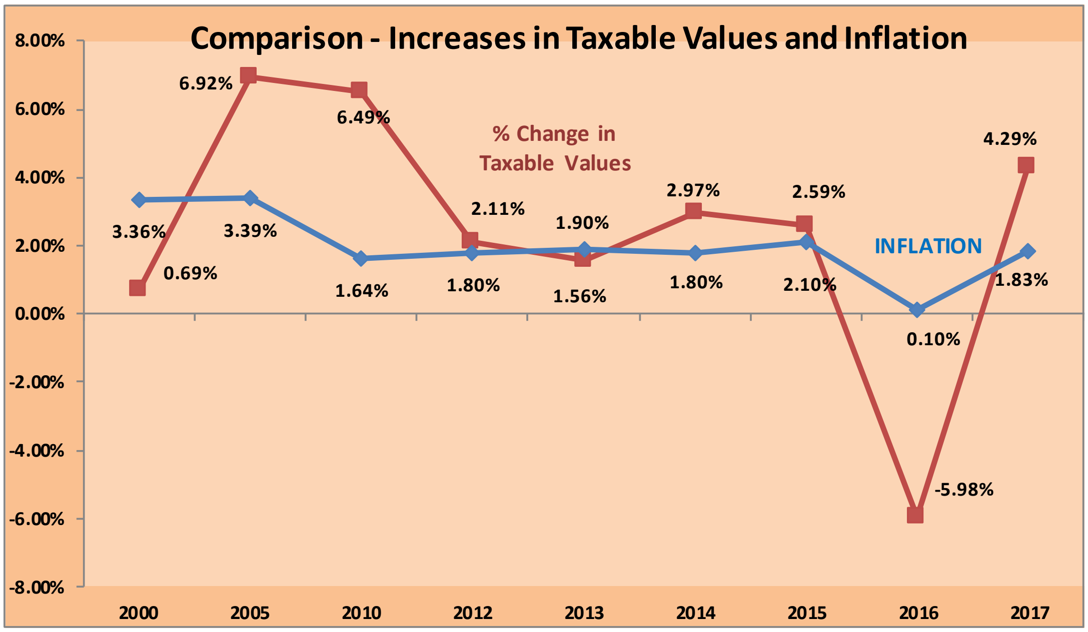
FY 2017

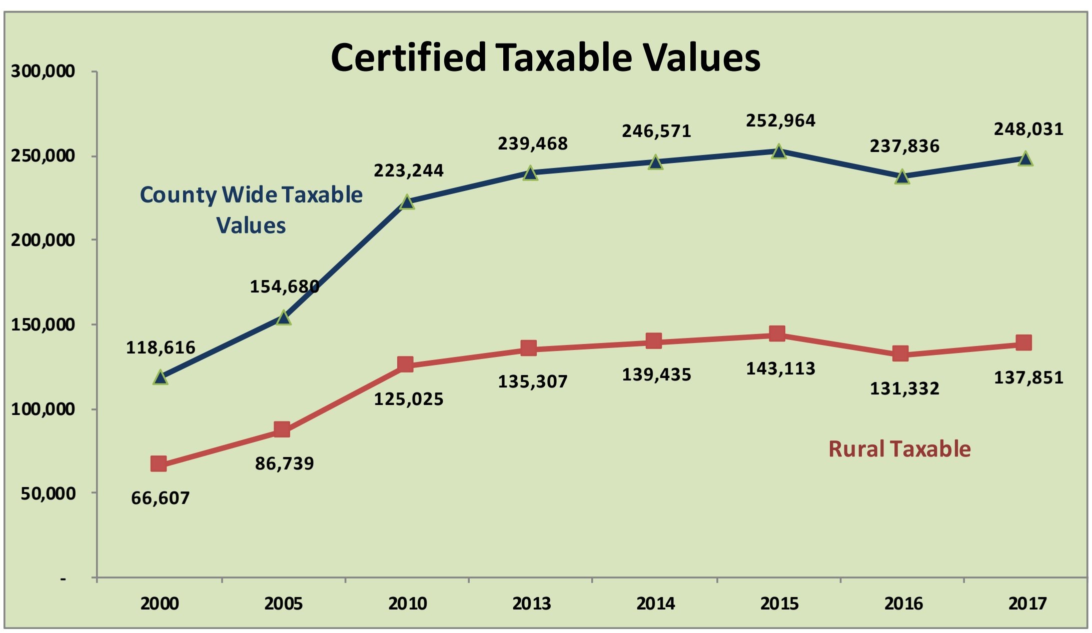
Financial Trend Analysis and Financial Forecast

County of Gallatin, Montana

Tuesday, February 28, 2017

Changes in Certified Taxable Value





Gallatin County Finance Office

Ed Blackman, Finance Director

FY 2017 FINANCIAL TREND ANALYSIS
Gallatin County, Montana

February 28, 2017

Transmittal Letter

Gallatin County Commissioners, Don Seifert, Joe P. Skinner, R. Stephen White; and
County Administrator, Jim Doar
311 West Main, Room 306
Bozeman, MT 59715

Dear Commissioners and County Administrator,

The Gallatin County Commission has adopted a mission statement utilizing strategic planning and performance measures when developing both long and short-term financial goals. That mission continues with the updating of Performance Measures process this year with the intention being full implementation of the new measures by FY 2018 or FY 2019. The plan is to have a dashboard system available to the public and county staff showing measurements, budget, performance and pertinent activity. In an effort to support this plan, I am submitting the FY 2017Financial Trend Analysis for your consideration and approval.

The objective of this document is to provide an analysis of past and present financial conditions, provide forecasts that identify favorable opportunities and unfavorable challenges facing Gallatin County. The plan offers feasible alternatives when concerns are identified and available. The goal of this document is to support the Commission in making informed budgetary decisions in FY 2018 and for the foreseeable future that align with your dedication in meeting the goals in the mission statement.

The FY 2017 Financial Trend Analysis includes consideration of the County's ability to sustain current service levels and the County being resilient to handle impacts of outside factors. To maintain a financially sound and sustainable government the County Commission adopted Resolution 2015-021 Establishing Gallatin County's Budget Policy on Sustainable Budget, Resilient Government and Operating Reserves. For the purposes of showing, the County as complying with this resolution we track four indicators determine the County's sustainability. They are:

- One-Time Revenue/Cash used for Operating expenses are below 5% for General & Public Safety Funds;
- Operating Reserve Policy is followed;
- Tax increases are kept to a minimum, following Commission public hearings on the need for increasing taxes; and,
- Outstanding debt (bond, loan, leases) is below 50% of the amount allowed by law.

This analysis uses fiscal year 2005 as a base year, followed by fiscal years 2010 and 2011-2016, in addition to fiscal year 2017 year-to-date. It also covers many different trend indicators, other Montana county comparisons and benchmarks to demonstrate the financial health of Gallatin County. Findings show the County to be in **a FAVORABLE position, because 19 of 23 indicators** are in a favorable position. This includes the two trends added in FY 2015 - 1) Sustainable Budget and 2) Resilient County.

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 is created with the capable, competent and timely support of other County departments and offices.

Edward G. Blackman
County Finance Director

Financial Trend and Forecast Summary

The Trend Analysis and Forecast is prepared to depict the financial condition quantitatively through the utilization of financial trend monitoring and forecasting. The County current analyzes 23 trends using Favorable, Watch and Unfavorable rankings. The indicators continue to include Sustainable Budget/Resilient County continue as indicators for FY 2017.

FINANCIAL TRENDS:

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
- **Concepts/Benchmark** – Taxes per resident, percent taxes to budget, sustainability and resiliency.

The County's adopted financial policies, as well as relevant national standards, are used in the analysis of trend and forecasts. Information from the County's audited financial statements and the approved budget document are used when calculating trends and forecasts. The years reviewed are from 1970 through the current fiscal year, with only 2000 through 2017 shown. Trend analysis are based primarily on annual reports and budgets from 2000-2001 through 2015-16, along with the first 6 months of actual revenues and expenses for FY 2017 being the basis for forecasts.

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 a rating given to trends that adhere to the County mission, vision, goals, objectives and policies. A favorable overall rating requires 16 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 15 indicators.
- **Unfavorable** is a downward or negative trend rating that need attention 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 2017 budget. The table recaps ratings by indicator and year.

Indicators:	FY 2000	FY 2005	FY 2010	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues:								
Per Capita	Fav.	Fav.	Fav.	Watch	Watch	Watch	Watch	Fav.
Property Tax	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
License and Permits	Fav.	Watch	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.
One-Time Revenue	Fav.	Fav.	Watch	Fav.	Fav.	Fav.	Fav.	Fav.
Inter-Government	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Utilization of Cash	Fav.	Unfav.	Fav.	Fav.	Fav.	Unfav.	Unfav.	Unfav.
Operating Reserves	Watch	Unfav.	Watch	Fav.	Fav.	Fav.	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.	Unfav.	Fav.	Fav.	Fav.
Sworn Officers/Capita	Unfav.	Unfav.	Unfav.	Unfav.	Unfav.	Watch	Watch	Fav.
Fringe Benefits	Unfav.	Unfav.	Fav.	Unfav.	Unfav.	Unfav.	Watch	Watch
Capital Outlay	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Compensated Absences	Unfav.	Watch	Unfav.	Unfav.	Watch	Watch	Watch	Watch
Economic:								
Property Values	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Watch	Fav.
Residential Values to total	Unfav.	Unfav.	Fav.	Unfav.	Watch	Watch	Watch	Fav.
Property Tax Analysis		Fav.	Watch	Fav.	Fav.	Fav.	Watch	Fav.
Debt	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Population	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Concepts / Benchmark:								
Taxes per resident			Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Percent Taxes to Budget			Fav.	Fav.	Fav.	Watch	Watch	Watch
Sustainable Budget						Fav.	Fav.	Fav.
Resilient County						Fav.	Fav.	Fav.
TOTAL FAVORABLE	**12**	**11**	**14**	**15**	**15**	**16**	**14**	**19**

Factors determining a Favorable Rating for each Indicator are:

- Revenues per Capita – an increase in revenues per capita shows growth;
- Property Tax Revenue – an increase in dollars generated shows growth in the County tax base;
- License and Permit Revenue – an increase greater than inflation, shows growth in the economy;
- One Time Revenue – decrease or status quo in one-time revenue used for operating expenses indicates current revenues ability to support current expenses;
- 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 indicates the County is living within its means;
- 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 as a % of budget is stable or decreasing 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;
- Sworn Officers per Capita – goal 1 'Available' officer per 2,250 residents, or less;
- Fringe Benefits – decrease or status quo of percentage benefits are to salaries;
- Capital Outlay – budget without projects and percentages see increase for two years or more;
- Compensated Absences – decrease or status quo, after wage adjustments, compared to previous years;
- Property Values – increase in property values greater than rate of inflation;
- Residential values – maintain or decrease percentage residential values are of total taxable value;
- Property Tax 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, with debt below 1% of Assessed Value; and,
- Population – increase in population shows growth in area.

