Agency Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	2,170.16	5.55	(12.03)	2,163.68	(45.63)	(12.03)	2,112.50	2,112.50
Personal Services	92,274,059	13,861,949	(529,145)	105,606,863	12,496,506	(533,568)	104,236,997	209,843,860
Operating Expenses	322,091,651	105,638,598	8,673,021	436,403,270	109,771,809	3,820,000	435,683,460	872,086,730
Equipment	1,133,344	102,656	0	1,236,000	102,656	0	1,236,000	2,472,000
Capital Outlay	10,125,530	2,196,375	0	12,321,905	2,196,375	0	12,321,905	24,643,810
Grants	6,989,629	3,400,696	0	10,390,325	2,367,696	0	9,357,325	19,747,650
Transfers	25,452	0	0	25,452	0	0	25,452	50,904
Debt Service	375	0	0	375	0	0	375	750
Total Costs	**$432,640,040**	**$125,200,274**	**$8,143,876**	**$565,984,190**	**$126,935,042**	**$3,286,432**	**$562,861,514**	**$1,128,845,704**
General Fund	0	0	0	0	0	0	0	0
State/Other Special	149,258,584	72,365,330	478,874	222,102,788	93,921,879	(756,400)	242,424,063	464,526,851
Federal Special	283,381,456	52,834,944	7,665,002	343,881,402	33,013,163	4,042,832	320,437,451	664,318,853
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$432,640,040**	**$125,200,274**	**$8,143,876**	**$565,984,190**	**$126,935,042**	**$3,286,432**	**$562,861,514**	**$1,128,845,704**

Agency Description
The Department of Transportation is responsible for serving the public by establishing and maintaining a transportation system that emphasizes safety, environmental preservation, cost-effectiveness, and quality.

Agency Discussion

Department of Transportation
Major Budget Highlights

- Total fund budget increases by $132.8 million or 13.3 percent over the biennium compared to the 2003 biennium
  - Bond proceeds for Highway 93 add $87.6 million state special revenue for the biennium to accelerate the Highway 93 project
  - An information technology project to integrate financial management systems adds $8.0 million federal funds for the biennium
- Staffing is reduced by 6.48 FTE in fiscal 2004 and 57.66 FTE in fiscal 2005
- Decision packages are included to offset the impacts of broadband pay plan increases given in fiscal 2002

Major LFD Issues

- Decision packages only offset a portion of the broadband pay plan salary increases given in fiscal 2002
- Use of indirect cost plan reimbursements
- Impacts of .08 blood alcohol concentration laws
- Impacts of repeat driving while intoxicated sentencing laws

Highways State Special Revenue Account Stability
State funding for highway construction, maintenance, and other highway-related administrative and enforcement costs comes from the highways state special revenue account (HSRA). The executive has proposed a budget that depletes the account balance, with expenditures that exceed revenues by nearly $22 million for the 2005 biennium. Left as proposed, ongoing expenditures are projected to exceed expected revenues throughout the foreseeable future and would move the

account into a negative balance condition in fiscal 2007. The following discussion identifies factors that impact the stability of the account and a working capital analysis of the account is provided at the end of the discussion to illustrate the account financial profile.

Department-Wide Move to the Broadband Pay Plan

Broadband Pay Plan

During the 2003 biennium, the executive has moved a large number of state employees to a newly developed position classification and compensation system. Under the authority of 2-18-303, MCA, the State Personnel Division of the Department of Administration developed the alternative classification and compensation system known as the broadband pay plan. The broadband pay plan was developed to address several human resources management challenges, like employee recruitment and retention that agencies state was evident by high staff turnover rates. The broadband pay plan places FTE into fewer position classifications with wider ranges between minimum and maximum pay levels than the other existing classification systems. (For a further discussion, see Volume 1 of the LFD Executive Budget Analysis.)

Department of Transportation Moved to the Broadband Pay Plan

The personal services budgets for all programs of the Department of Transportation (department) contain a common factor contributing to budget growth -- the department-wide move to the broadband pay plan. The department changed a large number of its staff to the broadband pay plan beginning in August 2001. The department subsequently provided salary adjustments, exclusive of increases in the state pay plan (HB 13), for positions that were moved to the broadband pay plan. The 2001 legislature did not provide funding to pay for salary increases associated with the broadband pay plan. As such, the department funded increases in the 2003 biennium with other legislative appropriations and with the use of carry-forward authority from prior year appropriation reversions. (The use of 30 percent of prior year reverted appropriation authority is allowed under current budget statutes.) While the broadband pay plan in and of itself does not automatically result in personnel cost increases, the decision of the department to provide pay increases under the plan results in personal services cost increases that are now built into the base and are ongoing.

Figure 1 shows the staffing profiles, by pay plan, existing in the department when the HB 2 personal services budgets were developed for the 2003 and 2005 biennia. When the 2003 biennium budget was developed, the department had no employees being compensated under the broadband plan. The majority of positions were being compensated under the statewide classification, blue-collar, and information technology and engineering pay plans and the average salary for agency employees was $12.98 per hour. At the end of fiscal 2002, when the budget development snapshot was taken to develop the 2005 biennium personal services budgets, the percent of department employees in the blue-collar plan had not changed appreciably, but the majority (65.3 percent) of department employees were in the broadband plan and the average agency salary had grown to $14.66 per hour, or an increase of roughly 13 percent. During this time, the statewide pay increases were 3 percent for fiscal 2001 and 4 percent for fiscal 2002.

Figure 1
Department of Transportation
Staffing Profiles for Budget Development (HB 2 Funding Only)

	Percentage		Average Hourly Salary	
Pay plan	2003 Biennium	2005 Biennium	2003 Biennium	2005 Biennium
Broadband Plan (Pay plan 020)	0.0%	65.0%	$ -	$ 14.63
Statewide Classification Plan (Pay plan 060)	53.3%	3.0%	10.30	15.80
Exempt Employee Plan (Pay plan 061)	0.0%	0.0%	38.16	40.35
Blue-Collar Plan (Pay plan 062)	29.7%	31.9%	13.84	14.48
Information Technology and Engineering Plan (Pay plan 068)	16.9%	0.0%	18.11	25.11
Agency average hourly salary			$ 12.58	$ 14.14

As stated, funding was not provided by the legislature for the department to move to the broadband pay plan, and the department used available appropriation authority to fund these increases during the 2003 biennium. Under the current personal services funding process, once the hourly salaries were increased, the higher salaries in effect at the time of the budget snapshot become the basis for determining future personal services funding. Since the broadband pay plan salary increases were effective before the budget development snapshot, the higher salaries resulting from broadband plan pay adjustments were automatically included in the personal services funding for each program in statewide personal services adjustments. Pay raises granted by the legislature in HB 13 are also included in the 2005 biennium statewide present law adjustments. As such, additional costs resulting from broadband plan pay adjustments are among other adjustments and not correspondingly broken out specifically. Historically, personal services and resulting statewide adjustments were assumed to be representative of legislative funding decisions for personal services. With a large number of pay increases resulting from the department-wide movement to the broadband plan, this is no longer the case. The legislature may not have intended or foreseen that the alternative compensation and pay plan (broadband pay plan) would result in large increases in personal services costs without specific legislative funding decisions.

The executive has stated that agencies would be required to provide decision packages for reductions to offset the costs of broadband pay plan increases as part of their 2005 biennium budget requests. The department has provided decision packages to offset these increases. These decision packages are summarized in Figure 2. The decision packages all reduce operating costs to fund increases in personal services costs.

Figure 3 illustrates, for each program with HB 2 funding, the estimated base inflationary impacts resulting from the broadband plan. These estimates were taken from the state human resource system as accumulations of hourly salary increases given to individuals and then adjusted to show an annual amount. The majority of broadband pay plan increases were given in addition and prior to application of HB 13 increases. The estimates shown in Figure 3 show the annualized impacts of salaries and associated benefit increases, but do not show the compounding impact of HB 13 increases applied to higher salaries that existed after broadband pay plan increases were given. It appears from a comparison between Figures 2 and 3 that, the department has included offsetting adjustments for only a portion of the broadband pay plan increases given. The legislature may wish to consider these increases when funding personal services for the department.

Figure 2
Negative Decision Packages
Offset Broadband Pay Plan Increases

Program	Fiscal 2004	Fiscal 2005
General Operations (01)	$ 216,869	$ 216,869
Construction (02)	1,144,197	1,144,197
Maintenance (03)	184,434	184,434
Motor Carrier Services (22)	41,016	41,016
Transportation Planning (50)	165,212	165,212
Department of Transportation	$ 1,751,728	$ 1,751,728

Figure 3
Annualized Cost of Broadband Pay Plan Increases
Given in Fiscal 2002
Department of Transportation
(HB 2 Funding - Salaries and Benefits)

Program	
General Operations (01)	$ 274,290
Construction (02)	1,671,189
Maintenance (03)	255,329
Motor Carrier Services (22)	62,010
Aeronautics (40)	12,950
Transportation Planning (50)	133,275
Department of Transportation (HB 2 programs)	$ 2,409,043

Personal Services Changes

Statewide adjustments for personal services for all programs of the department are divided into two adjustments shown separately on budget tables: 1) those to fully fund all authorized positions; and 2) those to apply a vacancy savings reduction. The adjustment to fully fund all authorized positions is intended to adjust program budgets to reflect the pay levels existing when the budget development snapshot was taken and also to adjust for legislative pay increases scheduled to occur between the time the snapshot was taken and the budgets would be implemented. These adjustments are for both pay scale increases and health insurance increases funded by the state. Actual vacancy rates and position pay change decisions that occurred during the base year impact the statewide adjustments in amount and percentage growth over the base. Figure 4 breaks the statewide personal services adjustments into causes for all programs funded in HB 2. The table shows four categories that make up the adjustments: 1) adjustments because of the difference in pay hours between the base and fiscal 2004 (Hour Difference); 2) adjustments for pay matrix adjustments and health insurance increases in HB 13 of the 2001 legislature (HB 13); 3) impacts of the actual vacancy rate in the base year (Vacancies); and 4) impacts because the base included only a partial year of broadband pay plan increases (Broadband Pay Plan).

As the legislature considers the personal services budget for the department, it might wish to consider some of the factors that contributed to personal services increases. For example, increases because of high levels of vacancies in a program may signal an overstaffing, if the program was able to deliver statutory services while incurring high levels of vacancies. The broadband pay plan increases discussed above are ongoing costs that increase administrative costs of administering the highway construction program and operating the state transportation system.

Sanctions in Federal funding Legislation

Federal highway funding legislation provides the majority of funds to construct and maintain Montana's highways. The current laws that direct how these federal funds are to be allocated and spent contain clauses that would impact Montana's share and use of these federal funds. Three areas would directly impact federal-aid highway construction funding for Montana unless legislative action occurs: 1) blood alcohol content limit: 2) repeat offender penalties for driving under the influence of alcohol; and 3) open container laws. The executive has recommended legislation to address these three policy areas. The impacts on federal-aid highway funds are summarized below. The department budget has been submitted under the assumption that laws to implement these three federal requirements would be enacted by the legislature.

Figure 4
Department of Transportation
Personal Services Changes

			Makeup of Change			
Program	Change Amount	Total Change	Hour Difference	HB 13	Vacancies	Broadband Pay Plan
General Operations (01)	$1,314,573	18.9%	0.9%	5.0%	10.6%	2.3%
Construction (02)	3,594,901	7.8%	0.8%	4.1%	1.1%	1.9%
Maintenance (03)	4,161,452	12.9%	0.8%	4.3%	7.0%	0.8%
Motor Carrier Services (22)	513,236	12.9%	0.7%	4.4%	7.0%	0.7%
Aeronautics (40)	62,769	15.4%	0.8%	4.4%	8.4%	1.8%
Transportation Planning (50)	207,524	7.4%	0.7%	4.0%	0.5%	2.1%

Blood Alcohol Content Laws

The United States Department of Transportation appropriations act for federal fiscal 2001 contained requirements stating that states that do not adopt .08 blood alcohol concentration (BAC) laws by federal fiscal 2004 would have certain federal-aid highway construction funds withheld and potentially lost if the required laws are not enacted by the states. Figure 5 summarizes the impacts on Montana federal-aid highway funding under current funding levels if laws meeting the federal requirements are not enacted. Legislation has been requested by the executive to amend relevant Montana laws to meet the federal requirements.

States that do not meet the requirement to have a .08 BAC law would have 2 percent of certain federal-aid highway construction funds withheld starting in federal fiscal 2004 and increasing 2 percent each year the requirements were not meet, with 8 percent the maximum withheld each year. States that met the requirement by October 1, 2007, would not lose the funds withheld and would see corresponding increases in federal funds to recover the withheld amount. Each year after October 1, 2007, states that still fail to meet the requirements would permanently lose the funds withheld four years prior to that fiscal year. An added benefit to establish .08 BAC and drunk driver laws is that additional grant funding is available for states that are in compliance to the federal standards.

Figure 5
Impacts on Federal Highway Funding
Failure to Enact .08 BAC Laws
(in $ Millions)

	Funds to be Withheld		
Federal Fiscal	Percent	Estimated Amount	Lapse Amount
2004	2%	$ 3.8	$ -
2005	4%	7.7	-
2006	6%	11.5	-
2007	8%	15.3	-
2008	8%	15.3	3.8
2009	8%	15.3	7.7
2010	8%	15.3	11.5
2011	8%	15.3	15.3
2012	8%	15.3	15.3

The Department of Justice is compiling information to determine what impact lowering the BAC to .08 might have on the department budget, but does not have any preliminary projections at this time. The Department of Corrections projects there could be an additional 46 offenders who might be convicted of a felony based on lowering the BAC to .08. Based on the projection by the Department of Corrections, the biennial cost of these additional offenders would be $1.0 million for the 2005 biennium.

Figure 6
Impacts of Federal Highway Funding Requirements
Repeat Offender Penalties and Open Container Laws
(in $ Millions)

	Fund Tranfer - Repeat Offender Penalties		Fund Tranfer - Open Container	
Federal Fiscal	Percent	Amount	Percent	Amount
2000	1.5%	$ 2.8	1.5%	$ 2.8
2001	1.5%	2.8	1.5%	2.8
2002	3.0%	5.6	3.0%	5.6
2003	3.0%	5.6	3.0%	5.6
2004	3.0%	5.6	3.0%	5.6
2005	3.0%	5.6	3.0%	5.6

Repeat Offender Penalties for Drunk Drivers

Federal highway funding laws require states to enact laws that provide minimum penalties for repeat offenders sentenced for driving while intoxicated or driving under the influence. Under these funding laws, a portion of the federal-aid highway construction funds would be unable to be used for highway construction activities and would be restricted to use in alcohol-impaired driving counter-measures activities. Legislation has been requested by the executive to amend relevant Montana laws to meet the federal requirements. Figure 6 summarizes the federal funding that would be impacted by this requirement. As shown, Montana is already experiencing the restriction of funds.

Open Container

Federal highway funding laws require states to enact laws that prohibit the possession of any open alcohol beverage container, or the consumption of any alcoholic beverage, in the passenger area of any motor vehicle located on a public highway, or the right-of-way of a public highway in the state. Like the requirements for repeat offender penalties, the federal funding laws restrict a portion of the federal-aid highway construction funds from being used for highway construction activities to use in alcohol-impaired driving counter-measures activities. Legislation has been requested by the executive to amend relevant Montana laws to meet the federal requirements. Figure 6 summarizes the federal funding that would be impacted by this requirement. As with the impacts of repeat offender penalty requirements, Montana is already experiencing the restriction of funds.

Funding Montana's Highways

Legislative Policy Issue

The following discussion identifies a public policy issue the legislature faces as it appropriates funds for the Department of Transportation. The legislature may want to decide: 1) if it wants to minimize or control the use of state funds while using all federal-aid highway construction funds allotted to Montana; or 2) if it wants to maximize the amount of total funds spent on highway construction while using the same allotment of federal-aid highway construction funds.

