Agency Biennium Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Budget Comparison Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	328,055,655	334,920,563	6,864,908	2.09 %
Operating Expenses	934,645,090	712,598,480	(222,046,610)	(23.76)%
Equipment & Intangible Assets	7,522,504	6,515,316	(1,007,188)	(13.39)%
Capital Outlay	25,920,730	25,913,730	(7,000)	(0.03)%
Grants	57,884,431	49,810,640	(8,073,791)	(13.95)%
Benefits & Claims	1,000	1,000	0	0.00 %
Transfers	4,291,592	3,303,686	(987,906)	(23.02)%
Debt Service	177,740	170,540	(7,200)	(4.05)%
Total Expenditures	**$1,358,498,742**	**$1,133,233,955**	**($225,264,787)**	**(16.58)%**
State/Other Special Rev. Funds	519,453,433	473,980,216	(45,473,217)	(8.75)%
Federal Spec. Rev. Funds	839,045,309	659,253,739	(179,791,570)	(21.43)%
Total Funds	**$1,358,498,742**	**$1,133,233,955**	**($225,264,787)**	**(16.58)%**
Total Ongoing	**$1,358,478,742**	**$1,133,233,955**	**($225,244,787)**	**(16.58)%**
Total OTO	**$20,000**	**$0**	**($20,000)**	**(100.00)%**

Mission Statement

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

There is additional, more detailed information about the department in the agency profile. The profile may be viewed at: http://leg.mt.gov/content/Publications/fiscal/Budget-Books/2019/Budget-Analysis/section_c/5401-00agency-profile.pdf

Agency Highlights

Department of Transportation
Major Budget Highlights

- The executive proposal is an overall reduction of $225.3 million in MDT budget, compared to the 2017 biennium budget
- Reductions include:
  - $235.9 million of reductions included in DP 560-Balance State Special Revenue Account
  - $3.1 million of reduced costs for equipment rentals through the proprietary program
  - $5.9 million in Aeronautics Program, normalizing after the 2017 biennium West Yellowstone Airport taxiway and apron project
- Reductions would be offset by:
  - $15.3 million of statewide present law adjustments
  - $582,686 request for maintenance of the new Kalispell bypass, which includes 2.00 FTE
  - $1.1 million of new proposals in the Aeronautics Program

Legislative Action Issues

- New proposal (DP 560) would balance revenue and appropriations in the restricted highway state special revenue account (HSRA) and includes:
  - Pro rata reductions across all user programs
  - Reductions in MDT HSRA appropriations of $42.8 million over the 2019 biennium
- The HSRA working capital balance projections would grow from $29.2 million at the beginning of the biennium to $47.7 million at the end
- The executive proposal only addresses HSRA expenditures, for a short-term fix
- Options for legislative consideration include:
  - Other reduction alternatives
  - Increases to total funding, including increasing the tax on gasoline

Agency Actuals and Budget Comparison

The following table compares the 2017 biennium appropriated budget to the 2019 biennium requested budget by type of expenditure and source of funding.

Agency Actuals and Budget Comparison

Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	2,055.32	2,055.32	2,055.32	2,057.32	2,057.32
Personal Services	155,553,188	161,730,879	166,324,776	167,185,687	167,734,876
Operating Expenses	429,714,566	463,646,530	470,998,560	327,330,520	385,267,960
Equipment & Intangible Assets	3,435,192	4,264,846	3,257,658	3,257,658	3,257,658
Capital Outlay	8,896,395	12,963,865	12,956,865	12,956,865	12,956,865
Grants	29,638,295	32,979,111	24,905,320	24,905,320	24,905,320
Benefits & Claims	0	500	500	500	500
Transfers	1,782,157	2,639,749	1,651,843	1,651,843	1,651,843
Debt Service	92,376	92,470	85,270	85,270	85,270
Total Expenditures	**$629,112,169**	**$678,317,950**	**$680,180,792**	**$537,373,663**	**$595,860,292**
State/Other Special Rev. Funds	235,762,718	263,225,223	256,228,210	232,752,652	241,227,564
Federal Spec. Rev. Funds	393,349,451	415,092,727	423,952,582	304,621,011	354,632,728
Total Funds	**$629,112,169**	**$678,317,950**	**$680,180,792**	**$537,373,663**	**$595,860,292**
Total Ongoing	**$629,112,169**	**$678,317,950**	**$680,160,792**	**$537,373,663**	**$595,860,292**
Total OTO	**$0**	**$0**	**$20,000**	**$0**	**$0**

