

May 1, 2023

Honorable Mayor and City Council Members:

It is a privilege to present the City of Billings Fiscal Year 2024 (FY24) Proposed Operating and Capital budget. The effective date of this budget is July 1, 2023 and runs through June 30, 2024. Adopting the budget is one of the most significant policy decisions the Council makes annually. City staff focused on accomplishing the City Council's adopted priorities efficiently to improve the quality of life for our citizens. We look forward to discussing this proposed balanced budget over the next few months.

ACCOMPLISHMENTS IN FY23

Improving the safety of Billings remains our #1 priority. To that end, we are integrating the additional resources voters approved in 2021 to police, code enforcement, prosecution and fire, and implementing most of the 132 recommendations made by the Center for Public Safety management (CPSM) to improve the effectiveness of both the police and fire departments. The remaining additional resources for prosecution and courts are included in the proposed 2024 budget. The following is a list of some of the more significant accomplishments:

- Hired 28 individuals to join the police department, as additions from the public safety mill levy, and completed implementation of over 90% of the 102 CPSM recommendations within the police department.
- Successfully supported six pieces of legislation to improve safety in concert with the Criminal Justice Oversight Council
- Hired 15 firefighters including 10 additional from the public safety mill levy and have implemented over 90% of the 34 CPSM recommendations including:
 - Two medical response teams
- Hired 3 additional code enforcement officers and created standard operating procedures to improve court outcomes.
 - Abated 11 properties
 - Successfully passed legislation to increase municipal court abatements from \$9,500 to \$25,000.
- Launched problem property strike force to include police, code enforcement, legal, Riverstone
- Hosted several stakeholder crime prevention meetings to determine how best to break the cycle of crime
- Completed design, hired the general contractor and successfully bid the new city hall project
- Successfully closed 3 more illicit businesses within the city limits for a total of 8 since 2021
- Opened 5 of the 8 new gates for the \$65M airport terminal project
- Hired Jeff Roach as our new Aviation and Transit Director. Jeff has over 30 years of experience in aviation and over 10 years in transit.
- Broke ground on the Skyline Drive extension (inner belt loop).
- Broke ground on the Skyline Trail project.
- Completed or started the following parks projects:
 - Castle Rock Park Playground
 - Pioneer Park Trail Rehab
 - Central Park Tennis Courts
 - Riverfront Park Trail Improvements
 - Gorham, Millice, Grandview Park Irrigation
- Participated in over a dozen community stakeholder meetings to determine what capital investments should be made in our parks, trails, recreation and open lands

- \$17 million in transportation projects
- \$9.8 million water and wastewater pipe work
- \$2.5 million in water and wastewater plant improvements
- \$1.9 million in storm sewer investments
- \$1.3 million in solid waste investments
- Secured a grant to acquire 4 electric buses and charging infrastructure
- Completed a 5 year transit development plan to begin implementation this summer
- Successful 2023 retreat for the city council and department directors
- In FY22 there were 13 annexations consisting of approximately 378 acres
- 331 new construction permits for single family dwellings
- Total new construction permits valued at \$498 million for calendar year 2022

DRAFT COUNCIL STRATEGIES AND PRIORITIES

- **Improve the safety of Billings. (\$65.8 million)**
 - Improve accountability of criminals.
 - Decrease family violence.
 - Maximize programs and partnerships that reduce family violence.
 - Fully investigate the impacts of a Family Justice Center in Billings
 - Activate parks and expand access to recreation programs within neighborhoods throughout the city.
 - Reduce Adverse Childhood Experiences (ACE Scores) partnering with service providers.
 - Build trust with our Native American community.
 - Implement law enforcement, code enforcement, legal, and municipal court strategies to improve the effectiveness of the criminal justice system. 2023/2024.
 - Report data measuring the effectiveness of the criminal justice system. 2023/2024
- **Invest in core infrastructure. (\$77.5 million)**
 - Complete airport terminal reconstruction project, building Montana’s greatest airport. 2023
 - Complete City Hall/Law and Justice Center project to include a COVID 19 memorial. 2023
 - Complete inner-belt loop and Skyline trail projects 2024
 - Complete water treatment plant and reservoir projects and fund conservation and park components of project. 2025
 - Determine land use and infrastructure policies to serve the inner beltloop and new I-90 interchange areas. 2023
 - Determine 21st Street underpass upgrades to improve downtown transportation system. 2023
- **Increase parks, trails, recreation, and cultural investments. (\$19.2 million)**
 - Determine capital investments and educate community on the impacts of additional park and trail development. 2023
 - Determine specifically which projects will be bonded.
 - Determine the level of annual investment to be included in the parks, trails, recreation, and public lands budgets.
 - Determine annual level of maintenance and operation expenses for parks, trails, recreation, and public lands.
 - Vet the impact of using a voter approved parks levy.
 - Vet the impact of using a portion of the City’s 74 mill charter cap to fund M&O.

