

**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 2012	Approp. Fiscal 2013	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 12-13	Biennium Fiscal 14-15	Biennium Change	Biennium % Change
FTE	2,111.26	2,111.26	2,129.26	2,129.26	2,111.26	2,129.26	18.00	0.85%
Personal Services	135,664,992	149,304,587	144,860,391	145,017,104	284,969,579	289,877,495	4,907,916	1.72%
Operating Expenses	464,815,199	515,749,160	467,957,627	467,396,442	980,564,359	935,354,069	(45,210,290)	(4.61%)
Equipment & Intangible Assets	5,211,589	3,983,540	5,415,397	5,276,589	9,195,129	10,691,986	1,496,857	16.28%
Capital Outlay	8,469,285	30,763,403	19,754,763	19,655,763	39,232,688	39,410,526	177,838	0.45%
Grants	26,917,961	23,539,731	30,810,271	30,628,271	50,457,692	61,438,542	10,980,850	21.76%
Benefits & Claims	1,250	1,500	1,250	1,250	2,750	2,500	(250)	(9.09%)
Transfers	1,565,952	1,834,501	2,260,952	1,985,952	3,400,453	4,246,904	846,451	24.89%
Debt Service	151,412	151,414	151,412	151,412	302,826	302,824	(2)	0.00%
<b>Total Costs</b>	<b>\$642,797,640</b>	<b>\$725,327,836</b>	<b>\$671,212,063</b>	<b>\$670,112,783</b>	<b>\$1,368,125,476</b>	<b>\$1,341,324,846</b>	<b>(\$26,800,630)</b>	<b>(1.96%)</b>
State Special	226,716,607	267,661,094	242,820,702	242,585,380	494,377,701	485,406,082	(8,971,619)	(1.81%)
Federal Special	416,081,033	457,666,742	428,391,361	427,527,403	873,747,775	855,918,764	(17,829,011)	(2.04%)
<b>Total Funds</b>	<b>\$642,797,640</b>	<b>\$725,327,836</b>	<b>\$671,212,063</b>	<b>\$670,112,783</b>	<b>\$1,368,125,476</b>	<b>\$1,341,324,846</b>	<b>(\$26,800,630)</b>	<b>(1.96%)</b>

**Mission Statement**

Agency Mission: To serve the public by providing a transportation system and services that emphasize quality, safety, cost effectiveness, economic vitality, and sensitivity to the environment. For additional information, please refer to the agency profile.

**Agency Highlights**

<b>Department of Transportation Major Budget Highlights</b>
<ul style="list-style-type: none"> <li>◆ The MDT budget proposal is reduced by 2.0% in total funds</li> <li>◆ The proposal includes requests for 18.00 FTE, which include:                             <ul style="list-style-type: none"> <li>• 5.00 FTE in the Maintenance Program</li> <li>• 11.00 FTE in the Motor Carrier Program (7 FTE funded with Federal Special Revenue)</li> <li>• 2.00 FTE in the Rail, Transit, and Planning Program</li> </ul> </li> <li>◆ The executive budget proposal includes two proposals for increased planning activities related to MAP 21, the new federal surface transportation funding legislation                             <ul style="list-style-type: none"> <li>• General Operations proposal for \$184,496</li> <li>• Rail, Transit, &amp; Planning proposal for \$1,027,512 and 2.00 new FTE</li> </ul> </li> </ul>
<b>Legislative Action Issues</b>
<ul style="list-style-type: none"> <li>◆ This budget is based on the 2012 Transportation Plan and a new plan will be released during legislative budget deliberations</li> <li>◆ Federal funding estimates could change during legislative budget deliberations</li> </ul>

**Agency Discussion**

- The budget for the Montana Department of Transportation (MDT) includes funding to obligate and match all federal-aid highway funding anticipated
- The total fund budget would be reduced by \$26.8 million, or 2.0%, from the 2013 biennium primarily because of the reductions in operating expenses, in large part resulting from reduced contractor payments as MDT winds down the work resulting from the federal government's 2009 American Relief and Recovery Act (ARRA) and the enhanced state funded construction program provided by the 2011 Legislature
  - The reduction includes \$6.9 million in state special revenue and \$17.8 million in federal special revenue
- Staffing levels would be increased by 18 FTE at a cost of \$2.0 million
- A non-budgeted proprietary funded program that acquires, maintains, and disposes of equipment used by the other programs of this agency reduces the cost to user programs by \$1.1 million of total funds.

