Agency Proposed Budget

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

Agency Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	2,238.56	(59.22)	7.00	2,186.34	(109.60)	7.00	2,135.96	2,135.96
Personal Services	113,361,139	16,643,422	368,194	130,372,755	14,582,187	368,599	128,311,925	258,684,680
Operating Expenses	335,018,576	28,706,471	4,293,638	368,018,685	30,458,351	2,285,498	367,762,425	735,781,110
Equipment	1,705,344	(221,804)	0	1,483,540	(56,804)	0	1,648,540	3,132,080
Capital Outlay	14,298,598	101,500	0	14,400,098	100,000	0	14,398,598	28,798,696
Local Assistance	382,400	0	0	382,400	0	0	382,400	764,800
Grants	10,418,174	1,788,664	7,051,169	19,258,007	480,664	7,771,805	18,670,643	37,928,650
Transfers	10,283	0	0	10,283	0	0	10,283	20,566
Debt Service	250	23,000	0	23,250	23,000	0	23,250	46,500
Total Costs	**$475,194,764**	**$47,041,253**	**$11,713,001**	**$533,949,018**	**$45,587,398**	**$10,425,902**	**$531,208,064**	**$1,065,157,082**
General Fund	0	0	3,000,000	3,000,000	0	0	0	3,000,000
State/Other Special	233,537,178	(8,161,955)	1,791,866	227,167,089	(14,511,159)	1,942,083	220,968,102	448,135,191
Federal Special	241,657,586	55,203,208	6,921,135	303,781,929	60,098,557	8,483,819	310,239,962	614,021,891
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$475,194,764**	**$47,041,253**	**$11,713,001**	**$533,949,018**	**$45,587,398**	**$10,425,902**	**$531,208,064**	**$1,065,157,082**

Agency Description

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

Agency Highlights

Department of Transportation
Major Budget Highlights

- Total fund budget goes down by $29.8 million or 3.0 percent over the biennium compared to the 2007 biennium with the following funding changes using the same comparison criteria:
    - $3.0 million general fund is added for costs of litigation against the federal Surface Transportation Board and no general fund existed prior
    - State special revenue is reduced by $55.7 million or 11.1 percent primarily due to: 1) reductions in the state funded construction program; 2) unspecified state special revenue reductions in the Maintenance Program; and 3) a construction management FTE adjustment
    - Federal special revenue is increased by $23.0 million or 3.0 percent primarily due to: 1) contractor payments for the increased federal-aid construction program under SAFETEA-LU; and 2) increased transit funds
- Staffing is reduced by 52.22 FTE in FY 2008 and 102.60 FTE in FY 2009
- Highways state special revenue account funding is balanced between revenues and expenditures

- Agency costs to rent equipment from an internal equipment pool increase $7.3 million or about 16.2 percent compared to the 2007 biennium

Major LFD Issues

- High construction cost inflation has increased the overall costs to the department
- The federal funding source shows signs of financial stress and could impact future federal funding levels
- Goals, measures, and milestones show weaknesses in measurability and specificity
- Justifications for replacing contracted services with state FTE lacks specifics and do not consider all factors

Agency Discussion

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2007 biennium
- Goals and objectives and their correlation to the 2009 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

LFD ISSUE

Performance Programming Process

The department uses many management systems and tools to manage Montana's transportation infrastructure. One tool is the performance programming process. According to a department brochure on the performance programming process, the process is a tool or "method to develop an optimal investment plan and measure progress in moving toward strategic transportation system goals". According to the department document, the department established objectives, performance measures, and performance targets in four program areas: pavement, bridge, safety, and congestion. For the bridge and safety program areas, the objectives, measures, and performance targets are generally stated to improve the condition of the bridges or improve the safety of the state highway system. No specific quantifiable or time-based targets are specified.

A review of the department's goals for the 2009 biennium has found that goals for these program areas are not specifically identified. The only mention to the performance programming process is in the goals for the Transportation Planning Division in which the goals reference that a stated percentage of the projects should be programmed or a stated percentage of the funding should be prioritized based on the goals of the process. Since one of the main purposes for the existence of the department is to build and maintain the transportation infrastructure, the legislature may want to ask why the department doesn't include goals for the condition of the infrastructure as prominent goals of the department instead of indirectly referring to a process that is structured around the goals. The legislature may want to direct the department to specify what goals for pavement, bridge, safety, and congestion the department's budget were developed around and what measures currently exist for these program areas and are expected with approval of the budget request.

Overview

The legislature will be faced with making decisions on the department budget request that reflects the following general themes and will be explained in more detail below:

- A state fund with a history of instability
- A federal fund showing signs of instability
- High levels of highway construction cost inflation

Funding for Montana Highways

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 would spend roughly $1.1 billion in the 2009 biennium to maintain, rebuild, and operate the 11,000 miles of paved roads under its responsibility. Funding to support this effort would be roughly 42.0 percent from state sources and 58.0 percent from federal sources.

Sources of Revenue

The department is funded from a combination of state special revenue and federal special revenue. State special revenue can be grouped into two general categories: those that are protected by the state constitution and those that are not. The Constitution of the State of Montana states that revenues from gross vehicle weight fees and excise and license taxes on gasoline, fuel, and other energy sources that are used to propel vehicles on public highways are to be used solely for paying obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; and for enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Non-restricted revenues are derived from special use permits and motor fuel penalties and interest payments. All highway construction expenditures from state funds are accounted for in the highways state special revenue account (HSRA), whether they are from restricted or non-restricted revenues. In FY 2006, constitutionally protected (restricted) revenues comprised roughly 97.4 percent and non-restricted revenues comprised 2.6 percent of total state special revenue. 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 federal excise taxes on motor fuels and other transportation products, such as heavy truck tires. Montana has historically received significantly more federal-aid highway construction funds than are collected in federal motor fuels excise taxes from Montana sources. Montana receives more than $2.20 of federal funding for highways for every $1.00 collected in the state and sent to the federal highway trust fund.

Reauthorization of Federal-Aid Highway Funding

The department receives federal-aid highway funding from the Federal Highway Administration (FHWA), typically from authorizations in six-year funding bills. On August 10, 2005, the President signed the latest highway funding legislation, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). SAFETEA-LU provides authorization for federal-aid transportation programs and funding for federal fiscal years 2005 through 2009.

Level of Funding in SAFETEA-LU

SAFETEA-LU reflects a transportation authorization with record levels of funding for states' transportation infrastructures and other programs. For the five years of SAFETEA-LU, funding for highways, highway safety, and public transportation totals $286.4 billion. Over the five years of SAFETEA-LU, Montana is apportioned $1.8 billion of formula driven funding and earmarked funding for high priority projects through FHWA. Montana also stands to receive $230.7 million in other earmarked funds that are outside the formula driven programs and $56.0 million in transit funds through the Federal Transit Administration.

For the formula driven programs under FHWA, Montana is designated to receive, on average, $355 million each year, with annual amounts increasing from $334.8 million in FFY 2005 to $373.9 million in FFY 2009. The growth means Montana would receive $82.5 million more each year compared to the TEA-21 average annual amount of $272.5 million.

Transit Funding

Montana is also allocated $56.0 million in transit funds that are passed through the Montana Department of Transportation (DOT) to local transit entities, which match the funds with local sources of revenue. The transit funding level of $11.5 million in FFY 2006 would grow to $14.1 million by FFY 2009.

The program with the most significant funding increase under SAFETEA-LU is the rural general public transit program in which funding will nearly triple from TEA-21 levels, to $8 million in FFY 2009. MDT administers a grant program for these funds but passes the funding through to local transit operators. The local transit operators provide the non-federal match for the program from service revenues. The program funding increase will add significant challenges for local operators to fully match. However, a new provision in SAFETEA-LU will allow funds to be matched according to the sliding scale match rate of 86.58 percent federal instead of the previous rate of 80 percent federal under TEA-21. The ability to match at the sliding scale rate will soften the amount of the match increase seen from the tripling of available funds and was previously available only for some federal-aid highway programs. Decision packages are included in the Transportation Planning Division to address the increased funding and additional workload issues associated with the increased transit funding.

Sliding Scale Match

Montana currently receives federal highway construction funds based on a sliding scale match formula that includes factors for the amount of federal land in the state and the amount of financial contribution the state makes to maintain the federal-aid highway system with state dollars. The current match ratio is 87 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.

In order to utilize all of the federal funds allotted to the state, state funds must be available to provide: 1) planning functions required in the federal funding law; 2) maintenance of the federal-aid highway system to FHWA standards; 3) adequate management and oversight of federal-aid construction projects; 4) a minimum construction program supported by 100 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. In the past, the department has referred to $10.0 million as an adequate working capital balance.

The department budget request includes adjustments to shore up HSRA, the need for which is discussed below, but provide the necessary maintenance of effort to maintain the favorable match.

Highways State Special Revenue Account Working Capital Analysis

The highways state special revenue account provides the state funding to match more than $300 million annually of federal transportation funding, with a resultant more than $500 million of annual transportation spending to maintain and expand the state transportation infrastructure. The HSRA has historically experienced imbalances in which expenditures exceeded revenues. The following working capital analysis of HSRA shows the financial condition of the account going into the 2007 legislative session. The working capital analysis of HSRA is shown on the following figure.

Applicable Funds

HSRA is used, among other purposes, to fund the major activities of the Montana Department of Transportation (MDT). Two funds are combined to form this account, the constitutionally restricted fund and the non-restricted fund. The department records revenues in the fund most appropriate to the constitutional and statutory directions for the revenue source. However, all expenditures are made from the restricted fund, with the balance from the non-restricted fund transferred to the restricted fund.

Account Uses

HSRA funds the operations of five programs of the MDT that administer, enforce, and support the construction, maintenance, and safe operations of Montana highways. HSRA also funds Long-range Building Program projects for MDT facilities and those of the Department of Fish, Wildlife and Parks (FWP) related to roadway activities, and for programs of the Department of Justice (DOJ) that support highway or motor vehicle activities. Programs of DOJ that are partially funded with HSRA are: 1) Legal Services Division; 2) Motor Vehicle Division; 3) Montana Highway Patrol; 4) Central Services Division; and 5) Information Technology Services Division. HSRA also funds statutory appropriations that total $22.0 million per year, transfers of $0.1 million per year to the noxious weed trust fund, alcohol production incentives (gasohol) capped at $6.0 million per year, and ethanol consumption incentives. The analysis assumes no changes in the allocations of the funds in future biennia.

Assumptions Used in the Working Capital Projections

For all years of the analysis, it was assumed that at least $10 million annually would be expended on 100 percent state funded construction projects as the state maintenance of effort to maintain the favorable federal participation rate of 87 percent on highway construction projects. This assumption is also reflected in the department budget request. Assumptions that change based on the analysis component and the year are listed below.

The following assumptions were used for FY 2007:

- Revenue and Transportation Interim Committee (November 2006) recommendations of revenue estimates are applied for gasoline and diesel taxes and gross vehicle weight fees
- FY 2006 actual revenues are used for all other revenue sources
- FY 2007 appropriations are used, except all remaining appropriation authority valid for the 2007 biennium is used where biennial appropriations were approved
- All unspent prior and current biennia Long-range Building Program appropriations are used
- Reversions are the average reversion percentages for the period from FY 2000 through FY 2006 for HB 2 appropriations made to the Departments of Transportation (12.7 percent) and Justice (3.7 percent)

The following assumptions were used for the 2009 biennium:

- Revenue estimates of the Revenue and Transportation Interim Committee are applied for gasoline and diesel taxes and gross vehicle weight fees
- Indirect cost revenue are estimates of the department
- FY 2006 revenues are used for all other revenues not estimated by the Revenue and Transportation Interim Committee
- The proposed executive budget is used for expenditures of agencies funded with HSRA

Working Capital Analysis - Highways State Special Revenue Account
Fiscal Years 2006- 2009 Legislative Budget
(in Millions)

Description	FY 2006 Actual	FY 2007 Approp.	FY 2008 Forecast	FY 2009 Forecast
Beginning Working Capital Balance	$43.6	$27.2	-$22.7	-$15.7
Revenues				
Gasoline tax (net of refunds)	$129.4	$129.9	$130.3	$130.9
Diesel tax (net of refunds)	67.8	71.3	75.0	78.9
Gross vehicle weight fees (GVW)	27.6	27.4	27.5	29.0
Indirect cost recovery (based on agency input)	31.2	29.5	32.0	30.7
Other revenues	15.6	15.6	15.6	15.6
Revenue deductions				
Gasahol tax reduction (based on agency input)	(0.3)	(0.5)		
Alcohol production incentives (15-70-522, MCA)	0.0	0.0	2.0	4.0
Total Revenues	$271.2	$273.2	$282.5	$289.1
Expenditures				
Department of Transportation (DOT)				
Statutory Appropriations	$21.7	$22.0	$20.6	$20.6
General Operations Program	19.8	20.8	22.0	22.6
Construction Program	113.1	147.5	90.8	85.3
Maintenance Program	94.6	92.0	100.1	99.9
Motor Carriers Services	5.2	6.2	6.8	6.8
Transportation Planning	2.0	3.4	2.2	2.6
Department of Transportation (includes annualized pay plan)	$256.5	$291.8	$242.5	$237.9
Governor's Office (Rail Service Competition Council)	0.1	0.1		
Department of Commerce (Main Street Program)	0.1	0.1		
Department of Justice (includes annualized pay plan)	24.4	26.1	29.6	29.8
Long-Range Building Program				
Maintenance and repair of DOT buildings	1.7	3.1	2.5	2.5
Department of Fish, Wildlife & Parks	0.8	1.7	0.8	0.8
Total Long-Range Building Program	$2.5	$4.9	$3.3	$3.3
Transfer for noxious weeds (80-7-823, MCA)	0.1	0.1	0.1	0.1
Total Expenditures	$283.6	$323.1	$275.4	$271.0
Revenues less expenditures	(12.4)	(49.9)	7.0	18.0
Adjustments	4.1			
Ending Working Capital Balance	$27.2	($22.7)	($15.7)	$2.4
Average reversions (FY 2000 through FY 2006)		$35.2		
Ending Working Capital Balance (with average reversions)		$12.5	$19.6	$37.6

Analysis Results

The analysis provides two pictures for the financial condition of HSRA: 1) one that assumes all appropriations were expended; and 2) one that assumes a portion of appropriations would revert at the average historical levels. Both pictures assume the department will fully match all federal funds available to Montana. Because the department operates with biennial appropriations in the programs that are funded with HSRA, the portion of FY 2006 appropriations that were not expended in FY 2006 continue into FY 2007. This explains the apparently high appropriation levels for FY 2007 in the Construction and Transportation Planning programs. Under the assumption of full expenditure of appropriations the executive would need to revert more than $22.7 million in order to end the 2007 biennium without expending all available working capital. However, if historical reversions occurred in FY 2007, the FY 2007 ending balance would be roughly $13.0 million.

For the 2009 biennium, the executive budget reflects a balanced budget between revenues and expenditures, except that expenditures would exceed revenues if any additional HSRA expenditures are approved above the current budget submission. In FY 2008, revenue estimates exceed expenditure requests by $7.0 million, but a pay plan for the 2009 biennium is not included in the expenditures. In FY 2009, there is more breathing room with an $18.0 million projected balance of revenues over expenditures. If approved, the pay plan included in the Executive Budget for the 2009 Biennium would increase HSRA expenditures by $2.5 million in FY 2008 and by $4.0 million in FY 2009.

For the 2009 biennium, the executive budget for HSRA, excluding any potential state employee pay plan, is balanced between estimated revenues and expenditures. The balance the account will begin the 2009 biennium with relies upon the executive containing FY 2007 expenditures below full appropriations for the 2007 biennium.

Analysis Will Likely Change

The department has submitted a budget request for the 2009 biennium based on federal funding levels known for FFY 2006, but not for FFY 2007. The FFY 2007 levels have been provided by FHWA to the department and the department is in the process of revising its construction plans to address those revised funding levels. Historically, the department revises several of the key budget adjustments from the ones presented in the request analyzed by legislative staff to reflect a revised and updated construction plan. The legislature should be advised that the department request will likely change prior to appropriations subcommittee hearings and the working capital analysis will change as well. See the Program Narrative for the Construction Program for further details of likely changes.

Other Pressures

In addition to pressures from a state fund with a history of financial stability but balanced for the 2009 biennium, the legislature will be faced with pressures imposed by worldwide factors impacting the price and availability of construction materials and a federal trust fund with a questionable financial stability, both of which will impact the highway construction projects that can be undertaken by the department.

Impacts of High Construction Material Costs and Shortages

Based on statistics from DOT, average highway construction costs have increased by 22.5 percent since August 2005. The cost increase is due in large part from higher construction material costs, such as pavement, concrete, steel, and other petroleum based construction materials. A key factor for the higher costs is the high worldwide demand for many construction materials. With higher construction costs, each state dollar buys a significantly smaller amount of highway maintenance and construction than it bought previously. Since federal funding is fixed at the levels apportioned to the state and subsequently appropriated by Congress and obligated for distribution, higher costs translates into fewer construction projects. The construction plan that formed the basis for the legislative appropriations for the 2007 biennium has seen projects delayed or reprioritized as the department manages within available funding. The growth of construction material costs appears to be slowing or stabilizing but not declining. As such, the department will need to maintain the state highway network and address highway demand pressures in an environment of higher cost, but with the same financial resources that are showing signs of financial stress and instability.

The department has historically reverted a portion of its appropriations, which have aided significantly the department’s ability to maintain a positive fund balance. High construction costs may lower the amount the department reverts as it manages to minimize the impacts of high costs on construction project delivery by maximizing its expenditures on construction activities. Since the working capital analysis shows a reliance on historical reversions to maintain a positive account balance going into the 2009 biennium, historical reversions may cease to indicate future activity and the balances that result from considering reversions may not come to fruition.