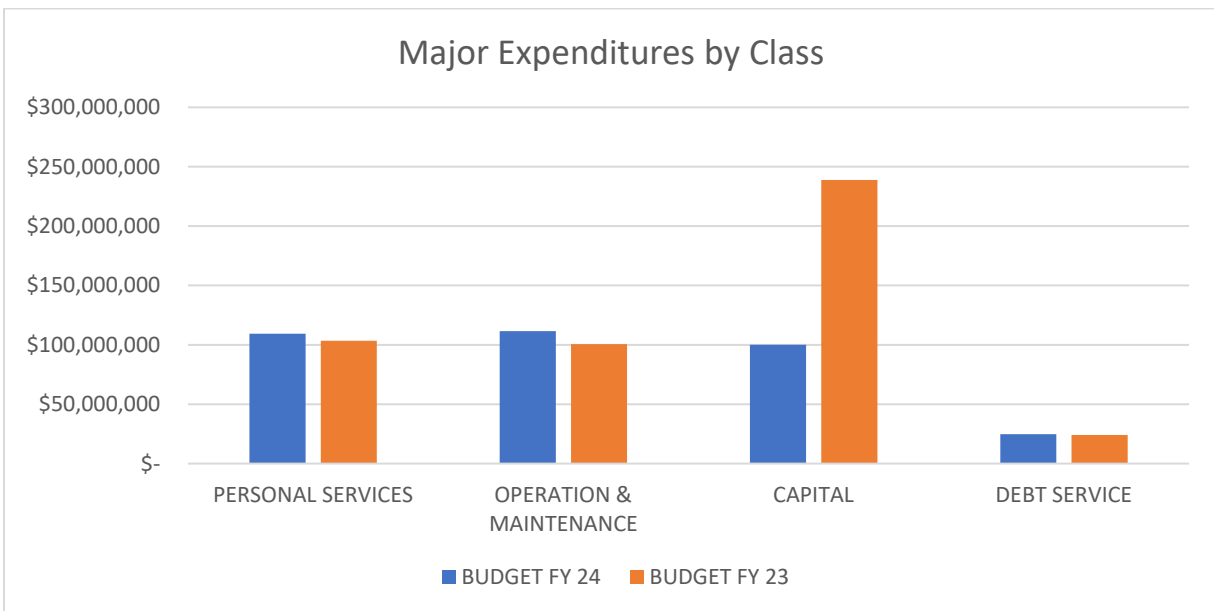
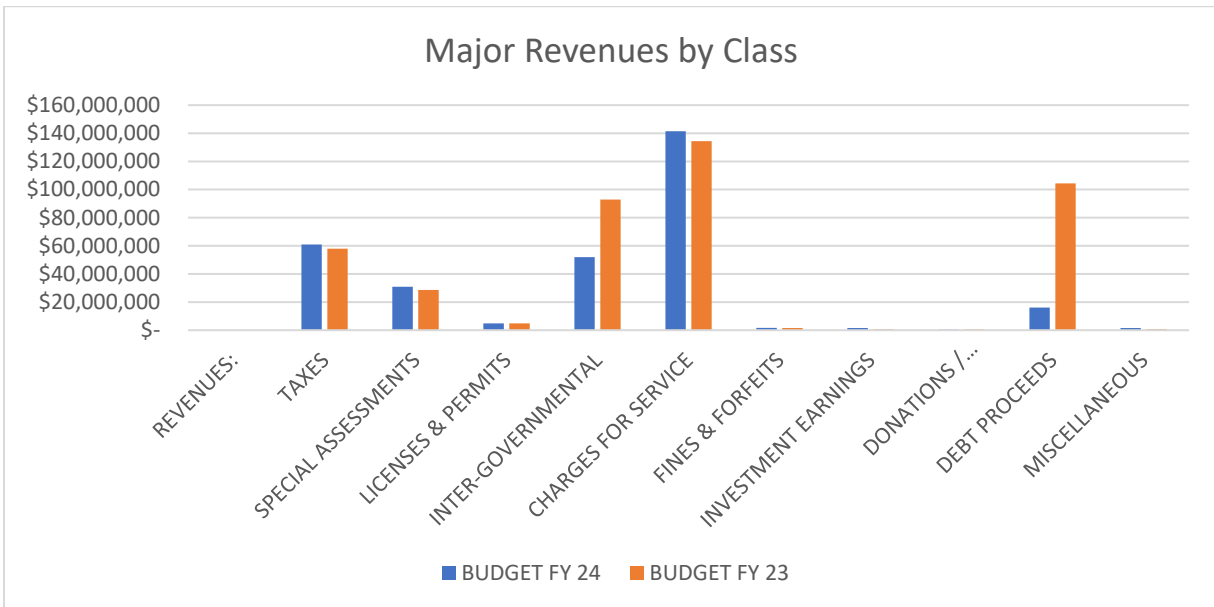
- CPTED principles will be used activating public spaces for the benefit of neighborhoods, individuals, and crime reduction.
 - Determine level of capital investment to be proposed to voters in 2023 for the multi-generational recreation center and a corresponding strategy for executing on those capital investments.
 - Appoint a task force of key stakeholders to analyze partnership opportunities and recommend the best path forward to build the multigenerational recreation center consistent with the adopted master plan - break ground in 2024.
 - Potential partners include: YMCA, School District 2, Regional Recreation District, private businesses etc.
- **Improve the built environment through quality design. (\$6.2 million)**
 - Develop strategies to stimulate infill and redevelopment throughout the city's business and residential districts. 2023/2024
 - Implement the downtown transportation plan/one way street conversions and road diets. 2023/2024
 - Develop a housing strategy in partnership with HomeFront and facilitate 1,000 housing units being added to the city's core. 2023/2024
 - Complete a review of the 2016 growth policy. 2024
 - Update West End and Heights neighborhood plans -update all 8 plans over the next decade.
 - Update subdivision regulations. 2023/2024
- **Build a high-performance organization (HPO) principled in our core values. (\$95,000)**
 - Complete organizational review of the city's vision, mission, and core values. 2023
 - Complete cost of services studies to better understand cost of delivering police, fire, parks, recreation, trails, storm water, water, wastewater and transportation services and infrastructure. 2023
 - Adopt legislative priorities for the 2025 session focused on improving the safety and economic vibrancy of Billings.
 - Improve the effectiveness of council work sessions, policy implementation and communications. 2023
 - Digitize all essential records for proper storage and access by citizens and staff. 2023/2024
 - Improve public engagement.
 - Systematize a regular review of all ordinances by each department, on a schedule to be determined by administration. 2023
 - Establish a City Charter Review Committee 2023.

