Advance Construction (AC)
Webinar Q & A

Webinar Presenters

- **Van Argabright, Director of Division of Planning & Programming, North Carolina Department of Transportation (NCDOT)**
- **Wendy Thomas, Director, Federal Programs Management Division, Virginia Department of Transportation (VDOT)**
- **Lanie Thornton, Director of Finance, Delaware Department of Transportation**

With regards to the large cash balance that North Carolina assumes as well as the issue touched on by Lanie regarding debt risk, AC is really an issue of cash management and risk tolerance so every state's approach may be different; is cash flow management the biggest risk when facing AC strategy and how does this potential disruption in federal disbursements affect your strategy?

Van Argabright – Decisions about AC are largely risk tolerance issues. North Carolina has traditionally carried a larger balance of funds. The legislature has encouraged NCDOT to lower our cash balances which in turn increases our exposure. We bill approximately $20 million per week to FHWA, which is a regular income stream we rely on from FHWA. If you have a $500 million balance, and there ends up being a shutdown in Washington that prevents the receipt of $20 million per week, it will take several weeks for us to feel the financial effects of the shutdown. There aren't many cases in history of long, protracted government shutdowns, which leaves NCDOT comfortable in their current financial state.

Wendy Thomas - VDOT is fiscally constrained in their state's 6-year improvement plan and enjoy a large state funding mechanism. For the most part, VDOT is flush with cash which is a unique position to be in, but only recently started looking at their AC practice and it hasn't played into any discussions or thought processes on risk yet because they have such a large state funding mechanism.

Lanie, have there been challenges in adhering to the annual obligation limitation policy? And how do you ensure your department follows that policy?

Lanie Thornton – We have not had issues adhering to the annual obligation limitation objectives each year. We are getting to a point where we've lowered our AC balances enough now and know that we have a few larger projects coming up that will increase our AC balances and help us meet our goals in the future.

Can you discuss some of the risks associated with AC? Are they more related to procurement practices or documentation? So can you talk about some of the unique challenges that AC lends itself to?

Van Argabright – To my knowledge, we request to FHWA authorization to proceed with a project, whether it be PE, ROW, or construction, and the procedures are identical, but we are not obligating the funds at that time. In the future, once we have the budget and/or obligation authority, then we'll allocate and obligate funds. Procurement practices are the same, so there are no procurement risks with AC compared to others. The real risk is that you have signed a contract with someone and bills to pay, but if you don't have an adequate revenue stream or there is a disruption in revenues, there could be a financial risk there.

Wendy Thomas - If you're getting an authorization for a construction advertisement, and you are obligating funds, you are in essence certifying that you have met all the procurement requirements. One of the things we've talked about at VDOT with regards to documentation is on the close out side and risks of not closing out AC balances on projects in a timely fashion as projects conclude, and running the risk of project records being destroyed if the AC runs for too long. If for some reason the financial records are destroyed, and the project is pulled for an improper payments review, then you no longer have the payment records to support billing to FHWA. This is not something that we have run into, but something that VDOT has discussed as a risk.

Lanie Thornton - Mirroring Van's statement, Delaware processes AC procurements in the same scheme that regular procurements are processed. However, one thing that is different on our end is the conversion process. It is quite a lengthy and cumbersome process to convert the transaction, so that is something we've been looking at to see how we can enhance and streamline that process.

Wendy, can I ask about your comments related to federalizing local projects as they relate to AC? That's something that could potentially be interesting to states across the country. Can you discuss some of the benefits and challenges to this?

Wendy Thomas – As I mentioned in the presentation, one of the things that's important to note about the way Virginia does funding, is that we are heavily centralized at the state level and have an overall policy board by statute that approves our six-year improvement program. So, what that means in Virginia is that even local funding must be approved by the general assembly to generate revenue. But in most cases, funding is set up to reward leveraging even for items that are not set up through state revenue streams. So, for those of you that are familiar with our SMART SCALE prioritization process, we're looking at how to get the best return or highest benefit for a reasonable investment of state and federal dollars. We have a lot of local projects that have been leveraged in our program and at the state level we need the ability through the revenue streams that are available to us to apply federal funds if needed to meet obligations limitations, or redistribution needs. This has been a longstanding practice to use AC to reflect local usage on projects. We've started backing off on that a bit, but most of our larger projects may be seeking through their NTO's or CMAQ funds the opportunity to federalize their projects, and AC has been the mechanism they've used to do so.

Lanie, can you tell us a little bit more about why your AC balance was so high to begin with?

Lanie Thornton – Several factors were involved: prior to 2015 we did not have a policy in place dictating the amount of AC that the department was able to carry. We also had limited state resources for our capital program and didn't have the strengths that we have now that we've been able to get a new revenue package passed. So, these new increased state resources have really helped our capital program and we've been able to rely less on federal resources and more so on our state resources.

Van, I wanted to ask about your financial management group that reviews AC cash needs. How did this group come to be, how frequently do they meet, and how do they convey their findings and observations to your group and others that work on the federal aid program?

Van Argabright – It's been going on for a while, and it originated during the recent recession. A group was formed to meet and discuss how to maneuver through that. The participants are the CFO, the COO, the federal funds unit, the state funds unit, and the STIP unit. That group meets about once per month when money is tighter, and quarterly if things are stable. AC is primarily handled on a staff level because the practice is that they AC everything resulting in very little questioning from this group. To date, there's been little to no efforts to change the current amount of AC.