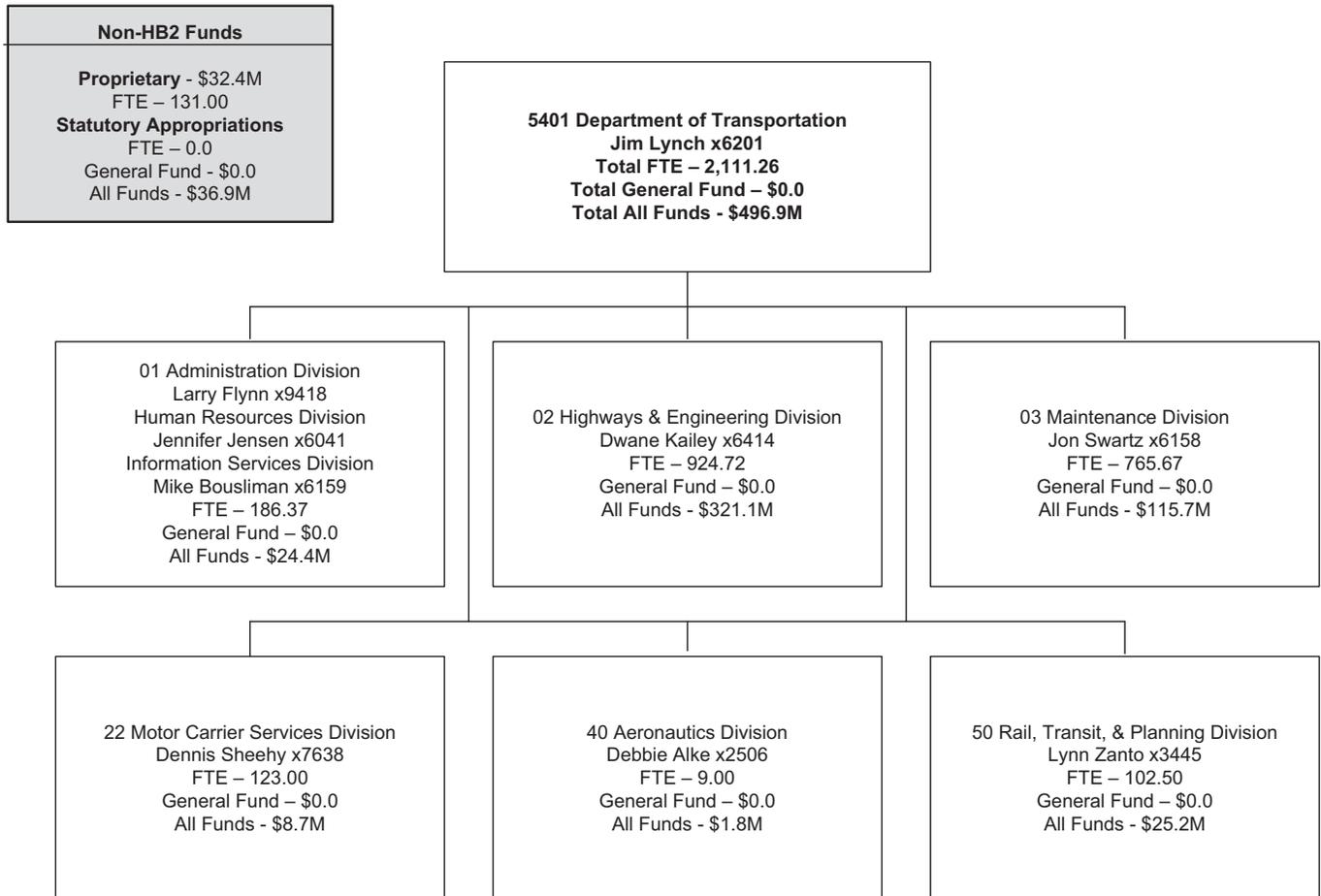


Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	2,111.26	2,111.26	2,111.26	2,111.26	2,111.26	2,111.26	0.00	0.00%
Personal Services	126,893,928	147,102,387	143,603,117	143,641,471	273,996,315	287,244,588	13,248,273	4.84%
Operating Expenses	318,017,294	435,509,385	486,429,132	485,418,363	753,526,679	971,847,495	218,320,816	28.97%
Equipment & Intangible Assets	2,974,142	3,027,679	2,987,467	2,974,142	6,001,821	5,961,609	(40,212)	(0.67%)
Capital Outlay	28,099,207	16,132,424	23,216,343	23,216,343	44,231,631	46,432,686	2,201,055	4.98%
Grants	19,468,999	22,012,246	20,652,379	20,652,379	41,481,245	41,304,758	(176,487)	(0.43%)
Transfers	1,407,892	1,013,328	1,418,710	1,418,710	2,421,220	2,837,420	416,200	17.19%
Total Costs	\$496,861,462	\$624,797,449	\$678,307,148	\$677,321,408	\$1,121,658,911	\$1,355,628,556	\$233,969,645	20.86%
General Fund	0	0	0	0	0	0	0	n/a
State Special	199,536,189	258,100,949	262,436,600	262,091,900	457,637,138	524,528,500	66,891,362	14.62%
Federal Special	297,325,273	366,696,500	415,870,548	415,229,508	664,021,773	831,100,056	167,078,283	25.16%
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$496,861,462	\$624,797,449	\$678,307,148	\$677,321,408	\$1,121,658,911	\$1,355,628,556	\$233,969,645	20.86%

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

The Department of Transportation is the agency responsible for administering the multimodal transportation network in Montana. The department plans, designs, builds, and maintains the statewide network of highways. It is responsible for collecting and distributing highway user fees and fuel taxes. The department enforces state and federal laws for commercial motor carriers and registers interstate fleet vehicles. The department also facilitates the operation and infrastructure of airports and airways in Montana, registers aircraft and pilots, and maintains several state-owned airports. The department represents Montana interests in railroad planning issues and supports local entities in overall transportation planning and transit assistance.

The Department of Transportation constructs and maintains the state highway infrastructure. The department also provides for the other aspects of a statewide multimodal transportation system through:

- o Aeronautics safety protection and promotion
- o General aviation airport planning, promotion, and maintenance facilitation
- o Rail infrastructure coordination, monitoring, and planning
- o Highway traffic safety promotion, planning, and administration
- o Vehicle weight and dimension permitting and law enforcement
- o Transit assistance

The five-member transportation commission, whose members are appointed by the Governor, establishes department priorities and apportions funding among the five state financial districts according to statutory guidelines, department recommendations, and community input. The nine-member Board of Aeronautics, whose members are appointed by the Governor, establishes priorities for department aeronautics activities.

The department provides the above services through the following programs:

- o General Operations Program
- o Construction Program
- o Maintenance Program
- o State Motor Pool (entirely funded with non-budgeted proprietary funds)
- o Equipment Program (entirely funded with non-budgeted proprietary funds)
- o Motor Carrier Services Division
- o Aeronautics Program (a portion of this program is funded with non-budgeted proprietary funds)
- o Rail, Transit, and Planning Division

Agency Highlights

Department of Transportation Major Budget Highlights
<ul style="list-style-type: none"> ◆ Total funds increase by \$234.0 million or 20.9%, ◆ State special revenue increases by \$67.0 million or 14.6%, and these increases are dominated by increases of: <ul style="list-style-type: none"> ● \$60.0 million for the 100% state funded construction program ● \$26.6 million to match increased federal funding for the federal-aid highway construction program ● \$20.2 million for statewide present law adjustments ● \$8.3 million for funding payments to the proprietary Equipment Program ◆ Federal special revenue increases by \$167.1 million, or 25.1%, primarily because of increases of: <ul style="list-style-type: none"> ● \$234.2 million to increase federal-aid funding for highway construction contractor payments ● \$2.1 million to increase transit funding for assistance to local transit providers ● \$1.5 million of border enforcement grants associated with enforcement of commercial motor carriers around the border with Canada
Legislative Action Issues
<ul style="list-style-type: none"> ◆ Major/agency-wide LFD issues <ul style="list-style-type: none"> ● The legislature will need to determine if the highway system improvements that may be achieved are worth the \$60.0 million cost to increase the 100% state funded construction program ● An alternative rate structure is available for consideration when approving rates for the Equipment Program ◆ Proprietary Rate Discussion <ul style="list-style-type: none"> ● The legislature must approve rates for the State Motor Pool and Equipment Program ◆ Interim Committee Recommendations <ul style="list-style-type: none"> ● The Legislative Finance Committee recommends that the starting point for budget deliberations be the adjusted base minus 5% ● Highway state special revenue funds utilized by this agency are statutorily exempt from the 5% reduction plan requirement

Agency Discussion

The budget for this agency includes funding to obligate and match all federal-aid highway funding anticipated. Included in the funding is a request to increase the 100% state funded construction program from an annual level of \$10.0 million to \$40.0 million. The total fund budget grows by \$234.0 million or 20.9%, primarily because of the growth in the state funded and federal-aid highway construction programs. The growth is comprised of increases of \$66.9 million or 14.6% in state special revenue and \$167.1 million or 25.2%, in federal special revenue. Staffing levels in this agency do not change and this agency has no general fund. A non-budgeted proprietary funded program that acquires, maintains, and disposes of equipment used by the other programs of this agency increases the cost to user programs by \$9.4 million of total funds.

Common Purpose Decision Packages

The following groups of decision packages address common purposes that cross program lines within the agency. The legislature may wish to examine and/or act on the decision packages as a group.

Equipment Rental

The decision packages in this group fund increases for user programs to make payments to the Equipment Program, a non-budgeted proprietary funded program that acquires, maintains, and disposes of equipment items rented to various programs of the agency. For more information on the factors that impact the rates to the Equipment Program, refer to the "Proprietary Rates" section of that program. These increases are due primarily to cost increases in the Equipment Program for inflation adjustments to gasoline and diesel fuel and statewide adjustments for personal services.

Agency-wide Request - Equipment Rental										
	Decision Package	Base	FY 2012 Adjustment			FY 2013 Adjustment			Total Funds Budget	
			State Special	Federal Special	Total Funds	State Special	Federal Special	Total Funds	FY 2012	FY 2013
General Operations Program	PL 0104	\$36,580	\$6,328	\$0	\$6,328	\$6,709	\$0	\$6,709	\$42,908	\$43,289
Construction Program	PL 0205	2,554,286	511,664	515,777	1,027,441	524,889	529,104	1,053,993	3,581,727	3,608,279
Maintenance Program	PL 0315	19,981,016	3,456,762	0	3,456,762	3,664,461	0	3,664,461	23,437,778	23,645,477
Motor Carrier Services Div.	PL 2206	335,301	36,139	19,765	55,904	38,311	20,953	59,264	391,205	394,565
Aeronautics Program	None	1,249	0	0	0	0	0	0	1,249	1,249
Rail, Transit, & Planning Division	PL 5004	<u>203,259</u>	<u>5,275</u>	<u>34,889</u>	<u>40,164</u>	<u>5,592</u>	<u>36,684</u>	<u>42,276</u>	<u>243,423</u>	<u>245,535</u>
Total		<u>\$23,111,691</u>	<u>\$4,016,168</u>	<u>\$570,431</u>	<u>\$4,586,599</u>	<u>\$4,239,962</u>	<u>\$586,741</u>	<u>\$4,826,703</u>	<u>\$27,698,290</u>	<u>\$27,938,394</u>
Equipment Program fees revenue		\$23,785,631							\$27,679,897	\$27,919,998

Overtime and Differential Pay

The decision packages in this group fund overtime and differential pay that are zero based expenditures. Because personal services budgets are developed using the attributes of staff funded by the legislature in the base and these items are not attributes of positions, they must be requested in each budget cycle.

Agency-wide Request - Overtime and Differential Pay										
	Decision Package	Base	FY 2012 Adjustment			FY 2013 Adjustment			Total Funds Budget	
			State Special	Federal Special	Total Funds	State Special	Federal Special	Total Funds	FY 2012	FY 2013
General Operations Program	PL 0103	\$12,597	\$17,806	\$0	\$17,806	\$17,806	\$0	\$17,806	\$30,403	\$30,403
Construction Program	PL 0206	1,667,019	1,365,292	2,424,028	3,789,320	1,365,292	2,424,028	3,789,320	5,456,339	5,456,339
Maintenance Program	PL 0316	1,771,119	2,077,868	0	2,077,868	2,077,868	0	2,077,868	3,848,987	3,848,987
Motor Carrier Services Div.	PL 2207	166,394	101,437	86,410	187,847	101,437	86,410	187,847	354,241	354,241
Rail, Transit, & Planning Division	PL 5003	<u>22,049</u>	<u>8,764</u>	<u>7,106</u>	<u>15,870</u>	<u>8,764</u>	<u>7,106</u>	<u>15,870</u>	<u>37,919</u>	<u>37,919</u>
Total		<u>\$3,639,178</u>	<u>\$3,571,167</u>	<u>\$2,517,544</u>	<u>\$6,088,711</u>	<u>\$3,571,167</u>	<u>\$2,517,544</u>	<u>\$6,088,711</u>	<u>\$9,727,889</u>	<u>\$9,727,889</u>

Agency Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Labor Market Experience** – The agency has not experienced difficulties competing for qualified candidates to staff agency jobs.
- o **Pay Philosophy** – The agency's pay philosophy is to maintain the internal equity for all areas including blue collar positions. The agency has a career advancement track to allow new hires to be placed in the appropriate skill and work level within the track and for current employees to achieve increasing work responsibilities. These career tracks demonstrate progressive changes in work elements and increasing responsibilities, and may require the incumbent to achieve and maintain certification and/or licensure. Each level in the career track has an established pay rate to maintain internal equity.

- o **Obstacles** - Besides funding, this agency faces some challenges in attracting and retaining qualified workers in areas of the state that are remote or high cost. Additionally, there are several specialized occupations, such as appraisers and project managers, which produce a more limited applicant pool.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

Total 5% Reduction Plan Identified by Agencies, By Division Included and Not Included in Executive Budget 2013 Biennium					
Program/DP Number/Description	FTE	General Fund	% Of Total	State Special Revenue	% Of Total
<u>Maintenance Program</u>					
<i>Not Included in Executive Budget</i>					
Reduce Pavement Preservation		\$0	0.0%	\$731,562	75.2%
Total Maintenance Program		\$0	0.0%	\$731,562	75.2%
<u>Motor Carrier Services Div.</u>					
<i>Not Included in Executive Budget</i>					
Reduce UCR Funding		0	0.0%	34,008	3.5%
Total Motor Carrier Services Div.		\$0	0.0%	\$34,008	3.5%
<u>Aeronautics Program</u>					
<i>Not Included in Executive Budget</i>					
Reduce Airport Loans		0	0.0%	32,754	3.4%
Reduce Airport Development Grants		0	0.0%	41,068	4.2%
Reduce Aeronautics Operations		0	0.0%	74,614	7.7%
Reduce Airways Runway Pavement Preservation Grant		0	0.0%	8,750	0.9%
Reduce Aeronautics Administration		0	0.0%	13,600	1.4%
Subtotal Not Included in Executive Budget		\$0	0.0%	\$170,786	17.6%
Total Aeronautics Program		\$0	0.0%	\$170,786	17.6%
<u>Rail, Transit, & Planning Division</u>					
<i>Not Included in Executive Budget</i>					
Reduce Transit Assistance Local Match		0	0.0%	8,828	0.9%
Reduce Transportation Aid Funding		0	0.0%	27,046	2.8%
Subtotal Not Included in Executive Budget		\$0	0.0%	\$35,874	3.7%
Total Rail, Transit, & Planning Division		\$0	0.0%	\$35,874	3.7%
<u>Total Reduction Plan</u>					
Included in Executive Budget		0	0.0%	0	0.0%
Not Included in Executive Budget		0	0.0%	972,230	100.0%
Total Agency Reduction Plan		\$0		\$972,230	

The highways state special revenue account (HSRA), which is the primary source of state special revenue for the agency, is statutorily exempt from the requirement that agencies submit a plan to reduce base expenditures by 5%. Therefore, no HSRA reductions were submitted by the agency. Of the remaining state special revenues not exempted, as shown on the above figure, no items on the agency's 5% reduction plan have been included in the executive budget. If the legislature approved all items on the plan that are not included in the budget, state special revenue would be reduced by 0.19% and the total fund impact would be 0.07%. Further discussion is included in the individual program narratives.