THE FY24 PROPOSED BUDGET

The FY24 proposed budget is funded by estimated revenues totaling \$336 million. This includes an estimated increase if property tax revenue of 5.7% due to an increase in property values, increases in special assessments for streets, parks and storm sewer, and proceeds from debt to finance long-term capital projects.

The proposed FY24 budget for the City of Billings contains operating and capital expenses totaling \$370.9 million, a decrease of \$133.6 million from the prior year. The decrease is due to the reduction in capital investments which were budgeted in FY23, and will not occur again in FY24. There are increases

found in Personal Services for estimated salary and wage adjustments and some additional staffing requests. Operation and Maintenance increases for FY24 include significant increases in property and liability insurance, Information Technology, and facilities costs.



CAPITAL INVESTMENTS

Water and Wastewater Treatment – The FY24 budget contains significant investment in our Water and Wastewater treatment infrastructure. The total planned for all water and wastewater projects in FY24 is \$33 million.

Transportation Network – The FY24 budget includes funding for conversion of the remaining downtown streets from one-way to two-way. This will have the effect of making the downtown area more pedestrian friendly by slowing traffic and has shown to benefit commerce.

Airport – Significant investments are planned as additional capital improvements to the Airport infrastructure. Total capital outlay for the Airport is planned at \$16.9 million for FY24. All projects funded by Airport revenues and federal grants.

Park Improvements and Replacements – The FY24 budget includes \$6.5M from the South TIF fund to begin work on the design of the rec-center. This will be done as a compliment to the voter approved general obligation bonds that will be needed to complete the project, if there is a vote approved by the citizens. The FY24 budget includes funding for replacement of 6 Tennis Courts at Pioneer Park (\$1.2M), parking lot and restrooms at Castle Rock Park (\$981k), and improvements to Poly Vista Park playground and parking lots (\$1.5M).

NEW PERSONNEL IN FY24

The FY24 budget contains costs for an additional 15 FTE’s. Three of the positions being added are associated with the passage of the 2021 Public Safety Mill Levy. Each position will be discussed during the department budget presentation. The following chart shows the areas where additional investments in staff are being proposed.

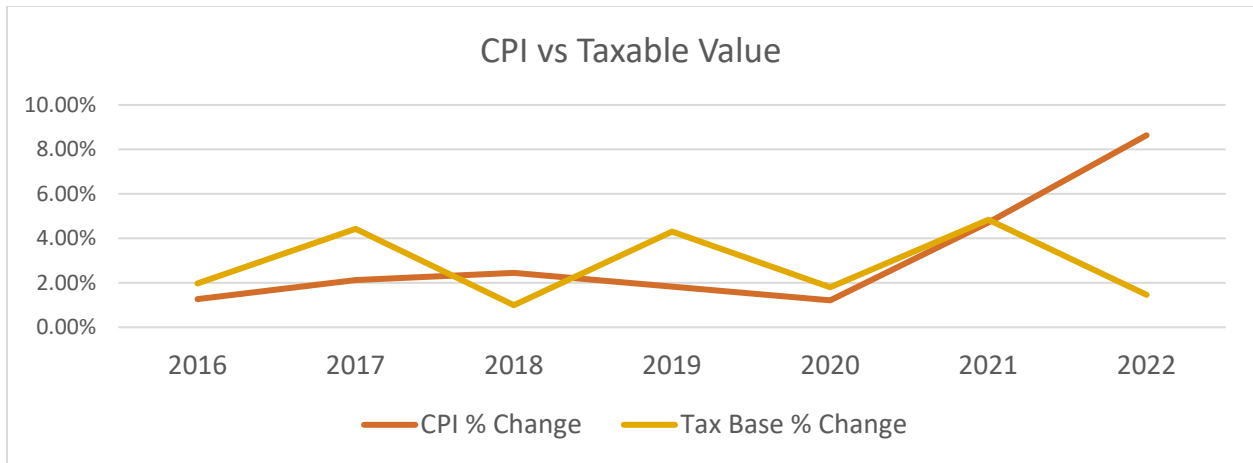
New Employee Requests for FY24

Fund	Department/Division	# of Positions	Position
Airport	Airport	1	Airport Police Officer
Library	Library	1	Facilities
Library	Library	2	Security
Facilities	Facilities	1	Lead Facilities Maint Tech
General Fund	Municipal Court	1	Infraction Filing Clerk
General Fund	Municipal Court	1	Assistant
General Fund	Municipal Court	1	Judge
Solid Waste	Public Works	3	Landfill
Solid Waste	Public Works	4	Collections
		15	

IMPACTS OF INFLATION

In 2022 the Consumer Price Index for All Urban Consumers (CPI-U) increased 8.6% over 2021. Construction Cost Indexes have risen 5.6% over the past 12 months. City operations are impacted by these increases as a significant expense of operating City services involve fuel, labor, energy, and construction. In response to increases in inflation we are adjusting operations to reduce consumption and inputs where possible, we are also proposing rate increases in many areas to keep up with these rising costs. It is anticipated that the impacts of inflation will affect the decisions and operations of the City for the near future.

