



# REVENUE FORECAST FY2020

**MISSION:** To promote and protect health and wellbeing in Gallatin County.  
**VISION:** Healthy people and healthy communities.

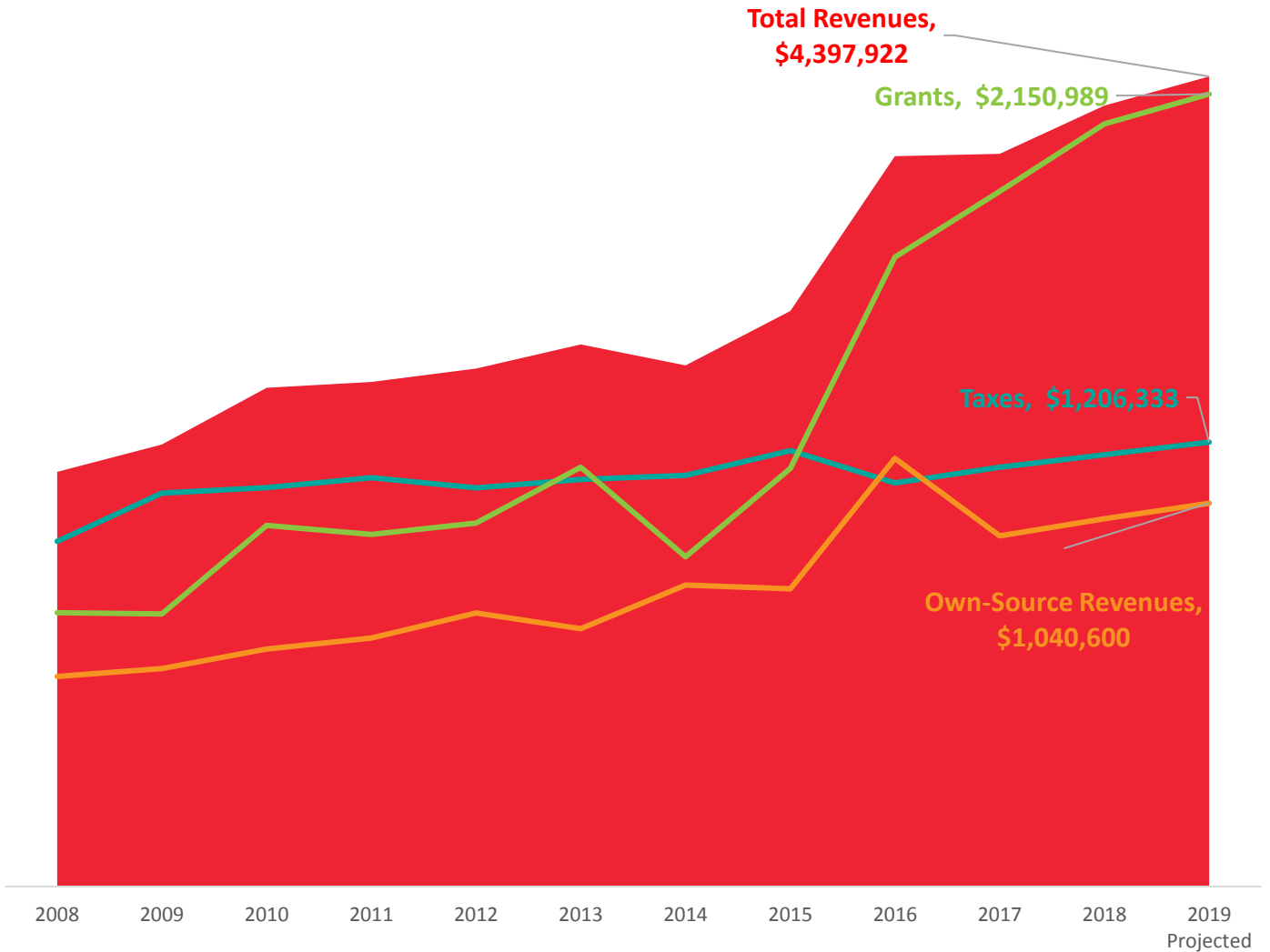
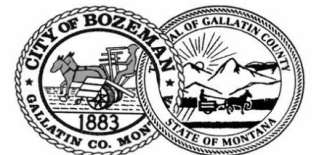


Figure 1 Department revenues over time, reaching a projected \$4.4m in FY2019

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### OVERVIEW

Matt and I will be presenting our FY2020 budget to you in the May BOH meeting; the following revenue estimates are integral to our budgeting process. Please read the narrative below each graph, consider the estimate, and form an opinion on the reasonableness of the prediction. If you would like to weigh-in on a projection, or if you have a question, please reach out to me: [keith.wilson@gallatin.mt.gov](mailto:keith.wilson@gallatin.mt.gov), or (406) 582-3103.

The selected own-source revenue streams are significant enough to have affected staffing levels in the past; accurate forecasting is a large reason why we have been able to decrease our mill levy while increasing service levels across the department. Revenue estimates from department staff are shown as the FY2020 budget point. Estimates made for FY2021 and FY2022 are useful for long-term planning, but will be updated many times before next year's forecast.