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Department of Transportation					
Purpose	MCA #	Fund Source	Fiscal 2010	Fiscal 2012	Fiscal 2013
<i>Direct Bearing on Agency Operations</i>					
Debt service payments & issuing costs	17-7-502	SSR	\$614,100	\$614,100	\$614,100
Debt service payments & issuing costs	17-7-502	FSR	<u>15,981,281</u>	<u>15,981,281</u>	<u>15,981,281</u>
Total debt service payments & issuing costs			\$16,595,381	\$16,595,381	\$16,595,381
<i>Does Not Relate Directly to Agency Operations</i>					
Fuel taxes to local govt. for road work	15-70-101	SSR	16,766,000	16,766,000	16,766,000
Tribal reimbursements and DOR administration	18-11-112	SSR	3,490,351	3,465,324	3,465,324

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2013 Biennium Budget				
Agency Program	State Spec.	Fed Spec.	Grand Total	Total %
01 General Operations Program	\$ 47,779,718	\$ 4,368,197	\$ 52,147,915	3.85%
02 Construction Program	154,851,679	760,864,555	915,716,234	67.55%
03 Maintenance Program	292,592,791	15,174,766	307,767,557	22.70%
22 Motor Carrier Services Div.	16,272,231	5,809,745	22,081,976	1.63%
40 Aeronautics Program	3,693,178	997,500	4,690,678	0.35%
50 Rail, Transit, & Planning Division	<u>9,338,903</u>	<u>43,885,293</u>	<u>53,224,196</u>	<u>3.93%</u>
Grand Total	<u>\$ 524,528,500</u>	<u>\$ 831,100,056</u>	<u>\$ 1,355,628,556</u>	<u>100.00%</u>

Sources of Revenue

The department is funded from a combination of state special revenue and federal special revenue. State special revenue can be grouped into two general categories, those that are protected by the state constitution and those that are not. The Constitution of the State of Montana states that revenues from gross vehicle weight fees and excise and license taxes on gasoline, fuel, and other energy sources that are used to propel vehicles on public highways are to be used solely for paying obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; and for enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Non-restricted revenues are derived from special use permits and motor fuel penalties and interest payments. In the base and for the 2013 biennium all highway construction expenditures from state funds are accounted for in the highways state special revenue restricted account, which is used as the match for federal funding of the department.

Federal aid for highway construction is primarily realized from the distribution of revenue derived from federal excise taxes on motor fuels and other transportation products, such as heavy truck tires. Montana has historically received

significantly more federal-aid highway construction funds than are collected in federal motor fuels excise taxes from Montana sources. Montana receives more than \$2.20 of federal funding for highways for every \$1.00 collected in the state and sent to the federal highway trust fund.

Federal-Aid Highway Funding

The department receives federal-aid highway funding from the Federal Highway Administration (FHWA), typically from authorizations in six-year funding bills. The most recent federal authorization legislation is called the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). SAFETEA-LU provides authorization for federal-aid transportation programs and funding for federal fiscal years 2005 through 2009.

Since federal FY 2009 ended Congress has not approved a reauthorization of the federal highway funding authorization but has passed extensions of the authorization, typically at FY 2009 funding levels. The most recent extension is set to expire December 31, 2010. According to the department, the available funds Montana will receive via formula distribution from the federal highway trust fund has increased by \$83.9 million. The executive budget assumes the increased funding for the 2013 biennium. Staff is pursuing independent information regarding the potential formula amount.

Sliding Scale Match

Montana currently receives federal highway construction funds based on a sliding scale match formula that includes factors for the amount of federal land in the state and the amount of financial contribution the state makes to maintain the federal-aid highway system with state dollars. The current match ratio is 87% federal to 13% state for reimbursable federal-aid projects. In order to maintain this favorable match, Montana must provide maintenance of effort by fully funding a certain level of construction activity with state funds. The department estimates that roughly \$10 million of state-funded highway construction is needed annually to maintain the current match ratio. In FY 2010, the 100% state funded program was \$10.0 million. However, the agency has included a request to increase the funding for this program to \$40.0 million per year.

In order to utilize all of the federal funds allotted to the state, state funds must be available to provide: 1) planning functions required in the federal funding law; 2) maintenance of the federal-aid highway system to FHWA standards; 3) adequate management and oversight of federal-aid construction projects; 4) a minimum construction program supported by 100% state funds (\$10 million annually); 5) matching funds for federal-aid construction funds; and 6) adequate working capital to pay operating expenses with 100% state funds until federal reimbursement is provided. These factors all contribute to the need to maintain a certain working capital level to support cash flow obligations of the department. In the past, the department has referred to \$10.0 million as an adequate working capital balance.

Highways State Special Revenue Account Working Capital Analysis

HSRA provides the state funding to match \$300 million annually of federal transportation funding. The combined total is nearly \$500 million of annual transportation spending to maintain and expand the state transportation infrastructure. The following working capital analysis of HSRA shows the financial condition of the account going into the 2011 legislative session. The working capital analysis of HSRA is shown below. Separate analyses and figures are provided for the restricted (HSRA-R) and nonrestricted (HSRA-NR) accounts as they each have different legislative voting requirements and statutorily designated revenues and restrictions. The restricted account is restricted by the Montana Constitution to specific uses and it requires a three-fifths vote of the members of each house of the legislature to be diverted for other purposes. The non-restricted account can be appropriated by a simple majority and is not restricted in its use.

Constitutional Restricted Account

The following describes working capital analysis of the highways state special revenue constitutionally restricted account.

Account Use - HSRA-R currently funds the operations of five programs of the DOT that administer, enforce, and support the construction, maintenance, and safe operations of Montana highways. HSRA-R also funds Long-range Building Program projects for DOT facilities and those of the Department of Fish, Wildlife and Parks (FWP) related to roadway activities, and for programs of the Department of Justice (DOJ) that support highway or motor vehicle activities. Programs of DOJ that are partially funded with HSRA-R are: 1) Legal Services Division; 2) Motor Vehicle Division; 3) Montana Highway Patrol; 4) Central Services Division; and 5) Information Technology Services Division. HSRA-R also funds statutory appropriations identified in the statutory appropriations figure. The analysis assumes no changes in the allocations of the funds in future biennia.

Assumptions Used in the Working Capital Projections - The working capital analysis for HSRA-R reflects actual expenditures for FY 2010, budgets appropriated by the 2009 Legislature for FY 2011, and the executive budget request for the 2013 biennium. For FY 2011, the analysis also assumes that all appropriations currently valid, including those approved in prior biennia for capital projects, would be fully expended. Revenue estimates for FY 2011 and the 2013 biennium are those approved by the Revenue and Transportation Interim Committee (November 2010) for those revenues of HSRA for which it makes recommendations.

Analysis Results – The working capital analysis for HSRA-R is illustrated on the following figure. HSRA-R entered FY 2011 with a positive nearly \$100.0 million balance. If all valid appropriations are expended, HSRA-R will begin the 2013 biennium with an \$86.7 million balance. Revenue shortfalls would lower the balance to \$48.8 million by the end of the 2013 biennium.

Working Capital Balance Highways State Special Revenue - Restricted Account Fiscal Years 2010 - 2013 (in Millions)				
Description	FY 2010 Actual	FY 2011 Approp.	FY 2012 Budget	FY 2013 Budget
Beginning Working Capital Balance	\$65.4	\$99.6	\$86.7	\$65.7
Revenues				
Gasoline tax (net of refunds)	130.2	132.7	135.2	137.7
Diesel tax (net of refunds)	64.3	66.7	67.4	68.1
GVW	29.6	30.2	30.9	31.6
Federal indirect cost recovery	53.4	43.0	45.4	45.4
All other revenues	<u>4.0</u>	<u>4.0</u>	<u>4.0</u>	<u>4.0</u>
Total Revenues	<u>\$281.5</u>	<u>\$276.6</u>	<u>\$282.8</u>	<u>\$286.8</u>
Expenditures				
Department of Transportation (DOT)				
Statutory appropriations	17.4	17.4	17.4	17.4
HB 2 and HB 13	<u>190.0</u>	<u>237.8</u>	<u>251.2</u>	<u>251.3</u>
Total DOT	207.4	255.2	268.6	268.7
Department of Justice	29.2	29.4	32.3	32.1
Fish, Wildlife & Parks	0.6	1.3	0.8	0.8
Department of Transportation Long-range Projects	1.1	1.0	1.1	1.1
Long-range Building Program	1.2	2.6	1.1	1.1
Total Expenditures	<u>\$239.5</u>	<u>\$289.5</u>	<u>\$303.8</u>	<u>\$303.7</u>
Revenues less expenditures	42.0	(12.9)	(21.0)	(16.9)
Adjustments	<u>(7.7)</u>			
Ending Working Capital Balance (without reversions)	<u>\$99.6</u>	<u>\$86.7</u>	<u>\$65.7</u>	<u>\$48.8</u>

Not included in the estimates for the 2013 biennium are pay plan increases that would increase personal services funding, from HSRA-R by \$0.6 million in FY 2012 and \$2.4 million in FY 2013 based on a 1% increase starting January 1, 2012,

and a 3% increase starting January 1, 2013. With pay plan funding, the working capital balance at the end of the 2013 biennium would be \$45.8 million.

Analysis Will Likely Change - The department has submitted a budget request for the 2013 biennium based on the 2009 tentative construction plan. The agency is in the process of updating this plan. Historically, the department revises several of the key budget adjustments from those presented in the request analyzed by legislative staff to reflect a revised and updated construction plan. Therefore, the department request will likely change prior to appropriations subcommittee hearings and the working capital analysis will change as well. See the Program Narrative for the Construction Program for further details of likely changes.

Nonrestricted Account

The following describes the working capital analysis of the highways state special revenue nonrestricted account.

Assumptions Used in the Working Capital Projections - The working capital analysis for HSRA-NR includes actual activity for FY 2010. Appropriations for FY 2011 assume all appropriations approved for the agency in FY 2010 as biennial appropriations extend into FY 2011 and will be fully expended. Expenditures for the 2013 biennium are the executive budget request to fund portions of three programs in the agency with HSRA-NR.

Analysis Results - The working capital analysis for HSRA-NR is illustrated on the following figure. The analysis shows that if the 2011 biennium appropriations are fully expended the HSRA-NR balance will be depleted by the end of the 2011 biennium. In order to end the 2011 beinnium with a balanced fund, \$9.6 million of the appropriations would need to revert in FY 2011. The funding requests for the 2013 biennium would also need to be reduced by about \$350,000 per year to align 2013 biennium revenues with the funding requests.

Working Capital Balance Highways State Special Revenue - Nonrestricted Account Fiscal Years 2010 - 2013				
Description	FY 2010 Actual	FY 2011 Approp.	FY 2012 Budget	FY 2013 Budget
Beginning Working Capital Balance	\$1,128,640	\$1,150,533	(\$8,469,226)	(\$8,834,120)
Total Revenues	\$7,802,778	\$7,390,000	\$7,497,475	\$7,606,560
Expenditures				
Department of Transportation (HB 2)	7,575,384	16,909,759	7,762,369	7,735,369
Statutory transfer to noxious weed state special revenue account	0	100,000	100,000	100,000
Total Expenditures	\$7,575,384	\$17,009,759	\$7,862,369	\$7,835,369
Revenues less expenditures	227,394	(9,619,759)	(364,894)	(228,809)
Adjustments	(205,502)			
Ending Working Capital Balance	\$1,150,533	(\$8,469,226)	(\$8,834,120)	(\$9,062,929)

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	496,861,462	496,861,462	993,722,924	73.30%
Statewide PL Adjustments	0	0	0	0.00%	10,660,152	10,537,538	21,197,690	1.56%
Other PL Adjustments	0	0	0	0.00%	170,429,284	169,566,158	339,995,442	25.08%
New Proposals	0	0	0	0.00%	356,250	356,250	712,500	0.05%
Total Budget	\$0	\$0	\$0		\$678,307,148	\$677,321,408	\$1,355,628,556	

Language and Statutory Authority

The executive recommends the following language for the department:

"The department may adjust appropriations in the general operations, construction, maintenance, and transportation planning programs between state special revenue and federal special revenue funds if the total state special revenue authority for these programs is not increased by more than 10% of the total appropriations established by the Legislature for each program."

"All federal special revenue appropriations in the department are biennial."

"All appropriations in the general operations, construction, maintenance, and transportation planning programs are biennial."

"All remaining federal pass-through grant appropriations for highway traffic safety, including reversions for the 2011 biennium, are authorized to continue and are appropriated in FY 2012 and FY 2013."

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	186.37	186.37	186.37	186.37	186.37	186.37	0.00	0.00%
Personal Services	12,203,608	13,189,454	13,345,817	13,344,945	25,393,062	26,690,762	1,297,700	5.11%
Operating Expenses	11,811,027	13,103,299	12,441,057	12,196,826	24,914,326	24,637,883	(276,443)	(1.11%)
Equipment & Intangible Assets	62,770	40,948	62,770	62,770	103,718	125,540	21,822	21.04%
Grants	339,479	304,563	346,865	346,865	644,042	693,730	49,688	7.72%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	\$24,416,884	\$26,638,264	\$26,196,509	\$25,951,406	\$51,055,148	\$52,147,915	\$1,092,767	2.14%
General Fund	0	0	0	0	0	0	0	n/a
State Special	22,560,630	24,997,272	23,972,499	23,807,219	47,557,902	47,779,718	221,816	0.47%
Federal Special	1,856,254	1,640,992	2,224,010	2,144,187	3,497,246	4,368,197	870,951	24.90%
Total Funds	\$24,416,884	\$26,638,264	\$26,196,509	\$25,951,406	\$51,055,148	\$52,147,915	\$1,092,767	2.14%

Program Description

The General Operations Program provides overall policy direction and management to the agency, administers motor fuel taxes, and provides administrative support services for the department, including general administration and management, accounting and budgeting, public affairs, information technology services, human resources activities, compliance review, and goods and services procurement.