One of the major funding sources is property tax revenue, which over the past few years has not kept up with inflation.

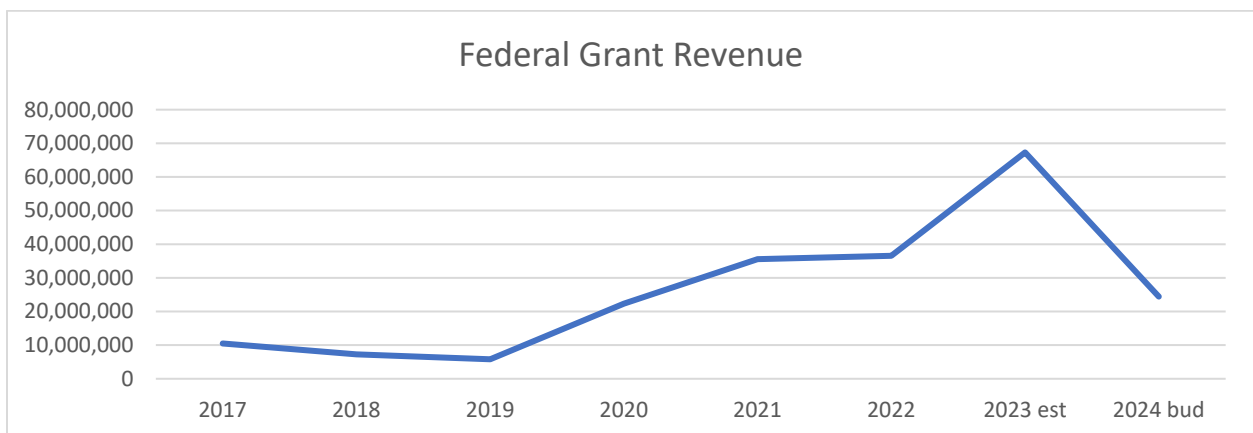


SPECIAL ASSESSMENTS

The City of Billings has multiple special assessment districts. Some are City-wide, while others are for small districts, for varied purposes. These districts are used to fund maintenance and operations of amenities that benefit the individual parcel. Some examples of districts are Parks Districts, Street Light Districts, and Street Maintenance District. The rising cost of labor, fuel, and utilities that are needed to maintain services within these districts require setting the rates high enough to cover these costs. In FY24 the proposed budget includes increases in assessment revenue ranging from 5-12%.

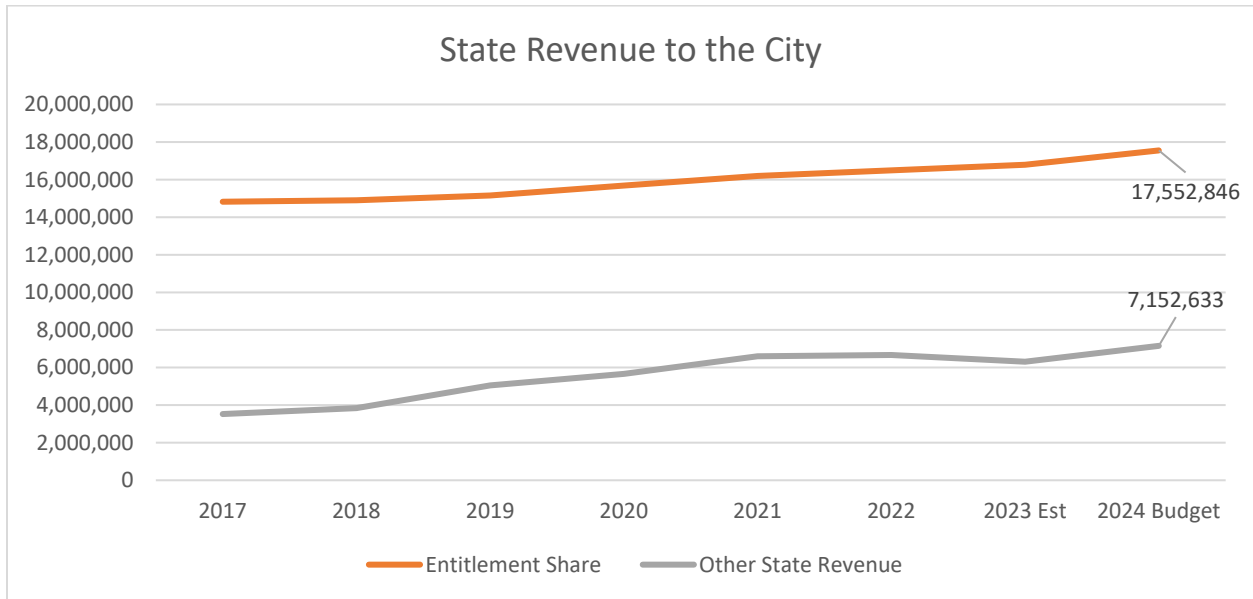
INTERGOVERNMENTAL REVENUE

The City receives revenue from multiple sources to fund operations. These sources include revenue from both Federal and State government. As a percentage of the overall budget, the City receives limited funds from the State and Feds. This has changed significantly in recent years but is expected to return to pre-pandemic levels in the next few years. The revenue from other governments can be found in the budget under the category "Intergovernmental". For FY24, the City is budgeting \$52 million in intergovernmental revenue. This is a decrease of \$40.9M over the FY23 budget. This decrease is largely a result of the elimination of America Rescue Plan and CARES Act funds. For FY24 the Federal revenues budgeted are \$24 million.



