

CITY OF MILES CITY
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MILES CITY, MONTANA

FY08/09 PRELIMINARY BUDGET SUMMARY

PRESENTED TO
THE CITY COUNCIL OF MILES CITY
BY
MAYOR JOE R. WHALEN

FY08 PRELIMINARY BUDGET SUMMARY

THE 'LEMONADE STAND' APPROACH

This summary will attempt to simplify an otherwise complex process by using the Lemonade Stand approach, which reduces dozens of spreadsheets to four simple questions:

- *How much cash on-hand will the City have at the end of FY07?*
- *How much does the City expect to receive during FY08?*
- *How much money does the City expect to spend during FY08?*
- *How much cash will remain at the end of FY08?*

When viewed from this perspective, budget planning and detail become more accessible to all of us and a clearer picture for the general public emerges at the end of the process.

HOW MUCH CASH ON-HAND WILL THE CITY HAVE AT THE END OF FY07?

GENERAL FUND

In our approved budget for FY07, we estimated Cash Reserve (or Fund Balance) on June 30th, 2008 to be: **\$ 306,528.00**. At least two factors would've prevented us from reaching that goal:

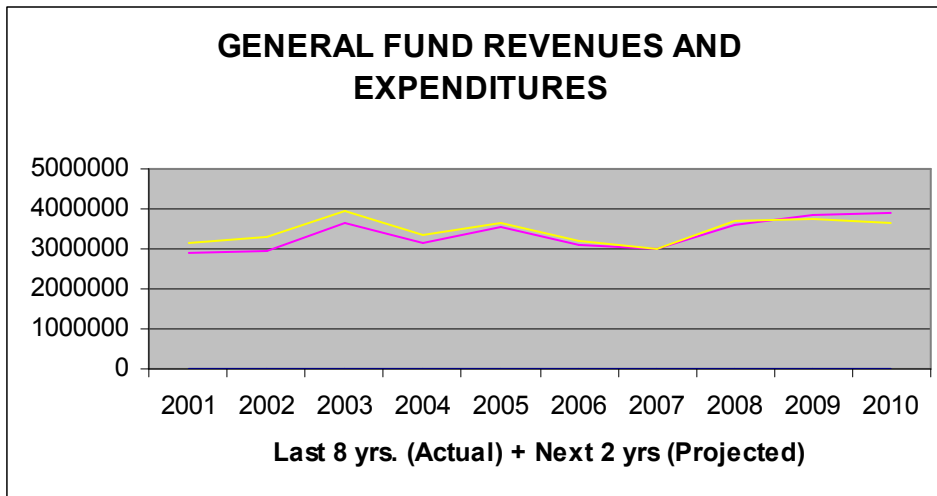
1. *City/County Interlocal Agreement:* Our final settlement figure of \$ 84,680 is **\$ 12,320** short of our estimated revenue that was based upon the negotiated amount of our previous agreement.
2. *2% Wage Increase:* A 2% wage increase was negotiated with all three bargaining units and approved by the Council. Due to an earlier contract expiration, the increase of wages to the firefighters was retroactive to July 1st, 2008 and constitute unbudgeted expenditures. The additional cost to the City was **\$ 32,000**.

Fortunately, the City has enjoyed vacancy savings of roughly \$150,000 and a strong year of fines/fees collections that should offset the above revenue shortfall and unbudgeted expenditure. Barring any unforeseen revenues, the adjusted Cash Reserve in the General Fund on June 30th, 2008 will likely be above:

\$ 410,000.00

General Fund History

The following table illustrates both the relationship between Revenues and Appropriations and the direction of the General Fund over the past several years.



The greater the positive gap between Revenues & Expenditures in the General Fund, the higher our year-end fund balance and the healthier our budget. The challenge is to maintain the level of services demanded by state law as well as the citizens of Miles City at funding levels that allow our cash reserve to grow. The long-term solution will involve some combination of holding/raising revenues and holding/lowering costs.

SPECIAL REVENUE FUNDS

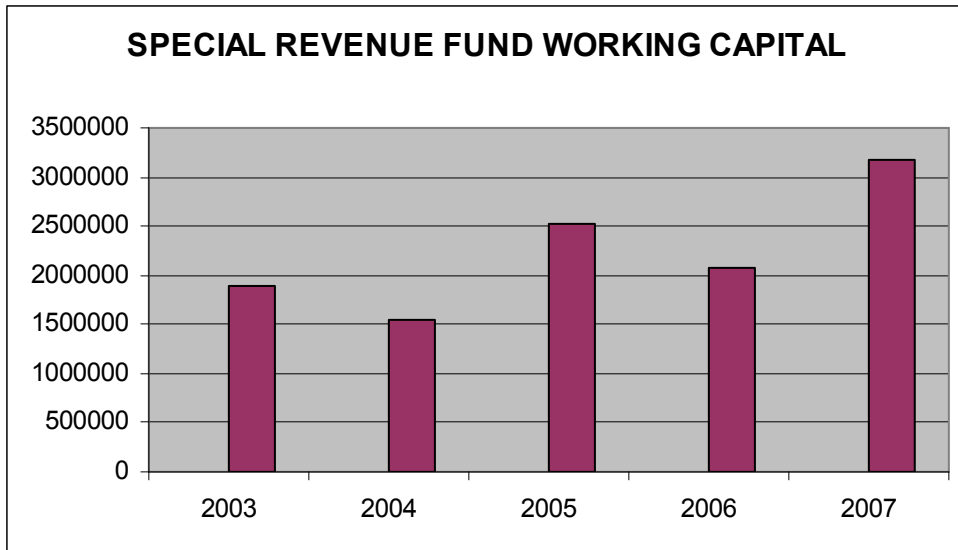
These funds typically take the form of maintenance districts, improvement districts, and funding grants for special operations. They are financed through assessments to districts, matching and non-matching grants from state and federal agencies, and fees for service. Currently, Miles City utilizes the following special revenue funds:

- Library
- Planning & Community Service
- Emergency & Disaster
- Permissive Medical Levy
- Community Block Development Grant/Housing (HOME)
- Building Code Enforcement

- Lighting Districts
- Street Maintenance Districts
- Fire Grants
- Gas Tax
- 911 Emergency Fund
- Coal Tax/Sagebrush Federation
- HB193/Interlibrary Loan Fund
- Per Capita State Aid
- Historic Preservation Grant
- Community Transportation Enhancement Program

Special Revenue Fund History:

Over the past decade, there has been a trending climb in the overall working capital available to our Special Revenue Funds. However, the high cost of fuel, paving materials, and the growing competition for labor from the private sector threaten the sustainability of some of these funds.



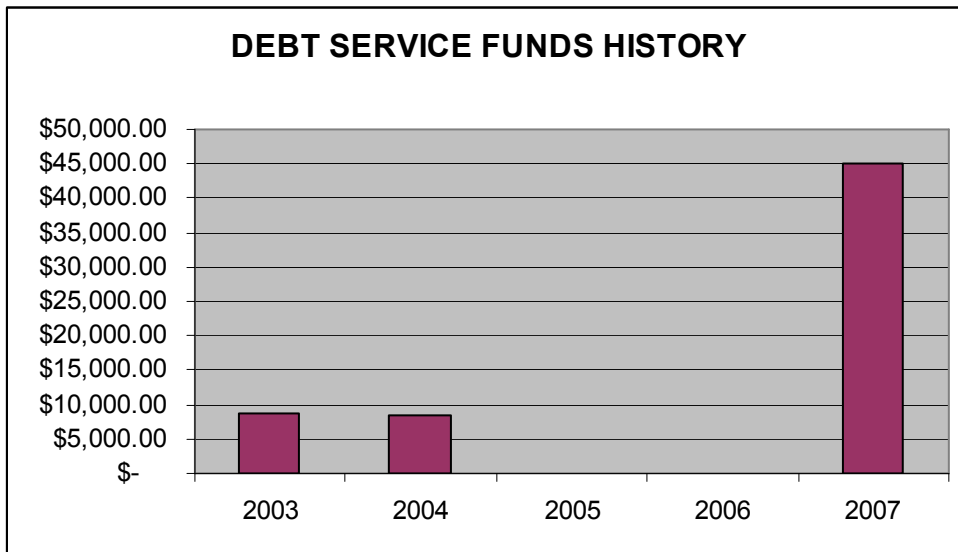
DEBT SERVICE FUNDS

Rule of Thumb: *With cash financing, past ratepayers pay. In debt financing, future ratepayers pay.*

Year-over-year debt obligations of the City toward individuals, lending institutions, investors or other government entities qualify as debt service funds and include short-term, intermediate and long-term financing toward Capital Improvement Projects & Equipment, satisfaction of Legal Judgments and, in the case of fiscal emergency, funding of City Operations.

Debt Service Funds History

The illustration below indicates that the City of Miles City has historically shunned debt financing of projects, equipment or operations, preferring to pay cash for large expenditures. The anemic Fund Balance may, in part, be attributed to this reluctance. Responsibly used, debt financing is a tool by which to maintain and grow City services while, at the same time, increasing the Cash Reserve.

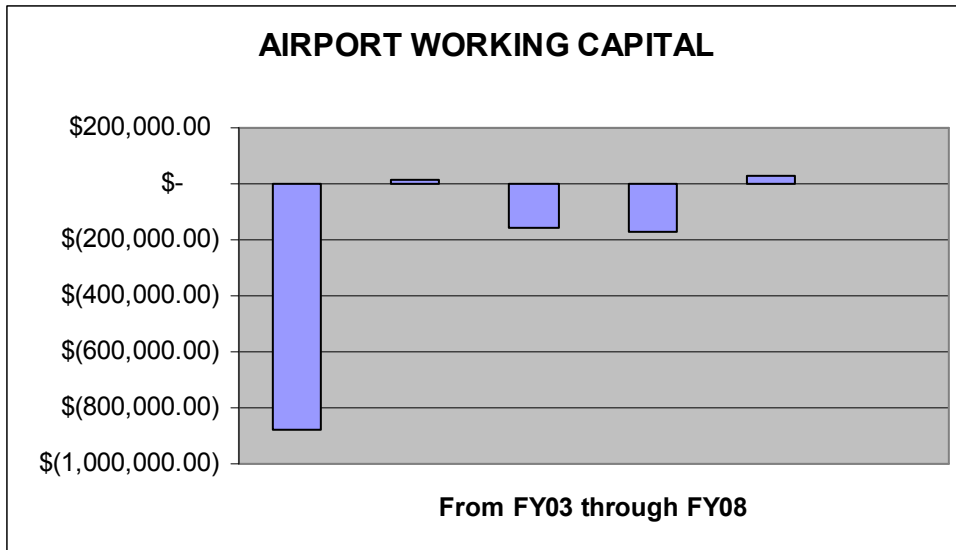


* 2007 debt service obligation of \$45K was created to satisfy the Power judgment