Program Highlights

General Operations Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ Total funds increase by \$1.1 million, or 2.1% in the 2013 biennium compared to the 2011 biennium ◆ Federal special revenue increases are roughly \$0.9 million, or 24.9%, due to the following: <ul style="list-style-type: none"> • Increases to align funding for federal grant programs to allowable costs for disadvantaged business enterprise, training grants, and the Salish Kootenai College on-the-job training • Increases in funding associated with fuel tax evasion grants

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table						
General Operations Program						
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013
01000 Total General Fund	\$ -	-	\$ -	-	\$ -	-
01100 General Fund	-	-	-	-	-	-
02000 Total State Special Funds	22,560,630	92.4%	23,972,499	91.5%	23,807,219	91.7%
02068 Noxious Weed Admin Account	-	-	-	-	-	-
02213 Off Highway Vehicle Gas Tax	-	-	-	-	-	-
02328 Ohv Gas Tax - Con Ed	-	-	-	-	-	-
02329 Snowmobile Fuel Tax-Enforcemnt	-	-	-	-	-	-
02330 Snowmobile Fuel Tax-Con Ed	-	-	-	-	-	-
02349 Highway Non-Restricted Account	-	-	-	-	-	-
02407 Snowmobile Fuel Tax	-	-	-	-	-	-
02412 Motorboat Fuel Tax	-	-	-	-	-	-
02422 Highways Special Revenue	22,560,630	92.4%	23,972,499	91.5%	23,807,219	91.7%
02827 Aeronautics Division	-	-	-	-	-	-
03000 Total Federal Special Funds	1,856,254	7.6%	2,224,010	8.5%	2,144,187	8.3%
03407 Highway Trust - Sp Rev	1,813,927	7.4%	2,179,530	8.3%	2,100,241	8.1%
03828 Traffic Safety	42,327	0.2%	44,480	0.2%	43,946	0.2%
Grand Total	\$ 24,416,884	100.0%	\$ 26,196,509	100.0%	\$ 25,951,406	100.0%

The General Operations Program is funded from the highways state special revenue fund and federal special revenue. The highways state special revenue fund receives revenue primarily from motor fuel taxes, gross vehicle weight permit fees, and reimbursements for indirect costs associated with the federal-aid highway program via a Federal Highways Administration (FHWA) approved indirect cost plan. Federal funding is available for assistance for disadvantaged businesses, training, fuel tax evasion prevention efforts, and direct administrative expenses associated with the federal-aid highway program.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	24,416,884	24,416,884	48,833,768	93.64%
Statewide PL Adjustments	0	0	0	0.00%	1,235,106	992,710	2,227,816	4.27%
Other PL Adjustments	0	0	0	0.00%	544,519	541,812	1,086,331	2.08%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$26,196,509	\$25,951,406	\$52,147,915	

Present Law Adjustments

The "Present Law Adjustments" table shows the 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	-----Fiscal 2012-----					-----Fiscal 2013-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,679,737					1,678,834
Vacancy Savings					(555,334)					(555,303)
Inflation/Deflation					1,457					1,525
Fixed Costs					109,246					(132,346)
Total Statewide Present Law Adjustments		\$0	\$1,140,703	\$94,403	\$1,235,106		\$0	\$921,730	\$70,980	\$992,710
DP 103 - Overtime/Differential	0.00	0	17,806	0	17,806	0.00	0	17,806	0	17,806
DP 104 - Equipment Rental	0.00	0	6,328	0	6,328	0.00	0	6,709	0	6,709
DP 106 - Merchant Credit Card Fees	0.00	0	52,590	0	52,590	0.00	0	84,383	0	84,383
DP 107 - Federal Grants Programs	0.00	0	0	208,853	208,853	0.00	0	0	208,853	208,853
DP 111 - Restore Computer Services Contract Funding	0.00	0	194,442	0	194,442	0.00	0	215,961	0	215,961
DP 112 - Fuel Tax Evasion Grant	0.00	0	0	64,500	64,500	0.00	0	0	8,100	8,100
Total Other Present Law Adjustments	0.00	\$0	\$271,166	\$273,353	\$544,519	0.00	\$0	\$324,859	\$216,953	\$541,812
Grand Total All Present Law Adjustments	0.00	\$0	\$1,411,869	\$367,756	\$1,779,625	0.00	\$0	\$1,246,589	\$287,933	\$1,534,522

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** – This program has no occupational groups exempt from the agency pay plan rules.
- o **Program Specific Obstacles** – This program has not faced difficulties hiring and retaining a qualified workforce.
- o **Vacancy** – There are no occupational groups experiencing high rates of turnover in this program.
- o **Legislatively Applied Vacancy Savings** – This program used natural turnover and held vacant positions open to achieve the 7% legislatively imposed vacancy rate.
- o **Pay/Position Changes** – This program reclassified or promoted seven positions in FY 2010 as career track advancements. For those positions that received pay changes, the average hourly increase was \$3.34 and after the increases their average salary was \$25.54 per hour. After the increases, the highest hourly salary of the seven positions was \$34.81 and the lowest was \$18.14. The average of these increases was 14.2%.
- o **Retirements** - 41 employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$452,646.

DP 103 - Overtime/Differential - This request would reestablish base year overtime and differential pay for each year. Included in the request is \$2,231 per year for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 104 - Equipment Rental - Increases of state special and federal special revenue are requested to fund the program's share of proposed increases in the Equipment Program, an internal service program exclusively serving programs of the Department of Transportation. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**

Costs Linked to Equipment Rental Rates in the Proprietary Funded Equipment Program

A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. The legislature may want to determine rates in the Equipment Program before taking action on this request. This adjustment corresponds to the rates requested and any change in the Equipment Program rates would impact this adjustment.

DP 106 - Merchant Credit Card Fees - This request would fund increases in merchant credit card fees that result due to increased customer usage of credit cards to pay for permits, licenses, and other MDT services. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**

2009 Legislature Required a Report

The 2009 Legislature appropriated the equivalent amount of funding to this request but directed the agency to investigate alternatives or to attempt to negotiate reduced rates that would minimize similar cost increases in the future. The legislature designated the 2011 biennium funding as one time only and directed the agency to report back to the 2011 Legislature during budget hearings on the steps taken to address legislative concerns with ever increasing costs for merchant credit card fees. The base funding for merchant credit card fees is \$111,692. Approval of this request would raise the funding for merchant credit card fees to \$164,282 in FY 2012 and \$196,075 in FY 2013.

As of this writing, a report has not been received that details the agency's actions in this matter.

DP 107 - Federal Grants Programs - This request would increase federal special revenue to the allowed federal expenditure levels for the following federal programs: disadvantaged business enterprise (\$162,595), training grants (\$38,872), and the Salish Kootenai College on-the-job training (\$7,386).

DP 111 - Restore Computer Services Contract Funding - This request would increase funding for scheduled maintenance and system enhancements for permitting, registration, and licensing systems. The systems associated with this adjustment are for permitting of commercial motor vehicles and other entities, International Fuel Tax Agreement (IFTA) licenses, and International Registration Plan (IRP) vehicle registrations.

DP 112 - Fuel Tax Evasion Grant - An increase of federal fuel tax evasion grant funds is requested to make enhancements to motor fuel administration systems to allow electronic filing of International Fuel Tax Agreement (IFTA) and special fuel user tax returns, and to address increased costs of IFTA decals and other costs associated with fuel tax evasion.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	924.72	924.72	924.72	924.72	924.72	924.72	0.00	0.00%
Personal Services	54,877,333	69,612,472	66,815,072	66,813,799	124,489,805	133,628,871	9,139,066	7.34%
Operating Expenses	230,071,884	337,067,326	359,860,999	359,955,042	567,139,210	719,816,041	152,676,831	26.92%
Equipment & Intangible Assets	1,829,537	1,044,091	1,829,537	1,829,537	2,873,628	3,659,074	785,446	27.33%
Capital Outlay	28,059,193	15,858,138	23,059,193	23,059,193	43,917,331	46,118,386	2,201,055	5.01%
Grants	6,246,931	5,070,775	6,246,931	6,246,931	11,317,706	12,493,862	1,176,156	10.39%
Total Costs	\$321,084,878	\$428,652,802	\$457,811,732	\$457,904,502	\$749,737,680	\$915,716,234	\$165,978,554	22.14%
State Special	55,225,282	95,014,597	77,380,739	77,470,940	150,239,879	154,851,679	4,611,800	3.07%
Federal Special	265,859,596	333,638,205	380,430,993	380,433,562	599,497,801	760,864,555	161,366,754	26.92%
Total Funds	\$321,084,878	\$428,652,802	\$457,811,732	\$457,904,502	\$749,737,680	\$915,716,234	\$165,978,554	22.14%

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, 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. The program also provides traffic improvement and educational programs to promote public safety, health, and welfare.

Program Highlights

Construction Program Major Budget Highlights	
◆	Total funds increase from the 2011 biennium to the 2013 biennium by nearly \$166.0 million, or 22.1%
◆	Federal special revenue increases \$161.4 million, or 26.9%, due primarily to: <ul style="list-style-type: none"> • A \$234.2 million biennium increase in funding for contractor payments on highway construction projects • A \$12.2 reduction that off sets a portion of the contractor payment increases due to the completion of several large projects during the base year • The federal portion of increased costs to rent equipment from the agency's proprietary funded Equipment Program (\$1.0 million) • A nearly \$317,000 increase to adjust for staff support of ARRA funded projects in the base year that are not included in the base
◆	State special revenue increases by \$4.6 million, or 3.1%, primarily due to increase funding to match federal funds

Program Narrative

Estimating Contractor Payment Amounts

Some present law adjustments for the Construction Program are based on existing construction contracts and future planned construction activity, construction contract bid letting dates, and estimates of staff resource needs to support the planned construction contracts during the 2013 biennium.

Based on planned construction activities, the department uses several management systems to estimate resource usage and payout schedules on highway construction projects. Each year after receiving updated federal-aid highway construction apportionment levels from the Federal Highways Administration, the department updates and balances the projects and funding in the highway construction plan, referred to as the tentative construction plan (TCP). The 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, one of many computerized management systems of the department, 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 requests in both the federal-aid and 100% state funded construction programs. The management system estimates also form the basis for determining staff resources needed to support the planned construction contracts and activities for the biennium.

The last updated and balanced TCP was prepared at the end of 2009 and was used to develop the budget requests that are presented in the Legislative Budget Analysis 2013 Biennium. At the time of the budget analysis, the department was in the process, but had not completed, the 2010 update to the TCP for updated federal FY 2009 apportionment estimates. Refer to the "Federal-Aid Highway Funding" narrative in the agency funding section of the agency summary for more details on why two-year old apportionments are being used for funding the 2103 biennium budget.

LFD COMMENT

Update to the Highway Construction Plan

The budget request DP 202 in the Construction Program, which requests funding for contractor payments associated with highway construction funded with federal-aid for highways funds and the associated state match, was built based on the 2009 TCP update. In keeping with past practice, this decision package will likely be revised and resubmitted by the executive prior to being heard by the Natural Resources and Transportation Joint Appropriation Subcommittee of the 2011 Legislature. The revised request will be based on the 2010 TCP update.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
02000 Total State Special Funds	\$ 55,225,282	17.2%	\$ 77,380,739	16.9%	\$ 77,470,940	16.9%
02422 Highways Special Revenue	55,225,282	17.2%	77,380,739	16.9%	77,470,940	16.9%
02529 Us 93 Garvee 2008 Bond Proceed	-	-	-	-	-	-
02799 Highway 93 Bond Proceeds	-	-	-	-	-	-
03000 Total Federal Special Funds	265,859,596	82.8%	380,430,993	83.1%	380,433,562	83.1%
03023 Mdt Arra Funds	-	-	-	-	-	-
03166 Mcsap-Truck Inspection Program	-	-	-	-	-	-
03407 Highway Trust - Sp Rev	265,795,010	82.8%	380,430,993	83.1%	380,433,562	83.1%
03828 Traffic Safety	64,586	0.0%	-	-	-	-
Grand Total	<u>\$ 321,084,878</u>	<u>100.0%</u>	<u>\$ 457,811,732</u>	<u>100.0%</u>	<u>\$ 457,904,502</u>	<u>100.0%</u>

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% federal with a 13% 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% with National Highway Traffic Safety Administration grant funds. The exception is that a 50% state special revenue match is required for roughly 1% of the administrative costs.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	321,084,878	321,084,878	642,169,756	70.13%
Statewide PL Adjustments	0	0	0	0.00%	8,159,918	8,162,645	16,322,563	1.78%
Other PL Adjustments	0	0	0	0.00%	128,566,936	128,656,979	257,223,915	28.09%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$457,811,732	\$457,904,502	\$915,716,234	

Present Law Adjustments

The "Present Law Adjustments" table shows the 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	-----Fiscal 2012-----				-----Fiscal 2013-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					10,774,377					10,773,065
Vacancy Savings					(2,625,958)					(2,625,919)
Inflation/Deflation					(3,015)					2,604
Fixed Costs					14,514					12,895
Total Statewide Present Law Adjustments		\$0	\$7,730,231	\$429,687	\$8,159,918		\$0	\$7,757,227	\$405,418	\$8,162,645
DP 202 - Contractor Payments/Federal Aid	0.00	0	13,300,981	117,100,795	130,401,776	0.00	0	13,300,981	117,100,795	130,401,776
DP 205 - Equipment Rental	0.00	0	511,664	515,777	1,027,441	0.00	0	524,889	529,104	1,053,993
DP 206 - Overtime/Differential	0.00	0	1,365,292	2,424,028	3,789,320	0.00	0	1,365,292	2,424,028	3,789,320
DP 207 - Program Reductions	0.00	0	(907,600)	(6,092,400)	(7,000,000)	0.00	0	(907,600)	(6,092,400)	(7,000,000)
DP 208 - Licensing Fees	0.00	0	130,357	35,239	165,596	0.00	0	180,337	48,750	229,087
DP 209 - Federal Aid Project Delivery	0.00	0	24,532	158,271	182,803	0.00	0	24,532	158,271	182,803
Total Other Present Law Adjustments	0.00	\$0	\$14,425,226	\$114,141,710	\$128,566,936	0.00	\$0	\$14,488,431	\$114,168,548	\$128,656,979
Grand Total All Present Law Adjustments	0.00	\$0	\$22,155,457	\$114,571,397	\$136,726,854	0.00	\$0	\$22,245,658	\$114,573,966	\$136,819,624

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** – No employee groups in this program are exempted from the agency pay plan rules.
- o **Program Specific Obstacles** - This program faces some challenges in attracting and retaining qualified workers in areas of the state that are remote or high cost. In addition, several specialized occupations, such as appraisers and project managers, experience limited applicant pools.
- o **Vacancy** – This program has no occupations with high turnover rates.
- o **Legislatively Applied Vacancy Savings** - This program achieved the applied 7% vacancy savings through normal turnover and holding positions open when vacancies occurred. The impact of the vacancy savings was increased workload on existing staff, overtime, and increased use of consultants.
- o **Pay/Position Changes** – This program reclassified or promoted 65 positions in FY 2010 as career track advancements. For those positions that received pay changes, the average hourly increase was \$2.43 and after the increases their average salary was \$20.47 per hour. After the increases, the highest hourly salary of the 65 positions was \$32.40 and the lowest was \$12.12. The average of these increases was 13.3%.
- o **Retirements** - 145 employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$1,987,667.

DP 202 - Contractor Payments/Federal Aid - Increases of state special and federal special revenue are requested to fund payments to highway construction contractors based on department estimates of federal-aid funding and the corresponding highway construction plan. State special revenue funding is entirely from the restricted highways state special revenue account.

LFD COMMENT

Updated Numbers Will be Presented to the 2011 Legislature

This adjustment may change before the legislature hears the department budget request because of timing of the update to the Tentative Construction Plan. For further discussion of construction planning see the narrative and LFD comment titled, Update to the Highway Construction Plan in the Program Narrative section for this program.

LFD COMMENT

Reason for Federal Funding Increase

Federal-aid for highways is authorized by Congress through a multi-year authorization that has not been reauthorized since it expired at the end of the 2009 federal fiscal year. The program has remained in force at the 2009 funding levels through short-term extensions, the last of which will end December 31, 2010. The annual formula distribution from the federal highway trust fund has increased for Montana by \$83.9 million. This increased distribution was assumed for this adjustment.

DP 205 - Equipment Rental - Increases of state special and federal special revenue are requested to fund the program's share of proposed increases in the Equipment Program, an internal service program exclusively serving programs of the Department of Transportation. State special revenue funding is entirely from the restricted highways state special revenue account.

LFD COMMENT

Costs Linked to Equipment Rental Rates in the Proprietary Funded Equipment Program

A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. The legislature may want to determine rates in the Equipment Program before acting on this request. This adjustment corresponds to the rates requested and any change in the Equipment Program rates would impact this adjustment.

