

Budget Message

November 27, 2012

City of Missoula Residents:

This document is the Final Operating and Capital Budget for the City of Missoula, Montana for the fiscal year ending June 30, 2013 (FY 13). A brief summary of the Final Budget follows.

Overview of Budgeted Resources

The following table depicts the projected beginning balances, estimated revenues, final budgeted expenditures, and projected ending balances for the budget year. All city funds are included in the forgoing budget. The table reflects estimated revenues of \$99.64 million, budgeted expenditures of \$108.36 million with expected expenditure savings of \$0.72 million, resulting in a decrease in the ending balances of \$8.00 million. An explanation of the significant changes in fund and cash balances (those greater than 10%) is provided on the following page.

Projected Changes in Fund Balances or Cash Balances Final Budget - July 1, 2012 through June 30, 2013 (FY 13)								
	Governmental Fund Types			Capital Project	Proprietary Fund Types	Fiduciary Fund Types	Component Units	Total All Funds
	General	Special Revenue	Debt Service		Enterprise & Internal Service	Trust & Agency		
Projected Beginning Fund Balance/Cash	\$ 4,696,836	\$ 4,606,414	\$ 3,641,862	\$ (3,711,562)	\$ 83,130,273	\$ -	\$ 2,783,101	\$ 95,146,925
Estimated Revenues	47,105,559	15,884,097	3,821,662	1,023,839	21,664,784	410,300	9,726,010	\$ 99,636,251
Approved Budget	(48,066,626)	(19,818,833)	(4,048,762)	(1,478,505)	(21,532,127)	(410,300)	(13,001,263)	\$ (108,356,416)
Anticipated Savings	<u>720,999</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 720,999</u>
Projected Change in Fund Balance/Cash	<u>(240,068)</u>	<u>(3,934,736)</u>	<u>(227,100)</u>	<u>(454,666)</u>	<u>132,657</u>	<u>-</u>	<u>(3,275,253)</u>	<u>\$ (7,999,166)</u>
Projected Ending Fund Balance/Cash	\$ 4,456,769	\$ 671,678	\$ 3,414,762	\$ (4,166,228)	\$ 83,262,930	\$ -	\$ (492,152)	\$ 87,147,759

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Listed below are explanations of the significant changes in fund balance/cash, for each of the major fund groups.

General Fund

- The General Fund year-end balance increased from \$3.67 million in FY 2011 to \$4.70 million at the end of FY 2012. This continued building of the fund balance was accomplished by budgeting conservatively for revenues and with significant expenditure savings required of many large General Fund departments. Seven special purpose funds under General Fund control were removed from the Special Revenue fund category in FY 2010 and moved to special purpose General Fund accounts in FY 2011. This increased the overall beginning General Fund balance to \$3.45 million from \$2.1 million in FY 2010. The City Council budgeted the overall General Fund balance to decline by \$0.24 million, mainly in the special purpose General Fund budgets in FY 13.

Special Revenue Funds

- Special Revenue Fund balances are usually fully appropriated to be spent, even though certain funds are targeted to have substantial year end fund balances to handle the ongoing operating expense of their programs without developing a negative fund balance (i.e. Street Lighting Assessments Fund, Cable Franchise Fee Fund). The Building Inspection Permits Fund again increased its positive year end fund balance for FY 2012, due to a net reduction of four employees over the past few years and conservative revenue projections. Most of the other special revenue funds are slated to fully spend the beginning fund balance because the balance exists because projects were not completed during the preceding fiscal year.

Debt Service Funds

- The Debt Service year end fund balance is budgeted to be spent for all general obligation debt but not for special improvement district (SID) debt service funds. The City is required to maintain a reserve equal to 5% of all outstanding SID bonds. In addition, the SID debt service funds are expected to build in size until bonds are called (redeemed) early due to prepayments of the underlying assessments supporting these debt issues.

Capital Project Funds

- The Capital Projects year end fund balance for FY 2011 was negative. This should be eliminated during the course of FY 2013 for the most part, as the projects are completed and the bonds are issued to reimburse the city for the infrastructure constructed.

Enterprise/Internal Service Funds

- The Enterprise Fund balances are slated to decrease by \$.05 million (\$52,302) as certain large construction projects at the Wastewater Treatment plant are completed. Sewer utility rates were not increased for the 2009 budget year but were increased modestly for the FY 2010, FY 2011, FY 12 and FY 13 budget years (5%/year in each year) to accommodate the financing of an upgrade at the wastewater plant head-works. In FY 2009, sewer utility charges declined 2% for the first time in over a decade due to reduced industrial and commercial billings, reflecting the effect of the current national economic recession. However, the city has continued to grow in population and in new sewer connections at a rate of approximately 1.5 percent per year, even though that growth was

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offset by a slowdown in the commercial and industrial sewer accounts in FY 09. By FY 10, the decline in revenue had reversed and the sewer revenues began to grow again in the industrial and commercial billings through the current year (FY 12). The residential component of our utility billing has always grown, even during the recession.