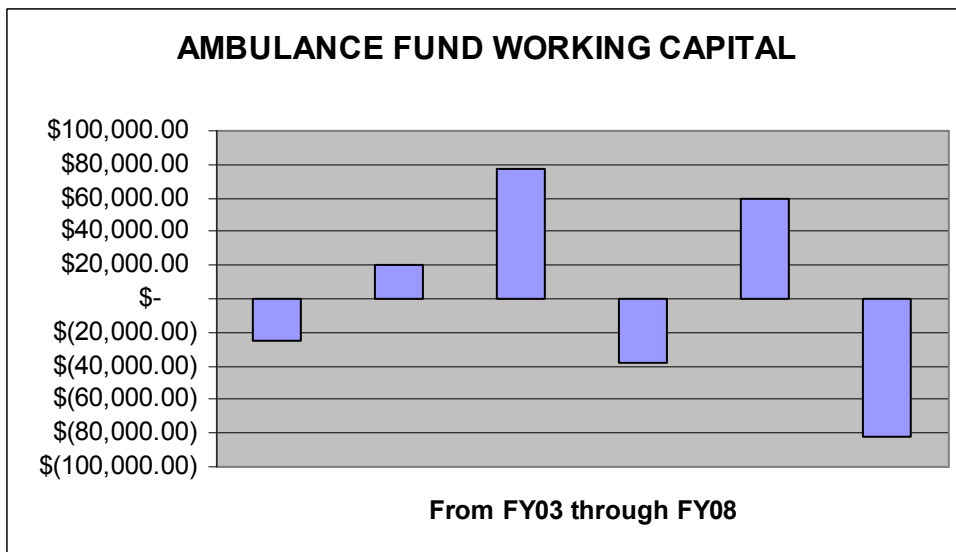
ENTERPRISE FUNDS

The City currently operates four income-generating funds that include: an airport and fueling business, a county-wide ambulance service, a water plant and a wastewater treatment facility. The profit or loss of these activities is expressed as Working Capital.

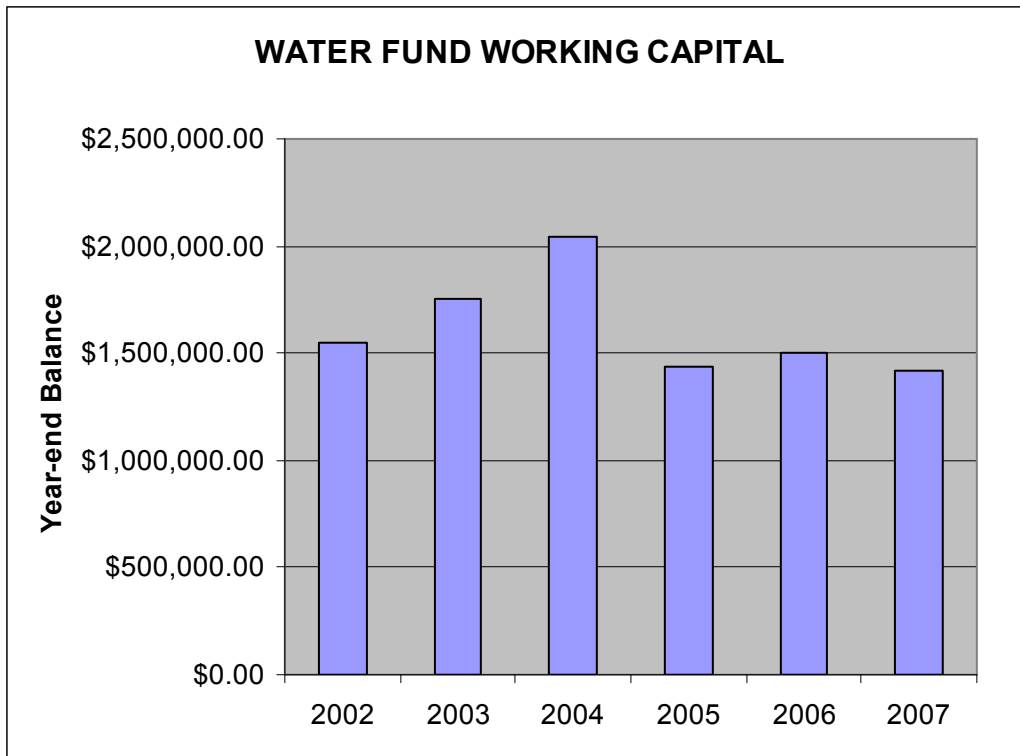
Airport:



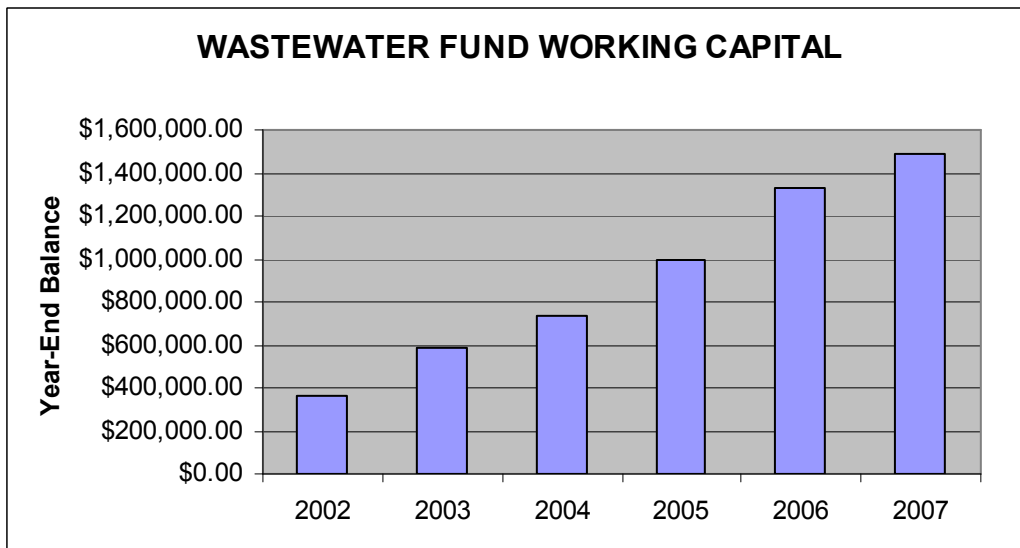
Ambulance Service:



Water Treatment & Distribution:



Wastewater Collection & Treatment:



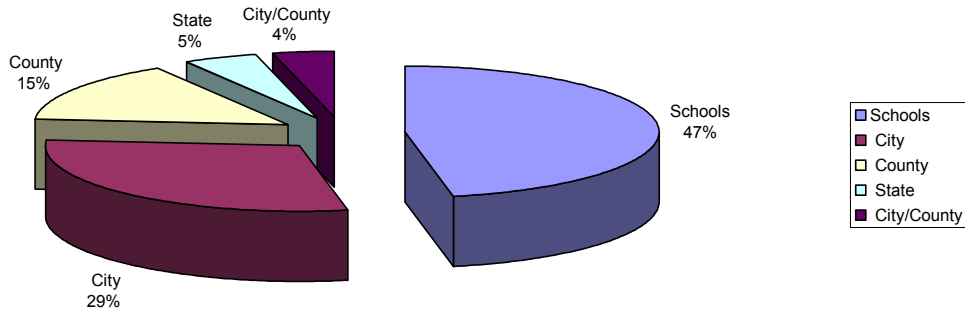
HOW MUCH MONEY DOES THE CITY EXPECT TO COLLECT IN FY08?

ALL FUNDS

How Local Property Tax Dollars are Invested by Jurisdiction

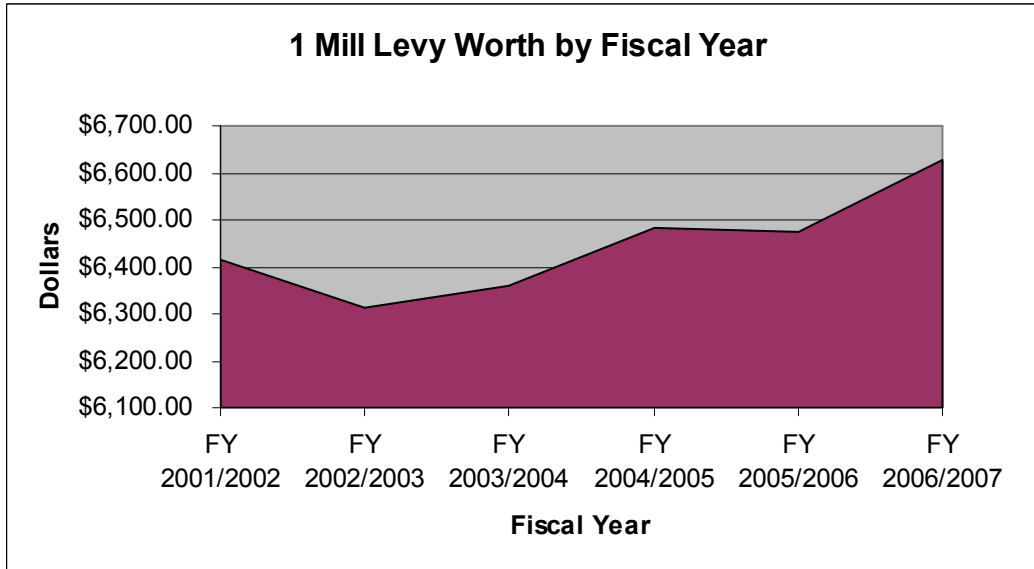
One-third of Revenues to the General Fund are typically derived from local property taxes. Yet, few of us are aware that less than thirty percent of property taxes paid by Miles City home and business owners support the City. The following tables illustrate the distribution of the local property tax dollar paid by the owner of a median value home of \$90,000 inside the city limits of Miles City:

PROPERTY TAXES BY JURISDICTION - INSIDE CITY



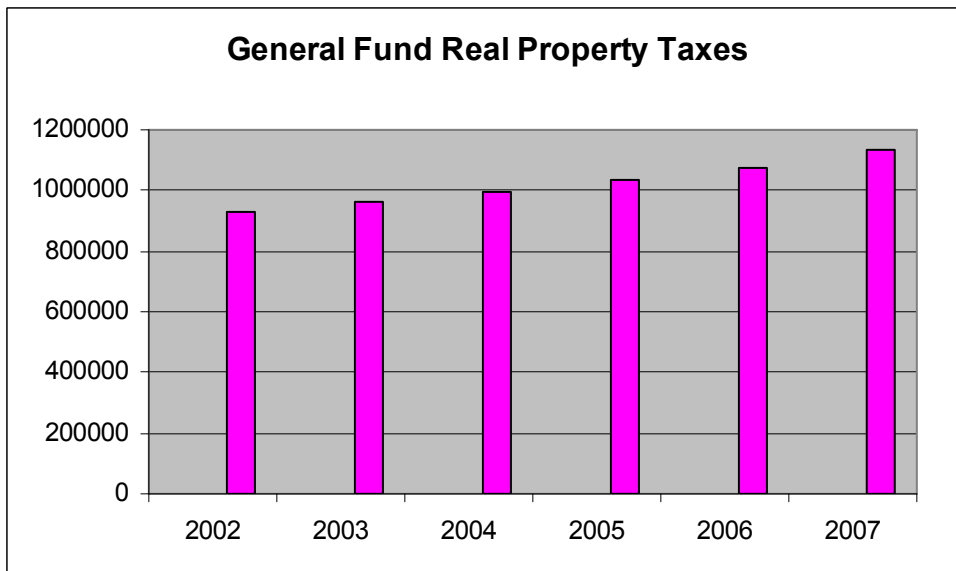
The Value of a Mill

Property tax valuation is expressed in terms of “mills”. The current value of a mill in Miles City is \$6,627.12, which is equal to 1/1000th of the taxable value of real property within the City of Miles City. The greater the value of the mill, the larger the tax base upon which to fund City services. As the chart below illustrates, taxable valuation in Miles City has been growing since 2002. This preliminary budget contains proposals designed to fuel growth in taxable valuation as a necessary precondition to fiscal health.

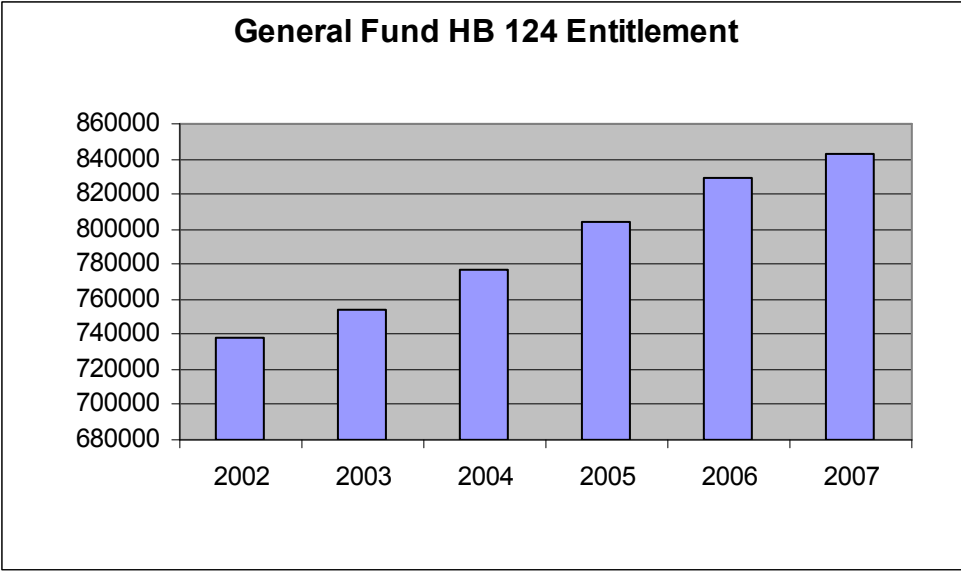


GENERAL FUND

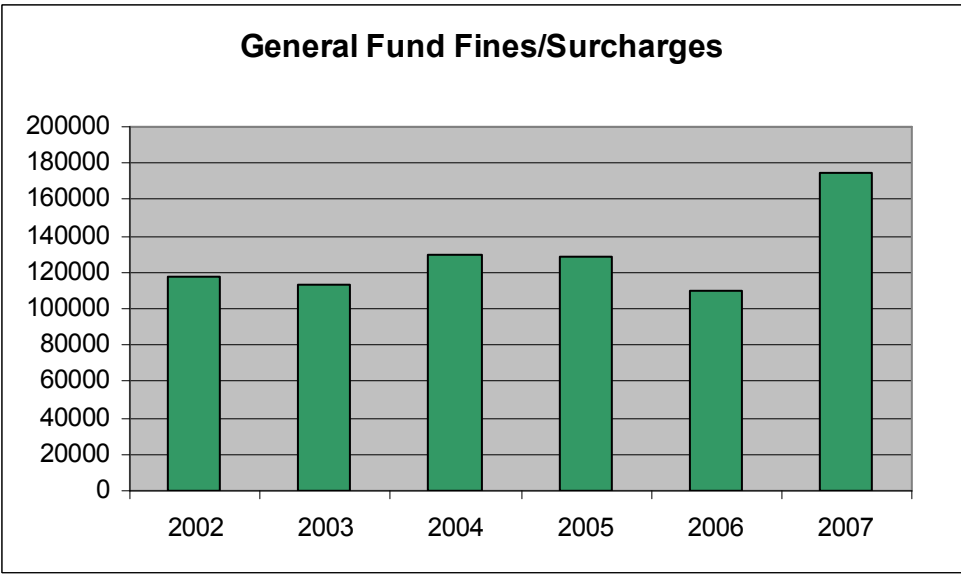
General Fund Revenues for FY08/09 in this preliminary budget are targeted at **\$3,825,107.00**, which is \$210,225.00, or roughly 6% higher than estimated revenues last year. While it's true that over the past five years the City has enjoyed a steady increase in real property taxes...



