Mn/DOT POLICY

Date: July 1, 2010

Reference: Debt Management
SS1055

Position Statement:

I. Debt service for the trunk highway fund should not exceed 20 percent of annual state revenues to the trunk highway fund.
II. Additional debt service should not reduce the adopted statewide transportation improvement program.
III. Use of trunk highway bonds will be in accordance with statewide policies as to limits and purpose, and shall also only be used for capitalizable assets with useful lives exceeding the term of the bonds.
IV. Actions:
    A. Mn/DOT shall not propose additional bonding that would exceed this debt service limit.
    B. If any forecast projects that this debt limit shall be exceeded within 10 years after the fiscal year of the forecast and:
        1. More than five years later, the commissioner shall formally notify Minnesota Management and Budget and advise the Legislature, providing options to bring the debt service into compliance with the policy;
        2. More than two years but five or fewer years later, the commissioner shall formally notify Minnesota Management and Budget, consider actions to bring the debt service into compliance with the policy, and advise the Legislature of actions taken or provide the reasons for not so doing;
        3. Two or fewer years, the commissioner shall propose or take actions to bring debt service into compliance by the end of the next legislative session.
        4. In all cases, Mn/DOT will restrict usage of the fund balance by an amount estimated for the future debt service funding shortfalls for years where debt service is projected to exceed 20 percent of annual state revenues.

Guideline:

Debt service and state revenue to the trunk highway fund shall be estimated with each state forecast in November and February, and after any legislative session that changes debt authorizations or revenue estimates. The time period for this estimate shall extend beyond the formal forecast period to a total of 10 years for purposes of this policy. Responsible party: chief financial officer.

Background:

The state of Minnesota is authorized to issue general obligation bonds for trunk highway purposes under Article XIV of the constitution. Mn/DOT is also authorized to enter into loan agreements using the transportation revolving loan fund under M.S. 161.04, and to enter into local advance agreements under M.S. 161.361. This policy sets limits on the overall obligations that these uses of debt financing should place on the state revenues into the trunk highway fund for the next 10-year period, but long-term planning should aim for debt service to not exceed 15 percent of state revenues. Mn/DOT is exploring financing mechanisms other than obligation bonds. Before using any new financing mechanism, Mn/DOT, in consultation with Minnesota Management and Budget, will evaluate its applicability to and impact on this and other state capital investment policy, as well as any amendments to these policies. All applicable related state and federal policies must also be followed, and guidelines set by Mn/DOT's fund balance and cash forecast policies must also be considered.

Statutory or Other References:

See Background section above.

Definitions:

Debt service – required annual payments of interest and principal to fully amortize the loan according to the loan agreement. Debt service includes future obligations for trunk highway bonds, borrowings from the transportation revolving loan fund, advances from local governments and any other similar obligations on the trunk highway fund.

Trunk highway bonds – bonds sold to investors to acquire funds for construction of trunk highway improvements. These general obligation bonds must be repaid from the trunk highway fund.

Trunk highway fund – constitutionally dedicated source of revenue that must be used for the trunk highway system.

State revenues – revenue into the trunk highway fund from sources created by Minnesota statute or constitution, such as motor fuel tax, motor vehicle registration tax and motor vehicle sales tax.

Khani Sahebjam, Deputy Commissioner and Chief Engineer

Any questions regarding this policy should be directed to:

Chief Financial Officer, MS 120, Transportation Building
395 John Ireland Blvd., St Paul, MN 55155
651-366-4816

Mn/DOT POLICY

Date: July 1, 2010

Reference: Fund Balance
SS1056

Position Statement:

I. The trunk highway fund should maintain an undesignated, unreserved fund balance of not less than the sum of:
   a. 6 percent of annual projected state revenues to the fund, plus
   b. 2 percent of authorized but unissued debt, plus
   c. An amount estimated for the future debt service funding shortfalls for years where debt service is projected to exceed 20 percent of annual state revenues.

