

Policy Owner: Director, Office of Financial Management

Policy Contact: Analysis and Reporting Unit, Office of Financial Management

Policy Statement

The Minnesota Department of Transportation (MnDOT) uses federal advance construction (AC) financing for the federal aid eligible highway program.

- The amount of federal obligation authority must not exceed 125 percent of forecast for that year.
- At the end of each state fiscal year, the Federal AC financing balance must not exceed 100 percent of the federal funds amount specified above.
- Use of federal obligation authority for AC conversions for all projects must not exceed 50 percent of the official, estimated federal formula funds available for use during a state fiscal year, unless the Transportation Program Investment Committee approves a different amount.

For purposes of calculation federal earmarked funds for local projects are exempt. The use of Federal AC financing to finance projects other than those on the trunk highway system must be included when calculating the total for compliance with this policy.

Details

- Federal AC financing may be used to finance multi-year projects (planned AC) and for temporary federal fund management (managed AC).
- Each project for which Federal AC financing is used must be authorized by the Federal Highway Administration prior to advertising for letting or expending any funds on the project.
- Use of Federal AC financing requires full encumbrance in the state road construction budget for trunk highway construction projects for both the state funds and the federal advance construction agreement amounts.
- Prior to using Federal AC financing, program management staff must ensure that the cash balances in the trunk highway fund are sufficient to pay project expenditures prior to the time a Federal AC financing is converted to regular funding.
- Assuming federal funds are available, conversions of Federal AC financing to regular federal funding must be initiated when unbilled eligible costs for a project are determined to exceed \$500,000. At the end of the state fiscal year, unbilled amounts must not carry into the next fiscal year for state aid projects and unbilled amounts for trunk highway projects must be minimized as well. This reduces the impact on both the general fund and trunk highway fund balances.
- Overall Federal AC balances must be within the balances prescribed in this policy at the time of the final, approved, annual State Transportation Improvement Program (STIP) document.

- MnDOT must not utilize additional advance construction that would exceed these Federal AC financing limits unless the Transportation Program Investment Committee, in consultation with the Chief Financial Officer, approves the use in advance.
- If any forecast projects that these Federal AC financing limits will be exceeded, changes must be proposed to the Federal AC financing plan to bring it back into compliance by the beginning of the following year's STIP.

Reason for Policy

[Minnesota Statutes §167.60](#) requires the commissioner to develop a debt-financing management policy for trunk highway bonds, federal advance construction funds, and other forms of highway financing based on debt or future repayment.

Use of federal Advance Construction financing allows MnDOT to maximize the use of federal funds. There are two types of Advance Construction:

Planned Advance Construction

Planned advance construction more closely matches actual reimbursements from the Federal Highway Administration when project expenditures occur on multi-year projects. Expenditures for projects exceeding \$1 million are multi-year payments; typically, these payouts will be 30% in the first year, 50% in the second year, and 20% in the third year.

Use of Federal AC financing allows executing a Federal AC agreement for the entire project, but delaying the use of regular federal funding until times that more closely match when actual project expenditures occur by executing Federal AC conversions to regular federal funds at various times during the project's timeframe.

The use of Federal AC frees up, on a one-time basis, federal funds in the first year of multi-year federal projects that otherwise would have been entirely committed to these projects. The State Transportation Improvement Program (STIP) includes Planned AC and paybacks.

Managed Advance Construction

Another type of use of Federal AC financing is "managed AC." Managed AC involves entering into Federal AC agreements in order to respond to unplanned events such as delays in actual receipt of federal funding during a federal fiscal year. The U.S. Congress has not been able to pass full year appropriations legislation prior to the start of a federal fiscal year for a number of years. This results in receipt of only portions of the total amount of funding for a federal fiscal year, rather than the entire amount early in the year.

Federal AC financing bridges the gap in time between federal approval and federal obligation authority (funding). In addition, because the federal fiscal year runs from October to September, while the state fiscal year runs from July to June, Federal AC financing is used for the period of July through September. Managed AC is typically not included in the STIP and does not have planned AC paybacks.

Applicability

All MnDOT employees must comply with MnDOT policies.

Key stakeholders affected by this policy include:

- Commissioner
- Chief Financial Officer
- Capital Highway Program Financial Manager
- Financial Controller & Director, Financial Management
- District Engineers/Office Directors
- Transportation Program Investment Committee

Definitions

Advance Construction

The Federal Highway Administration authorization to start a project without the commitment of regular federal funds until such time in the future when regular federal funds may be applied.

