

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2018

We offer readers of Yellowstone County's financial statements this narrative and analysis of the financial activities of the County for the fiscal year ended June 30, 2018 and the financial position as of June 30, 2018. Please consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which precedes this report.

Financial Highlights

- The general fund's fund balance decreased by \$154,630. Operational revenues in excess of expenditures increased by roughly \$1 million over FY17, totaling \$4.13 million. However, the fund transferred \$5.68 million out to other funds, including an additional \$2,184,500 toward the remodel of the 4th floor of the courthouse to accommodate new district court judges funded by the Legislature. The total commitment from the general fund for this remodel and eventual elevator upgrades in the courthouse is projected to exceed \$3.5 million by the end of FY20. Almost all of these costs will be paid by the County, with a small amount provided by the State. Overall, other revenues and expenditures in the general fund continued to perform favorably.
- The road fund balance decreased by \$240,837. While paving projects totaled about \$400,000 less than FY17, capital expenditures in this fund increased by \$933,000 over the previous year, predominately for road equipment.
- The liability insurance fund balance decreased by \$249,076. Roughly half of this increase, or \$125,872 was due to claims paid and/or accrued in the fiscal year. Slight increases in other expenditure areas took place as well, while overall revenues were flat. The fund remains fiscally sound.
- The Sheriff's public safety fund balance decreased by \$1,449,936 in FY18. Much of this was a decline of \$941,746 in prisoner boardings due in part to construction constraints at the facility and also the State's program to cut funding for prisoner stays, and total inmates held within their system as a whole. Further, the fund began making payments on the jail expansion debt. This amounted to \$649,084 for FY18. While the fund balance here still exceeds that of FY17, this fund warrants review through the end of FY19.
- The County Attorney's fund experienced an increase in its fund balance for the first time in recent memory, amounting to \$308,280. This is due to two items. First, the general fund committed an additional \$375,000, now totaling \$2,375,000 in support, and the Board of County Commissioners approved transferring \$100,000 of motor vehicle taxes to improve the fund's position. As mentioned last year in this writing, the voters approved an 8 mill increase in this fund's property tax collection. This will positively impact this fund in FY19, and will largely cover the costs of increased caseloads and demands experienced in this area going forward. We believe that there will still be a need for assistance from other areas of the County's financial resources, albeit at a much smaller rate within the next few years. Overall, this fund is in sound shape for the first time in almost a decade.

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- Overall, Metra’s operations experienced a decline in its net position of \$215,439. An increase of \$112,000 in Non-operating revenues, including property taxes and a decline in operating expenses of \$678,000 failed to adequately offset a decline in charges for services and facility use of \$1.3 million.

A Metra infrastructure review and needs assessment was initiated after the end of FY17, and was recently completed. It identified material deficiencies both above and below ground on the Metra campus. We believe steps approved by the Board of Commissioners in the FY19 budget process will allow for roughly \$2.1 million in funds to be spent over the next 12 months to largely address the most urgent needs assessed. Much more will remain, and the County will need to identify additional funding sources to address the remaining items highlighted in the study.

- The County’s protest fund balance increased from \$23.3 million at June 30, 2017 to over \$26.9 million as of the end of FY18 on June 30, 2018. Significant events took place in FY18 and subsequent to the end of the year that bear discussion and review. All larger protests were actually resolved in FY18, with the exception of CHS/Cenex. Then in early FY19, the Montana Department of Revenue resolved all pending issues with CHS. The agreement called for no adjustment for tax year 2014, and an approximate 10% reduction in tax years 2015 – 2017. This dropped the protest balance to a near immaterial amount, distributing millions to affected taxing jurisdictions, including the County. These amounts will be reflected in FY19 reporting.

PROTEST FUND

Material Balances as of 6/30/18

| | | |
|--|-----------|-------------------|
| CHS/Cenex-tax years 2014 - 2017 | \$ | 26,608,308 |
| VisionNet - tax years 2015 - 2017 | \$ | 174,451 |
| Additional Protests unresolved as of 6/30/18 | \$ | 136,100 |
| Total Protested Taxes 6/30/18 | \$ | 26,918,859 |

*Note-After the conclusion of FY18, the Montana Department of Revenue and CHS reached settlement on all years. 2014 saw the upholding of all amounts billed, while 2015 - 2017 yielded approximately a 10% reduction in amounts billed that were then refunded to CHS. All remaining protested taxes were released to taxing jurisdictions. Laurel School District 7 had borrowed funds over the years to operate and therefore declared an emergency levy to be assessed in November of 2018 and May of 2019 in order to reimburse the Protest Fund for advances received.

