

## Budget Message

December 23, 2015

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, 2016 (FY 16). 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 \$133,522,127, budgeted expenditures of \$124,549,353 with expected expenditure savings of \$1,554,412, resulting in a projected increase in the ending balances of \$10,527,186. 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, 2015 through June 30, 2016 (FY 16)								
	Governmental Fund Types				Proprietary Fund Types	Fiduciary Fund Types	Component Units	Total All Funds
	General	Special Revenue	Debt Service	Capital Project	Enterprise & Internal Service	Trust & Agency		
Projected Beginning Fund Balance/Cash	\$ 5,631,238	\$ 7,027,481	\$ 3,118,239	\$ (9,131,679)	\$ 82,410,195	\$ 430,383	\$ 101,648	\$ 89,587,504
Estimated Revenues	52,233,505	17,683,204	3,300,965	7,653,497	27,151,183	-	25,499,773	\$ 133,522,127
Approved Budget	(54,517,253)	(18,717,007)	(7,009,873)	(1,460,166)	(26,468,120)	-	(16,376,935)	\$ (124,549,353)
Anticipated Savings	<u>1,554,412</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 1,554,412</u>
Projected Change in Fund Balance/Cash	<u>(729,336)</u>	<u>(1,033,803)</u>	<u>(3,708,908)</u>	<u>6,193,331</u>	<u>683,063</u>	<u>-</u>	<u>9,122,838</u>	<u>\$ 10,527,186</u>
Projected Ending Fund Balance/Cash	\$ 4,901,902	\$ 5,993,678	\$ (590,669)	\$ (2,938,348)	\$ 83,093,258	\$ 430,383	\$ 9,224,486	\$ 100,114,690

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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 \$5.58 million in FY 2014 to \$ 5.63 million at the end of FY 2015. 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. The reduction in fund balance during FY 2014 and FY 2015 occurred due to several factors. These factors include the payment of legal judgment costs in two different lawsuits that exceeded \$200,000. In addition to the lawsuits, there was a shortfall in budgeted revenue during the creation of the Development Services Department. During the creation of the Development Services Department, there was a transfer of approximately 23 County planning staff to the City. When the County reconciled the fund balances to be transferred over with the staff, there was an unexpected shortfall of \$100,000 in anticipated revenues, due to negative fund balances at the County. In the anticipated expenditures savings there was a reduction in expected expenditure savings in both the City Police and Fire departments. Additionally, there was the refunding of \$226,000 of protested taxes by the County prior to final tax settlement in FY 2015. The protested taxes had been previously remitted to the City and the 2015 final settlement nets positive for tax receipts.

**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 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 2015 was negative. This should be eliminated during the course of FY 2016 for the most part, as the projects are completed and the bonds are issued to reimburse the city for the infrastructure constructed.

**FY 16 Final Operating and Capital Budget****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 2016). The residential component of the utility billing has always seed modest growth, even during the recession. Beginning in FY 2016, there will be another utility bill increase to cover upcoming capital projects to improve efficiency, reduce emissions and recapture biogas fumes to convert into electricity to 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 up until seven 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 -\$4 million in FY 2003 to a 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 reducing the monthly premium paid per employee for the health insurance from \$670 to \$570. The decrease in premiums paid resulted in decreased amount of money levied within the General Fund, thereby avoiding the necessity of cutting any further budgets for FY 2010. The fact that the plan had significantly increased its fund balance every year for the prior six years lead to the assumption that the fund balance would minimally increase or remain the same by reducing the funding for one year. However, the plan experienced its worst year ever for claims utilization in FY 2010, with result that the fund balance decreased from \$1.3 million to \$0.98 million. The continued increase of plan utilization and increased costs occurred in FY 2011 which resulted in a drop in fund balance by the end of FY 2011, even with the increased utilization and costs being offset by an increase of City contributions of more than \$300,000. For FY 2012 employee and employer contributions were increased in an effort to minimize the reduction in the fund balance. In addition to the increase in contributions, the City provided additional funding as onetime transfers from the General Fund for FY 2012 – FY2 015 to assist in maintaining a positive fund balance. The additional funding is not budgeted for in FY 2016, this is due to the fact that the plan was stabilized in FY 2012 and continues to grow. 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 has not happened in the past. For FY 2016, the plan is anticipated to continue to grow, in an effort to reach the goal of reserving three months of claims (\$1,400,000) in the health reserve.

