

### Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	2,129.26	2,129.26	2,062.32	2,062.32	2,129.26	2,062.32	(66.94)	(3.14)%
Personal Services	142,583,428	154,138,060	162,203,994	162,205,507	296,721,488	324,409,501	27,688,013	9.33%
Operating Expenses	435,605,937	467,407,429	451,827,384	445,254,921	903,013,366	897,082,305	(5,931,061)	(0.66)%
Equipment & Intangible Assets	3,257,659	5,276,589	3,271,659	3,271,659	8,534,248	6,543,318	(1,990,930)	(23.33)%
Capital Outlay	12,956,865	19,655,763	12,956,865	12,956,865	32,612,628	25,913,730	(6,698,898)	(20.54)%
Grants	22,022,506	30,666,771	25,685,454	25,685,454	52,689,277	51,370,908	(1,318,369)	(2.50)%
Benefits & Claims	0	750	0	0	750	0	(750)	(100.00)%
Transfers	1,608,343	1,985,952	1,608,343	1,608,343	3,594,295	3,216,686	(377,609)	(10.51)%
Debt Service	85,270	151,412	85,270	85,270	236,682	170,540	(66,142)	(27.95)%
<b>Total Costs</b>	<b>\$618,120,008</b>	<b>\$679,282,726</b>	<b>\$657,638,969</b>	<b>\$651,068,019</b>	<b>\$1,297,402,734</b>	<b>\$1,308,706,988</b>	<b>\$11,304,254</b>	<b>0.87%</b>
State/Other Special Rev. Funds	234,077,560	248,697,540	254,620,236	254,917,078	482,775,100	509,537,314	26,762,214	5.54%
Federal Spec. Rev. Funds	384,042,448	430,585,186	403,018,733	396,150,941	814,627,634	799,169,674	(15,457,960)	(1.90)%
<b>Total Funds</b>	<b>\$618,120,008</b>	<b>\$679,282,726</b>	<b>\$657,638,969</b>	<b>\$651,068,019</b>	<b>\$1,297,402,734</b>	<b>\$1,308,706,988</b>	<b>\$11,304,254</b>	<b>0.87%</b>

### Mission Statement

To serve the public by providing a transportation system and services that emphasize quality, safety, cost effectiveness, economic vitality, and sensitivity to the environment.

<http://leg.mt.gov/fbp-2017.asp>

### Agency Highlights

<b>Department of Transportation Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>• Budget will be continued at approximately the same level as budgeted for the 2015 biennium</li> <li>• Budget request is an overall reduction of 3.7% from the FY 2015 budget <ul style="list-style-type: none"> <li>◦ Primary reduction is in the Construction Program, where non-personal service items are requested at a net reduction of \$44.4 million per year</li> </ul> </li> <li>• Retention issues in the Bakken region are addressed through proposals to provide \$500/month housing allowances for 42.67 FTE</li> </ul>
<b>Legislative Action Issues</b>
<ul style="list-style-type: none"> <li>• There are concerns related to over-appropriation and sustainability of state funding</li> <li>• There are uncertainties related to the level of continued federal funding and the associated impacts to the construction program</li> </ul>

### Agency Discussion

The Department of Transportation (MDT) 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 provides the above services through the following programs:

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

Two administrative boards appointed by the Governor are responsible for prioritization of road and airport projects in Montana, within established budget priorities. The five-member transportation commission establishes department priorities and apportions funding among five state financial districts according to statutory guidelines, considers department recommendations, and facilitates community input. The nine-member Board of Aeronautics establishes priorities for department aeronautics activities.

**LFD  
COMMENT**

The department has submitted a budget request for the 2017 biennium based on the 2013 tentative construction plan (TCP). The agency is in the process of updating this plan and the associated budget in relation to the most recent TCP, approved in October 2014. 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. Consequently, the department request may change prior to appropriations subcommittee hearings. In addition, changes in the TCP may create changes in the working capital balance projection of the highway special revenue fund (HSRA).

