

07-0058

BOND ACCELERATED PROGRAM

REPORT TO LEGISLATURE ON TRUNK HIGHWAY BONDING

JANUARY 12, 2007

Minnesota Session Laws of 2003

1st Special Session

Chapter 19

Article 3



TABLE OF CONTENTS

INTRODUCTION	1
I. Project Status Update	3
A. Bond Accelerated Projects	3
B. Safety & Preservation Projects	5
C. Metro Transit Advantage Projects	6
D. Greater Minnesota Transit Projects	7
II. Compliance with Trunk Highway Bonding Reporting Requirements - Art. 3, § 1, Subd. 2 and § 5 (1 and 2)	8
A. Geographic Distribution Requirements	8
B. Safety and Capacity Requirements	9
C. Program Delivery Requirements to Complete BAP Projects	9
D. Transit Requirements	10
III. Compliance with Federal Advance Construction Reporting Requirements -	11
Art. 3, § 3(d) and § 5(1)	11
A. Federal Funding and Advance Construction (AC) Background	11
1. Federal Funding	11
2. Federal Advance Construction (AC)	12
B. AC and the Bond Accelerated Program	15
C. Estimate of Additional AC Available in Future Years	17
IV. Impact of AC on the Trunk Highway (TH) Fund Balance and Cash Flow	17
A. TH Fund Balance	18
B. TH Fund Cash	18

FIGURES

Figure 1: Bond Accelerated Projects	4
Figure 2: Safety & Preservation Projects	5
Figure 3: Metro Transit Advantage Projects	6
Figure 4: Greater Minnesota Public Transit Projects	7
Figure 5: Mn/DOT District and Expert Office Program Delivery for Completing Bond Accelerated Program	10
Figure 6: Transportation Funding Sources	11
Figure 7: AC Example: Improving Federal Funds Management	12
Figure 8: AC Example: Project Packaging	13
Figure 9: Mn/DOT's Federal AC Totals	14
Figure 10: Example of Bond Accelerated Project Financing	15
Figure 11: Estimated Bond Project Encumbrances & Expenditures	16

BOND ACCELERATED PROGRAM LEGISLATIVE REPORT

INTRODUCTION

This Bond Accelerated Program Legislative Report (BAP Report) is submitted by the Commissioner of the Minnesota Department of Transportation (Mn/DOT) in response to the requirements specified in Chapter 19, Article 3, Laws of 2003, 1st Special Session. This is the fourth BAP Report submitted to the Minnesota Legislature since the inception of the Bond Accelerated Program. The first BAP Report was submitted on January 15, 2004 (2004 BAP Report). The second BAP Report was submitted on January 14, 2005 (2005 BAP Report). The third BAP Report was submitted on January 13, 2006. The specific legislative reporting requirements are highlighted in bold below.

ARTICLE 3 TRUNK HIGHWAY BONDING

Section 1. [HIGHWAY AND TRANSIT APPROPRIATIONS.]

Subdivision 1. [TRUNK HIGHWAY PROJECTS FINANCED BY STATE BONDS.]

(a) \$400,000,000 is appropriated from the bond proceeds account in the trunk highway fund to the commissioner of transportation for trunk highway improvements. This appropriation is for:

(1) trunk highway improvements within the seven-county metropolitan area primarily for improving traffic flow and expanding highway capacity by eliminating traffic bottlenecks and improving segments of at-risk interregional corridors within the seven-county area; and
(2) trunk highway improvements on at-risk interregional corridors located outside the seven-county metropolitan area. These appropriations include the cost of actual payment to landowners for lands acquired for highway right-of-way, payment to lessees, interest subsidies, and relocation expenses. Within each category in clauses (1) and (2), the commissioner shall spend not less than \$25,000,000 on highway safety and capacity improvement projects including but not limited to the addition of lanes on trunk highway corridors with known safety problems.

(b) In spending the appropriation under paragraph (a), the commissioner shall, to the maximum feasible extent, seek to allocate spending equally between the department of transportation metropolitan district and the remainder of the state.

(c) The commissioner of transportation may use up to \$68,500,000 of this appropriation for program delivery.

(d) The commissioner shall use at least \$36,000,000 of this appropriation for accelerating transit capital improvements on trunk highways such as shoulder bus lanes, bus park-and-ride facilities, and ramp meter-bypass facilities.

Subd. 2. [REPORT.] The commissioner shall report to the committees having jurisdiction over transportation finance in the house of representatives and senate, no later than January 15 of each year through 2007, on projects selected to be funded by this appropriation. The report must include the geographic distribution of the selected projects and their adherence to the criteria and spending allocation goals listed in subdivision 1, and the location and cost of each project.

Subd. 3. [BOND SALE EXPENSES.] \$400,000 is appropriated from the bond proceeds account in the trunk highway fund to the commissioner of finance for bond sale expenses under Minnesota Statutes, Section 16A.641, subdivision 8.

Subd. 4. [CANCELLATION.] Any part of the appropriation in this section that is not encumbered or otherwise obligated by June 30, 2007, must be canceled to the trunk highway bond account in the state bond fund.

Sec. 2. [BOND SALE.]

To provide the money appropriated in section 1, subdivisions 1 and 3, from the bond proceeds account in the trunk highway fund, the commissioner of finance shall sell and issue bonds of the state in an amount up to \$400,400,000 in the manner, on the terms, and with the effect prescribed by Minnesota Statutes, sections 167.50 to 167.52, and by the Minnesota Constitution, article XIV, section 11, at the times and in the amounts requested by the commissioner of transportation. The proceeds of the bonds, except accrued interest and any premium received from the sale of the bonds, must be deposited in the bond proceeds account in the trunk highway fund.

Sec. 3. [ADVANCE CONSTRUCTION.]

