



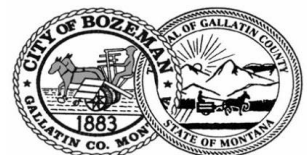
REVENUE FORECASTS FY2019

Mission: To promote and protect health and wellbeing in Gallatin County.

Vision: Healthy people and healthy communities.

Keith Wilson, Accountant, Gallatin City-County Health Department

March 2018



REVENUE FORECASTS FY2019

OVERVIEW

Matt and I will be presenting our FY2019 budget to you in the May BOH meeting; the following revenue estimates are integral to our budgeting process, which starts now and will continue through August. 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, or (406) 582-3103.

The selected own-source revenue streams are significant enough to have affected staffing levels in the past; our goal is to maintain accurate estimates that allow for responsible budgeting while also maximizing the positive impact of public funds on public health and quality of life. Revenue estimates from department staff are shown as the FY2019 budget point. Estimates made for FY2020 and FY2021 are useful for long-term planning, but are nowhere near set in stone – they will be updated many times before next year’s forecast.

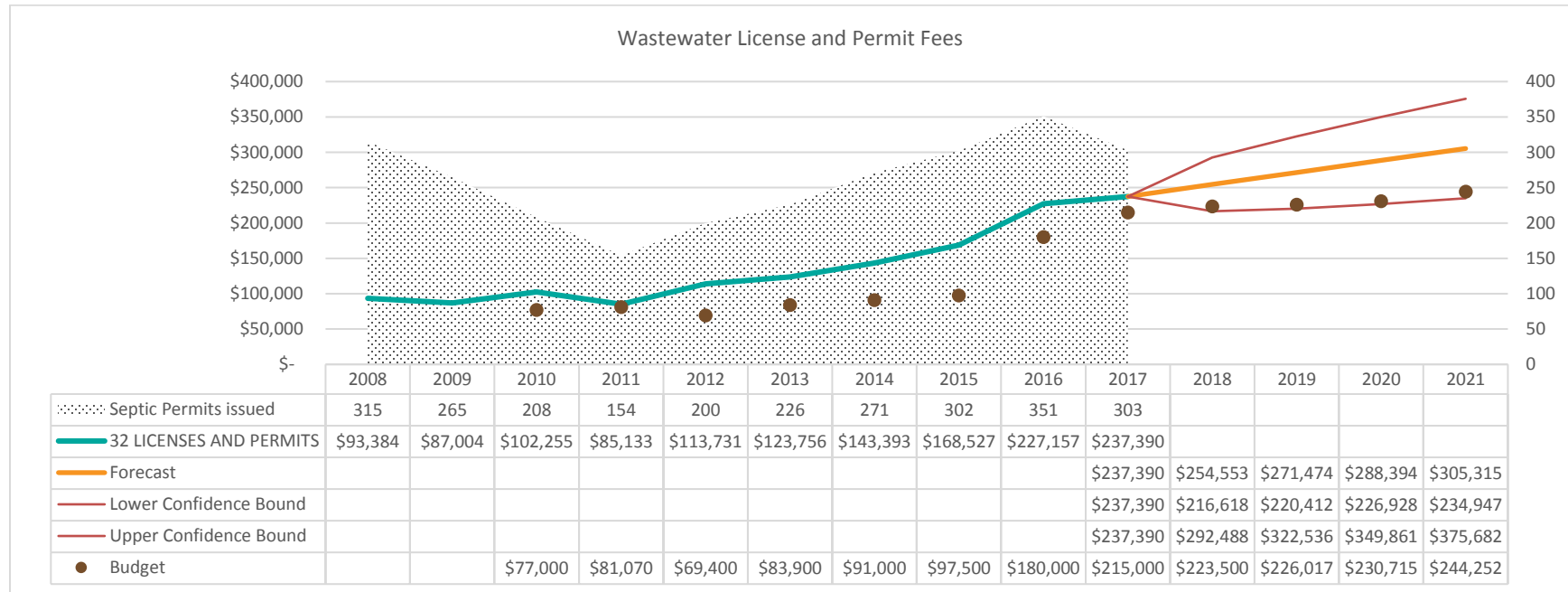
METHODS AND ASSUMPTIONS

Units for each revenue source are from the operating indicators schedule in the Statistical Section of [Gallatin County’s FY2016 Annual Financial Report](#). The units are not an input to the projection formula, but inform our decision-making by adding another dimension to our analysis.