- The City's only Internal Service Fund, the City Health Insurance plan, had suffered from significant increases in usage and medical inflation up until eight years ago. At that point, the plan had increased its fund balance every year for seven successive years bringing the plan from a deficit of $-\$0.4$ million in FY 2003 to an surplus of $\$2.2$ million at the end of FY 2009. The Health Insurance levy within the city's cap was reduced in FY 2010 by $\$484,305$ by reducing the monthly premium for the health insurance from $\$670$ per employee to $\$570$ per employee in order to levy that amount of money within the General Fund general levy, thereby avoiding the necessity of cutting any further than has been done for FY 2010. Because the plan had significantly increased its fund balance every year for the prior six years, the fund balance was not projected to be materially reduced by this reduced funding for one year. However, the plan experienced its worst year ever for claims utilization in FY 2010, with result that the fund balance was reduced by $\$1.3$ million to $\$0.98$ million. This increased level of plan utilization coupled with increased costs continued in FY 2011, with the result that the plan's fund balance lost $\$1.3$ million again in FY 2011 even though City contributions were increased by $\$315,000$ in FY 2011. For FY 2012, both the employer and employee contributions were increased such that in excess of $\$1,000,000$ of additional funding was provided to the plan. This did stabilize the declining fund balance for the plan in FY 12. Additional contributions of $\$250,000$ will be made to the plan in FY 2013 even though the plan is stabilized in FY 2012 in order to start rebuilding the plan's fund balance.

Trust and Agency Funds

- The City did prepare a budget for the Tourism Business Improvement District (TBID) in the Trust & Agency fund type. The Tourism Business Improvement District (TBID) was created through the efforts of the Missoula Area Convention and Visitor's Bureau to aid tourism, promotion, and marketing within the District and allowing Hotels/Motels outside the City limits in the Missoula Urban area to donate funds to the Tourism Business Improvement District. The goal of the TBID is to increase four season revenues statewide through effective marketing and promotions, focusing on high-value, low-impact visitors by working in partnership with the Missoula International Airport to bring key new service to Missoula and to work with the community to keep and strengthen our present air service. Destination Missoula and the TBID will focus on increasing overnight visitation to Missoula with emphasis on the months of November through April, by concentrating marketing funds on meetings & conventions, sports & events, tour and group travel and leisure Travel.

Component Units

- The City of Missoula has three component units, the Missoula Parking Commission (MPC), the Missoula Redevelopment Agency (MRA) and the Business Improvement District (BID). The parking commission has an operating budget of $\$1.93$ million plus debt service requirements of $\$0.87$ million. It maintains a reserve of $\$2.0$ million, part of which is required for coverage pertaining to outstanding bond issues as a result of the construction of additional parking in the downtown business district slated to be available to the public late in the calendar year 2012.
- The Missoula Redevelopment Agency (MRA) was created by the City Council to encourage new development and redevelopment pursuant to the adopted Urban Renewal Plans. Preserving existing public investment, enhancing the tax base, generating employment, and stimulating private investment are the means MRA uses to reclaim urban renewal areas. The MRA encourages infill development, provides for the adaptive reuse of the built environment, and reclaims blighted properties. MRA is empowered by State law and local ordinance to respond aggressively and with flexibility to redevelopment problems and opportunities. Through these activities, MRA also provides alternatives to urban sprawl outside existing municipal service boundaries. MRA spent in excess of $\$5.0$ million as the first downtown redevelopment district ended seven years ago. The complete fund balance for that district was spent on construction projects assisting the economic development and infrastructure of the downtown business district. MRA was moving forward with

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substantially smaller budgets until the other two newer districts developed in a manner similar to the outstanding growth that occurred in the original district. This has now happened. Expenditures for fiscal year 2012 were related to redevelopment projects such as Silver Park, Milwaukee Trail Construction and Lighting, Civic Stadium Acquisition, West Broadway Island Acquisition, 806 West Spruce Street, Ashlyn Place apartments, 310 & 316 Inez Street project, Allegiance Call Center, Bitterroot Town Homes, Elbow Room Tavern and Restaurant, Southgate Animal Hospital, Missoula County Records Center, California Street Engineering, Urban Streetcar Study, Parking Study, Street Trees and numerous commercial and residential sidewalks.

- The Downtown Business Improvement District (BID) was created through the efforts of the Missoula Downtown Association to address the challenges created by the termination of the Downtown Urban Renewal District (URD I) on June 30, 2005. Implementation began in 2001 with committee development, community education, local media campaigns, meetings with property and business owners, creation of a comprehensive database of property owners, and the required petition process. The process of verifying the petition was finalized at the end of 2004 and the BID was approved by the City Council in April 2005. The BID now serves as an advocate for property owners in the district and address areas such as safety, cleanliness, appearance, marketing, business retention and recruitment, public and private investment in buildings and infrastructure.