The rating of these factors for FY 2016-17 is **'FAVORABLE'** **–** The nineteen indicators show 15 are Favorable, 1 is in a Watch status and 1 indicator is Unfavorable.

Benchmarks / Concepts

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. Gallatin County has dropped to the 3rd lowest urban county from the 2nd;

Concepts were added in FY 2015 consistent with recommendations on best practices and the Commission approval of Operating Reserve, Sustainable Budget and Resilient County Policy. The following are how the County has determined these concepts:

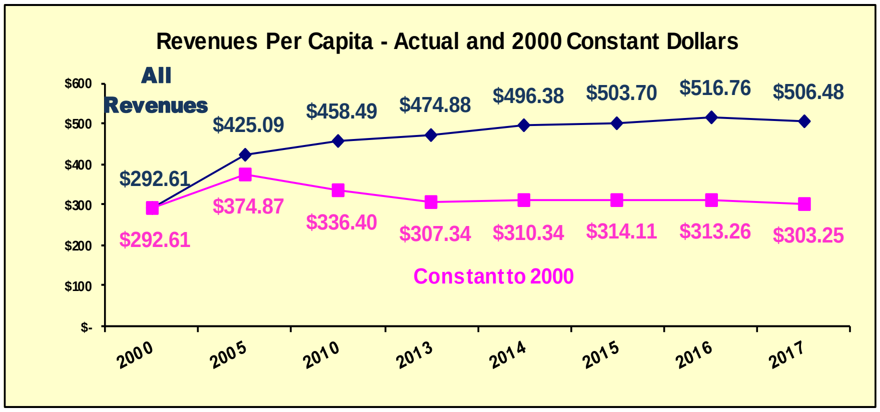
3) Sustainable Budget – per policy - is when One-Time Revenue and Cash are used for 5% or less of Ongoing Operating expenses, increases in taxes for County Operating funds are minimal and outstanding debt is less than 50% of the amount authorized by statute; and,

4) Resilient County – per policy – is when the County maintains Operating Reserves in the General plus Public Safety Funds at a combined 12%; when a minimum of 5% of taxes are not levied, except for emergency and that tax increases shall not exceed the prior year's inflationary cost by more than 1%.

The rating of ALL three types of indicators is **'FAVORABLE'** - The nineteen original Indicators plus the two benchmark indicators plus the two new concepts show 19 are Favorable, 3 are in a Watch status and 1 indicator is Unfavorable.

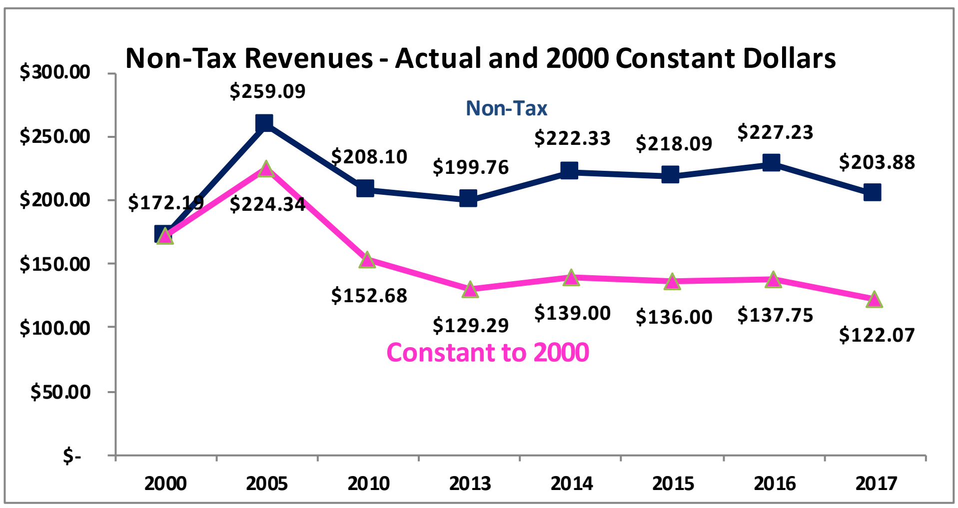
Revenues Per Capita

Finding: ***FAVORABLE*** – Revenues per capita reflect an increase for FY 2017 for Budgeted Revenue and in constant dollars. Budgeted non-tax revenues per capita decreased to $198.04 for FY 2017, significantly below revenues per capita in FY 2005. However, I have ranked revenues overall as favorable because projections for year-end show non-tax revenues at $230. Tax Revenues per capita continue to increase. Because of the increase in Detention Inmate and Land Use revenues above the amount budgeted it is projected that combined Tax and Non-Tax revenues will increase enough to bring per capita revenues up to the amount received in FY 2016.



The chart shows an increase in actual dollars generated per capita from FY 2000 through FY 2016. Constant dollars, using 2000 as the base year, show a change year to year, with decreases through 2013 and increases in 2014 and 2015, with 2016 continuing the growth in revenues. The decrease in constant dollars is mostly from taxes for debt decreasing.

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 $3,780,756 in FY 2016, a 4.44% increase in from FY 2016 and 174.60% from FY 2000.
- Charges for Services – include Clerk and Recorder, Clerk of District Court, Sheriff Services etc. and have increased to $11,328,295 in FY 2016, a 126% increase from FY 2000. FY 2017 receipts are comparable to FY 2016.
- Fines and Forfeitures – Justice Court revenues increased to $634,828 for FY 2016, continuing the increases of FY 2014 but still 16% below the high in FY 2009 ($755,000). The decrease, from FY 2009, comes from bond forfeitures split with the state. FY 2017 appears to be trending upward with a $5,000 increase over budget possible.
- Other revenues that have increased include Investment Interest by 37.25% for the General Fund and Local Option MV fees have increased to $1.9 million that is a 10.52% increase from last year.

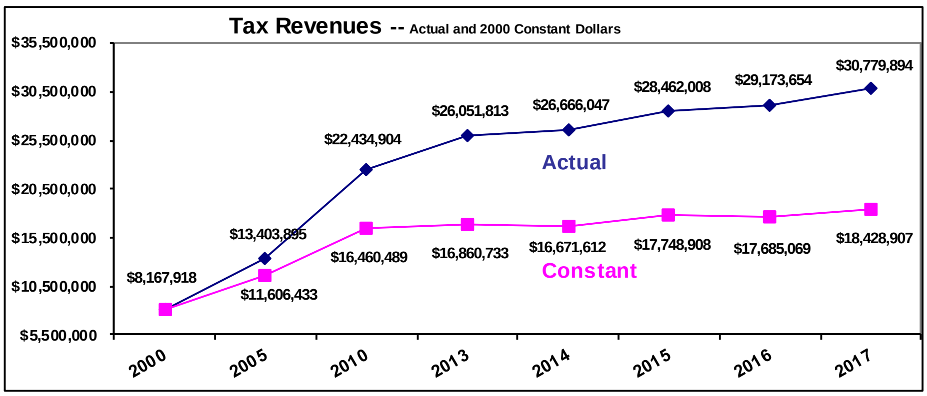
Favorable is a trend showing a gradual increase in the actual and constant dollars spent by each resident, which indicates that, the County is maintaining or improving non-tax revenue generation.

Property Tax Revenues

The Tax Revenues chart shows actual dollars collected for FY 2000 through FY 2015, with FY 2016 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:

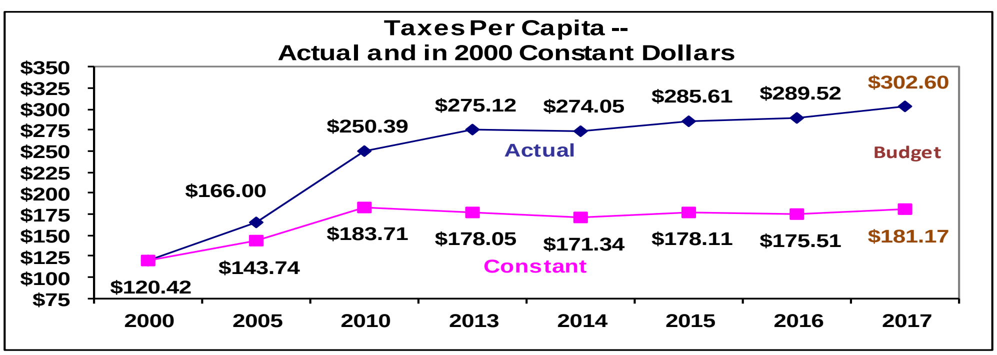
2005 & 2006	Used New Construction for operations and maximized millage to maintain service
2010	Did not use $1,080,636 in County operational and $39,820 in Road (Rural) taxes
2011	Did not use $1,438,578 in County operational and $92,188 in Road/Library taxes
2012	Did not use $1,594,159 in County operational 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
2015	Did not use $2,190,335 in County operational and $22,697 in Road/Library taxes
2016	Did not use $2,339,222 in County operational and $ 148 in Road/Library taxes
2017	Did not use $2,322,733 in County operational and $ 356 in Road/Library taxes

Since FY 2010, the County Commission has not levied $14,805,574 in taxes.



Finding: ***Favorable*** – Property Tax Revenues have increased except for decreases associated with debt for 16 years and are budgeted to increase for FY 2017. With the ability to levy, the unused taxes from FY 2017 this positive trend should continue for FY 2018. We continue to see an increase in constant dollars for FY 2017. The improvement in the local economy exceeds most expectations, with construction significantly improving in calendar year 2016. This will positively affect the County's valuation for the FY 2018 and FY 2019 budget cycles.

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 $60.75 more in taxes than 17 years ago, ($3.57 per year). Actual tax dollars paid increased by $182.18 ($10.72 per year) from 2000 through 2017.

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.

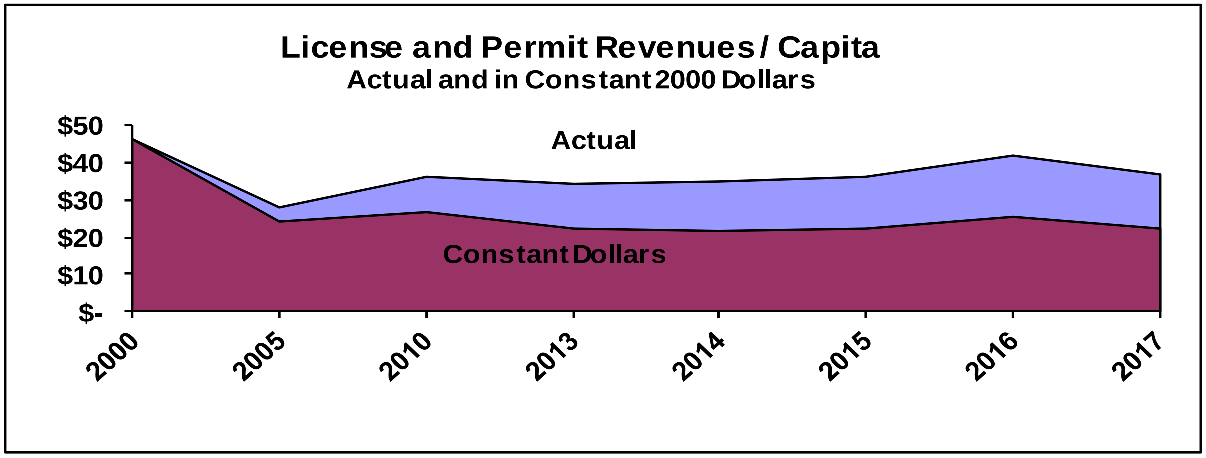
License & Permit Revenues Per Capita

Revenues generated through collection of license and permit revenue has seen increases in actual revenue but a slight decrease in Constant Dollar revenue, until FY 2015. The largest component (Local Option Tax on Motor Vehicle Fee) has seen the following increases:

• FY 2005	$2,813,433	
• FY 2010	$2,917,938	3.71% for 5 years
• FY 2013	$3,049,544	4.32%
• FY 2014	$3,304,638	8.36%
• FY 2015	$3,592,389	8.71%
• FY 2016	$4,240,176	18.03%
• FY 2017	$3,761,400 Budget	Estimated Actual $4,464,150

For FY 2011 through FY 2016 and projected for FY 2017, the County has seen increases in this revenue source (up 5.52% on average for the last 12 years, 18.03% for FY 2016). This comes from the local economy improving and the purchase of vehicles delayed during the Great Recession. Mid – year collections for FY 2017 show continuation of this trend, a 5.2% increase from FY 2016 revenues is forecast for FY 2017.

