

May 15, 2024

Honorable Mayor and City Council Members:

It is a privilege to present the City of Billings Fiscal Year 2026 (FY26) Proposed Operating and Capital budget. The effective date of this budget is July 1, 2025, and runs through June 30, 2026. 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.

This year the Montana State legislature has been in session, with a primary goal of property tax reform for the State of Montana. This has created challenges with respect to our approach to balancing the budget. Multiple property tax bills were proposed, with varying impact on the City of Billings. As the process in Helena wrapped up, it was clear the impact on Billings tax base would be significant.

Both House Bill 231 and Senate Bill 542 were the bills passed by the legislature and transmitted to the Governor to provide residential property tax relief in Montana. The result of these bills will significantly reduce the taxable value of residential property, making those properties a smaller portion of the overall tax base. As such, the value of Billings tax base is projected to decline by ~16% in FY26. The bills require that the City of Billings adjust its mill cap provided in the Charter, and levy the number of mills needed in FY26 to generate the same tax amount assessed in FY25.

The current budget is built based upon the assumption that there were no changes to the property tax revenue in FY26 relative to the FY25 property tax revenue.

ACCOMPLISHMENTS IN FY25

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:

- Moved all departments into New City Hall
- Increased ridership on MET Transit (30%+) and airport passengers (10%+)
- Completed updates to the City Subdivision Regulations
- Successfully implemented a Graffiti Abatement Program on City owned property
- Adopted 2025-2029 Consolidated Plan and FY26 Annual Action Plan for HUD Program
- Approved Public Participation Plan and formation of Interim Planning Commission for MT Land Use Planning Act Implementation
- Completed CPTED improvements in North Park with combined CDBG, Parks, and City Council funding allocations
- Completed design of Amend Park Rec Campus, and began construction
- Completed Parking Garage Condition Audit and Repairs
- Executed agreement with FIB for sale of City Hall Tax Credits
- Cemetery projects
 - Completed construction of cemetery cold storage
 - Replaced 37 destroyed Veteran headstones
 - Placed 12 protective flowerpots along Central Ave
- Parks projects
 - Castle Rock Park Bathrooms
 - Sacagawea Playground
 - Coulson Park Trails & Shelter

- Grandview Park sprinkler automation
- High Sierra dog park shelter
- Dehler Park Veterans Memorial
- Pump upgrades at Optimist & South Park
- Recreation Projects
 - Rose Pool Spray Feature Replacement
- 241 New Single-Family Homes were completed
- 486 Other Dwelling Units Completed
- Total permits valued at over \$427 million were issued in calendar year 2024
- Completed and implemented updated stormwater program
- Started Two-way conversion downtown
- Completed gas collection and treatment projects at the landfill for air quality compliance
- Started West End reservoir construction