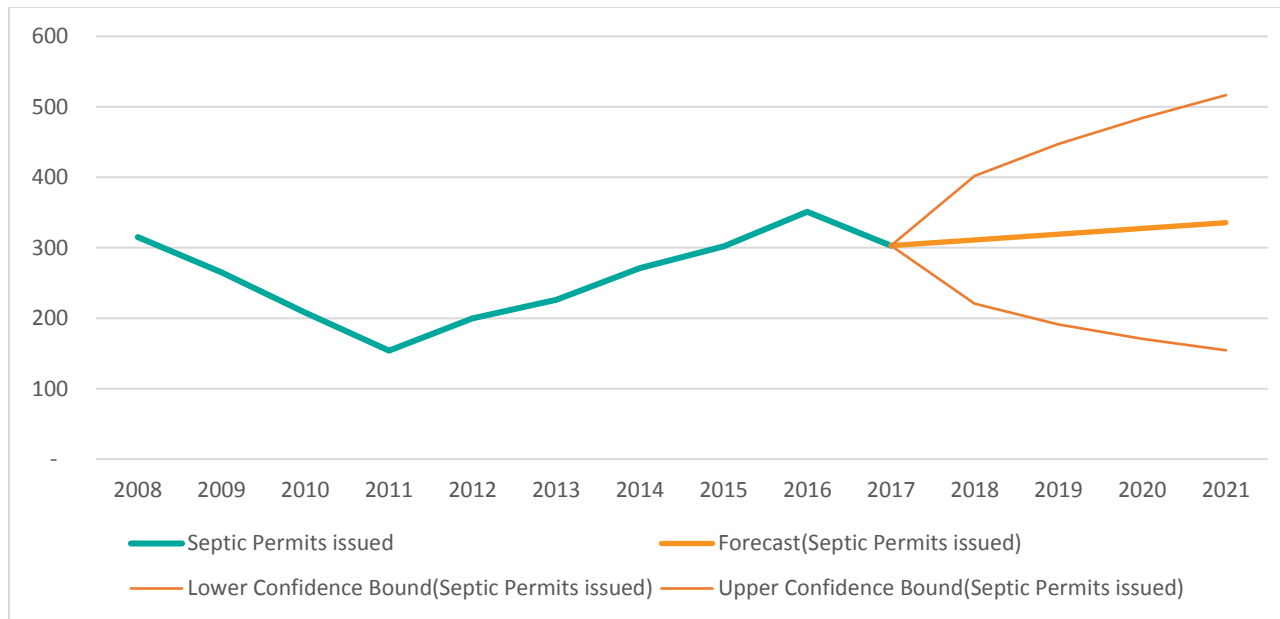
Projections start after FY2017: because we focus on long-term trends, I have excluded FY2018 figures from the formula (although I disclose our current projections at the end of each summary). The forecasting method is exponential triple smoothing; it is somewhat of a default in Excel and is more sensitive to trends or patterns than moving averages. The confidence level for the upper and lower bounds is .95; 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 FY2016 from the immunization clinic projections as we can attribute the spike in activity to a one-time event (legislative changes).