DP 206 - Overtime/Differential - This request would reestablish base year overtime and differential pay for each year at levels \$344,113 lower than the base. Included in the request is \$494,255 per year for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and the employer contribution to the public employee retirement system. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 207 - Program Reductions - This request would reduce funding for utility relocation and land payments. Two major projects were completed in the base year, Shiloh Road and Kalispell Bypass, and the base funding associated with these projects is not needed in the 2013 biennium. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 208 - Licensing Fees - This request would fund licensing fee increases for several engineering systems used to deliver the highway construction program. These systems require payment of licensing fees to third parties. These third party licensed systems are subject to 10% annual licensing fee increases and one, the computer aided design and drafting system (CADD), includes an initial licensing fee increase of 14%. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 209 - Federal Aid Project Delivery - This request increases the federal-aid construction program for base expenditures that were funded with non-base sources of funding authority, such as Grant Anticipation Revenue Vehicle (GARVEE) bond proceeds and American Reinvestment and Recovery Act stimulus funds. Construction engineers, inspectors, and technicians normally associated with the regular federal-aid program were funded in FY 2010 with the listed non-base funding. State special revenue funding is entirely from the restricted highways state special revenue account.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	765.67	765.67	765.67	765.67	765.67	765.67	0.00	0.00%
Personal Services	44,840,938	49,214,309	48,388,996	48,430,878	94,055,247	96,819,874	2,764,627	2.94%
Operating Expenses	69,769,773	76,328,268	104,144,681	104,442,546	146,098,041	208,587,227	62,489,186	42.77%
Equipment & Intangible Assets	1,023,078	1,578,013	1,023,078	1,023,078	2,601,091	2,046,156	(554,935)	(21.33%)
Capital Outlay	40,014	274,286	157,150	157,150	314,300	314,300	0	0.00%
Total Costs	\$115,673,803	\$127,394,876	\$153,713,905	\$154,053,652	\$243,068,679	\$307,767,557	\$64,698,878	26.62%
State Special	108,455,027	119,467,016	146,126,522	146,466,269	227,922,043	292,592,791	64,670,748	28.37%
Federal Special	7,218,776	7,927,860	7,587,383	7,587,383	15,146,636	15,174,766	28,130	0.19%
Total Funds	\$115,673,803	\$127,394,876	\$153,713,905	\$154,053,652	\$243,068,679	\$307,767,557	\$64,698,878	26.62%

Program Description

The Maintenance Program is responsible for the repair, maintenance and preservation of approximately 25,000 lane miles of roadways. Activities include but are not limited to: winter maintenance, reactive and preventive pavement preservation, pavement marking, signing, roadway striping, noxious weed control, traveler information, and other necessary roadway and roadside repairs and maintenance.

Program Highlights

Maintenance Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ State special revenue increases \$64.7 million, or 28.4%, from the 2011 biennium to the 2013 biennium due to the following: <ul style="list-style-type: none"> ● Funding to increase the 100% state funded construction program from \$10.0 million to \$40.0 million per year ● Increases in the costs to make payments to the proprietary funded Equipment Program (\$7.1 million) ● Increased maintenance costs for secondary road miles added to the agency's maintenance responsibilities after counties converted gravel roads to paved roads (\$524,000) ● Increased maintenance costs for new and reconstructed rest areas (\$388,000) ● Anticipated increases in rest area custodial contracts (\$28,000)
Major LFD Issues
<ul style="list-style-type: none"> ◆ The 100% state funded construction program would grow to four times its current size and will have system impacts

5% Plan Reduction

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Governor has included no items from the agency's 5% reduction plan in the budget request for this program. The following summarizes the plan submitted for this program:

- o Annual reductions of \$365,781 funded with the non-restricted account of the highways state special revenue

would reduce the \$7,315,611 base by 5%. This reduction would reduce the funding for highway pavement preservation. The risk of this reduction is that if pavement preservation is reduced below a level that would not extend the life of the existing highway system, more expensive rehabilitation work may be needed to restore the highway to its current condition

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table							
Maintenance Program							
Program Funding	Base FY 2010	% of Base FY 2010	Budget FY 2012	% of Budget FY 2012	Budget FY 2013	% of Budget FY 2013	
02000 Total State Special Funds	\$ 108,455,027	93.8%	\$ 146,126,522	95.1%	\$ 146,466,269	95.1%	
02349 Highway Non-Restricted Account	7,315,611	6.3%	7,600,000	4.9%	7,600,000	4.9%	
02422 Highways Special Revenue	101,139,416	87.4%	138,526,522	90.1%	138,866,269	90.1%	
03000 Total Federal Special Funds	7,218,776	6.2%	7,587,383	4.9%	7,587,383	4.9%	
03166 Mcesap-Truck Inspection Program	-	-	-	-	-	-	
03292 Mcs Federal Grants	-	-	-	-	-	-	
03407 Highway Trust - Sp Rev	7,218,480	6.2%	7,587,087	4.9%	7,587,087	4.9%	
03828 Traffic Safety	296	0.0%	296	0.0%	296	0.0%	
Grand Total	\$ 115,673,803	100.0%	\$ 153,713,905	100.0%	\$ 154,053,652	100.0%	

The Maintenance Program is primarily funded with the state special revenue from highways state special revenue funds comprised of \$15,200,000 from the non-restricted account and \$277,392,791 from the constitutionally restricted account. Federal special revenue also funds qualifying highway maintenance activities determined by the Federal Highway Administration to extend the life of the highway.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	115,673,803	115,673,803	231,347,606	75.17%
Statewide PL Adjustments	0	0	0	0.00%	1,393,420	1,507,968	2,901,388	0.94%
Other PL Adjustments	0	0	0	0.00%	36,646,682	36,871,881	73,518,563	23.89%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$153,713,905	\$154,053,652	\$307,767,557	

Present Law Adjustments

The "Present Law Adjustments" table shows the 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	Fiscal 2012				Fiscal 2013					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					3,399,801					3,443,446
Vacancy Savings					(1,929,611)					(1,931,374)
Inflation/Deflation					(76,770)					(4,104)
Total Statewide Present Law Adjustments		\$0	\$1,289,447	\$103,973	\$1,393,420		\$0	\$1,403,995	\$103,973	\$1,507,968
DP 301 - Secondary Roads - Maintenance costs	0.00	0	253,050	0	253,050	0.00	0	270,550	0	270,550
DP 304 - Rest Area Maintenance	0.00	0	193,826	0	193,826	0.00	0	193,826	0	193,826
DP 305 - Additional Maintenance Miles	0.00	0	34,128	27,624	61,752	0.00	0	34,128	27,624	61,752
DP 314 - State Funded Construction	0.00	0	30,000,000	0	30,000,000	0.00	0	30,000,000	0	30,000,000
DP 315 - Equipment Rental	0.00	0	3,456,762	0	3,456,762	0.00	0	3,664,461	0	3,664,461
DP 316 - Overtime/Differential	0.00	0	2,077,868	0	2,077,868	0.00	0	2,077,868	0	2,077,868
DP 317 - Pavement Marking Program	0.00	0	35,415	237,010	272,425	0.00	0	35,415	237,010	272,425
DP 318 - Noxious Weed Program	0.00	0	150,009	0	150,009	0.00	0	150,009	0	150,009
DP 319 - Billings City Contract	0.00	0	50,014	0	50,014	0.00	0	50,014	0	50,014
DP 320 - Land Purchase	0.00	0	117,136	0	117,136	0.00	0	117,136	0	117,136
DP 321 - Janitorial Service Contracts	0.00	0	13,840	0	13,840	0.00	0	13,840	0	13,840
Total Other Present Law Adjustments	0.00	\$0	\$36,382,048	\$264,634	\$36,646,682	0.00	\$0	\$36,607,247	\$264,634	\$36,871,881
Grand Total All Present Law Adjustments	0.00	\$0	\$37,671,495	\$368,607	\$38,040,102	0.00	\$0	\$38,011,242	\$368,607	\$38,379,849

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- **Pay Plan Exceptions** – No employee groups in this program are exempt from the agency pay plan rules.
- **Program Specific Obstacles** – This program has had difficulties hiring and retaining qualified workers in areas of the state that are remote or high cost.
- **Vacancy** - No positions in this program have high turnover rates or difficulties in filling vacancies.
- **Legislatively Applied Vacancy Savings** - This program achieved the applied 7% vacancy savings through normal turnover and holding positions open when vacancies occurred. The impact of the vacancy savings was increased workload on existing staff and higher overtime.
- **Pay/Position Changes** - This program reclassified or promoted 122 positions in FY 2010 as career track advancements. For those positions that received pay changes, the average hourly increase was \$0.43 and after the increases their average salary was \$18.36 per hour. After the increases, the highest hourly salary of the seven positions was \$23.15 and the lowest was \$17.38. The average of these increases was 2.4%.
- **Retirements** – This program has 110 employees who are eligible to retire in the 2013.

DP 301 - Secondary Roads - Maintenance costs - An increase is requested to add funding to maintain additional

secondary road miles projected to be added to the agency's responsibility during the 2013 biennium. The funding would address maintenance needs for 149 lane miles of additional secondary roads that have been or will be converted by the 2013 biennium from gravel roads to paved roads and moved from being the responsibility of counties to the responsibility of the department. Funding is entirely from the restricted highways state special revenue account.

DP 304 - Rest Area Maintenance - This request would add funding for the caretaker service and upkeep of the new Harlowton, Lima, and reconstructed Dearborn rest areas. Funding is entirely from the restricted highways state special revenue account.

DP 305 - Additional Maintenance Miles - This request would fund additional road maintenance responsibility added due to the increase in lane miles from highway construction projects. Funding would be used to address additional operational costs associated with increased utility costs for luminaries and traffic signal lights along with the purchase of materials for winter maintenance operations. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 314 - State Funded Construction - This request would increase the state funded construction program by \$30.0 million each year. Funding is entirely from the restricted highways state special revenue account.

**LFD
ISSUE**
State Funded Construction Program Growth and System Impacts

The funding in this request would result in a 100% state funded construction program that is four times the size of the current program. The issue for consideration is how this increase would impact the condition of Montana highways and what the impact would be if a lower funding level were approved.

In the 2011 biennium the legislature funded the 100% state funded construction program at \$10.0 million per year. In past estimates it was determined that an annual state funded construction program of \$10.0 million averaged over three years would provide the state supported maintenance of effort to maintain the favorable funding percentage of 87% federal participation in Montana's federal-aid for highways construction program. This \$10.0 million annual amount corresponds to the statement in the Final 2010- 2014 Surface Transportation Improvement Program (STIP) in which it is stated that the estimated state funded construction expenditures for state fiscal years 2010 through 2014 is \$50.0 million. In this document the state funded construction program exists to provide funding for projects not eligible for federal-aid funds, including projects to preserve the condition and extend the service life of highways or projects that not eligible for federal-aid funds.

In addition to the funding in the 2011 biennium for the state funded construction program, Montana received funding in HB 645 for highway infrastructure projects funded under the American Recovery and Reinvestment Act (ARRA). Many of the projects Montana completed with ARRA funds were for pavement preservation projects that are typically included in the state funded construction program, such as mill and fill, chip seal, and overlay projects.

The department has indicated that the increased level of funding is needed to support the department's pavement condition and congestion goals and to maintain and enhance Montana's existing roadways. The agency has a pavement condition goal to maintain average ride in desirable or superior range with less than 3% of the miles in unsatisfactory condition. This goal is measured with a ride index that is a measure of the smoothness of the highway as perceived by highway users. In FY 2010, Montana's ride index was just above 80, or at the bottom of the superior range. Likewise, the congestion goal is to target a level of service necessary to keep congestion within a desirable range or maintain the congestion index at or above 55. Congestion index is a measure of travel delay. The higher the congestion index, the less congestion and more mobility experienced by travelers. Montana's congestion index is also just above 80, also at the bottom of the superior range. In other words, Montana's roads are not congested and have very good service conditions. When asked for the purpose for the increase in program size, the agency stated that the increase was to meet Montana's highway needs that are not being met by the federal-aid funded construction program.

**LFD
ISSUE CONT**

Given that the most recent STIP indicates a state funded construction of \$10.0 million for the five years of which the 2013 biennium is included and the infusion of 100% federal stimulus funds, much of which were used on projects typically in the state funded construction program, the legislature may want to discuss with the agency the specific system improvements that would result from this growth in 100% state funded projects. In evaluating this request, the legislature may want to structure its questions around the following:

- How will the additional spending impact the pavement condition rating, given that Montana is already in the superior range?
- How will the additional spending impact the congestion index, given that Montana is already in the superior range?
- How will the projects planned for the funding of this request impact the highway system life expectancy?
- What would be the system impacts if lower levels of funding were approved for this 100% state funded program?

DP 315 - Equipment Rental - An increase is requested to fund the program's share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. Funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**Costs Linked to Equipment Rental Rates in the Proprietary Funded Equipment Program

A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. The legislature may want to determine rates in the Equipment Program before acting on this request. This adjustment corresponds to the rates requested and any change in the Equipment Program rates would impact this adjustment.

DP 316 - Overtime/Differential - This request would reestablish base year overtime and differential pay. Included in the request is an increase of \$35,726 per year for differential pay and \$271,026 per year for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 317 - Pavement Marking Program - Increases of state special and federal special revenue are requested to adjust funding for the pavement marking program to annual planned levels. Due to weather impacts, projects planned for the base were delayed so the base does not reflect a full plan year of pavement marking program expenditures. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 318 - Noxious Weed Program - An increase is requested to adjust funding for the noxious weed program to annual planned levels. Due to weather impacts, herbicide applications were not made as planned so the base does not reflect a full plan year of noxious weed program expenditures. Funding is entirely from the restricted highways state special revenue account.

DP 319 - Billings City Contract - This request would fund increases in the maintenance contract the department has with the City of Billings. The department contracts with Billings to perform routine road maintenance, traffic signal maintenance, and sign maintenance on state-owned roadways within the city limits. In FY 2010 not all projects were completed. Funding is entirely from the restricted highways state special revenue account.

DP 320 - Land Purchase - This increase would fund land purchase for materials stockpile and communication sites that were expected to be made in FY 2010 but were not made. Funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**Historical Land Purchase

Typical budgets for the department include funding for land purchases to acquire stockpile and communications sites and to purchase land in anticipation of receiving Long-range Building Funding for construction of equipment storage buildings across the state. The executive requested version of HB 5 that funds capital projects includes funding for statewide construction of equipment storage buildings for the department.

DP 321 - Janitorial Service Contracts - This request would fund anticipated increases for caretaker and janitorial services for three contracts that will re-bid in the 2013 biennium.

Proprietary Rates**State Motor Pool (Motor Pool Internal Service – 06506)***Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06506 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2013 Biennium Report on Internal Service and Enterprise Funds				
Fund	Fund Name	Agency #	Agency Name	Program Name
06506	Motor Pool Internal Service	54010	Transportation	State Motor Pool
			Actual	Budgeted
			FY 2010	FY 2011
			Projected	Projected
			FY 2012	FY 2013
Operating Revenues:				
	Net Fee Revenue		\$6,804,990	\$7,813,497
	Investment Earnings		0	0
	Securities Lending Income		0	0
	Premiums		0	0
	Other Operating Revenues		<u>6,663</u>	<u>20,000</u>
	Total Operating Revenue		\$6,811,653	\$7,833,497
Operating Expenses:				
	Personal Services		318,893	341,216
	Other Operating Expenses		<u>4,990,049</u>	<u>6,221,742</u>
	Total Operating Expenses		\$5,308,943	\$6,562,958
	Operating Income (Loss)		\$1,502,710	\$1,270,539
Nonoperating Revenues (Expenses):				
	Gain (Loss) Sale of Fixed Assets		269,732	0
	Federal Indirect Cost Recoveries		0	0
	Other Nonoperating Revenues (Expenses)		<u>0</u>	<u>0</u>
	Net Nonoperating Revenues (Expenses)		\$269,732	\$0
	Income (Loss) Before Operating Transfers		\$1,772,442	\$1,270,539
	Contributed Capital		0	0
	Operating Transfers In (Note 13)		0	0
	Operating Transfers Out (Note 13)		<u>0</u>	<u>0</u>
	Change in net assets		1,772,442	1,270,539
	Total Net Assets- July 1 - As Restated		1,504,399	3,276,841
	Prior Period Adjustments		0	0
	Cumulative effect of account change		0	0
	Total Net Assets - July 1 - As Restated		<u>1,504,399</u>	<u>3,276,841</u>
	Net Assets- June 30		<u>\$3,276,841</u>	<u>\$4,547,382</u>
	60 days of expenses		\$884,824	\$1,093,826
			\$989,467	\$1,002,974

Program Description

The State Motor Pool operates and maintains a fleet of vehicles available to all state offices and employees who conduct official state business. The State Motor Pool has two basic components: 1) the daily rental fleet; and 2) the out-stationed lease fleet. The daily rental program operates out of the Helena headquarters facility and provides vehicles for short-term use. The leasing program provides vehicles for extended assignment (biennial lease) to agencies statewide.