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Explanation of the Financial Statements

The MD&A is intended to serve as an introduction to the basic financial statements of Yellowstone County. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-wide financial statements. The Government-wide financial statements are designed to provide readers with a broad overview of Yellowstone County's finances, in a manner similar to a private sector business on a full accrual accounting basis.

The statement of net position presents information on all of Yellowstone County's assets and liabilities, with the difference between the two reported as our net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of Yellowstone County is improving or declining.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (example: uncollected property taxes, and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Yellowstone County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs from user fees and charges (business-type activities). The governmental activities of Yellowstone County include general government, public safety, public works (roads and bridges), public health, social and economic programs, cultural and recreational programs, conservation of natural resources, and community/economic development. The business-type activities include refuse disposal and METRA civic center.

The government-wide financial statements can be found on pages 23-25 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control and account for resources that have been segregated for specific activities or objectives. Yellowstone County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal or contractual requirements. All of the funds of Yellowstone County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current fiscal year inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's recent financial performance.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's recent financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Yellowstone County maintains many individual governmental funds. The general fund, road fund, property and liability insurance fund, public safety-sheriff fund, RSID bond fund, and capital improvement fund are all reported as major funds. Information for the major funds is reported separately in the governmental fund balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances. Each of the major funds also reports the revenues and expenditures on a comparative basis with the annually appropriated budget both original and revised to demonstrate compliance with this budget. The remaining governmental funds are combined in a single aggregate presentation titled other nonmajor governmental funds.

Individual fund reports for each of the nonmajor governmental funds are presented in the combining financial statements in this report.

The basic governmental fund financial statements can be found on pages 26-32 of this report.

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Proprietary funds. Yellowstone County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Yellowstone County uses enterprise funds to account for operations of the refuse disposal fund and METRA civic center, with refuse disposal and METRA reported as major funds. Internal service funds are used to accumulate and allocate costs internally among various government department users or affiliated organizations. The three internal service funds utilized by the county include the health insurance fund, motor pool, and telephone fund. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. Interdepartmental charges for internal service funds have been eliminated from the Statement of Activities.

Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities, but provide more detail in addition to a cash flow statement. Internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund statements for the internal service funds are presented in the combining statements in this report.

The basic proprietary fund financial statements can be found on pages 33-37 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties and entities outside the government of Yellowstone County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Yellowstone County’s own programs.

The basic fiduciary fund financial statements can be found on pages 38-39 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data and reports presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40-94 of this report.

Required supplementary information. All required supplementary information precedes the basic financial statements or is included in the basic financial statements and accompanying notes, except the Employee Group Benefits Plan – Other Postemployment Benefits (OPEB) schedule and the Schedule of Proportionate Share of the Net Pension Liability. These schedules are located in the required supplementary information section on pages 92-99 of this report.

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Government-wide Financial Analysis.

Net position may serve as a useful indicator of a government's financial position, which is one of the reasons why the Governmental Accounting Standards Board (GASB) instituted GASB Statement #34 and required local governments to present net position information. Yellowstone County's net position (assets less liabilities) was \$136,272,936 as of June 30, 2018. The net position for governmental activities was \$97,637,334, while business-type activities net position stood at \$38,635,602. The net position increase of \$4,399,903 from FY17 to FY18 was due, in the broadest sense, to overall revenues from all sources exceeding expenditures. The way this increase was reflected in the activity involving our asset and liability accounts throughout our operations follows. Primarily, our cash and investment positions declined by roughly \$5.9 million, largely due to spending cash to pay for the detention facility expansion and remodel and our general obligation debt increased by \$7.88 million mainly due to jail debt approved by the voters. This cash and debt combined to cover the lion's share of the increase witnessed in our net investment in capital assets of \$11.8 million. More detail is provided on the comparison below.

Of the County's year-end total net position of \$136,272,936, net investment in capital assets accounted for \$109,681,276 or 80.5% of total net position. Capital assets reflect the large investments in facilities and equipment that are necessary to provide large scale programs and services for the community. This percentage may change slightly in FY19, with the completion of the expansion and remodel of the detention facility and remodeling of the 4th floor of the courthouse for district court use, beginning in January of 2019. The restricted net position of \$13,401,587 or about 9.8% of total net position represent those funds legally required to be used for a specific purpose, and remained virtually unchanged from FY16 and FY17. Unrestricted net position of \$13,190,073 accounts for 9.7% of the total net position. Unrestricted net position is primarily used as reserves for cash flow purposes in between real estate property tax collections, which are due in 50% installments on November 30 and May 31 of each year, and as reserves to provide against large unforeseen costs or events. This position declined from 15.95% of total net position in FY17 due to the expenditures for building projects discussed above.

