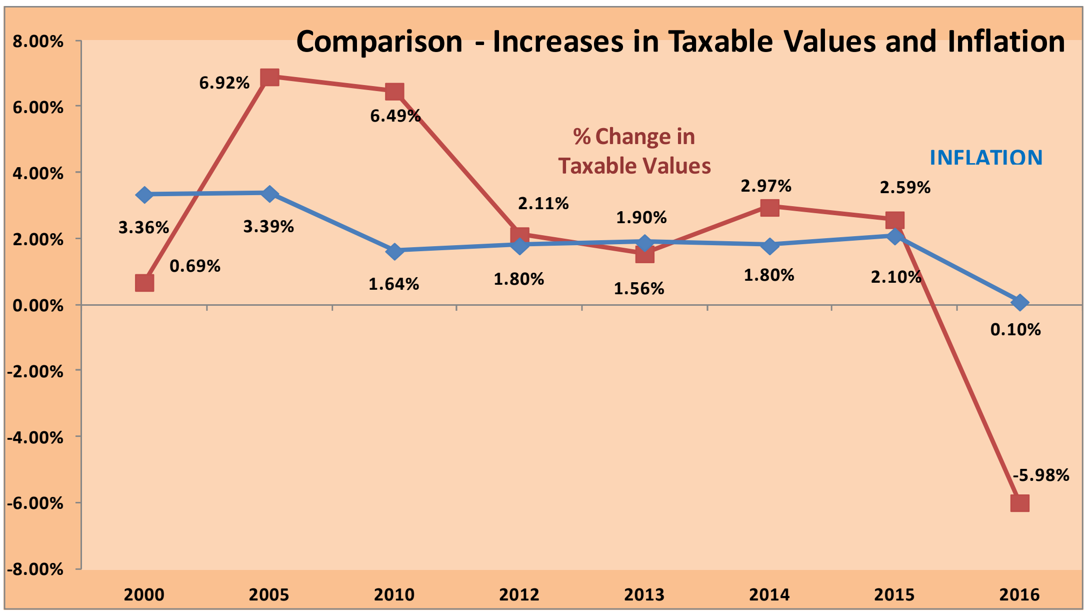
FY 2016

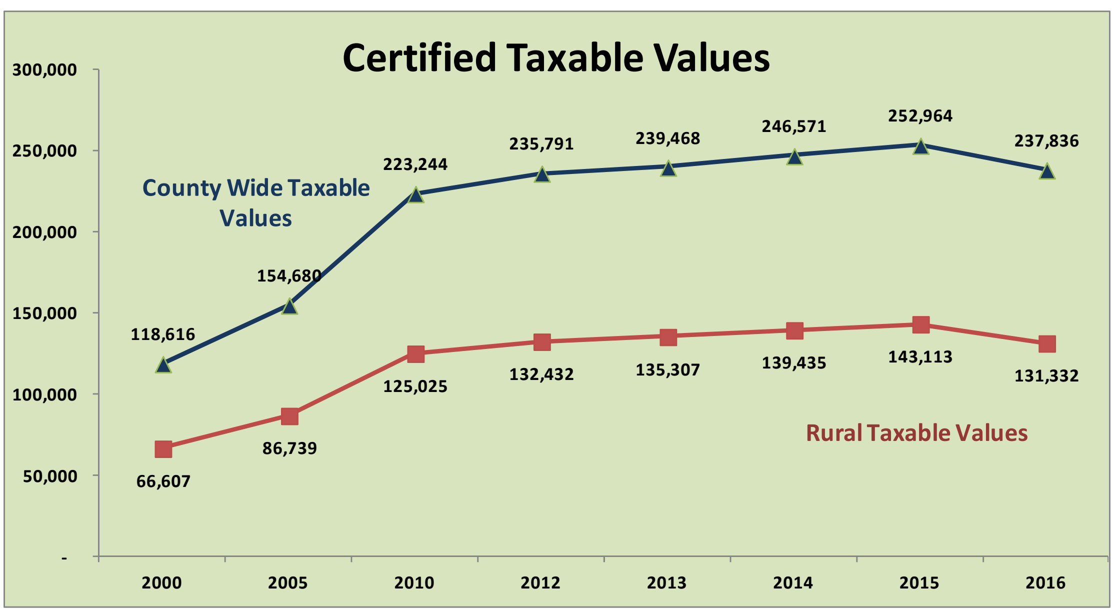
Financial Trend Analysis and Financial Forecast

County of Gallatin, Montana

Tuesday, February 23, 2016

Changes in Certified Taxable Value





Gallatin County Finance Office

Ed Blackman, Finance Director

FY 2016 FINANCIAL TREND ANALYSIS

Gallatin County, Montana

February 23, 2016

III. FINANCIAL TREND ANALYSIS

Transmittal Letter

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

Dear Commissioners and County Administrator,

In 2004, the Gallatin County Commission adopted a mission statement that utilized strategic planning and performance measures when developing both long and short term financial goals. That mission has since been advanced with the updating of Performance Measures and process this year with the intention being full implementation of the new measures by FY 2017. In an effort to support those goals, I respectfully submit the FY 2016 Financial Trend Analysis for your consideration and approval.

The objective of this document is to provide an analysis of past and present financial conditions, to provide a forecast that identifies favorable opportunities and unfavorable challenges facing Gallatin County, and to offer feasible alternatives when concerns are identified. The overarching goal of this document is to have the Commission make informed budgetary decisions in FY 2017and into the foreseeable future that align with your dedication to meet the goals in the County's mission statement.

The FY 2016 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. The County Commission adopted Resolution 2015-021 Establishing Gallatin County Budget Policy on Sustainable Budget, Resilient Government and Operating Reserves, to maintain a financially sound and sustainable county. For the purposes of showing the County as maintaining sustainable service levels, I use four indicators to 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 2000 as a base year, followed by fiscal years 2005 and 2010-2015, in addition to fiscal year 2016 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 **WATCH** position, because **14 of 23** indicators are in a favorable position. This includes the two trends added last year - 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 could not have been generated without the capable, competent and timely support of other County departments and offices.

Edward G. Blackman
County Finance Director

Introduction

A trend analysis examines current and past information to determine if a trend exists and, if so, whether the trend is positive, neutral or negative. Financial forecasts come from financial trend analysis and provide a projection into the future to facilitate short, mid and long-term financial planning.

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

Development of the Financial Forecast

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

The forecasts are developed using recent historic knowledge for revenue, expenses and personnel. The forecasts rely primarily on historic growth patterns, personal knowledge of elected officials and department heads and inflationary projections on current revenues and service levels. The projections this year also take into consideration available information on the current **positive** indicators in the local economy. Inflation and historical growth rates are used to predict changes to expenditures and revenues. These factors are adjusted by the elimination of items that will not reoccur (i.e. expansion of the dispatch function or the new Detention Center (staffing and operations)), along with historic changes associated with new employees, capital expenses and other items that have changed upward or downward during the previous five years.

Information regarding economic indicators and the performance of the economy are taken from 1) the University of Montana (U of M) Bureau of Business and Economic Research (BBER), 2) the U.S. Department of Commerce Bureau of Economic Analysis, 3) Woods & Poole and 4) local information available for Gallatin County.

Outlook for Gallatin County

University of Montana
The 41st Annual Montana Economic Outlook Seminar report developed by the U of M, Bureau of Business and Economic Research states the following for Gallatin County:

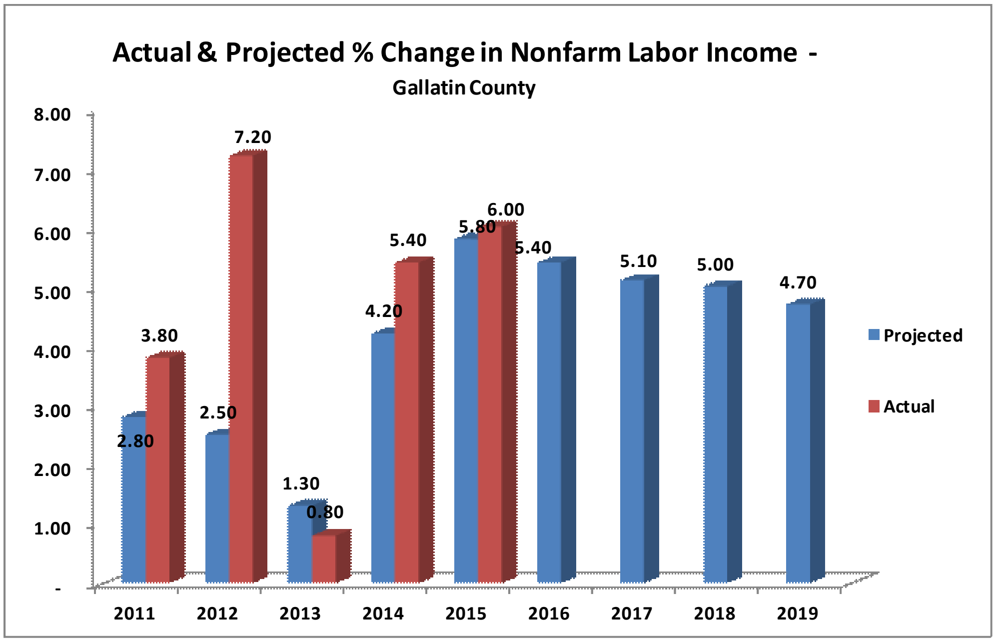
Gallatin County - Montana's Economic Growth Leader

The report shows that Gallatin County single family housing starts were at 857 units which is the most for any county in the state. However this represents only 76% of the level seen in 2007. Retail wages, (inflation corrected) 2005-2015 comparing Gallatin County to the State of Montana shows that after a steep decline from 2008 through 2011 the County's retail wages are about the same as the State as a whole. Retail wages for Gallatin County are 5% higher in 2015 than 2007. Inflation Adjusted Wages and Salaries 2011 through the 2nd quarter of 2015 show that Gallatin County is the highest in the state since the 2nd quarter of 2013.

The BBER states that Gallatin County has been one of the fastest growing in 'Real Nonfarm Earnings, Annual Percent Growth' in 1990-2000 with 9.4% (#2) and 2000-2013 at 4.9% (#1). On a down side, Federal Civilian employment is down 9.1% from 2011.

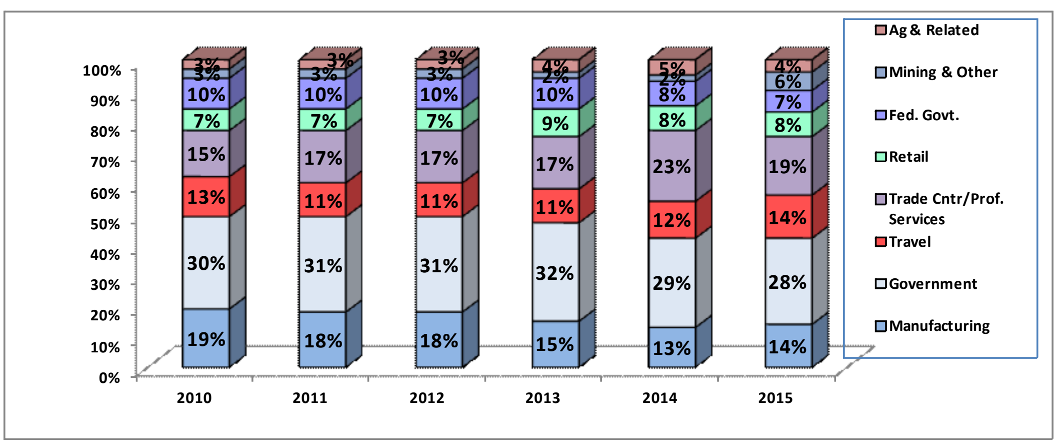
The Bureau's estimated Labor Income Growth in the County at 4.78% for the next 4 years (2016-2019), is slightly lower than last year's projections. County staff estimates a more realistic growth rate is 4.0% and will be using this number in our analysis.

The following graph shows a history of Actual and Projected Percent Change in Non-farm Labor Income – Gallatin County, 2011-2019 from U of M (BBER).



The chart gives a historical perspective on U of M's accuracy. As can be seen, the Bureau's estimate has been significantly off from actual increases in 3 of the last 5 years, with 2013 and 2015 being close. FY 2012 would have been more accurate at 2.5% except for the one time stock options for Right Now Technologies by Oracle. Important to the County is that labor income over the last 5 years is positive 4.6%.

The report shows that since 2010, the composition of industry earnings have has changed. Changes have come from Manufacturing down 5%, Government down 2%, Travel up 1%, Trade/Professional up 4%, Retail up 1%, Fed. Govt. down 3%, Mining and other up 3% and Ag & Related up 1%.



Woods and Poole

Woods and Poole, for 2015, estimated growth in population will average almost 2.67% per year through 2025:

Description	2000	2010	2014	2015	2020	2025
Population	68,375	89,616	97,304	99,946	114,016	129,497
Income/Capita (current $)	$25,502	$35,174	$38,079	$40,159	$48,231	$60,497
Farm Earning (2009 dollar)	$8.18	$23.45	$19.95	$20.60	$22.27	$23.99
Non-Farm Earn. (2009 $)	$1,597.98	$2,283.67	$2,525.49	$2,702.97	$3,197.57	$3,773.30

County staff thinks the 2.67% average growth is optimistic and has calculated a rate based on the last 10 years growth of 2.22%. Consistent with the County's conservative financial outlook, the 2.22% factor will be used when making estimates.

Gallatin County

Demographics - A comparison of employment for 1980, 1990, 2000, 2005 and 2010 through 2014 shows an increase in the number of persons employed from 18,680 (50.36% of population) in 1980 to 52,924 (56.32% of population) in 2014 (Source – Montana Department of Labor & Industry, Research & Analysis Bureau).

	1980	1990	2000	2010	2011	2012	2013	2014	2015
Population (County)	43,146	50,811	68,369	89,531	91,377	93,241	93,785	97,308	99,070
% Pop. Employed	50.36%	57.98%	60.02%	57.13%	51.72%	53.38%	50.59%	56.32%	57.91%
Labor Force (County)		29,459	41,033	51,150	47,260	49,769	49,618	54,798	59,093
Gross Employment	18,680	27,882	39,526	47,922	44,352	47,331	47,446	53,061	57,381
Unemployment Rate		5.4%	3.7%	6.3%	6.2%	4.9%	4.4%	3.2%	2.9%

Tourism - Continues to be a positive factor for the County, with 2015 seeing a significant increase from 2014. A comparison of activity within Yellowstone National Park shows:

	2000	2010	2011	2012	2013	2014	2015
Year End Recreation Visitors	2,838,233	3,640,183	3,394,321	3,447,729	3,188,032	3,513,484	4,097,705
% Change		10.4%	-6.8%	1.5%	-7.53%	10.21%	16.62%
West Gate Visitors	1,180,269	1,477,833	1,394,106	1,407,762	1,260,424	1,437,709	1,743,331
% Change		10.6%	-5.7%	0.9%	-10.47%	14.07%	21.25%
Overnight Stays	1,191,359	1,306,317	1,280,975	1,350,236	1,333,555	1,313,259	1,301,632
% Change Overnight Stays	-3.8%	-6.07%	-1.9%	5.41%	-1.23%	-1.52%	4.21%
% Change Lodging	-1.7%	0.04%	2.7%	3.6%	0.14%	-5.95%	-1.33%
% Change Campgrounds	-5.7%	2.85%	(2.9%)	6.9%	-0.03%	0.07%	0.07%

Calendar year 2015 saw Yellowstone National Park have 4.1 million visitors, up 16.62% from the previous historic high in 2010. The Institute for Tourism and Recreation states that "When Yellowstone National Park is up, so is Montana nonresident tourism." This is especially true for Gallatin County.

The increase in recreation visitors and West Gate visitors shows growth in the interest in Yellowstone. This is offset by the decrease in Overnight Stays, especially Lodging which sees a continuation of the decrease seen in 2013 and 2014. Lodging outside the park has seen an increase in capacity since 2010, which could explain the decrease of lodging inside the park. The City of West Yellowstone will be contacted to inquire if there has been an increase in resort tax revenue coming from hotels and motels.

On another positive note, air traffic at Bozeman Yellowstone International Airport at Gallatin Field was up for calendar year 2015 by 5.6%. This increase comes from park visitation, ski activities and a stabilizing of the national economy. For the time period 2000 – 2015, Gallatin Field had passenger boarding and deplanement increased from 482,669 to 1,021,155 (211.56%). This has made Gallatin Field the busiest airport in the state, surpassing Billings in 2013.

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

Year	Residential	Commercial	Total	% Change
2009	$36 Million	$61 Million	$97 Million	
2010	$60 Million	$41 Million	$101 Million	4.12%
2011	$58 Million	$86 Million	$144 Million	42.57%
2012	$103 Million	$56 Million	$159 Million	10.42%
2013	$138 Million	$63 Million	$201 Million	26.41%
2014	$86 Million	$148 Million	$235 Million	16.92%
2015	$93 Million	$123 Million	$216 Million	-5.26%

The Bozeman building permits continue to show a significant rebound from the low in 2009, although they saw a 5% decrease from last year. They are only down 11% from the historic high in 2007 of $243 million. Building permits inside and outside the County continue to be a positive influence on the County's economy. Continuation of a positive building season for calendar year 2016 is projected.

Northwestern Energy reports electrical and gas connections by year were:

	Electrical		Natural Gas	
Year	**Numbers**	**% Change**	**Numbers**	**% Change**
2015	1,438	13.90%	891	28.40%
2014	1,263	27.06%	694	2.35%
2013	994	33.10%	678	46.10%
2012	747	40.94%	464	79.15%
2011	530	-14.10%	259	-24.00%
2010	617	-12.11%	341	-10.26%
2009	702	-23.19%	380	-26.07%
2008	914	-31.63%	514	-40.91%
2007	1,337	-18.43%	870	-15.53%
2006	1,639	-13.78%	1,030	-4.45%
2005	1,901		1,078	

Electrical connections are still down 24.35% from the high in 2005 and gas connections have decreased by 17.34% from 2005. For 2015, electrical increased by 13.86% and gas increased by 28.39% from 2014.

Report Analysis:

Current analysis shows County revenue is sufficient to meet ***existing*** levels of service in FY 2017. Improvement in the County's economy is dependent on local economic conditions rather than national trends. FY 2017 Start-Up Budget Projections show the County needing up to *$1,230,539 to meet projected budgets (see table on page 10)* – this is within the ability of the Commission to address during the budget process, but may require a reallocation of resources. This compares to the same time frame in FY 2016 having a shortfall of $579,616, FY 2015 having a shortfall of $0.7 million, FY 2014 shortfall of $416,621, FY 2013 shortfall of $0.4 million and FY 2012 with a shortfall of $1.3 million.

Growth in County wages and operations will require $4.9 million over the next five years without any new staff. When projected staff increases are included, personnel costs will increase by $6.9 Million by FY 2021. The new employees include transfer of grant positions from grants to Public Safety and continuation of a growth factor for new employees. Personnel Expenses (see graph on page 10) are projected to grow at 3.3% without new employees and 5.4% with new employees. Compensated leave balances are assumed to decrease with the implementation of the reduced Compensatory hours for Exempt Employees in FY 2015 and retirement of long-term personnel over the next several years.

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

- Request positions when their ***new*** performance measurements clearly show the need, taking into account the sustainability of revenue sources;
- Continue 'Core Rolling Stock Replacement' set aside to eliminate increases in operational costs to maintain obsolete equipment and maintain equipment service levels;
- Continue funding for Bridge Replacement schedule;
- Establish funding mechanism for operational and capital needs of Law and Justice Building, Fair/Parks and Senior Programs for the short, mid and long-term;
- Review maximizing Rural Mills to assure adequate long-term maintenance of existing roads;
- Authorize the continuation of current Library Funding for operational and capital needs;
- Maintain current percentage for Operating Reserves; and
- If absolutely required, increase county-wide taxes either through maximizing mill levies or voted operational levies to fund specific programs, enhancements or capital needs.

