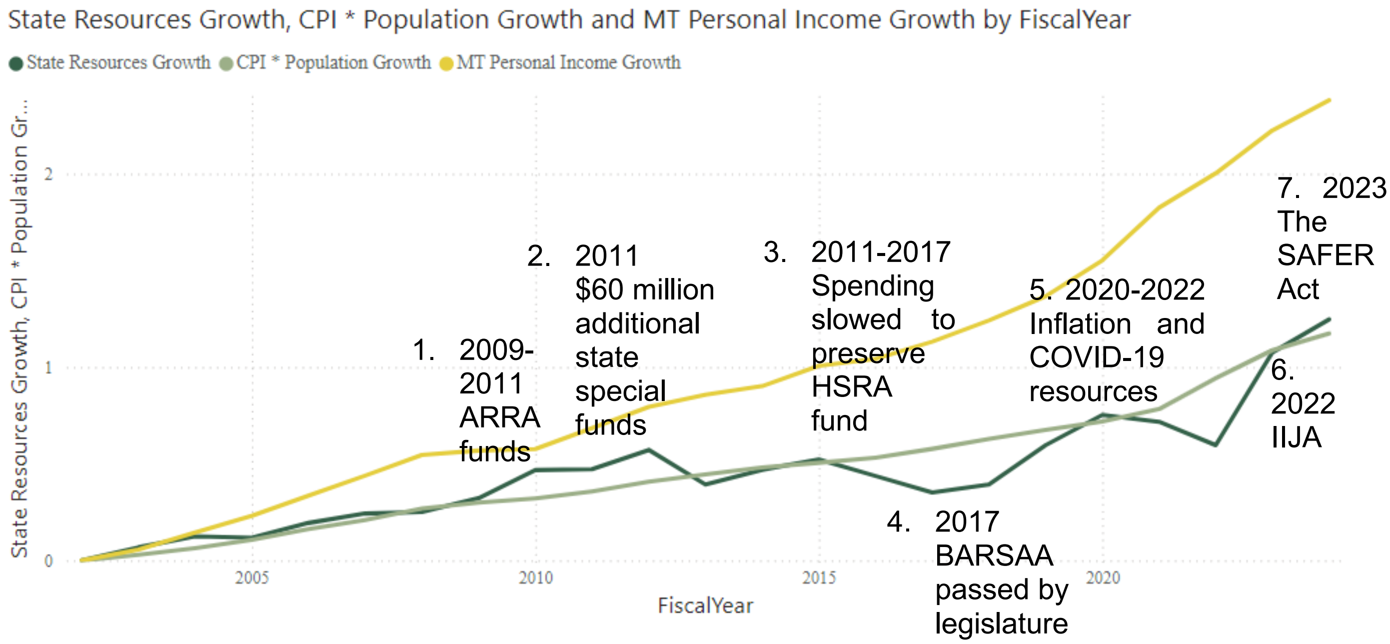
Department of Transportation



This report includes a series of charts that compare state resource expenditure growth to the growth in personal income and growth in inflation with population. Personal income is a measure for growth in the economy. Comparing growth allows financial planners to consider past and future demands in services or changes in revenues.

The Montana Department of Transportation's (MDT) budget generally consists of 60% federal special funds and 40% state special revenue funds which mostly come from fuel taxes. In general, growth of all funds expenditures for the Montana Department of Transportation (MDT) parallels the growth in population and inflation with occasional adjustments related to availability of state and federal funds as described below.

State funds are used to match federal funds as well as support the 100% state funded construction program as well as highway maintenance.

The following list discusses in more detail the inflection points related to governmental expenditures:

1. During FY 2009-2011 the department had an influx of $200 million in federal funds from the American Recovery and Reinvestment Act (ARRA.) The program funded shovel-ready projects 100% with federal dollars and required no state match. These funds were available for a limited time and therefore prioritized to be spent, resulting in less spending from MDT's Highway State Special Revenue Account (HSRA) and a corresponding increase in the HSRA fund balance
2. In FY 2011 the legislature authorized an additional $60 million for state funded construction projects to be completed during the 2013 biennium, decreasing the balance of the HSRA
3. From FY 2011-2017 HSRA expenditures exceeded revenues, chipping away at the fund balance amassed from the ARRA savings. HSRA fund balance at the end of FY 2011 was nearly $100 million but had been reduced to $36 million by the end of 2016. Federal funds are paid to the state on a reimbursement basis, requiring MDT to maintain sufficient HSRA fund balance for cash flow purposes. During this time spending was slowed to preserve the HSRA fund balance.
4. In FY 2017 the Bridge and Road Safety and Accountability Act (BaRSAA) was passed, gradually increasing state fuel tax incrementally through 2023.
5. From FY 20-22 because of inflation and an influx of federal funding the level of spending relative to resources decreases.
6. Infrastructure, Investment and Jobs Act IIJA increases federal funding package by over 20% in FY 22.

