

May 2, 2024

Honorable Mayor and City Council Members:

It is a privilege to present the City of Billings Fiscal Year 2025 (FY25) Proposed Operating and Capital budget. The effective date of this budget is July 1, 2024 and runs through June 30, 2025. 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.

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 are included in the proposed 2025 budget.

ACCOMPLISHMENTS IN FY24

The FY2025 budget includes significant investments furthering Council priorities. While much is anticipated for the coming year, the following is a list of some of the more significant accomplishments from the prior year:

- Opened all new gates for airport terminal project
- Broke ground on Westend Water Treatment Plant
- Completed Fire Station 8 in Billings Heights
- Completed the Skyline Drive extension (inner belt loop)
- Entered into a purchase and sale agreement for the existing "old" City Hall
- Expanded library lockers to a total of 4
- Completed the Skyline Trail project
- Completed or started the following parks projects:
 - Castle Rock Park Playground
 - Arrowhead Playground
 - Central Park Tennis Courts
 - Ponderosa Park Irrigation Replacement and Automation
 - CPTED Improvements
- In FY23 there were 8 annexations consisting of approximately 170 acres
- 272 New Single Family Homes were completed
- 850 Other dwelling units were completed
- Total new construction permits valued at over \$304 million for calendar year 2023

DRAFT COUNCIL STRATEGIES AND PRIORITIES

- **Improve the safety of Billings. (\$64.7 million)**
 - Improve accountability of criminals.
 - Decrease family violence.
 - Maximize programs and partnerships that reduce family violence
 - Further implement Family Justice Center strategic plan
 - 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
- Financially support construction of a short-term holding facility at the Yellowstone County Detention Center

- **Invest in core infrastructure. (\$159.1 million)**
 - Complete City Hall/Law and Justice Center project
 - Complete Skyway and Skyline trail projects
 - Complete water treatment plant and reservoir projects and fund conservation and park components of project. 2025
 - Determine land use and infrastructure policies to serve Skyway drive and new I-90 interchange areas
 - Design improvements to Grand Ave and Rimrock Road for construction in future years
 - Expand water storage capacity in Zone 1, service the downtown area

- **Increase parks, trails, recreation, and cultural investments. (\$7.8 million)**
 - Determine annual level of maintenance and operation expenses for parks, trails, recreation, and public lands
 - 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 future plans for South Park Pool
 - Construct Stagecoach Trail