The City also receives money from the State of Montana, titled State Entitlement Share. This is a collection of a variety of tax dollars levied by the State within our City and throughout Montana and redistributed to local governments around the State. This funding has remained relatively flat over the past few years, not keeping up with wage growth or inflation. This is placing a greater burden on local

taxpayers to pick up the difference. For FY24, the growth rate in entitlement share will be 3.4%, or \$560k. The City of Billings uses entitlement share to fund General Fund, Public Safety, Library, Transit, Street/Traffic Operating, and the New City Hall Construction. The total State Entitlement share for FY24 will be \$17.5 million. Other State revenue includes \$4.275 million of Gas Tax, \$1.1 million for 9-1-1, and \$1.7 million in combined other grant funds for Transit, Legal, Police, and Library.



PROPERTY TAX REVENUE

The FY24 budget is based upon levying 184.53 mills, which is a reduction from the maximum amount authorized by the City Charter, and citizens of Billings. In FY23, the City levied 211.00 mills. The estimated decrease is based upon a significant estimated increase to the property tax base. For FY24, we are estimating a growth in the City’s tax base of 19.0%. This assumption is based upon the growth resulting from new construction and re-appraisal. Actual increase in the tax base will not be known until August, but preliminary numbers show residential values in Yellowstone County increasing 29%. Residential property makes up 59% of the tax base in Billings.

While the actual number of mills needed to fund the budget will not be known until late August, we are assuming a reduction in the number of mills levied for all funds except Public Safety. While there is an assumed reduction in the number of mills levied, it will not represent a decrease in the real property tax dollars levied. The budget is built upon an overall property tax revenue increase of 6% over the prior year.

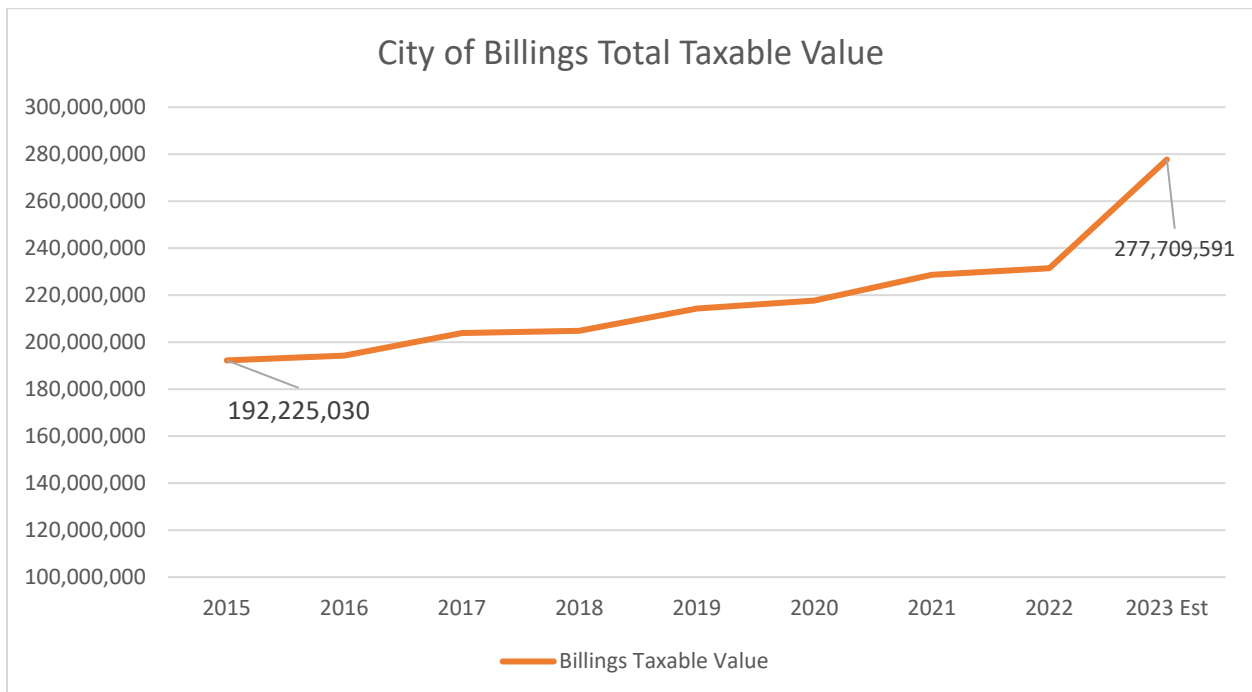
Number of Mills Levied

	FY 23	FY 24
General Fund	74.00	50.62
Public Safety 1999	20.00	20.00
Public Safety 2020	60.00	60.00
Public Safety 2021	34.00	34.00
Transit	10.00	8.74
Library	5.00	4.37
G.O. Library Debt Service	2.96	2.59
G.O. Ballpark Debt Service	3.47	2.87
G.O. Streets Debt Service	<u>1.62</u>	<u>1.37</u>
Total	211.05	184.56