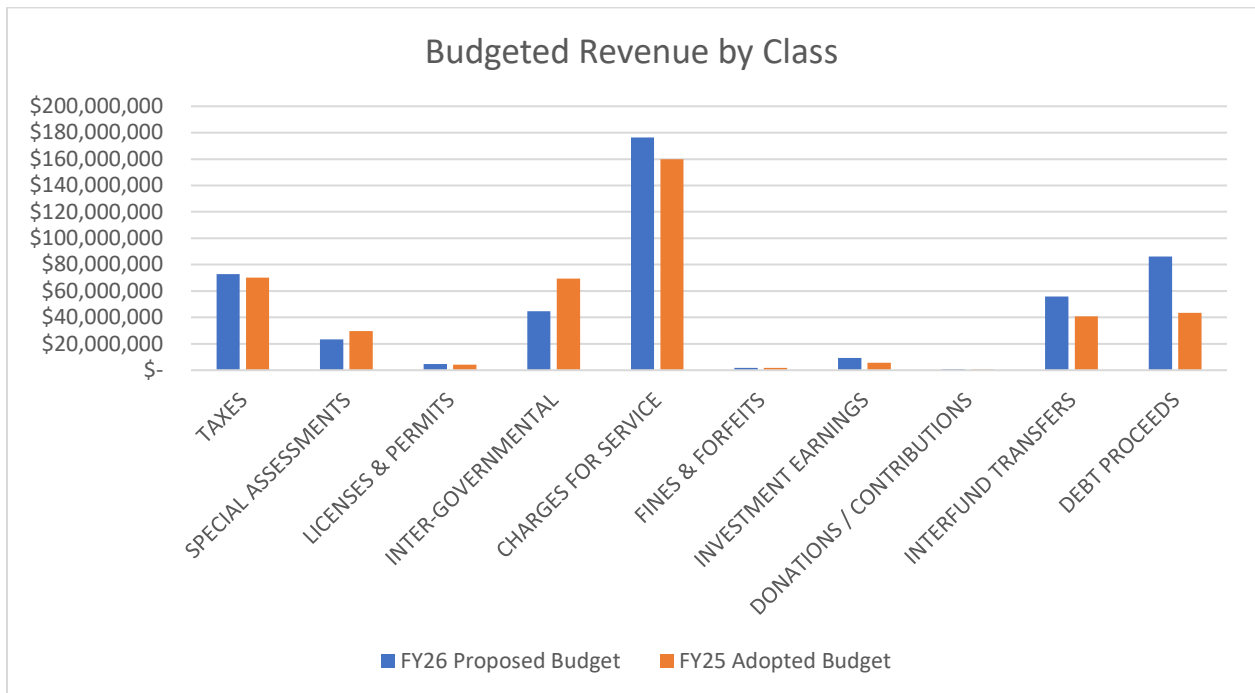
City Council Adopted Goals and Objectives

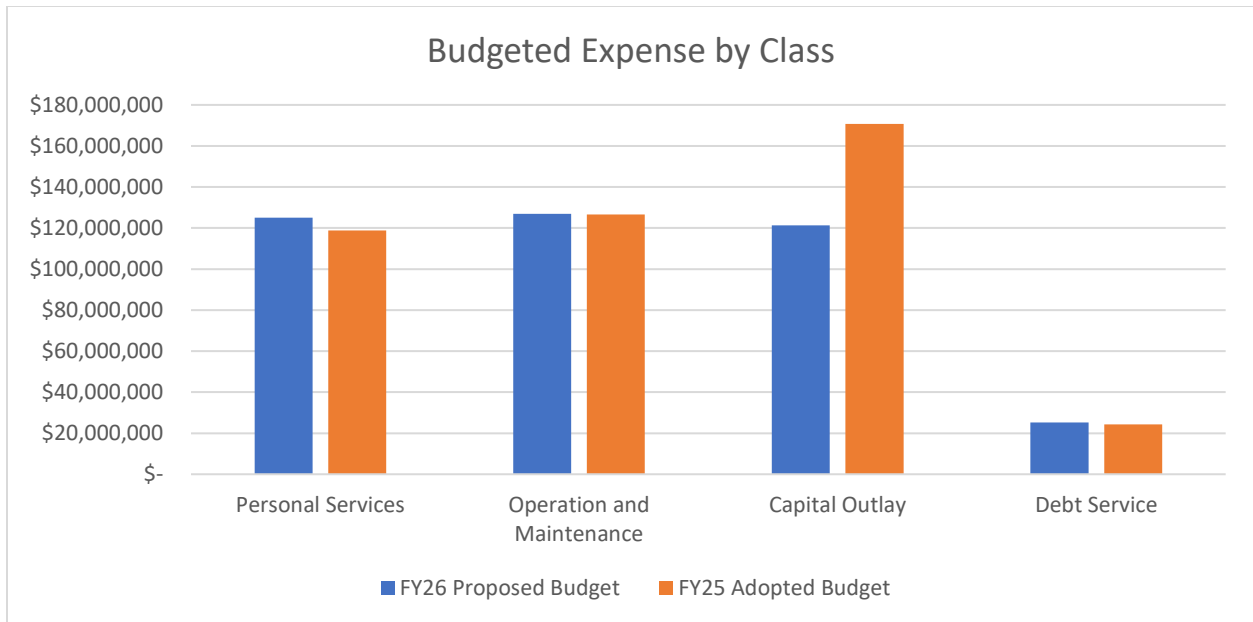
- **Improve the safety of Billings for all citizens (\$73.1 million)**
 - Continued support for the Family Justice Center
 - Final payment to the Yellowstone County for the Short-term Hold Facility
 - Increased DV training for officers
 - Implement proactive nuisance property abatement procedures
 - Continue the graffiti reduction program
 - Continue design of Safe Routes to School projects
 - Develop successful Crisis Response Units with new partner
- **Sustain and Upgrade Critical Infrastructure (\$122.6 million)**
 - Begin Airport Terminal Landside Reconstruction (Ticket Counters and Baggage Claim)
 - Complete Airport Master Plan
 - Expand passenger surface parking area while developing plans for a parking structure at the airport
- **Provide Exceptional Educational, Recreational, and Cultural Services and Amenities (\$7.1 million)**
 - Construct a Recreation Center near Amend Park
 - Explore expansion of South TIF District to facilitate rebuild of South Park Pool and other improvements in the area
 - Maximize parks assets useful life through focused maintenance
 - Increase participation in recreation programs
- **Foster Economic Vibrancy through Quality Designed Neighborhoods and Business Districts (\$2.6 million)**
 - Completing Neighborhood plans and hire a neighborhood planner
 - Develop land use plan and future land use map of Billings
 - Improve multi-modal transportation system
- **Cultivate a High-Performance Organization**
 - Improve cross departmental communications, through establishment of the HPO team with bi-monthly meetings
 - Strengthen citizen trust through effective communication and transparency
 - Digitize records for proper storage, organization, and retrieval
 - Financially support local government review

