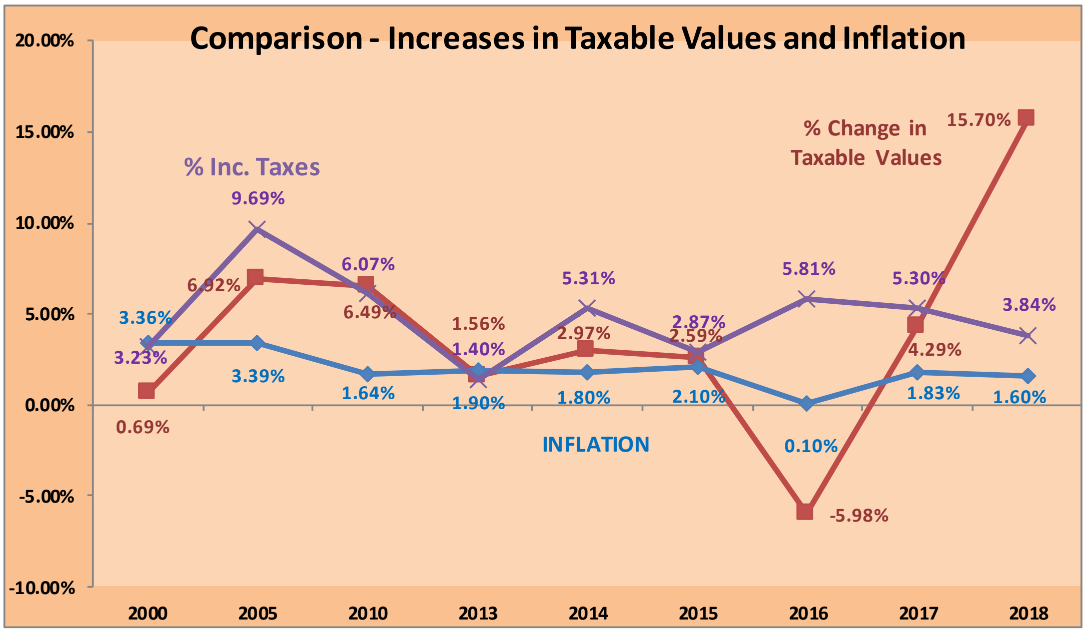
FY 2018

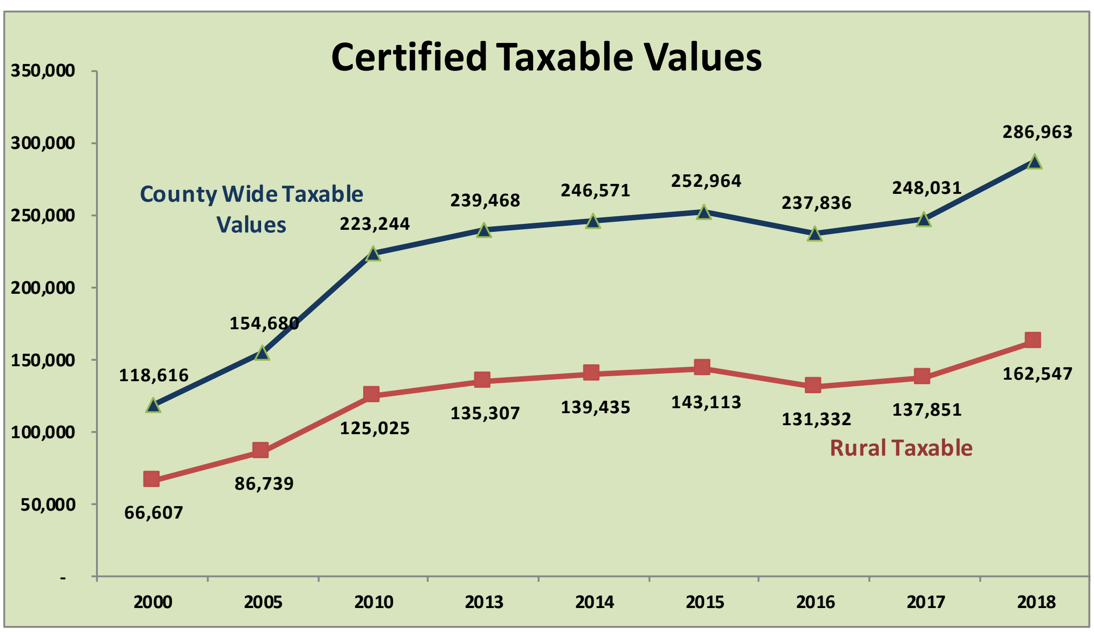
Financial Trend Analysis and Financial Forecast

County of Gallatin, Montana

Tuesday, February 27, 2018

Changes in Certified Taxable Value





Gallatin County Finance Office

Ed Blackman, Finance Director

FY 2018 FINANCIAL TREND ANALYSIS
Gallatin County, Montana

February 27, 2018

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 adopted a mission statement using strategic planning and performance measures when developing both long and short-term financial goals. As a part of continued improvement to County financial viability, the Commission approved Resolution 2015-021 'Establishing Gallatin County's Budget Policy on Sustainable Budget, Resilient Government and Operating Reserves'.

The attached Fiscal Year 2018 Financial Trend Analysis supports the policies and goals established by the County Commission, by providing the Commission, county staff and residents with information necessary on current Financial Trends. This information is the beginning of the FY 2019 Budget as well as projections of Gallatin County's future position.

This Analysis takes several factors and trends into consideration, including historic revenues, expenditures, activities, population, valuations, along with present financial factors. These trends and factors are used to project five years into the future. The process is intended to identify future opportunities and challenges that may affect Gallatin County. The analysis takes into consideration the County's ability to sustain current service levels, and gauge the County's resiliency against impacts from outside factors.

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

My analysis uses fiscal year 2000 as a base year, followed by fiscal years 2008-2017, in addition to fiscal year 2018 year-to-date. In total 23 indicators are outlined within the analysis and used to determine whether the County is in a favorable, watch or unfavorable position. My findings show the County to be in **a FAVORABLE financial position because 18 of 23 indicators** are favorable position.

In support of the strategic planning initiative, the County is implementing Performance Measurements. The county has put this initiative on hold pending full implementation of the new financial software during FY 2019. As part of the financial software project, the County goal is to have public access to financial reports and information along with input into measurements through an online dashboard system.

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 quantitatively depict the financial condition of Gallatin County, through use of financial trend monitoring and forecasting. The Analysis is a mechanism to provide the Commissioners with information necessary for informed decisions during the FY 2019 Budget.

The analysis intended to provide the public, Commission, County Administrator, Elected Officials, Department Heads and employees with a glimpse into the County's past, present and future financial activity and position. Management can use the analysis to identify needed policy changes.

MYTHODOLOGY:

The analysis uses 23 indicators separated into four categories. The indicators taken together determine the financial health of Gallatin County. The analysis includes formation of conclusions and recommendations to improve the County's financial health. The categories are:

- **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 Outlook** – Growth – population, taxable value, debt, and millage; and
- **Concepts/Benchmark** – Taxes per resident, percent taxes to budget, sustainability and resiliency.

The 23 indicators, including those for maintaining a Sustainable Budget and Resilient County are ranked as Favorable, Watch (Monitor) or Unfavorable. Trend analysis are based on annual reports and budgets from 2007-2008 through 2016-17, along with the first 6 months of actual revenues and expenses for FY 2018.

- **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 needs attention. An Unfavorable overall trend occurs when 10 or less indicators are Favorable;

Factors determining a Favorable Rating for each Indicator are:

REVENUES – five favorable with two in watch rating:

- 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 – five favorable, one watch and one unfavorable:

- 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 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;

ECONOMIC OUTLOOK:

- Property Values – increase in property values greater than rate of inflation;
- Residential values – maintain or decrease percentage of residential values to 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.

CONCEPTS AND BENCHMARKS – based on comparison of six urban counties and the State of Montana – eight favorable and one in a watch status:

- Taxes per resident – Gallatin County maintains low taxes per resident (maximum of 2nd lowest urban County);
- Percent taxes are to total budget – Gallatin County levies taxes to total budget at the lowest possible percentage. Gallatin County is the 3rd lowest urban county;
- Sustainable Budget, per policy - 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,;
- Resilient County. per policy –maintain Operating Reserves in the General and Public Safety Funds at a combined 12%, with a minimum of 5% of taxes not being levied, except for emergencies, and that tax increases shall not exceed the prior year's inflationary cost by more than 1%.

The rating of these factors for FY 2017-18 is **'FAVORABLE'** **–** The analysis shows eighteen indicators are Favorable, 4 are in a Watch status and 1 indicator is Unfavorable.

FY 2000 through FY 2018 Trend Analysis Summary:

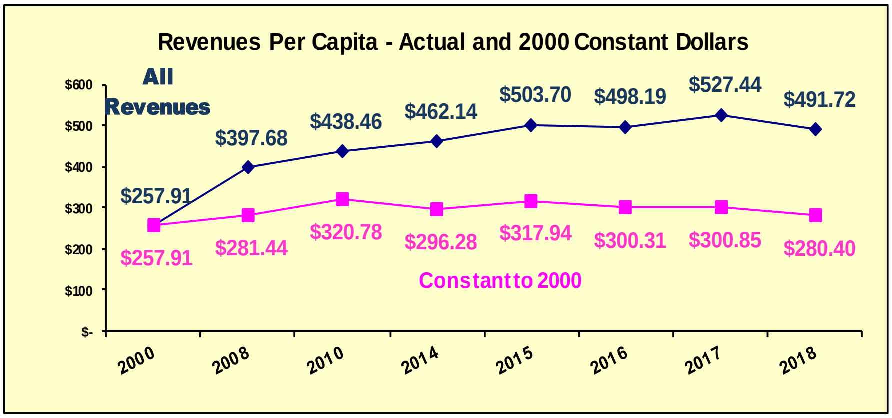
The following tables is a summary of the 23 indicators by year, from FY 2000 through the first half of the FY 2018 budget. The indicators are ranked based on being Favorable, Watch or Unfavorable.

