

**Construction Program****Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget	Second Submission							
	Base Budget	PL Base Adjustment	New Proposals	Total Exec. Budget	PL Base Adjustments	New Proposals	Total Exec. Budget	Total Exec. Budget
Budget Item	Fiscal 2004	Fiscal 2006	Fiscal 2006	Fiscal 2006	Fiscal 2007	Fiscal 2007	Fiscal 2007	Fiscal 06-07
FTE	1,069.59	(18.35)	2.00	1,053.24	41.93	2.00	1,113.52	1,113.52
Personal Services	52,793,815	4,694,606		57,488,421	6,216,143		59,009,958	116,498,379
Operating Expenses	290,599,940	53,873,276	36,662,342	381,135,558	92,980,272	37,563,779	421,143,991	802,279,549
Equipment	857,670	1,000,000		1,857,670			857,670	2,715,340
Capital Outlay	15,526,338	473,663		16,000,001	473,663		16,000,001	32,000,002
Local Assistance	95,225			95,225			95,225	190,450
Grants	3,549,690			3,549,690			3,549,690	7,099,380
<b>Total Costs</b>	<b>363,422,678</b>	<b>60,041,545</b>	<b>36,662,342</b>	<b>460,126,565</b>	<b>99,670,078</b>	<b>37,563,779</b>	<b>500,656,535</b>	<b>960,783,100</b>
State/Other Special	126,894,127	13,517,287		140,411,414	45,579,844		172,473,971	312,685,385
Federal Special	236,528,551	46,524,258	36,662,342	319,715,151	54,090,234	37,563,779	328,182,564	647,897,715
<b>Total Funds</b>	<b>363,422,678</b>	<b>60,041,545</b>	<b>36,662,342</b>	<b>460,126,565</b>	<b>99,670,078</b>	<b>37,563,779</b>	<b>500,656,535</b>	<b>960,783,100</b>

**Program Description**

The Construction Program is responsible for construction project planning and development from the time a project is included in the long-range work plan through the actual construction of the project. Program responsibilities include such tasks as project designs, environmental documents and permits, right-of-way acquisitions, issuing contract bids, awarding contracts, and administering construction contracts. Contract administration is responsible for the documentation, inspection, and testing of highway construction projects from the time the contract is awarded to a private contractor until the project is completed and the work is approved as meeting established construction standards. The program also provides traffic improvement and educational programs to promote public safety, health, and welfare.

**Program Highlights**

Department of Transportation Construction Program Major Budget Highlights	
•	Total fund budget would increase through adjustments totaling \$159.7 million for the biennium over the base (an average annual increase of 22 percent) due primarily to: <ul style="list-style-type: none"> <li>• Statewide present law adjustments</li> <li>• Increases for highway construction related costs in anticipation of higher levels of federal funding</li> <li>• Reappropriation of state special revenue approved for the 2005 biennium to accelerate widening and upgrades of Highway 93</li> <li>• Adjustments to fully fund approved positions</li> <li>• Funding for base year levels of overtime and other special pay</li> <li>• An increase in funding for the community transportation enhancement program</li> </ul>
•	The state funded construction program would be reduced by about \$5 million in state special revenue for the biennium to reduce fully state funded highway program funding to the maximum level needed to obtain a favorable federal funding rate.

- Additional traffic engineers would add 2.00 FTE and nearly \$237,000 total funds.
- An adjustment to match construction management personnel with anticipated construction activities would decrease funding for 20.35 FTE in FY 2006 and increase 39.93 FTE in FY 2007 and \$2.5 million total funds.

**Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the executive.

2nd Submission Program Funding	Program Funding Table Construction Program					
	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02422 Highways Special Revenue	\$126,894,127	34.9%	\$117,690,837	25.6%	\$120,516,453	24.1%
02799 Highway 93 Bond Proceeds	0	0.0%	22,720,777	4.9%	51,957,518	10.4%
03407 Highway Trust - Sp Rev	226,691,340	62.4%	311,442,653	67.7%	319,914,226	63.9%
03828 Traffic Safety	9,837,211	2.7%	8,272,498	1.8%	8,268,336	1.7%
<b>Grand Total</b>	<b>\$363,422,678</b>	<b>100.0%</b>	<b>\$460,126,365</b>	<b>100.0%</b>	<b>\$500,656,535</b>	<b>100.0%</b>

Costs eligible for reimbursement under the federal-aid construction program are funded with highways state special revenue funds and federal special revenue funds apportioned to Montana and distributed by the U.S. Department of Transportation. Construction design, construction, and construction management costs, as well as direct administrative costs for construction activities, are generally eligible for federal reimbursement. The state match requirement is based on a sliding scale match, which is currently 87 percent federal with a 13 percent state match for most direct construction related costs. The program also provides a maintenance-of-effort highway construction program funded entirely with highways state special revenue. The primary sources of revenue for the highways state special revenue funds are highway-user fees derived from motor fuel taxes and gross vehicle weight fees. Traffic safety functions are generally funded 100 percent with National Highway Traffic Safety Administration grant funds. The exception is that a 50 percent state special revenue match is required for roughly 1 percent of the administrative costs.

**Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments 2nd Submission	Fiscal 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,074,954					1,074,954
Vacancy Savings					(2,154,706)					(2,154,706)
Inflation/Deflation					(5,363)					(5,363)
Fixed Costs					(18,703)					(18,703)
<b>Total Statewide Present Law Adjustments</b>					<b>(1,102,718)</b>					<b>(1,102,718)</b>
<b>DP 201 - Traffic Engineers</b>	2.00	0	46,067	72,609	118,676	2.00	0	45,953	72,299	118,252
<b>DP 202 - Contractor Pmts/State Construction Prgm</b>	0.00	0	(2,787,123)	0	(2,787,123)	0.00	0	(2,264,275)	0	(2,264,275)
<b>DP 203 - Contractor Pmts/Federal Aid Const. Prgm</b>	0.00	0	3,396,949	28,768,411	32,165,364	0.00	0	4,912,688	36,039,895	40,952,583
<b>DP 204 - US HWY 93</b>	0.00	0	22,720,777	0	22,720,777	0.00	0	51,957,518	0	51,957,518
<b>DP 205 - Construction Mngmnt FTE</b>	(20.35)	0	67,899	150,215	218,114	39.33	0	720,990	1,583,954	2,304,964
<b>DP 206 - Aggregate position Funding</b>	0.00	0	520,792	1,182,167	1,672,959	0.00	0	523,302	1,149,657	1,672,959
<b>DP 207 - Right-of-Way/Utilities</b>	0.00	0	137,856	648,090	785,946	0.00	0	138,464	647,461	785,945
<b>DP 208 - Community Transportation Enhancement Prgm</b>	0.00	0	51,200	348,800	400,000	0.00	0	51,920	348,080	400,000
<b>DP 209 - Overtime and Differential Pay</b>	0.00	0	2,028,634	2,349,286	4,377,920	0.00	0	2,034,888	2,344,041	4,378,929
<b>DP 210 - Equipment Rental</b>	0.00	0	147,724	221,402	369,126	0.00	0	157,496	216,589	368,065
<b>Total Other Present Law Adjustment</b>	(18.35)	\$0	\$26,291,768	\$33,710,869	\$60,002,657	41.93	\$0	\$58,272,964	\$42,401,768	\$100,674,730
<b>Grand Total All Present Law Adjustments</b>					<b>\$58,899,919</b>					<b>\$99,528,848</b>

**DP 201 - Traffic Engineers** - Increases of \$92,020 state special revenue and \$144,808 federal special revenue for the biennium are requested to fund the addition of 2.00 FTE traffic engineering specialists for each year. The traffic engineers would address increasing demand for traffic engineering work in the preliminary engineering design and project development phases of federal-aid highway construction projects and in the hazards elimination safety program.

**DP 202 - Contractor Payments/State Construction Program** - A reduction of about \$5 million state special revenue for the biennium is proposed to reduce the state funded construction program to the minimum amount of state maintenance of effort required to receive a favorable federal participation rate on federal aid projects.

