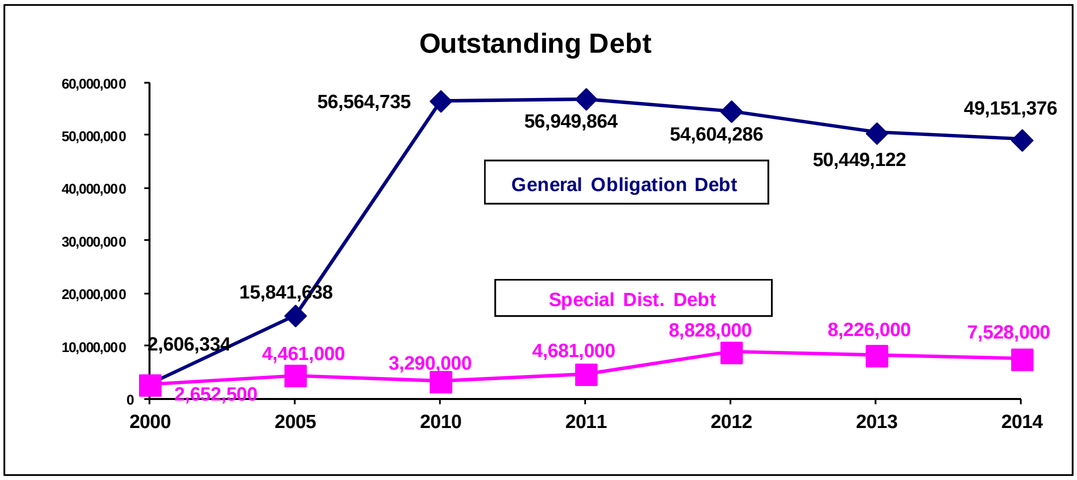
I am unable to make a full comparison to FY 2012 as to Residential & N/Q Ag (Non-Qualifying Agriculture) and Commercial and Other because of a change in the county software that no longer readily provides a comparison report.

Finding: ***Favorable*** – Taxable Value and Average Parcel Tax increased. This growth should continue through the current reappraisal cycle.

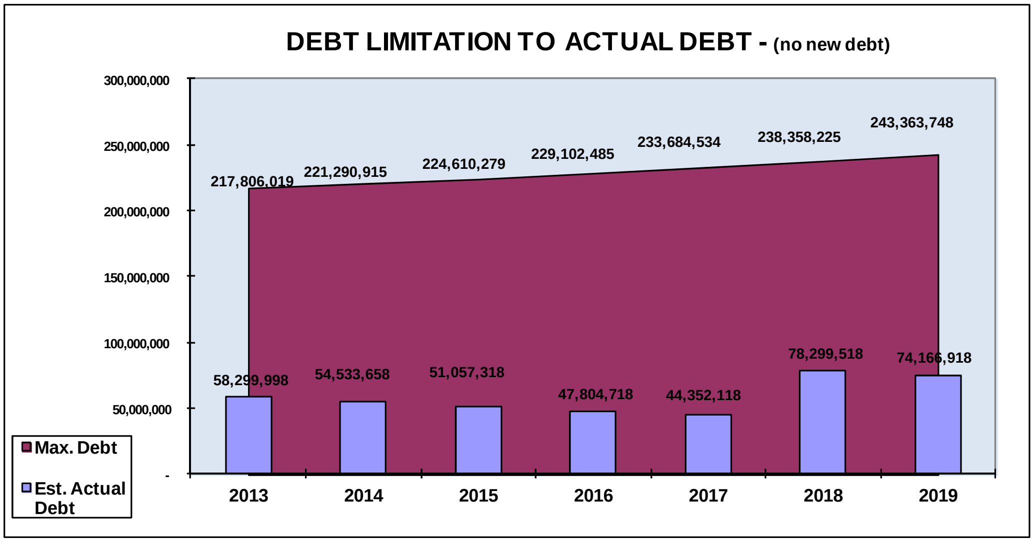
Favorable = occurs when the Average Parcel Taxable Value shows growth in tax base;

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, 2013 the County had $49.2 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 $172,139,915 available as of June 30, 2013.