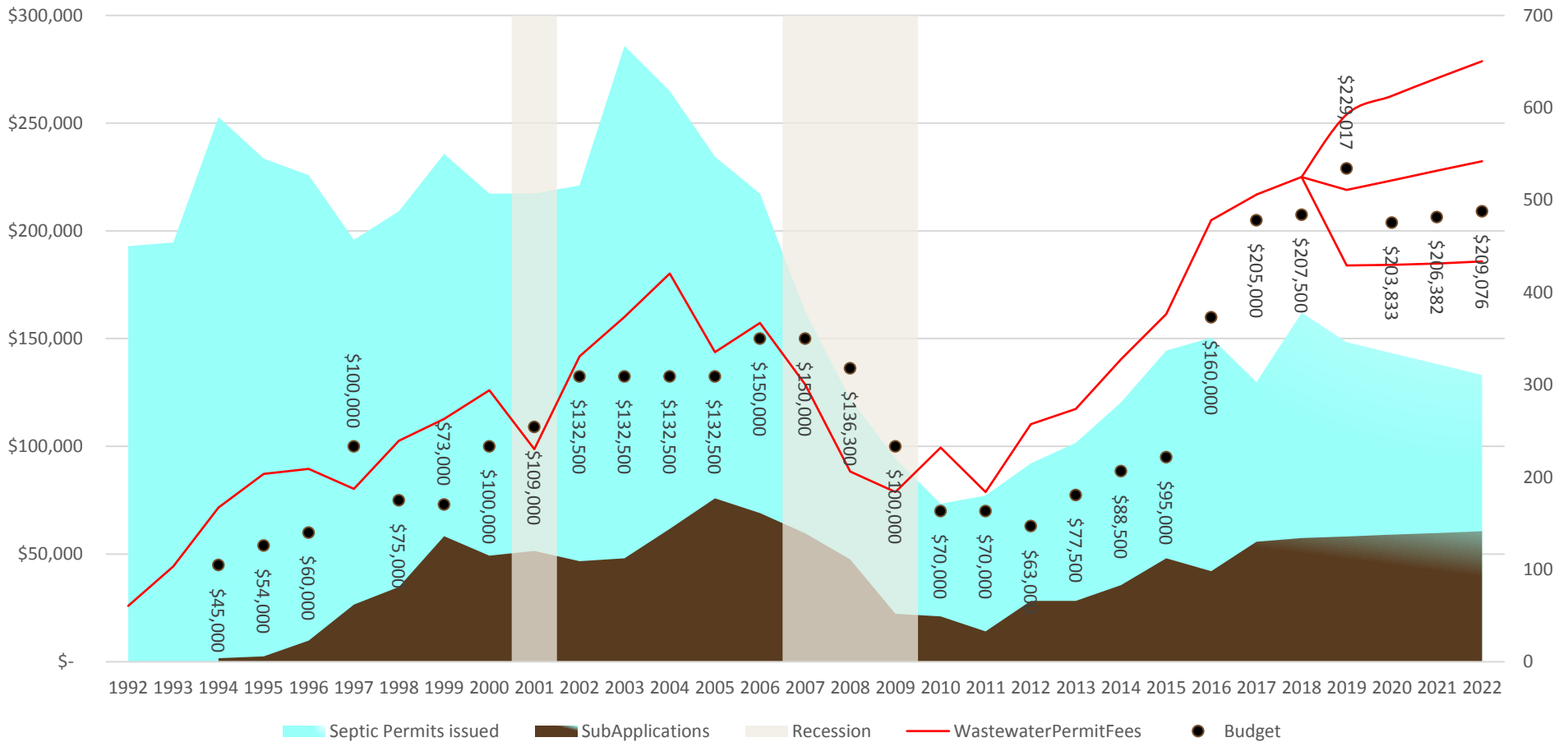
### METHODS AND ASSUMPTIONS

Changes in GCCHD performance information (wastewater permits issued, subdivision applications received, etc.) describe future land use, providing a useful leading indicator of long-term trends. In addition to minding current indications, I hope my forecasts have captured the collective intuition of staff; our staff interacts with the public daily, and I have attempted to glean their consensus through polls and conversation. In the end, the numbers speak for themselves, and long-term trends influence our projections more than year-to-year variation.

Projections start after FY2018: because we focus on long-term trends, I have excluded estimated FY2019 figures from the forecasting formula (although I disclose our current projections in each chart as the continuation of the revenue line). The forecasting method used is somewhat of a default in Excel and is more sensitive to trends or patterns than moving averages. The confidence level for the forecast bell is .80, unless otherwise stated; if you are interested in other forecast statistics, please reach out to me.

I have tried to disclose in the summary below each graph any assumptions I have made outside of the forecasting formula. For example, I have excluded FY2018 revenues from local licensed establishment fee projections as we can attribute the spike to a one-time event (City of Bozeman ordinance requiring plan reviews and a one-time inspection for tourist homes).

