

## Budget Message

December 15, 2016

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, 2017 (FY 17). 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 this budget. The table reflects estimated revenues of \$137,130,633, budgeted expenditures of \$140,257,078 with expected expenditure savings of \$1,550,000, resulting in a projected decrease in the ending balances of \$1,576,445. An explanation of the significant changes in fund and cash balances (those greater than 10%) are provided on the following pages.

#### Projected Changes in Fund Balances or Cash Balances Final Budget - July 1, 2016 through June 30, 2017 (FY 17)

|  | Governmental<br>Fund Types |                    |                 |                    | Proprietary<br>Fund Types        | Fiduciary<br>Fund Types | Component<br>Units | Total<br>All<br>Funds |
|--|----------------------------|--------------------|-----------------|--------------------|----------------------------------|-------------------------|--------------------|-----------------------|
|  | General                    | Special<br>Revenue | Debt<br>Service | Capital<br>Project | Enterprise &<br>Internal Service | Trust &<br>Agency       |                    |                       |
| Projected Beginning                      |                            |                    |                 |                    |                                  |                         |                    |                       |
| Fund Balance/Cash                        |                            | \$ 8,439,301       | \$ 2,910,637    | \$ (8,996,396)     | \$ 78,627,297                    | \$ 466,016              | \$ 9,373,521       | \$ 96,063,843         |
| Nonspendable/Assigned/Restricted         | \$ 3,693,353               |                    |                 |                    |                                  |                         |                    |                       |
| Unassigned                               | \$ 1,550,114               |                    |                 |                    |                                  |                         |                    |                       |
| Estimated Revenues                       | 55,543,754                 | 17,947,084         | 3,088,390       | 11,917,900         | 28,992,876                       | -                       | 19,636,376         | 137,126,380           |
| Approved Budget                          | (57,564,062)               | (19,188,682)       | (3,088,390)     | (2,921,504)        | (28,811,623)                     | -                       | (28,682,817)       | (140,257,078)         |
| Anticipated Savings                      | 1,550,000                  | -                  | -               | -                  | -                                | -                       | -                  | 1,550,000             |
| Projected Change in<br>Fund Balance/Cash | (470,308)                  | (1,241,598)        | -               | 8,996,396          | 181,253                          | -                       | (9,046,441)        | (1,580,698)           |
| Projected Ending                         |                            |                    |                 |                    |                                  |                         |                    |                       |
| Fund Balance/Cash                        |                            | 7,197,703          | 2,910,637       | -                  | 78,808,550                       | 466,016                 | 327,080            | 94,483,145            |
| Nonspendable/Assigned/Restricted         | 3,063,597                  |                    |                 |                    |                                  |                         |                    |                       |
| Unassigned                               | 1,709,562                  |                    |                 |                    |                                  |                         |                    |                       |
| Total Projected Fund Balance             | \$ 4,773,159               |                    |                 |                    |                                  |                         |                    |                       |

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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 (Major Fund)**

- The General Fund: The General Fund year-end fund balance decreased from \$5.61 million in FY 2015 to \$ 5.24 million at the end of FY 2016. Approximately \$300,000 of the reduction in the fund balance is due to the expenditures related to the Parks and Trail bond and the timing of the bond revenues from the county. The City entered an agreement with the County in which the City would purchase the playground equipment and the construction of Fort Missoula Regional Park and submit the claims to the County for reimbursement. At the close of FY 2016, all of the posted expenditures have been reimbursed thus creating a fund balance deficit of more than \$400,000. FY 2016 was especially difficult on the infrastructure maintenance budgets. Both the Parks and the Street Departments went over their maintenance budgets due to weather concerns, mostly snow and snow related events. The Parks Department expended over \$140,000 in the maintenance budget overcoming an event known as “Tree-pocalypse”. During a particularly intense wind storm, several of the older trees in the urban forest succumbed to the weather causing thousands of dollars in property damage and a great deal of operating costs to clear and clean up the right-of-way from all of the debris/damage. These unforeseen events are the direct cause of the reduction in the General Fund balance. The previous building of the fund balance in the prior five years was accomplished by budgeting conservatively for revenues with significant expenditure savings required of many large General Fund departments, such as Police, Fire and Parks & Recreation. In budgeting for FY 2017, there is the continued trend to budget conservatively in the revenues and there is a \$135,000 budget with-holding requirement. In addition to the budget with-holding, a conservative estimate in fund balance reserve has been estimated. With the conservative revenues, budget with-holdings and a conservative reserve, it is anticipated the General Fund balance should increase by \$160,000 bringing the net fund balance to \$2.13 million at the close of FY 2017.

**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, Building Inspection Fund, Special District funds). Most of the other special revenue funds are slated to fully spend the beginning fund balance; 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.

**FY 17 Final Operating and Capital Budget****Capital Project Funds**

- The Capital Projects year end fund balance for FY 2016 was negative. This will continue to be reduced from year to year as the projects are completed and the bonds are issued to reimburse the city for the infrastructure/projects constructed.