Federal Highway Trust Fund

As previously discussed, federal highway funds are apportioned to states in multiyear federal funding authorizations. SAFETEA-LU sets specific annual funding levels for most federal highway programs on the basis of projected receipts to the federal Highway Trust Fund for federal fiscal years 2005 through 2009. According to a published release by the United States Government Accounting Office (GAO) on testimony before a subcommittee of the U.S. House of Representatives, the federal Highway Trust Fund balance could go negative as early as 2009. The GAO testimony raised concerns about whether funding for federal highway programs – which were recently authorized by SAFETEA-LU – will continue to be met. The GAO states that “The Highway Trust Fund balance is gradually being depleted because estimated outlays of the Highway Account exceed estimated revenues each year from 2006 through 2011.”

The funding for the federal-aid highway program is a “pay as you go” system funded by receipts from highway user excise taxes. In other words, there must be enough money in the fund to make reimbursements. Since the federal-aid program typically obligates reimbursement of funds to capital projects whose reimbursements spread over several years, the calculation for determining how much funds will be apportioned to federal-aid programs considers the current fund balance and revenues anticipated to be collected in the next two years. All existing obligations that have not been reimbursed are then deducted to determine the amount of funds available to be apportioned to states. Because of the current condition of the trust fund, funds available to be apportioned could likely be significantly lower than the apportionment levels published for SAFETEA-LU. If the apportionment levels are lower, the state would see less than anticipated federal highway construction funds to maintain the state's highway network.

LFD ISSUE

How Will the Pressures Impact the Condition of Montana's Highways?

As stated, the department is in the process of revising its construction plan to reflect current FHWA apportionment levels. One of the tools the department uses during this process and to manage the state highway infrastructure is the performance programming process. Construction cost inflation and the risk of reduced federal funding could impact the department's ability to attain the goals for maintaining the condition of the state's highway infrastructure as specified in the performance programming process.

The legislature may want to ask the executive to provide details of how construction cost inflation, the potential impacts of reduced federal funding levels that could result from a financially stressed federal highway trust fund, and the department's budget items that reduce state funding of construction and maintenance costs could impact the state highway infrastructure in the following areas:

- Pavement ride index
- Bridge condition
- Correction of correctable crash site features (safety)
- Congestion index

High construction cost inflation has resulted in each dollar spent on highway construction buying less work to maintain Montana's highways. Increased federal funds received by Montana from SAFETEA-LU have simply offset these inflation impacts. Because of the questionable condition of the federal highway trust fund, future federal funds could be reduced. Keeping this in mind, the legislature may want to keep a critical eye on requests to increase federal funding for purposes that may not directly support the main mission of the department, but may only expand non-mandatory services.

Common Adjustments in all Programs

Three adjustments appear in nearly all programs and are summarized in the following figures to aid the legislature in seeing the combined impacts of the adjustments to all programs of the agency:

- Overtime and differential pay
- Equipment rental
- Training program

The following figure provides comparisons for all programs for the overtime and differential pay and the equipment rental adjustments against base expenditures. The adjustments are described separately below.

Common Decision Packages
Overtime and Differential Pay and Equipment Rental

Program		Overtime	Differential Pay	Benefits (15 percent)	Per Diem	Total		Equipment Rental
01 - General Opreations	DP 1101	$97,812	$526	$14,750	$0	$113,088	DP 1102	$21,890
	Base x 2	97,810	526				Base x 2	103,580
	Change	$3	$0				Growth	21.1%
02 - Construction	DP 208	$7,214,144	$272,490	$1,123,004	$7,926	$8,617,564	DP 209	$1,130,014
	Base x 2	7,214,152	272,488		7,926		Base x 2	6,977,152
	Change	($8)	$2		$0		Growth	16.2%
03 - Maintenance	DP 313	$3,062,212	$510,748	$535,946		$4,108,906	DP 314	$6,000,090
	Base x 2	3,062,207	510,743				Base x 2	37,046,884
	Change	$5	$5				Growth	16.2%
22 - Motor Carrier Services	DP 2206	$114,536	$53,450	$25,200	$1,004	$194,190	DP 2207	$74,336
	Base x 2	91,923	53,448		1,004		Base x 2	458,968
	Change	$22,613	$2		$0		Growth	16.2%
40 - Aeronautics	DP 4005	$1,418	$2,622	$608	$5,900	$10,548		
	Base x 2	1,418	2,620					
	Change	($0)	$2					
50 - Transportation Planning	DP 5002	$14,600	$25,814	$6,064		$46,478	DP 5003	$49,079
	Base x 2	14,601	25,815				Base x 2	303,039
	Change	($1)	($1)				Growth	16.2%
Total for all programs						$13,090,774		$7,275,409

Overtime and Differential Pay

An adjustment to establish funding for overtime and differential pay is included in all programs. In all cases except for the Motor Carrier Services Program, the requested funding is nearly the amount expended in the base with 15 percent added to fund salary related costs for benefits, insurance, and employer taxes. The Motor Carrier Services Program includes an increase of $22,600 above the base. The corresponding decision package description in the program section explains the increase. The above figure shows the requested amounts for the biennium and the base expenditure. The base expenditures are doubled to show biennium comparisons. For the biennium, $13.1 million would fund overtime, differential pay, and per diem for department FTE funded in HB 2. Additional funding for overtime and differential pay is included in the rates for proprietary funded programs, such as the State Motor Pool and the Equipment Program.

Equipment Rental

The department operates a proprietary funded program to purchase and maintain equipment used exclusively by programs of the department. The Equipment Program manages the equipment items that support the functions of the department, such as snowplows and sanders, motor carrier services enforcement vehicles, and lawn and weed mowers. Programs fund the Equipment Program by paying for usage of the equipment. The Equipment Program has requested increases to the rates it charges. The adjustments shown under the Equipment Rental heading on the figure are requested to provide funding to pay the increases in the Equipment Program rates for the 2009 biennium. For the biennium, the equipment rental adjustment totals $7.3 million for the department. A discussion of the requested equipment rental rates is contained in the proprietary discussion for the Equipment Program.

Training Program

The department has included budget adjustments that would eliminate base spending for training in the Construction, Motor Carrier Services, and Transportation Planning Programs and increase funding in the General Operations Program. The combined impact of the adjustment would be to consolidate all training and provide for a biennial increase of $1.1 million in the General Operations Program. By consolidating training in this way the department intends take advantage of a new provision in SAFETEA-LU to leverage federal funding for training and reduce state funded training costs. The following figure shows the overall impact for the department.

Training Program				
Program	Decision Package	State Special	Federal Special	Total Funds
01 - General Opreations	DP 1302	$0	$1,080,476	$1,080,476
02 - Construction	DP 211	(503,758)	0	(503,758)
22 - Motor Carrier Services	DP 2213	(15,300)	0	(15,300)
50 - Transportation Planning	DP 5009	(62,356)	0	(62,356)
		($581,414)	$1,080,476	$499,062

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 2009 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
01 General Operations Program	$ 3,000,000	$ 44,637,821	$ 2,821,495	$ 50,459,316	4.74%
02 Construction Program	-	176,173,393	562,868,512	739,041,905	69.38%
03 Maintenance Program	-	200,041,757	14,685,676	214,727,433	20.16%
22 Motor Carrier Services Div.	-	13,634,290	4,302,252	17,936,542	1.68%
40 Aeronautics Program	-	3,909,671	2,041,186	5,950,857	0.56%
50 Transportation Planning Divisi	-	9,738,259	27,302,770	37,041,029	3.48%
Grand Total	$ 3,000,000	$ 448,135,191	$ 614,021,891	$1,065,157,082	100.00%

Biennium Budget Comparison

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2007 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Biennium Budget Comparison Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	2,179.34	7.00	2,186.34	2,128.96	7.00	2,135.96	2,238.56	2,135.96
Personal Services	130,004,561	368,194	130,372,755	127,943,326	368,599	128,311,925	239,024,273	258,684,680
Operating Expenses	363,725,047	4,293,638	368,018,685	365,476,927	2,285,498	367,762,425	797,256,678	735,781,110
Equipment	1,483,540	0	1,483,540	1,648,540	0	1,648,540	3,581,687	3,132,080
Capital Outlay	14,400,098	0	14,400,098	14,398,598	0	14,398,598	32,200,315	28,798,696
Local Assistance	382,400	0	382,400	382,400	0	382,400	490,450	764,800
Grants	12,206,838	7,051,169	19,258,007	10,898,838	7,771,805	18,670,643	22,318,851	37,928,650
Transfers	10,283	0	10,283	10,283	0	10,283	28,504	20,566
Debt Service	23,250	0	23,250	23,250	0	23,250	27,500	46,500
Total Costs	**$522,236,017**	**$11,713,001**	**$533,949,018**	**$520,782,162**	**$10,425,902**	**$531,208,064**	**$1,094,928,258**	**$1,065,157,082**
General Fund	0	3,000,000	3,000,000	0	0	0	0	3,000,000
State/Other Special	225,375,223	1,791,866	227,167,089	219,026,019	1,942,083	220,968,102	503,880,338	448,135,191
Federal Special	296,860,794	6,921,135	303,781,929	301,756,143	8,483,819	310,239,962	591,047,920	614,021,891
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$522,236,017**	**$11,713,001**	**$533,949,018**	**$520,782,162**	**$10,425,902**	**$531,208,064**	**$1,094,928,258**	**$1,065,157,082**

Supplemental Appropriations

The State Motor Pool of the department has experienced higher motor fuel costs than anticipated by the 2003 Legislature. The State Motor Pool pays for all gasoline and diesel fuel for vehicles leased for long-term use or rented for short-tem use by state agencies. High fuel costs have resulted in operating losses in the proprietary fund program that depends on rental fees to fund operations. Short-term borrowing was needed to fund operations. The executive recommends a supplemental appropriation of $1.33 million general fund to provide contributed capital for the State Motor Pool to offset losses due to high fuel costs.

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

	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 207 - Highway Traffic Safety Section-408 - OTO										
02	1.00	0	208,040	791,673	999,713	1.00	0	208,055	791,728	999,783
DP 306 - Facility Costs										
03	0.00	0	183,894	0	183,894	0.00	0	189,764	0	189,764
DP 1501 - Surface Transportation Litigation (OTO/Biennial)										
01	0.00	3,000,000	0	0	3,000,000	0.00	0	0	0	0
DP 2204 - Unified Carrier Registration										
22	0.00	0	0	0	0	0.00	0	0	979,990	979,990
DP 5001 - Rail, Transit & Planning FTE										
50	4.00	0	47,656	190,623	238,279	4.00	0	47,698	190,792	238,490
DP 5004 - Corridor Studies										
50	0.00	0	100,000	400,000	500,000	0.00	0	100,000	400,000	500,000
DP 5005 - Passage of SAFETEA-LU act FTA										
50	2.00	0	1,252,276	5,119,839	6,372,115	2.00	0	1,396,566	5,696,309	7,092,875
DP 5006 - Safe Routes to School										
50	0.00	0	0	419,000	419,000	0.00	0	0	425,000	425,000
Total	**7.00**	**$3,000,000**	**$1,791,866**	**$6,921,135**	**$11,713,001**	**7.00**	**$0**	**$1,942,083**	**$8,483,819**	**$10,425,902**

Language

The executive recommends the following language for the department:

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

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

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

"All remaining federal pass-through grant appropriations for highway traffic safety, including reversions, for the 2007 biennium are authorized to continue and are appropriated in fiscal year 2008 and fiscal year 2009."

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	181.77	6.00	0.00	187.77	6.00	0.00	187.77	187.77
Personal Services	8,978,523	2,559,810	0	11,538,333	2,594,669	0	11,573,192	23,111,525
Operating Expenses	10,958,742	750,844	3,000,000	14,709,586	1,103,963	0	12,062,705	26,772,291
Equipment	394,152	(284,152)	0	110,000	(79,152)	0	315,000	425,000
Grants	75,000	0	0	75,000	0	0	75,000	150,000
Debt Service	250	0	0	250	0	0	250	500
Total Costs	**$20,406,667**	**$3,026,502**	**$3,000,000**	**$26,433,169**	**$3,619,480**	**$0**	**$24,026,147**	**$50,459,316**
General Fund	0	0	3,000,000	3,000,000	0	0	0	3,000,000
State/Other Special	19,516,004	2,506,436	0	22,022,440	3,099,377	0	22,615,381	44,637,821
Federal Special	890,663	520,066	0	1,410,729	520,103	0	1,410,766	2,821,495
Total Funds	**$20,406,667**	**$3,026,502**	**$3,000,000**	**$26,433,169**	**$3,619,480**	**$0**	**$24,026,147**	**$50,459,316**

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 Reorganization

In FY 2006, the administration portion of the program was reorganized to align business processes with accounting standards and federal financial management requirements and to improve internal financial management controls. In the process, 7.00 FTE were transferred to the General Operations Program from the Construction Program. The program was restructured to establish a Fiscal Operations Bureau under the Administrations administrator. The reorganization consolidates all fiscal operations, such as fiscal programming, budgeting, and accounting under one unit instead of separate units.

Program Highlights

Department of Transportation
General Operations Program
Major Budget Highlights

- Total fund budget increases by $9.6 million for the biennium or 16.3 percent over the base
  - $3.0 million general fund is added to pursue litigation against the federal Surface Transportation Board because of rail shipping rates for Montana shippers
  - Remaining budget growth is due entirely to present law increases
  - State special revenue funding increases by $5.6 million for the biennium or 14.4 percent over the base due to: 1) statewide present law adjustments; 2) maintenance contract increases and enhancement for the management system that administers interstate motor carrier registrations; and 3) information technology maintenance costs
  - Federal special revenue funding increases by $1.0 million for the biennium or 58.4 percent over the base to consolidate most department training in the program and fund it with federal funds

- Staffing is increased by 6.00 FTE
- Base year vacancies were 12.7 percent
- Training costs are consolidated from other programs to leverage federal funds

Major LFD Issues

- Outcomes of new initiatives are not specific or measurable
- Initiatives to replace contracted staff with state FTE lack key comparison factors
- Agency management systems duplicate SABHRS and MBARS

Program Narrative

New Initiatives of the 2005 Legislature

The 2005 Legislature approved ongoing funding of about $448,300 state special revenue to integrate department financial and management systems. The funding was intended to begin a long-term project to integrate the department's management systems used for resource and project planning and scheduling, and financial planning, monitoring, and administration. The funding added 6.00 FTE. The department reports the following progress has been made on the project:

- Project cost accumulation system from the mainframe to an Oracle based application is underway and due to be complete by the end of FY 2007
- Work is being done on defining business processes for project resource planning and fund obligation
- High-level structure has been established for common coding with implementation lowered in priority

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table
General Operations Progr

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	$ -	-	$ 3,000,000	11.3%	$ -	-
	01100 General Fund	-	-	3,000,000	11.3%	-	-
02000	Total State Special Funds	19,516,004	95.6%	22,022,440	83.3%	22,615,381	94.1%
	02422 Highways Special Revenue	19,516,004	95.6%	22,022,440	83.3%	22,615,381	94.1%
03000	Total Federal Special Funds	890,663	4.4%	1,410,729	5.3%	1,410,766	5.9%
	03407 Highway Trust - Sp Rev	890,663	4.4%	1,410,729	5.3%	1,410,766	5.9%
Grand	Total	$ 20,406,667	100.0%	$ 26,433,169	100.0%	$ 24,026,147	100.0%

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

Present Law Adjustments

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

Present Law Adjustments	Fiscal 2008 FTE	General Fund	State Special	Federal Special	Total Funds	Fiscal 2009 FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					2,530,009					2,565,834
Vacancy Savings					(460,343)					(461,766)
Inflation/Deflation					15,559					16,452
Fixed Costs					740,311					715,134
Total Statewide Present Law Adjustments					**$2,825,536**					**$2,835,654**
DP 1101 - Overtime/Differential	0.00	0	56,544	0	56,544	0.00	0	56,544	0	56,544
DP 1102 - Equipment Rental	0.00	0	11,865	0	11,865	0.00	0	10,025	0	10,025
DP 1302 - Training Program	0.00	0	0	540,238	540,238	0.00	0	0	540,238	540,238
DP 1401 - Software Upgrade	0.00	0	51,000	0	51,000	0.00	0	0	0	0
DP 1403 - Reorganization Implementation	0.00	0	5,000	0	5,000	0.00	0	5,000	0	5,000
DP 1407 - Motor Fuels System Enhancements	0.00	0	0	15,000	15,000	0.00	0	0	10,000	10,000
DP 1502 - ACS Contract - Restricted	0.00	0	234,449	0	234,449	0.00	0	256,151	0	256,151
DP 1503 - Convert Modified FTE to Permanent	6.00	0	(500,000)	0	(500,000)	6.00	0	(500,000)	0	(500,000)
DP 1508 - IT Cost Reductions	0.00	0	(173,003)	0	(173,003)	0.00	0	(173,003)	0	(173,003)
DP 1509 - IT Equipment Replacement	0.00	0	(79,789)	0	(79,789)	0.00	0	540,911	0	540,911
DP 1510 - Software Cost Reduction	0.00	0	(97,220)	0	(97,220)	0.00	0	(107,220)	0	(107,220)
DP 1511 - Print Shop Reduction	0.00	0	(18,760)	0	(18,760)	0.00	0	(18,760)	0	(18,760)
DP 1512 - IT Maintenance Costs	0.00	0	155,642	0	155,642	0.00	0	163,940	0	163,940
Total Other Present Law Adjustments	**6.00**	**$0**	**($354,272)**	**$555,238**	**$200,966**	**6.00**	**$0**	**$233,588**	**$550,238**	**$783,826**
Grand Total All Present Law Adjustments					**$3,026,502**					**$3,619,480**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 28 percent increase over the personal services base. About $0.6 million of the $2.5 million annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $1.9 million attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures, which if annualized for a full year total $749,000. Of these salary increases, 58 percent are for market adjustments and 20 percent are for classification upgrades. The program experienced a vacancy rate in authorized FTE hours of 12.7 percent during the base year. This level of vacancy equates to roughly 23.00 FTE. Had no vacancies existed, base expenditures would have been roughly $690,000 higher. Vacancies were highest in the following functional organizations:

- Public affairs
- Budgeting and planning
- Accounting controls

DP 1101 - Overtime/Differential - An increase of $113,088 state special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is $14,750 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

LFD COMMENT

For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 1102 - Equipment Rental - An increase of $21,890 state special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program.

