

Program 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.

Program Budget Comparison				
Budget Item	Appropriated Budget 16-17	Requested Budget 18-19	Biennium Change	Biennium % Change
Personal Services	145,385,894	150,050,267	4,664,373	3.21 %
Operating Expenses	709,175,272	500,662,929	(208,512,343)	(29.40)%
Equipment & Intangible Assets	6,330,524	5,330,524	(1,000,000)	(15.80)%
Capital Outlay	25,913,730	25,913,730	0	0.00 %
Grants	19,261,256	14,261,256	(5,000,000)	(25.96)%
Total Expenditures	\$906,066,676	\$696,218,706	(\$209,847,970)	(23.16)%
State/Other Special Rev. Funds	154,111,216	115,448,908	(38,662,308)	(25.09)%
Federal Spec. Rev. Funds	751,955,460	580,769,798	(171,185,662)	(22.77)%
Total Funds	\$906,066,676	\$696,218,706	(\$209,847,970)	(23.16)%
Total Ongoing	\$906,066,676	\$696,218,706	(\$209,847,970)	(23.16)%
Total OTO	\$0	\$0	\$0	0 %

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, 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. The program also provides traffic improvement and educational programs to promote public safety, health, and welfare.

Program Highlights

Construction Program Major Budget Highlights
<ul style="list-style-type: none"> • The Construction Program budget request is \$209.8 million, or 23.2%, lower than the 2017 biennium budget • The program reduction is related to the new proposal titled "DP560-Balancing Highway State Special Revenue Account" (HSRA) <ul style="list-style-type: none"> ◦ The proposal would reduce \$28.8 million of HSRA authority from the budget, which is a match to federal special revenues ◦ The proposal also would reduce \$193.0 million of federal special fund authority for highway construction
Major LFD Issues
<ul style="list-style-type: none"> • The Balancing Highway State Special Revenue Account proposal reduces operating expenses by an annual average of \$250.3 million, or negative 25.6%, over the actual FY 2016 operating expenditures • The proposal will result in the state having insufficient funds to match the states allocation of federal highway funding

Program Actuals and Budget Comparison

The following table compares the program's FY 2016 actual expenditures with FY 2016 and FY 2017 appropriations and with FY 2018 and FY 2019 requested appropriations.

Program Actuals and Budget Comparison					
Budget Item	Actuals Fiscal 2016	Approp. Fiscal 2016	Approp. Fiscal 2017	Request Fiscal 2018	Request Fiscal 2019
FTE	876.72	876.72	876.72	876.72	876.72
Personal Services	69,920,761	71,687,200	73,698,694	74,900,015	75,150,252
Operating Expenses	336,386,529	347,694,704	361,480,568	221,147,546	279,515,383
Equipment & Intangible Assets	2,990,455	3,665,262	2,665,262	2,665,262	2,665,262
Capital Outlay	8,891,081	12,956,865	12,956,865	12,956,865	12,956,865
Grants	11,556,022	12,130,628	7,130,628	7,130,628	7,130,628
Total Expenditures	\$429,744,848	\$448,134,659	\$457,932,017	\$318,800,316	\$377,418,390
State/Other Special Rev. Funds	75,289,594	82,443,411	71,667,805	53,882,465	61,566,443
Federal Spec. Rev. Funds	354,455,254	365,691,248	386,264,212	264,917,851	315,851,947
Total Funds	\$429,744,848	\$448,134,659	\$457,932,017	\$318,800,316	\$377,418,390
Total Ongoing	\$429,744,848	\$448,134,659	\$457,932,017	\$318,800,316	\$377,418,390
Total OTO	\$0	\$0	\$0	\$0	\$0

Program Discussion -

FY 2016 Appropriation Compared to FY 2016 Actual Expenditures

MDT reduced the Construction Program HB 2 allocated budget by \$268,485 through various budget transactions. The mild 2015-2016 winter allowed the program to execute numerous road construction projects, leading to the use of \$429.7 million, or 95.9%, of the modified budget. The remaining balance of \$18.4 million was continued into FY 2017. From the budget, 97.5% of the personal services and 96.7% of the operating expenses were expended. The Construction Program is the highest federal special funds user in MDT, and in 2016 the program used 96.5% of the anticipated HB 2 federal funds budget.