**Enterprise/Internal Service Funds**

- The Enterprise Fund balances are expected to continue to hold steady. Sewer utility rates were increased modestly for the FY 2010 - FY 2013 budget years (5%/year in each year for four years) 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% per year. By FY 2010, the decline in revenues started to reverse and the sewer revenues began to grow again in the industrial and commercial billings through the current year (FY 2017). The residential component of the utility billing has always seen modest growth, even during the recession. In FY 2016, there was another utility bill increase to cover current and upcoming capital projects to improve efficiency, reduce emissions and recapture biogas fumes to convert into electricity which assist in powering the treatment plant. This increase is a modest 2.5% increase to all utility bills effective each January 1, for the next three years (2016 – 2018).
- The City's only Internal Service Fund, the City Health Insurance plan, had suffered from significant increases in usage and medical inflation during the past decade causing a volatile fund balance. In an attempt to have a positive growth in the fund balance, the City increased the contributions on both the employee and on behalf of the City. In addition to the increased contributions, the City provided additional funding as onetime transfers from the General Fund for FY 2012 – FY 2015 to assist in maintaining a positive fund balance. In FY 2015, there was a slight reduction in fund balance due to an abnormal increase of costs to the program. This was determined to be an increased cost from the implementation of the Affordable Care Act (ACA) also known as Obamacare. Part of implementing the ACA is that it is mandatory to include prescriptions as part of the total claim deductibles and this was not recognized prior to the implementation of the ACA. The City is committed to maintaining a 3 month reserve in the health plan based off the budgeted expenditures. The target fund balance for FY 2017, meeting the reserve requirement, is \$1,600,000. In order to continue to build fund balance the administration recommended that the City's funding of the health plan be increased by 3% (\$23.00) per employee beginning October 2016. In addition to the increase in the City's contribution, the employees are asked to increase an equivalent of 3% (\$1.00) per employee and \$24.00 per spouse/employee, when applicable, per month. The Employee Benefit Committee has been focusing on identifying ways and methods to cut costs within the health plan by utilizing the assistance of the plans third party administrator, Allegiance.

**Component Units**

The City of Missoula has four component units: Missoula Parking Commission (MPC), Missoula Redevelopment Agency (MRA), Business Improvement District (BID), and the Tourism Business Improvement District (TBID).

- The Parking Commission has an operating budget of \$1.7 million plus debt service requirements of \$0.9 million. It maintains a reserve of \$0.5 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 made available to the public in the spring of the 2014. FY 2016 ended with the implementation of new parking meters. This was a \$1.6 million plus venture that replaced all of the antiquated single-space mechanical parking meters with new multi-space digital meters that can accept credit cards. In FY2017 the Parking Commission is working with community partners and businesses to increase the available public parking capacity. Parking Commission is also considering implementing License Plate Recognition (LPR) to be used by the Enforcement Officers

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and at the gates of the parking garages. The implementation of the LPR will increase enforcement and provide more efficiency for monitoring the downtown parking.

- 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. Missoula has six active Urban Renewal Districts (URDs) that are currently being managed by MRA. All of the districts have a tax increment financing (TIF) funding mechanism authorized by State urban renewal law. URD II, located in the heart of Missoula, covers the approximate area starting north at Toole Avenue, extending south to South 3<sup>rd</sup> Street, and starting east at Walnut Avenue and running west until Garfield Avenue. URD III runs along the Brooks Street corridor in southwest Missoula. The approximate area that URD III covers, starts in northeast Missoula at 14<sup>th</sup> Street and Bancroft Street and follows the Brooks Street corridor southwest extending to Reserve Street and 39<sup>th</sup> Street. Recently URD III extended the boundaries to include parcels that the Southgate Mall occupies, and an area along the western boundary between Reserve Street and Montana Rail Link's Bitterroot Branch Line. The boundary modification in URD III allows for consideration of TIF funds to be used in upgrading infrastructure and expanding street connectivity in the area. Two smaller districts are located in downtown Missoula adjacent to the Clark Fork River. The Front Street URD generally occupies the area south of Main Street to the River, and west of Madison Street to one block east of Orange Street. The Riverfront Triangle URD generally occupies the area south of Broadway to the River, and west of Orange Street to the MRL Bitterroot Branch Line. Two new districts were active in the past year and they include the Hellgate URD, which is located east of Madison Street between Interstate 90 and the Clark Fork River and the North Reserve – Scott Street URD, which is located between Reserve and Scott Streets north of the MRL railroad and south of Interstate 90. MRA has initiated programs to build sidewalks in URD II and URD III where they do not exist or are deficient. Approximately 13.2 miles of sidewalks have already been constructed with the goal of completing the sidewalk network in both districts within the life of those districts. Over \$10 million has been spent improving neighborhoods through the installation of sidewalks, curbs, street trees and repaved streets since MRA initiated the complete sidewalk program. After successfully completing major improvements to Brooks Street between Reserve Street and Dore Lane, MRA made a commitment to similar improvements to Brooks Street between Dore Lane and Paxson Street. The project will make the street more conducive to pedestrian and bicycle use through reduced lane widths, construction of curb extensions and crosswalks at the intersections, installing pedestrian scale street lights and street trees. In addition to the Brooks Street improvements in URD III, construction is nearing completion on a grade separated trail crossing at South Reserve Street to link the Bitterroot Branch and the Missoula-to-Lolo Trails, providing a trail system from downtown Missoula to Hamilton. The two new districts also have active projects in their districts which include the State of Montana's new location for Missoula College in the Hellgate district and two ongoing projects in the North Reserve – Scott Street district. MRA is assisting with infrastructure upgrades to the national headquarters for a regional home health corporation, and for a new residential neighborhood named Scott Street Village. MRA is also working with community partners to assist with a large student housing project in the Front Street district, a major hotel, retail, housing and community convention center project in Riverfront Triangle district and the extension of Mary Avenue through the Southgate Mall property providing a new connection from Brooks Street to Reserve Street. MRA is also working with the City's Department of Housing and Community Development to identify opportunities to increase affordable housing in the community.
- 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 of the district began



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in 2001 with the creation of a committee, followed by community education through local media campaigns and meetings with property and business owners in the district. Following educating the citizens was the creation of a comprehensive database of property owners in the district, and the petition process to create the district. The verification the petition was finalized at the end of 2004. The BID was presented and approved by the City Council in April 2005. The BID now serves as an advocate for property and business owners in the district and address areas such as safety, cleanliness, appearance, marketing, business retention and recruitment. The district also advocates for public and private investment in buildings and infrastructure.