Wastewater Permit Revenues

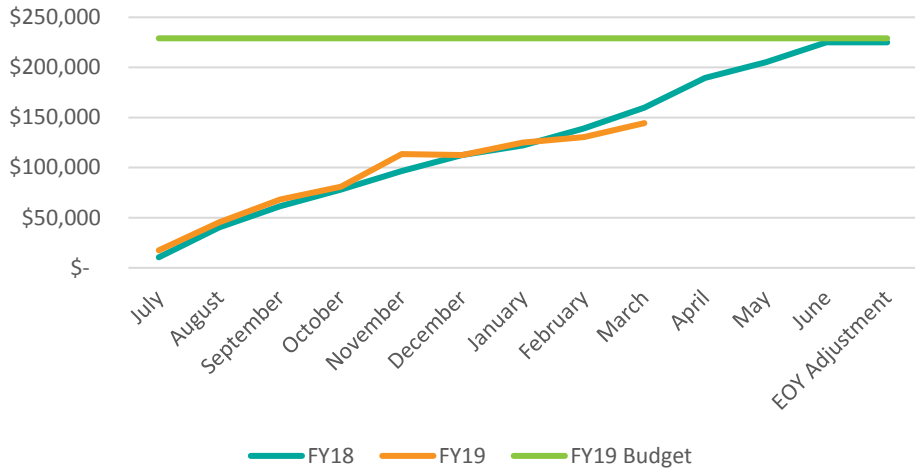


Local boards of health in Montana may adopt necessary fees to administer regulations for the control and disposal of sewage from private and public buildings and facilities. (MCA 50-2-116) Wastewater Treatment Fees established by the BOH are located in the [Environmental Health Services Fee Schedule](#). Wastewater permitting, as with most land-use activities, responds to credit and business cycles in the broader economy. Periods of national recession are shaded in grey – changes in the credit market preceded these recessions by a year or two, and we are starting to see signs of a credit cycle shift in the indicators of land-use activity in Gallatin County.

Entering the last recession, septic permit issuance declined for seven years before hitting a local minimum, while revenues declined for four. The relationship between the number of permits issued and the amount of fees collected changes with the mix of permit fees assessed, fee schedule revisions, and timing of issuance. In calendar year 2018, the department issued 378 septic permits, up from calendar year 2017's 303 permits.

Calendar year 2019 is off to a slower start, behind 25 permits year-over-year through the first quarter. Another indicator of land use activity in Gallatin County is recording activity from the Clerk and Recorder's office, which is down 6% for the fiscal year through March. County Clerk & Recorder Eric Semerad attributes the decline to changes in the credit market – 80% of recording fees in a typical year come from mortgage documents, and as mortgage rates have increased, recording activity has decreased. As we cautioned last year in this report, FY2017 and FY2018 activity levels may represent a local maximum for the decade between FY2010 and FY2020. Our department has tried to strike a balance between these bellwether indications of declining land-use activity and an increased user base from general population growth in Gallatin County.