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A comparison of the County's net position follows:

Yellowstone County Net Position

| | Governmental Activities | | Business Activities | | Total | |
|---|-------------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Current assets | \$ 71,677,371 | \$ 67,776,562 | \$ 9,647,792 | \$ 6,883,770 | \$ 81,325,163 | \$ 74,660,332 |
| Noncurrent assets | 777,727 | 875,230 | 0 | 0 | 777,727 | 875,230 |
| Capital assets | 74,138,806 | 62,141,112 | 36,022,475 | 36,350,763 | 110,161,281 | 98,491,875 |
| Deferred Outflows | 11,172,879 | 12,073,774 | 857,161 | 511,036 | 12,030,040 | 12,584,810 |
| Total assets and deferred outflows | 157,766,783 | 142,866,678 | 46,527,428 | 43,745,569 | 204,294,211 | 186,612,247 |
| Current liabilities | 8,333,379 | 6,547,197 | 4,374,668 | 1,638,141 | 12,708,047 | 8,185,338 |
| Noncurrent liabilities | 42,693,156 | 40,579,144 | 3,492,996 | 3,271,400 | 46,186,152 | 43,850,544 |
| Deferred Inflows | 9,269,654 | 2,694,324 | 21,159 | 9,009 | 9,290,813 | 2,703,333 |
| Total liabilities and deferred inflows | 60,296,189 | 49,820,665 | 7,888,823 | 4,918,550 | 68,185,012 | 54,739,215 |
| Net position: | | | | | | |
| Net investment in capital assets | 73,658,804 | 61,525,112 | 36,022,472 | 36,350,764 | 109,681,276 | 97,875,876 |
| Restricted | 13,401,587 | 12,968,873 | 0 | 0 | 13,401,587 | 12,968,873 |
| Unrestricted | 10,576,943 | 18,552,028 | 2,613,130 | 2,476,256 | 13,190,073 | 21,028,284 |
| Total net position | \$ 97,637,334 | \$ 93,046,013 | \$ 38,635,602 | \$ 38,827,020 | \$ 136,272,936 | \$ 131,873,033 |
| Restatement for GASB 75 implementation | (866,640) | | (82,378) | | | |
| Change in net position | \$ 5,457,961 | | \$ (109,040) | | \$ 4,399,903 | |

Governmental activities.

The continued increase in net position for governmental activities of \$5,457,961 was down from \$6,926,224 in FY17, in part to:

- A decline in charges for services from FY17 of \$1,030,579
- An increase of \$940,824 in property taxes
- A decline in operating and capital grants and contributions of \$907,754
- A decrease of \$1,875,003 more than offset by an increase in public safety spending of \$3,544,840

Business activities.

The slight decrease in net position for business activities of \$109,040 was the result of a material decline in Metra ticket sales only partially offset by a reduction in variable expenses associated with Metra event attendance and activity.

