STATEWIDE PRESENT LAW ADJUSTMENTS FOR INFLATION/DEFLATION AND FIXED COSTS

A Report Prepared for the

Legislative Finance Committee
Budget and Appropriations Subcommittee

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INTRODUCTION

When presenting the executive budget, two components included in the statewide present law adjustment used to adjust agency budgets to a level that would maintain operations and services at the level authorized by the previous legislature are: 1) fixed costs; and 2) inflation/deflation. Fixed cost adjustments are made to appropriations of user programs of a state government provided service and are made to adjust the user's budgets so they are able to pay the bills of service provider programs in the next biennium. Inflation/deflation adjustments are intended to adjust agency budgets for inflationary impacts of the economy. The process historically used in Montana to adjust budgets for fixed costs and inflation/deflation has been cumbersome for the legislature to make changes to the executive budget for several reasons. This report documents staff analysis of the budgeting processes and practices for fixed cost and inflation/deflation components of the present law budget and provides recommendations to address concerns identified.

FIXED COSTS AND INFLATION/DEFLATION EXPLAINED

FIXED COSTS

Several programs within state government provide services to support other functions of state government, for which they charge a fee. These types of programs are commonly called internal service programs. The legislature does not appropriate funds for the service provider programs (providers). Instead, the legislature approves the maximum level of fees the programs may charge to generate revenues that fund operations. The appropriations to pay these fees are then provided to the service users (users) to pay for the service. When the agencies pay for the service, this revenue is put in an account (internal service) from which the provider program spends. These funds do not require a legislative appropriation. For the 2009 biennium, fixed cost adjustments added $9.1 million to the $87.0 million 2007 biennium fixed cost expenditures of state agencies and the university system. Appendix A lists the items that were budgeted as fixed costs for the 2009 biennium.

INFLATION/DEFLATION

Base year expenditures of agencies are adjusted through the use of inflation/deflation factors to reflect changing costs to purchase two types of products or services: 1) products or services purchased from the private sector market; and 2) services purchased from a few internal service funded programs of state government that are not budgeted as fixed cost items. The executive budget has not historically included a general inflation factor for all operating expenses, but instead has applied an inflation or deflation factor to base expenditures for selected operating cost items. For the 2009 biennium budget, inflation factors were applied to only 26 of 531 expenditure accounts contained in the budget request. For the 2009 biennium, inflation/deflation adjustments added $14.5 million to the $91.6 million doubled base expenditures for all appropriated funds in state agencies and the university system. Appendix B lists the expenditure accounts that were adjusted with inflation/deflation factors in agency budgets for the 2009 biennium.

Inflation/Deflation in Private Sector Market

When the cost to purchase a product or service directly from the private sector market is predicted to change, the executive may include a factor to either inflate or deflate the base expenditure to reflect expected inflationary pressures of the economy. The executive determines which items will have a factor applied and the level of the factors. The level of the inflation/deflation factor is determined, in part, from input from a national econometrics organization under contract to the state, along with other state budget factors.

Services Provided to State Agencies by a State Agency

Inflation/deflation adjustments have been used to adjust agency budgets for operating expenditure items used to purchase services from the State Motor Pool and for five charges associated with computer operations of the Department of Administration. In these cases when an inflation/deflation factor is for a service provided by one

state agency to other state agencies, the inflation/deflation factors are due to planned changes in operating costs of the service providing agency and generally result in changes to the rates charged for the services.