Agency Discussion

The Department of Transportation (MDT) is the agency responsible for administering the multimodal transportation network in Montana. The department plans, designs, builds, and maintains the statewide network of highways. It is responsible for collecting and distributing highway user fees and fuel taxes. The department enforces state and federal laws for commercial motor carriers and registers interstate fleet vehicles. The department also facilitates the operation and infrastructure of airports and airways in Montana, registers aircraft and pilots, and maintains several state-owned airports.

The department also represents Montana interests in railroad planning issues and supports local entities in overall transportation planning and transit assistance.

The department provides the above services through the following programs:

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

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

LFD COMMENT The department has submitted a budget request for the 2019 biennium based on the 2015 tentative construction plan (TCP). The agency is in the process of updating this plan and the associated budget in relation to the most recent TCP, approved in November, 2016. Historically, the department revises several of the key budget adjustments from those presented in the request analyzed by legislative staff to reflect the updated tentative construction plan. Consequently, the department request may change prior to appropriations subcommittee hearings. In addition, changes in the TCP may create changes in the working capital balance projection of the restricted highway special revenue account (HSRA).

The executive budget proposal for MDT contains an overall reduction of $225.3 million, or 16.6% over the 2017 biennium budget. The largest reduction is apparent in the operating expense account category, with total reductions of $222.0 million over the biennium. Significant biennial agency reductions include the following:

- $3.1 million in present law reductions for equipment rental
- $235.9 million in “DP 560-Balance the Highway State Special Revenue Account” new proposals, which includes $193.0 million in federal funds and $2.0 million in personal services costs
- $5.9 million reduction that normalizes the Aeronautics Program budget following the completion of the West Yellowstone Airport taxiway and apron project appropriated in the 2017 biennium budget

LFD COMMENT For the past five years, expenditures in the restricted highway state special revenue account (HSRA) have exceeded the revenue flowing into the fund. As a result, the fund balance in HSRA has declined to a point where MDT is experiencing serious cash flow issues. The condition of expenditures exceeding revenues is a permanent and ongoing problem, and HSRA cannot continue to support the ongoing costs, current service levels, maintenance of effort needed to retain the state’s favorable federal match rate, and the match to federal construction funding without changes.

The executive has recommended a budget for MDT that reduces the appropriations requested in the HSRA. These reductions would balance the expenditures to the expected revenues and reduce the cash-flow issues but the proposal would reduce the state’s federal highway match and result in the state losing federal highway improvement funds. The

proposal would not provide a long-term fix for the problem. Throughout the MDT budget report, the LFD proposes options and ideas for legislative consideration in determining the best approach for the problems in the HSRA.

These reductions are offset by several increases that include:

- Statewide present law adjustment of $15.3 million, budgeted primarily in the General Operations Program
- Present law proposal for the maintenance of the new Kalispell bypass of $582,686 and includes 2.00 new FTE
- New proposals of $1.1 million in the Aeronautics Program of which just $10,000/year would continue in the future years

Historically as now, the greatest overarching issue/concern related to the MDT budget is the continued ability of the restricted highway state special revenue account (HSRA) to support the levels of appropriation seen in recent years. HSRA supports 40.9% of the total 2019 budget and accounts for 93.7% of all state special expenditures.