If the legislature wants to maximize the leverage of state funds, it would spend only enough state funds to receive the most favorable federal participation rate on the amount of federal-aid construction funds allotted to Montana. A decision to achieve this goal would result in a lower level of expenditures on highway construction. However, this decision could benefit the state by strengthening the financial condition of the highways state special revenue account and also provide options to help shore up the financial condition of the general fund.

If the legislature wants to maximize the amount of highway construction using all highway related funding, it would spend the maximum amount of highways state special revenue that the highways state special revenue account (HSRA) cash flow would allow, along with all federal-aid highway construction funds allotted to Montana. This decision would provide the maximum level of highway construction activities, but would put the HSRA in a potentially vulnerable financial condition and would remove the account as a source to help restore the financial condition of the general fund.

Background information on highway funding, prior legislative policies related to highway funding, a financial analysis of the HSRA, and legislative options for making the policy decision follow.

BACKGROUND

Vast Highway Network

Montana has a vast network of highways that plays a major role in Montana's transportation needs. Montana has nearly 70,000 centerline miles of public roads, of which the Department of Transportation (department) has responsibility for nearly 11,000. The remaining roughly 59,000 miles are mostly rural and municipal roads maintained by local governments or private citizens. The department spends roughly $960 million each biennium to maintain, rebuild, and operate the 11,000 miles of paved roads under its responsibility. Funding to support this effort is roughly 35 percent from state sources and 65 percent from federal sources.

Sources of Revenue

As stated, 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 constitutionally-protected 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. Constitutionally protected (restricted) revenues comprise roughly 96.6 percent, non-restricted revenues provide 3.1 percent, and a general fund transfer provides the remaining 0.3 percent of total state special revenues. Non-restricted revenues are derived from special use permits and motor fuel penalties and interest payments. All highway construction expenditures from state funds are accounted for in the HSRA, whether they are from restricted or non-restricted revenues. HSRA 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 the federally-imposed excise tax on motor fuels. Montana has historically received significantly more federal-aid highway construction funds than are collected in federal motor fuels excise taxes from Montana sources.

Reauthorization of Federal-Aid Highway Funding

The department receives federal-aid highway construction funding from the Federal Highway Administration (FHWA). The federal legislation that currently authorizes this funding is the Transportation Equity Act for the 21st Century (TEA-21). Under TEA-21, Montana receives an average of $260 million per year in federal allotment for highway construction and related activities. TEA-21 is scheduled to expire at the end of federal fiscal 2003 - the end of the first quarter of state fiscal 2004. The department has assumed in its budget submission that when TEA-21 expires, a subsequent reauthorization of federal-aid highway funding legislation would not have any appreciable expenditure level changes for the department from the levels it currently experiences. The department assumes that expenditure impacts of federal-aid funding changes would be delayed into the 2007 biennium by inherent construction program delays, like those resulting from the time it takes for design, rights-of-way acquisition, contract bidding, and construction project staging. However, the department is in the process of reevaluating the short-range highway construction plan and has stated that they plan to submit an updated highway construction budget for deliberation by the legislature. Information on this updated budget submission has not been provided, so only the financial impacts of the submitted budget and the legislative alternatives are present for legislative review in this narrative.

Funding Impacts When TEA-21 was Enacted

President Clinton signed TEA-21 into law on June 9, 1998, after the previous federal-aid highway funding legislation, the Intermodal Surface Transportation and Efficiency Acts (ISTEA), expired. Under TEA-21, Montana received roughly 60 percent more federal funds than it did under ISTEA. Montana's average annual allotment of federal-aid highway construction funds grew under TEA-21 by more than $80 million to roughly $260 million. Planning for reauthorization of the federal-aid highway funding poses a great uncertainty in forecasting its impact on the highways state special revenue and the department budget. If Montana's allotment of federal-aid highway construction funds grows as it did when TEA-21 was enacted, Montana will have a higher state match to provide.

Federal-Aid Highway Construction Program

Sliding Scale Match

Montana 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. Montana's current match ratio is 87 percent federal to 13 percent 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. The FHWA allows the use of a three-year moving average when evaluating if the minimum maintenance of effort has been achieved. Because of recent sporadic levels of state funded construction expenditures, this moving average has come into play.

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 TEA-21; 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 percent state funds ($10 million annually); 5) matching funds for federal-aid construction funds; and 6) adequate working capital to pay operating expenses with 100 percent 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. A working capital balance of $10 million has been commonly stated as the absolute minimum needed to support the cash flow obligations of the department. This would provide for roughly 18 days of expenditures and may be low considering the monthly cycle for the major revenue sources.

Figure 7 illustrates a comparison of different federal-aid match rates on expenditures of state special revenue. The constant for this comparison is the state allotment of federal-aid highway construction funds. Figure 7 illustrates how much state funds would be needed for two different federal participation rates:

- At an 87 percent federal participation rate, $52.0 million state funds (including spending $10.0 million state funds as a state maintenance of effort to secure the 87 percent rate) would be needed to match $281.3 million of federal funds
- At an 80 percent federal participation rate, $70.3 million state funds would be needed to match the same $281.3 million of federal funds

By spending $10.0 million state funds on 100 percent state-funded construction to improve the federal participation rate from 80.0 percent to 87.0 percent, Montana saves $18.3 million state funds for $281.3 million federal aid. Figure 7 also illustrates that by spending $10.0 million additional state funds on 100 percent state-funded construction, the effective federal participation rate, after considering all state funds spent, is reduced from 84.4 percent to 81.9 percent and causes the state to spend more state funds to get the same amount of federal aid. Montana has for various reasons spent more than the minimum state funds needed to get a favorable match on federal aid.[1]

[1] From fiscal 1983 to fiscal 1995, 100 percent state-funded construction activities were statutorily directed under a program titled the reconstruction trust program (RTP). The RTP was funded from deposits in the reconstruction trust fund account (RTF), which at one time included deposits from coal severance tax collections. The primary factor for establishing the RTP was because federal-aid for highways was inadequate to safely maintain Montana's highways. The legislature terminated the RTP on July 1, 1995. Since the RTP was terminated, the department has continued to conduct state-funded construction activities at levels often greater than the minimum needed to maintain the favorable federal match.

In summary, Figure 7 shows that it is in the state's best interest to buy down the state match rate by funding a state-funded construction program at least at the minimum level needed to maintain a favorable federal participation rate. However, once the minimum has been satisfied, each additional state dollar spent would lower the effective federal participation rate, but would increase the total size of the state highway construction program. When examining the Executive Budget, there is one additional factor to consider: indirect costs.

Figure 7
Federal-Aid Match Rate Comparison
Highway Construction Program
(in $ Millions)

	State-Funded Construction Program		
	$10 million (minimum)	$0	$20 million
Federal participation rate	87.0%	80.0%	87.0%
Federal-aid construction program			
State funds	$ 42.0	$ 70.3	$ 42.0
Federal funds (*constant for comparison*)	281.3	281.3	281.3
Federal-aid program	$ 323.3	$ 351.6	$ 323.3
State funded construction program	10.0	-	20.0
Total state funds spent	52.0	70.3	62.0
Total construction program	$ 333.3	$ 351.6	$ 343.3
Effective federal participation rate	84.4%	80.0%	81.9%
Savings of state funds from favorable match at the minimum maintenance of effort	$ 18.3		

Indirect Cost Recovery

In early fiscal 2002, the department negotiated with FHWA for a cost recovery rate that would allow the department to receive federal reimbursement for indirect costs it incurred in support of federal-aid highway projects. While the department was developing and negotiating an indirect cost recovery plan with FHWA, it negotiated with FHWA for indirect cost reimbursements of $5 million per year beginning in fiscal 2002. Nearly simultaneous to the department receiving FHWA approval of an indirect cost recovery plan that sets the maximum rate at 13.44 percent of federal direct billings, the August 2002 Special Session of the legislature passed HB 21. HB 21 requires full recovery of indirect costs from federal and private grants. At the maximum indirect cost recovery rate of 13.44 percent, the department would recover roughly $37.8 million per year, at the fiscal 2002 actual federal fund expenditure level.

Indirect cost recovery allows a federally-funded highway construction program to recover full costs associated with delivering the federal-aid highway construction program, whether they are directly traceable to a federal-aid project or incurred as an indirect cost of the project. The department can now receive federal reimbursements for administrative costs that were previously not recoverable and which were funded entirely with state special revenue funds. The catch is that the amount of federal money Montana receives is not increased by the amount of the indirect costs that are recovered. Instead, the federal funds received from indirect cost reimbursements are deducted from the total allotment of federal-aid highway construction funds for Montana. As a result, the amount of federal funds available for costs to directly provide highway construction projects is reduced by the amount of the indirect costs that are recovered.

Figure 8 illustrates the impacts on the federal-aid highway construction program from maximizing the recovery of indirect costs. The department has submitted a budget that assumes all state funds recovered through federal reimbursements of indirect costs would be used to fund costs that were previously funded with: 1) the higher state match for federal funds prior to deducting federal reimbursements for indirect costs; and 2) costs that were funded with federal allotment used to get federal reimbursement of indirect costs. The figure illustrates two extreme cases: 1) the plan proposed by the department to use indirect cost reimbursements to fund administration and use state funds in the same amount to fund construction activity that would have taken place if the indirect costs were not deducted from the federal-aid allotment; and 2) the impacts if all federal-aid highway construction funds allotted to Montana are spent, but the indirect cost reimbursements are not spent to offset the reduced highway construction activity due to federal funding of indirect costs.

For the purpose of the illustration, the federal-aid allotment was held constant. Figure 8 shows that if state funds are not used to offset reduced highway construction funding from funding indirect costs with federal funds, including not spending the state match differential:

- All of the $281.3 million allotment (based on fiscal 2002 actual level) would be spent
- State special revenue expenditures would be reduced by $43.4 million per year
- Funding for direct highway construction activities would be reduced by $43.4 million per year
- The effective state match rate would be 14.2 percent

If state funds are used to offset reduced highway construction funding from funding indirect costs with federal funds:

- All of the $281.3 million allotment (based on fiscal 2002 actual level) would be spent
- There would be no reduction of direct highway construction activities compared to fiscal 2002 as a direct result of the decision
- The effective state match rate would be 24.2 percent (Montana would pay more to get the same level of federal funds)

The plan proposed by the department to expend indirect cost reimbursements to offset reduced federal-aid funding for direct costs is a policy decision of the legislature. The legislature can impact this decision through appropriations to the department or through substantive law. The department plan to spend indirect costs recovered with federal funding appears to contradict the intentions of HB 21 enacted in the August 2002 Special Session to maximize the use of federal funds for all costs associated with delivering the federal-aid program, thereby reducing the expenditure of state funds in the process. Although the primary intent may have been to reduce general fund expenditures, the same savings can be realized for other state funds, such as the HSRA.

Figure 8
Impacts of Indirect Cost Recovery
Based on Fiscal 2002 Actual Allotment
(in $ Millions)

	Executive Proposal	Do Not Apply Indirect Cost Reimbursements and Reduced Match to Offset Impacts
Federal-aid allotment to Montana (*for this comparison, federal-aid is held constant*)	$ 281.3	$ 281.3
How the federal funds are spent		
Federal-aid highway construction activities - direct costs		
Direct costs	281.3	243.5
Indirect costs	-	37.8
Total federal-aid highway construction funds	$ 281.3	$ 281.3
State funds spent to match or support highway construction activities		
State match for federal funds (at 87.0 percent federal participation rate on direct costs)	42.0	36.4
Indirect costs	37.8	-
State-funded construction program at minimum for favorable match	10.0	10.0
Total state fund spent to deliver the federal-aid highway construction program	$ 89.8	$ 46.4
Total highway construction program		
Direct construction costs and state match	333.3	289.9
Indirect costs	37.8	37.8
Total highway construction program	$ 371.1	$ 327.7
Summary		
Effective state match rate	24.2%	14.2%
Change in expenditures on direct construction activities		(43.4)
Change in expenditures of state funds		
Federal reimbursement for indirect costs		(37.8)
Savings of state match with indirect costs reimbursed at 100 percent		(5.6)
Total change in expenditures of state funds		$ (43.4)

The following additional background information may be helpful in this deliberation:

- The state has historically received increased allotments of federal-aid funding when federal highway funding legislation is reauthorized. Increased federal funds could be used to offset reductions of state funds without reducing the total highway construction program
- Funding indirect costs with federal funds will reduce federal funds available for direct federal-aid highway construction projects
- Revenues from indirect cost recovery frees state special revenue previously used to fund indirect costs for other purposes
- For fiscal 2002, revenues from maximum indirect cost recovery equals $0.08 of the $0.27 per gallon tax on gasoline
- Higher allotments of federal-aid under a successor to TEA-21 would require increased expenditure of state special revenue as a state match on federal funds
- HSRA structural stability could be adversely impacted by higher levels of federal-aid and higher levels of state-funded construction (see a later discussion of HSRA financial condition)
- A declining HSRA balance could lead to the need for increased revenues through a fuel tax or fee increase in the future

Figure 9
Impacts on Total Highway Construction Expenditures
From Using Indirect Costs and State Match Savings for Other Purposes
(in $ Millions)

Case Reference	Average Federal-Aid Level	Federal-Aid Contruction Program [1]	State Match	State-Funded Construction Program	Indirect Cost Plan	Total Construction Program	Difference from Case 1
Fiscal 2002 Total Highway Construction Program Without Impacts of an Indirect Cost Plan							
Case 1	$ 281.3	$ 281.3	$ 42.0	$ 10.0	$ -	$ 333.3	Reference
Fiscal 2002 Total Highway Construction Program With Impacts of an Indirect Cost Plan							
Case 2	281.3	243.5	36.4	10.0	37.8	289.9	43.5
Case 3	281.3	243.5	36.4	47.8	37.8	327.7	5.6
Case 4	281.3	243.5	36.4	53.5	37.8	333.3	-
Case 5	325.0	281.3	42.0	10.0	43.7	333.4	(0.0)

Funding for Construction

	Federal Funds	State Funds	Effective State Match Rate
Case 1	281.3	52.0	15.6%
Case 2	243.5	46.4	16.0%
Case 3	243.5	84.2	25.7%
Case 4	243.5	89.8	27.0%
Case 5	281.3	52.0	15.6%

[1] Shows the impact of reducing indirect costs from the program

Figure 9 illustrates the impacts on highway construction expenditures between using the indirect costs as proposed by the department and using the indirect costs and the reduced state match requirement for purposes other than highway construction. Case 1, the reference for comparison, shows that for $281.3 million federal-aid and $10.0 million stated-funded construction, total expenditures of $333.3 million would result after the state match was met. Case 2 shows that total expenditures on highway construction would be reduced by $43.5 million at the same levels of federal aid and state-funded construction, by using the indirect costs and the reduced state match for purposes other than highway construction. Cases 3 and 4 show the impact if the indirect cost recovery is spent on highway construction, but Case 3 assumes the reduced state match would be used for other purposes. Finally, Case 5 illustrates that both indirect cost recovery and the reduced state match could be used for other purposes without reducing the total amount of funds spent on highway construction, if the federal-aid level increases to $325.0 million as assumed in the department budget. The bottom section of Figure 9 illustrates how each case would be funded and the effective state match for each case.

Policy Decision

The legislature faces a policy issue as it appropriates funds for the department. Restated, the legislature may want to decide: 1) if it wants to minimize or control the use of state funds while using all federal-aid highway construction funds allotted to Montana; or 2) if it wants to maximize the amount of total funds spent on highway construction while using the same allotment of federal-aid highway construction funds. These competing policy directions will have different implications on the funding profile for the 2005 biennium budget of the department. However, legislative actions would serve to clarify how it wants the department to fund highway construction activities given the requirements to maximize recovery of indirect costs associated with federal grants. Figure 10 shows the highlights of outcomes for the two policy decision options with regard to appropriations for the department.