(a) Through June 30, 2009, the commissioner of transportation may spend up to \$400,000,000 on trunk highway improvements from funds approved for expenditure by the Federal Highway Administration and designated as advance construction funds.

(b) Any additional advance construction expenditures by the commissioner approved by the Federal Highway Administration through June 30, 2009, may be added to the amount in paragraph (a).

(c) In spending federal funds under paragraphs (a) and (b), the commissioner shall, to the maximum feasible extent, seek to allocate spending equally between the department of transportation metropolitan district and the remainder of the state.

(d) The commissioner shall report to the chairs of the senate and house of representatives committees with jurisdiction over transportation policy and finance by January 15 each year regarding the use of advance construction funding in the previous and current fiscal year. The report must include:

(1) an analysis of the impact of the use of advance construction funding on the trunk highway fund balance and cash flow;

(2) an estimate of the amount of additional advance construction funding that is available for use in future fiscal years and the impact on the department's total road construction program; and

(3) geographic distribution of spending and compliance with the spending goal in paragraph (c).

Sec. 4. [GREATER MINNESOTA TRANSIT.]

The commissioner of transportation may spend up to \$5,000,000 through June 30, 2008, in federal transit funds for capital assistance to public transit systems under Minnesota Statutes, section 174.24. This amount is in addition to any appropriations made by law for this purpose.

Sec. 5. [REPORT.]

The commissioner shall report by January 15 of each year through 2007 to the chairs of the legislative committees with jurisdiction over transportation policy and finance on (1) how the department is spending the appropriations in this article for trunk highway improvements, and (2) the department's plans to implement trunk highway improvements

funded under this article with current department staffing, and an analysis of the need for additional staffing and consultant services.

Sec. 6. [EFFECTIVE DATE.]

Sections 1 to 4 are effective the day following final enactment.

Article 3 above establishes the 2003 Transportation Finance Package which is referred to as the "Bond Accelerated Program."

This BAP Report contains an update on the status of the projects accelerated under this program. It also provides the information requested by the legislature regarding the impact of this program on Mn/DOT's overall construction program, the Trunk Highway (TH) Fund, TH Cash, and Mn/DOT staffing and consultant services.

The BAP Report does not include all items from prior BAP Reports. For example, the project selection processes set forth in the 2004 BAP Report are not repeated in this BAP Report. Nor is all of the background information on Federal Funding and Federal Advance Construction (AC) procedures repeated. Prior BAP reports can be obtained at www.oim.dot.state.mn.us or by calling Mn/DOT's Office of Investment Management 651/296-8475.

This BAP Report demonstrates that the 2003 Transportation Finance Package is on course to be one of the most successful state transportation construction programs in history. Seventeen major highway construction and safety/preservation projects are on schedule to be delivered more than a combined 60 years ahead of their original schedules. This will result in substantial savings from inflation and provide transportation system users with significant benefits years ahead of schedule.

I. Project Status Update

A. Bond Accelerated Projects

The 2003 Transportation Finance Package provided \$400 million of TH Bonding authority and \$400+million of Federal Advance Construction authority to accelerate TH improvements throughout the state. The improvements accelerated under this authority are known as the Bond Accelerated Projects. Figure 1 contains information on the current status of the Bond Accelerated Projects.

FIGURE 1

**Bond Accelerated Projects
(\$ Millions)**

DIST	TH	LOCATION	ORIG. SCHED. YEAR	CURRENT LETTING DATE	COMPLETE DATE	FED. AC	TH BONDS	TOTAL CONST & PROG. DEL.
GREATER MINNESOTA								
1	53	Piedmont Ave to TH 194 in Duluth – Reconst.	2012	LET 4/22/05	Est. Spring 2007	\$3.50	\$11.00	\$14.50
2	34	In Park Rapids – Reconst.	2008	3/9/2007	Est. Fall 2008	7.4	4.4	11.8
3	371	TH 10 to CSAH 48 N of Little Falls – Const 4 Lane Expressway	2006	LET 3/25/05	Fall 2005	4.8	15.7	20.5
3	101	Crow River to Mississippi River – Interchanges & Bridges	2013+	LET 4/28/06	Est. Summer 2008	34.2	27.6	61.8
3	94	At Monticello – Bridges and Roadway Realignment	2007	Project downsized to bridge re-decking in 2005, in 2006 was changed to bridge replacement and scheduled for 2009.				
4	10	In Detroit Lakes – Reconst.	2007-10	2/23/2007	Est. Summer 2009	29.5	13.5	43
6	52	At Oronoco – Reconstruction (D/B)	2005-09	LET 10/28/05	Est. Fall 2007	25.2	15.7	40.9
7	14	Janesville to Waseca – Const. 4 Lane Expressway	2005-10	LET 2/27/04	Fall 2006	25.5	22.7	48.2
8	212	Hennepin CSAH 4 to Carver CR 147 – Const 4 Lane Expressway (D/B)	2013+	LET 3/4/05	Est. Fall 2008	32.3	89.4	121.7
SUBTOTAL						162.4	200	362.4
METRO DISTRICT								
M	NA	Metro District State Highways – Transit Advantages	NA	2004-07	Various		46	46
M	212	Hennepin CSAH 4 to Carver CR 147 – Construct 4 Lane Expressway (D/B)	2013+	LET 3/4/05	Est. Fall 2008	90.1	31.6	121.7
M	694	W to E Jct I35E in Vadnais Hgts – Reconstruct -- Stage 1A Edgerton Bridge	2008	LET 2/17/04		2.9	1.2	4.1
		-- Stage 1B Edgerton Bridge Approaches		LET 7/23/04		0.4	1.4	1.8
		-- Stage 2 Main Unweave the Weave Project		LET 9/23/05	Est. Fall 2008	84.6	37.6	122.2
M	169	Anderson Lakes to I494 - Interchanges & Bridges -- Anderson Lakes/Pioneer Trail Interchanges	2009-13+	LET 5/21/04	Fall 2005	5.6	18.1	23.7
		-- I-494 Interchange (D/B)		Deferred indefinitely due to lack of sufficient increases of federal funding in SAFETEA-LU				
M	494	I 394 to TH 212/5 in Eden Prairie/Minnetonka (D/B)	2011-12	LET 5/14/04	Fall 2006	84.2	64.1	148.3
SUBTOTAL						267.8	200	467.8
GRAND TOTAL						\$430.20	\$400.00	\$830.20

