



## NORTH CAROLINA Department of Transportation



# NCDOT Cash Balances & Financial Management

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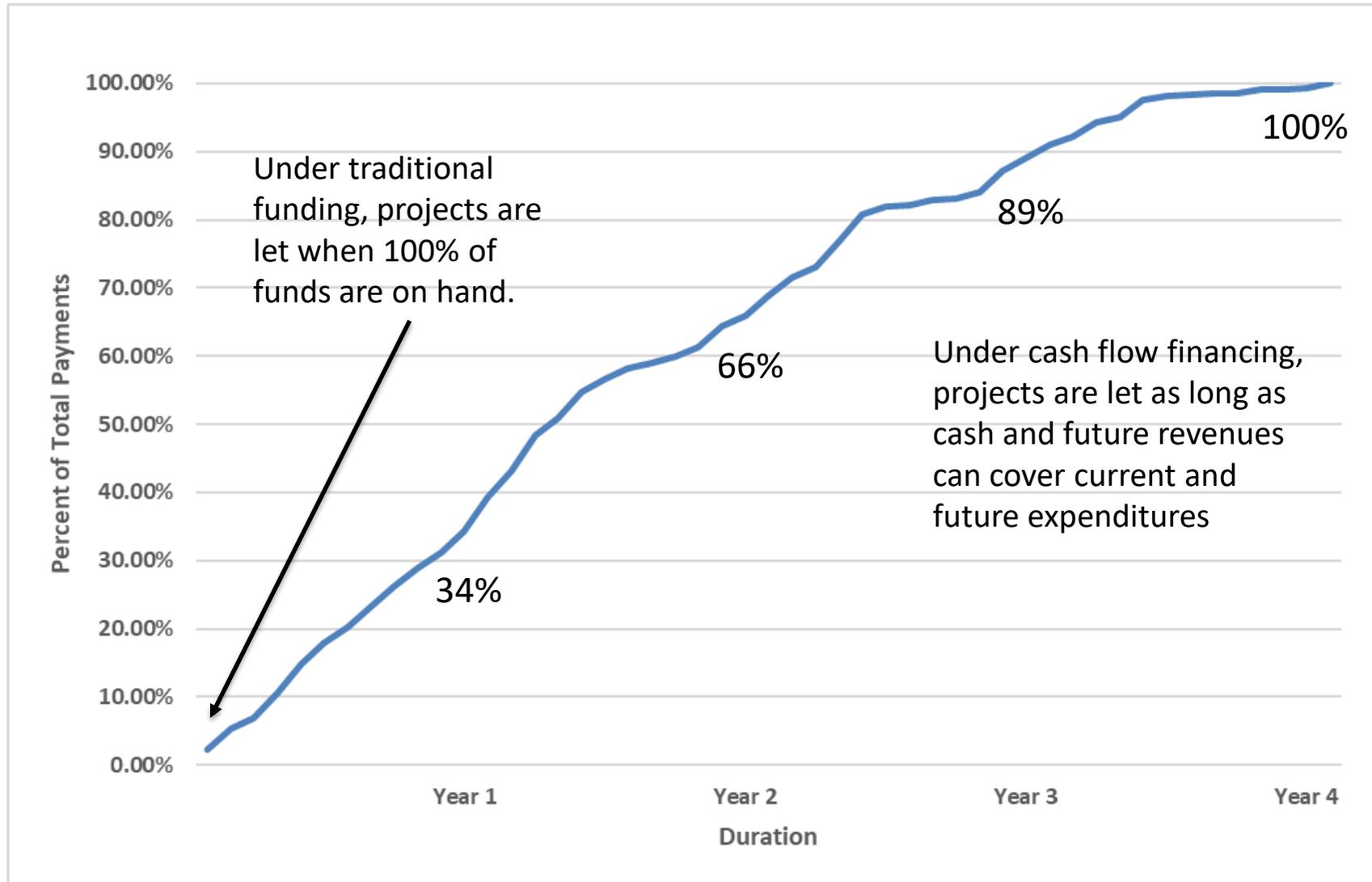
March 5, 2020

# Presentation Outline

- **History of Cash Flow Financing & NCDOT Budget Characteristics**
- **Trends in Cash Balances**
- **Impacts of Recent Legislation on Cash**
- **Current Cash Forecast**
- **Current Status of Build NC Implementation**
- **Highlights from S.L. 2019-251 Financial Management Report**

# History of Cash Flow Financing at NCDOT

## Payout Curve for Typical Construction Project



# Description of Cash Flow Financing

- **Use of obligated but unspent balances to accelerate projects**
  - Assumes value of projects accelerated exceed investment returns from higher cash balances
- **Management of cash requires cash forecasting and controls to avoid overdrafts**
- **Minimum cash balance required**
  - Working capital to safeguard against uncertainties on timing of revenue collections and payments
  - The larger the balance, the lower the risk
  - Ability to pool funds through transfers and loans between the HF and HTF allows for lower minimum balances than if two funds managed separately
  - Ability to borrow against short term lines of credit lowers risk and allows for lower balances