Figure 10
Highlights of Legislative Policy Options for Funding Highway Construction
(Assumes all Federal-Aid Highway Construction Funds are Used)

Minimize Use of State Funds	Maximize Total Construction Expenditures
o Reduced construction activity o Stabilizes HSRA fund balance o Makes tax reduction possible o Allows use of HSRA on highways or other related activities allowed by the constitution o Frees up general fund for reallocation elsewhere o Federal funds are utilized at the lowest state match rate	o Highway construction is maximized o Requires a high effective state match rate to utilize federal funds o Endangers HSRA fund balance

Approaches to Implement a Legislative Policy Decision

Maximize Total Funds Spend on Construction

If the legislature wants to maximize expenditures on highway construction, it would approve the executive proposal. The legislature would thereby use appropriations to establish spending policies for the department and allow the department flexibility to determine how to fund department activities within the available appropriations, including the use of indirect cost recovery and state match savings due to indirect cost recovery to fund construction costs impacted by federal reimbursements on indirect costs.

Minimize or Control the Use of State Funds on Highway Construction

Adjust Funding and Control Expenditures of State Funds Through Appropriations

If the legislature wants to minimize or control the amount of state funds the department spends to use all federal-aid funding allotted to Montana, it would adjust the funding of the executive proposal to reflect the level of state funds the department could spend on highway construction and fund other functions with HSRA or maintain the fund balance. The legislature would also minimize the flexibility it provided the executive to effect funding changes, such as not approve proposed language or restrict appropriations.

Control Expenditures of State Funds Through Substantive Law

The legislature could also limit or designate how the department uses state funds to finance highway construction activities through substantive law, such as:

- Specify legislative policies for matching federal-aid highway construction fund
- Specify legislative policies for state-funded highway construction

Other Allowable Uses of Highways State Special Revenue

If the legislature wanted to minimize or control the amount of state funds the department spends to use all federal-aid funding allotted to Montana, it could tap the improved HSRA balance to restore stability to the fund and to fund other uses or reduce the level of fees or taxes that provide revenues to the account. The Constitution of the State of Montana is restrictive in the allowable uses of revenues derived from motor fuel taxes and highway user fees. These restrictions limit the use of these revenues solely for expenditures for:

- Construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges
- Enforcement of highway safety
- Driver education
- Tourist promotion
- Administrative collection costs
- Other uses approved by a two-thirds vote of each house of the legislature

Other potential uses that appear to meet the constitutional requirements include:

- Fund tourist promotion or other allowable uses that are currently funded with other sources
- Eliminate the general fund transfer to the HSRA related the HB 124 (2001 legislature) revenue losses to the HSRA
- Delay future potential fuel tax increases or reduce fuel taxes

For example, funding tourist promotion with the HSRA would free up roughly $10 million each year that could be deposited into the general fund or used for other funding purposes. Likewise, eliminating the general fund transfer to the HSRA would improve the general fund by $3.3 million per year.

Because the legislature must make decisions with regard to appropriations of the department with an understanding of their long-term financial implications on the HSRA, the following presents a working capital analyses for: 1) the department budget submission; and 2) an alternative scenario that shows funding available for legislative determination that would maintain a balance of $20 million each year but without using indirect cost reimbursements and the state match savings to offset impacts in the department from the indirect cost recovery plan. These two scenarios are illustrated in Figure 11.

Working Capital Analysis

<u>Assumptions Used in the Working Capital Projections</u>

For determining the account balance the following assumptions were used:

- Actual expenditures for fiscal 2002 were used
- Non-reverted appropriations valid for the remainder of the 2003 biennium were used to forecast expenditures for fiscal 2003
- Agency budget requests were used to estimate expenditures for the 2005 biennium
- Future expenditure levels are shown at the 2005 biennium budget levels with 3 percent annual inflation adjustments
- Revenues for gasoline tax, diesel tax, and gross vehicle weight (GVW) fees are actual levels for fiscal 2002 and revenue estimates from the Revenue and Transportation Committee for fiscal 2003 and the 2005 biennium
- Future revenues are 2005 biennium estimates with inflation adjustments based on Revenue and Transportation Committee growth rates for the 2005 biennium

<u>Working Capital Analysis Results</u>

Figure 11 illustrates a complete working capital analysis of the HSRA based on the department budget submission. In the department budget submission, the revenues and expenditures from the HSRA are not balanced and the account balance would be depleted in fiscal 2007. With the executive proposal, the account is not structurally stable with ongoing expenditures exceeding ongoing revenues by nearly $21 million in the 2005 biennium. Without actions to restore a structural balance, the account balance will be depleted in four years.

However, by not using the indirect cost reimbursements or the state match savings to offset construction reductions that result from using a portion of the federal-aid allotment for indirect cost reimbursements, a working capital balance of $20.0 million could be maintained each year and the legislature would have funds available for use at its discretion. Figure 12 illustrates a comparison between the department budget request and this proposed alternate use of state funds related to indirect cost reimbursements.

As illustrated in Figure 12, if indirect costs were not spent as proposed in the department budget request, the legislature would free up funds that could be used for other purposes such as:

- Maintain structural balance in the account
- Offset all or a portion of the construction reductions that would result from the indirect cost recovery plan
- Reduce or eliminate the general fund transfer to the department
- Fund other allowable uses
- Provide fuel tax or GVW fee reductions

Figure 11

Working Capital Analysis - Highways State Special Revenue Account
Fiscal Years 2002 - 2007
(in $ Millions)
Based on a $325 million federal-aid program when TEA-21 is reauthorized

	Fiscal 2002 Actual	Fiscal 2003 Approp.	Fiscal 2004 Estimate	Fiscal 2005 Estimate	Fiscal 2006 Estimate	Fiscal 2007 Estimate	Fiscal 2008 Estimate	Fiscal 2009 Estimate
Beginning Working Capital Balance	$ 41.1	$ 51.4	$ 31.5	$ 19.8	$ 10.2	$ 0.9	$ (12.8)	$ (30.2)
Revenues								
Gasoline tax	125.9	126.6	127.3	128.0	128.7	129.4	130.1	130.8
Diesel tax	56.1	57.0	57.8	58.7	59.5	60.4	61.3	62.1
Gross vehicle weight fees (GVW)	26.2	26.0	25.7	25.3	25.0	25.0	25.0	25.0
General fund transfer		0.1	3.2	3.3	3.3	3.4	3.4	3.5
Other revenues	5.8	5.4	4.8	4.5	4.2	3.9	3.9	3.9
Revenue deductions								
Alcohol production incentives (15-70-522, MCA)			(1.8)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Ethanol consumption incentives (15-70-204/321, MCA)	-	-	(0.6)	(0.6)	(0.6)	(0.6)	-	-
Total Revenues	$ 214.0	$ 215.0	$ 216.5	$ 213.2	$ 214.2	$ 215.5	$ 217.7	$ 219.4
Expenditures								
Department of Transportation								
General Operations Program	16.2	12.5	14.6	15.0	15.4	15.9	16.4	16.9
Construction Program								
Federal-aid program	55.9	67.0	72.6	62.4	64.3	66.2	68.2	70.2
State-funded construction (minimum for favorable match rate)	1.3	18.5	10.3	10.0	10.0	10.0	10.0	10.0
Department of Transportation request over minimum			2.8	7.4	2.5	2.5	2.5	2.5
Maintenance Program	73.5	77.0	81.3	81.6	84.1	86.6	89.2	91.9
Motor Carriers Services	4.8	5.0	5.2	5.3	5.5	5.6	5.8	6.0
Transportation Planning	1.4	3.1	2.6	2.1	2.2	2.3	2.3	2.4
Less abated expenditures for indirect cost plan	(5.0)	(31.5)	(37.8)	(37.8)	(43.7)	(43.7)	(43.7)	(43.7)
State-funded construction tied to indirect cost reimbursement		31.5	37.8	37.8	43.7	43.7	43.7	43.7
Debt service (bond principle and interest)	13.9	3.8	-	-	-	-	-	-
Total Department of Transportation	$ 161.9	$ 186.9	$ 189.4	$ 183.8	$ 183.9	$ 189.1	$ 194.4	$ 199.8
Statutory Appropriations	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8
Department of Justice	17.6	19.4	19.2	19.3	19.9	20.5	21.1	21.7
Motor Vehicle Division (special session 2002)		6.6						
Long-Range Building Program								
Maintenance and repair of MDT buildings	3.1	3.4	2.0	2.0	2.0	2.0	2.0	2.0
Department of Fish, Wildlife & Parks	0.7	1.8	0.8	0.8	0.8	0.8	0.8	0.8
Total Long-Range Building Program	$ 3.8	$ 5.1	$ 2.8	$ 2.8	$ 2.8	$ 2.8	$ 2.8	$ 2.8
Noxious Weeds	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Expenditures	$ 200.2	$ 234.9	$ 228.2	$ 222.8	$ 223.5	$ 229.2	$ 235.1	$ 241.2
Revenues less expenditures	13.8	(19.9)	(11.7)	(9.6)	(9.3)	(13.7)	(17.4)	(21.9)
Adjustments	(3.5)							
Ending Working Capital Balance	$ 51.4	$ 31.5	$ 19.8	$ 10.2	$ 0.9	$ (12.8)	$ (30.2)	$ (52.1)

Figure 12

Highways State Special Revenue Account
Year End Working Capital Balance
(in $ Millions)

Reference	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Department budget submission							
Working capital balance at the end of each fiscal year	$ 31.5	$ 19.8	$ 10.2	$ 0.9	$ (12.8)	$ (30.2)	$ (52.1)
Effective size of state-funded construction program		56.5	60.8	56.1	56.1	56.1	56.1
Do not use indirect cost reimbursements or state match savings to offset impacts							
Working capital balance at the end of each fiscal year	31.5	20.0	20.0	20.0	20.0	20.0	20.0
Effective size of state-funded construction program		10.3	10.0	10.0	10.0	10.0	10.0
Funding available for legislative discretion		45.9	41.2	36.8	32.4	28.7	24.3

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
2005 Biennium Executive Budget

Agency Program	State Spec.	Fed Spec.	Grand Total	Total %
General Operations Program	$ 29,580,695	$ 18,844,475	$ 48,425,170	4.3%
Construction Program	253,078,125	603,654,349	856,732,474	75.9%
Maintenance Program	162,963,374	20,077,304	183,040,678	16.2%
Motor Carrier Services Div.	10,540,747	-	10,540,747	0.9%
Aeronautics Program	2,850,089	3,600,000	6,450,089	0.6%
Transportation Planning Divisi	5,513,821	18,142,725	23,656,546	2.1%
Grand Total	$ 464,526,851	$ 664,318,853	$ 1,128,845,704	100.0%

Biennium Budget Comparison Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	2,175.71	(12.03)	2,163.68	2,124.53	(12.03)	2,112.50	2,170.16	2,112.50
Personal Services	106,136,008	(529,145)	105,606,863	104,770,565	(533,568)	104,236,997	192,818,907	209,843,860
Operating Expenses	427,730,249	8,673,021	436,403,270	431,863,460	3,820,000	435,683,460	744,430,266	872,086,730
Equipment	1,236,000	0	1,236,000	1,236,000	0	1,236,000	2,843,364	2,472,000
Capital Outlay	12,321,905	0	12,321,905	12,321,905	0	12,321,905	24,639,843	24,643,810
Grants	10,390,325	0	10,390,325	9,357,325	0	9,357,325	31,268,606	19,747,650
Transfers	25,452	0	25,452	25,452	0	25,452	50,902	50,904
Debt Service	375	0	375	375	0	375	12,890	750
Total Costs	**$557,840,314**	**$8,143,876**	**$565,984,190**	**$559,575,082**	**$3,286,432**	**$562,861,514**	**$996,064,778**	**$1,128,845,704**
General Fund	0	0	0	0	0	0	0	0
State/Other Special	221,623,914	478,874	222,102,788	243,180,463	(756,400)	242,424,063	343,542,198	464,526,851
Federal Special	336,216,400	7,665,002	343,881,402	316,394,619	4,042,832	320,437,451	652,522,580	664,318,853
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$557,840,314**	**$8,143,876**	**$565,984,190**	**$559,575,082**	**$3,286,432**	**$562,861,514**	**$996,064,778**	**$1,128,845,704**

New Proposals

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

New Proposals

Program	FTE (Fiscal 2004)	General Fund (Fiscal 2004)	State Special (Fiscal 2004)	Federal Special (Fiscal 2004)	Total Funds (Fiscal 2004)	FTE (Fiscal 2005)	General Fund (Fiscal 2005)	State Special (Fiscal 2005)	Federal Special (Fiscal 2005)	Total Funds (Fiscal 2005)
DP 102 - Integrated Financial Systems										
01	0.00	0	0	4,000,000	4,000,000	0.00	0	0	4,000,000	4,000,000
DP 107 - FTE Reduction										
01	(2.00)	0	(77,334)	0	(77,334)	(2.00)	0	(77,863)	0	(77,863)
DP 108 - Reduction in Contracted Audits										
01	0.00	0	(180,000)	0	(180,000)	0.00	0	(180,000)	0	(180,000)
DP 208 - Local Government Certification										
02	1.00	0	23,114	45,002	68,116	1.00	0	22,065	42,832	64,897
DP 211 - Convert Metric measure to English measure										
02	0.00	0	1,000,000	0	1,000,000	0.00	0	0	0	0
DP 315 - FTE Reduction										
03	(11.03)	0	(516,906)	0	(516,906)	(11.03)	0	(520,602)	0	(520,602)
DP 4001 - Runway Rehab West Yellowstone Airport - Biennial										
40	0.00	0	0	1,800,000	1,800,000	0.00	0	0	0	0
DP 4002 - Runway Rehab Lincoln Airport - Biennial Approp										
40	0.00	0	180,000	1,620,000	1,800,000	0.00	0	0	0	0
DP 5001 - Multimodal Transportation Corridor Tech Assist										
50	0.00	0	50,000	200,000	250,000	0.00	0	0	0	0
Total	**(12.03)**	**$0**	**$478,874**	**$7,665,002**	**$8,143,876**	**(12.03)**	**$0**	**($756,400)**	**$4,042,832**	**$3,286,432**

Language Recommendations

The executive proposes the following language for appropriations of 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 fund types 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 transfers between fund types must be fully explained and justified by budget documents submitted to the office of budget and program planning, and all fund transfers of more than $1 million in any 30-day period must be communicated to the legislative finance committee in a written report."

LFD ISSUE

Language Puts Highways State Special Revenue at Risk

The legislature may wish to consider the following when considering approval of this language that authorizes the executive to switch funding between state and federal appropriations. On the surface it appears as though the language says that state special revenue cannot increase by more than 10 percent for each program. However, since the language states that state special revenue cannot increase by more than 10 percent of the total appropriations for the program the actual allowable increases for state special revenue are in the range from 11 to 43 percent depending on the program. Figure 13 shows how much the state special revenue could increase under the authority of this language. For the Construction Program only, the language would provide authority for the executive to increase state special revenue by $85.7 million for the 2005 biennium.

Figure 13
Potential Impacts on State Special Revenue
Proposed Language to Allow Funding Switches
2005 Biennium Budget Amounts
(in $ Millions)

Program	State Special Revenue	Federal Special Revenue	Total Funds	10 Percent	State Special Revenue Change
General Operations (01)	$ 29.6	$ 18.8	$ 48.4	$ 4.8	16.4%
Construction (02)	253.1	603.7	856.7	85.7	33.9%
Maintenance (03)	163.0	20.1	183.0	18.3	11.2%
Transportation Planning (50)	5.5	18.1	23.7	2.4	42.9%

The legislature may wish to ask the department to identify what factors are outside the control of the department that would justify a need for this type of funding authority and especially the authority to move funding in the levels shown in Figure 13 between state and federal funding.

