Proprietary Program

Program Description

The Equipment Program is responsible for the acquisition, disposal, repair, and maintenance of a fleet of approximately 4,600 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. The various programs within the Montana Department of Transportation (MDT) such as Construction, Motor Carrier Services, Maintenance, and Right-of-Way use the fleet exclusively. All units are assigned to the various user programs and are charged rental on a bi-weekly basis. The Equipment Program supports 123.00 FTE. Alternate sources for vehicles and equipment include renting heavy equipment from a rental company and renting or leasing light duty vehicles from a private rental agency contract.

The Equipment Program is funded under the rules and guidelines of proprietary funded programs, meaning that the legislature determines the maximum rates the program can charge but does not appropriate an operating budget. The program is strictly internal to the Department of Transportation and is not used by any outside entity.

Program Narrative

The MDT Equipment Program is an internal service function. Vehicles are leased only to the programs of MDT. In the 2015 Biennium, the program will reduce the lease costs from the 2013 biennium. The total reduction in rates is expected to be $1.1 million in state and federal funds. The change amounts to a reduction from the FY 2012 base year of 2.3% in FY 2014 and 1.5% in 2015. The reduced fees result from a plan to purchase fewer pieces of equipment and from lower fuel costs in the 2015 biennium.

LFD COMMENT

Statute requires that agencies providing enterprise/internal service functions must provide information related to the use of revenues obtained through rates and charges and the estimated fund balance of the proprietary fund. This information may be seen in the appendix of this report.

Equipment Program Revenues and Expenditures - 06508

	Actual FY2012	Budgeted FY2013	Projected FY2014	Projected FY2015	2013 Bien	2015 Bien	Biennial Change	% Change
Net Fee Revenue	$28,562,706	$28,837,898	$27,707,793	$27,940,295	$57,400,604	$55,648,088	($1,752,516)	-3.1%
Other Operating Revenues	401,220	0	0	0	401,220	0	(401,220)	-100.0%
Total Operating Revenue	28,963,926	28,837,898	27,707,793	27,940,295	57,801,824	55,648,088	(2,153,736)	-3.7%
Operating Expenses:								
Personal Services	7,531,765	7,716,280	7,668,569	7,679,735	15,248,045	15,348,304	100,259	0.7%
Operating Expenses	21,031,997	21,610,274	20,039,224	20,260,560	42,642,271	40,299,784	(2,342,487)	-5.5%
Total Operating Expenses	28,563,762	29,326,554	27,707,793	27,940,295	57,890,316	55,648,088	(2,242,228)	-3.9%
Operating Income (Loss)	$400,164	-$488,656	$0	$0	-$88,492	$0		

Expenses

Significant costs for the program are for:

- Personal services for 123.00 FTE, $15.3 million or 27.6% of total costs
- Operating costs of $27.5 million, including:
    - Gasoline and diesel fuel, $16.2 million
    - Equipment repair and maintenance costs, $8.3 million
    - Insurance and bonds, $427,953
- Equipment costs of $13.6 million

In the 2015 biennium the Equipment Program budget includes:

- Personal services - projected to increase by $100,259, or 0.7%
- Operating costs – projected to decline by $2,342,487, or 5.5%
- Total expenses – projected to decline by 2,242,228 or 3.9%

Revenues

Revenue is generated through the vehicle/equipment rental fees, gains on the sale of surplus assets, and reimbursements from equipment accidents caused by an outside party. Vehicle rental fees provide the majority of the revenue for the program. Revenues for the fleet are functionally tied to the severity of the winter, construction program workload, and travel requirements of the various department users. Annual mileage and hours of usage can vary significantly. The rental rates are set on a fee basis to recover revenue to meet the program's obligations. Rental rates are calculated each year and billed to the agency users biweekly.

Significant Present Law Adjustments

This section includes budget changes and is provided to help the legislature understand significant changes to the program. There is no legislative action required for the passage of these adjustments, but are included in the requested rates.

Present Law Adjustments Fund: 06508		FTE	FY 2014	FY 2015
DP 802	Overtime and Differential Pay	0	$52,178	$52,178
DP 807	Maintain Balance for Replacements	0	97,000	97,000
DP801	Additional Equipment	0	774,000	0
Total		0	$923,178	$149,178

DP 802 Overtime and Differential Pay - The executive requests an increase in personal services costs to reestablish base year overtime and differential pay with associated benefits. All expenses in FY 2012 for this purpose are removed from the base and must be requested in the 2015 biennium in a DP. This proposal would increase the equipment assigned rate by .010% each year.

DP 807 Maintain $6.4 million purchase- The executive requests an increase in proprietary funding to reestablish the proprietary fund balance of $6.4 million. There is no impact to the rates. Replacement costs cannot be included in the rate calculations.

DP 801 Additional equipment- The executive requests a present law adjustment for additional equipment in support of MDT winter and city maintenance activities. This request is tied to the increased lane miles requested in the Maintenance Division (DP 301 and DP 303). The requested funding for this proposal is $774,000 in appropriation authority from the proprietary fund, funded with a transfer from state special revenue (HSRA-R).

Additional Equipment Request - DP 801	
Snow Plow Trucks - Winter Maintenance	$429,000
Bucket Truck-Alternative Route 93- Luminaire Maint.	135,000
Tow Plows- Winter Maintenance	210,000
Total	$774,000

There is no impact to the rates since new equipment costs cannot be calculated in the rates.

Proprietary Rates

The Equipment Program rental rates are based on a dual rate structure. The users pay a usage rate and an assigned rate.

- The usage rate is a per mile or hourly rate that is applied to a vehicle or piece of equipment for the actual miles/hours used. It is designed to recover "direct costs" that include labor, parts, fuel, lubricants, and tires.
- The assigned rate is a per hour rate designed to recover "fixed costs" such as insurance, depreciation, and administrative overhead costs. Rental rates are adjusted yearly. The rates are based on the actual operational costs for each sub-class for the base rental period. These costs are adjusted to reflect changes in operations or operating costs from the base. The effects are internal to the Department of Transportation and the program is held accountable to ensure the rates recover only needed operational monies.

The proposed rates are the maximum the program may charge during the biennium. The working capital analysis associated with the Equipment Program can be seen in the appendix.

LFD COMMENT

The Equipment Program has been allowed to function as an enterprise/internal service fund since 1998. Laws related to enterprise/internal service funds require:
"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." (17-7-123 – ((f) ii), MCA)

Ultimately, the fees and charges approved by the legislature indirectly constrain the levels of expenditures that could be made by the service, since the legislature does not provide appropriations of funds for costs. However, the Equipment Program has for years requested that the legislature provide a 60 day working capital balance instead of rates and charges. The working capital rate is not a rate or charge and is actually an accounting calculation in which operational costs and planned purchases are summed and the costs are then spread across the users, which in this case are other MDT programs. There are no constraints on expenditures and the costs can increase and decline as needed. As a result, the legislature has little control over the expenditures made in the program. The legislature may wish to evaluate the cost requirements of the Equipment Program and request rates and/or charges to be developed by the program.