- 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. The creation of the district also allows Hotels/Motels outside the City limits in the Missoula Urban area to participate in the Tourism Business Improvement District. The goal of the TBID is to increase four season revenues statewide through effective marketing and promotions. In order for the TBID to accomplish its goal of increasing four season revenues by focusing on high-value, low-impact visitors by working in partnership with the Missoula International Airport to bring key new service to Missoula. The TBID also works with the community to keep and strengthen our present air service by promoting Missoula and Montana and by offering incentives to air services in an attempt to increase the total air service into and out of Missoula. Destination Missoula and the TBID will focus on increasing overnight visitation to Missoula with an emphasis on the months of November through April. In an effort to increase overnight stays in Missoula the TBID/Destination Missoula will leverage marketing funds focusing on Missoula being a prime destination for annual business meetings and/or conventions, sports and sporting events, tour, group, and leisure travel.

## Planning Processes



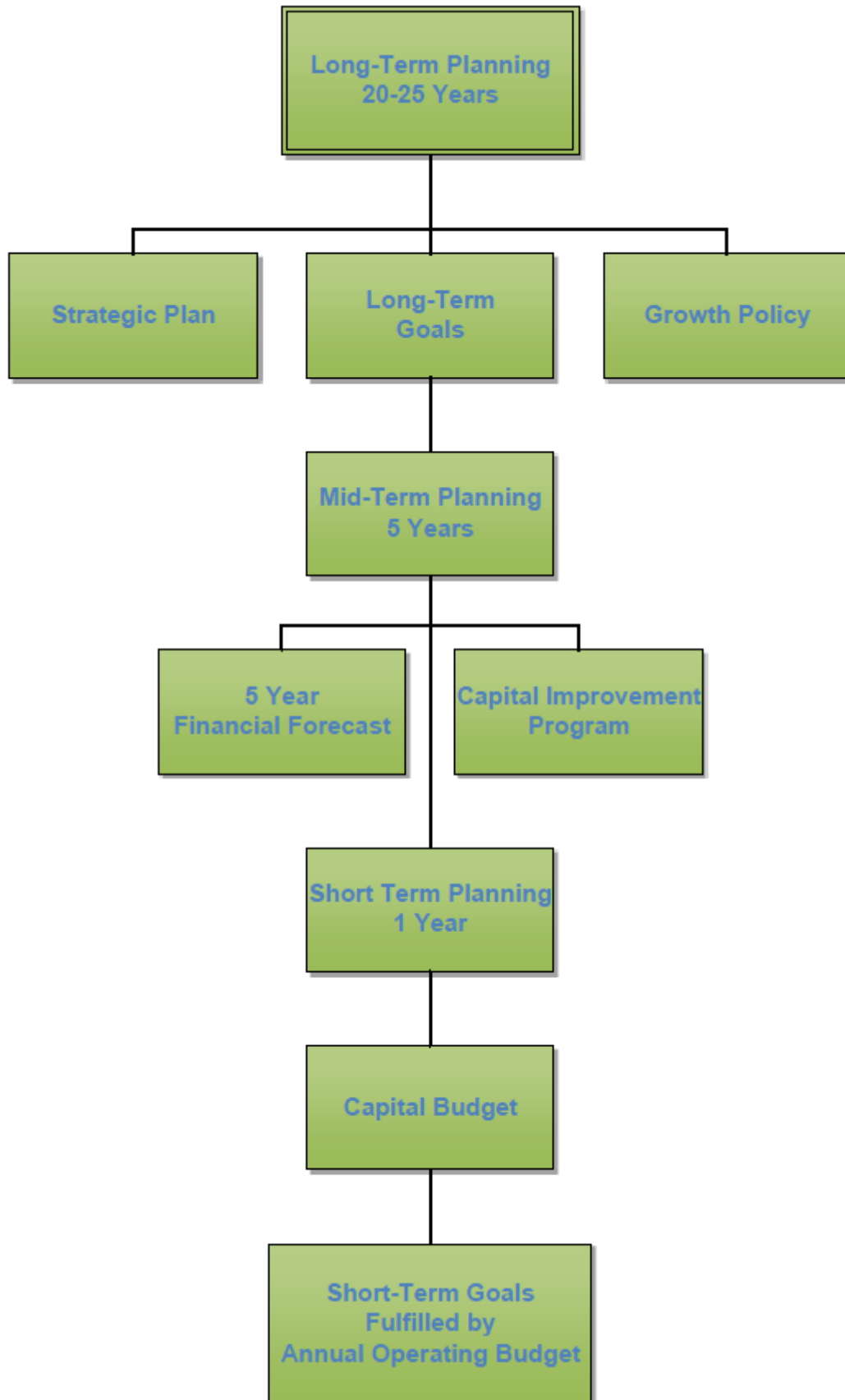
The City of Missoula conducts various planning processes (long-term, mid-term and short-term), to help guide the government and to ensure that decisions are made in the context of the organization as a whole and with a long-term perspective. Diligent efforts are made to ensure each of these component 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.

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.

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**FY 17 Final Operating and Capital Budget****Strategic Plan**

Strategic planning suggests ways (strategies) to identify and to move toward desired future states. Strategic planning starts with the process of developing and then 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, it also includes functional plans, such as the City's Comprehensive Plan for land use, the City of Missoula transportation plan, the City of Missoula wastewater facility master plan, and City of Missoula fire master plan.