## Creation of Cash Flow Financing at NCDOT - S.L. 2001 - 424, Section 27.23

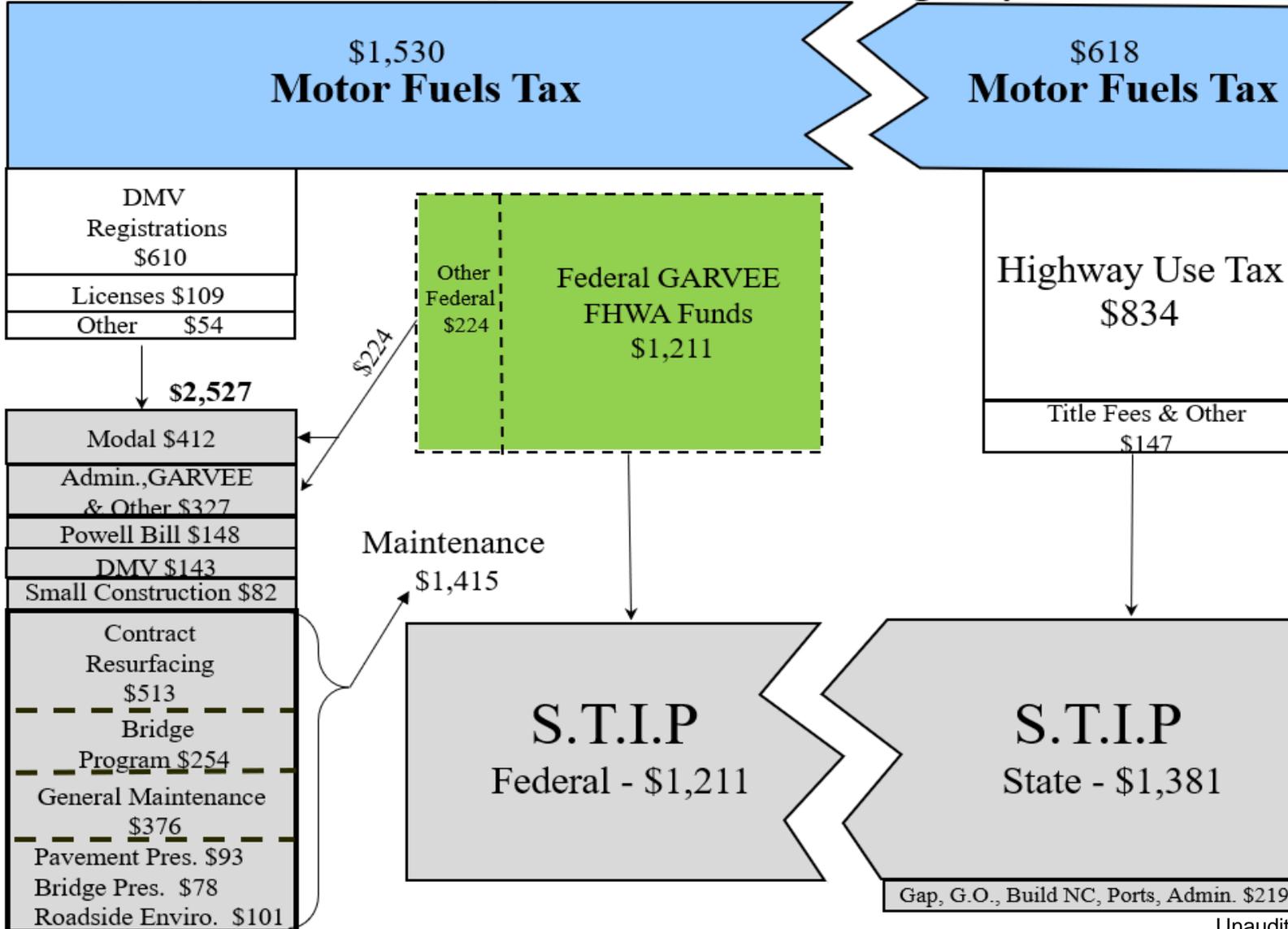
- **Directed NCDOT to “reorganize it’s cash management procedures consistent with the March 2001 J.L.T.O.C. Cash Management Study final report.”**
  - “Utilize cash flow financing to the maximum extent possible”
  - “Establish necessary management controls”
  - “Expedite project delivery”
- **Allows Treasurer to “combine the balances at the HF and HTF for cash management purposes,” and “make short-term loans between the funds.”**
- **Directed NCDOT and Treasurer to evaluate use of short-term debt to “lower target cash balances and expedite highway construction projects.”**