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

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	161.77	1.00	(2.00)	160.77	1.00	(2.00)	160.77	160.77
Personal Services	6,951,701	1,093,427	(77,334)	7,967,794	1,100,393	(77,863)	7,974,231	15,942,025
Operating Expenses	10,198,521	1,632,295	3,820,000	15,650,816	1,992,322	3,820,000	16,010,843	31,661,659
Equipment	226,118	109,250	0	335,368	109,250	0	335,368	670,736
Grants	75,000	0	0	75,000	0	0	75,000	150,000
Transfers	0	0	0	0	0	0	0	0
Debt Service	375	0	0	375	0	0	375	750
Total Costs	**$17,451,715**	**$2,834,972**	**$3,742,666**	**$24,029,353**	**$3,201,965**	**$3,742,137**	**$24,395,817**	**$48,425,170**
State/Other Special	11,156,774	3,707,715	(257,334)	14,607,155	4,074,629	(257,863)	14,973,540	29,580,695
Federal Special	6,294,941	(872,743)	4,000,000	9,422,198	(872,664)	4,000,000	9,422,277	18,844,475
Total Funds	**$17,451,715**	**$2,834,972**	**$3,742,666**	**$24,029,353**	**$3,201,965**	**$3,742,137**	**$24,395,817**	**$48,425,170**

Program Description

The General Operations Program 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 Narrative

Department of Transportation
General Operations Program
Major Budget Highlights

- Total fund budget increases by $11.6 million or 31.5 percent for the biennium
  - State special revenue funding increases by $5.4 million or 22.4 percent for the biennium
  - Federal special revenue funding increases by $6.2 million or 48.8 percent for the biennium
- An information technology project to integrate financial management systems adds $8.0 million federal funds for the biennium
- Staffing is reduced by 1.00 FTE

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
General Operations Program

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02422 Highways Special Revenue	$ 11,156,774	63.9%	$14,607,155	60.8%	$14,973,540	61.4%
03407 Highway Trust - Sp Rev	6,294,941	36.1%	9,422,198	39.2%	9,422,277	38.6%
Grand Total	$ 17,451,715	100.0%	$24,029,353	100.0%	$24,395,817	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 and gross vehicle weight permit fees. Federal funding is available for assistance for disadvantaged businesses, training, fuel tax evasion prevention efforts, and administrative expenses associated with the federal-aid highway program. Beginning in fiscal 2002, the program began receiving federal reimbursements for indirect costs associated with the federal-aid highway program via a Federal Highways Administration (FHWA) approved indirect cost plan. As such, the base was funded with roughly 64 percent state funds and 36 percent federal funds. This is a change from previous biennia during which state special revenue funded roughly 96 percent of the program.

Present Law Adjustments	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					1,314,573					1,316,718
Vacancy Savings					(330,649)					(330,742)
Inflation/Deflation					6,564					7,396
Fixed Costs					1,815,524					2,174,432
Total Statewide Present Law Adjustments					**$2,806,012**					**$3,167,804**
DP 101 - Subgrant Monitoring / Local Gov't Certification	1.00	0	34,064	0	34,064	1.00	0	33,978	0	33,978
DP 103 - IT Equipment Lifecycle Replacements	0.00	0	109,250	0	109,250	0.00	0	109,250	0	109,250
DP 104 - Overtime and Differential Pay	0.00	0	74,828	611	75,439	0.00	0	79,795	644	80,439
DP 105 - IFTA Dues and Legal Fees	0.00	0	25,000	0	25,000	0.00	0	25,000	0	25,000
DP 109 - Equipment Rental	0.00	0	2,076	0	2,076	0.00	0	2,363	0	2,363
DP 110 - Alternative Pay Plan Conversion	0.00	0	(215,522)	(1,347)	(216,869)	0.00	0	(215,522)	(1,347)	(216,869)
Total Other Present Law Adjustments	**1.00**	**$0**	**$29,696**	**($736)**	**$28,960**	**1.00**	**$0**	**$34,864**	**($703)**	**$34,161**
Grand Total All Present Law Adjustments					**$2,834,972**					**$3,201,965**

Executive Present Law Adjustments

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

<u>DP 101 - Subgrant Monitoring / Local Gov't Certification -</u> An increase of $68,042 state special revenue for the biennium is requested to provide funding for 1.00 FTE in each year to monitor that federal funds granted by the department are administered and spent in accordance with federal regulations.

LFD COMMENT

Local Government Certification Process

The department is implementing a process to certify local governments to develop federal-aid highway projects. Currently, the department develops all projects with input from local governments. Local governments have been pressing the department for more control over highway projects occurring within their jurisdictions. Once certified, local governments would have direct control over project design and delivery and contract administration. The position added through this funding request would monitor the federal funds granted to local governments for compliance with federal regulations.

This local government certification initiative would not necessarily reduce department costs in the future, but would shift categories of expenditures. For example, when agency personnel administer highway projects, personal services and contractor payments are an expense for the department. If a local government administers the project, the department would have grant expenses to the local government for their project costs, such as personal services and payments to contractors.

DP 103 - IT Equipment Lifecycle Replacements - An increase of $218,500 state special revenue for the biennium is requested to establish a four-year replacement schedule for computer network servers and data storage equipment.

DP 104 - Overtime and Differential Pay - Increases of $154,623 state special revenue and $1,255 federal special revenue for the biennium are requested to reestablish base year overtime and differential pay plus associated benefits.

LFD COMMENT

Historical Expenditures

The program has expended an average $81,460 for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended $65,607. With benefits added, the decision package amounts approximate base plus benefits.

DP 105 - IFTA Dues and Legal Fees - An increase of $50,000 state special revenue for the biennium is requested to fund $10,000 in annual dues payments for the International Fuel Tax Agreement (IFTA) and $15,000 annual funding for the fuel tax dispute resolution process to cover costs that occur when disputes go beyond the internal review phase. Fiscal 2002 IFTA dues are not in the base because they were prepaid in fiscal 2001.

DP 109 - Equipment Rental - An increase of $4,439 state special revenue for the biennium is requested to fund the program's share of proposed increases in the department's Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 110 - Alternative Pay Plan Conversion - Reductions of $431,044 state special revenue and $2,694 federal special revenue are recommended to reduce operating expenses to fund the costs of the broadband pay plan increases given during fiscal 2002.

New Proposals

	Fiscal 2004					Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 102 - Integrated Financial Systems										
01	0.00	0	0	4,000,000	4,000,000	0.00	0	0	4,000,000	4,000,000
DP 107 - FTE Reduction										
01	(2.00)	0	(77,334)	0	(77,334)	(2.00)	0	(77,863)	0	(77,863)
DP 108 - Reduction in Contracted Audits										
01	0.00	0	(180,000)	0	(180,000)	0.00	0	(180,000)	0	(180,000)
Total	**(2.00)**	**$0**	**($257,334)**	**$4,000,000**	**$3,742,666**	**(2.00)**	**$0**	**($257,863)**	**$4,000,000**	**$3,742,137**

New Proposals

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

DP 102 - Integrated Financial Systems - An increase of $8.0 million federal special revenue for the biennium is requested to fund an integrated financial management system and common data warehouse. This system would eliminate redundant systems for administering federal-aid highway projects. Current systems often do not interface with each other and often result in entering duplicate data.

DP 107 - FTE Reduction - A reduction of $155,197 state special revenue for the biennium is recommended to eliminate 2.00 FTE positions in the program. The program plans to absorb the duties associated with the eliminated positions with remaining staff.

DP 108 - Reduction in Contracted Audits - A reduction of $360,000 state special revenue for the biennium is recommended to reduce the number of audits that are provided by contracted services. Existing agency staff would perform some of the audits currently being performed by contracted services and audits in other existing audit areas, such as special projects, special fuel users, construction contracts, and internal audits would be a reduced.

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	1,045.09	0.55	1.00	1,046.64	(50.63)	1.00	995.46	995.46
Personal Services	46,102,640	6,681,696	65,095	52,849,431	5,220,784	64,897	51,388,321	104,237,752
Operating Expenses	263,671,706	94,184,216	1,003,021	358,858,943	98,216,647	0	361,888,353	720,747,296
Equipment	800,192	0	0	800,192	0	0	800,192	1,600,384
Capital Outlay	10,112,163	2,141,375	0	12,253,538	2,141,375	0	12,253,538	24,507,076
Grants	2,819,983	0	0	2,819,983	0	0	2,819,983	5,639,966
Debt Service	0	0	0	0	0	0	0	0
Total Costs	**$323,506,684**	**$103,007,287**	**$1,068,116**	**$427,582,087**	**$105,578,806**	**$64,897**	**$429,150,387**	**$856,732,474**
State/Other Special	57,229,272	57,667,559	1,023,114	115,919,945	79,906,843	22,065	137,158,180	253,078,125
Federal Special	266,277,412	45,339,728	45,002	311,662,142	25,671,963	42,832	291,992,207	603,654,349
Total Funds	**$323,506,684**	**$103,007,287**	**$1,068,116**	**$427,582,087**	**$105,578,806**	**$64,897**	**$429,150,387**	**$856,732,474**

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 actual construction. Program responsibilities include such tasks as project design, accessing environmental documents and permits, making right-of-way acquisitions, issuing contract bids, awarding contracts, and administering construction contracts. Contract administration is 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 administers Montana's highway traffic safety functions.

Program Narrative

Department of Transportation
Construction Program
Major Budget Highlights

- Total fund budget increases by $104.2 million or 13.8 percent for the biennium
    - State special revenue funding increases by $18.3 million or 12.4 percent for the biennium, excluding increases for Highway 93 bond proceeds
    - Bond proceeds for Highway 93 adds $87.6 million state special revenue for the biennium to accelerate the Highway 93 project
    - Federal special revenue funding is reduced by $1.8 million or 0.2 percent for the biennium
- Staffing is increased by 1.55 FTE in fiscal 2004 and reduced by 49.63 FTE in fiscal 2005
- $1.0 million of state special revenue is spent to convert engineering documentation and equipment back to the English system of measure from the Metric system of measure
- Highway striping contract administration is moved to the Maintenance Program

Major LFD Issues

- One-time cost to convert back to the English system of measure

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Construction Program

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02422 Highways Special Revenue	$ 57,229,272	17.7%	$ 85,687,945	20.0%	$ 79,778,180	18.6%
02799 Highway 93 Bond Proceeds	-	-	30,232,000	7.1%	57,380,000	13.4%
03407 Highway Trust - Sp Rev	263,518,313	81.5%	308,841,707	72.2%	289,171,486	67.4%
03828 Traffic Safety	2,759,099	0.9%	2,820,435	0.7%	2,820,721	0.7%
Grand Total	$ 323,506,684	100.0%	$ 427,582,087	100.0%	$ 429,150,387	100.0%

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 under the federal transportation funding laws authorized in the Transportation Equity Act for the 21st Century (TEA-21). Construction design, construction, and construction management costs, as well as direct administrative costs for construction activities, are generally eligible for federal reimbursement. The state match requirement is based on a sliding scale match, which is currently 87 percent federal with a 13 percent state match. The program also provides a maintenance-of-effort highway construction program funded entirely with the highways state special revenue. The primary sources of revenue for the highways state special revenue funds are highway-user fees derived from motor fuel taxes and gross vehicle weight fees. Traffic safety functions are generally funded 100 percent with National Highway Traffic Safety Administration grant funds. The exception for traffic safety functions is that a 50 percent state special revenue match is required for roughly 1 percent of the administrative costs.

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					3,594,904					3,621,305
Vacancy Savings					(1,987,916)					(1,988,965)
Inflation/Deflation					2,407					8,187
Fixed Costs					4,587					4,987
Total Statewide Present Law Adjustments					**$1,613,982**					**$1,645,514**
DP 202 - CMS Adjustment	0.55	0	148,410	504,516	652,926	(50.63)	0	(232,823)	(865,919)	(1,098,742)
DP 203 - Landowner Payments	0.00	0	321,206	1,820,169	2,141,375	0.00	0	321,206	1,820,169	2,141,375
DP 204 - Contractor Payments / Federal Aid Construction	0.00	0	8,004,019	49,585,979	57,589,998	0.00	0	4,223,147	26,162,965	30,386,112
DP 206 - US Highway 93	0.00	0	30,232,000	0	30,232,000	0.00	0	57,380,000	0	57,380,000
DP 207 - CMS Aggregate Positions	0.00	0	182,654	379,566	562,220	0.00	0	182,654	379,566	562,220
DP 209 - Contractor Payments / State Construction Program	0.00	0	11,707,531	0	11,707,531	0.00	0	16,034,002	0	16,034,002
DP 210 - Overtime / Differential	0.00	0	1,215,064	3,282,758	4,497,822	0.00	0	1,144,384	3,353,438	4,497,822
DP 212 - Equipment Rental	0.00	0	44,648	108,982	153,630	0.00	0	48,268	126,432	174,700
DP 213 - Roadway Striping	0.00	0	0	(5,000,000)	(5,000,000)	0.00	0	0	(5,000,000)	(5,000,000)
DP 214 - Alternative Pay Plan Conversion	0.00	0	(469,464)	(674,733)	(1,144,197)	0.00	0	(469,464)	(674,733)	(1,144,197)
Total Other Present Law Adjustments	**0.55**	**$0**	**$51,386,068**	**$50,007,237**	**$101,393,305**	**(50.63)**	**$0**	**$78,631,374**	**$25,301,918**	**$103,933,292**
Grand Total All Present Law Adjustments					**$103,007,287**					**$105,578,806**

Executive Present Law Adjustments

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

DP 202 - CMS Adjustment - The department estimates FTE and engineering costs via the Construction Management System (CMS) using standards that apply to the proposed construction plan. This adjustment would fund an increase of 0.55 FTE in fiscal 2004 and a reduction of 50.63 FTE in fiscal 2005, in combination with adjustments for preliminary and construction engineering functions in support of highway construction. The positions associated with this decision package are grade 8, engineering project aides.

DP 203 - Landowner Payments - The executive requests increases totaling nearly $3.6 million federal special revenue and $0.6 million state special revenue for the biennium to bring the base for land payments to the average annual amount that has occurred throughout the life of the Transportation Equity Act for the Twenty-first Century (TEA-21). Land payments support the right-of-way acquisition component of highway construction.

DP 204 - Contractor Payments / Federal Aid Construction - The department estimates when contractor payments will come due as an expenditure based on scheduled delivery of projects contained in the Tentative Construction Program (TCP). The TCP indicates when construction contracts will be let. This information is entered into a computerized management system, the Project Cost Scheduling System (PCS), that uses information including let dates, type of work, and other project criteria necessary to create estimates relative to contractor payments. Based on the PCS, increases are anticipated for contractor payments of nearly $88 million for the 2005 biennium, consisting of $12 million state special revenue and $76 million federal special revenue.

DP 206 - US Highway 93 - The department has accelerated the construction process on US Highway 93 from Evaro Hill to Polson to double the current traffic capacity and address safety problems. Highway revenue bonds would be issued to provide the funding for this accelerated schedule. This request is for $87.6 million state special revenue for the 2005 biennium to provide debt service for the bond issue.

Seven projects are interconnecting to provide the overall US Highway 93 improvement project. These projects are not part of the existing Tentative Construction Plan and are not included in the separate decision package titled Contractor Payments / Federal Aid Construction.

The sale of bonds would provide the funding to construct these projects in three years, whereby it would normally require ten or more years to design and construct projects of this magnitude. Because the highway runs through the Flathead Indian Reservation, the entire cost of the project qualifies for federal funding with no state match. As the bonds mature and are redeemed, the state special revenue would be reimbursed by federal aid from the Federal Highway Administration (FHWA) and the bonds and interest will be paid off. The entire proceeds from the bond issue will be received in fiscal 2004, but the expenditures would occur in fiscal years 2004 through 2006.

DP 207 - CMS Aggregate Positions - The Construction Program has certain organizational units that have aggregate positions (a position with several FTE). The people in these positions vary in experience from entry to those with a lot of experience. Through this process, all FTE in an aggregate position are funded based on the position attributes of the person most recent to the position. In most cases, that person is the lowest paid person in the position. Therefore all the other people in the position are not fully funded. The department uses a system called the Personal Services Budget Management System (PSBM) to compute the actual amount of funding needed to fully fund each person in the position. The PSBM has identified a shortage of just over $1.1 million for the biennium. This request is for $365,308 state special revenue and $759,132 federal special revenue for the biennium to fully fund all aggregate positions in the Construction Program.