In the figure above, the MDT budget request appears to increase by \$11.3 million, or 0.9%. However, when compared to the FY 2015 budget as implemented by the executive, the budget averages a reduction of \$24.9 million each year, or 3.7%. Budgetary reductions are seen in several programs, but none are greater than in the Construction Program, where non-personal service items (included in CP 99) net to a total reduction of \$44.4 million per year. In that reduction, 84.2% is attributed to federal funds. The agency and in large part the Construction Program have been operating under the provisions of the most recent surface transportation legislation, Moving Ahead for Progress in the 21st Century Act (MAP 21) for the past two years, and are anticipating federal funding at a similar level during the 2017 biennium. The level of funding requested in the budget includes sufficient authority to match all potential federal funding that may occur.

There are two overarching issues/concerns related to this budget: 1) the availability of federal funding; and 2) the continued ability of the highway state special revenue account to support the levels of appropriation seen in recent years. Both of these issues are outlined in the funding section of this summary. In summary of the issues, the current budget request takes into consideration estimates of federal funding at a level as provided in FY 2014, which will be uncertain before Congress takes action (in or before May). Most of the state special funding is appropriated from the highway restricted account that under the related budget requests is expected to end the 2017 biennium with a negative working capital balance of \$30.7 million. Both of these issues are outlined in the Funding section of this summary.

### Agency Personal Services

Some of the relevant features of the FY 2014 personal service budget include:

- 92.6% of FTE time used in FY 2014, as compared to a funded rate of 96% (4% vacancy savings rate applied)
- \$142.6 million, or 97.0%, of personal services budget used in FY 2014
  - Personal services were paid 66.6% state special and 33.4% federal special

Agency Wide Decision Points

The following proposals have common decision points in several programs across the agency.

Equipment Rental

The proposals in this group increase funding for those user programs making 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 changes are due primarily to plans for rental of this equipment, which allows MDT to bill federal programs and other program funding sources where the service is being provided. The increases anticipated in these requests result from increased rental usage planned in the programs.

Agency-Wide Request - Equipment Rental				
Program	Base (FY 2014)	FY 2016 Adjustment		
		State Special	Federal Special	Total Budget
General Operations	\$10,336	\$617		\$10,953
Construction	3,682,107	120,000	99,858	3,901,965
Maintenance	25,637,946	1,530,876		27,168,822
Motor Carrier Services	385,232	21,917	22,843	429,992
Aeronautics		7,600		7,600
Rail, Transit, & Planning	194,415	11,608		206,023
<b>Total</b>	<b>\$29,910,036</b>	<b>\$1,692,618</b>	<b>\$122,701</b>	<b>\$31,725,355</b>
FY 2017 Adjustment				
General Operations	10,336	586		10,922
Construction	3,682,107	113,942	94,818	3,890,867
Maintenance	25,637,946	1,453,550		27,091,496
Motor Carrier Services	385,232	21,032	22,569	428,833
Aeronautics		7,600		7,600
Rail, Transit, & Planning	194,415	11,024		205,439
<b>Total</b>	<b>\$29,910,036</b>	<b>\$1,607,734</b>	<b>\$117,387</b>	<b>\$31,635,157</b>

**LFD COMMENT**

A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. Rates have historically been based on a 60 day working capital balance analysis. The legislature may want to act on the rate request for the program before taking action on the various program requests, as the adjustments correspond to the rates requested and changes in the Equipment Program rates could impact adjustments.

Bakken Rent Allowance

As shown in the figure below, three MDT programs will include decision points that would provide an allowance for positions in the Glendive district. MDT would use the allowance as an incentive to recruitment and retention in designated areas (Sidney, Glendive, Baker, Wolf Point, Culbertson, etc.). The proposal would provide \$500/month/person, or \$6,000/person for a full year, for those meeting the qualifications. Combined, the allowances in these proposals would fund 42.7 full year allowance benefits.