Wastewater Treatment Permit Revenues



# of Permits Issued

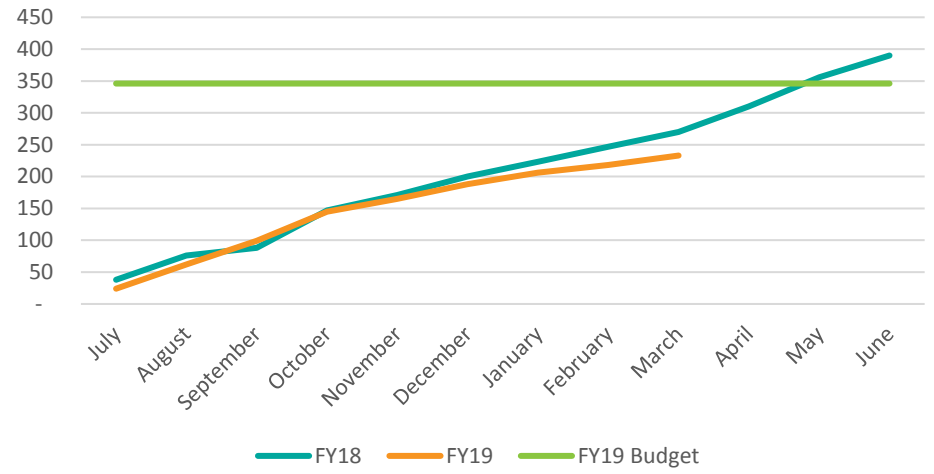


Figure 3 YOY Wastewater Treatment Permit Revenues through March FY2019

Figure 2 YOY Wastewater Treatment Permits issued through March FY2019

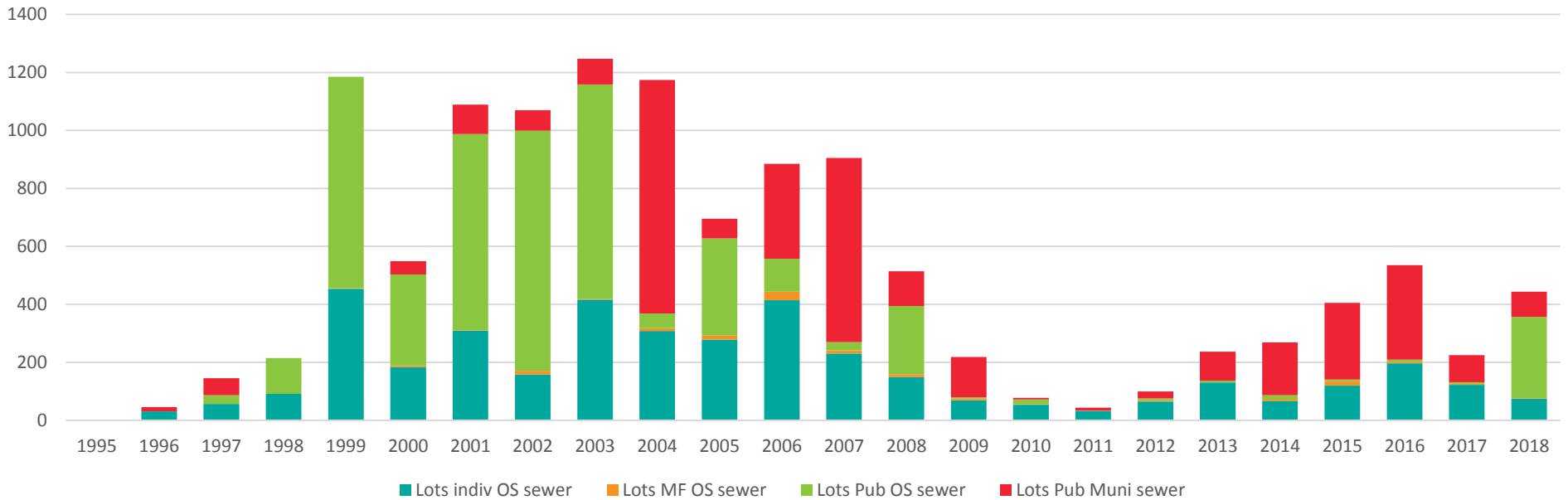
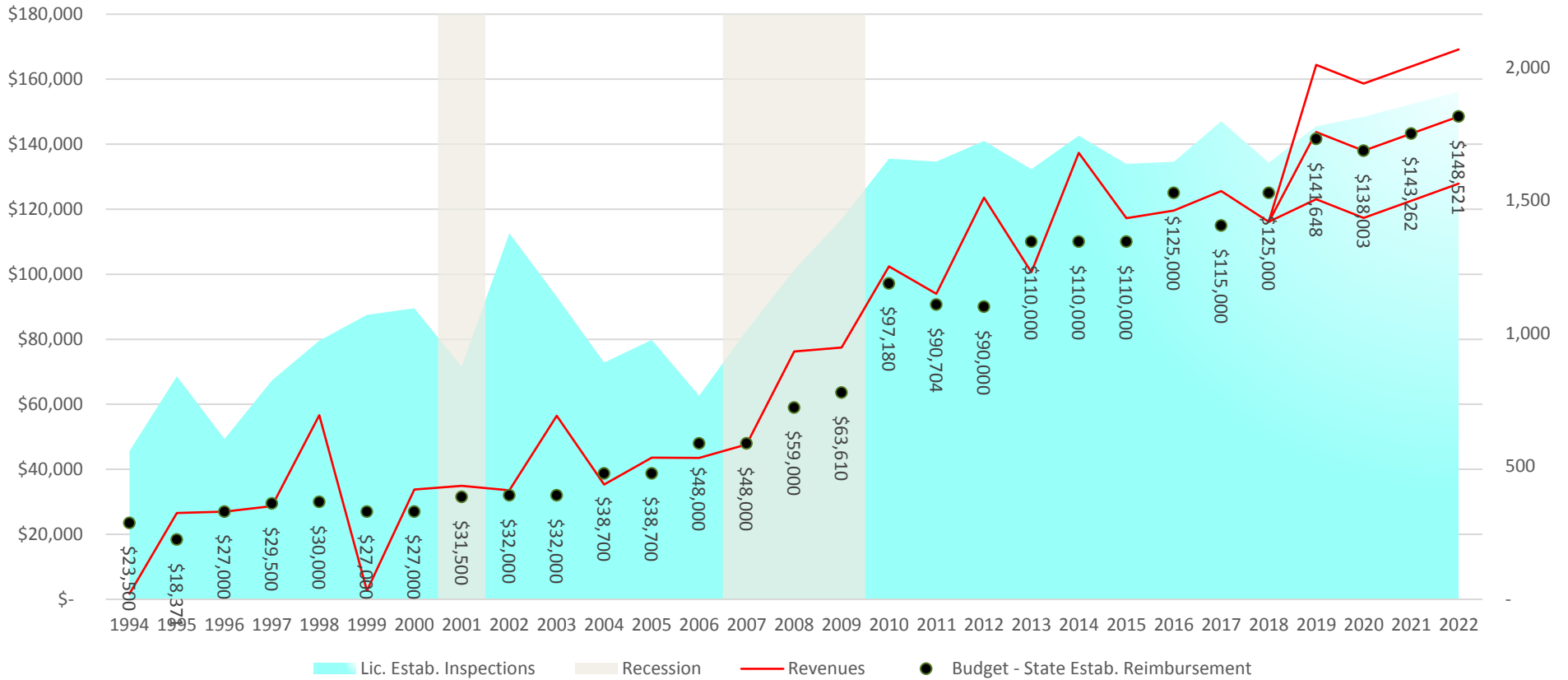