and steady gains in revenue from HB 124 Entitlements...



and is enjoying a bounce in collections from fines & surcharges,



this preliminary budget proposes a strategy to supplement the above positive revenue trends by asking for the consent of the City Council in pursuit of three initiatives designed to aggressively grow our local tax base:

- Establish an Investment Policy for greater return on investment earnings
- Annex and Prepare for Sale the entire city-owned “Industrial Zone” west of Waterplant Rd., then authorize the creation of a Business Improvement District once the annexation is complete to fund development.
- Authorize a city-wide Special Improvement District for Comprehensive Flood Abatement

Your consent to these initiatives is pre-supposed in the creation of Estimated General Fund Revenues.

SPECIAL REVENUE FUNDS

- Library
 - No change in contribution from City
 - Limited change in revenue from State
- Planning & Community Service
 - Targeted revenue from new Flood Control SID: \$80,000.00
 - Targeted revenue from Business Improvement District: \$55,000
 - No change in contribution from Public Utilities
- Emergency & Disaster
 - Discretionary revenue from Flood Control SID for engineering study: Up to \$100,000
- Permissive Medical Levy: Same basis for appropriation as last year
- Community Block Development Grant/Housing (HOME)
 - Pass-through funding only for Cornerstone project
- Building Code Enforcement
 - Suggested one-time only injection from General Fund Cash Reserve to balance shortfall
- Lighting Districts
 - Adjust as required to cover expenditures when district cash reserves are released following year-end closure.
- Street Maintenance Districts
 - Revenue increase of 22% in districts Maintenance Assessments to complete approved paving contracts and purchase street maintenance equipment financed over useful life of ten years
 - New projected revenue of \$25,000 from sale of hot mix asphalt following delivery of Asphalt Recycler

- Fire Grants
 - Revenue increase of \$60,000 in 5% match grant funding toward purchase of water tender/mini-pumper engine
- Gas Tax
 - Slight reduction in apportionment for next fiscal year
- 911 Emergency Fund
 - Significant increase in designated funding of \$112,000 for two Dispatch FTE
- Coal Tax/Sagebrush Federation – Little change
- HB193/Interlibrary Loan Fund – Little change
- Per Capita State Aid – Little change
- Historic Preservation Grant – Little change
- Community Transportation Enhancement Program

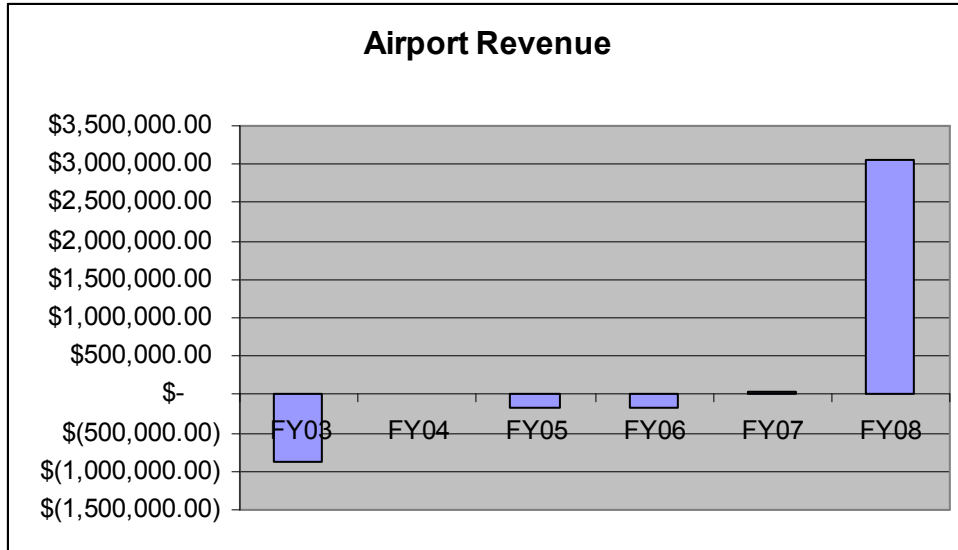
DEBT SERVICE FUNDS

- Judgment & Losses – Levied revenue increase of \$45,000 to cover last installment of mediated settlement in Power case
- Sharp increase in revenue of \$5.2M on note proceeds from DNRC for Carbon Hill and NE Water Main projects