# Current NCDOT Budget Structure, SFY 2019-20

**Highway Fund (Including Federal) \$3,738**

**Highway Trust Fund \$1,600**

**Funding Sources:**



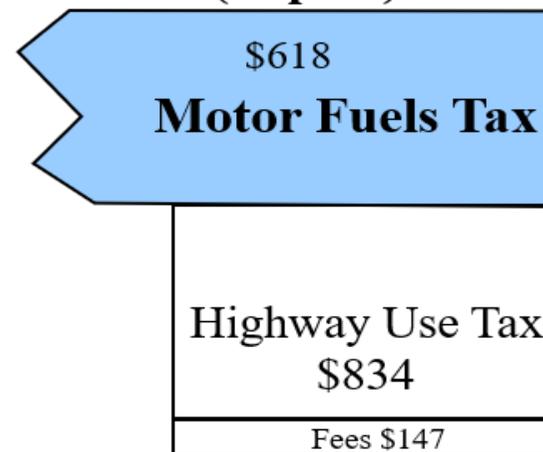
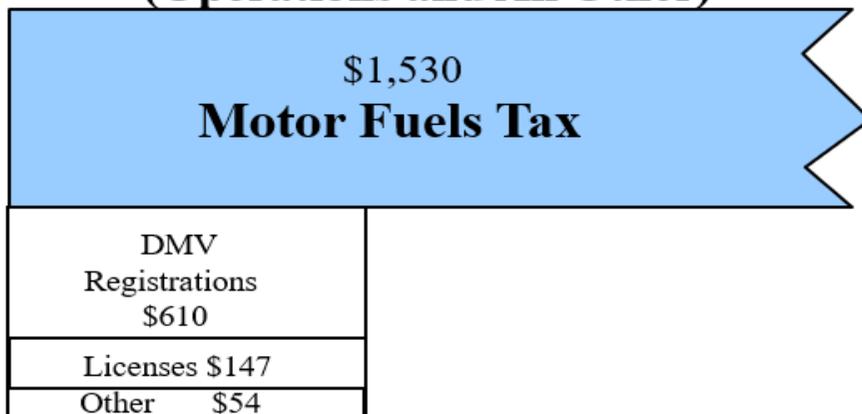
(\$ in millions)

# Future NCDOT Budget Structure, SFY 2019-20

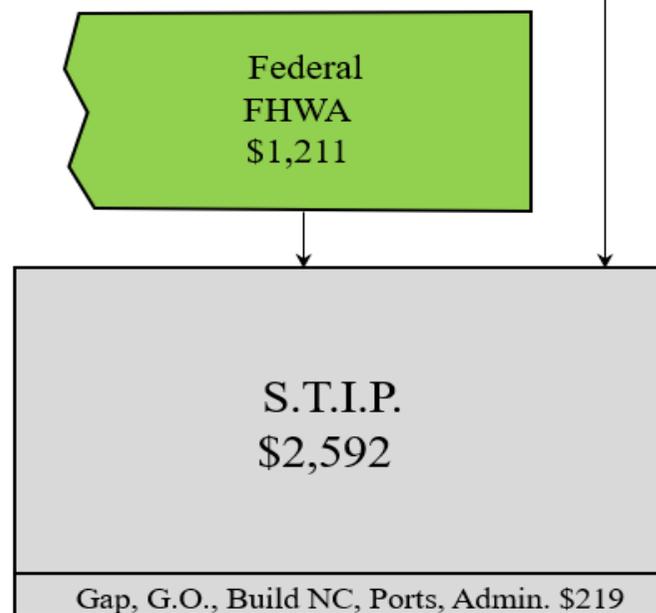
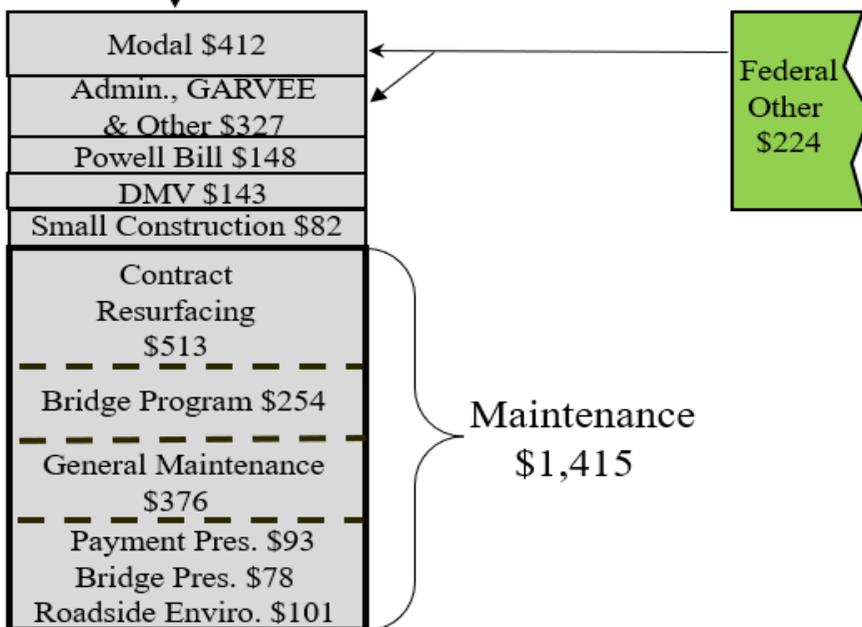
**Highway Fund \$2,527**  
**(Operations and All Other)**