LFD COMMENT

For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 1302 - Training Program - An increase of $1.1 million federal special revenue for the biennium is requested to consolidate training for the General Operations, Construction, Motor Carrier Services, and Transportation Planning Programs. Corresponding requests in the other listed programs eliminate state special revenue funded base training expenditures for a net biennium increase of $0.5 million.

LFD COMMENT

For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 1401 - Software Upgrade - An increase of $51,000 state special revenue for the biennium is requested to fund enhancements to the Personal Services Budget Monitoring (PSBM) system that would allow the system to capture actual expenditures from the State Accounting, Budgeting, and Human Resources System (SABHRS) rather than from a payroll system internal to the agency.

LFD ISSUE

Is the Funding Needed?

Background on PSBM

The department uses PSBM, an Oracle-based computer system, to project future personal services needs. With position control, budget, and expenditure data loaded every pay period, this system serves as a tool for managers to perform numerous real time what-if scenarios (new hires, terminations, reclassifications, changes in work hours, etc.) to forecast the fiscal impacts of those scenarios.

According to the department, the current process of loading from the department's internal payroll system presents three issues: 1) the data coming from the payroll system is not fully edit checked and may lead to inaccurate information being loaded into PSBM; 2) the payroll system does not include benefits, so benefits must be estimated within PSBM; and 3) the payroll system may be replaced through the integrated financials effort, thus leaving PSBM without a mechanism to capture expenditures.

Duplication of SABHRS

One component of the State Accounting, Budgeting, and Human Resources System (SABHRS) is for management of agency human resources. PSBM came into existence prior to SABHRS and addressed position management issues of the time. With SABHRS, one might question the need for a separate system for the department to manage positions. SABHRS provides ad hoc and regular reports that result from payroll transactions.

LFD ISSUE CONT.

SABHRS Future

The vendor for SABHRS is PeopleSoft. PeopleSoft has recently been purchased by Oracle and Oracle has indicated that it plans to replace PeopleSoft SABHRS type products with a new Oracle Fusion product that would be significantly different than PeopleSoft. The budget request for the Department of Administration (DOA) includes funding to evaluate future options for providing the functions currently provided by SABHRS. The DOA funding request is based on indications that Oracle Fusion may necessitate significant changes to the current SABHRS structure and other options may be available to provide the functionality. Given the uncertainty in SABHRS, funding to convert PSBM to SABHRS could be ill spent at this time. The department should be encouraged to collaborate with DOA to establish a plan for addressing the future SABHRS functionality that satisfies statewide issues including those of the Department of Transportation.

Legislative Options

The legislature may want to ask the department to specify why a separate system is needed in addition to SABHRS for managing positions and why, in light of the future uncertainties of SABHRS a conversion is warranted at this time. Based on the response from the agency, the legislature may want to eliminate all funding associated with PSBM and direct the department to use SABHRS to manage positions. Deactivating PSBM would eliminate the need for these funds as well as part of the base funding that supports the system, and any future costs to upgrade and operate the system.

LFD ISSUE

Another System Implemented Prior to SABHRS

Budget Development System

The department has another system, the Budget Development System (BDS), that duplicates functions of the Montana Budget and Reporting System (MBARS), which is a part of SABHRS. BDS was developed prior to the development of MBARS and uses data converted and downloaded from MBARS and SABHRS to develop budgets internal to the department. The budgets developed in BDS are then entered into MBARS for submission. The work starting, maintaining, and transferring data into and out of BDS each year is a duplication of effort that could be avoided through direct use of MBARS.

MBARS Future

MBARS interfaces with SABHRS, so any changes to SABHRS functionality, as discussed above, would impact the MBARS interface. The Oracle Fusion product that would replace the PeopleSoft product would include a budgeting module that could replace MBARS. Also, the long-term commitment of the MBARS vendor is waning and the vendor has indicated a desire to replace custom MBARS type products with a more nationally standardized product. These uncertainties are being investigated in a budget request for the Department of Administration (DOA), which includes funding to evaluate future options for providing the functions currently provided by MBARS. The DOA funding request is based on indications that future SABHRS functionality options may necessitate significant changes to the current MBARS structure and other options may be available to provide the functionality. Given the uncertainty in MBARS, funding to convert BDS to MBARS could be ill spent at this time. The department should be encouraged to collaborate with DOA to establish a plan for addressing the future MBARS functionality that satisfies statewide issues including those of the Department of Transportation.

Legislative Options

The legislature may want to ask the department to specify why BDS is still needed in addition to MBARS to develop the agency's budget. Based on the response from the agency, the legislature may want to eliminate all funding associated with BDS and direct the department to use MBARS to develop agency budgets. Deactivating BDS would eliminate the need for part of the base funding that supports the system and any future costs to upgrade and operate the system.

LFD ISSUE

One Time Designation

The expenditures for the PSBM enhancement to convert the input source to SABHRS would not be expected to continue beyond the 2009 biennium. As such, the legislature may wish to designate funding as one time only.

DP 1403 - Reorganization Implementation - An increase of $10,000 state special revenue for the biennium is requested to fund travel costs for a chief accountant position established during the reorganization of the Administration Division. Funding is for travel, meals, and lodging costs for the chief accountant to travel to all division offices to provide technical oversight of district financial officers.

DP 1407 - Motor Fuels System Enhancements - An increase of $25,000 federal special revenue for the biennium is requested to fund enhancements, including the development of new reports, to the computerized management systems used to process motor fuel distributor and dyed fuel information.

LFD ISSUE

What's Expected and How Will it be Measured

What the Department Expects to Get From the Expenditure

According to the department, the funding would be used to develop the following reports that would increase the efficiency of administering Montana's motor fuel laws:

- Cross-matching report that compares the total gallons of one distributor sold to another distributor and the total gallons the purchasing distributor received from the selling distributor
- A bad debt credits report and mixed fuel credit report to track when a distributor requests and is approved for a bad debt credit or a mixed fuel credit and would assist in identifying potential abuse of these credits
- A no-activity report that would identify inactive distributors to assist in administering motor fuel licenses

The department has identified no milestones for monitoring intermediate progress on report development other than stating the reports will be completed by the end of the biennium. The department states that the reports would decrease the time it takes to gather the information compared to the time it currently takes, but does not quantify what resource impacts the efficiency would produce or how the expected improvements would be measured to verify the expenditure of the funds yielded the expected improvements.

Identify Expected Outcomes and Measures

The legislature may want to follow up on how the enhanced system has improved the efficiency of administering Montana's motor fuel laws. Since the reports are proposed to improve the efficiency of administering motor fuels laws, the legislature may want to have the department identify what level of improvement the reports would produce and how the department would monitor and measure the effort to verify the expected improvements were reached. As such, the legislature may want to ask the department to identify specific quantifiable and time-based measures it would use to determine if the reports produced the expected outcome and how the department would measure the outcome of the effort, such as how the information gathered altered current practices.

DP 1502 - ACS Contract - Restricted - An increase of $490,600 state special revenue for the biennium is requested to fund increases for the system maintenance contract ($90,600) and enhancements ($400,000) for the software used by the department to administer and enforce state and federal commercial motor carrier laws and regulations and administer interstate motor carrier registration and motor fuel tax agreements. The executive is recommending restricting funding to this purpose.

LFD COMMENT

Base Funding for Enhancements

The 2005 Legislature provided $466,000 biennium funding for enhancements to the system, but designated the funding as one time only. Base funding for the maintenance contract is $770,000 and was not designated as one time only so it is a component of the 2009 biennium base funding. With the adjustment for the maintenance contract the base funding would increase by 4.5 percent in FY 2008 and 7.3 percent in FY 2009 over the base.

DP 1503 - Convert Modified FTE to Permanent - A net reduction of $1.0 million state special revenue for the biennium is requested to add 6.00 FTE staff and reduce contracted services for computer programmers.

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

Justification: The proposal will result in a net cost savings of $1 million for the biennium and will reduce dependence on outside resources to meet the needs of the agency.

Goal: Improved efficiency and cost savings in the support of certain information technology applications by meeting this need with department staff rather than with contracted services.

Performance Criteria: The criteria for measuring this proposal would be the actual realization of the $1,000,000 cost savings per biennium as anticipated.

Milestones: Major milestones include:

- Hiring skilled programmers to fill these positions. This process is on-going and some of these modified positions have already been hired
- Transferring the knowledge from the contractors to the new employees within 1 month after hire
- Terminating the existing contracts for contracted programmers once knowledge transfer is complete

Obstacles: Potential obstacles include:

- Knowledge transfer from existing contractors to new FTE
- Attracting and retaining qualified programmers to fill these positions

Risk: Potential risks include:

- High costs for support of applications through contracted labor
- Loss of knowledge base if a contracted company goes out of business or drops our contract services for information technology in association with the integrated financials project

LFD ISSUE

Performance Measure Weaknesses

Expected Outcome Not Measurable

The department states that the performance measure for determining success of this initiative is attainment of the expected $1.0 million cost savings. Simply reducing information technology contractor expenses by $1.0 million does nothing to show that providing computer programming by state FTE saves over using contracted programmers. The measure ignores several factors that are critical to a thorough comparison between state FTE and contracted programmers, such as:

- Tax impacts
- Training costs to develop and maintain proficiency of state FTE
- Costs associated with housing and supporting state FTE
- Learning curve – programming productivity

LFD ISSUE CONT.

Tax Impact - When the state employs a contract programmer from a company subject to paying taxes on corporate profits, the state receives revenues that would not be present with state FTE. The tax impacts between contracted staff and state FTE are not factored into determining the savings.

Training Costs - The calculation for determining the cost of the FTE doesn't include all costs associated with providing a comparable workforce of state FTE to contracted programmers. When a state agency solicits for a contractor to provide programming for the state, the contract requirements can specify the programming skill set and contractor experience to fulfill the specific need of the department. Companies wishing to bid on the contract are obligated to provide programmers with the specified skills and experience. When a state agency hires FTE to provide computer programming, the agency assumes the responsibility for matching the staff skill with the specific skills needed for the application or if the staff lacks the skill it must provide training to develop the skills. Training costs to develop and maintain state FTE skills in the rapidly changing information technology field are not considered in determining the savings.

Cost to House and Support State FTE - When the state hires FTE to provide computer programming, the state provides an office, computer equipment, and other office supplies to support the FTE. Depending on the terms of a contract for computer programming, the costs for outfitting the contracted staff may rest with the contractor. The costs to outfit a state FTE are not considered in determining the savings.

Learning Curve - Another factor that is missing in the comparison is the impacts of a learning curve on programming efficiency and effectiveness. The performance criterion doesn't provide a mechanism for evaluating the comparable impacts of hiring a contractor verses a state FTE on programming efficiency and effectiveness. The familiarity with the system and processes associated with the computer program can have an impact on the efficiency and effectiveness of the programmer. The criterion doesn't consider programmer productivity in evaluating the effectiveness of the initiative.

Legislative Options

The performance criteria proposed by the department for determining if the use of state FTE would truly save the state in the long-term over using contracted computer programmers appears to lack several key fiscal comparison factors. The legislature may want to direct the department to provide a more thorough analysis to determine the true cost savings and propose alternative measures for proving that state FTE truly save the state money, when all fiscal impacts are considered. The legislature may wish to direct the department to provide a pilot project that monitors both staff resources under similar conditions and measures all associated fiscal impacts and productivity outcomes side-by-side on comparable programming projects.

DP 1508 - IT Cost Reductions - A reduction of $346,000 state special revenue for the biennium is requested due to impacts of a methodology change in the Department of Administration (DOA) for allocating charges for information technology resources. In addition to the methodology change, migration of financial applications off the mainframe environment to Oracle has resulted in a reallocation of costs.

DP 1509 - IT Equipment Replacement - A net increase of $461,000 state special revenue for the biennium is requested to fund replacement of video equipment used for video conferencing. Funding would also replace desktop computer units that were not funded through the four-year replacement cycle funding in the base year. Offsetting the $914,000 in increases are reductions of $450,000 for network equipment that were funded by the department in the base year but which will now be funded by the Department of Administration.

DP 1510 - Software Cost Reduction - A reduction of $204,400 state special revenue for the biennium is requested because expenditures for software purchased in the base year as part of a major software rollout will not occur during the biennium and other software will now be purchased by the Department of Administration as part of services funded through desktop services charge.

DP 1511 - Print Shop Reduction - A reduction of $37,500 state special revenue for the biennium is requested to eliminate base funding that will no longer be needed due to a consolidation of equipment in the print shop.

DP 1512 - IT Maintenance Costs - An increase of $319,600 state special revenue for the biennium is requested to annualize funding for maintenance of new computer equipment and applications that were in operation for only part of the base year.

New Proposals

New Proposals	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1501 - Surface Transportation Litigation (OTO/Biennial)										
01	0.00	3,000,000	0	0	3,000,000	0.00	0	0	0	0
Total	**0.00**	**$3,000,000**	**$0**	**$0**	**$3,000,000**	**0.00**	**$0**	**$0**	**$0**	**$0**

DP 1501 - Surface Transportation Litigation (OTO/Biennial) – An increase of $3.0 million general fund for the biennium is requested to pursue litigation against the federal Surface Transportation Board related to excessive (above market) rail freight charges. The executive recommends the legislature approve funding as one time only and biennial.

LFD COMMENT

Expectations From the Funding

According to the executive, the litigation funded in the request is expected to provide relief to captive shippers in Montana through more nationally competitive shipping rates. This effort is expected to directly benefit Montana agricultural and other bulk commodity shippers and indirectly benefit Montana citizens through lower shipping costs and higher agricultural revenues. The funding level for this request was based on consultation with individuals and entities, including other states, engaged in similar litigation. The litigation is only anticipated to last for two years before the expected outcome would result and no additional funds are anticipated at this time.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	1,105.52	(71.72)	1.00	1,034.80	(122.10)	1.00	984.42	984.42
Personal Services	57,034,086	7,117,641	58,769	64,210,496	4,610,721	58,839	61,703,646	125,914,142
Operating Expenses	260,631,173	22,385,859	440,944	283,457,976	26,353,250	440,944	287,425,367	570,883,343
Equipment	1,027,634	0	0	1,027,634	0	0	1,027,634	2,055,268
Capital Outlay	14,294,241	0	0	14,294,241	0	0	14,294,241	28,588,482
Local Assistance	382,400	0	0	382,400	0	0	382,400	764,800
Grants	4,917,935	0	500,000	5,417,935	0	500,000	5,417,935	10,835,870
Total Costs	**$338,287,469**	**$29,503,500**	**$999,713**	**$368,790,682**	**$30,963,971**	**$999,783**	**$370,251,223**	**$739,041,905**
State/Other Special	113,075,193	(22,441,868)	208,040	90,841,365	(27,951,220)	208,055	85,332,028	176,173,393
Federal Special	225,212,276	51,945,368	791,673	277,949,317	58,915,191	791,728	284,919,195	562,868,512
Total Funds	**$338,287,469**	**$29,503,500**	**$999,713**	**$368,790,682**	**$30,963,971**	**$999,783**	**$370,251,223**	**$739,041,905**

Program Description

The Construction Program is responsible for construction project planning and development from the time a project is included in the long-range work plan through the actual construction of the project. Program responsibilities include such tasks as project designs, environmental documents and permits, right-of-way acquisitions, issuing contract bids, awarding contracts, and administering construction contracts. Contract administration is responsible for the documentation, inspection, and testing of highway construction projects from the time the contract is awarded to a private contractor until the project is completed and the work is approved as meeting established construction standards. The program also provides traffic improvement and educational programs to promote public safety, health, and welfare.

Program Highlights

Department of Transportation
Construction Program
Major Budget Highlights

- Total fund budget increases by $62.5 million for the biennium or 9.2 percent over the base
  - State special revenue funding is reduced by $50.0 million for the biennium or 22.1 percent over the base primarily due to reductions in state funded construction program expenditures and reduced state matching requirements in the federal-aid construction program
  - Federal special revenue funding increases by $112.4 million for the biennium or 25.0 percent over the base primarily due to higher federal-aid funding levels and participation percentages of SAFETEA-LU
- Staffing is reduced by 70.72 FTE in FY 2008 and by 121.10 FTE in FY 2009 primarily because high construction cost inflation has reduced the number of construction projects, even with more federal funds
- $2.0 million of total funds would develop processes and link data in other state agencies to identify highway safety concerns
- State funded construction funding is reduced to about $10.0 million per year

Major LFD Issues

- High construction cost inflation is reducing the number of construction projects that can be funded
- Resubmission of the budget to reflect a yet to be revised construction plan will require further analysis
- 53.50 FTE in 9 aggregate positions of one organization were vacant for the entire base year and FY 2005

Program Narrative

Several present law adjustments for the Construction Program are based on existing construction contracts and future planned construction activity, construction contract bid letting dates, and estimates of staff resource needs to support the planned construction contracts during the 2009 Biennium.

Estimating Contractor Payment Amounts

Based on planned construction activities, the department uses several management systems to estimate resource usage and payout schedules on highway construction projects. Each year after receiving updated federal-aid highway construction apportionment levels from the Federal Highways Administration, the department updates and balances the projects and funding in the highway construction plan, referred to as the tentative construction plan (TCP). The TCP indicates when the various highway construction projects will be let and the type of work to be completed. This construction contract information is used in the Project Cost Scheduling (PCS) system, one of many computerized management systems of the department, to estimate when and at what amounts actual contractor payments will be made. The estimates from these management systems form the basis for the contractor payments budget requests in both the federal-aid and 100 percent state funded construction programs. The management system estimates also form the basis for determining staff resources needed to support the planned construction contracts and activities for the biennium.