The County may borrow the $3.2 Million left for Open Space in future years. The voters approved the $32,000,000 Detention Center Bond in November 2008. The County borrowed $1.151 million in July 2014 for the Fair / Year-Round Ice Facility.



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

Favorable = trend occurs when debt and principle payments stay below 20% of budget and actual debt to debt limit allows for adequate emergency and planned borrowing.

Benchmarks

Comparison of Urban Counties

The FY 2014 Trend Analysis, for the sixth 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, from the twelve the County is tracking, have been selected 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%, 5th in 1991, to 9.15%, 4th in 2011, of state population;
- Per Capita Income – Comparison to average of six Urban Counties - 92.46% in 1991 (lowest) to 97.58% of the urban County average (3rd lowest);
- Taxable Values – Comparison to entire state taxable values - moved from 4.49% (2nd lowest) in 1991 to 9.96% of the taxable value of Montana (2nd highest);
- Total Mills – Comparison to average of six Urban Counties – 78.38% (lowest) in 1991 now at 72.61% (lowest) in 2012;
- Total Budget – Comparison to average of six Urban Counties – 81.45% (lowest) in 1991, moved to 91.65% (3rd lowest in 2012);
- Total Taxes - Comparison Average of County Taxes – 84.66% in 2000 (lowest of urban counties) increased to 99.82% in 2012, still the 2nd lowest of urban counties in the state;
- Tax to Budget Ratio – Comparison between counties in the amount taxes are of the total budget – 39.00% in 2000 (lowest) moved up to 68.10% in 2012, third lowest of urban counties;
- Taxable Values per Resident – 2000 taxable value per resident was $1.75 (4th lowest), in 2010 this increased to $2.48 (highest of unban county's);
- Budget $ per Resident – for 2000 $356.00 (fourth lowest), with a change to $536.34 in 2012 (third lowest); and,
- Tax $ per Resident – for 2000 the County levied $138.85 per resident (2nd lowest). In 2012 the County levied $300.83 per resident (3rd lowest).

Tax dollars per resident and the percentage taxes to total budget have been chosen 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 2000 (base year), 2005, 2008, 2009, 2010, 2011 and 2012. Additional years will be added as information becomes available from the U.S. Census Bureau and the MSU Local Government Center.

Comparison of Taxes Per Resident

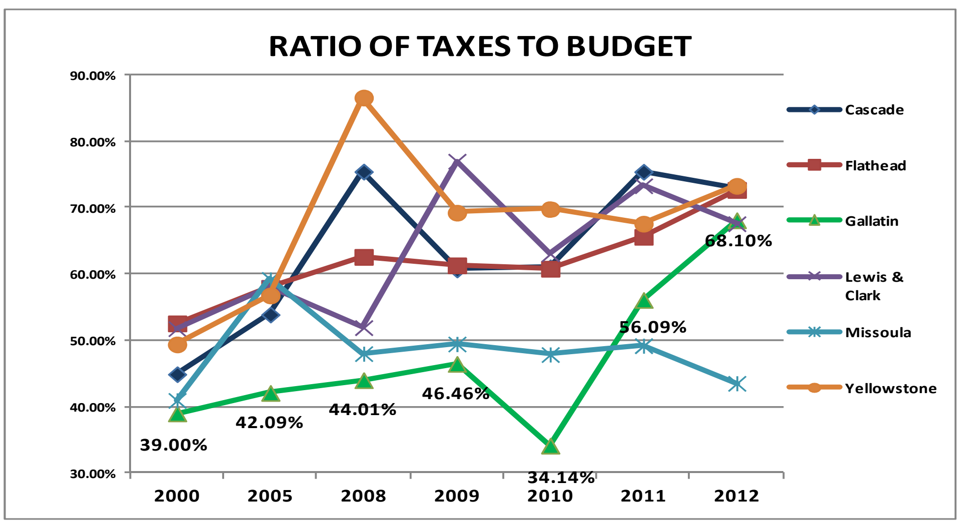
The following table shows a comparison of the six Urban Counties and the amount of taxes required by each resident based on the approved mill levies. The comparison may be distorted in years when counties began new levies for bonds or operations approved by a vote of the people, or when bond levies ended.