In the past, the County balanced budgets through the use of cash and increases in non-tax revenue. For future budgets, cash available to support budgets will be decreasing, and non-tax revenues will be hard pressed to maintain current levels as a percentage of expenses. Estimates show cash down **$1.9 Million** for FY 2017 for County Tax Supported Funds

Revenues are projected to increase by an average of 3.3%, about double the anticipated inflation rate, for the next five years. Non-tax revenues are projected to grow by 2% with Tax Revenues growing at 3.1%. Population increases will drive a portion of revenues and this is included in the percentages stated.

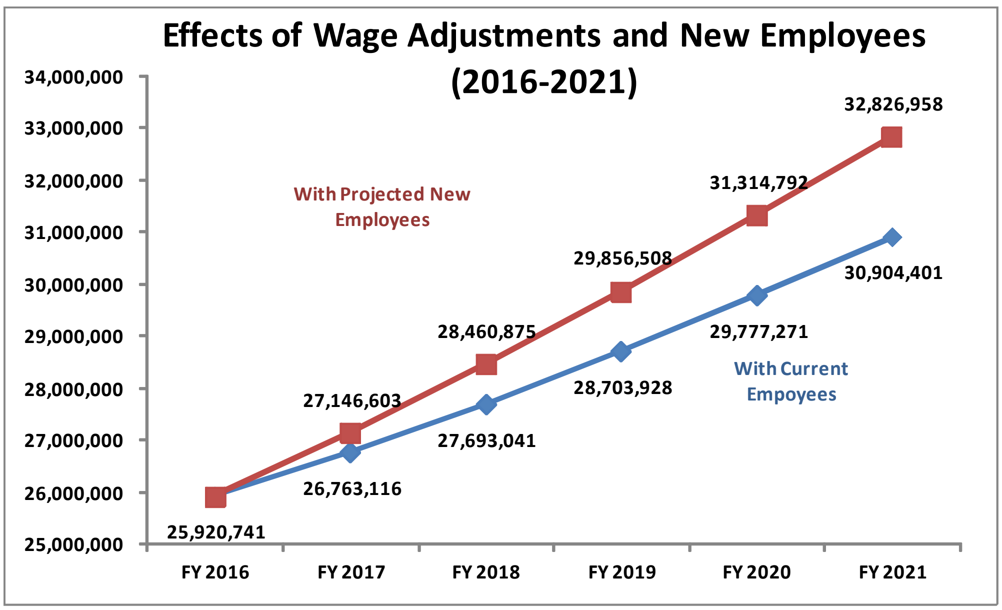
Capital Outlay and Capital Reserves are projected to see minimal growth. This includes continued support for the 'Core' Rolling Stock Replacement program, Bridge Replacement program and Court/Law Enforcement Building set aside. No mill levy increase is anticipated for capital programs, unless the Commission authorizes an increase in taxes for the Bridge Replacement or the Court/Law Enforcement building. Operating Reserves are based on the recommendations within the County's Fiscal Policies. The current reserve of $9,339,484 will need to increase to approximately $10.8 million, an increase of $1.5 million over 5 years, to continue adequate reserves for the future and to maintain a favorable bond rating.

Gallatin County Wage Adjustments & Forecasts

The graphs that follow show the dramatic effect incremental increases in personnel have on the overall financial condition of the County. Using our calculated growth rate of 3.31% for revenue compared to a slightly higher growth in expenses, prior to the addition of new employees, results in a decrease in operating reserve from $9.4 million in FY 2016 to a negative reserve of $3.6 million in FY 2018, and an even greater negative Reserve needed by FY 2021 of $13.6 million (see page 10).

Growth in Wages and Employees

The graph that follows shows how using our estimated average wage adjustment of 3.27% grows over the next five years for Tax Supported Funds. Possible new employees have been projected through FY 2021. The projections are based on minimal levels of increased staff for **Tax Supported Funds**. The projections include normal wage and benefits adjustments and staffing increases at levels seen in the last five years, excluding new employees required for the new detention center.



The graph shows that the Commission will have to find $4.9 Million over the next 5 years to maintain existing employees and to fund wage adjustments. With projected new employees considered, the amount needed increases to $6.9 Million by FY 2021, for wage adjustments. The wage adjustments stated include merit increases, longevity, promotions, wage adjustment and increases in fringe. The calculation for new employee uses the last 5 years average increase in Tax Supported Funds employees (between 5.50 to 6.00 FTEs) projected for the next 5 years.

Revenue and Expense Projections

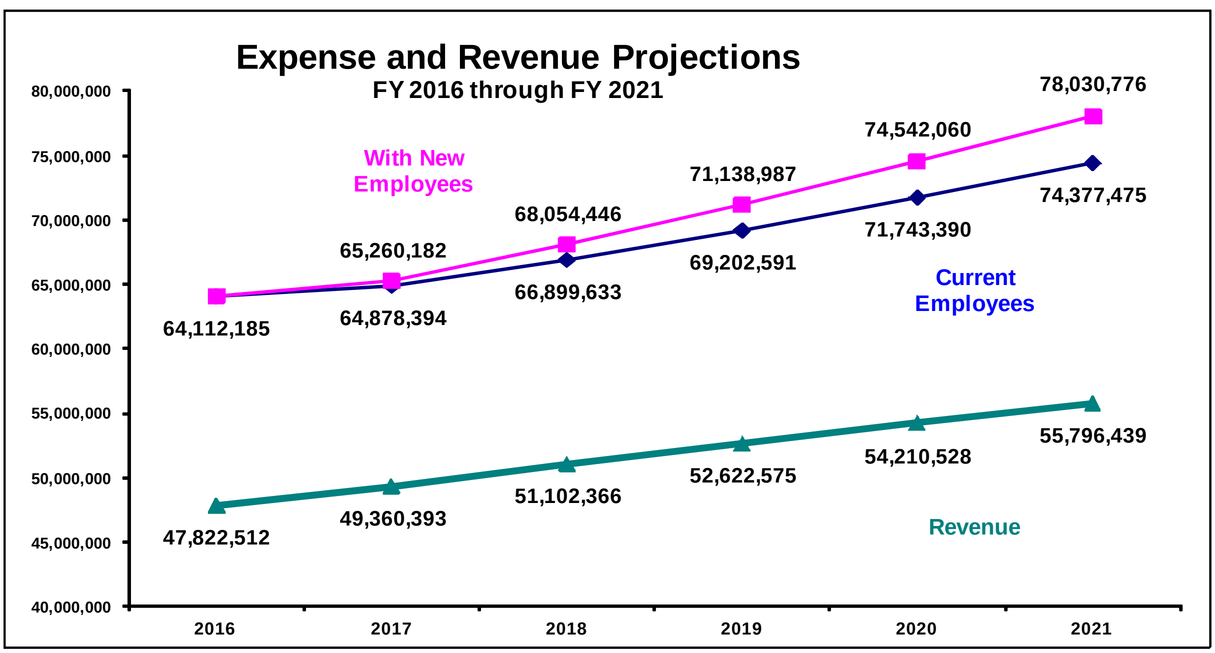
The following chart shows seven years of revenues, cash available for re-appropriation and expenses with the estimated Cash end of year for each year.

Seven Years Projected Revenues, Cash and Expenditures:

Year	2015 ACTUAL	2016 BUDGET	2017 ESTIMATE	2018 ESTIMATE	2019 ESTIMATE	2020 ESTIMATE	2021 ESTIMATE
Revenues	50,195,501	47,822,512	49,360,393	51,102,366	52,622,575	54,210,528	55,796,439
(Plus) Cash	22,912,319	25,629,157	23,738,563	21,901,153	20,227,020	18,237,199	15,802,688
(Less) Expenses Current	47,478,663	64,112,185	64,878,394	66,899,633	69,202,591	71,743,390	74,377,475
W/ New			65,260,182	68,054,446	71,138,987	74,542,060	78,030,776
Operating Reserve		9,339,484	9,451,101	9,745,543	10,081,024	10,451,153	10,834,871
Cash (Shortfall) Current	25,629,157		8,220,562	6,103,886	3,647,004	704,338	(2,778,347)
W/ New			7,838,774	4,949,072	1,710,608	(2,094,333)	(6,431,648)
Shortfall Reserve To cash			(1,230,539)	(3,641,657)	(6,434,020)	(9,746,815)	(13,613,218)

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

The graph below shows the projected shortfall in revenues to projected Expenses (both current and with new employees) based on current budgets.



Gallatin County has funded capital projects, new staff and normal operating costs primarily through growth in non-tax and tax revenues and utilizing available cash over the past 19 years. The principle changes to revenue came from reappraisal, changes to State laws associated with motor vehicles and voter approved mill levy increases. At the current time, staff is not aware of the true effects of the new re-appraisal cycle on County revenues. This is because the legislature is still meeting and they historically adjust tax rates after a reappraisal. Non-Tax Revenues, in the past, have increased dramatically for growth related fees – Land Record recording, zoning fees, etc. These revenues significantly decreased starting in FY 2008, with the decline ending in FY 2011. The County has seen significant increases in these fees in FY 2013 through FY 2015 which have continued at last years' level for the first 6 months of FY 2016.

The Commission will have to take into consideration the Federal Legislature's decision to extend current funding of Secure Rural Schools only for the current year with a potential for a decrease to only 18% of the current revenue. This would reduce the Road Fund by $230,000.

The County's ability to maintain current levels of service will be tight for FY 2017 and stressed by FY 2019. The nation and County continue to see low inflation rates during FY 2016, with FY 2017 seeing inflation moving to a 1.2 to 2.0% range. The County has taken steps to reduce costs in current and prior years which will continue to support current levels of service for the next couple years. This has included eliminating positions, delaying hiring, reducing gas budgets, minimizing health insurance premiums, reviewing operational expenses for efficiencies, and combining purchases for lower costs.

One area that will not affect the County for the current year is that the State Legislature will not meet until January 2017. Normal legislative actions result in State mandates where the state transfers responsibilities and duties to the County that the State can no longer afford to do, requiring local governments to do the work with little or no compensation. Since the legislature will not be in session for FY 2016 the County will not have to anticipate changes until FY 2017 or later.

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

1. Accelerated growth in the local economy and slow growth for the State and national economies;
2. Legislative actions
    a. Changes mandated for Public Employee Retirement and Teachers Retirement will increase costs to the County; and,
    b. Two year reappraisal cycle versus six year cycle;
3. Criminal Justice System – design of replacement Law and Justice Facility;
4. County Growth Policy;
    a. Update of Policy;
    b. Implementation of programs and neighborhood plans;
5. Transportation System;
    a. Replacement of deficient bridges;
    b. Update of roads as stated in transportation plans – 7 miles of gravel roads improved to millings, 4 bridges replaced in FY 15 along with 3 replaced in the fall of FY 16 and millings on Brackett Creek Road to Park County.
6. Discussion on issuing bonds for infrastructure needs (L & J Building, Radio / Dispatch upgrade, Fair Facility improvements).

The County will see moderate growth in non-tax revenues of 2.2%, except for legislative actions. At the same time, growth in tax revenues is estimated slightly higher at 3.3% over the next five years. This means the County will need to limit growth in expenses to the amount of anticipated new revenues.

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

1. Reducing expenses to match revenues generated by taxes and non-tax sources – PAY AS YOU GO concept;
    a. Identify activities, departments and funds currently funded either directly or through matching County money for elimination, reduction or change, using established Commission criteria;
    b. Increase non-tax revenues to fund activities where possible and / or establish the amount or percentage departments will be funded through taxes; and
    c. Require departments to prepare outcome based performance measurements that are clear, documented and auditable. Increase the Commissioners' utilization of performance measurements when making budgetary decisions.
2. County debt increased in FY 2010 for Open Lands Bond, Detention Center Bond and loans for Dispatch and Mental Health (Hope House). County debt increased for FY 2014 with the sale of the I-90 bond and the Fair – BAHA bond. The Commission finalized authorized Open Space Bond sale in November 2016. Projected debt is for replacing Law & Justice Center and Radio / Dispatch upgrades.
3. The necessity to maintain PILT payments to fund loans and necessary expenses at current levels.
4. Current projections show departmental needs exceeding revenue sources in FY 2018 forward:
    a. Current services will need to be reduced or eliminated without new sources of ongoing revenues, based on the $13.6 Million shortage shown on page 10;
    b. Operating Reserves, Capital Reserves and Capital Projects will be under greater stress. This has been mitigated by the Commission's funding of Core Equipment and Bridge Replacement from Newly Taxable Valuations;
    c. Cash carry over will decrease, resulting in fewer dollars available for re-appropriation;
    d. Insurance costs, both liability (4% increase for FY 2016) and health (estimated increase of 5% for FY 2017) will continue to need funding; and,
5. On a positive note, the County will continue to be a highly desired place to work because of stable employment and good benefits, compared to the private sector.

Process and Schedule

The Financial Trend Analysis and Financial Forecast began through the Commission's decision to utilize strategic planning. The Commission's decision to enhance performance measurement budgeting for FY 2016 continues. The Finance Office incorporated performance measurements identified by departments into a separate database which will be incorporated into the budget document in the future.

Since 2004, the County Commission has established goals for the budget early in the budget process. Departments are required to identify goals which they are meeting when requesting changes to Start-Up budgets. The Commission continued this process for FY 2016 with the adoption of the short-term goals. Elected Officials and Department Heads used the short-term goals in preparing their budgets. Unfortunately, the tying of requests to goals was not effective in the FY 2016 budget cycle, primarily because the Commission did not consistently use performance measures when making decisions during budget work sessions. The Finance Office will continue to remind and encourage the Commission to look at these factors for the FY 2017 budget work sessions.

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

> **To provide a clear and concise analysis and forecast that identifies the County's current and projected financial condition and addresses alternatives to the County's problems, hereafter referred to as the 'Analysis.'**

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

This Analysis was presented to the public on February 16, 2015. The following schedule was approved by the County Commission in an effort to keep the public informed about the Analysis and to encourage public participation in developing an action plan that the County can use for the FY 2015 budget process:

February 16, 2016	Analysis submitted to County Administrator, Commission and FAAcT Committee,
February 23, 2016	Presentation and acceptance of Long Term Strategic Financial Analysis by County Commission

Gallatin County Mission Statement, Vision & Goals

MISSION STATEMENT

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

VISION

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

Long-Term and Short-Term Goals

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

Long-Term Goals (Concerns and Issues)

- Align community needs with budgetary decisions
- Assure that long-term plans are used to guide strategic and operational decisions
- Demonstrate exceptional Customer Service
- Serve as a Model for Excellence in Government
- Improve Communication within County government, other jurisdictions and our public
- Be an Employer of Choice and Improve Employee Retention
- Continue to improve the Criminal Justice System
- Support local and regional economic development efforts
- Dedicate resources to maintenance and expansion of County infrastructure in accordance with long-term plans

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

- Maintain public health, safety and welfare as a high priority, as required and allowed under state statue and documented public demand, consistent with performance measurements.
- Improve and enhance the efficiency, effectiveness and productivity of every County function through budget administration and performance management.
- Improve and maintain County infrastructure and equipment by dedicating additional property tax revenues from new construction to capital projects, within budgetary constraints.
- Ensure that needed transportation infrastructure systems are maintained and enhanced.
- Keep budget structurally balanced by maintaining current operating reserve percentages.
- Demonstrate a strong commitment to employee retention through funding of needed wage and / or benefit changes.
- Avoid raising property taxes to the extent practical.

Financial Condition Overview

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

The Analysis starts with a review of the County's current financial condition, using 6-months of actual revenues and expenses for FY 2016, and projects the revenue and expenditure trends for a full year. These projections are used in identifying potential challenges and issues. Based on FY 2016 year-end projections, along with the last five years' actual revenues and expenses, projections are created estimating the next five years' cash balances, non-tax revenues, tax revenues and expenses.

The Financial Analysis is used to:

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

The 2016 and future Financial Analysis are tools in the early detection of financial threats and opportunities. This early identification allows the County to be proactive versus reactive as problems arise. Furthermore, financial planning allows the County to logically plan for the future.

FY 2017 to 2020 projections show a number of issues including funding shortfalls that may occur and will require a substantial dedication of resources or reductions in services for both the short and long-term. The summary information on pages 9, 10 and 11 recaps estimates for revenues and expenses based on the stated assumptions. However, since every budget must be balanced with available resources (new revenues plus re-appropriated cash), these numbers overstate any shortfall. This is documented by the County's reduction of service levels in FY 2010, FY 2011 and FY 2012 to deal with increased costs and to meet revenue estimates. Issues facing the County include funding of Law and Justice Complex, Radio / Dispatch Project, replacement / upgrade of roads and bridges, retention of key staff to meet workload and demands by public, and Transportation Plan.

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

However, the County has limited revenue growth potential to maintain current service levels, let alone pay for identified needs or expansion of programs to meet new needs associated with changes in taxpayers' needs and wants. It is recommended that the Commission:

- Not consider new staff unless;
    - o sustainable funding is identified for wages/benefits, space, capital, indirect costs, travel etc.;
    - o requested staff meet specific goals and objectives of the Commission;
    - o reallocating work to existing staff is not a possibility;
- Anticipate need to address wage adjustment, merit adjustment, liability and health insurance premium increases early in the budget process, preferably prior to setting the limitations for the FY 2017 Start-Up Budget; and,
- Consider ramification of changes in federal and state revenues and mandates such as loss of Secure Rural Schools (SRS);

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

	Clerk	Zoning	% Option MV
FY 2016	$429,916	$204,619	$1,976,982
FY 2015	316,689	168,707	1,814,235
FY 2014	389,460	161,569	1,652,829
FY 2013	426,649	75,376	1,537,996
FY 2011	311,047	76,739	1,511,942
FY 2010	349,840	78,044	1,431,150
FY 2009	396,602	92,821	1,555,470
FY 2005	424,467	174,589	1,318,823

The Clerk & Recorder Fees are up 35.7% from last year and up 1.28% from FY 2005. Zoning Fees are up 21.86% from last year and only up 1.17% from the high in FY 2005. Motor Vehicle Local Option is up 8.97%. These revenues are all above the amounts received previously.

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

Year	County Population	Residents per Sheriff Officer		Residents Per Employee
		ALL	AVAILABLE	
2000	67,831	2,055	2,339	181.84
2005	80,748	1,878	2,447	192.30
2010	89,513	1,776	2,162	193.98
2011	91,333	1,898	2,335	192.15
2012	92,604	1,963	2,413	192.80
2013	94,694	1,889	2,463	195.58
2014	97,304	1,898	2,461	200.97
2015	99,653	1,898	2,461	200.75
2016	102,002	1,872	2,400	203.59

The first column under 'Residents per Sheriff Officer' - **ALL**- shows that a sworn officer was responsible for 2,055 residents in 2000, with a decrease to 1,872 per officer in 2016. Contractual obligations require the Sheriff to assign 6 officers to Big Sky, 3 officers to the City of Three Forks, 4 officers meet grant requirements, with one officer assigned to administer the Detention Center. The second column reflects officers **AVAILABLE** and is a more accurate table of services received by residents. It shows an increase from 2,339 in FY 2000 to 2,400 residents per officer in FY 2016. **The County Population for 2013 and 2014 comes from the State Department of Labor, with 2015 and 2016 being an estimate.**

Overall, the County's ability to maintain current staffing and services is cause for concern, with limitations from State law, the Commission's decision to limit increases in taxes and the County's inability to receive significant revenues without a vote of the people or the legislature. Future federal and state legislative sessions will pose concerns for probable reduction in revenues and increases in mandated requirements, in spite of the State's projected surplus.

The success of County programs comes directly from the exceptional quality and dedication of County employees. Eight positions were funded within tax supported funds for FY 2016 in an attempt to keep up with the increase in demand for services that comes with growth and to continue to provide exceptional service. Many County positions are unique requiring on-the-job training which decreases productivity until an employee is fully trained. Unfortunately, applicant responses to most vacant positions have decreased reflecting a more competitive job market. On a positive note, our turnover rate has stayed about the same including the number of employees leaving for other employment and retirements. The County strives to and continues to offer excellent benefits. The number of employees with longevity has not increased significantly. All showing that the County continues to be a highly desirable place of employment.