THE FY26 PROPOSED BUDGET

The FY26 proposed budget is funded by estimated revenues totaling \$456.5 million. This includes increases in limited special assessments for storm sewer, some small special districts, and issuance of debt for continued work on the Westend Reservoir, South TIF Rec Center, and Storm Sewer projects.

The proposed FY26 budget for the City of Billings contains operating and capital expenses totaling \$437.9 million, a decrease of \$44 million from the prior year. The decrease is due to prior year capital investments are not occurring, and do not reflect in the FY26 budget. There are increases found in Personal Services for estimated salary and wage adjustments, some additional staffing requests, and an estimated increase in health insurance costs. Operation and Maintenance increases for FY26 are rather minimal for this fiscal year.





CAPITAL INVESTMENTS

Storm Sewer – The FY26 budget contains significant investments in our Stormwater infrastructure. Projects include construction on west end trunk storm drain mains.

Transportation Network – The FY26 budget includes funding for improvements to 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 \$22 million for FY26. All projects are funded by Airport revenues and federal grants. Projects include ticket counter remodel, storm water improvements, and hanger development.

Park Improvements and Replacements – The FY26 budget includes \$29 million for construction on the Amend Park Rec Center Project. This project began in FY25, but was not included in the budget.

NEW PERSONNEL IN FY26

The FY26 budget contains costs for an additional 7 FTE’s. 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 FY26

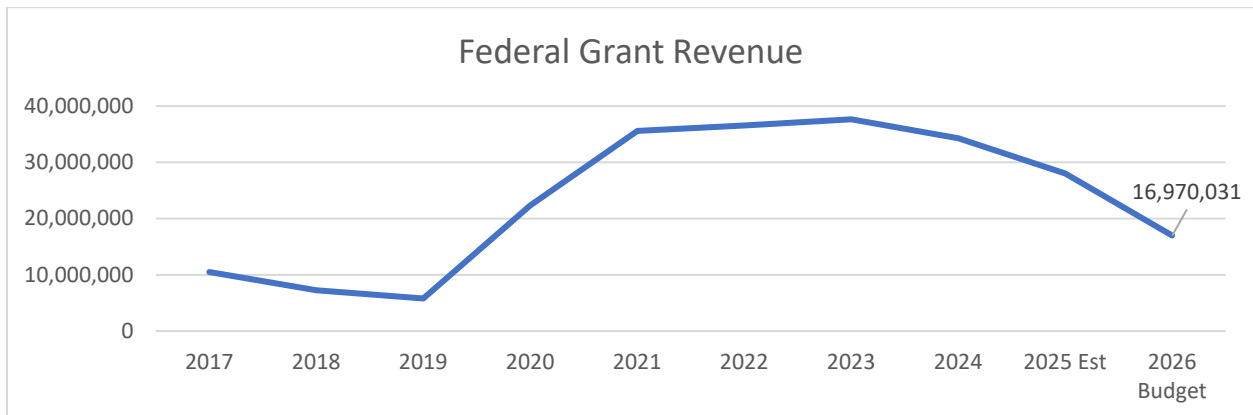
Fund	Department/Division	# of Positions	Position
Public Safety	Police	1	DUI Officer
Public Safety	Police	1	Patrol (Court Officer)
Public Works	Storm	3	Equip Operator
Public Works	Solid Waste	1	Equip Operator (yard waste)
Public Works/IT	Admin	1	IT Specialist
	Total Additional FTE	7	

