

Performance
Audit

OPEGA
REPORT



Urban-Rural Initiative Program - Program Well Managed; Data on Use of Funds Should be Collected

Report No. SR-URIP-06

a report to the
Government Oversight Committee
from the
Office of Program Evaluation & Government Accountability
of the Maine State Legislature

July
2007

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ABOUT OPEGA & THE GOVERNMENT OVERSIGHT COMMITTEE

The Office of Program Evaluation and Government Accountability (OPEGA) was created by statute in 2003 to assist the Legislature in its oversight role by providing independent reviews of the agencies and programs of State Government. The Office began operation in January 2005. Oversight is an essential function because legislators need to know if current laws and appropriations are achieving intended results.

Although the Maine Legislature has always conducted budget reviews and legislative studies, until OPEGA, the Legislature had no independent staff unit with sufficient resources and authority to evaluate the efficiency and effectiveness of Maine government. The joint legislative Government Oversight Committee (GOC) was established as a bipartisan committee to oversee OPEGA's activities.

OPEGA's reviews are performed at the direction of the Government Oversight Committee. Legislators, committees, or members of the public should make their requests for reviews to the Chairpersons or any other member of the Committee.

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Terminology Used in this Report

Capital Improvement – Any work on a road or bridge which has a life expectancy of at least 10 years and restores the load-carrying capacity. For example, pavement and resurfacing, road reconstruction, or bridge replacement, rehabilitation and repair.

Maintenance – Any work which extends, preserves or improves the life of existing infrastructure, such as plowing and sanding, routine ditching, culvert cleaning and repair, patching, pothole repair, surface treatments, road striping and mowing.

Rural Road Initiative – Component of URIP that provides funding to entities that do not meet the criteria for the Urban Compact Initiative.

State Aid Highways -Those highways not included in the system of the State highways, which primarily serve as collector and feeder routes connecting local service roads to the arterial State highway system. Generally, State aid highways in the rural area are maintained by the MaineDOT in the summer and by the municipality in the winter. Any State aid highways in the urban compact area are maintained by the municipality.

State Aid Minor Collectors -The lowest level of State roads, sometimes with no route number, which typically connect two smaller towns but are not major commuter or freight routes. These roads are plowed by the municipality and maintained by the State in the summer.

State Highways - A system of connected main highways throughout the State which primarily serve arterial or through traffic. Generally, State highways in the rural area are maintained by the MaineDOT. Any State highways in the urban compact area are plowed and maintained by the municipality.

Townways and Seasonal Townways - All other roads not included in the State highways and State aid highway systems, which primarily serve as local service roads providing access to adjacent land. The municipality is responsible for work on townways and seasonal townways.

Urban Compact Initiative – Component of URIP that provides funding to municipalities whose population exceeds 7,500 inhabitants, or whose population is between 2,499 and 7,500 where the ratio of people working in the municipality to employed people residing in that municipality is 1.0 or greater.

Urban Compact Area - A section of highway where structures are less than 200 feet apart for a distance of one quarter mile or more.

EXECUTIVE SUMMARY

Urban-Rural Initiative Program – Program Well Managed; Data on Use of Funds Should be Collected

Purpose

This audit's purpose was to determine whether URIP funds are fairly distributed, and processed and utilized in accordance with statute.

The Maine State Legislature's Office of Program Evaluation and Government Accountability (OPEGA) has completed a performance audit of the Urban-Rural Initiative Program (URIP). The Legislature's Joint Standing Committee on Transportation had expressed an interest in reviewing programs supported by the Highway Fund and this program was selected and added to OPEGA's work plan by the Government Oversight Committee.

OPEGA's purpose in performing this audit was to determine whether the funding available to municipalities, counties, and Indian reservations is being fairly distributed, whether the funds are processed and distributed in accordance with statute, and whether the funds are being utilized in accordance with statute.

Conclusions

OPEGA concluded that MaineDOT is allotting URIP funding fairly, and is processing funds in accordance with statute.

OPEGA has concluded that URIP funding is being allotted fairly amongst eligible funding recipients and that those allotments are being processed and distributed in accordance with statute. Funding recipients appear to be sufficiently aware of their eligibility for URIP funding and MaineDOT is very proactive in working with them. MaineDOT also has sound processes and procedures for complying with statute and assuring that:

- URIP calculations are accurate;
- certifications are returned on time; and
- URIP allocations are distributed to the funded entities in a timely manner.

Funding recipients are not required to report on how funds were actually used. Despite this, it seems highly likely that the majority of funds are utilized as intended.

OPEGA also found, however, that there is very little specific data available to verify that URIP funds are being utilized by funding recipients in accordance with statute. Funding recipients must submit certification statements pledging to use the funds appropriately, but they are not required to report to MaineDOT how the funds were actually used or what roads were involved. Consequently, other than projects that MaineDOT participates in through the Rural Road Initiative program, MaineDOT is not aware of how the recipients use their URIP funds. In addition, the information contained in municipal

accounting systems generally does not specify which expenditures were paid for with URIP funds. Consequently, a detailed audit of financial records in individual municipalities would be required to determine definitively if URIP funds are utilized in accordance with statute in those municipalities.

Despite the lack of specific data, OPEGA believes it is highly likely that the majority of URIP funds are utilized as intended. MMA's 2004 Municipal Fiscal Survey showed that total URIP funding in 2004 was only about 14% of total municipal road expenditures, and that municipal road work expenses in both rural and urban areas far exceed the amount the State distributes in URIP funds.

Findings and Action Plans

Finding 1 – Data On Fund Use Not Being Collected

Data is not being collected on how URIP funds are actually used by the communities receiving them. As a result, MaineDOT cannot specifically verify that funding recipients are in compliance with statutory requirements on the use of the funding. While the majority of funds are likely being used as intended, some risk does exist that recipients facing financial pressures may opt to use the funds for other purposes. Without specific data, MaineDOT also cannot evaluate whether URIP is being effective in meeting its intent, especially with regard to capital improvements on rural State aid minor collector roads.