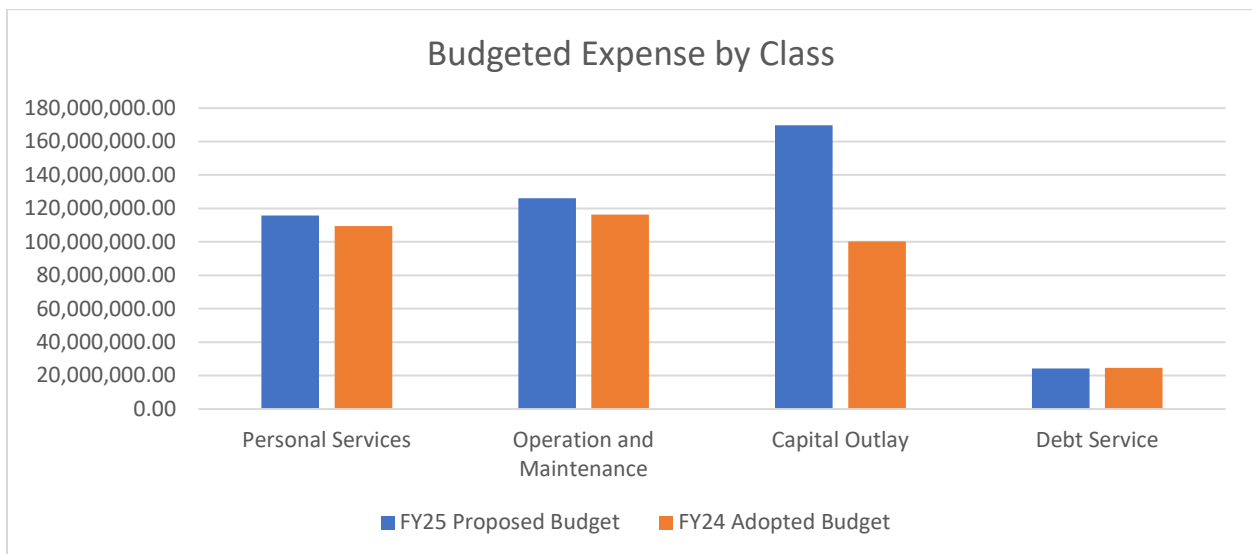
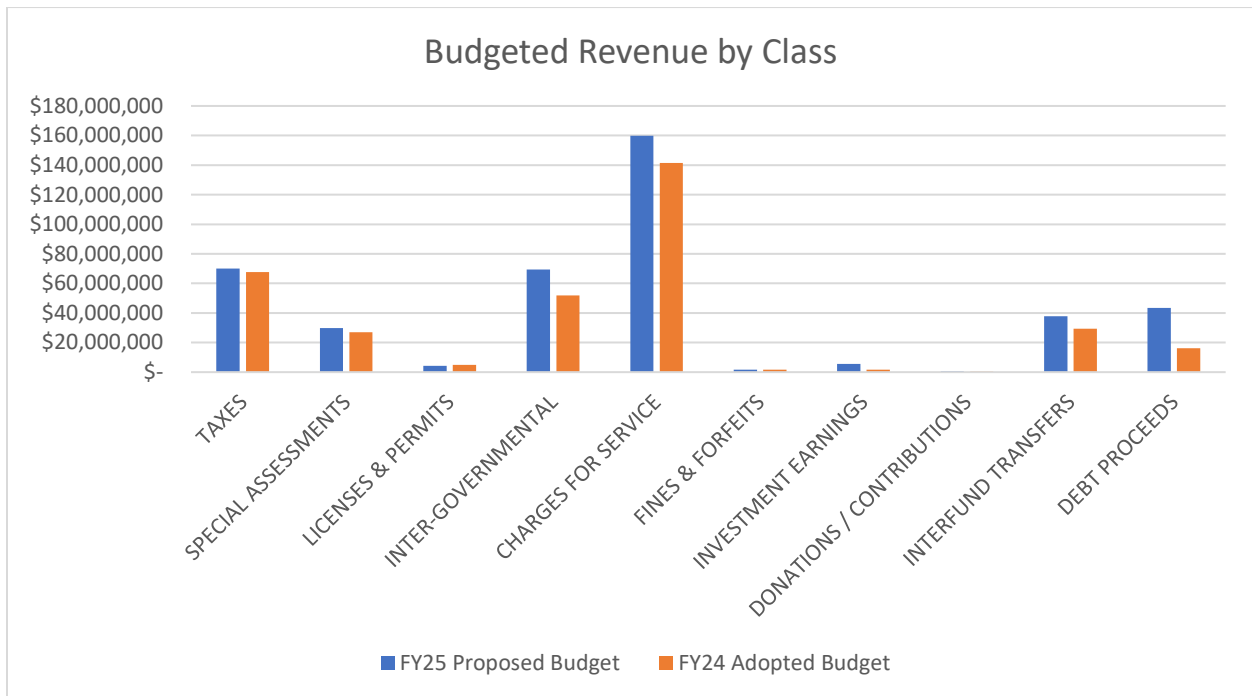
- **Improve the built environment through quality design. (\$450,000)**
 - Implement the downtown transportation plan/one way street conversions and road diets. 2023/2024
 - Develop a housing strategy in partnership with HomeFront and facilitate 1,000 housing units being added to the city's core. 2023/2024
 - 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. (\$280,000)**
 - 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
 - Digitize all essential records for proper storage and access by citizens and staff. 2023/2024
 - Improve public engagement
 - Financially support local government review

THE FY25 PROPOSED BUDGET

The FY25 proposed budget is funded by estimated revenues totaling \$425 million. This includes an estimated increase of property tax revenue due to an increase in property values and number of mills levied, increases in special assessments for streets and storm sewer, and increase in charges for services for utilities.

The proposed FY25 budget for the City of Billings contains operating and capital expenses totaling \$473.7 million, a increase of \$93.8 million from the prior year. The increase is due to capital investments primarily at the new water treatment plant. There are increases found in Personal Services for estimated salary and wage adjustments and some additional staffing requests. Operation and Maintenance increases for FY25 include significant increases in property and liability insurance, information technology, and facilities costs.



CAPITAL INVESTMENTS

Water and Wastewater Treatment – The FY25 budget contains significant investment in our Water and Wastewater treatment infrastructure. Projects include continued construction on the Westend Reservoir, additional storage and main replacements.

Transportation Network – The FY25 budget includes funding for improvements to Grand Ave, Rimrock Road and Safe Routes to Schools.

Airport – Significant investments are planned as additional capital improvements to the Airport infrastructure. Total capital outlay for the Airport is planned at \$19.2 million for FY25. All projects funded by Airport revenues and federal grants. Projects include Runway Improvements and replacement of two fire trucks.

Park Improvements and Replacements – The FY25 budget includes \$1.4 million for North Park tennis/basketball court, Poly Vista Park playground, Sacagawea Park playground replacement, planning and design work for South Park Pool, and various trail repair projects.

NEW PERSONNEL IN FY25

The FY25 budget contains costs for an additional 16 FTE’s. Four 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 FY25

Fund	Department/Division	# of Positions	Position
General Fund	Legal	1	Attorney (PSML)
General Fund	Legal	1	Victim Witness (PSML)
General Fund	Legal	2	Admin (PSML)
Public Safety	Police	3	Patrol Officer
Public Safety	Police	1	Community Safety Officer
Public Safety	Fire	1	Fire Protection Engineer
Library	Library	1	Lib. Service Specialist
Library	Library	2	Librarian
Transit	Transit	1	Service Worker
Transit	Transit	1	Transit Operator
Transit	Transit	1	Transit Dispatcher
Fleet	Fleet	1	Mechanic II
		16	