DP 209 - Contractor Payments / State Construction Program - Montana receives federal-aid highway construction funding based on a sliding scale match rate, described earlier. The Federal Highway Administration (FHWA) reimburses Montana for 87 percent of qualified expenditure on highway construction projects. The current FHWA reimbursement rate is considered a favorable rate and is only provided if Montana meets a minimum maintenance of effort on federal-aid highways. In order for Montana to retain this favorable rate, it must spend a minimum of $10 million, on average, for each of three successive years in highway construction projects that are fully funded with state funds (state funded construction). In fiscal 2002, state expenditure on state funded construction projects was only $1.3 million. The department anticipates a higher level in fiscal 2003, but to maintain the minimum maintenance of effort and to adjust for a low level of base activity, the department requests an increase of roughly $27.7 million state special revenue for the biennium to fund state funded construction. (For further details, see the related topic of the agency discussion section.)

DP 210 - Overtime / Differential - Increases of $2.4 million state special revenue and $6.6 million federal special revenue for the biennium are requested to reestablish base year overtime and differential pay plus associated benefits.

LFD COMMENT

Historical Expenditures

The program has expended an average $3.6 million for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended $3.9 million. With benefits added, the decision package amounts approximate base plus benefits.

DP 212 - Equipment Rental - Increases of $93,000 state special revenue and $235,000 federal special revenue for the biennium are requested to fund the program's share of proposed increases in the department's Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 213 - Roadway Striping - This request would fund a reduction of $10 million federal special revenue for the biennium to move all pavement-striping contracts of the department, except post-construction striping included in highway construction contracts, to the Maintenance Program.

DP 214 - Alternative Pay Plan Conversion - Reductions of $938,928 state special revenue and $1,349,466 federal special revenue are recommended to reduce operating expenses to fund the costs of the broadband pay plan increases given during fiscal 2002.

New Proposals

	Fiscal 2004					Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 208 - Local Government Certification										
02	1.00	0	23,114	45,002	68,116	1.00	0	22,065	42,832	64,897
DP 211 - Convert Metric measure to English measure										
02	0.00	0	1,000,000	0	1,000,000	0.00	0	0	0	0
Total	**1.00**	**$0**	**$1,023,114**	**$45,002**	**$1,068,116**	**1.00**	**$0**	**$22,065**	**$42,832**	**$64,897**

New Proposals

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

DP 208 - Local Government Certification - This request is for an additional $45,179 state special revenue and $87,834 federal special revenue for the biennium to fund an additional 1.00 FTE along with office equipment and a personal computer. The funding and new staff would support a program to allow local governments to directly receive and administer federal highway funds from Federal Highway Administration (FHWA) for local highway purposes. The program would include the communities of Billings, Great Falls, and Missoula. The staff in this request would monitor the use of these funds to assure all rules and regulations associated with the use of these funds are followed.

DP 211 - Convert Metric measure to English measure - This request is for $1 million state special revenue for the biennium to convert from the Metric system of measure to the English system of measure. This funding would be used to hire a consultant to convert manuals and software programs back to the English measurement system from the metric system the department converted to when required by FHWA in the 1990s and to purchase new construction hardware such as steel tapes, chains, and survey rods.

LFD ISSUE

One-Time Conversion Costs

Once the tasks are completed and equipment is purchased to convert back to the English measurement system, this budget authority would not be needed. The legislature may wish to designate budget authority for these costs as one time only to prevent them from building the base for recurring expenditures.

Language

"Item 2 includes a total of $63,690 for the 2005 biennium for the Montana Natural Resources Information System. Quarterly payments must be made upon receipt of the bills from the state library, up to the total amount appropriated."

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	779.20	0.00	(11.03)	768.17	0.00	(11.03)	768.17	768.17
Personal Services	32,033,711	5,287,409	(516,906)	36,804,214	5,378,430	(520,602)	36,891,539	73,695,753
Operating Expenses	45,454,460	8,975,579	0	54,430,039	9,181,142	0	54,635,602	109,065,641
Equipment	71,275	0	0	71,275	0	0	71,275	142,550
Capital Outlay	13,367	55,000	0	68,367	55,000	0	68,367	136,734
Total Costs	**$77,572,813**	**$14,317,988**	**($516,906)**	**$91,373,895**	**$14,614,572**	**($520,602)**	**$91,666,783**	**$183,040,678**
State/Other Special	73,481,092	8,371,057	(516,906)	81,335,243	8,667,641	(520,602)	81,628,131	162,963,374
Federal Special	4,091,721	5,946,931	0	10,038,652	5,946,931	0	10,038,652	20,077,304
Total Funds	**$77,572,813**	**$14,317,988**	**($516,906)**	**$91,373,895**	**$14,614,572**	**($520,602)**	**$91,666,783**	**$183,040,678**

Program Description
The Maintenance Program is responsible for preserving and maintaining a safe and environmentally sound state highway transportation system and related facilities. Major maintenance activities include patching, repairing, and periodic sealing of highway surfaces; snow removal; and sanding.

Program Narrative

Department of Transportation
Maintenance Program
Major Budget Highlights

- Total fund budget increases by $17.8 million or 10.8 percent for the biennium
  - State special revenue funding increases by $7.9 million or 5.1 percent for the biennium
  - Federal special revenue funding is increased by $9.9 million or 97.2 percent for the biennium
- Staffing is reduced by 11.03 FTE over the biennium
- Highway striping contract administration is moved from the Construction Program
- Maintenance costs for additional paved secondary roads assumed from local governments during the 2003 biennium
- Weather caused low pavement preservation activities in fiscal 2002
- 511 nationwide traveler information system adds costs

Funding
The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Maintenance Program

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02422 Highways Special Revenue	$ 73,481,092	94.7%	$ 81,335,243	89.0%	$ 81,628,131	89.0%
03407 Highway Trust - Sp Rev	4,091,721	5.3%	10,038,652	11.0%	10,038,652	11.0%
Grand Total	$ 77,572,813	100.0%	$ 91,373,895	100.0%	$ 91,666,783	100.0%

The Maintenance Program is primarily funded with highways state special revenue. Federal special revenue also funds a portion of the costs associated with the road reporter functions as well as qualifying highway maintenance activities. For the 2005 biennium, state special revenue would provide roughly 89 percent of the program's funding; federal special revenue provides the remaining 11 percent.

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					4,131,452					4,226,258
Vacancy Savings					(1,446,633)					(1,450,418)
Inflation/Deflation					121,751					140,133
Fixed Costs					(555)					(555)
Total Statewide Present Law Adjustments					**$2,806,015**					**$2,915,418**
DP 301 - Secondary Road Mile Increase	0.00	0	96,540	0	96,540	0.00	0	144,660	0	144,660
DP 302 - Roadway Striping	0.00	0	804,430	5,000,000	5,804,430	0.00	0	804,430	5,000,000	5,804,430
DP 303 - Noxious Weed Control	0.00	0	132,044	0	132,044	0.00	0	134,861	0	134,861
DP 304 - Rest Area Maintenance	0.00	0	179,636	0	179,636	0.00	0	199,097	0	199,097
DP 306 - Overtime and Differential	0.00	0	2,602,590	0	2,602,590	0.00	0	2,602,590	0	2,602,590
DP 307 - Increased Contract Costs	0.00	0	81,588	0	81,588	0.00	0	81,588	0	81,588
DP 308 - Land Purchases	0.00	0	30,000	0	30,000	0.00	0	30,000	0	30,000
DP 309 - Sign Template Stock	0.00	0	165,350	0	165,350	0.00	0	165,350	0	165,350
DP 310 - New Core Drill Building	0.00	0	24,589	0	24,589	0.00	0	24,734	0	24,734
DP 311 - Equipment Rental	0.00	0	850,309	0	850,309	0.00	0	966,947	0	966,947
DP 312 - Pavement Preservation	0.00	0	1,587,602	0	1,587,602	0.00	0	1,587,602	0	1,587,602
DP 313 - Travelers Information Service	0.00	0	180,000	0	180,000	0.00	0	180,000	0	180,000
DP 314 - Training	0.00	0	31,714	0	31,714	0.00	0	31,714	0	31,714
DP 316 - Travel Reduction	0.00	0	(69,985)	0	(69,985)	0.00	0	(69,985)	0	(69,985)
DP 317 - Alternative Pay Plan Conversion	0.00	0	(184,434)	0	(184,434)	0.00	0	(184,434)	0	(184,434)
Total Other Present Law Adjustments	**0.00**	**$0**	**$6,511,973**	**$5,000,000**	**$11,511,973**	**0.00**	**$0**	**$6,699,154**	**$5,000,000**	**$11,699,154**
Grand Total All Present Law Adjustments					**$14,317,988**					**$14,614,572**

Executive Present Law Adjustments

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

DP 301 - Secondary Road Mile Increase - This request increases state special revenue by $241,200 for the biennium to purchase materials to maintain additional paved secondary roads transferred from the counties to the state under the guidelines provided in 60-2-203, MCA. Under this authority, the department would assume maintenance responsibilities for just over 32 additional lane miles in fiscal 2004 and 48 lane miles in fiscal 2005. Materials that would be purchased include such items as traffic paint, winter materials, replacement signs, and sand.

LFD COMMENT

Windfall for Counties

On January 1, 2001, the department assumed maintenance responsibility for paved secondary roads of the state. Prior to this assumption, county governments, with county funding, maintained these roads. Currently and prior to this transfer of maintenance responsibilities, counties received an allocation of $6.3 million from fuel tax revenues to help fund county road maintenance costs. When the department assumed the maintenance responsibility for these roads, the amount of fuel tax revenues was not changed. Since assuming the maintenance responsibility for these roads, the department has spent $10.7 million in fiscal 2001 and $9.8 million in fiscal 2002 on associated maintenance costs. Each year henceforth the department would continue to assume more roads as unpaved secondary roads are paved by the counties. As with this request, these additional roads maintained by the department would be a factor for higher maintenance costs.

DP 302 - Roadway Striping - This request for $10.0 million federal special revenue and $1.6 million state special revenue for the biennium would allow the Maintenance Program to assume all pavement striping activities currently being done by the Construction Program and would adjust the base for striping activities that were planned but deferred until fiscal 2003 due to wet spring weather. This funding would allow the Maintenance Program to manage all pavement-striping contracts of the department, except post-construction striping included in highway construction contracts.

DP 303 - Noxious Weed Control - This request for an additional roughly $267,000 state special revenue for the biennium would fund noxious weed control measures along additional paved secondary road rights-of-way originally transferred from the counties to the state under the authority of 60-2-203, MCA.

DP 304 - Rest Area Maintenance - The executive requests an additional nearly $379,000 state special revenue for the biennium to address cost increases experienced when renewing or replacing area maintenance contracts.

LFD COMMENT

Contract Cost Increase and Full-Time Operations

The department has seen significant increases in rest area maintenance contract costs as the contracts for rest area janitorial and maintenance have been rebid. Contract increases of more than 25 percent are common. Previous concerns with the quality of rest area services have caused the department to tighten the contract specifications and standards. These more stringent standards along with the remote locations for many of the rest areas are factors for the cost increases. A performance audit of the rest area maintenance program is currently under way, but a final report has not been prepared. This audit may provide further insight to this program and will be available to the legislature when complete.

DP 306 - Overtime and Differential - An increase of $5.2 million state special revenue for the biennium are requested to reestablish base year overtime and differential pay plus associated benefits.

LFD COMMENT

Historical Expenditures

The program has expended an average $2.2 million for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended nearly $2.3 million. With benefits added, the decision package amounts approximate base plus benefits.

DP 307 - Increased Contract Costs - An increase of just over $163,000 state special revenue for the biennium is requested to address cost increases encountered when existing contracts are renewed for radio site land rent and for janitorial and cleaning contracts at the Helena headquarters facility and district facilities.

DP 308 - Land Purchases - An increase of $60,000 state special revenue for the biennium is requested to purchase land for facility sites associated with Long-Range Building Program facilities.

LFD COMMENT - Long-Range Building Program Facilities History
As part of the Long-Range Building Program (LRBP), the legislature has typically funded capital construction projects that would necessitate land purchase. For example, the 1999 legislature approved $2.1 million to construct equipment storage buildings and replace the Helena headquarters building and the 2001 legislature approved $2.3 million to construct equipment storage buildings across the state. The land purchases in this request would support similar projects included in the LRBP for approval by the 2003 legislature. The department has typically purchased the land for these structures prior to approval of the capital funding.

DP 309 - Sign Template Stock - This request would increase state special revenue by nearly $331,000 for the biennium to replace sign template stock that has been depleted. This stock is used to replace old or damaged signs on state highways.

DP 310 - New Core Drill Building - An increase of just over $49,000 state special revenue for the biennium is requested to purchase janitorial and maintenance supplies for the new core drill building approved by the 2001 legislature in the Long-Range Building Program. The funding increase would also provide for increased utility costs for the new building, such as gas, electricity, and water.

DP 311 - Equipment Rental - An increase of $1.8 million state special revenue for the biennium is requested to fund the program's share of proposed increases in the department's Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 312 - Pavement Preservation - An increase of roughly $3.2 million state special revenue for the biennium is requested to adjust the base for pavement preservation activity that was below the planned level due to contract delays related to a wet spring construction season during the base year.

LFD COMMENT Typical Pavement Expenditures
The average annual expenditures for pavement preservation have been roughly $10 million for fiscal years 2000 through 2002. Fiscal 2002 was roughly $8 million, or $2 million below the three-year average.

DP 313 - Travelers Information Service - An increase of $360,000 state special revenue is requested for the state match associated with the 511 travelers information service that will start operating in 2003.

LFD COMMENT 511 Travelers Information Service
The 511 travelers information service is part of a nationwide effort to streamline traveler information. This new service would replace the existing road reporting toll-free telephone system and is scheduled to be implemented by the end of calendar 2002.

DP 314 - Training - An increase of $63,428 state special revenue is requested to provide training associated with the career ladder union agreement.

DP 316 - Travel Reduction - The executive is recommending a reduction of $140,000 state special revenue for the biennium to bring the Maintenance Program travel back to the 2003 biennium travel budget level.

DP 317 - Alternative Pay Plan Conversion - A reduction of $368,868 state special revenue is recommended to reduce operating expenses to fund the costs of the broadband pay plan increases given during fiscal 2002.

New Proposals										
	Fiscal 2004					Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 315 - FTE Reduction										
03	(11.03)	0	(516,906)	0	(516,906)	(11.03)	0	(520,602)	0	(520,602)
Total	**(11.03)**	**$0**	**($516,906)**	**$0**	**($516,906)**	**(11.03)**	**$0**	**($520,602)**	**$0**	**($520,602)**

New Proposals

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

DP 315 - FTE Reduction - The executive recommends a reduction of roughly $1 million state special revenue for the biennium or the equivalent of 11.03 FTE in each year. The FTE reduction is based on a needs survey conducted by the program in fiscal 2002.

LFD COMMENT

Stated Objectives of Needs Assessment

The department conducted an internal review of the Maintenance Program with the following objectives stated in the final report:

- To provide an in-depth analysis of current operations
- To make decisions on staffing, equipment, and facility needs to enhance operations based on valid data
- To provide a better quality assurance to our customers, reduce overtime, and enhance utilization of staff, equipment, and facilities
- To ensure the Maintenance Operation is staffed and equipped in the most cost effective manner

The final report, available from the department, was used to determine the staffing needs for the Maintenance Program and was used as the basis for the staffing reductions contained in this recommendation.

Proprietary Rates

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.

Other Options to Use of the Program

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. Other options for 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. State law encourages use of the program through a reimbursement rate for use of personal vehicles for state business travel that is set at 52 percent of the low mileage rate allowed by the United States Internal Revenue Services unless a State Motor Pool vehicle is not available.

Significant Program Growth

The program has increased from 318 units in fiscal 1994 to 783 in fiscal 2002. During that time, annual mileage increased from 4.1 million to 11.1 million miles. This growth in the number of vehicles and miles traveled is largely due to the practice of the Office of Budget and Program Planning stipulating agencies to lease new vehicles from the State Motor Pool instead of directly purchasing vehicles.