The last updated and balanced TCP was prepared at the end of 2005 and was used to develop the budget requests that are presented in the Legislative Budget Analysis 2009 Biennium. At the time of the budget analysis, the department was in the process, but had not completed, the 2006 update to the TCP for updated federal FY 2007 apportionment estimates.

LFD ISSUE

Update to the Highway Construction Plan

The budget requests DP 201, DP 202, and DP 203 in the Construction Program, which request funding for contractor payments and staff resources in the federal-aid and 100 percent state funded construction programs, were built based on the 2005 TCP update. In keeping with past practice, the above listed decision packages will likely be revised and resubmitted by the executive prior to being heard by the General Government and Transportation Joint Appropriation Subcommittee of the 2007 Legislature. The revised requests will be based on the 2006 TCP update.

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table Construction Program								
Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000	Total State Special Funds	$ 113,075,193	33.4%	$ 90,841,365	24.6%	$ 85,332,028	23.0%
	02422 Highways Special Revenue	113,075,193	33.4%	90,841,365	24.6%	85,332,028	23.0%
	02799 Highway 93 Bond Proceeds	-	-	-	-	-	-
03000	Total Federal Special Funds	225,212,276	66.6%	277,949,317	75.4%	284,919,195	77.0%
	03407 Highway Trust - Sp Rev	219,251,650	64.8%	271,557,824	73.6%	278,665,226	75.3%
	03828 Traffic Safety	5,960,626	1.8%	6,391,493	1.7%	6,253,969	1.7%
Grand	Total	$ 338,287,469	100.0%	$ 368,790,682	100.0%	$ 370,251,223	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 and distributed by the U.S. Department of Transportation. Construction design, construction, and construction management costs, as well as direct administrative costs for construction activities, are generally eligible for federal reimbursement. The state match requirement is based on a sliding scale match, which is currently 87 percent federal with a 13 percent state match for most direct construction related costs. The program also provides a maintenance-of-effort highway construction program funded entirely with highways state special revenue. The primary sources of revenue for the highways state special revenue funds are highway-user fees derived from motor fuel taxes and gross vehicle weight fees. Traffic safety functions are generally funded 100 percent with National Highway Traffic Safety Administration grant funds. The exception is that a 50 percent state special revenue match is required for roughly 1 percent of the administrative costs.

Present Law Adjustments

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

Present Law Adjustments	Fiscal 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					9,416,210					9,701,530
Vacancy Savings					(2,657,989)					(2,669,415)
Inflation/Deflation					35,614					44,046
Fixed Costs					4,056					3,287
Total Statewide Present Law Adjustments					**$6,797,891**					**$7,079,448**
DP 201 - Contractor Payments/Federal Aid Construction Prog	0.00	0	4,752,267	28,115,565	32,867,832	0.00	0	4,695,861	33,171,971	37,867,832
DP 202 - Contractor Payments/State Construction Program	0.00	0	(11,267,261)	0	(11,267,261)	0.00	0	(11,267,261)	0	(11,267,261)
DP 203 - Construction Management FTE Adjustments	(71.72)	0	(1,338,734)	(1,758,359)	(3,097,093)	(122.10)	0	(2,834,522)	(3,609,581)	(6,444,103)
DP 208 - Overtime/Differential	0.00	0	2,308,645	2,000,137	4,308,782	0.00	0	2,325,450	1,983,332	4,308,782
DP 209 - Equipment Rental	0.00	0	117,759	509,286	627,045	0.00	0	86,460	416,509	502,969
DP 210 - Program Reductions	0.00	0	(90,485)	(391,332)	(481,817)	0.00	0	(142,989)	(688,828)	(831,817)
DP 211 - Training Reductions	0.00	0	(251,879)	0	(251,879)	0.00	0	(251,879)	0	(251,879)
Total Other Present Law Adjustments	**(71.72)**	**$0**	**($5,769,688)**	**$28,475,297**	**$22,705,609**	**(122.10)**	**$0**	**($7,388,880)**	**$31,273,403**	**$23,884,523**
Grand Total All Present Law Adjustments					**$29,503,500**					**$30,963,971**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 16.5 percent increase over the personal services base. About $3.3 million of the $9.4 million annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $6.1 million attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures which if annualized for a full year total $4.5 million. Of these salary increases, 59 percent are for market adjustments. The program experienced a vacancy rate in authorized FTE hours of 14.4 percent during the base year. This level of vacancy equates to about 159.00 FTE. Had no vacancies existed, base expenditures would have been roughly $3.9 million higher. Vacancies were highest in the following functional organizations:

- Emergency relief
- Glendive and Great Falls construction field units
- Photogrammetry and survey

LFD ISSUE

Vacant Emergency Relief Positions

The emergency relief organization consists of nine aggregate positions that account for 53.50 FTE. All nine emergency relief positions were vacant for the entire FY 2006. The positions were vacant when the budget snapshot was taken to develop the personal services budget request and represent 45 percent of the 118.12 FTE in this program that were vacant in the snapshot. Alone, the 53.55 FTE of the positions account for $1.5 million of the statewide personal services present law adjustment in each year.

The nine positions were vacant for all of the base year, in the snapshot, and as the budget analysis was being completed. The positions weren't even used in response to the mud slide that closed the Beartooth Highway near Red Lodge or during the wildfires near Glacier Park in 2006. As is, the positions generate excess personal services budget authority that could be used to supplement other personal services costs such as pay adjustments above and beyond salary adjustments of a legislative pay plan. Since the positions are not needed unless there is an emergency relief effort, and even then rarely filled, the legislature may wish to either eliminate the funding or restrict it for use only in the event of an emergency relief effort requiring department involvement and following an emergency declaration of the Governor.

<u>DP 201 - Contractor Payments/Federal Aid Construction Prog -</u> Increases of about $70.7 million combined state special and federal special revenue for the biennium are requested to fund payments to highway construction contractors based on department estimates of federal-aid funding and the corresponding highway construction plan last updated at the end of 2005.

LFD COMMENT

This adjustment may change before the legislature hears the department budget request. See the LFD issue in the Program Narrative section for this program.

<u>DP 202 - Contractor Payments/State Construction Program -</u> A reduction of about $22.5 million state special revenue for the biennium is proposed to reduce the state funded construction program to the minimum amount of state maintenance of effort required to receive a favorable federal participation rate on federal aid projects.

LFD COMMENT

This adjustment may change before the legislature hears the department budget request. See the LFD issue in the Program Narrative section for this program.

LFD COMMENT

Resulting Funding Level for Maintenance of Effort

In order to receive a favorable match, as explained in the Agency Discussion narrative for the agency, the department must fully fund a certain level of construction activity with state funds. The level determined for Montana's maintenance of effort (MOE) is roughly $10.0 million per year, on average over three years. The department administers the MOE through in their state funded construction program, which had base expenditures of $21,286,616. Considering the base and the adjustment, the resulting MOE would be slightly over $10.0 million per year of the 2009 biennium.

The adjustment helps shore up HSRA and represents a significant change of policy for the department from past practices. Past practice was for the department to expend all indirect cost revenue on state funded construction activities and not just fund the minimum maintenance of effort. For more information on the financial stability of HSRA see the working capital analysis narrative in the Agency Discussion section for this agency.

DP 203 - Construction Management FTE Adjustments - 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 net reductions of 71.72 FTE in FY 2008 and 122.10 FTE in FY 2009, in combination with adjustments for preliminary and construction engineering functions in support of highway construction. The request is for reductions of $9.6 million combined state special and federal special revenue for the biennium. Included in the adjustment are gross reductions of 78.72 FTE in FY 2008 and 129.10 FTE in FY 2009 associated with construction activity of the TCP. Offsetting a portion of the reductions are increases of 7.00 FTE in each year to address increased workload issues associated with expanded requirements in the SAFETEA-LU.

LFD COMMENT

This adjustment may change before the legislature hears the department budget request. See the LFD issue in the Program Narrative section for this program.

DP 208 - Overtime/Differential - An increase of $8.6 million combined state special and federal special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase are $7,900 for per diem for highway commission meetings and $1.1 million for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

LFD COMMENT

For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 209 - Equipment Rental - An increase of $1.1 million combined state special and federal special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program.

LFD COMMENT

For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 210 - Program Reductions - A reduction of nearly $964,000 combined state special and federal special revenue for the biennium is recommended to remove funding for one time expenditures in the base. The one time expenditures are for such items as hook-up costs for the poly com system, remodels, and rental of a snooper truck.

DP 211 - Training Reductions - A reduction of $504,000 state special revenue for the biennium is requested to consolidate funding for training in the General Operations Program. The adjustment removes base funding for training.

LFD COMMENT For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

New Proposals

New Proposals

Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
	Fiscal 2008					Fiscal 2009				
DP 207 - Highway Traffic Safety Section-408 - OTO										
02	1.00	0	208,040	791,673	999,713	1.00	0	208,055	791,728	999,783
Total	**1.00**	**$0**	**$208,040**	**$791,673**	**$999,713**	**1.00**	**$0**	**$208,055**	**$791,728**	**$999,783**

DP 207 - Highway Traffic Safety Section-408 - OTO - An increase of nearly $2.0 million combined state special and federal special revenue is requested to contract to design a workflow that would allow the department to be linked to other departments and systems for identifying highway safety problems, trends in crash patterns, components of highway infrastructure that produce unsafe conditions, and other significant safety concerns. Included is funding for 1.00 FTE to coordinate the project. The executive recommends that funding be designated one time only.

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

Justification: This proposal would allow the Highway Traffic Safety Office (SHTSO) of the Montana Department of Transportation (DOT) to utilize the federal funding made available through Title 23, Sec. 408 of SAFETEA-LU for highway traffic safety data collection and systems improvements. With the completion of a traffic records assessment in 2004, and the traffic records strategic plan in 2006, Montana qualifies for this funding beginning in federal FY 2006 and ending in federal FY 2009.

Goal: The goals of the proposal include the following:
- Reduce statewide alcohol or drug-related fatal and serious injury crashes
- Reduce and mitigate the consequences of single vehicle run-off-the road fatal and serious injury crashes
- Reduce young driver (under age 21) fatal and serious injury crashes
- Increase safety belt usage
- Reduce American Indian fatal crashes
- Reduce fatal and serious injury crashes involving trucks
- Reduce fatal and serious injury crashes in urban areas
- Reduce motorcycle fatal and serious injury crashes

Performance Criteria: Progress will be measured through the evaluation of program and countermeasure effectiveness; and tracking of statewide trends. Specific actions that can be achieved and measured with an improved traffic records system include the ability to:
- Identify trends in crash patterns (e.g., large trucks, alcohol or drug-involved)
- Identify components of the highway infrastructure that produce unsafe conditions (e.g., geometric deficiencies, outdated design, highway “furniture”)
- Identify locations that have a higher rate of crashes than otherwise might be expected
- Track individuals involved in risky driving behavior from citation through conviction
- Evaluate education and enforcement strategies for their effectiveness in reducing crashes
- Develop performance measures for ongoing tracking of progress toward safety goals

- Provide an efficient communication and information sharing network among all agency transportation safety administrators, including emergency services, law enforcement, and education
- Provide greater certainty that the highest-priority needs are identified; and integrate drivers and vehicles with roadways into safety programs.

Milestones: The window for this proposal will run from federal fiscal year 2006 through 2009. All key activities must be completed within this timeframe.

Obstacles: Potential obstacles include:

- Obtaining an outside consultant with the knowledge and ability to develop and effective work plan
- Integrating various information types and sources
- Coordinating the multiple stakeholders in the project

Potential risks include: The risk to Montana if the proposal is not adopted lies in the failure to maximize the use of available federal funds in the timeframe allotted. For DOT to proceed with this project without using the available federal funding would rely entirely on use of state special revenue.

LFD ISSUE

Specific Milestones or Outcome Measures Provide No Indication of Progress or Success

The performance criteria provided by the department lists items that can be measured, but do not specify the criteria for determining if the initiative is successful in achieving the stated goals. Furthermore, no milestones were provided to monitor the progress of the project except to state federal funds will not be available for the project if it is not completed by the end of federal FY 2009.

The legislature may want to have the department provide specific measures for determining success of the project or specific and measurable target achievement levels the department expects to be achieved with the funding. The legislature may also want to have the department provide specific milestones for monitoring and reporting on progress of the initiative during the interim.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	760.17	6.50	0.00	766.67	6.50	0.00	766.67	766.67
Personal Services	38,986,900	5,148,458	0	44,135,358	5,524,328	0	44,511,228	88,646,586
Operating Expenses	61,180,268	1,586,833	183,894	62,950,995	1,004,260	189,764	62,374,292	125,325,287
Equipment	252,673	40,000	0	292,673	0	0	252,673	545,346
Capital Outlay	4,357	101,500	0	105,857	100,000	0	104,357	210,214
Total Costs	**$100,424,198**	**$6,876,791**	**$183,894**	**$107,484,883**	**$6,628,588**	**$189,764**	**$107,242,550**	**$214,727,433**
State/Other Special	93,411,584	6,546,567	183,894	100,142,045	6,298,364	189,764	99,899,712	200,041,757
Federal Special	7,012,614	330,224	0	7,342,838	330,224	0	7,342,838	14,685,676
Total Funds	**$100,424,198**	**$6,876,791**	**$183,894**	**$107,484,883**	**$6,628,588**	**$189,764**	**$107,242,550**	**$214,727,433**

Program Description

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

Program Highlights

Department of Transportation
Maintenance Program
Major Budget Highlights

- Total fund budget increases by $13.9 million for the biennium or 6.9 percent over the base
  - State special revenue funding increases by $13.2 million for the biennium or 7.1 percent over the base due to: 1) higher equipment rental costs; 2) assumption of maintenance for more secondary roads; 3) low base expenditures for weed control; and 4) communication equipment and remote weather information system maintenance costs
  - Federal special revenue funding is increased by $0.7 million for the biennium or 4.7 percent over the base because base year pavement marking activity was lower compared to the plan for the 2009 biennium
- Staffing is increased by 6.5 FTE over the biennium because of workload impacts from assuming responsibility for more secondary roads
- The department would assume maintenance responsibility from the counties for 168 additional center line miles of roads

Major LFD Issues

- The department was unable to identify service impacts from an $8.0 million general reduction of state special revenue

Program Narrative

New Initiatives of the 2005 Legislature

The 2005 Legislature approved funding for new initiatives listed below along with the progress the department reports toward the initiatives.

City Park Rest Areas

The legislature approved $150,000 state special revenue to assume caretaker, janitorial services, and basic maintenance of 10 city park rest areas. The department reports the following progress has been made toward the initiative:

- Site needs review conducted
- Needs identified
- Work plan and reimbursement method worked out by the department and local entities

Rural Transportation Management Center

The legislature approved one time funding of $900,000 federal special revenue to implement a rural transportation management center. The department reports the following progress has been made toward the initiative:

- A contracted requirements analysis is in progress to research roadway condition reporting
- Participating in a consortium of states along I-90 and I-94 to influence standards development for sharing, coordinating, and integrating traveler information across state borders (Northwest Passage Corridor Pooled Fund Study)
- Partnering with the Montana Highway Patrol and the Northern Tier Interoperability Communications Consortium to improve communication capabilities

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table

Maintenance Program

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000	Total State Special Funds	$ 93,411,584	93.0%	$ 100,142,045	93.2%	$ 99,899,712	93.2%
	02422 Highways Special Revenue	93,411,584	93.0%	100,142,045	93.2%	99,899,712	93.2%
03000	Total Federal Special Funds	7,012,614	7.0%	7,342,838	6.8%	7,342,838	6.8%
	03407 Highway Trust - Sp Rev	7,012,614	7.0%	7,342,838	6.8%	7,342,838	6.8%
Grand	Total	$ 100,424,198	100.0%	$ 107,484,883	100.0%	$ 107,242,550	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 determined by the Federal Highway Administration to extend the life of the highway.

Present Law Adjustments

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

Present Law Adjustments	Fiscal 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					4,521,584					4,911,022
Vacancy Savings					(1,740,385)					(1,755,912)
Inflation/Deflation					272,346					319,260
Fixed Costs					(325)					(325)
Total Statewide Present Law Adjustments					**$3,053,220**					**$3,474,045**
DP 301 - Additional Secondary Roads	6.50	0	618,280	0	618,280	6.50	0	608,072	0	608,072
DP 305 - Communications Replacements	0.00	0	127,710	0	127,710	0.00	0	127,710	0	127,710
DP 307 - Contracted Maintenance	0.00	0	69,803	0	69,803	0.00	0	69,803	0	69,803
DP 308 - Land Purchases	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
DP 313 - Overtime/Differential	0.00	0	2,054,453	0	2,054,453	0.00	0	2,054,453	0	2,054,453
DP 314 - Equipment Rental	0.00	0	3,329,455	0	3,329,455	0.00	0	2,670,635	0	2,670,635
DP 315 - Pavement Markings	0.00	0	246,972	865,535	1,112,507	0.00	0	246,972	865,535	1,112,507
DP 316 - RWIS System Maintenance	0.00	0	77,328	0	77,328	0.00	0	77,328	0	77,328
DP 317 - Noxious Weed Control	0.00	0	236,015	0	236,015	0.00	0	236,015	0	236,015
DP 318 - Travelers Information Program	0.00	0	0	52,328	52,328	0.00	0	0	52,328	52,328
DP 319 - State Special Revenue Funding Reduction	0.00	0	(4,000,000)	0	(4,000,000)	0.00	0	(4,000,000)	0	(4,000,000)
DP 320 - Training	0.00	0	45,692	0	45,692	0.00	0	45,692	0	45,692
Total Other Present Law Adjustments	**6.50**	**$0**	**$2,905,708**	**$917,863**	**$3,823,571**	**6.50**	**$0**	**$2,236,680**	**$917,863**	**$3,154,543**
Grand Total All Present Law Adjustments					**$6,876,791**					**$6,628,588**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is an 11.6 percent increase over the personal services base. About $2.3 million of the $4.5 million annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $2.2 million attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures, which if annualized for a full year total $1.3 million. Of these salary increases, 55 percent are for classification upgrades and 13 percent are for market adjustments. The program experienced a vacancy rate in authorized FTE hours of 7.1 percent during the base year. This level of vacancy equates to about 54.00 FTE. Had no vacancies existed, base expenditures would have been roughly $2.2 million higher.