Key:

CR County Road D/B Design Build I Interstate
 CSAH County State Aid Highway DIST District TH Trunk Highways (state highways)

The 2004 BAP Report indicated that project costs and timing would likely change as the projects continued through the complex and often unpredictable project development process. The report also indicated that project cost increases and numerous other factors could create a need for project delays. A significant factor that has affected project delivery has been the amount of time it took the Federal Government to enact a new Federal Reauthorization Bill and the piecemeal fashion in which Congress and the Federal Highway Administration (FHWA) have distributed federal funds to the state over the period between the expiration of the previous authorization bill and the passage of SAFETEA-LU.

The 2003 Transportation Finance Package also authorized \$20 million in General Obligation Bonds to provide loans to local governments to help them pay their cost participation shares on the projects listed in Figure 1. Currently, the City of Chanhassen has taken out a loan of around \$3.7 million on the TH 212 project and the City of Oronoco has taken out a loan of around \$0.3 million on the TH 52 project. The balance was opened to the local share of any TH project. The City of Chanhassen has since taken out the only loan for around \$.4 million on a TH 101 project.

B. Safety & Preservation Projects

In addition to the Bond Accelerated Program, the 2003 Transportation Finance Package also included \$100 million (\$25 million/yr. 2004-07) from a spend-down in the TH Fund Balance to advance projects that would improve safety and help preserve existing roadways. These advancements are known as the Safety & Preservation Projects. Although there are no reporting requirements for the Safety & Preservation Projects, Figure 2 contains information on the current status of the projects funded under this program.

FIGURE 2

**Safety & Preservation Projects
(\$ Millions)**

DIST	TH	LOCATION	ORIG. SCHED. YEAR	CURRENT LETTING DATE	TOTAL TH CONST
4	10	TH 32 Interchange in Clay Co. – New Interchange (D/B)	2008	LET 11/19/04	\$ 8.6
6	35	1 Mi. S. of TH 19 to Scott Co. Rd. 2 – Concrete Overlay and Bridge Replacement	2005	LET 3/26/04	8.4
6	35	Iowa Border to I-90 in Freeborn Co. – Concrete Overlay	2006	LET 11/19/04	13.2
8	212	Glencoe to W. Jct. TH 5 in McLeod Co. – Concrete Overlays	2007	LET 1/27/06	9.2
M	94	TH 120 to McKnight – Add Third Lane	2011	LET 9/24/04	8.7
M	65	TH 242 in Blaine – New Interchange	2013	3/23/07	12.0*
M	94	Rogers to Weaver Lake Rd. – Install Median Cable Safety Barrier	NA	LET 4/23/04	0.6
TOTAL					\$60.7

* MnDOT share from Safety & Preservation funding.

Key:

CR	County Road	DIST	District
CSAH	County State Aid Highway	I	Interstate
D/B	Design Build	TH	Trunk Highways (state highways)

C. Metro Transit Advantage Projects

The BAP legislation required the commissioner of transportation to use at least \$36 million of the TH Bonds for accelerating transit capital improvements on trunk highways such as shoulder bus lanes, bus park-and-ride facilities, and ramp meter-bypass facilities. Figure 3 contains information on the current status of the Metro Transit Advantage Projects.

FIGURE 3

Metro Transit Advantage Projects (\$ Millions)

TH	LOCATION	FACILITY TYPE	PROJECT LETTING DATE	BOND COST	
62	TH 77 to 35W	Bus Shoulders	LET 3/25/05	0.630	
62	TH 212 to Penn Ave.	Bus Shoulders	LET 4/22/05	0.535	
51	TH 36 to Pierce Butler	Bus Shoulders	LET 2/25/05	0.332	
94	Dupont Ave to 4 th St	Bus Shoulders	LET 7/29/05	0.544	
77	66 th St. to I-494	Bus Shoulders	LET 3/25/05	0.075	
55	CR 73 in Plymouth	Park/Ride Lot	LET 8/9/05	2.800	
61	Lower Afton Road in St. Paul	Park/Ride Lot	LET 6/24/05	0.276	
494	Penn Ave in Richfield	Park/Ride Lot	LET 6/7/05	0.700	
394	CR 73 in Minnetonka	Park/Ride Lot	LET 3/31/06	8.000	
169	Southbridge, TH 169 & CR 18	Park/Ride Lot	Let 10/10/06	1.619	
65	In East Bethel	Park/Ride Lot	6/22/2007	0.250	
212	SWMT at TH 101	Park/Ride Lot	2007	2.933	
212	SWMT at TH 41	Park/Ride Lot	2007	1.000	
35W	I-35W South & 98 th St	Park/Ride Lot	1/31/07	1.500	
35W	66 th St – Minnehaha Creek (Crosstown)	HOV Lanes & Transit Advantages	3/30/07	14.800	
	SUBTOTAL			35.994	
TIED TO HIGHWAY BOND ACCELERATED PROJECTS					
212	Hennepin CSAH 4 to Carver CR 147	Bus Only Shoulders, Park/Ride Lots	LET 3/4/2005	7.650	
494	I 394 to TH 212/5 in Eden Prairie/Minnetonka	Bus Only Shoulders, HOV Ramp Bypasses	LET 5/14/2004	1.200	
169	Anderson Lakes/Pioneer Trail Interchanges	HOV Ramp Meter Bypasses, Bus Only Shoulders	LET 5/21/2004	0.400	
694	West to East Junctions I 35E in Vadnais Heights	HOV Ramp Meter Bypass	LET 9/23/2005	0.156	
	SUBTOTAL			9.406	
	PROGRAM DELIVERY	All Mn/DOT Projects		0.600	
	GRAND TOTAL			46.000	
KEY:					
CR	County Road	CSAH	County State Aid Highway	DIST	District
HOV	High Occupancy Vehicle	I	Interstate	TH	Trunk Highways (state highways)