The FY 2017 budget continues our Strategic Planning initiatives started in FY 1992. This plan was significantly updated in FY 2009 and implemented in FY 2010. In FY 2017, the City's Strategic Plan is slated to be updated. A Request For Proposal (RFP), contractor selection and award of the RFP, additionally, preliminary review of the strategic plan is scheduled to take place. The City's Strategic Plan is an ongoing dynamic process that will provide residents, taxpayers and stakeholders a greater understanding of city government. The City's Strategic Plan focuses on performance. The City's Strategic Plan provides for measurable goals and objectives the City intends to achieve within the fiscal year. Department employees will be held accountable for the implementation and success of the plan. As part of the City's 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. The City's Strategic Planning Process, which is delineated into several charts and paragraphs, is listed below:

**City of Missoula**  
**Strategic Plan 2010-2017**

**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**

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**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, however are reviewed and updated every year.

Listed below are the City's Strategies that help guide the development of this budget. The goals and strategies listed below are addressed very specifically in each of the

departmental narratives 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. Actual scoring for each of the capital requests 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 develop and continue 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). Annually, the departments review their strategic goals and if the goals were met or need to be redefined. The departments revise the goals and strategies on an annual basis to ensure that they are short term, or can be accomplished within a year.



**FY 17 Final Operating and Capital Budget****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 the City's Strategic 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 perform 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.

The long range financial plan for the City of Missoula is starting to show trends of increased building in both the commercial and residential portions of the city. This increase in the building industry is positive for the City due to the fact that at this time the majority of the City's revenues are dependent on the tax base. Since FY 2008, the start of the recession, the City was having difficulty raising revenues related to the stagnant growth in the building industry and many commercial businesses lay empty or for sale. During the recession, the goal of the City was to maintain a positive fund balance or increase the fund balance to the goal of a 7% reserve of operating expenditures. This is one of the major long term goals of the City General Fund. With the onset of increased spending in the building industry, the City is on the verge of realizing the additional tax base, which translates into increased revenues from property taxes. Growth in the City is evident by the continued positive increase in the market value, which is discussed further in the budgetary trends section below. Although there is continued and steady growth, the City's revenues are still limited and reliant on taxes and the ability to tax the citizens within State statutes.

On the horizon, past the five year financial plan, the City is looking into expanding services and space. Currently the City is experiencing overcrowding issues with the staff and services. As the population continues to increase, there is increased needs in the services provided to the public. Every year new FTE's are being added to the overall staff, and the current property that houses the police and central services departments are constrained by space, with no room for expansion. As the number of FTE's continue to increase with the services offered, the City is looking into acquiring additional property in order to consolidate staffing. Currently the City is renting space for two different departments and a number of staff members. Within ten years, the municipal court will need to expand to another court room and add additional staff for a proposed newly elected Judge. Being that the revenues are reliant on the tax base and the will of the State Legislature, the City has been actively looking into different revenue streams to supplement the anemic tax allowances. There has been discussion of creating a local option sales tax in an effort to tap into the tourists that migrate to Missoula all throughout the year for the different activities that are offered in this area. This additional revenue will go towards much needed expansions in services, such as public safety and space. Another area of concern is the aging infrastructure and the funding for the infrastructure. The state allowance for the Gas tax has not been able to keep up with inflation and constructions costs. The City, in conjunction with the County is, looking into creating a local option gas tax to increase revenues that would go towards upgrading the ageing infrastructure. As discussed further in the Capital Improvement Section, the City continues to seek out alternative methods and revenue streams to fund projects and staff. To make up for annual shortfall in taxes.

**FY 17 Final Operating and Capital Budget****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, that are mandated by the law or some other legal obligation and projects that have the 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 and limited taxing authority 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 and projects that are legally obligated, 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 for the project. The capital items included in the Annual Operating Budget represent the "Capital Budget".

The City of Missoula utilizes capital lease financing to purchase vehicles and equipment that have outlived their useful life and has been determined by the vehicle maintenance manager the vehicle or piece of equipment is in need of being replaced. Each fall the City enters into a new capital lease agreement from the vehicles and equipment purchased the prior year. The goal of the City is to enter into a capital lease agreement that total around \$1.5 - \$2.5 million per year with a future lease payment averaging about \$475,000 per year. With the City entering into a lease agreement every year and existing lease payments expire, this maintains a consistent debt payment of approximately \$1.5 million per year. This is the amount used for future capital lease payments when developing the budget and in determining the vehicle and equipment replacement schedule.

An additional summary of the significant capital projects included in the FY 2017 Operating Budget is included in the Capital Projects Section of this budget. The Capital Projects Section includes the details of the current and estimated future debt payments based on of the vehicle and equipment replacements schedule.