Requirements affecting the State Motor Pool responsibilities for the acquisition, operation, maintenance, repair, and administration of all motor vehicles in their custody do not apply to motor vehicles used in the service of the Governor, attorney general, or the highway patrol).

Use of the program is optional to agencies when personnel are required to travel by vehicle for official state business, but is encouraged in the Montana Operations Manual (MOM). Other options to use by state employees are: 1) other state-owned vehicles not part of the State Motor Pool fleet; 2) personal vehicles, with authorization provided by the agency director; or 3) vehicles from a private rental agency contract. When individuals use their own private vehicles for state business travel the reimbursement rates are set at 52% of the rate established by the Internal Revenue Service for the current year less \$0.03 unless:

- o A motor pool or other state-owned vehicle is not available
- o Use of a personal vehicle is considered to be in the best interest of the state
- o They are legislators while traveling between their residence and Helena or members of the general public on official state business

Program Narrative

Program Highlights

State Motor Pool Major Budget Highlights
<ul style="list-style-type: none"> ◆ Rates requested would result in inflation reductions of 21.22% in FY 2012 and 20.92% in FY 2013 for motor pool cost items in the budgets of agencies that use the State Motor Pool ◆ Several tiers of rates are requested with triggers at increasingly higher gasoline prices ◆ Excess fund balance is causing rates to decline despite rising costs

Expenses

Significant costs for the program are for:

- o Personal services for 6.00 FTE, \$320,350 or 5.7% of total costs
- o Operating costs, \$2.4 million with 88.8% of these costs due to:
 - Gasoline, \$1.5 million
 - Repair costs, \$282,567
 - Contracted services to support the motor pool management system, \$223,223
 - Insurance and bonds, \$113,468
- o Equipment costs, \$2.8 million or 48.7 % of total costs, to purchase vehicles for the fleet
- o Debt service costs, \$209,382 million or 3.7% of total costs

Direct costs from vehicle usage include fuel, oil, repairs, and tires, and are supported by the usage rates. Indirect costs such as administrative overhead costs, insurance, interest payments, and utility costs are supported by the vehicle possession rates.

Revenues

Revenues of the program are derived from fees charged to all state agencies that use the program. Fees are charged for both possession and use of equipment using a dual rate structure that collects fixed costs under a possession charge and variable costs under a usage charge. Fixed costs are for expense items such as insurance, depreciation, and indirect costs.

User agencies are budgeted for payments to the State Motor Pool via their base funding as adjusted by inflation/deflation adjustments contained in their statewide present law adjustments. For the 2013 biennium the corresponding adjustments linked to the rates requested for the State Motor Pool are deflation factors of 21.22% in FY 2012 and 20.92% for FY 2013.

User fees provided 98% of the revenues in FY 2010 with the remaining funding from the sale of surplus property and accident damages reimbursed by private individuals or insurance companies.

Funding Sources

The following sources of funding were used to pay for the services provided by this program:

- o General fund (40.0%)
- o State special revenue (34.8%)
- o Federal special revenue (22.9%)
- o Other (2.3%)

Present Law Adjustments

Statewide present law adjustments would increase costs by \$231,692 in FY 2012 and \$312,736 in FY 2013. Nearly 90% of this increase is due to inflation on gasoline, which impacts the usage rate. Statewide present law adjustments would increase costs associated with the usage rate by 3.7% in FY 2012 and by 4.2% in FY 2013. This adjustment would increase costs associated with the assigned rate by 2.7% in FY 2012 and by 4.2% in FY 2013.

PL 0702 - Overtime/Differential – Funding for overtime and differential pay at \$2,388 in each year would increase costs by nearly \$693 per year over the base. This request would increase costs associated with the assigned rate by 0.08% in FY 2012 and by 0.07% in FY 2013.

PL 0703 - Interest Rate Increase Adjustment – Increases of \$45,850 per year would add an adjustment for expected interest rate increases on inter-cap loans from the Board of Investments (BOI). This request would increase costs associated with the assigned rate by 5.3% in FY 2012 and by 4.9% in FY 2013.

Proprietary Rates

For the 2013 biennium the following rates are proposed by the executive. The tier 1 rates are based on an assumed gasoline pump price of \$2.85 per gallon. The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Requested Rates for State Motor Pool									
		Actual FY 2010 Assigned Rate	Actual FY 2010 Usage Rate	Actual FY 2011 Assigned Rate	Actual FY 2011 Usage Rate	Budgeted FY 2012 Assigned Rate	Budgeted FY 2012 Usage Rate	Budgeted FY 2013 Assigned Rate	Budgeted FY 2013 Usage Rate
TIER 1 (Budgeted)									
Rental Rate Fees by class of vehicle									
Class 02	Small Utilities	2.543	0.176	2.428	0.176	1.265	0.155	1.271	0.156
Class 03	Hybrid SUV	1.690	0.129	2.323	0.128	1.685	0.101	1.689	0.101
Class 04	Large Utilities	2.347	0.208	2.359	0.210	1.990	0.205	1.998	0.206
Class 05	Hybrid Sedans	2.355	0.093	2.610	0.094	1.477	0.072	1.483	0.072
Class 06	Passenger Car	1.733	0.134	1.749	0.135	1.278	0.134	1.285	0.134
Class 07	Small Pickup	1.667	0.199	1.678	0.201	1.343	0.200	1.348	0.201
Class 11	Large Pickup	1.797	0.207	1.831	0.209	1.352	0.222	1.358	0.223
Class 12	Vans	1.825	0.198	1.858	0.200	1.283	0.183	1.289	0.184
TIER 2									
Rental Rate Fees (note 1)									
Class 02	Small Utilities	2.543	0.200	2.428	0.200	1.265	0.178	1.271	0.179
Class 03	Hybrid SUV	1.690	0.146	2.323	0.144	1.685	0.116	1.689	0.117
Class 04	Large Utilities	2.347	0.239	2.359	0.241	1.990	0.237	1.998	0.238
Class 05	Hybrid Sedans	2.355	0.105	2.610	0.107	1.477	0.083	1.483	0.083
Class 06	Passenger Car	1.733	0.151	1.749	0.153	1.278	0.153	1.285	0.154
Class 07	Small Pickup	1.667	0.225	1.678	0.228	1.343	0.229	1.348	0.230
Class 11	Large Pickup	1.797	0.236	1.831	0.238	1.352	0.253	1.358	0.255
Class 12	Vans	1.825	0.224	1.858	0.227	1.283	0.210	1.289	0.211
TIER 3									
Rental Rate Fees (note 2)									
Class 02	Small Utilities	2.543	0.225	2.428	0.224	1.265	0.201	1.271	0.202
Class 03	Hybrid SUV	1.690	0.164	2.323	0.161	1.685	0.132	1.689	0.132
Class 04	Large Utilities	2.347	0.271	2.359	0.272	1.990	0.268	1.998	0.269
Class 05	Hybrid Sedans	2.355	0.118	2.610	0.119	1.477	0.094	1.483	0.094
Class 06	Passenger Car	1.733	0.169	1.749	0.171	1.278	0.172	1.285	0.173
Class 07	Small Pickup	1.667	0.252	1.678	0.254	1.343	0.257	1.348	0.258
Class 11	Large Pickup	1.797	0.266	1.831	0.268	1.352	0.285	1.358	0.286
Class 12	Vans	1.825	0.251	1.858	0.253	1.283	0.237	1.289	0.238
Note 1 - Tier 2 rates were contingent on gasoline costing \$3.71 per gallon in the 2011 biennium and for the 2013 biennium the budgeted rates are contingent on gasoline costing \$3.35 per gallon									
Note 2 - Tier 3 rates were contingent on gasoline costing \$4.21 per gallon in the 2011 biennium and for the 2013 biennium the budgeted rates are contingent on gasoline costing \$3.85 per gallon									

LFD COMMENT

Cost Factors are Increasing but Rates are Declining

Costs shown on the fund report are increasing and the adjustments that increase costs provide the associated impacts. On the other hand, the revenues are projected to decline in comparison with the FY 2010 revenues by 18.1% in FY 2012 and by 17.7% in FY 2013. Correspondingly, the assigned rates decline in each year from the FY 2010 level. Except for large pickups, the usage rates also either stay near their FY 2010 level or decline.

Despite increasing costs that should drive rates up, the executive is using excess fund balance to lower State Motor Pool rates. The excess fund balance was generated largely by operating gains during the 2011 biennium when fee revenues exceeded operating costs by \$2.8 million. In comparison to FY 2010, revenues would decline 18.1% in FY 2012 and 17.7% in FY 2013. The general fund impact would be reductions of \$403,000 in FY 2012 and \$395,000 in FY 2013.

Proprietary Rates**Equipment Program (Highway Equipment – fund 06508)***Proposed Budget*

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 06508 shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity

2013 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06508	Highway Equipment	54010	Transportation	Equipment Program		
			Actual	Budgeted	Projected	Projected
			FY 2010	FY 2011	FY 2012	FY 2013
Operating Revenues:						
Net Fee Revenue			\$23,785,631	\$22,926,977	\$27,679,897	\$27,919,998
Investment Earnings			0	0	0	0
Securities Lending Income			0	0	0	0
Premiums			0	0	0	0
Other Operating Revenues			<u>246,924</u>	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>
Total Operating Revenue			\$24,032,555	\$23,076,977	\$27,829,897	\$28,069,998
Operating Expenses:						
Personal Services			7,142,235	7,555,961	7,709,807	7,716,280
Other Operating Expenses			<u>17,609,299</u>	<u>19,879,640</u>	<u>19,926,741</u>	<u>20,203,718</u>
Total Operating Expenses			\$24,751,535	\$27,435,601	\$27,636,548	\$27,919,998
Operating Income (Loss)			(\$718,980)	(\$4,358,624)	\$193,349	\$150,000
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets			37,724	0	0	0
Federal Indirect Cost Recoveries			0	0	0	0
Other Nonoperating Revenues (Expenses)			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Nonoperating Revenues (Expenses)			\$37,724	\$0	\$0	\$0
Income (Loss) Before Operating Transfers			(\$681,256)	(\$4,358,624)	\$193,349	\$150,000
Contributed Capital			1,007,817	0	0	0
Operating Transfers In (Note 13)			0	0	0	0
Operating Transfers Out (Note 13)			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in net assets			\$326,561	(\$4,358,624)	\$193,349	\$150,000
Total Net Assets- July 1 - As Restated			68,646,346	68,973,757	64,615,133	64,808,482
Prior Period Adjustments			850	0	0	0
Cumulative effect of account change			0	0	0	0
Total Net Assets - July 1 - As Restated			<u>68,647,196</u>	<u>68,973,757</u>	<u>64,615,133</u>	<u>64,808,482</u>
Net Assets- June 30			<u>\$68,973,757</u>	<u>\$64,615,133</u>	<u>\$64,808,482</u>	<u>\$64,958,482</u>
60 days of expenses			\$4,125,256	\$4,572,600	\$4,606,091	\$4,653,333

Program Description

The Equipment Program is responsible for the acquisition, disposal, repair, and maintenance of a fleet of 4,555 individual units. The fleet is comprised of light duty vehicles, single and tandem axle dump trucks, specialized snow removal units, roadway maintenance units, and other specialized equipment. Exclusively, the Department of Transportation's various programs such as Construction, Motor Carrier Services, Maintenance, and Right-of-Way use the fleet. All units are assigned to the various user programs and are charged rental on a bi-weekly basis.

Highlights

Equipment Program Major Budget Highlights
<ul style="list-style-type: none"> ◆ Increases in the Equipment Program would result in \$9.4 million in increases to appropriated programs of the Department of Transportation for the 2013 biennium ◆ Statewide present law adjustments are also major factors for the growth and are primarily due to personal services and inflation for motor fuels
Major LFD Issues
<ul style="list-style-type: none"> ◆ Alternatives to the requested working capital rate are available

Expenses

Significant costs for the program are for:

- o Personal services for 123.00 FTE, \$7.4 million or 27.9% of total costs
- o Operating costs, \$11.5 million with 71.4% of these costs due to:
 - Gasoline and diesel fuel, \$6.1 million
 - Equipment repair costs, \$4.0 million
 - Insurance and bonds, \$240,000
- o Equipment costs, \$7.6 million or 28.9% of total costs

Revenues

Revenues of the program are derived from fees charged exclusively to other programs of the Department of Transportation. Fees are charged for both possession and use of equipment using a dual rate structure that collects fixed cost under an assigned (time of possession) charge and variable costs under a usage charge. Fixed costs are for expense items such as insurance, depreciation, and indirect costs.

Funding Sources

Because of how the department accounts for activities of the federal-aid highways program, the sources of funding used to make payments to the program cannot be accurately determined. No general fund supports payments to the program. All revenues are received from funding within the Department of Transportation.

Present Law Adjustments

Statewide present law adjustments would increase program costs by \$1,132,516 in FY 2012 and \$1,415,965 in FY2013. The largest components of the statewide present law adjustments are increases of \$297,106 in FY 2012 and \$303,579 in FY 2013 for personal services and \$851,880 in FY 2012 and \$1,107,064 in FY 2013 for inflation of gasoline and diesel costs. Personal services increases the assigned rate and fuel costs increase the usage rate. These statewide present law adjustments would increase costs for the program compared to FY 2010 by 4.6% in FY 2012 and 5.7% in FY 2013.

DP 0806 Overtime/Differential – Funding requested for overtime at the base level and differential pay at \$7,803 higher than the base level would increase costs by \$8,973 each year after funding is added for benefits. This request would have a negligible impact on the assigned rate in the 2013 biennium.

Proprietary Rates

For the 2013 biennium the Governor requests the legislature approve the following as a rate for the Equipment Program:

The Equipment program may charge rates necessary to establish and maintain a 60 day working capital balance to operate the program.

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

**LFD
ISSUE**

Alternatives Are Available for the Program Proprietary Rates

Because the 60-day working capital rate proposed does not provide a means of limiting either rates or expenditures, the legislature may wish to use an alternate rate that establishes limits on total expenditures.

Statutory Direction

Montana laws states that the executive budget submission must contain a report for internal services funds that includes:

“Fees and charges in the internal service fund type, including changes in the level of fees and charges, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium.”

The program requests that instead of approving fees, that the legislature provide the program the flexibility to operate as it determines necessary to maintain a 60-day working capital balance to operate the division.

The 1995 Legislature in HB 576 changed the legislative action from appropriating internal services funds to approving the maximum level of fees and charges an internal service funded program can charge for its services. An intent of this legislation was to replace a direct limitation on expenditures with a limitation on how much the program could charge, thereby allowing the program to respond to changing workload if necessary while still limiting the amounts that could be charged to those using the service. A limit on the maximum working capital does not limit how much can be charged. It merely limits the amount of cash the program can accumulate at a given moment.