D. Greater Minnesota Transit Projects

The BAP legislation also provided up to \$5,000,000 through June 30, 2008, in federal transit funds for capital assistance to public transit systems in Greater Minnesota. Figure 4 contains information on the current status of these Greater Minnesota Transit Projects.

FIGURE 4

Greater Minnesota Transit Projects (\$ Dollars)

DIST	PUBLIC TRANSIT SYSTEM	TYPE OF WORK	YEAR SCHED.	FED \$	TOTAL COST*
1	Duluth: Purchase 2 Large Buses (CLASS 700)	Purchase Bus	2008	\$440,000	\$550,000
3	Annandale Public Transit	Purchase Bus	2006	\$43,200	\$54,000
3	Annandale Public Transit: Purchase 1 Class 400 Bus	Purchase Bus	2007	\$44,800	\$56,000
3	Isanti/Chisago County Public Transit	Purchase Bus	2004	\$41,800	\$52,250
3	Isanti/Chisago County Public Transit	Purchase Bus	2005	\$42,400	\$53,000
3	RiverRider: Purchase 1 Class 400 Bus	Purchase Bus	2006	\$43,200	\$54,000
3	RiverRider: Purchase 1 Class 500 Bus	Purchase Bus	2007	\$80,000	\$100,000
3	St. Cloud MTC Public Transit	Purchase Bus	2004	\$285,000	\$356,250
3	St. Cloud MTC Public Transit	Purchase Bus	2005	\$415,000	\$518,750
3	St. Cloud MTC Public Transit	Purchase Bus	2006	\$180,000	\$225,000
3	St. Cloud MTC Public Transit: Purchase Bus	Purchase Bus	2007	\$90,000	\$112,500
3	Tri-CAP, Inc. Public Transit (Benton and Stearns Counties)	Purchase Bus	2006	\$43,200	\$54,000
4	City of Moorhead Public Transit	Joint Maintenance Transit Facility	2006	\$200,000	\$250,000
4	Clay County Public Transit	Purchase Bus	2006	\$77,600	\$97,000
6	AMCAT (Mower County): Purchase 1 Class 400 Bus	Purchase Bus	2007	\$44,800	\$56,000
6	AMCAT (Mower County): Purchase 1 Class 400 Bus	Purchase Bus	2008	\$46,400	\$58,000
6	Cedar Valley Public Transit (City of Albert Lea)	Purchase Bus	2006	\$43,200	\$54,000
6	City of Rochester Public Transit	Purchase Bus	2004	\$200,000	\$250,000
6	City of Rochester Public Transit	Purchase Bus	2005	\$300,000	\$375,000
6	City of Rochester Public Transit	Purchase Bus	2006	\$280,000	\$350,000
6	La Crescent: Purchase 1 Class 600 Bus	Purchase Bus	2007	\$107,200	\$134,000
6	Rochester: Purchase Large Buses (Class 700)	Purchase Bus	2007	\$274,000	\$342,500
6	SEMCAC Public Transit (Dodge, Fillmore, Houston, Steele and Winona Counties)	Purchase Bus	2006	\$43,200	\$54,000
6	SEMCAC Public Transit: Purchase 1 Class 400 Bus	Purchase Bus	2008	\$46,400	\$58,000
6	Steele County Public Transit	Purchase Bus	2006	\$43,200	\$54,000
6	Steele County Public Transit: Purchase 1 Class 400 Bus	Purchase Bus	2008	\$46,400	\$58,000
6	Three Rivers Community Action, Inc. Public Transit (Goodhue and Wabasha Counties)	Purchase Bus	2004	\$41,800	\$52,250
6	Three Rivers Community Action, Inc. Public Transit (Goodhue and Wabasha Counties): Purchase 1 Class 400 Bus	Purchase Bus	2008	\$46,400	\$58,000

DIST	PUBLIC TRANSIT SYSTEM	TYPE OF WORK	YEAR SCHED.	FED \$	TOTAL COST*
6	WINONA: Purchase 2 Class 600 Buses	Purchase Bus	2007	\$214,400	\$268,000
7	Brown County Public Transit	Purchase Bus	2006	\$43,200	\$54,000
7	City of Mankato Public Transit	Purchase Bus	2004	\$225,600	\$282,000
7	City of Mankato Public Transit	Purchase Bus	2005	\$200,000	\$250,000
7	Mankato: Purchase 1 Large Bus (Class 700)	Purchase Bus	2007	\$210,000	\$262,500
7	MANKATO: PURCHASE 1 LARGE BUS (CLASS 700)	Purchase Bus	2008	\$210,000	\$262,500
7	Rock County Public Transit	Purchase Bus	2006	\$43,200	\$54,000
7	SMOC/Nobles County Public Transit	Purchase Bus	2005	\$42,400	\$53,000
7	Watonwan County Public Transit	Purchase Bus	2006	\$43,200	\$54,000
8	Trailblazer: Purchase 1 Class 400 Bus	Purchase Bus	2007	\$44,800	\$56,000
8	Western Community Action, Inc Public Transit (Jackson, Lyon and Redwood Counties)	Purchase Bus	2006	\$129,600	\$162,000
Total				\$4,866,000	\$6,082,500
* Difference between the total project cost and the federal funds provided under this program will be the responsibility of the local public transit provider.					