IMPACTS OF INFLATION

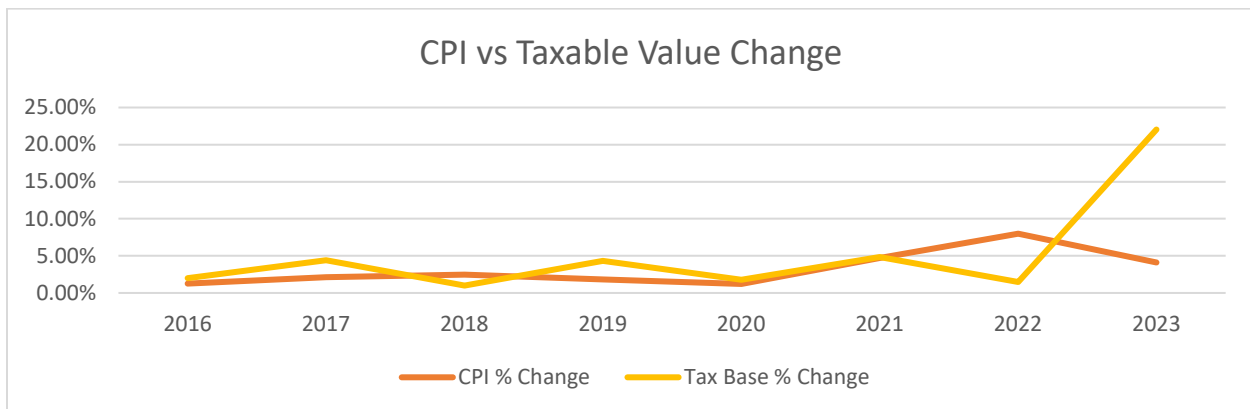
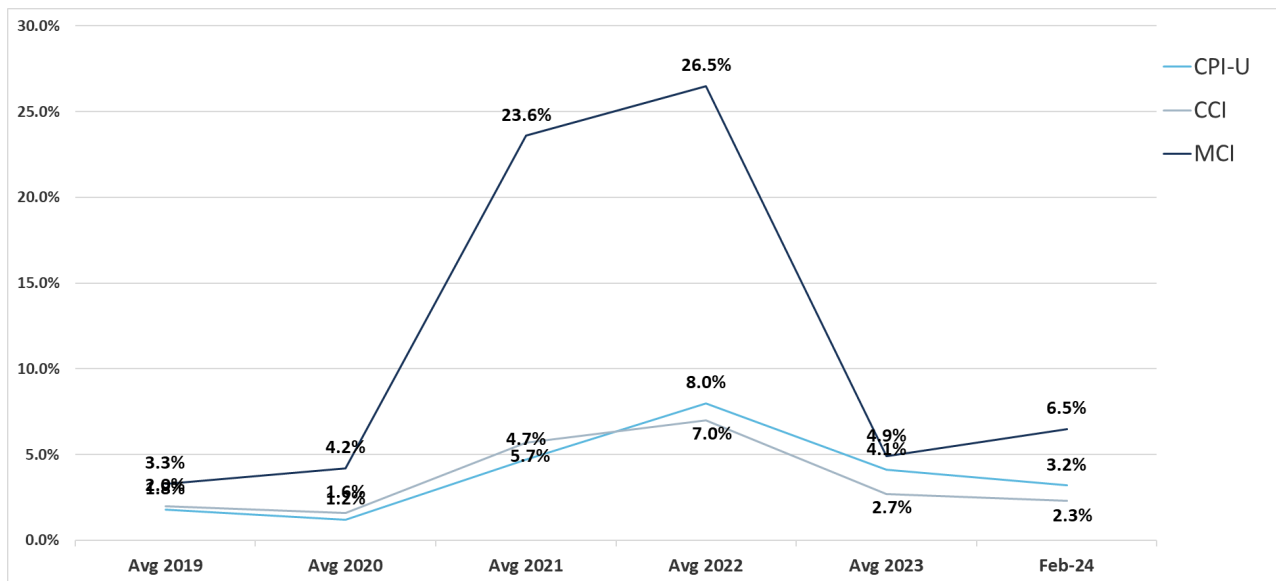
In 2023 the Consumer Price Index for All Urban Consumers (CPI-U) increased an average of 4.1% over 2022. Construction Cost Indexes have risen 4.9% over the past 12 months. City operations are impacted by these increases as a significant expense of operating City services involve fuel, labor, energy, 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.

Property values have risen dramatically in the past years, which will allow the City to resource some additional programs, but also allow inflation impacts to be more easily absorbed.

The FY25 budget includes rates and charges to keep up with construction costs when practical. This primarily exists within our utilities and street maintenance districts.

The table below shows the changes in CPI-U, Construction Cost Index, and Materials Cost Index, which all impact City operational costs.