**First Submission Issue**

**LFD ISSUE** *State Funded Construction is not Reduced to the Minimum Amount for Maintenance of Effort*

The executive states in its request that the state funded construction program would be reduced to the minimum amount of state maintenance of effort required to receive a favorable federal participation rate on federal aid projects. However, the base expenditures include \$56.9 million state funded construction program expenditures, while the minimum maintenance of effort has been determined to be roughly \$10.0 million per year. By adjusting the base by \$19.2 million each year, the annual state funded construction program would only be reduced to \$37.7 million or about \$27.7 more than the minimum maintenance of effort. If leveraged for federal match, this amount could generate \$185.4 million federal funds.

**DP 203 - Contractor Payments/Federal Aid Construction** - Increases of about \$8.2 million state special revenue and \$64.8 million federal special revenue for the biennium are requested to fund payments to highway construction contractors based on department estimates of federal-aid funding and the corresponding long-range highway construction plan.

First Submission Issue

**LFD  
COMMENT**

*Estimating Contractor Payment Amounts*

Based on planned construction activities, the department uses several management systems to estimate resource usage and payout schedules on highway construction projects. The tentative construction plan (TCP) indicates when the various highway construction projects will be let and the type of work to be completed. This construction contract information is used in the Project Cost Scheduling (PCS) system to estimate when and at what amounts actual contractor payments will be made. The estimates from these management systems form the basis for the contractor payments budget request.

DP 204 - US HWY 93 - The department has accelerated the construction process on US Highway 93 from Evaro Hill to Polson to increase the current traffic capacity and address safety problems. Highway revenue bonds would be issued to provide the funding for this accelerated schedule. This request is for \$74.6 million state special revenue for the 2007 biennium to provide debt service for the bond issue.

The sale of bonds, with the proceeds deposited in a special revenue fund, would provide the funding to construct these projects in three years, whereby it would normally require ten or more years to design and construct projects of this magnitude. Because the highway runs through the Flathead Indian Reservation, the entire cost of the project qualifies for federal funding with no state match. As the bonds mature and are redeemed, federal aid from the Federal Highway Administration (FHWA) would pay for the bonds and interest.

First Submission Issue

**LFD  
COMMENT**

*Project Delays - No Base Expenditures*

Funding for this project was approved by the 2003 legislature, but no expenditures were made during the base year. Project delays caused by difficult right-of-way negotiations, slower than anticipated approval of environmental permits, and slower than anticipated negotiations on agreements for settling project issues that involved coordinated actions between state, federal, and tribal governments. Utility relocation activities associated with the projects have also added further delays. One contract has been awarded for a portion of the work and additional contracts are anticipated for work during FY 2005.

DP 205 - Construction Management FTE - The department estimates FTE and engineering costs via the Construction Management System (CMS) using standards that apply to the proposed construction plan. This adjustment would fund a decrease of 20.35 FTE in FY 2006 and an increase of 39.93 FTE in FY 2007, in combination with adjustments for preliminary and construction engineering functions in support of highway construction. The request is for increases of \$788,889 state special revenue and \$1,734,179 federal special revenue for the biennium.

DP 206 - Aggregate Position Funding - The Construction Program has certain organizational units that have aggregate positions (a position with several FTE). The people in these positions vary in experience from entry to highly experienced. The Montana Budgeting and Reporting System (MBARS) calculates funding for personal services by computing costs for all the FTE in a position at the rate of the most recent employee in that position. Through this process, all FTE in an aggregate position are funded based on the position attributes of the person most recent to the position. In most cases, that person is the lowest paid person in the position. Therefore, other FTE in the position are not fully funded. The department uses a system called the Personal Services Budget Management System (PSBM) to compute the actual amount of funding needed to fully fund each person in the position. This request is for \$1,044,094 state special revenue and \$2,301,824 federal special revenue for the biennium to fully fund all aggregate positions in the Construction Program based on position incumbents.