In a departure from a very conservative revenue stance, I will be estimating all non-tax revenue but especially the local option tax closer to the previous year actuals for FY 2018.



Finding: ***Favorable*** – License and Permit Revenues show an increase in growth from FY 2010 to FY 2016, with FY 2017 projected to be increasing at the rate seen prior to 2010. The Constant Dollar calculation shows a slight increase as inflation is lower than the estimated increase. This indicates a continuation of growth in the local economy for FY 2018.

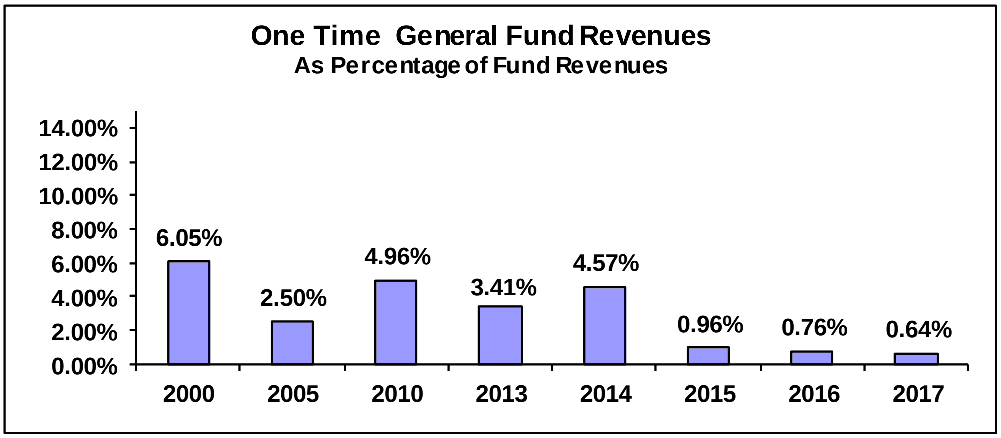
Current estimates indicate licenses and permits will continue to increase, for the next several years. Licenses and permits have increased faster than inflation through the first six months of FY 2017.

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.

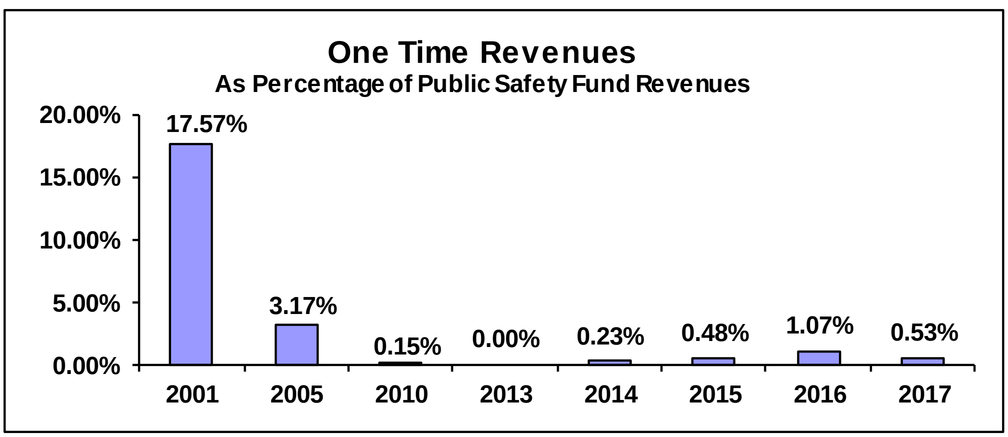
One Time Revenues

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. Revenues that are considered 'one-time' include grant funds not awarded for multiple years, transfers in from other funds, except ongoing transfers like the permissive medical levy 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 funded at the beginning of the budget process, the Finance Office recommends use of one-time revenues for 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 4.96% to FY 2014 4.57%, with FY 2016 being at 0.76%. FY 2017 is budgeted to be 0.64%

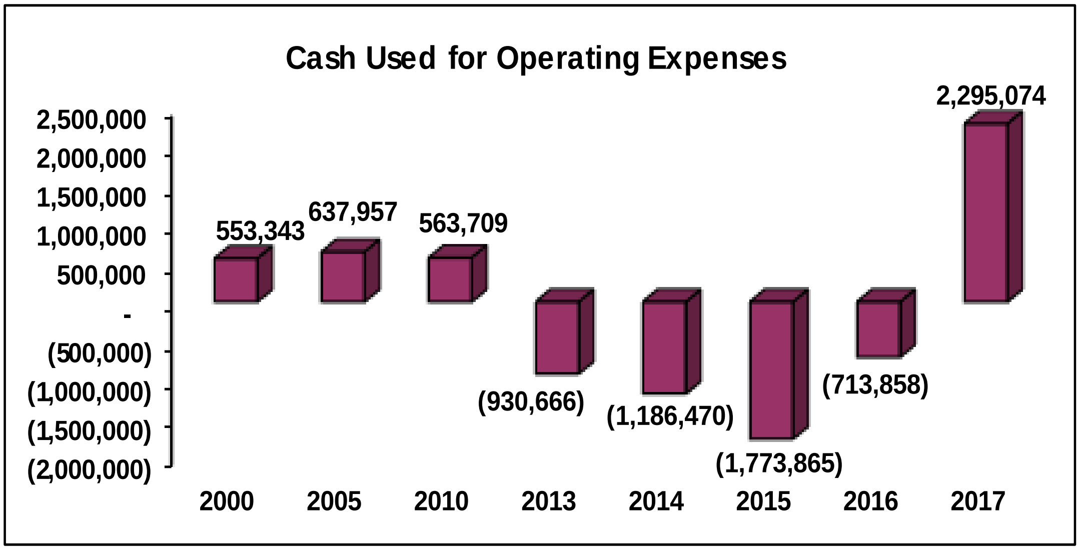


The decrease of one-time revenues in the Public Safety Fund is the result of the County Commission's decision to levy taxes in the Public Safety fund instead of levying in the General Fund and elimination of a separate fund for employer contributions.

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 17 years. These numbers are actual and do not include the amount budgeted, except in FY 2017 which anticipates using cash for capital and operating expenses. The County has decreased its reliance on cash for purchasing large equipment with the implementation of the Core Equipment Plan, Bridge Replacement Program and the Facility set aside. These eliminate a major concern about sustainability of equipment for rolling stock needing replacement on a planned basis, large bridge replacement and funding of facility enhancements and expansion, including $100,000 per year for Fairgrounds and $500,000 for other capital assets.



Without cash re-appropriated, the County Commission could not have funded the FY 2017 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. The last four years has seen the county have revenue greater than expenses, resulting in the FY 2017 Budget showing the use of $2.3 Million cash for Records Management System, Detention Center software, Financial Software and one- time expenses...

Finding: ***Favorable*** – The use of cash for ongoing expenses is not occurring, in fact the county has been able to set cash aside for needed upgrades that would have required increase taxes or decrease in department budgets. The FY 2017 budget shows the County Commission using $2.3 million in cash to fund General and Public Safety expenses. About $2.5 million of the expenses are in the General Fund with most being for one-time expenses. The county has established the 'Core' rolling stock, Bridge Replacement, Capital Project set aside, Dispatch capital set aside and the Fair capital set aside to eliminate the need to use cash for ongoing capital needs.

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 2017 budget.

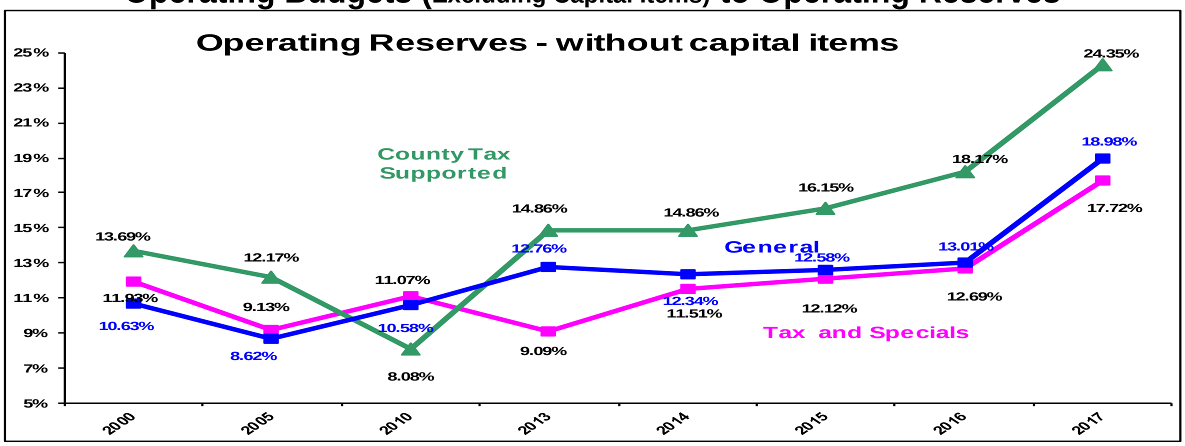
Operating and Capital Reserves

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, seen in the early graphed years. The graph shows Operating Reserves as a total of the budget. This graph shows all percentages increasing back to the FY 2000 levels, except for FY 2010, which is distorted from the new Detention Center construction. '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, FY 2014, FY 2015, FY 2016 and the FY 2017 budget.