Median Home Property Taxes

	FY2023	FY2024	Change
General	\$227.87	\$189.84	(\$38.03)
Public Safety	351.05	\$427.53	76.49
Library	15.40	\$16.39	0.99
Transit	30.79	\$32.78	1.98
General Obligation	<u>24.63</u>	<u>\$25.50</u>	<u>0.87</u>
Median Home Property Tax	\$649.74	\$692.04	\$42.30

Over the past 9 years, the City of Billings' tax base has grown at an average rate of 4.7% per year. Historically this amount has been closer to 2.5%, but with recent increases in property values, this amount is estimated to increase. Because the State of Montana undertakes the property reappraisal process every odd numbered year, property value change changes look more like a staircase rather than linear.



MARIJUANA TAX

The revenue from the excise tax from the sale of recreational and medical marijuana in Yellowstone County is expected to be about \$650,000 for FY24. A portion of this is being used to help fund the construction of the new city hall (\$200,000) and the remainder is being used to add resources to the City's Public Safety Mill levy for mental health and substance abuse.

The proposed budget allocates 2 mills from the 2021 Public Safety mill Levy for substance abuse and mental health impacts on public safety. The budget is recommending that the revenue from marijuana sales excise tax be added to these mills, resulting in a total amount available for substance abuse and mental health of \$853,730 in FY24.

GENERAL & PUBLIC SAFETY FUNDS (GFPS)

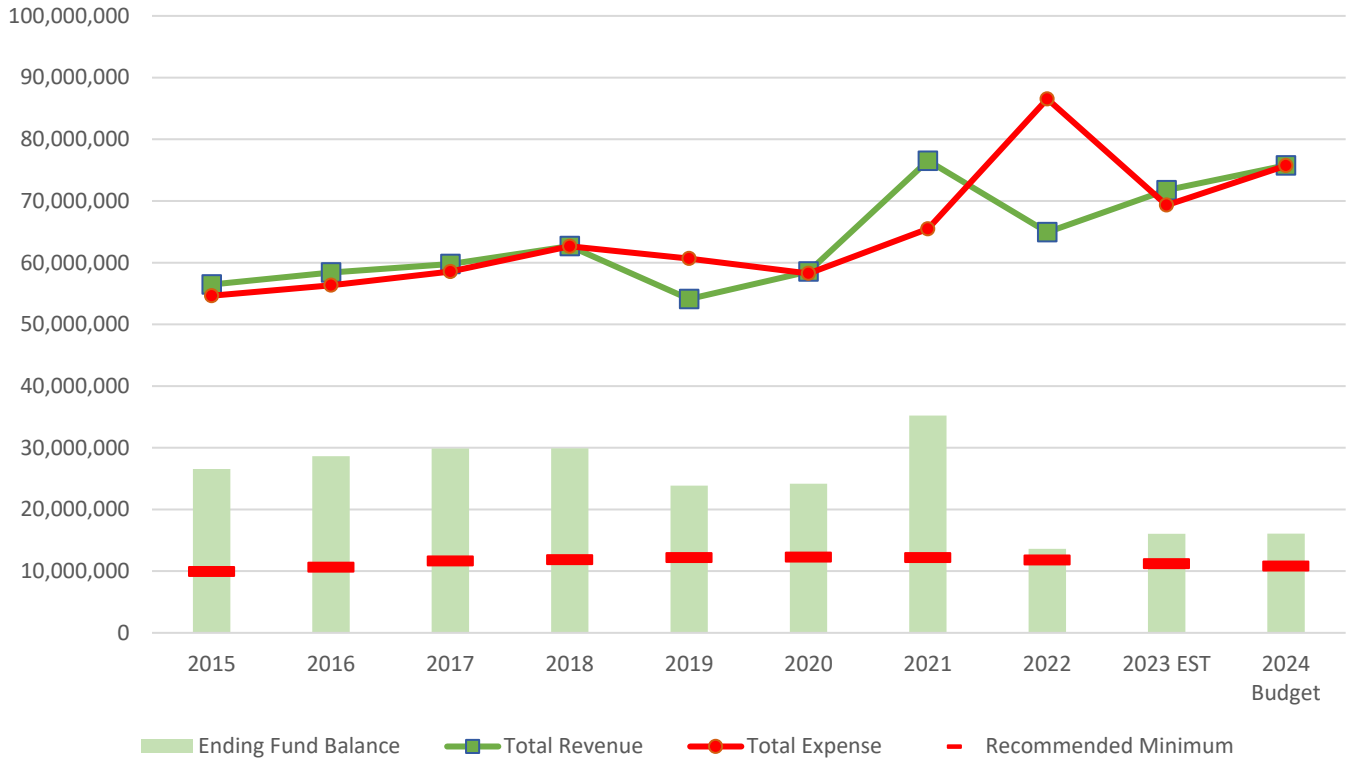
For FY24, we are assuming a growth in taxable value of 20%. However, the budget is built upon an overall increase of 5.6% in tax revenue through a reduction in mills. Overall, this will mean approximately \$2.5 million of new property tax revenue into the GFPS funds related to growth in value. Other revenue in the GFPS funds, which make up about 37% of total revenue is estimated to generate an additional \$1.5M in revenue.