	2000	2005	2008	2009	2010	2011	2012
Taxes				**Tax $ Per Resident**			
Cascade	$ 147.06	$ 187.90	$ 237.45	$ 243.46	$ 238.02	$ 279.35	$ 277.62
Flathead	185.45	244.27	317.79	319.02	322.36	355.33	353.89
Gallatin	138.85	185.41	244.49	257.39	289.88	306.97	300.83
Lewis & Clark	161.29	266.71	332.00	442.13	337.69	365.31	360.14
Missoula	176.31	254.85	300.11	307.56	308.02	311.39	309.04
Yellowstone	137.04	195.46	258.80	269.00	274.09	303.45	299.27

This table shows that residents of Gallatin County have seen taxes per resident increase by $161.98 over 13 years. This compares to inflation during the same period requiring taxes to increase to $185.13. During this time taxpayers approved increases in taxes for 1) Open Space Bond I and Open Space Bond II ($12.86) 2) Dispatch 9.00 mills ($24.03), and 3) Detention Center Bond ($24.62) for an estimated voter approved increase of $61.51. The combination of inflation and voter approved taxes would have the County resident paying $246.64 each compared to the $300.83 of taxes for 2012.

Favorable = Gallatin County being in the lowest 1/2 of Urban County's

The next area used to compare Gallatin County to other counties is the percentage taxes are to the approved budgets for each county. Funding for approved budgets comes from three 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 miscellaneous incomes. The second is cash on hand not needed for reserves. The third, of course, is taxes.



The graph above shows the percentage taxes are to the total budget of the six urban counties. As can be seen, Gallatin County starts at 39.00% in 2000 and ends at 68.01% in FY 2012. Gallatin County has the lowest % of taxes to budget in all years, until FY 2011 when we are the second lowest. However, 2010 was down with the inclusion of expenses for the Detention Center and 2011 is up because of debt and operating costs of the Detention Center.

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

Ideas, Thoughts & Recommendations

A financial plan needs to include possible methods to improve the current financial condition with a goal of having more Favorable Indicators over time. Indicators in a 'Watch' or 'Unfavorable' status have been identified and ideas, recommendations and thoughts follow on how or if the County can mitigate the indicator into a 'Favorable' status.

FINANCIAL INDICATORS: Ideas - Thoughts

- Per Capita Revenues – 'Unfavorable' – The County should increase revenues by a minimum of $640,000 to offset losses from FY 2010 to FY 2012. To accommodate this the County can:
    - Review all non-tax revenues to ensure that all appropriate fees are being charged;
    - Decrease the approval of grant subsidies of Indirect Cost Allocation Program (ICAP);
    - Increase appropriate taxes for Permissive Medical Levy and Transportation (Road / Bridge).
- One-Time Revenues – 'Watch' – The County can eliminate usage of one-time revenues (which includes cash re-appropriated) for ongoing operating expenses. Dedication of these revenues through approved policy requiring all one-time revenues to be used for infrastructure or one-time contractual expenses.
- Employees/Capita – 'Watch' – At the present time, there is no apparent need to increase staffing. It appears the County has 'RIGHT SIZED' staff based on the new economic reality. However, reductions in staff may have to occur if non-tax revenues continue to be below expectations for FY 2014 forward.
- Sworn Officers/Capita – 'Unfavorable' – The current deputy staffing, while not ideal, is meeting the current needs of the county as represented by low crime statistics. Response times would be improved if additional officers were hired but a significant reduction in response would require a large increase in staff. The County should strive to maintain an officer to resident ratio of 1 officer to 2,150 to 2,250 residents or less.
- Fringe Benefits – 'Unfavorable' – the County can only control two areas of fringe benefits. These are 1) Worker's Compensation - the County has controlled this area, with the mod factor being 0.75%. Future reductions in costs are dependent on continuation of low utilization and changes in MACO's philosophy, and 2) Employee Health Insurance Premiums – the County has to balance employee costs with maintaining competitiveness for recruitment. In FY 2012, changes to the plan mitigated costs. This may mean cost retention by employees through life style actions, changes in deductibles and possibly premium increases, but should keep the County's plan competitive with local plans.
- Compensated Absences – 'Unfavorable' – As previously stated the County has very limited control over this trend.
- Residential Property Values to Total Property Values – 'Unfavorable' – this is controlled by the State, however, the County should highlight the low taxing residents have compared to other large counties and the low percentage tax revenues are to the total budget.