Planning Processes

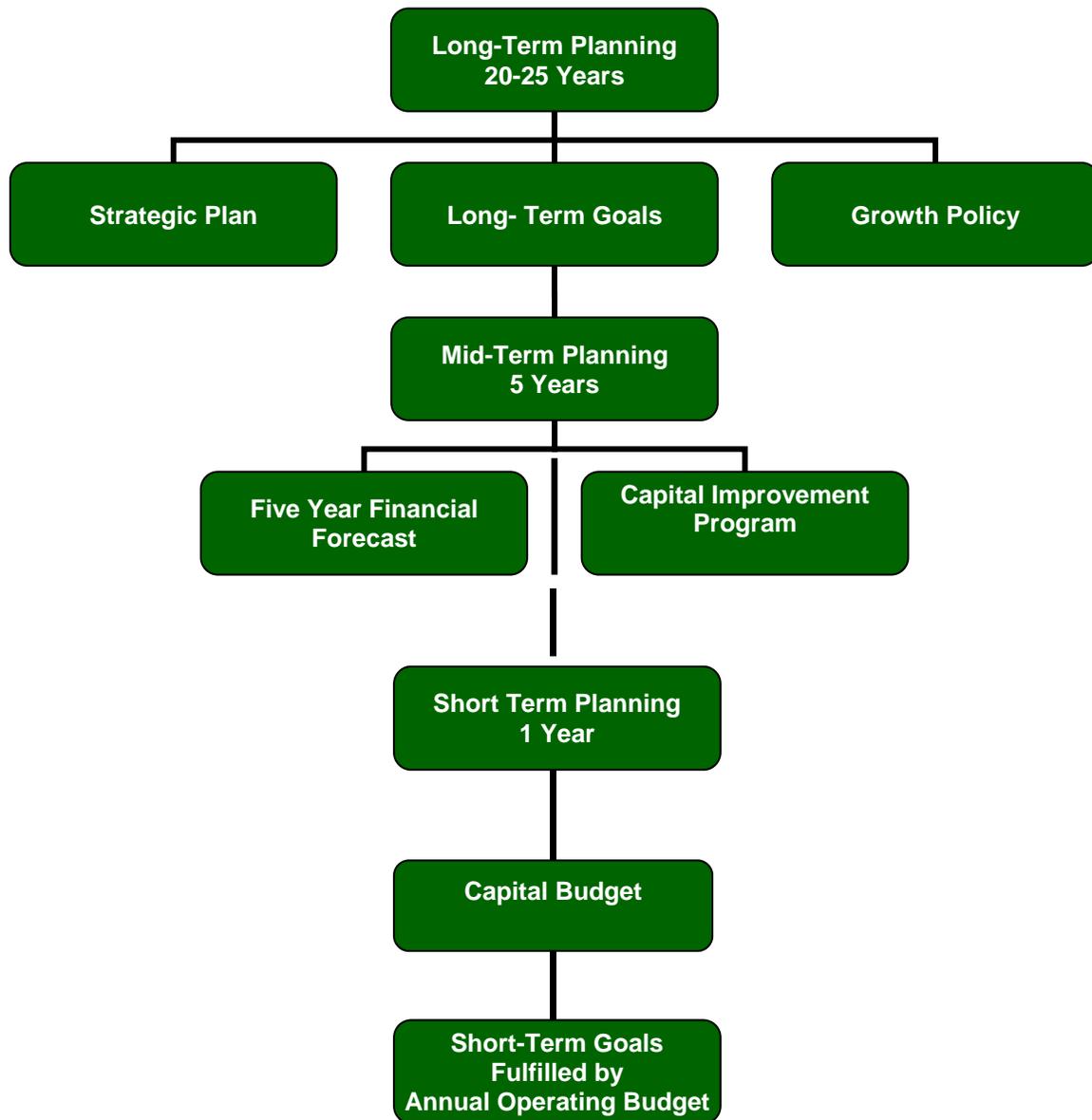


The City of Missoula conducts various planning processes (long-term, mid-term and short-term), to help guide the government and to insure that decisions are made in the context of the organization as a whole and with a long-term perspective. Diligent efforts are made to insure each of these component planning processes are in concert with one another. This so called “Linkage” is paramount to insure short-term decisions are consistent with the overriding values embodied in the mid-term and long-term planning processes adopted by the City Council. This required linkage dictates that the Operating and Capital Budget be developed within the context of and consistent with, the City’s long-term and mid-term plans.

Each element of the City’s planning process has a different purpose and timeframe. The Strategic Plan, Vision, Mission, Long-term Goals and Growth Policy are the most far-reaching in nature—20 to 25 years. The Capital Improvement Program and the Five-Year Financial Forecast are mid-term in nature—5 years. The Annual Budget and the Capital Budget are short-term—covering a 1 year timeframe. The most important requisite is that they are coordinated efforts.

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Shown below is a hierarchy of the City's layered planning processes, all which support one another and are designed with a common goal. The chart depicts how the Annual Operating Budget and the Capital Budget fit within the City's planning process hierarchy.





Strategic Plan

Strategic planning suggests ways (strategies) to identify and to move toward desired future states. It consists of the process of developing and implementing plans to reach goals and objectives. Within government, strategic planning provides guidance for organizational management similar to that for business, but also provides guidance for the evolution or modification of public policy and laws. Areas of such public policy include: funding of infrastructure and rate-setting, and functional plans such as the City's Comprehensive Plan for land use, the City of Missoula transportation plan, the City of Missoula wastewater facility plan master plan, and City of Missoula master fire plan.

The fiscal year 2013 budget continues our Strategic Planning initiatives started in FY 1992. This plan was significantly updated in FY 2009. The Strategic Plan is an ongoing dynamic process that will give residents, taxpayers and interested persons a greater understanding of city government. The strategic plan focuses on performance. It provides for measurable goals and objectives the City intends to achieve. Department employees will be held accountable for the implementation and success of the plan.

As part of the Strategic Planning Process, the city created a set of strategies to help guide the organization. These range from philosophical strategies down to concrete achievable goals for the coming year. Listed below are the results of this planning process:

City of Missoula Strategic Plan 2010-2013

Goal

We believe the City of Missoula has a responsibility to remain financially stable and to provide service to its citizens.