**Highway Trust Fund \$2,811**  
**(Capital)**

**Funding Sources:**



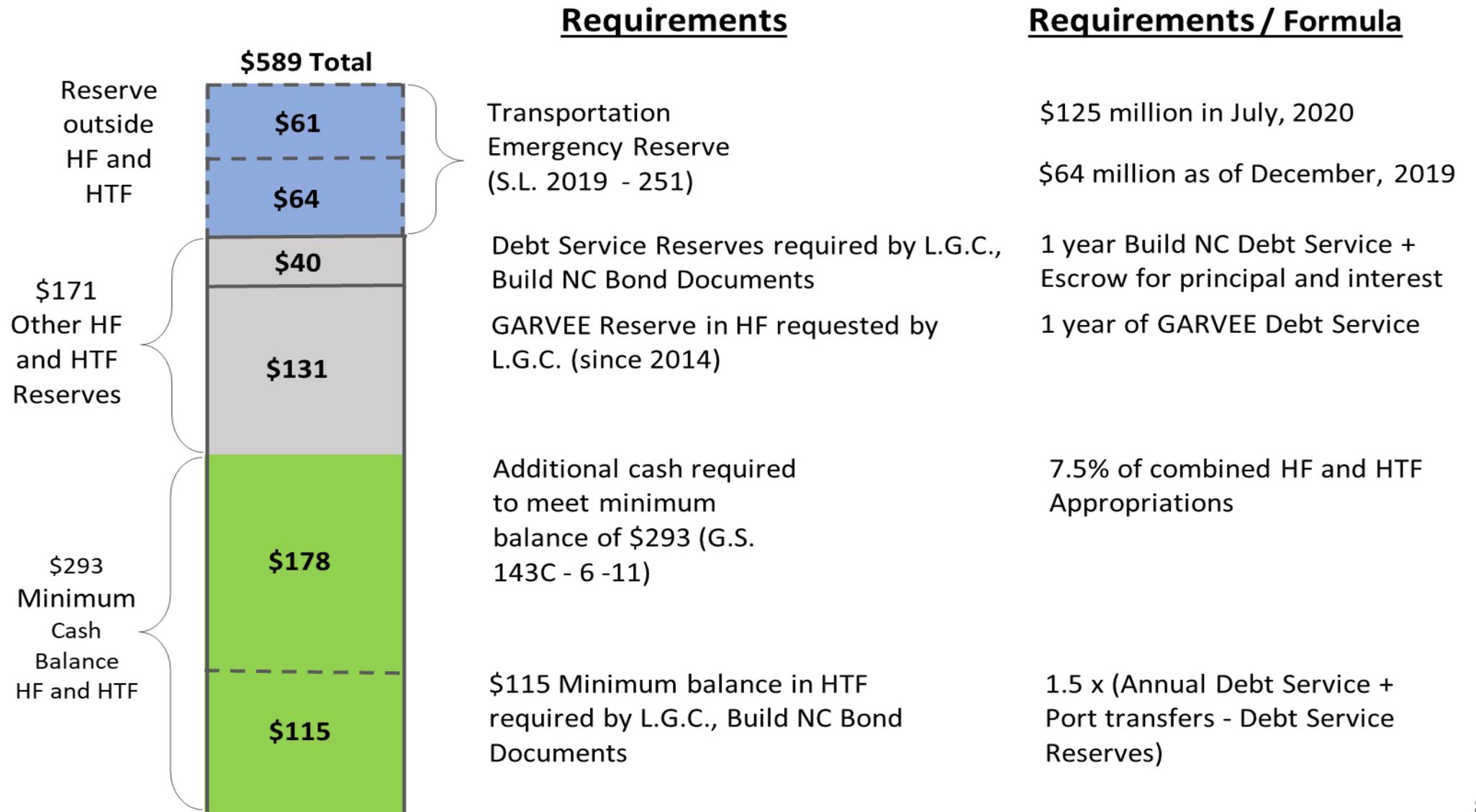
**Uses:**



(\$ in millions)