**Component Units**

- The City of Missoula has four component units, the Missoula Parking Commission (MPC), the Missoula Redevelopment Agency (MRA), the Business Improvement District (BID), and the Tourism Business Improvement District (TBID). The Parking Commission has an operating budget of \$1.6 million plus debt service requirements of \$0.46 million. It maintains a reserve of \$1.0 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 made available to the public in the spring of the 2013.
- 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

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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 has six active districts that are currently being managed. 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 St and MRL'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 new districts were added in the past year and they include the Hellgate Urban Renewal District (Hellgate) which is located east of Madison Street between I-90 and the Clark Fork River. The other new district added is the North Reserve – Scott Street Urban Renewal District is located between Reserve and Scott Streets. MRA has initiated programs to build sidewalks in Urban Renewal District II (URD II) and URD III where they do not exist or are deficient. Approximately 10.5 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 and fabrication have started 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 projects in their districts which include the State of Montana is constructing a new location for Missoula College in the Hellgate district and infrastructure upgrades to North Reserve – Scott Street district. The infrastructure upgrades involve the national headquarters for a regional home health corporation, a major expansion of Bretz RV and Marine and Phase I of a new residential neighborhood named Scott Street Village. MRA is also working to expand the URD III Façade Improvement Program (FIP) to other urban renewal districts. The program provides financial assistance to private property owners for appropriate façade improvements that enhance the pedestrian experience, increase building energy efficiency, and use sustainable building materials. The program also promotes improved accessibility for disabled citizens and additional landscaping above that required by code in an effort to enhance the pedestrian and aesthetic environment.

- 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 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



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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