The proceeding graph shows 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:

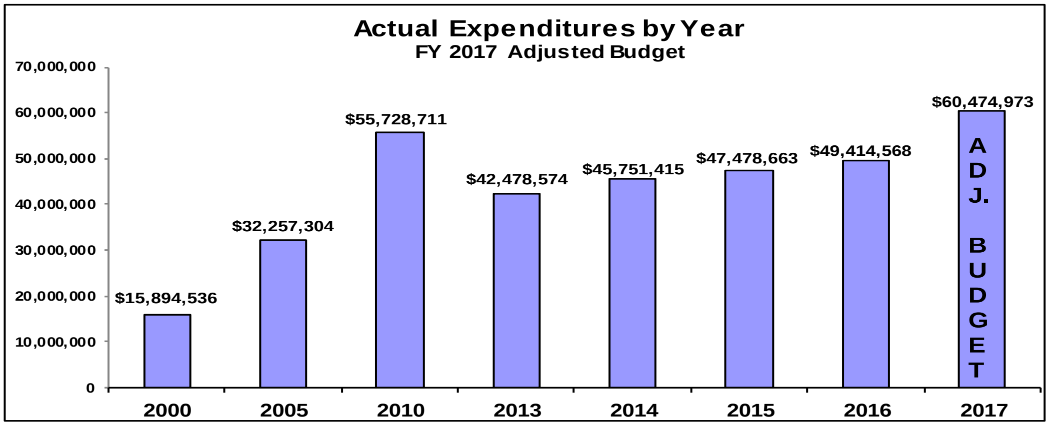
	FY 00	FY 05	FY 10	FY 13	FY 14	FY 15	FY 16	FY 17
Below Minimum	10	10	8	0	0	0	0	0
At or above Minimum	20	16	17	15	15	15	15	15
% At or above Minimum	67%	62%	68%	100%	100%	100%	100%	100%

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

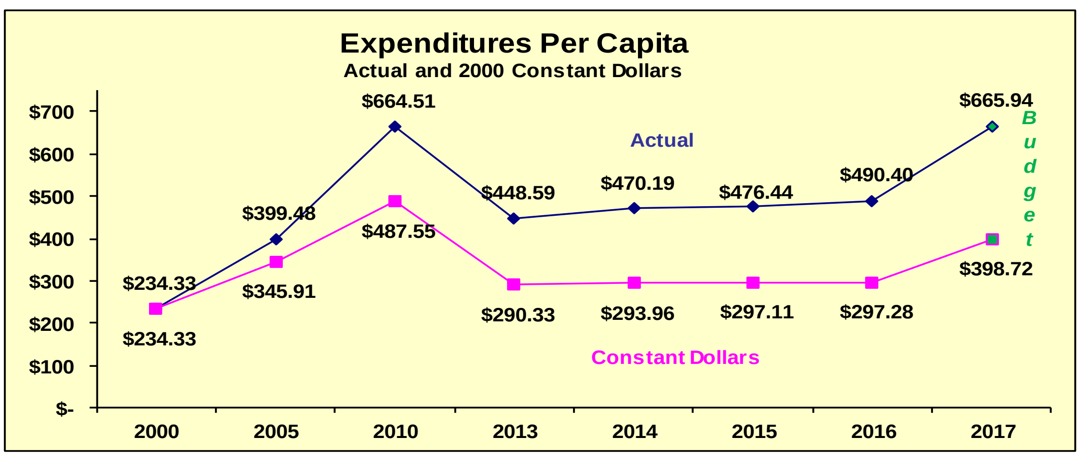
Expenditure History & Current Expenses

Expenditures

Actual expenses during the preceding fifteen years and the FY 2017 budget show growth of expenses in actual dollars and in per capita, when capital projects are excluded. FY 2010 through FY 2012 includes $38 million in construction costs associated with the New Detention center. The FY 2017 Budget does not include approved Capital Reserves. This adjustment accurately reflects what actual expenses are likely to be for FY 2017. All calculations use only expenses from the County's tax supported funds – excludes grants etc.



County expenses in **actual** dollars increased from $15.9 million in FY 2000 to $49.4 million in FY 2016, a 311% increase in fifteen (16) 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 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.

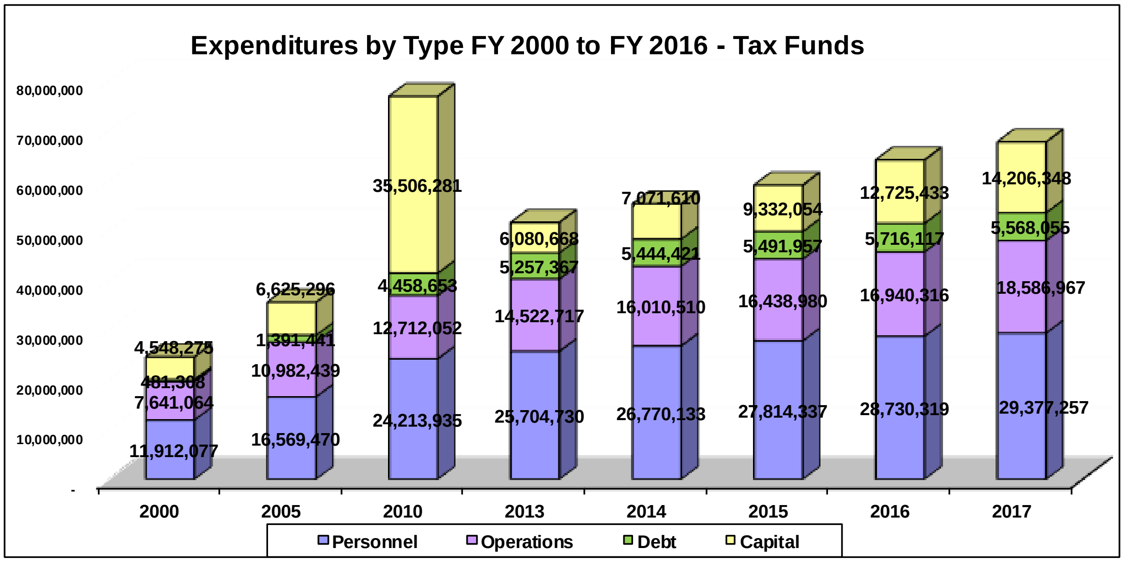


Finding: ***Favorable*** **–** Expenditures per capita in actual dollars and constant dollars have increased. The significant per capita increase from FY 2005 to FY 2010 is from construction of the Detention Center. The increase shown for FY 2017 will be significantly less when actual expenses are known. This trend is shown as Favorable because the decrease from FY 2010 to 2013 comes from completion of the Detention Center and gradual decreases in debt costs, with normal operating expenses continuing to show a gradual increase.

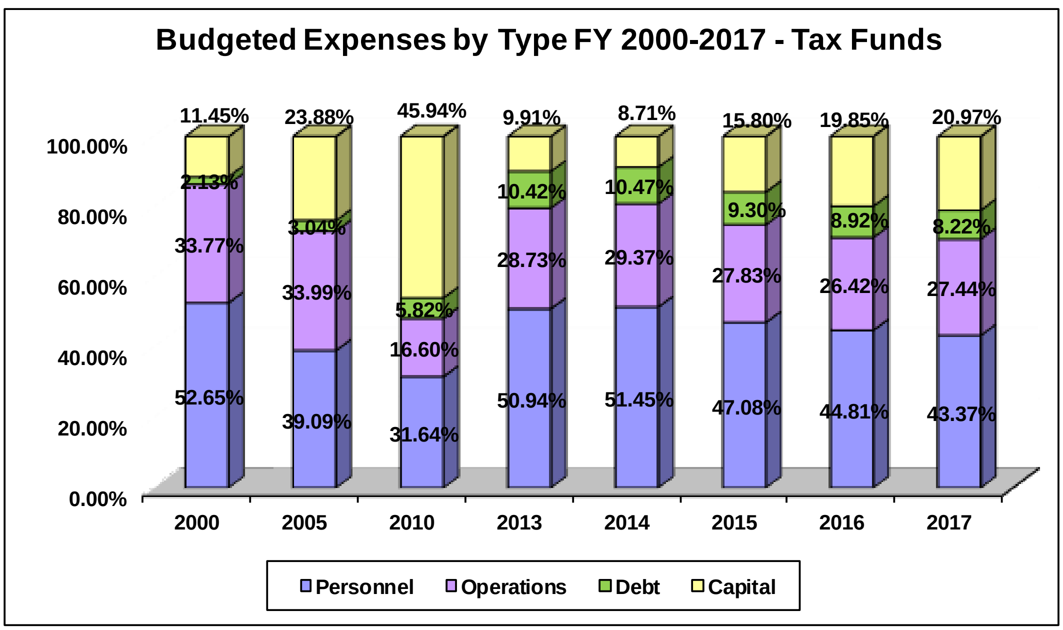
Favorable = a gradual increase in the actual and constant dollars spent by each resident indicates the County is maintaining or improving its costs for services.

Expenditures by Category

The following charts show personnel, the largest cost for Gallatin County, decreasing from Budgeted FY 2000 expenses of 52.65% to FY 2017's 43.37%. The changes in Personnel & Operations come from increases in debt / capital. 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 the other areas. With capital reserves eliminated, personnel costs show a slight decline from 52.65% in FY 2000 to 48.58% in FY 2017 Budget.

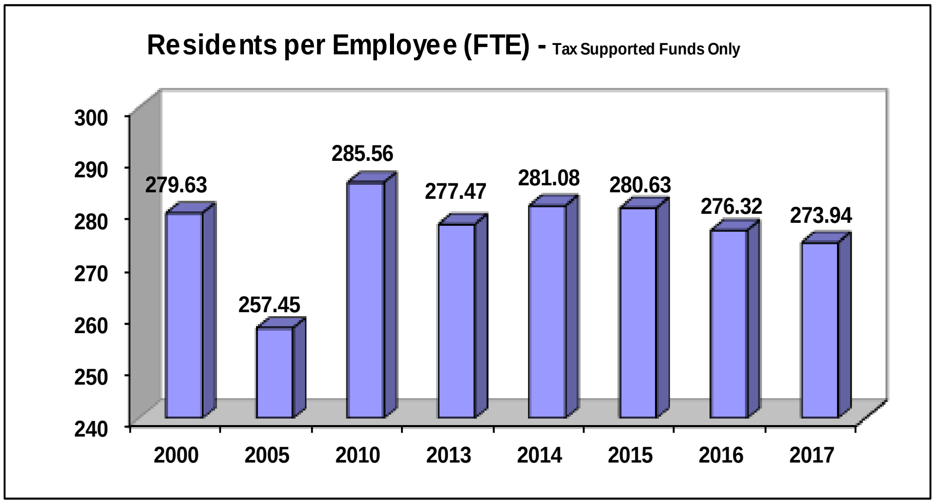


Finding**:** ***Favorable*** – Expenditures by category for actual expenses show a decrease in the percentage being spent on personnel. FY 2017 numbers are based on the approved budget and will decrease before year-end.