DP 301 - Additional Secondary Roads – An increase of $1.2 million state special revenue for the biennium is requested to add 6.50 FTE and to purchase materials to maintain 168 additional centerline miles of paved secondary roads assumed from counties under the authority of 60-2-203, MCA. Materials that would be purchased include such items as traffic paint, winter materials, replacement signs, and sand.

DP 305 - Communications Replacements - An increase of $255,420 state special revenue for the biennium is requested to: 1) establish a 10-year replacement cycle for two-way communications equipment; and 2) offset the higher costs of communications equipment that meet interoperability requirements.

LFD COMMENT

Funding Would Establish a 10-year Replacement Cycle

The 2005 Legislature added $513,837 state special revenue for the 2007 biennium on top of a base of nearly $140,000, for an annual amount of $327,000, to establish a 12-year replacement cycle. The 12-year replacement cycle was intended to replace two-way radio equipment in two to three area sites each biennium. Typically, two-way radio manufacturers stop providing support and parts 10 to 12 years after the radios are manufactured.

The agency states that the funding added with this adjustment would provide funding for a 10-year replacement cycle and offset radio cost increases due to the changing technology from analog to digital radios and the requirements to provide equipment that meets interoperability requirements. Interoperability is being driven by the lessons learned from the event of September 11, 2001, at the World Trade Center in which communications were inadequate due to the inability to communicate across jurisdictional boundaries do to lack of interoperable communications equipment.

DP 307 - Contracted Maintenance - An increase of $140,000 state special revenue for the biennium is requested to fund increases associated with maintenance contacts with the cities of Missoula and Billings and increases to a luminary lighting maintenance contract with Northwestern Energy.

LFD COMMENT

Maintenance Contracts

The department has maintenance service contracts with the cities of Missoula and Billings to maintain state highways that are the financial responsibility of the state and run through those cities. The contracted duties are similar to activities performed by the department, such as snow removal and ice control, roadway patching and repairs, storm drain maintenance and repairs, landscape maintenance, street cleaning, review and initiation of encroachment permits, interchange and park green area maintenance, weed and tree control, and cross walk and roadway painting. The department also has a maintenance contract with NorthWestern Energy to replace and perform routine maintenance on 4,810 street luminary lights located in Butte, Bozeman, Missoula, Billings and Great Falls.

DP 308 - Land Purchases - An increase of $200,000 state special revenue for the biennium is requested to purchase land for stockpile sites and facility sites associated with the Long-range Building Program.

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 2007 Legislature. The department has typically purchased the land for these structures prior to approval of the capital funding.

DP 313 - Overtime/Differential - An increase of $4.1 million state special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is $536,000 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

LFD COMMENT For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 314 - Equipment Rental - An increase of $6.0 million combined state special and federal special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program.

LFD COMMENT For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 315 - Pavement Markings - An increase of $2.2 million combined state special and federal special revenue for the biennium is requested to provide funding for pavement markings at the planned level of activity for the 2009 biennium. The department contracts for pavement markings and the base year expenditures were lower than planned because of payment delays associated with a number of contract disputes. Weather delays and product delivery problems resulted in base year expenditures falling below plan levels.

DP 316 - RWIS System Maintenance - An increase of $155,000 state special revenue for the biennium is requested to expand and enhance the system by adding more web cameras to the system.

LFD COMMENT Roadway Weather Information System Explained

The Roadway Weather Information System (RWIS) consists of a variety of weather monitoring equipment, including web cameras and sensors, located throughout Montana on state maintained highways. The system is used by a number of functions within the department. For example, the highway maintenance crews use information provided by these remotely located instruments to monitor adverse weather and road conditions. Additionally, the department traveler information processes use data generated from RWIS. The National Weather Service uses RWIS system data as input into their weather forecast models. The traveling public uses the system to view road and weather conditions for travel planning. The current system consists of 63 remote units, of which 22 have cameras viewable from the Internet by the traveling public, weather service, and the department. The system can be viewed at the following Internet site: rwis.mdt.mt.gov.

The 2005 Legislature provided funding to establish a four-year replacement cycle for most field equipment of the system and a two-year cycle for server equipment. At the same time, one time funding was provided to enhance the system and provide additional sites. The system is being used more and more by the traveling public to determine roadway conditions. As such, the department is receiving more requests to add sites to the system and system enhancements are becoming an ongoing cost of the system.

DP 317 - Noxious Weed Control - An increase of $472,000 state special revenue for the biennium is requested to increase annual funding to $1.3 million for controlling noxious weeds on state highway rights of ways. The department contracts with the county weed control boards to perform noxious weed control. The increase would be used to offset cost increases for chemicals, equipment, and manpower, and to restore funding for expenditures that were not made when some counties were not able to spray due to rainy spring weather.

DP 318 - Travelers Information Program - An increase of $105,000 federal special revenue for the biennium is requested to fund additional long distance costs due to growing demand by the public for the 511 program.

LFD ISSUE

511 Traveler Information Program

The 511 traveler information program provides telephone access to 24-hour real time information for travelers, including:

- Winter driving conditions
- Weather forecast information
- Construction information
- Road closures and major delays
- Weight and speed limit restrictions

The 2005 Legislature approved an increase of $160,000 to replace federal funds with state special revenue. The legislature should be aware that becoming reliant on federal funds to provide part of the funding for the program could, as shown in the past, put future legislatures in a position where it may have to consider a request to replace federal funds with additional state funds. The legislature may want to ask the executive to provide an indication of the impacts that would result if these funds were not approved or if, in the future, they were lost and not replaced with state funds.

DP 319 - State Special Revenue Funding Reduction - A biennium reduction of $8.0 million is recommended to help maintain solvency of the highways state special revenue fund.

LFD ISSUE

Service Level Impacts

When asked, the department was unable to provide specific information to determine the service impacts that would result from this general reduction that was grouped into one expenditure code. The department stated that the impact will be small in each district, but routine road maintenance projects will be delayed to a future date. They also stated that safety to the traveling public will not be sacrificed as snow removal and required maintenance will not be affected.

The legislature may want to ask the department to provide detail of what services this reduction would include and how the service reductions would impact condition of the state highway system.

DP 320 - Training - An increase of $91,400 state special revenue for the biennium is requested to maintain job related training for the maintenance academy, the maintenance management mentoring program, and training on diagnostic equipment. The program under spent the base contracted training budget due to scheduling conflicts with the training providers.

New Proposals

New Proposals

	Fiscal 2008					Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 306 - Facility Costs										
03	0.00	0	183,894	0	183,894	0.00	0	189,764	0	189,764
Total	**0.00**	**$0**	**$183,894**	**$0**	**$183,894**	**0.00**	**$0**	**$189,764**	**$0**	**$189,764**

DP 306 - Facility Costs - An increase of $373,700 state special revenue for the biennium is requested to lease additional office space near the department headquarters. Funding would be used for rent, utilities, supplies and materials, and repair and maintenance, and includes a five percent inflation factor for rent.

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.

Program Highlights

Department of Transportation State Motor Pool Major Budget Highlights
♦ High motor fuel costs are driving up vehicle rental rates
Major LFD Issues
♦ Operating losses due to high gasoline costs in the 2007 biennium result in a supplemental appropriation request and contributed capital from the general fund ♦ Contributed capital not included in rate development

Funding

State Motor Pool is funded entirely with internal service type proprietary funds. Because the proprietary funds do not require an appropriation, they are not typically included in HB 2 tables. Instead, the legislature approves the fees and charges that support the revenues for the program. The fees and charges approved in the general appropriations act are the maximum fees and charges that may be charged in the biennium. The proprietary funded program is discussed below in the Proprietary Rates section.

Proprietary 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 48.15 percent of the low mileage rate allowed by the United States Internal Revenue Services unless a State Motor Pool vehicle is not available.

Historical Program Growth

The program has increased from 318 units in FY 1994 to 884 in FY 2006. During that time, annual mileage increased from 4.1 million to 13.6 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 that agencies lease new vehicles from the State Motor Pool instead of purchasing vehicles directly. This practice began following a legislative audit that identified significant inconsistence and associated risk in how various agencies maintained and managed state-owned vehicles.

Proprietary Revenues and Expenses

Revenues

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 in FY 2006. 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 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 agency office locations and only returned to the State Motor Pool facilities for maintenance or reassignment.

LFD COMMENT

In FY 2006, the State Motor Pool had revenues of roughly $3.6 million from vehicle rental fees. Vehicle rent payments were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (54.8 percent) $1,961,000
- State special revenue (22.3 percent) $798,000
- Federal special revenue (20.3 percent) $726,000
- All other funds (2.6 percent) $94,000

Expenses

The State Motor Pool is responsible for expenses associated with the acquisition, repair, maintenance, and routine operating costs for the fleet. The program pays all costs directly associated with vehicle operations including liability insurance. The program 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 majority of the costs of the program are indirect costs, as they cannot be traced directly to specific miles driven by State Motor Pool vehicles. Indirect costs are supported by the assigned rates allocated to the seven classes of vehicles. The State Motor Pool supports 6.00 FTE. Administrative overhead and service activities that cannot be tied directly to a vehicle receive an allocation of 75 percent of the personal service costs with the remaining 25 percent allocated to specific units as specific maintenance and repair activities are tracked. Direct costs include gasoline, oil, and tires and are supported by the usage rates for all seven classes of vehicles. Expenses for gasoline and other vehicle maintenance costs, such as oil and tires, accounted for 27.8 percent of FY 2006 total expenses. The allocations of indirect costs and direct costs use the same methodology for all rates to which they apply. The program has included a 4 percent increase in projections for indirect costs and a 7 percent increase in projections for direct costs, except gasoline is estimated to cost the program $2.65 per gallon in each year. In FY 2006, gasoline comprised nearly 24.0 percent of all program costs. These growth factors are based on industry trends in which vehicle purchase costs are expected to increase, as are costs for repairs and maintenance. Rising oil prices are expected to keep oil, grease, and fuel costs higher than the base year expenditures.

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 payments have a significant impact on motor pool assigned time rental rates. The program currently operates with a general fund loan to allow cash flow. The current general fund loan will be repaid over the next three years.

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 due June 15.

Fund Balance 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 884 vehicles, nearly three times the 1994 fleet size. Because of this growth, the program has borrowed funds to purchase new vehicles. As such, the balance sheet for the program at the end of FY 2006 has $16.2 million in equipment assets with vehicles comprising nearly 100 percent of total assets. The equipment assets are now depreciated to approximately 20 percent of their cost, which in previous years they were depreciated to 30 percent of their cost. This is estimated to bring the book value of all assets to approximately $10.6 million financed by $6.6 million of long-term debt. The resultant fund equity is $1.0 million or 10.6 percent of total assets. An adjustment to decrease the fund equity balance was included in the rates for the 2005 biennium. The adjustment was for net income gains from 1998 to 2002. The program decreased fund equity by nearly $2.0 million from FY 2004 to FY 2006. The fund is expecting a loss in FY 2007. These losses have contributed to the depletion of the cash balance in the fund and have lead to the program requesting an operating loan to bring its cash back into balance.

The figure (fund report) for fund 06506 shows the financial data for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
6506	Motor Pool	5401	Transportation	State Motor Pool

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Projected FY08	Projected FY09
Operating Revenues:						
Service Reimbursements	-	-	-	-	6,085,826	6,225,206
Net Fee Revenue	3,191,787	3,667,176	3,619,941	3,849,057	6,085,826	6,225,206
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	11,817	28,828	54,077	12,000	50,000	50,000
Total Operating Revenue	3,203,604	3,696,004	3,674,018	3,861,057	6,135,826	6,275,206
Operating Expenses:						
Personal Services	271,472	284,748	305,719	295,733	331,559	344,691
Other Operating Expenses	3,000,188	3,507,925	4,267,266	4,181,451	5,099,184	5,214,712
Total Operating Expenses	3,271,660	3,792,673	4,572,985	4,477,184	5,430,743	5,559,403
Operating Income (Loss)	**(68,056)**	**(96,669)**	**(898,967)**	**(616,127)**	**705,083**	**715,803**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(391,872)	(335,044)	(207,741)	(150,000)	30,000	30,000
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(391,872)	(335,044)	(207,741)	(150,000)	30,000	30,000
Income (Loss) Before Operating Transfers	(459,928)	(431,713)	(1,106,708)	(766,127)	735,083	745,803
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(459,928)	(431,713)	(1,106,708)	(766,127)	735,083	745,803
Total Net Assets- July 1 - As Restated	3,292,432	2,651,368	2,205,650	1,099,132	333,005	1,068,088
Prior Period Adjustments	(181,136)	(14,005)	190	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	3,111,296	2,637,363	2,205,840	1,099,132	-	-
Net Assets- June 30	**2,651,368**	**2,205,650**	**1,099,132**	**333,005**	**1,068,088**	**1,813,891**
60 days of expenses (Total Operating Expenses divided by 6)	545,277	632,112	762,164	746,197	905,124	926,567

Requested Rates for Internal Service Funds Fee/Rate Information

Rental Rate Fees		Actual FYE 06 Assigned Rate	Actual FYE 06 Usage Rat	Actual FYE 07 Assigned Rate	Actual FYE 07 Usage Rate	Budgeted FY 08 Assigned Rate	Budgeted FY 08 Usage Rate	Budgeted FY 09 Assigned Rate	Budgeted FY 09 Usage Rate
Class 02	Small SUV	1.377	0.069	1.408	0.069	1.547	0.158	1.637	0.160
Class 04	Large SUV	1.856	0.081	1.955	0.081	1.948	0.200	2.038	0.202
Class 06	Passenger Car	1.196	0.048	1.186	0.048	1.393	0.123	1.408	0.125
Class 07	Small Pickup	1.153	0.073	1.106	0.073	1.528	0.187	1.581	0.190
Class 11	Large Pickup	1.521	0.095	1.653	0.095	1.432	0.215	1.437	0.218
Class 12	Vans	1.399	0.084	1.432	0.084	1.453	0.181	1.420	0.183

Proprietary Rate Explanation

Rate Structure

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 equipment vehicle management system (EVMS) provides cost information related to direct and indirect costs for each vehicle class. These costs were used to project final costs for the 2007 biennium and budgeted costs for the 2009 biennium. For the 2009 biennium, projected costs were adjusted for: 1) anticipated additional lease vehicle purchases; 2) increases to direct and indirect costs; and 3) repayment of the operating loan from the general fund.

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 = number of hours the vehicle was used (flat rate of 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

Rates Requested for the 2007 Biennium

For the 2009 biennium, the State Motor Pool requests the rates shown on the bottom of the fund report for the State Motor Pool.

LFD COMMENT

Reason for Rate Change Not Provided

State law directs that the legislature approve the maximum level of fees and charges for internal service type proprietary funds. The action of the legislature during the legislative appropriations process is to approve fees and charges for internal service funds. In order to make this decision, the legislature needs to know why the rates are different from the base year rates. Also, the Governor's budget instructions specify that agencies must include the reason internal service fund fees and charges change in comparison to the fees and charges of the base year. The agency did not provide the reason for the rate increases shown on the above figure. Below, the LFD attempts to explain the reasons for the rate change. The basis for the determination is information provided by the agency.

LFD COMMENT CONT.

Rate Change from the Base Rates of FY 2006

Based on average per vehicle revenue projections, the aggregate rates for all vehicle classes would increase in FY 2008 by 44.8 percent from the base rate and in FY 2009 by 47.0 percent from the base rate. The bottom half of the figure that shows State Motor Pool base and 2009 biennium requested rates shows the percentage change for each rate requested for the 2009 biennium as compared to the FY 2006 rates. A percentage change of more than 100 percent indicates that the rate would be more than double the FY 2006 rate (e.g. the FY 2008 usage rate for class 2 vehicles shows a change of 129.0 percent from the FY 2006 rate and the 129 percent change indicates that the FY 2008 rate would be 2.3 times the FY 2006 rate). All usage rates requested for the 2009 biennium would be higher than the FY 2006 rates. Except for class 11 for large pickups, the assigned time rates requested would decrease from the FY 2006 rates.