WASTEWATER LICENSE AND PERMIT FEES



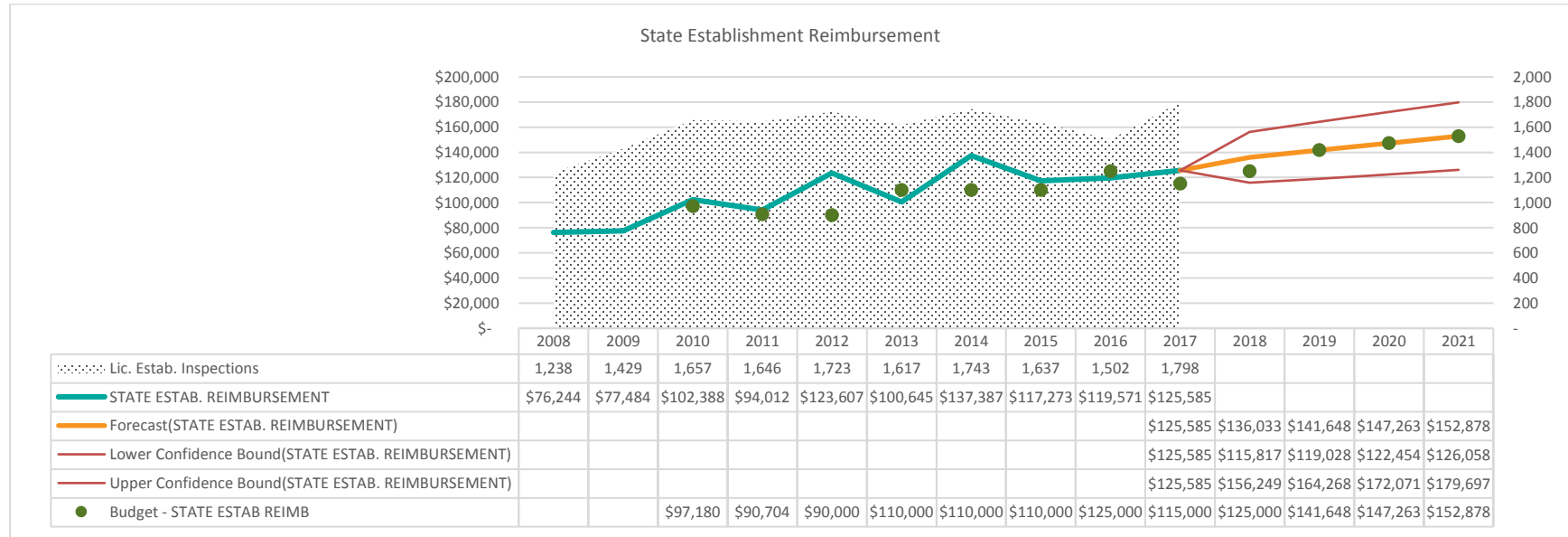
Local boards of health in Montana may adopt necessary fees to administer regulations for the control and disposal of sewage from private and public buildings and facilities. ([MCA 50-2-116](#)) Wastewater Treatment Fees established by the BOH are located in the [Health Code Chapter 3 Fee Schedule](#). The number of septic permits issued has some explanatory power in predicting wastewater permitting and installer registration revenues (the correlation coefficient is 0.66), but the more important insight may be that wastewater permitting, as with most land use activities, seems to be elastic to the business cycle. Finance Director Ed Blackman is [projecting cooled but continued economic growth](#) for Gallatin County. He notes that job growth in Gallatin County is slowing and cautions that we are entering year 10 of a national growth trend without a major adjustment (over the last 3.5 decades in the United States, recessions have occurred every 7 years).



Entering the last recession, septic permit issuances declined for four years before hitting their local minimum; if we are entering a period of stagnation nationally, perhaps we could expect two to three years of little to no growth in septic permitting in Gallatin County. In the first two quarters of FY2018, the department issued 201 septic permits, indicating issuance in line with FY2017's 303 permits.

Another indicator of land use activity is recording activity from the Clerk and Recorder's office. Director Blackman suggests that although recording activity remains high, growth is slowing, and FY2017 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 activities and the high projected population growth of Gallatin County. Our FY2019 revenue estimate represents a decline from FY2017 and projected FY2018 revenues. Our current FY2018 revenue estimate is \$269,344.

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. For retail food licenses, ([MCA 50-50-205](#)) the State deposits 5% of license fees 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 retail food establishment and a motel pay annual licensing fees to MT DPHHS; the retail food establishment pays \$115.00, and the motel pays \$80.00. The state receives \$195.00: \$8.75 goes to DPHHS, \$14.75 to the state general fund, and \$171.50 to the Local Board Inspection Fund (LBIF). GCCHD inspects both establishments during the licensed period: GCCHD will be paid \$171.50 from the LBIF.