The budget is built upon the assumption that property values will increase 20%, the total number of mills will be reduced in the General Fund, but not the Public Safety Fund. This will reduce the dollar amount that will be transferred from the General Fund to the Public Safety Fund.

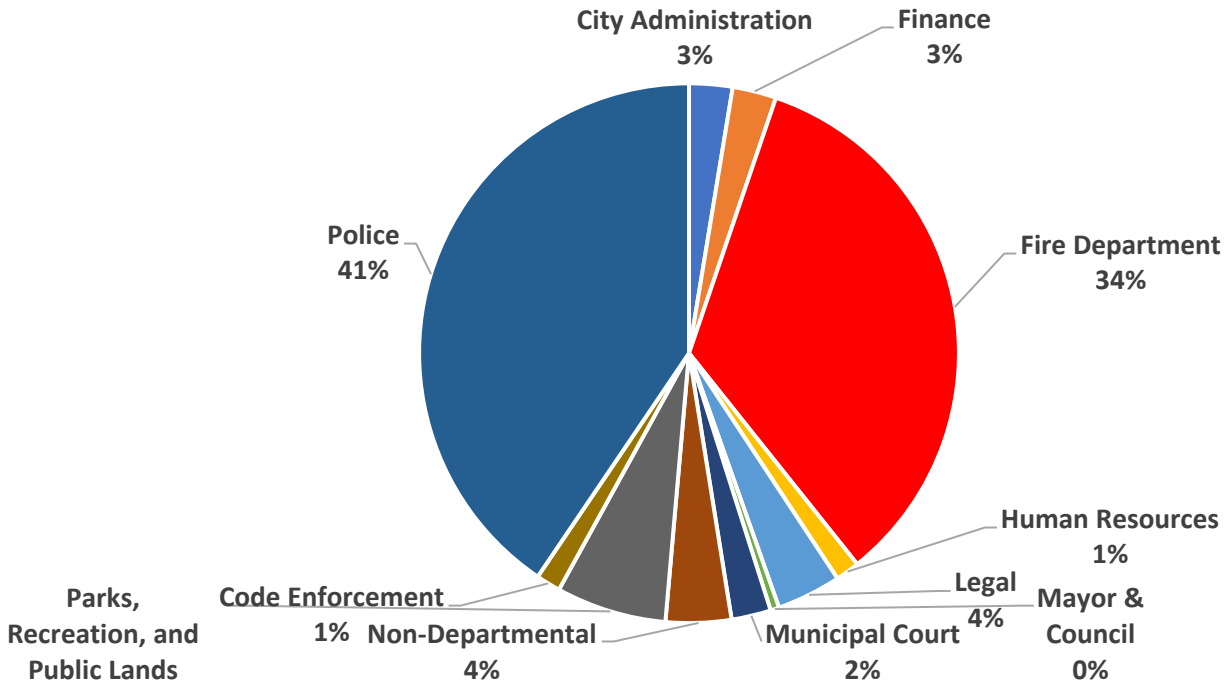
The FY24 budget estimates an ending fund balance that is \$3.4 million higher than the recommended minimum reserve of \$10.8 million.

GFPS Revenue Class	FY24 Proposed Budget	FY23 Budget	Difference
Taxes	47,323,233	44,819,259	2,503,974
License And Permits	2,008,228	2,003,454	4,774
Intergovernmental	17,076,243	16,439,991	636,252
Charge for Service	7,532,151	7,139,681	392,470
Fines And Forfeitures	1,328,846	1,302,446	26,400
Investment Earnings	70,000	42,164	27,836
Transfers From	322,894	224,675	98,219
Miscellaneous	<u>117,220</u>	<u>52,450</u>	<u>64,770</u>
Revenue Total	75,778,815	72,024,120	3,754,695

General Fund & Public Safety



FY24 Proposed General and Public Safety Fund Expenses



PROPERTY TAXES, ASSESSMENTS, AND UTILITY BILLS

The FY24 budget is based upon a variety of rate changes to maintain services equivalent to prior years. The median home value in Billings, based upon the Department of Revenue is currently \$231,500. This is expected to increase once new values have been imported in July.

The FY24 budget proposal is funded based upon assumed growth in the tax base at 20%, resulting in a Council approved reduction in the number of mills, a Council approved increase in special assessments, and Council approved rate increases in utilities. For property tax mills, the City’s Charter caps the maximum number of mills that may be levied by the City of Billings. The City is currently at the ceiling and is recommending a reduction in FY24 due to the anticipated large increase in taxable value. The total number of mills levied in FY23 was 211.00. Based upon the assumed growth it is estimated that the total number of mills needed in FY24 will be 184.53 mills.

Overall, when looking at the City as a whole, the average residential property owner would see an increase in taxes and assessments of 6.5% over the prior year.