Management Action

Effective July 1, 2008, MaineDOT will require funding recipients to provide information regarding how URIP funding was used in the previous year as part of the certification process that is already in place. This data, including the specific roads involved and the type of road work completed, will be captured and recorded by MaineDOT to be used in determining whether progress is being made in improving road conditions and in verifying that the funding is being used in accordance with statute. MaineDOT will seek to make the data capture process as simple and efficient for funding recipients as possible and may consult with funding recipients and Maine Municipal Association on the design.

Finding 2 – Administrative Costs Could Be Reduced

Opportunity exists to reduce URIP administrative costs by reducing the number of actual physical checks processed. MaineDOT currently processes 502 URIP payments four times per year. Although MaineDOT offers direct deposit payments, only about 75 funding recipients currently take advantage of this option. This means that about 1,700 physical checks are being processed

per year. Eliminating physical checks by using direct deposit instead would save an estimated \$700 each year in costs for physical checks and postage.

Management Action

MaineDOT will work with Maine Municipal Association over the next year to encourage recipients to take advantage of the direct deposit option for URIP payments. Articles are planned for MMA and MaineDOT newsletters and MaineDOT will include special notices with the next round of certification letters.

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FULL REPORT

Urban-Rural Initiative Program - Program Well Managed; Data on Use of Funds Should be Collected

Purpose

The Joint Standing Committee on Transportation had expressed an interest in reviewing programs supported by the Highway Fund.

Approximately \$25 million in Highway Fund monies is distributed to communities through URIP each year to be used for work on roads.

This audit's purpose was to determine whether URIP funds are fairly distributed, and processed and utilized in accordance with statute.

The Maine State Legislature's Office of Program Evaluation and Government Accountability (OPEGA) has completed a performance audit of the Urban-Rural Initiative Program (URIP). The Legislature's Joint Standing Committee on Transportation had expressed an interest in reviewing programs supported by the Highway Fund, and this program was selected and added to OPEGA's work plan by the Government Oversight Committee. OPEGA conducted this study in accordance with 3 MRSA, Ch. 37, §§991-997 and the Government Auditing Standards set forth by the United States Government Accountability Office (GAO).

According to the Maine Department of Transportation (MaineDOT), there are 22,750 miles of public roads in Maine. This includes 8,368 miles of State owned roads and 13,930 miles of townways, or local roads. MaineDOT's Planning Bureau, Community Services Division administers URIP, which takes a portion of the MaineDOT's Highway Fund appropriation and passes it along to municipalities, Indian reservations, and some counties. Those funds are to be used for certain types of road work on specified classifications of roads. Currently, approximately \$25,000,000 per year is distributed through URIP. In State fiscal year 2006 (SFY 2006), there were 501 entities that received this funding, which included 488 municipalities, 10 counties, and 3 Indian reservations.¹

OPEGA's purpose in performing this audit was to determine whether:

- the funding available to municipalities, counties, and Indian reservations is being fairly distributed;
- the funds are processed and distributed in accordance with statute; and
- the funds are being utilized in accordance with statute.

The audit focused primarily on the expenditures and activities of the program for SFY 2006.

¹ Throughout this report, the group of entities (municipalities, counties and Indian reservations) that receive URIP funding will be collectively referred to as "funding recipients".

Methods

OPEGA conducted research, reviewed processes, verified calculations and contacted a sample of municipalities representing a range of funding levels and demographics.

To accomplish the objectives of this review, OPEGA:

- researched relevant State statutes and State local road assistance history;
- reviewed processes related to URIP;
- interviewed MaineDOT staff involved with URIP;
- verified calculations for a sample of URIP funding allotments;
- interviewed municipal officials and representatives; and
- reviewed municipal financial statements and expenditures on roads.

In the course of this review, OPEGA met with a representative of the Maine Municipal Association and also contacted a sample of 13 municipalities representing a range of funding levels and demographics. Table 1 is a listing of these municipalities.

Table 1. Municipalities Contacted During This Review

MUNICIPALITY	URIP FUNDING RANGE SFY 2006 (in thousands)	POPULATION*	TYPE
Bancroft	\$5-20	69	Rural
Bingham	\$20-35	901	Rural
Corinna	\$50-65	2,109	Rural
Farmington	\$200-\$300	7,583	Urban
Guilford	\$20-35	1,452	Rural
Lebanon	\$100-200	5,463	Rural
Limerick	\$35-50	2,523	Rural
Oakland	\$35-50	6,089	Rural
Orient	\$5-\$20	144	Rural
Pittsfield	\$65-80	4,172	Rural
Portland	\$300+	64,690	Urban
Randolph	\$5-\$20	1,886	Rural
Windsor	\$35-\$50	2,333	Rural

* As per 2006-2007 Municipal Directory

Background

URIP provides financial assistance to communities for use in improving, maintaining, and making capital improvements to certain classifications of roads.

What is the purpose of URIP?

The Urban-Rural Initiative Program was created in 1999 by 23 MRSA §§1801-1804.² Its statutory purpose is to provide equitable financial assistance to communities for use in improving local roads, maintaining State roads in urban

² See Appendix A for full text of the statute

compact areas and assisting the State in making capital improvements to State aid minor collector highways.

URIP evolved from what was known as the Local Road Assistance Program, which had non dedicated flat funding.

URIP evolved from what was known as the Local Road Assistance Program (LRAP), which had been in place since the early 1980s. MaineDOT and the Maine Municipal Association (MMA) worked together on the changes that produced URIP with the goal of providing benefit to both the funding recipients and the State. Ultimately, URIP had funding mechanisms that better reflected the costs of road work and use requirements to help focus funds on capital improvements.

URIP funding is guaranteed by statute and indexed to the appropriations MaineDOT receives for highway purposes.

For example, the annual funding for LRAP was based upon the number of miles of eligible road in all towns and, therefore, funding generally stayed the same each year unless roads were added. This led to over 10 years (1989-1999) of relatively flat funding of LRAP at about \$19,000,000 per year, while at the same time road maintenance and construction costs were increasing. Additionally, the funding in LRAP was not guaranteed by statute. In SFY 1998-1999 and SFY 2000-2001, 50% of LRAP was funded through bonds decided by the voters of Maine. In contrast, funding for URIP is guaranteed by statute and is indexed to the appropriations made to MaineDOT for highway purposes. This means that as MaineDOT receives increased appropriations, more funds are also made available to URIP funding recipients.