We will work toward success in three areas:

- 1. Fiscal Sustainability**
- 2. Harmonious natural and built environment**
- 3. Quality of life for all people in all places**



City of Missoula Goals

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

Listed below are the City's Strategies that help guide the development of this budget. These goals and strategies are addressed very specifically at the beginning of each departmental narrative in this budget

document. The extent to which a department can advance these goals and strategies is actually quantified and scored when the individual offices are seeking funding for capital requests. The actual scoring is explained in the capital budget section of this report.

**City of Missoula
Strategies**

Missoula will lead the region in the following three areas:

1. Funding and Service

- We will maintain or improve the level of service to citizens.
- We will work toward sustaining and diversifying fiscal resources.
- We will work with public and private sector partners in greater numbers to find new ways to enhance and diversify Missoula's economy.

2. Harmonious Natural and Built Environment

- We will make sure that our natural and built environments continue to represent Missoula's values of clean water and clear air.
- We will work to provide citizens access to parks, open spaces and the natural environment.
- We will reflect values of sustainability in transportation and building design.

3. Quality of Life for All Citizens

- We will work together to meet basic human needs with dignity for all.
- We will work to provide affordable housing for the work force of Missoula.
- We will support plans and programs that promote a healthy lifestyle for Missoula's citizens.

Departments have developed and are continuing to develop performance measures to identify and track quantitative and qualitative measures of their service delivery performance. Performance budgets emphasize the accomplishment of program objectives. Performance budgeting involves a shift away from inputs (what is going to be purchased), to outcomes (what is going to be accomplished).

Five-Year Financial Plan

Each year the City of Missoula evaluates its current financial condition within the context of existing programs, assesses future financial capacity, and integrates City Council goals, objectives, and financial policy into its decision-making process. Analysis of the City's financial and economic trends is an integral part of this process.

Finance Department staff performs financial trend analysis each year in conjunction with the annual mid-year budget analysis. The Five-Year Financial Plan utilizes budgetary and financial information to create a series of local government indicators to monitor changes in the City's financial condition. These indicators, when considered as a whole, can help interested stakeholders gain a better understanding of the City's overall financial condition. This type of analysis of key financial trends and other community factors is similar to the analysis that credit rating agencies undertake to determine the City of Missoula's bond rating.

Using this trend analysis and the framework of the financial policies adopted by City Council, management is able to strategically plan and budget, provide solutions to negative trends, and ultimately preserve the financial health of the City of Missoula. It is a good 'report card' of the City's current financial condition and reference point as staff begins work on the next year's budget. Most importantly, the financial trend analysis assists the City Council and the city administration in focusing on the "Big Picture" of the city's financial operations.



Capital Improvement Plan

The city prepares a 5-year Capital Improvement Program (CIP) which is summarized within the Annual Operating Budget. The CIP is a multi-year capital improvement plan that forecasts, but does not obligate, future spending for all anticipated capital projects. The CIP is developed and updated annually. The proposed five-year CIP uses conservative financial forecasts and reflects only those projects with the highest priority and most realistic expectation for completion during the next five years. This approach avoids raising expectations for projects that are not well defined or that the operating budget will not support.

As in recent years, the City continues to face numerous capital funding requests. At the same time, the city has finite resources to fund the operating costs for many of the proposed capital projects. The proposed five-year CIP attempts to continue, and even expedite, priority projects while ensuring long-term sustainability for operating impacts.

The Annual Budget Process includes a re-evaluation of the capital projects included in the CIP for the coming year as well as the anticipated funding sources for the projects. If approved in the Annual Budget Process, the capital items appear in the Annual Operating Budget, which constitutes the formal spending authority. The capital items included in the Annual Operating Budget represent the “Capital Budget”.

A summary of the significant capital projects included in the FY 13 Operating Budget is included in the Capital Projects Section of this budget.

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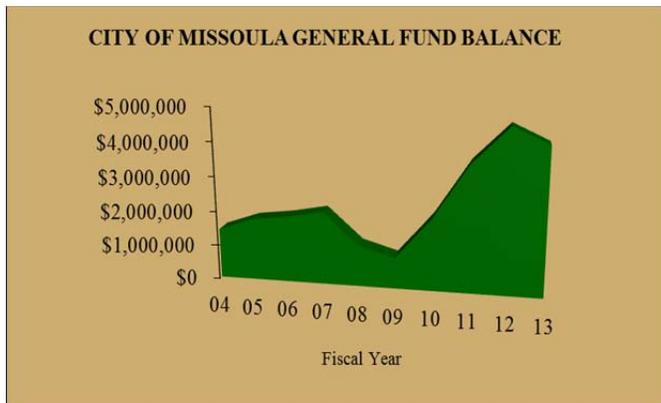
STAFFING CHANGES

The final budget includes a net overall decrease of 10.51 full-time equivalent employees (FTE). The chart below shows the change in FTE for the budget year for each department. Also included in the appendix is a chart that shows the city's FTE over the last five years.

Staffing Changes (FTE)	
DEPARTMENT/DIVISION	Net Increase (Decrease)
General Fund Departments	
Municipal Court	3.10
Public Works - Engineering Department	0.28
Street Division	0.21
Vehicle Maintenance	0.50
Police	7.01
Cemetery	0.01
Parks & Recreation	(0.77)
Total General	10.34
Enterprise Funds	
Parking Commission	0.17
Total Enterprise	0.17
Total for City Departments	10.51

BUDGETARY TRENDS

Shown below are a series of key financial indicators and budgetary trends that affect the ability of the city to sustain current service levels, while maintaining financial stability.