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Yellowstone County's Change in Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Special assessments | \$ 1,102,766 | \$ 989,581 | \$ 290,971 | \$ 227,877 | \$ 1,393,737 | \$ 1,217,458 |
| Licenses and permits | 35,025 | 35,782 | 0 | 0 | 35,025 | 35,782 |
| Intergovernmental | 1,388,425 | 1,296,578 | 0 | 0 | 1,388,425 | 1,296,578 |
| Fines and forfeitures | 686,840 | 792,872 | 0 | 0 | 686,840 | 792,872 |
| Charges for services | 11,027,172 | 12,057,751 | 4,626,401 | 5,929,760 | 15,653,573 | 17,987,511 |
| Operating grants and contributions | 639,287 | 1,155,785 | 0 | 0 | 639,287 | 1,155,785 |
| Capital grants and contributions | 105,000 | 496,256 | 0 | 0 | 105,000 | 496,256 |
| Total program revenues | 14,984,515 | 16,824,605 | 4,917,372 | 6,157,637 | 19,901,887 | 22,982,242 |
| General revenues: | | | | | | |
| Property taxes | 43,030,597 | 42,089,773 | 2,960,502 | 2,910,868 | 45,991,099 | 45,000,641 |
| Licenses and permits | 5,569,401 | 5,270,652 | 0 | 0 | 5,569,401 | 5,270,652 |
| Intergovernmental | 3,927,328 | 3,900,245 | 155,595 | 141,910 | 4,082,923 | 4,042,155 |
| Other revenues | 535,126 | 444,834 | 228,084 | 179,531 | 763,210 | 624,365 |
| Total general revenues | 53,062,452 | 51,705,504 | 3,344,181 | 3,232,309 | 56,406,633 | 54,937,813 |
| Total revenues | 68,046,967 | 68,530,109 | 8,261,553 | 9,389,946 | 76,308,520 | 77,920,055 |
| Expenses: | | | | | | |
| General government | 15,838,266 | 17,966,136 | 0 | 0 | 15,838,266 | 17,966,136 |
| Public Safety | 28,019,479 | 24,998,001 | 0 | 0 | 28,019,479 | 24,998,001 |
| Public Works | 9,620,504 | 9,476,431 | 0 | 0 | 9,620,504 | 9,476,431 |
| Public Health | 4,117,540 | 4,375,353 | 0 | 0 | 4,117,540 | 4,375,353 |
| Social and Economic | 2,458,421 | 2,285,711 | 0 | 0 | 2,458,421 | 2,285,711 |
| Culture and Recreation | 1,648,197 | 1,592,009 | 0 | 0 | 1,648,197 | 1,592,009 |
| Community Development | 136,376 | 733,910 | 0 | 0 | 136,376 | 733,910 |
| Conservation of Natural Resources | 480,521 | 119,858 | 0 | 0 | 480,521 | 119,858 |
| Interest on Long-Term Debt | 404,452 | 148,095 | 0 | 0 | 404,452 | 148,095 |
| Sanitation, refuse disposal | 0 | 0 | 206,950 | 197,973 | 206,950 | 197,973 |
| Civic center, METRA | 0 | 0 | 8,028,890 | 8,789,217 | 8,028,890 | 8,789,217 |
| Total expenses | 62,723,756 | 61,695,504 | 8,235,840 | 8,987,190 | 70,959,596 | 70,682,694 |
| Increase (decr.) in net position before transfers and extraordinary gain | 5,323,211 | 6,834,605 | 25,713 | 402,756 | 5,348,924 | 7,237,361 |
| Transfers | 134,750 | 91,619 | (134,753) | (91,619) | -3 | 0 |
| Increase (decrease) in net position | 5,457,961 | 6,926,224 | (109,040) | 311,137 | 5,348,921 | 7,237,361 |
| Restatement for GASB 75 implementation | (866,640) | - | (82,378) | - | (949,018) | - |
| Beginning net position | 93,046,013 | 86,119,789 | 38,827,020 | 38,515,883 | 131,873,033 | 124,635,672 |
| Ending net position | 97,637,334 | \$93,046,013 | \$38,635,602 | \$38,827,020 | \$136,272,936 | \$131,873,033 |

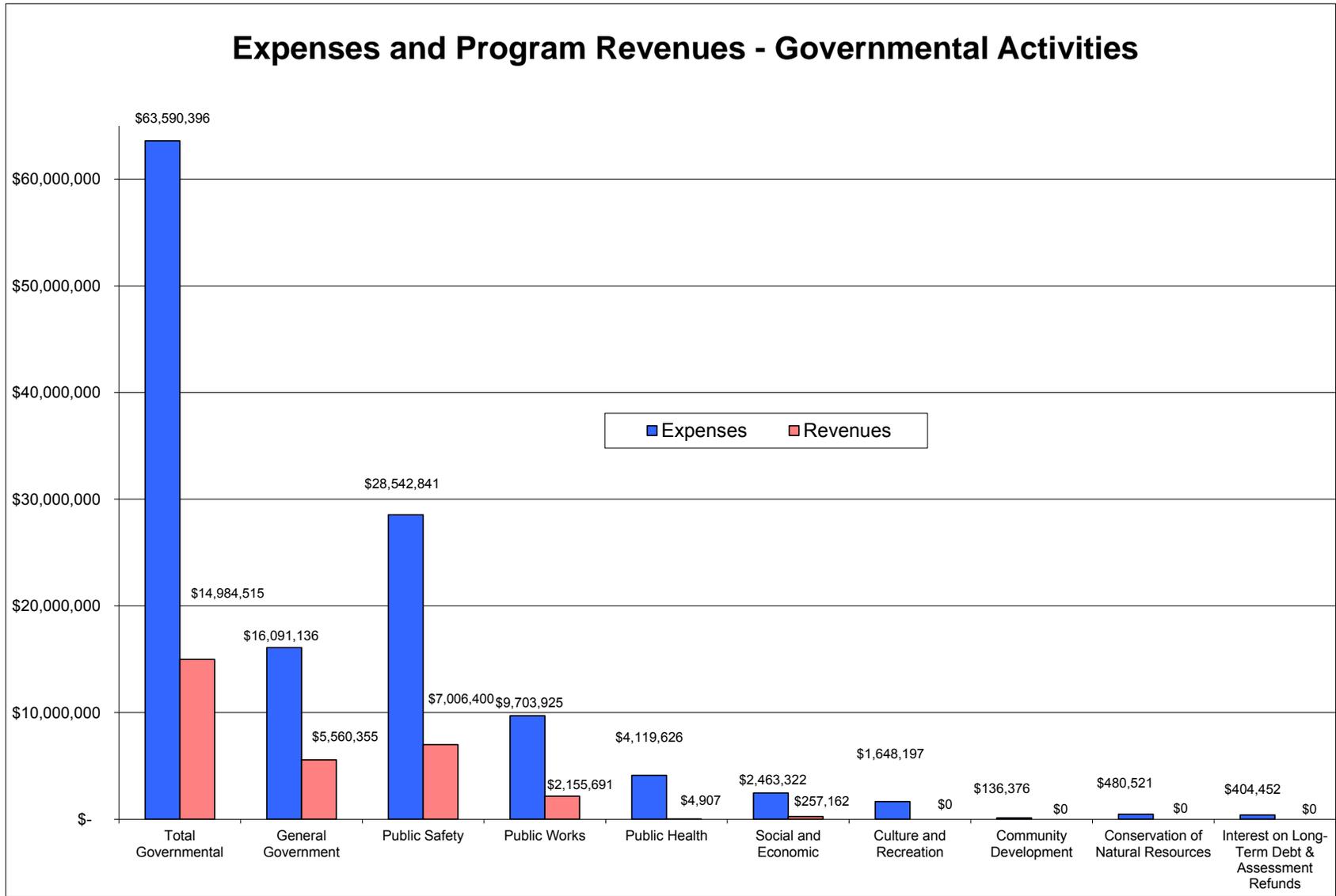
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Of the County's \$63.6 million in expenses for governmental activities, \$15.0 million (23.6%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (63.2% of the general revenues). The major sources of program revenues (and change from prior year) include:

- Gas tax: \$301,921 / (+\$5,009)
- Justice Court fees: \$621,883 / (-\$75,773)
- Clerk & Recorder filing fees (General Fund & Rec Preservation Fund): \$958,114 / (-\$121,043)
- Adult detention boarding fees: \$3,381,714 / (-\$941,746)
- Youth detention and secure shelter boarding and program fees: \$2,144,549 / (-\$67,604)
- RSID assessments: \$1,265,903 / (+\$115,603)
- Operating & capital grants: \$744,286 (-\$871,496)

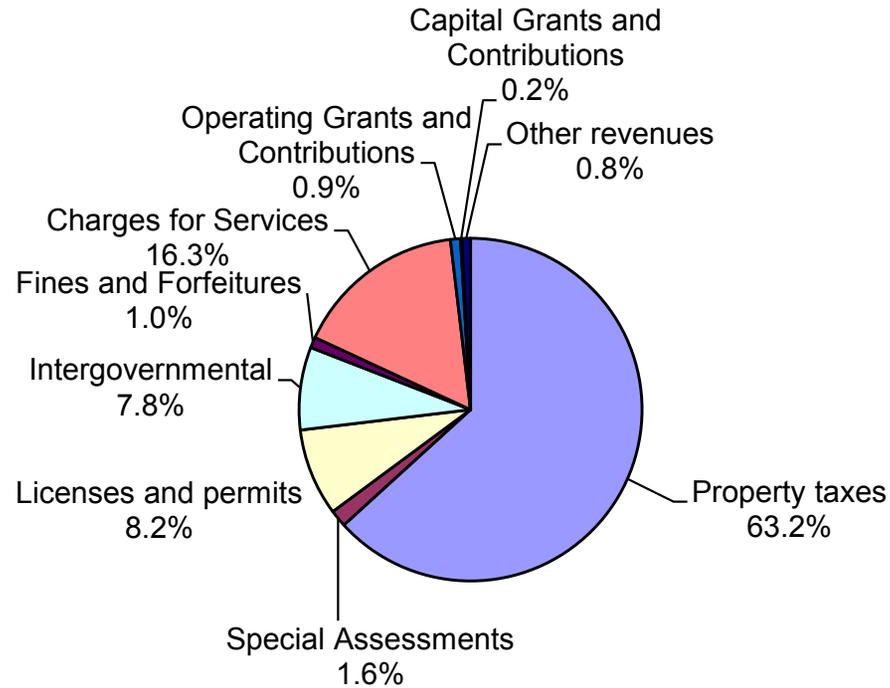
See the Statement of Activities on page 25 for additional detail information regarding revenues and expenditures.