Why Agencies Request Working Capital as a Rate

One argument agencies make in requesting a working capital rate is that otherwise the legislature would have to approve hundreds of rates. Proprietary funded programs also argue that the costs are subject to the choices of service users who control the level of services they purchase from the service provider. Unlike some proprietary funded services where users from one agency purchase services from another agency, this program provides equipment for rent only to other programs of this agency.

Within limits, users control which of the equipment is used. Constraints on the funding for programs using the service and agency management place constraints on this program to control costs. Furthermore, statutory constraints during the interim for the Equipment Program to obtain approval from the Governor’s budget office to increase funding limits also constrain expenditures of this program.

Overall Agency Planning Limits Variation of Usage

Risks of significant changes in program usage during the interim are significantly reduced because of the agency’s approach to long-range planning. This program acquires, maintains, and disposes of equipment for other programs of the agency. For the most part, the level of federal funding and available revenue for state motor fuel taxes control the main functions of this agency that use the equipment rented by this program. Agency construction, maintenance, and enforcement plans have driven requests in user programs for funding to make payments to this program. The long-term plans temper variations in use of this program. The legislature has accepted working capital rates for the program since FY 1998.

**LFD
ISSUE CONT.***Alternatives*

Given that the working capital rate requested does not place limitations on the rates or expenditures of this program, but users' consumption choices and funding do, the legislature may want to consider if it is comfortable in approving the rates as requested or if it would like to consider other alternatives for adding constraints on the expenditures and program growth. Alternatives to consider are:

1. First deliberate over changes in the Equipment Program's anticipated expenditures as if the program were a HB 2 program. This could be done through the same process used for HB 2 programs by adopting a base and statewide present law adjustment and then determining consensus on decision packages. Once the expenditures are established for the 2013 biennium, it could request that the program determine the fees it would charge that would correspond to the expenditure assumptions and then present the specific fees to the legislature for approval.
2. Approve limits on the amount of revenues that can be derived from fee revenue at the base plus the total of all equipment rental decision packages requested and summarized in the "Agency-wide Decisions" portion of the "Agency Narrative" section. The specific amounts would be \$27,698,290 for FY 2012 and \$27,938,394 for FY 2013.

The legislature could also change the law for internal service funds with similar internal constraints so a working capital rate with specific parameters would be allowed.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	123.00	123.00	123.00	123.00	123.00	123.00	0.00	0.00%
Personal Services	7,226,320	7,361,859	7,204,246	7,208,431	14,588,179	14,412,677	(175,502)	(1.20%)
Operating Expenses	1,487,194	3,818,641	4,432,130	3,223,844	5,305,835	7,655,974	2,350,139	44.29%
Equipment & Intangible Assets	0	166,102	13,325	0	166,102	13,325	(152,777)	(91.98%)
Total Costs	\$8,713,514	\$11,346,602	\$11,649,701	\$10,432,275	\$20,060,116	\$22,081,976	\$2,021,860	10.08%
State Special	7,038,309	8,291,393	8,467,006	7,805,225	15,329,702	16,272,231	942,529	6.15%
Federal Special	1,675,205	3,055,209	3,182,695	2,627,050	4,730,414	5,809,745	1,079,331	22.82%
Total Funds	\$8,713,514	\$11,346,602	\$11,649,701	\$10,432,275	\$20,060,116	\$22,081,976	\$2,021,860	10.08%

Program Description

The Motor Carrier Services Division enforces state and federal commercial motor carrier laws including laws on vehicle size and weight, insurance, licensing, dyed fuel, and vehicle and driver safety. The Licensing and Permit Bureau registers interstate fleet vehicles, issues commercial vehicle licenses and oversize/overweight permits, and collects and distributes fees and taxes. The Enforcement Bureau operates a statewide weigh station and mobile enforcement program and assigns uniformed officers to inspect commercial vehicles for compliance with state and federal safety, registration, fuel, insurance, and size/weight laws. The Motor Carrier Safety Assistance Program (MCSAP) conducts commercial motor carrier safety compliance reviews and safety audits to ensure commercial vehicles, drivers, and motor carriers are compliant with state safety laws and federal regulations by conducting vehicle and driver inspections and motor carrier compliance reviews and safety audits.

Program Highlights

Motor Carrier Services Division	
Major Budget Highlights	
◆	Total funds increase by \$2.0 million, or 10.1% from the 2011 biennium to the 2013 biennium
◆	State special revenue increases by \$942,000 or 6.2%, due to the following requests: <ul style="list-style-type: none"> ● Unified carrier registration funds to deploy and maintain commercial motor vehicle related systems (\$1.6 million) ● One-time funding to replace obsolete VHS audio/video equipment (\$170,000) ● Cost increases associated with operations of the Dietz port of entry contract (\$115,000) ● Reductions in statewide present law adjustments offset a portion of the growth from the above request
◆	Federal special revenue increases by nearly \$1.1 million, or 22.8%, due to the following requests: <ul style="list-style-type: none"> ● Federal funds for projects to deploy and maintain commercial motor vehicle related systems (\$1.1 million) ● Border enforcement of commercial motor carriers (\$1.5 million)

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Governor has included no items from the agency's 5% reduction plan in the budget request for this program. The following summarizes the plan submitted for this program:

- o A reduction of state special revenue funding from fees received under the Uniform Carrier Registration Program (UCR), the funding of which is used to match federal Motor Carrier Safety Assistance Program funding for personal services. This annual reduction of \$17,004 state special revenue would reduce the \$340,089 base by 5% and would reduce the amount of federal funds the department could match

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
02000 Total State Special Funds	\$ 7,038,309	80.8%	\$ 8,467,006	72.7%	\$ 7,805,225	74.8%
02294 Ucr Fund	340,089	3.9%	1,394,337	12.0%	885,134	8.5%
02349 Highway Non-Restricted Account	-	-	27,000	0.2%	27,000	0.3%
02422 Highways Special Revenue	6,698,220	76.9%	7,045,669	60.5%	6,893,091	66.1%
03000 Total Federal Special Funds	1,675,205	19.2%	3,182,695	27.3%	2,627,050	25.2%
03166 Mcsap-Truck Inspection Program	423,377	4.9%	-	-	-	-
03292 Mcs Federal Grants	1,251,828	14.4%	3,182,695	27.3%	2,627,050	25.2%
Grand Total	\$ 8,713,514	100.0%	\$ 11,649,701	100.0%	\$ 10,432,275	100.0%

The Motor Carrier Services Division is funded by the highways state special revenue fund and federal special revenue. State funds are revenue from highway user fees such as motor fuel taxes and gross vehicle weight fees. Except for \$2.3 million unified carrier registration state special revenue all remaining state special revenue for the 2011 biennium is from the highways state special revenue account with \$13.9 million from the constitutionally restricted account and \$54,000 from the non-restricted account. Federal funds are from federal Motor Carrier Safety Assistance Program and border enforcement grants.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	8,713,514	8,713,514	17,427,028	78.92%
Statewide PL Adjustments	0	0	0	0.00%	(212,698)	(206,351)	(419,049)	(1.90%)
Other PL Adjustments	0	0	0	0.00%	3,148,885	1,925,112	5,073,997	22.98%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$11,649,701	\$10,432,275	\$22,081,976	

Present Law Adjustments

The "Present Law Adjustments" table shows the 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	-----Fiscal 2012-----					-----Fiscal 2013-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					82,421					86,797
Vacancy Savings					(292,342)					(292,533)
Inflation/Deflation					(2,777)					(615)
Total Statewide Present Law Adjustments		\$0	(\$39,551)	(\$173,147)	(\$212,698)		\$0	(\$25,341)	(\$181,010)	(\$206,351)
DP 2201 - United Carrier Registration (UCR) - ECVISN	0.00	0	1,076,201	807,895	1,884,096	0.00	0	568,038	272,250	840,288
DP 2203 - Digital Audio/Video Recorder OTO	0.00	0	170,000	0	170,000	0.00	0	0	0	0
DP 2205 - Purchase License Plates	0.00	0	27,000	0	27,000	0.00	0	27,000	0	27,000
DP 2206 - Equipment Rental	0.00	0	36,139	19,765	55,904	0.00	0	38,311	20,953	59,264
DP 2207 - Overtime/Differential	0.00	0	101,437	86,410	187,847	0.00	0	101,437	86,410	187,847
DP 2208 - Dietz Port of Entry Contract	0.00	0	57,471	0	57,471	0.00	0	57,471	0	57,471
DP 2209 - Border Enforcement Grant	0.00	0	0	766,567	766,567	0.00	0	0	753,242	753,242
Total Other Present Law Adjustments	0.00	\$0	\$1,468,248	\$1,680,637	\$3,148,885	0.00	\$0	\$792,257	\$1,132,855	\$1,925,112
Grand Total All Present Law Adjustments	0.00	\$0	\$1,428,697	\$1,507,490	\$2,936,187	0.00	\$0	\$766,916	\$951,845	\$1,718,761

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** – Officers working shifts at the Coutts, Alberta scale receive differential pay of \$1.00 per hour, which is not typical in the department.
- o **Program Specific Obstacles** – This program faces some challenges in attracting and retaining qualified workers in areas of the state that are remote or high cost.
- o **Vacancy** – This program has experienced some high turnover of compliance officers in remote areas or high cost regions of the state and has responded through increased workloads on existing staff through overtime and offering alternate shift options to the result that budgeted hours were fully expended in FY 2010.
- o **Legislatively Applied Vacancy Savings** – In a comparison between budgeted hours and actual hours expended the division experienced a 105% utilization rate. Base expenditures for personal services were 7% over the personal services budget approved by the 2009 Legislature.
- o **Pay/Position Changes** – This program reclassified or promoted 20 positions in FY 2010 as career track advancements. For those positions that received pay changes, the average hourly increased was \$1.11 and after the increases their average salary was \$17.49 per hour. After the increases, the highest hourly salary of the seven positions was \$21.27 and the lowest was \$13.66. The average of these increases was 6.7%.
- o **Retirements** – This program has not identified any staff eligible for retirement in the 2013 biennium.

DP 2201 - United Carrier Registration (UCR) - ECVISN - An increase of state special revenue would fund Motor Carrier Safety Assistance Program (MCSAP) and Expanded Commercial Vehicle Information Systems and Networks (ECVISN) projects. State special revenue is from the unified carrier registration fund.

The following information is provided so that the legislature can consider various performance measurement principles when examining this proposal. It is submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification -This request would deploy and maintain commercial motor vehicle related systems. Two projects are planned in FY 2012 and one in FY 2013. An automated payment capability project for the International Fuel Tax Agreement (IFTA) and International Registration Plan (IRP) would provide automated payment capability for a one stop shopping cart interface. This would allow customers an easy system to do multiple transactions related to IFTA and IRP. The other FY 2012 project is a weigh station automated vehicle screening project at two existing weigh stations, which will identify problem carriers, vehicles, and drivers to keep the traveling public safe. The FY 2013 project is virtual weigh station automated screening system deployment at existing weigh in motion sites. This would target overweight and unsafe vehicles, protecting the infrastructure and keeping the traveling public safe. The proposal is needed to reduce the cost and streamline payment processes to improve customer service.

Goals - Improve administrative processes and safety and size/weight compliance of commercial vehicles operating on Montana highways.

Performance Criteria - IFTA and IRP automated payment project will improve customer service by providing new automated payment options to meet customer business needs when paying licensing and registration transactions. Customer and government efficiencies will be measured by the reduction in the amount of time needed to issue credentials and improvements in the number of errors currently experienced with manual transactions. Customers are expected to experience a reduction in the time needed to receive their credentials.

The intent is to acknowledge safe commercial vehicle operations and focus on high-risk operations thereby improving customer service and highway safety for the travelling public by reducing truck crashes. Customer service improvements will be measured by decreasing the percentage of vehicles stopped without compliance issues. It is expected that fewer safe vehicles will be stopped for compliance checks.

Virtual weigh stations will allow compliant vehicles to avoid being stopped needlessly. Fewer compliant carriers will be stopped for weight and safety checks. Customer service improvements will be measured by decreasing the percentage of vehicles stopped without compliance issues. It is expected that fewer safe vehicles will be stopped for compliance checks.

Milestones – the following milestones are provided for the three projects contained in this request

IFTA and IRP Automated payment project:

- | | |
|----------------------------------|--------------------------|
| o Project plan | Complete July 31, 2012 |
| o Contract with service provider | Complete August 31, 2012 |
| o Implement project plan | Complete June 30, 2013 |

Automated vehicle screening project:

- | | |
|----------------------------------|-----------------------------|
| o Project plan | Complete September 30, 2012 |
| o Contract with service provider | Complete October 31, 2012 |
| o Implement project plan | Complete June 30, 2013 |

Virtual weigh station project:

- | | |
|---------------------------------------|--------------------------|
| o Project plan | Complete July 31, 2013 |
| o Contract with service provider | Complete August 31, 2013 |
| o Implement project plan | Complete June 30, 2014 |
| o Deploy Commercial Vehicle Systems | Ongoing through May 2021 |
| o Maintain Commercial Vehicle Systems | Ongoing |

FTE – The work will be completed by technology consultants under oversight of the department.

Funding – Federal participation is at 50% with a 50% state match requirement

Future Funding – Maintenance costs associated with these projects are estimated at \$115,000 annually, using future UCR funds.

Obstacles - A plan has been drafted that addresses the challenges ready for implementation. The challenges for projects associated with this DP are technical - securing the grant and associated budget authority. The technical challenge can be mitigated by working closely with the Montana Department of Transportation Information Services Division and Department of Administration Information Technology Services Division to develop the requirements to assure compatibility with Montana information technology infrastructure. In addition, it is paramount that the agency hires qualified vendors to deploy the technology by working through the groups mentioned above.

Regarding the grant securement challenge, the agency will work closely with the Montana Federal Motor Carrier Services Administration (FMCSA) division office to secure the grant. The agency has already received tentative approval from FMCSA. Once FMCSA approves the final design and plan, FMCSA will award the funds. UCR funds are available to meet the federal match requirements.

Risks - If the proposal is not adopted the risks to Montana for each project are:

IFTA and IRP automated payment project: Currently customers have few payment options to remit payment for fuel licensing and vehicle registrations. Not implementing the automated payment capability will cause continued or increased delays and inefficiencies in issuing credentials to customers.

Automated vehicle screening project: Currently safety inspectors identify vehicles passing by weigh stations using manually operated systems, sometimes causing undue stops for safe and compliant vehicles and drivers and causing a customer service issue. Motor carrier operators operating in compliance with state and federal rules will continue to experience undue delays if this project is not adopted. These delays will adversely impact customer service. Conversely, unsafe or non-compliant operators may continue to operate unchecked.

Virtual weigh station project: Currently officers will stop commercial vehicles if they suspect non-compliance for size, weight, or safety, sometimes causing undue delays for compliant operators. This is a customer service issue for compliant operators. If this technology is not deployed, safe and compliant operators will continue to experience undue delays, and unsafe or non-compliant operators may continue to operate unchecked.

**LFD
COMMENT**

Motor Carrier Delays

The agency states that the risks from not implementing these projects are delays to commercial motor carriers. Delays are related to inefficiencies in issuing credentials and some operators who are in compliance with the rules may be stopped if an officer suspects they are not compliant. The agency did not state that not implementing these projects would put any federal funding at risk, besides the federal funding in this request, or show that the status quo would cause unsafe roads to the traveling public.

DP 2203 - Digital Audio/Video Recorder OTO - This request would fund the replacement of outdated VHS audio/video technology equipment used by Motor Carrier Services officers for training and during interactions with the public. The Governor recommends the legislature designate funding for this request as one time only. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**

Use of Digital Audio/Video Recorder Equipment

Motor Carrier Services officers interact with the public in an enforcement capacity. The digital recording equipment would be used for evidential matter purposes and to enhance officer training. Recordings are made during public interactions during complaint resolution, officer interactions with the commercial truck drivers, and when management conducts spot checks of officers interacting with commercial truck drivers.