Fund balance measures the net financial resources available to finance expenditures of future periods.

Rating agencies examine fund balance when considering the credit quality of the City.

The General Fund balance is one of the better indicators of the city's overall financial health. Shown by the graph above is the city's actual General Fund balance over the course of the last ten

years. The reduction in General Fund balance from fiscal year 2001 to 2003 was attributable to several factors including the financial losses associated with a Fire arbitration settlement and a business licensing lawsuit as well as the transfer of nearly \$1,000,000 to stabilize the City's Health Plan and set up the City's Building Inspection Division as a separate fund. Since fiscal year 2003, the city has made a conscious effort to rebuild the General Fund balance. At the end of FY 07, the total fund balance of the General Fund was \$2.12 million compared to \$1.0 million at year end in FY 2003. This ending fund balance represented nearly six percent of total General Fund expenditures. The budget for FY 08 anticipated an ending General Fund balance of \$2.1 million, but when the fiscal year was closed out in September of 2008, the year-end balance had decreased to \$1.2 million from \$2.1 million at the end of FY 2007. The City Council budgeted the fund balance to increase by \$83,500 for FY 2009, which would have placed the FY 2009 year end fund balance at approximately \$1.3 million. The decrease in fund balance in FY 08 was due to a decline in expected expenditure savings and slight increase in tax delinquencies. Please note that the city had a 15 year history of always having between 3% - 5% expenditure savings. The city addressed this issue by requiring a mandatory 3.7% holdback on expenditures for FY 09. The FY 08 expenditure savings were less than 1% due to the heavy operating impact of higher fuel, energy and transportation costs that became imbedded in virtually everything the city purchased. The General Fund year-end balance for FY 2009 decreased to \$0.9 million from \$1.2 million at the end of FY 2008. The decrease in fund balance in FY 09 was primarily due to a decline in expected revenues, especially in the fee based services related to the decline in economic expansion (planning and engineering fees, business licenses), investment earnings and in police fines. The FY 09 expenditure savings increased to 6% due to mandatory holdbacks required of all General Fund offices, but was insufficient to offset the revenue declines. The city was prepared to quickly rebuild its fund balance to the level it had at the end of FY 2007 (\$2.1 Million). This was accomplished in FY 2010 when the General Fund year-end balance increased from \$0.9 million in FY 2009 to \$2.1 million at the end of FY 2010. The increased fund balance in FY 10 was achieved by asking offices to hold back in making expenditures and by the receipt of additional revenues, especially taxes. General Fund departments were asked to hold back on spending primarily due to a decline in expected revenues, especially in the fee based services related to the decline in economic expansion (planning and engineering fees, business licenses), investment earnings and in police fines. The FY 10 expenditure savings increased to 5% due to mandatory holdbacks required of all General Fund offices and was sufficient to offset the revenue declines. The requested expenditure savings holdback in FY 10 was on top of a mandatory 3.7% reduction in baseline expenditures for the FY 10 budget. Seven special purpose funds under General Fund control were removed from the Special Revenue fund category at the end of FY 2010 and moved to special purpose General Fund accounts in FY 2011. This increased the overall FY 2011 ending General Fund balance to \$3.5 million from \$2.1 million.

The City's 2012 budget continued to be structurally balanced and the city increased its General Fund year-end fund balance from \$3.67 million in FY 2011 to \$4.70 million by the end of FY 2012. This continued building of the fund balance was accomplished by budgeting conservatively for revenues and with significant

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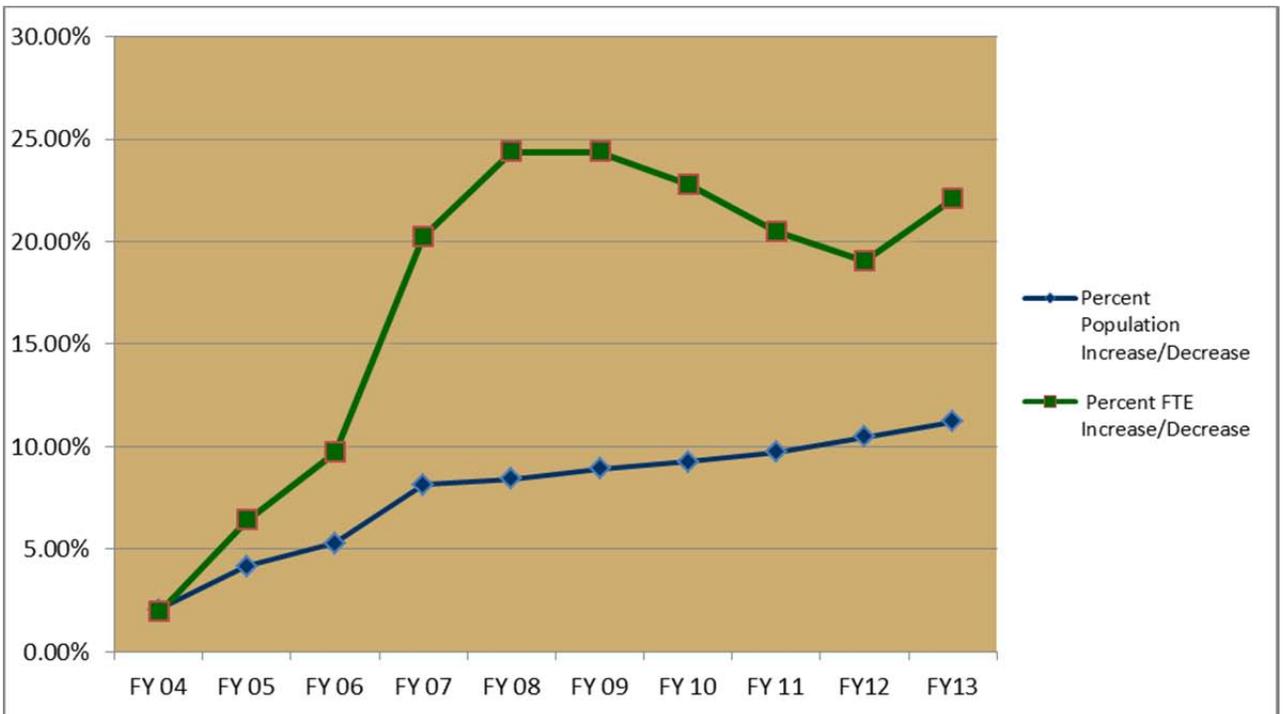
expenditure savings required of many large General Fund departments. The City's goal is to target a fund balance equal to seven percent of the General Fund expenditures for FY 2013.