How available funds are allotted to individual recipients also changed to better reflect actual costs of road work. Under the LRAP program, recipients were originally allotted funding based on center-line miles. In 1997, the basis for allotments under LRAP changed to lane miles to take into account multi-lane roads, which require much more work than single lane roads.

URIP allotments continued to be based on lane miles but the rate per lane mile for urban compact roads was raised much higher than rural road rates. This better reflected the higher costs of the additional responsibilities in urban areas compared to rural areas.

URIP increased lane mile rates and shifted the focus in rural areas from general road work to capital improvement road projects.

Lastly, the transition from LRAP to URIP also shifted the focus in rural areas from general road work to capital improvement road projects. Previously, LRAP funding could be used by the funding recipients for many highway-related activities, such as road maintenance, road construction, equipment purchases, sand and salt purchase, and snow plowing. URIP added restrictions on the use of funds in rural areas. In particular, URIP was intended to have an impact on capital improvements to State aid minor collector roads.

How is URIP funded?

URIP funding is indexed to approximately 10% of the sum of the General Fund and Highway Fund appropriated to MaineDOT for highway purposes.

Figure 1. Calculation of URIP Allocation Percent as per Statute

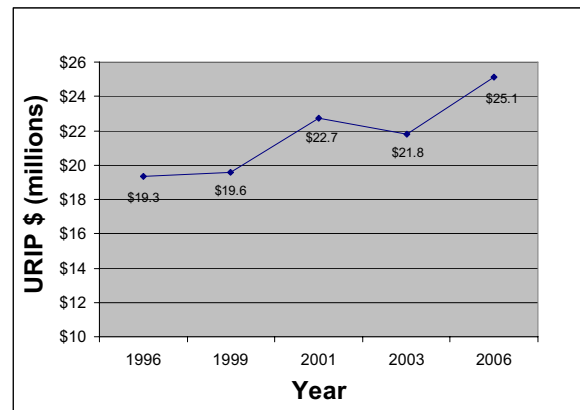
SFY 2001 Appropriation to MaineDOT for highway purposes:	\$238,799,339
Specified SFY 2001 URIP Allocation:	\$ 23,000,000
URIP allocation as % of total:	9.63152%

The Urban-Rural Initiative Program is funded primarily from the State's Highway Fund, which derives its revenue from a gasoline and diesel fuel tax, taxes on motor truck carriers, motor vehicle license and registration fees, revenues from over weight fines, and other miscellaneous highway and transportation sources. Statute requires that URIP funding must bear the same percentage relationship to the sum of the General Fund and Highway Fund appropriation to MaineDOT for highway purposes as was provided during SFY 2001. Therefore, each year URIP funding is indexed to approximately 10% of the sum of the General Fund and Highway Fund appropriated to MaineDOT for highway purposes. Figure 1 illustrates the calculation of this percentage.

The hold-harmless provision in statute requires that the URIP payment to any funding recipient must not be less than its SFY 1999 LRAP payment.

This indexing has increased program funding from approximately \$19 million in SFY 1999 to about \$25 million in SFY 2006. Figure 2 shows the increase in URIP funding from 1996-2006. There is also a "hold-harmless" provision in the law (23 MRSA §1803-B.1.C) requiring that the URIP payment to any funding recipient must not be less than its SFY 1999 LRAP payment. This effectively sets the minimum URIP funding level at approximately \$19.6 million.

Figure 2. Funding Levels for URIP 1996-2006



MaineDOT calculates the funding to be allocated to URIP once the Legislature approves its overall appropriation. The figures used for the Highway Fund in calculating the URIP allocation are projections. Highway Fund revenue comes in periodically and may vary from the projections. Despite this, once the URIP allocation is established, the funding recipients are informed of their allotments for the year and these allotments do not change.

How are URIP funds allotted and distributed to recipients?

URIP payments are calculated based on the lane miles of a number of different types of roads with varying classifications.

URIP payments are calculated based on the mileage for a number of different types of roads with varying classifications. The location of the roads and the associated maintenance responsibilities are also factors. In rural areas, eligible roads include State aid minor collectors, townways and seasonal townways. In urban compact areas, eligible roads are State highways and State aid highways.

State highways in rural areas are maintained by MaineDOT year round, and there is generally a shared responsibility for maintenance on rural State aid highways. MaineDOT is responsible for summer maintenance, and the community through which the highway passes is responsible for winter plowing and sanding. In urban compact areas, State highways, State aid highways, and local roads are maintained by the municipality.

Funding rates for URIP are on a per lane mile basis. The amount of funding each entity receives is dependent on the number of lane miles for each road classification, and whether the roads are in a rural or urban compact area. Rates per lane mile are also based on seasonal road work responsibilities and number of lanes. Table 2 illustrates the statutory per lane mile amounts. In municipalities classified as urban, the municipality receives the urban compact rate for lane miles within the urban compact area. Urban compact municipalities with eligible roads outside of the urban compact areas receive the same base rates on those roads as rural towns.