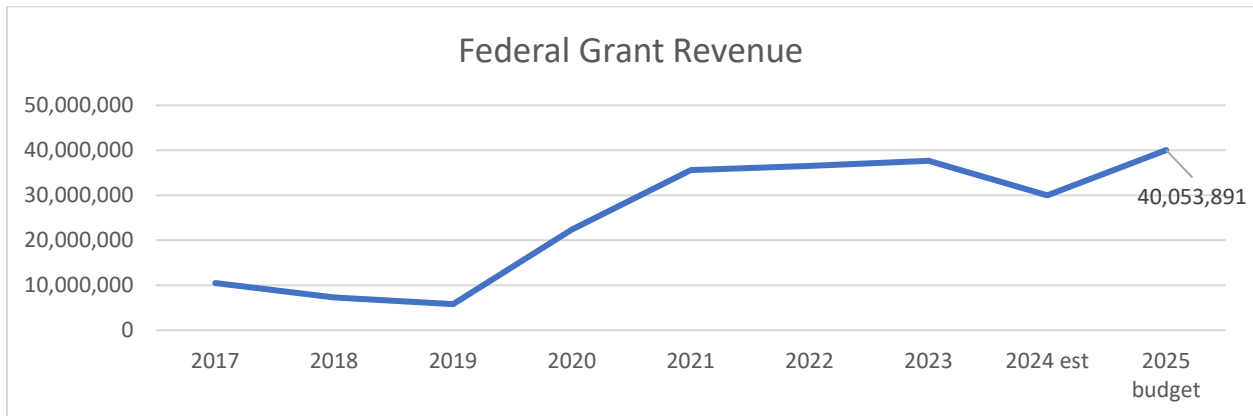


SPECIAL ASSESSMENTS

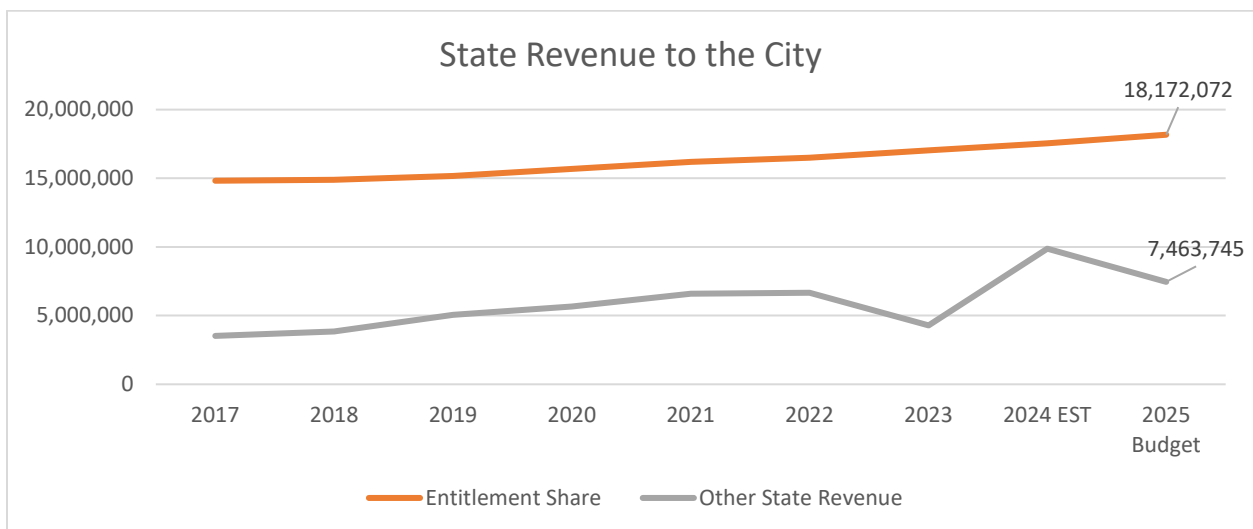
The City of Billings has multiple special assessment districts. Some are City-wide, while others are for small districts, for varied purposes. These districts are used to fund maintenance and operations of amenities that benefit the individual parcel. Some examples of districts are Parks Districts, Street 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 FY25 the proposed budget includes increases in assessment revenue ranging from 5-22%.

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 FY25, the City is budgeting \$68.6 million in intergovernmental revenue. This is an increase of \$16.6M over the FY24 budget. The increase is largely a result of the increases in the Water fund, Airport, and Trail Fund. For FY25 the Federal revenues budgeted are \$40 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 FY25, the growth rate in entitlement share will be 3.4%, or \$619k. 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 \$18.1 million. Other State revenue includes \$4.4 million of Gas Tax, \$1.1 million for 9-1-1, and \$1.9 million in combined other grant funds for Transit, Legal, Police, Fire and Library.



PROPERTY TAX REVENUE

In 2023 the city taxable value increased by historically significant amounts. For FY25, we do not anticipate a significant change in taxable value, as it is not a reappraisal year. The FY25 budget is based upon an assumption that the taxable value will increase by 1%, which is in line with historical non-reappraisal years. This will mean levying 208.41 mills, which is the maximum amount authorized by the City Charter, and citizens of Billings. In FY24, the City levied 206.57 mills. The Montana Department of Revenue undergoes a reappraisal process every other year, in FY25, there will not be a reappraisal process. As such, the estimated increase in values will result from new construction. Actual increase in the tax base will not be known until August. As such, the actual number of mills needed to fund the budget will not be known until August was well.