Future Financial Analyses may include:

- *Road Maintenance and Improvement Program* – The County Road office, on a yearly basis, identifies specific projects to be accomplished during the year. The County established, in FY 2013, a long-term funding mechanism for major bridge replacement that accommodates known deficiencies and required updates.
- *Public Safety Strategic Plan* – Public Safety Departments are developing a Strategic Plan to meet their needs now and into the future. The implementation of the Core Equipment Rolling Stock program has allowed the County to replace law enforcement, fire and related vehicles in a systematic manner.
- *Cost Recovery Fees for Services and / or Impact Fee Calculations* – The County needs to lobby the State to change State law to allow for full and true cost recovery from fees.

Current Financial Condition

The County's financial condition as of December 31, 2015 shows that the County continues to be in a good financial position, with growth in non-tax revenues projected to continue. The decrease of the use of cash for ongoing operations continues to improve the County's long-term financial position. The growth in non-tax revenues, excluding investment earnings, is having a positive effect on cash balances.

Current projections show tax-supported operating funds will have a cash balance of $23.7 million at the end of FY 2016 compared to $25.6 million for FY 2015, $22.9 million in FY 2014, $17.2 million for FY 2013, $16.6 million for FY 2012, $22.4 million for FY 2011 and $29.6 million in FY 2010 (including Capital Projects). Of the $23.7 million, $9.3 million is set-aside for Operating Reserves (remember, these are conservative estimates with actual cash carried over being higher in previous years).

Estimated year-end cash will be more than Operating Reserves because the County uses conservative revenue estimates when preparing the budget and departments spend less than authorized. This allows the County to assure adequate funding for current service levels into the future. However, non-tax revenues are only marginally exceeding estimates at this time, resulting in limited cash being available for appropriation in FY 2017.

The significant growth in the local economy will see positive effects to the County for FY 2017 and FY 2018. The County is seeing new businesses, mostly in the service area, along with business expansion in some cases and fewer businesses closing. Construction activity has increased dramatically over the last two years.

The 2016 Analysis confirms the need for the criteria used in setting Operating Reserves for the County General Fund, tax supported special revenue funds (Road, Bridge), and County Enterprise Funds. The Analysis includes forecasts for the Rest Home, health insurance, communication, facility, and liability insurance funds because these funds are an integral part of County operations.

Capital Reserves

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

These set asides include:

- Communication fund (routers, servers, internal systems/software) with equipment– budgeted in FY 2016 at current set aside $470,311;
- Computer replacement supported by yearly replacement account in PILT, subject to future federal legislative action;

- Core Rolling Stock fully funded at $636,000 per year plus departments contributing $382,300;
- Copiers funded through per-copy charge for a majority of County copiers;
- Bridge Replacement Program funded at $1,200,000 for FY 2016 - $300,000 of ongoing taxes;
- Law and Justice set aside $381,600. $200,000 in new taxes for FY 2016 will continue with recommendation from staff to add an additional $100,000 per year until $500,000 per year is set aside; and,
- Major building renovation reserves at $0.95 per square foot for the Courthouse, Annex, Guenther, Law and Justice Center and 9-1-1 buildings (total of $991,836 reserved to date). Along with facility fund setting aside working capital for Facility Condition Index items.

Debt Policy

The County's Debt Policy states:

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

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

- Assessed Valuation $15,030,549,843
- Maximum Debt Factor 2.50%
- Maximum Debt Authorized $375,763,746
    - less - June 30, 2014 General Obligation Debt - 44,882,410
- Unused Debt $330,881,336 (88.06%)

County policy as approved by Resolution 2015-021 – states that Outstanding debt (bond, loan, leases) is to stay below 50% of the amount allowed by law. Our current debt is 0.30%, less than 1/4 the 1.25% (2.50% X ½ = 1.25%) allowed by current policy. Even with projected debt the County should not exceed the $187 million in debt allowed by current policy.

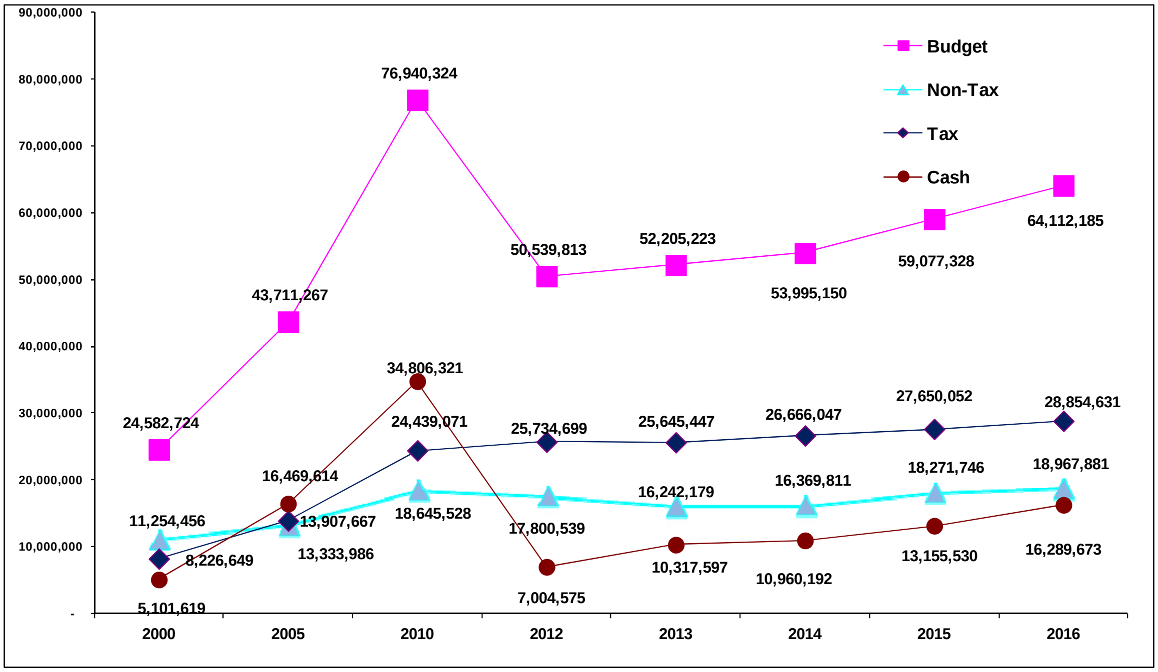
Areas Not Covered By Current Policies

- ***A policy on when the Commission will use the County's borrowing capacity*** of up to $2,000,000 per project that is allowed without a vote (Loans/Capital Leases)
- ***A policy on when grants are to be used*** – staff will work on this policy during FY 2017:
    - Are grants being pursued consistent with the mission, vision and goals of the County?
    - If a grant does not require use of County monetary resources, when is it appropriate for the County to act as conduit for the funds?
- ***Should Gallatin County establish capital reserves for equipment replacement?*** This would be for equipment with a value of less than $25,000 (threshold for Core Rolling Equipment and Bridge Replacement). The County continues to fund Information Technology Services Department (ITS) computer needs, along with VOIP system reserves, motor pool reserves and copiers through set aside of budget or pay as you use funding.
- Major road improvements will require the setting aside of new tax dollars on an ongoing basis, similar to the Bridge Replacement program. ***What mechanism should be considered to begin this process?***

Recap of Changes to Budgets – Budget vs Actual

Gallatin County prepares a balanced annual budget as required by State Law, with all revenues plus unreserved cash equal to approved expenses. Cash, beyond the amount needed to fund Operating Reserves, pays for a portion of most budgets. Even with budgets becoming tighter, cash carry over is increasing (primarily from capital projects) as shown in the following graph. The table shows the last 5 years budget summary plus 2000, 2005 and 2010, for County tax supported funds.

Budgeted - Expenditure and Source of Revenue Comparison
County Milled Funds



To provide historical perspective, the information in this section reviews changes in personnel, operations, debt and capital.

The following table shows percentages compared to amount budgeted for personnel, operations, debt and capital, from FY 2000 to FY 2016, during the first 6 months.

Percentage of Total Actual Expenses (2000 – 2015) (2016 Budget)

Year	Personnel %	Operations %	Debt %	Capital %
2000	48.46	31.08	1.96	18.50
2005	37.95	33.00	2.95	26.09
2010	31.49	16.53	5.89	46.18
2012	51.95	26.36	10.67	11.01
2013	49.85	28.16	10.20	11.79
2014	46.46	41.64	18.13	14.44
2015	44.11	24.76	7.39	3.43
2016	44.91	27.23	8.51	19.35

Gallatin County is no exception to personnel being the highest percentage of costs for most entities. Since 2005, personnel percentages have increased from 37.95% to 44.95%. FY 2010 is unusual because of capital expenses for the new detention center. The fluctuation in percentages is due to changes in debt, capital and operations budget/expenses, along with a slowing of personnel costs.

Expenses

Personnel

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

TABLE OF PERSONNEL (FTE)

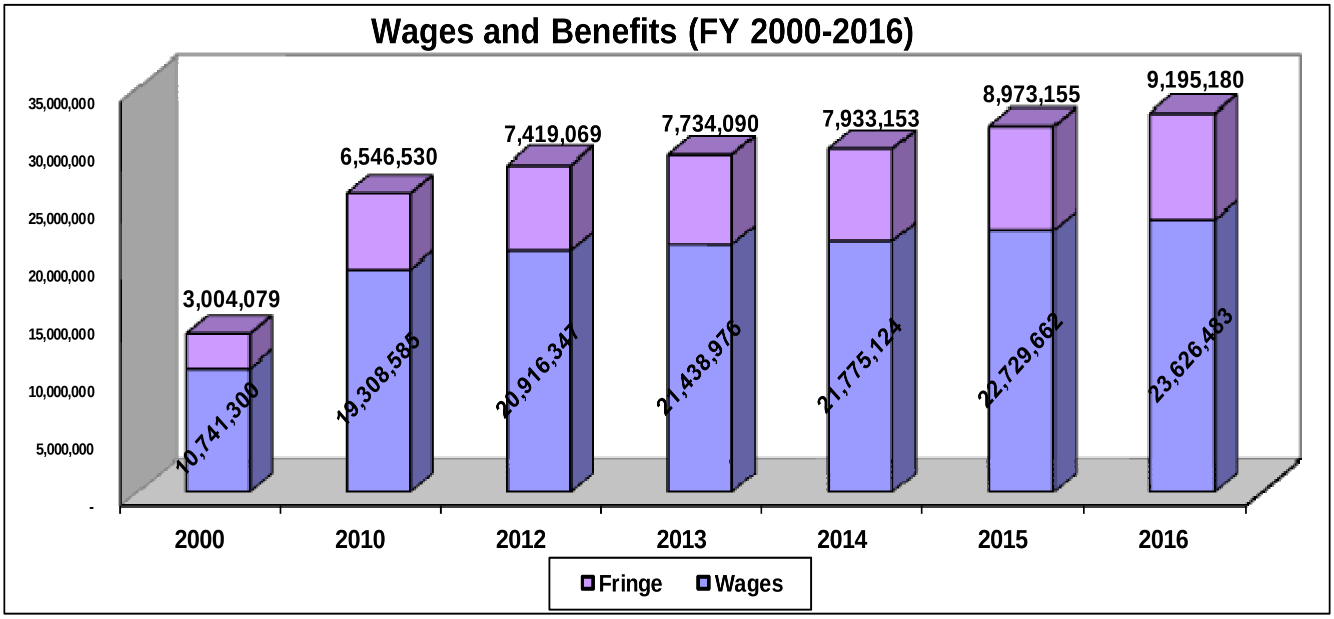
	**********************************			BUDGET	**********************************			
DEPARTMENT / DIVISION	FY 2000	FY 05	FY 10	FY 12	FY 13	FY 14	FY 15	FY 16
ATTORNEY	11.50	16.38	18.00	17.00	17.00	17.00	17.00	17.83
AUDITOR	2.60	3.00	2.50	2.50	2.67	2.67	2.67	2.67
BRIDGE	7.36	7.36	7.36	7.36	7.36	7.41	7.41	7.41
CLERK AND RECORDER	12.45	13.00	13.75	12.75	12.75	12.75	12.75	12.75
CLERK OF DISTRICT COURT	10.00	13.00	13.70	12.90	12.90	12.90	12.90	12.90
COMMISSION	5.00	5.00	5.00	4.00	4.00	4.00	4.00	4.50
COMPLIANCE	-	1.00	1.10	1.10	1.10	1.07	1.10	1.10
CORONER	0.60	0.65	-	-	-	-	-	-
COUNTY ADMINISTRATOR	-	2.00	2.50	2.00	2.00	2.00	2.00	2.00
COURT SERVICES	-	6.00	8.87	10.08	10.00	10.00	10.00	10.50
DETENTION CENTER (excl. sworn)	20.00	33.50	30.43	53.00	52.00	52.00	53.50	53.83
DISPATCH / L.E. RECORDS	22.18	28.50	30.00	29.50	30.50	31.75	32.75	32.50
EXTENSION SERVICE	3.50	3.50	4.00	3.50	3.00	3.00	3.00	3.00
FACILITIES	2.50	3.65	3.12	6.74	6.74	6.49	6.74	6.74
FAIRGROUNDS	5.00	8.00	10.00	10.00	10.25	10.00	9.00	8.50
FINANCE - ADMINISTRATION	1.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
FINANCE - ACCOUNTING	2.00	3.00	3.50	3.50	4.00	3.50	3.50	3.50
GEOGRAPHIC SERVICES	2.00	2.75	3.00	3.00	3.00	3.00	3.00	2.75
GRANT ADMINISTRATION	1.50	2.00	1.85	2.00	2.00	2.00	2.00	1.50
HEALTH - ADMINISTRATION	1.59	2.00	3.83	3.00	3.00	3.00	3.00	3.00
HEALTH - HUMAN SERVCIES	7.18	7.19	6.37	7.08	7.73	8.97	8.39	9.94
HEALTH - ENVIRONMENTAL	9.41	11.00	10.17	9.75	10.00	10.00	10.00	10.92
HEALTH - GRANTS	9.97	11.49	10.43	12.14	12.83	10.48	13.01	16.38
HUMAN RESOURCES	3.25	5.00	4.75	4.00	4.00	4.00	4.50	5.00
ITS	7.00	7.00	7.00	7.00	7.69	8.00	8.75	9.00
JUSTICE COURT	7.50	10.00	11.00	11.00	10.97	11.00	12.00	12.00
MISCELLANEOUS	0.25	0.27	0.05	0.05	0.05	0.05	0.05	0.05
NOXIOUS WEED	2.00	2.00	2.25	3.00	2.88	2.75	2.75	2.75
PLANNING	7.00	9.00	7.75	6.90	6.90	7.10	8.15	9.07
PUBLIC SAFETY GRANTS -W/O SW(	6.00	3.00	4.00	7.01	5.51	5.51	5.51	5.50
REST HOME	108.09	80.50	102.90	105.77	106.68	106.68	107.68	98.88
ROAD MAINTENANCE	25.11	24.85	25.11	25.39	26.14	26.14	26.14	26.14
SHERIFF - Support Staff	6.00	6.00	6.50	6.50	6.50	6.50	7.00	7.50
SHERIFF - Sworn (non grant)	29.00	35.49	46.91	41.64	42.00	43.91	49.54	51.00
SHERIFF - Sworn - Grant	2.00	7.00	3.00	6.50	5.25	4.92	2.96	2.00
SOLID WASTE SYSTEM	-	8.50	20.50	18.00	19.00	18.00	18.00	18.00
SUPERINTENDENT OF SCHOOL	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75
TREASURER	15.00	17.21	16.96	16.61	17.14	17.46	18.00	19.33
OTHER	14.99	6.12	9.73	4.28	4.89	4.40	4.56	6.84
TOTAL	**373.03**	**419.91**	**461.89**	**480.30**	**484.18**	**484.16**	**497.06**	**501.02**

During this time period, the number of employees grew 34.31%. Population from FY 2000 to FY 2014, grew from 67,831 to 97,200 (43% increase). One reason for staff increasing is new departments - County Administrator 2.00; Compliance 1.10; Court Services 10.00; Solid Waste 18.00 and New Detention Center 32.00. In addition, positions funded by contracts or grants have increased for: Victim Witness 2, Law Enforcement Contracts/Grants 8, and Health Grants 3.04 FTE. Departments eliminated during this time include Youth Probation and District Court. Without these new service areas, employees for existing departments increased by less than 9% or about 1/5th the rate of population growth.

Comparison 2000 Through 2016 Years – Wages and Benefits

The following graph shows the growth in wages and benefits from FY 2000 through the FY 2016 budget. The growth comes from five areas. They are:

1) Population – as stated previously, the population in the County has grown by an estimated 43%;
2) Inflationary Increases – inflation equaled 42.10% from December 31, 1999 through December 31, 2015;
3) Contractual / Grant obligations – the previous page shows the number of positions increased due to contractual / grant obligations to 7.60 Full Time Equivalents (FTE);
4) Local Economy – the economy of the County has dramatically changed, requiring payment of higher wages and salaries to retain and recruit qualified employees in all positions; and,
5) New Detention Center – 33.00 Full Time Equivalents through FY 2016.



The five factors stated above resulted in an increase of $7,254,279 in wages and $4,544,798 in benefits since FY 2005 for Gallatin County. Inflation accounts for $3.1 million, grants and contracts $1.85 million, employee health insurance premiums account for $2.8 million, retirement system $976,475, and Detention Center $2.4 million.

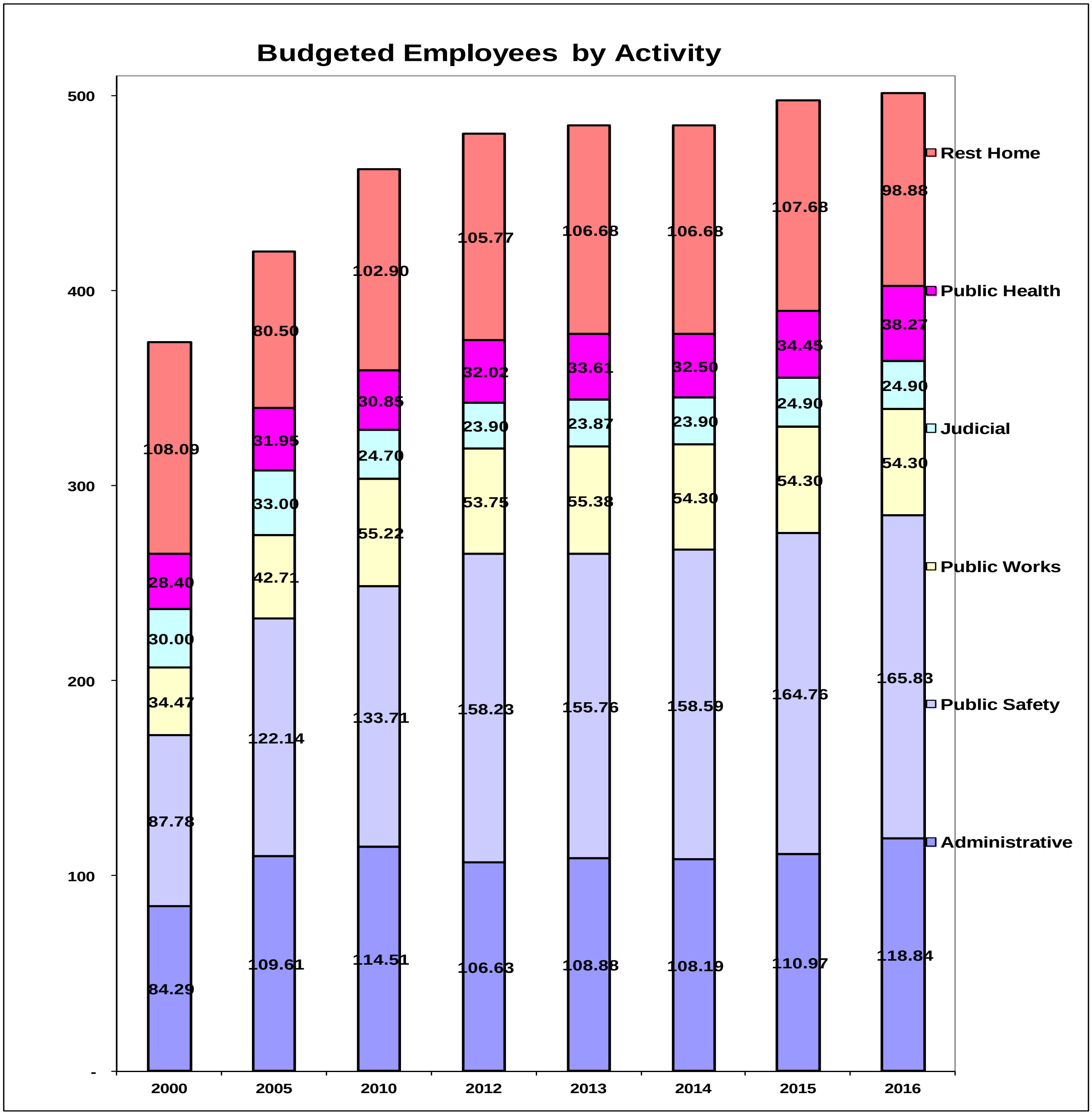
The percentage growth of benefits was greater than for wages due to an increase in health insurance from $2,580 in 2000 to $9,600/FTE in 2016, a 272% increase. Other factors negatively impacting FTE benefits include increases for Unemployment Insurance and Worker's Compensation rates, along with significant increases for Public Employee Retirement, Sheriff Retirement and a transfer of Detention Officers to the higher costing Sheriff's Retirement System. General Fund fringe benefits have increased from 23.59% of wages in 2000 to 36.63% of wages in 2016.