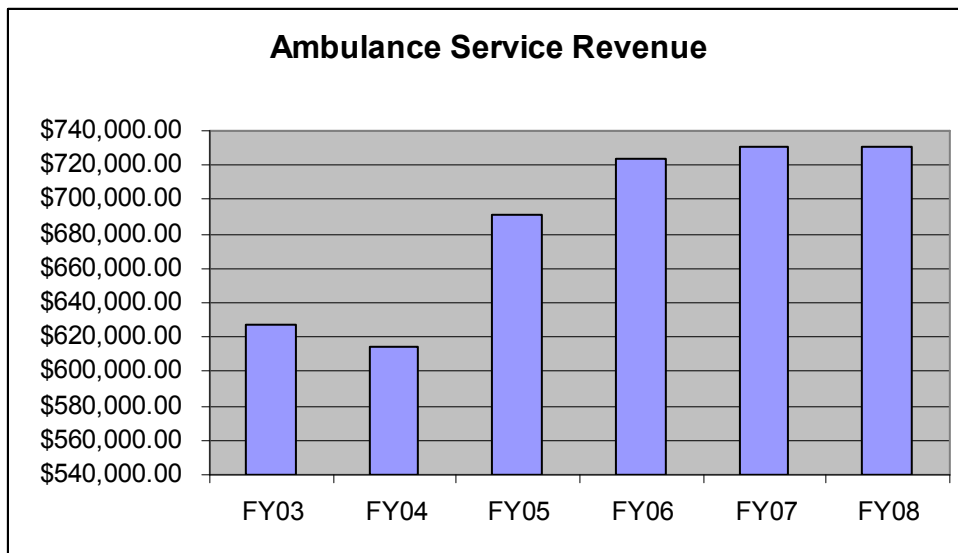
ENTERPRISE FUNDS

Airport - \$3,053,241.00

- Significant increase in revenue from FAA grant funding of runway improvements

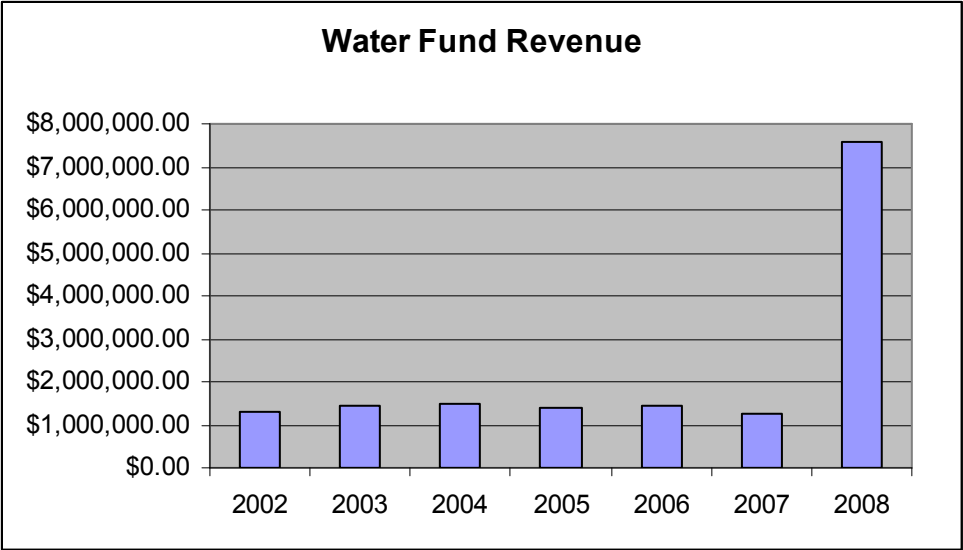


Ambulance Service: \$730,200.00

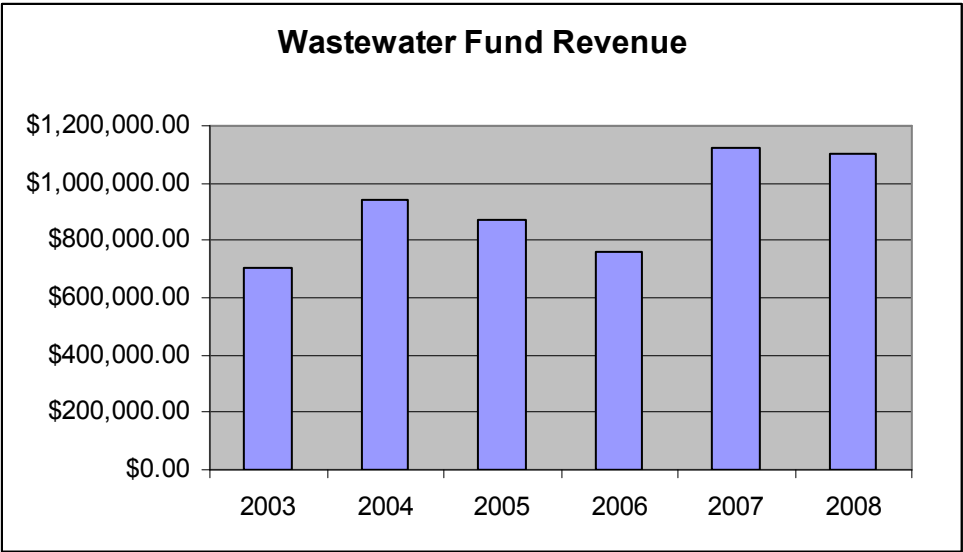


Water Fund: \$7,585,306.00

Sharp increase from loan proceeds of \$5.2M to be applied toward Carbon Hill Water Tank and NE Water Main projects



Wastewater Revenue: \$1,106,807.00



HOW MUCH MONEY DOES THE CITY EXPECT TO SPEND IN FY08?

GENERAL FUND

General Fund Expenditures for FY08/09 in this preliminary budget are targeted at **\$3,752,942.00**, which is \$70,248.00 or 1.9% above appropriations for last fiscal year. The increase is due, in most part, to a 2% wage increase negotiated across-the-board for the City’s three bargaining units this year. With the notable exception of fuels, most other general fund expenditures have been held at or below those levels approved in the FY07/08 budget.