II. Compliance with Trunk Highway Bonding Reporting Requirements - Art. 3, § 1, Subd. 2 and § 5 (1 and 2)

A. Geographic Distribution Requirements

The legislation states that in spending the TH Bond and Federal Fund Advance Construction, “the commissioner shall, to the maximum feasible extent, seek to allocate spending equally between the department of transportation metropolitan district and the remainder of the state.” Art. 3, § 1, Subd. 1(b) and § 3(c). Spending on the projects shown in Figure 1 is, to the maximum feasible extent, allocated equally, based on benefits, between Mn/DOT’s Metro District and Greater Minnesota. The TH Bonds are split equally between the two groups and the Federal Fund Advance Construction is split according to where the most benefit was derived from using TH Bonds to leverage federal funds.

As indicated in the 2004 Report, the TH 212 project was split between Greater Minnesota and Metro because numerous studies and research showed that Mn/DOT District 8 and Metro District will benefit equally from this project due to its importance as a critical farm-to-market corridor. All of the local governments along the TH 212 corridor, as well as District 8 planning documents, have stressed the significance of this project to their communities in western and southwestern Minnesota.

All of the projects listed in Figure 1 are trunk highway improvements that meet the requirements of Art. 3, § 1, Subd. 1(a)(1 and 2).

B. Safety and Capacity Requirements

The legislation also requires that not less than \$25 million of the TH Bonds in the seven-county metropolitan area and not less than \$25 million of the TH Bonds outside the metropolitan area be spent on “highway safety and capacity improvement projects including but not limited to the addition of lanes on trunk highway corridors with known safety problems.” Art. 3, § 1, Subd. 1(a)(2). As indicated in the 2004 BAP Report, virtually all of the TH Bonds, both inside and outside the seven-county metropolitan area, are being spent on highway safety and capacity improvement projects including, but not limited to the addition of lanes on trunk highway corridors with known safety problems.

C. Program Delivery Requirements to Complete BAP Projects

The legislation allows the commissioner of transportation to “use up to \$68.5 million of the TH Bond appropriation for program delivery.” Art. 3, § 1, Subd. 1(c).

The legislation also requires that Mn/DOT report on “the department’s plans to implement trunk highway improvements funded under this article with current department staffing, and an analysis of the need for additional staffing and consultant services.” Art. 3, § 5(2).

Figure 5 shows the estimated program delivery expenditures by Mn/DOT’s Districts and expert offices. Because some of the program delivery for these projects had already been completed at the time the BAP legislation was passed, the program delivery reflected in Figure 5 are the expenditures that are needed to complete the projects. Figure 5 also shows the estimated amounts that will be expended on internal department staff and by consultants to deliver this program.

As indicated in the 2004 Report, Mn/DOT does not plan to hire any additional permanent staff to deliver this program. However, some temporary unclassified employees have been hired to assist in delivering this program. In all other instances, Mn/DOT is using consultants for program delivery where it lacks sufficient staff or expertise.

FIGURE 5

**Mn/DOT District and Expert Office
Program Delivery to Complete Bond Accelerated Program
(\$ Millions)**

	Program Delivery			
	Preliminary Engineering/Design		Construction Engineering/Management	
	Internal	Consultant	Internal	Consultant
Districts	\$20.7	\$ 9.7	\$12.3	\$ 9.9
Expert Offices	\$ 8.8	\$ 2.5	\$ 2.4	\$ 0.1
Total	\$29.5	\$12.2	\$14.0	\$10.0
Total Program Delivery Need			\$ 65.7*	
Less: Federally Funded Consultant Work			-12.7	
Trunk Highway (TH) Bond Program Delivery			\$ 53.0	
TH Bonds Available for Program Delivery			\$ 68.5	
<p>* "Total Program Delivery Need" only reflects the BAP Program Delivery that is being centrally funded. The Districts and expert offices have funded some program delivery activities for BAP projects through their regular state operating appropriations. Program Delivery on highway construction projects generally amounts to at least 21% of the project construction cost.</p> <p>Note: 1. TH Bond dollars that are not spent on BAP Program Delivery will be spent on BAP construction or transit advantage activities, maintaining the 50/50 split between Metro and Greater Minnesota. 2. Program Delivery expended after June 30, 2007 does not qualify for BAP funding. It is estimated that approximately \$9.6 million in program delivery will be expended after June 30, 2007.</p>				

D. Transit Requirements

As previously indicated, the legislation requires that at least \$36 million of the TH Bond appropriation be used "for accelerating transit capital improvements on trunk highways such as shoulder bus lanes, bus park-and-ride facilities, and ramp meter-bypass facilities." Art. 3, § 1, Subd. 1(d). Figure 3 shows that \$46 million of the TH Bond proceeds will be spent on park-and-ride lots, bus shoulders, and other transit advantages in the metropolitan area.

Also as previously indicated, the legislation allows the commissioner to spend up to \$5 million through June 30, 2008, in federal funds for capital assistance to Greater Minnesota public transit systems. Art. 3, § 4. Figure 4 shows the Greater Minnesota transit capital projects that will be commenced under this program.