Table 2. Urban-Rural Initiative Program Rates Per Lane Mile*

Road Classification	Rural Highways	State Urban Compact Highways		
		Summer		Winter
		1st two lanes	more than two lanes	All Lanes
State Highway	\$0.00	\$2,500	\$1,250	\$1,700
State Aid Highway	\$0.00	\$2,500	\$1,250	\$0.00
State Aid Minor Collector	\$600	\$2,500	\$1,250	\$0.00
Townway	\$600	\$0.00		\$0.00
Seasonal Townway	\$300	\$0.00		\$0.00

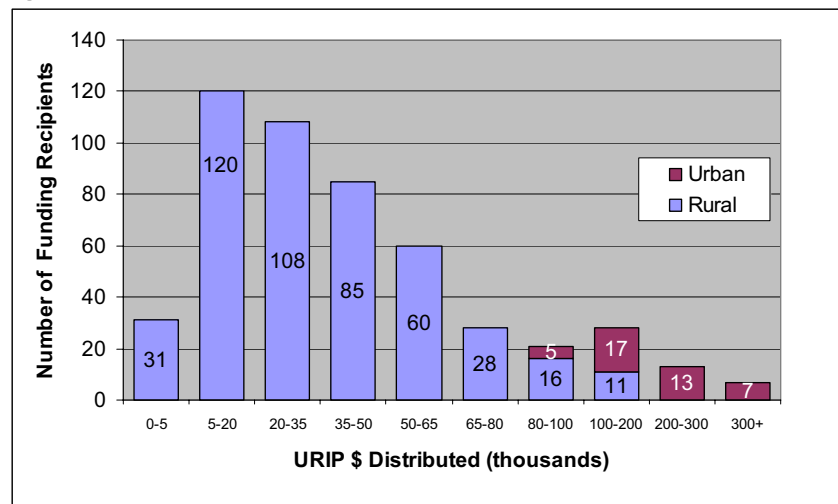
* These rates are statutory amounts that a recipient is allotted per lane-mile. Actual amounts may vary depending on the actual funding allocated to URIP each year.

It is possible for URIP funding recipients to receive more than the statutorily set rates. Because annual URIP funding is indexed to the total General Fund and Highway Fund appropriations to MaineDOT for highway purposes, the amount of URIP funds available may exceed the 1999 level on which the rates were based. If this occurs, rates paid per lane mile are increased. Similarly, it is possible that some funding recipients could mathematically receive less than the statutory rates. The hold-harmless provision in the statute, however, ensures that each will at least receive funding equal to its 1999 allotment.

A majority of the funded entities (313) received between \$5,000 and \$50,000 in SFY 2006. Twenty received greater than \$200,000, and 31 received less than \$5000.

In SFY 2006, the total URIP allocation was \$25,087,768. The allotments per funding recipient ranged from a low of \$200 to a high of \$523,500. A majority of the funded entities (313), all rural, received between \$5,000 and \$50,000 each. There were 20 urban compact municipalities who received greater than \$200,000 each. Figure 3 illustrates the number of recipients within each funding level.

Figure 3. Distribution of SFY 2006 URIP Allotments



MaineDOT periodically reviews and updates road and population data to assure changes that affect recipients of URIP allotments are captured.

Over time, changes in road lane mileage, road type, population and the extent of the urban compact area impact how much funding a recipient is allotted. MaineDOT maintains a complete inventory of all public roads in the State within its Transportation Information for Decision Making (TIDE) database. MaineDOT reviews and updates road data for each funding recipient on roughly a four-year cycle. In addition, local officials may submit updated road information at any time to MaineDOT, which then verifies the information and updates TIDE. MaineDOT also reviews the population of Maine municipalities each time the U.S. Census is updated to determine if there are any additional towns that have gained enough population to be considered urban compact municipalities.

MaineDOT calculates the annual funding allotment for each recipient once the amount of funding for URIP has been determined. MaineDOT imports the road data from TIDE into a computer program designed for URIP which then calculates URIP amounts for each recipient. When the calculations are complete, MaineDOT staff spot checks a number of allotments for accuracy. The computer program then uploads these amounts to MaineDOT's Free2000 financial system, which sends the information to the Department of Administrative and Financial Services (DAFS). DAFS processes the payment requests through the MFASIS system and then payments are distributed. URIP funds are distributed on a quarterly basis for each State fiscal year as required by statute (23 MRSA §1803-B.3).

Funding recipients are required to certify that funds will be used in a manner consistent with statute. Funds are distributed quarterly.

Before receiving funding each year, recipients are required to certify that funds will be used in a manner consistent with statute. MaineDOT prepares a certification form³ specific to each recipient, which includes the amount of funding the recipient will receive and what the allowable uses of that funding are. By signing the form and returning it to MaineDOT, the recipient certifies that it will use the funds only for the purposes stated. The certification form must be returned to MaineDOT before the URIP funds are distributed. The URIP computer program has a checkbox for each funded entity that is activated after MaineDOT receives a certification. If this checkbox is not activated, the computer program prevents a payment from being issued for that recipient. Payments are thus delayed until the signed certification is received.

What may URIP funds be used for?

URIP funding in urban compact areas may be used for either the maintenance or improvement of public roads.

URIP has a Rural component and an Urban component. The Urban Compact Initiative portion of URIP provides funding to municipalities whose population exceeds 7,500 inhabitants, or whose population is between 2,499 and 7,500 where the ratio of people working in the municipality to employed people residing in that same municipality is 1.0 or greater. There are presently 43 urban compact municipalities in the State of Maine. Within the urban compact areas of those municipalities, statute allows URIP funds to be used for either the maintenance or improvement of public roads. (23 MRSA §1803-B.1.B(2))

URIP funding in rural areas may be used only for capital improvement projects.

The Rural Road Initiative (RRI) component of URIP provides funding to all other municipalities, counties, or Indian reservations with eligible roads, and to those urban compact municipalities with eligible roads in rural areas. Statute requires that URIP funding in rural areas be used only for capital improvement projects in order to encourage longer lasting improvements to the approximately 2,100 miles of rural State aid minor collector roads and over 11,000 miles of local roads.

To further encourage capital improvements to State aid minor collectors, the RRI includes a provision that allows URIP recipients to get additional funding from MaineDOT for work on those roads. State aid minor collector roads are the lowest level of State roads, are not eligible for Federal funding, and are generally the last to be addressed by MaineDOT. These roads, however, may be a high priority for local officials. Through RRI, a funding recipient may propose a capital improvement project on a State aid minor collector road. If the project is selected by MaineDOT, the total project cost is funded with a 33% local share and a 67% State share. The 33% local share may be funded with URIP funds. Since the RRI was implemented in 1999, there have been 61 projects approved involving about 50 miles of State aid minor collector roads.

³ See Appendices B and C for examples of the certification form.

How do funding recipients process and utilize URIP funds?

Over 95% of URIP funding recipients are municipalities. Municipal officials OPEGA contacted were familiar with the program and restrictions on fund use.