LFD ISSUE

BALANCING THE HIGHWAY STATE SPECIAL REVENUE ACCOUNT

Fuel taxes and other highway user fees are deposited into the restricted highway state special revenue account (HSRA). Article VIII, Section 6, of the Constitution restricts the use of the revenues for specific uses that include:

- Payment of obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges
- Payment of county, city, and town obligations on streets, roads, and bridges
- Enforcement of highway safety, driver education, tourist promotion, and administrative collection costs

The revenue may be used for other purposes with a three-fifths vote of the members of each house of the legislature. The fuel tax rates, which are the primary source of revenues deposited in the fund, were last changed in 1994.

The account has supported activities of several agencies, which include:

- MDT – the primary account user and administer of the account
- Department of Justice (DOJ)
- Fish, Wildlife, and Parks (FWP)

Following the receipt of funding from the American Recovery and Reinvestment Act of 2009, MDT was able to amass a sizable fund balance in HSRA. An adequate working capital balance allows MDT to pay for costly federal-aid highway construction projects ahead of the receipt of federal project reimbursements. For the past five fiscal years, FY 2012 through FY 2016, expenditures from the account have exceeded the available revenues, chipping away at the fund balance to make up the difference. Over that time, the HSRA working capital balance has declined from $99.6 million at the end of FY 2011 to $35.6 million at the end of FY 2016. If this imbalance were to continue, the account would reach the point where MDT could no longer pre-fund federal-aid projects, and in response the executive has recommended a series of budget reductions entitled “NP-560: Balancing the Highway State Special Revenue Account”. The executive proposals are projected to result in a working capital balance of $47.7 million by the end of the 2019 biennium, assuming revenues come in as anticipated and all appropriation authority is fully expended.

According to the executive, the reductions for HSRA supported programs were made on a pro-rata basis, reducing the budget to provide an adequate fund balance to support the pre-payment of federal-aid construction projects. The implied impacts of the reductions include:

- MDT ($42.8 million HSRA, $193.0 million FSR)
  - Construction Program – The total biennial reduction of authority in the Construction Program would be $221.9 million below the agency present law request. This would be a reduction of $28.8 million in HSRA funds, and a reduction of $193.0 million of federal fund authority. The Construction Program budget proposal is an annual average reduction of $81.6 million, or 19.0%, below actual FY 2016 expenditures. With this budget reduction the Construction Program will not have sufficient state special authority to match all the federal funding available for highway construction in the 2019 biennium
  - Maintenance Program – HSRA expenditures from the program budget would be reduced by a biennial $14.0 million. This would reduce personal services authority by $1.0 million per year, and operating expenses by $6.0 million per year. While the reductions would provide a Maintenance Program budget that in total exceeds the actual expenditures of FY 2016, the proposal would reduce the appropriations for construction of state roads by 50% of its normal appropriation, or 25.2% of the actual 2016 expenditures
- DOJ ($6.95 million and 32.24 FTE in FY 2018 and 22.75 FTE in FY 2019)
  - Montana Highway Patrol – The total biennial reduction in the Montana Highway Patrol would be $5.5 million, including reductions of 27.00 FTE in FY 2018 and 19.00 FTE in FY 2019, or an annual average of 23.00 FTE. All FTE reductions are grade 5 patrol officer positions
  - Justice Information Technology Services Division – The total biennial reduction in the Justice Information Technology Services Division would be $11,854 in unspecified operating expenses
  - Motor Vehicle Division - The total biennial reduction in the Motor Vehicle Division would be $1.3 million, including 4.49 FTE in FY 2018 and 3.00 FTE in FY 2019 in unspecified positions

- Central Services Division - The total biennial reduction in the Central Services Division would be $52,283, including 0.75 FTE each year in unspecified positions
- FWP ($2.0 million HSRA in the 2019 biennium)
  - The program would not receive the normal $2.0 million appropriation for repairs and maintenance of state parks roads made in the long-range building program bill. Although the Parks program continues to request authority for parks roads, LFD analysts believe that the remaining Parks program funds will not support all the proposed agency projects. As a result this reduction is likely to mean that re-construction of park roads may be postponed