DP 2205 - Purchase License Plates - This request would fund costs to purchase license plates for issuance under the International Registration Plan (IRP). State special revenue funding is entirely from the non-restricted highways state special revenue account.

**LFD
COMMENT**

Cost of License Plates

SB 508 of the 2009 Legislature changed how license plates were funded. A fee of \$10 per plate is now charged to manufacture the license plates. This plate fee is a new cost to the program. The program issues nearly 2,700 plates per year.

DP 2206 - Equipment Rental - Increases of state special and federal special revenue are requested to fund the program's share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. Except for \$1,801 in FY 2012 and \$1,909 in FY 2013 of united carrier registration state special revenue, all other state special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**

Costs Linked to Equipment Rental Rates in the Proprietary Funded Equipment Program

A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. The legislature may want to determine rates in the Equipment Program before acting on this request. This adjustment corresponds to the rates requested and any change in the Equipment Program rates would impact this adjustment.

DP 2207 - Overtime/Differential - This request of a combination of state special and federal special revenue is to reestablish base year overtime and differential pay. Included in the request is \$24,502 for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 2208 - Dietz Port of Entry Contract - This budget request of state special revenue would adjust expenses up to the annual contract levels for the MT / WY port of entry at Dietz, WY. The Dietz facility is operated as a joint enforcement effort between the two states. Montana contracts with Wyoming to staff and operate the joint port-of-entry. The contract calls for Wyoming personnel to enforce Montana size and weight laws, issue Montana permits, and collect Montana gross vehicle weight fees. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**

Montana operates similar joint ports-of-entry with Idaho and Alberta, Canada under similar cost sharing agreements.

DP 2209 - Border Enforcement Grant - This request of federal special revenue would annualize border enforcement grant (BEG) expenditures. The base does not include the majority of expenses for this 100% federally funded grant as they were incurred through a budget amendment during FY 2010.

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	9.00	9.00	9.00	9.00	9.00	9.00	0.00	0.00%
Personal Services	626,939	586,421	645,198	643,652	1,213,360	1,288,850	75,490	6.22%
Operating Expenses	356,231	484,801	752,293	799,899	841,032	1,552,192	711,160	84.56%
Equipment & Intangible Assets	0	10,104	0	0	10,104	0	(10,104)	(100.00%)
Grants	829,705	1,028,295	914,000	914,000	1,858,000	1,828,000	(30,000)	(1.61%)
Transfers	0	13,701	10,818	10,818	13,701	21,636	7,935	57.92%
Total Costs	\$1,812,875	\$2,123,322	\$2,322,309	\$2,368,369	\$3,936,197	\$4,690,678	\$754,481	19.17%
State Special	1,707,843	1,943,354	1,823,559	1,869,619	3,651,197	3,693,178	41,981	1.15%
Federal Special	105,032	179,968	498,750	498,750	285,000	997,500	712,500	250.00%
Other	0	0	0	0	0	0	0	n/a
Total Funds	\$1,812,875	\$2,123,322	\$2,322,309	\$2,368,369	\$3,936,197	\$4,690,678	\$754,481	19.17%

Program Description

The Aeronautics Division: 1) facilitates the operation and infrastructure of airports and airways, both public and private, throughout Montana; 2) provides mechanisms for funding airport and aviation related projects throughout the state; 3) registers aircraft and pilots in accordance with Montana laws and regulations, and fosters, promotes, and supervises aviation and aviation safety through educational efforts and programs; and 4) coordinates and supervises aerial search and rescue operations. The division administers a loan and grant program to municipal governments to fund airport improvement projects. The Aeronautics Board approves all loan and grant requests and advises on matters pertaining to aeronautics.

The division serves as a liaison between the State of Montana and various other entities including the U.S. Department of Transportation, the Federal Aviation Administration (FAA), other federal and state entities, and commercial airlines in order to assure the retention and continuation of airline service to Montana's rural communities. The division is also responsible for operation of the air carrier airport at West Yellowstone and for 14 other state-owned airports.

Program Highlights

Aeronautics Program Major Budget Highlights	
◆	Total funds increase nearly \$755,000, or 19.2% primarily because of requests for increased federal funds
◆	Federal special revenue increases \$712,500, or 250%, primarily due to: <ul style="list-style-type: none"> ● An aviation system plan (\$75,000) ● A wildlife hazard assessment and an airport master plan for the West Yellowstone Airport (\$237,500) ● Infrastructure projects at the West Yellowstone Airport (\$475,000)
Major LFD Issues	
◆	Two 5% plan items that were not included in the budget are not specific as to the services that would be reduced

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Governor has included no items from the agency's 5% reduction plan in the budget request for this program. The following summarizes the plan submitted for this program.

- o A reduction in funding for loans to airports for airport improvements. This annual reduction of \$16,377 state special revenue would reduce the \$327,534 base by 5%. This reduction would reduce the amount of loans available for the Aeronautics Board to grant to Montana airports to make improvements
- o A reduction in funding for grants to airports for airport development. This annual reduction of \$20,534 state special revenue would reduce the \$410,671 base by 5%. This reduction would reduce the amount of grants available for the Aeronautics Board to provide to Montana airports for airport development projects
- o An unspecified reduction of funding for Aeronautics Division operations and administration funded by the division's main state special revenue fund. This annual reduction of \$37,307 state special revenue would reduce the \$746,139 base by 5%
- o A reduction in funding for grants to airports for airport runway pavement preservation. This annual reduction of \$4,375 state special revenue would reduce the \$87,500 base by 5%. This reduction would reduce the amount of grants available for the aeronautics board to provide to Montana airports for airport runway pavement preservation projects
- o An additional unspecified reduction of funding for Aeronautics Division operations and administration funded by the non-restricted account of the highways state special revenue fund. This annual reduction of \$6,800 state special revenue would reduce the \$135,999 base by 5%

LFD ISSUE

Unspecified Operations and Administration Reductions

The executive did not specify what operations and administration functions would be reduced by either unspecified reduction. The agency state that the impacts could include losing federal funding for not-adhering to federal and state rules or unsafe conditions at state-owned airports for failure to adequately maintain infrastructure. However, without specifying the functions that would not be performed the risks from the reduction are not able to be determined.

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
02000 Total State Special Funds	\$ 1,707,843	94.2%	\$ 1,823,559	78.5%	\$ 1,869,619	78.9%
02286 Aeronautical Loan Account	327,534	18.1%	400,000	17.2%	400,000	16.9%
02287 Aeronautical Grant Account	410,671	22.7%	420,000	18.1%	420,000	17.7%
02349 Highway Non-Restricted Account	135,999	7.5%	135,369	5.8%	135,369	5.7%
02827 Aeronautics Division	746,139	41.2%	778,190	33.5%	824,250	34.8%
02962 Airport Pvmf. Preservation	87,500	4.8%	90,000	3.9%	90,000	3.8%
03000 Total Federal Special Funds	105,032	5.8%	498,750	21.5%	498,750	21.1%
03060 Aeronautics Division	105,032	5.8%	498,750	21.5%	498,750	21.1%
Grand Total	\$ 1,812,875	100.0%	\$ 2,322,309	100.0%	\$ 2,368,369	100.0%

The Aeronautics Program, excluding the operations of the West Yellowstone Airport, is funded by both state and federal special revenue funds. State special revenue funds are derived primarily from state aviation fuel taxes and aviation license fees. Federal special revenue comes from Federal Aviation Administration grants. Operations of the West Yellowstone Airport are funded from an enterprise type proprietary fund with revenues that include local property taxes, rentals and leases, concession sales receipts, and landing fees. Because the proprietary funds do not require an appropriation, they are not included in the above table.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	1,812,875	1,812,875	3,625,750	77.30%
Statewide PL Adjustments	0	0	0	0.00%	18,181	18,241	36,422	0.78%
Other PL Adjustments	0	0	0	0.00%	135,003	181,003	316,006	6.74%
New Proposals	0	0	0	0.00%	356,250	356,250	712,500	15.19%
Total Budget	\$0	\$0	\$0		\$2,322,309	\$2,368,369	\$4,690,678	

Present Law Adjustments

The "Present Law Adjustments" table shows the 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	-----Fiscal 2012-----				-----Fiscal 2013-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					44,599					42,989
Vacancy Savings					(26,790)					(26,726)
Inflation/Deflation					2,742					4,282
Fixed Costs					(2,370)					(2,304)
Total Statewide Present Law Adjustments		\$0	\$18,181	\$0	\$18,181		\$0	\$18,241	\$0	\$18,241
DP 4002 - Aeronautics Board Per Diem	0.00	0	450	0	450	0.00	0	450	0	450
DP 4003 - Aero Grants, Loans, & Pavement Preservation (BIEN)	0.00	0	84,295	0	84,295	0.00	0	84,295	0	84,295
DP 4005 - Aeronautics Tax Transfer	0.00	0	10,818	0	10,818	0.00	0	10,818	0	10,818
DP 4006 - Aeronautical Maps & Charts (OTO)	0.00	0	0	0	0	0.00	0	46,000	0	46,000
DP 4007 - State Aviation System Plan (BIEN)	0.00	0	1,972	37,468	39,440	0.00	0	1,972	37,468	39,440
Total Other Present Law Adjustments	0.00	\$0	\$97,535	\$37,468	\$135,003	0.00	\$0	\$143,535	\$37,468	\$181,003
Grand Total All Present Law Adjustments	0.00	\$0	\$115,716	\$37,468	\$153,184	0.00	\$0	\$161,776	\$37,468	\$199,244

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** - This program has no positions that are exempted from the agency pay plan.
- o **Program Specific Obstacles** - No obstacles have been identified beyond funding for this program to hire and retain a qualified workforce.
- o **Vacancy** - No positions in this program have high turnover rates or difficulties in filling vacancies.
- o **Legislatively Applied Vacancy Savings** - This program achieved the applied 7% vacancy savings through a normal turnover and holding positions open when vacancies occurred. The impact of the vacancy savings was increased workload on existing staff and higher overtime.
- o **Pay/Position Changes** - In FY 2010, no pay changes beyond those authorized in statute were given in this program.

- o **Retirements** – This program does not anticipate any retirements in the 2013 biennium.

DP 4002 - Aeronautics Board Per Diem - This increase in state special revenue would fund Aeronautics Board per diem at \$2,200 per year, or \$250 per year higher than the legislature funded for the 2011 biennium.

DP 4003 - Aero Grants, Loans, & Pavement Preservation (BIEN) - This request would establish equal amounts of funding in each year for the aeronautics loan, grant, and pavement preservation grant programs at \$30,000 lower for the biennium than the legislature appropriated for the 2011 biennium. The executive requests designating funding for these programs as biennial.

DP 4005 - Aeronautics Tax Transfer - This request would establish tax transfers associated with the West Yellowstone Airport.

LFD COMMENT	<u>No Base Year Activity</u> There was no base year transfer of taxes associated with the West Yellowstone Airport because the FY 2007 tax was overstated and not collected in FY 2010. Law directs that funds received for taxes when commercial air carriers operate out of a state-owned airport be deposited in the state special revenue fund for this program. The funds are associated with the West Yellowstone Airport, a proprietary funded operation. The transfers identified in this request are to transfer the tax funds from the state special revenue account to the proprietary fund.
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DP 4006 - Aeronautical Maps & Charts (OTO) - This request of state special revenue for FY 2013 would fund the production of an aeronautical chart. The division produces an aeronautical chart every four years. This chart incorporates the latest federal FAA aeronautical information and identifies and graphically depicts aeronautical items unique to Montana that are not reflected on other federally produced charts. The Governor recommends the legislature designate funding for this request as one time only.

DP 4007 - State Aviation System Plan (BIEN) - This request of state special and federal special revenue would fund an update to the annual state aviation system plan. Federal funds for this update are from a system planning grant from the Federal Aviation Administration (FAA). The system plan provides both voluntary and mandated infrastructure and capital improvement plans that the FAA, state, and local communities use to develop individual airport projects around the state.

New Proposals

The “New Proposals” table summarizes all new proposals requested by the Governor. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

Program	Fiscal 2012					Fiscal 2013					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 4001 - West Yellowstone Airport Improvements	40	0.00	0	0	237,500	237,500	0.00	0	0	237,500	237,500
DP 4004 - WY Airport Wildlife Assessment & Master Plan	40	0.00	0	0	118,750	118,750	0.00	0	0	118,750	118,750
Total	0.00	\$0	\$0	\$356,250	\$356,250	0.00	\$0	\$0	\$356,250	\$356,250	

DP 4001 - West Yellowstone Airport Improvements - This request of federal special revenue would fund improvements to the West Yellowstone Airport (WYA) with funds from a Federal Aviation Administration’s Airport Improvement Program grant. Funding would be used to construct a storage building for snow removal equipment and airport firefighting vehicles.

DP 4004 - WY Airport Wildlife Assessment & Master Plan - This request of federal special revenue would fund an airport wildlife hazard assessment and an airport master plan for the West Yellowstone Airport.

**LFD
COMMENT**
Match for Federal Funds

The annual federal portions for these projects are:

- o Wildlife hazard assessment - \$47,500
- o Master plan - \$71,250

The state match for this funding would come from the West Yellowstone enterprise proprietary fund. These proprietary funds are discussed below in the "Proprietary Rates" section.

Proprietary Rates
West Yellowstone Airport (West Yellowstone Airport – fund 06007)
Proposed Budget

The 2013 Biennium Report on Internal Service and Enterprise Funds for fund 065xx shows the financial information for the fund from FY 2010 through FY 2013. The report is provided as submitted by the executive but the LFD has edited and reconfigured the figure for clarity.

2011 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
06007	West Yellowstone Airport	54010	Transportation	Aeronautics Program		
			Actual	Budgeted	Budgeted	Budgeted
			FY 2010	FY 2011	FY 2012	FY 2013
Operating Revenues:						
Net Fee Revenue			\$49,446	\$58,665	\$59,331	\$59,331
Investment Earnings			0	0	0	0
Securities Lending Income			0	0	0	0
Premiums			0	0	0	0
Other Operating Revenues			<u>128,255</u>	<u>109,504</u>	<u>110,204</u>	<u>110,204</u>
Total Operating Revenue			\$177,701	\$168,169	\$169,535	\$169,535
Operating Expenses:						
Personal Services			132,030	150,107	157,740	157,683
Other Operating Expenses			<u>105,945</u>	<u>90,992</u>	<u>94,604</u>	<u>94,907</u>
Total Operating Expenses			\$237,975	\$241,099	\$252,344	\$252,590
Operating Income (Loss)			(\$60,274)	(\$72,930)	(\$82,809)	(\$83,055)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets			0	0	0	0
Federal Indirect Cost Recoveries					0	0
Other Nonoperating Revenues (Expenses)			<u>(135,238)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Nonoperating Revenues (Expenses)			(\$135,238)	\$0	\$0	\$0
Income (Loss) Before Operating Transfers			(\$195,512)	(\$72,930)	(\$82,809)	(\$83,055)
Contributed Capital			119,040	0	0	0
Operating Transfers In (Note 13)				2,644	10,818	10,818
Operating Transfers Out (Note 13)			<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in net assets			(\$76,472)	(\$70,286)	(\$71,991)	(\$72,237)
Total Net Assets- July 1 - As Restated			3,124,251	3,047,779	2,977,493	2,905,502
Prior Period Adjustments				0	0	0
Cumulative effect of account change			0	0	0	0
Total Net Assets - July 1 - As Restated			<u>3,124,251</u>	<u>3,047,779</u>	<u>2,977,493</u>	<u>2,905,502</u>
Net Assets- June 30			\$3,047,779	\$2,977,493	\$2,905,502	\$2,833,265
60 days of expenses			\$39,663	\$40,183	\$42,057	\$42,098

Program Description

The West Yellowstone Airport provides a fly-in gateway to the town of West Yellowstone, Yellowstone Park, and surrounding US Forest Service area recreational opportunities. The airport is seasonal in its operation, matching the peak tourist demand of the area from June 1 to September 30. The airport serves as an inter-agency fire control center with both smoke jumpers and fire retardant bombers located at the airport. The airport accomplishes these missions with extensive facilities to accommodate aircraft of various sizes. The airport has a terminal building with tenants that provide the following functions: cafe, gift shop, two car rental agencies, fixed based operation (FBO) serving general

aviation, and Skywest Airlines. The operation of the West Yellowstone Airport is funded from an enterprise type proprietary fund.