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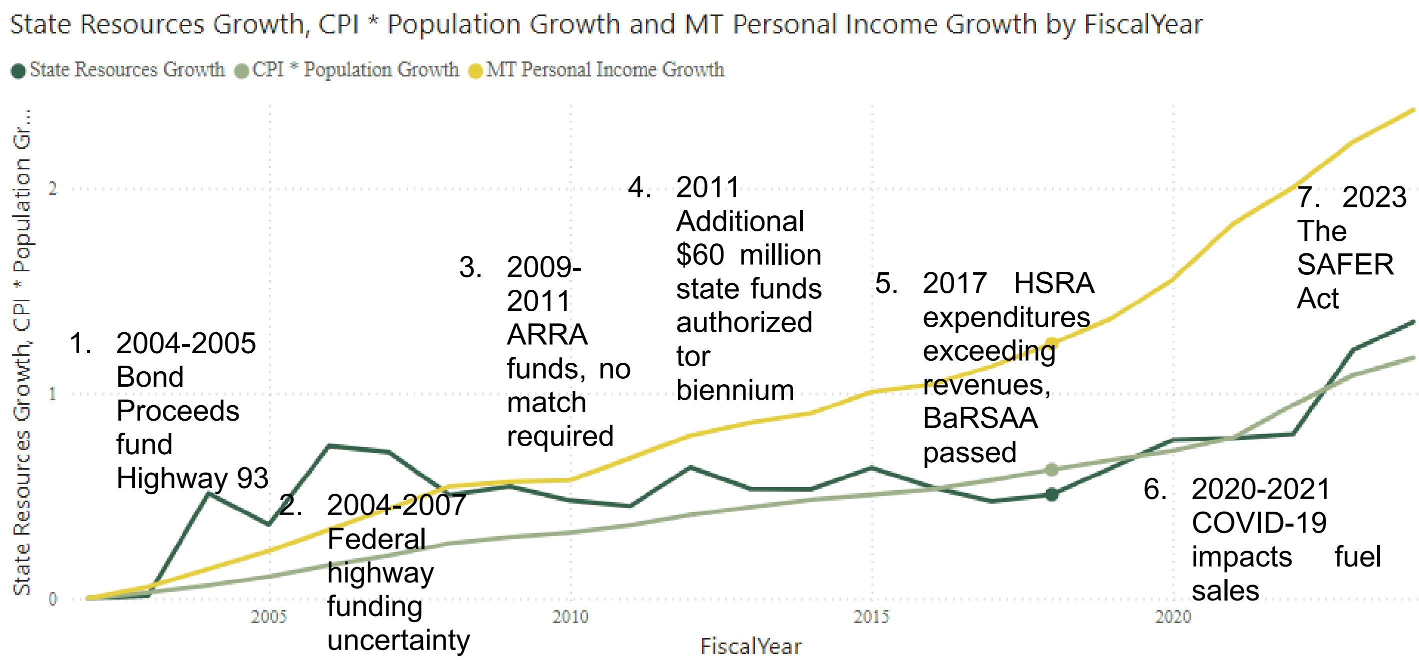
7. The 2023 legislature acted in order to increase available matching funds. A total of $100 million was transferred into the SAFER account and $15.0 million may be used for federal match each year. An additional $100.0 million is transferred to the Roads and Bridges account for local road and bridge funding.

General Fund

The MDT has dedicated streams of income and with rare exceptions, does not use general fund.

State Special Revenue

State Special Revenue Funds Only



State special revenue for the MDT is derived primarily from fuel taxes. Fuel is taxed at a set per gallon rate that is not adjusted for inflation, accordingly the rate of growth of state special revenue expenditures has been lower than the growth of population and inflation.