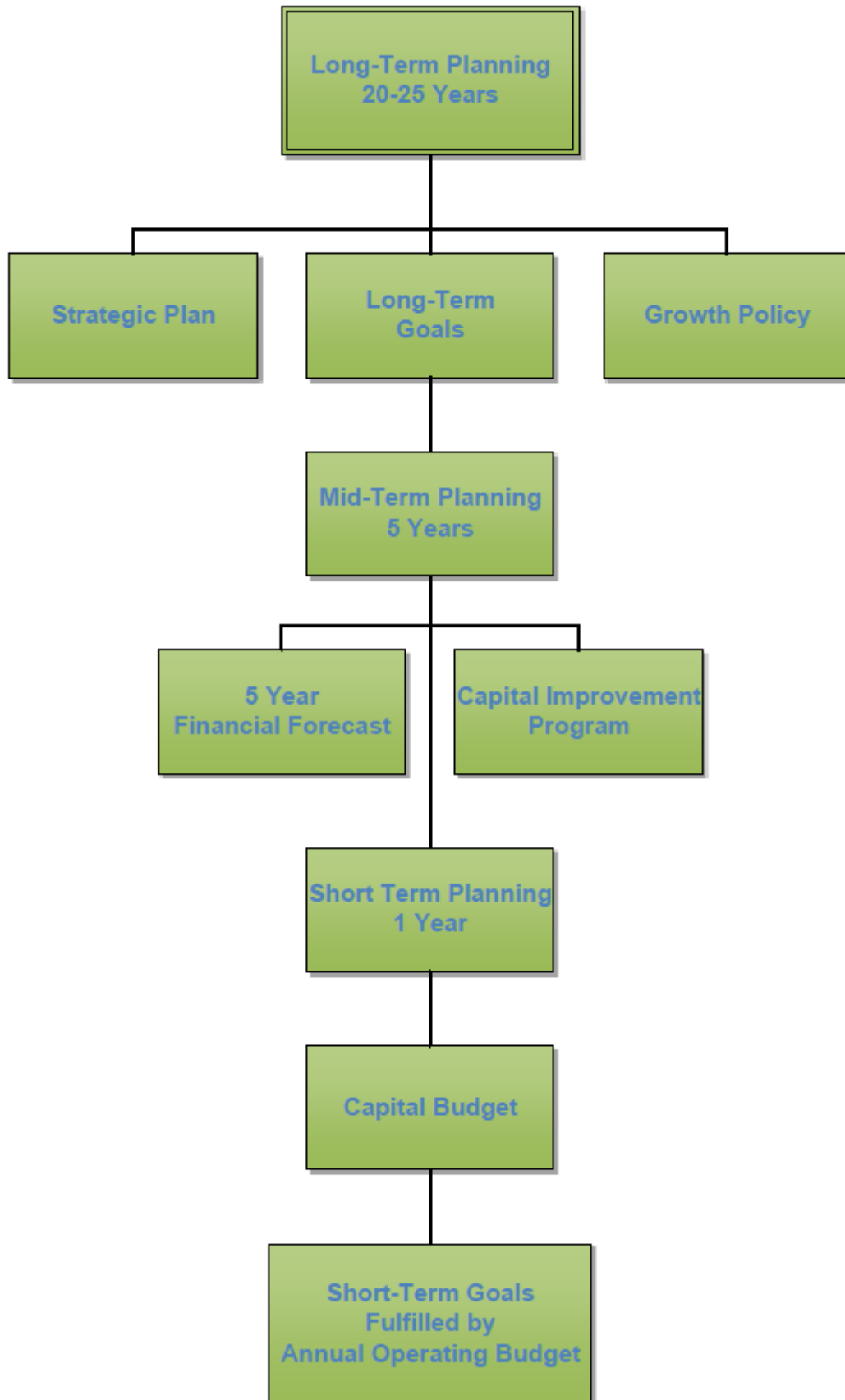


The City of Missoula conducts various planning processes (long-term, mid-term and short-term), to help guide the government and to insure that decisions are made in the context of the organization as a whole and with a long-term perspective. Diligent efforts are made to insure each of these component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

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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### 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 fiscal year 2016 budget continues our Strategic Planning initiatives started in FY 1992. This plan was significantly updated in FY 2009 and implemented in FY 2010. 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 2010-2016

#### 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).



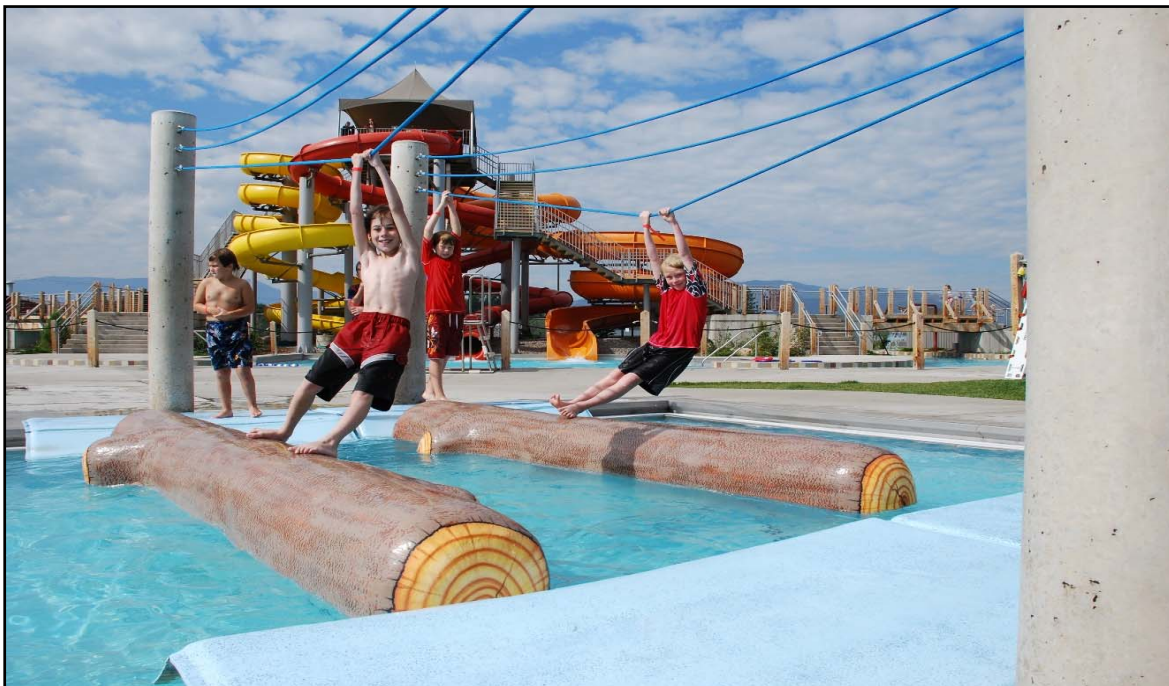
**FY 16 Final Operating and Capital Budget****Five-Year Financial Plan**

Each year the City of Missoula evaluates its current financial condition within the context of existing programs, assesses future financial capacity, and integrates 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 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 laying 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.