Two administrative boards appointed by the Governor are responsible for the guidance and prioritization of road and airport projects in Montana, therein establishing 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 2015 biennium based on the 2012 tentative construction plan (TCP). 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. Consequently, the department request will likely change prior to appropriations subcommittee hearings. In addition, changes in the TCP will create changes in the working capital balance projection of the highway special revenue fund (HSRA). Therefore, changes to the executive proposal are anticipated.

**LFD  
COMMENT**

The Montana Department of Transportation (MDT) budget differs from other state budgets and as a result, the main tables of this report (the Agency/Program Budget Comparison Tables) are less useful in providing an understanding of the budgetary changes. While the MDT budget does include normal agency budget attributes such as the support of over 2,100 FTE and fixed costs for rent and utilities, the primary costs are dedicated to the construction and maintenance of the state's capital assets in state transportation infrastructure. As in the case of most of the state's infrastructure programs, the MDT budget is primarily developed based on the anticipated program revenues, both state (from fuel taxes and gross vehicle weight fees) and federal (as provided in the federal surface and air transportation funding legislation). Consequently, growth in the MDT budget (or lack thereof) is primarily related to the amount of funds that are expected to be available.

*Agency Personal Services*

Personal service costs are 21.6% of the total budget for MDT. The total personal services budget is increased 1.7% from the 2013 biennium. The primary reasons for the increased costs are requests for 18.00 new FTE at a cost of \$2.0 million for the biennium.

Other personal service attributes include:

- Difficulties with retention and recruitment for the entry level maintenance technician, civil engineering technician, and the mechanic/machinists positions
- High retirement turnovers of construction engineers
- Average hourly base for broadband employees of 89.2% of the market midpoint from the 2012 market survey

According to the Public Employee Retirement System, 840 FTE, or 40.0% of the workforce, were eligible for either early or regular retirement late in FY 2012. Under a more limited criteria (55 or older with 25 service years/60 or older regardless and vested/30 or more service years regardless of age), the agency has identified a total of 165 FTE eligible

for retirement, but have made no extraordinary provisions for retirement payouts. In past years, retirement payouts have averaged \$1.5 million/year and have not been a financing issue.

*Agency Wide Decision Packages*

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

Overtime and Differential Pay

The decision packages in this group that fund overtime and differential pay are zero based expenditures. This means that any such expenditures are removed from the base year and all anticipated expenditures in the next biennium must be requested in decision packages.

Agency-Wide Request - Overtime and Differential Pay (corrected)								
Program	Decision Package	2012 Base Expenditures	FY 2014 Adjustment			FY 2015 Adjustment		
			State Special	Federal Special	Total Funds	State Special	Federal Special	Total Funds
General Operations	PL 0101	\$31,416	\$36,129		\$36,129	\$36,129		\$36,129
Construction	PL 0205	2,861,052	1,753,429	1,543,730	3,297,159	1,753,429	1,543,730	\$3,297,159
Maintenance	PL 0306	1,848,712	2,248,653		2,248,653	2,248,653		\$2,248,653
Motor Carrier Services	PL 2205	139,664	143,306	41,774	185,080	143,306	41,774	\$185,080
Aeronautics	None	48	0		0.00	0.00		0.00
Rail, Transit, & Planning	PL 5003	26,343	30,295		30,295	30,295		\$30,295
<b>Total</b>			<u>\$4,211,812</u>	<u>\$1,585,504</u>	<u>\$5,797,316</u>	<u>\$4,211,812</u>	<u>\$1,585,504</u>	<u>\$5,797,316</u>

Equipment Rental

The decision packages in this group reduce funding for 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 reduced equipment purchases and lower anticipated fuel costs.