The County continues to implement cost control measures to reduce increases in health premiums. They include early prevention activities, well childcare, rewards for staying healthy and increases in deductibles. Unfortunately, estimates show a 5% increase in premiums is necessary for FY 2017 and probably FY 2018.

Historical Staffing Levels

Increases in population have brought a more diverse and demanding resident that is accustomed to a higher level of service than previous residents. The new resident wants and expects some or all of the services they received in metropolitan areas to be available ***NOW, with no increase in taxes***. New residents are under the impression that they are already paying for this higher level of service, and cannot understand a need to increase taxes to support their demands.

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



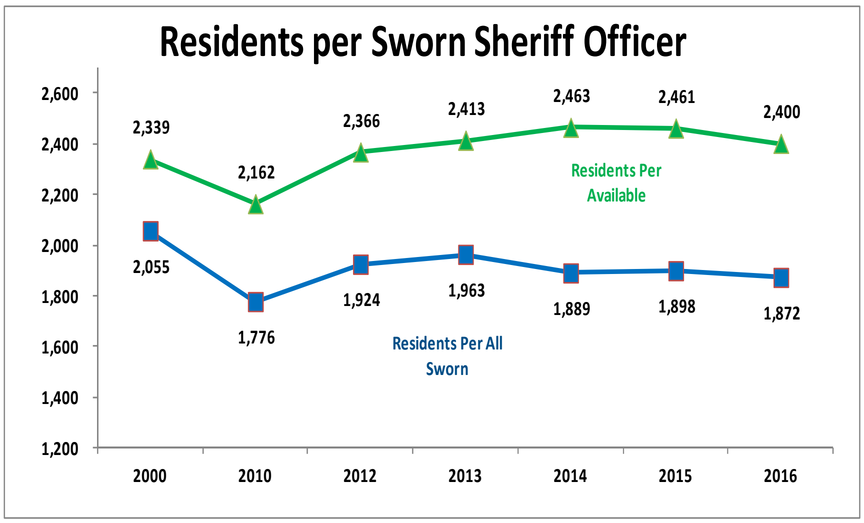
The Budgeted Employees by Activity graph above shows a 34.31% increase in staff from FY 2000 through FY 2016. As stated in previous sections, County population has grown by 43%.
The following table shows the percent each activity grew or didn't grow compared to population growth:

Activity	Growth	Population	Difference
• Administrative	40.98%	43%	1.02% below
• Public Safety	88.98%	43%	45.98% above – Grants and Detention Center
• Public Works	57.58%	43%	14.58% above – Solid Waste
• Judicial Services	(17.00%)	43%	60.00% below – State takes on District Court
• Public Health	34.75%	43%	8.25% below – changes in grants
• Rest Home	(8.52%)	43%	51.25% below – no expansion of facility

In comparing existing departments in FY 2000 to their budgeted FY 2016 employees, the number of employees grew by 128 FTE which is 34.31% (8.69% lower than population growth). A number of offices have fewer employees than in FY 2000 and several are at the same number. So an important question to residents and the Commission is -

Are core County services, based on population, actually maintaining service levels for residents of the County?

In evaluating this question, we need to look closely at the following table and the preceding table. They show Public Safety employees increasing from 87.78 in FY 2000 to 166.83 in FY 2016 – this includes sworn officers increasing from 31 in FY 2000 to 54.50 for FY 2016, a 75.80% increase.



As stated before, this is misleading. The Sheriff must assign deputies funded by grants or contracts such as - Big Sky Resort / Madison County (6), Freedom from Fear Grant (1), Missouri River Drug Task Force (1), Detention Center Administrator (1), Town of Three Forks contract (3) and CHRP (COPS) grant (3), to do tasks required by the grant or contract. These sworn officers are not available for normal patrol duties. The number of deputies available for normal activities is 39.50, a growth of 8.50 (27.41%) compared with population growth estimated at 43%.

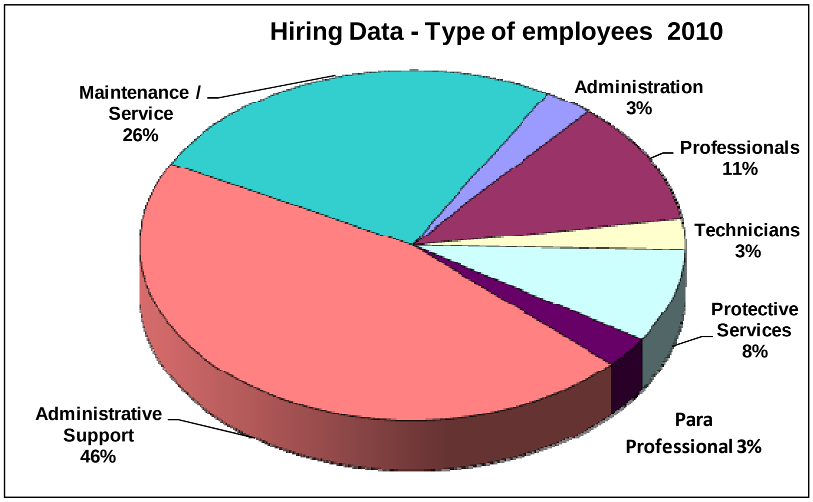
In actuality, the Sheriff has seen a decrease in staff available to provide service for the residents of the County based on available deputies to total population. Currently, each of the AVAILABLE sworn-officers is protecting 2,400 residents, plus their proportionate share of tourists. The graph shows the historical number of residents per sworn officer, from 2000 to the 2016 budget.

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

So the answer to the question is that while residents per sworn officer are up from a low in 2008-2009, they continue to be below the high in 2000. The small change can be offset with improved technology like mobile phones with each officer and Mobile Data Terminals (MDT's) in patrol vehicles.

Changes in Hiring Percentages for Personnel

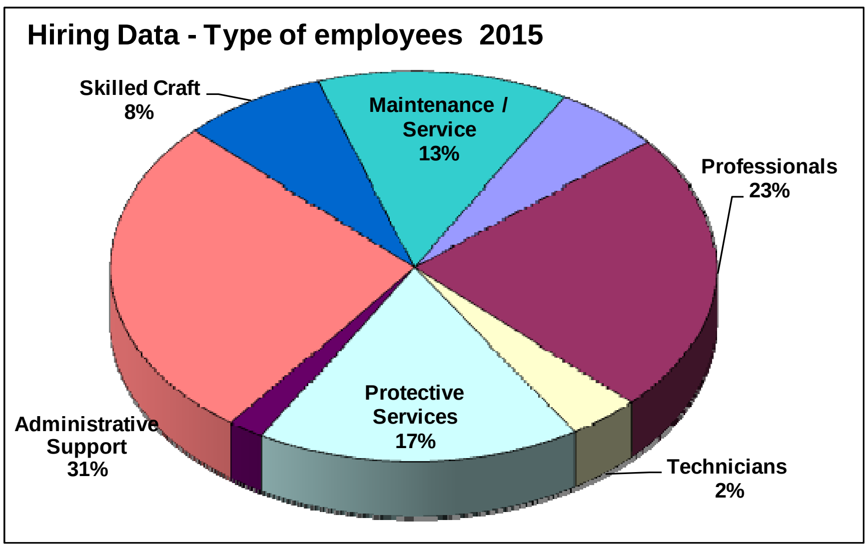
The two graphs that follow are taken from the Equal Employment Opportunity (EEO) report prepared by the County Human Resources Office on a yearly basis. The report shows the type of personnel hired in a fiscal year. The two graphs are from 2010 and 2015 EEO reports. The graphs do not include seasonal, part-time or temporary employees.



The information in these graphs is based on hiring during the year. As can be seen in 2010, Administrative Support, Professionals, Para-Professionals and Protective Services accounted for 68% of hiring. For 2014 these 4 areas accounted 76% of the positions hired.

The County had 397 full time employees at the time of the 2015 payroll report. During the 2015 fiscal year the County hired 52 employees. This gives the County a 13.10% turnover rate.

Unfortunately in some cases the same position was filled several times during the year, causing the percentage to be higher than if these hires are counted only as one. By taking duplicate hires out of the calculation the adjusted turnover rate comes to 10.58%.



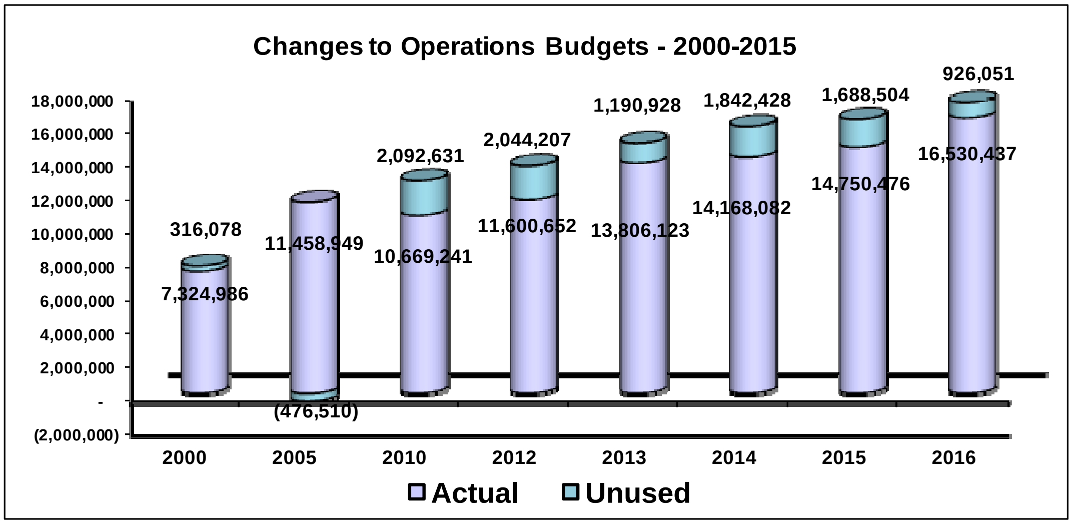
The difference between the 13.10% stated above and the 10.46% shown in the table below comes about because of different number of employees used. The 13.10% uses the FTEs on the payroll as of June 2015 and the 10.46% uses the number of 'Budgeted Employees' for FY 2015.

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

Employee Types	FY 05	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15
Administration	1	1	0	1	1	0	3
Professionals	13	4	7	3	11	9	12
Technicians	0	1	0	0	0	1	2
Protective Services	20	3	28	11	12	18	9
Para-Professionals	0	1	0	1	0	0	1
Administrative Support	21	16	8	18	15	19	14
Skilled Craft	9	0	2	3	1	4	4
Maintenance / Service	13	9	13	7	10	9	7
TOTAL	77	35	58	44	50	60	52
% of FTE's	18.38%	7.58%	12.20%	9.16%	10.33%	12.39%	10.46%

Operations

Operating costs, as seen in the graph below, have a significant variance from year to year. The significant increase of $2.7 million in FY 2005 is from the sale of County property and the transfer of this revenue from the General to Capital Projects fund. The increase in FY 2011, which continues through FY 2016, comes from operational costs associated with the new Detention Center.



Overall, operating costs have not kept up with the rate of inflation when new programs and mandates are taken into consideration. New programs / mandates include Court Services $1,132,200, Detention Center medical, facilities and systems costs $1,545,000 and Rest Home Bed Tax to State of Montana $257,000. FY 2011 actual showed 11.81% increase from FY 2010 because of the new Detention Center. FY 2016 'Unused' projections are based on current estimates at calendar year end (6 months).

Budgeted operating costs have grown from $7.3 million in 2000 to $17.6 million in 2016. This is a 141% increase over 17 years. Inflation has grown at 42.10%, with population increasing at 43%. Areas that have seen the largest change include:

Fuel & Insurance – The following is a comparison of fuel and insurance costs for the Road and Sheriff Departments during this period of time:

	Road		Sheriff	
Year	**Fuel**	**Insurance**	**Fuel**	**Insurance**
2000	115,661	40,338	47,072	49,207
2010	280,230	69,930	137,934	74,149
2011	306,230	65,936	140,708	84,077
2012	407,835	69,223	159,185	88,281
2013	376,290	72,684	173,957	88,181
2014	408,810	75,877	161,101	106,284
2015	271,249	81,686	122,821	98,966
Budget 2016	**370,000**	**85,370**	**140,000**	**105,210**
Percent Change 00-15	134.52%	102.50%	160.92%	101.12%
Percent Change 00-16	**219.90%**	**111.64%**	**197.42%**	**113.81%**

The table shows fuel costs have increased 105%, even with use of fuel-efficient engines. The FY 2016 budget was based on a $0.50 per gallon decrease, ***with my recommendation for FY 2017 seeing an additional $0.50 be removed***. The insurance change is variable because law enforcement costs increase at a different percentage than other areas due to utilization for vehicle repairs, increase in vehicle values and known exposures.

Utilities – Cost of utilities have increased in the last 17 years, with the biggest increases felt in FY 2008. The information that follows shows the changes in the Road, Fair and Facilities gas and electric costs for the period FY 2000 through FY 2015 for actual expenses and the FY 2016 Budget:

GAS AND ELECTRIC UTILITIES			
YEAR	ROAD	FAIR	FACILITIES
2000	12,433	42,049	125,471
2010	26,798	60,439	248,623
2011	39,453	64,658	351,138
2012	42,738	57,784	338,621
2013	40,092	56,590	308,996
2014	45,047	62,994	356,983
2015	41,573	61,584	359,532
Budget 2016	**45,100**	**60,000**	**361,800**
Percent Change 00-15	234.38%	46.46%	186.55%
Percent Change 00-16	**262.74%**	**42.69%**	**188.35%**

Contracts – Detention Medical, Juvenile Detention and Detention Center food costs have increased dramatically during the period 2000-2015. FY 2000 Medical costs are higher than normal due to a claim costing over $80,000. Without this claim, costs have increased by 686%. Costs from FY 2005 forward include a contract for a physician assistant, registered nurse and professional support at the Detention Center. This has helped control costs and decreased problems with inmates. Food costs for FY 2014 increased with implementation of additional contracts with non-Gallatin County detention inmates.

	DETENTION			LIBRARY	SENIOR	MENTAL
YEAR	Medical	Juv. Det.	Food	CONTRACTS	PROGRAMS	HEALTH
2000	165,010	10,560	148,265	445,290	107,508	100,669
2010	343,570	263,834	781,286	675,442	226,496	341,560
2011	432,039	191,415	663,072	713,215	233,800	356,960
2012	551,794	276,132	155,804	769,612	222,950	246,597
2013	663,648	211,815	200,601	759,380	232,450	345,711
2014	667,754	137,820	266,486	798,139	238,068	364,674
2015	737,137	115,183	259,744	819,370	240,123	352,024
Budget 2016	**587,800**	**83,940**	**250,000**	**902,280**	**250,143**	**403,720**
Percent Change 00-15	304.67%	1205.11%	79.74%	84.01%	123.35%	249.68%
Percent Change 00-16	**256.22%**	**694.89%**	**68.62%**	**102.63%**	**132.67%**	**301.04%**

Library contracts have increased based on taxable valuation changes. The loan for improvements at the five library's was paid off in FY 2015. So the payments shown in FY 2016 include the use of Newly Taxable Value for the contracts instead of for the loan.

Senior Programs increased by taxable valuations plus justified costs for most programs. These include transportation costs for the Galavan and West Yellowstone Galavan programs, and expansion of senior citizen programs to maintain needed services.

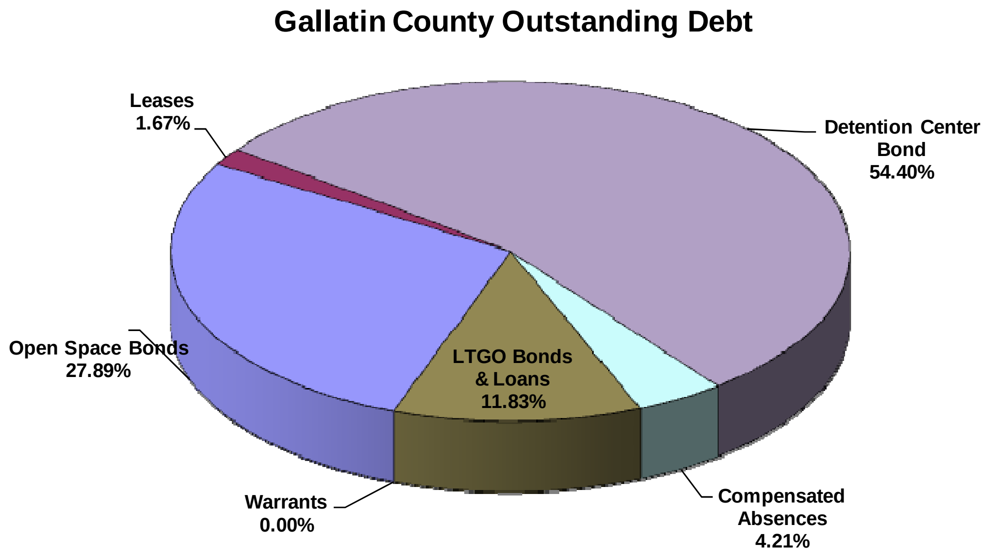
Mental Health has expanded significantly from FY 2000 when support was limited to $1 per person, plus mental evaluations. Today, funding includes the $1 per person, plus $100,000 for crisis stabilization and weekend coverage, $30,000 for adult case management and mental evaluations/holding.

Debt

Gallatin County is relatively debt free. County voters have approved 3 bond issues in the last 25 years. They are Open Space in 2001 for $10,000,000, Open Space in 2005 for $10,000,000 and Detention Center in 2008 for $32,000,000. In recognition of the County's good financial condition, Standard & Poor's upgraded our bond rating to AA+ in 2013 and reaffirmed this rating in 2015 for the final Open Space Bond Issue.