Agency-Wide Request - Bakken Housing Allowance					
Program	Annual # FTE Supported	Each Year of the Biennium			Biennial Total
		State Special	Federal Special	Total Funds	
Construction	16.67	\$100,000		\$100,000	\$200,000
Maintenance	20.00	120,000		120,000	240,000
Motor Carrier Services	6.00	30,000	6,000	36,000	72,000
<b>Total</b>	<b>42.67</b>	<b>\$250,000</b>	<b>\$6,000</b>	<b>\$256,000</b>	<b>\$512,000</b>

**LFD COMMENT** Rent costs in the Bakken areas “have quintupled since 2008” according to Bloomberg’s October, 2013 article *Montana Towns Struggle With Oil Boom Cost as Dollars Flee*. The \$512,000 biennial cost of Bakken housing allowance would become a continuing base expenditure if passed as requested. The legislature may want to consider restricting the appropriation for the stated use to ensure that the appropriation can be tracked more easily and ask the program to report back on the impacts on employee retention achieved with the allowance.

*5% Reduction Plan*

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2017 biennium 5% plan submitted for this agency is in the appendix.

Because MDT does not transfer investment earnings or fund balances from their operating funds, the agency is exempt from submission of the reduction plan.

**Comparison of FY 2015 Legislative Base to FY 2015 Appropriation**

The following table highlights the differences between the FY 2015 appropriations as shown in the main table and the FY 2015 legislative appropriations used for purposes of the budget base, by program.

FY 2015 Appropriation Transactions - Department of Transportation							
Program	Legislative Appropriation	Leg App OTO	Direct Transfer	Cns Bien Approp	Program Transfer	Reorgs	Total Exec Implement
01 GNOP	\$27,285,620					\$1,474,169	\$28,759,789
02 CONS	474,891,538				(\$910,000)	(1,474,169)	472,507,369
03 MATN	131,061,599		(\$50,000)				131,011,599
22 MCP	11,712,316	\$14,158					11,726,474
40 AERO	2,067,086			(\$161,450)			1,905,636
50 RTP	32,461,859				910,000		33,371,859
<b>Total</b>	<b>\$679,480,018</b>	<b>\$14,158</b>	<b>(\$50,000)</b>	<b>(\$161,450)</b>	<b>-</b>	<b>-</b>	<b>\$679,282,726</b>

Budget adjustments impacting the FY 2015 legislative starting point include:

- An add back of a one-time-only appropriation in the Motor Carrier Program (MCP) to conform to the legislature’s FY 2015 budget. This will subsequently be subtracted out in present law adjustments
- A movement of biennial authority from FY 2015 to FY 2014 in the Aeronautics Program (AERO)
- A transfer of authority from the Construction Program (CONS) to the Rail, Transit, And Planning Program (RTP) for the purposes of highway planning activities
- A reorganization that moved the legal services function from CONS to the General Operations Program (GNOP)

MDT reorganized the legal services department, moving 12.00 FTE and the associated authority from the Construction Program to the General Operations Program. Historically, most of the legal matters were related to the work of the Construction Program. In more recent years, the department has become more of a support service for the entire agency, similar to agency-wide functions such as human resources and accounting.

Not shown in the figure above, the agency moves authority between state special funds and federal special funds, in large part in reaction to federal reimbursement policies. The practice always nets to \$0 and is allowed through language included in HB 2. The agency also made "operational plan changes", which are the movement of funds between first level authorities, for example movement of personal service authority to operating expense authority. Again, this practice nets to \$0.

More information related to the various budget adjustments may be seen in the program sections of this report.

## Funding

The following table shows proposed agency funding by source of authority as proposed. Funding for each program is discussed in detail in the individual program narratives that follow.

Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0.00 %
State Special Total	509,537,314	0	44,154,438	553,691,752	37.85 %
Federal Special Total	799,169,674	0	31,189,026	830,358,700	56.76 %
Proprietary Total	0	78,752,188	0	78,752,188	5.38 %
Other Total	0	0	0	0	0.00 %
<b>Total All Funds</b>	<b>\$1,308,706,988</b>	<b>\$78,752,188</b>	<b>\$75,343,464</b>	<b>\$1,462,802,640</b>	
<b>Percent - Total All Sources</b>	<b>89.47 %</b>	<b>5.38 %</b>	<b>5.15 %</b>		

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: 1) those that are protected by the state constitution; and 2) those that are not. In FY 2014 and for the 2015 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.