Agency-Wide Request - Equipment Rental										
Program	Decision Package	Base	FY 2014 Adjustment			FY 2015 Adjustment			Total Funds Budget	
			State Special	Federal Special	Total Funds	State Special	Federal Special	Total Funds	FY 2014	FY 2015
General Operations	PL 0102	\$19,870	(\$460)		(\$460)	(\$297)		(\$297)	\$19,410	\$19,573
Construction	PL 0204	3,984,564	(48,986)	(40,764)	(89,750)	(31,636)	(26,326)	(57,962)	3,894,814	3,926,602
Maintenance	PL 0305	23,854,487	(551,125)		(551,125)	(355,924)		(355,924)	23,303,362	23,498,563
Motor Carrier Services	PL 2204	434,942	(6,441)	(3,625)	(10,066)	(4,160)	(2,341)	(6,501)	424,876	428,441
Rail, Transit, & Planning	PL 5004	217,768	(5,040)		(5,040)	(3,255)		(3,255)	212,728	214,513
<b>Total</b>		<u>\$28,511,631</u>	<u>(\$612,052)</u>	<u>(\$44,389)</u>	<u>(\$656,441)</u>	<u>(\$395,272)</u>	<u>(\$28,667)</u>	<u>(\$423,939)</u>	<u>\$27,855,190</u>	<u>\$28,087,692</u>

<b>LFD COMMENT</b>	A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program. The agency will again request that the rates be structured based on a 60 day working capital balance. The legislature may want to act on this request for the Equipment Program before taking action on the various division budgets, as the adjustments correspond to the rates requested and any change in the Equipment Program rates would impact adjustments.
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*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 2015 biennium 5% plan submitted for this agency is in the appendix. The state special funds expended by MDT are exempt from the requirements of the 5% plan, but the agency did provide a plan, which proposes reductions of \$627,217 from the State Funded Construction Program.

*IT Systems*

State agencies have identified information technology (IT) systems that are critical to the state as a whole or to the agency. Further, state agencies have assessed the age of the systems to establish whether the system is:

- o New
- o Emerging
- o Mature
- o Declining
- o Obsolete

The Legislative Finance Committee recommended that House Appropriations and Senate Finance and Claims Committee leadership direct the Long Range Planning Subcommittee to meet jointly with each of the appropriate joint appropriations subcommittees to discuss priorities related to critical IT systems, and that state agencies be prepared to discuss:

- o Current plans to address obsolescence
- o Costs to replace the system
- o Costs of maintaining the current system
- o Risks associated with both retaining the current system and replacing the system

LFD staff will be prepared to discuss issues related to those systems that have been determined to be either critical to the state as a whole or to the agency and either declining or obsolete. Issues include security, continuity of operations, and funding.

*Agency Goals and Objectives*

Goals and objectives for the agency can be found in the appendix.

**Funding**

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

Total Department Of Transportation Funding by Source of Authority 2015 Biennium Budget					
Funds	HB 2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	\$0	\$0	\$0	\$0	0.0%
State Special Total	485,406,082	-	42,965,452	528,371,534	35.6%
Federal Special Total	855,918,764	-	31,001,851	886,920,615	59.8%
Proprietary Total	-	68,176,949	-	68,176,949	4.6%
Current Unrestricted	-	-	-	-	0.0%
Other Total	-	-	-	-	0.0%
<b>Total All Funds</b>	<b>\$1,341,324,846</b>	<b>\$68,176,949</b>	<b>\$73,967,303</b>	<b>\$1,483,469,098</b>	
Percent - Total All Sources	90.4%	4.6%	5.0%		

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 the base 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 3/5<sup>th</sup> 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.