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## STAFFING CHANGES

The final budget includes a net overall increase of 19.02 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<br>(Decrease) |
| <b>General Fund Departments</b>   |                            |
| Municipal Court                   | 1.00                       |
| Finance/Treasurer                 | 1.00                       |
| Housing & Community Development   | 3.00                       |
| Public Works - Operations         | 0.11                       |
| Facility & Vehicle Maintenance    | 0.55                       |
| Police Department                 | 2.51                       |
| Street Division                   | 0.71                       |
| City Cemetery                     | (0.01)                     |
| Parks & Recreation                | 2.01                       |
| Fort Missoula Regional Park       | 1.75                       |
| <b>Total General</b>              | <b>12.63</b>               |
| <b>Special Revenue Funds</b>      |                            |
| Transportation                    | 0.10                       |
| Road District 1                   | 1.91                       |
| Park District 1                   | 4.49                       |
| <b>Total Special Revenue</b>      | <b>6.50</b>                |
| <b>Proprietary Funds</b>          |                            |
| Wastewater Treatment Plant        | -                          |
| Aquatics                          | (0.11)                     |
| <b>Total Proprietary</b>          | <b>(0.11)</b>              |
| <b>Total for City Departments</b> | <b>19.02</b>               |

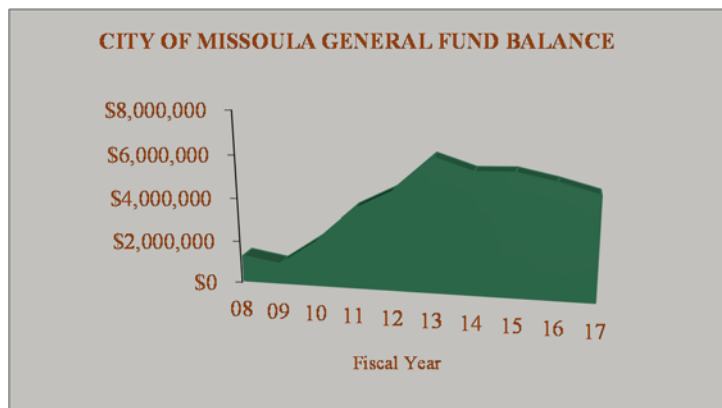
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## BUDGETARY TRENDS

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 to the left is the City's actual General Fund balance over the course of the last ten years. Although not shown on the graph, the reduction in General Fund balance from FY 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. Subsequent to FY 2003, the City has made a conscious effort to rebuild the General Fund balance. At the end of FY 2008, the total fund balance of the General Fund was \$1.2 million compared to \$1.0 million at year end in FY 2003. The decrease in fund balance in FY 2008 was due to a decline in expected expenditure savings and slight increase in tax delinquencies. An item of note is a historic review over the past 15 years indicates the City has consistently have between 3% - 5% in expenditure savings. The City addressed this issue by requiring mandatory holdbacks on expenditures ranging from 0.5% - 3.7% starting in FY 2009 and continues through the current fiscal year. The FY 2008 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 decrease in fund balance in FY 2009 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 decrease in collections on fee based services resulted in a decrease in the General fund balance from \$1.2 million to \$0.9 million.

In order to combat the reductions in the general fund balance, the City's budgets continue to be structurally balanced, permitting the City to increase its General Fund year-end fund balance from \$0.9 million in FY 2009 to the high point of \$6.14 million by the end of FY 2013, meeting the 7% fund balance target. However, the fund balance continues to show a decline through the year end FY 2016. The continued building of the fund balance from FY 2009 through FY 2013 was accomplished by budgeting conservatively for revenues and by mandating significant expenditure savings from many large General Fund departments. Please note that 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, causing an increase in the assigned fund balance by \$1.5 million. The City's goal is to rebuild the fund balance back to the FY 2013 level of an unassigned fund balance of \$6.1 million. The beginning fund balance for FY 2017 is estimated at \$5.2 million and the estimated ending fund balance indicates that the fund continues to decline. Under further review, the budgeted reduction is in the assigned fund balance in the special purpose General Fund Accounts. This is to be expected, as the funds in these special purpose accounts are set aside for special projects and/or improvements. Even though the overall fund balance is anticipated to reduce, the City expects to rebuild the FY 2017 unassigned fund balance by \$160,000 in order to continue to build the fund balance up to the targeted 7%. The unassigned fund target balance is \$6.1 million, which is 7% of the operating expenses, the goal identified by the City's rating agency for adequate unassigned fund balance in the General Fund.



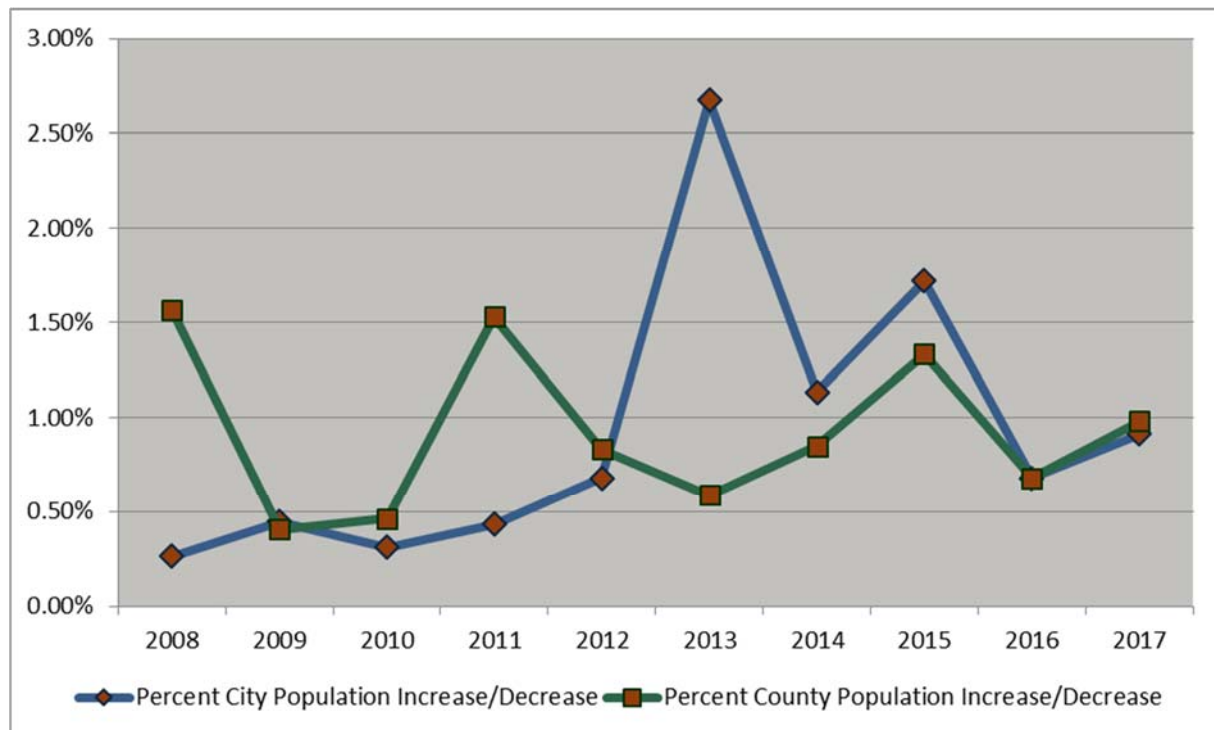
## FY 17 Final Operating and Capital Budget