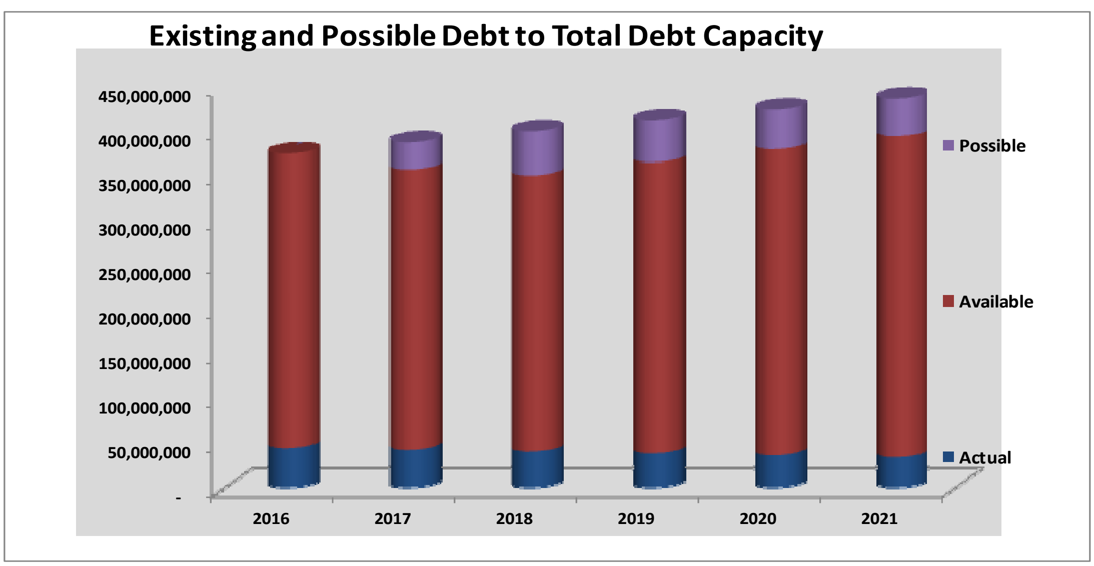
Outstanding Debt

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



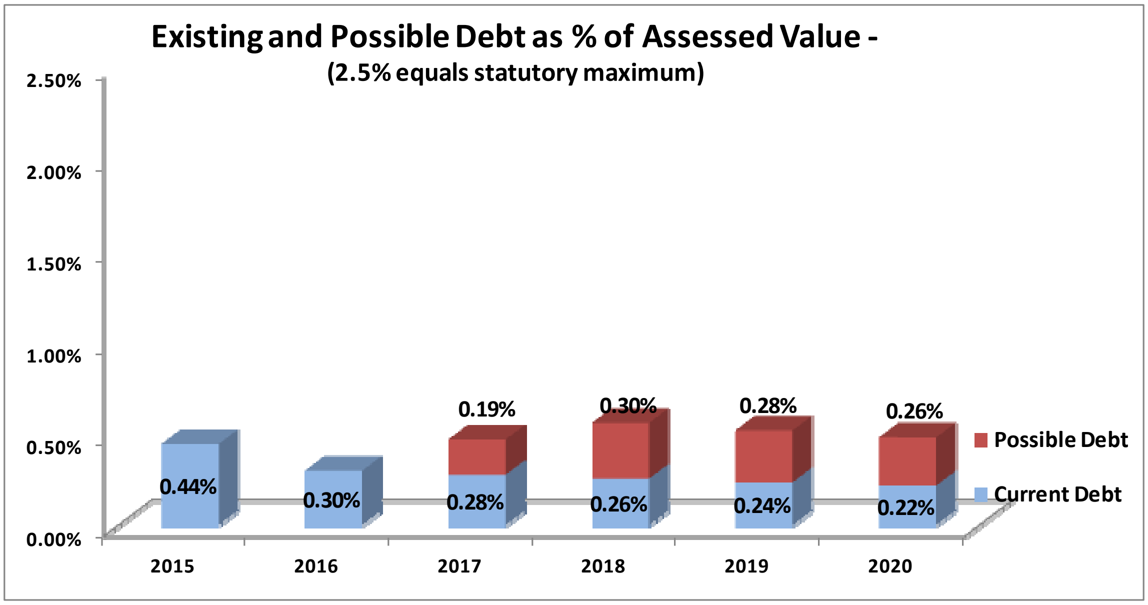
Debt Capacity

The bar chart below illustrates the County's existing debt, possible debt, and a projection of the County's projected debt capacity (legal debt limit) for the budget year and five years beyond. The graph shows that, even if a bond for the Public Safety / Justice building (only bond being considered at this time) were approved, the County would have debt capacity remaining. This reflects the Commission's philosophy to hold debt levels down for taxpayers despite the County's rapid development and growing population.



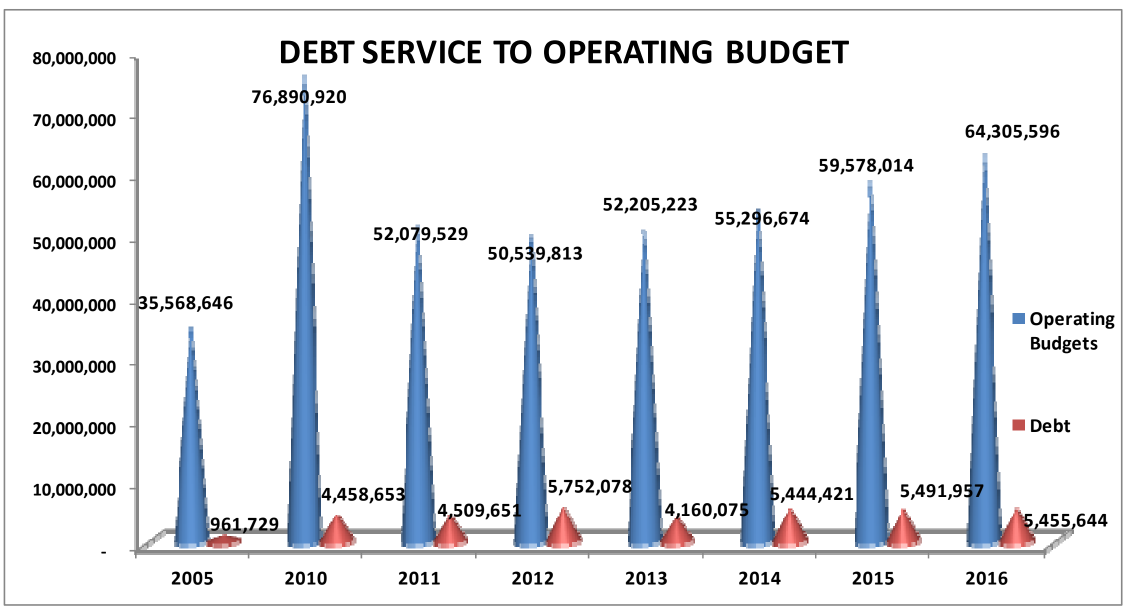
Debt as a Percentage of Assessed Value

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



Debt Service Costs Contrasted with the County's Operating Budget

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



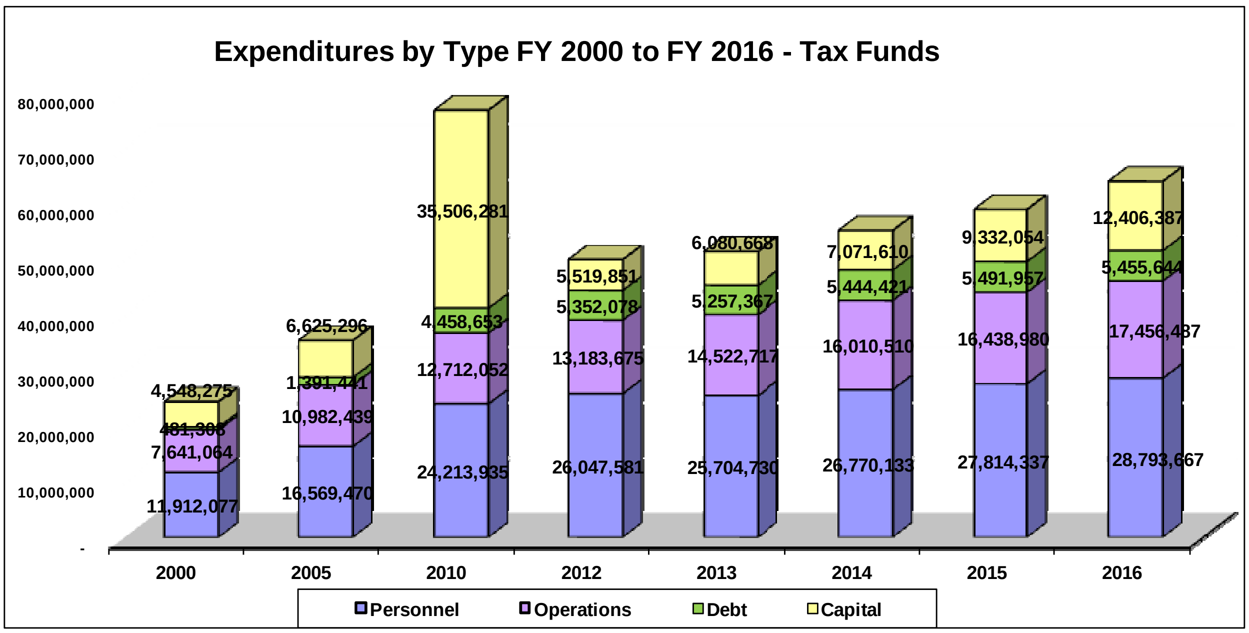
Capital

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

Capital Expenditures Contrasted With Total County Operating Expenditures

County investment in its capital and infrastructure is important to ensure the long-term viability of service levels. The amount of capital expenditures in relation to the budget is a reflection of the County's commitment to this goal.

Gallatin County strives to provide for adequate maintenance of facilities / equipment and for their orderly replacement. The graph below illustrates the County's historical investment in capital. The graph depicts actual capital expenditures and capital projects as part of the County budget. The graph shows the most recent budgets plus FY 2000, FY 2005 and FY 2010 for comparison.

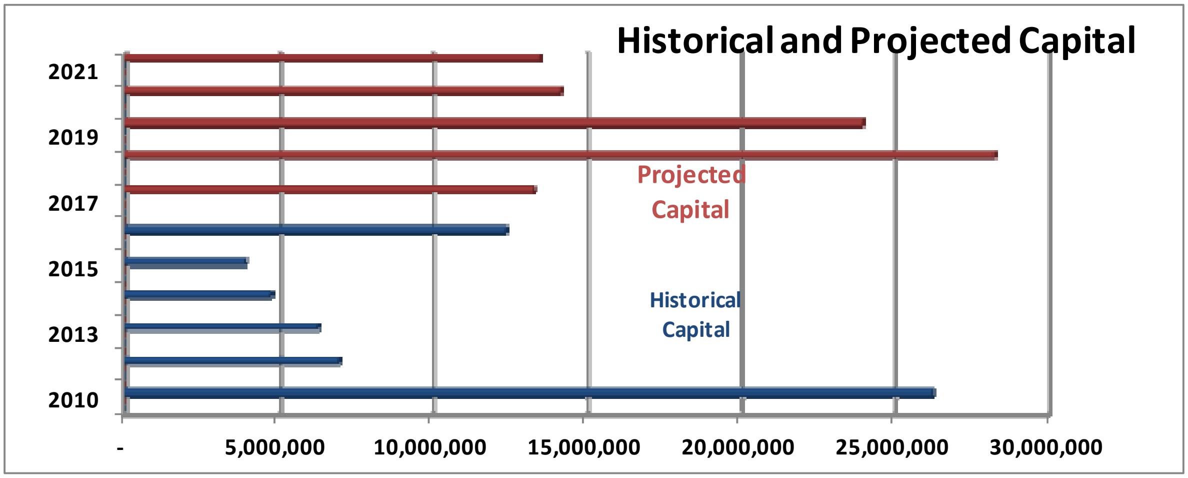


The Graph indicates the amount budgeted, not the amount actually spent. The difference for capital can be significant primarily because of the County's reserving capital money for several years to fund a project. This funded the County Road Shop, E.O.C. / Search and Rescue Building, Courthouse remodel, Copier Replacement, Core Rolling Stock, Bridge Replacement, Voice / Data System Replacement-Enhancement and the Law and Justice Project.

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

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

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



Readers should note that Historical Capital Spending indicates actual expenses for the year, not costs of Projects included in the CIP Program, which is significant for most years. As an example, FY 2010 shows expenditures of $26.6 Million. The approved capital projects and capital equipment budget was $35.5 million.

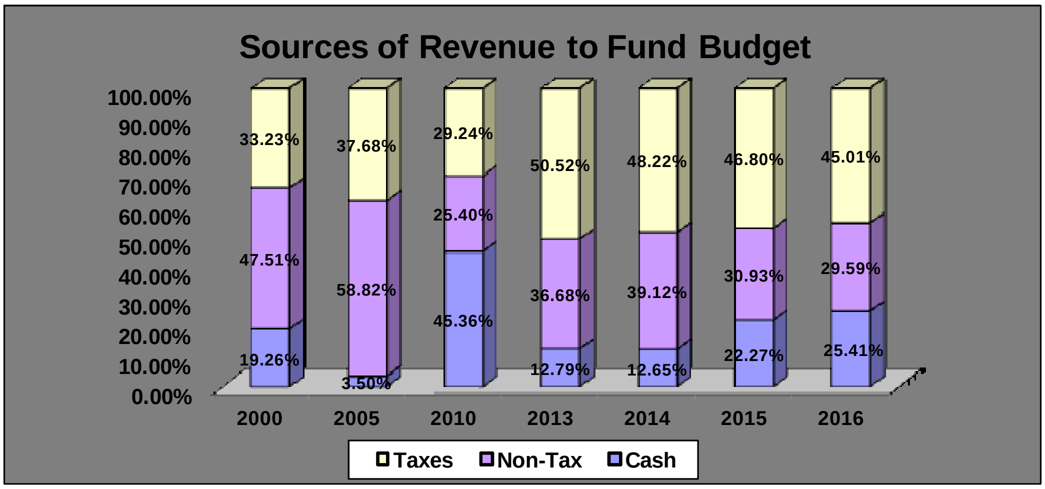
Also, readers should know that projected CIP projects included above are separated into years, but the FY 2016 budget incorporates only the approved amount in the budget, which does not include $146 million in costs to be funded in future years to pay for all projects.

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

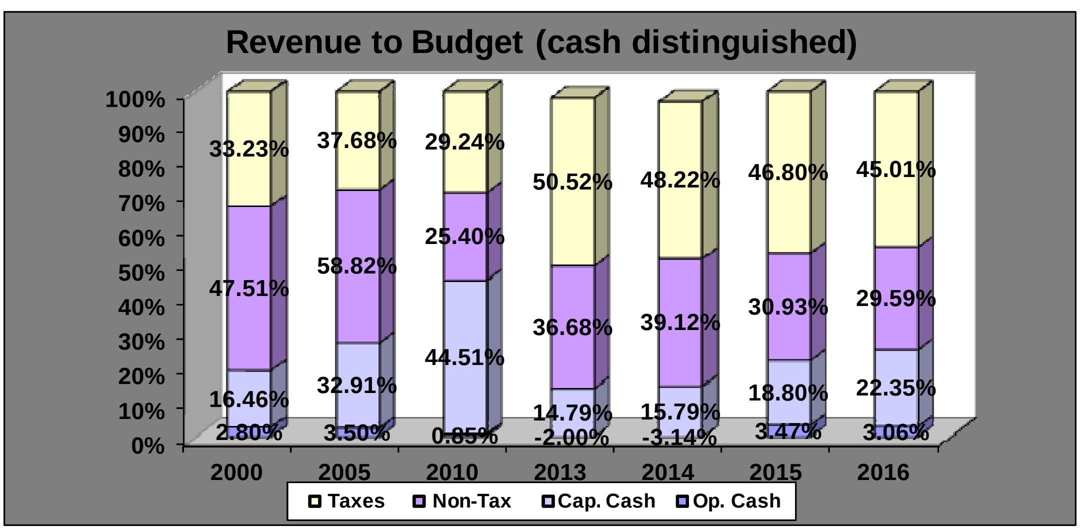
REVENUES

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

A comparison of revenue sources for the 2000 through 2016 budgets shows an increase from 33.23% to 44.94% for the County's reliance on tax revenues. A significant part of the tax percentage comes from bond payments. During this same time, the County decreased non-tax revenue percentages from 47.51% to 29.54%. The source showing a minimal change is cash utilized to balance the budget, which increased from 19.26% to 25.52%. However, the majority of cash is used to fund capital reserves and capital purchases, not ongoing operational expenses.

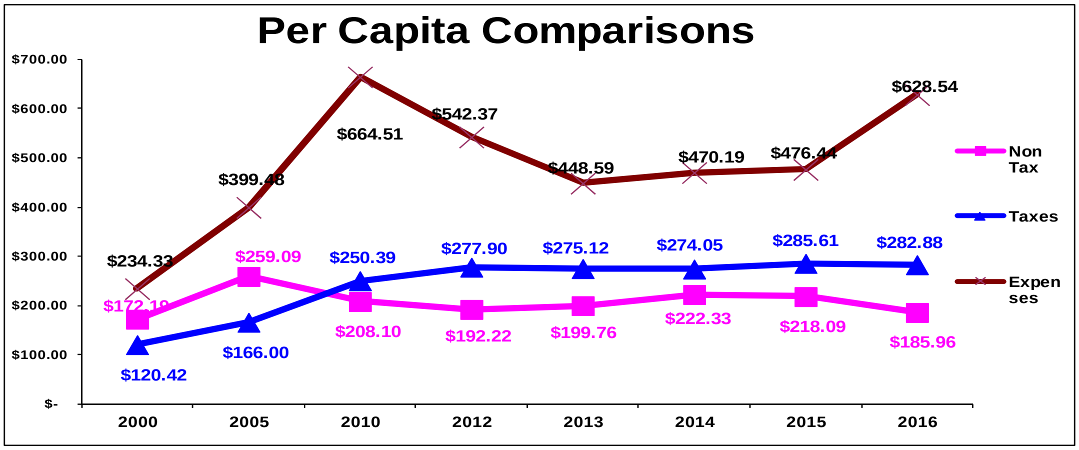


A more accurate view of revenue sources is shown in the graph below. This graph distinguishes between cash used for Operations (Op. Cash) and cash used to fund capital (Cap. Cash). FY 2015 had cash supporting 3.47% of Operating Expenses, but in reality the County didn't use any cash for operations. FY 2016 shows the County budget needing 3.25% cash to support the budget.



Per Capita Comparisons

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



The cost per person for **actual expenses** in the last 17 years has increased from $234.33 in 2000 to $475.82 in 2015, a 103% increase. The **FY 2016 budget shows** $642.51 per person which would equal a 174% increase. However, historically budgets are not fully spent meaning the actual number will be lower. The major increases in FY 2010 to FY 2012 came from construction projects, debt payments and funding of operational costs associated with the new Detention Center.

Actual expenses will be lower than the $642.51 shown for 2016 budget, and actual revenues tend to be higher than estimated. As an example, the cost per capita budgeted for FY 2014 expense was $599.34 or 21.54% below the amount actually spent. Based on the history of low actual expenses, it is anticipated that FY 2016 expenses should be about $514 per person.

Taxable Valuations

Tax Revenues – Actual tax revenues have increased from $120.42 per person to $285.24 between 2000-2015; a 139% increase. With FY 2016 taxes projected at $289.17 per resident, the increase from 2000 is projected as an increase of 140%. The following is a comparison of taxable values from the 2000 base year.

Gallatin County's Taxable Value increased from $118,618 in FY 2000 to $237,836 in FY 2016

	Taxable Valuation	1 yr %	2 yr % AVG.	5 yr %
Base Year 200(	118,618			24.91%
2005	154,680	6.92%	15.79%	30.40%
2010	223,245	6.49%	13.40%	44.33%
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%
10 Year Average		**3.70%**		

Non-Tax Revenues – Actual receipts started at $172.10 per person in 2000 and are now at $217.81 for FY 2015, with FY 2016 estimated at $190.09 per person. This is a 26% increase from FY 2000 to FY 2015 and only a 10% increase projected for FY 2016. The 2000 through 2015 numbers are based on **actual** taxes and non-tax revenue, expenses, while the FY 2016 numbers come from **Estimated** or **Budgeted** revenue and expenses.

Trend Analysis Introduction

The Trend Analysis is prepared to depict the financial condition quantitatively through the utilization of financial trend monitoring. 23 trends are analyzed using Favorable, Watch and Unfavorable rankings. Trends may be expanded in future years as workload indicators and performance measurement information is made available. Sustainable Budget and Resilient County have been added as indicators for FY 2016.

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, sustainable and resilient.

The County's adopted financial policies, as well as relevant national standards, are considered in the analysis of the trend data. Specific information and data were taken from the County's audited financial statements and the approved budget document. The years reviewed are from 1970 through the current fiscal year, with only 2000 through 2016 shown. Trend analysis is based primarily on annual reports and budgets from 2000-2001 through 2014-15, along with the first 6 months of actual revenues and expenses for FY 2016 being the basis for projections.

Methodology

The report provides the public, County Commission, County Administrator, elected officials, departments and County employees a glimpse into the County's financial position. The information allows the County to identify specific areas where new policies are desired, where current policies need revision, and where policies need to be eliminated.