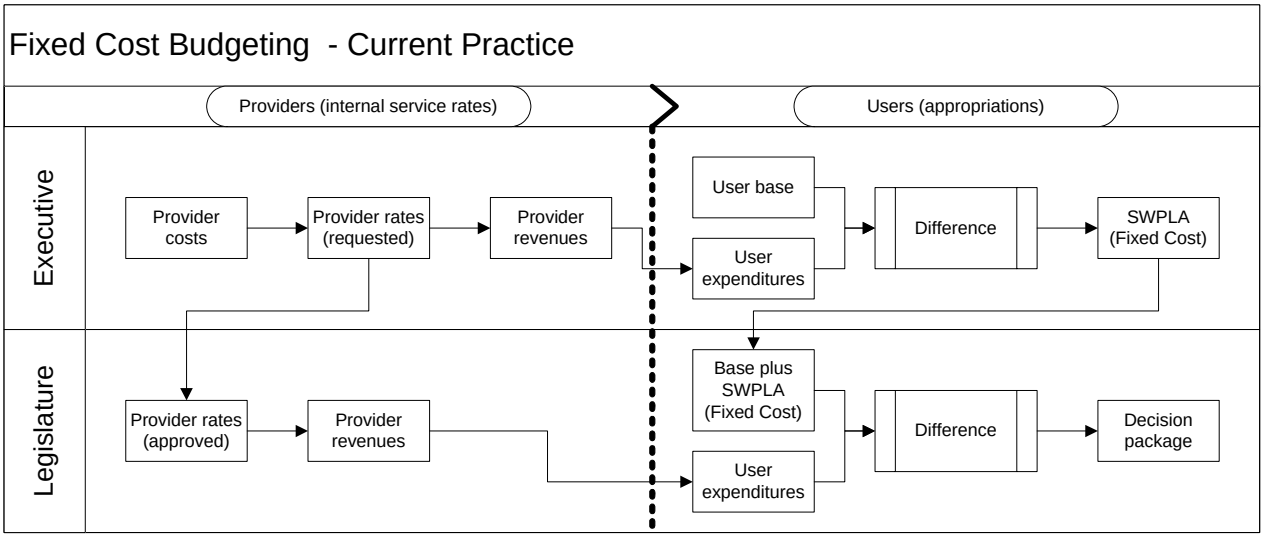
CURRENT BUDGET PRACTICE, CONCERNS, AND RECOMMENDATIONS

Montana has historically followed the approach taken by most other states, which is that nearly all legislatures place low emphasis on dealing with issues of these two budget components and simply rely on legislative staff to raise issues as appropriate during their analysis of the executive budget. Legislatures consider issues when raised. Staff concurs that the current processes and practices in Montana to budget for fixed costs and inflation warrant no major changes. However, concerns are raised that, if addressed, could enhance the legislature's decision making processes for fixed costs and inflation.

Below are: 1) a description of the current practices used to budget for the items; 2) concerns identified with the current practices; and 3) recommendations for addressing the concerns as a means to provide the legislature an appropriate level of information to make informed decisions and appropriate decision points to implement policy decisions for these two budget categories.

CURRENT BUDGET PRACTICE

The practice used to establish fixed cost budget adjustments is illustrated in the following figure. The practice begins with a determination of provider expense estimates and determination of provider rates necessary to raise the revenues required for operations. Provider expenditures are compared to base expenditures with the difference being the statewide present law adjustment for fixed costs. The legislature then reviews and approves provider rates, with the explicit assumption that if the legislature does not agree with the expenditure assumptions, it can change the rates to lower operating revenues necessary to operate the program. If the legislature changes the rates adjustments to user appropriations are made via a decision package to keep user appropriations in line with provider rates and revenue expectations. This process is the same when a program provides a service to other state government programs and the user's appropriations are adjusted via inflation/deflation adjustments.



Concerns

A review of the above budgeting practice for fixed costs raises a number of concerns that if addressed could enhance the legislative appropriations process. The concerns can be broken down into the following categories: 1) information provided as part of the executive budget submission; 2) inconsistency in applying statutory

definitions of decision package types; and 3) form of the presentation for internal service funded programs. Recommendations to address these concerns can be categorized into two groups: 1) those that involve committee action; and 2) those that fall within the statutory authority of the Legislative Fiscal Analyst that don't need formal committee action, but are being presented to keep the committee informed of potential changes.

Issues and Recommendations Needing Committee Action

Information Provided in Executive Budget Submission

For budgets of provider programs, the main decision the legislature has is to approve the maximum level of fees (the rates) the providers can charge to users for its services. Key to evaluating the rates is an understanding of the costs to provide the service, the factors and risks behind changes in costs, and the relationship between cost and rate changes.