	DPHHS	GF	LBIF
\$ 115.00	\$ 5.75	\$ 5.75	\$ 103.50
\$ 80.00	\$ 3.00	\$ 9.00	\$ 68.00
	\$ 8.75	\$ 14.75	\$ 171.50

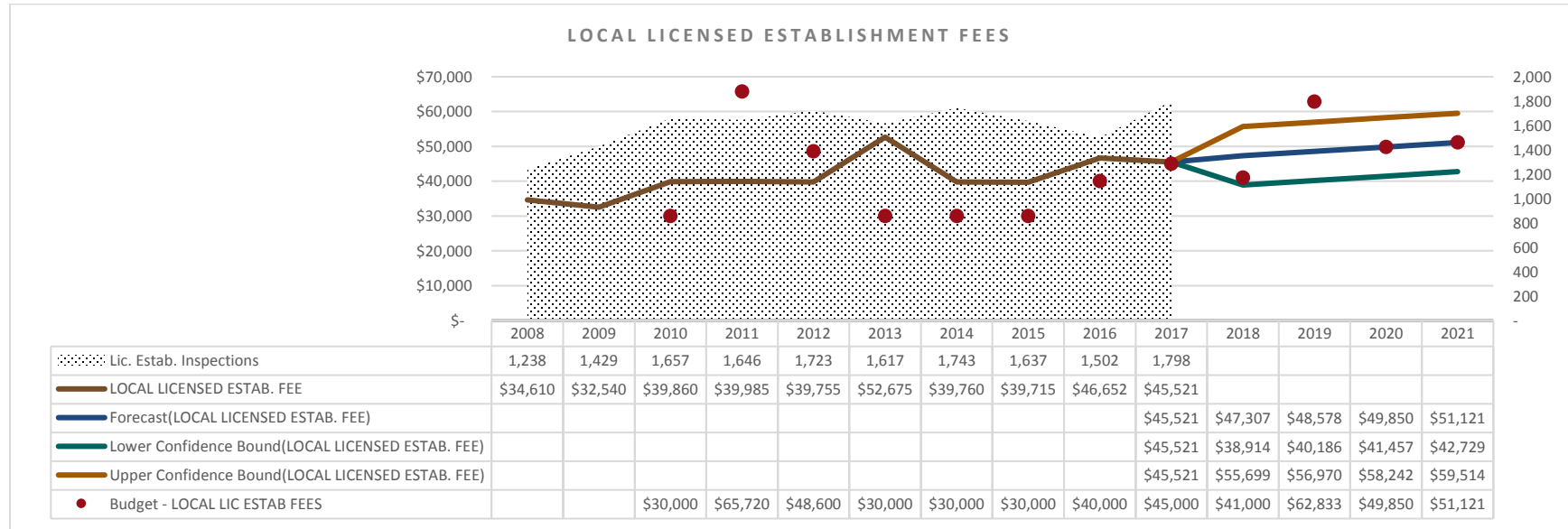
As you can imagine, the number of licensees in Gallatin County is highly correlated to the revenue we receive. (The correlation coefficient for the period shown is 0.78; different establishment types pay different fees, and the mix of license types changes from year to year. Licensing fees are set in [MCA Title 50](#) and are also found in our Health Code Chapter 2 Fee Schedule on healthygallatin.org.) Due to the timing of payment and inspection cycles, revenue can swing between up-years and down-years. For instance, FY2018 revenue will likely fall below projections due to decreased inspection activity, but any shortfall attributed to Q3 and Q4 of FY2018 will be made up in an end-of-the-calendar year payment after December 2018 (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; for better focus, I have smoothed our forecast.

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 declined during the national recession, and swung back up with this last business cycle. Licensed establishment numbers, at least in our area, appear to be less elastic.

[New regulations](#) require short-term rental registration inside the city of Bozeman, which is expected to add several hundred tourist homes to the annual licensing rolls and \$5,000-\$10,000 to our LBIF reimbursement. Several hundred licenses is significant enough to posit that the total number of licenses in Gallatin County will increase in FY2019. But how will the mix change? Tourist home 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. Once licensed, tourist homes are not required to receive annual inspections unless a complaint is received from the public.

Given that there are no scheduled fee changes for FY2019, the department has put forward an estimate in line with long-term growth projections. For FY2018, the department is projecting revenues of \$103,831.