Figure 4 Lots Proposed in Subdivision Plan Review Applications by Wastewater Treatment Type (Calendar Year)

STATE ESTABLISHMENT REIMBURSEMENT

State Establishment Reimbursement



Licenses of retail food establishments, wholesale food establishments, public accommodations, public pools and spas, trailer courts and campgrounds pay licensing fees to the State at rates prescribed in statute; after local inspection, the State reimburses the local inspecting agency, also at rates prescribed by statute. For retail food licenses, ([MCA 50-50-205](#)) the State deposits 5% of license fees (those fees paid by establishment owners to the State) into the State’s general fund; 5% into a DPHHS special revenue fund; and the remaining 90% into the Local Board Inspection Fund. For public accommodations ([MCA 50-51-204](#)), the formula is 3.75% DPHHS; 11.25% state general fund; and 85% to the LBIF.

For example, a large retail food establishment, a motel, and a tourist home pay annual licensing fees to MT DPHHS; the retail food establishment pays \$115.00, the motel pays \$80.00, and the tourist home pays \$40.00. The state receives \$235.00: \$10.25 stays with DPHHS; \$19.25 goes to the state general fund, and

\$205.50 to the Local Board Inspection Fund (LBIF). GCCHD inspects the retail food establishment and the motel during the licensed period: GCCHD will be paid \$205.50 from the LBIF. GCCHD will receive the tourist home license fee regardless of an actual inspection during the period; tourist homes are inspected once before licensing, and, once licensed, are not required to receive annual inspections unless a complaint is received from the public.

Payments sent to DPPHS ▼		Stays with DPHHS	To: State General Fund	To: Local Board Inspection Fund	
Retail food establishment license fee	\$115.00	\$5.75	\$5.75	\$103.50	
Motel license fee	\$80.00	\$3.00	\$9.00	\$68.00	
Tourist home license fee	\$40.00	\$1.50	\$4.50	\$34.00	
	<b>\$235.00</b>				<b>\$205.50</b> ◀ Reimbursement to GCCHD

As you can imagine, the number of inspections we perform in Gallatin County is highly correlated to the revenue we receive. (The correlation coefficient for the period shown is 0.91; different establishment types pay different fees, and the mix of license types changes from year to year. Licensing fees are set in [MCA Title 50](#); see [Environmental Health Services Fee Schedule](#).) Due to the timing of payment and inspection cycles, revenue can swing between up-years and down-years. For instance, FY2018 revenue fell below projections due to decreased inspection activity in quarters three and four, creating a higher end-of-the-calendar year 2018 payment in FY2019. Focusing on the ebb and flow created by the timing of payments can divert our attention from the long-term changes in the underlying activity; although I am projecting FY2020 to be down slightly from FY2019, the long-term trend remains positive.

It is interesting to note the number of licensed establishments in Gallatin County continued to grow during the downturn of the last business cycle, in contrast to wastewater permitting (the first revenue string we examined) which showed great elasticity during the last two business cycles. Licensed establishment activity, at least in our area, appears to be less elastic than land-use activity.

[2017 regulations](#) required short-term rental registration inside the city of Bozeman, which added approximately 110 tourist homes to the annual licensing rolls and \$3,740 to our LBIF reimbursement. However, tourist home license fees are among the lowest on the fee schedule, at half to a quarter of a hotel license fee and less than half of a restaurant fee. Despite the ordinance's impact on public accommodation's share of the department's licensing fee revenues, the bulk will continue to come from inspecting retail food establishments. Given that there are no scheduled fee changes for FY2020, the department has put forward an estimate in line with long-term growth projections.