Historically, the executive has not included information to quantify the impacts decision packages have on rates for most provider programs, even though the requirement has been included in the executive budget instructions for the last several biennia. The quantitative rate impact information is critical for the legislature to understand how approving a decision package will impact costs in user programs and for the legislature to approve rates for provider programs. When the quantifiable impacts of a decision packages on the provider rates are not included in the executive budget, the legislature is left without a key piece of information needed to approve rates for the programs.

Committee Action

In order for the legislature to encourage provision of the rate change information, staff recommends that the Senate Finance and Claims and House Appropriations committees recommend that appropriations subcommittees not approve decision packages of provider programs that lack quantifiable rate impact information until the information is provided to the satisfaction of the subcommittee.

If the Legislative Finance Committee concurs in this recommendation it would include this as one of the recommendations to the legislature for dealing with global fiscal issues. Legislative Finance Committee recommendations on global fiscal issues typically are considered by the committee at its December meeting just prior to the legislative session. However, if the committee concurs with the recommendation at this time it may want to take formal action via a concurrence vote so the executive will be aware of the committee's position prior to developing the executive budget. The committee could also consider communicating to the executive that it considers inclusion of quantitative rate impact information to be a critical part of a decision package justification for proprietary funded programs for which the legislature approves rates in the appropriations bill.

Two motions the committee might consider for action on this recommendation are:

1) Include in the committee recommendations to the 61st Legislature for dealing with global fiscal issues that appropriations subcommittees not approve decision packages of internal service funded proprietary programs unless quantifiable rate impact information is provided.
2) Authorize the chairman to sign a letter to be sent to the budget director that states the committee wants quantifiable and meaningful rate impact information included in the justifications for decision packages of internal services funded proprietary programs.

Issues Not Needing Committee Action

The following concerns were identified in the review of the fixed cost and inflation/deflation budgeting process, but recommendations to address the issues do not require committee action. The concerns and recommendations are presented to make the committee aware of changes from past practices.

Inconsistency in Applying Statutory Definitions

Adjustments to appropriations for users to pay for fixed cost services are made via statewide present law adjustments. However, cost changes in provider programs can be from present law and new proposal decision

packages. Statute defines present law and new proposal and directs the form of the budget to distinguish between the two types of adjustments so a determination can be made as to the cost to maintain operations and services at the level authorized by the previous legislature. When new proposals are included in the rates for a fixed cost service, the determination of present law, according to a strict interpretation of the definitions, is inflated.

Recommended Change

Although some provider budget increases are due to new proposal decision packages, when spread across all users they are not material with respect to the entire state budget. Staff recommends no changes from the current process of including fixed cost adjustments as a statewide present law adjustment, including those attributable to new proposals, and will identify issues as they arise.

Staff will identify, in the statewide discussion of fixed costs, the amount attributable to new proposal decision packages. The general fund status will be footnoted accordingly to make the legislature aware of the new proposal component included in the statewide present law adjustments for fixed costs.

Presentation of Internal Services Funded Program Budgets

The form of budget presentations for provider programs funded with internal services funds has been a source of confusion for the legislature. For appropriated programs, the presentations focus on explaining adjustments from the base by way of decision packages. The focus for internal service program budget presentations has been on explaining the revenues, expenses, fund balance, and incremental changes in rates. The different presentation formats have resulted in unneeded confusion.

Recommended Change

Staff recommends presenting budgets for internal service funded programs in a similar form as the presentations used for appropriated funds. With this form of presentation, the recommended process for legislative decisions would be to approve the base and statewide present law adjustments and each separate decision package as if the legislature were approving the appropriations for the proprietary program budget. Once all decision packages have been considered, the rates for the provider program would be revised to reflect the decisions of the legislature and approved for inclusion in the appropriations bill. Examples of internal service fund program presentations used in previous legislatures and the revised presentation are contained in Appendices C and D.