The department receives federal-aid highway funding from the Federal Highway Administration (FHWA). In past years, federal funds were authorized in six-year funding bills, but the newest federal surface transportation legislation, the Moving Ahead for Progress in the 21st Century Act (MAP 21), provides funding for only two years, FFY 2013 and FFY 2014 (the federal fiscal year begins on October 1, while Montana's fiscal year begins on July 1). Consequently, MDT will plan to obligate federal funds only through the beginning of FY 2015. MDT assumes the level of federal funds available for appropriation in the 2015 biennium to be the same as in recent years.

#### **LFD COMMENT**

MAP 21 includes \$105 billion dollars of federal funding for FFY 2013 and 2014. Basically, MAP 21 continues formulaic distributions at the same level as available in the past and guarantees state funding at 95% of the rate of return (amount of fuel and motor vehicle taxes paid by states – as stated Montana receives more than 200% of taxes paid). The act consolidates certain programs and eliminates several discretionary highway and transit programs. Map 21 establishes performance-based planning requirements that align federal funding with key goals and tracks progress toward achievements that include:

- Safety
- Infrastructure condition
- Congestion reduction
- System reliability
- Freight movement and economic vitality
- Environmental sustainability
- Reduced project delivery delays

U.S. Department of Transportation is responsible for establishing performance measures related to the goals in consultation with the states and stakeholders through rulemaking within 18 months. States are required to establish performance targets in coordination with stakeholders for the measures (including rural transit-related measures) within one year after the final rule establishing the performance measures. The department has requested 2.00 FTE in the Rail, Transit, and Planning Division in response to this requirement.

**LFD  
COMMENT CONT.**

MAP 21 outlines the conditions of the federal sliding scale match. The act provides that the state match will remain the same in FFY 2013 and 2014, and the department based the budget on a match ratio of 86.6:13.4 (federal to state dollars) for the 2015 biennium for those projects that qualify for federal funding. With the performance measures required in MAP 21, the agency has requested funding for expanded activities in the Rail, Transit, and Planning Division.

**LFD  
COMMENT**

MAP 21 is a significant piece of legislation, and the federal funding levels provided through the bill are estimates developed in consideration of available information. As the 2013 legislative session proceeds, there is the potential for additional information that could change the amount of federal funds available for expenditures in the 2015 biennium. A further analysis, including the adequacy of state matching sources, will be done at that time.

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 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 FHWA 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, estimated at \$10 million per year; 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.