FY 2016 Appropriation Compared to FY 2017 Appropriation

The FY 2017 appropriations are 2.2% greater than the FY 2016 appropriations. Personal services are 2.8% higher, due to the pay plan adjustments, and operating expenses are 4.0% higher.

Executive Request

The Construction Program is the largest user of federal funds in MDT, using 88.1% of federal funds anticipated in the agency with a total budget funding split of 83.4% federal special revenue and 16.6% state special revenue. The Fixing America's Surface Transportation or FAST Act was passed and approved in December, 2015, and it contained projected increases of approximately 2% in the upcoming years. For more information on federal funding, see the Federal Funding section of the Summary section of the MDT budget analysis.

The proposed Construction Program budget is reduced, by 23.2% from the 2017 biennium budget. The average reduction from the FY 2016 actual expenditures is less, an average of \$81.6 million or 19.0%. The reduction in this programs is related to the "DP 560, Balancing Highway State Special Revenue Account" proposal. This new proposal impacts all the HSRA user agencies, but this budget more than others. In the Construction Program the proposal would reduce a biennial total of \$193.0 million of federal special revenue authority and \$28.8 million of state special revenue authority and will only reduce operating expenses. For more information on the DP 560 proposals, see the LFD Issue in the summary section of this report.

**LFD
ISSUE****Balancing HSRA Reduces Operating Expenses Below Previous Expenditures**

In order to balance the restricted highway state special revenue account (HSRA), the executive has created a set of proposals titled DP 560 - Balancing Highway State Special Revenue Account. The proposal in the Construction Program would reduce both HSRA authority and Federal Highway Trust authority, or funding for federal-aid highway construction projects. The proposal reduces only operating expenses and would be directed to reduce the Highway Construction account code, which is used for the payment of road construction contracts.

For this reduction, it is most accurate to compare the reduced budget to the FY 2016 actual expenditures. In FY 2016, expenditures for the Highway Construction account code were \$295.2 million, or 87.8%, of the total actual operating expenditures. The FY 2016 actual Highway Construction account expenditures exceed the proposed total operating expenses by \$74.0 million in FY 2018 and \$15.7 million in FY 2019. The conclusion that may be drawn from this comparison is that if the budget is approved as proposed by the executive, and if federal funding is provided in the 2019 biennium as it was in FY 2016, the Construction Program may be required to forgo a significant amount of funding from the federal government for highway construction projects.

Historically, the legislature has provided sufficient authority to assure that MDT would be able to make use of all federal funding coming from the Federal Highway Trust. Typically, the Construction Program budget was provided excess authority, a portion of which is typically reverted at the end of the biennium. This request would stop that practice and would provide a budget in which the HSRA funds may not be adequate to support all possible federal-aid highway projects. Given the total HSRA user reductions, projections for the HSRA would provide a working capital balance of \$47.7 million and total anticipated revenue exceeds expenditures by approximately \$18.5 million. The legislature may want to consider the following options:

- 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, thereby partially offsetting the reduction in the highway construction budget and maximizing the amount of federal funding (appropriation authority) to the greatest extent possible
- Increase appropriations 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 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

More information about the balance of the HSRA account and the DP 560 proposals is found in the summary section of the MDT report.

The construction program has the largest workforce in the agency, with 42.6% of the total FTE, and the largest personal service budget, 44.8% of the total agency personal services. Personal service costs are 21.6% of the total Construction Program budget and personal service costs would increase by 3.2% from the 2017 biennium. More information on the changes is available in the following section of this narrative.