The executive has brought forward a budget that balances the revenues and expenditures of HSRA and provides a working capital balance of $47.7 million at the end of the 2019 biennium. However, the executive's solution would be a temporary fix that would result in reductions to current service levels and a loss of federal funding for highway construction. The legislature may want to consider the following options in addressing the problem in the HSRA:

- Meet with the Sec. D Subcommittee (DOJ) and discuss other ideas for reducing HSRA expenditures
- Eliminate or reduce the presence of non-highway construction programs from HSRA
- Reduce the personal services budget to maintain the same percentage split with operating expenses
- Spread the reductions across other MDT programs supported with HSRA funds
- Increase appropriations to equal the total amount of anticipated revenues, lowering the projected HSRA balance to $29.2 million
- Consider increasing funding from other sources, or by increasing the existing gas tax, to provide sufficient funding to support current service levels and the current level of highway funding
- Do any combination, or all of the options listed above
- Do nothing and leave the appropriations at the executive proposed level

Personal Services

At the request of the executive, the 2019 biennium personal services budgets included a 4% vacancy savings rate, as opposed to the 2% rate implemented in the 2017 biennium budget. The program narratives include a breakdown of the personal services budgets to illustrate the difference between the executive request and the legislative expectations for personal services changes. In MDT, the biennial agency-wide executive budget request for personal services is a total of $6.9 million higher than anticipated by the legislature based upon pay plan and statutory personal services adjustments. After adjusting for the additional 2% vacancy savings, and broadband pay adjustments, the resulting remaining difference amounted to $220,891 over the biennium, or 0.07% of the total 2019 biennium personal services budget. Additional details about the personal services adjustments are included in each program analysis.

Agency Wide Decision Packages

The following proposals have common decision packages in several programs across the agency. Note: The Section C Subcommittee may want to act on these change package proposals as a group or alternatively act on each individual change package while working on the program budgets.

<u>Equipment Rental - DP 304</u>

The proposals in this group, as shown in Figure 1, would reduce funding in the agency programs that use the Equipment Program. The Equipment program is a non-budgeted proprietary funded program that acquires, maintains, and disposes of equipment items rented to various programs of the agency. The changes result from lower Equipment Program costs of inflation adjustments, changes in the costs of repairs and maintenance, and statewide adjustments for personal services. For more information on the factors that impact the rates to the Equipment Program, refer to the "Proprietary Rates" section of that program.

Figure 1

Equipment Rental Reductions-DP 304						
	FY 2018			FY 2019		
Program	SS	FS	Total DP	SS	FS	Total DP
General Operations	($595)	($17)	($612)	($429)	($12)	($441)
Construction	(28,337)	(189,641)	(217,978)	(20,429)	(136,718)	(157,147)
Maintenance	(1,371,889)	(145,855)	(1,517,744)	(989,036)	(105,151)	(1,094,187)
Motor Carrier	(17,410)	(6,614)	(24,024)	(12,552)	(4,768)	(17,320)
Aeronautics	(426)	0	(426)	(426)	0	(426)
Planning	(11,509)	0	(11,509)	(8,297)	0	(8,297)
Total	($1,430,166)	($342,127)	($1,772,293)	($1,031,169)	($246,649)	($1,277,818)

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

Overtime and Differential Pay - DP 103

The proposals in this group, as shown in Figure 2, would reduce the pay plan adjusted costs of overtime, differential pay, and per diem pay included in the program budgets. The 2017 biennium budget contained a total of $12.8 million for overtime and differential pay authority, and MDT did not require increases to the base authority due to pay plan adjustments in the budgeted amount.