FINANCIAL CHALLENGES – Recommendations:

- Maintain Infrastructure
    - I-90 Interchange – fully funded – Fund payment of $2 million loan in FY 2014 forward;
    - Bridge Replacement – Establish funding from Newly Taxable Property starting in 2013 – goal to have $500,000 per year – similar to 'CORE';
- Criminal Justice System – new buildings – Commission authorize up to 2 mills ($500,000) per year be earmarked for building starting in 2015;
- Maximize Growth in area – Use all avenues to maintain and add business opportunities;
- Implement Growth Policy – Continue funding;
- Retain and Hire Qualified employees – Maintain Health Insurance Premiums by not charging future cost increases on current budgets, but authorize limited increase in levy; and,
- Equalize Revenues to Expenses – (PAY AS YOU GO) Increase revenues and reduce costs to balance with ongoing revenues
    - Create policy to dedicate re-appropriated cash to infrastructure, wherever possible.

City Of Bozeman Construction Permits

from Building Permit Report

	2005	2009	2010	2011	2012	2013
Single Family						
Units	265	50	70	87	223	**256**
Value in Millions	$62.20	$42.70	$14.80	$21.10	$38.54	**$99.3**
Multi-Family						
Buildings	64	5	2	0	11	**26**
Units	346	19	17	0	28	**419**
Value in Millions	$18.50	$2.20	$2.10	0	$16.3	**$36.92**
Commercial						
Building	34	40	3	4	11	**19**
Value in Millions	$49.30	$2.10	$2.20	$3.60	$11.17	**$51.79**
Addition/Remodel						
Residential Units		494	1,939	895	308	**222**
Value		$6.50	$17.90	$10.30	$4.08	**$2.96**
Commercial Units		100	489	236	196	**129**
Value		$6.70	$12.70	$15.30	$11.13	**$10.79**
Median Price	$300,000	$270,000	$262,000	$252,250	$278,750	**$278,750**

COUNTY:	GALLATIN	YELLOWSTONE	MISSOULA	FLATHEAD	MONTANA
Median Age, 2010	32.5	38.3	34.3	41.2	39.8
Percent 65 or Older, 2010	9.5%	14.1%	11.4%	14.4	14.8
Bachelor's Degree or Higher, 2010	44.4%	29.4%	39.0%	27.6%	28.2%
Median Household Income, 2010	$50,239	$47,980	$42,399	$43,585	$43,335
Percent of Population w/o Health Insurance	13.7%	14.9%	16.3%	19.4%	17.0%

SOURCES: American Community Survey, U.S. Census Bureau - Research and Analysis Bureau, Montana Department of Labor and Industry

County Planning / Zoning Activity

from County Planning:

	FY 01	FY 05	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Preliminary Plats	18	36	38	33	21	11	11	0	5
Land Use Permits	288	454	200	172	122	139	148	160	189
Final Plats	21	19	25	27	10	12	8	0	7
Concept Reviews			125	104	90	70	58	50	73
Zoning Applications			269	59	57	52	82	55	71
Subdivision Applications			177	93	62	60	45	40	37
Subdivision Exemptions Processed						121	59	75	55
Flood Plain Applications						36	26	60	21