Estimated Working Capital Balance			
Highways Special Revenue Accounts (02422 and 02349)			
Fiscal Years 2013 - 2015			
	FY 2013	FY 2014	FY 2015
<u>Combined Account (\$ in Millions)</u>			
Beginning Balance	\$68.4	\$28.3	\$22.9
Revenues	297.7	297.7	300.9
Expenditures	<u>(337.8)</u>	<u>(303.0)</u>	<u>(292.3)</u>
Revenues less Expenditures	(40.1)	(5.3)	8.6
Adjustments	0.0	0.0	0.0
Anticipated Reversions	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Ending Balance	<u>\$28.3</u>	<u>\$22.9</u>	<u>\$31.6</u>
<u>Restricted Account - 02422 (\$ Millions)</u>			
Beginning Working Capital Balance	\$68.3	\$25.5	\$20.3
Revenues <sup>1</sup>			
Gasoline Tax	131.2	131.7	132.2
Diesel Tax	73.3	75.3	77.3
Gross Vehicle Weight Fees (GVW)	25.1	25.5	26.0
Federal Indirect Cost Recovery <sup>2</sup>	50.7	47.5	47.4
Other Revenues <sup>3</sup>	<u>8.1</u>	<u>8.1</u>	<u>8.1</u>
Total Revenues	288.4	288.1	291.0
Expenditures <sup>5</sup>			
Montana Department of Transportation (MDT)			
MDT Statutory Appropriations	(16.8)	(17.4)	(17.4)
MDT - HB 2	(274.9)	(229.2)	(229.4)
Non-Budgeted	<u>(1.1)</u>	<u>0.0</u>	<u>0.0</u>
Total MDT	(292.8)	(246.5)	(246.7)
Other Highway Special Revenue Appropriations			
Department of Justice (DOJ)	(32.3)	(36.0)	(36.0)
MDT Long-Range Information Technology Projects <sup>6</sup>	0.0	(2.0)	0.0
Fish, Wildlife, & Parks Long-Range Building Projects <sup>7</sup>	(2.0)	(1.5)	0.0
MDT Long-Range Building Projects <sup>7</sup>	<u>(4.1)</u>	<u>(7.3)</u>	<u>0.0</u>
Total Expenditures	(331.1)	(293.3)	(282.8)
Revenues Less Expenditures	(42.7)	(5.2)	8.2
Adjustments	0.0	0.0	0.0
Anticipated Reversions	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Ending Working Capital Balance	<u>\$25.5</u>	<u>\$20.3</u>	<u>\$28.6</u>
<u>Nonrestricted Account - 02349 (\$ in Millions)</u>			
Beginning Working Capital Balance	\$0.1	\$2.7	\$2.6
Revenues			
GVW <sup>1</sup>	8.9	9.2	9.5
Other <sup>3</sup>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Total Revenues	9.3	9.6	9.9
Expenditures			
MDT (HB 2)	(6.3)	(9.3)	(9.0)
DOJ (HB 2)	(0.3)	(0.3)	(0.3)
Statutory Transfer to Noxious Weed SS Revenue	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.1)</u>
Total Expenditures	(6.7)	(9.7)	(9.5)
Revenues Less Expenditures	2.6	(0.1)	0.4
Adjustments	0.0	0.0	0.0
Anticipated Reversions	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Ending Working Capital Balance	<u>\$2.7</u>	<u>\$2.6</u>	<u>\$3.0</u>
<u>Revenue Assumptions</u>			
<sup>1</sup> LFD estimates			
<sup>2</sup> Total federal funds times indirect cost rate of 11.08%			
<sup>3</sup> Equal to base year revenue			
<u>Expenditure Assumptions</u>			
<sup>5</sup> Proposed HB 2			
<sup>6</sup> Proposed HB 10			
<sup>7</sup> Proposed HB 5			

Constitutional Restricted Account (HSRA-R)

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) 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.

As shown in the figure above, HSRA-R entered FY 2013 with a positive balance of nearly \$68.3 million. If all valid appropriations are expended, HSRA-R will begin the 2015 biennium with a \$25.5 million balance. The balance is expected to grow to \$28.6 million by the end of the 2015 biennium. The analysis does not consider the 2015 biennium pay plan increases that would increase personal services funding from HSRA-R. Estimates for the proposed pay plan increase will be available prior to subcommittee hearings.

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 2013 with a balance of \$0.1 million. If all valid appropriations are expended, HSRA-NR will begin the 2015 biennium with a \$2.7 million balance. The balance is estimated to be \$3.0 million by the end of the 2015 biennium. The complete capital balance fund analysis of the HSRA-NR may be viewed in the appendix.

**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 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget	Budget Fiscal 2014	Budget Fiscal 2015	Biennium Fiscal 14-15	Percent of Budget
Base Budget	0	0	0	0.00%	642,797,640	642,797,640	1,285,595,280	95.85%
Statewide PL Adjustments	0	0	0	0.00%	2,938,864	2,901,525	5,840,389	0.44%
Other PL Adjustments	0	0	0	0.00%	24,086,963	23,573,784	47,660,747	3.55%
New Proposals	0	0	0	0.00%	1,388,596	839,834	2,228,430	0.17%
<b>Total Budget</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>		<b>\$671,212,063</b>	<b>\$670,112,783</b>	<b>\$1,341,324,846</b>	

**Language and Statutory Authority**

The Governor proposes the following language for inclusion in HB 2.

"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 appropriations in the department are biennial."

"All remaining federal pass-through grant appropriations for highway traffic safety, including reversions for the 2013 biennium, are authorized to continue and are appropriated in FY 2014 and FY 2015."