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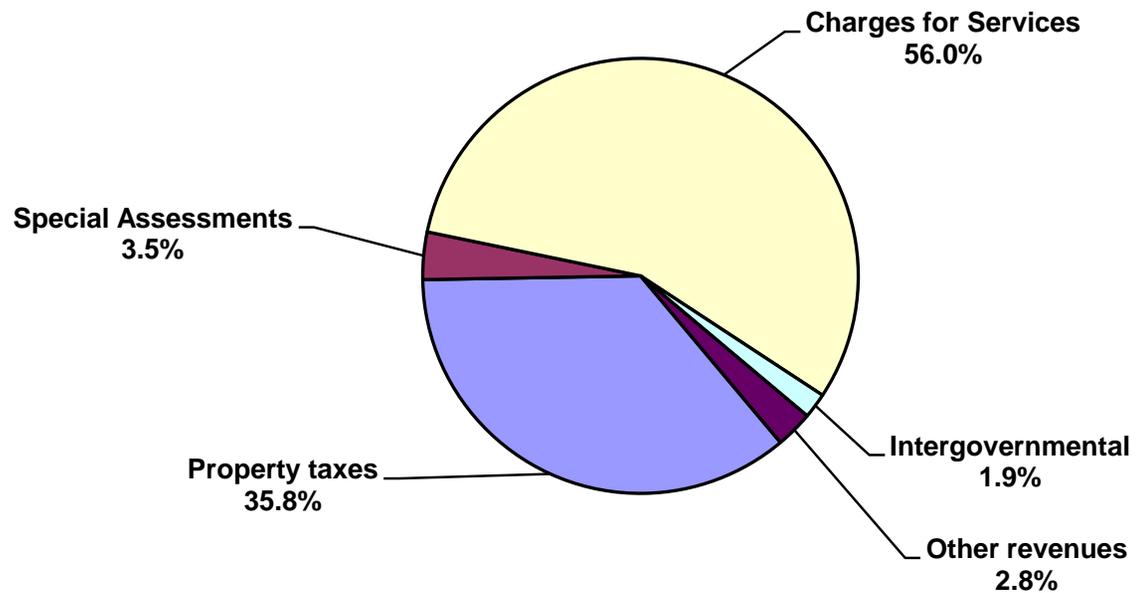
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Total Revenues by Source - Governmental Activities



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Total Revenues by Source - Business Type Activities



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Fund Financial Statement Analysis

Governmental funds.

Yellowstone County's governmental funds' change in fund balance for FY18 was an increase of \$1,919,909 resulting in an ending total governmental fund balance of \$49,608,524.

The general fund saw a decrease in fund balance of \$154,630 during fiscal year 2018, due mainly to a \$950,000 increase, for a total of \$2.15 million, in transfers to the capital improvement fund for current and future building needs.

The road fund decreased by \$240,837 in the current year, in part due to expenditures totaling \$1,238,822 for capital outlay for building/equipment.

The public safety fund balance decreased by \$1,449,936, due to a \$941,746 decrease in prisoner boardings from other jurisdictions and in increase of \$1,750,000 to fund completion of the jail expansion, only partially offset by a \$383,372 increase in motor vehicle option tax collections, and a \$350,842 increase in property tax collections.

The property and liability insurance fund remained stable, with a decrease in fund balance of \$249,076.

The fund balance of the capital improvement fund increased by \$3,850,924. This was expected. The County received \$9.7 million from voter approved borrowing for the detention facility, the fund received \$2.15 million from the general fund and \$2.7 million from the public safety fund to provide for the detention facility and the remodel of the 4th floor of the courthouse to accommodate new district court judges approved by the 2017 Legislature. These were offset by \$11.5 million in spending on the abovementioned projects.

See financial highlights section above for discussion related to other notable changes to governmental fund balances.

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Proprietary funds.

The refuse disposal fund experienced an increase of \$24,021. This was due to an increase in refuse fees for County residents of \$5 per year, per Board of Commissioners' action. The ending balance stood at \$402,435.

The health insurance fund witnessed a fund balance decline of \$656,560, resulting in an ending balance of \$7,340,339 as of 6/30/18. This was due to an unusually large claim year, with medical and dental claims totaling \$7 million. The County believes that actions taken for FY19 will add stability to the fund, as claims will likely return to a more historical norm. The fund is very adequately reserved.