Populations						ESTIMATED		
County	2000	2005	2010	2011	2012	2015	2020	2025
Yellowstone	129,530	136,543	147,972	148,450	148,450	152,924	158,839	166,632
Missoula	95,168	102,239	109,299	110,500	111,724	116,076	123,553	129,872
Gallatin	67,831	80,748	89,513	90,788	92,171	97,197	105,568	112,302
Flathead	74,471	82,601	90,928	91,768	92,778	96,422	102,929	108,676
Cascade	80,357	81,822	81,327	82,320	82,973	85,673	90,176	94,147
Lewis & Clark	55,716	58,150	63,395	64,412	65,101	67,068	70,208	72,772
Ravalli	36,070	39,940	40,331	40,471	40,614	41,202	42,450	43,679
Silver Bow	34,606	33,093	32,602	34,229	34,245	34,406	35,014	35,542

City	2000	2005	2010	2011	2012	2015	2020	2025
Billings	91,683	98,721	104,783	105,572	106,361	105,572	106,361	107,150
Missoula	57,249	62,923	68,105	68,008	67,911	68,008	67,911	67,814
Great Falls	56,697	56,338	57,525	55,799	54,073	55,799	54,073	52,347
Bozeman	27,686	33,535	39,321	39,200	39,079	40,847	42,373	43,899
Butte	33,892	32,393	31,691	31,589	31,487	31,589	31,487	31,385
Helena	25,898	27,383	29,487	29,623	29,759	29,623	29,759	29,895
Kalispell	14,900	18,480	21,120	21,058	20,996	21,058	20,996	20,934
Belgrade	5,728	7,033	8,044	7,903	7,762	8,185	8,326	8,467

Montana Urban County Comparisons:	2000	2005	2008	2009	2010	2011	2012
Populations	**Comparison to entire state population**						
Cascade	8.90%	8.74%	8.55%	8.51%	8.22%	8.20%	8.20%
Flathead	8.24%	8.83%	9.07%	9.28%	9.19%	9.15%	9.15%
Gallatin	7.51%	8.63%	9.12%	9.35%	9.05%	9.15%	9.15%
Lewis & Clark	6.17%	6.21%	6.26%	6.41%	6.41%	6.44%	6.44%
Missoula	10.54%	10.93%	11.04%	11.24%	11.05%	11.03%	11.03%
Yellowstone	14.34%	14.59%	14.61%	14.99%	14.96%	15.03%	15.03%
Per Capita Incom	**Comparison to average 6 urban counties Per Capital Income**						
Cascade	101.57%	99.35%	115.44%	115.26%	102.12%	105.46%	104.79%
Flathead	95.60%	93.79%	118.01%	110.37%	93.90%	93.68%	95.29%
Gallatin	97.71%	98.23%	121.14%	113.35%	94.84%	97.75%	97.58%
Lewis & Clark	101.05%	101.36%	122.60%	120.66%	105.75%	103.96%	103.57%
Missoula	99.48%	101.06%	112.65%	110.77%	95.89%	94.52%	93.48%
Yellowstone	104.58%	106.21%	127.87%	122.82%	107.50%	104.64%	105.30%
Taxable Values	**County - Compared to entire state Taxable Values**						
Cascade	5.64%	6.14%	5.94%	5.74%	5.81%	5.64%	5.64%