Figure 2

Overtime, Differential Pay, and Per Diem Pay Adjustments-DP 103						
	FY 2018			FY 2019		
Program	OT & Dif Pay Budget	Total DP	Total Budget	OT & Dif Pay Budget	Total DP	Total Budget
General Operations	$84,727	($20,605)	$64,122	$84,727	($20,605)	$64,122
Construction	5,431,192	(2,420,258)	3,010,934	5,431,192	(2,420,258)	3,010,934
Maintenance	4,518,650	(1,394,817)	3,123,833	4,518,650	(1,394,817)	3,123,833
Motor Carrier	269,902	(99,489)	170,413	269,902	(99,489)	170,413
Planning	26,344	19,380	45,724	26,344	19,380	45,724
Total	$10,330,815	($3,915,789)	$6,415,026	$10,330,815	($3,915,789)	$6,415,026

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. A summary of the entire 2019 biennium 5% plan submitted for this agency is in the appendix.

Because MDT does not transfer investment earnings or fund balances to the general fund in many of their state special funds, the agency is principally exempt from submission of the 5% reduction plan. MDT did submit a 5% plan for expenditures from the highway state special revenue non-restricted account, from which interest is transferred to the general fund. The MDT plan would reduce $524,331 from the Pavement Preservation function in the Maintenance Program.

Comparison of FY 2017 Legislative Budget to FY 2017 Base

The following table demonstrates the beginning FY 2017 budget as adopted by the 2015 legislature, plus modifications done by the executive (and authorized in statute) during the interim, and the finalized 2017 Base Budget. The columns provide detail showing the changes that occurred over the course of the interim to reach the 2017 Base Budget. The 2017 Base Budget was agreed upon by the Legislative Finance Committee and the executive as a measuring point to start the 2019 biennium budgeting proces

Figure 3

FY 2017 Appropriation Transactions - Department of Transportation							
	Leg Approp	Allocations	Program Transfers	OP Changes	2017 Base	% Change from LEG Approp	% Change from Approp + Allos.
01 General Operations Program							
Personal Services	$16,525,823	$939,522	$158,061		$17,623,406	6.6%	0.9%
Op. Exp.	14,019,677			81,968	14,101,645	0.6%	0.6%
Equipment	45,803				45,803	0.0%	0.0%
Grants	156,968			(81,968)	75,000	-52.2%	-52.2%
Debt Service	85,270				85,270	0.0%	0.0%
Program Total	30,833,541	939,522	158,061	0	31,931,124	3.6%	0.5%
02 Highways & Engineering							
Personal Services	70,924,949	3,009,391	(235,646)	0	73,698,694	3.9%	-0.3%
Op. Exp.	361,480,568			0	361,480,568	0.0%	0.0%
Equipment	2,665,262			0	2,665,262	0.0%	0.0%
Capital Outlay	12,956,865			0	12,956,865	0.0%	0.0%
Grants	7,130,628			0	7,130,628	0.0%	0.0%
Program Total	455,158,272	3,009,391	(235,646)	0	457,932,017	0.6%	-0.1%
03 Maintenance Program							
Personal Services	53,896,617	2,545,622	77,585	0	56,519,824	4.9%	0.1%
Op. Exp.	85,617,592			0	85,617,592	0.0%	0.0%
Equipment	225,208				225,208	0.0%	0.0%
Grants	25,000				25,000	0.0%	0.0%
Program Total	139,764,417	2,545,622	77,585	0	142,387,624	1.9%	0.1%
22 Motor Carrier Services Div.							
Personal Services	8,615,045	441,518		0	9,056,563	5.1%	0.0%
Op. Exp.	3,108,925			(43,500)	3,065,425	-1.4%	-1.4%
Equipment	197,716				197,716	0.0%	0.0%
Transfers-out	6,216			43,500	49,716	699.8%	699.8%
Program Total	11,927,902	441,518		0	12,369,420	3.7%	0.0%
40 Aeronautics Program							
Personal Services	749,082	30,210		0	779,292	4.0%	0.0%
Op. Exp.	874,443				874,443	0.0%	0.0%
Grants	424,000			0	424,000	0.0%	0.0%
Transfers-out	6,901				6,901	0.0%	0.0%
Program Total	2,054,426	30,210		0	2,084,636	1.5%	0.0%
50 Rail, Transit & Planning							
Personal Services	8,302,681	344,316		0	8,646,997	4.1%	0.0%
Op. Exp.	5,838,887			0	5,838,887	0.0%	0.0%
Equipment	123,669				123,669	0.0%	0.0%
Grants	16,548,358	702,334		0	17,250,692	4.2%	0.0%
Benefits & Claims	500				500	0.0%	0.0%
Transfers-out	1,595,226			0	1,595,226	0.0%	0.0%
Program Total	32,409,321	1,046,650		0	33,455,971	3.2%	0.0%
MDT Total	$672,147,879	$8,012,913	$0	$0	$680,160,792	1.2%	0.0%