III. Compliance with Federal Advance Construction Reporting Requirements - Art. 3, § 3(d) and § 5(1)

A. Federal Funding and Advance Construction (AC) Background

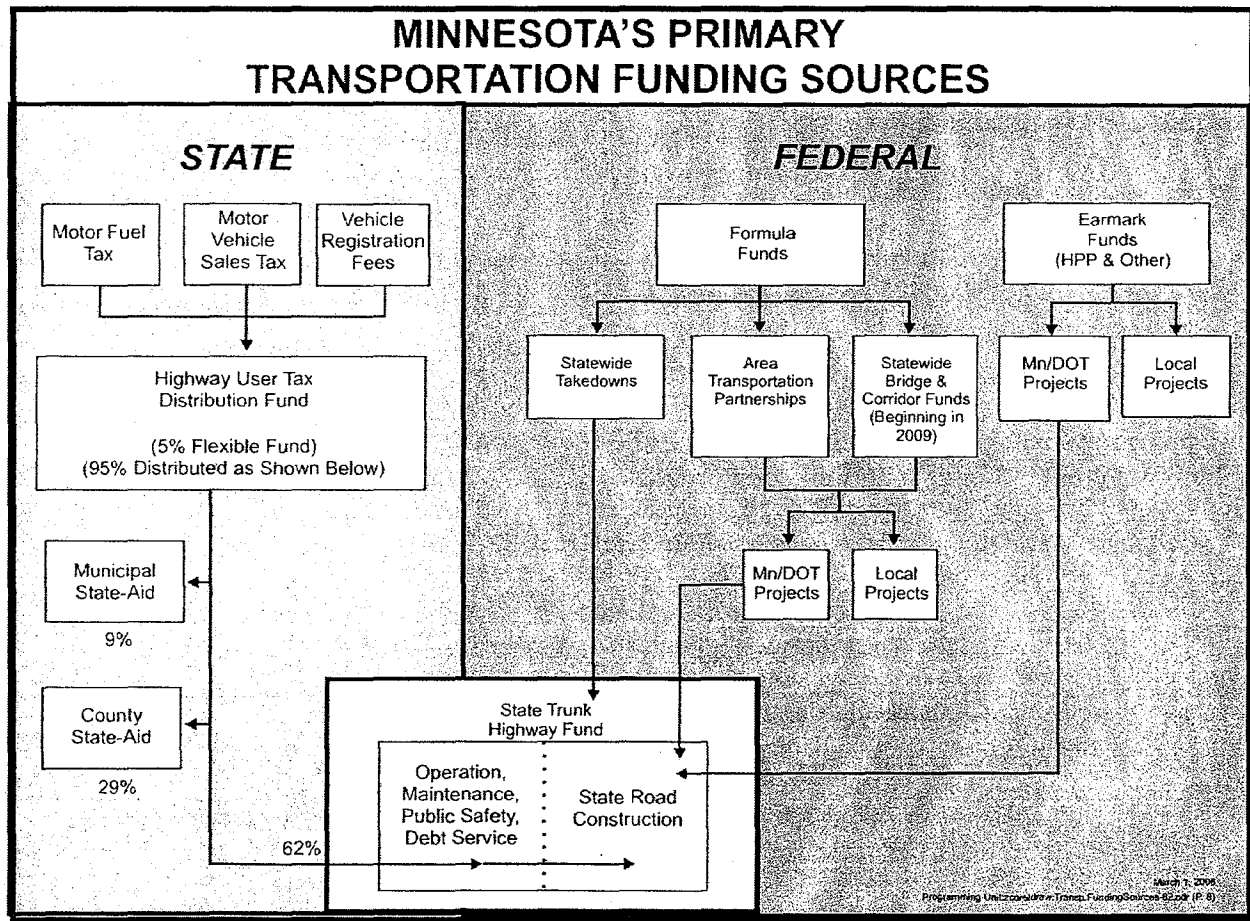
1. Federal Funding

As indicated in the 2004 Report, the amount of federal funds Congress appropriates to Minnesota each year for highways is determined primarily by federal formulas and Congressional earmarking.

Figure 6 illustrates how federal funds are distributed within the State.

FIGURE 6

Transportation Funding Sources



Before a federal aid highway project is let, FHWA must authorize the amount of federal funds that can be used for that project. Generally, a federal aid highway construction project requires a 20% match in state or local funds.

Another important point is that FHWA provides federal funds for a project on a “reimbursable basis.” This means that the State or local government must first pay a federal aid eligible bill with state or local funds and then request reimbursement from FHWA for the federal share of that expenditure. FHWA generally reimburses the State or local government within seven days after a request for reimbursement.

On a conventional federal aid highway project, the full amount of federal funds on a project must be committed (obligated) prior to the time the project is let and awarded. Consequently, those federal funds are not available for other projects in that year.

2. Federal Advance Construction (AC)

Federal Advance Construction (AC) is a federal fund management tool authorized and promoted by FHWA. Federal AC allows a state or local government to award a federal aid highway project *without* obligating any of that year’s federal funds. The federal funds are committed against future years. This allows a state or local government to commit only the federal funds it needs to pay actual project expenditures in each year of project construction. The process of accessing the federal funds that are needed in a year is called “AC Conversion” (or converting AC to federal fund reimbursements).

Federal AC enables Mn/DOT to:

- Better manage its federal funds by not tying up federal funds until they are needed
- Accelerate, expand, and package federal aid projects into larger multiyear contracts
- Keep projects on schedule during short-term delays in federal appropriations

Figure 7 shows an example of how AC enables Mn/DOT to better manage its federal funds by not tying up federal funds until they are needed.

FIGURE 7

AC Example: Improving Federal Funds Management

Assume: 1) \$50M of federal funds remaining in current year 2) \$50M project ready to be let in current year (will be built over 2 years - \$25M current year and \$25M subsequent year)	
Conventional Project Approach	Federal AC Project Approach

<ul style="list-style-type: none"> - Mn/DOT obligates the full \$50M of federal funds to let the project even though only \$25M is needed in the current year. - No federal funds are left to let any additional projects in the current year. 	<ul style="list-style-type: none"> - Mn/DOT only obligates \$25M of the current year's federal funds to let the project (\$25M Federal Funds and \$25M AC) - Mn/DOT can obligate the remaining \$25M of federal funds for other projects that are ready to be let in the current year. - The following year, Mn/DOT must obligate \$25M of federal funds to convert the AC to federal fund reimbursements.
--	---

Figure 8 shows an example of how federal AC can enable Mn/DOT to better package a federal aid project to save money on inflation, economies of scale, and administrative costs.