Based upon the estimated mills, the annual property tax on a median home, valued at \$308,400, will be \$867.69. This is an increase of \$7.66 per year from FY24.

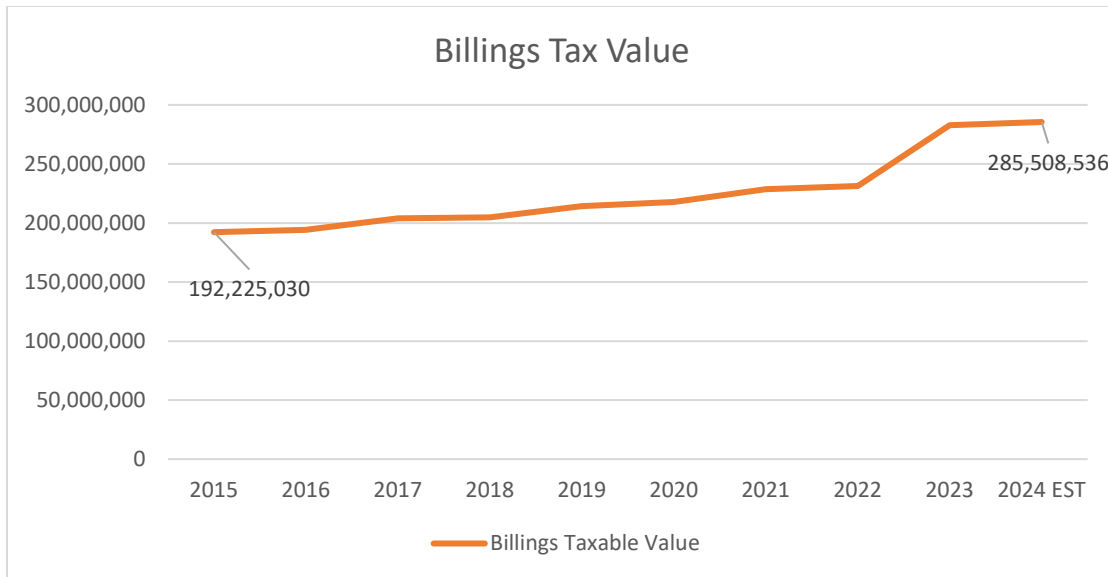
Number of Mills Levied

	<u>FY 25 Estimate</u>	<u>FY 24 Actual</u>
General Fund	74.00	73.10
Public Safety 1999	20.00	20.00
Public Safety 2020	60.00	60.00
Public Safety 2021	34.00	34.00
Transit	10.00	8.53
Library	5.00	4.27
G.O. Streets	-	1.34
G.O. Ballpark Debt Service	2.78	2.80
G.O. Library	<u>2.63</u>	<u>2.53</u>
Total	208.41	206.57

Median Home Property Taxes

	FY24	FY25	Change
General	\$ 304.34	\$ 308.09	\$ 3.75
Public Safety	474.63	474.63	0.00
Library	17.78	20.817	3.04
Transit	35.51	41.634	6.12
General Obligation	<u>27.77</u>	<u>22.52</u>	<u>-5.25</u>
Median Home Property Tax	\$ 860.03	\$ 867.69	\$ 7.66

Over the past 9 years, the City of Billings' tax base has grown at an average rate of 5.9% per year. Prior to the large increase in FY24, this amount has been closer to 2.5%. 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. While we don't know what changes will occur, we do expect that future property tax value changes will be made at the 2025 legislative session.



MARIJUANA TAX

The revenue from the excise tax from the sale of recreational and medical marijuana in Yellowstone County is expected to be about \$625,000 for FY25. 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 crime prevention. 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 \$1,035,516 in FY25.

GENERAL & PUBLIC SAFETY FUNDS (GFPS)