Restricted revenues are 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

They can only be used 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

A diversion of funds to other purposes can only be done through a 3/5th vote of the members of each chamber of the legislature.

Non-restricted revenues are derived from:

- Special use permits and motor fuel penalties and interest payments

They can be used for:

- Any purpose for which the legislature sees fit

Federal Aid Highway Funding

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.

**LFD  
COMMENT**

The most recent actions by Congress extended the provisions of MAP 21 until May of 2015, a short-term fix for highway funding. The termination of the extension is challenging for this budget and road construction alike.

Both MDT budgeting and road construction activities require informed planning. Congress has until May of 2015 to address highway funding. Congress faced a similar deadline in 2014, and waited until the last minute to take action that would continue federal funding to the states. Should Congress do the same in 2015, it will hinder both the Montana Legislature's ability to make informed decisions and the agency's ability to move projects into construction. A decision in May is after the legislature adjourns and after the beginning of the construction season. Additionally, with short-term solutions to highway funding, the agency may be reluctant to enter into large road construction projects.

Federal construction dollars support employment across the state, supporting both state employees and private sector road workers. The Construction Program (program 2) is the primary user of federal funds in MDT, using 89% of all federal funds. In FY 2014, there were \$40.4 million of federal funds expended on personal services, 63% of total personal services. From a high level perspective, 63% of the personal services equates to more than 500 FTE. Additionally, \$273.7 million was paid out in highway construction contracts in FY 2014. The federal highway administration estimates that 27.8 jobs are created for each million dollars spent on road construction. If that rate holds true, then the contract costs expended in those federal funds alone employed 7,609 individuals. In summary, federal funds in this program are estimated to pay the salaries of more than 8,100 workers in the state.

Ultimately, the legislature may be required to provide the MDT budget without knowing the level of federal funding. For the 2017 biennium, the agency is requesting a budget that assumes federal funding at levels experienced in the recent past.

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 typical match ratio is 86.6% federal to 13.4% state for reimbursable federal-aid projects.

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 federal standards; 3) adequate management and oversight of federal-aid construction projects; 4) a minimum construction program supported by 100% state funds; 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.

Highways State Special Revenue Account Working Capital Analysis

The following figure provides working capital balance for the restricted (HSRA-R) and nonrestricted (HSRA-NR) accounts.

*Constitutional Restricted Account (HSRA-R)*

HSRA-R currently funds the operations of five programs of the MDT that administer, enforce, and support the construction, maintenance, and safe operations of Montana highways. HSRA-R also funds Long-range Building Program projects for

MDT facilities and those of the Department of Fish, Wildlife and Parks (FWP) for park 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 for city and county gas tax distributions and a transfer of funds for the revenue sharing agreements with tribal entities.

As shown in the figure, HSRA-R entered FY 2015 with a positive working capital balance of nearly \$55.4 million. In consideration of all authority but as adjusted for the average end of biennium reversions, HSRA-R will begin the 2017 biennium with a \$25.0 million balance, which assumes the reversion of \$45.7 million of appropriation authority expected to be unused in the 2015 biennium. The balance is projected to decline to a negative amount of \$30.7 million by the end of the 2017 biennium. If the 2017 budgeted expenditures result in excess authority, like the \$45.7 million in the 2015 biennium, the account could end with the biennium with an account balance of approximately \$15 million. The analysis does not consider the 2017 biennium pay plan increases that would increase personal services funding from HSRA-R. Estimates for the proposed pay plan increase are expected to be available prior to subcommittee hearings.

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**Negative Ending Balance**

As shown in the fund balance figure above, the HSRA account would finish the 2017 biennium with a negative ending fund balance. According to the Montana Constitution, Article VIII., Section 9, "Appropriations by the legislature shall not exceed anticipated revenue." This section of the Constitution is strictly related to legislative actions, and approving a budget that leaves a negative fund balance, such as seen in the figure above, is contrary to this constitutional directive. There are a number of options available to the legislature related to the status of this account, which include:

- Reduce the appropriations for the MDT budget
- Recommend that the Sec. D subcommittee reduce the appropriations for the DOJ budget
- Make no changes

*Non-restricted Account (HSRA-NR)*

HSRA-NR currently funds the operations of four programs of the DOT. HSRA-NR also funds one program in the Department of Justice. As shown in the figure above, HSRA-NR entered FY 2015 with a balance of \$0.9 million. If all valid appropriations are expended, HSRA-NR will begin the 2017 biennium with a \$0.5 million balance. The balance is estimated to be \$4.1 million by the end of the 2017 biennium.