**FY 16 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 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”.

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 maintenance supervisor the vehicle or piece of equipment is in need of being replaced. Each fall the City enters into a new capital lease from the equipment purchased the prior year. The goal of the City is to enter into a capital lease agreement 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, this maintains a consistent debt payment of approximately \$1.5 million per year. This is the amount used to 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 2016 Operating Budget is included in the Capital Projects Section of this budget. Detail of scheduled debt payments are provided in the Capital Projects Section also.

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## STAFFING CHANGES

The final budget includes a net overall increase of 5.09 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)
<b>General Fund Departments</b>	
Human Resources	-
City Clerk	-
Information Systems	2.00
Municipal Court	-
Finance/Treasurer	-
Central Services	-
Development Services	0.25
GIS	(3.00)
City Attorney	-
Public Works - Operations	-
Vehicle Maintenance	-
Police Department	2.00
City Cemetery	-
Parks & Recreation	0.59
<b>Total General</b>	<b>1.84</b>
<b>Special Revenue Funds</b>	
Planning	-
Building	0.90
Transportation	1.17
Road District 1	0.50
Park District 1	0.75
<b>Total Special Revenue</b>	<b>3.32</b>
<b>Proprietary Funds</b>	
Wastewater Treatment Plant	1.50
Aquatics	(1.57)
<b>Total Proprietary</b>	<b>(0.07)</b>
<b>Total for City Departments</b>	<b>5.09</b>

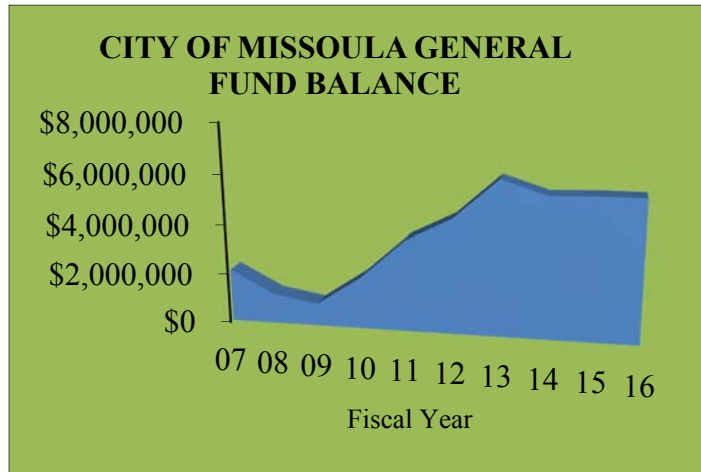
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### BUDGETARY TRENDS

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 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.

Subsequent to Fiscal Year 2003, the city has made a conscious effort to rebuild the General Fund balance. At the end of FY 2007, 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 in FY 2012 represented nearly 6% of total General Fund expenditures. 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 the City's 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 2009. 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 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 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 City's budgets continued to be structurally balanced permitting the city to increase its General Fund year-end fund balance from \$2.1 million in FY 2009 to \$6.14 million by the end of FY 2013. However, the fund balance was reduced to \$5.4 million by the end of FY 2014. 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. This increased the overall FY 2011 ending General Fund balance to \$3.67 million from \$2.1 million. The City's goal is to rebuild the fund balance back to the FY 2013 level. The unassigned fund balance at the end of FY 2013 was \$3.0 million, which was 7% of the operating expenses, the goal identified by the City's rating agency for adequate unassigned fund balance in the General Fund. The city expects to rebuild the FY 2016 unassigned fund balance back to the FY 2013 level over the next two years.