### State Estab Reimbursement

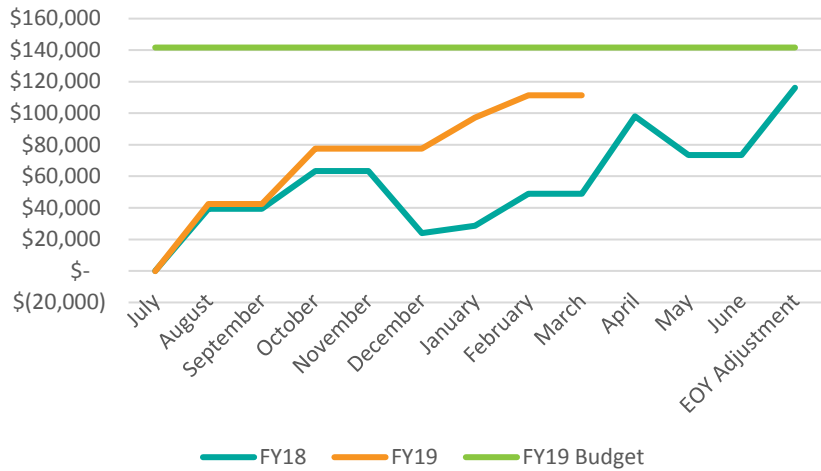


Figure 6 YOY State Establishment Reimbursement revenues through March FY2019

### Local License Fees

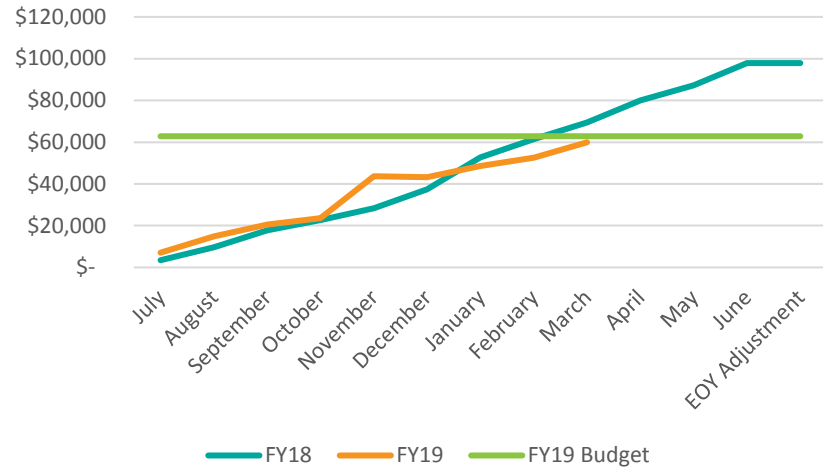


Figure 7 YOY Local Licensed Establishment fee revenue through March FY2019

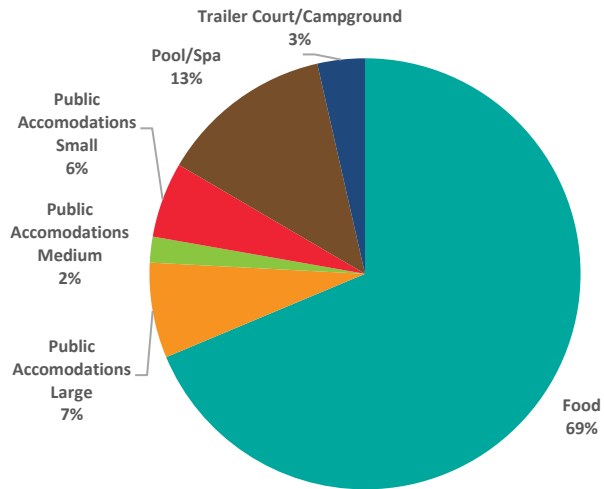


Figure 8 FY2018 State Establishment Reimbursement by license type

### # of licensed estab. inspections

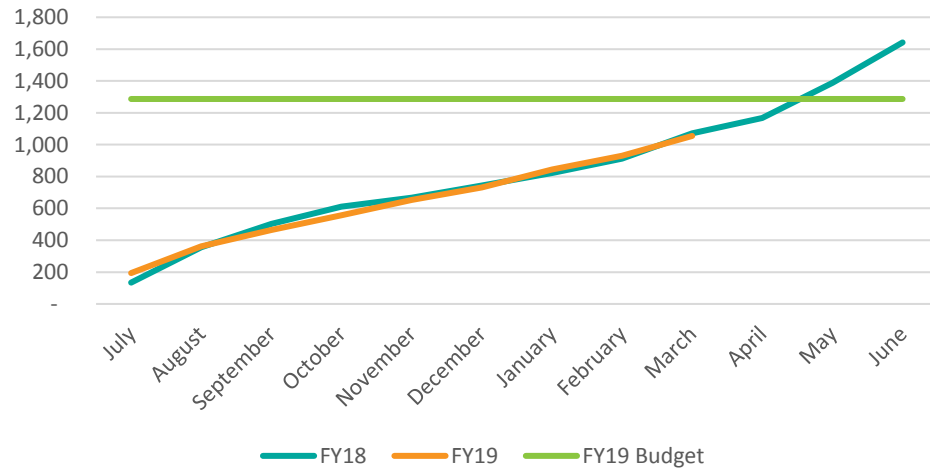
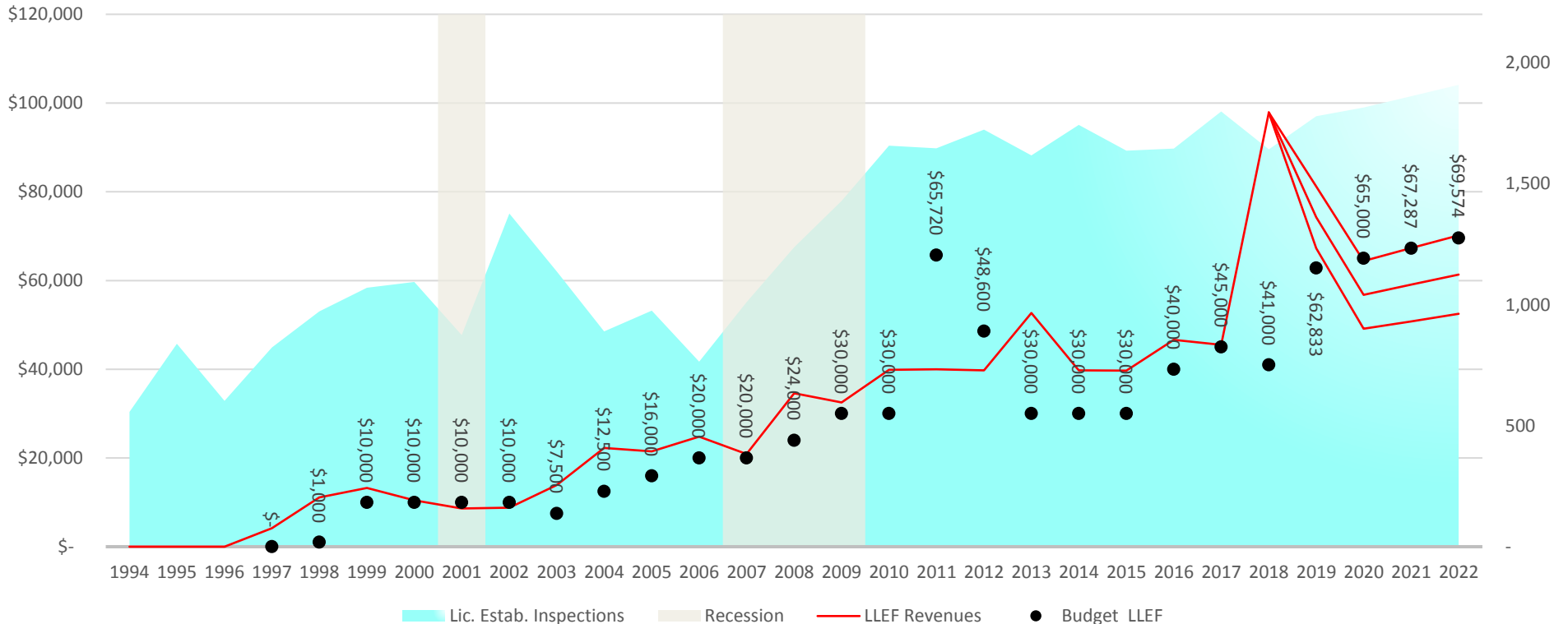