Federal Aid Advance Construction Agreements (referred to as Federal AC financing in this policy)

A special type of federal aid agreement. Typically rather than receiving reimbursement on a concurrent basis, reimbursement occurs in future periods of time or future years, with the agreements based on future federal aid amounts expected as allocation to MnDOT. Actual reimbursement, often referred to as a “conversion,” is typically a lump sum amount, representing reimbursement of costs incurred in the previous periods. When this occurs, this reduces the amount of federal funds available for current year project agreements.

Federal Aid Agreements

Agreements between MnDOT and the Federal Highway Administration, approved on a project-by-project basis with project costs reimbursed on a scheduled basis. The total dollar amount of an agreement is the maximum amount of reimbursement. Reimbursement is typically for 80% of eligible costs. Since the entire amount of a project encumbrance is an expenditure on a budgetary basis, so too is the entire amount of the federal aid agreement for the same project.

Federal Appropriation

Authorization of funding expenditures from Congress through passage of a federal appropriation law.

Federal Earmarked Funds

Funds that the U.S. Congress allocates to specific projects; this funding is separate from the formula funding.

Federal Obligation Authority Forecast

The amount of federal formula funding that is specifically allocated to Minnesota (and each state), based on approved federal appropriations or continuing resolutions.

Obligation Authority

The total spending limit of federal funds within a given federal fiscal year that FHWA has legally committed to future reimbursements.

State Transportation Improvement Program (STIP)

A federally required document listing transportation projects using anticipated federal transportation dollars within a four-year window. This list of projects includes state and local transportation projects funded with federal highway or federal transit funds. Minnesota also includes most projects on the state trunk highway

system regardless of funding source (federal or state). Rail, port, and aeronautics projects are included for information purposes. Refer to the [State Transportation Improvement Program](#) website for details.

Transportation Program Investment Committee (TPIC)

A MnDOT committee with the mission to provide policy direction for MnDOT's capital investments on the transportation system and make programmatic capital investment decisions and recommendations to the Commissioner.

Trunk Highway Fund

The principal operating fund for MnDOT and, to some extent, for the Department of Public Safety. It is supported by state motor fuel taxes, vehicle registration fees, and vehicle sales taxes and used for construction, maintenance, and operation of Minnesota's trunk highway transportation infrastructure. Annual transfers of funds to the Minnesota Management & Budget (MMB) debt service account in the state debt service fund are also made from this fund.

Responsibilities

Commissioner

- Approve the STIP.

Chief Financial Officer

- Consult with the Director of the Office of Transportation System Management whenever there is a proposal to exceed the use of advance construction financing.

Capital Highway Program Financial Manager, Office of Financial Management

- Prepare STIP Financial Plan.
- Forecast federal funds.
- Prepare quarterly advance construction reports and submit to the Federal Highway Administration.
- Inform the Transportation Program Investment Committee about the planned use of advance construction in the upcoming STIP, as part of the presentation to the committee about the entire STIP.

District Engineers/Office Directors

- Manage the State Highway Improvement Program within the STIP.
- Approve the use of planned advance construction financing within their area of responsibility.

Financial Controller & Director, Financial Management

- Ensure that the planned use of advance construction financing is consistent with MnDOT policy.
- Review policy every two years, or sooner as necessary, to ensure policy remains up-to-date.
- Ensure documents and training associated with the policy remain current.
- Work with Policy Coordinator to revise policy and/or confirm its accuracy.
- Communicate policy revisions, reviews, and retirements to stakeholders.

Transportation Program Investment Committee

- Review the overall use of advance construction financing as part of the annual STIP adoption process.
- Recommend to the Commissioner approval of the STIP.

Resources & Related Information

- [Minnesota Statutes §167.60](#) *Debt-Financing Management Policy*
- [State Transportation Improvement Program](#) website
- Business Data Catalog (BDC) – accessible from employee Intranet
- MnDOT's [Policy Website](#)
- MnDOT [Cash Balance Policy](#)

History & Updates

Title: *Advance Construction Policy (2020)*

Revision	Date	Comments
Initial Adoption	7-1-2010	Policy #2.5 adopted
1 st Revision	7-9-2013	Policy updated and renumbered FM008
2 nd Revision		Policy updated and converted to new template
3 rd Revision		

Authorization

Policy Owner:

Signature: _____

Print Name: _____

Date: _____

Governance Committee has reviewed this policy and recommends approval:

Signature: _____

Print Name: _____

Date: _____

Responsible Senior Officer:

Signature: _____

Print Name: _____

Date: _____

Policy Review

This policy has been reviewed by the Policy Owner, the policy content is current, and no significant modifications are needed. Minor modifications have been noted in the "Comments" section.

Date	Policy Owner Signature	Comments