Indicators:	FY 2000	FY 2005	FY 2010	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenues:								
Per Capita	Fav.	Fav.	Fav.	Watch	Watch	Watch	Fav.	Watch
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.	Watch
Utilization of Cash	Fav.	Unfav.	Fav.	Fav.	Unfav.	Unfav.	Unfav.	Fav.
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.	Fav.	Fav.	Fav.	Fav.
Sworn Officers/Capita	Unfav.	Unfav.	Unfav.	Unfav.	Watch	Watch	Fav.	Fav.
Fringe Benefits	Unfav.	Unfav.	Fav.	Unfav.	Unfav.	Watch	Watch	Unfav.
Capital Outlay	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Compensated Absences	Unfav.	Watch	Unfav.	Watch	Watch	Watch	Watch	Watch
Economic:								
Property Values	Fav.	Fav.	Fav.	Fav.	Fav.	Watch	Fav.	Fav.
Residential Values to total	Unfav.	Unfav.	Fav.	Watch	Watch	Watch	Fav.	Fav.
Property Tax Analysis		Fav.	Watch	Fav.	Fav.	Watch	Fav.	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.	Watch	Watch	Watch	Watch
Sustainable Budget					Fav.	Fav.	Fav.	Fav.
Resilient County					Fav.	Fav.	Fav.	Fav.
TOTAL FAVORABLE	**12**	**11**	**14**	**15**	**16**	**14**	**19**	**18**

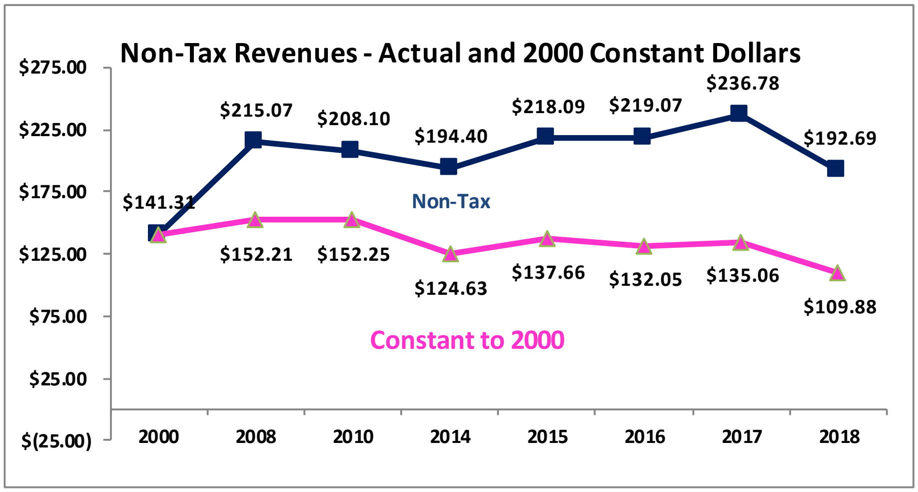
The overall rating of these factors for FY 2018 is **'FAVORABLE'** – with 18 indicators showing Favorable 4 being in a Watch status and 1 ranked as Unfavorable.

Revenues Per Capita

Finding: ***WATCH*** – Revenues per capita reflect a decrease for FY 2017 for actual Revenue and in constant dollars. Budgeted non-tax revenues per capita decreased to $194.56 for FY 2018, significantly below revenues per capita in FY 2008. Revenues rank overall as watch because projections for year-end show non-tax revenues at $212. Tax Revenues per capita continue to increase. Because of the flattening of Detention Inmate and Land Use revenues at the amount budgeted, it is projected that combined Tax and Non-Tax revenues will stay about the same as actual FY 2017 revenues.



The graph to the right shows an increase in actual dollars generated per capita from FY 2000 through FY 2016. With a decrease for FY 2017 and FY 2018. Constant dollars, using 2000 as the base year shows a change year to year, with decreases through 2014, and decreases in 2015 through 2017, with 2018 continuing to show a decrease in per capita revenue. The decrease actual and constant dollars comes partly from a decrease in the cost of 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 $3,912,095 in FY 2017, a 5.19% increase in from FY 2016 and 184.14% from FY 2000.

- Charges for Services – include Clerk and Recorder, Clerk of District Court, Sheriff Services etc. and have increased to $10,915,590 in FY 2017, a 121% increase from FY 2000. FY 2018 receipts are slightly below FY 2017.

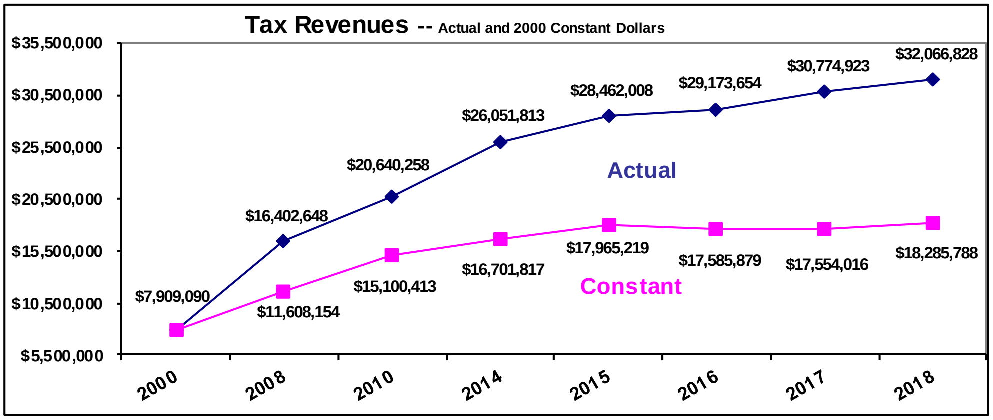
- Fines and Forfeitures – Justice Court revenues increased to $599,574 for FY 2017, down from FY 15 and 14 and 20% below the high in FY 2009 ($755,000). The decrease, from FY 2009, comes from bond forfeitures split with the state. FY 2018 appears to be trending down with a $12,000 decrease below budget projected.

- Other revenues that have increased include Investment Interest by 37.25% for the General Fund and Local Option MV fees have increased to $4.4 million, a 15.58% 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 graph below shows actual dollars collected for FY 2000 through FY 2017, with FY 2018 using Budgeted Tax Revenues. The graph also shows taxes using constant dollars with 2000 as base.



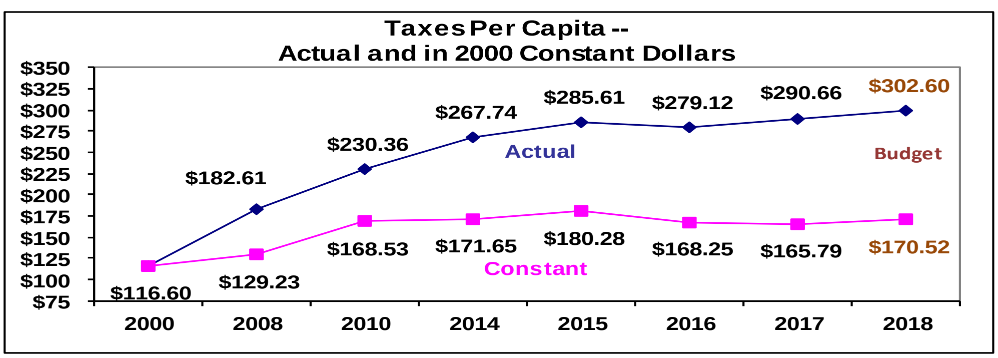
Items that have affected tax revenues include:

2005 - 2006	Used New Construction for operations and maximized millage to maintain service
2010	Did not use $1,746,346 in County operational and $39,820 in Road (Rural) taxes
2014	Did not use $1,861,440 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
2018	Did not use $3,023,827 in County operational and $ 45 in Road/Library taxes

Since FY 2010, the County Commission has not levied $21,809,588 in taxes.

Finding: ***Favorable*** – Property Tax Revenues have increased, except for debt, and are budgeted to increase for FY 2018. With the ability to levy the unused taxes from FY 2018, this positive trend should continue for FY 2019. The improvement in the local economy exceeds most expectations, with construction significantly improving in calendar year 2017. This will positively affect the County's valuation for the FY 2019 and FY 2020 budget cycles.

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



The graph shows that in constant dollars, residents are paying $55.57 more in taxes than 18 years ago, ($3.09 per year). Actual tax dollars paid increased by $186 ($10.33 per year) from 2000 through 2018.