Number of Mills Levied

	<u>FY 23</u>	<u>FY 24</u>
General Fund	74.00	50.62
Public Safety 1999	20.00	20.00
Public Safety 2020	60.00	60.00
Public Safety 2021	34.00	34.00
Transit	10.00	8.74
Library	5.00	4.37
G.O. Library Debt Service	2.96	2.59
G.O. Ballpark Debt Service	3.47	2.87
G.O. Streets Debt Service	<u>1.62</u>	<u>1.37</u>
Total	211.05	184.56

This change in mills will impact the median homeowner an estimated \$42 per year, due to the anticipated increase in property values.

Median Home Property Taxes

	FY2023	FY2024	Change
General	\$227.87	\$189.84	(\$38.03)
Public Safety	351.05	\$427.53	76.49
Library	15.40	\$16.39	0.99
Transit	30.79	\$32.78	1.98
General Obligation	<u>24.63</u>	<u>\$25.50</u>	<u>0.87</u>
Median Home Property Tax	\$649.74	\$692.04	\$42.30

The City also has 3 City-wide special districts, Park District 1, Street Maintenance District, and Storm Sewer. These special districts are used to provide funding for their specific purposes. Rates for these districts are set by City Council and assessed to all properties within the City.

Park District 1 – PD1 is assessed against all properties and for FY23 was set at 1.597% of the taxable value for each property. The proposed FY24 budget is based upon the assumption that assessment

revenue would increase 5.7% to keep up with inflation. The estimated rate need to generate this revenue is 1.377%. This is nearly the same rate that was assessed in FY22 (1.3875%). The median home will see an increase of \$2.45 per year over FY23.

Street Maintenance District – The FY24 budget proposal includes an increase of 7% in the SMD assessment. The proposed budget is based upon a rate increase of \$12.96 per year for the average homeowner.

Stormwater Fees – These funds are used to build and maintain the stormwater infrastructure throughout the City. The proposed budget is based upon a rate increase of 5.7%, or \$3.20 per year for the average homeowner.

With the changes in rates as well as the removal of the Arterial District and offsetting increase in the Street Maintenance District, the total impact of assessments on the typical home is \$18.62/year.

Median Home Property Taxes			
	FY2023	FY2024	Change
General	\$227.87	\$189.84	(\$38.03)
Public Safety	351.05	\$427.53	76.49
Library	15.40	\$16.39	0.99
Transit	30.79	\$32.78	1.98
General Obligation	<u>24.63</u>	<u>\$25.50</u>	<u>0.87</u>
Median Home Property Tax	\$649.74	\$692.04	\$42.30
Park District 1 Assessment	49.18	51.63	2.46
Street Maintenance Dist	185.08	198.04	12.96
Storm Sewer	<u>56.40</u>	<u>\$59.60</u>	<u>3.20</u>
Total Special Assessments	<u>\$290.66</u>	<u>\$309.27</u>	<u>\$18.62</u>
Total Taxes and Assessments	\$940.40	\$1,001.32	\$60.92

The FY24 budget is also based upon rate increases to Solid Waste, as well as rate increases already approved for Water and Wastewater. The impacts to the typical homeowner are provided below.

Average Home Monthly Utility Bill			
	FY23 Monthly	FY24 Monthly	Change
Water	39.49	42.76	3.27
Wastewater	27.37	28.14	0.77
Solid Waste	<u>12.45</u>	<u>Unknown</u>	<u>Unknown</u>
Total Monthly Utility Bill	\$79.31	\$70.90	Unknown

COUNCIL DECISIONS THAT NEED TO BE MADE

During our 2023 Council retreat, we identified the following crime prevention strategies:

- Decrease family violence.
- Activate parks and expand access to recreation programs within neighborhoods throughout the city.
- Reduce Adverse Childhood Experiences (ACE Scores).

- Build trust with our Native American community.

Once these strategies are approved by the Council, decisions will need to be made on how best to invest the city's limited resources to implement these priorities.

I recommend we dedicate three revenue sources to reducing crime – the two mills from the public safety levy, the 3% marijuana excise tax, and our opioid settlement dollars. During our 2021 public safety levy educational efforts, the city committed to earmarking a minimum of 2 mills for substance abuse and mental health. We, as Yellowstone County electorates also voted in a 3% excise tax on the sale of marijuana. Third, we have been notified of opioid settlement dollars that will be paid to the city over the next decade and these dollars must be spent on the impacts of opioid addiction. Combined, we estimate the City will have \$887K to implement these critical strategies. The budget contains \$228,730 for the purpose of Crisis Response Units from these funds. The budget also contains \$625K for generic purposes under mental health and substance abuse, but clarity is needed.

Stakeholders including Substance abuse Connect, Riverstone Health, School District 2, Rimrock and the City have held several discussions throughout the past several months to collaborate in the critical areas of ACEs, substance abuse and trauma reduction. The value evidence based proven programs remain the focus of our conversations. Crisis Response, home visitation, mentorships, and the development of a family justice center a few of the ideas being pursued.

These are extraordinarily complex issues, and we remain committed to making the best use of these dollars for the desired outcomes.

What should be said about the parks, trails, recreation decisions that have yet to be made?

We need your help to make these critical decisions.

CONCLUSION

We know there are differences of opinion among our community members and citizens about how to best prioritize issues, such as levels of customer service, financial position and reserves, and service delivery and expansion. We have worked hard to develop a budget that will move our community forward – and, at the same time, continue to meet the obligations we have accrued from the past. The City's future economic health is dependent upon how we choose to invest today.

Respectfully,

Chris Kukulski, City Administrator

Andrew Zoeller, Finance Director