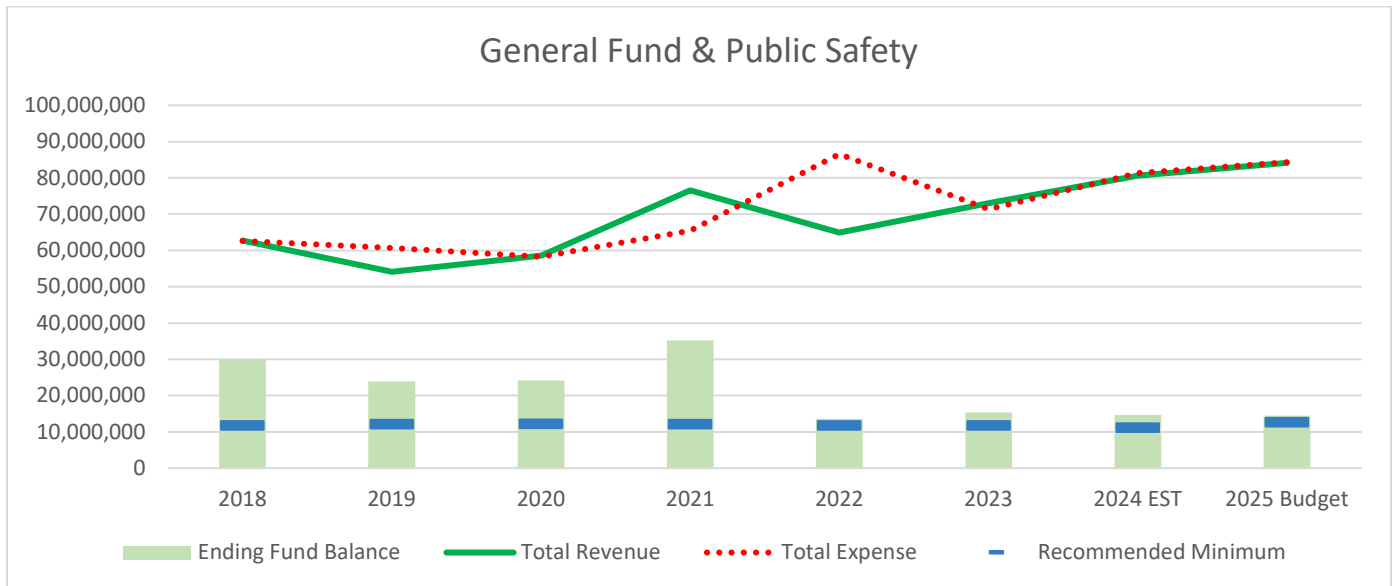
For FY25, we are assuming a growth in taxable value of 1%. We are proposing levying the maximum of 74 general purpose mills authorized by the charter. Overall, this will mean approximately \$1.1 million of new property tax revenue into the GFPS funds related to growth in value and a slight increase in the number of mills. Other revenue in the GFPS funds, which make up about 34% of total revenue is estimated to generate an additional \$500k in revenue.

The FY25 budget estimates an ending fund balance that is \$1.7 million higher than the recommended minimum reserve of \$12.7 million.

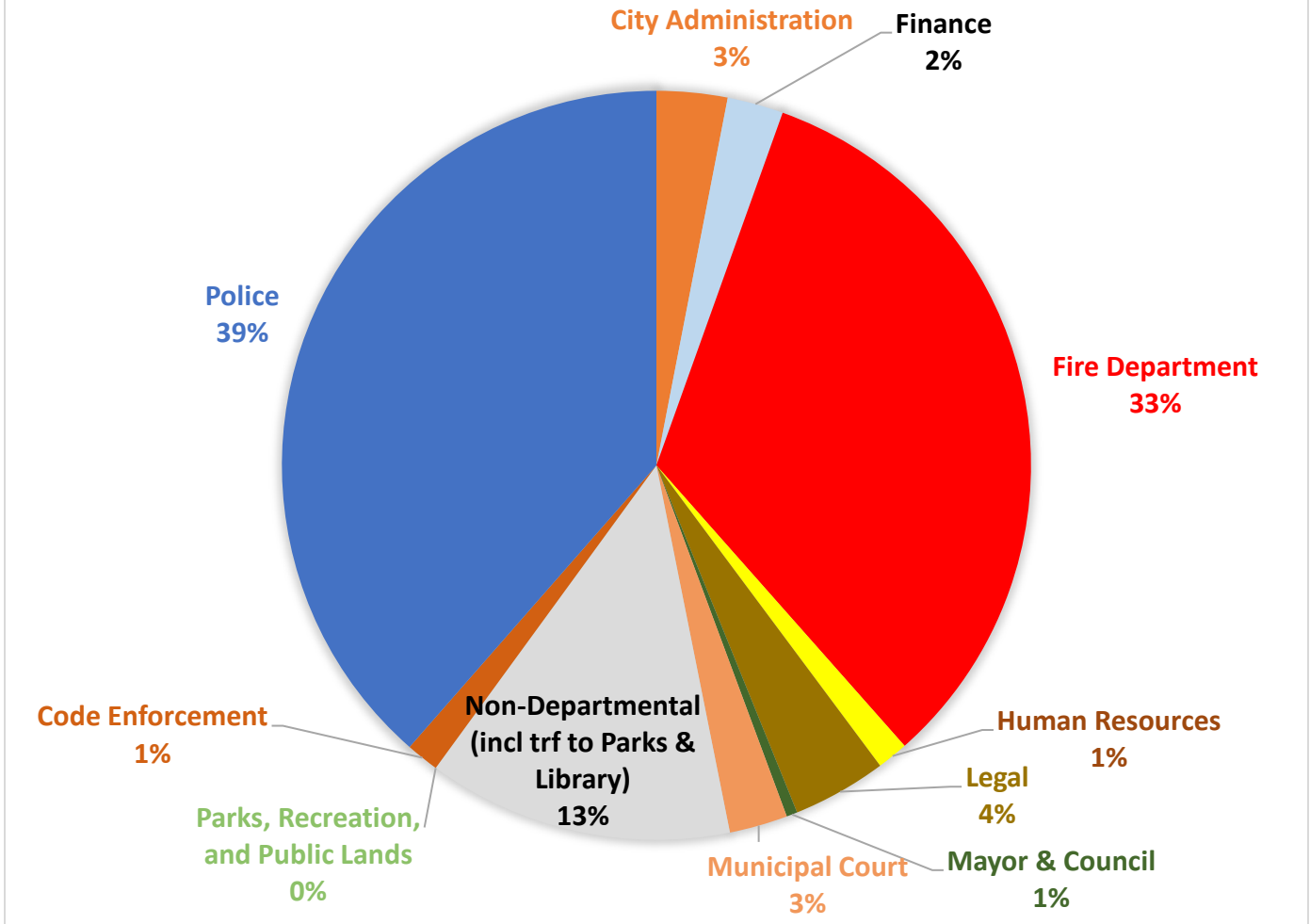
Additionally, this year we are recommending removing the Parks and Recreation department entirely from the General Fund, and creating a special revenue fund for Parks and Recreation. Traditionally Parks and Recreation have been funded via a combination of recreation program fees, donations, and a substantial portion from the General Fund. The funding sources will not change, but rather than being represented within the General Fund, the contribution to Parks and Rec from the General Fund will be reflected as a transfer out. This will allow for more clarity as to the amount of General Fund subsidy for Parks and Recreation, in addition, allow for unspent Parks and Rec funds to be maintained within their own fund for future use in the Parks and Recreation programs.