To some degree, the HSRA accounts are managed in tandem. As such, a combined balance is included for informational purposes. The combined balance of the HSRA accounts is projected to be negative \$26.6 million by the end of the 2017 biennium. That balance, as is the case with the individual accounts, assumes the expenditure of all authority requested/ provided by the legislature in the 2017 biennium. As mentioned earlier in this report, MDT generally requests more authority than will be used during the biennium. As noted above, if MDT appropriations are \$45.7 million more than actual expenditures, as estimated for the 2015 biennium, the combined balance at the end of the 2017 biennium would be around \$19 million.

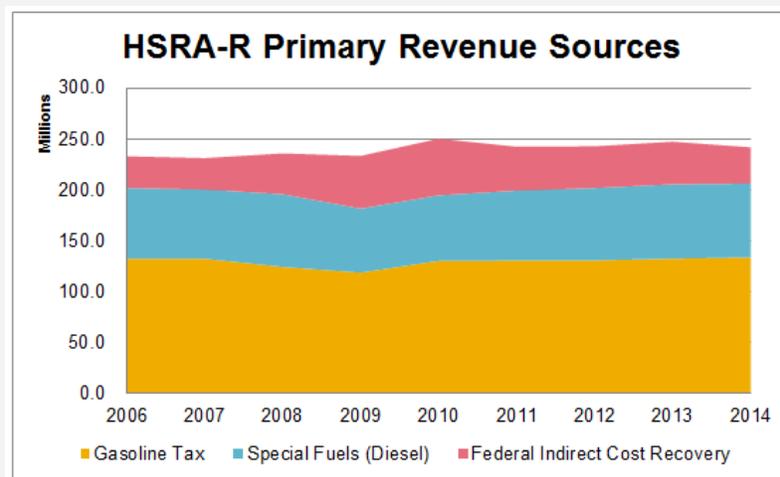
Estimated Working Capital Balance				
Highways Special Revenue Accounts (02422 and 02349)				
	FY2014	FY2015	FY2016	FY2017
	Actuals	SABHRS	Estimated	Estimated
<b>Combined Account (\$ in Millions)</b>				
Beginning Balance	\$72.7	\$56.3	\$25.5	(\$6.5)
Revenues	287.2	286.7	289.9	292.9
Expenditures	<u>303.6</u>	<u>363.2</u>	<u>321.9</u>	<u>313.0</u>
Revenues less Expenditures	(16.4)	(76.5)	(32.0)	(20.1)
Adjustments for Estimated Reverted Authority	0.0	45.7	0.0	0.0
Ending Balance	\$56.3	\$25.5	(\$6.5)	(\$26.6)
<b>Restricted Account - 02422 (\$ Millions)</b>				
Beginning Working Capital Balance	\$69.7	\$55.4	\$25.0	(\$8.7)
<b>Revenues (HJ 2)</b>				
Gasoline Tax	133.6	131.4	130.4	130.0
Diesel Tax	72.6	73.5	73.8	75.0
Gross Vehicle Weight Fees (GVW)	26.2	26.6	27.0	27.4
Federal Indirect Cost Recovery <sup>2</sup>	37.2	38.0	41.1	42.4
Other Revenues	<u>7.5</u>	<u>7.0</u>	<u>7.2</u>	<u>7.4</u>
Total Revenues	277.1	276.4	279.5	282.3
<b>Expenditures</b>				
Montana Department of Transportation (MDT)				
MDT Statutory Appropriations and Transfers	22.1	22.1	22.1	22.1
MDT HB 2 and 13	232.0	282.6	242.8	243.1
Other Highway Special Revenue Appropriations				
Department of Justice (DOJ) HB 2 and 13	35.7	36.4	38.9	39.1
MDT Long-Range Information Technology Projects (HB 10)	0.0	2.0	0.7	
Fish, Wildlife, & Parks Long-Range Building Projects (HB 5)	0.7	2.6	2.0	0.0
MDT Long-Range Building Projects (HB 5)	<u>0.9</u>	<u>6.9</u>	<u>6.8</u>	<u>0.0</u>
Total 02422 Expenditures	291.4	352.5	313.2	304.3
Revenues Less Expenditures	<u>(14.3)</u>	<u>(76.1)</u>	<u>(33.7)</u>	<u>(22.0)</u>
Calculated Ending Working Capital Balance	55.4	(20.7)	(8.7)	(30.7)
Adjustments to Balance*	0.0	45.7	0.0	0.0
Calculated Ending Working Capital Balance	\$55.4	\$25.0	(\$8.7)	(\$30.7)
<b>Nonrestricted Account - 02349 (\$ in Millions)</b>				
Beginning Working Capital Balance	\$3.0	\$0.9	\$0.5	\$2.2
<b>Revenues</b>				
GVW (HJ 2)	9.7	9.9	10.0	10.2
Other	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Total Revenues	10.1	10.3	10.4	10.6
<b>Expenditures</b>				
Total Transfer Out (Noxious Weed SSR)	0.3	0.1	0.1	0.1
MDT HB 2 and 13	11.5	10.0	8.0	8.0
DOJ HB 2 and 13	0.5	0.5	0.6	0.6
Fish, Wildlife, & Parks Long-Range Building Projects (HB 5)	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>
Total Expenditures	\$12.2	\$10.7	\$8.7	\$8.7
Revenues Less Expenditures	(2.1)	(0.4)	1.7	1.9
Calculated Ending Working Capital Balance	\$0.9	\$0.5	\$2.2	\$4.1