OPEGA discussed URIP with municipal officials and reviewed municipal annual reports in a number of municipalities ranging in population from less than 100 to over 60,000, with URIP allotments ranging from about \$9,000 to over \$400,000. The municipal officials contacted were very familiar with URIP and generally understood the limitations and requirements on the use of the funding.

URIP appeared in most municipal budget documents as a separate revenue source. Typically, the URIP funding check is deposited into a municipality's general fund as revenue. It is then combined with other municipal revenue and expended on highway projects. The MaineDOT forms certifying that uses comply with statute are generally signed by the selectmen or other high-ranking municipal officials. Municipalities also generally have audits of their financial accounting systems conducted by professional audit firms annually.

In SFY 2004, municipalities spent approximately \$160 million on roads, while the URIP funding for that same timeframe was \$21.4 million. URIP money is used in different ways by different municipalities and may be carried over from year to year.

Municipalities count on URIP funding every year to supplement their road budgets, with road expenses typically far exceeding URIP allotments. The MMA Municipal 2004 Fiscal Survey and Analysis report showed that in SFY 2004, municipalities spent approximately \$160 million on roads, while the URIP funding for that same timeframe was \$21.4 million. The survey did not, however, distinguish between expenditures on capital improvement projects and other road work activities.

Given the wide range of funding amounts, URIP is used in different ways by different recipients. In Farmington, for example, the annual URIP allocation (approximately \$200,000 in SFY 2006) is about 10% of the typical yearly road expenses, and less than the average annual capital road expenses. Smaller communities with much smaller URIP allotments, however, may not have enough funds available to do a capital improvement project in a particular year. In these cases, funding recipients carry the URIP allocation forward to the next year until there is enough to complete a project.

In August 2005, the URIP Working Group concluded that URIP was working as intended and no changes were needed.

In August 2005, MMA and MaineDOT convened a meeting of the URIP Working Group to address a couple of common complaints that had arisen. Smaller communities did not like the capital improvement restrictions attached to the funds. There were also some recipients that did not believe they got a fair share of the money. The meeting was attended by representatives from MMA, MaineDOT, and a number of municipal officials. Those present were generally satisfied with the program, felt it was working and that no changes were necessary. The URIP Working Group presented these results to the Legislature's Joint Standing Committee on Transportation in January 2006. Currently, some municipal officials are concerned that URIP, along with other State funding sources for municipalities, may be reduced in the future due to increasing expenses and declining revenue at the State level.

Conclusions

OPEGA concluded that MaineDOT is allotting URIP funding fairly, and is processing funds in accordance with statute.

OPEGA has concluded that URIP funding is being allotted fairly amongst eligible funding recipients and that those allotments are being processed and distributed in accordance with statute. Funding recipients appear to be sufficiently aware of their eligibility for URIP funding and MaineDOT is very proactive in working with them to ensure changes that impact their allotments are properly considered. Statute is also very specific in describing how the funding is to be calculated and to whom it is distributed. MaineDOT has sound processes and procedures for complying with statute and assuring that:

- URIP calculations are accurate;
- certifications are returned on time; and
- URIP allocations are distributed to the funded entities in a timely manner.

Funding recipients are not required to report on how funds were actually used. Despite this, it seems highly likely that the majority of funds are utilized as intended.

OPEGA also found, however, that there is very little specific data available to verify that URIP funds are being utilized by funding recipients in accordance with statute. Funding recipients must submit certification statements pledging to use the funds appropriately, but they are not required to report to MaineDOT on how the funds were actually used or what roads were involved. Consequently, other than projects that MaineDOT participates in through the Rural Road Initiative program, MaineDOT is not aware of how the recipients use their URIP funds. In addition, the information contained in municipal accounting systems generally does not specify which expenditures were paid for with URIP funds. Consequently, a detailed audit of financial records in individual municipalities would be required to determine definitively if URIP funds are utilized in accordance with statute in those municipalities.

Despite the lack of specific data, OPEGA believes it is highly likely that the majority of URIP funds are utilized as intended. MMA's 2004 Municipal Fiscal Survey showed that total URIP funding in 2004 was only about 14% of total municipal road expenditures, and that municipal road work expenses in both rural and urban areas far exceed the amount the State distributes in URIP funds. In addition, the rural municipalities OPEGA visited appeared to either use their URIP funding for capital improvement projects in the year they received the funding or to specifically carry the URIP funding over to the following year.

Findings and Action Plans

Finding 1 – Data On Fund Use Not Being Collected

Data is not being collected on how URIP funds are actually used by the communities receiving them. As a result, MaineDOT cannot specifically verify that funding recipients are in compliance with statutory requirements on the use of the funding. While the majority of funds are likely being used as intended, some risk does exist that recipients facing financial pressures may opt to use the funds for other purposes. Without specific data, MaineDOT also cannot evaluate whether URIP is being effective in meeting its intent, especially with regards to capital improvements on rural State aid minor collector roads.

OPEGA asked the municipal officials it met with whether reporting this information during the certification process would be difficult for them. None of the officials interviewed felt it would be overly burdensome to report on the use of the previous year's URIP funding.

Management Action

Effective July 1, 2008, MaineDOT will require funding recipients to provide information regarding how URIP funding was used in the previous year as part of the certification process that is already in place. This data, including the specific roads involved and the type of road work completed, will be captured and recorded by MaineDOT to be used in determining whether progress is being made in improving road conditions and in verifying that the funding is being used in accordance with statute. MaineDOT will seek to make the data capture process as simple and efficient for funding recipients as possible and may consult with MMA on the design.

Finding 2 – Administrative Costs Could Be Reduced

Opportunity exists to reduce administrative costs by reducing the number of actual physical checks processed. MaineDOT currently processes 501 URIP payments four times per year. Although MaineDOT offers direct deposit payments, only about 75 funding recipients currently take advantage of this option. This means that about 1,700 physical checks are being processed per year. Eliminating physical checks by using direct deposit instead would save an estimated \$700 each year in costs for physical checks and postage.