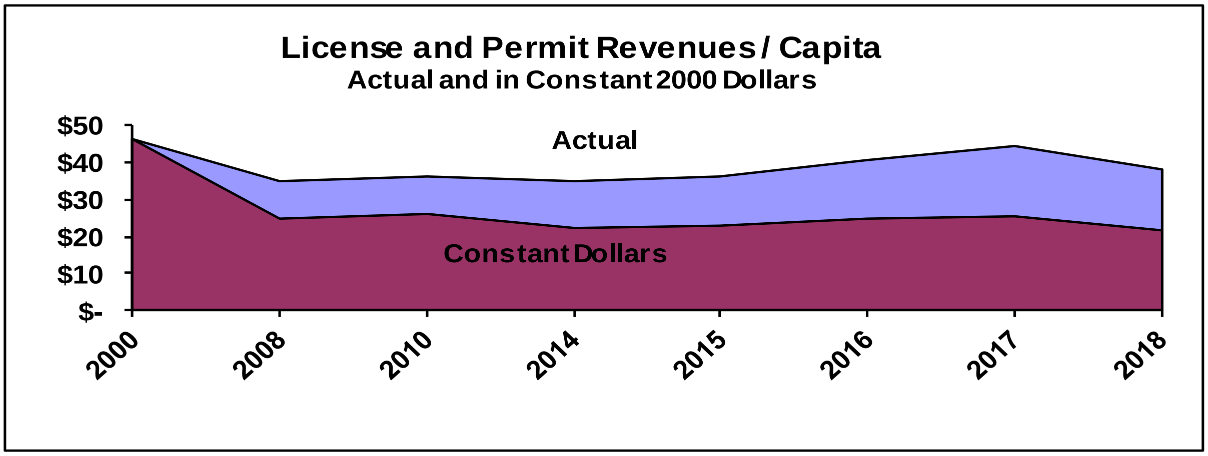
Favorable = tax revenues and taxes per capita show an increase to offset inflation and to allow for growth caused by increase in population, when adjusted for debt service.

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 2014 $3,304,638 8.36%
- FY 2015 $3,592,389 8.71%
- FY 2016 $4,240,176 18.03%
- FY 2017 $4,702,570 10.90%
- FY 2018 $4,053,195 Budget Estimated Actual $5,036,296

For FY 2011 through FY 2017, and projected for FY 2018, the County has seen increases in this revenue source (up 5.60% on average for the last 12 years, 10.90% for FY 2017). This comes from the local economy improving and the purchase of newer vehicles. Mid – year collections for FY 2018 show continuation of this trend, a 7.1% increase from FY 2017 revenues is forecast for FY 2018.



Finding: ***Favorable*** – License and Permit Revenues show an increase in growth from FY 2010 to FY 2017, with FY 2018 actual revenue projected to be increasing by 7%. 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.

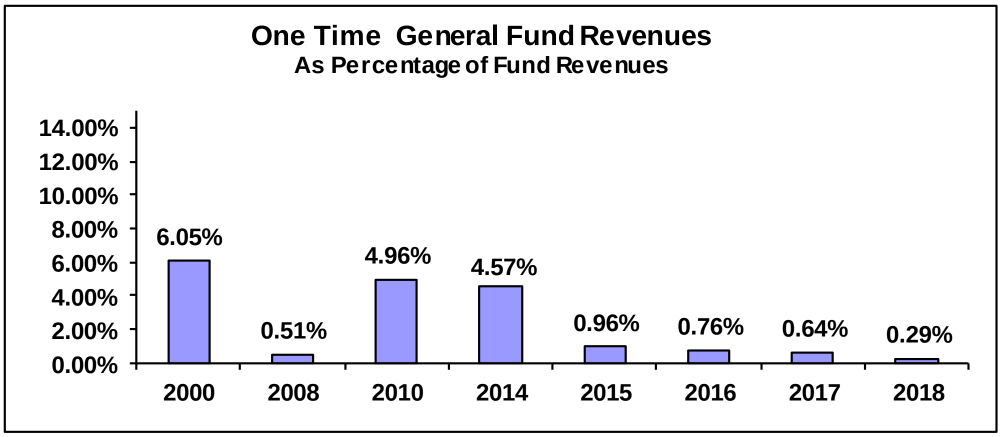
Current estimates indicate licenses and permits will continue to increase, for the next several years. Licenses and permits have increased faster than inflation through the first six months of FY 2018.

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.

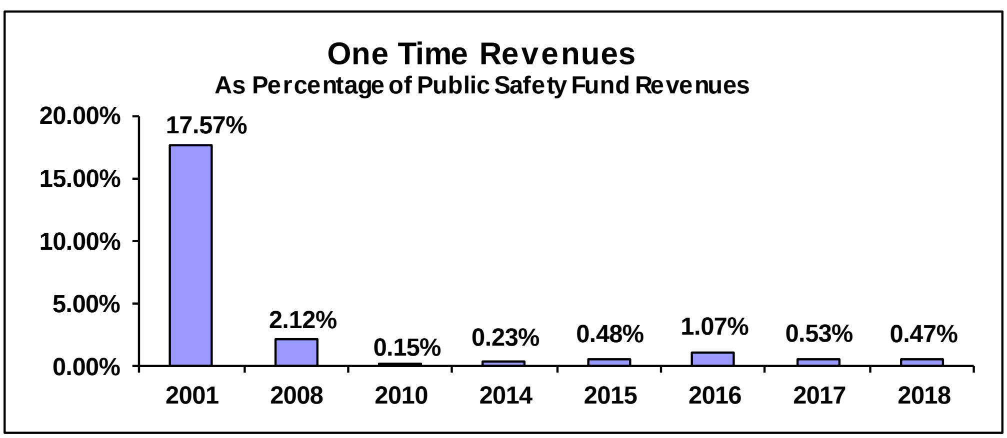
One Time Revenues

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%

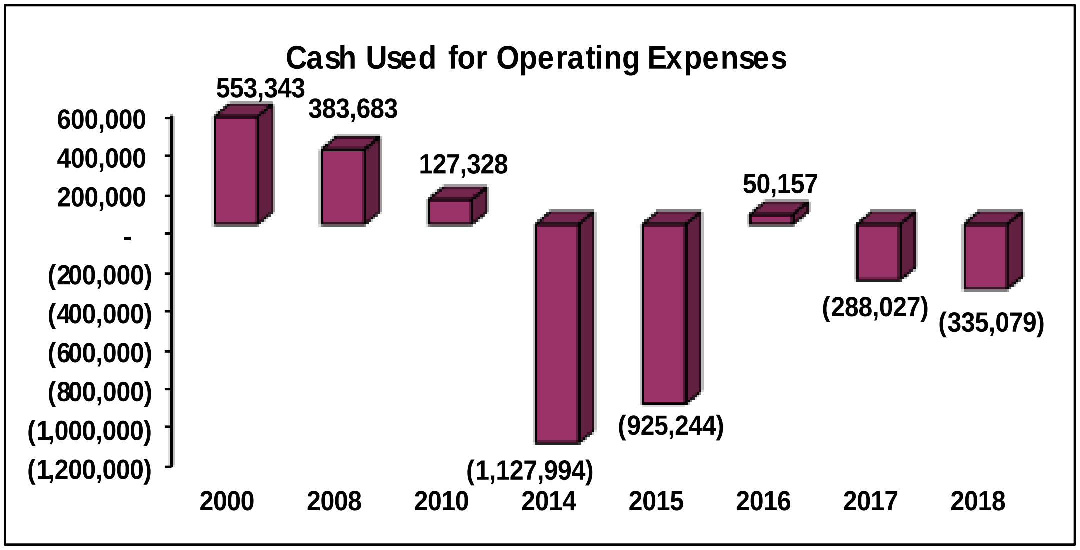


The decrease of one-time revenues in the Public Safety Fund is the result of the County Commission's decision to levy taxes in the Public Safety fund instead of levying in the General Fund, and elimination of a separate fund for employer contributions.

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 18 years. These numbers are actual and do not include the amount budgeted, except in FY 2018, which does 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, Fair Facility Set Aside, Dispatch Equipment Plan and the Facility set aside. These eliminate several major concerns about sustainability of facility's, infrastructure and equipment for rolling stock needing replacement on a planned basis, as well as large bridge replacement.



Without cash re-appropriated, the County Commission could not have funded the FY 2018 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 $2.8 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 2018 budget shows the County Commission using $2.8 million in cash to fund General and Public Safety expenses. About $1.1 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.

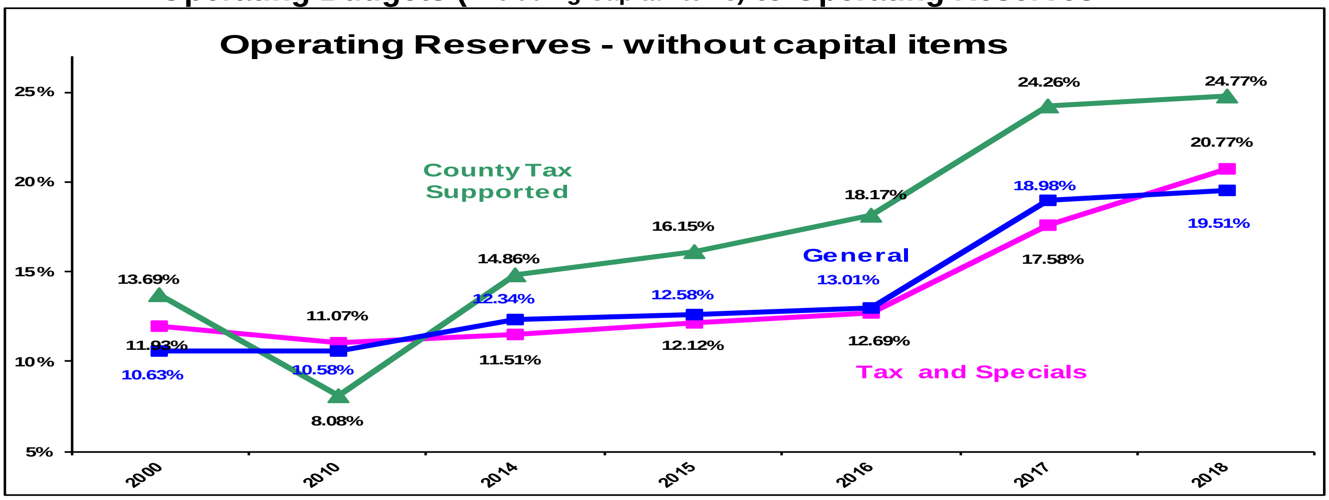
Operating and Capital Reserves

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

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, as 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

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, FY 2017 and the FY 2018 budget.