# Minimum Cash and Other Required Reserves

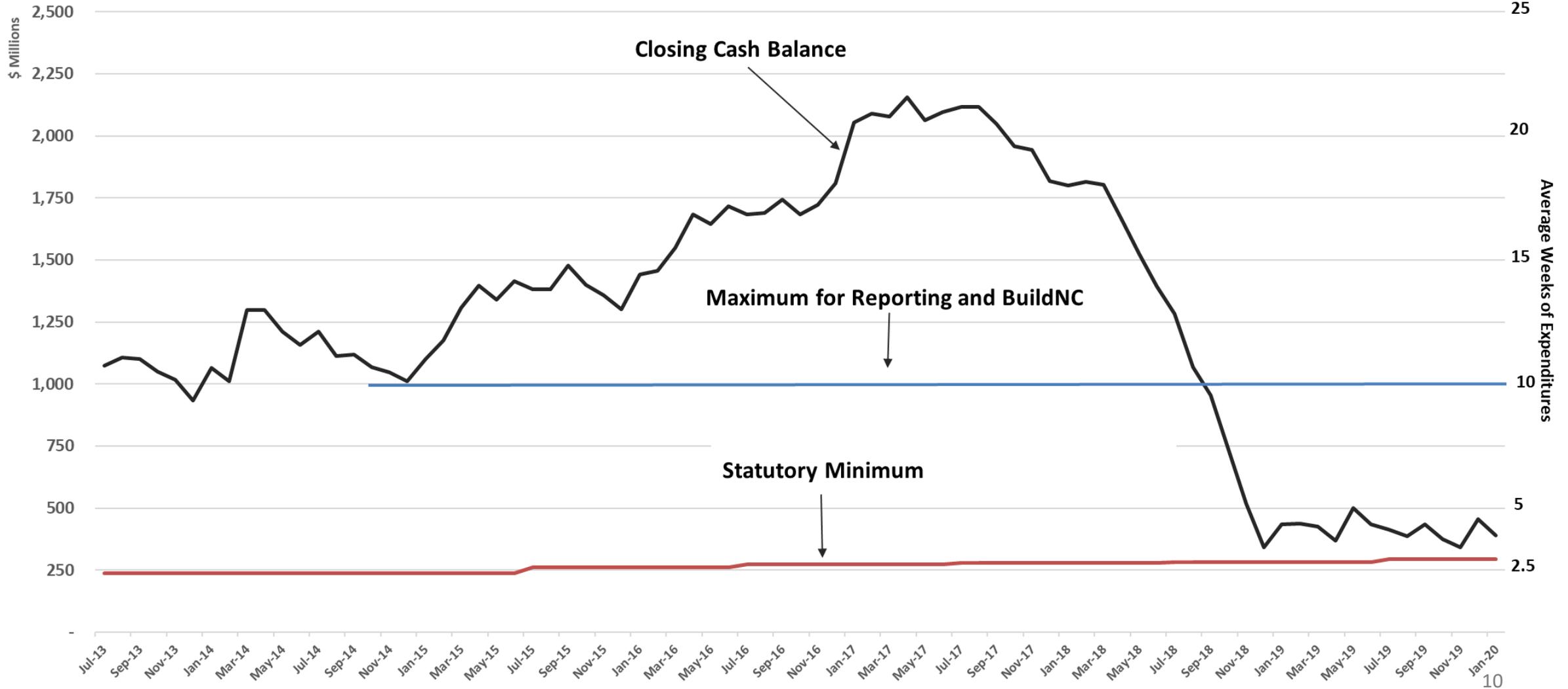
(\$ Millions)



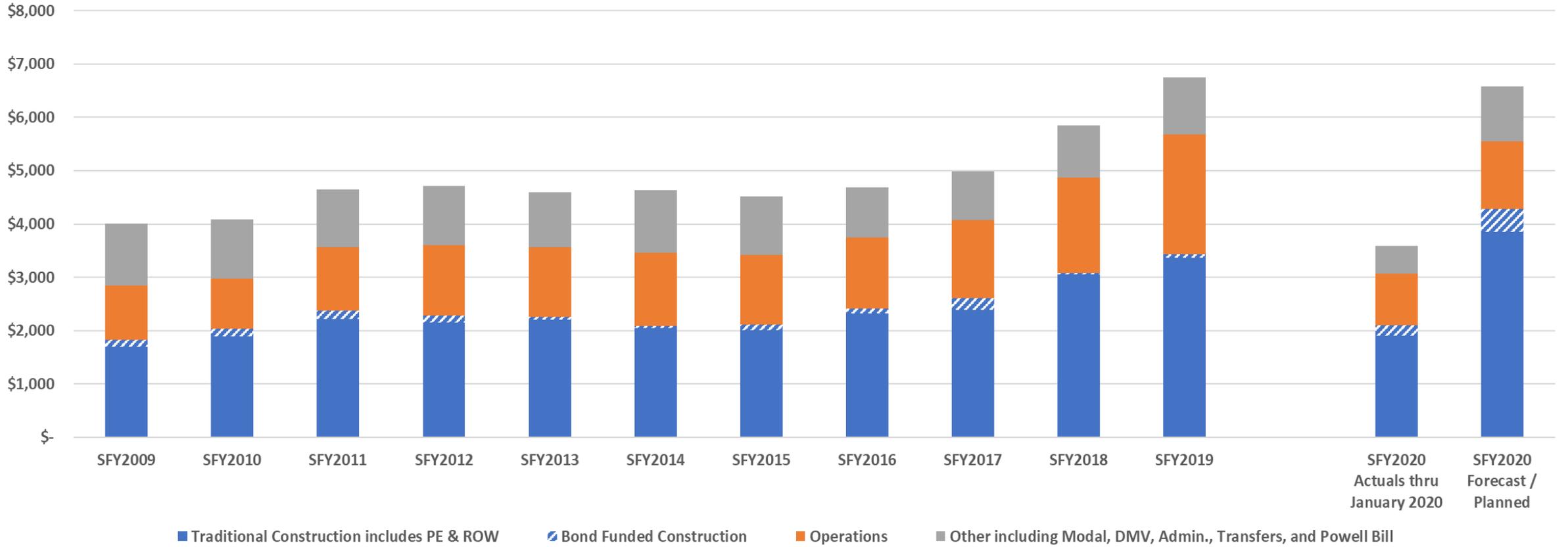
## S.L. 2014 – 100, Section 34.23(11)