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

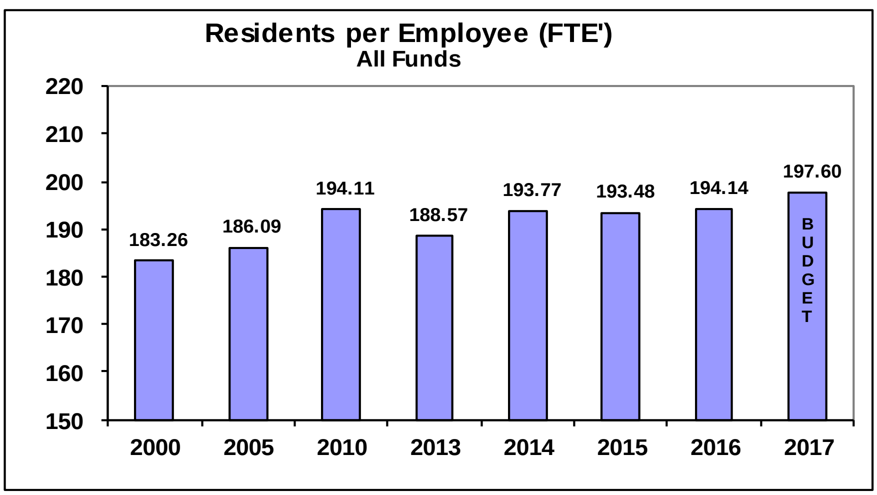
Employees Per Capita

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 2017 Budget, services have increased where needed. During this time the County added 123.74 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 each employee is serving. The above graph shows changes in residents per employee for tax supported funds. This compares service levels residents receive compared to the growth in the number of employees. Residents per Employee - compares the number of employees as a ratio of the estimated County population. This shows resident's service as decreasing by 9.80% since FY 2000.

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



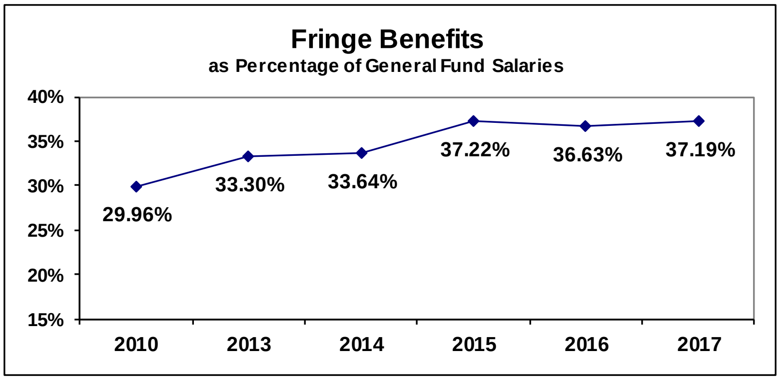
Finding: ***__Favorable__*** **–** The top graph show marginal decreases in budgeted employees (0.02% decrease on average) over the last 17 budgets. A decrease for FY 2015 was anticipated with additions in Human Resources, Sheriff, Detention and Motor Vehicle. With actual FY 2017 employees, the number is 195.41.

__Favorable = trend is a marginal decrease in the number of residents per employee, for tax supported funds.__

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 do 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 Systems (SRS, PERS, TRS), and Social Security / Medicare costs.

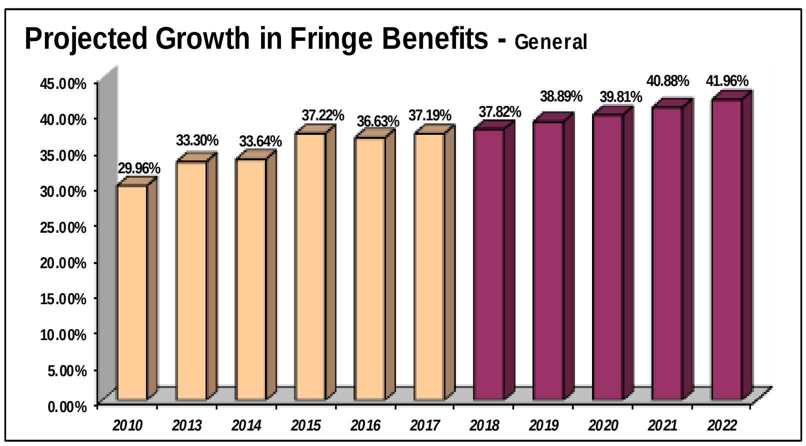


These calculations do not include costs for the statutory 15 vacation, 12 sick and 10 holidays. Adding these costs to the benefit package adds 14.17% to each of the years shown, and do not change without state legislative action.

Finding: ***Watch*** **–** Fringe benefit percentages have increased in FY 2017. For FY 2017, the state required a 0.10% 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 2018 and FY 2019,** to offset medical cost increases. In addition, the County will be increasing PERS by 0.10% each year for the next 6 years per state statute. The lower Worker's Compensation rates, from FY 2016, may be reversed if utilization increases. Increases in fringe benefit costs adversely affect the County's ability to fund future years' budgets. The 13.60% increase in fringe benefits from 2000 to 2017 equals $1,963,314 countywide.

Finding: ***Watch*** **–** The percentage for FY 2017 shows an increase, with percentages projected to increase for the next 5 years.

The County continues to take an active role in controlling costs of Worker's Compensation and health insurance premium costs to avoid an Unfavorable ranking. The County may have to explore changes in health insurance 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.

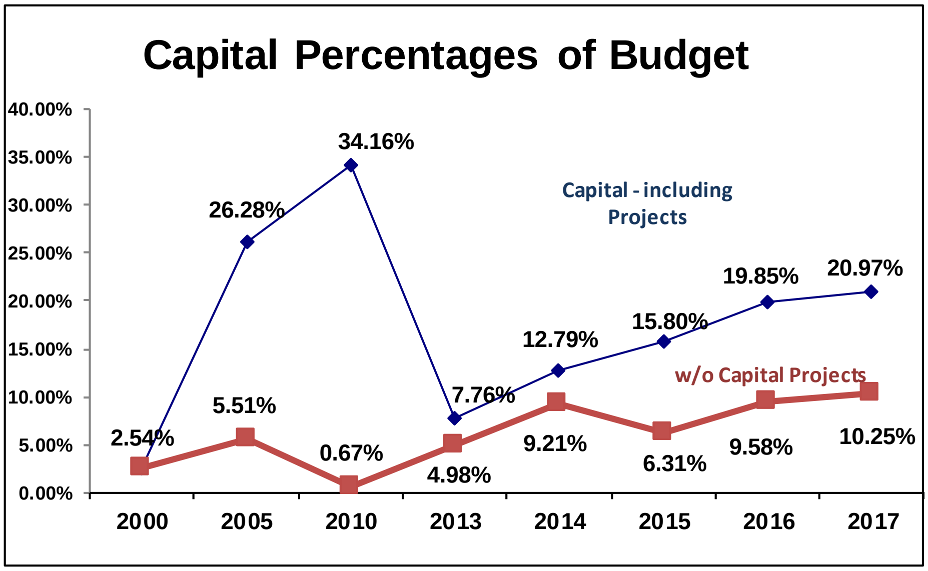


Favorable = is when the percentage of employer contributions to total wages paid remains static or decreases.

Capital Outlay & Capital Reserves

Capital Outlay and Capital Reserves have changed from FY 2000. Previously, the County rarely set aside funds unless a specific need was identified, that could be funded within the current budget. 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 continued for 16 of the next 17 budget cycles. The decision to include Core Rolling Stock, Bridge Replacement Program, Fairground capital projects and Law and Justice Replacement cost in capital planning and funding them through newly taxable property has increased the County's ability to maintain service levels. This also adds to the County's ability to maintain County infrastructure.

The following graph shows capital budgets compared to total budgets. The FY 2017 Budget is focused on capital expenses for needed equipment replacement, bridge upgrades, fairground projects and Law and Justice set aside. The County voters denied a request for a new Law and Justice Center in November 2016. The money set aside but not spent have been assigned as capital reserves for future upgrades.



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:

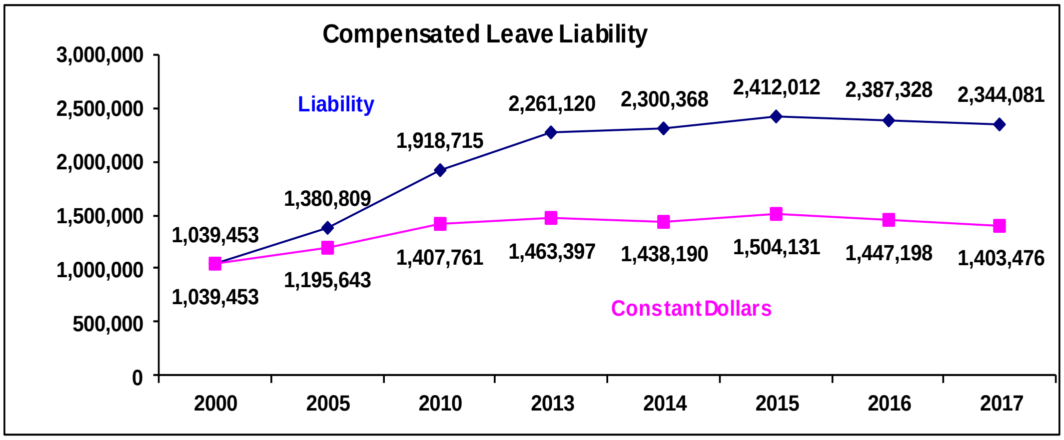
- Communication fund with equipment reserves – current set aside $500,000 for VOIP;
- Computer replacement supported by $150,000 yearly replacement account in PILT;
- Rolling Stock (CORE) fully funded at $695,500 per year plus departments contributing $382,300;
- Copiers funded through per copy charge for a majority of County copiers;
- Bridge Replacement Program funded at $400,000 for FY 2017;
- 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);
- Fairgrounds capital facility set aside $100,000 per year; and,
- Setting aside $500,000 per year for Capital Facility.

Areas for consideration, in future years include – Fair/Park/Recreation and Road 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 ideally would increase at or below the rate wages increase. During the previous two (2) years, compensated leave balances increased at a rate lower than the rate wages increased. The decrease of (1.02%) for the beginning of FY 2016 is below 0.25% for inflation and the 2.55% increase in total wages seen in FY 20176.