SPECIAL ASSESSMENTS

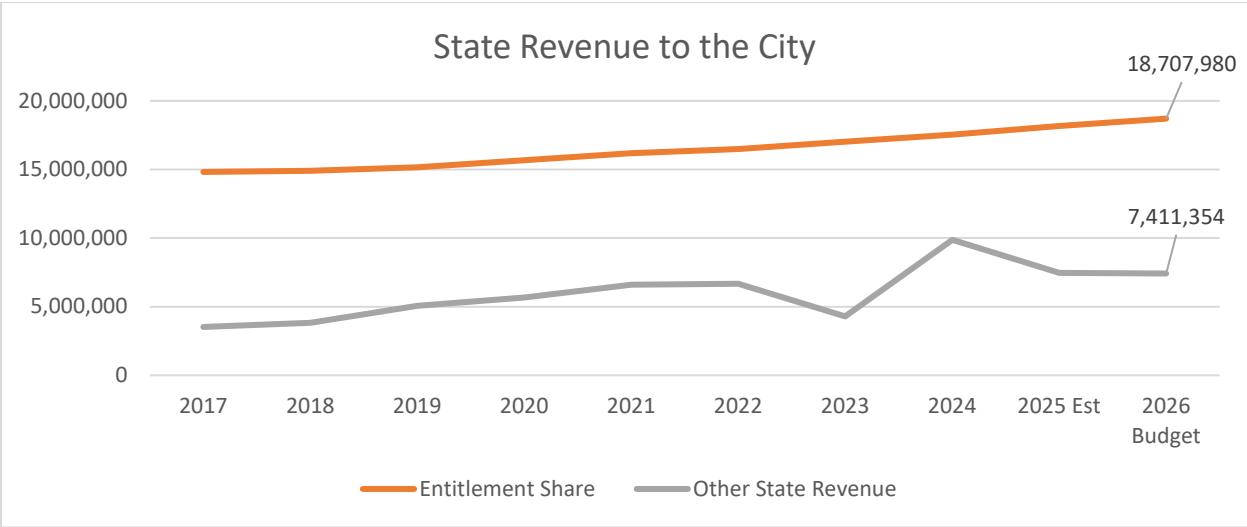
The City of Billings has multiple special assessment districts. Some are City-wide, while others are for small districts, for varied purposes. These districts are used to fund maintenance and operations of amenities that benefit the individual parcel. Some examples of districts are Park Maintenance Districts, 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. Additionally, the Parks Department is recommending to begin assessing and accumulating funds for replacement of equipment within certain PMDs, as such some PMDs are recommended to be increased from 0% to 110%, depending upon the need. Overall increase in PMDs is recommended at 14%.

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 been reducing towards pre-pandemic levels, and is projected to continue to decline as an overall share of the City's budget. The revenue from other governments can be found in the budget under the category "Intergovernmental". For FY26, the City is budgeting \$46 million in intergovernmental revenue. This is a decrease of \$22M over the FY25 budget. The decrease is largely a result of one-time grants received in the prior year in the Water fund and Trail Fund. For FY26 the Federal revenues budgeted are \$16 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 FY26, the growth rate in entitlement share will be 2.9%, or \$535k. The City of Billings uses entitlement share to fund General Fund, Public Safety, Library, Transit, and Street/Traffic Operating. The total State Entitlement share for FY26 will be \$18.7 million. Other State revenue includes \$4.5 million of Gas Tax, \$1.1 million for 9-1-1, and \$1.8 million in combined other grant funds for Transit, Legal, Police, Fire and Library.