Figure 9 YOY inspection activity through March FY2019



LOCAL LICENSED ESTABLISHMENT FEES

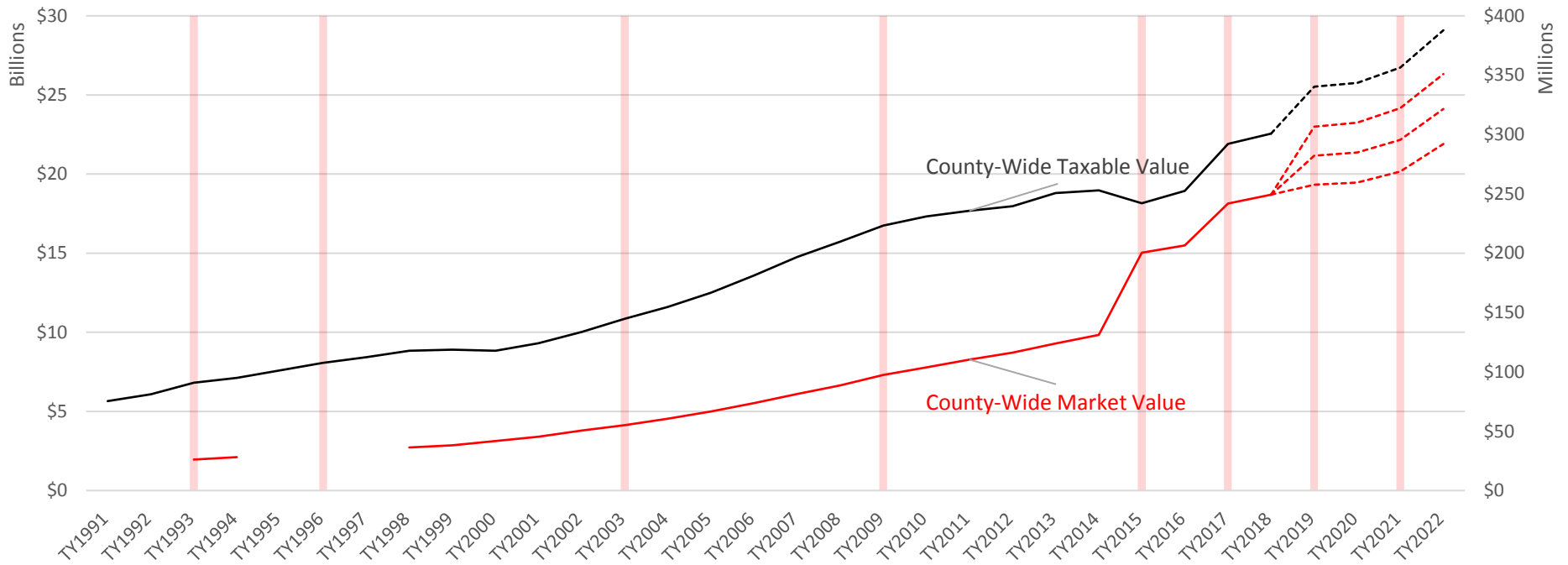
LOCAL LICENSED ESTABLISHMENT FEES



Licenseses of tattooing and body art establishments pay licensing fees to GCCHD at rates set by BOH, reflecting and not exceeding the actual costs incurred for licensure, inspection, enforcement, training, and administration. ([MCA 50-48-203](#)) In addition, BOH has adopted fees to register cottage food operations (authority in [MCA 50-50-117](#), fee established in rule [37.110.511](#)); to issue permits for temporary service events ([MCA 50-50-201](#)); and to provide food safety education, pre-operational inspections, plan reviews, and other minor reviews.