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

- **Favorable** is given to trends that adhere to the County mission, vision, goals, objectives and policies. A favorable overall 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 assigned to trends that are downward or negative and attention is needed to address the trend. An Unfavorable overall trend occurs when 10 or less indicators are Favorable;

Trends

The following table shows a summary of indicators for FY 2000 through the FY 2016 budget. The table recaps ratings by indicator and year.

Indicators:	FY 2000	FY 2005	FY 2010	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues:								
Per Capita	Fav.	Fav.	Fav.	Unfav.	Watch	Watch	Watch	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	Watch	Fav.	Fav.	Fav.	Fav.
Inter-Government	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Utilization of Cash	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Unfav.	Unfav.
Operating Reserves	Watch	Unfav.	Watch	Watch	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.	Watch	Unfav.	Unfav.	Fav.	Fav.
Sworn Officers/Capita	Unfav.	Unfav.	Unfav.	Watch	Unfav.	Unfav.	Watch	Watch
Fringe Benefits	Unfav.	Unfav.	Fav.	Unfav.	Unfav.	Unfav.	Unfav.	Watch
Capital Outlay	Fav.	Unfav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.
Compensated Absences	Unfav.	Watch	Unfav.	Unfav.	Unfav.	Watch	Watch	Watch
Economic:								
Property Values	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Fav.	Watch
Residential Values to total	Unfav.	Unfav.	Fav.	Unfav.	Unfav.	Watch	Watch	Watch
Property Tax Analysis		Fav.	Watch	Fav.	Fav.	Fav.	Fav.	Watch
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.	Fav.	Watch	Watch
Sustainable Budget							Fav.	Fav.
Resilient County							Fav.	Fav.
TOTAL FAVORABLE	**12**	**11**	**14**	**13**	**15**	**15**	**16**	**14**

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 2015-16 is **'WATCH'** **–** The nineteen indicators show 11 are Favorable, 7 are 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:

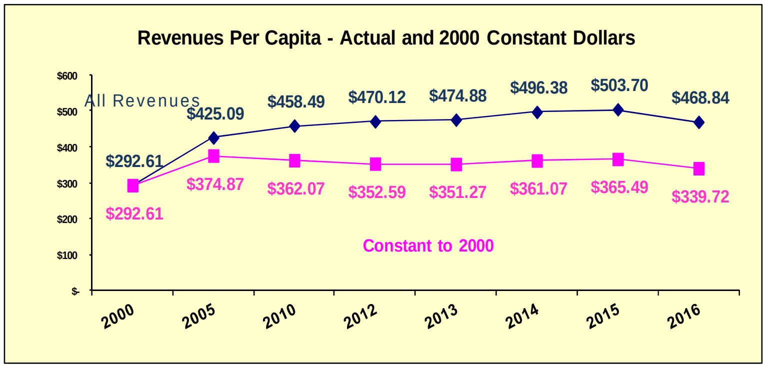
3) Sustainable Budget – per policy - is when One-Time Revenue and Cash are used for 5% or less of Ongoing Operating expenses, increases in taxes for County Operating funds are minimal and outstanding debt is less than 50% of the amount authorized by statute; and,

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 Indicators is **'WATCH'** - The nineteen original Indicators plus the two benchmark indicators plus the two new concepts show 15 are Favorable, 7 are in a Watch status and 1 indicator is Unfavorable.

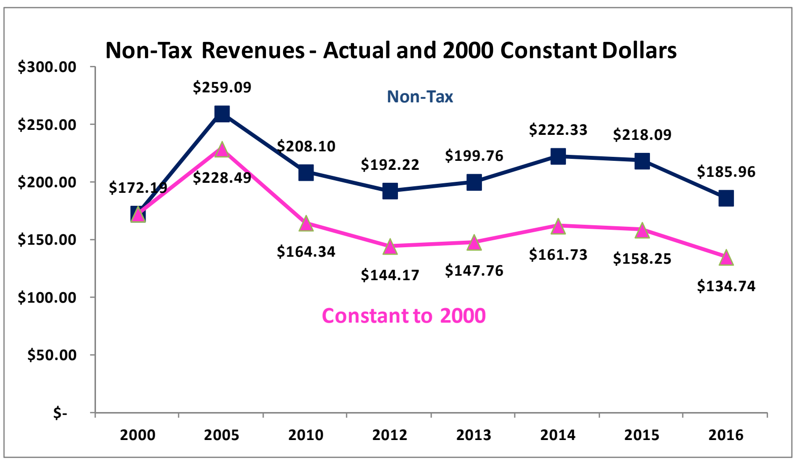
Revenues Per Capita

Finding: ***WATCH*** – Revenues per capita reflect a decrease for FY 2016 for Budgeted Revenue and a decrease in constant dollars. Non-tax revenues per capita have decreased to $190.09, significantly below revenues per capita in FY 2005. Tax Revenues per capita continue to increase. These revenue sources taken together are a significant change from FY 2000 through FY 2010, when Per Capita Revenues increased every year. The calculation for FY 2016 is based on the approved budget, but historically the County has seen revenues received higher than the budget estimate. 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 2015.



The chart shows an increase in actual dollars generated per capita from FY 2000 through FY 2015. Constant dollars, using 2000 as the base year, show a change year to year, with decreases through 2013 and increases in 2014 and 2015, compared to the high in 2005. The increase appears to be continuing into FY 2016, with actual revenue increasing, to $508 or higher. The decrease in constant dollars is mostly from taxes for debt decreasing.

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



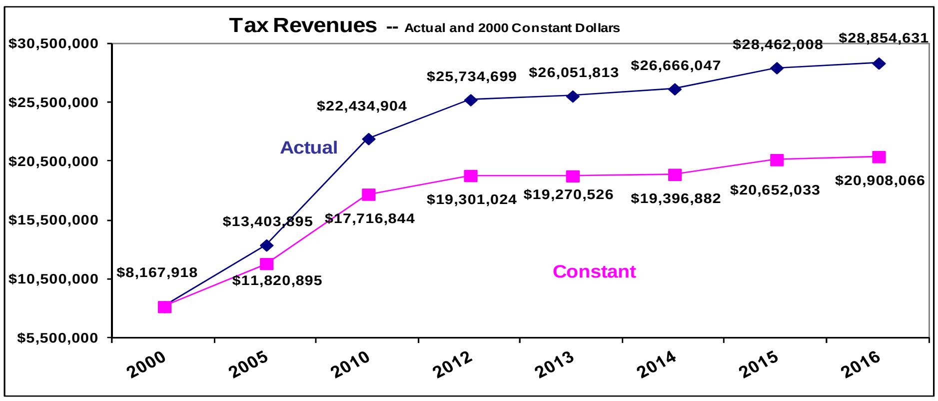
- Intergovernmental Revenues – receipts from federal, state, and local Governments increased from $1,376,807 in FY 2000 to $3,620,025 in FY 2015, a 2.62% increase in 16 years. FY 2016 revenues are up slightly for state allocation.
- Charges for Services – include Clerk and Recorder, Clerk of District Court, Sheriff Services etc. and have increased to $8,280,531 in FY 2015, a 125% increase from FY 2000. FY 2016 receipts are currently comparable to FY 2015.
- Fines and Forfeitures – Justice Court revenues increased to $559,965 for FY 2015, continuing the increases of FY 2014 but still 25% below the high in FY 2009 ($755,000). The decrease, from FY 2009, comes from bond forfeitures being split with the state. FY 2016 appears to be trending upward with a $15,000 increase over budget possible.
- Other revenues that have increased include Investment Interest by 38.62% for the General Fund and Local Option MV fees have increased to $1.9 million which is an 8% increase from last year. Investment earnings may decrease as cash is used to fund ongoing operating costs.

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

Property Tax Revenues

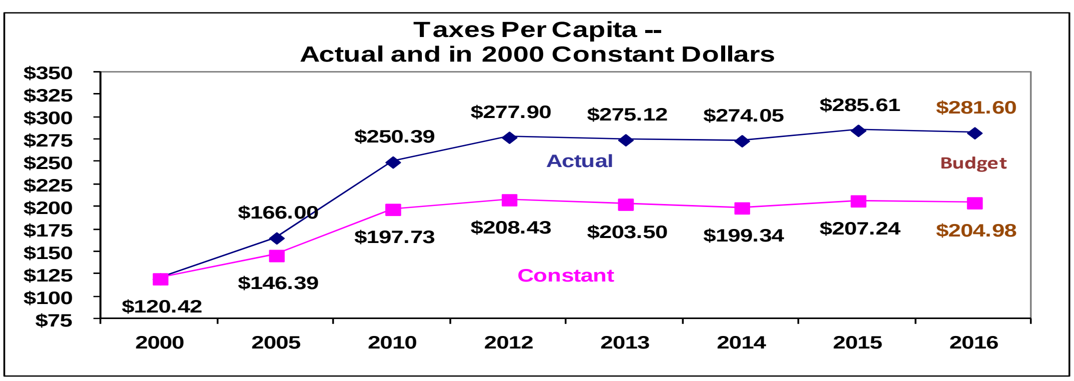
The Tax Revenues chart shows actual dollars collected for FY 2000 through FY 2015, with FY 2016 using Budgeted Tax Revenues. The graph also shows revenues based on calculating constant dollars using 2000 as the base year. Items that have affected tax revenues include:

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



Finding: ***Favorable*** – Property Tax Revenues have increased except for decreases associated with debt for 15 years and are budgeted to increase for FY 2016. With the ability to levy the unused taxes from FY 2016 this positive trend should continue for FY 2017. In a reversal of FY 2013 and 2014, we continue to see an increase in constant dollars for FY 2016. The improvement in the local economy exceeds most expectations, with construction significantly improving in calendar year 2015. This will positively affect the County's valuation for the FY 2017 and FY 2018 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 $86.55 more in taxes than 16 years ago, ($5.41 per year). Actual tax dollars paid increased by $164.82 ($10.31 per year) from 2000 through 2015.

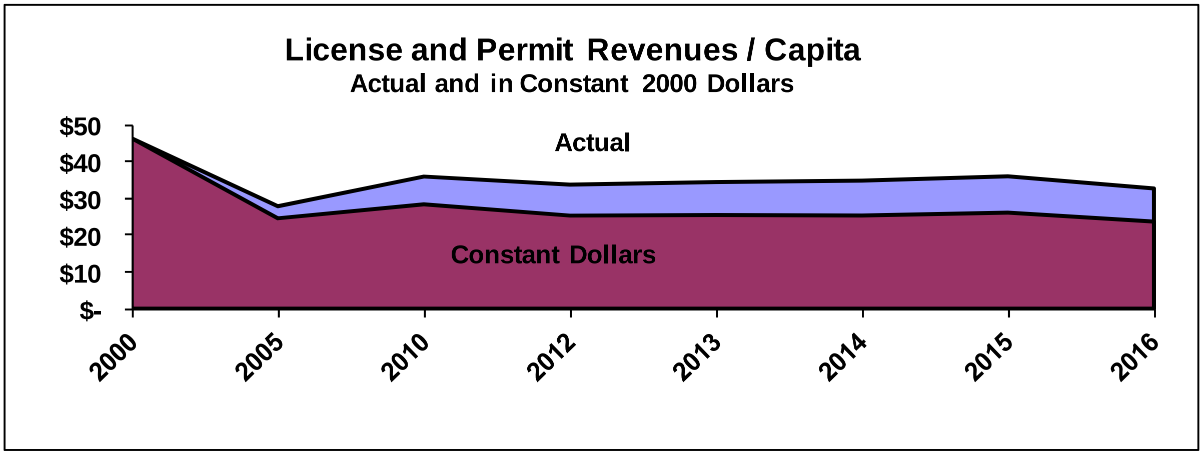
Favorable = tax revenues and taxes per capita show an increase to offset inflation and to allow for growth caused by increase in population, when adjusted for debt service.

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 the FY 2015 Budget. 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 2012 $2,922,982 (2.20%)
- FY 2013 $3,049,544 4.32%
- FY 2014 $3,304,638 8.36%
- FY 2015 $3,592,389 8.71%
- FY 2016 $3,120,715 Budget Estimated Actual $3,850,000

For FY 2011 through FY 2015 and projected for FY 2016, the County has seen increases in this revenue source (up 2.30% on average for the last 12 years, 8.71% for FY 2015). This comes from the local economy improving and the purchase of vehicles delayed during the Great Recession. Mid – year collections for FY 2016 show continuation of this trend, a 6% increase from FY 2015 revenues is being projected for FY 2016.



Finding: ***Favorable*** – License and Permit Revenues show an increase in growth from FY 2009 to FY 2015, with FY 2016 projected to be increasing at the rate seen prior to 2008. 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 2016.

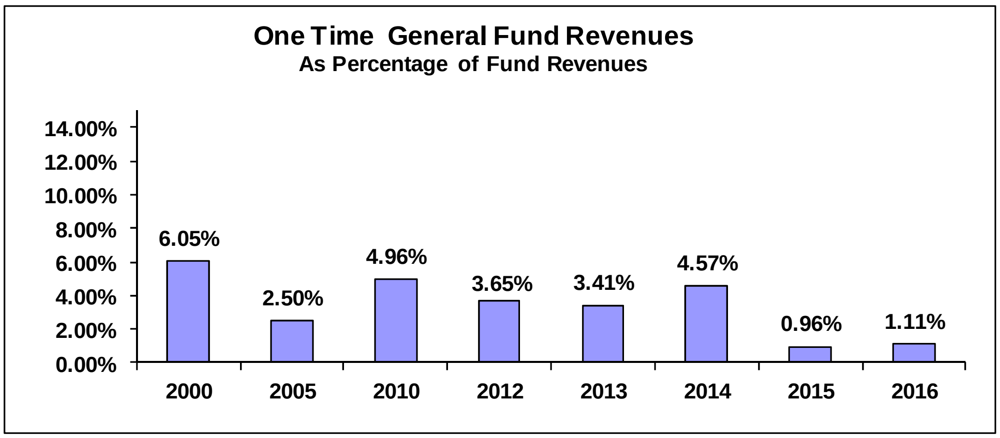
Current estimates indicate licenses and permits will continue to increase, for the next several years. Licenses and permits have increased faster than inflation through the first six months of FY 2016.

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.

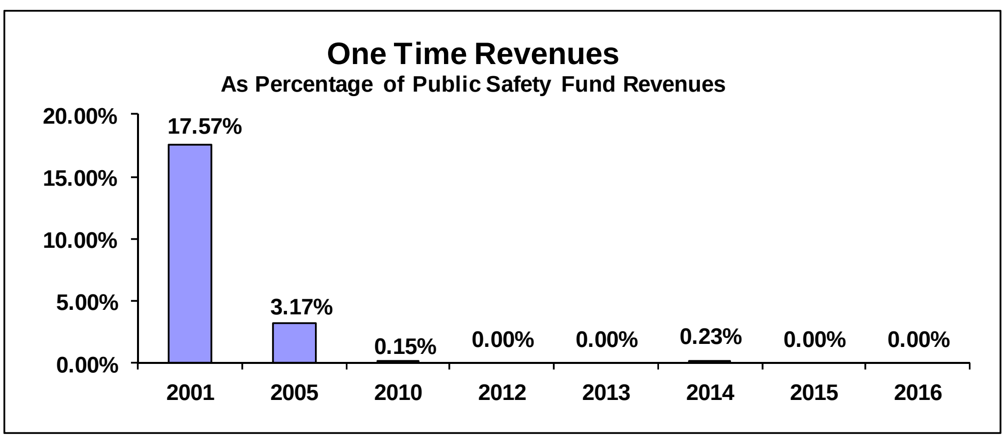
One Time Revenues

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



Finding: ***Favorable*** – The percentage of one-time revenues to total revenues shows a gradual decrease from FY 2010 4.96% to FY 2014 4.57%, with FY 2015 being at 0.96%. FY 2016 is budgeted to be 1.11%

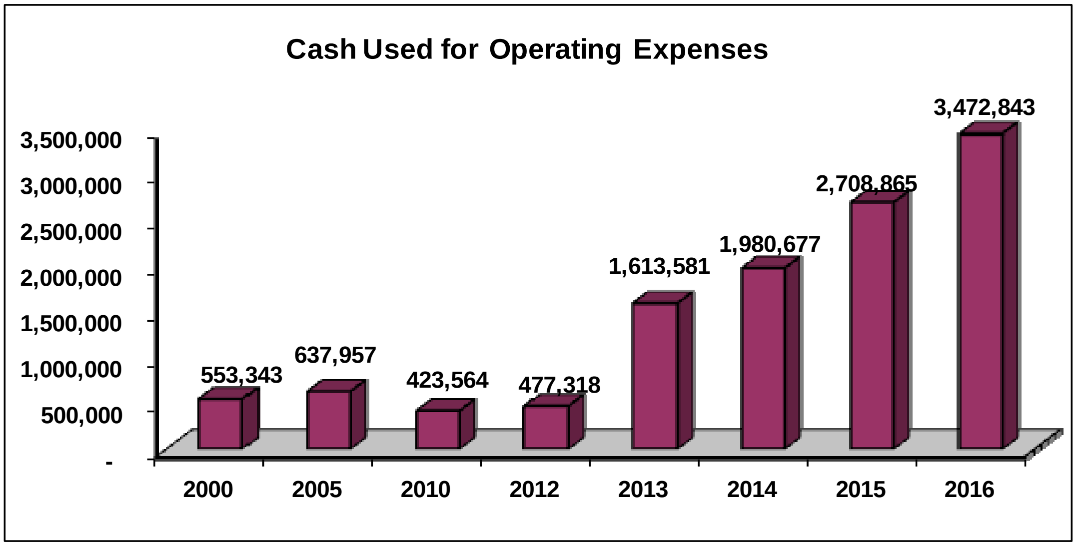


The decrease of one-time revenues in the Public Safety Fund is the result of the County Commission's decision to levy taxes in the Public Safety fund instead of levying in the General Fund and elimination of a separate fund for employer contributions.

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 16 years. These numbers are actual and do not include the amount budgeted, except in FY 2016 which anticipates using cash for operating expenses. The County has decreased its reliance on cash for purchasing large equipment with the implementation of the Core Equipment Plan, and the Bridge Replacement Program. These eliminate a major concern about sustainability of equipment for rolling stock needing replacement on a planned basis and large bridge replacement.



Without cash re-appropriated, the County Commission could not have funded the FY 2016 Capital and Debt Budgets. This is especially true of PILT where a majority of cash is used to pay for ITS servers / routers and loan payments for capital projects. As the County Budget becomes tighter, cash available to fund future capital items will decrease, resulting in a possible decline in services.

Finding: ***Unfavorable*** – The use of cash for ongoing expenses is not consistent with the County's goal to not fund ongoing expenses with cash. The FY 2016 budget shows the County Commission's using $3.5 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 ongoing expenses. For future years, a decrease in reliance on cash for these ongoing expenses has been implemented and may further enhance the County's ability to have sustainable budgets. The payment of dispatch capital equipment and funding of large bridge construction and the Core Rolling Stock plan through mill levies, are major steps in meeting the County's goal of funding all ongoing departmental needs with sustainable revenue.

Favorable = the utilization of cash to pay for ongoing operational expenses is the exception not the rule based on prior year actual utilization and the FY 2008 budget.