The County carries specific stop-loss insurance for health claims at \$270,000 per claim. The County reviews the health plan every year to review premium rates, benefits, and plan administration. The County offers an option to participating members, the option to select a high-deductible health savings plan at a reduced premium. This encourages participants to move to consumer driven health care, which can lead to substantive savings over traditional plan designs. Health insurance is no longer available to retirees over 65, with the exception of offering coverage to a spouse under the age of 65 or any qualifying dependents. This change will benefit the plan. Options to retirees under 65 in the health insurance exchange may provide viable health insurance alternatives to those individuals as well.

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Governmental Fund Budgetary Highlights

Differences between original and final revised budget are primarily a result of state and federal grant awards and related match funding being added to the original budget. The original budget does not include either new or continuing grant activity and is subsequently amended into the budget by resolution of the Board of County Commissioners. New & carry-over grants added approximately \$600,000 of revenue and expenditure appropriations to the FY18 budget. Some of the grants included in the fiscal year 2018 budget were:

- \$126,000 Yellowstone County Victim Witness Program
- \$209,728 VOCA grant
- \$67,500 Salt Cedar grant

Some of the significant final budget to actual revenue variances include:

- Tax protests, virtually all from large, centrally assessed taxpayers decreased tax collections
- Motor vehicle option tax revenues in the sheriff's fund exceeded projections by \$1,081,075
- Prisoner boarding fees were \$418,286 below budget
- Interest revenue collections from governmental funds came in \$355,900 above budgeted amounts
- Concession sales for Metra and the fair were \$320,854 below projections
- Metra facility fees fell \$99,720 below budget

The appropriation final budget to actual expenditure variances of significance include:

- \$759,000 of unspent road budget in multiple cost areas, including staffing, vehicle repairs and raw materials
- \$97,500 decline in prescription costs at the detention facility, predominately due to a change in medical billing and policies with our vendor
- \$8.7 million in unspent capital project fund budget, primarily due to jail construction and courthouse 4th floor remodel progress running behind projections
- Over \$243,000 in unspent bridge budget, in various line items, including project related expenditures
- \$1,468,000 in unspent Property & Liability Insurance Fund contingency and claims loss budget
- \$447,000 in unspent budget from the county attorney's office mainly from unspent contingency line items, costs of investigations and not being fully staffed throughout the year

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Capital Assets

A comparison of capital assets for the last two fiscal years is presented below:

| | Governmental Activities | | Business Activities | | Total | |
|-----------------------------------|------------------------------------|----------------------|--------------------------------|----------------------|-----------------------|----------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Land | \$ 3,658,346 | \$ 3,563,344 | \$ 368,574 | \$ 368,574 | \$ 4,026,920 | \$ 3,931,918 |
| Buildings | 12,876,798 | 10,986,520 | 32,719,563 | 33,301,354 | 45,596,361 | 44,287,874 |
| Improvements other than buildings | 1,791,902 | 1,883,268 | 1,440,443 | 1,449,017 | 3,232,345 | 3,332,285 |
| Equipment and vehicles | 7,407,915 | 7,152,315 | 955,085 | 843,113 | 8,363,000 | 7,995,428 |
| Infrastructure | 34,103,838 | 33,024,504 | 0 | 0 | 34,103,838 | 33,024,504 |
| Construction in progress | 14,300,005 | 5,531,161 | 538,810 | 388,705 | 14,838,815 | 5,919,866 |
| Total Capital Assets | \$ 74,138,806 | \$ 62,141,112 | \$ 36,022,475 | \$ 36,350,763 | \$ 110,161,279 | \$ 98,491,875 |

Governmental capital assets increased by a net amount of \$11,997,694 during the year as a result of the addition of new capital assets in the governmental funds – most residing on construction in progress, offset by depreciation of \$5,809,801.

Some of the larger capital acquisitions / (dispositions) in the governmental activities were:

- \$3.57 million in infrastructure improvements for county roads
- Various bridge and culvert projects \$627,050
- Storage building for Road & Bridge \$161,908
- Various vehicles and equipment for Road Department \$1,076,915
- Sheriff patrol cars totaling \$213,752
- Construction in progress includes continued construction and remodeling of the County's detention facility (estimated completion 4/1/19) , remodeling of the 4th floor of the courthouse for 2019 district court occupancy, and remodeling and other capital expenses relating to moving several departments from the courthouse to the 3rd floor of the Stillwater building

Some of the larger capital acquisitions/improvements in the business activities were:

- Completion and placing into service a \$489,273 maintenance building
- Grandstands repair \$20,799

See footnote 7 (pages 58-59) for additional information on capital assets.

YELLOWSTONE COUNTY, MONTANA
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Long-term Debt

As of June 30, 2018 the County has \$16,711,610 of long-term liabilities. Governmental funds account for \$16,178,001 and the enterprise funds account for \$533,609.