PROPERTY TAX REVENUE

In 2023, across the State of Montana, we experienced historically large increases in residential property tax values. As a result of this large increase in residential property values, and the resulting increasing tax burden that residence experienced, the State of Montana legislature and the Governor endeavored to provide property tax relief in 2025.

The legislature passed both House Bill 231 and Senate Bill 542, which will reduce the taxable value of primary residences in Montana, when fully implemented. According to the Montana Department of Revenue, the City of Billings will realize a decrease in the taxable value by 16%. Had this change in taxable values not been implemented, the City of Billings would have likely seen an estimated increase in the taxable value of 10.5%. The City of Billings, through this legislation, shall levy the number of mills in FY26 that will generate the same tax revenue assessed in FY25 for those sections that are limited by the City of Billings Charter. As such, we do not expect any increase or decrease in the amount of property tax collected at the City.

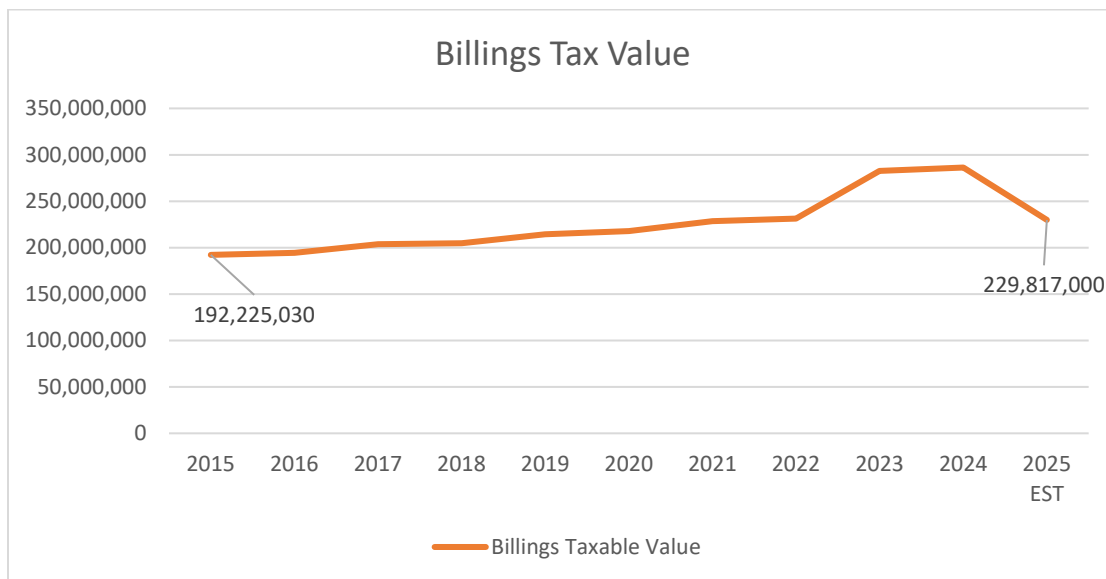
The projected number of mills needed, under the requirements of this new law will require the City to levy 247.23 mills. In FY25, the City levied 207.37 mills. Actual change in the tax base will not be known until August. As such, the actual number of mills required to fund the budget at the same level as FY25 will not be known until August as well. The mills required to be levied by the State legislation will result in the City of Billings levying approximately 37.45 mills more than the total authorized amount within the City of Billings Charter.

Based upon the estimated mills, the annual property tax on a median home, projected to be valued at \$350,000, will be \$657.63. This is a decrease of \$205.73 per year from FY25.

Number of Mills		
	FY2026	FY2025
General	87.70	73.63
Public Safety	134.98	113.43
Library	5.93	4.98
Transit	11.84	9.95
GO Bonds	<u>6.78</u>	<u>5.38</u>
Total Mills	247.23	207.37

Median Home Property Taxes			
	FY26	FY25	Change
General	\$ 233.28	\$ 306.55	\$ (73.27)
Public Safety	359.05	472.25	(113.21)
Library	15.77	20.73	(4.96)
Transit	31.49	41.43	(9.93)
General Obligation	<u>18.03</u>	<u>22.40</u>	<u>(4.36)</u>
Median Home Property Tax	\$ 657.63	\$ 863.36	\$ 205.73)

Over the past 9 years, the City of Billings’ tax base has grown at an average rate of 5.4% 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 than linear. While we do not know what changes will occur from the new legislation, we do expect that future property tax value changes to follow historical trends.