GFPS Revenue by Class	FY25 Proposed Budget	FY24 Adopted Budget	Budgeted Revenue Change
Taxes	55,166,266	54,011,840	1,154,426
Charge for Service	6,961,630	7,532,151	-570,521
Fines And Forfeitures	1,345,946	1,328,846	17,100
Intergovernmental	17,465,011	17,076,243	388,768
Investment Earnings	116,991	70,000	46,991
License And Permits	1,882,576	2,008,228	-125,652
Miscellaneous	122,200	117,220	4,980
Transfers In	<u>1,071,693</u>	<u>224,675</u>	<u>847,018</u>
Revenue Total	84,132,313	82,369,203	1,763,110

Expenses by Department	FY25 Proposed	FY24 Adopted	Change
City Administration	2,574,672	2,366,903	207,769
Finance	2,042,499	1,987,872	54,627
Fire Department	27,826,460	25,952,419	1,874,041
Human Resources	1,130,791	1,089,704	41,087
Legal	3,423,409	2,924,845	498,564
Mayor & Council	396,897	393,729	3,168
Municipal Court	2,119,094	2,002,135	116,959
Non-Departmental (incl trf to Parks & Library)	11,113,811	10,820,294	293,517
Parks, Recreation, and Public Lands	0	5,004,486	-5,004,486
Code Enforcement	1,200,866	1,111,845	89,021
Police	<u>32,507,930</u>	<u>30,693,348</u>	<u>1,814,582</u>
Total	\$ 84,336,429	\$ 84,347,580	\$ (11,151)



FY25 PROPOSED GENERAL FUND AND PUBLIC SAFETY



PARKS, RECREATION, AND PUBLIC LAND FUNDING

The FY25 budget is proposing to remove the Parks and Recreation department from the General Fund, and create a special revenue fund for Parks and Recreation. Historically, Parks and Recreation have been funded via a combination of recreation program fees, donations, a special assessment for a citywide park district, and a portion from the General Fund. Rather than being represented within the General Fund the contribution to Parks and Rec from the General Fund will be reflected as a transfer out. This will allow for more clarity as to the exact amount of General Fund subsidy for Parks and Recreation, in addition, allow for unspent Parks and Rec funds to be maintained within their own fund for future use in the Parks and Recreation programs.

Parks funding sources have changed over the past few years with the elimination of the citywide park district, and reintroduction to the General Fund. In an effort to provide more stability to the Parks and Recreation fund, as well as allow for unspent Park funds to be used for future Parks and Recreation improvements, we are recommending the FY25 budget establish a Parks and Recreation fund.

The exhibit below provides some historical perspective on the Parks and Recreation funding that was from the General Fund and Park District 1. These two funds make up the majority of Parks and Recreation funding, but are not the exclusive funds for the department.

PRPL General Fund and Park District 1 Combined				
	2025 Budget	2024 Budget	2023 Actual	2022 Actual
Charge For Service Revenue	1,856,598	1,644,500	1,387,387	1,363,045
Special Assessment	0	0	3,616,121	3,120,556
General Fund Transfer	8,061,300	3,834,082	19,303	123,579
Grant Revenue	40,000	40,000	104,731	238,503
Other Revenue	<u>80,000</u>	<u>48,000</u>	<u>108,898</u>	<u>1,988</u>
Total Revenue	10,037,898	5,566,582	5,236,440	4,847,671
Personal Services	5,009,498	4,661,662	4,399,111	4,240,869
Operation & Maintenance	2,549,746	2,299,246	2,091,939	1,901,187
Capital Outlay	1,421,894	3,202,336	2,434,655	1,989,009
Transfers Out	<u>1,057,258</u>	<u>431,519</u>	<u>438,269</u>	<u>423,901</u>
Total Expenses	10,038,396	10,594,763	9,363,974	8,554,966

PROPERTY TAXES, ASSESSMENTS, AND UTILITY BILLS

The FY25 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 \$308,400. This is not expected to change much this year, as it is not a reappraisal year for the Department of Revenue. Any changes in property values will be known by the City in early August.