The proceeding graph shows the low Operating Reserves prior to the adoption in FY 2014 of the Operating Reserve policy for the finance office to use when recommending budget operating-reserves. The County's policy complies with the stated objective of (a) minimizing and eliminating registration of warrants (not running out of cash and having to borrow money), (b) ensuring adequate reserves for each fund, and (c) meet the needs of departments, activities and programs 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:

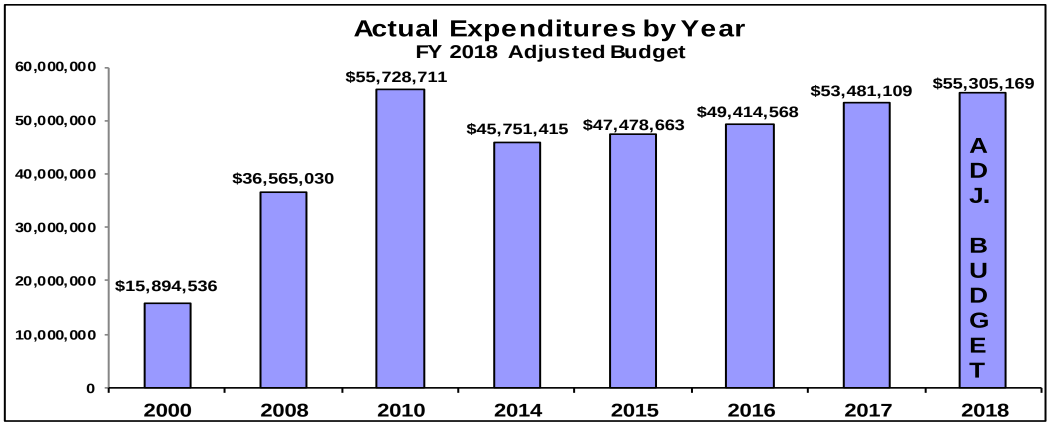
	FY 00	FY 05	FY 10	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18
Below Minimum	10	10	8	0	0	0	0	0	0
At or above Minimum	20	16	17	15	15	15	15	15	15
% At or above Minimum	67%	62%	68%	100%	100%	100%	100%	100%	100%

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

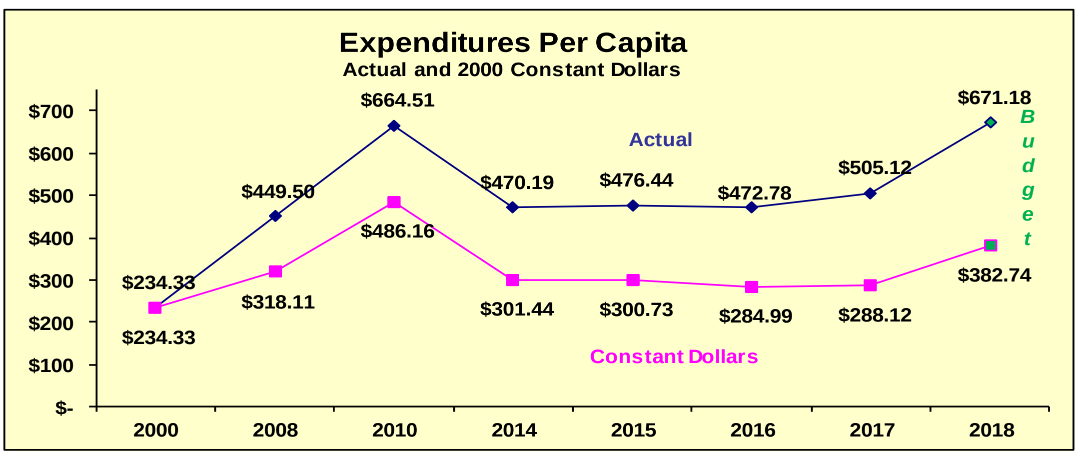
Expenditure History & Current Expenses

Expenditures

Actual expenses during the preceding seventeen years, and the FY 2018 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 2018 Budget does not include approved Capital Reserves. This adjustment accurately reflects what actual expenses are likely to be for FY 2018. All calculations use only expenses from the County's tax supported funds, and excludes grants, etc.



County expenses in **actual** dollars increased from $15.9 million in FY 2000 to $53.5 million in FY 2017, a 336% increase in sixteen (17) 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.

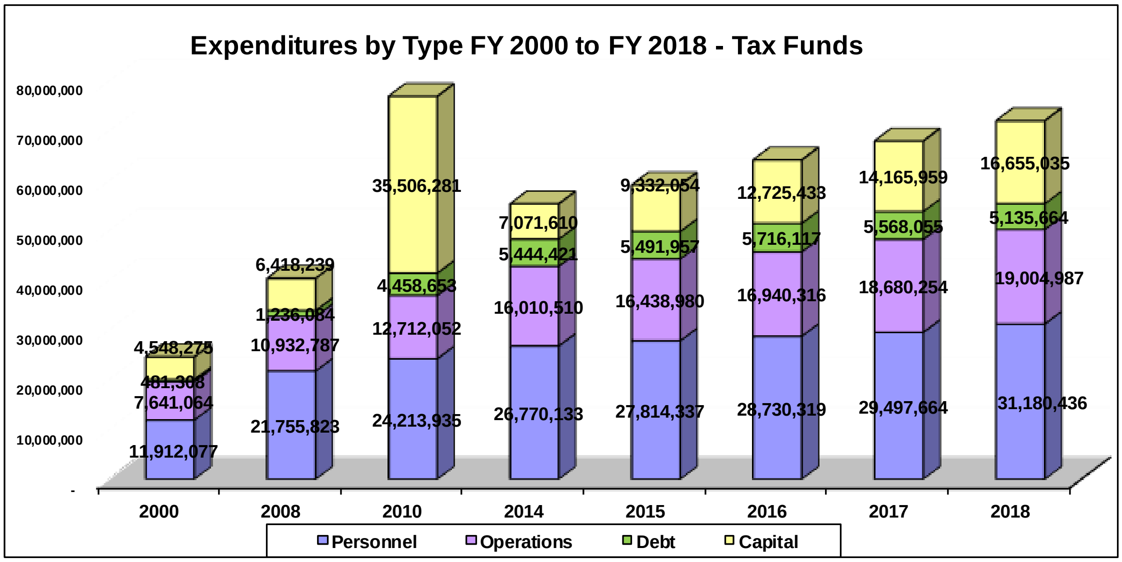


Finding: ***Favorable*** **–** Expenditures per capita in actual dollars and constant dollars have increased. The significant per capita increase from FY 2005 to FY 2010 is from construction of the Detention Center. The increase shown for FY 2018 will be significantly less when actual expenses are known. This trend is shown as Favorable because the decrease from FY 2010 to 2014 comes from completion of the Detention Center and gradual decreases in debt costs, with normal operating expenses continuing to show a gradual increase.

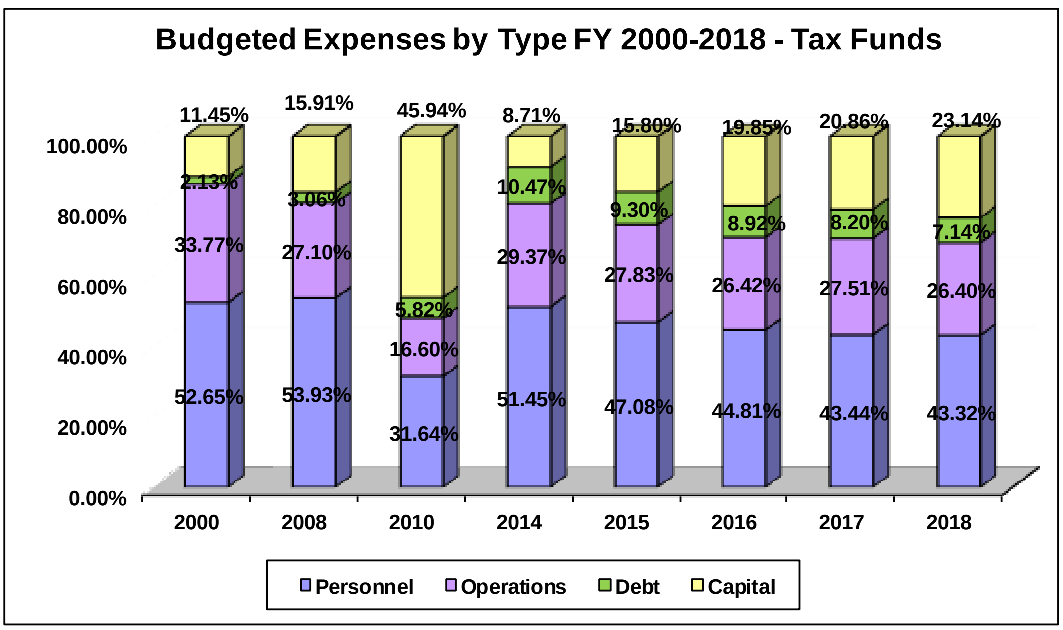
Favorable = a gradual increase in the actual and constant dollars spent by each resident indicates the County is maintaining or improving its costs for services.