Projected total tax revenue in FY26 will be identical to that which was billed in FY25, with the exception of the General Obligation debt payments, which must levy sufficient tax revenue to pay the required debt payment.

Total Tax Revenue

	FY26 Budget	FY25 Billed	Inc/(Dec)
General Fund	\$ 19,851,888	\$ 19,851,888	\$ 0
Library	1,341,378	1,341,378	0
Transit	2,680,062	2,680,062	0
Public Safety	30,016,655	30,016,655	0
PS Crime Prevention	536,013	536,013	0
GO Library	767,393	703,008	64,385
GO Ballpark	<u>767,393</u>	<u>746,103</u>	<u>21,290</u>
Total Tax Revenue	\$ 55,960,781	\$ 55,875,106	\$ 85,674

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 FY26. 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 \$536k 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 \$1,058,631 in FY26.

GENERAL & PUBLIC SAFETY FUNDS (GFPS)

For FY26, we are assuming a growth in tax revenue of 0% in the General & Public Safety Funds. Other revenue in the GFPS funds, which make up about 34% of total revenue is estimated to generate an additional \$1.7 million in revenue. This is a function of reallocating the State Entitlement Shares from the Library, Transit, and Street/Traffic funds to the Public Safety Fund. Additionally, the overhead cost allocation charges to departments increased over the prior year, and estimated costs for the BUFSA charge to the County.

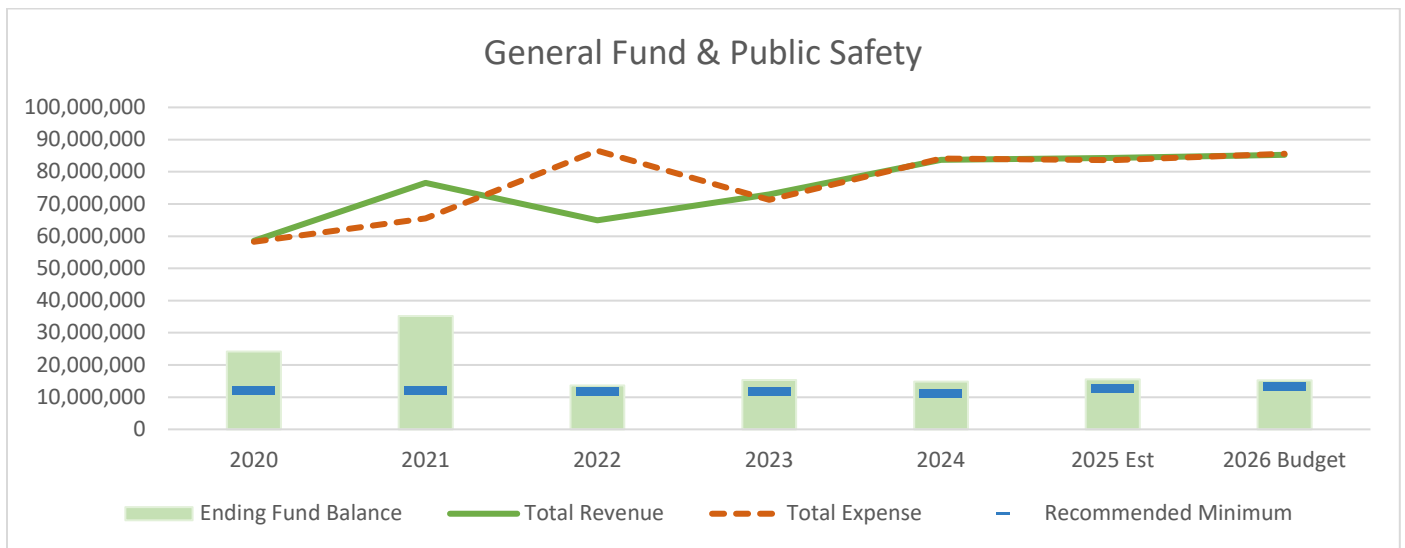
The FY26 budget estimates an ending fund balance that is \$1.9 million higher than the recommended minimum reserve of \$13.3 million. This is a result of estimated expenses in FY25 not occurring and rolling the budget savings into General Fund reserves.