Assigned Time Rate

The assigned time rate generates about 66 percent of the revenues for the fund. The primary factors for the general increases in assigned time rates are:

- Repayment of a general fund loan taken in the 2007 biennium for operating cash flow
- Improve cash flow position to offset prior year operating losses
- Increased debt service to pay interest on Board of Investments loans used to fund replacement of existing vehicles and expand the outstation lease fleet by 75 vehicles in FY 2008 and by 9 vehicles in FY 2009

Usage Rates

The EVMS is used to track actual direct costs to operate motor pool fleet vehicles. Estimates from the EVMS of the average costs per mile of operation for each class of vehicle are used to develop the usage rates for the motor pool. Based on actual costs to operate and maintain vehicles, the EVMS has estimated higher usage costs for the 2009 biennium compared to those for FY 2006. The higher operating costs are the result of the following factors:

- Higher expected costs for maintenance and repair supplies and materials
- Higher expected gasoline costs

Significant Present Law Adjustments

The 2009 biennium rates for the State Motor Pool are based on a present law budget with projected operating expenses 18.8 percent higher than the base in FY 2008 and 21.5 percent higher than the base in FY 2009. The present law adjustments putting upward pressure on rates are for:

- Motor pool fuel and vehicle maintenance costs
- Loan interest due to vehicle acquisition

Motor Pool Fuel and Vehicle Maintenance Costs

As stated, the EVMS is used to track actual direct costs to operate the fleet. With the program switching from the motor pool management system to the EVMS in the 2007 biennium, the program has gained the ability to more closely track mileage and fuel usage by vehicle and vehicle class. Direct costs of operating the fleet drive the usage rates and the usage rates for the 2009 biennium more than double for all vehicle classes over the FY 2006 rates. Without the EVMS in operation for developing the 2007 biennium rates, the contribution of fuel costs to the usage rates was not available. Without knowing how much fuel costs contributed to overall rates for FY 2006, the usage rate increase due to higher expected fuel cost can not be accurately determined. For FY 2008, fuel costs comprise about 79 percent of the usage rate. Fuel costs for the 2009 biennium are determined on the assumption that gasoline will cost $2.65 per gallon. In 2004, retail gasoline average about $1.68 per gallon to the public and since the state pays about $0.18 per gallon less than the public for gasoline higher gasoline costs are likely the reason for the lion’s share of the usage rate increase. The fuel increase is $1.2 million for the biennium.

LFD COMMENT CONT.

Loan Interest Due to Vehicle Acquisition

The program would replace 55 vehicles in FY 2008 and replace 132 vehicles in FY 2009 in both the daily rental and lease programs. The program would also increase the lease program by 75 vehicles in FY 2008 and 9 vehicles in FY 2009 to address statewide agency requests for vehicles to replace agency owned vehicles that have reached their anticipated economic life at the time of replacement. The program uses long-term loans from the Board of Investments to finance the purchase of the vehicles and funds debt service for loan repayment through the assigned time rates. The additional interest associated with the vehicle acquisitions would increase operating expenses by about $120,000 per year and would account for roughly 11 percent of the assigned time rate increase.

Additional Rate Impacts

In addition to the significant present law adjustment for which the program would need appropriations approved by the Office of Budget and Program Planning with implied legislative approval through legislative approval of the requested rates, two items are implied that would not require an appropriation since funds would not leave the state treasury, but the item would explain a portion of the rate increases and revenue generation for the program. The items are:

- Repay the general fund operating loan from the 2007 biennium
- Increase revenues to reduce the need to an operating loan during the 2009 biennium

Repay the General Fund Operating Loan

About $655,000 of the revenues in each year of the 2009 biennium and about $0.23 of the assigned time rates would go toward paying back the general fund loan acquired in FY 2006 to provide cash flow for program operations.

Strengthen Cash Position

About $300,000 of the revenues in each year and $0.11 of the assigned time rates would increase fund equity and the cash flow of the fund to help prevent the need to a future general fund loan to support operations.

LFD ISSUE

Contributed Capital Not Included

State Motor Pool Rates

The above rates correspond to the fund report shown above and on page P-13 of the executive budget for the 2009 biennium. On page 39 of the executive budget, the executive states that a supplemental appropriation of $1.33 million general fund will be requested to provide contributed capital to the State Motor Pool fund to offset losses associated with higher than anticipated gasoline costs during the 2007 biennium. The fund report fails to include the contributed capital and the requested rates do not include contributed capital in their determination.

If the legislature approves the supplemental appropriation and the contributed capital is provided, the legislature may want to direct the executive to provide revised State Motor Pool rates that factor in the contributed capital.

Other Agency Budgets

Agency budgets that have expenditures for renting or leasing vehicles from the State Motor Pool include inflation adjustments based on the requested motor pool rates of 39 percent in FY 2008 and 41 percent in FY 2009. The inflation adjustments are included in statewide present law adjustments. Based on FY 2006 expenditures for State Motor Pool, eliminating half of the motor pool rate increases without adjusting agency budgets would result in agency budgets being over-appropriated by $1.4 million total funds and $0.8 million general fund for the biennium.

If the legislature approves rates for the State Motor Pool that are different than those provided above and doesn't want agency budgets to be overstated due to the inflation factors for motor pool rates, it may want to revise all agency budget to reflect the revised rates.

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

Program Highlights

Department of Transportation Equipment Program Major Budget Highlights
♦ High motor fuel and steel costs are driving up equipment rental rates

Funding
The Equipment Program is funded entirely with internal service type proprietary funds. Because the proprietary funds do not require an appropriation, they are not typically included in HB 2 tables. Instead, the legislature approves the fees and charges that support the revenues for the program. The fees and charges approved in the general appropriations act are the maximum fees and charges that may be charged in the biennium. The proprietary funded program is discussed below in the Proprietary Rates section.

Proprietary Program Description
The Equipment Program is responsible for the acquisition, disposal, repair, and maintenance of a fleet of 4,555 individual units. The fleet is comprised of light duty vehicles, single and tandem axle dump trucks, specialized snow removal units, roadway maintenance units, and other specialized equipment that serve functions of the department. 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.

The program has increased the fleet size over the last several 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 20.1 million miles per year. At the end of FY 2006, the fleet had grown to 4,555 units operated for nearly 21.8 million miles per year, but has remained relatively stable since FY 2001.

Proprietary Revenues and Expenses

Revenue

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 factors listed above for increased fleet size.

Expenses

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. Approximately 40.0 percent of staff costs are allocated to administrative overhead and service activities that cannot be functionally tied directly to a piece of equipment. The remaining 60.0 percent of staff costs are allocated to specific units according to maintenance and repair activity. 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, 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, 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. Direct costs are tracked by the equipment management system and are allocated to the particular vehicle class for which they 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 $950,000 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, 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 to 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.

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 corresponding 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 occasionally does not have sufficient cash to cover obligations due at the beginning of each FY 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 by fiscal year end. The programs rental rates will generate sufficient revenues to purchases assets, cover normal operating expenses and not exceed the 60-day operating cash balance.

The figure (fund report) for fund 06508 shows the financial information for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
6508	Highway Equipment	5401	Transportation	Equipment Program

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Projected FY08	Projected FY09
Operating Revenues:						
Service Reimbursements	-	-	-	-	26,507,090	26,543,533
Net Fee Revenue	18,889,965	18,524,266	22,728,515	20,924,375	26,507,090	26,543,533
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	13,120	14,310	117,198	-	-	-
Total Operating Revenue	18,903,085	18,538,576	22,845,713	20,924,375	26,507,090	26,543,533
Operating Expenses:						
Personal Services	5,844,684	6,133,198	6,449,512	6,464,990	7,008,274	7,075,695
Other Operating Expenses	14,337,796	10,705,873	17,274,306	15,321,975	18,620,710	18,605,248
Total Operating Expenses	20,182,480	16,839,071	23,723,818	21,786,965	25,628,984	25,680,943
Operating Income (Loss)	**(1,279,395)**	**1,699,505**	**(878,105)**	**(862,590)**	**878,106**	**862,590**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(9,937)	(65,744)	(13,021)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(9,937)	(65,744)	(13,021)	-	-	-
Income (Loss) Before Operating Transfers	(1,289,332)	1,633,761	(891,126)	(862,590)	878,106	862,590
Contributed Capital	-	-	-	-	844,000	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(1,289,332)	1,633,761	(891,126)	(862,590)	1,722,106	862,590
Total Net Assets- July 1 - As Restated	56,903,198	56,818,484	58,466,132	58,133,332	57,270,742	58,992,847
Prior Period Adjustments	1,204,618	13,887	558,326	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	58,107,816	56,832,371	59,024,458	58,133,332	-	-
Net Assets- June 30	**56,818,484**	**58,466,132**	**58,133,332**	**57,270,742**	**58,992,847**	**59,855,437**
60 days of expenses (Total Operating Expenses divided by 6)	3,363,747	2,806,512	3,953,970	3,631,161	4,271,497	4,280,157

Requested Rates for Internal Service Funds
Fee/Rate Information

Requested Rates for Internal Service Fund

The fee charges will not be done till the actual Fiscal Year the rate pertain to. These rates will be supported by the EVMS systems, which was used in the past. The Equipment program may charge rates necessary to establish and maintain a 60 day working capital balance to operate the program.

The program uses a leapfrog process to account for prior year gains or losses. You will notice the loss indicated for FY2006 and 2007 are recovered in FY2008 and FY2009.

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. Only programs internal to the Department of Transportation, most of which are funded primarily through legislative appropriations, are impacted by rate changes of the Equipment Program. Programs of the department would see average annual increases totaling about $3.6 million on a base of $22.4 million for a growth of 16.2 percent.

LFD COMMENT

Reason for Rate Change Not Provided

State law directs that the legislature approve the maximum level of fees and charges for internal service type proprietary funds. The action of the legislature during the legislative appropriations process is to approve fees and charges for internal service funds. In order to make this decision, the legislature needs to know why the rates are different from the base year rates. Also, the Governor's budget instructions specify that agencies must include the reason internal service fund fees and charges change in comparison to the fees and charges of the base year. The agency did not provide the reason for rate increases. Below, the LFD attempts to explain the reasons for the rate change (revenue increase). The basis for the determination is information provided by the agency.

Significant Present Law Adjustments

The 2009 biennium rates for the Equipment Program are based on a present law budget with operating costs that are 8.0 percent higher for the biennium than the base. The present law adjustments impacting the operating costs are for:

- Personal services
- Additional vehicles and equipment for secondary roads
- Equipment maintenance costs
- Adjustment for fuel cost increases

Personal Services

Personal services would increase by about $559,000 or 9.0 percent, driven primarily by statewide impacts of health insurance contribution increases included in the pay plan bill for the 2007 biennium. The program also gave pay raises above the pay plan bill that totaled about $192,000 on an annualized basis and comprised 34 percent of the increase. These pay raises given outside of legislative funding were comprised of 84 percent for classification upgrades and 16 percent for market adjustments. Personal services costs comprise about 27 percent of operating costs and are allocated to both the assigned time and usage rates. Personal services increases would account for 15 percent of the revenue increase from FY 2006 to FY 2008.

Additional Vehicle and Equipment

The Maintenance Program anticipates adding secondary roads to the state maintenance inventory as they are paved and responsibility is assumed from the counties under authority of Montana law. The operating expenses would increase by $314,000 in FY 2008 to purchase the additional equipment to support the Maintenance Program. Refer to present law decision package 301 in the Maintenance Program for further discussion of the assumption of secondary roads and the budgetary impact for the 2009 biennium. Adding equipment to maintain secondary roads would account for 8 percent of the revenue increase from FY 2006 to FY 2008.

Equipment Maintenance Costs

The revenues include an increase of more than $600,000 per year to fund anticipated increases in equipment maintenance costs. The expected increases are due to inflationary factors for oil-related products and steel. The key drivers of the cost increase are cutting edges for snowplows, equipment repair parts, and tires and tubes. Equipment maintenance cost increases would account for 16 percent of the revenue increase from FY 2006 to FY 2008.

LFD COMMENT CONT.

Adjustment of Fuel Cost Increase

Fuel prices are expected to increase. Revenues include an increase of $1.6 million per year to fund anticipated increases in gasoline and diesel fuel. Fuel costs represent about 60.0 percent of program operating costs after deducting equipment and personal services costs and are allocated to the usage rates. Fuel cost increases would account for 43 percent of the revenue increase from FY 2006 to FY 2008.

Additional Rate Impacts

In addition to the significant present law adjustment for which the program would need appropriations approved by the Office of Budget and Program Planning with implied legislative approval through legislative approval of the requested rates, another item is implied that would explain a portion of the rate increases and revenue generation for the program. The program experienced an operating loss in FY 2006 due to revenues falling below expenses. About $680,000 of the revenue increase over FY 2006 would adjust revenues to match expenses. The revenues not explained by a cost adjustment would account for about 18 percent of the revenue increase from FY 2006 to FY 2008.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	123.00	0.00	0.00	123.00	0.00	0.00	123.00	123.00
Personal Services	5,001,461	1,056,117	0	6,057,578	1,080,703	0	6,082,164	12,139,742
Operating Expenses	1,506,769	882,349	0	2,389,118	876,227	979,990	3,362,986	5,752,104
Equipment	0	22,348	0	22,348	22,348	0	22,348	44,696
Total Costs	**$6,508,230**	**$1,960,814**	**$0**	**$8,469,044**	**$1,979,278**	**$979,990**	**$9,467,498**	**$17,936,542**
State/Other Special	5,201,642	1,606,338	0	6,807,980	1,624,668	0	6,826,310	13,634,290
Federal Special	1,306,588	354,476	0	1,661,064	354,610	979,990	2,641,188	4,302,252
Total Funds	**$6,508,230**	**$1,960,814**	**$0**	**$8,469,044**	**$1,979,278**	**$979,990**	**$9,467,498**	**$17,936,542**

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 and oversize/overweight permits, and collects and distributes fees and taxes. The Enforcement Bureau operates a statewide weigh station and mobile enforcement program and assigns uniformed officers to inspect commercial vehicles for compliance with state and federal safety, registration, fuel, insurance, and size/weight laws. The Motor Carrier Safety Assistance Program (MCSAP) conducts commercial motor carrier safety compliance reviews and safety audits.

Program Highlights

Department of Transportation
Motor Carrier Services Division
Major Budget Highlights

- Total fund budget increases by $4.9 million for the biennium or 37.8 percent over the base
    - State special revenue funding increases by $3.2 million for the biennium or 31.0 percent over the base due to: 1) statewide present law adjustments; 2) maintenance and staffing costs at the Dietz, WY joint port of entry; 3) installation and maintenance of enforcement equipment on program vehicles; and 4) increases for the officer clothing allowance
    - Federal special revenue funding increases by $1.7 million for the biennium or 64.7 percent over the base due to: 1) delayed movements of the MCSAP program from the Department of Justice; and 2) a new unified carrier registration program
- The Single State Registration System is replaced with the Unified Carrier Registration program with a $1.1 million annual general fund revenue reduction and federal funding increase

Major LFD Issues

- Goals, measures, and outcomes for the Uniform Commercial Registration initiative are misdirected

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table
Motor Carrier Services D

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000	Total State Special Funds	$ 5,201,642	79.9%	$ 6,807,980	80.4%	$ 6,826,310	72.1%
	02422 Highways Special Revenue	5,201,642	79.9%	6,807,980	80.4%	6,826,310	72.1%
03000	Total Federal Special Funds	1,306,588	20.1%	1,661,064	19.6%	2,641,188	27.9%
	03407 Highway Trust - Sp Rev	1,306,588	20.1%	1,661,064	19.6%	2,641,188	27.9%
Grand	Total	$ 6,508,230	100.0%	$ 8,469,044	100.0%	$ 9,467,498	100.0%

The Motor Carrier Services Division is funded by the highways state special revenue fund and federal special revenue. State funds are revenue from highway user fees such as motor fuel taxes and gross vehicle weight fees. Federal funds are from federal Motor Carrier Safety Assistance Program grants.

Present Law Adjustments

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

Present Law Adjustments

	Fiscal 2008 FTE	General Fund	State Special	Federal Special	Total Funds	Fiscal 2009 FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					1,207,385					1,233,002
Vacancy Savings					(248,363)					(249,394)
Inflation/Deflation					7,981					10,021
Total Statewide Present Law Adjustments					**$967,003**					**$993,629**
DP 2201 - MCSAP Grants	0.00	0	26,763	164,403	191,166	0.00	0	26,763	164,403	191,166
DP 2203 - Dietz Joint Port	0.00	0	550,750	0	550,750	0.00	0	550,750	0	550,750
DP 2206 - Overtime/Differential	0.00	0	83,502	13,593	97,095	0.00	0	83,502	13,593	97,095
DP 2207 - Equipment Rental	0.00	0	41,249	0	41,249	0.00	0	33,087	0	33,087
DP 2208 - Credit Card Fee Increase	0.00	0	18,000	0	18,000	0.00	0	18,000	0	18,000
DP 2209 - Enforcement Capital Purchases	0.00	0	53,986	0	53,986	0.00	0	53,986	0	53,986
DP 2210 - IRP Dues Increase	0.00	0	4,600	0	4,600	0.00	0	4,600	0	4,600
DP 2211 - Pilot Move Trailer	0.00	0	7,250	0	7,250	0.00	0	7,250	0	7,250
DP 2212 - Officer Clothing Allowance	0.00	0	37,365	0	37,365	0.00	0	37,365	0	37,365
DP 2213 - Training Reduction	0.00	0	(7,650)	0	(7,650)	0.00	0	(7,650)	0	(7,650)
Total Other Present Law Adjustments	**0.00**	**$0**	**$815,815**	**$177,996**	**$993,811**	**0.00**	**$0**	**$807,653**	**$177,996**	**$985,649**
Grand Total All Present Law Adjustments					**$1,960,814**					**$1,979,278**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 24.1 percent increase over the personal services base. About $327,000 of the $1.2 million annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $880,000 attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures, which if annualized for a full year total $520,000. Of these salary increases, 69 percent are for market adjustments. The program experienced very little vacancies with 96.7 percent of authorized FTE hours being utilized during the base year. Had no vacancies existed, base expenditures would have been roughly $307,000 higher.

DP 2201 - MCSAP Grants – An increase of about $382,000 combined state special and federal special revenue for the biennium is requested to annualize funding for the Motor Carrier Safety Assistance Program (MCSAP), which was transferred from the Department of Justice to the department for three-quarters of FY 2006.

DP 2203 - Dietz Joint Port - An increase of $1.1 million state special revenue for the biennium is requested to pay half of the maintenance expenses and contracted services for half of the salaries of up to 10 Wyoming state employees operating the new port of entry station operating at Dietz, Wyoming, on the Montana and Wyoming border. The Dietz facility is operated as a joint enforcement effort between the two states. Montana contracts with Wyoming to staff and operate the joint port-of-entry. The contract calls for Wyoming personnel to enforce Montana size and weight laws, issue Montana permits, and collect Montana gross vehicle weight fees.