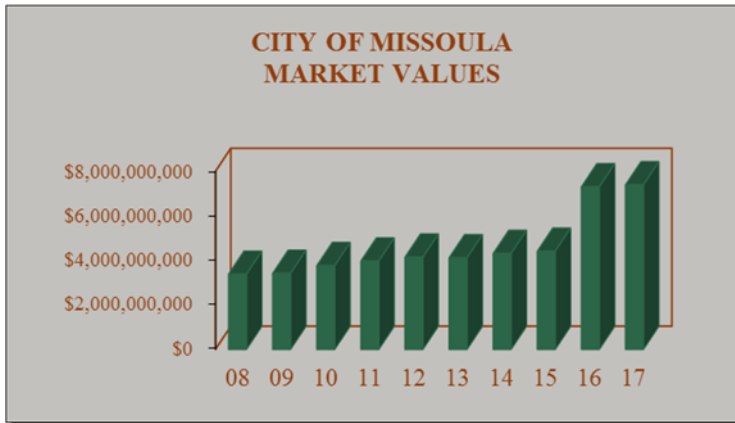
Full-time equivalent employees (FTE) are a key indicator mirroring the growth of the City of Missoula. As shown by the graph on the left, total FTE's grew to 512.17, and then were reduced back to 491.29 by FY 2012 in reaction to the recession. Due to the fact that revenues had stabilized and have been increasing for several years successively, and related workloads have also increased due to the increase in the building industry activity, the City has decided to increase the number of FTE's by 14.96% (73.48 FTE's) in all departments since

FY 2012. A 10.84% (45.17) increase in FTE's in the General Fund and a 988% (9.88) increase in FTE's in Road and Park District 1 funds which are primarily supported by non-tax revenues. These were the first increases in a number of years, which equates to a 13.73% (68.19 FTE) increase over this 10-year period, while the City's population is estimated to have increased 0.91% during this same period of time. Please note that 23 of the new FTE's in FY 2013 were transferred to the City from the County Planning Offices (along with their own funding streams). 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 5.32% compared to the population increase of 0.91% 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 growth of the City. All indications are that the growth Missoula has experienced in the past will continue for the foreseeable future.



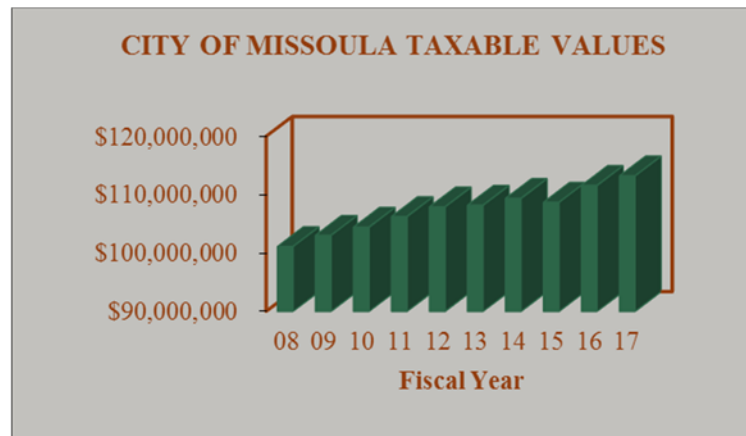
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As a general rule, all real and personal property in the State of Montana is subject to taxation by the State. In addition to taxation by the State, its counties, municipalities and other political subdivisions have the ability to levy taxes. This rule is subject to exceptions in the case of specified classes of exempt property. Property is classified according to its use and character. The different classes of property are taxed proportionately based on their

market valuation. Property valuations are based on comprehensive appraisals of all taxable property and is performed by the Department of Revenue each year. The Department of Revenue certifies market and taxable values to each city on or before the 1<sup>st</sup> Monday in August. The trend of the City of Missoula's market value is shown by the graph above. As reflected by the graph, the City's market value has increased from \$3.369 billion in FY 2008 to \$7.391 billion in FY 2017, for a 119.35% 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 right is a history of the City's actual taxable value since 2008. 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 illustrated in the graph, the City's taxable value increased from \$101.090 million to \$113.132 million from 2008 to 2017, an increase of only 11.91%, which is well less than half the increase in the market value of the same property. In recent years, the State has been placing a large restriction on the percentage of newly taxable values as compared to years past. As indicated in FY 2008 the taxable value was \$103,000 and in the current year the taxable value is \$118,000, an increase of \$15,000. In FY 2008 the inflation factor provided by the State was 1.535% and this resulted in an additional \$720,000 in revenue, without raising taxes. Compared to the current year, the State restricted inflation rate is 0.500%, which resulted in an anemic increase in revenues of \$429,000 without raising taxes. With the restrictions on the ability to leverage annual growth from the State, it has made it difficult to fund projects and new requests that are sorely needed, without finding creative funding sources or other avenues of revenue.