The transfer to the Parks Department, which is entirely out of the General Fund after the change was made in FY25, is recommended to decrease by \$479k compared to FY25. For FY26, the estimated transfer to PRPL is \$7.03 million. This reduction is recommended to help balance the budget resulting from no new tax revenue and offset increases elsewhere.

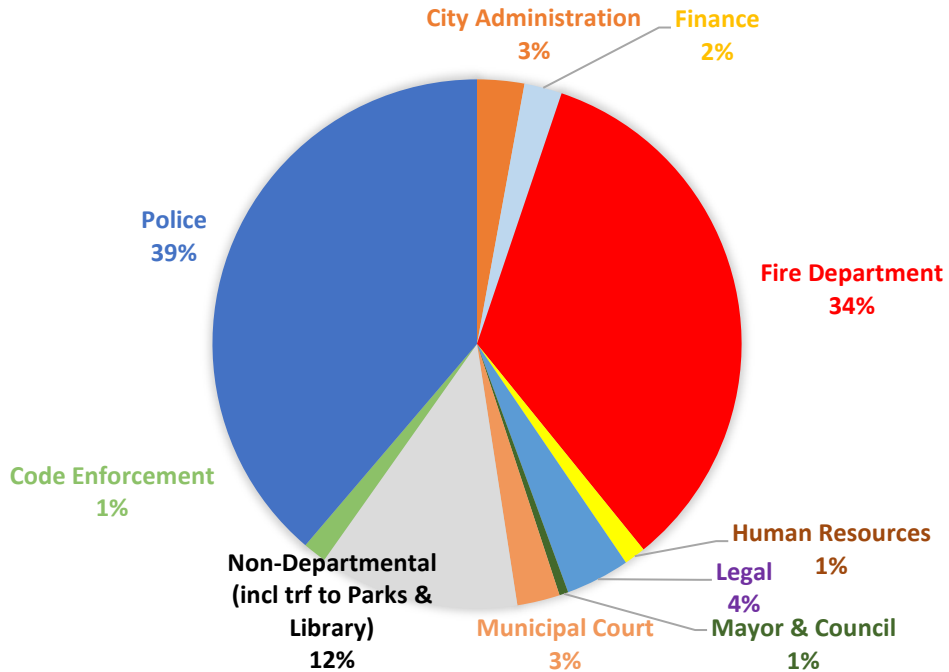
Revenue By Class

GFPS Revenue By Class	FY26 Proposed Budget	FY25 Adopted Budget	Budgeted Revenue Change
Taxes	\$ 55,204,208	\$ 55,166,266	37,942
Charge for Service	7,487,409	6,961,630	525,779
Fines And Forfeitures	1,338,400	1,345,946	-7,546
Intergovernmental	18,839,604	17,865,011	974,593
Investment Earnings	234,526	116,991	117,535
License And Permits	2,014,395	1,882,576	131,819
Miscellaneous	152,800	122,200	30,600
Transfers In	0	3,016,802	\$ -3,016,802
Revenue Total	\$ 85,271,342	\$ 86,477,422	\$ -1,206,080

Expenses by Department	FY26 Proposed Budget	FY25 Adopted Budget	Change
City Administration	2,463,201	2,574,672	-111,471
Finance	1,972,519	2,182,499	-209,980
Fire Department	29,075,540	28,126,460	949,080
Human Resources	1,129,513	1,130,791	-1,278
Legal	3,351,051	3,383,409	-32,358
Mayor & Council	469,213	396,897	72,316
Municipal Court	2,232,552	2,159,094	73,458
Non-Departmental (incl trf to Parks & Library)	10,472,782	10,473,811	-1,029
Code Enforcement	1,229,951	1,200,866	29,085
Police	<u>33,169,009</u>	<u>35,068,039</u>	<u>-1,899,030</u>
Total	\$ 85,565,331	\$ 86,696,538	\$ (1,131,207)



FY26 PROPOSED GENERAL FUND AND PUBLIC SAFETY



PARKS, RECREATION, AND PUBLIC LAND FUNDING

The proposed FY26 budget includes a recommended reduction in the total transfer to the Parks and Recreation Operating Fund. The proposed budget includes a transfer from the General Fund at \$7.0 million, a reduction of \$479k over the prior year. This reduced transfer will result in a reduction in the number of capital projects that are able to be completed each year.