LFD COMMENT

Other Joint Ports-of-Entry

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

DP 2206 - Overtime/Differential - An increase of $194,000 combined state special and federal special revenue for the biennium is requested to reestablish base year overtime and differential pay. In addition, base funding is increase by $22,600 to annualize funding for the Motor Carrier Safety Assistance Program being transferred into the program for three-quarters of FY 2006. Included in the increase is $25,200 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

LFD COMMENT

For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 2207 - Equipment Rental - An increase of nearly $74,400 state special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program.

LFD COMMENT

For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 2208 - Credit Card Fee Increase - An increase of $36,000 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 2209 - Enforcement Capital Purchases - An increase of nearly $108,000 state special revenue for the biennium is requested to fund installation and maintenance of enforcement equipment for Motor Carrier Services vehicles and increased long distance telephone and facility maintenance costs for remote weigh stations.

DP 2210 - IRP Dues Increase - An increase of nearly $9,200 state special revenue for the biennium is requested to fund increased cost of participation in the international registration plan (IRP).

DP 2211 - Pilot Move Trailer - An increase of $14,500 state special revenue for the biennium is requested to fund a mobile weigh station (pilot move trailer) that will be moved to various locations throughout the state. Funding would be used to pay the rental fees for the pilot move trailer and a pickup truck needed to pull the trailer. The trailer and truck are rented from the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program.

DP 2212 - Officer Clothing Allowance - An increase of $74,730 state special revenue for the biennium is requested to fund an increase to the Motor Carrier Services enforcement officer clothing allowance to $90.50 from the current $60.50. This request will update the allowance to be more in line with current apparel costs including alterations.

LFD COMMENT

Enforcement Officer Clothing Allowance

The allowance at the current rate of $60.50 per month is part of the existing collective bargaining agreement between the department and the Montana Public Employees Association (MPEA) representing the Motor Carrier Services enforcement officer. According to the department the MPEA has requested increases on three occasions, with the last increase in 1994.

DP 2213 - Training Reduction - A reduction of $15,300 state special revenue for the biennium is requested to consolidate funding for training in the General Operations Program. The adjustment removes base funding for training.

LFD COMMENT

For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

New Proposals

New Proposals

	---Fiscal 2008---					---Fiscal 2009---				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2204 - Unified Carrier Registration										
22	0.00	0	0	0	0	0.00	0	0	979,990	979,990
Total	**0.00**	**$0**	**$0**	**$0**	**$0**	**0.00**	**$0**	**$0**	**$979,990**	**$979,990**

DP 2204 - Unified Carrier Registration - An increase of nearly $980,000 federal special revenue in FY 2009 is requested to fund motor carrier safety activities administered through the Motor Carrier Safety Assistance Program.

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

Justification: This proposal seeks funding to expend revised revenues beginning in FY 2009 as a result of provisions in SAFETEA-LU, which eliminates the single state registration system (SSRS) and replaces it with the Uniform Carrier Registration (UCR) program.

Goal: The goal of this proposal is to establish funding authority to implement the UCR program in the required timeframe. Among other requirements, SAFETEA-LU specifies that a state must have the legal authority and resources in place as part of its plan to implement the UCR. Beyond addressing these requirements, the goals of this proposal will need to be further developed as the UCR program picture becomes more clearly developed. All that is currently known is that the UCR revenue must be used to fund as yet unspecified commercial motor carrier safety activities and will be administered through the Motor Carrier Safety Assistance Program (MCSAP) of this division.

Performance Criteria: Participation in the UCR requires the state to submit a program plan by August 10, 2008 and the plan is yet to be established because requirements are still pending from the U.S. Department of Transportation and the UCR governing board.

Milestones: MCS plans to implement the UCR on July 1, 2008. To meet this deadline, Motor Carrier Services must file a UCR program planning document including evidence of budget authority contained in this proposal.

Obstacles: The provisions of the program have not yet been specified. Other federal grants administered through the MCSAP program have involved considerable administrative work and maintenance-of-effort for MCS.

Risk: The risk to Montana if the proposal is not adopted Montana will fail to maximize the use of available federal funds in the timeframe allotted.

LFD COMMENT

SAFETEA-LU Changes Impacting Revenues

President Bush signed SAFETEA-LU into law on August 11, 2005. The single state registration system (SSRS) will be eliminated January 1, 2007. A new UCR program will replace the SSRS. Gone with the elimination of the SSRS are general fund revenues of roughly $1.1 million per year derived from the SSRS fee. SAFETEA-LU adds a UCR fee in place of the SSRS fees. The UCR fee will be collected by the state and retained up to the level of SSRS revenues prior to its elimination. UCR fees retained by the state are required to be used to fund activities of MCSAP. The initiative assumes that UCR revenues will be deposited in a federal special revenue fund.

MCSAP provides information to Montana's motor carriers on how to comply with Montana and federal motor carrier safety regulations and hazardous materials regulations. The program also performs compliance reviews and safety audits. The goal of MCSAP is to reduce accidents, fatalities, and injuries involving commercial motor vehicles (CMV) through consistent, uniform, and effective CMV safety programs.

LFD ISSUE

Goals, Measures, and Outcomes

The goal, measures, and outcomes of the initiative appear to miss the target for explaining how the new functions created by the initiative would benefit the mission of the department. The goals, measures, and outcomes focus on satisfying the requirements for obtaining the federal funds but say nothing about the goals of the expanded MCSAP program or how the program will be monitored to determine if expenditure of the funds actually is achieving the desired outcomes – improve commercial motor vehicle safety.

The legislature may want to direct the department to identify the goals, measures, and expected outcomes of MCSAP and explain how the funding of the initiative supports achieving the goals and provide measurable outcomes the program expects from making the expenditures.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	9.00	0.00	0.00	9.00	0.00	0.00	9.00	9.00
Personal Services	503,302	70,942	0	574,244	72,770	0	576,072	1,150,316
Operating Expenses	(785,005)	3,072,619	0	2,287,614	1,097,766	0	312,761	2,600,375
Equipment	12,800	0	0	12,800	0	0	12,800	25,600
Grants	602,310	1,105,690	0	1,708,000	(202,310)	0	400,000	2,108,000
Transfers	10,283	0	0	10,283	0	0	10,283	20,566
Debt Service	0	23,000	0	23,000	23,000	0	23,000	46,000
Total Costs	**$343,690**	**$4,272,251**	**$0**	**$4,615,941**	**$991,226**	**$0**	**$1,334,916**	**$5,950,857**
State/Other Special	279,805	2,329,179	0	2,608,984	1,020,882	0	1,300,687	3,909,671
Federal Special	63,885	1,943,072	0	2,006,957	(29,656)	0	34,229	2,041,186
Proprietary	0	0	0	0	0	0	0	0
Total Funds	**$343,690**	**$4,272,251**	**$0**	**$4,615,941**	**$991,226**	**$0**	**$1,334,916**	**$5,950,857**

Program Description

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

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

Program Highlights

Department of Transportation
Aeronautics Program
Major Budget Highlights

- Total fund budget increases by $5.3 million for the biennium or 765 percent over the base
  - State special revenue funding increases by $3.4 million for the biennium or 598 percent over the base to: 1) offset the impacts of an accounting transaction timing issue at the end of the base year; and 2) make airport loans in the aeronautical loan program
  - Federal special revenue funding increases by $1.9 million for the biennium or 1,497.4 percent over the base to finance capital improvement at the Lincoln and West Yellowstone airports

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table
Aeronautics Program

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000	Total State Special Funds	$ 279,805	81.4%	$ 2,608,984	56.5%	$ 1,300,687	97.4%
	02286 Aeronautical Loan Account	127,800	37.2%	400,000	8.7%	400,000	30.0%
	02287 Aeronautical Grant Account	382,697	111.3%	823,000	17.8%	23,000	1.7%
	02827 Aeronautics Division	(318,505)	-92.7%	1,135,984	24.6%	877,687	65.7%
	02962 Airport Pvmt. Preservation	87,813	25.6%	250,000	5.4%	-	-
03000	Total Federal Special Funds	63,885	18.6%	2,006,957	43.5%	34,229	2.6%
	03060 Aeronatics Division	63,885	18.6%	2,006,957	43.5%	34,229	2.6%
Grand	Total	$ 343,690	100.0%	$ 4,615,941	100.0%	$ 1,334,916	100.0%

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

Present Law Adjustments

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

Present Law Adjustments	Fiscal 2008 FTE	Fiscal 2008 General Fund	Fiscal 2008 State Special	Fiscal 2008 Federal Special	Fiscal 2008 Total Funds	Fiscal 2009 FTE	Fiscal 2009 General Fund	Fiscal 2009 State Special	Fiscal 2009 Federal Special	Fiscal 2009 Total Funds
Personal Services					89,375					91,278
Vacancy Savings					(23,707)					(23,782)
Inflation/Deflation					2,909					3,473
Fixed Costs					(8,089)					(5,663)
Total Statewide Present Law Adjustments					**$60,488**					**$65,306**
DP 4004 - Lincoln Airport Development	0.00	0	14,994	300,006	315,000	0.00	0	0	0	0
DP 4005 - Overtime/Differential	0.00	0	5,274	0	5,274	0.00	0	5,274	0	5,274
DP 4006 - Program/Service Cost Adjustments	0.00	0	23,724	(32)	23,692	0.00	0	48,631	(32)	48,599
DP 4007 - Aircraft Loan	0.00	0	23,000	0	23,000	0.00	0	23,000	0	23,000
DP 4010 - Biennial Appropriation Adjustments	0.00	0	705,690	0	705,690	0.00	0	(602,310)	0	(602,310)
DP 4011 - Statewide Plan Update	0.00	0	13,020	247,390	260,410	0.00	0	(1,980)	(37,610)	(39,590)
DP 4012 - Federal Portion of Proprietary	0.00	0	0	1,387,750	1,387,750	0.00	0	0	0	0
DP 4013 - Accounting Adjustment	0.00	0	1,090,947	0	1,090,947	0.00	0	1,090,947	0	1,090,947
DP 4014 - Aeronautic Loans	0.00	0	400,000	0	400,000	0.00	0	400,000	0	400,000
Total Other Present Law Adjustments	**0.00**	**$0**	**$2,276,649**	**$1,935,114**	**$4,211,763**	**0.00**	**$0**	**$963,562**	**($37,642)**	**$925,920**
Grand Total All Present Law Adjustments					**$4,272,251**					**$991,226**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 17.8 percent increase over the personal services base. About $30,600 million of the nearly $89,400 annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $58,800 attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures, which if annualized for a full year total roughly $69,000. Of these salary increases, 95 percent are for market adjustments. The program experienced very little vacancies with 98.1 percent of authorized FTE hours being utilized during the base year.

DP 4004 - Lincoln Airport Development – An increase of $315,000 combined state special and federal special revenue for the biennium is requested for taxiway improvements at the Lincoln Airport.

LFD COMMENT

Source of Funds

A federal program, the National Plan of Integrated Airport Systems (NPIAS), provides up to $150,000 annually of federal funds from the Federal Aviation Administration to address airport master plans, airport layout planning, and safety and economic improvements as qualifying airports. The funding is allowed to be banked for up to three years for use on larger projects than the annual funding would allow. The federal share for the funding is 95 percent with the aeronautics state special revenue fund providing the matching funds.

DP 4005 - Overtime/Differential - An increase of $10,548 state special revenue for the biennium is requested to reestablish base year overtime, differential pay, and per diem. Included in the increase are $5,900 for per diem for Aeronautics Board meetings and $608 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

LFD COMMENT

For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 4006 - Program/Service Cost Adjustments - A net increase of nearly $72,300 state special revenue offset by a $64 reduction of federal special revenue for the biennium is requested to adjust overall operating expenses to maintain present law services at the expect levels of activity in the 2009 biennium. The adjustment includes numerous offsetting increases and reductions with the following more significant items:

- Fuel for air search and rescue (base expenditures were abnormally low) - $19,600 increase
- Fix accounting miscoding errors and remove unneeded miscellaneous base expenditures - $15,871 reduction
- Update radio communications equipment - $4,000 increase
- Out of state professional services & consultant fee (lobbying) - $2,000 increase
- Flight training $6,600 increase
- Infrastructure improvements - $6,600 increase
- Purchase runway cones - $10,058 increase
- Airport inspections - $4,004 increase
- New aeronautical chart - $35,000 increase

DP 4007 - Aircraft Loan - An increase of $46,000 state special revenue for the biennium is requested to fund principle and interest on a loan taken out to purchase aircraft in FY 2006. There is no base funding since the first loan payment will not take place until FY 2007.

LFD COMMENT

Action by the 2005 Legislature

The 2005 Legislature approved $388,000 state special revenue funding for the 2007 biennium, with $324,000 of the funding that corresponded to the purchase of the aircraft designated as one time only. Anticipating that the aircraft would be purchased with a loan, the legislature excluded $32,000 each year from the one time designation for use in establishing base funding for debt service. Due to timing of the aircraft purchase there were no debt service payments in the base.

DP 4010 - Biennial Appropriation Adjustments - A net increase of nearly $103,400 state special revenue for the biennium is requested to align grants to communities and air-carrier airports with expected revenue from dedicated sources. 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.

DP 4011 - Statewide Plan Update - A net increase of $220,820 combined state special and federal special revenue for the biennium is requested to update the Montana aeronautics system plan. The system plan is a cooperative effort of the Aeronautics Division of the Department of Transportation and the Federal Aviation Administration. This report is intended to identify the current resources and trends in the state aviation system. The executive requests a biennial appropriation for this funding and the base.

DP 4012 - Federal Portion of Proprietary - An increase of nearly $1.4 million federal special revenue for the biennium is requested to fund projects to build a wildlife fence and expand the apron at the West Yellowstone airport. The state match for the project would be funded by the West Yellowstone Airport proprietary fund, which is not budgeted and does not appear in the HB 2 tables for the program. Refer to the Proprietary Rates section of this program for a discussion of the proprietary fund.

DP 4013 - Accounting Adjustment - An increase of $2.2 million state special revenue for the biennium is requested to adjust base funding for an accounting transaction that recorded a negative expenditure transaction for state special revenue during the process of paying a vendor and billing the Federal Aviation Administration on a federal reimbursement project at the end of FY 2006

LFD COMMENT

Accounting Transaction Expanded

The trial balance for aeronautics state special revenue account for the end of FY 2006 shows a credit of $545,101.16 for the consulting and professional services expenditure code. The cause of the negative balance is a timing difference between the establishment of the billing to the Federal Aviation Administration (FAA) at the end of FY 2006, and payment of the related vendor invoices in FY 2007. Because of cash flow issues, the Aeronautics Division does not pay invoices on federal projects until the reimbursement is received from the FAA. The timing of invoice payment, billing of the FAA, and the fiscal year end process resulted in an understatement of state special revenue in the base year. This adjustment offsets the understatement of base state special revenue expenditures.

DP 4014 - Aeronautic Loans - An increase of $800,000 state special revenue for the biennium is requested to establish an appropriation to distribute aeronautical loan program funds.

LFD COMMENT

The Constitution of the State of Montana requires that no money shall be paid out of the treasury unless upon an appropriation made by law. The aeronautical loan program within the Aeronautics Division historically had transactions coded directly to an account without being recorded against a specific appropriation. This request establishes authority for the aeronautical loan program to fulfill constitutional requirements when distributing funds under the airport loan program.

Proprietary Program Description

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

Proprietary Revenues and Expenses

Revenues

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

Expenses from the fund are for personal services for 1.29 FTE and operating expenses such as janitorial supplies, insurance, facility maintenance, and matching funds for federally funded capital improvement projects at the airport. FY 2008 operating expenses include matching funds for federal funding in DP 4012 of the HB 2 section of the program and are higher than FY 2007 and FY 2009 for that reason.

Fund Equity and Reserved Fund Balance

The West Yellowstone Airport proprietary fund balance is forecast to remain about even. Management objectives are to use part of the available fund balance as needed to satisfy recent necessary federal airport certification requirements. There is no anticipated fluctuation of cash into the program and conservation of fund equity is to remain a high priority to offset additional Federal Airport Certification and Security requirements and airport improvement.