Personal Services

The LFD calculated an expected personal services budget as a comparison to the executive personal services request. The LFD calculation uses the 2017 base as a starting point, and calculates expected incremental increases based on legislatively approved increases such as the pay plan, workers compensation, longevity increases, health benefit increase, and other expected changes. An illustration of this calculation is included in the Budget Analysis appendix.

The 2017 base included a 2% vacancy savings as stated in HB 2 from the 2015 legislative session. The 2019 biennium executive request for personal services (SWPL 1) includes a 4% vacancy savings, with some exceptions.

Figure 6

Department Of Transportation: 02 Highways & Engineering Personal Services Present Law Calculations			
PS Base: \$73,698,694			
		FY 2018	FY 2019
Executive	DP 1: SWPL Personal Services	\$3,621,579	\$3,871,816
Legislative	Statutory Personal Service Change	<u>983,735</u>	<u>1,231,614</u>
	Difference	2,637,844	2,640,202
Management Choices Explaining the Difference			
	Additional 2% Vacancy Savings	(1,497,531)	(1,502,737)
	Broadband Pay Adjustments	1,893,861	1,893,861
	Benefits and Taxes on Pay Adjustment	443,906	443,906
	Pay Plan Change for OT/Differential Ser.	2,420,258	2,420,258
	Other	(622,650)	(615,086)
	Total	\$2,637,844	\$2,640,202

Program Personal Services Narrative

The executive is requesting \$2.6 million in FY 2018 and FY 2019 more than anticipated by the LFD based upon pay plan and statutory personal services adjustments. A number of offsetting changes, including a 4% vacancy savings rate proposed by the executive and other decisions of program management combined for a higher than anticipated personal services budget request. Significant FY 2016 personal services increases made by management in addition to the statutory \$0.50 per hour pay plan increases included:

- \$808,538 for strategic pay increases
- \$1,076,606 for career ladder increases

Additional attributes of the Construction Program personal services budget include:

- 51.00 vacant FTE in the 2019 snapshot, funded at 83% of the normal pay level
- 529.00 FTE in various engineering positions
- Overtime pay of \$5.4 million in each year of the biennium which includes adjustments of \$2.4 million per year that would be reduced in present law adjustments

Funding

The following table shows proposed program funding by source of authority.

Department of Transportation, 02-Construction Program Funding by Source of Authority							
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 %	
02349 Highway Non-Restricted Account	290,000	0	0	0	290,000	0.25 %	
02422 Highways Special Revenue	115,158,908	0	0	200,000	115,358,908	99.75 %	
State Special Total	\$115,448,908	\$0	\$0	\$200,000	\$115,648,908	15.90 %	
03055 Rail Planning & Construction	0	0	0	0	0	0.00 %	
03407 Highway Trust - Sp Rev	580,769,798	0	0	30,830,150	611,599,948	100.00 %	
Federal Special Total	\$580,769,798	\$0	\$0	\$30,830,150	\$611,599,948	84.10 %	
Proprietary Total	\$0	\$0	\$0	\$0	\$0	0.00 %	
Total All Funds	\$696,218,706	\$0	\$0	\$31,030,150	\$727,248,856		

Costs eligible for reimbursement under the federal-aid construction program are funded with the highway state special revenue accounts and federal special revenue funds distributed by the U.S. Department of Transportation and apportioned to Montana. Construction design, construction, and construction management costs, as well as indirect 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 86.6% federal with a 13.4% state match for most direct construction related costs. The primary sources of revenues in HSRA are highway-user fees derived from motor fuel taxes and gross vehicle weight fees.

The Construction Program is also responsible for \$31.0 million of statutory appropriations. Statutory appropriations include \$200,000 from HSRA to be distributed for the purposes and functions of the Montana Local Technical Assistance Transportation Program in Bozeman. Another \$30.8 million will be distributed for the debt service costs associated with the work on Hwy 93 from the federal Highway Trust special revenue fund.