LFD ISSUE

Motor Pool is Growing But Non-Motor Pool Vehicle Costs are Not Decreasing

A 1996 Legislative Audit Division audit of statewide vehicle maintenance identified a concern that vehicles were not being maintained or managed in a consistent and reliable manner. Following this audit finding, the executive began an initiative to expand the State Motor Pool outstation lease program by not approving budget requests for agencies to purchase new agency owned vehicles, but to lease vehicles from the State Motor Pool.

As stated below, the State Motor Pool fleet has grown by more than 2.5 times its fiscal 1994 size. With this growth of the motor pool and the initiative of the executive, it would be expected that purchases of vehicles by state agencies would decline as a result. However, from fiscal 2000 through fiscal 2002, the amount of all funds expended to purchase and operate automobiles and trucks has remained constant at more than $4.0 million per year and has even increased by $0.5 million in fiscal 2002.

With legislative concern over state employee travel, as evident by travel-related budget reductions to agency budgets during the last several legislatures, it might wish to establish some type of policy to govern the purchase, management, and use of state vehicles.

Options the legislature might consider to identify how vehicles are being purchased, managed, and used by state agencies include:

- An audit of statewide vehicle ownership, management, and use
- A required report to an appropriate legislative committee to be used to develop recommendations of legislative policies for when agencies may purchase vehicles, how vehicles should be managed and maintained, and how state vehicles may be used to conduct state business
- Take no action

Revenue Description

Revenue is generated through vehicle rental fees and from the gain on sale of surplus assets. Vehicle rental fees provide roughly 98 percent of the revenue for the program. Rental fee revenues are functionally tied to the travel requirements of various user agencies. The program also receives revenue from accident damages reimbursed by private individuals or insurance companies. These damage reimbursement revenues generally cover only the expenses to repair the damage.

Vehicle rental fees come from two service classes: 1) short-term rentals and 2) long-term leases. Short-term rentals serve agency personnel generally located in the Helena area who need to travel to other state locations and return to Helena at the culmination of the travel event. Long-term leases serve agencies with personnel housed in offices in Helena and in other parts of the state and who frequently travel as a normal part of their work assignments. Long-term vehicles are typically housed and managed out of using agency office locations and only returned to the State Motor Pool facilities for maintenance or reassignment.

Expense Description

The State Motor Pool is responsible for expenses associated with the acquisition, repair, maintenance, and routine operating costs for the fleet, including funding for 6.00 FTE. The program pays all costs directly associated with vehicle operations, including liability insurance. The State Motor Pool is reimbursed for costs directly attributable to operator abuse and accident costs caused by an outside party. User agencies can pay for optional full coverage insurance costs associated with employee use of State Motor Pool vehicles. The cost of this supplemental insurance in not included in the State Motor Pool rate structure.

The majority of the costs of the program are fixed costs, as they cannot be traced directly to specific miles driven by State Motor Pool vehicles. Fixed costs are supported by the assigned rates allocated to the seven classes of vehicles. Indirect costs are made up primarily of overhead costs and are allocated equally to all units of the fleet. The motor pool management system tracks direct costs and allocates them to the particular unit class the costs apply. Direct costs, such as gasoline, oil, and tires, are supported by the usage rates for all seven classes of vehicles. The program has included a 3 percent annual increase when projecting costs for vehicle purchase and operating costs.

The program uses loans from the Board of Investments (BOI) to fund vehicle purchases. Interest rates on BOI loans are adjusted annually and vary from one purchase cycle to the next. The outstanding loan balance and interest and principal payments have the greatest impacts on motor pool rental rates and are supported by the assigned time rate because of their indirect nature.

Working Capital Discussion

Rental rates are set to recover sufficient revenue to meet loan principal and interest payments, and operating costs, and to allow maintaining no more than a 60-day working capital balance. If the program does not generate sufficient revenue to make interest and principal payments, a short-term loan would be requested or assets would be sold to satisfy the loan obligations. The program billing and payment cycles support the accumulation of a 60-day working capital balance. User agencies are billed monthly and payments are requested to pay for services by the end of the next month. This allows the program to make monthly expense payments and accumulate adequate working capital to pay quarterly interest payments on the BOI loans and the annual payment on loan principal. The program was not able to attain an adequate working capital level during the base year. The program has included a factor to increase the working capital balance in the 2005 biennium rate request.

Fund Equity and Reserve Fund Balance

The program rents vehicles for use by other state government entities. The number of vehicles in the program has grown to 783 vehicles, nearly 2.5 times the 1994 fleet size. Because of this growth and federal regulations, the program has needed to borrow funds to purchase new vehicles. As such, the balance sheet for the program has $13.8 million in equipment assets with vehicles comprising nearly 100 percent of total assets. The equipment assets are depreciated to nearly 30 percent of their cost, for a book value of $9.6 million financed by $7.7 million of long-term debt. The resultant fund equity is $2.1 million or 15.2 percent of total assets. An adjustment to decrease the fund equity balance is included in the rates. The adjustment is for net income gains from 1998 to 2002. The adjustment has the effect of reducing rates and is applied equally for both years of the 2005 biennium. The table titled "Report on Internal Service and Enterprise Funds, 2005 Biennium" shows the financial profile for the operation of the State Motor Pool for the 2001 through 2005 biennia.

Rate Explanation

The State Motor Pool rental rates are based on a two-tiered structure. Users pay a usage rate and an assigned rate. The usage rate is charged for actual miles driven and allows the program to recover costs directly related to the operation of the vehicle, such as repair labor and parts, fuel, lubricants, tires, and tubes. The assigned rate allows the program to cover fixed costs associated with state ownership, such as insurance, principal and interest payments on BOI loans, depreciation, and other indirect expenses. The two-tiered rate structure first used in the 2003 biennium provides: 1) a stable revenue to pay loan payments and other cost obligations; and 2) equity among all vehicles classes so that one vehicle class does not subsidize another vehicle class.

The motor pool management system cost history for the two-tiered rate related to direct and indirect costs for each vehicle class was used to project final costs for the 2003 biennium and budgeted costs for the 2005 biennium. For the 2005 biennium, projected costs were adjusted for: 1) anticipated additional lease vehicles purchases; 2) anticipated interest rate increases; and 3) cost inflation of 3 percent.

The rates using the two-tiered structure are applied as follows for the two components of the State Motor Pool:

Daily rental:

Cost (per occurrence) = (HR x AR) + (AM x MR),

Out-stationed lease:

Cost (annual) = (2920 x AR) + (AM x MR),

where:
HR = 8 hours for each day the vehicle is checked out from the motor pool, including weekends;
AR = per hour assigned rate;
AM = actual miles traveled
MR = per mile operated rate.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06506	Motor Pool	54010	Dept. of Transportation	Maintenance

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	3,430,021	3,586,262	3,642,836	3,756,000	4,076,480	4,557,277
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	803	3	-	-	-
Total Operating Revenues	3,430,021	3,587,065	3,642,839	3,756,000	4,076,480	4,557,277
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	3,430,021	3,587,065	3,642,839	3,756,000	4,076,480	4,557,277
Operating Expenses:						
Personal Services	204,463	204,104	249,998	254,309	259,744	259,783
Other Operating Expenses	2,787,532	3,113,763	2,948,220	3,139,232	4,246,736	4,727,494
Miscellaneous, operating	4,244	2,876	6,466	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	2,996,239	3,320,743	3,204,684	3,393,541	4,506,480	4,987,277
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	2,996,239	3,320,743	3,204,684	3,393,541	4,506,480	4,987,277
Operating Income (Loss)	**433,782**	**266,322**	**438,155**	**362,459**	**(430,000)**	**(430,000)**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(17,713)	(101,234)	22,997	10,000	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(17,713)	(101,234)	22,997	10,000	-	-
Income (Loss) Before Operating Transfers	416,069	165,088	461,152	372,459	(430,000)	(430,000)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	1,965,532	1,953,875	2,118,963	2,580,115	2,952,574	2,522,574
Net Income (Loss)	416,069	165,088	461,152	372,459	(430,000)	(430,000)
Retained Earnings/Fund Balances - June 30	**2,381,601**	**2,118,963**	**2,580,115**	**2,952,574**	**2,522,574**	**2,092,574**
60 days of expenses (Total Operating Expenses divided by 6)	499,373	553,457	534,114	565,590	751,080	831,213

For the 2005 biennium, the State Motor Pool requests legislative approval of the rates shown in Figure 7A.

Figure 7A
State Motor Pool Base and 2005 Biennium Requested Rates

		Fiscal 2002		Fiscal 2004		Fiscal 2005	
Class	Description	Assigned (per hr)	Usage (per mile)	Assigned (per hr)	Usage (per mile)	Assigned (per hr)	Usage (per mile)
2	Small Utilities	$ 1.597	$ 0.022	$ 2.040	$ 0.098	$ 2.211	$ 0.098
4	Large Utilities	2.116	0.056	2.251	0.099	2.469	0.099
6	Mid-Size Compact	1.501	0.054	1.370	0.067	1.516	0.067
7	Small Pickups	1.270	0.030	1.123	0.110	1.243	0.110
11	Large Pickups	1.832	0.056	1.284	0.123	1.451	0.123
12	Van, All Types	1.449	0.071	1.372	0.134	1.476	0.134

LFD COMMENT

Perspective on Rate Changes

Figure 7B shows the changes from the fiscal 2002 rates to the requested rates. The changes in assigned time rates, for the most part, are offsetting. The rates for some vehicle classes increase while rates for other vehicle classes decline by roughly similar amounts and percentages. Alarm could be raised when observing the increases associated with usage rates for all vehicles. A significant cause for this increase between the fiscal 2002 rates and the rates requested for the 2005 biennium is an error in the development of the HB 2 rate tables during the 2001 legislature.

Figure 7B

Changes from State Motor Pool Base Rates

		Fiscal 2004				Fiscal 2005			
		Assigned		Usage		Assigned		Usage	
Class	Description	(per hr)	% change	(per mile)	% change	(per hr)	% change	(per mile)	% change
2	Small Utilities	$ 0.443	27.7	$ 0.076	345.5	$ 0.614	38.4	$ 0.076	345.5
4	Large Utilities	0.135	6.4	0.043	76.8	0.353	16.7	0.043	76.8
6	Mid-Size Compact	(0.131)	(8.7)	0.013	24.1	0.015	1.0	0.013	24.1
7	Small Pickups	(0.147)	(11.6)	0.080	266.7	(0.027)	(2.1)	0.080	266.7
11	Large Pickups	(0.548)	(29.9)	0.067	119.6	(0.381)	(20.8)	0.067	119.6
12	Van, All Types	(0.077)	(5.3)	0.063	88.7	0.027	1.9	0.063	88.7

The General Government and Transportation Subcommittee recommended a set of rates different than those contained in the Executive Budget because the rates in the Executive Budget were in error. However, during the preparation of the narrative for the rates that were submitted to the Appropriations Committee, the rates in the Executive Budget were included instead of the revised rates. As such, the Appropriations Committee inadvertently approved rates that were lower than those recommended by the General Government and Transportation Subcommittee and not sufficient to recover costs commensurate with the State Motor Pool operations. The legislature and the Governor subsequently approved these erroneous rates. The State Motor Pool has been limited to the lower rates during the 2003 biennium. Figure 7C shows the rates approved by the General Government and Transportation Subcommittee of the 2001 legislature and the corresponding change from these rates had they been approved by the legislature. Only the usage rates are shown because they were the only rates affected by the error.

Figure 7C

Changes from State Motor Pool Base Rates

Error Compensated

		Usage		Usage	
Class	Description	(per mile)	% change	(per mile)	% change
2	Small Utilities	$ (0.006)	(5.8)	$ (0.006)	(5.8)
4	Large Utilities	(0.005)	(4.8)	(0.005)	(4.8)
6	Mid-Size Compact	(0.005)	(6.9)	(0.005)	(6.9)
7	Small Pickups	0.002	1.9	0.002	1.9
11	Large Pickups	0.015	13.9	0.015	13.9
12	Van, All Types	0.026	24.1	0.026	24.1

Significant Present Law Adjustments

The executive requests two present law adjustments that would increase biennium expenses by $5.7 million and contribute to rate changes for the State Motor Pool: 1) purchase vehicles; and 2) adjust for fuel for new vehicles being added to the fleet.

Purchase Vehicles

The executive proposes to purchase 273 vehicles in fiscal 2004 and 194 vehicles in fiscal 2005. In fiscal 2004, 226 of the vehicles would be to replace vehicles that would reach the end of their economic lives at the time of vehicle purchase. Likewise, 164 vehicles would be replaced in fiscal 2005. Other vehicles purchased, 47 in fiscal 2004 and 30 in fiscal 2005, would be used to increase the out-stationed vehicle fleet to satisfy statewide vehicle needs for long-term leases in agencies instead of each agency individually purchasing and managing new vehicles. This vehicle acquisition would increase program expenses by $5.1 million during the biennium. This adjustment is the primary factor for the changes in the assigned time rates for the 2005 biennium.

Adjust for Fuel for New Vehicles

The executive requests an increase of just over $581,000 to fund fuel purchases for the daily use fleet. Since fuel is a variable cost dependant on usage of State Motor Pool vehicles, this adjustment is the primary factor driving the usage rate changes for the 2005 biennium.

Proprietary Rates

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. Other programs of the Department of Transportation are the exclusive users of the fleet. Costs for the program are financed through rental fees charged to user programs.

Program Growth

The program has increased the fleet size over the last two biennia due to: 1) increased federal-aid highway construction funding; and 2) the assumption of secondary roads by the department. At fiscal year end 1997, the program had 4041 units operated for more than 20 million miles per year. At the end of fiscal 2002, the fleet had grown to 4609 units operated for nearly 23 million miles.

Revenue Description

Revenue is generated through the vehicle and equipment rental fees and from the gain on sale of surplus assets. Rental fees provide the majority of the revenue for the program. Revenues for the fleet are functionally tied to the severity of the winters, construction program workload, and travel requirements of the various programs using the equipment. As such, annual mileage and hours of usage can vary significantly. The program anticipates an increase in miles of travel and hour of usage due to the department's goal of improving the service to the traveling public. The rental rates would be set to cover anticipated increased expenses for fuel, cutting edges for snowplows, and repair parts that result from increased usage.

Expense Description

The program is responsible for expenses associated with the acquisition, repair, maintenance, and routine operating costs for the fleet, including funding for 122.00 FTE. The program pays all costs directly associated with vehicle and equipment operations, including liability insurance and fuel. The Equipment Program is reimbursed for accident costs caused by an outside party and is reimbursed for any warranty work completed by department personnel.

Indirect costs or costs that cannot be traced directly to specific usage of the vehicles and equipment are supported by the assigned rates and are allocated to each of the equipment fleet class and subclass. Direct costs or costs that can be traced directly to a particular unit use include fuel, oil, and tires and are supported by usage rates. Indirect costs consist mainly of overhead costs and are allocated equally to all units of the fleet. The equipment management system tracks direct costs and allocates them to the particular unit class the costs apply.

Working Capital Discussion

Equipment rental rates are set to recover sufficient revenue to purchase assets, cover normal operating expenses, and maintain no more than a 60-day working capital balance. Revenue is generated through rental rates, gain on sale of surplus assets, and damage settlements. The primary source of revenue is from user rental fees charged for the use and possession of vehicles and equipment. Rental fees are based on a dual rate structure for actual miles driven (usage rate) and a possession rate (assigned rate). Actual miles of travel and hours of usage are reported biweekly and billings are generated on the same schedule as payrolls. Approximately $700,000 in rental revenue is generated every two weeks. Rental revenue varies with the season, weather conditions, and workloads. Auction revenue varies depending on the number and types of units being sold. The program also receives incidental revenues for accident damages that are reimbursed by private individuals or insurance companies. The amount generally covers the expenditures to repair the damage. If the program does not generate sufficient revenue to meet these obligations then the program would either liquidate assets or receive a loan.