The largest component of long-term debt is \$9.7 million of limited general obligation bonds issued in 2017 for detention center expansion and improvements. The balance on this bond issue is \$8,910,000. Other debt obligations include \$1,890,000 of limited general obligation (G.O.) bonds issued by the County. In 2011, the County issued a \$3,000,000 limited tax general obligation bond for the purposes of dedicating \$2,000,000 for Metrapark facility improvements and \$1,000,000 for the Bench Connector road and bridge project. The debt service for this bond which has a balance of \$990,000 is funded by the general fund. The other limited tax general obligation bond, which has a balance \$900,000 was issued to develop the Veteran's Cemetery and to improve seating at Metra.

The County's bond rating from Standard and Poor's is AA+, and was re-affirmed in FY18.

Another major component of long-term debt includes rural special improvement district (RSID) bonds issued to provide property improvements to properties located within a specified area. Repayment of this debt is assessed to the benefited property owners, which can be repaid over the life of the bond or the remaining principal assessment against the property can be repaid anytime. The County provides additional bond debt service collateralization with the County's RSID Revolving Fund and other contingent funding requirements as specified by law. As of 6/30/18 the County has \$759,000 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$338,024. The County issued no new RSID bonds during FY18.

Notes payable are occasionally used to finance equipment that a particular fund may not have adequate reserves or funding to acquire within a budget cycle. The County has one note payable owed to Montana Board of Investments with an outstanding balance due of \$203,125 as of June 30, 2018.

Claims and judgments represent the amount of the estimated liability established that is expected to pay for the known liability cases pending against the County. The amount of the estimated liability at year end was \$800,000 for all cases. Fund balance in the liability fund decreased by \$249,076 in FY18.

Compensated absences is the amount of the liability for unpaid vacation and sick leave at yearend. The liability was virtually unchanged from FY17, increasing only \$12,860 (.5%) in FY18. The 6/30/18 balance was \$2,494,248.

See footnote #8 (pages 60-64) for additional information on long-term debt.

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Economic Factors and Next Year's Budget

Overall countywide taxable value, as determined by the Montana Department of Revenue for FY18, actually contracted by 1.20%, even with a new growth increase of 1.72%. This was due to material valuation declines in several centrally assessed properties by the Montana Department of Revenue.

The economy of Yellowstone County continues to be driven by oil development and refining, agricultural prices, the benefits of being a regional retail hub, transportation industry, and the expansive medical facilities in Billings. Retail and medical remain strong, while oil related activities and the agriculture sectors were mixed.

Unemployment continues its decline, standing at 3.4% as of June, 2018.

Some of the more significant financial items for fiscal year 2019 include:

- Tax protests are budgeted at 2.40% of FY18 property tax revenues. This is a decrease from last year's estimate of 4.65%. The decline was due to word of a settlement between the Montana Department of Revenue and CHS/Cenex just after the end of FY18, but before budgets were complete.
- The County's original estimate of the completion of the \$18.8 million detention facility expansion and remodel in late spring of 2018 is now estimated at the end of 4/1/19, with an increased cost estimate of slightly over \$20 million. This is due to the discovery of extensive sewer line deterioration and the resulting need to dig up and replace most lines.
- The County will have two new district court judges sworn in at the beginning of January of 2019. A \$2.6 million remodel of the courthouse's 4th floor will be completed soon thereafter. An estimated \$800,000 project to rehab and update all three courthouse elevators will soon follow, with an estimated completion date of April, 2020.
- Revenue from the voter approved 8 mill increase in support of the County Attorney's operations will be in place for the entire fiscal year, and will allow that fund to be significantly self-sustaining in its operations for the first time in over a decade.
- With the completion of the Metra's infrastructure study, the County looks to spend an estimated \$2.1 million on the most serious issues relating to the grounds and utilities on that campus, with a focus on the grounds upon which the annual fair is conducted every August. Funding for other necessary projects there is uncertain as of this writing.
- The County looks to support legislation during the 2019 session in Helena to allow for cities and counties to increase levies up to the rate of inflation, on a trailing 3 year average. Up to now, the rate has been capped at 50% of the rate of inflation. The County believes that a return of a historic norm of inflation rates for an extended period of time will eventually cause material financial challenges without this change in state statute.

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The County's budget remains in good overall condition. Borrowing and expending capital improvement funds are slated to be completed in FY19 to address public safety needs, particularly the detention facility, and future demands for office space as required by legislative action.

Requests for Information

This financial report is designed to provide a general overview of Yellowstone County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Yellowstone County Finance Director
P.O. Box 35003
Billings, MT 59107