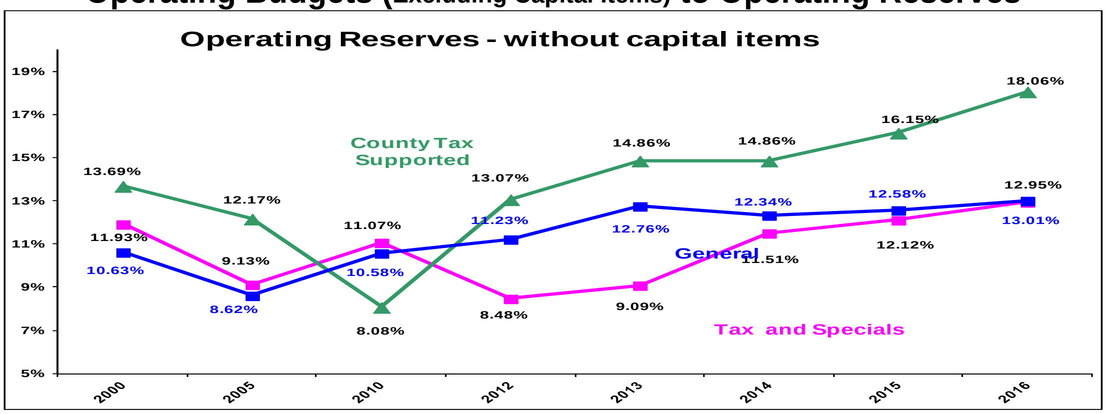
Operating and Capital Reserves

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

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

The graph that follows shows a reversal of the downward trend in Operating Reserve percentages in tax supported funds, 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 and the FY 2016 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 12	FY 13	FY 14	FY 15	FY 16
Below Minimum	10	10	8	4	0	0	0	0
At or above Minimum	20	16	17	11	15	15	15	15
% At or above Minimum	67%	62%	68%	73%	100%	100%	100%	100%

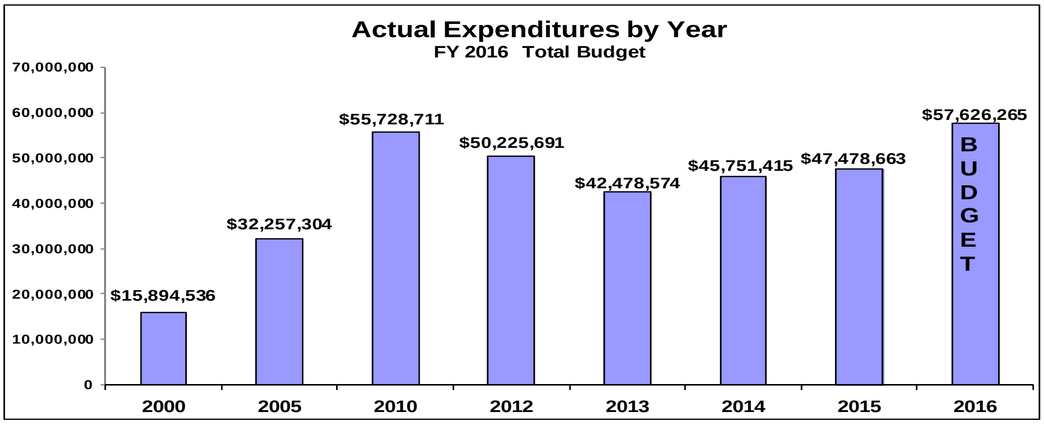
NOTE: FY 2012 shows a decrease to 15 Funds with the elimination or consolidation of funds into General, Health and Public Safety. Funds being tracked are General, Fair, Health, Public Safety and Road with reserves of 10-18%, Noxious Weed and Library reserves of 20-30%, Capital Projects, Rest Home, P.I.L.T.,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

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

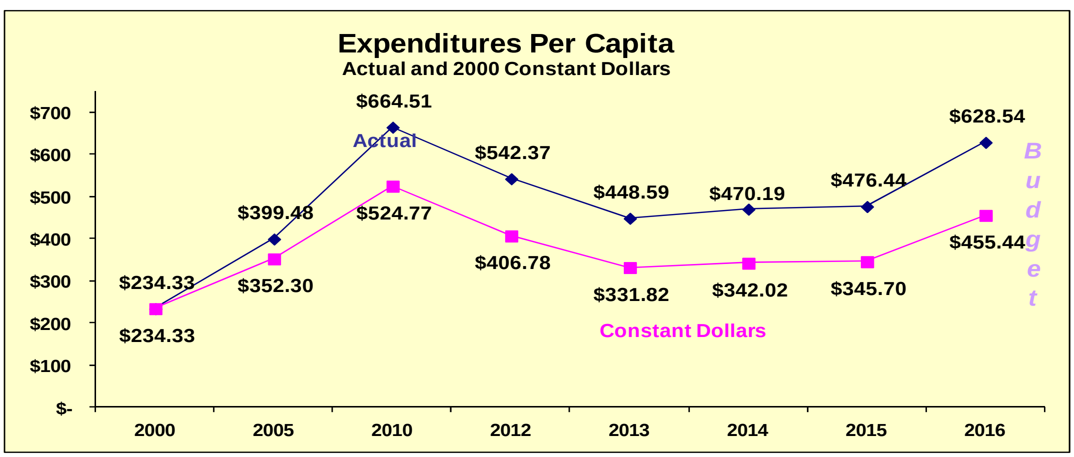
Expenditure History & Current Expenses

Expenditures

Actual expenses during the preceding fifteen years and the FY 2016 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 2016 Budget does not include approved Capital Reserves. This adjustment accurately reflects actual expenses made during each fiscal year. All calculations use only expenses from the County's tax supported funds – excludes grants, and districts etc.



County expenses in **actual** dollars increased from $15.9 million in FY 2000 to $47.4 million in FY 2015, a 298% increase in fifteen (15) 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 for new detention center staffing and FY 02 Elected Officials salary increases.

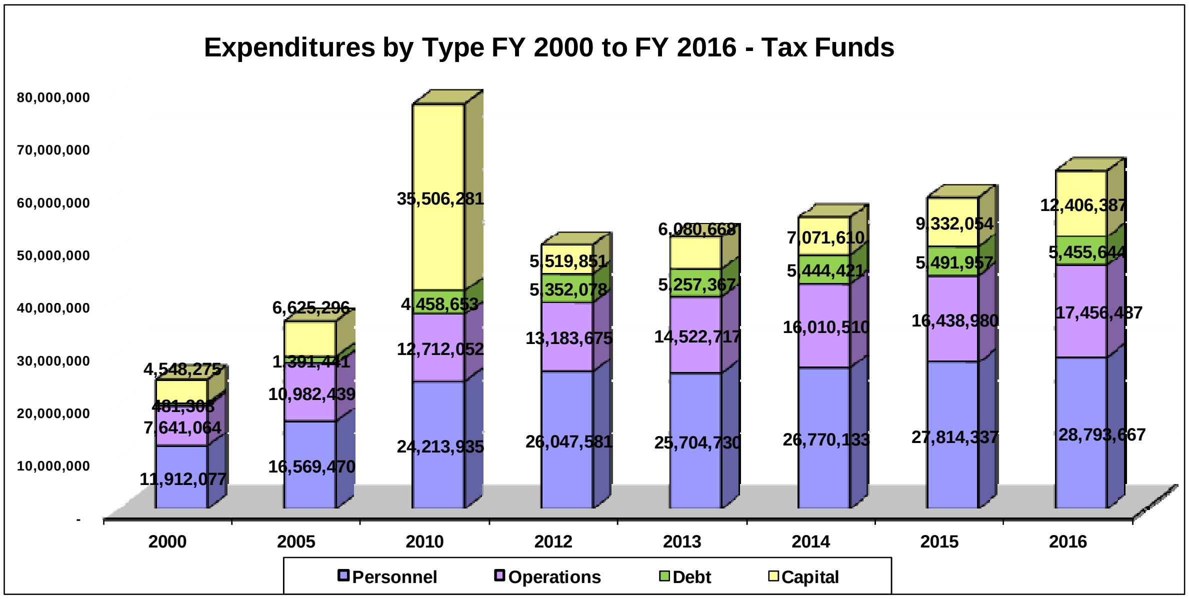


Finding: ***Favorable*** **–** Expenditures per capita in actual dollars and constant dollars have increased, when adjusted for Capital and Debt expenses. The significant per capita increase from FY 2005 to FY 2010 is from construction of the Detention Center. The increase shown for FY 2016 will be significantly less when actual expenses are known. This trend is shown as Favorable because the decrease from FY 2010 and 2011 comes from completion of the Detention Center and gradual decreases in debt costs, with normal operating expenses continuing to show a gradual increase.

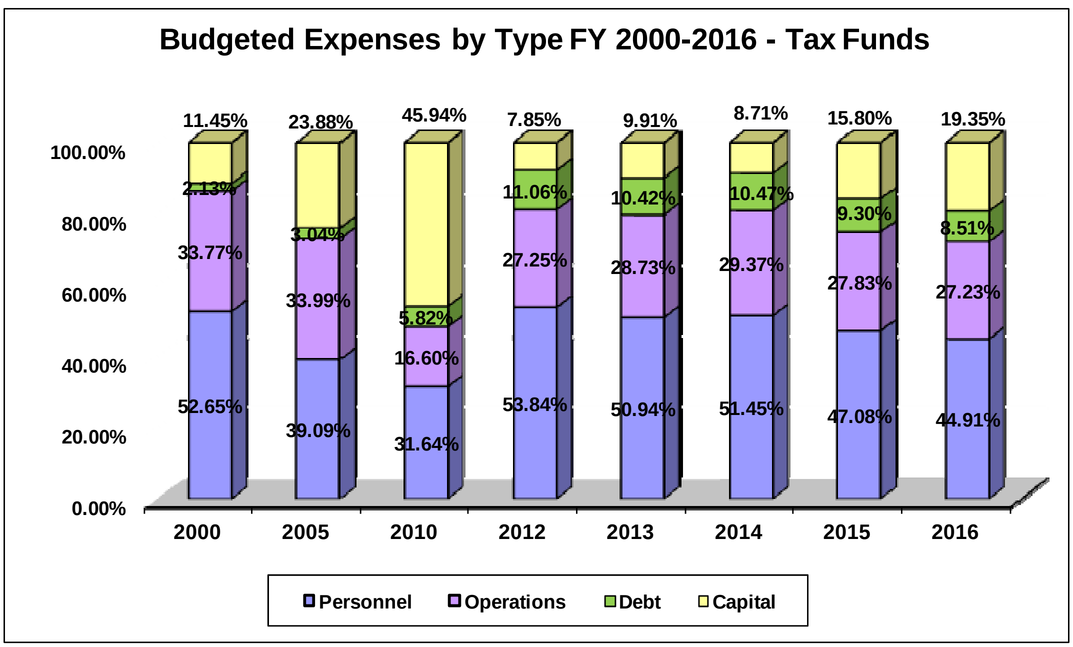
Favorable = a gradual increase in the actual and constant dollars spent by each resident indicates the County is maintaining or improving its costs for services.

Expenditures By Category

The following charts show personnel, the largest cost for Gallatin County, decreasing from Budgeted FY 2000 expenses of 52.65% to FY 2016's 44.81%. 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 49.84% in FY 2016 Budget.

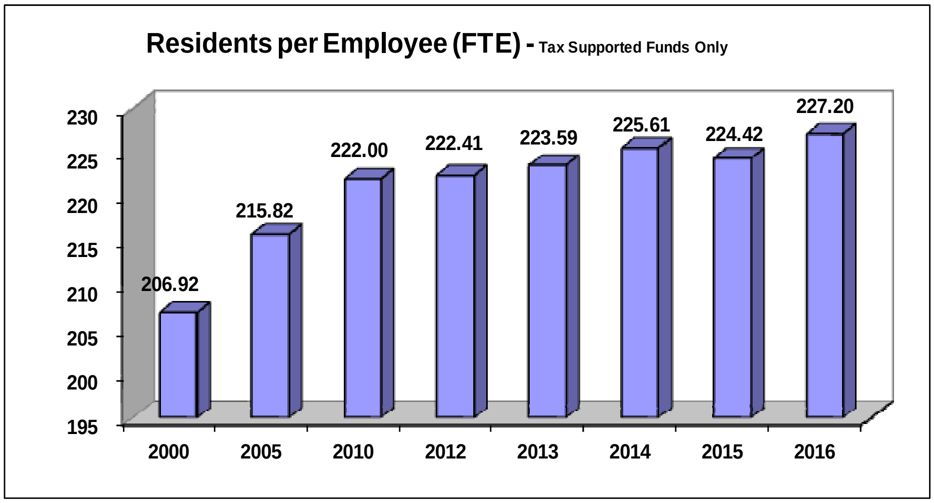


Finding**:** ***Favorable*** – Expenditures by category for actual expenses show a decrease in the percentage being spent on personnel. FY 2016 numbers are based on the approved budget and will decrease before year-end.

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

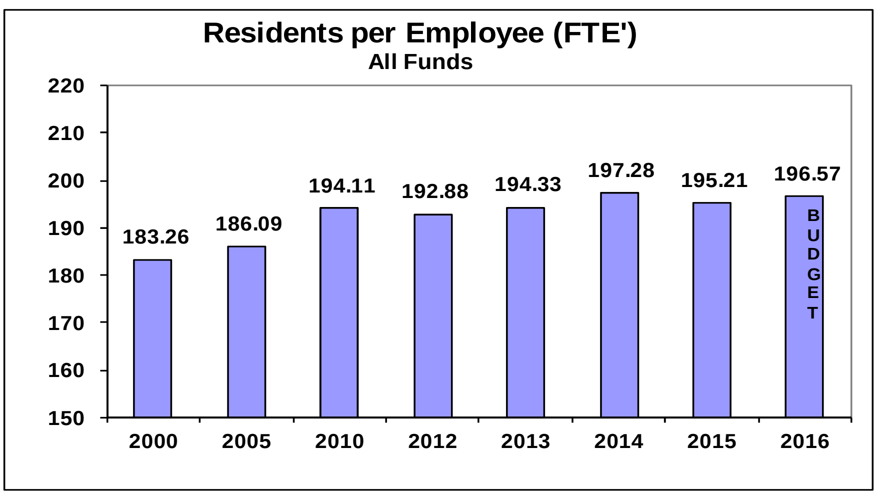
Employees Per Capita

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 2016 Budget, services have increased where needed. During this time the County added 104.69 employees. Increases, except for the new detention employees added during FY 2011, came mostly from new departments – County Administrator, Compliance, Court Services, Big Sky Deputies, Three Forks Deputies and other tax supported activities. Small growth, less than the growth in population, is attributable to existing departments.



The most accurate comparison for the increase in employees is to compare how many residents are being served by each employee. The graph above shows changes in residents per employee for tax supported funds. This 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.



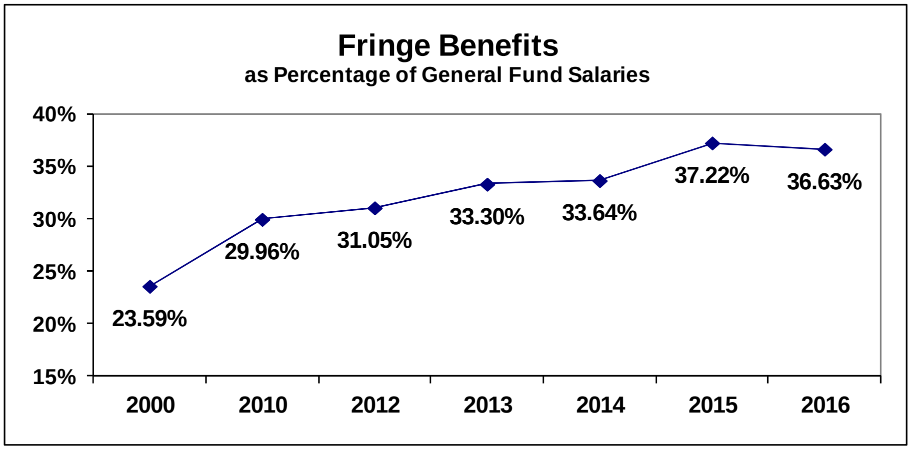
Finding: ***Favorable*** **–** The top graph show only marginal increases in budgeted employees (0.61% increase on average) over the last 17 budgets. A decrease for FY 2015 was anticipated with additions in Human Resources, Sheriff, Detention and Motor Vehicle. With actual FY 2016 employees the number is 195.01.

Favorable = trend is a marginal increase or a 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 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.

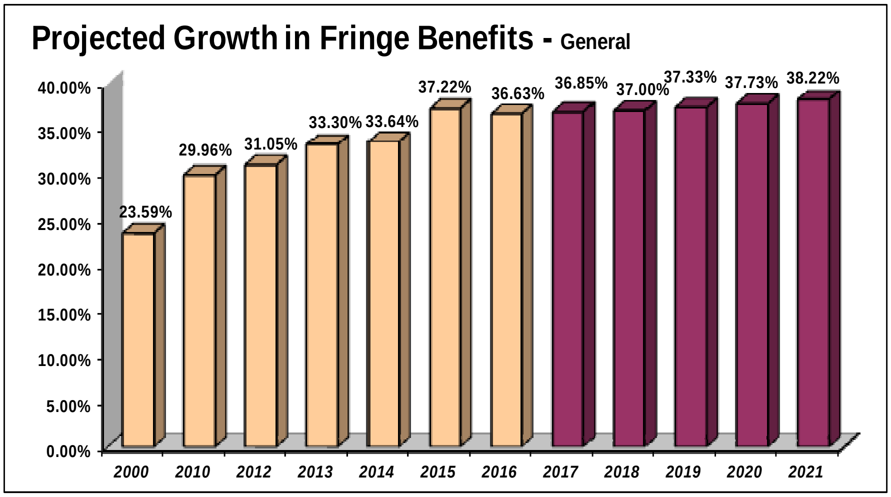


These calculations do not include costs for the statutory 15 vacation, 12 sick and 10 holidays. Adding these costs to the benefit package adds 14.17% to each of the years shown, and do not change without state legislative action.

Finding: ***Watch*** – Fringe benefit percentages have decreased in FY 2016. For FY 2016, the state required a 0.10% increase in Public Employee Retirement System (PERS) contribution by the County and the County increased health insurance premiums. However, these increases were offset by decreases to Worker's Compensation. It is currently estimated that Health Insurance Premiums need to increase by a minimum of **5% in FY 2017 and FY 2018,** to offset medical cost increases. In addition, the County will be increasing PERS by 0.10% each year for the next 7 years per state statute. The lower Worker's Compensation rates may be reversed if utilization increases. Increases in fringe benefit costs adversely affect the County's ability to fund future years' budgets. The 13.04% increase in fringe benefits from 2000 to 2016 equals $1,893,644 countywide.

Finding: ***Watch*** – The percentage for FY 2016 shows a decrease, 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.

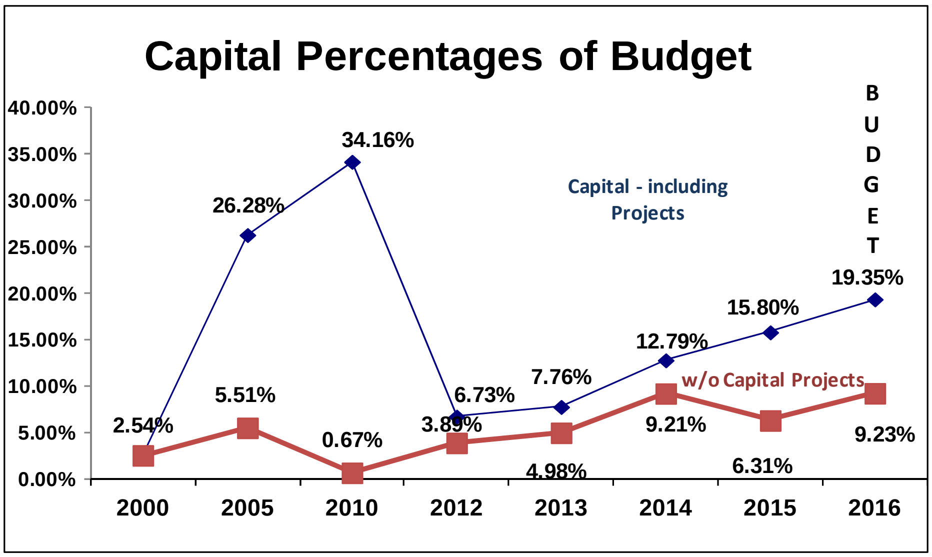


Favorable = is when the percentage of employer contributions to total wages paid remains static or decreases.

Capital Outlay & Capital Reserves

Capital Outlay and Capital Reserves have changed in the last sixteen (16) years. Previously, the County rarely set aside funds unless a specific need was identified. In 2000, the County formalized a Capital Improvement Program policy (the CIP) setting aside revenues generated from new construction taxes for approved Capital Improvement Projects. This was continued for the 16 of the next 17 budget cycles. The decision to include Core Rolling Stock, Bridge Replacement Program 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 2016 Budget is focused on capital expenses for needed equipment replacement, bridge upgrades and Law and Justice set aside. The County is in the planning stages for the new Law and Justice building.