LOCAL LICENSED ESTABLISHMENT FEES

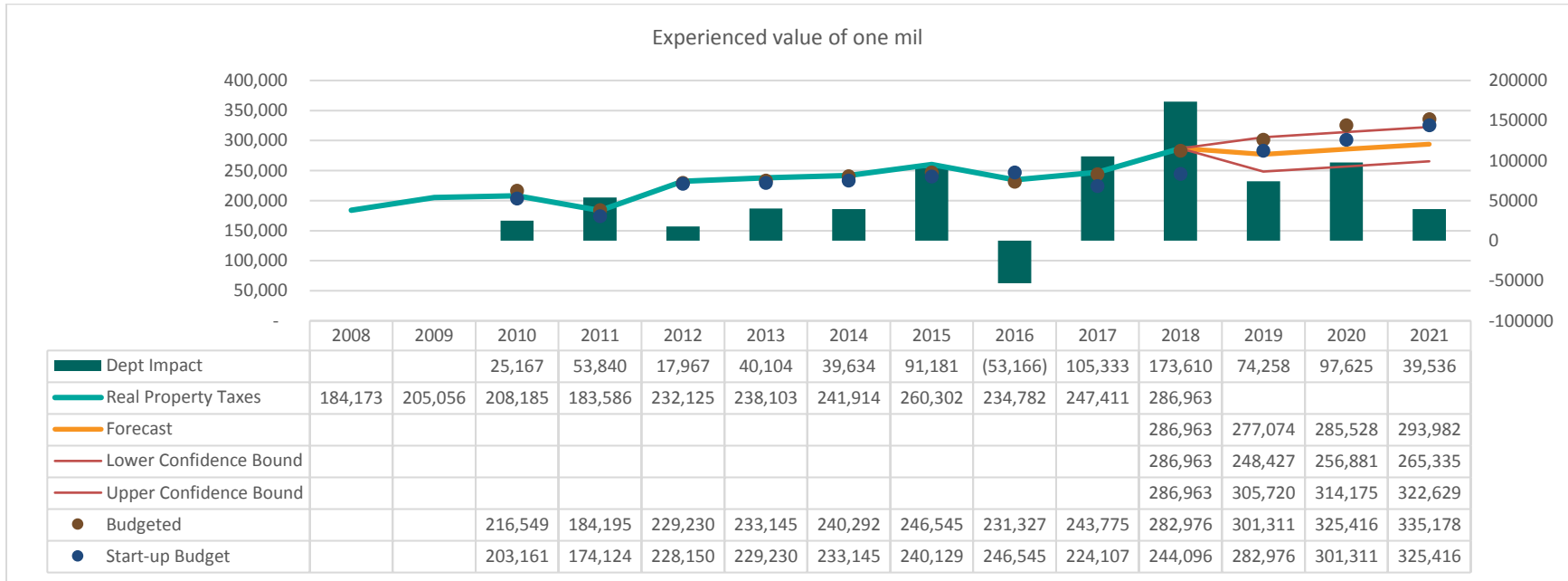


Licensees of tattooing and body art establishments pay licensing fees to GCCHD at rates set by BOH. ([MCA 50-48-203](#)) In addition, BOH has adopted fees to register cottage food operations ([MCA 50-50-117](#), fee established in rule [37.110.511](#)); to issue permits for temporary service events ([MCA 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. [New regulations](#) requiring short-term rental registration inside the city of Bozeman has created a demand for pre-operational inspections and plan reviews for several hundred existing tourist homes; the impact of this change is expected to be between \$60,000 and \$75,000, realized between FY2018 and FY2019.

The department has put forward an estimate above baseline projections to accommodate the expected FY2019 residual of existing tourist home inspections; after FY2019, conditions are expected to return to normal. We are projecting revenues of \$92,320 in FY2018.