PROPERTY TAXES, ASSESSMENTS, AND UTILITY BILLS

The FY26 budget is based upon a largely maintaining 0% rate increases and flat property tax revenues. This will pose challenges to maintain services equivalent to prior years. The median home value in Billings, is estimated to be approximately \$350,000. Actual changes in property values will be known by the City in early August.

The FY26 budget proposal for property tax-based State legislation which requires the City to levy the number of mills necessary in FY26 to generate the same revenue that was assessed in FY25. This will require Council to approve levying the mills in excess of those provided for within the Charter. Additionally, the budget is built upon Council approved increases in Stormwater charges but holding residential rates flat for all other utilities and city-wide street maintenance.

FY2026 Tax Revenue Assumptions	
Median Home Value	\$ 350,000
Assumed Value of 1 mill	\$ 229,817
Annual Cost of 1 mill for the Median Home	\$ 2.66

Overall, when looking at the City as a whole, the average residential property owner would see a decrease in taxes and assessments of \$205.73 per year over the prior year. This is a result of State legislation that will reduce the taxable value of primary residential properties, which currently has a

taxable value rate of 1.35% and will decrease to 0.76%. The City Council has also adopted rates to provide relief to homeowners on their utility bills. The utility rates for residential properties for Water, Wastewater, and Solid Waste are to remain flat, with an increase in Stormwater.

Number of Mills		
	FY2026 Estimate	FY2025 Actual
General	87.70	73.63
Public Safety	134.98	113.43
Library	5.93	4.98
Transit	11.84	9.95
GO Bonds	<u>6.78</u>	<u>5.38</u>
Total Mills	247.23	207.37

This increase in mills, assumed increase in the median home value, and the reduced taxable value rates will combine to provide the median home in Billings and estimated tax decrease of \$205.73 on the Billings portion of their tax bill.

	FY2026	FY2025	Change
Median Residential Value	350,000	308,400	41,600.00
Taxable Value	2,660.00	4,163.40	(1,503.40)
Property Tax	657.63	863.36	(205.73)
Street Maintenance	<u>216.25</u>	<u>216.25</u>	-
Total Tax & Assessment	873.88	1,079.61	(205.73)

The City has one city-wide special district for street maintenance. 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 a 0% increase in the Street Maintenance Assessment.

The City Council has identified the need for continued investment in the Stormwater system within Billings. Significant investment to reduce flooding caused by storms is needed. As such, the proposed budget includes an estimated increase in the monthly Stormwater charge of \$2.13.

Rates for Water, Wastewater, and Solid Waste are being held at FY25 levels, for a 0% increase to residential properties.

Median Home Property Taxes			
	FY26	FY25	Change
General	\$ 233.28	\$ 306.55	\$ (73.27)
Public Safety	359.05	472.25	(113.21)
Library	15.77	20.73	(4.96)
Transit	31.49	41.43	(9.93)
General Obligation	<u>18.03</u>	<u>22.40</u>	<u>(4.36)</u>
Median Home Property Tax	\$ 657.63	\$ 863.36	\$ (205.73)
Street Maintenance District	<u>216.25</u>	<u>216.25</u>	<u>-</u>
Total Special Assessments	216.25	216.25	-
Total Taxes and Assessments	873.88	1,079.61	(205.73)
Average Home Monthly Utility Bill			
	FY2026	FY2025	Change
Water	\$ 47.71	\$ 47.71	\$ 0.00
Wastewater	30.85	30.85	0.00
Solid Waste	14.50	14.50	0.00
Storm Sewer	<u>8.81</u>	<u>6.68</u>	<u>2.13</u>
Monthly Utility Bill	\$ 101.87	\$ 99.74	\$ 2.13

CONCLUSION

As we navigate the complexities of budgeting and the legislative impacts on our property tax system, 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