**FY 17 Final Operating and Capital Budget****SHORT TERM INITIATIVES – MAJOR ISSUES & SOLUTIONS**

1. The FY 2017 budget, as adopted, was brought to Council four weeks later than in many previous years, as were the FY 2013 – FY 2016 budgets. The calculated additional property tax impact for the current fiscal year is 3.83% for City taxes and City-wide Road and Park District assessments, which is estimated to be approximately \$26.67 per year for a home with a market value of \$270,000.
  2. The FY 2017 budget includes 2% increases for Planning, Fire, Special Events, Business Licenses and Development Services. Building Inspection fees are being held at the current level for this year. The 2% increases in these areas as of service will not take effect until January 1, 2017. Seven years ago, the City chose not to increase any City fees. At that time the decision to not increase the fees had a negative effect on the fund balance, as it was reduced due to increased administrative costs associated with operating these programs, because there was not additional revenue to cover the administrative cost increases. This year (FY 2017) as well as in the past four years (FY 2012 – FY 2016), based off the experience in FY 2011, and the continuation of increased costs annually, fees have been increased by 2-3% each year in the Business Licensing, Development Services and Planning areas.
  3. The actual level of new tax revenue from growth in the City's tax base for the current fiscal year (FY2017) is \$429,000. This compares to growth in past five fiscal years of \$452,529 for FY 2016; \$195,197 for FY 2015; \$299,612 for FY 2014 and \$271,813 for FY 2013. The City has budgeted for inflationary trending of property taxes allowed by state law (\$124,594).
  4. City property taxes were raised to support the increased expenses of the General Fund and in the city-wide assessments supporting expanded service in the Special Road and Park Districts. General Fund tax increases also relate to the City continuing to honor its union contracts. During the heart of the recession [FY 2008 – FY 2011] the City cut overall expenditures by 11% and reduced the workforce by 22 FTE's. Aside from the proposed salary increases for union and non-union staff in during that time and through the last fiscal year (FY 2016), virtually no new tax funded requests were proposed or approved due to the limited growth in taxes, except for several mandatory expenses such as costs associated with elections that occur in alternating budget years and the mandated Department of Justice agreement related to handling cases that involve rape. On the expenditure side, the largest expense is wages and benefits. Roughly 78% of the General Fund budget is devoted to personnel costs. After the recession, the City started to experience growth and stable revenues and alternative funding sources, administration started to entertain the idea of adding FTE's into core and essential services. Between FY 2012 and FY 2016, 51.46 FTE's were added to the City. Of the 51.46 FTE's, 23 of them were transferred over from the County when the City assumed the responsibilities related to permit review, planning the transportation. Not counting the FTE's added for consolidating City and County offices, essential services added 31.46 FTE's. More than half, 19.10 were added in the function of public safety. The two main departments are the Police [15.00 FTE] and Municipal Court [4.10 FTE]. The remaining FTE's are assigned in the Central/Internal services [7 FTE] and recreation [5.36 FTE].
- Property taxes were not increased for support of the City's Health Plan, as the plan has performed better in the last two fiscal years. 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 FY 2010. However, in FY 2010 and FY 2011, extraordinary claims and medical inflation reached 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 recommended that the funding of the health plan be increased by \$65 per employee per month (\$315,000 per year) for FY 2011. The Administration increased the City's contribution by \$132 per month per employee for FY 2012. Employees were asked to increase an equivalent of \$75 per employee per month to the plan in FY 2012. In addition to increased contributions the general fund transferred additional money into the fund every year starting in FY 2012 through FY 2015. In FY 2016 the transfers from the General Fund was reduced to the FY 2011 level with the anticipation of maintaining and/or growing the fund balance. The decline in fund balance was reversed in FY 2012 and fund balance has increased every year, however this past fiscal year, there was unforeseen increase in charges to the plan. With the implementation of the Affordable Care Act (ACA) or Obamacare, prescriptions are now

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included in the deductible calculation, resulting in an increase in the charges to the Health Plan. Even with this unexpected increase in health fund costs, the final fund balance for FY 2015 is a positive \$800,000. The City has also been focused on identifying ways to cut costs within the Health Plan utilizing the assistance of the plan's third party administrator, Allegiance.

5. Assessments were increased in the newly created Road Special Maintenance District, as the City attempts to increase the level of service delivery in this core area of service. Special Districts (Missoula has Road and Park Districts) are in place throughout Montana. Per the request of the City Council, the FY 2015 budget included a significant Road Special District funding increase of \$200,000 associated with additional annual support for the startup of a sidewalk support program that was initiated in FY 2014 with the goal to increase the amount of sidewalk projects initiated in the upcoming years. The FY 2017 commitment is \$465,480 of City support. The increased Special Road District assessments is identified as adding 0.17 FTE in order to move an employee from 0.83 FTE to full time and for the payment of the South Ave Right-of-Way judgement and to acquire right-of-way along South Ave. The Park District assessments are used to support conservation lands, routine maintenance parks, median-greenway maintenance, urban forestry, spray decks, and maintenance and operational support of the new Fort Missoula Regional Park set to open in the fall of FY 2017.
6. 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 while two credit ratings were increased by Standard and Poor's:
  - a. The City's GO Bond rating was increased from AA- to AA+
  - b. The City's General Fund Obligation Bonds from A+ to AA

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 & Poor's also recommended that future budgets plan to increase the General Fund year-end unassigned fund balance to 7% of the General Fund expenditures per the City's adopted financial policy. This has been accomplished since the end of FY 2013.