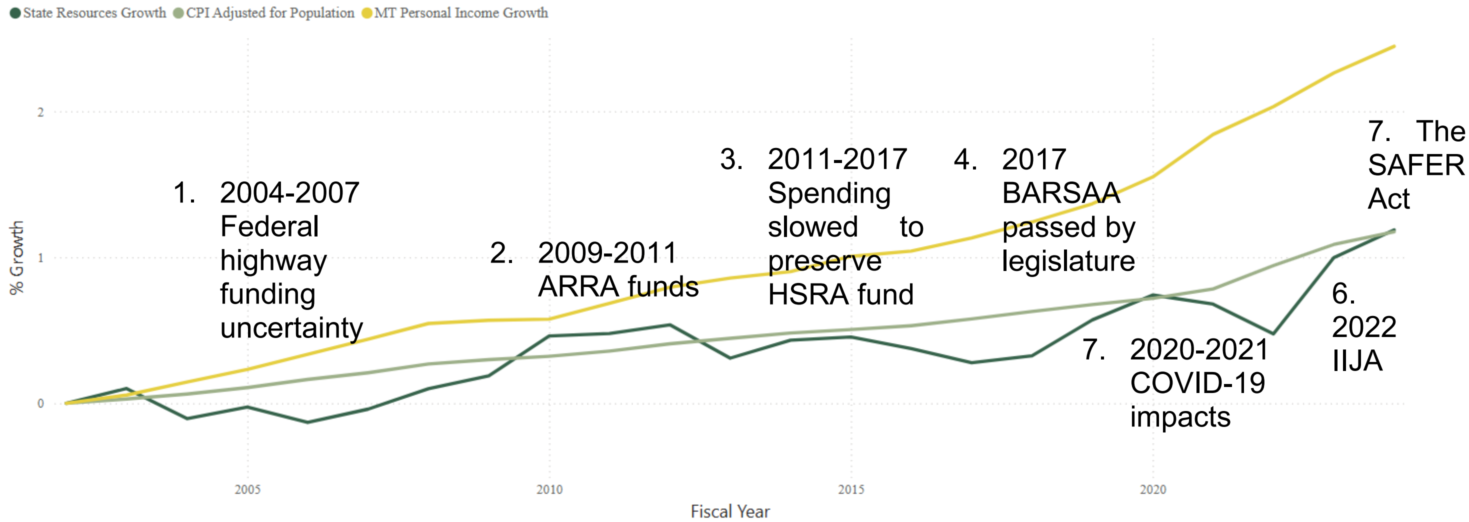
The following list discusses in more detail the inflection points related to state special revenue changes in total expenditures:

1. The budget for FY 2004-2005 included federal GARVEE bond proceeds for Highway 93 which added $87.6 million to state special revenue for the biennium.
2. From 2004-2007 state special revenue expenditures came close to or exceeded federal special revenue expenditures. At this time the federal highway bill TEA-21 had expired in the first quarter of SFY 2004 and posed great uncertainty in the availability of federal funding. The next federal transportation act was not signed until fall of 2005.
3. From FY 2009-2011 the American Recovery and Reinvestment Act (ARRA), a federal program instituted during the great recession, provided over $200 million in federal funds that did not require a state match. As a result, state special revenue spending decreased.
4. The 2011 legislature authorized $60 million additional state funds for construction projects in the 2013 biennium.
5. In 2017 the legislature passed HB 473, the Bridge and Road Safety and Accountability Act (BaRSAA) which gradually increased state gas and diesel taxes.
6. In the 2021 session HB 632 allocates over $100 million in Covid-19 related federal funds, this offset a decline in fuel tax revenue in FY2020-21
7. In the 2023 session HB 267, the SAFER act transfers $100 million to SAFER account for state match and SB 536 transferred $100 million to the new Roads and Bridges account.

Federal Special Revenue

Federal Special Revenue Funds Only

The chart shows the growth in state resource expenditures compared to the growth in personal income and growth in inflation.



Federal special revenue for the MDT is derived primarily from the Federal Highway Trust. Fuel is taxed at a set per gallon rate that is not adjusted for inflation, accordingly the rate of growth of state special revenue expenditures has been lower than the growth of population and inflation.

The following list discusses in more detail the inflection points related to federal special revenue changes in total expenditures:

1. From 2004-2007 at this time the federal highway bill TEA-21 had expired in the first quarter of SFY 2004 and posed great uncertainty in the availability of federal funding. The next federal transportation act was not signed until fall of 2005.
2. From FY 2009-2011 the American Recovery and Reinvestment Act (ARRA), a federal program instituted during the great recession, provided over $200 million in federal funds that did not require a state match.
3. From FY 2011-2017 HSRA expenditures exceeded revenues, chipping away at the fund balance amassed from the ARRA savings. HSRA fund balance at the end of FY 2011 was nearly $100 million but had been reduced to $36 million by the end of 2016. Federal funds are paid to the state on a reimbursement basis, requiring MDT to maintain sufficient HSRA fund balance for cash flow purposes. During this time federal spending was slowed to preserve the HSRA fund balance.
4. In FY 2017 the Bridge and Road Safety and Accountability Act (BaRSAA) was passed, gradually increasing state fuel tax incrementally through 2023. This allows for a greater amount of state dollars to be spent on federal match, enabling more projects to be completed with the federal dollars allotted to the state.
5. From FY 2020-2022 because of inflation and difficulty getting contractors the level of federal spending relative to resources decreases even though there is an influx of pandemic-related funding.
6. Infrastructure, Investment and Jobs Act IIJA increases federal funding package by over 20% in FY 2022.
7. The SAFER Act is passed in the 2023 session providing additional match funding specifically for federal redistribution and discretionary grant programs of IIJA. This allows greater federal spending while protecting the HSRA.

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