FIGURE 8

AC Example: Project Packaging

<p>Assume: 1) A three-year project with a total estimated federal cost of \$60M that is ready to be let in SFY 2003. 2) Only \$20M of federal funds are available in each SFY 2003, 2004 and 2005</p>				
<p>Conventional Project Approach: Project would be let in three separate contracts and built as three separate projects over three years at the increased cost of \$63M because of inflation, smaller economies of scale, and higher administrative costs.</p>				
<p>Federal AC Project Approach: Project can be let in one contract and built as one project at the lower estimated cost of \$60M</p>				
Project Approach	SFY 2003	SFY 2004	SFY 2005	Total Project Cost
Conventional Approach (3 separate project contracts built over 3 years)	Encumber \$20M	Encumber \$21M	Encumber \$22M	\$63M
Federal AC Approach (1 project contract built over 3 years)	Encumber \$60M (\$20M Available Federal Funds and \$40M AC)	\$20M of AC Converted to Federal Fund Reimbursements	\$20M of AC Converted to Federal Fund Reimbursements	\$60M

As indicated in the 2004 Report, Mn/DOT, along with almost every other state, has been using AC for nearly 25 years. Over the past several years Mn/DOT has been using AC more aggressively to better manage its federal funds and to accelerate, expand, and package projects. Mn/DOT has had to use significant amounts of AC to keep projects on schedule because of the delay of the 2004 Transportation Reauthorization Bill from 2004 to 2006 and on a yearly basis because of recent failures by Congress to pass the annual appropriation bills in a timely manner. Federal funds have been distributed in 1-6 month increments through continuing resolutions. Figure 9 shows Mn/DOT's forecasted Federal AC totals for 2007-2010.

FIGURE 9

**Minnesota's Federal AC Totals
(\$ Millions)**

SFY	2007	2008	2009	2010
AC Beginning Balance	468	578	370	343
New AC Encumbrances	395	175	275	200
AC Subtotal	863	752	645	543
Less: AC Conversions	-285	-382	-302	-295
Ending AC Balance	578	370	343	248

The amounts shown in Figure 9 reflect AC use for trunk highway projects and local projects. As of December 31, 2006 total AC on local projects was \$49.1 million. Strategies for use of Minnesota's federal funds must also take the needs of local governments into account. Federal funds available to the state of Minnesota each year must, in part, be used for conversion of AC projects:

B. AC and the Bond Accelerated Program

The Bond Accelerated Program will use approximately \$430.2 million of AC. Figure 10 shows an example of how Mn/DOT will use AC and TH Bonding to finance a Bond Accelerated project.

FIGURE 10

**Example of Bond Accelerated Project Financing
(\$ Millions)**

SFY	2004	2005	2006	2007	2008
Original Project Encumbrance Cost: \$100M (with inflation)			\$100 (\$20 State match) (\$80 Federal)		
Original Project Expenditures			\$33	\$33	\$34
Original Federal Reimbursements (80%)			\$26	\$27	\$27
Accelerated Project Encumbrance Cost: \$90M	\$90 (\$45 TH Bonds) (\$45 Federal AC)				
Accelerated Project Expenditures (contractor payments)	\$30 (TH Bonds)	\$30 (\$15 TH Bonds) (\$15 Fed AC authority converted to federal reimbursements)	\$30 (Fed AC authority converted to federal reimbursements)		
Accelerated Federal Reimbursements		\$15	\$30		

Figure 10 demonstrates how the TH Bonds are used to leverage federal funds. TH Bonds are used up front to cover project expenditures and federal funds are used later in the project, closer to the years they were originally scheduled. An important point to remember when using AC to accelerate projects is that it will create peaks and valleys in the state road construction program. The years in which projects have been accelerated will have higher amounts of project lettings.

The years from which the projects were accelerated will have less federal funds available for project lettings because the federal funds will be needed for AC Conversions on the projects that were accelerated.

Figure 11 shows the Bond Accelerated Program's estimated use of AC and TH Bonds for project encumbrances and actual project expenditures over the life of the program.

FIGURE 11
Estimated Bond Project Encumbrances & Expenditures
(\$ Millions)

SFY	2004	2005	2006	2007	2008	2009	2010	Total
Estimated Project ENCUMBRANCES:								
TH Bond	63.1	194.6	83.0	59.3	0	0	0	400.0
Fed AC	26.1	205.3	155.7	43.1	0	0	0	430.2
Total	89.2	399.9	238.7	102.4	0	0	0	830.2
Estimated Project EXPENDITURES:								
TH Bond	8.4	105.0	139.1	125.8	11.7	5.0	5.0	400.0
Fed AC Conversions	.2	3.0	88.2	136.8	139.0	41.4	21.6	430.2
Total	8.6	108.0	227.3	262.6	150.7	46.4	26.6	830.2

Figure 11 provides information in compliance with Art. 3, § 5(1). The amounts shown in Figure 11 will be subject to change as the program proceeds.

The \$430.2 million of Federal AC will be managed to minimize any adverse impact on Mn/DOT's TH Fund Cash. To achieve this, Mn/DOT's goal will be to convert AC to federal reimbursements as AC project expenditures occur.

As indicated in the 2004 Report, in order to have the necessary federal funds available for these conversions, Mn/DOT is using part of the increase in federal funding it receives from Safe,

Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

C. Estimate of Additional AC Available in Future Years

The legislation also requires Mn/DOT to estimate the amount of additional AC “available for use in future fiscal years and the impact on the department’s total road construction program.” Art. 3, § 3(d)(2).