II. If any forecast projects that the fund balance target shall not be met, Mn/DOT shall propose actions, including biennial budget submissions that achieve the target by the end of the next biennium, unless the commissioner finds that an emergency warrants a longer period of adjustment.

Guideline:

The trunk highway budgetary fund balance shall be estimated with each state forecast in November and February, and after any legislative session that materially changes fund balance components. The time period should cover each biennium included in the state forecast. Responsible party: chief financial officer.

Background:

The state's trunk highway fund is the principal operating fund for Mn/DOT. The trunk highway fund is a governmental fund that accounts for public monies used to construct, maintain, and operate most of the Minnesota trunk highway transportation infrastructure. It also accounts for transfers to pay trunk highway debt. In governmental funds, undesignated, unreserved fund balance is a reserve to allow for emergencies (natural and financial), and permit orderly adjustment to revenue fluctuations.

Maintaining an unreserved fund balance while planning for spending of funds creates a reserve that can be used to mitigate significant deviations from expected future events. Revenue forecasts and projected spending levels are all subject to significant uncertainty due to several economic, operating, and legal uncertainties concerning the future operating environment. The state of Minnesota (MS 16A.152) requires its general fund to maintain reserves for cash flow and budget reserves, and includes other fund balance guidelines.

Statutory or Other References:

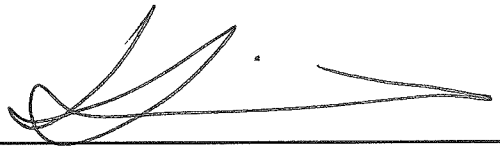
See Background section above.

Definitions:

State revenue – Revenue into the trunk highway fund from sources created by Minnesota statute or constitution, such as motor fuel tax, motor vehicle registration tax and motor vehicle sales tax.

Fund balance – The amount of revenues less appropriations, reserves and other uses in the trunk highway fund at the end of a fiscal year and year end balances forecast in the trunk highway fund budgetary fund statement for future years.

Federal funds – Federal appropriations for transportation purposes received on a reimbursable basis through the Federal Highway Administration.



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Mn/DOT POLICY

Date: July 1, 2010

Reference: Cash Balance
SS1057

Position Statement:

I. At any given time, anticipated payments should not reduce the projected net trunk highway fund cash balance below Mn/DOT's cash flow needs for 15 days.

II. If the cash balance is projected to fall below the minimum target, and is forecast:
   A. Within the next fiscal year, Mn/DOT will review the timing of expenditures and receipts, and determine and implement actions that can be taken. If necessary, discretionary expenditures may need to be delayed, or the timing changed on projects not yet let;
   B. In a period after the next fiscal year, Mn/DOT shall monitor the factors related to the low balance, and propose or take actions to bring the forecasted cash balance into compliance by the end of the next fiscal year, if necessary.

III. If the cash balance is projected to fall below the minimum target for more than one month, the chief financial officer shall inform division directors.

Guideline:

Monthly cash balance needs for the trunk highway fund and the trunk highway bond fund shall be estimated monthly, but will be formally measured with each state forecast in November and February, and should encompass the current and the next biennium. Expenditures and revenue information from the applicable state forecasts will be used. Responsible party: chief financial officer.

Background:

The state's trunk highway fund is the principal operating fund for Mn/DOT. The trunk highway fund is a governmental fund that accounts for public monies used to construct, maintain, and operate most of the Minnesota trunk highway transportation infrastructure. It also accounts for transfers to pay trunk highway debt. The trunk highway bond fund is used to manage bond money approved by state legislators for transportation purposes.

Objectives in maintaining a cash flow forecast:

- Provide information to support revenue and expenditure forecasts
- Ensure a sufficient cash balance to keep projects and operations commitments on schedule
- Forecast cash forward so that corrective measures can be taken

To support those objectives, and primarily to aid in forecasting state road construction expenditures and Federal Highway Administration revenues, the cash forecast information tool (CFIT) was developed. It is linked to both the Program and Project Management System and the general ledger.