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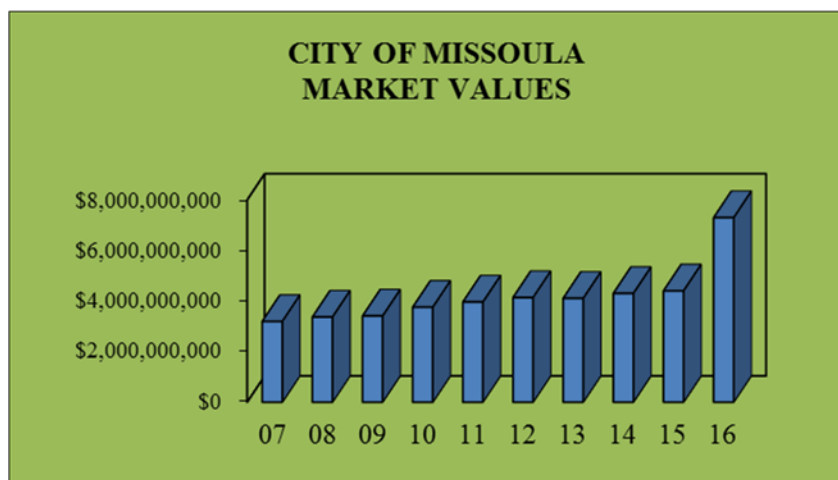
Full-time equivalent employees (FTE) are a key indicator mirroring the growth of the City of Missoula. As shown by the graph on the left, total FTE's grew from 495.03 in FY 2006 to 512.13 in FY 2009, and then were reduced back to 490.36 by FY 2012. Due to the fact that revenues had stabilized and have been increasing for several years successively, the City increased the number of FTE's by 11.30% (55.39 FTE's) in all departments since FY

2012. An 8.20% (34.17) increase in FTE's in the General Fund and a 348% (3.48) 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 10.25% (50.72 FTE) increase over this 10 year period, while the City's population is estimated to have increased 7.66% 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 5.60% compared to the population increase of 7.66% 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.



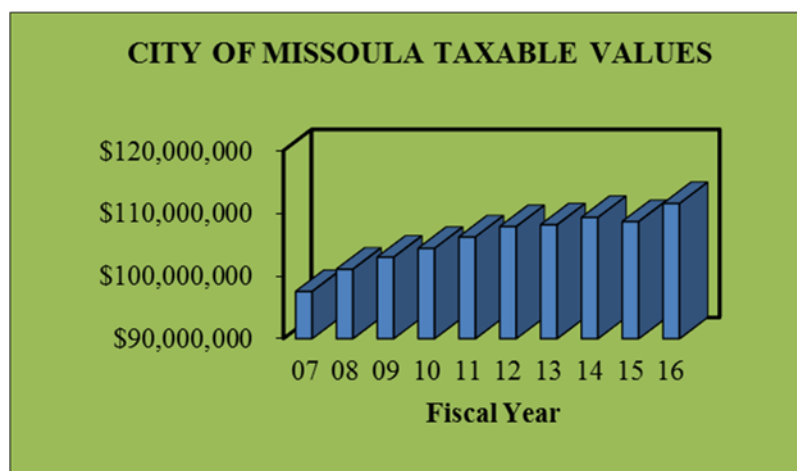
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As a general rule, all real and personal property in the State of Montana is subject to taxation by the State and its counties, municipalities and other political subdivisions. This rule is subject to exceptions in the case of specified classes of 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 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 \$3.196 billion in fiscal year 2007 to \$7.303 billion in fiscal year 2016, for a 128.54% 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 2007. 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 \$97.526 million to \$111.559 million from 2007 to 2016, an increase of only 14.39%, which is well less than half the increase in the market value of the same property.