- Reinforced legislative policy to expedite projects and reduce cash balances by:
  - Requiring NCDOT to report to JLTO and board when cash exceeded \$1.0 billion
  - Requiring NCDOT to explain reasons threshold exceeded and describe actions planned to reduce cash
- Repealed by S.L. 2019 – 251

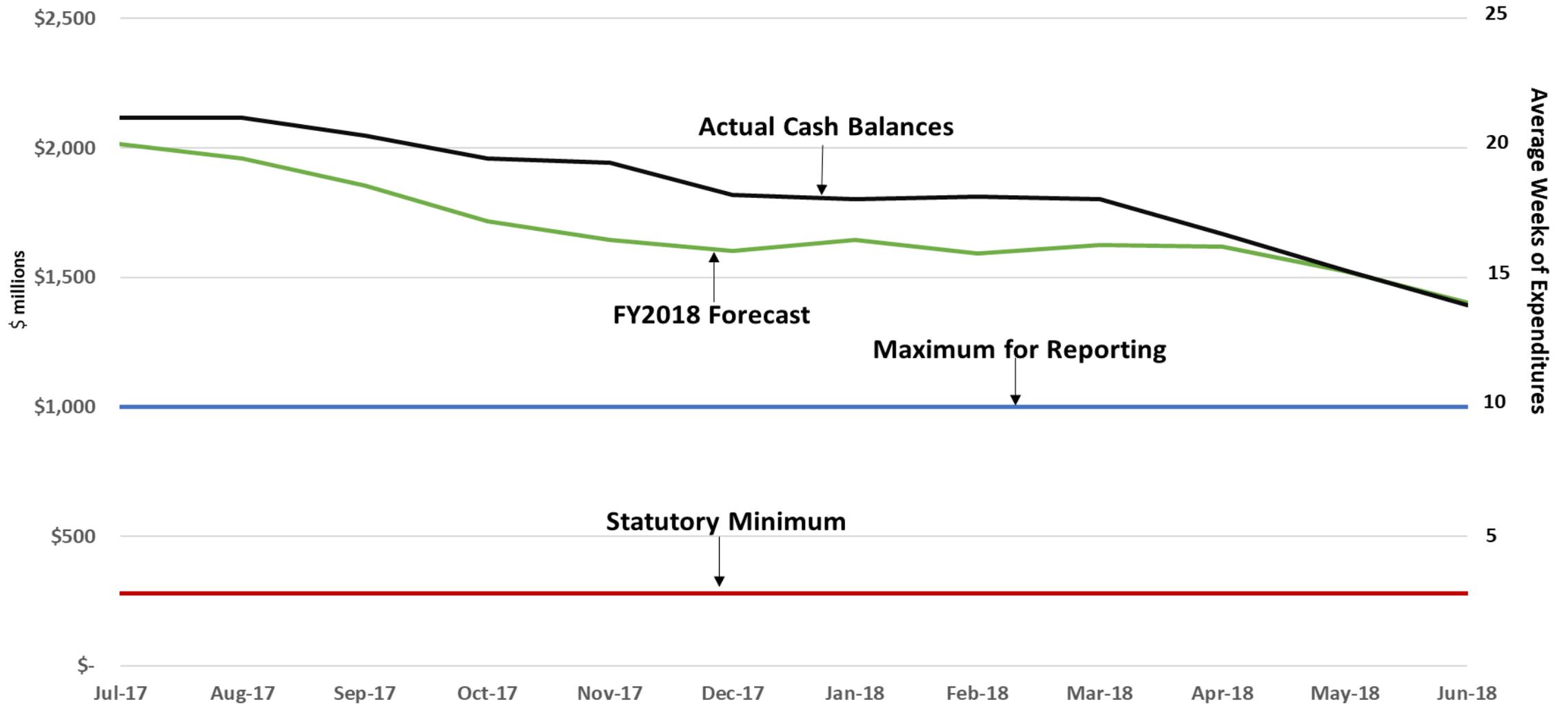
# Historical Trends Closing Cash Balance by Month FY2013-14 to January, 2020