Federal policy limits the amount of AC states can use. The total outstanding AC amount that a state can have in any given year cannot exceed the sum of the state’s current unobligated balance of federal fund apportionments, plus the amount of federal funds anticipated in the subsequent years of its approved State Transportation Improvement Program (STIP). *Guidance on Advance Construction of Federal-Aid Projects*, FHWA (May 10, 1996).

Given this policy, the maximum amount of AC that Minnesota could use in a year exceeds \$1.5 billion. However, Minnesota would not reach this level because many projects are one construction season and therefore limit the amount of federal funds available for AC Conversion in a given year. Mn/DOT cannot commit more future federal funds than are projected to be available. Given this and the projected AC amounts in Figure 9, no additional AC beyond what is currently planned in the 2007-2010 STIP is projected to be available for project acceleration until SFY 2010, at the earliest. Acceleration of projects will only be pursued when project(s) can be identified that have expenditures occurring in more than one Federal Fiscal Year, and Federal funds are forecast to be available to cover expenditures each Federal Fiscal Year.

The requirement that the Commissioner report on the geographic distribution of the Federal AC (Art. 3, § 3(c) and (d)(3)) was met previously in this report in Figure 1 and Section IIA.

IV. Impact of AC on the Trunk Highway (TH) Fund Balance and Cash Flow

The legislation requires Mn/DOT to report on the impact of AC on the TH Fund Balance and cash flow. Art. 3, § 3(d)(1).

The level of cash flow and Fund balance will fluctuate throughout each year. Our ability to forecast the fluctuations due to the use of AC is dependent on Congress passing a timely annual Federal Transportation Appropriation Act. Delays in federal funding lead to higher levels of AC which impact TH fund balance and cash flow.

MnDOT continues to develop better tools for financial forecasting, analysis, and tracking. Specifically, Mn/DOT has developed the Cash Forecasting Information Tool (CFIT), which is a new computer system that will enable Mn/DOT to better forecast and analyze the department’s cash flow. It has also made improvements to the Minnesota Accounting and Procurement System (MAPS) and the Program and Project Management System (PPMS). It has also improved its project estimating techniques and improved many of its internal financial reporting

processes. All of these changes will enable Mn/DOT to better predict the impact of AC on the TH Fund Balance and cash flow, which in turn will enable the department to further maximize its financial resources to build projects sooner.

A. TH Fund Balance

The cumulative impact of federally funded advance construction contracts, on the Trunk Highway fund balance through fiscal year 2006, has been a reduction of \$41 million. This reduction is due to the accounting treatment of construction progress payments Mn/DOT makes to third party contractors and individuals for goods provided or services performed. The eligible federal portion of these payments must be subtracted from the total revenues under government accounting standards. Until federal AC agreements are converted to regular federal fund agreements, the fund balance will be unfavorably impacted by the federal share of any payments made under these contracts.

As indicated in the 2004 Report, Mn/DOT's plan is to convert AC project expenditures as they occur with one exception. The financial plan for the Rochester TH 52 Design/Build (ROC 52) called for the utilization of AC funding spread over a number of years beyond the life of the project. In order to offset some of the negative fund balance impacts associated with this plan, Mn/DOT has been utilizing AC on larger, multi year projects, thereby freeing up regular federal funds to be used on obligations as they become due. By managing federal funds in this manner, the overall negative impact to the fund balance can be minimized.

Fund balance information for the Trunk Highway Fund has recently been calculated and incorporated into the formal fund statements submitted to the Department of Finance in conjunction with the November 2006 Economic Forecast. Actual fund balances are displayed for FY 2005 and FY 2006; estimated fund balances are shown for FY 2007, FY 2008 and FY 2009; and planning-based fund balances are shown for FY 2010 and FY 2011. See Minnesota Department of Finance, November 2006 Forecast (http://www.budget.state.mn.us/budget/summary/fund_statements/061129_con_fund_state.pdf) to review this statement.

B. TH Cash Flow

There are three impacts on the Trunk Highway Fund (TH) cash balance for construction projects funded using Federal AC. First, federal projects are approved on a reimbursable basis. All construction payments, to third party vendors, are paid out of the Trunk Highway cash account. Mn/DOT then generates an invoice that is sent electronically to the FHWA, billing them for the federal portion of the paid costs. After approving the invoice, the FHWA transfers funds back to

the Trunk Highway cash account. Because contracts are reimbursable, the Trunk Highway cash account must maintain a sufficient balance to meet all payment demands without consideration of federal reimbursement. Second, federally funded projects often require a match of state funds of approximately 20% of the contract. This results in a permanent charge to the cash balance equal to the non-federal portion of the project. The third impact has to do with an additional delay in receiving federal reimbursement on AC funded projects. As payments on construction projects reach certain levels, AC must be converted to "reimbursable" regular federal funds before the FHWA can be invoiced. The process of converting AC adds an additional step, and therefore takes longer to obtain reimbursement than would be the case if regular federal funding had been used from the onset. This additional step can create a delay of approximately 30 days, which places an additional demand on the TH cash balance.

From 2005 to 2006, the average daily cash balance decreased approximately \$16.7 million, from \$212.2 million in 2005 to \$195.5 million in 2006. The low daily cash balance in 2006 dropped to \$71.3 million, almost \$30 million less than 2005. Compared to 2003, the first year of BAP, the average daily cash balance has decreased over \$95 million. Much of this decline however, was an intentional spend down of the cash balance to finance the Rochester Highway 52 project. For fiscal year 2007, the daily low cash balance is estimated to be in the \$110-\$120 million range.

For more information on this Legislative Report, please contact:

Abigail McKenzie, Director
Office of Investment Management
Minnesota Department of Transportation
395 John Ireland Boulevard, MS 440
St. Paul, MN 55155
Phone: (651)296-6194
Email: abby.mckenzie@dot.state.mn.us
Website: www.oim.dot.state.mn.us