The number of inspections, and hence the number of licensed establishments, does not have great explanatory power for Local Licensed Establishment Fees in the way it does for State Establishment Reimbursement (license fees). However, the number of *new* establishments greatly affects this revenue source. [A City of Bozeman ordinance](#) requiring short-term rental registration inside the city of Bozeman created demand for pre-operational inspections and plan reviews for existing tourist homes. Approximately 110 new Bozeman tourist homes have been inspected, generating between \$30,000 and \$35,000 in one-time revenues to the department (tourist homes are inspected once before licensing, and, once licensed, are not required to receive annual inspections unless a complaint is received from the public).

## TAXES



After the long reappraisal cycle TY2009-TY2014, the 64<sup>th</sup> Regular Session of the Montana legislature responded to markedly increased market values around the state (in Gallatin County, a 53% increase) by reducing taxable percentages for most classes of property, dropping the effective rate in Gallatin County (CTV/Market Value) from ~2.7% to ~1.61%. ([SB 157](#)) Legislation of this kind, a change to taxable percentages, is the most likely tax mitigation strategy to come out of the 66<sup>th</sup> Regular Session of the Montana Legislature; however, the bills introduced thus far vary widely in their approach. We will be keeping an eye on property tax bills until the end of the session (scheduled for May 1).

Gallatin County certified taxable value (CTV) grew nearly 16% for TY2017 (the values used to set the levy in FY2018), and health department mills levied dropped from 4.52 to 4.06 (total public health mills were 5.06, with one mill reserved for mental health activity outside of the department). The increase in CTV for TY2018 was just shy of 3%, a modest mid-cycle increase for the appraisal cycle TY2017-2018. TY2019 is the first year of a new appraisal cycle beginning on January 1, 2019 and effective through December 21, 2020; Gallatin County will use TY2019 CTV to set the levy for FY2020. This cycle's valuation date for all class three (agricultural use) and class four (residential, commercial and industrial) property is January 1, 2018; the previous valuation date (for the TY2017-2018 cycle) was January 1, 2016. We estimate TY2019 market values to be 13%-14% higher than TY2018 values, which are shown below.

County Wide Levies	TY2018 FY2019			TY2019 FY2020, estimated		
	Market Value	Taxable Value	Mill Value	Market Value	Taxable Value	Mill Value
Special Mobile	\$15,363,901	\$227,834	\$228	\$15,781,909	\$234,033	\$234
Manufactured Homes	\$64,891,460	\$849,717	\$850	\$69,924,905	\$915,627	\$916
Personal Property	\$194,437,924	\$3,161,854	\$3,162	\$215,247,123	\$3,500,243	\$3,500
Real Property	\$18,008,631,138	\$261,075,968	\$261,076	\$20,710,745,081.25	\$300,249,240	\$300,249
Centrally Assessed	\$428,312,977	\$35,120,984	\$35,121	\$441,162,366	\$36,174,614	\$36,175
Net & Gross Proceeds	NA	\$286,997	\$287	NA	\$738,368	\$738
Total*	\$18,696,273,499	\$300,723,354	\$300,723	\$21,250,771,303	\$338,877,133	\$341,812
Other Information			\$0	0	\$0	\$0
Newly Taxable	NA	\$10,045,693	\$10,046	NA	\$11,762,547	\$11,763
TIF Increment	NA	\$5,478,293	\$5,478	NA	\$5,577,194	\$5,577
		<b>Mill Value</b>	<b>\$295,245</b>		<b>Mill Value</b>	<b>\$336,235</b>

The County's 'Core Equipment,' or 'Rolling Stock,' program requires departments to set aside a small portion of each tax dollar for replacement of capital equipment and dedicates a portion of the growth in taxes associated with 'Newly Taxable Property' to the program. ([FY2019 Final Budget, p.261](#)). I estimate we will be required to set aside at least \$47,638 for 'Rolling Stock,' unavailable to FY2020's operating budget or operating reserve. For a summary of property tax mechanics and concepts, please see the [ITEP Guide to Fair State and Local Taxes](#).

[2019 certified values](#) will not be available until August 5, 2019 (FY2020 begins on July 1, 2019). The final mill value used in the FY2020 budget resolution could be significantly different from the \$336,235 we will be using to create our request if property tax mitigation legislation passes in the 66<sup>th</sup> Regular Session of the Montana Legislature. Following is a sensitivity analysis of likely market and legislative outcomes, in bold.

Market Value Estimates				
	TY2018 FY2019 Actual	TY2018 FY2019 Low Est.	TY2018 FY2019 Est.	TY2018 FY2019 High Est.
Market Value Increase ►		13.14%	13.66%	22.94%
Effective Rate ▼	\$18,696,273,499	\$21,153,240,813	\$21,250,771,303	\$22,985,070,621
1.61%	\$295,245	\$334,666	<b>\$336,235</b>	\$364,130
1.55%		\$322,298	\$323,810	\$350,692
1.50%		\$311,722	\$313,185	<b>\$339,199</b>
1.45%		\$301,145	\$302,559	\$327,707
1.40%				\$316,214