Flathead	7.16%	8.83%	9.50%	9.35%	9.97%	9.74%	9.71%
Gallatin	6.24%	8.69%	9.64%	9.73%	10.30%	10.10%	9.96%
Lewis & Clark	4.61%	4.94%	4.99%	6.54%	5.06%	4.95%	4.88%
Missoula	7.88%	9.09%	9.04%	8.78%	8.81%	8.43%	8.22%
Yellowstone	11.51%	116.87%	12.07%	12.33%	12.68%	12.70%	12.56%
Total Mills	**Comparison to average of 6 urban counties Total Mills**						
Cascade	112.69%	102.05%	103.99%	101.68%	99.71%	107.75%	102.20%
Flathead	103.70%	93.14%	92.25%	89.15%	88.03%	88.57%	90.97%
Gallatin	81.16%	70.22%	70.29%	69.66%	75.38%	73.88%	72.61%
Lewis & Clark	104.91%	127.97%	126.70%	122.04%	126.74%	126.25%	127.50%
Missoula	114.57%	116.87%	111.50%	110.91%	114.40%	108.21%	109.80%
Yellowstone	82.96%	89.76%	95.27%	92.07%	95.74%	95.34%	96.91%
Total Budget	**Comparison to average of 6 urban counties Total Budgets**						
Cascade	109.14%	90.95%	64.72%	77.26%	66.42%	67.72%	68.39%
Flathead	108.97%	111.06%	110.77%	109.29%	100.92%	110.47%	105.25%
Gallatin	100.15%	113.41%	121.86%	117.28%	159.12%	111.72%	91.95%
Lewis & Clark	71.98%	85.33%	96.34%	83.34%	71.07%	71.61%	79.60%
Missoula	169.88%	140.34%	166.01%	158.28%	147.22%	155.70%	179.44%
Yellowstone	149.02%	149.86%	105.02%	131.82%	121.67%	150.50%	143.76%
Total Taxes	**County - Compared to Average County's Total Taxes levied**						
Cascade	106.23%	89.21%	85.25%	79.19%	76.97%	83.73%	79.51%
Flathead	124.15%	117.08%	121.05%	113.17%	116.55%	118.82%	121.93%
Gallatin	84.66%	86.87%	93.64%	92.04%	103.18%	102.73%	99.82%
Lewis & Clark	80.78%	89.99%	87.35%	108.40%	85.12%	86.05%	85.77%
Missoula	150.84%	151.19%	139.18%	132.23%	133.87%	125.61%	124.55%
Yellowstone	159.57%	154.86%	158.79%	154.17%	161.27%	166.78%	167.94%
Tax to Budget Ratio	**Ratio of Taxes to Budget**						
Cascade	**44.90%**	**53.89%**	**75.44%**	**60.68%**	**61.01%**	**75.41%**	**72.92%**
Flathead	**52.56%**	**57.92%**	**62.58%**	**61.30%**	**60.80%**	**65.61%**	**72.67%**
Gallatin	**39.00%**	**42.09%**	**44.01%**	**46.46%**	**34.14%**	**56.09%**	**68.10%**
Lewis & Clarl	**51.77%**	**57.94%**	**51.93%**	**77.00%**	**63.06%**	**73.30%**	**67.59%**
Missoula	**40.96%**	**59.19%**	**48.01%**	**49.46%**	**47.87%**	**49.21%**	**43.54%**
Yellowstone	**49.40%**	**56.77%**	**86.59%**	**69.24%**	**69.79%**	**67.59%**	**73.28%**