TAXES

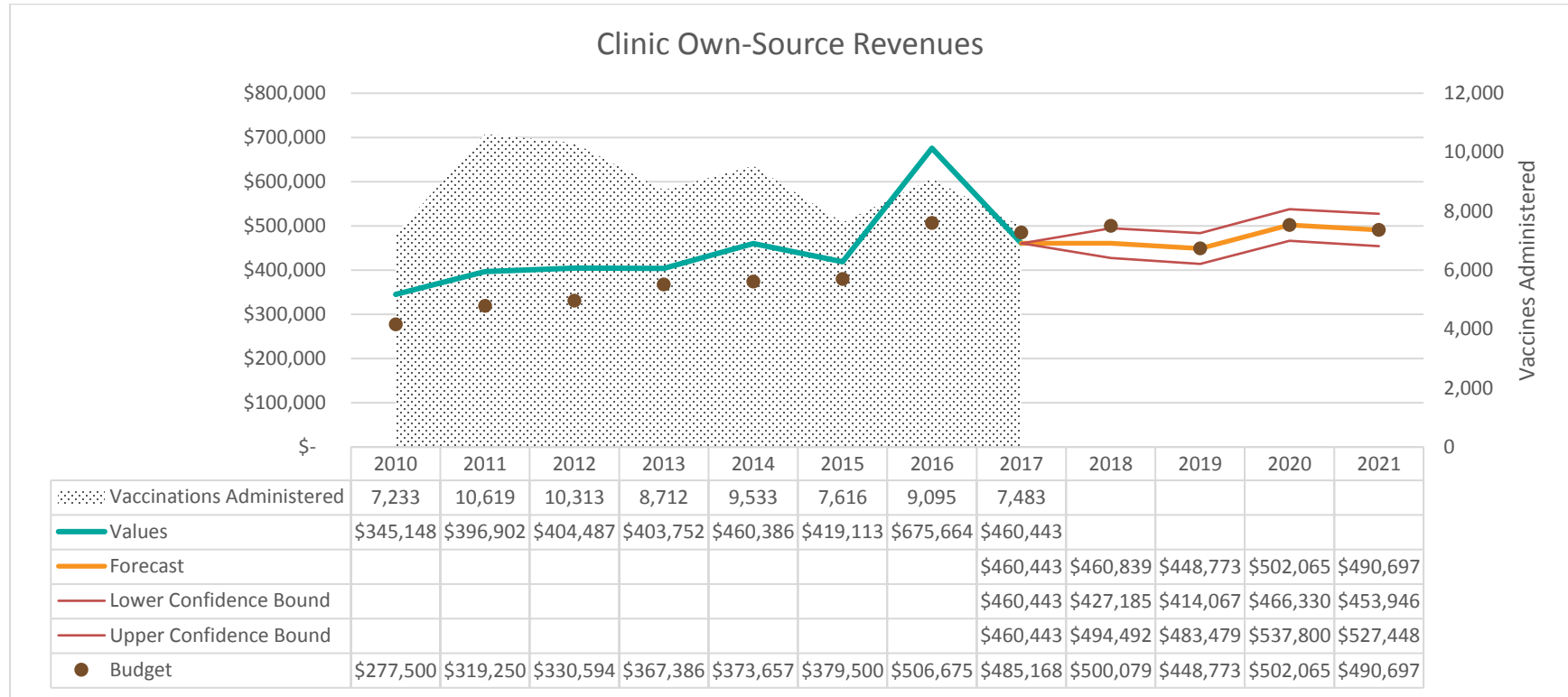


In FY2018, Gallatin County experienced a 15.69% increase over FY2017 certified taxable value (CTV), and health department mils levied dropped from 4.52 to 4.05. Even at the lower mil amount, the departmental impact of the increase in CTV was roughly \$173,000. Budgeting to the higher, projected CTV would have allowed us to plan the use of those funds.

[2018 certified values](#) will not be available until August 6, 2018 (our fiscal year begins on July 1, 2018). To overcome this timing issue in a conservative manner, our FY2019 start-up budget will include 4.05 mils with CTV of \$286,963. ‘Budgeted’ mil values for FY2019-FY2021 in the graph above are from Finance Director Ed Blackman’s five-year projection of the certified mil value in his report [FY2018 Financial Trend Analysis and Financial Forecast](#) published February 27, 2018.

Given Director Blackman’s projections, the department may expect CTV of \$301,311 to plan its FY2019 budget.

IMMUNIZATION CLINIC



Since FY2012, residents and visitors of Gallatin County have relied less on our immunization clinic for routine vaccinations. We believe this is a positive sign of a working system, as primary care offices have largely taken on this role. Although pharmacies now play a significant role in flu vaccination, our busiest month has shifted from back-to-school in August to flu-activity in October. Our springs have become busy with travel consultations, as other providers in the valley are reticent to carry high-priced travel vaccines with low reimbursement rates. While our role was shifting, vaccines experienced [headline-making price increases](#). As fee schedules and reimbursement rates have their basis in cost, revenues increased while vaccination volume decreased.

FY2016 is an anomaly in the period shown. [State rule changes](#) added varicella to the list of required immunizations, causing the late summer preceding the 2015-2016 school season to be extremely busy. Varicella is a routine vaccination, and reimbursed well; BOH approved a budget amendment mid-year that increased revenue estimates and chemical expenditures by \$165,000. I have removed FY2016 from our forecast, choosing instead to average FY2015 and FY2017 revenues.

On average, immunization clinic clients had to wait 32 days for an appointment in FY2018; one option to make the clinic more available is to add FTE. Adding .41 FTE could bring our clients into the clinic as much as 16 days sooner. In FY2017, the clinic averaged 144 procedures per week; to break-even, demand for clinic services would have to be sufficient to book 88 more procedures per week, or two-thirds of the added availability.

In FY2018, we are on pace to beat our break-even volume of 10,833 procedures, and we are projecting revenues of \$519,850.