The figure for fund 06007 shows the financial information for the fund from FY 2004 through FY 2009.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
6007	West Yellowstone Airport	54010	Transportation	Aeronautics Program

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Miscellaneous Service Fee	-	-	-	24,553	25,400	26,100
Net Fee Revenue	36,548	26,398	26,942	24,553	25,400	26,100
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	80,353	81,615	121,501	124,682	129,200	132,900
Total Operating Revenue	116,901	108,013	148,443	149,235	154,600	159,000
Operating Expenses:						
Personal Services	42,682	46,001	46,285	52,594	77,510	77,797
Other Operating Expenses	77,858	126,759	195,154	72,314	163,646	91,684
Total Operating Expenses	120,540	172,760	241,439	124,908	241,156	169,481
Operating Income (Loss)	**(3,639)**	**(64,747)**	**(92,996)**	**24,327**	**(86,556)**	**(10,481)**
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(3,639)	(64,747)	(92,996)	24,327	(86,556)	(10,481)
Contributed Capital	-	1,787,483	-	-	-	-
Operating Transfers In (Note 13)	18,221	13,136	10,283	11,000	11,000	11,000
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	14,582	1,735,872	(82,713)	35,327	(75,556)	519
Total Net Assets- July 1 - As Restated	814,113	827,921	2,525,827	2,443,114	12,767	(100,889)
Prior Period Adjustments	(774)	(37,966)	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	813,339	789,955	2,525,827	2,443,114	12,767	(100,889)
Net Assets- June 30	**827,921**	**2,525,827**	**2,443,114**	**2,478,441**	**(62,789)**	**(100,370)**
60 days of expenses (Total Operating Expenses divided by 6)	20,090	28,793	40,240	20,818	40,193	28,247

Fee/Rate Information

	Actual FYE 2006	Budgeted FY 2007	Budgeted FY 2008	Budgeted FY 2009
Fee Group A				
Landing Fees - Scheduled Ai	$0.50/1000 lbs	$0.50/1000 lbs	$0.60/1000lbs	$0.60/1000 lbs
Landing Fees - Other uses	11,000-31,250 lbs -	11,000-31,250 lbs - $25.00	11,000-31,250 lbs -	11,000-31,250 lbs -
Landing Fees - Other uses	>31,250 lbs -	>31,250 lbs - $0.80/1000lbs	>31,250 lbs -	>31,250 lbs -
Fuel Flowage Fee	$0.06/Gallon	$0.06/Gallon	$0.06/Gallon	$0.06/Gallon
Building Leases - Car rental,	$2.00/sq.ft.	$2.00/sq.ft.	$2.00/sq.ft.	$2.00/sq.ft.
Building Leases - Hangar Gr	$0.10/sq.ft	$0.10/sq.ft	$0.10/sq.ft	$0.10/sq.ft
Tax Transfers	$10,283	$11,000	$11,000	$11,000
Sales Receipts	10% of Gross Sales	10% of Gross Sales	10% of Gross Sales	10% of Gross Sales
Non-Aero Rentals				
Nevada Testing	Prior Year = C.P.I	Prior Year = C.P.I	Prior Year = C.P.I	Prior Year = C.P.I
City	$9,600/Year	$9,600/Year	$10,000/Year	$10,000/Year
Energy West	$12,000/Year	$12,000/Year	$12,500/Year	$12,500/Year

Proprietary Rate Explanation

Fees for provided services are market based. The program for the operation of the West Yellowstone Airport charges the fees shown on the following figure which are presented for information only. No changes in fees are requested for the 2009 biennium. Because the proprietary funded portion of the program is funded with an enterprise type proprietary fund, the legislature does not approve fees in HB 2.

Program Proposed Budget

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

Program Proposed Budget Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	59.10	0.00	6.00	65.10	0.00	6.00	65.10	65.10
Personal Services	2,856,867	690,454	309,425	3,856,746	698,996	309,760	3,865,623	7,722,369
Operating Expenses	1,526,629	27,967	668,800	2,223,396	22,885	674,800	2,224,314	4,447,710
Equipment	18,085	0	0	18,085	0	0	18,085	36,170
Grants	4,822,929	682,974	6,551,169	12,057,072	682,974	7,271,805	12,777,708	24,834,780
Total Costs	**$9,224,510**	**$1,401,395**	**$7,529,394**	**$18,155,299**	**$1,404,855**	**$8,256,365**	**$18,885,730**	**$37,041,029**
State/Other Special	2,052,950	1,291,393	1,399,932	4,744,275	1,396,770	1,544,264	4,993,984	9,738,259
Federal Special	7,171,560	110,002	6,129,462	13,411,024	8,085	6,712,101	13,891,746	27,302,770
Total Funds	**$9,224,510**	**$1,401,395**	**$7,529,394**	**$18,155,299**	**$1,404,855**	**$8,256,365**	**$18,885,730**	**$37,041,029**

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. The planning addresses system areas that include buses for transit systems, street and highway improvements, railroad track rehabilitation, and transportation enhancements for non-motorized and beautification improvements.

Program Highlights

Department of Transportation
Transportation Planning Division
Major Budget Highlights

- Total fund budget is increased by $18.6 million for the biennium or 100.8 percent over the base
    - State special revenue funding increases by $5.6 million for the biennium or 137.3 percent over the base due to increases to: 1) provide transit assistance grants for the disabled and elderly; 2) match federal funds for urban planning updates; 3) match significant increases in federal transit assistance funds; and 4) match federal funds for corridor studies
    - Federal special revenue funding increases by $13.0 million for the biennium or 90.4 percent over the base due to: 1) additional urban planning requirements; 2) significantly increased transit assistance funding; 3) workload impacts of increased funds from SAFETEA-LU; 4) corridor studies; and 5) safe routes for schools funding
- New and expanded programs and new requirements of the SAFETEA-LU increase staffing and funding levels
    - 4.00 FTE are added to address planning requirements
    - 2.00 FTE are added to administer transit funding increases
    - $13.5 million total funds are added to transit assistance
    - $1.0 million total funds are added for corridor studies
    - $0.8 million federal funds are added for the Safe Route to School program

- $0.7 million total funds are added to address urban planning requirements

Major LFD Issues

- ♦ Goals, measures, and milestones identified for new initiatives could be improved

Program Narrative

New Initiatives of the 2005 Legislature

The 2005 Legislature approved $375,000 combined state special and federal special revenue funding for corridor studies. The funding was designated as one time only for the 2007 biennium. There were no specific benchmarks articulated by either the legislature or the department for the funding. However, the funding was intended to evaluate the existing transportation system within and along specific corridors and identify how the system could be improved to meet existing and long-term needs.

The department reports the following progress has been made toward this initiative:
- o Corridor study of U.S. 93 from Lolo to Missoula is nearly completed
- o The final report is expected to be complete in FY 2007

Transit Funding Increase

When SAFETEA-LU was signed into law in August 2005, Montana saw a large increase in federal transit funding. Transit funds are passed through the department to local transit entities, which match the funds with local sources of revenue. For the 2009 biennium, federal transit funds grow from $2.3 million in FY 2006 to $7.4 million in FY 2008, a 227 percent increase, and $8.0 million in FY 2009, a 252 percent increase. The increased transit funding will increase workload for the department to administer the grants and increased coordination and planning requirements that come with the funds. The department has included requests for grant funds and for department resources to address the workload impacts.

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table
Transportation Planning

Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000	Total State Special Funds	$ 2,052,950	22.3%	$ 4,744,275	26.1%	$ 4,993,984	26.4%
	02150 Lrfa Program	-	-	-	-	-	-
	02282 Fta Local Match	275,426	3.0%	2,586,222	14.2%	2,730,549	14.5%
	02422 Highways Special Revenue	1,777,524	19.3%	2,158,053	11.9%	2,263,435	12.0%
03000	Total Federal Special Funds	7,171,560	77.7%	13,411,024	73.9%	13,891,746	73.6%
	03147 Fta Grants	2,271,428	24.6%	7,426,265	40.9%	8,002,758	42.4%
	03407 Highway Trust - Sp Rev	4,900,132	53.1%	5,984,759	33.0%	5,888,988	31.2%
Grand	Total	$ 9,224,510	100.0%	$ 18,155,299	100.0%	$ 18,885,730	100.0%

The Transportation Planning Division is funded with a combination of state and federal special revenue funds. Transit grants are based on a sliding scale, which for Montana is a federal participation rate of 86.58 percent funded with Federal Transit Administration funds. The state match is provided by the local entity receiving services or on a rare occasion with highways state special revenue funds. The remaining division activities after deducting federal transit grants and local matching funds are funded with federal planning and research funds and state special revenue funds at a ratio of 72.9 percent federal and 27.1 percent state special revenue for the 2009 biennium. State special revenue funds include just over $5.3 million in local match pass-through authority for the 2009 biennium.

Present Law Adjustments

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

Present Law Adjustments	Fiscal 2008 FTE	Fiscal 2008 General Fund	Fiscal 2008 State Special	Fiscal 2008 Federal Special	Fiscal 2008 Total Funds	Fiscal 2009 FTE	Fiscal 2009 General Fund	Fiscal 2009 State Special	Fiscal 2009 Federal Special	Fiscal 2009 Total Funds
Personal Services					814,050					822,947
Vacancy Savings					(146,835)					(147,190)
Inflation/Deflation					1,468					1,773
Fixed Costs					444					444
Total Statewide Present Law Adjustments					**$669,127**					**$677,974**
DP 5002 - Overtime/Differential	0.00	0	6,330	16,909	23,239	0.00	0	6,330	16,909	23,239
DP 5003 - Equipment Rental	0.00	0	8,046	19,187	27,233	0.00	0	6,455	15,391	21,846
DP 5007 - State Transit Assistance	0.00	0	381,988	0	381,988	0.00	0	381,988	0	381,988
DP 5008 - Statewide Urban Planning Update	0.00	0	74,301	256,685	330,986	0.00	0	74,301	256,685	330,986
DP 5009 - Training Reduction	0.00	0	(31,178)	0	(31,178)	0.00	0	(31,178)	0	(31,178)
Total Other Present Law Adjustments	**0.00**	**$0**	**$439,487**	**$292,781**	**$732,268**	**0.00**	**$0**	**$437,896**	**$288,985**	**$726,881**
Grand Total All Present Law Adjustments					**$1,401,395**					**$1,404,855**

LFD COMMENT

Personal Services Statewide Present Law Adjustment

The annual statewide present law adjustment for personal services is a 28.5 percent increase over the personal services base. About $187,000 of the $814,000 annual adjustment is attributable to annualizing the pay plan approved in HB 447 of the 2005 Legislature, leaving roughly $627,000 attributed to the combination of restoring funding for base year vacancies and salary or pay grade adjustments not funded in the pay plan.

Since the snapshot for developing the 2007 biennium budget, the program gave salary increases above those funded in the pay plans of the 2003 and 2005 Legislatures, which if annualized for a full year total $434,828. Of these salary increases, 60 percent are for market adjustments. The program experienced a vacancy rate in authorized FTE hours of 6.2 percent during the base year. This level of vacancy equates to about 3.70 FTE. Had no vacancies existed, base expenditures would have been roughly $153,000 higher.

DP 5002 - Overtime/Differential - An increase of $46,500 combined state special and federal special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is $6,000 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

LFD COMMENT

For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 5003 - Equipment Rental - An increase of $49,000 combined state special and federal special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program.

LFD COMMENT For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

DP 5007 - State Transit Assistance - An increase of $764,000 state special revenue for the biennium is requested to increase funding for transportation assistance grants for the disabled and elderly to projected revenue levels. The increase is based on distributing increased revenues collected from a fee for this purpose.

DP 5008 - Statewide Urban Planning Update - An increase of $662,000 combined state special and federal special revenue for the biennium is requested to fund the impacts of increased requirements for transportation planning and programming of SAFETEA-LU. Of the funding, 90 percent would be distributed to cities in the form of grants for metropolitan and urban area planning and the remaining 10 percent would be for consultant services to develop new processes for providing consultation with local governments on safety, security, visualization, and mitigation strategies.

DP 5009 - Training Reduction - A reduction of nearly $62,400 state special revenue for the biennium is requested to consolidate funding for training in the General Operations Program. The adjustment removes base funding for training.

LFD COMMENT For more information on similar adjustments for this and other programs of the agency, see the figure and corresponding LFD discussion in the Agency Discussion section.

New Proposals

New Proposals

Program	Fiscal 2008 FTE	Fiscal 2008 General Fund	Fiscal 2008 State Special	Fiscal 2008 Federal Special	Fiscal 2008 Total Funds	Fiscal 2009 FTE	Fiscal 2009 General Fund	Fiscal 2009 State Special	Fiscal 2009 Federal Special	Fiscal 2009 Total Funds
DP 5001 - Rail, Transit & Planning FTE										
50	4.00	0	47,656	190,623	238,279	4.00	0	47,698	190,792	238,490
DP 5004 - Corridor Studies										
50	0.00	0	100,000	400,000	500,000	0.00	0	100,000	400,000	500,000
DP 5005 - Passage of SAFETEA-LU act FTA										
50	2.00	0	1,252,276	5,119,839	6,372,115	2.00	0	1,396,566	5,696,309	7,092,875
DP 5006 - Safe Routes to School										
50	0.00	0	0	419,000	419,000	0.00	0	0	425,000	425,000
Total	**6.00**	**$0**	**$1,399,932**	**$6,129,462**	**$7,529,394**	**6.00**	**$0**	**$1,544,264**	**$6,712,101**	**$8,256,365**

DP 5001 - Rail, Transit & Planning FTE - An increase of nearly $476,700 combined state special and federal special revenue for the biennium is requested to fund personal services and operating costs to add 4.00 FTE to address new federal transportation planning requirements of SAFETEA-LU.

LFD COMMENT For more information on the increased transit funding, see the LFD discussion in the Program Narrative section for this program.

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

Justification: 4.00 FTE are requested to meet new federal transportation planning requirements in SAFETEA-LU. 2.00 FTE will be used to update statewide transportation plans as required by the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA), as well as assist in Corridor Studies. 1.00 FTE is for field data collection necessary to meet new federal requirements, and 1.00 FTE is for meeting new GIS/mapping (i.e. visualization) requirements.

Goal: The goals of this proposal are to ensure FTA grant funds are efficiently and equitably allocated for services within Montana communities, support corridor plan development, and comply with other SAFETEA-LU transportation planning requirements.

Performance measure:

- That FTA transit grants are adequately and equally dispersed throughout the state for the betterment of all Montanans and that funding does not lapse
- That all planning documents are updated to reflect changes in SAFETEA-LU requirements, thus being in compliance to receive federal funding
- That corridor studies result in smaller environmental reviews due to limitations of scope, resulting in less funds being spent on NEPA documents and more funds available for actual roadwork
- That the department has appropriate field data and GIS/mapping expertise to meet the planning requirements of SAFETEA-LU

Milestones: By the end of FY 2009, for the establishment of these new requirements. However these requirements will continue throughout SAFETEA-LU and future federal highway legislation.

Obstacles: Finding and retaining qualified staff

Risk: The state would face the following risks if the proposal is not adopted:

- There could be a loss of FTA funds for providing public transportation throughout Montana
- If planning and transit requirements are not met, the FHWA and FTA will not approve the Statewide Transportation Improvement Program, and we will not be in compliance with SAFETEA-LU requirements, thus risk losing federal funding for the construction program
- Lack of corridor plan development will continue the trend of large, expensive, time consuming NEPA documents
-

LFD COMMENT

New Requirements of SAFETEA-LU

SAFETEA-LU includes new requirements that must be met prior to FHWA and FTA approving the Statewide Transportation Improvement Program (STIP). New requirements include new consultation processes, new processes for visualization, new analysis and consultation for safety and security, and new analyses relative to mitigation strategies. In addition, SAFETEA-LU implementing regulations envision a corridor or regional transportation planning process as a means to move planning level decisions into later reviews required by the National Environmental Policy Act. (NEPA).

LFD ISSUE

Concerns with Goals, Measures, and Milestones

The goals and measures provided by the department lack specificity and measurability. In addition, the one milestone provided is that the activities will be completed by the end of the biennium but will be ongoing. There are no key intermediate milestones identified during the biennium to monitor and evaluate progress until the end of the biennium, by which time it is too late to redirect efforts or shift resources if the effort is proving less than expected. However, without specific measures, progress toward the goal would not be measurable and the department would not be able to determine if the goal was actually met. For example, the department states that a key obstacle is the ability to find and retain qualified staff. Since the key resource of the effort is the addition of staff, one would expect to see the hiring of staff as a key milestone and in order for the initiative to succeed, the staff should be on board early in the biennium.

The legislature may want to direct the department to provide a more measurable goal and specific performance measures tied to specific key milestones.

DP 5004 - Corridor Studies - An increase of $1.0 million combined state special and federal special revenue for the biennium is requested to fund contracted services to conduct corridor studies intended to evaluate the existing transportation system within and along specific corridors, and identify how the system could be improved to meet existing and long-term needs.

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

Justification: The federal SAFETEA-LU surface transportation program authorization of August 2005 has increased requirements for transportation planning. One significant area is the linkage of transportation planning products with NEPA requirements. Specifically, the statute and the proposed regulations envision using products developed in the transportation planning process in subsequent NEPA review, rather than starting a NEPA process with a blank slate.

Goal: Goals for the corridor studies are:
- To develop "purpose and need" statements for use in future environmental review processes
- Eliminate alternatives from further review in subsequent environmental review processes

Performance measure: Viable highway improvement projects, cleared at a lower level of environmental review, costing less for environmental review and getting to a decision quicker than through traditional NEPA review processes.

Milestones: By the end of FY 2009 it is envisioned that business processes will be adapted to support this on-going approach to project development.

Obstacles: The risk to this business process change is that state and federal regulatory agencies will not participate in the early planning process and force a traditional business approach to NEPA review.

Risk: If the department is not able to change its business processes as regards to environmental reviews, fewer resources will be available for highway construction in the future. This is because it costs significantly more and takes significantly longer to reach all project scoping decisions if the application of full NEPA review is the only alternative available.

LFD ISSUE

Concerns with Goals, Measures, and Milestones

The goals and measures provided by the department lack specificity and measurability. In addition, the one milestone provided is that the activities will be completed by the end of the biennium but will be ongoing. There are no key intermediate milestones identified during the biennium to monitor and evaluate progress until the end of the biennium, by which time it is too late to redirect efforts or shift resources if the effort is proving less than expected. However, without specific measures, progress toward the goal would not be measurable and the department would not be able to determine if the goal was actually met.

The legislature may want to direct the department to provide a more measurable goal and specific performance measures tied to specific key milestones.

DP 5005 - Passage of SAFETEA-LU act FTA - An increase of nearly $13.5 million combined state special and federal special revenue for the biennium is requested to fund personal services and operating costs to add 2.00 FTE and grant funding due to a nearly 240 percent increase in general rural public transit program funding for Montana. Of the increase, $13.2 million is for grants to cities, counties, local transit agencies, and special projects. The FTE would administer the grants and coordinate transit systems in communities across Montana. State match funds are from local pass-through funds.

LFD COMMENT

For more information on the increased transit funding, see the LFD discussion in the Program Narrative section for this program.

DP 5006 - Safe Routes to School - An increase of $844,000 federal special revenue for the biennium is requested to fund contracted services for a program coordinator and non-infrastructure –related activities to encourage walking and bicycling to school under the Safe Routes to School program. In addition, over 70 percent of the funding would be used to provide grants for planning, design, and construction of infrastructure-related projects of the program.