Expenditures by Category

The graph below 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 50.10% in FY 2018 Budget.



The following charts show personnel, the largest cost for Gallatin County, decreasing from Budgeted FY 2000 expenses of 52.65% to FY 2018's 48.32%. 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 like worker's compensation, retirement contributions and health insurance.

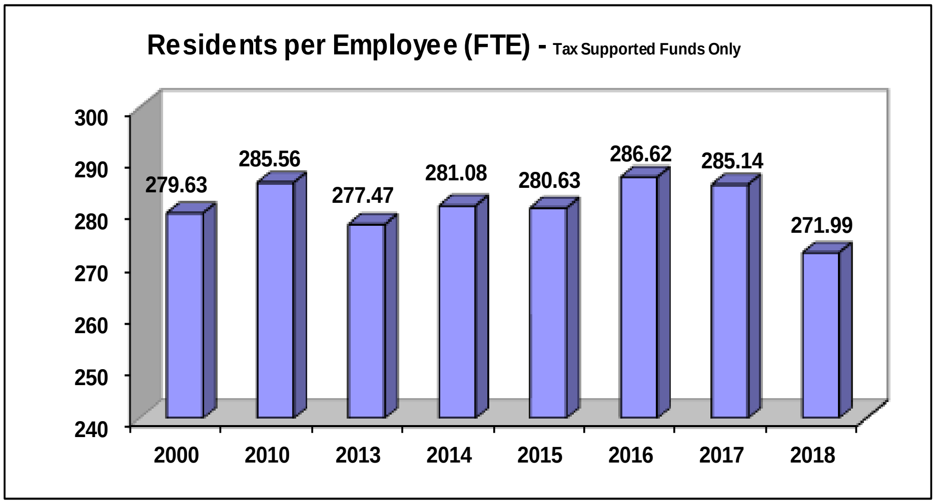


Finding: ***Favorable*** – Expenditures by category for actual expenses show a decrease in the percentage being spent on personnel. FY 2018 numbers are based on the approved budget and will decrease before year-end.

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

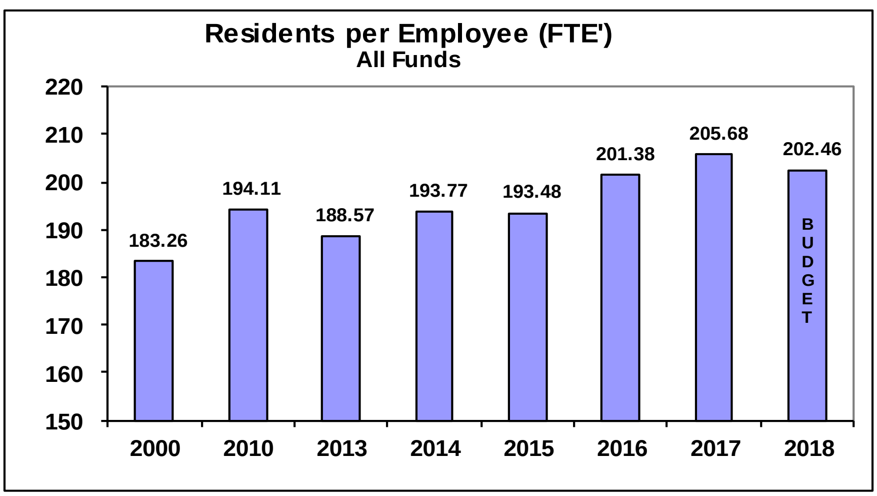
Employees Per Capita

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 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 increasing by 2.73% since FY 2000. The decrease for FY 2018 comes from the addition of staff to the Detention Center for Medical Services and Court Security.

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 shows an increase in budgeted employees per resident (0.16% average increase per year) over the last 18 budgets.

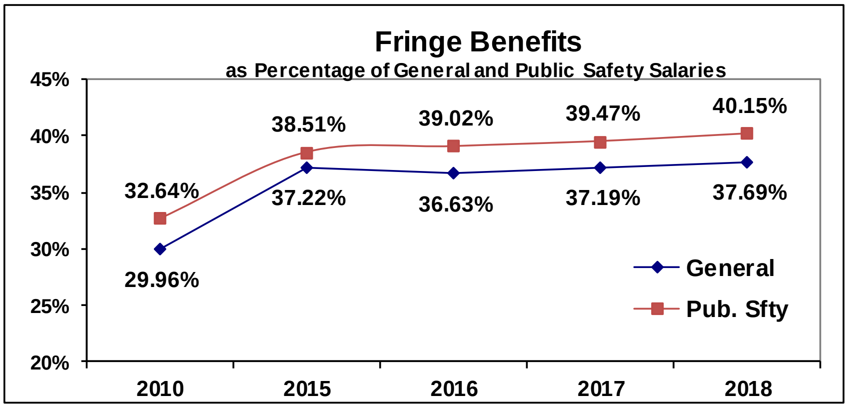
Favorable = trend is a marginal decrease in the number of residents per employee, for tax supported funds.

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 costs, this results in an Unfavorable rating.

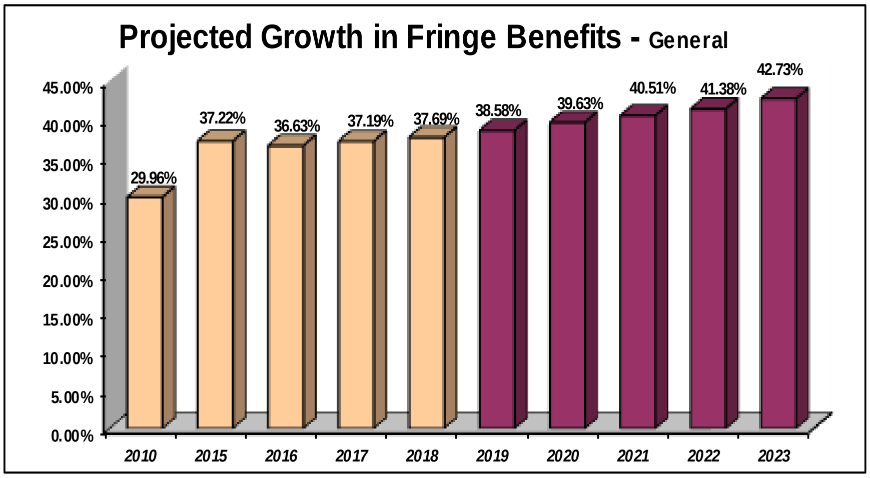
The following graph shows fringe benefit costs as a percentage of General and Public Safety salaries. Fringe benefits include unemployment insurance, Worker's Compensation and employer contribution to health insurance, Public Retirement Systems (SRS, PERS, TRS) and Social Security / Medicare costs.

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: ***Unfavorable*** **–** Fringe benefit percentages have increased in FY 20187. For FY 2018, 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 2019 and FY 2020,** to offset medical cost increases. In addition, the County will be increasing PERS by 0.10% each year for the next 5 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 14.10% increase in fringe benefits from 2000 to 2018 equals $2,268,007 countywide.

Finding: ***Unfavorable*** **–** The percentages for FY 2018 show an increase, with percentages projected to increase for the next 5 years.



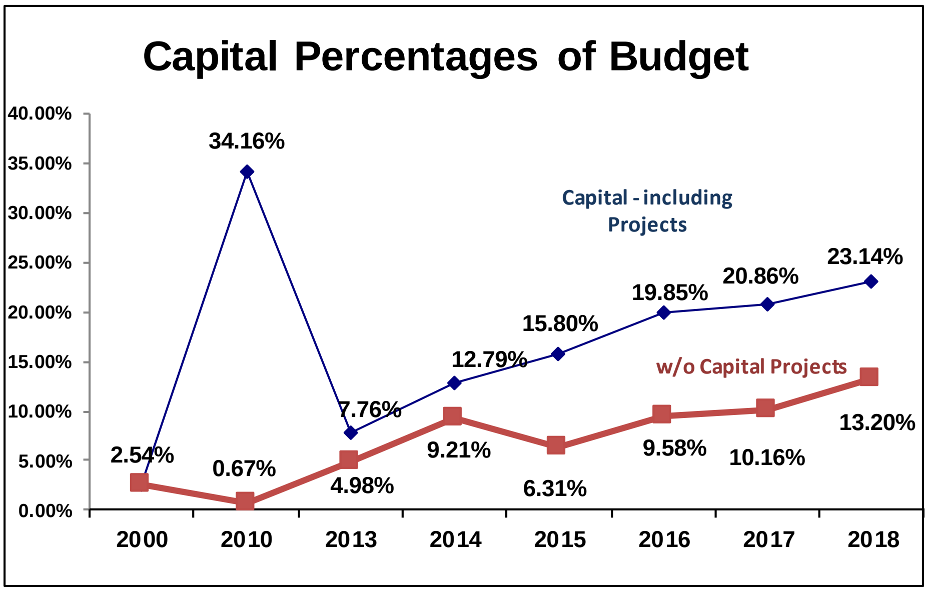
The County continues to take an active role in controlling costs of Worker's Compensation and health insurance premiums to avoid an Unfavorable ranking. The County may have to explore changes in health insurance deductibles, cost retention by employees and preferred providers to maintain low costs. The 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 had a capital budget as justified without setting money aside for larger projects. 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. The decision to include Core Rolling Stock, Bridge Replacement Program, Fairground capital projects and County Facility Replacement 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 2018 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, is 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:

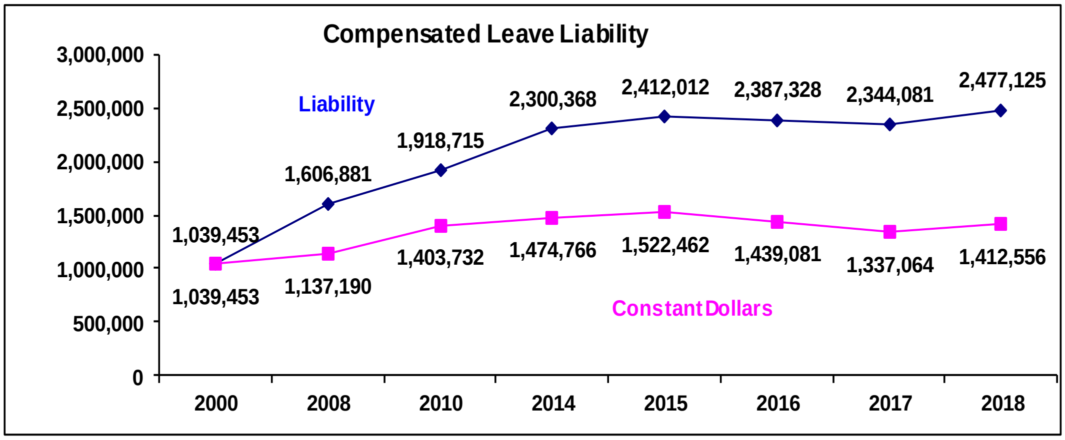
- Communication fund with equipment reserves – current set aside $375,000 for VOIP;
- Computer/Routers/Servers $200,000 yearly replacement account in PILT;
- Rolling Stock (CORE) fully funded at $695,500 per year plus departments contributing $382,300;
- Copiers funded through per copy charge for a majority 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 $595,704 reserved FY 2018);
- 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.

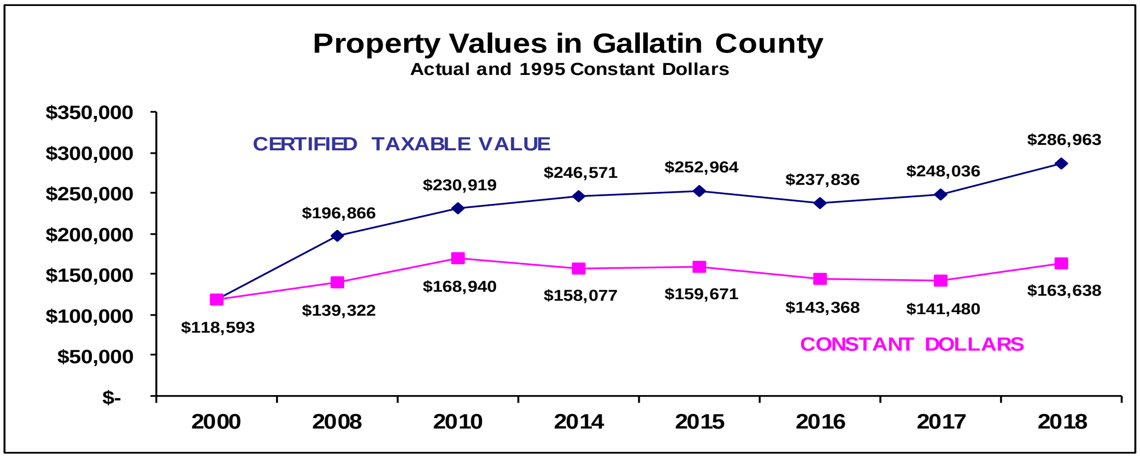
	Sick Leave		Annual Leave		Compensatory Leave		Fringe	TOTAL
	Hours	Cost ($)	Hours	Cost ($)	Hours	Cost ($)	Cost ($)	Cost ($)
2005	76,070	$ 352,993	46,117	$ 815,774	4,013	$ 72,514	139,528	$1,380,809
2010	90,487	$ 491,882	53,198	$1,104,376	3,506	$ 67,566	327,595	$1,991,419
2012	102,473	$ 588,575	57,334	$1,246,812	4,071	$ 81,029	344,704	$2,261,120
2013	104,027	$ 602,189	56,324	$1,255,609	3,992	$ 88,693	353,877	$2,300,368
2014	105,901	$ 621,142	58,522	$1,307,809	4,256	$ 92,894	390,167	$2,412,012
2015	105,463	$ 619,878	57,931	$1,300,737	4,333	$ 88,550	378,163	$2,387,328
2016	107,540	$ 647,180	60,037	$1,382,091	4,976	$ 107,688	402,494	$2,539,453
2017	107,181	$ 675,725	61,675	$1,462,170	5,719	$ 111,302	411,591	$2,660,788
% of Total	61.40%	25.40%	35.33%	54.95%	3.28%	4.18%	15.47%	
Change	(359)	$ 28,545	1,638	$ 80,079	743	$ 3,614	$ 9,097	$ 121,335

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.

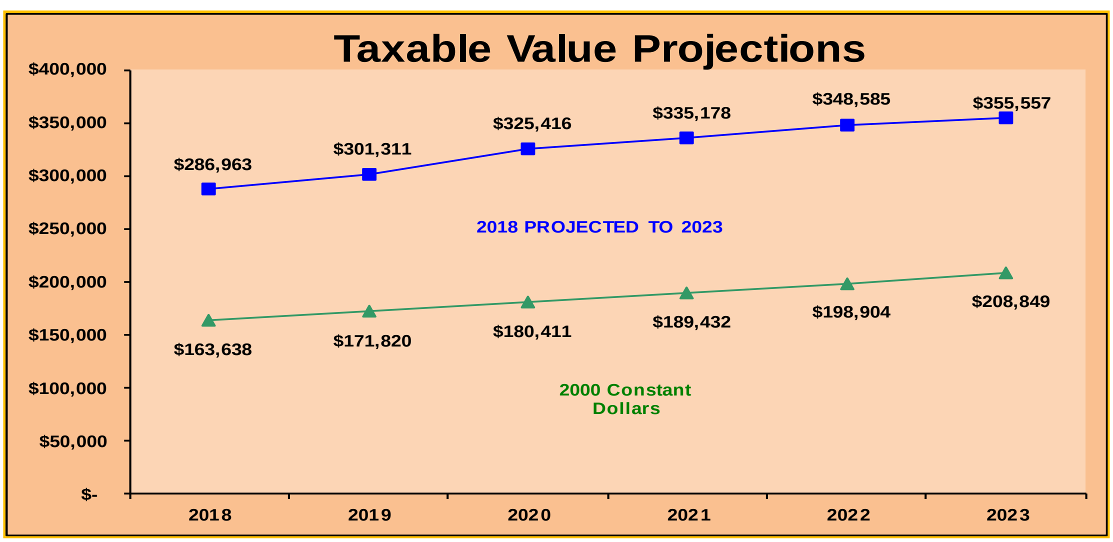
Property Values in Gallatin County



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 2018:

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%
2018	15.69%		

Finding: ***Favorable*** – As of FY 2018 the County has absorbed the FY 2016 decrease in Taxable Valuation. The elimination of the 6-year reappraisal cycle will more accurately reflect property values.



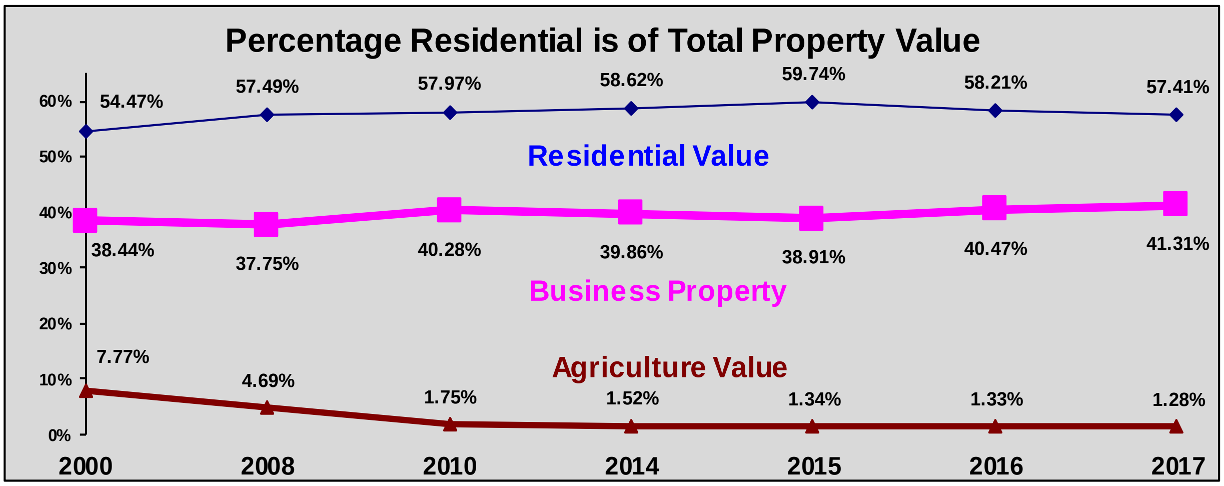
Favorable = an increase in taxable value greater than inflation

