



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
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DATE: September 24, 2015

TO: Revenue and Transportation Interim Committee (RTIC)

FROM: Cathy Duncan, Senior Fiscal Analyst

RE: Highway State Special Revenue Account Briefing/Update
Updated as of September 17, 2015

In recent years, the state's highway state special revenue account (HSRA) has not been balanced. Expenditures have exceeded revenues and the net working capital balance of the account has been steadily decreasing. In the 2017 biennium, the imbalance is projected to continue. This report provides a high-level background about the account, an update of the account balance projected through the 2017 biennium, and outlines potential impacts that may occur to current service levels should the imbalance continue.

Note: Most often, the fiscal analysis of various accounts is made through a fund balance assessment. The analysis that follows is based on a working capital assessment. The reason for analyzing the working capital instead of a fund balance is that within the HSRA, the fund balance assessment would include more than \$22 million of inventories and other non-current assets. These assets are not easily/readily liquidated. The working capital balance does not include these assets and is thought to provide a more accurate view of the funds available to expend on services.

The Basics:

Revenues of the account include:

- Gross vehicle weight fees
- Excise and license taxes (except general sales and use taxes) on gasoline, fuel, and other energy sources used to propel vehicles on public highways
- Indirect reimbursements from the federal government
- Other revenues from activities such as land sales, local government cost recovery, and miscellaneous fines and forfeitures (not fully inclusive)

The uses of the HSRA are constitutionally protected for:

- 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
- Revenue may be appropriated for other purposes by a three-fifths vote of the members of each house of the legislature

Agencies using HSRA funding include (with percent of FY 2015 expenditures, and general uses):

- Department of Transportation (MDT) – 78.9% primarily for road construction and maintenance, matching funds for federal authority
- Department of Justice (DOJ) – 11.6% primarily to fund the highway patrol functions and in support of the motor vehicle division functions
- Fish, Wildlife, and Parks (FWP) – 0.8% for maintenance of roads within state park boundaries
- Long-Range Building Program (LRBP) – 1.5% for MDT administrative and storage facility construction and maintenance
- Gas tax distributions – 7.3% primarily for local government distributions of the tax on gasoline

Actual and Projected Working Capital Balance

This working capital balance includes the following:

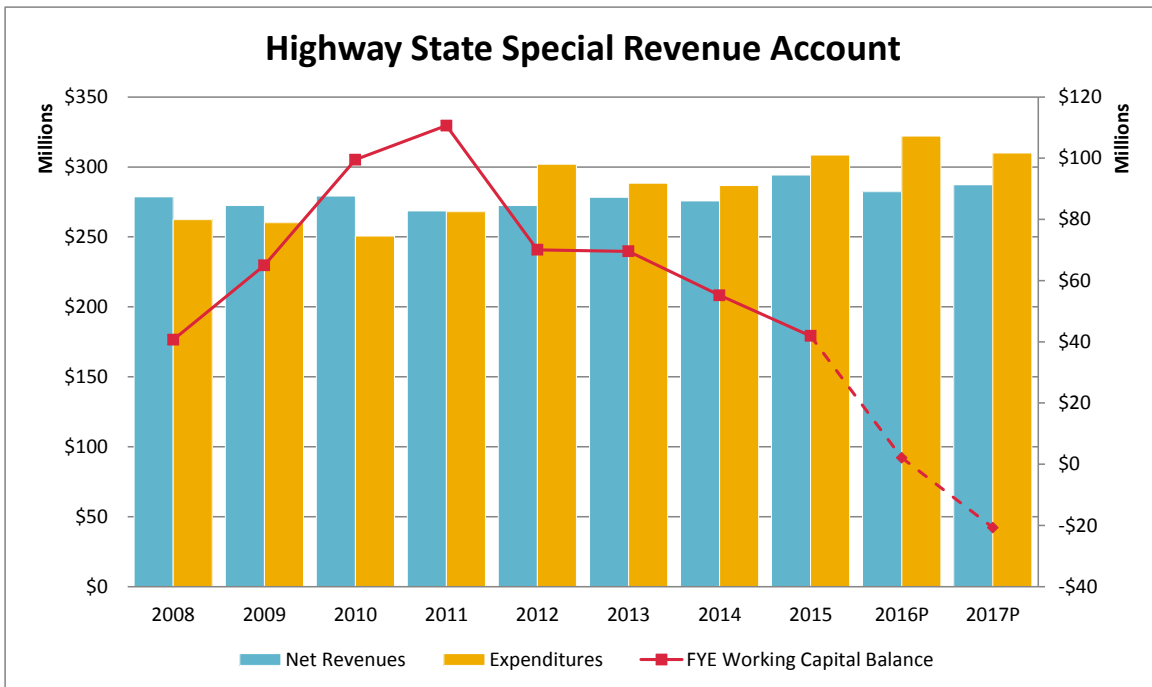
- FY 2014 and FY 2015 actual revenues and expenditures, including revenue accruals
- 2017 biennium revenues as projected in HJ 2 from the 2015 session
- Total appropriations provided by the 2015 Legislature in HB 2 with pay plan allocations (assumes all appropriations will be fully expended)
- Continuing appropriations from the capital project bills (assumed to be fully expended in the first year of the biennium, FY 2016)
- New carryforward authority is not included