Program 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 Item	-----General Fund-----				-----Total Funds-----			
	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 %	457,932,017	457,932,017	915,864,034	131.55 %
SWPL Adjustments	0	0	0	0.00 %	3,596,535	3,853,778	7,450,313	1.07 %
PL Adjustments	0	0	0	0.00 %	(2,638,236)	(2,577,405)	(5,215,641)	(0.75)%
New Proposals	0	0	0	0.00 %	(140,090,000)	(81,790,000)	(221,880,000)	(31.87)%
Total Budget	\$0	\$0	\$0		\$318,800,316	\$377,418,390	\$696,218,706	

Present Law Adjustments -

The "Present Law Adjustments" table shows the changes from the FY 2017 base appropriation to the budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments										
	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Personal Services	0.00	0	1,376,200	2,245,379	3,621,579	0.00	0	1,471,290	2,400,526	3,871,816
DP 2 - Fixed Costs	0.00	0	(347)	(2,134)	(2,481)	0.00	0	(278)	(1,706)	(1,984)
DP 3 - Inflation Deflation	0.00	0	(3,158)	(19,405)	(22,563)	0.00	0	(2,247)	(13,807)	(16,054)
DP 201 - Contractor Payments	0.00	0	0	0	0	0.00	0	0	0	0
DP 203 - Overtime/Differential	0.00	0	(919,698)	(1,500,560)	(2,420,258)	0.00	0	(919,698)	(1,500,560)	(2,420,258)
DP 304 - Equipment Rental	0.00	0	(28,337)	(189,641)	(217,978)	0.00	0	(20,429)	(136,718)	(157,147)
Grand Total All Present Law Adjustments	0.00	\$0	\$424,660	\$533,639	\$958,299	0.00	\$0	\$528,638	\$747,735	\$1,276,373

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2017 statewide pay plan adjustments and increases to state share costs for health insurance passed by the 2015 Legislature, benefit rate adjustments, and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. The rates charged for these services are approved in the section of the budget for the programs that provide the services.

DP 3 - Inflation Deflation -

The executive requests adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, gasoline, and others.

DP 201 - Contractor Payments -

The executive requests a placeholder for the revised 2019 biennium contractor payment amounts that will be determined based on the November, 2016 Tentative Construction Plan (TCP).

The TCP is a planning tool that indicates when various planned projects will be let and the type of work to be completed. The information contained in the TCP is compared with historical payout patterns to estimate when and at what level payments will be made in future years.

LFD COMMENT	The Construction Program frequently requests a second budget submission for contractor payments given information from the Transportation Commission approved tentative construction plan (TCP). MDT updates the TCP each November, and it takes time for the agency to calculate changes to the budget given the updates. If there are adjustments to the Construction Program budget, the Sec. C Subcommittee will have the opportunity to consider it in the MDT hearings.
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DP 203 - Overtime/Differential -

The executive requests a reduction in state special and federal special revenue base appropriations for an adjustment in overtime and differential pay.

DP 304 - Equipment Rental -

The executive requests a reduction in state special and federal special appropriations for equipment rentals through the Equipment Program that result from inflation adjustments in repairs and maintenance and statewide adjustments for personal services.

New Proposals -

The "New Proposals" table shows new changes to spending.

New Proposals	-----Fiscal 2018-----					-----Fiscal 2019-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 560 - Balance Highway State Special Revenue Account	0.00	0	(18,210,000)	(121,880,000)	(140,090,000)	0.00	0	(10,630,000)	(71,160,000)	(81,790,000)
Total	0.00	\$0	(\$18,210,000)	(\$121,880,000)	(\$140,090,000)	0.00	\$0	(\$10,630,000)	(\$71,160,000)	(\$81,790,000)

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 560 - Balance Highway State Special Revenue Account -

The executive requests that in order to provide a balance of revenues and appropriations in the restricted Highway State Special Revenue Account, this program's base appropriations are reduced. This proposal reduces appropriations for both state special revenues, which provide a match for federal funding on federal-aid highway projects, and the associated federal special revenues.