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 taxes paid by residential 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

	2008		2010		2015		2016		2017	
Real Estate Taxable Value	**202,345,872**		**226,669,945**		**238,050,755**		**250,065,914**		**287,370,785**	
Residential & N/Q Ag	132,354,002	65.41%	147,348,705	65.01%	153,514,499	64.49%	158,587,953	63.42%	189,592,070	65.97%
Commercial and Other	69,991,870	34.59%	79,321,240	34.99%	84,536,256	35.51%	91,477,961	36.58%	97,778,715	34.03%
Number Parcels Billed	**48,057**		**49,575**		**49,106**		**49,981**		**50,865**	
Average Parcel Taxable Value	**3,405**		**4,765**		**4,870**		**4,335**		**5,005**	
Average Parcel General Tax	**$ 1,896.93**	**-22.09%**	**$ 2,289.87**	**20.97%**	**$ 2,698.86**	**3.31%**	**$ 2,484.22**	**-7.95%**	**$ 2,800.15**	**12.72%**
MEDIAN MILL LEVY		478.85		481.73		556.14		563.28		538.78

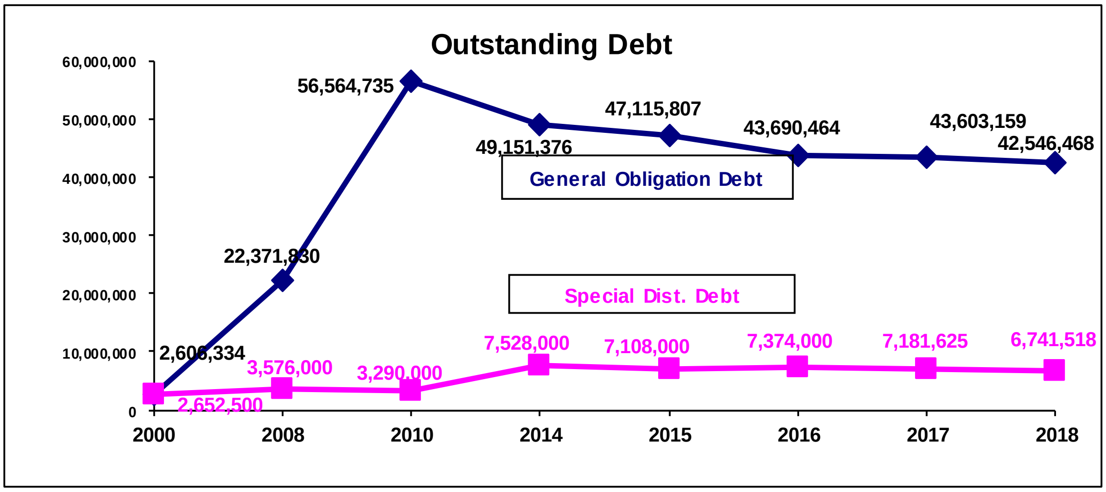
The comparison shows that:

1. Real Estate Taxable Values have increased by 26.77% from 2010 to 2017 with Residential moving up to 65.97% with Commercial decreasing to 34.03% ;
2. The number of bills created increased by 914 from last year, a 1.83% increase.
3. 2017 Average Parcel Taxable Values increased to 5,005 an increase of 15.45%; and
4. The Average General Tax increased by $315.93 (27.71%) similar to the 26.77% increase in values; however, the number of mills decreased to 538.78 with decreases in County, City and some School mills for operation and debt costs.

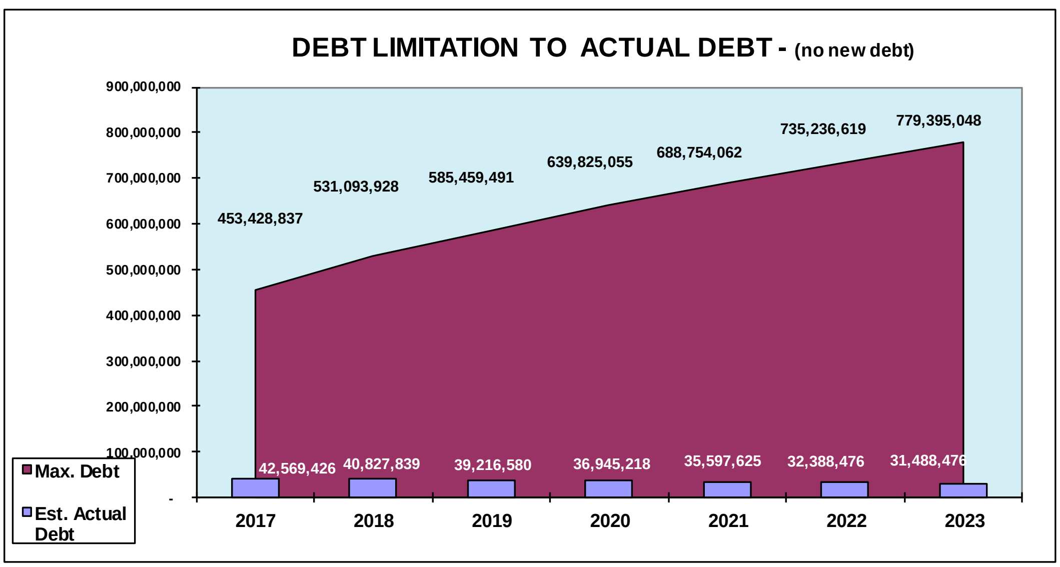
Finding: ***<u>FAVORABLE</u>*** – All areas saw an increase, except the number of mills which had to be decreased for County, City and Special Districts (Fire, Cemetery, Lighting).

Debt Service – General Obligation Debt

State law sets the maximum debt for Gallatin County at 2.50% of the County's Assessed Valuation of $18,137,153,478. As of June 30, 2017, the County had $42.5 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 available of $410,882,369 as of June 30, 2017.



The County borrowed $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. Plus an unknown amount for the upgrade to the County Wide dispatch function.



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 2018 Trend Analysis 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

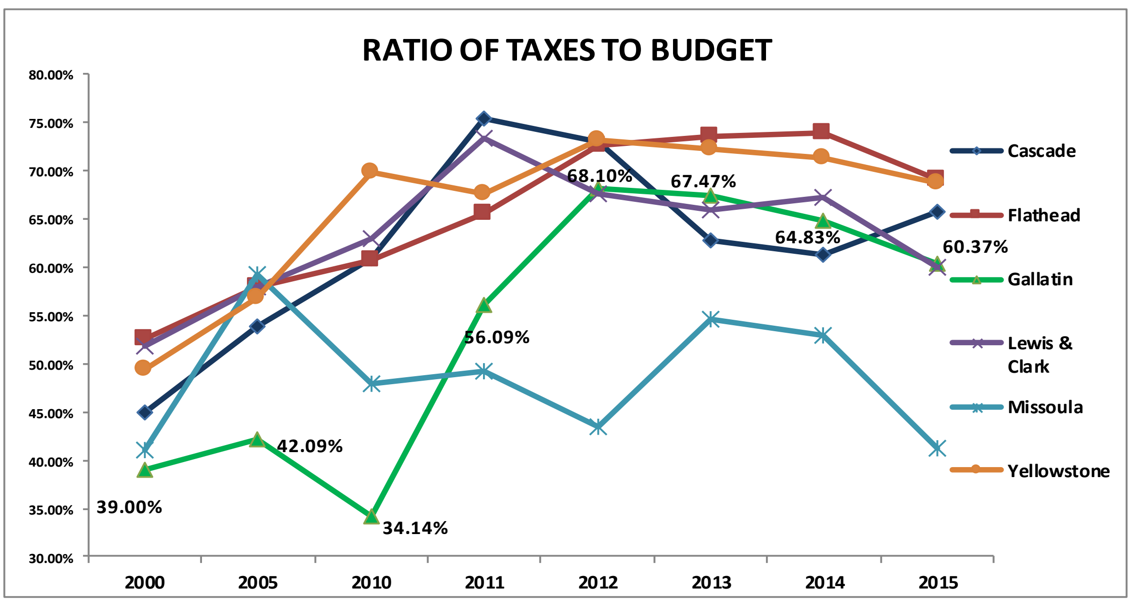
The following table shows a comparison of the six Urban Counties and the amount of taxes required by each resident based on the approved mill levies. The comparison may be distorted in years when counties began new levies for bonds or operations approved by a vote of the people, or when bond levies ended.

Taxes	2000	2006	2010	2012	2013	2014	2015
	Tax $ Per Resident						
Cascade	147.06	197.85	238.02	275.76	289.10	271.19	288.02
Flathead	185.45	268.68	322.36	379.05	376.60	376.96	389.07
Gallatin	138.85	199.72	289.88	310.06	302.42	303.54	303.31
Lewis & Clark	161.29	284.70	337.69	378.49	397.69	400.02	375.54
Missoula	176.31	271.14	308.02	320.98	324.70	334.26	345.62
Yellowstone	137.04	151.93	274.09	317.65	312.27	320.50	316.37

Finding: ***Favorable*** **–** This table shows that residents of Gallatin County have seen taxes per resident increase by $164.46 over 16 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. By combining 2000 Taxes per Residernt plus inflation plus voter approved taxes the County resident would be paying $397.66 each compared to the $303.31 of taxes for 2015.