		Montana Urban County Comparisons:						
		2000	2005	2008	2009	2010	2011	2012
Cascade	Population	80,357	81,822	81,784	82,178	81,327	81,837	81,837
	Per Cap Income	23,721	27,523	34,417	36,533	37,437	38,790	39,448
	Taxable Value	107,197	109,296	121,155	123,562	125,892	129,049	133,438
	Total Mills	110.24	140.67	160.29	161.92	153.76	177.15	169.12
	Budget (16 fnds	26,316,883	28,529,625	25,743,492	32,970,110	31,727,842	30,315,164	30,946,696
	Taxes	11,817,397	15,374,668	19,419,935	20,007,159	19,357,154	22,861,030	22,567,035
	FTE's	430	464	483	522	500	487	420
	Road Miles	1,495	1,322	1,411	1,522	1,520	1,522	1,519
Flathead	Population	74,471	82,601	86,766	89,624	90,928	91,301	91,301
	Per Cap Income	22,327	25,981	35,185	34,982	34,424	34,458	35,875
	Taxable Value	136,131	157,165	193,906	201,407	215,926	222,786	229,890
	Total Mills	101.45	128.38	142.20	141.96	135.75	145.62	150.54
	Budget (16 fnds	26,275,025	34,837,041	44,057,994	46,640,608	48,206,921	49,447,715	47,622,828
	Taxes	13,810,490	20,176,843	27,573,433	28,591,738	29,311,955	32,442,097	34,607,641
	FTE's	369	477	504	520	514	516	515
	Road Miles	2,147	2,214	2,676	2,784	2,797	2,784	2,780
Gallatin	Population	67,831	80,748	87,243	90,343	89,513	91,377	91,377
	Per Cap Income	22,820	27,211	36,117	35,926	34,769	35,953	36,735
	Taxable Value	118,616	154,680	196,866	209,639	223,244	230,919	235,791
	Total Mills	79.40	96.79	108.35	110.92	116.23	121.47	120.16
	Budget (16 fnds	24,147,807	35,573,754	48,467,506	50,048,860	76,006,481	50,008,594	41,606,691
	Taxes	9,418,110	14,971,477	21,330,431	23,253,158	25,947,650	28,049,731	28,332,647
	FTE's	369	438	454	461	459	472	481
	Road Miles	1,392	1,393	1,653	1,646	1,737	1,645	1,636
Lewis & Clark	Population	55,716	58,150	59,929	61,942	63,395	64,318	64,318
	Per Cap Income	23,600	28,079	36,553	38,243	38,771	38,238	38,990
	Taxable Value	87,562	87,919	101,877	140,921	109,542	113,195	115,380
	Total Mills	102.63	176.40	195.30	194.34	195.43	207.57	210.99
	Budget (16 fnds	17,357,001	26,764,943	38,316,951	35,565,951	33,950,732	32,055,314	36,019,497
	Taxes	8,986,488	15,508,912	19,896,578	27,386,587	21,407,793	23,495,886	24,343,995
	FTE's	316	355	355	417	431	410	408
	Road Miles	1,350	1,256	1,319	1,514	1,538	1,514	1,524
Missoula	Population	95,168	102,239	105,638	108,623	109,299	110,138	110,138
	Per Cap Income	23,234	27,997	33,587	35,108	35,156	34,766	35,190
	Taxable Value	149,709	161,743	184,460	189,153	190,855	192,774	194,561
	Total Mills	112.08	161.09	171.87	176.62	176.40	177.91	181.70
	Budget (16 fnds	40,962,540	44,020,749	66,030,622	67,546,446	70,325,159	69,696,812	81,195,515
	Taxes	16,779,385	26,055,180	31,703,140	33,408,203	33,666,822	34,296,422	35,351,734
	FTE's	575	640	666	732	679	613	610
	Road Miles	1,558	1,726	1,906	1,837	1,838	1,837	1,828
Yellowstone	Population	129,530	136,543	139,766	144,797	147,972	150,069	150,069
	Per Cap Income	24,425	29,421	38,124	38,927	39,412	38,488	39,640
	Taxable Value	218,717	215,714	246,297	265,673	274,709	290,515	297,247
	Total Mills	81.16	123.72	146.86	146.61	147.64	156.75	160.37
	Budget (16 fnds	35,931,340	47,007,940	41,771,650	56,253,282	58,117,584	67,370,254	65,047,930
	Taxes	17,751,072	26,688,136	36,171,177	38,950,319	40,558,037	45,538,226	47,669,445
	FTE's	446	449	427	430	430	431	426
	Road Miles	1,560	1,351	1,478	1,583	1,573	1,583	1,587
Average 6 Largest County's / STATE	Population	903,329	935,784	956,648	966,224	989,415	998,199	998,199
	Per Cap Income	23,355	27,702	29,815	31,695	36,662	36,782	37,646
	Taxable Value	1,900,647	1,779,929	2,041,351	2,153,979	2,166,431	2,287,177	2,366,512
	Total Mills (avg)	97.83	137.84	154.15	159.24	154.20	164.41	165.48
	Budget (avg)	24,112,286	31,367,405	39,774,121	42,675,858	47,767,813	44,763,115	45,248,744
	Taxes (avg)	11,124,257	17,233,425	22,779,127	25,265,001	25,148,709	27,303,727	28,384,243
	FTE's	6,256	6,440	6,627	7,055	7,055	6,550	6,798
	Road Miles (avg	1,584	1,544	1,741	1,814	1,834	1,814	1,812