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

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

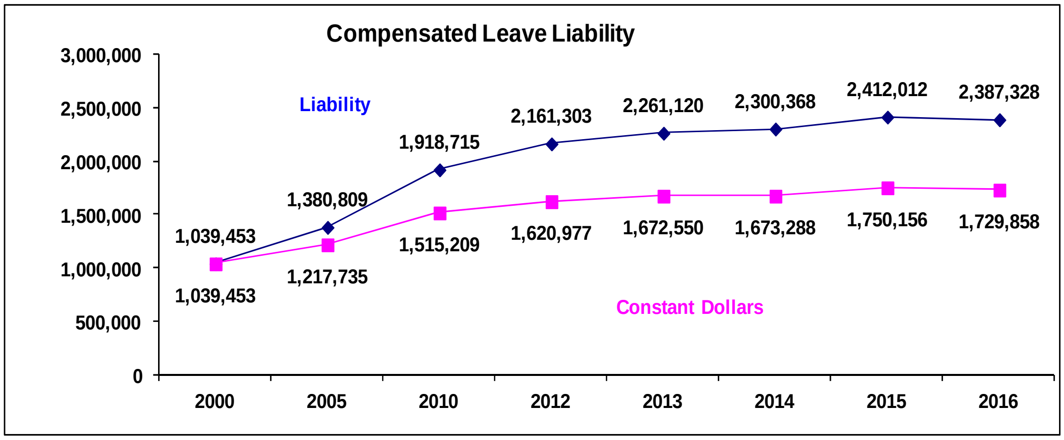
- Communication fund with equipment reserves – current set aside $500,000 for VOIP;
- Computer replacement supported by $150,000 yearly replacement account in PILT;
- Rolling Stock (CORE) fully funded at $636,000 per year plus departments contributing $382,300;
- Copiers funded through per copy charge for a majority of County copiers;
- Bridge Replacement Program funded at $300,000 for FY 2016; and,
- Major building renovation reserves at $0.95 per square foot for the Courthouse, Annex, Guenther, Law and Justice Center and 9-1-1 buildings (total of $800,000 reserved to date).
- Setting aside $200,000 per year for Law and Justice building

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

Finding: **Favorable** – The Commission continues to levy taxes for capital projects associated with growth in the County's taxable value as certified by the State of Montana Department of Revenue.

Compensated Leave Balances

The County's compensated leave balances 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 2016.



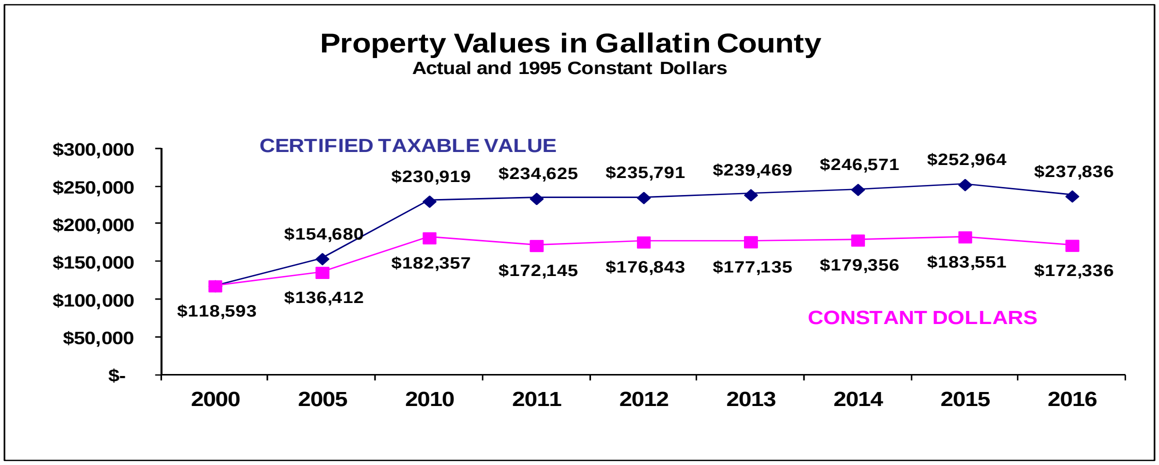
Below are comparisons of seven (7) years leave hours and costs. The table shows leave hours and costs have increased, with the largest percentage increase being fringe costs.

	Sick Leave		Annual Leave		Compensatory Leave		Fringe
	Hours	Cost ($)	Hours	Cost ($)	Hours	Cost ($)	Cost ($)
2005	76,070	352,993	46,117	815,774	4,013	72,514	139,528
2009	85,545	467,623	49,494	1,050,371	4,220	90,061	310,660
2010	90,487	491,882	53,198	1,104,376	3,506	67,566	327,595
2011	97,458	549,906	55,180	1,184,305	3,923	78,409	348,683
2012	102,473	588,575	57,334	1,246,812	4,071	81,029	344,704
2013	104,027	602,189	56,324	1,255,609	3,992	88,693	353,877
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
% of Total	62.88%	30.85%	34.54%	64.74%	2.58%	4.41%	
Change $	(438)	(1,264)	(591)	(7,072)	77	(4,344)	(12,004)
%	(0.41%)	(0.20%)	(1.01%)	(0.54%)	1.81%	(4.68%)	(3.08%)

Finding: ***WATCH:*** While the graph shows a down turn in FY 2016, this comes from two factors 1) retirements of long term employees and 2) change in Compensatory Leave hours to a 20 hour maximum from a 40 hour maximum. The increase for 2014 to 2015 was 4.85% with a large part of the increase associated with increases in Fringe Costs. In addition, the County has a limited ability to make significant changes to leave balances. Sick and annual leave 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.

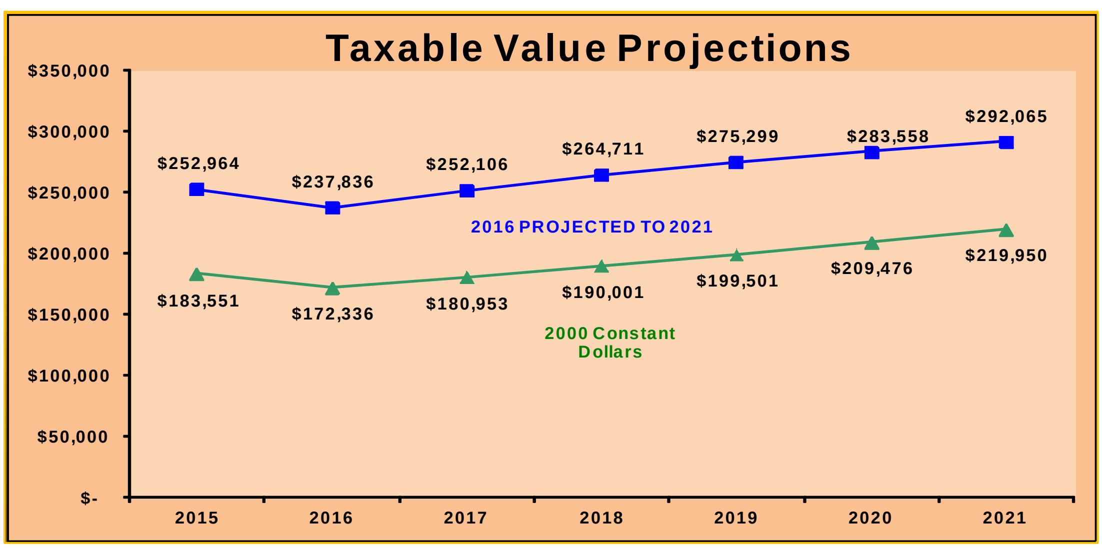
Property Values in Gallatin County



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%)		

Finding:***Watch*** – The decrease in taxable value for the current year is offset by the increases in other years and the elimination of the 6 year reappraisal cycle.



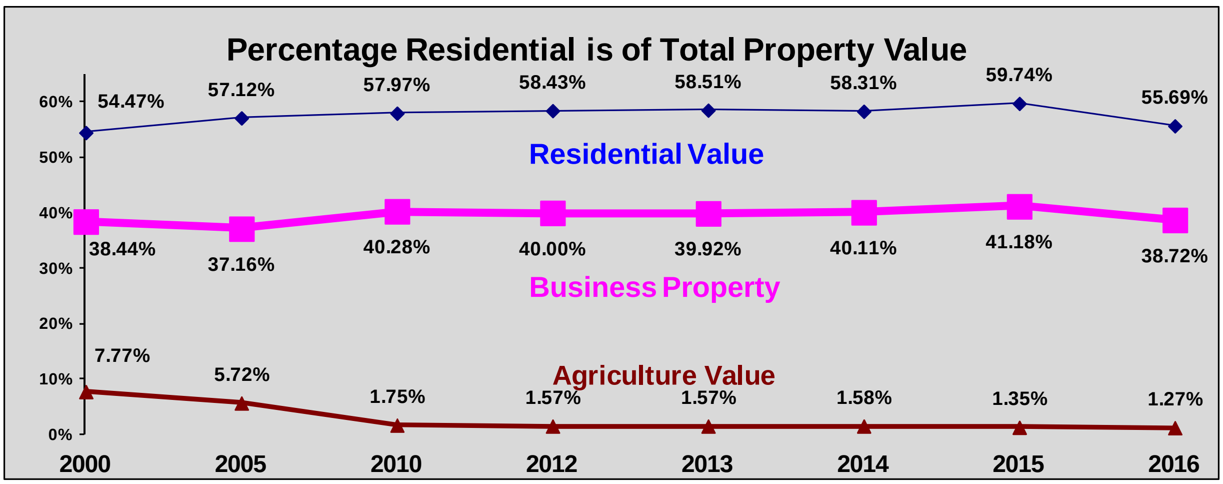
Favorable = an increase in taxable value greater than inflation

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 affect on residential property tax payers.

The increase in the County's reliance on residential property values may cause the voters of the County to not support needed local government initiatives in the future. This could be part of the reason voters denied the City of Bozeman's request for a bond and operating mill levy.



Finding: ***WATCH*** – The decrease in FY 2014 in the percentage of residential property taxes to the total property taxes has been offset by the increase Residential percentage in FY 2015. The reappraisal effective for FY 2016 will determine the future rating of this indicator.

Decisions by the County can only peripherally affect costs to residential property owners. One decision the Commission made is to not levy the maximum millage for FY 2007 through FY 2015. 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 5.27% 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 County-wide 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, 2013, 2014 and 2015.

Real Property Tax - Statistical Analysis

	2005		2010		2013		2014		2015	
Real Estate Taxable Value	**162,161,048**		**226,669,945**		**245,383,477**		**253,960,865**		**238,050,755**	
Residential & N/Q Ag	99,598,380	61.42%	147,348,705	65.01%	161,040,487	65.63%	167,231,249	65.85%	153,514,499	64.49%
Commercial and Other	62,562,668	38.58%	79,321,240	34.99%	84,342,990	34.37%	86,729,616	34.15%	84,536,256	35.51%
Number Parcels Billed	**39,744**		**49,575**		**48,436**		**48,933**		**49,106**	
Average Parcel Taxable Value	**4,080**		**4,765**		**5,086**		**5,213**		**4,870**	
Average Parcel General Tax	**$ 1,866.95**	**5.60%**	**$ 2,289.87**	**22.65%**	**$ 2,510.04**	**5.32%**	**$ 2,612.29**	**4.07%**	**$ 2,698.86**	**3.31%**
MEDIAN MILL LEVY				#####		#####		#####		#####

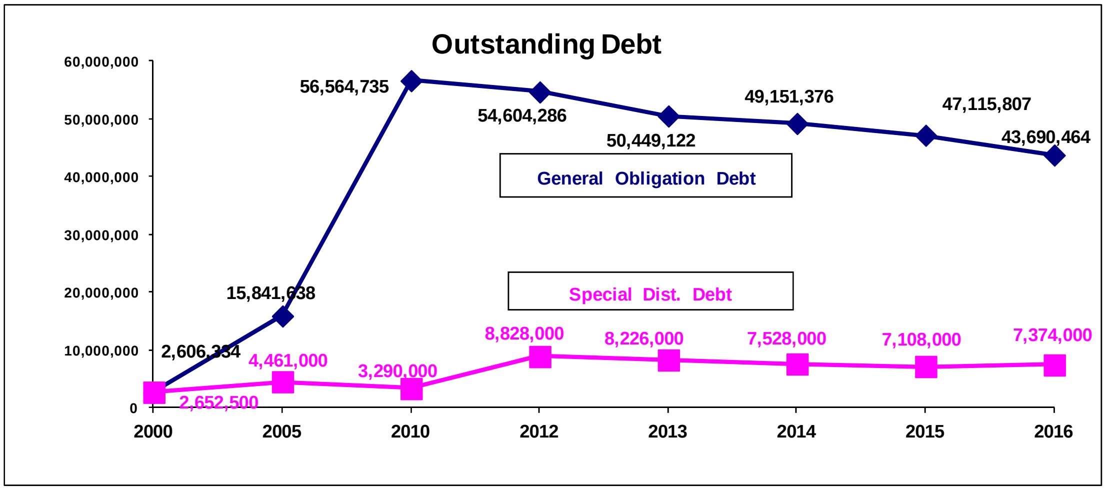
The comparison shows that:

1. Real Estate Taxable Values have increased by 4.18% from 2010 to 2015 with Residential moving to 64.49%, slightly down from FY 2014 and Commercial increasing to 35.51% ;
2. The number of bills created increased by 173 from last year, a 0.35% increase.
3. 2015 Average Parcel Taxable Values decreased to 4,870 a decrease of -6.58%; and
4. The Average General Tax increased by $86.57 (3.31%) significantly different from the 6.26% decrease in values, however the number of mills increased to 556.14 with increases in County, City and School mills for operation and debt costs.

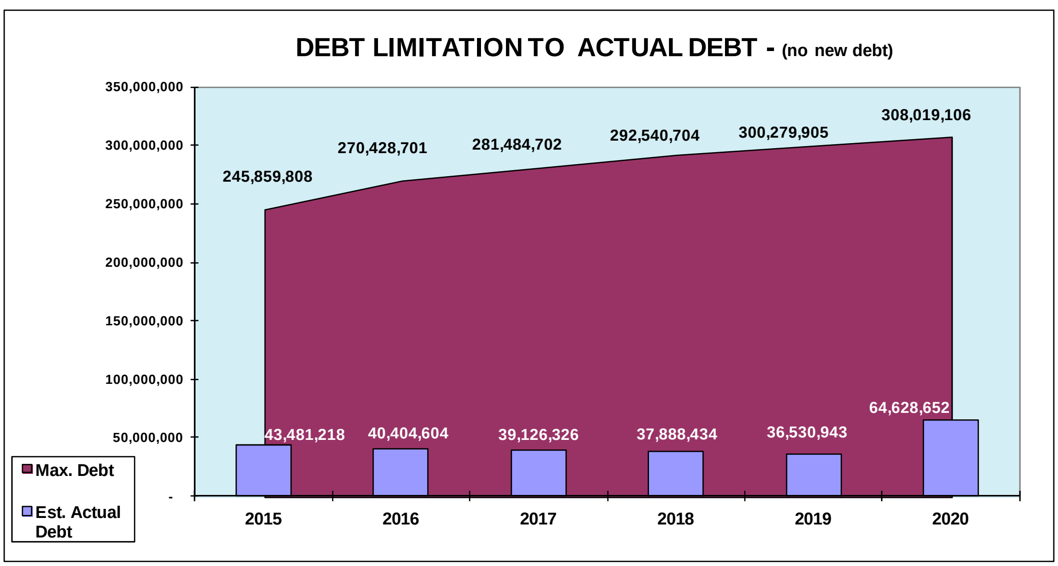
Finding: ***WATCH*** – Taxable Value and Average Parcel Tax decreased. The reduction in Taxable Value comes from the Reappraisal that is completed. Changes in valuations should be back to previous levels based on construction activity throughout the County. As can be seen by the increase in the median mill levy, the decrease in valuation did not change the amount of taxes because the number of mills are adjusted to maintain the same amount of taxes as the previous year.

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, 2015 the County had $43.7 million in debt, plus the Open Space bonds of $3.2 million authorized in Nov. 05, but not used. Outstanding debt is taken from the Audited financial statements for the period ending June 30 of the prior fiscal year. The County had debt of $330,881,336 available as of June 30, 2015.



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 to 10 years the County may ask the voters for up to $30 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 2016 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, 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

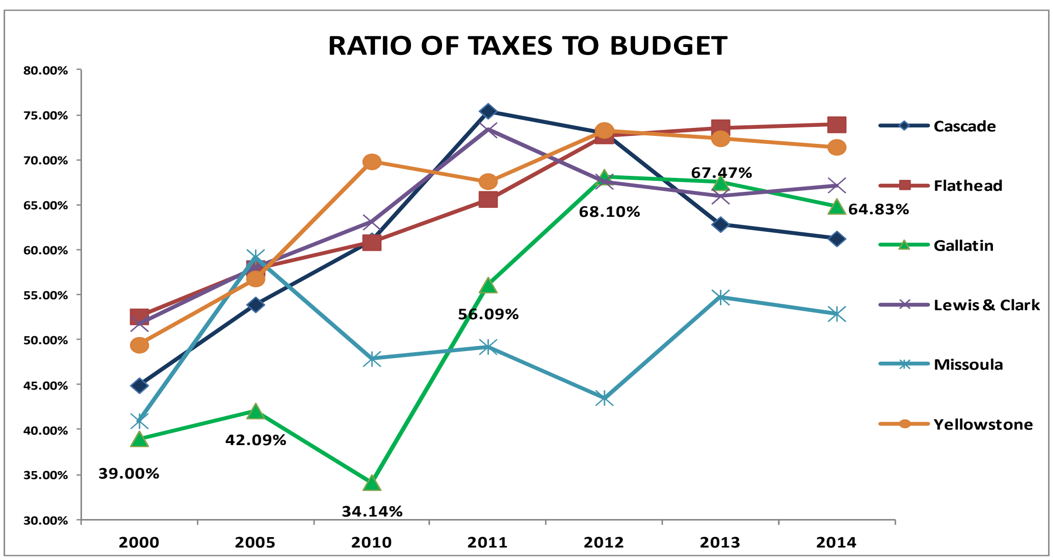
The following table shows a comparison of the six Urban Counties and the amount of taxes required by each resident based on the approved mill levies. The comparison may be distorted in years when counties began new levies for bonds or operations approved by a vote of the people, or when bond levies ended.

Taxes	2000	2005	2010	2011	2012	2013	2014
	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 foreseeable 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

Ideas, Thoughts & Recommendations

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

FINANCIAL INDICATORS: Ideas – Thoughts

- Per Capita Revenues – 'Watch' – The final actual revenues will be higher than the amount budgeted for FY 2016 from Detention Inmate and Land Use Fees (Clerk & Recorder/Planning).
- 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 – 'Watch' – The current deputy staffing, while not ideal, is meeting the needs of residents as represented by low crime statistics. Response times would be improved if additional officers were hired but a significant reduction in response would require a large increase in staff. The County strives 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 – 'Watch' – This indicator dropped from favorable because of reappraisal reducing property values. The indicator will stay in a 'Watch' category until the 2017 reappraisal occurs.
- Residential Property Values to Total Property Values – 'Watch – This is controlled by the State, however, the County should continue to emphasize the low taxes in the County and the Commission's not levying over 8% in taxes.
- Property Tax Analysis – 'Watch' – reduction caused by reappraisal decreasing the positive factors.

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.
- Maintain infrastructure
    - Bridge Replacement – Establish funding from Newly Taxable Property starting in 2013 – goal to have $500,000 per year – similar to Core;
    - Law & Justice Replacement – continue setting aside $100,000 in additional Newly Taxable Value for each of the next 4 years ($500,000 per year goal)
    - Road large project reserve???
- Retain and hire qualified employees – Maintain health insurance premiums by not charging future cost increases on current budgets, but authorize limited increase in levy;
- Maximize growth in area – Use all avenues to maintain and add business opportunities; and,
- Implement growth policy – Continue funding.