Estimated Working Capital Balance Highway State Special Account (HSRA)				
	FY2014 ACTUAL	FY 2015 ACTUAL	FY 2016	FY 2017
<u>HSRA Restricted Account - 02422 (\$ Millions)</u>				
Beginning Fund Balance	\$69.6	\$55.2	\$41.9	\$2.1
Total Revenues	277.8	296.3	284.4	289.2
Distributors Fee	(2.0)	(2.0)	(2.0)	(2.0)
Total Net Revenues-Actual and Projected	275.8	294.2	282.4	287.2
<u>Expenditures</u>				
Montana Department of Transportation (MDT)				
MDT SA	22.1	22.3	22.2	22.2
MDT HB 2 & Pay Plan	230.9	242.1	242.6	247.3
Other HSRA Appropriations				
Department of Justice (DOJ) HB 2 & Pay Plan	35.9	35.6	38.8	40.6
MDT (HB 10)	0.0	0.0	5.7	0.0
FWP (HB 5 and 403)	0.7	2.3	2.3	0.0
MDT (HB 5 and 403)	0.9	4.5	10.6	0.0
Total Expenditures	290.5	306.8	322.2	310.0
Net Revenues Less Expenditures	(14.7)	(12.6)	(39.8)	(22.8)
Calculated Ending Fund Balance	54.9	42.7	2.1	(20.7)
Adjustments to Balance (Prior Year)	0.3	(0.7)	0.0	0.0
Calculated Ending Working Capital Balance	\$55.2	\$41.9	\$2.1	(\$20.7)

With the assumptions provided above, HSRA would finish the 2017 biennium with a negative balance of \$20.7 million. The account will not actually go negative in the 2017 biennium, but MDT and other users will need to adjust spending from the account based on their project priorities and the availability of funding.

Historical Perspective:

The figure below shows actual revenues and expenditures between FY 2008 and FY 2015 and includes the revenue projections and approved appropriations for FY 2016 and FY 2017. The figure also provides the fiscal year end working capital balance, quantified on the right axis.



Between FY 2008 and FY 2011, HSRA was balanced and the working capital balance was increasing. In those years, increased revenues resulted from the federal ARRA program, when federal funding was provided for highway construction projects without the usual requirement of a state special match (thus requiring a reduced need for HSRA funds). As discussed earlier and shown in the figure above, actual expenditures exceeded revenues in the HSRA account between FY 2012 and FY 2015. The projections of the 2017 biennium budget are expected to continue the trend. As shown by the working capital balance line, if all the spending authority provided for the 2017 biennium is used and with the projected revenues held constant, the balance will go negative in FY 2017.

Current Problem-Pressures Caused by Declining Working Capital Balance:

- MDT relies on fund balance to advance federal expenditures on Montana roads (costs which are ultimately reimbursed) – federal funding is always a reimbursement
- In the past four years, expenditures have exceeded revenues
- When expenditures are in excess of revenues, fund balance is used to cover costs
- Fund balance is projected to be fully expended with the 2017 biennium budget proposal
- Without a fund balance, MDT will not have this source for the advance on federal dollars
- Without a fund balance, spending will be strictly limited to the amount of revenue, leading to potential spending reductions and reductions of the services they fund

Addressing the Issue

There are a number of ways to address the imbalance (to obtain revenue = expenditure) in HSRA. Correcting the imbalance could be approached from either side of the equation (or both). Because there are several primary revenue sources and several primary users of the account, there are many options for change that could be employed to produce balance. This concludes this brief update on the status of the HSRA account as requested by the committee. Staff is available to provide further work on this subject at the direction of the RTIC.