Management Action

MaineDOT will work with Maine Municipal Association over the next year to encourage recipients to take advantage of the direct deposit option for URIP payments. Articles are planned for MMA and MaineDOT newsletters and MaineDOT will include special notices with the next round of certification letters.

Observation

A bill proposed during the First Regular Session of the 123rd Legislature, LD 1790, included some proposed changes to URIP that attempted, in part, to increase the emphasis on improvements to State aid roads. The Joint Standing Committee on Transportation removed the section involving URIP from LD 1790, noting the need for more study and discussion. As a result, Senate Paper 731, a Joint Order Directing the Joint Standing Committee on Transportation To Study Certain Transportation-related Matters, was issued. OPEGA would suggest that any additional discussions concerning changes to URIP include consideration of mechanisms to collect data on use of funds and stress accountability.

Acknowledgements

OPEGA would like to thank the many municipal officials, and the individuals within the Maine Department of Transportation and the Maine Municipal Association, who shared their time, knowledge and experience during the course of this review. Their assistance is greatly appreciated.

Appendix A. Full Text of Title 23, Chapter 19 §§1801-1804

Title 23, Chapter 19: FISCAL MATTERS Subchapter 6: LOCAL ROAD ASSISTANCE PROGRAM

§1801. Findings and purpose

Municipal transportation assistance funds must be targeted to the capital needs of rural roads and highways and must also reflect urban maintenance responsibilities on state and state aid roadways. [1999, c. 473, Pt. D, §1 (rpr).]

Municipal transportation assistance funds must be adjusted according to increases or decreases in Highway Fund resources available for transportation. [1999, c. 473, Pt. D, §1 (rpr).]

Responsibility for decisions regarding maintenance and improvement of roads must follow the principle that roads that primarily serve regional or statewide needs must be the State's responsibility, roads that primarily serve local needs must be a local responsibility and roads that primarily serve as minor collector routes may be improved through a partnership between municipalities and the State. [1999, c. 473, Pt. D, §1 (rpr).]

The Legislature recognizes that without municipal participation the State has few resources to make necessary capital improvements to state aid minor collector highways. [1999, c. 473, Pt. D, §1 (rpr).]

The purpose of the Urban-Rural Initiative Program established in this subchapter is to provide equitable financial assistance to communities for their use in improving local roads, maintaining state roads in urban compact areas and assisting the State in making capital improvements to state aid minor collector highways. [1999, c. 473, Pt. D, §1 (rpr).]

In order to meet the purposes set out in this section, the Urban-Rural Initiative Program has a Rural Road Initiative and an Urban Compact Initiative as components. [1999, c. 473, Pt. D, §1 (new).]

PL 1981, Ch. 492, §C26 (NEW).

PL 1999, Ch. 473, §D1 (RPR).

§1802. Definitions (REPEALED)

PL 1981, Ch. 492, §C26 (NEW).

PL 1987, Ch. 737, §C68,C106 (AMD).

PL 1989, Ch. 6, § (AMD).

PL 1989, Ch. 9, §2 (AMD).

PL 1989, Ch. 104, §C8,C10 (AMD).

PL 1989, Ch. 516, §1 (RP).

§1802-A. Definitions

As used in this subchapter, unless the context otherwise indicates, the following terms have the following meanings. [1989, c. 516, §2 (new).]

1. Average lane miles maintained.

[1999, c. 473, Pt. D, §2 (rp).]

1-A. Capital improvement. "Capital improvement" means any work on a road or bridge that has a life expectancy of at least 10 years or restores the load-carrying capacity.

[1999, c. 473, Pt. D, §3 (new).]

2. Lane miles. "Lane miles" means a length of road measured in miles multiplied by the number of travel lanes for that length of road.

[1995, c. 678, §2 (new); §7 (aff).]

PL 1989, Ch. 516, §2 (NEW) .
 PL 1995, Ch. 678, §1,2 (AMD) .
 PL 1995, Ch. 678, §7 (AFF) .
 PL 1999, Ch. 473, §D2,3 (AMD) .

§1803. Distribution (REPEALED)

MRSA , §T.23 SEC. 1803/3 (RP) .
 PL 1981, Ch. 492, §C26 (NEW) .
 PL 1983, Ch. 800, §1 (AMD) .
 PL 1985, Ch. 403, §C1 (AMD) .
 PL 1989, Ch. 516, §3 (RP) .

§1803-A. One-time stipend (REPEALED)

PL 1987, Ch. 793, §A3 (NEW) .

§1803-B. Rural Road Initiative and Urban Compact Initiative

1. Distribution and use of funds. Funds from the Urban-Rural Initiative Program must be distributed to each eligible municipality, county or Indian reservation under the Rural Road Initiative and the Urban Compact Initiative.

A. Rural Road Initiative funds must be distributed as follows.

(1) Funds are distributed at a rate of \$600 per year per lane mile for all rural state aid minor collector roads and all public roads maintained by a municipality located outside urban compact areas as defined in section 754, except that funds are distributed at a rate of \$300 per year per lane mile for all seasonal public roads.

(2) Effective July 1, 2000, funds must be used for capital improvements as defined by this chapter, or for capital improvements to state aid minor collector roads as described in subsection 5. In municipalities, counties and Indian reservations in which there are no rural state aid minor collector roads, funds may also be used for winter highway maintenance, acquisition of highway maintenance equipment or the construction of highway maintenance buildings if the governing legislative body affirmatively votes that its town ways and local bridges are in sufficiently good condition so as to not require significant repair or improvement for at least 10 years.

[2001, c. 565, Pt. K, §1 (amd) .]

B. Urban Compact Initiative funds must be distributed as follows.

(1) Funds are distributed at a rate of \$2,500 per year per lane mile for summer maintenance performed by municipalities on state and state aid highways in compact areas as defined in section 754. For each lane mile beyond the 2nd lane on a highway with more than 2 lanes, funds are reimbursed at a rate of \$1,250 per lane mile for summer maintenance in compact areas. Funds are distributed at a rate of \$1,700 per year per lane mile for winter maintenance performed by municipalities on state highways in compact areas as defined in sections 754 and 1001 regardless of the number of lanes.