# Expenditures

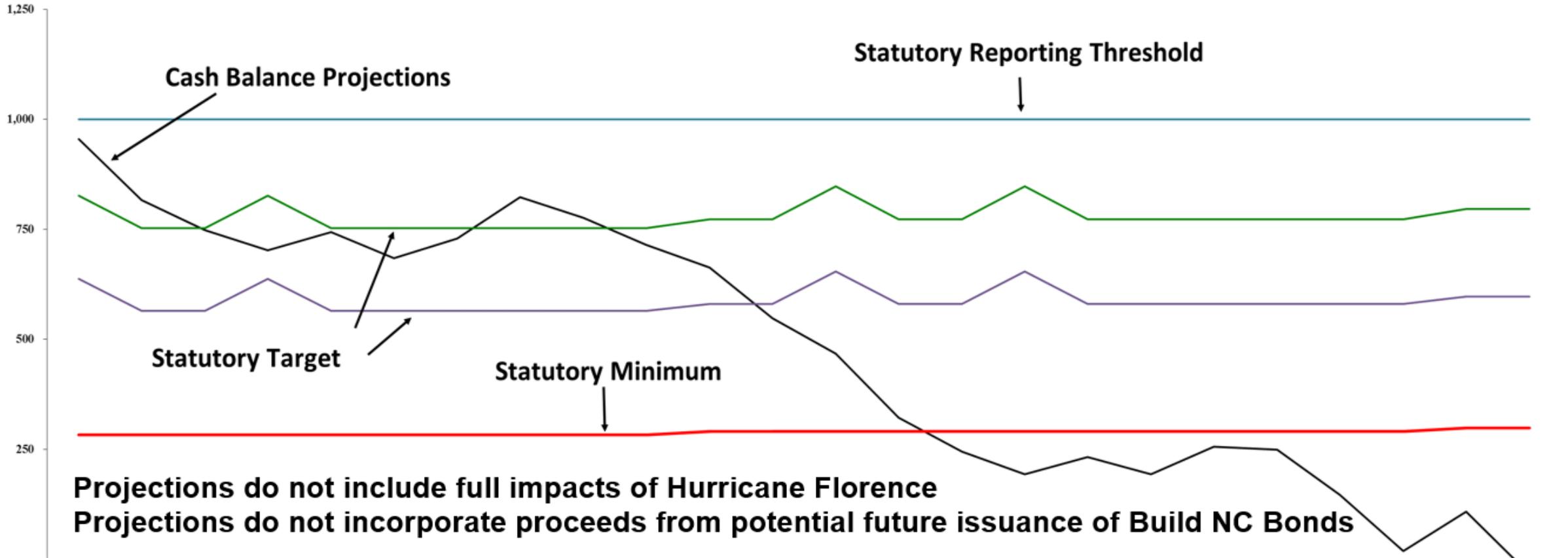


# July, 2017 Baseline Cash Forecast for FY2017 - 18 Compared to Actuals



# Monthly Projected Ending Cash Balance

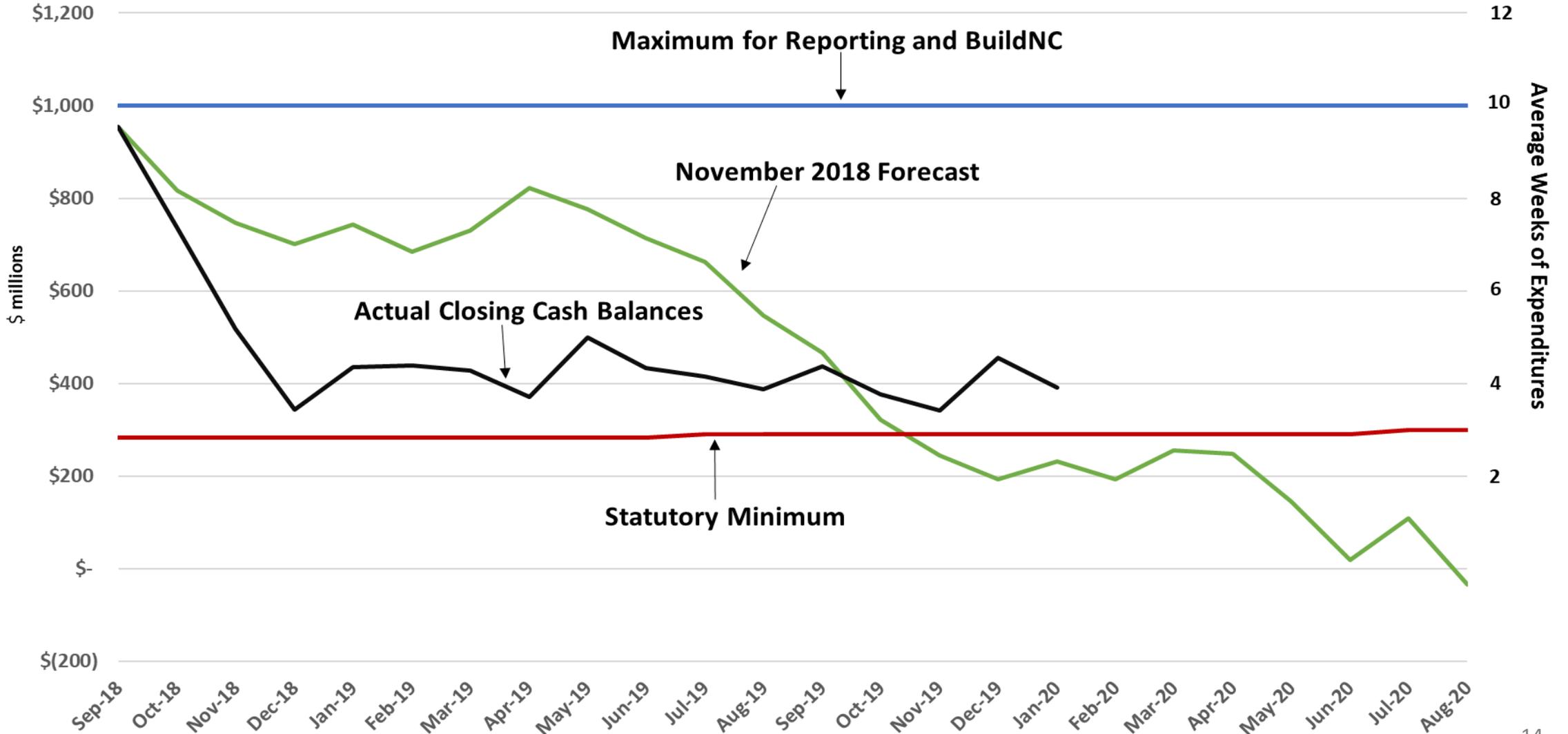
As presented to J.L.T.O.C. on November 2018



**Projections do not include full impacts of Hurricane Florence**  
**Projections do not incorporate proceeds from potential future issuance of Build NC Bonds**

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	
Cash Balance Projections	955	817	748	702	743	684	730	823	777	714	663	547	467	321	244	193	232	193	256	249	146	18	108	(34)	
Statutory Target - 20%	826	753	753	826	753	753	753	753	753	753	773	773	848	773	773	848	773	773	773	773	773	773	773	796	796
Statutory Minimum	282	282	282	282	282	282	282	282	282	282	290	290	290	290	290	290	290	290	290	290	290	290	290	299	299
Statutory Reporting Threshold	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Statutory Target - 15%	638	565	565	638	565	565	565	565	565	565	580	580	655	580	580	655	580	580	580	580	580	580	580	597	597

# Forecast of November 2018 for JLTOC Compared to Actuals



# Impacts of Recent Legislation on Cash

<u>Action</u>	<u>Impact to Cash</u>	<u>Timing</u>