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 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 is currently at 60.37% in FY 2015. Gallatin County has the lowest percentage of taxes to budget until FY 2011 when we are the second lowest. The County's gradual decrease in this ratio seen from the high in FY 2012 should continue barring increases associated with new debt being issued.

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 forecasts have to be mitigated with consideration that the United States has seen growth for 9 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 2018 and 2019. This would bring continue growth for 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 and urban counties should see growth of:

Year	Montana	Gallatin	Yellowstone	Missoula and Ravalli	Flathead	Cascade
2017	2.5	**5.2**	2.2	3.9	3.0	2.0
2018	2.4	**6.1**	3.1	3.1	3.4	1.7
2019	2.6	**6.1**	3.1	3.2	3.7	1.8
2020	1.8	**5.1**	2.6	2.6	3.0	1.6
2021	1.8	**5.3**	2.5	2.4	3.3	1.5

Outlook for Gallatin County

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

Projection Revenue / Expense

	2017	2018	2019	2020	2021	2022	2023
REVENUE:							
Taxes	27,095,204	28,250,672	29,239,446	30,218,967	31,125,536	32,214,930	33,294,130
Non-Tax	20,131,518	20,636,573	21,358,853	22,074,375	22,846,978	23,646,622	24,474,254
Subtotal	47,226,722	48,887,245	50,598,299	52,293,342	53,972,514	55,861,552	57,768,384
EXPENSE:							
Personnel	29,497,664	31,180,436	32,271,751	33,363,067	34,454,382	35,545,697	36,637,012
Operations	18,680,254	19,004,987	19,290,062	19,579,413	19,873,104	20,171,201	20,473,769
Debt	691,526	5,135,664	5,032,951	4,881,962	4,686,684	4,733,551	4,686,215
Capital	14,165,959	16,655,035	14,989,532	15,289,322	14,524,856	15,251,099	14,488,544
Subtotal	63,035,403	71,976,123	71,584,296	73,113,764	73,539,026	75,701,547	76,285,540
Difference	(15,808,681)	(23,088,877)	(20,985,997)	(20,820,422)	(19,566,512)	(19,839,996)	(18,517,156)

Amount of Cash needed to pay for Expenses

Effectively - the 'difference' will have to be made up through cash not used from the previous year.

I think the County can meet the FY 2019 projections (which do not include new staff), and FY 2020. The 2021 through 2023 years will be harder to fund given projected revenue. In addition, to approve new staff, new ongoing revenue is required.

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 population forecasts.

Description	2000	2010	2014	2015	2016	2017	2020
Population	68,375	89,616	97,304	99,946	104,520	106,840	113,956
% Pop. Employed	74.77%	72.97%	81.31%	77.93%			
Labor Force (County)	41,033	51,150	54,798	59,093			
Gross Employment	39,526	47,922	53,061	57,381			
Unemployment Rate	3.7%	6.3%	3.5%	2.9%	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%
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	247,900	4.23%	-2.00%	5.14%
2018	286,963	15.76%	20.66%	19.83%
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 as follows:

	Year	Est. Taxable Value	2018 Mills	Estimated Taxes
Base Year	2018	286,963	75.74	$21,734,578
	2019	297,007	75.74	22,495,288
	2020	306,956	75.74	23,248,880
	2021	317,086	75.74	24,016,093
	2022	326,599	75.74	24,736,576
	2023	337,540	75.74	25,565,251

This means, on 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 that 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 from 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 $1,060,134 (inclusive of benefits), per year.

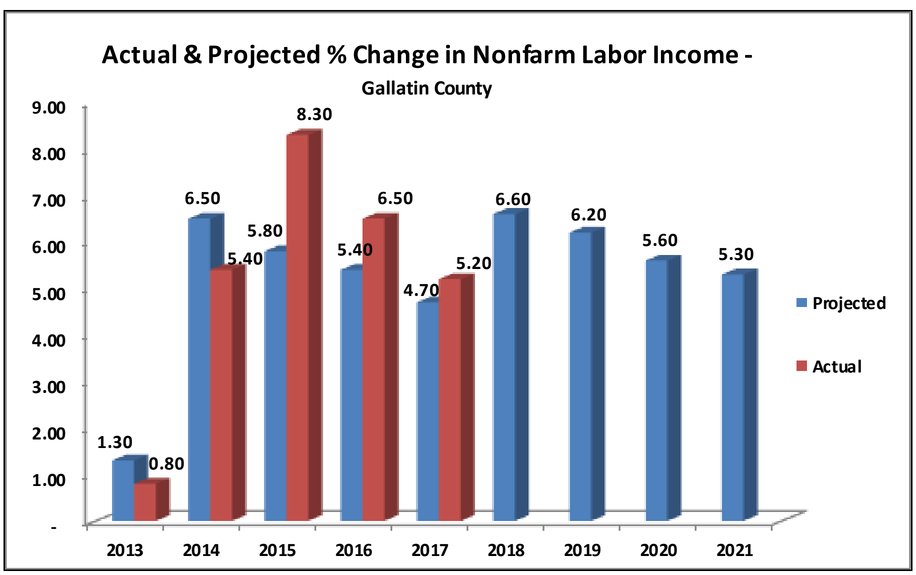
The second item affecting the cost of staff is the growth in the number of employees funded by tax-supported activities in Gallatin County. The growth factor for employees comes to an average of 4.4 new employees per year, based on the last 10 years change in full time equivalents. Based on an average cost of $69,857 per employee the county will have to plan for $307,372 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 taxes or non-tax revenue.

Total estimated cost for changes in current staff and new staff is estimated at $1,367,506. 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 $1,121,355 each year.

Projected Growth in local economy:

BBER showed growth in jobs state wide have slowed down significantly for 2017. However, Gallatin County's job growth was still over 2,250, about 18% below 2016. Other County's showed higher percentage of decrease, including Flathead at 30%, Yellowstone about 85%, and rest of state 90% reduction in job growth. The most recent information shows that Gallatin County's growth in wages for the first quarter of 2018 are similar to 2017 numbers.

The Bureau shows Real Estate prices accelerating in Gallatin County, with real estate sales for 2017 similar to 2016, and Median sale price increasing by over $20,000 (5.7%). Property's are staying on the market at less than 80 days for 2016 and 2017. Housing starts as percentage of peak (prior to recession) are 112.4%. Gallatin County saw continued strong growth in wages for 2017, up about 40% since 2007. The outlook for job growth shows a predicted slowing from the 3.9% in 2017 to 3.2% for the next several years. Estimated Nonfarm Earnings in the County is 5.65% for the next 4 years (2018-2021) only slightly lower than last years' projections.



The chart above 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%
2017				

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 53.22% (5.32% yearly) rate. However, the last 5 years has seen this increase to a 11.28% yearly rate. With 2015 increasing by 8.78%, 2016 at 9.86%, 2017 at 11.13% and 2017 projected increase of 8.64%. For future budget projections the county will be using a 4% growth rate from the prior year's actual. This will increase budgeted revenue by over $200,000 for FY 2019.

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%. The current rate of increase is significantly down due to legislative changes (less than 1%) If this continues this revenue source will not stay up with inflation, causing increased stress on already tight department budgets.

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 anticipated for state entitlement.

WATCH because state entitlement is not keeping up with inflation.

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 in the table below, the two areas listed show the county continuing in a strong position.

	Clerk	Zoning
FY 2018	$410,992	$246,085
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 above shows that the County should see growth slowing for FY 2019, and probably into FY 2020.

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 – 'Watch' – Actual revenues will be higher than the amount budgeted for FY 2018 from Detention Inmate, Investment Earnings, State Entitlement and Local Option Motor Vehicle Taxes. Land Use Fees (Clerk & Recorder and Planning) show a decrease from last year.
- Utilization of Cash – 'Favorable' – The County has decreased usage of cash for ongoing expenses and for capital associated with the General Fund and Public Safety Fund.
- 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 – 'Unfavorable'– 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. Reviewing all options associated with deductibles, out of pocket and coverages needs to be started so a clear message is given to employees long before changes are made to coverages.
- 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 continues being favorable with the two year reappraisal process.

- Residential Property Values to Total Property Values – 'Favorable' – This is controlled by the State, however, the County continues to emphasize low taxes in the County and the Commission is not levying over $3 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 2019 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) Emphasize an increase in revenues and reduction to costs to balance with ongoing revenues.
    - Set goal of amount or percentage that Commission will not tax for market variations, emergency or contingency. **Maintain current practice of holding a minimum of 5% of available taxes not levied for response to needs during the budget process**.
    - Adhere to policy dedicating one-time revenues / re-appropriated cash to infrastructure, wherever possible. Staff will recommend transfer of a portion of excess cash from the major funds to capital projects at the end of each fiscal year.
- Maintain infrastructure
    - Fairgrounds Capital Set aside – Continue earmarking $100,000 per year tax in capital project in FY 2019, with the goal of increasing to $150,000 for FY 2019 – similar to Bridge Replacement;
    - Capital Facility Set aside – continue setting aside $500,000 in taxes each year for updating and replacement of county facilities.
    - Consider implementing Road large project. 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 and benefits to be competitive in today's market. Not only to attract good qualified applicants but to retain current employees.
- Maximize growth in area – Use all avenues to maintain and add business opportunities; and,
- Implement growth policy – Continue funding.