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Budgeting for the HSRA-R

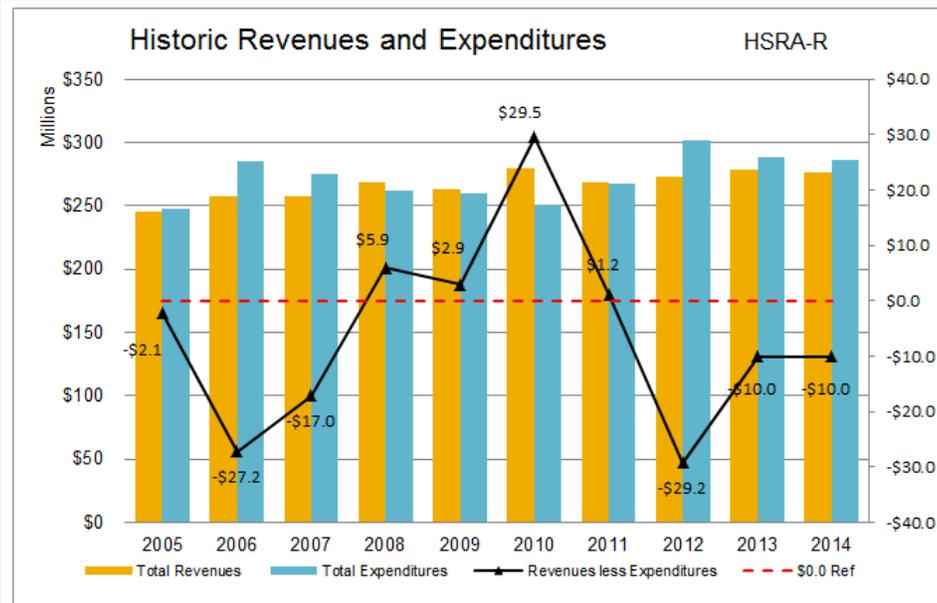
The highway state special revenue restricted account (HSRA-R) is the primary source of funding for MDT and the construction and maintenance of the state roads and highways. When budgeting for MDT, the agency requests sufficient authority to ensure all federal funds are matched and that all state roads are maintained. In addition, the Department of Justice (DOJ) uses the fund for the costs of the Montana Highway Patrol and to fund various licensing services. Over the past decade, both the revenue and expenditures of this account have remained relatively flat. However, in that same time frame expenditures have exceeded the revenues. By definition, when expenditures exceed revenues in an account, the users are relying on fund balance to fund their activities.