Fund Equity and Reserved Fund Balance

The fund equity balance shows an increase due primarily from the increased fleet size that resulted when the department assumed maintenance responsibility for paved secondary roads. Revenues are anticipated to equal operation expenses and the working cash is projected to be less than the 60 days maximum allowable by the end of each fiscal year. In each fiscal year since 1999, federal money has been available to purchase equipment. The equipment is then donated to the Equipment Program and the donated equipment contributes to the increase in the fund equity balance. With this federally funded equipment, the Equipment Program is obligated to maintain the equipment and will replace the units when their life cycles and costs dictate replacement. The table titled "Report on Internal Service and Enterprise Funds, 2005 Biennium" shows the financial profile for the operation of the State Motor Pool for the 2001 through 2005 biennia.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06508	Highway Equipment	54010	Dept. of Transportation	Equipment

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	15,565,650	16,838,910	18,693,334	19,568,198	19,425,281	19,567,161
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	2,015	77,899	211	-	-	-
Total Operating Revenues	15,567,665	16,916,809	18,693,545	19,568,198	19,425,281	19,567,161
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	15,567,665	16,916,809	18,693,545	19,568,198	19,425,281	19,567,161
Operating Expenses:						
Personal Services	4,919,823	4,990,443	5,117,161	5,504,741	5,726,546	5,744,987
Other Operating Expenses	11,934,853	12,592,577	12,102,443	13,964,574	14,048,735	14,172,174
Miscellaneous, operating	144,006	159,024	146,700	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	16,998,682	17,742,044	17,366,304	19,469,315	19,775,281	19,917,161
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	16,998,682	17,742,044	17,366,304	19,469,315	19,775,281	19,917,161
Operating Income (Loss)	**(1,431,017)**	**(825,235)**	**1,327,241**	**98,883**	**(350,000)**	**(350,000)**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	120,633	138,919	393,925	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	120,633	138,919	393,925	-	-	-
Income (Loss) Before Operating Transfers	(1,310,384)	(686,316)	1,721,166	98,883	(350,000)	(350,000)
Contributed Capital	7,138,843	14,288,525	-	-	-	-
Operating Transfers In (Note 13)	-	-	612,216	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	39,696,285	36,353,086	49,955,295	52,288,677	52,387,560	52,037,560
Net Income (Loss)	5,828,459	13,602,209	2,333,382	98,883	(350,000)	(350,000)
Retained Earnings/Fund Balances - June 30	**45,524,744**	**49,955,295**	**52,288,677**	**52,387,560**	**52,037,560**	**51,687,560**
60 days of expenses (Total Operating Expenses divided by 6)	2,833,114	2,957,007	2,894,384	3,244,886	3,295,880	3,319,527

Cash Flow Discussion

The Equipment Program serves only other programs of the Department of Transportation. The cash flow is dependent on rental revenue and auction proceeds. If Montana experiences a harsh winter season, usage is higher and correspondingly rental revenues are higher. The Equipment Program cash balance is generally less than the allowable 60-day maximum. With less than 60-day cash the program, at times, does not have sufficient cash to cover obligations due at the beginning of each fiscal year. One significant expense that is paid at the beginning of the year is liability insurance paid to the Department of Administration Risk Management and Tort Claims Division for vehicle insurance. When needed for cash flow purposes, the program negotiates, at no interest, an inter-entity loan from the highway state special revenue account. The loan is repaid when rental revenues have generated enough cash to pay ongoing cash obligations.

Proprietary Rate Explanation

The rental rates are based on a two-tiered rate structure. Equipment 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 or hours used and is designed to recover direct costs such as labor, parts, fuel, lubricants, tires and tubes. The assigned rate is designed to recover fixed costs such as insurance, depreciation, and indirect costs. Rental rates are adjusted each year based on the previous year operating experience. 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 program's financial position also is considered in the rate development process in order to maintain a cash balance that will not exceed the 60-day maximum cash balance requirement. The program is requesting that the legislature not approve specific rental rates for each piece of equipment or equipment class, but a program operating parameter that limits the program from charging rental rates that collect more than 60 days of working capital. The effects of rate changes are only felt by programs internal to the Department of Transportation, which are funded primarily through legislative appropriations.

Significant Present Law Adjustments

The executive requests two present law adjustments that would increase biennium expenses by $1.9 million and contribute to rate changes for the Equipment Program: 1) equipment replacement increase; and 2) fleet management system.

Equipment Replacement Increase

The executive recommends an increase of roughly $1.8 million for the biennium to replace existing equipment that would be at the end of their economic lives and fully depreciated when replaced.

Because the program has roughly 4,600 individual units funded with more than 200 separate rental rates and because the program has requested rates based on a maximum working capital philosophy, the impacts this adjustment would have on the individual rates are not determinable. However, this adjustment is equivalent to a 5 percent annual increase in net operating expenses over the base year and would be funded through the assigned rates.

Fleet Management System

The executive recommends an increase of $100,000 for the biennium to provide enhancements to the existing fleet management system. This request would convert the software coding to a common data structure and code hierarchy to aid in management of system data.

As stated, the impacts this adjustment would have on the individual rates are not determinable because of the large number of individual rates. However, this adjustment is equivalent to a 0.2 percent annual increase in net operating expenses over the base year and would be funded through the assigned rates.

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	111.50	0.00	0.00	111.50	0.00	0.00	111.50	111.50
Personal Services	3,980,544	478,753	0	4,459,297	472,510	0	4,453,054	8,912,351
Operating Expenses	795,104	(6,765)	0	788,339	44,953	0	840,057	1,628,396
Total Costs	**$4,775,648**	**$471,988**	**$0**	**$5,247,636**	**$517,463**	**$0**	**$5,293,111**	**$10,540,747**
State/Other Special	4,775,648	471,988	0	5,247,636	517,463	0	5,293,111	10,540,747
Total Funds	**$4,775,648**	**$471,988**	**$0**	**$5,247,636**	**$517,463**	**$0**	**$5,293,111**	**$10,540,747**

Program Description

The Motor Carrier Services Division enforces state and federal commercial motor carrier laws including laws on vehicle size and weight, insurance, licensing, fuel, and vehicle and driver safety. The Licensing and Permit Bureau registers interstate fleet vehicles, issues commercial vehicle licenses, issues 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.

Program Narrative

Department of Transportation
Motor Carrier Services Division
Major Budget Highlights

- State special revenue increases by $521,000 or 5.2 percent for the biennium
- Increased credit card usage to pay for fees increases costs

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Motor Carrier Services Div.

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02422 Highways Special Revenue	$ 4,775,648	100.0%	$ 5,247,636	100.0%	$ 5,293,111	100.0%
Grand Total	$ 4,775,648	100.0%	$ 5,247,636	100.0%	$ 5,293,111	100.0%

The Motor Carrier Services Division is fully funded by the highways state special revenue fund, which receives revenue from highway user fees such as motor fuel taxes and gross vehicle weight fees.

Present Law Adjustments

	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					513,236					506,738
Vacancy Savings					(179,757)					(179,502)
Inflation/Deflation					6,693					7,374
Fixed Costs					0					0
Total Statewide Present Law Adjustments					**$340,172**					**$334,610**
DP 2201 - Wyoming/Montana Joint Port Project	0.00	0	0	0	0	0.00	0	50,000	0	50,000
DP 2202 - Overtime and Differential Pay	0.00	0	145,274	0	145,274	0.00	0	145,274	0	145,274
DP 2203 - Increased Credit Card Usage	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000
DP 2204 - Equipment Rental	0.00	0	7,558	0	7,558	0.00	0	8,595	0	8,595
DP 2205 - Alternative Pay Plan Conversion	0.00	0	(41,016)	0	(41,016)	0.00	0	(41,016)	0	(41,016)
Total Other Present Law Adjustments	**0.00**	**$0**	**$131,816**	**$0**	**$131,816**	**0.00**	**$0**	**$182,853**	**$0**	**$182,853**
Grand Total All Present Law Adjustments					**$471,988**					**$517,463**

Executive Present Law Adjustments

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

DP 2201 - Wyoming/Montana Joint Port Project - An increase of $50,000 state special revenue in fiscal 2005 is requested to train the Wyoming officers to enforce Montana's commercial vehicle laws on Montana's behalf once a new weigh station is completed along Interstate 90 on the Wyoming side of the border with Montana.

LFD COMMENT

Joint Weigh Station Operated by Wyoming

The Montana Department of Transportation (MDT) and the Wyoming Department of Transportation are constructing a joint port-of-entry weigh station on Interstate 90 between Sheridan, Wyoming and the Montana border. The new facility will service traffic traveling north and south on Interstate 90 and will be staffed with Wyoming officers who will enforce Montana commercial vehicle laws on Montana's behalf. After completion of the new facility in late 2005, Montana's existing Crow Agency Weigh Station will be closed and dismantled, and the two Motor Carrier Services officers currently assigned to this weigh station will be reassigned to another Montana facility.

DP 2202 - Overtime and Differential Pay - An increase of $290,548 state special revenue for the biennium is requested to reestablish base year overtime and differential pay plus associated benefits.

LFD COMMENT

Historical Expenditures

The program has expended an average $85,065 for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended $126,323. With benefits added, the decision package amounts approximate base plus benefits.

DP 2203 - Increased Credit Card Usage - An increase of $40,000 state special revenue for the biennium is requested to fund credit card fees associated with increased use of automated transactions by the commercial motor carrier industry.

DP 2204 - Equipment Rental - This request would fund the program's share of proposed increases in the department's Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 2205 - Alternative Pay Plan Conversion - A reduction of $82,032 state special revenue is recommended to reduce operating expenses to fund the costs of the broadband pay plan increases given during fiscal 2002.

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	10.00	0.00	0.00	10.00	0.00	0.00	10.00	10.00
Personal Services	408,651	49,033	0	457,684	49,757	0	458,408	916,092
Operating Expenses	296,799	203,878	3,600,000	4,100,677	32,835	0	329,634	4,430,311
Equipment	16,485	(6,594)	0	9,891	(6,594)	0	9,891	19,782
Grants	301,054	731,946	0	1,033,000	(301,054)	0	0	1,033,000
Transfers	25,452	0	0	25,452	0	0	25,452	50,904
Total Costs	**$1,048,441**	**$978,263**	**$3,600,000**	**$5,626,704**	**($225,056)**	**$0**	**$823,385**	**$6,450,089**
State/Other Special	1,048,441	798,263	180,000	2,026,704	(225,056)	0	823,385	2,850,089
Federal Special	0	180,000	3,420,000	3,600,000	0	0	0	3,600,000
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$1,048,441**	**$978,263**	**$3,600,000**	**$5,626,704**	**($225,056)**	**$0**	**$823,385**	**$6,450,089**

Program Description

The Montana Aeronautics Division: 1) facilitates the maintenance of airports and the various components of airport infrastructure, including visual and electronic navigational facilities and flying aids; 2) fosters, promotes, and supervises aviation and aviation safety through educational efforts and programs; 3) registers aircraft and pilots in accordance with Montana laws and regulations; and 4) coordinates and supervises aerial search and rescue operations. In accordance with the maintenance and safety aspects of the division's purpose, it administers a loan and grant program to municipal governments to provide funding for 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 12 other state-owned airports.

Program Narrative

Department of Transportation
Aeronautics Program
Major Budget Highlights

- Total fund budget increases by $3.4 million or 110.8 percent for the biennium
  - State special revenue funding increases by $0.3 million or 11.2 percent for the biennium
  - Federal special revenue funding increases by $3.1 million or 622.9 percent for the biennium to finance runway rehabilitation work on state-owned airports

Major LFD Issues

- One-time funding for airport rehabilitation projects

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Aeronautics Program

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02100 Aeronautics Private Funds Nb	$ -	-	$ -	-	$ -	-
02287 Aeronautical Grant Account	181,922	17.4%	803,840	14.3%	-	-
02827 Aeronautics Division	747,387	71.3%	993,704	17.7%	823,385	100.0%
02962 Airport Pvmt. Preservation	119,132	11.4%	229,160	4.1%	-	-
03060 Aeronatics Division	-	-	3,600,000	64.0%	-	-
06007 West Yellowstone Airport	-	-	-	-	-	-
Grand Total	$1,048,441	100.0%	$ 5,626,704	100.0%	$ 823,385	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 fuels 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.

For the 2003 biennium, state special revenue provides 92.8 percent of the program's funding and federal special revenue provides the remaining 7.2 percent. Because of large requests for federal funding, state special revenue would provide 44 percent of the program funding while federal special revenue would provide the remaining 56 percent for the 2005 biennium.

Present Law Adjustments	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					62,769					63,522
Vacancy Savings					(18,858)					(18,887)
Inflation/Deflation					3,510					4,456
Fixed Costs					1,210					1,209
Total Statewide Present Law Adjustments					**$48,631**					**$50,300**
DP 4003 - Overtime and Differential	0.00	0	5,122	0	5,122	0.00	0	5,122	0	5,122
DP 4004 - Program/Service Cost Adjustments	0.00	0	(7,436)	0	(7,436)	0.00	0	20,576	0	20,576
DP 4005 - Grant Increases - Biennial Appropriations	0.00	0	731,946	0	731,946	0.00	0	(301,054)	0	(301,054)
DP 4006 - Statewide Plan Update - Biennial Appropriations	0.00	0	20,000	180,000	200,000	0.00	0	0	0	0
Total Other Present Law Adjustments	**0.00**	**$0**	**$749,632**	**$180,000**	**$929,632**	**0.00**	**$0**	**($275,356)**	**$0**	**($275,356)**
Grand Total All Present Law Adjustments					**$978,263**					**($225,056)**

Executive Present Law Adjustments

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

DP 4003 - Overtime and Differential - An increase of $10,244 state special revenue for the biennium is requested to reestablish base year overtime and differential pay plus associated benefits.

LFD COMMENT

Historical Expenditures
The program has expended an average $5,000 for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended roughly $4,500. With benefits added, the decision package amounts approximate base plus benefits.

DP 4004 - Program/Service Cost Adjustments - This request generally adjusts the Aeronautics Program base to eliminate one-time expenditures and the Pan Am Weather program and to provide increases for contracts, the air search program, and operating costs associated with vacancies during the base year. The fiscal 2005 increase includes $30,000 for costs associated with the revision to the aeronautical chart that supports a Federal Aviation Administration requirement to update the state charts every four years. For the biennium, state special revenue increases by just over $13,000. However, in fiscal 2004, the base year for the 2007 biennium budget, is a reduction of nearly $7,500.

DP 4005 - Grant Increases - Biennial Appropriations - An increase of nearly $431,000 state special revenue for the biennium is requested for airport grants to communities. Airport grants are used for airport safety and development projects, pavement preservation projects, and for purchasing courtesy cars at qualified airports where rental cars are not available. The executive requests a biennial appropriation for this adjustment and the associated base. With the base, total grant authority for these purposes would be $1,033,000 state special revenue for the biennium.

DP 4006 - Statewide Plan Update - Biennial Appropriations - An increase of $200,000 comprised of $20,000 state special revenue and $180,000 federal special revenue is requested for the biennium to provide grants for airport standards review and capital improvement plan updates required by the Federal Aviation Administration every five years. The executive requests a biennial appropriation for this funding.

New Proposals

	Fiscal 2004					Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 4001 - Runway Rehab West Yellowstone Airport - Biennial										
40	0.00	0	0	1,800,000	1,800,000	0.00	0	0	0	0
DP 4002 - Runway Rehab Lincoln Airport - Biennial Approp										
40	0.00	0	180,000	1,620,000	1,800,000	0.00	0	0	0	0
Total	**0.00**	**$0**	**$180,000**	**$3,420,000**	**$3,600,000**	**0.00**	**$0**	**$0**	**$0**	**$0**

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

DP 4001 - Runway Rehab West Yellowstone Airport - Biennial - An increase of $1.8 million federal special revenue is requested for a runway pavement rehabilitation project at the West Yellowstone Airport. The rehabilitation would restore runway pavement to Federal Aviation Administration standards. This request would provide 90 percent of the funding for the project. The state match would come from proprietary funds discussed in the proprietary rates section for this program. The executive requests a biennial appropriation for this funding.