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

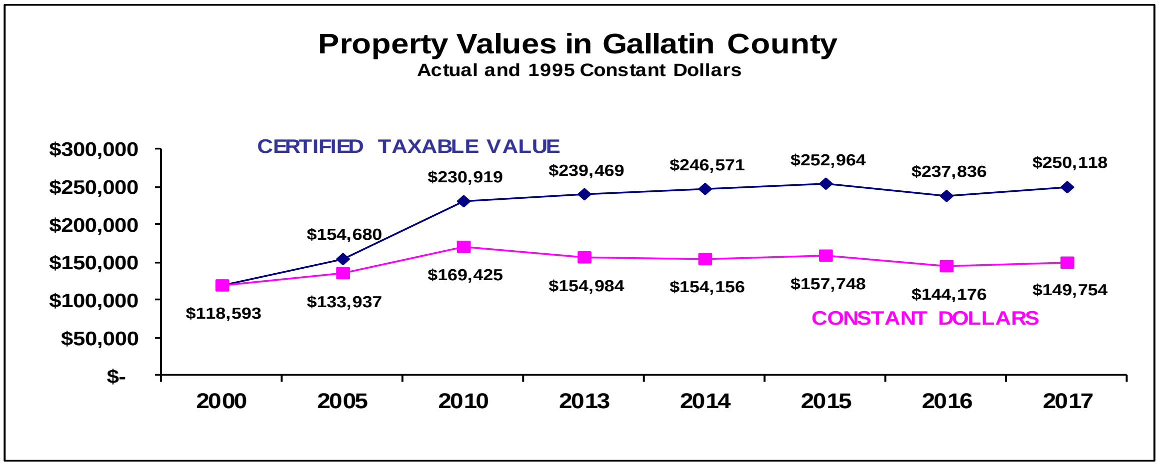
	Sick Leave		Annual Leave		Compensatory Leave		Fringe
	Hours	Cost ($)	Hours	Cost ($)	Hours	Cost ($)	Cost ($)
2005	76,070	352,993	46,117	815,774	4,013	72,514	139,528
2010	90,487	491,882	53,198	1,104,376	3,506	67,566	327,595
2011	97,458	549,906	55,180	1,184,305	3,923	78,409	348,683
2012	102,473	588,575	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
2014	105,901	621,142	58,522	1,307,809	4,256	92,894	390,167
2015	105,463	619,878	57,931	1,300,737	4,333	88,550	378,163
2016	107,540	647,180	60,037	1,382,091	4,976	107,688	402,494
% of Total	62.33%	30.29%	34.79%	64.68%	2.88%	5.04%	
Change $	2,077	27,302	2,106	81,364	643	19,138	24,331
%	1.93%	4.22%	3.51%	5.89%	12.92%	17.78%	6.43%

Finding: ***WATCH:*** The graph shows a down turn in FY 2016 and an increase for FY 2017 this comes from factors associated with wage adjustments, longevity changes and step increases for employees throughout the county. The decrease for 2015 to 2016 was 1.81% with a large part of the decrease associated with retirement of long-term employees.

The County has limited ability to make significant changes to leave balances. Sick and annual leave accruals are set by state statute. The Commission approved reducing compensatory time to a maximum of 20 hours from the previous 40 hours for FY 2015. This decreased the liability in this area, but only slightly. 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 in comparison to increases for inflation.

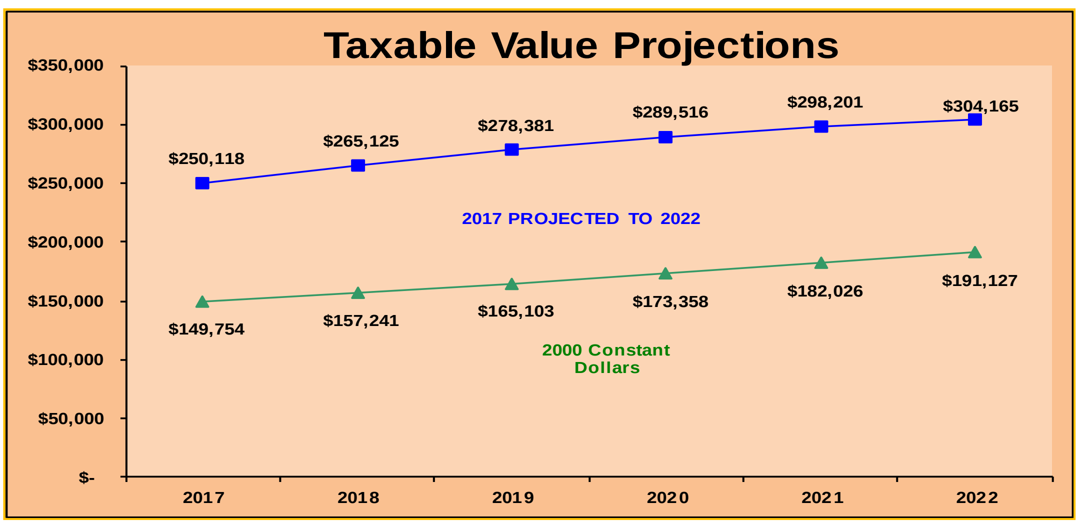
Property Values in Gallatin County



The decrease in taxable value from FY 2015 to FY 2016 is 5.98% coming from the new 2-year reappraisal cycle. Because state laws allowed local governments to maintain the amount of taxes generated in the previous year the County was not adversely affected by the re-appraisal. The following is a comparison of changes in taxable values from FY 2000 to FY 2016:

Fiscal Year	% Change	Fiscal Year	% Change
2000	0.64%	2001	-0.06%
2002	5.57%	2003	7.80%
2004	7.64%	2005	7.17%
2010	6.49%	2011	3.43%
2012	2.10%	2013	1.56%
2014	2.96%	2015	2.59%
2016	(5.98%)	2017	5.16%

Finding: ***Favorable*** – The decrease in taxable value for FY 2016 has been mostly absorbed by increases in FY 2017. The elimination of the 6-year reappraisal cycle will more accurately reflect current values.



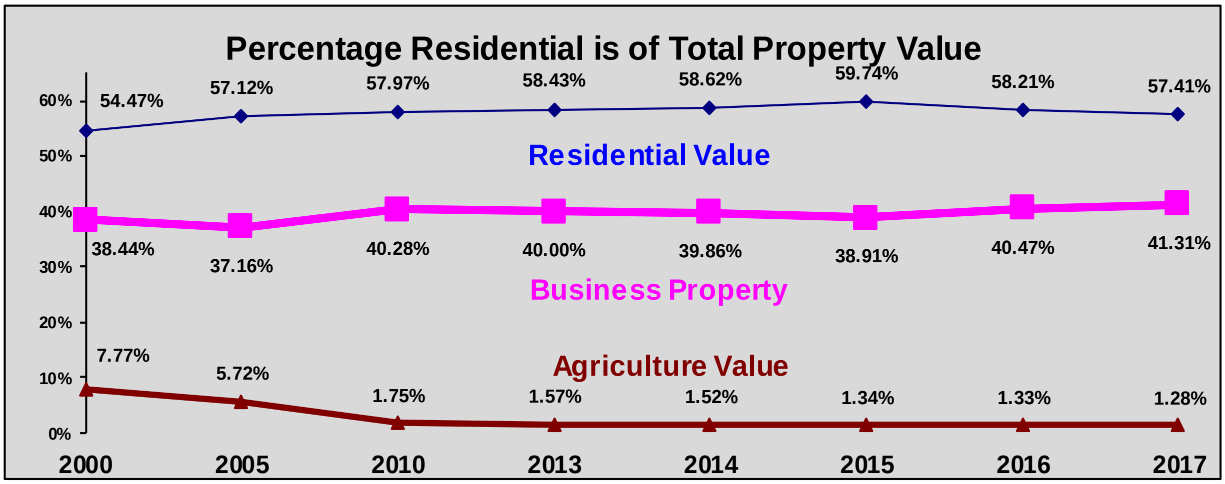
Favorable = an increase in taxable value greater than inflation

Potential Threat *– Projections have taxable values increasing over inflation for 3 years and at inflation for 2. If we grow at the rate of inflation then we will be behind because of projected growth in population.*

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 55.69% in 2016 (FY 1995 is the first year information available was at 51.78%). This increase, in addition to the number of mills increasing, further causes an adverse effect on residential property tax payers.

The increase in the County's reliance on residential property values may cause the voters of the County to vote against needed local government initiatives in the future. This could be a reason voters denied the County and City's request for a bond and operating mill levy.



Finding: ***FAVORABLE*** – The decrease in FY 2017 in the percentage of residential property taxes to the total property taxes shows a two-year decrease in the percentage Residential Values are to the Total Taxable Value. This shows a stabilizing of the percentage residential values are of the total county taxable value.

Decisions by the County can only peripherally affect costs to residential property owners. One decision the Commission made is not to levy the maximum millage for FY 2007 through FY 2017. 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 2.94% 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 Gallatin County. The table below shows Countywide Real Estate Taxable Values, Real Estate Parcels Billed, Average Parcel Information, and Average General Tax along with the Median Mill Levy for Tax Year 2005, 2010, 2014, 2015 and 2016.

Real Property Tax - Statistical Analysis

	2005		2010		2014		2015		2016	
Real Estate Taxable Value	**162,161,048**		**226,669,945**		**253,960,865**		**238,050,755**		**250,065,914**	
Residential & N/Q Ag	99,598,380	61.42%	147,348,705	65.01%	167,231,249	65.85%	153,514,499	64.49%	158,587,953	63.42%
Commercial and Other	62,562,668	38.58%	79,321,240	34.99%	86,729,616	34.15%	84,536,256	35.51%	91,477,961	36.58%
Number Parcels Billed	**39,744**		**49,575**		**48,933**		**49,106**		**49,981**	
Average Parcel Taxable Value	**4,080**		**4,765**		**5,213**		**4,870**		**4,335**	
Average Parcel General Tax	**$ 1,866.95**	**5.60%**	**$ 2,289.87**	**20.97%**	**$ 2,612.29**	**4.07%**	**$ 2,698.86**	**3.31%**	**$ 2,484.22**	**-7.95%**
MEDIAN MILL LEVY				481.73		500.05		556.14		563.28

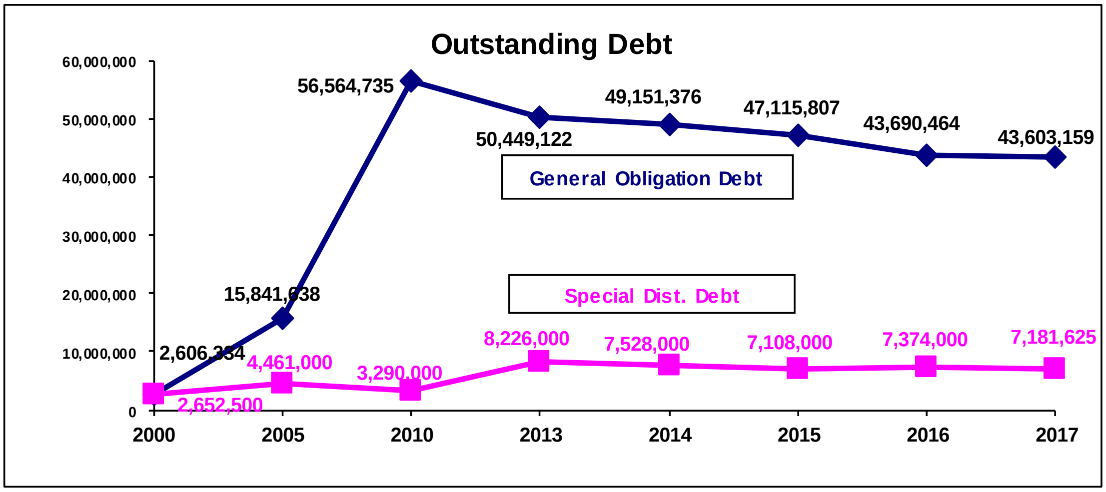
The comparison shows that:

1. Real Estate Taxable Values have increased by 10.32% from 2010 to 2016 with Residential moving down to 63.429% with Commercial increasing to 36.58% ;
2. The number of bills created increased by 875 from last year, a 1.78% increase.
3. 2016 Average Parcel Taxable Values decreased to 4,335 a decrease of -10.99%; and
4. The Average General Tax decreased by $214.64 (7.95%) significantly different from the 5.05% increase in values; however, the number of mills increased to 563.28 with increases in County, City and School mills for operation and debt costs.