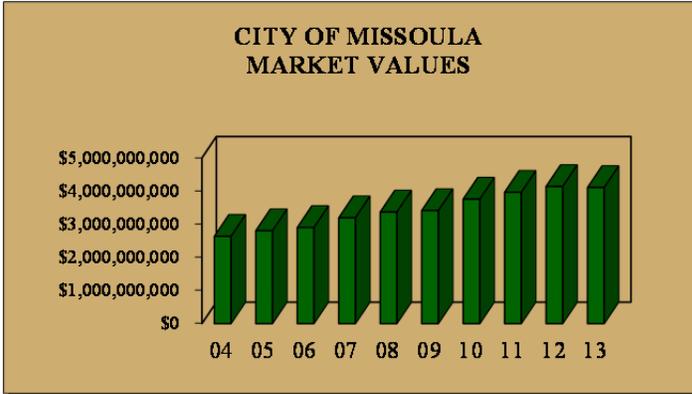
Full-time equivalent employees (FTE) are a key indicator mirroring the growth of the City of Missoula. As shown by the graph on the left, total FTE's grew from 419.87 in fiscal year 2004 to 512.13 in 2009, and then were reduced back to 490.36 in 2012. Due to the fact that revenues have stabilized and increased for several years successively, the city added 10.51 FTE's city-wide in the FY 2013 budget, the first increase in a number of years, which

equates to a 19.77% percent increase over this 10 year period, while the City's population is estimated to have increased 15% during this same period of time. Please note that 31 of the new FTE's in FY 06-08 were for staffing of the new aquatics facilities recently opened up to the public and these FTE's are predominantly paid from the revenues generated by these facilities. If these FTE's were backed out of this calculation, (as they are predominantly self supporting), the actual growth of new FTE's would be 12.38% compared to the population increase of 15% over the last 10 years.

One of the principal challenges continually facing the city is the on-going financial obligation of new employees necessary to meet the service demand that accompanies the rapid growth of the city. All indications are that the growth Missoula has experienced in the past will continue for the foreseeable future.



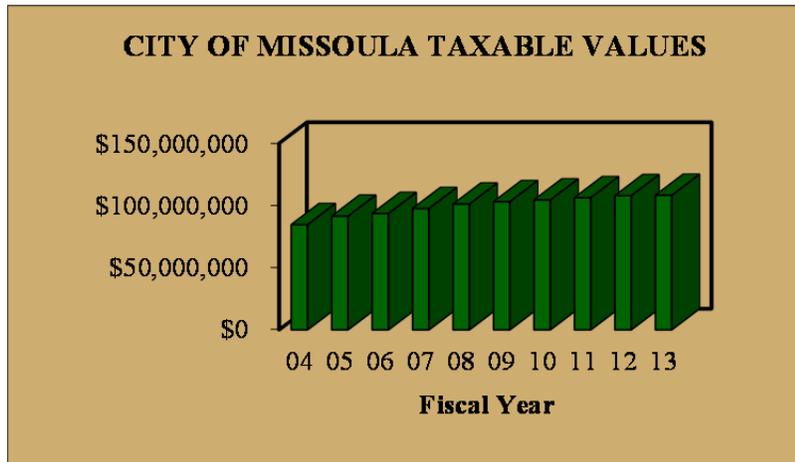
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As a general rule, all real and personal property in the State of Montana is subject to taxation by the State and its counties, municipalities and other political subdivisions. This rule is subject to exceptions in the case of specified classes of exempt property. Property is classified according to its use and character, and the different classes of property are taxed at different percentages of their market

valuation. Property valuations are based on comprehensive appraisals of all taxable property performed by the Department of Revenue each year. The Department of Revenue certifies market and taxable values to each city on or before the 1st Monday in August. The trend of the City of Missoula's market value is shown by the graph on the left. As reflected by the graph, the city's market value has increased from \$2.636 billion in fiscal year 2004 to \$4.110 billion in fiscal year 2013, for a 55.89% increase over this period. The market value of property in the City reflects the rapid growth the City is experiencing. The graph of taxable values that follows reflects the city's ability to raise general tax revenue necessary to support the growing demand for government services.

