

## Appendix J

### MDOT's Approach to Advance Construction and Connection to the STIP

In Michigan, advance construction (AC) is a highway financing tool that allows projects to be built earlier than they would under the normal federal funding timelines. This appendix defines the types of AC used by MDOT and how this usage is connected to the STIP. There are currently four types of AC used by MDOT: Planned, Earmarked Project, Financial, and Bond Project AC.

While there are differences in the conversion approach, all MDOT AC projects follow a common approach at the beginning. For the initial authorization, each AC project is listed individually in the STIP/TIP and identified as AC with a non-federal funding source. During the year, if changes occur in the proposed funding approach (regular federal-aid to AC or vice-versa), such changes are captured through an administrative modification approach with a formal update to the STIP listing and a new constraint demonstration at least three times per year.

Differences in conversion practices and frequency are presented with AC type. (A summary table is provided at the end of this appendix.)

#### **Planned AC**

Large or multi-year projects may be authorized as AC in order to complete construction and maintain eligibility for federal aid. This allows MDOT to move construction of a project to a date that is earlier than would be otherwise possible under regular federal aid procedures.

Planned AC projects are listed individually again for partial conversions with an identified federal funding source. The conversions process could span three to five years.

#### **Earmarked Project AC**

Individual Projects set forth by a member of Congress in Authorizing legislation have not been given their entire allocation in a single year. Typically these projects receive a portion of their allocation in each year covered by the authorizing legislation. Michigan obligates these projects with the funds available at the time of initial obligation and AC's the remaining portion of the projects. The AC portions of earmark projects are listed individually again for partial conversion consistent with the availability of identified federal earmark funds. The conversions process could span up to five years.

#### **Financial AC**

Primarily an accounting tool, Financial AC is used by MDOT in its day to day operations of managing cash flow. Projects with significant cost estimates (generally all projects over \$3 million) are typically established as Financial AC projects with State funds while still preserving

their ability to use federal-aid in the future. As significant costs are incurred on a project, it may either partially or completely converted to a federal-aid project. A large project which utilizes Financial AC may be partially converted to federal-aid many times over the financial lifetime of the project. The use of Financial AC allows for more efficient utilization of federal-aid and maximizes the flow of federal-aid to MDOT.

Projects in this category are not list again for conversion. This AC type represents a large group of projects with many variables. While accurately predicting what will happen with each project would be difficult, an aggregate estimate of AC conversions for this type of project can be accomplished with some degree of reliability. Consequently, the AC conversions for this category are handled as a lump sum which is deducted from the available federal-aid. (See the constraint section for more detail.) For most projects in this category full or partial conversions will occur within one to three years.

In addition to the cash flow benefit of Financial AC there are other reasons why MDOT may choose to use Financial AC to preserve the federal aid eligibility of projects.

Federal-aid is generally available only for the year in which it is granted to the state. If a project is delayed for any reason and cannot use the federal-aid that was planned for the project, MDOT can convert federal-aid on a project that has been started with Financial AC.

### **Bond Project AC**

MDOT may also utilize Financial AC to fund projects for which we have sold bonds to construct. The Michigan Transportation Commission (MTC) approves projects that bonds are going to be sold to finance. The debt service for these bonds is paid for with dollars made available by making Advance Construction Conversions. Projects approved by the MTC are the only ones that may use bonds and have their debt service paid with federal aid after AC conversion.

Projects in this category are not list again for conversion. This AC type represents a large group of projects with a predictable annual conversion need. Consequently, the AC conversions for this category are handled as a lump sum which is deducted from the available federal-aid. (See the constraint section for more detail.) Projects in this category are partially converted over the life of the bond – typically up to 20 years.

**Draft Generalized Summary of AC Types and Operational Practices for MDOT Projects in the STIP/TIP\***

**\*Variations to these generalizations can and will occur**

AC Type	Principle Application	Initial Listing	Source of Non-Federal Funds	Listing at time of Conversion	Conversion Practice	Comments
<b>Planned</b>	Major multi-year projects	Each project is listed individually and identified as AC in the STIP.	State AC conversions Private	Projects are listed individually a second time for conversion	Partial conversions for a structured closeout within three to five years	Non-federal source could be private for <u>design/build/finance</u> projects.
<b>Earmark</b>	Federal earmark projects where funds are available over a period of years		State AC conversions Bonds		A proposed federal funding category is shown	Partial conversions for a structured closeout consistent with availability of earmarks (usually three to five years)
<b>Financial</b>	Projects over \$3 million		State AC conversions	Projects are not listed a second time for conversion	Full and partial conversions for closeout within one to three years	Conversions draw against an AC conversion lump sum identified in the STIP financing chapter.  A distinction is made between same year conversions and prior year conversions.
<b>Bond Project</b>	Bond Projects		Bonds	Funding for conversion is identified in the STIP financing chapter	Partial conversions over the life of the bond issuance (18-20 years)	Conversions draw against an AC conversion lump sum for bond debt service identified in the STIP financing chapter.  Bond projects remain in the "unconverted AC" category for several years.