LFD ISSUE

West Yellowstone Airport Runway Pavement Rehabilitation - One-Time Authority
This project is a major capital improvement project intended to restore the West Yellowstone Airport runway pavement to federal standards and not for routine or regularly recurring maintenance. As such, the legislature may wish to designate this funding as one time only in addition to the biennial designation requested by the executive. One-time-only funding would exclude this funding from the base for the 2007 biennium when it would not be needed.

<u>DP 4002 - Runway Rehab Lincoln Airport - Biennial Appropriation -</u> Increases of nearly $0.2 million state special revenue $1.6 million federal special revenue are requested for a runway pavement rehabilitation project at the Lincoln Airport. The rehabilitation would restore runway pavement to Federal Aviation Administration standards. The Lincoln Airport is one of 15 state owned airports and 4 with paved runways, of which 2 are currently eligible for federal participation. The executive requests a biennial appropriation for this funding.

LFD ISSUE

Statewide Plan Update - One-Time Authority
This project is a major capital improvement project intended to restore the Lincoln Airport runway pavement to federal standards and not for routine or regularly recurring maintenance. As such, the legislature may wish to designate this funding as one time only in addition to biennial as requested by the executive. One-time-only funding would exclude this funding from the base for the 2007 biennium when it would not be needed.

Proprietary Rates

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 terminal building has 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.

Revenues and Expenses

Revenues for the operation of the West Yellowstone Airport are derived from landing fees, building space rental fees, fuel flowage fees, sales receipts, and non-aero rentals. Expenses from the fund are for personal services for 1.29 FTE and operating expenses such as janitorial supplies, insurance, and facility maintenance.

The fund equity continues to increase to fund airport maintenance activities and rehabilitation projects such as the major runway rehabilitation project requested for the 2005 biennium.

Historical and projected operating financial data is presented in the Report of Internal Services & Enterprise Funds 2005 Biennium for fund number 06007.

Rate Explanation

Fees for provided services are market based. There are no increases planned in the 2005 biennium for landing fees, building fees, fuel flowage fees, sales receipts, and non-aero rentals. Because this is an enterprise type proprietary fund, the legislature does not approve rates. Fees are presented for information only.

The program for the operation of the West Yellowstone Airport charges the following fees:

West Yellowstone Airport
2005 Biennium Rates

Fee Description		Fiscal 2004 Fees	Fiscal 2005 Fees
Landing Fees - Scheduled Air Carriers		$0.50/1000 lbs	$0.50/1000 lbs
Landing Fees - Other Uses	11,000-31,250 lbs	$25	$25
Landing Fees - Other Uses	>31,250 lbs	$0.80/1000 lbs	$0.80/1000 lbs
Fuel Flowage Fees (0015)		$0.06/gallon	$0.06/gallon
Building Leases - Car Rental	per month	$1.55/sq.ft.	$1.55/sq.ft.
Building Leases - FBO's & Tours	per month	$1.2975/sq.ft.	$1.2975/sq.ft.
Building Leases - Airlines	per month	$1.8908/sq.ft.	$1.8908/sq.ft.
Building Leases - U/G Storage	per month	$0.025/sq. ft.	$0.025/sq. ft.
Building Leases - Hanger Ground	per year	$0.05/sq.ft.	$0.05/sq.ft.
Tax Transfer		$15,000 est.	$15,000 est.
Sales Receipts - Car Rental		10% of gross	10% of gross
Sales Receipts - Café/Gift Shop		5% of gross	5% of gross
Miscellaneous Sales		Various	Various
Non-Aero Rentals - Nevada Testing	per year	Prior yr + CPI-U	Prior yr + CPI-U
Non-Aero Rentals - City of WYS	per year	$9,600/year	$9,600/year
Non-Aero Rentals - Energy West	per year/acre	Prior yr + CPI-U	Prior yr + CPI-U

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	62.60	4.00	0.00	66.60	4.00	0.00	66.60	66.60
Personal Services	2,796,812	271,631	0	3,068,443	274,632	0	3,071,444	6,139,887
Operating Expenses	1,675,061	649,395	250,000	2,574,456	303,910	0	1,978,971	4,553,427
Equipment	19,274	0	0	19,274	0	0	19,274	38,548
Grants	3,793,592	2,668,750	0	6,462,342	2,668,750	0	6,462,342	12,924,684
Total Costs	**$8,284,739**	**$3,589,776**	**$250,000**	**$12,124,515**	**$3,247,292**	**$0**	**$11,532,031**	**$23,656,546**
General Fund	0	0	0	0	0	0	0	0
State/Other Special	1,567,357	1,348,748	50,000	2,966,105	980,359	0	2,547,716	5,513,821
Federal Special	6,717,382	2,241,028	200,000	9,158,410	2,266,933	0	8,984,315	18,142,725
Total Funds	**$8,284,739**	**$3,589,776**	**$250,000**	**$12,124,515**	**$3,247,292**	**$0**	**$11,532,031**	**$23,656,546**

Program Description

The Transportation Planning Division provides: 1) an inventory of transportation infrastructure to allocate funds, maintain Department of Transportation eligibility for grants and federal funds, and aid in the process of project prioritization and selection; 2) a statewide planning program and assistance to local area transportation planning; and 3) response to legislative or regulatory actions necessitating representation before courts, congressional hearings, the US Department of Transportation, the Surface Transportation Board, and others. This planning results in a program that includes buses for transit systems, street and highway improvements, railroad track rehabilitation, and transportation enhancements for non-motorized and beautification improvements.

Program Narrative

Department of Transportation
Transportation Planning Division
Major Budget Highlights

- Total fund budget is reduced by $4.7 million or 16.6 percent for the biennium
- Staffing is increased by 4.00 FTE
- Weigh-in-motion and State Truck Activity Reporting System become ongoing
- Transit capital assistance grants

Major LFD Issues

- One-time funding for earmarked funds

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Transportation Planning Divisi

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	$ -	-	$ -	-	$ -	-
02282 Fta Local Match	208,664	2.5%	399,865	3.3%	399,865	3.5%
02422 Highways Special Revenue	1,358,693	16.4%	2,566,240	21.2%	2,147,851	18.6%
03147 Fta Grants	1,928,986	23.3%	3,898,377	32.2%	3,898,467	33.8%
03407 Highway Trust - Sp Rev	4,788,396	57.8%	5,260,033	43.4%	5,085,848	44.1%
Grand Total	$ 8,284,739	100.0%	$ 12,124,515	100.0%	$ 11,532,031	100.0%

The Transportation Planning Division is funded with a combination of state and federal special revenue funds. Transit grants are generally fully funded (100 percent) with Federal Transit Administration funds. However, if a match is required it is provided by the local entity receiving services or on a rare occasion with highways state special revenue funds. The remaining division activities are funded with federal planning and research funds and state special revenue funds at a ratio of 65 percent federal and 35 percent state special revenue for the 2005 biennium. State special revenue funds include nearly $800,000 in local match pass-through authority for the 2005 biennium.

Present Law Adjustments

	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					207,524					211,113
Vacancy Savings					(120,176)					(120,313)
Inflation/Deflation					2,704					3,147
Fixed Costs					465					465
Total Statewide Present Law Adjustments					**$90,517**					**$94,412**
DP 5002 - Transportation Assistance for Disabled/Elderly	0.00	0	629,442	0	629,442	0.00	0	629,442	0	629,442
DP 5003 - Federal Transit Administration Section 5309	0.00	0	0	1,528,000	1,528,000	0.00	0	0	1,528,000	1,528,000
DP 5004 - Traffic Data Processing Software	0.00	0	49,188	150,812	200,000	0.00	0	49,188	150,812	200,000
DP 5005 - FTE/Operating for Weigh-in-Motion (WIM) and STARS	4.00	0	62,333	235,911	298,244	4.00	0	62,245	235,577	297,822
DP 5006 - Overtime and Differential	0.00	0	3,192	11,089	14,281	0.00	0	3,192	11,089	14,281
DP 5008 - TEA21 Federal Funding Increases	0.00	0	229,666	255,311	484,977	0.00	0	229,666	255,311	484,977
DP 5009 - Seasonal Contracted Services	0.00	0	11,328	35,476	46,804	0.00	0	10,448	32,446	42,894
DP 5010 - Travel Adjustment	0.00	0	6,303	20,291	26,594	0.00	0	6,336	20,400	26,736
DP 5011 - Senior/Disabled Vehicle Adjustment	0.00	0	30,981	53,597	84,578	0.00	0	30,981	53,597	84,578
DP 5012 - Federal Earmark and Other Contracted Services	0.00	0	68,664	274,657	343,321	0.00	0	0	0	0
DP 5013 - Equipment Rental	0.00	0	1,843	6,387	8,230	0.00	0	2,097	7,265	9,362
DP 5014 - Alternative Pay Plan Conversion	0.00	0	(52,559)	(112,653)	(165,212)	0.00	0	(52,559)	(112,653)	(165,212)
Total Other Present Law Adjustments	**4.00**	**$0**	**$1,040,381**	**$2,458,878**	**$3,499,259**	**4.00**	**$0**	**$971,036**	**$2,181,844**	**$3,152,880**
Grand Total All Present Law Adjustments					**$3,589,776**					**$3,247,292**

Executive Present Law Adjustments

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

DP 5002 - Transportation Assistance for Disabled/Elderly - An increase of nearly $1.3 million state special revenue for the biennium is requested to provide operating funds to counties, incorporated cities and towns, transportation districts or nonprofit organizations for transportation services for persons 60 years of age or older, and for persons with disabilities. Funding for this program is derived from a 25-cent fee collected on all vehicle registrations with the exception of trailers and semi-trailers. The fee revenue is deposited into the general fund and transferred to the disabilities transportation services state special revenue account by statutory direction of 61-3-321, MCA.

LFD ISSUE

Appropriation Exceeds Revenues From Fee

The revenue estimates adopted by the Revenue and Transportation Committee indicates the revenue from the 25-cent fee would only provide $230,613 in the 2005 biennium. As such, this appropriation appears to be several times as much as that needed to expend all available funds generated by the fee for this purpose.

With this, the legislature may wish to reduce this request to the level included in the revenue estimate.

DP 5003 - Federal Transit Administration Section 5309 - An increase of nearly $3.1 million federal special revenue for the biennium is requested for transit capital assistance grants to local governments. The projects were submitted through and supported by the Montana congressional delegation. These federal funds would be used to construct transit facilities and the purchase of vehicles.

DP 5004 - Traffic Data Processing Software - Increases of roughly $98,000 state special revenue and $302,000 federal special revenue for the biennium are requested for contracted services to develop traffic data processing software. The software would collect, maintain, analyze, and report data such as volume data, vehicle classification data, weight data, speed data, and occupancy data collected from more than 4,000 sites and used by virtually all entities of the department. The software would replace obsolete systems currently functioning on the mainframe, which have functionality problems, are not fully supported by department resources, and are not adequately supported by the product vendor.

DP 5005 - FTE/Operating for Weigh-in-Motion (WIM) and STARS - Increases of nearly $125,000 state special revenue and $472,000 federal special revenue for the biennium are requested to provide funding for 4.00 FTE and operating costs to support the State Truck Activity Reporting System (STARS). The staff for the program would install, repair, maintain, calibrate, and manage weigh-in-motion (WIM) equipment located at more than 90 locations across the state and would process and manage WIM data from the equipment.

LFD COMMENT

STARS Pilot Program

The 1999 and 2001 legislatures provided one-time-only appropriations for staffing and operating costs of a STARS pilot program. This funding allowed the department to install and maintain WIM equipment at 90 locations across the state and provide various vehicle weight enforcement projects to determine if the STARS program would provide a tool for enforcing commercial vehicle weight violations to minimize the impacts overweight vehicles have on Montana's highways.

To evaluate the effectiveness of this pilot program, the department collected data at the WIM sites for one year with no associated enforcement activities. Data was then collected at the same sites the next year while the department performed various vehicle weight enforcement activities. Data from both years is being evaluated to determine the effect of the weight enforcement activities in terms of achieving better weight compliance and corresponding impacts on pavement damage due to overweight vehicles. The department has not completed the program evaluation, but indicates preliminary data shows the program can be used to effectively enforce commercial weight compliance. Furthermore, the department indicates that the program would reduce pavement damage caused by overweight vehicles with an estimated annual savings of more than $1 million. The final evaluation is scheduled to be completed December 2002.

DP 5006 - Overtime and Differential - Increases of $6,384 state special revenue and $22,178 federal special revenue for the biennium are requested to reestablish base year overtime and differential pay plus associated benefits.

> **LFD COMMENT**
>
> Historical Expenditures
> The program has expended an average $10,953 for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended $12,418. With benefits added, the decision package amounts approximate base plus benefits.

DP 5008 - TEA21 Federal Funding Increases - Increases of $459,000 state special revenue and $511,000 federal special revenue are requested to provide training and grants for urban transit programs in Billings, Great Falls, and Missoula. Of the state special revenue, $379,000 would come from local governments via pass-through funds specifically provided to match federal transit funds

DP 5009 - Seasonal Contracted Services - Increases of nearly $22,000 in state special revenue funds and $68,000 in federal special revenue for the biennium are requested for contracted services to complete the field road inventory. This will fund two temporary employees and travel expenses.

DP 5010 - Travel Adjustment - Increases of roughly $13,000 state special revenue and $41,000 federal special revenue for the biennium are requested to adjust travel to 2005 biennium anticipated amounts. Extended staffing vacancies during the base year, in units that travel extensively across the state as part of normal business processes, have left the base below the amount to provide for anticipated travel levels.

> **LFD COMMENT**
>
> Historical Travel Expenditures
> For the last three years, the travel expenditures of the program have declined from $215,000 in fiscal 2000 to $151,000 in fiscal 2002. Base travel expenditures are 20 percent below the most recent 3-year average for the program.

DP 5011 - Senior/Disabled Vehicle Adjustment - Increases of nearly $62,000 state special revenue and $107,000 federal special revenue for the biennium are requested to purchase vehicles for agencies that transport senior citizens and disabled individuals. Base expenditures were low due to purchased vehicles not meeting specifications and federal grants being under spent.

DP 5012 - Federal Earmark and Other Contracted Services - Increases of nearly $69,000 state special revenue and $275,000 federal special revenue are requested for fiscal 2004 to spend federal earmarked funds for erecting geological signs and for implementing a roadside animal detection system. In addition, a corridor study project called CANAMEX is in progress. These projects that began in fiscal 2002, cannot be completed until fiscal 2004. This adjustment provides authority to carry these projects to completion.

> **LFD ISSUE**
>
> Earmarked Funds - One-Time Authority
> This request would provide funding for projects that are earmarked for special short-term non-recurring projects. As such, the legislature may wish to designate this funding as one time only. One-time-only funding would exclude this funding from the base for the 2007 biennium when it would not be needed.

DP 5013 - Equipment Rental - This request would fund the program's share of proposed increases in the department's Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 5014 - Alternative Pay Plan Conversion - Reductions of $105,118 state special revenue and $225,306 federal special revenue are recommended to reduce operating expenses to fund the costs of the broadband pay plan increases given during fiscal 2002.

New Proposals										
	-----Fiscal 2004-----					-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 5001 - Multimodal Transportation Corridor Tech Assist										
50	0.00	0	50,000	200,000	250,000	0.00	0	0	0	0
Total	**0.00**	**$0**	**$50,000**	**$200,000**	**$250,000**	**0.00**	**$0**	**$0**	**$0**	**$0**

New Proposals

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

DP 5001 - Multimodal Transportation Corridor Tech Assist - Increases of $50,000 state special revenue and $200,000 federal special revenue are requested for contracted services from other state agencies, local government, and private sector entities to evaluate the impacts railroad branch line abandonment, declining rail traffic, and changes in railroad management would have on the Montana transportation system and Montana's economy.