The taxable value for property is determined by applying a statutorily established percentage ratio to the market value of the property, according to its property classification. The applicable ratio for most commercial and residential real properties is currently approximately 2.6%. Shown on the left is a history of the city's actual taxable value since 2004. The increase in taxable values



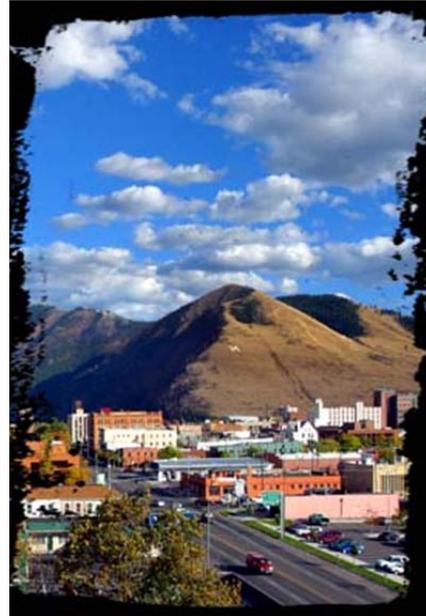
does not coincide with the increase in market values because of adjustments to the percentage ratio by the Montana Legislature and by changes in tax policy implemented through property tax amendments. The adjustments by the Legislature were designed to prevent local taxes from increasing at the same rate as property values. The taxable values (as opposed to market values) more accurately reflect the ability of the city to increase tax revenues. As you can see from the graph, the City's taxable value increased from \$84.586 million to \$108.167 million from 2004 to 2013, an increase of only 27.88%, which is half the increase in the market value of the same property.

FY 13 Final Operating and Capital Budget**SHORT TERM INITIATIVES – MAJOR ISSUES & SOLUTIONS**

- The FY 2013 budget, as adopted, was brought to council six weeks sooner than in many previous years, as was the FY 2012 budget. The calculated additional property tax impact for next year is 3.28% for city taxes, which would be about \$23 per year for a typical \$225,000 home.
- The proposed FY 2013 budget also anticipates 4% fee increases in the planning, fire and business licensing areas to become effective at the beginning of the new fiscal year (30 days after the ordinance is adopted – August 5th effective date). The 4% fee increases in the engineering area will not take effect until January 1st. No fee increases were proposed for any of the building permit categories (building/plumbing/ electrical/mechanical). Three years ago, the city chose to not increase any city fees. This year (FY 2013) as well as in the past year (FY 2012), because many of the city's costs had increased, fees were increased by 4 percent in the business licensing, engineering, planning and building inspection areas.
- The actual level of new tax revenue from growth in the city's tax base was \$275,008. This compares to growth of \$389,390 for FY 2012, \$671,312 for FY 2011 and \$1,080,713 for FY 2010. We have budgeted for inflationary trending of property taxes allowed by state law (\$260,363).
- City property taxes were raised to support the increased expenses of the General Fund and the City Health Plan. As to the General Fund tax increase, the city is continuing to honor its union contracts. Because the city worked in partnership with both union and non-union employees two years ago with a wage freeze, the city proposed to move forward in FY 2012 and FY 2013 with the wage increases not given two years ago to both union and non-union employees. Two years ago and the year before, the city froze top managers' salaries, including the mayor's. In addition, Missoula was the only city in the state to freeze all employee wages for that fiscal year. In FY 2010, the decision was made to reduce spending by nearly 4 percent. For FY11, the city administration requested another 2 percent reduction. Thus, in two of the last three years, the city had cut operation budgets by 6 percent. A total of 22 FTE's were removed from city budgets during these years. Aside from the proposed salary increases in FY 2012, virtually no new tax funded requests were proposed, except for several mandatory expenses such as costs associated with elections that occur in alternating budget years. On the expenditure side, the largest expense is wages and benefits. About 70 percent of the General Fund budget is devoted to personnel costs. In FY 2013 the city increased its FTE funding by 10.51, mainly in the public safety areas of police and municipal court. This was increase in position funding in 3 years.
- The second reason property taxes are being raised has to do with funding the increased costs associated with the City's Health Insurance Plan. For FY2012, the city recommended an increase of \$132 per employee per month (\$681,446 per year) in the city's employer contribution to the health plan premium in an attempt to stabilize the funding of the plan with its annual costs. The city also asked employees to contribute an additional 393,012 (\$75/month more) and for retirees to contribute an additional \$118,434 (\$173/month more), together totaling \$511,446 of premium increases for employees and retirees. This would raise the base premium from \$635 per month per employee to \$767 per month per employee. Prior to FY 2010, the City's Health Plan had consistently built fund balance for six consecutive years, and had \$2.3 million in surplus at the beginning of FY10. However, in FY 2010 and 2011, extraordinary claims and medical inflation have hit their highest levels in over a decade, driving the fund balance down to about \$1.0 million at the end of FY 2010 and negative \$336,000 for the end of FY 2011. The city has been committed to maintaining a three-month fund balance, but the demands of simply stabilizing the plan in FY 2012 had to over-ride the need to maintain a 3 month reserve for the FY 2012 budget. The city proposed to rebuild the fund balance in FY 2012 with a \$100,000 one time contribution to the plan and a \$350,000 one time contribution in FY 2013.
- Assessments were increased for the newly created park and road maintenance districts, as the city attempts to increase the level of service delivery in both of these core areas of service. These districts are in place throughout Montana.