Because rates would be ultimately approved via decisions made on decision packages that adjust program expenditures, the quantifiable rate impacts of each decision package would be critical for translating from expenditure level approval to the statutory decision on program rates. As such, it would be critical that decision packages have quantifiable rate impact information, as included in the first staff recommendation.

SUMMARY

Agency base budgets are adjusted for fixed costs and inflation/deflation through statewide present law adjustments. A review of the processes and practices used to budget for these two components of statewide present law adjustment has identified concerns that if addressed could improve the decision making process of the legislature for determining agency appropriations for the present law budget of state agencies through improved budget information and practices for implementing legislative policy decisions.

Recommendations to the committee for addressing the concerns raised in the review could be addressed through action of the committee to communicate to the executive that the legislature expects that the justification for a decision package in a service provider program that impact user agency statewide adjustments for fixed costs and inflation/deflation must include a discussion of quantitative impact the decision package will have on the rates charged by the program. Revising the form of the presentations for internal service funded programs to focus more on a discussion of decision packages would maintain consistency with the presentations for appropriated programs and reduce confusion.

FIXED COSTS

Comparison of Fixed Costs
2007 to 2009 Biennium
(in Millions)

Subcommittee/Agency	Program	2007 Biennium	2009 Biennium	Difference	Percent
General Government					
Administration	Insurance and Bonds	$28.9	$25.8	($3.1)	-10.7%
	Warrant Writing Fees	1.6	2.0	0.4	25.0%
	Payroll Service Fees	0.9	1.0	0.1	11.1%
	Data Network Services	21.6	27.2	5.6	25.9%
	SABHRS Operating	12.7	13.4	0.7	5.5%
	Messenger Services	0.3	0.4	0.1	33.3%
	Web Services*	0.0	0.4	0.4	---
	Rent - Buildings	13.5	16.0	2.5	18.5%
	Grounds Maintenance	0.7	1.0	0.3	42.9%
Legislative Audit Division	Audit Fees	3.1	3.3	0.2	6.5%
Various	Statewide Cost Allocation/State Fund Allocation	3.7	5.6	1.9	51.4%
Total		$87.0	$96.1	$9.1	10.5%

*Beginning in FY 2009.

INFLATION/DEFLATION

Inflation and Deflation Factors
Executive Budget 2009 Biennium

		Percentage Change		Dollar Change					
		From Fiscal 2006 Base		State Agencies		University System		Total	
Account	Item Name	Fiscal 2008	Fiscal 2009	Fiscal 2008	Fiscal 2009	Fiscal 2008	Fiscal 2009	Fiscal 2008	Fiscal 2009
Inflation									
62205	Food	4.60%	6.40%	$40,418	$56,233	$6,045	$8,411	$46,463	$64,644
62225	Books & Reference Material	14.00%	21.90%	130,610	204,311	362,883	567,652	493,492	771,963
62251	Meat	4.60%	6.40%	4,165	5,795	0	0	4,165	5,795
62252	Dairy	4.60%	6.40%	22,055	30,685	0	0	22,055	30,685
62253	Produce	4.60%	6.40%	9,253	12,874	0	0	9,253	12,874
62254	Bakery	4.60%	6.40%	1,803	2,508	0	0	1,803	2,508
62264	Grocery	4.60%	6.40%	49,696	69,143	0	0	49,696	69,143
62275	Poultry	4.60%	6.40%	2,603	3,622	0	0	2,603	3,622
62278	Beverages	4.60%	6.40%	6,536	9,094	383	533	6,919	9,626
62279	Red Meat	4.60%	6.40%	2,229	3,101	0	0	2,229	3,101
62288	Canned Goods	4.60%	6.40%	8,479	11,797	0	0	8,479	11,797
62289	Staples	4.60%	6.40%	10	14	0	0	10	14
62291	Sea Foods	4.60%	6.40%	1,997	2,778	0	0	1,997	2,778
62292	Pork	4.60%	6.40%	2,951	4,105	0	0	2,951	4,105
62298	Fish/Fish Eggs	4.60%	6.40%	1,370	1,907	1	1	1,371	1,908
62304	Postage & Mailing	8.60%	8.60%	444,630	444,630	89,890	89,890	534,520	534,520
62404	In-state State Motor Pool	39.03%	41.06%	843,782	887,668	1,984	2,087	845,766	889,756
62510	Motor Pool Leased Vehicle	39.03%	41.06%	1,114,207	1,172,158	0	0	1,114,207	1,172,158
62601	Electricity	5.20%	7.50%	272,274	392,703	277,055	399,598	549,328	792,301
62603	Natural Gas	31.00%	31.00%	1,095,432	1,095,432	1,462,357	1,462,357	2,557,790	2,557,790
63125	Library Books	14.00%	21.90%	45,985	71,934	592,358	926,617	638,343	998,551
Subtotal				$4,100,484	$4,482,491	$2,792,956	$3,457,147	$6,893,440	$7,939,638
Deflation									
62142	Disk Storage Charges DofA	-4.40%	-4.40%	($42,206)	($42,206)	($0)	($0)	($42,206)	($42,206)
62172	Batch CPU Seconds DofA	-4.50%	-4.50%	(37,229)	(37,229)	(73)	(73)	(37,302)	(37,302)
62177	TSO CPU Seconds DofA	-4.50%	-4.50%	(8,185)	(8,185)	0	0	(8,185)	(8,185)
62178	IDMS CPU Seconds DofA	-4.50%	-4.50%	(87,924)	(87,924)	0	0	(87,924)	(87,924)
62180	CICS CPU Seconds DofA	-4.50%	-4.50%	(10,738)	(10,738)	0	0	(10,738)	(10,738)
Subtotal				($186,281)	($186,281)	($73)	($73)	($186,355)	($186,355)
Net Change				$3,914,202	$4,296,209	$2,792,883	$3,457,074	$6,707,085	$7,753,283