In the HSRA-R, the primary funding source is fuel taxes from the sales of gasoline and special fuels (primarily diesel). Another major contributor to revenues in the fund is federal government repayments for the indirect costs associated with highway construction projects. Over time, these primary revenues have remained flat, as shown in the figure below. In the 8 years shown in the chart, the annual growth associated with the gas tax has been 0.1% while the growth for the three revenue sources has amounted to 0.5%. In the 2017 biennium, no real growth is expected in fuel taxes and it is likely that federal indirect cost recovery will decline. Overall, there is not an expectation for growth in the revenues of the HSRA-R.



On the expenditure side of the equation, expenditures have exceeded the account revenues for the past three fiscal years. This effect is seen in the chart below. Between FY 2008 and FY 2010, the increase in federal indirect cost reimbursements associated with the enhanced ARRA funding countered the trend of inadequate revenues for planned expenditures. Even with the increased federal reimbursements, the average difference of revenue to expenditures over the last 10 years is -\$5.6 million. When expenditures exceed revenue, fund balance must be used to cover the costs. On an ongoing basis using fund balance for the costs of operations/services is unsustainable.

Historically, MDT has requested levels of appropriation that exceed their actual needs. The reason that the budget is requested in this way is to assure that the authority required to match every federal dollar coming into the state is available. In consideration of the importance of this philosophy, the legislature has provided extensive budget authority for the agency. In the 2011 session, the legislature approved an addition of appropriation of \$30.0 million on a one-time-only (OTO) basis to the state funded construction program to both make use of fund balance and to provide jobs in the years of the Great Recession. From that appropriation, \$28.4 million was expended. Last session, the legislature provided another \$5.0 million to the state funded construction program for special state road maintenance and construction projects, but as of the end of FY 2014 none of the authority had been used. These actions have had the impact of increasing expenditures above the anticipated revenues.



Over time, MDT has been able to manage the HSRA-R fund to ensure sufficient fund balance for its needs. However, budgeting as related to the HSRA-R has allowed expenditures to exceed revenue. Ultimately, the only way that this can occur is the use of the fund balance. MDT suggests that a fund balance of at least \$20 million is needed, given the reimbursement process of federal funding for construction projects. As fund balance in HSRA-R is reduced by expenditures that exceed revenue, \$20 million fund balance will become harder to maintain. As mentioned earlier, over the past decade expenditures have exceeded revenues by -\$5.6 million/year, the account could face significant issues with inadequacy in the future.

The executive appropriation recommendations in the 2017 biennium would exceed both the anticipated revenue and working capital fund balance by an estimated \$30.7 million, pointing to an instability in the account. The problem with the account is multifaceted (including budgeting, expenditures, and revenues) and would take time and work to resolve. In that light, the legislature may want to consider requesting an interim study to address the issues of the account.

Legislative Option

Request a resolution for an interim study of the HSSRA fund.

**Budget Summary by Category**

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Summary by Category									
Budget Item	-----General Fund-----				-----Total Funds-----				
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	
2015 Budget	0	0	0	0.00 %	679,480,018	679,480,018	1,358,960,036	0.00 %	
PL Adjustments	0	0	0	0.00 %	(28,692,248)	(28,490,162)	(57,182,410)	0.00 %	
New Proposals	0	0	0	0.00 %	6,851,199	78,163	6,929,362	0.00 %	
<b>Total Budget</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$657,638,969</b>	<b>\$651,068,019</b>	<b>\$1,308,706,988</b>		

**Language and Statutory Authority -**

The following language is requested for HB 2:

"The department may adjust appropriations between state special revenue and federal special revenue funds if the total state special revenue authority by program is not increased by more than 10% of the total appropriations established by the legislature."

"All appropriations in the department are biennial."

"All remaining federal pass-through grant appropriations for highway traffic safety, including reversions for the 2015 biennium, are authorized to continue and are appropriated in FY 2016 and FY 2017."