7. Funding anticipated from HB124 (city entitlement from the State of Montana) is projected at \$8,072,398 for FY 2017, an expected increase of \$713,812 over FY 2016. State legislation reduced the entitlement share pool for FY 2016 to "Appropriate emergency money for new or expanded mental health crisis intervention" per HB33. The entitlement is back to normal funding in FY 2017.
8. The Building Inspection Fund is recovering nicely as economic conditions continue to improve in the construction portion of the Missoula economy. The Building Inspection Division had previously reduced the staffing by four positions several years ago, Facility and Vehicle Maintenance has taken on the responsibility of maintaining and determining the replacement schedule and costs for the inspector's vehicles and there was a recent upgrade to the permitting system software, a cost that has generated many benefits to both the building community and City staff. The Building Inspection Division has been able to maintain its staff since there was an increase in its staffing by 1 FTE in FY 2016.
9. Impact fees are budgeted conservatively and are anticipated to generate approximately \$1,200,000 of revenue for FY 2017, over \$1.18 million were received in FY 2016 illustrating the uptick in construction seen across the City.



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10. The City is permitted to levy what is necessary to fund voter-approved General Obligation (GO) Bond debt service. In FY 2017, the City will maintain the levy to cover the bond payments (14.02 mills in FY 2017).
11. General Fund support for the City's Capital Improvement Program will be of \$1,330,841 for FY 2016, compared to \$1,084,565 in FY 2016. In FY 2017, CIP support includes the required General Fund fixed payments plus the scheduled General Fund vehicle and equipment replacements. In addition to the vehicles and equipment, some of the notable projects are the MAM Art Park, Construction Project Assessment Program, several Police expansion and storage projects, Wayfinding Project PH II and installation/implementation of new Recreation Software. 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 (FY 2009-2014) than in the following five years. Six 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 equipment to provide better service to 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 these past years.
12. The General Fund baseline budget appears to be adequate for the new fiscal year for both fuel and energy costs. The City adopted the Conservation & Climate Action plan which outlines a strategic path to an overall goal of carbon neutrality for municipal operations by 2025. The strategies are organized into three main focus areas of operations: Fleet and Facilities, Internal Policies and Practices and Renewable Energy and offsets. Strategies to meet the goals of the Conservation and Climate Action plan include adding GPS units to the rolling fleet to improve efficiency and reduce fuel consumptions/costs. The City is in the infant stages of the All-In-One recycling pilot, which involves, City Hall, Council Chambers, Street Division and Facility and Vehicle Maintenance. Another strategy is performing a solar study to gather information about installing solar cells to City facilities to reduce the dependence on purchasing electricity from vendors.
13. This General Fund budget includes cost of living increases of approximately 2% for non-union staff. All union contracts were negotiated and approved in FY 2016. On average, there is a negotiated 3% raise to union staff.
14. 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 2017.
15. The program enhancements allowed in the FY 2017 budget are detailed in the appendix.
16. 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 Montana's economic growth will be around the 3.2% range, which continues an improvement that began in 2014. Patrick Barkey has also projected that the Montana economy will outperform the national economy this next year.
- Missoula continues to adjust from the housing downturn and the recession and continues a slow growth. This slow growth is due to the construction industry is still lagging behind other areas and the wood and paper products that was a staple to the economy has all but dissipated. Missoula is also competing with outlying townships and cities as a trade center. Area residents are less likely to travel to Missoula to shop, as they did in the past. Despite this, Missoula is now starting to come around to a positive and favorable growth. To quote Todd Morgan, director of forestry industry research at BBER at the 41<sup>st</sup> annual Economic Outlook Seminar:

"The outlook in Missoula is the best statewide," Morgan said. "It's very positive. Half of the firms here said they expect to increase employment, and 56 percent of firms said they expect to make a major capital improvement in 2016, and nearly half did last year."


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- 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. Since the Partnership has opened its doors, the Missoula employment market has enjoyed an increase of 750 jobs. These jobs center around basic industries, such as computer based technologies, manufacturing and health services.
- All of these factors were considered in preparing the City of Missoula's budget for the 2017 fiscal year. The decline in revenues in FY 2009 through FY 2012, 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 2012.
- Sewer utility rates were increased modestly (2.5% per year) for the next three years beginning in FY 2016 to accommodate an upgrades and expansion of the administrative and laboratory space. This is also taking into account increasing the capacity of sanitary sewer pipelines and pump stations to accommodate the growth and residential construction that is being planned for in the South Hills and Miller Creek areas. The City has continued to grow in population and in new sewer connections at a rate of approximately 1.5% per year, even though that growth was offset by a slowdown in the commercial and industrial sewer accounts in FY 2009. In FY 2010, 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. With this growth, the sewer fund has been able to continue to build the fund balance to accommodate future projects, however the growth for the past couple of years is not adequate to cover the necessary and requested upgrades to the sewer treatment plant and sewer infrastructure therefore the modest increase in rates by 2.5%. In FY 2017, the City is contemplating the purchase of the composting operations that is adjacent to the treatment plant also known as Eko Composting.

**Closing**

We hope the information contained in the FY 2017 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 starting in FY 2008 that continued through the current budget process. We have been actively pursuing a Performance Based Budget process since FY 2008. We strongly encourage each and every person using city services to inform us of their ideas, level of satisfaction and problems.

Respectfully,

  
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John Engen, Mayor