PAST PRESENTATION OF INTERNAL SERVICE FUNDED PROGRAM

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
o High motor fuel costs are driving up vehicle rental rates
Major LFD Issues
o Operating losses due to high gasoline costs in the 2007 biennium result in a supplemental appropriation request and contributed capital from the general fund o 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.

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.

PROPOSED PRESENTATION OF INTERNAL SERVICE FUNDED PROGRAM

PROGRAM PROPOSED BUDGET

The following table summarizes the total executive budget proposal for this program by year.

State Motor Pool - Proposed Budget

	Actual Base	FY 2008 Adjustments	FY 2008 Total	FY 2009 Adjustments	FY 2009 Total
FTE	6.00	0.00	6.00	0.00	6.00
61000 Personal Services	$302,998	$11,355	$314,353	$14,176	$317,174
62000 Operating Expenses	2,173,505	556,471	2,729,976	572,161	2,745,666
63000 Equipment	3,330,615	-1,000,000	2,330,615	-1,000,000	2,330,615
69000 Debt Service	319,789	120,000	439,789	119,000	438,789
Total Costs	$6,126,907	-$312,174	$5,814,733	-$294,663	$5,832,244

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.

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.

PROGRAM HIGHLIGHTS

Department of Transportation **State Motor Pool** **Major Budget Highlights**
o High motor fuel costs are driving up vehicle rental rates
Major LFD Issues
o Operating losses due to high gasoline costs in the 2007 biennium result in a supplemental appropriation request and contributed capital from the general fund o 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 appropriation 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 following table shows estimated funding sources for payments made by users of the State Motor Pool for the base and the 2009 biennium.

Estimated Funding For Payments to the State Motor Pool

Payment Funding	Base	FY 2008	FY 2009
General fund	$1,983,728	$3,335,033	$340,969
State special revenue	807,247	1,357,139	138,752
Federal special revenue	734,848	1,235,423	126,308
All other funds	94,118	158,231	16,177
Total Payments	$3,619,941	$6,085,826	$622,206

The appropriations in agency budgets that pay the fees are adjusted to align with the fee changes via the inflation/deflation component of the statewide present law adjustments. User agency budgets currently correspond to the proposed rates for the State Motor Pool, so if rates are changed for those proposed, adjustments to user agency budgets are needed to maintain alignment with decisions for this program.