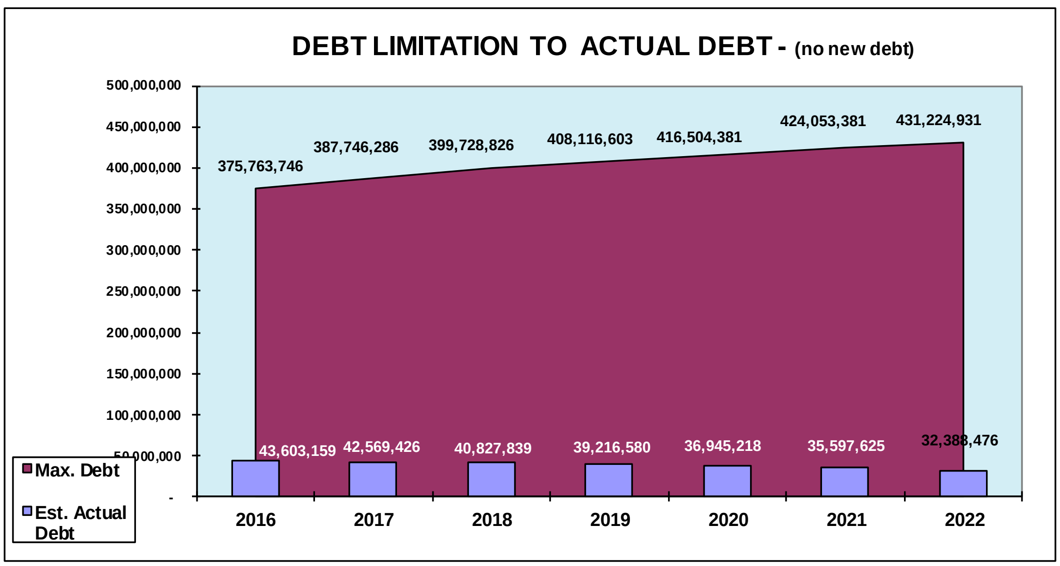
Finding: ***FAVORABLE*** – Taxable Value and number of Parcels Billed. Interestingly the average parcel and General Tax decreased from tax year 2015 to 2016. Changes in valuations should be back to previous levels based on construction activity throughout the County.

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, 2016, the County had $43.6 million in debt. 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 $387,746,286 available as of June 30, 2016.



The County borrowed the $3.2 Million left for Open Space in November of 2015. 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. In the next 5 years the County may ask the voters for up to $68 million in bonds to construct a new Law and Justice Center.



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 2017 Trend Analysis, for the eighth 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 areas. 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, and Ratio of Taxes to Budget, Taxable Values, Total Budget and Total Taxes. The data shows the following for Gallatin County:

- Populations – Comparison to entire state population - moved from 6.32%, 5th in 1991, to 9.49%, 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 urban counties);
- 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, and 2010-2014. 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

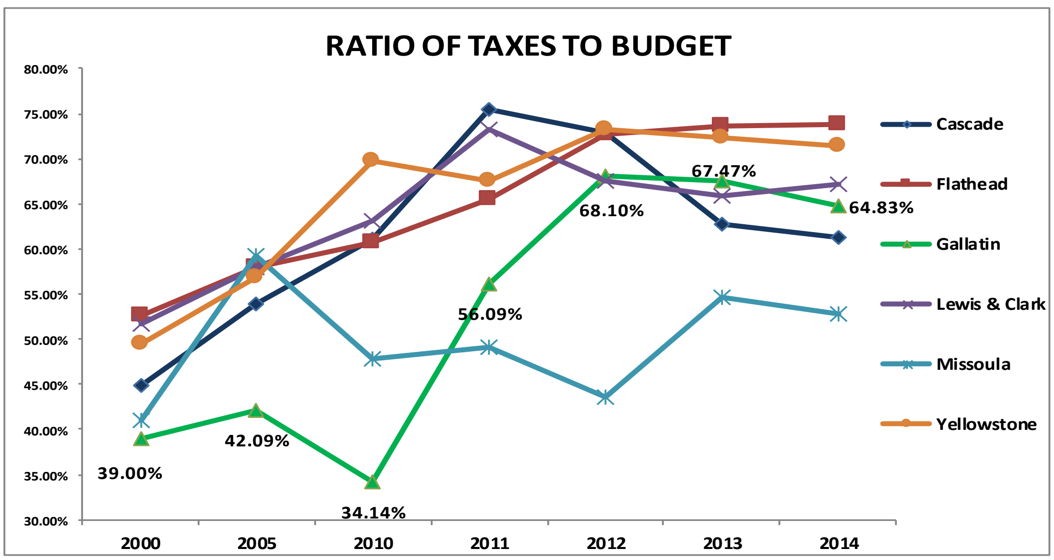
The following table shows a comparison of the six Urban Counties and the amount of taxes required by each resident based on the approved mill levies. The comparison may be distorted in years when counties began new levies for bonds or operations approved by a vote of the people, or when bond levies ended.

	2000	2005	2010	2011	2012	2013	2014
Taxes				**Tax $ Per Resident**			
Cascade	147.06	187.90	238.02	279.35	275.76	289.10	271.19
Flathead	185.45	244.27	322.36	355.33	379.05	376.60	376.96
Gallatin	138.85	185.41	289.88	306.97	310.06	302.42	303.54
Lewis & Clark	161.29	266.71	337.69	365.31	378.49	397.69	400.02
Missoula	176.31	254.85	308.02	311.39	320.98	324.70	334.26
Yellowstone	137.04	195.46	274.09	303.45	317.65	312.27	320.50

Finding: ***Favorable*** **–** This table shows that residents of Gallatin County have seen taxes per resident increase by $164.69 over 17 years. This compares to inflation during the same period requiring taxes to increase to $197.30. 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 per resident. The combination of inflation and voter approved taxes would have the County resident paying $258.81 each compared to the $303.54 of taxes for 2014.

Favorable = Gallatin County being in the lowest 1/3 in taxes per resident of the 6 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.



Finding: ***WATCH*** – 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 64.83% in FY 2014. Gallatin County has the lowest percentage of taxes to budget until FY 2011 when we are the second lowest. FY 2013 and FY 2014 will be the norm for the near future for Gallatin County, but it is expected that several counties will see taxes increase for planned debt.

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

FINANCIAL FORECAST:

The second part of the report is the forecasting of expenses, revenues and growth for the next three to five years. Projections have to take into consideration factors such as growth in population, taxable values, Changes in Staffing, local economy, land use activity and the local trends identified in the first part of the report.

These have to be mitigated with consideration that the United States has seen growth for 7 consecutive years. Over the last 3.5 decades, the nation has seen 5 down turns, one every 7 years. It is projected that 'recession probability has eased slightly' for 2017 and 2018. This would bring continue growth for 9 to 10 years without a major adjustment.

The University of Montana, Bureau of Business and Economic Research (BBER) said that national recessions tended not to affect Montana as much in the past, but this may have changed with our economy tied more closely with the nation. However historically Montana is not affected (as a whole) as much with recessions as the United States. In fact, several of the downturns had little affect for Montana. BBER estimates that Montana should see growth of 2.5% for 2017, 3.5% for 2018, 2.8% in 2019 and 2.1% for 2020.

Outlook for Gallatin County

The forecast for Gallatin County shows continued shortfall in revenue growth compared to growth in expenses. The projections I have prepared show:

Projection Revenue / Expense

	2017	2018	2019	2020	2021	2022
REVENUE:						
Taxes	27,064,208	27,970,859	28,907,883	29,876,297	30,877,153	31,911,537
Non-Tax	20,131,622	19,652,909	20,340,761	21,052,688	21,789,532	22,552,166
Subtotal	47,195,830	47,623,768	49,248,644	50,928,985	52,666,685	54,463,703
EXPENSE:						
Personnel	29,377,257	30,167,737	30,958,217	31,748,697	32,539,177	33,329,657
Operations	18,591,967	18,870,847	19,153,909	19,441,218	19,732,836	20,028,829
Debt	691,526	526,584	361,642	361,642	224,225	224,225
Capital	14,201,348	12,098,945	10,889,050	11,106,831	10,551,490	11,079,064
Subtotal	62,862,098	61,664,113	61,362,819	62,658,389	63,047,728	64,661,775
Difference	(15,666,268)	(14,040,344)	(12,114,175)	(11,729,404)	(10,381,043)	(10,198,072)

Effectively - the 'difference' will have to be made up through cash not used from the previous year. The problem with this is if you actually use the cash you don't have it to fund the next year's budget.

I think the County can meet the FY 2018 projections (which do not include new staff), and FY 2019. The 2020 through 2022 years will be harder to fund given projected revenue. In addition, new staff will have to be funded with new revenues.

Earlier I identified factors effecting the financial forecasting. I have used those factors based on the information that follows in preparing my projections. The projections are not as conservative as done in the past to reflect estimated non-tax revenues closer to the actual amount projected for FY 2017.

Population:

Woods and Poole, a nationally recognized firm, estimated growth in population will average almost 2.67% per year through 2025 for Gallatin County. County staff thinks the 2.67% average growth is optimistic and has calculated a rate based on an average of the last 5 and 10 years growth at 2.22%. Consistent with the County's conservative financial outlook, the 2.22% factor is used when making forecasts associated with population.

Description	2000	2010	2014	2015	2016	2020
Population	68,375	89,616	97,304	99,946		111,435
% Pop. Employed	60.02%	57.13%	56.32%	57.91%		58.69%
Labor Force (County)	41,033	51,150	54,798	59,093		66,755
Gross Employment	39,526	47,922	53,061	57,381		
Unemployment Rate	3.7%	6.3%	3.2%	2.9%		

Taxable Values:

Taxable Values do not change in a lineal manner. Taxable values are affected by legislative, legal and perception on a periodic basis. The following tables show a comparison of changes in taxable values by year.

- Taxable values (TV)

	Taxable Valuation	1 yr %	2 yr % AVG.	5 yr %
Base Year 2000	118,618			24.91%
2005	154,680	6.92%	15.79%	30.40%
2008	196,866	8.72%	18.11%	47.37%
2009	209,639	6.49%	15.77%	44.91%
2010	223,245	6.49%	13.40%	44.33%
2011	230,919	3.44%	10.15%	38.54%
2012	235,791	2.11%	5.62%	30.21%
2013	239,468	1.56%	3.70%	21.64%
2014	246,571	2.97%	4.57%	17.62%
2015	252,964	2.59%	5.64%	13.31%
2016	237,836	-5.98%	-3.54%	3.00%
2017	250,118	5.16%	-1.13%	6.08%
10 Year Average		**3.35%**		

Given the volatility of taxable values caused by economic downturns and legislative decisions, my forecast is based on the 10-year average of 3.35% growth in Taxable values per year. The result of this growth on the amount of taxes the county may generate are:

Year	Est. TV	2017 Mills	Estimate Taxes
• 2017 Base Year	250,118	83.75	$20,947,382
• 2018	258,497	83.75	21,649,124
• 2019	267,156	83.75	22,374,315
• 2020	276,106	83.75	23,123,878
• 2021	285,356	83.75	23,898,565
• 2022	294,915	83.75	24,699,131

This means on an average the county can estimate growth in taxes of approximately $906,000 each year to pay for current expenses and approved expansion of programs. The number increased is higher to than shown in the above estimate to account for Newly Taxable Property.