Leg Approp = Legislative Appropriations
Allocations - include Contingency Base & Pay Plan
OP = Operating Plan Changes

Significant budget changes adopted by the executive include:

- $7.0 million related to the pay plan increases
- $265,000 from the personal services contingency transfer

- $702,334 from the base contingency transfer directed into the grants account category
- Program transfers moved $235,646 of personal service budget from the Construction Program into the General Operations programs and $77,585 of personal service budget from the General Operations Program to the Maintenance Program
- Operating plan changes moved $125,468 of authority between expenditure accounts

Funding

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

Total Department of Transportation Funding by Source of Authority
2019 Biennium Budget Request - Department of Transportation

Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
State Special Total	473,980,216	0	0	43,733,904	517,714,120	40.40 %
Federal Special Total	659,253,739	0	0	30,830,150	690,083,889	53.85 %
Proprietary Total	0	0	73,640,536	0	73,640,536	5.75 %
Other Total	0	0	0	0	0	0.00 %
Total All Funds	**$1,133,233,955**	**$0**	**$73,640,536**	**$74,564,054**	**$1,281,438,545**	
Percent - Total All Sources	**88.43 %**	**0.00 %**	**5.75 %**	**5.82 %**		

The department is funded from a combination of state special revenue and federal special revenue. Included in the figure above is the funding for the three proprietary programs, the State Motor Pool internal service program, the MDT Equipment internal service program, and the West Yellowstone enterprise program. Statutory appropriations consist of distributions of gasoline taxes to local and tribal governments (state special funds) and federal fund pass-through distributions and grants.

LFD COMMENT The two primary state special revenue funds account for 98% of the HB 2 state special revenues. These are the restricted and non-restricted highway state special revenue accounts, which can be grouped into two general categories:

1. Restricted 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

They can only be used for:

- Paying obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; and for enforcement of highway safety, driver education, tourist promotion, and administrative collection costs
- A diversion of funds to other purposes can only be done through a 3/5th vote of the members of each chamber of the legislature

2. Non-restricted revenues derived from:

- Special use permits and motor fuel penalties and interest payments

They can be used for:

- Any purpose for which the legislature sees fit

Highways State Special Revenue Account Working Capital Analysis

Figure 4 provides the working capital balance for the restricted highway state special revenue account (HSRA) and the highway state special revenue non-restricted account (HSRA-NR) account. This analysis differs from a regular fund balance analysis because it includes only those actual expenditures in the year when they occur. It does not include amounts that are encumbered for projects started in the current year but completed in the next. In such a case, the continued project costs would be included in the following year. As such, the analysis provides a more accurate assessment of funding availability.

To some degree, the HSRA accounts are managed in tandem. As such, a combined balance is included for informational purposes. In each of the accounts, an adjustment is included, titled in the figure as "2017 Biennium Projected Reversion" to reduce the fiscal year appropriations to the level of expenditure planned by MDT, the administrating agency for the accounts. The combined balance of the HSRA accounts is projected to be $28.7 million at the beginning of the 2019 biennium. If the user agencies fully expend all appropriations requested in the 2019 budgets and the anticipated revenues are realized as projected, the balance of the accounts would be $45.4 million at the end of the 2019 biennium.