DP 207 - Right-of-Way/Utilities - Increases of \$276,339 state special revenue and \$1,295,551 federal special revenue for the biennium are requested to fund utility relocation activities and purchase right-of-way for the expected increase in highway construction projects that would result from expected higher federal funding levels when the U.S. Congress reauthorizes federal highway funding.

DP 208 - Community Transportation Enhancement Program - The community transportation enhancement program (CTEP) provides nontraditional transportation related projects that are designed to strengthen the cultural, aesthetic, and environmental aspects of the inter-modal transportation system in Montana. Increases of \$103,120 state special revenue and \$696,880 federal special revenue for the biennium are requested to increase funding for CTEP to levels expected for the 2007 biennium under allocation formulas of federal-aid highway funding.

DP 209 - Overtime and Differential Pay - Increases of \$4,064,522 state special revenue and \$4,693,336 federal special revenue for the biennium are requested to reestablish base year overtime and differential pay. Included in the increases is \$1,142,332 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

DP 210 - Equipment Rental - Increases of \$299,220 state special revenue and \$437,971 federal special revenue for the biennium are requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program.

**New Proposals**

New Proposals 2nd Submission	Fiscal 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
	DP - 211 - Civil Engineers	2.00	0	208,934	931,692	1,140,626	2.00	0	68,612	72,618
DP - 212 - Indirect Cost Accounting Change		0	0	36,662,342	36,662,342		0	0	37,563,779	37,563,779
<b>TOTALS</b>	<b>2.00</b>	<b>0</b>	<b>208,934</b>	<b>37,594,034</b>	<b>37,803,968</b>	<b>2.00</b>	<b>0</b>	<b>68,612</b>	<b>37,636,397</b>	<b>37,705,009</b>

NP 211 - Civil Engineers - Increases of \$278,546 State Special Revenue and \$1,004,310 in Federal Special Revenue for the biennium are requested to fund FTE to be dedicated to bridge inspections.

NP 212 - Indirect Cost Accounting Change - OBPP requested a change in the procedures used to account for indirect costs. The change will require an additional \$74,226,121 in Federal Special Revenue.

DP 202 CONTRACTOR PAYMENTS State CONSTRUCTION PROGRAM

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Mr. Currie stated that this is a reduction for <sup>5.0</sup> ~~\$38.5~~ million State special revenue for the biennium to reduce the State-funded Construction Program to the minimum amount of State maintenance of effort required to receive a favorable Federal participation rate on Federal aid projects. *This has changed in the Department's second budget submission.*  
{Tape: 2; Side: A; Approx. Time Counter: 0 - 30}

DP 203 CONTRACTOR PAYMENTS/ FEDERAL AID CONSTRUCTION

Mr. Currie stated that this is tied to the DP 202 reduction in State special revenue. He explained that DP 203 is an increase of <sup>\$8.2</sup> ~~\$16.2~~ million State special revenue and <sup>648</sup> ~~\$121.3~~ million Federal special revenue for the biennium to fund payments to highway construction contractors based on department estimates of federal-aid funding and the corresponding long-range highway construction plan. *This has changed in the Department's second budget submission.*

Discussion:

Mr. DeWitt stated that the LFD issue is based on the previous figures and this is a significant reduction. He stated that the Department did not assume that they would have more Federal money. He stated that there is a policy option to have 100% State-funded construction.

Mr. DeWitt explained that for the Department to pay for the indirect costs which previously were State funded 100%, will now be funded with Federal money. He commented that the Department is growing and needs more funding. He suggested that the Department <sup>Legislature</sup> ~~may want~~ to implement a gas tax reduction.  
*has an option*

SEN. LAIBLE asked what are the Department goals and how is the Department doing currently with their workload. Mr. Currie stated that it is most important to do quality work and to focus on safety. He explained that the Department has a target of what condition they want the highway system to be in, and try their best to maintain the roads the best the Department can.

SEN. LAIBLE stated that he would like to see a projected plan and list of Department goals for the next two years.

Mr. Currie stated that he can bring a list of goals and projected plans to the Committee.