Changes in Staffing:

Two items affect the cost of staff. The first is increases associated with wage adjustments associated with inflationary costs and longevity/merit increases. Over the last ten years, these have averaged 3.4% when combined. The increase cost for 3.4% on a yearly basis will be $790,480 each year.

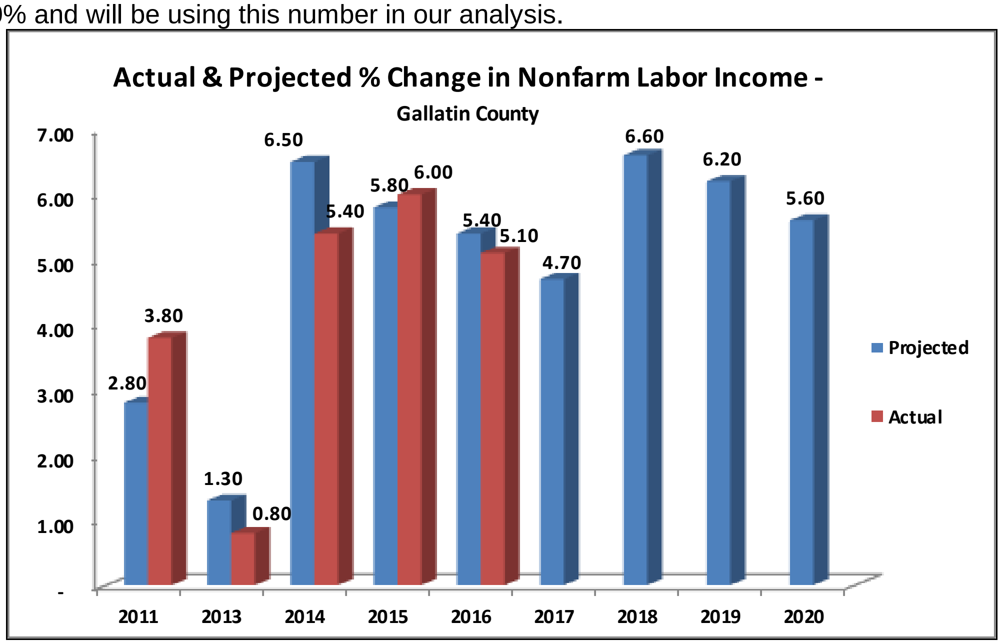
The second item effecting the cost of staff is the growth in the number of employees funded by tax-supported activities in Gallatin County. The growth factor for employees comes to an average of 4.4 new employees per year, based on the last 10 years change in full time equivalents. Based on an average cost of $67,495 per employee the county will have to plan for $296,978 for new employees each year. I have not included any cost for new staff in my projections because I think additional staff will have to be funded through increases in tax or non-tax revenue.

Total estimated cost for changes in current staff and new staff is estimated at $1,087,458. This is high because it assumes that all current employees will stay with the county over the next 5 years. A more accurate estimate would see a reduction of 18% for turnover. Bringing the yearly amount needed to $924,000 each year.

Projected Growth in local economy:

BBER showed growth in wages state wide have slowed down for 2016. However, they point out that a major part of the growth comes from Gallatin County. While Gallatin County only represents 12% of the total statewide wages (1st quarter 2016), we accounted for 46% of the growth in all wages. Our share of the growth in construction and manufacturing wages accounted for 57% of the growth. The most recent information shows that Gallatin County's growth in wages for the first quarter of 2016 are equal to 2015 numbers. This compares with Cascade, Flathead, Lewis and Clark, Missoula, Silver Bow and Yellowstone County is decreasing, with the rest of Montana actually seeing a negative growth in wages from 2015 to 2016.

The Bureau's estimated Labor Income Growth in the County at 5.77% for the next 4 years (2017-2020), is almost a full percentage higher than last years' projections. County staff estimates a more realistic growth rate is 5.0% and will be using this number in our analysis.



The chart gives a historical perspective on U of M's accuracy. As can be seen, the Bureau's estimate are close (within .50%) in three of the last 5 years. Important to the County is that labor income over the last 5 years is positive 4.2%. The bureau estimates a 4.62% growth per year in our economy over the next 4 years. This is realistic I believe given our local economy.

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	$201 Million	26.41%
2014	$86 Million	$148 Million	$235 Million	16.92%
2015	$93 Million	$123 Million	$216 Million	-5.26%
2016	$85 Million	$137 Million	$222 million	3.10%

The continuation of permits over $200 million shows the county continues with a strong construction cycle equaling a strong taxable value for tax year 2017 and probably for tax year2018.

Non-Tax Revenues:

Major Non-Tax Revenues include Local Option Motor Vehicle Fees, Intergovernmental Revenues (money from state, federal and local governments), Charges for Services and Fines and Forfeitures (Justice Court and District Courts).

Local Option Motor Vehicle Fees:

Local Option Motor Vehicle Fees is a 0.50% fee charge upon the registration of a motor vehicle. The revenue from the fee is distributed to the 5 cities/towns in the county and to the county. The county portion is split evenly between the Public Safety fund and the General Fund.

Over the last 10 years, Local Option fees have increased 27.00% (2.70% yearly) rate. However, the last 5 years has seen this increase to a 6.70% yearly rate. With 2014 increasing by 8.35%, 2015 at 8.78%, 2016 at 9.86% and 2017 projected increase of 8.22%. For future budget projections the county will be using a 3% growth rate from the prior years actual. This will increase budgeted revenue by over $350,000 for FY 2018.

Intergovernmental Revenue:

The largest component of Intergovernmental revenue for county tax supported funds is State Entitlement. In FY 2005, this account generated $1.5 million. In FY 2016, it generated $2.9 Million. For the last 5 years, it has grown by 8.22% and for the last 10 years, State Entitlement grew at 7.24%. I am very concerned about the legislatures proposal to limit growth to 1%, which will adversely affect your ability to fund services supported by this revenue. This is further complicated by the legislature’s proposal to require county’s to fund public defender costs.

As with local options fees, the county has historically underestimated this revenue for budgeting purposes. For future budgets, State Entitlement will be budgeted close to the prior year’s actual revenues. No growth will be automatically anticipated because the legislature has periodically adjusted the rate authorized.

Land Use activity

Since Gallatin County does not have a countywide permit system, we track changes in recording activity at the Clerk and Recorder's office and zoning district fees from the Planning Office. These activities are the closest record of activity affecting the county, now.

These activities are a good glimpse at what the local economy is doing right now. As can be seen, the two areas listed show the county continuing in a continued strong position.

	Clerk	Zoning
FY 2017	$462,516	$283,270
FY 2016	429,916	204,619
FY 2015	316,689	168,707
FY 2014	389,460	161,569
FY 2013	426,649	75,376
FY 2011	311,047	76,739
FY 2010	349,840	78,044
FY 2009	396,602	92,821
FY 2005	424,467	174,589

I think the information contained herein clearly shows that the County should see continued growth for FY 2018 and probably into FY 2019.

Ideas, Thoughts & Recommendations

A financial analysis includes 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 – 'Favorable' – Actual revenues will be higher than the amount budgeted for FY 2017 from Detention Inmate, Land Use Fees (Clerk & Recorder/Planning), Investment Earnings, State Entitlement and Local Option Motor Vehicle Taxes.
- Cash for Operations – 'Unfavorable' – The County needs to decrease expenses or increase revenues in the General Fund and Public Safety Fund. These two funds show significant utilization of cash to fund personnel and operations. Failure to deal with this shortfall will adversely affect the Commission's ability to approve future budgets. (Not Sustainable and not Resilient).
- Sworn Officers/Capita – 'Favorable' – The current deputy staffing, while not ideal, is meeting the needs of residents as represented by low crime statistics. The Sheriff has requested and the Commission has approved an increase in the number of sworn staff that allows a change from Unfavorable and Watch. The County continues to strive to maintain an officer to resident to available officer's ratio of 1 officer to 2,250 residents or less.
- Fringe Benefits – 'Watch'– The County can only control two areas of fringe benefits. These are 1) Worker's Compensation – Through maintaining a low mod factor and soliciting new carrier when needed, and 2) Employee Health Insurance Premiums – the County balances employer costs while maintaining recruiting competitiveness.
- Compensated Absences – 'Watch' – As previously stated the County has very limited control over this trend and has made adjustments in compensatory accrual, the one area where direct control is available.
- Property Values – 'Favorable' – This indicator improved from watch and looks to be on track for continued growth for the next 3 years.

- Residential Property Values to Total Property Values – ‘Favorable’ – This is controlled by the State, however, the County continues to emphasize the low taxes in the County and the Commission is not levying over $2 Million in taxes.
- Property Tax Analysis – ‘Favorable’ – increased valuations, number of parcels with a positive decrease in reliance on residential taxes, average parcel valuations and average parcel general tax have positively affected this indicator. This should continue for FY 2018 based on available increases in valuation at over 8% state wide, with Gallatin County significantly higher than the state average.

FINANCIAL CHALLENGES – Recommendations:

- Implement a fiscal philosophy that emphasizes sustainable budgets – Current year revenue is within a small percentage of authorized budget (excluding re-appropriated capital) and that encourages departments to include resiliency into their planning
    - Equalize Revenues to Expenses – (PAY AS YOU GO) Increase revenues and reduce costs to balance with ongoing revenues.
    - Set goal of amount or percentage that Commission will not tax for market variations, emergency or contingency. Establish policy on when taxes can be increased.
    - Create policy to dedicate re-appropriated cash to infrastructure, wherever possible. Staff has recommended the transfer of a portion of excess cash from the Public Safety Fund and General Fund to capital projects at the end of FY 2017.
- Maintain infrastructure
    - Fairgrounds Capital Set aside – Continue the $100,000 per year tax in capital project in FY 2018, with the goal of increasing to $150,000 by FY 2019 – similar to Bridge Replacement;
    - Capital Facility Set aside – continue setting aside $500,000 in taxes each 4 year for the updating and replacing of county facilities.
    - Road large project reserve needs to be considered. Currently the Road fund is falling behind on setting aside funding for future large projects. The staff at the road department will identify roads that need improvement, overlays or major changes, estimate the cost of each project and what a reasonable timing would be for each project. The Finance office will recommend a plan for the funding of these projects on an ongoing basis.
- Retain and hire qualified employees – The County needs to look at changes to wage plans to be competitive in today’s market. Not only to attract good qualified applicants but to retain current employees. We must also maintain competitiveness with our fringe benefit package by keeping health insurance premiums at a reasonable amount for employee and dependent coverage.
- Maximize growth in area – Use all avenues to maintain and add business opportunities; and,
- Implement growth policy – Continue funding.