The FY25 budget proposal is funded based upon assumed growth in the tax base at 1%, which will require Council to approve levying the maximum number of mills authorized in the Charter. Additionally, the budget is built upon Council approved increases 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 total number of mills levied in FY24 was 206.57. Based upon the assumed growth it is estimated that the total number of mills needed in FY25 will be 208.41.

FY2025 Tax Revenue Assumptions	
Median Home Value	\$ 308,400
Assumed Value of 1 mill	\$ 272,463
Annual Cost of 1 mill for the Median Home	\$ 4.16

Overall, when looking at the City as a whole, the average residential property owner would see a decrease in taxes and assessments of \$38.87 per year over the prior year. This is a result of moving the Storm Water assessment from the property tax bill to the monthly utility bill. The result of moving Storm Water to the utility bill, along with proposed rate increase, will show an increase in the monthly utility bill of \$13.72 per month. Rates for Storm Water and Solid Waste have not yet been set by Council, but rates for Water and Wastewater were adopted in 2024. =

Number of Mills Levied

	FY 25 Estimate	FY 24 Actual
General Fund	74.00	73.10
Public Safety 1999	20.00	20.00
Public Safety 2020	60.00	60.00
Public Safety 2021	34.00	34.00
Transit	10.00	8.53
Library	5.00	4.27
G.O. Streets	-	1.34
G.O. Ballpark Debt Service	2.78	2.80
G.O. Library	2.63	2.53
Total	208.41	206.57

This change in mills will impact the median homeowner an estimated \$8 per year, due to the increase in mills.

Median Home Property Taxes

	FY25	FY24	Change
General	\$ 308.09	\$ 304.34	\$ 3.75
Public Safety	474.63	474.63	-
Library	20.82	17.78	3.04
Transit	41.63	35.51	6.12
General Obligation	22.52	27.77	(5.25)
Median Home Property Tax	\$ 867.69	\$ 860.03	\$ 7.66

The City also has 2 City-wide special districts, 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. The proposed budget anticipates moving the Storm Sewer assessment from the annual property tax bill to the monthly utility bill.

Street Maintenance District – The FY25 budget proposal includes an increase of 6.6% in the SMD assessment. The proposed budget is based upon a rate increase of \$13.07 per year for the average homeowner.

Stormwater Fees – These funds are used to build and maintain the stormwater infrastructure throughout the City. City staff have presented a plan for significant improvements to the deficiencies in storm water infrastructure. The proposed budget is based upon a rate increase of 41%, or \$24 per year for the average homeowner. Final rates for Storm Water have not been approved, and recommended amounts may change as estimated costs become refined.

With the changes in proposed rates, and removal of the Storm Water assessment from the property tax bill, the total impact of property tax and assessments on the typical home is a decrease of \$38.87/year. If the Storm Water assessment were to remain on the annual property tax bill, the total change would have been an increase of \$45.13 annually.

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	FY25	FY24	Change
General	\$ 308.09	\$ 304.34	\$ 3.75
Public Safety	474.63	474.63	-
Library	20.82	17.78	3.04
Transit	41.63	35.51	6.12
General Obligation	<u>22.52</u>	<u>27.77</u>	<u>(5.25)</u>
Median Home Property Tax	\$ 867.69	\$ 860.03	\$ 7.66
Street Maintenance District	211.11	198.04	13.07
Storm Sewer	<u>-</u>	<u>59.60</u>	<u>(59.60)</u>
Total Special Assessments	211.11	257.64	(46.53)
Total Taxes and Assessments	1,078.80	1,117.67	(38.87)

The FY25 budget is also based upon rate increases to Solid Waste, Storm Sewer, as well as rate increases already approved for Water and Wastewater. The impacts to the typical homeowner are provided below. Currently proposed Storm rates are estimates based upon anticipated costs. It should be expected that this amount will change as anticipated storm costs become more refined.

Average Home Monthly Utility Bill

	FY2025	FY2024	Change
Water	\$47.71	\$43.40	\$4.31
Wastewater	30.85	29.04	1.81
Solid Waste	14.50	13.90	0.60
Storm Sewer	<u>7.00</u>	<u>0.00</u>	<u>7.00</u>
Monthly Utility Bill	\$100.06	\$86.34	\$13.72

CONCLUSION

As we navigate the complexities of budgeting, we are mindful of the varying perspectives within our community. We recognize that there are differing opinions on how to best prioritize resources and allocate funds. However, we remain committed to transparency, accountability, and collaboration as we work together to build a stronger, more resilient Billings.

In closing, I would like to express my gratitude to each of you for your dedication and service to our city. Your leadership and guidance are instrumental in shaping the future of Billings, and I am confident that, together, we can overcome any challenges and seize the opportunities that lie ahead.

Respectfully,

Chris Kukulski, City Administrator

Andrew Zoeller, Finance Director