**FY 16 Final Operating and Capital Budget****SHORT TERM INITIATIVES – MAJOR ISSUES & SOLUTIONS**

1. The FY 2016 budget, as adopted, was brought to council four weeks sooner than in many previous years, as were the FY 2013 – FY 2015 budgets. The calculated additional property tax impact for next year is 4.70% for City taxes and City-wide Road and Park District assessments, which is estimated to be approximately \$35.90 per year for a home with a market value of \$225,000.
  2. The FY 2016 budget includes 3% increases for Planning, Fire, Special Events, Business Licenses, Development Services and Building Inspection fees. The 3% increases in these areas as of service will not take effect until January 1, 2016. Six years ago, the City chose not to increase any City fees. This year (FY 2016) as well as in the past three years (FY 2012 – FY 2015), because many of the City's costs had increased, fees were increased by 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 was \$452,529 for FY 2016. This compares to growth of \$195,197 for FY 2015, \$299,612 for the FY 2014 tax base and \$271,813 for FY 2013, \$389,390 for FY 2012, and \$671,312 for FY 2011. We have budgeted for inflationary trending of property taxes allowed by state law (\$153,548).
  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 District. General Fund tax increases also relate to the City continuing to honor its union contracts. Because the City worked in partnership with both union and non-union employees five years ago with a wage freeze, the City proposed to move forward in FY 2012 – FY 2015 with the wage increases not given four years ago to both union and non-union employees. Five years ago and the prior year, 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%. For FY 2011, the City Administration requested another 2% reduction. For FY 2016 there is a requested 5% reduction in the operating budgets. Thus, in three of the last five years, the City had cut operation budgets by 11%. A total of 22 FTE's were removed from City budgets during these years. Aside from the proposed salary increases in FY 2012 – FY 2016, virtually no new tax funded requests were proposed in that year, 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% of the General Fund budget is devoted to personnel costs. In FY 2014 the City increased its FTE funding by 9.65, mainly in the public safety areas of Police and Attorney along with a few administrative support offices. This was the second increase in position funding in 4 years. In FY 2015, the City increased its FTE funding by 10.28, again mainly in public safety. For FY 2016, the increase of 5.09 FTE's is due mainly in the Special Revenue Funds such as the Building and Transportation Department.
- 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 is 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 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

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\$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. 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. The FY 2016 commitment of \$408,000 of City support. The increased Special Road District assessments were also used to provide additional asphalt for the maintenance of city streets. The Park District assessments are used to support conservation lands, maintenance of the new Silver Park, median-greenway maintenance and ongoing support of the Caras Park improvements.
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 \$7,358,586 for FY 2016, an expected decrease of \$617,225 over FY 2015. State legislation reduced the entitlement share pool for FY2016 to "Appropriate emergency money for new or expanded mental health crisis intervention" per HB33. The entitlement is set to go back to normal funding in FY2017.
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 Department had previously reduced the staffing by four positions several years ago. Vehicle Maintenance has taken on the responsibility of maintaining and determining the replacement schedule and costs for the inspectors vehicles and there was an upgrade to the permitting system software, a cost that will generate many benefits to both the building community and City staff. The Building Inspection Department has been able to increase its staffing by 1 FTE for FY 2016.
9. Impact fees are budgeted conservatively and are anticipated to generate approximately \$1,200,000 of revenue for FY 2016, over \$1.37 million were received in FY 2015 illustrating the uptick in construction seen across the City.
10. The City is permitted to levy what is necessary to fund voter-approved General Obligation (GO) Bond debt service. In FY 2016, the City will increase the levy to cover the bond payments (14.02 mills in FY 2016 compared to 11.33 mills for FY 2015, due mainly for the final payment on the advance refunding of the 2006 Fire Station GO Bond.)



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11. General Fund support for the City's Capital Improvement Program will be of \$1,084,565 for FY 2016, compared to \$913,831 in FY 2015. In FY 2016, CIP support includes the required General Fund fixed payments plus the scheduled General Fund vehicle replacements plus the approved deferred maintenance for the Fire Station 1 roof and assisting the County in replacing the roof for the Animal Control building. 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 Department 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 expired in FY 2015, at the time of this publication, negotiations are still taking place.
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 2016.
15. The program enhancements allowed in the FY 2016 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 between the 2.4% and 2.7% 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 Patrick Barkey in the Spring 2015 Bureau of Business Quarterly:

"There are retail additions on Missoula's Southside, which should improve the city's role as a trade center. Continued growth as a regional center for professional services and further manufacturing jobs are likely to materialize. The most important factor is recovery in the construction industry. There are a sizable number of public and commercial projects slated. But there also needs to be recoveries in the building and remodeling markets."
- 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

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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 2016 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 (5% per year) for four years beginning in FY 2010 to accommodate an upgrade of the wastewater plant head-works. 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. A modest 2.5% increase per year is scheduled to start in FY 2016 through FY 2018. This increase is to cover the needed upgrades to both the sewer treatment plant and the sewer infrastructure. 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.

**FY 16 Final Operating and Capital Budget****Closing**

We hope the information contained in the FY 2016 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 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,

A handwritten signature in black ink, appearing to read "John Engen".

John Engen, Mayor