Payment curves are used within the system to forecast the payment amounts and timing for all construction projects.

Statutory or Other References:

N/A

Definitions:

Cash flow needs – calculated as average projected daily expenditures in the month following the low cash balance, multiplied by the number of days.

State road construction – the actual construction, reconstruction, and improvement of trunk highways, including right of way.

FHWA– Federal Highway Administration

Cash balance – the forecasted cash balance is determined using all components of Mn/DOT's cash receipts and disbursements, including:

- Receipts – Highway user distribution tax transfers for motor fuel, tab fees and motor vehicle sales tax, federal reimbursements, and other income and transfers.
- Expenditures – state road construction, maintenance and operations, state patrol, debt service, and other expenditures and transfers.

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Mn/DOT POLICY

Date: July 1, 2010

Reference: Advance Construction
SS1058

Position Statement:

I. Advance construction for the trunk highway fund during any fiscal year should not exceed an amount of 125 percent of federal obligation authority forecast for that year as calculated to support the current trunk highway fund forecast.
II. At the end of each state fiscal year, the advance construction balance cannot exceed 100 percent of the federal funds amount specified above.
III. Use of federal obligation authority for 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 approved by the transportation program investment committee.
IV. Advance construction will be used to finance multi-year projects and for temporary federal fund management.
V. Actions:
    A. Mn/DOT shall not propose additional advance construction that would exceed these advance construction or conversion limits unless the transportation program investment committee approves in advance.
    B. If any forecast projects that these advance construction limits shall be exceeded, changes must be proposed to the advance construction plan to bring it back into compliance by the beginning of the following year's state transportation improvement plan.

Guideline:

I. Federal earmarked funds for local projects (demos) are exempted for purposes of calculating the limits. The use of advance construction to finance projects other than those on the trunk highway system must be included when calculating the total for compliance with this policy.
II. Conversions of advance construction must be initiated when expenditures on eligible costs for a project are determined to exceed $500,000 and federal funds are available. Conversions should also be executed to minimize labor required to complete conversion and reimbursement transactions and minimize delays in receipt of federal fund cash. Delaying conversions for expended project costs into the subsequent state fiscal year should be minimized.
III. Advance construction balances should be within these guidelines at the time of each proposed and final state transportation improvement plan, and measured again when

federal obligation authority is known (rather than forecast). Responsible parties: chief financial officer and Capital Program & Performance Measures Office director.

Background:

Under traditional federal aid financing, Mn/DOT obligates the full federal share of a multi-year project, using current year federal appropriations, in the first year of the project. This method commits available federal funds even though much of it will not be needed until the later years of construction. Advance construction allows the states to use only the federal funds that are needed for each year of project construction. After an advance construction project is authorized by the Federal Highway Administration, a State may fully or partially convert the project to federal aid highway funding provided federal funds are available for the project. Using advance construction produces a one-time increase in funds available for the construction of additional projects in that first year using funds that would otherwise have been fully committed to other projects. The necessary state funds to match the advance construction amount must be available when the project is authorized by FHWA.

Statutory or Other References:

N/A

Definitions:

Apportionment – the statutorily prescribed USDOT division of federal highway aid contract authority among the states.

Appropriation – the federal government's limit on how much federal highway aid it can obligate to states in a federal fiscal year (obligation authority).

Obligation – the federal government's legal commitment (promise) to pay or reimburse a state for the federal share of an eligible project's costs.

Advance Construction – Federal Highway Administration authorizes eligibility of future federal appropriations for current year trunk highway or other projects (23 U.S.C. S 115 2002). An AC obligation is incurred when the financing agreement is completed with FHWA.

Conversion (payback) – the process of converting advance construction to the obligation of actual federal funds.

Trunk Highway Fund – constitutionally dedicated source of revenue that must be used for the trunk highway system.

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