(2) Funds must be used only for the maintenance or improvement of public roads.

[1999, c. 473, Pt. D, §4 (new) .]

C. The Urban-Rural Initiative Program payment defined as the combined Urban Compact Initiative and Rural Road Initiative annual payment to any municipality, county, or Indian reservation may not be less than the fiscal year 1999 Local Road Assistance Program payment. [1999, c. 473, Pt. D, §4 (new) .]

D. Beginning July 1, 2001, the annual funding dedicated for the Urban-Rural Initiative Program must bear the same percentage relationship to the sum of the General Fund and Highway Fund allocation to the department for highway purposes as was provided during fiscal year 2000-01. On July 1, 2001 and every July 1st thereafter, the commissioner shall administratively adjust the base funding and the reimbursement rates per lane mile proportionately according to revenue available. [1999, c. 473, Pt. D, §4 (new) .]

[2001, c. 565, Pt. K, §1 (amd) .]

2. Retention of allocation for Urban-Rural Initiative Program. Prior to apportioning funds to each municipality, the department shall retain sufficient funds from the allocation for the Urban-Rural Initiative Program to ensure equitable funds are provided for roads in unorganized areas and for administration.

[1999, c. 473, Pt. D, §4 (rpr).]

3. Payment of funds. One quarter of the funds apportioned to each municipality must be paid by the State to the municipality before September 1st, December 1st, March 1st and June 1st each year.

[1999, c. 473, Pt. D, §4 (rpr).]

4. Limitations.

[1999, c. 473, Pt. D, §4 (rp).]

5. State aid minor collector capital projects. State aid minor collector capital projects as determined by the department are financed with contributions of Rural Road Initiative funds not to exceed 33% of project costs with the remainder provided by the State. Local funds other than Rural Road Initiative funds committed to the projects are matched by state funds at the discretion of the department and at a ratio that may exceed 33% of local funds. If the department is not allocated sufficient funds to match offered municipal funds, then the department must reject or defer any new municipal offers and award matching funds to municipalities with pending offers based on a priority order consistent with an established departmental 6-year plan for state aid minor collector capital projects.

[1999, c. 473, Pt. D, §4 (new).]

6. Municipal, county or Indian reservation administration. Municipalities or counties or Indian reservations may choose to administer rural minor collector capital projects based on mutual agreement guided by policies and procedures adopted by the department. The state share must be available prior to construction or contract. Municipal, county or Indian reservation equipment and material contributions are included as part of the contribution of Rural Road Initiative funds. Project cost overruns or savings are shared by the municipality, county or Indian reservation and the State according to the cost-sharing ratio established in subsection 5. State savings must be used for the purposes of state aid minor collector capital projects within the State. Municipal, county or Indian reservation savings may be used for any purpose allowed pursuant to subsection 1, paragraph A. At the discretion of the municipality, county or Indian reservation, project cost savings including matched state funds may accrue entirely toward additional or expanded minor collector state aid capital projects within that same jurisdiction.

[1999, c. 473, Pt. D, §4 (new).]

PL 1989, Ch. 516, §4 (NEW).
 PL 1995, Ch. 678, §3 (AMD).
 PL 1995, Ch. 678, §7 (AFF).
 PL 1999, Ch. 473, §D4 (RPR).
 PL 1999, Ch. 753, §3 (AMD).
 PL 2001, Ch. 471, §D22 (AMD).
 PL 2001, Ch. 471, §D23 (AFF).
 PL 2001, Ch. 565, §K1 (AMD).

§1804. Municipal, county or Indian reservation requirements

To be eligible to receive funds from the Urban-Rural Initiative Program, each municipality, county or Indian reservation shall, prior to August 1st each year, certify in a manner acceptable to the department that the funds are used in a manner consistent with this chapter. To be guaranteed to receive state matching funds for any Rural Road Initiative funds directed to state-aid minor collector capital projects, each municipality, county and Indian reservation, prior to May 1st of each even-numbered year, shall submit a 6-year plan to the department describing the intended state aid minor collector projects to be financed with funds currently available, funds provided over the 6-year period beginning July 1st of the following year and any other funds or financing. The report must include details sufficient to estimate needed state matching funds, and must indicate whether the municipality intends to administer the project. The report also must describe any funds held in reserve for future state aid minor collector projects. [1999, c. 473, Pt. D, §5 (amd).]

PL 1981, Ch. 492, §C26 (NEW).
 PL 1999, Ch. 473, §D5 (AMD).

Appendix B. URIP Rural Capital Improvements Certification

MAINE DEPARTMENT OF TRANSPORTATION
URBAN - RURAL INITIATIVE PROGRAM (URIP)
CERTIFICATION 2005-2006
MUNICIPALITY «payeecode» «payeeName»

To be eligible to receive URIP funds, each Municipality must **certify that the Rural Initiative funds will be used "only for CAPITAL improvement of public roads"**. Effective July 1, 2000, as defined by Title 23, §1803-B.1.A (2), funds must be used for capital improvements to local roads and/or State Aid Minor Collector roads, or as provided by 2002 PL 565, if eligible.

It is estimated that the municipality of «payeeName», will receive «TotalAmount» for the fiscal year beginning July 1, 2005. The Estimated Quarterly installments will be in the amount of: Sept. 2005 = «QuarterlyAmount»; Dec. 2005 = «QuarterlyAmount»; Mar. 2006 = «QuarterlyAmount»; June 2006 = «QuarterlyAmount»

Notification will be made in the event of any change. Amounts may be reduced if your town participates in the Collector Road Development Awards (CRDA) Program.

Beginning in 2001, all municipalities receive a percentage of the Maine DOT's portion of the Highway Fund (about 9.6%), rather than the former flat rate of \$600 per lane-mile. This means that the disbursements to municipalities rise and fall with Maine DOT's budget.