The budgets and status for each of the accounts are as follows:

Constitutional Restricted Highway State Special Revenue Account (HSRA)

As shown in the figure, HSRA is expected to start the 2019 biennium with a positive working capital balance of nearly $29.2 million, assuming the reversion of $46.5 million of appropriation authority expected to be unused in the 2017 biennium. The revenue estimates included in HJ 2 would provide, net of distributor fees, $580.1 million in 2019 biennium. The budget requests include $561.6 million of appropriations. The difference between anticipated revenues and requested appropriations would amount to $18.5 million, which would increase the available working capital balance to $47.7 million. This analysis does not consider the 2019 biennium pay plan, which would increase personal services funding from HSRA. Estimates for the proposed pay plan increase are expected to be available prior to subcommittee hearings.

Non-restricted Highway State Special Revenue Account (HSRA-NR)

HSRA-NR supports the operations of four programs in MDT and one program in the Department of Justice. As shown in Figure 4, HSRA-NR is expected to start the 2019 biennium with a negative balance of $0.5 million. Total revenue in the 2019 biennium is projected to be $19.3 million and total appropriations would amount to $21.1 million. Requested appropriations would exceed anticipated revenues by $1.8 million over the biennium, which would reduce the working capital balance to a negative $2.3 million.

Note: The negative amounts in the HSRA-NR means only that appropriations in the account exceed the anticipated revenues and available fund balance. The account will never go negative, but in the case of the HSRA-NR, MDT will need to transfer funds to the account or appropriations from the account or reduce spending to balance the account.

Figure 4

Estimated Working Capital Balance of Highway State Special Accounts
($ millions)

	FY 2016 ACTUAL	FY 2017 Projected	FY 2018 Projected	FY 2019 Projected
Combined Accounts				
Beginning Balance	$42.5	$36.4	$28.7	$39.7
Net Revenues	296.5	303.1	298.6	300.8
Expenditures	302.6	360.7	287.6	295.1
Revenues less Expenditures	(6.1)	(57.6)	11.0	5.7
Adjustments for Estimated Reverted Authori	0.0	49.9	0.0	0.0
Ending Balance	$36.4	$28.7	$39.7	$45.4
HSRA Restricted Account - 02422				
Beginning Fund Balance	$41.9	$35.6	$29.2	$41.1
Total Revenues	290.1	295.7	291.2	293.3
Distributors Fee	(2.2)	(2.1)	(2.2)	(2.2)
Total Net Revenues	287.9	293.6	289.0	291.1
Expenditures				
Montana Department of Transportation (MDT)				
MDT SA and Tribal Distributions	22.5	23.7	23.0	23.1
MDT HB 2	228.3	270.6	217.9	226.3
Other HSRA Appropriations				
Department of Justice (DOJ) HB 2	38.4	39.5	33.7	35.1
MDT (HB 10)	1.1	4.6		
FWP (HB 5)	0.2	1.9	0.0	0.0
MDT LRBP (HB 5)	3.8	6.2	2.5	0.0
Total Expenditures	294.3	346.4	277.1	284.5
Net Revenues Less Expenditures	(6.4)	(52.9)	11.9	6.5
Subtotal Ending Balance	35.6	(17.3)	41.1	47.7
Adjustments to Balance (Prior Year)	0.0	0.0	0.0	0.0
2017 Biennium Projected Reversion	0.0	46.5	0.0	0.0
Working Capital Balance (02422)	$35.6	$29.2	$41.1	$47.7
Non-restricted HSRA Account - 02349				
Beginning Fund Balance	$0.6	$0.9	($0.5)	($1.4)
Total Revenues	8.5	9.6	9.6	9.7
Expenditures				
Total Transfer Out (Noxious Weed SSR)	0.4	0.4	0.1	0.1
MDT HB 2	7.3	13.3	9.9	9.9
DOJ HB 2	0.5	0.6	0.6	0.6
Total Expenditures	$8.3	$14.3	$10.5	$10.6
Revenues Less Expenditures	0.3	(4.7)	(0.9)	(0.9)
2017 Biennium Projected Reversion	0.0	3.3	0.0	0.0
Working Capital Balance (02349)	$0.9	($0.5)	($1.4)	($2.3)

Revenue projections from HJ 2
LFD projections assumes full expending of authority except where authority is reverted

The HSRA figure provides a high-level view of the working capital balances of the highway state special revenue accounts, a more detailed view of account activities and budgeting is found in the appendix.