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- Standard & Poor's and Moody's, our ratings agencies, recently completed an updated review of many of our city credits. All of the city's credits were re-affirmed and sustained, which is a very positive factor. One of the areas of concern in prior reviews was that a number of revenue streams that support General Fund functions had been allowed to accumulate balances outside of the General Fund and, to some extent, outside of the city's direct oversight. Many of these funds are now accounted for within General Fund during this budget process and will be kept under administration review and oversight going forward. The purpose and intent will not change for these revenue streams, but they will no longer be allowed to accumulate outside of the General Fund and will be managed more closely by the administration in the future. Standard & Poors also recommended that future budgets plan to increase the General Fund year-end unassigned fund balance to \$3.0 million (which is 7 percent of the General Fund expenditures per the City's adopted financial policy). Our present unassigned fund balance for the General Fund as of June 30, 2012 was \$2.1 million (5% of expenditures) out of a total fund balance of \$4.7 million. The city intends to meet this 7% benchmark by the end of FY 2013.
- Funding anticipated from HB124 (city entitlement from the State of Montana) is projected at \$6,740,000 for FY 13, the same level as for FY 12.
- The Building Inspection Fund is recovering nicely as economic conditions continue to improve in the construction portion of the Missoula economy, although we had previously reduced the staffing by four positions in that office several years ago. We will again be able to take on the cost of replacing vehicles for the inspectors and to upgrade the permitting system software, a cost that will generate many benefits to both the building community and city staff.
- Impact fees are expected to generate approximately \$900,000 of revenue for FY2013, the same amount as received in FY2012.
- The City is permitted to levy what is necessary to fund voter-approved General Obligation (GO) Bond debt service. In FY13, the city will levy slightly less than in FY 12, (15.72 mills in FY13 compared to 15.74 mills for FY12).
- General Fund support for the city's capital improvement program will be \$1,005,382 for FY2013, which compares to \$956,558 in FY2012. Only the required General Fund fixed payments (plus the funding for a remodel of the Office of the Neighborhoods) are budgeted for in the FY13 General Fund CIP. The City administration, in conjunction with all City offices, has developed a long-term (20-year) equipment replacement schedule that addresses the fact that the equipment replacement needs are more than \$2 million greater in the first five years (FY09-13) than in the following five years. Three years ago, the city proposed to smooth out this wave of deferred equipment replacement by financing the equipment scheduled for replacement over successively shorter time frames in the future. This allows our equipment to provide better service to our residents during fiscally constrained times such as these. There are many Non-General Fund CIP projects that were not affected by the extremely tight funding in the General Fund this year.
- The General Fund baseline budget appears to be adequate for the new fiscal year for both fuel and energy costs. Due to a concerted focus by the city on energy efficiency, the city has removed \$51,300 from the fuel and energy budgets in the general fund this year reflecting about half of the savings already achieved.
- No inflation assumptions for operating supplies or purchased services were accepted into the budget, unless a pre-existing contract for service allowed for a scheduled increase in FY 2013.
- The program enhancements allowed in the FY 2013 budget are detailed in the appendix.



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- The economic factors driving the budget development are discussed below in the next section of the budget message.

ECONOMIC FACTORS

- University of Montana economist, Patrick Barkey, has forecast that Missoula's economic growth for 2012 should be in the 2 percent range, which continues an improvement that began in 2010 when growth overall was negative due to the closure of the Bonner plywood plant in 2007 followed by the Bonner sawmill closure in 2008 and then the closure of the Smurfit-Stone pulp mill in 2010.
- Missoula continues to adjust from the housing downturn, with new home starts lagging from pre-recession numbers. Building-industry activity has a ripple effect in job creation and the Missoula economy.
- The Missoula Economic Partnership, a public-private economic development organization, opened its doors in June 2011 and is fielding calls from a variety of fronts for business relocation, granting activity, expansion assistance and more. The Partnership is working in cooperation with a number of agencies creating easy access to economic-development resources.
- The recession has impacted every part of the State and every industry in the state except health care.
- The Montana economy has been much more in sync with the national economy than has occurred in previous recessions.
- All of these factors were considered in preparing the City of Missoula's budget for the 2013 fiscal year. The decline in revenues in FY 2009, especially in the fee based services related to the decline in economic expansion (planning and engineering fees, business licenses) has reversed and these revenues have been increasing each year since FY 2010.
- Sewer utility rates were increased modestly (5% per year) for four years beginning in FY 2010 to accommodate an upgrade of the wastewater plant head-works and the fact that sewer utility charges declined 2% for the first time in over a decade due to reduced industrial and commercial billings, reflecting the effect of the current national economic recession. However, the city has continued to grow in population and in new sewer connections at a rate of approximately 1.5 percent per year, even though that growth was offset by a slowdown in the commercial and industrial sewer accounts in FY 09. In FY 10, the decline in revenue had reversed and the sewer revenues began to grow again in the industrial and commercial billings. The residential component of our utility billing has always grown, even during the recession.

Closing

We hope the information contained in the FY 2013 Final Budget is of benefit to all interested parties. In closing we want to tell the public that we made dramatic changes in the budget process for starting in FY 08 that continued through the current budget process. We have been actively pursuing a Performance Based Budget process since FY 08. We strongly encourage each and every person using city services to inform us of their ideas, level of satisfaction and problems.



Respectfully,



John Engen, Mayor