Program Narrative

Expenses

Significant costs for the program are for:

- o Personal services for 2.00 FTE, \$132,031 or 56.7% of total costs
- o Operating costs, \$76,887 with 60.3% of these costs due to:
 - Electricity and natural gas, \$27,629
 - Consultant and professional services, \$18,744

Revenues

The West Yellowstone Airport is funded from revenue derived from landing fees, building space rental fees, fuel flowage fees, sales receipts, and non-aero rentals.

Present Law Adjustments

The only adjustments in the budget for this program are statewide present law adjustments that would add \$19,579 in FY 2012 and \$19,825 in FY 2013. Statewide present law adjustments are dominated by personal services increases, but deflation of natural gas funding offsets personal service increases by \$6,437 each year.

Proprietary Rates

The program is funded with an enterprise type proprietary fund. As such, the legislature does not appropriate funds or approve rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies any concerns with the financial position of the fund.

The following rates charged by the program are presented for information only.

Report on Internal Service and Enterprise Funds - West Yellowstone Airport				
Fee/Rate Information	Actuals FY 2010	Budgeted FY 2011	Budgeted FY 2012	Budgeted FY 2013
Landing Fees - Scheduled Air Carrier	\$0.60/1000 lbs	\$1.10/1000lbs	\$1.10/1000 lbs	\$1.10/1000 lbs
Landing Fees - Other uses	9,001-16,500lbs =\$25.00	9,001-16,500lbs =\$25.00	9,001-16,500lbs =\$25.00	9,001-16,500lbs =\$25.00
Landing Fees - Other uses	>16,500 lbs - \$1.60/1000lbs	>16,500 lbs - \$1.60/1000lbs	>16,500 lbs - \$1.60/1000lbs	>16,500 lbs - \$1.60/1000lbs
Fuel Flowage Fee	\$0.06/Gallon	\$0.06/Gallon	\$0.06/Gallon	\$0.06/Gallon
Building Leases - Car rental, Airline	\$2.00/sq.ft.	\$2.25-2.50/sq.ft.	\$2.25-2.50/sq.ft.	\$2.25-2.50/sq.ft.
Building Leases -FBO, Hangar Groun	\$0.10/sq.ft	\$0.12/sq.ft	\$0.12/sq.ft	\$0.12/sq.ft
Adboards	\$150/ board	\$200 / board	\$200 / board	\$200 / board
Tax Transfers	\$11,000	\$11,000	\$11,000	\$11,000
Sales Receipts	10% of Gross Sales	10% of Gross Sales	10% of Gross Sales	10% of Gross Sales
Non-Aero Rentals:				
Nevada Testing	Prior Year = C.P.I	5.50 psfpa+utilities+usage fee (\$975 per customer annual and \$75 per day)	5.50 psfpa+utilities+usage fee (\$975 per customer annual and \$75 per day)	6.00 psfpa+utilities+usage fee (\$975 per customer annual and \$75 per day)
City of West Yellowstone	\$10,000/Year	\$10,000/Year	\$11,000/Year	\$11,000/Year
Energy West	\$12,500/Year	\$12,500/Year	\$13,500/Year	\$13,500/Year

Program Budget Comparison

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

Program Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	102.50	102.50	102.50	102.50	102.50	102.50	0.00	0.00%
Personal Services	7,118,790	7,137,872	7,203,788	7,199,766	14,256,662	14,403,554	146,892	1.03%
Operating Expenses	4,521,185	4,707,050	4,797,972	4,800,206	9,228,235	9,598,178	369,943	4.01%
Equipment & Intangible Assets	58,757	188,421	58,757	58,757	247,178	117,514	(129,664)	(52.46%)
Grants	12,052,884	15,608,613	13,144,583	13,144,583	27,661,497	26,289,166	(1,372,331)	(4.96%)
Transfers	1,407,892	999,627	1,407,892	1,407,892	2,407,519	2,815,784	408,265	16.96%
Total Costs	\$25,159,508	\$28,641,583	\$26,612,992	\$26,611,204	\$53,801,091	\$53,224,196	(\$576,895)	(1.07%)
State Special	4,549,098	8,387,317	4,666,275	4,672,628	12,936,415	9,338,903	(3,597,512)	(27.81%)
Federal Special	20,610,410	20,254,266	21,946,717	21,938,576	40,864,676	43,885,293	3,020,617	7.39%
Total Funds	\$25,159,508	\$28,641,583	\$26,612,992	\$26,611,204	\$53,801,091	\$53,224,196	(\$576,895)	(1.07%)

Program Description

The Rail, Transit, and Planning Division provides: 1) a continuous statewide multimodal transportation planning process used to allocate highway program resources to ensure highway system performance goals are maintained and federal-aid highway and transit grant eligibility is maintained within the federal surface transportation programs; 2) an inventory of transportation infrastructure for the allocation of state fuel taxes to local governments; 3) support for the state's comprehensive statewide highway safety plan including technical analysis, performance tracking, and coordination with multiple administrative agencies and jurisdictions; 4) the point of contact for MDT for major developers seeking access onto the state's highway system; 5) mapping functions to aid in the publication of the state tourist map and geo-spatial infrastructure inventories; 6) transportation planning and programming assistance to metropolitan and urban areas; 7) administration and implementation of safety programs that help reduce traffic deaths, injuries, and property losses resulting from traffic crashes; 8) administration and implementation of environmental services that assure environmental compliance with all relative laws, rules, regulations, policies, orders, and agreements; and 9) responses to legislative or regulatory actions necessitating representation before courts, congressional hearings, the US Department of Transportation, the Surface Transportation Board, and others. The planning function addresses system areas that include buses for transit systems, street and highway improvements, railroad track rehabilitation, and transportation enhancements for non-motorized and beautification improvements.

Program Highlights

Rail, Transit, and Planning Division Major Budget Highlights
<ul style="list-style-type: none"> ◆ Total funds in this program decline by nearly \$577,000 or 1.1% from the 2011 biennium to the 2013 biennium ◆ State special revenue declines by nearly \$3.6 million, or 27.8% from the 2011 biennium to the 2013 biennium due to an overstated FY 2011 appropriation <ul style="list-style-type: none"> • State special revenue increases 2.6% per year from the FY 2010 base due primarily to requests to increase funding for low base year expenditures on corridor studies and transit capital assistance local match ◆ Federal special revenue increases by \$3.0 million, or 7.4% primarily due to: <ul style="list-style-type: none"> • Funding for corridor studies because activities planned for the base were delayed • Funding for transit assistance for local transit providers because 100% federal stimulus funding led to low base year expenditures
Major LFD Issues
<ul style="list-style-type: none"> ◆ Funding requested for corridor studies is too high

Program Narrative

The main table shows that state special revenues decline by nearly \$3.6 million from the 2011 biennium base and FY 2011 appropriations to the 2013 biennium, reducing total funds by almost \$0.6 million. The decline in funds occurs even though, as seen below in the “Budget Summary by Category” figure, categories of adjustments increase funding from the base level. This reduction is due to a higher FY 2011 appropriation level than either base year expenditures or requested appropriations in the 2013 biennium. The program was given biennial funding, meaning any funds not expended in the base year were carried forward to FY 2011. Adjustment for the 2013 biennium increases base funding but to a biennium level \$3.6 million below 2011 biennium funding.

Reorganization

This program was one of two in the agency involved in a reorganization that moved the bureau responsible for the agency’s environmental analysis and documentation process to this program from the Construction Program. In the process, 27.00 FTE and \$3.2 million of total funds each year were moved to this program. The reorganization was done to link the planning and environmental process in an effort to streamline delivery of construction projects. Both FY 2010 and FY 2011 reflect the reorganization.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The Governor has included no items from the agency’s 5% reduction plan in the budget request for this program. The following summarizes the plan submitted for this program:

- A reduction of funding received from local governments to match federal transit assistance funding for the purchase of buses. This annual reduction of \$4,414 state special revenue would reduce the \$88,282 base by 5% and would reduce the amount of federal funds for purchasing buses on behalf of local governments by \$28,331 per year

LFD COMMENT

A Funding Increase is Requested for This Purpose

The Governor has included DP 5007 - Restore Transit Base that requests annual increases of \$50,000 for this purpose. See the decision package description for additional details on this request.

- A reduction in funding for support of senior citizen and handicapped individual transportation needs in local communities. This annual reduction of \$13,523 state special revenue would reduce the \$270,469 base by 5%. This reduction would reduce the amount of assistance available to communities for addressing transportation needs of seniors and handicapped individuals

Funding

The following table shows program funding, by source, for the base year and for the 2013 biennium as recommended by the Governor.

Program Funding Table						
Rail, Transit, & Planning Division						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	FY 2010	FY 2010	FY 2012	FY 2012	FY 2013	FY 2013
02000 Total State Special Funds	\$ 4,549,098	18.1%	\$ 4,666,275	17.5%	\$ 4,672,628	17.6%
02282 Fta Local Match	88,282	0.4%	138,642	0.5%	138,501	0.5%
02422 Highways Special Revenue	4,190,347	16.7%	4,256,062	16.0%	4,262,988	16.0%
02795 Trans Aid Special Revenue	270,469	1.1%	271,571	1.0%	271,139	1.0%
03000 Total Federal Special Funds	20,610,410	81.9%	21,946,717	82.5%	21,938,576	82.4%
03147 Fta Grants	7,488,080	29.8%	8,559,679	32.2%	8,548,328	32.1%
03407 Highway Trust - Sp Rev	7,840,056	31.2%	8,080,892	30.4%	8,089,888	30.4%
03828 Traffic Safety	5,282,274	21.0%	5,306,146	19.9%	5,300,360	19.9%
Grand Total	\$ 25,159,508	100.0%	\$ 26,612,992	100.0%	\$ 26,611,204	100.0%

The Rail, Transit, and Planning Division is funded with a combination of state and federal special revenue funds. Transit grants are based on a sliding scale, which for Montana is a federal participation rate of 86.58% funded with Federal Transit Administration funds. The state match is provided by the local entity receiving services or on a rare occasion with the constitutionally restricted highways state special revenue funds. The remaining division activities after deducting federal transit grants and local matching funds are funded with federal planning and research funds and state special revenue funds at a ratio of 74.7% federal and 25.3% state special revenue for the 2013 biennium. State special revenue funds include \$0.3 million in local match pass-through authority, \$0.5 million in transportation aid funds, and \$8.5 million highway restricted account funds for the 2013 biennium.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	0	0	0	0.00%	25,159,508	25,159,508	50,319,016	94.54%
Statewide PL Adjustments	0	0	0	0.00%	66,225	62,325	128,550	0.24%
Other PL Adjustments	0	0	0	0.00%	1,387,259	1,389,371	2,776,630	5.22%
New Proposals	0	0	0	0.00%	0	0	0	0.00%
Total Budget	\$0	\$0	\$0		\$26,612,992	\$26,611,204	\$53,224,196	

Present Law Adjustments

The "Present Law Adjustments" table shows the 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	-----Fiscal 2012-----					-----Fiscal 2013-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					368,624					364,433
Vacancy Savings					(299,496)					(299,327)
Inflation/Deflation					(2,978)					(2,856)
Fixed Costs					75					75
Total Statewide Present Law Adjustments		\$0	\$5,233	\$60,992	\$66,225		\$0	\$11,269	\$51,056	\$62,325
DP 5003 - Overtime/Differential	0.00	0	8,764	7,106	15,870	0.00	0	8,764	7,106	15,870
DP 5004 - Equipment Rental	0.00	0	5,275	34,889	40,164	0.00	0	5,592	36,684	42,276
DP 5006 - Restore Corridor Studies	0.00	0	47,905	191,621	239,526	0.00	0	47,905	191,621	239,526
DP 5007 - Restore Transit Base	0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 5008 - Transit Base Operating Adjustment	0.00	0	0	1,041,699	1,041,699	0.00	0	0	1,041,699	1,041,699
Total Other Present Law Adjustments	0.00	\$0	\$111,944	\$1,275,315	\$1,387,259	0.00	\$0	\$112,261	\$1,277,110	\$1,389,371
Grand Total All Present Law Adjustments	0.00	\$0	\$117,177	\$1,336,307	\$1,453,484	0.00	\$0	\$123,530	\$1,328,166	\$1,451,696

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

- o **Pay Plan Exceptions** – This program has no occupations that are exempted from the agency pay plan.
- o **Program Specific Obstacles** – No obstacles have been identified beyond funding for this program to hire and retain a qualified workforce.
- o **Vacancy** – No occupations in this program have high turnover rates or difficulties in filling vacancies.
- o **Legislatively Applied Vacancy Savings** – This program achieved the applied 7% vacancy savings through a normal turnover and holding positions open when vacancies occurred. The impact of the vacancy savings was increased workload on existing staff and higher overtime.
- o **Pay/Position Changes** – In FY 2010, no pay changes beyond those authorized in statute were given in this program.
- o **Retirements** – Seven employees in this program are eligible for retirement in the 2013 biennium and if they were to retire, the estimated compensated absence liability is \$114,619.

DP 5003 - Overtime/Differential - This request of combination of state special and federal special revenue would reestablish base year overtime and differential pay. Included in the request is \$4,140 for benefits to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system. State special revenue funding is entirely from the restricted highways state special revenue account.

DP 5004 - Equipment Rental - Increases of state special and federal special revenue are requested to fund the program's share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. State special revenue funding is entirely from the restricted highways state special revenue account.

**LFD
COMMENT**Costs Linked to Equipment Rental Rates in the Proprietary Funded Equipment Program

A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. The legislature may want to determine rates in the Equipment Program before acting on this request. This adjustment corresponds to the rates requested and any change in the Equipment Program rates would impact this adjustment.

DP 5006 - Restore Corridor Studies - This increase of state and federal special revenue would fund corridor studies and assist local entities with the development of community transportation plans.

**LFD
COMMENT**Biennial Funding and the Impacts of Delays

The 2011 biennium funding for this program was approved as biennial appropriations. According to the agency, the work with the city, county, and tribal government to develop a scope of work for the US 93 Polson corridor study and transportation plan took longer than anticipated. The agency states that the delay resulted in lower than expected expenditures in the base year.

**LFD
ISSUE**Funding Planned for Corridor Studies was Used for Other Purposes

Independent verification of this request by legislative staff using agency provided accounting details indicates that the base expenditures are \$178,607 higher than used by the agency to develop this budget request. The legislature may want reduce the funding of this request by \$178,607 per year.

DP 5007 - Restore Transit Base - This state special revenue request would establish annual local match funding at \$134,000 for transit capital assistance grants for local transit providers. The federal recovery funding for transit capital improvements was 100% federal and required no local match resulting in lower than historical expenditure of local match funding.

**LFD
COMMENT**Historical Expenditures of Local Match Funds

From FY 2003 through FY 2009 the agency averaged roughly \$327,000 in expenditures of local transit match funds. During this period, FY 2005 was the lowest expenditure year at \$238,000. In FY 2010, the agency expended \$86,500 of local transit match funds. Local transit authorities contribute 13.48% as the match for capital purchases including transit vehicles.

DP 5008 - Transit Base Operating Adjustment - This request of federal special revenue would restore funding for transit operating assistance to local transit providers to nearly the level appropriated by the 2009 legislature. Federal Transit Administration restrictions in the base year did not allow for the 100% expenditures of the grant funding so base authority is low.