Some budgets have not been funded this year to reflect changes in our demand for services as well as for budget housekeeping. They include:

- Labor negotiation: Longer contracts should negate the need for Mr. Minckler's services
- City Hall – Phase II Heating/Cooling: A sacrifice to labor costs in order to boost our fund balance
- Swimming Pool/Oasis: A casualty to a shortage of qualified labor.
- Riverside Park Tennis Court Project: These funds may best be returned to donors.
- Elections: The City can piggyback special-issues on the general election in the fall.

Other budgets have been revised downward to control costs. Where budgets have been raised there is either more complete staffing to comply with labor contracts or there is an exceptional opportunity to reduce long-term costs or boost revenue.

- *City Council:* I've raised this budget by \$1,000 to re-ignite the Safety Culture Committee. MMIA advises us that Miles City can sharply reduce Worker's Compensation and Disability claims by paying closer attention to workplace safety.
- *Dispatch:* The 911 Board has generously provided \$112,000.00 to fund 2 FTE at the dispatch center, including one dispatch supervisor position. The extra cost expenditures are supported with additional general fund revenue.
- *Planning & Community Development:* This department is now fully staffed and will see intense action, with Council consent, during the next fiscal year in flood abatement, urban planning, W/WW facility upgrades, zoning and grant writing and administration.

A Word about Administration Fees: While I support the use of Admin Fees to reimburse designated General Funds for services specifically rendered to Enterprise and/or Special Revenue Funds, I'm not sophisticated enough to understand the value of charging these same fees to general fund accounts. Consequently, this preliminary budget eliminates the use of Admin Fees as applied to General Fund accounts or as a source of revenue from General Fund accounts to the General Fund.

SPECIAL REVENUE FUNDS

As noted, this budget proposes that the City Council create two new Special Revenue funds as follows: a) Flood Control Special Improvement District and b) Business Improvement District

Flood Control Special Improvement District

The purpose of this new SID is to provide a funding vehicle for the planning, engineering, design and/or construction of comprehensive flood control to protect the City in the event of storm surge, deluge or ice-jam events and in compliance with the requirements of the National Flood Insurance Program.

While the City has aggressively pursued grant funding for abatement study at the state level and is drafting congressional legislation for appropriations during the 2009 session of Congress, the City must also demonstrate a willingness to bootstrap its own remedies in concurrence with these other funding initiatives.

The scale of the proposed SID is city-wide and assessed on a square footage basis since the assets at-risk impact all City residents and business owners.

Initial Proposed Funding Level: From \$80,000-180,000

Business Improvement District

The City-owned property west of Waterplant Rd. and north of the Eastern Montana Fairgrounds sits outside of the city limits. It is served by easy access to I-94, the central business district, a spur to the BNSF railroad, and Frank Wiley Field. Water and wastewater lines run through and by this so-called “industrial zone”. Though a number of businesses lease lots within the zone, the City is poorly served by the submarket rental rates of these lots, the haphazard mix of enterprises, and overall substandard condition of the entire area.

Wouldn't the City be better served if the industrial zone were annexed, cleaned up and developed into an intelligently-designed commercial center featuring an anchor enterprise along with a mix of complementary businesses that could utilize the natural assets of this location. The boost to the tax base of our community and the additional economic activity directed to Main St. would likely improve our economic climate for decades to come.

A business improvement district following the sale of City real estate would prime the pump.

Initial Funding Level: \$55,000

Street Maintenance Districts

With this budget, we begin an intense paving season with several project identified in both SID #204 and #205. The increase in assessments to these districts is 22%.

SID #204: \$ 802,312.00

SID #205: \$ 228,990.00

SID #206: \$ 6,778.00

DEBT SERVICE FUNDS

There are three significant Debt Service Funds active in this budget:

- Third installment and final payment of the mediated settlement of the Power v. City of Miles City litigation. Funding is secured through a Judgment Levy against the people of Miles City.
 - **\$45,000.00**
- Second year pay down of note against the construction of the new Carbon Hill Water Tank and the NE Water Main Projects. Funding is secured through approved increases in water rates against the ratepayers of Miles City.
 - **\$500,948.00**
- Financing of equipment for Street Maintenance over the useful life of the machinery (ten years). Funding would be secured by annual assessments against the Street Maintenance Districts that benefit from the use of the equipment.
 - **\$18,792.00**

ENTERPRISE FUNDS

Airport Fund: **\$3,071,703.00**

- Airport expenditures are largely offset by a grant from FAA providing \$2,475,838.00 in revenue toward runway improvement projects.

Ambulance Service: **\$ 593,262.00**

Water Fund: **\$1,892,410.00**

Wastewater Fund: **\$1,215,093.00**

HOW MUCH MONEY DOES THE CITY EXPECT TO RETAIN AT THE END OF FY08?

GENERAL FUND:

\$532,165.00

SPECIAL REVENUE FUNDS

Cash Reserves are unknown until close of fiscal year but all funds were solvent and within budget as of April 30, 2008. State law prohibits cash reserves of Special Revenue Funds exceeding 50% of expenditures so revenues are typically drawn down to budget baseline.

ENTERPRISE FUNDS

Airport Fund Working Capital: \$ (18,462.00)

Ambulance Fund Working Capital: \$ 136,938.00

Water Fund Working Capital: \$5,692,896.00

Wastewater Fund Working Capital: \$ 31,141.00