PROGRAM NARRATIVE

Revenues

- Where do they come from
- What are the risks, likelihood, and potential severity

Expenditures:

- Expenditure drivers
- Risks

Explanation of Rates

The program has a two-tiered rate structure with:

- A usage rate that is charged for actual miles driven and recovers costs directly related to the operation of vehicles, such as repair labor and parts, fuel, lubricants, tires, and tubes
- An assigned time rate that covers fixed costs associated with state ownership of the vehicle fleet, such as general liability insurance, principal and interest payments on Board of Investment loans, depreciation, and other indirect expenses.

The following table shows historical and anticipated future sources and uses of funds for the operation of the internal service fund that finances the State Motor Pool.

2009 Biennium Report on Internal Service and Enterprise Funds	Actual FY06	Budgeted FY07	Projected FY08	Projected FY09
Beginning Working Capital Balance	$2,205,650	$1,099,132	$333,005	$1,068,088
Operating Expenses	$4,572,985	$4,477,184	$5,430,743	$5,559,403
Operating Revenues				
Revenue from fees	$3,619,941	$3,849,057	$6,085,826	$6,225,206
Other operating revenues (Note 1)	54,077	12,000	50,000	50,000
Total Operating Revenues	$3,674,018	$3,861,057	$6,135,826	$6,275,206
Operating Gain (Loss)	-$898,967	-$616,127	$705,083	$715,803
Other sources (uses) of operating funds (Note 2)	-$207,741	-$150,000	$30,000	$30,000
Prior period adjustments and accounting changes	$190			
Ending Working Capital Balance	$1,099,132	$333,005	$1,068,088	$1,813,891

Note 1 - Other operating revenues are from interest earned on account balance
Note 2 - Other sources (uses) are from gain (loss) on sale of fixed assets

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.

State Motor Pool - Present Law Adjustments	FY 2008		FY 2009	
	FTE	Costs	FTE	Costs
PL 0000 Statewide Adjustments	0.00	-$59,353	0.00	-$71,342
PL 0702 Overtime/Differential	0.00	1,379	0.00	1,379
PL 0703 Motor Pool Fuel Costs	0.00	600,000	0.00	620,000
PL 0704 Vehicle Acquisition	0.00	-1,000,000	0.00	-1,000,000
PL 0705 Vehicle Maintenance Costs	0.00	25,800	0.00	36,300
PL 0706 Loan Interest	0.00	120,000	0.00	119,000
Total Present Law	0.00	-$312,174	0.00	-$294,663

PL 0702 Overtime/Differential – Overtime and differential pay is requested at the level expended in the base. Overtime and differential has no impact on the base rate.

PL 0703 Motor Pool Fuel Costs – Base average cost of motor fuel was $xyz and fuel is expected to cost $ABC in FY 2008 and $DEF in FY 2009. This adjustment adds $700,000 for higher expected fuel costs in the 2009 biennium and $520,000 for additional vehicle miles expected to be traveled. This adjustment is expected to increase only the usage rates for all classes of vehicles by an average across all vehicle classes of $0.20 in FY 2008 and $0.21 in FY 2009.

PL 0704 Vehicle Acquisition – Blaa blaa blaa including rate impact.

PL 0705 Vehicle Maintenance Costs – Blaa blaa blaa including rate impact.

PL 0706 Loan Interest – Blaa blaa blaa including rate impact.

NEW PROPOSALS

Similar figure as present law adjustments and decision package narrative

PROPRIETARY RATES

For the 2009 biennium the following rates would generate revenue commensurate with the costs as presented in the executive budget proposal.

		Actual FYE 06	Actual FYE 06	Actual FYE 07	Actual FYE 07	Budgeted FY 08	Budgeted FY 08	Budgeted FY 09	Budgeted FY 09
Rental Rate Fees		Assigned Rate	Usage Rate	Assigned Rate	Usage Rate	Assigned Rate	Usage Rate	Assigned Rate	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

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