We, the undersigned municipal officers or designee (i.e. Town Manager) of the municipality of «PayeeName», do hereby certify that funds received from the Urban-Rural Initiative Program for the fiscal year 2005-2006 will be used only for uses as stated above:

Signed _____ Date __/__/__ Signed _____ Date __/__/__

Signed _____ Date __/__/__ Signed _____ Date __/__/__

Municipal official to contact for information on Public Road Mileage:

Please Print or type

Name: _____ Title: _____ Tel. _____

Municipal Treasurers address: Where the town wants the quarterly checks sent:

Name: _____ Address: _____

Town: _____ State: _____ Zip Code: _____

Municipal E-mail Address (general delivery): _____

Prior to August 1, 2005 please return this form to:

Mr. Fred Hutchinson, Program Administrator
 MDOT- Community Services Division
 16 State House Station
 Augusta, Maine 04333-0016
 Tel. (207) 624-3270

**NO URIP payments can be made until a completed form is received by MDOT-
 Community Services Division.
 Please make a copy for your records.**

Appendix C. URIP Urban Maintenance Certification

MAINE DEPARTMENT OF TRANSPORTATION **URBAN - RURAL INITIATIVE PROGRAM (URIP)** **CERTIFICATION 2005-2006**

MUNICIPALITY «PayeeCode» «PayeeName»

To be eligible to receive URIP funds, each Municipality must **certify that the Urban Initiative funds will be used only for maintenance or improvement to public roads and Rural Initiative funds will be used "only for CAPITAL improvement of public roads"**. Effective July 1, 2000, as defined by Title 23, §1803-B.1.A (2), funds must be used for capital improvements to local roads and/or State Aid Minor Collector roads, or as provided by 2002 PL 565, if eligible.

It is estimated that the municipality of «PayeeName», will receive «TotalAmount» for the fiscal year beginning July 1, 2005. The Estimated Quarterly installments will be in the amount of: Sept. 2005 = «QuarterlyAmount»; Dec. 2005 = «QuarterlyAmount»; Mar. 2006 = «QuarterlyAmount»; June 2006 = «QuarterlyAmount»

The Urban Initiative funds total «Urban» for this fiscal year

The Rural Initiative funds total «Rural» for this fiscal year

The above amounts include eligible funds from the Transit Bonus Payment Program

Notification will be made in the event of any change. Amounts may be reduced if your town participates in the Collector Road Development Awards (CRDA) Program.

Beginning in 2001, all municipalities receive a percentage of the Maine DOT's portion of the Highway Fund (about 9.6% this year), rather than the former flat rate of \$600 per lane-mile. This means that the disbursements to municipalities rise and fall with Maine DOT's budget.

We, the undersigned municipal officers or designee (i.e. Town Manager) of the municipality of «PayeeName», do hereby certify that funds received from the Urban-Rural Initiative Program for the fiscal year 2005-2006 will be used only for uses as stated above:

Signed _____ Date / / Signed _____ Date / /

Signed _____ Date / / Signed _____ Date / /

Municipal official to contact for information on Public Road Milcage:

Please Print or type

Name: _____ Title: _____ Tel. _____

Municipal Treasurers address: Where the town wants the quarterly checks sent:

Name: _____ Address: _____

Town: _____ State: _____ Zip Code: _____

Municipal E-mail Address (general delivery): _____

Prior to August 1, 2005 please return this form to:

Mr. Fred Hutchinson, Program Administrator
 MDOT- Community Services Division
 16 State House Station
 Augusta, Maine 04333-0016
 Tel. (207) 624-3270

NO URIP payments can be made until a completed form is received by MDOT-Community Services Division.

Please make a copy for your records.



Maine Municipal Association

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AUGUSTA, MAINE 04330-9486
(207) 623-8428
www.memun.org

RECEIVED JUL 18 2007

July 16, 2007

Beth Ashcroft
Director of OPEGA
Room 107
Cross State Office Building
August, ME 04333-0082

Dear Ms. Ashcroft,

Thank you for this opportunity to respond to the Office of Program Evaluation and Government Accountability's (OPEGA) draft performance audit report of the Urban Rural Initiative Program (URIP).

The Association believes that the report accurately describes the intent of the program and the municipal and state responsibilities to the program. We appreciate your staff's willingness to acknowledge, without all of the data, the high likelihood that municipalities are using the state funds provided under URIP as specified in law; that is, on capital improvements anticipated to last for more than 10 years.

Since URIP was designed as a municipal/state partnership, it is not surprising that the "Findings and Action Plans" section of the report makes recommendations that impact municipalities. As proposed, the report recommends that: 1) the Department of Transportation (DOT) amend the URIP certification form that municipalities must fill out to receive state funding to include a description of how the previous year's funds were used; and 2) in order to save administrative cost, encourage communities to use the electronic transfer process (i.e., direct deposit, on-line banking, etc.) to receive URIP funds.

The Association understands the need for both of these recommendations. However, we want to make sure that neither process will become too burdensome for communities. It is our understanding that based on the conversations OPEGA staff had with municipal officials in twelve communities, the recommendation to add a "use of funds" component to the certification form was going to be designed so as not to be "overly burdensome".

While the methodology used by OPEGA staff to choose the twelve communities included in the audit was justifiably based on the amount of URIP revenue received (i.e., a combination of high, middle and low fund receivers), that decision had the impact of down-playing the importance population has in the policy making process. Of the twelve communities interviewed, the smallest had a population of nearly 2,000. In Maine, 327 (67%) communities have populations *less* 2,000, in comparison to the 164 (33%) communities with populations *over*

2,000. The Association's concern is that the "not overly burdensome" conclusion is based on interviews with relatively "large" Maine communities. For that reason, the Association urges that the report recommendation encourages DOT to work with municipal officials to develop a form that is user-friendly, particularly for the small, rural Maine communities that are generally operated by volunteers.

With respect to the recommendation encouraging the use of electronic transfers of URIP revenues to municipalities, the Association is willing to use its resources to help DOT inform municipal officials of that option.

Again, thank you for the opportunity to comment. If you have any questions or need additional information, please do not hesitate to contact me at 1-800-452-8786 or kdufour@memun.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Kate Dufour", with a stylized, flowing script.

Kate Dufour
Legislative Advocate
Maine Municipal Association

c.c. Wendy Cherubini, OPEGA
Scott Farwell, OPEGA
Peter Coughlan, DOT