Federal Aid Highway Funding

The Fixing America's Surface Transportation or FAST Act was passed by Congress in December, 2015 and is now authorizing federal funds to MDT. Apportionment levels thru the FAST Act are slightly higher than MAP 21, the previous

surface transportation funding act, and for Montana projects is expected to provide an approximate 2% increase in federal fiscal year (FFY) 2017 through FFY 2020. Montana continues to receive approximately $2 dollars of federal gas taxes for every $1 dollar that Montanan's pay.

LFD ISSUE

Forgoing Federal Funds

Overall, the executive budget proposal for MDT would reduce federal funding by $179.8 million, or 23.4%, when compared to the 2017 biennium budget. The reduction, primarily related to the DP 560 "Balance Highway State Special Revenue Account" in the Construction Program, is expected to require the agency to forgo federal special funding for federal-aid highway construction projects. The executive request for MDT would reduce the level of federal funds in the Construction Program budget by 23.2% from the 2017 biennium budget and would reduce the federal funding by an annual average of $64.1 million, or 18.1% from the FY 2016 actual federal expenditures.

The reduction in federal funding authority is directly tied to the reductions of the state special matching funds that would be provided through HSRA. HSRA has always been used to provide the favorable match (currently 13% state/87% federal) that the state gets for federal-aid highway construction projects, and the combination of state and federal funding provides many jobs related to these highway projects constructed across the state. The $221.9 million (federal and state funds combined) DP 560 reduction in the Construction Program will significantly impact the number of projects and associated jobs.

The legislature may want to consider options that would maximize the amount of federal funding that the state can retain through the 2019 biennium budget. Some options for doing this include:

- Eliminate or reduce the presence of non-highway construction programs from HSRA
- Reduce the personal services budgets to maintain the same percentage split with operating expenses, thereby partially offsetting the reduction in the highway construction budget and maximizing the amount of federal funding (appropriation authority) to the greatest extent possible
- Make reductions more widely across the HSRA user programs, thereby increasing the amount of matching funds available
- Increase appropriations of HSRA funds to equal the total amount of anticipated revenues, lowering the projected HSRA balance to $29.2 million and maximizing federal highway funding
- Consider increasing funding from other sources, or by increasing the existing gas tax, to provide sufficient revenue to match a more usual level of federal highway funding

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary section of the Budget Analysis.

Budget Summary by Category

	General Fund				Total Funds			
Budget Item	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget	Budget Fiscal 2018	Budget Fiscal 2019	Biennium Fiscal 18-19	Percent of Budget
2017 Base Budget	0	0	0	0.00 %	680,160,792	680,160,792	1,360,321,584	120.04 %
SWPL Adjustments	0	0	0	0.00 %	7,418,044	7,845,211	15,263,255	1.35 %
PL Adjustments	0	0	0	0.00 %	(3,603,750)	(2,805,711)	(6,409,461)	(0.57)%
New Proposals	0	0	0	0.00 %	(146,601,423)	(89,340,000)	(235,941,423)	(20.82)%
Total Budget	**$0**	**$0**	**$0**		**$537,373,663**	**$595,860,292**	**$1,133,233,955**	

Language and Statutory Authority -

The following language is requested by the executive for HB 2 :

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

"All appropriations in the department are biennial."

"All remaining federal pass-through grant appropriations for highway traffic safety, including reversions for the 2017 biennium, are authorized to continue and are appropriated in FY 2018 and FY 2019."