S.L. 2018 - 5, Section 34.3, Funded economic development with Highway funds to be paid back by General Fund. Repayment modified by S. L. 2019 - 15	- \$19 million + \$19 million	July, 2018 <del>FY2021 - FY2025</del> May, 2019 (as modified by S. L. 2019 - 15)
S.L. 2018 - 136, Transfer from HF to OSBM for Hurricane Florence Disaster Relief repayment (modified by S.L. 2019 - 15)	- \$65 million + \$26 million	October, 2018 May, 2019
S.L. 2019 - 15, G.F. Loan for Disaster Relief G.F. Payback	+ \$90 million - \$90 million	May, 2019 June, 2021 (later forgiven by S. L. 2019 - 251)

## Impacts of S.L. 2019 - 251 on Cash

<u>Action</u>	<u>Impact to Cash</u>	<u>Timing</u>
Build NC \$400 Million*	+ \$100 Million	July, 2020 - June, 2022
Emergency Reserve established with \$64 Million from G. F., and \$61 Million transfer from H.F.	- \$61 Million	July, 2020
Forgiveness of G. F. Loan under S. L. 2019 -15	+ \$90 Million	June, 2021
Disaster Relief Funding	+ \$36 Million	December, 2019
Net Impact of All Actions	+ \$165 Million	December, 2019 - June, 2022

\* Build NC impacts assume council of State and Treasurer approval of bond issuance, and also assume \$100 million in proceeds would supplant expenditures from revenues.

## Impacts of S.L. 2019 - 251 on NCDOT Cash Quarterly by Fiscal Year

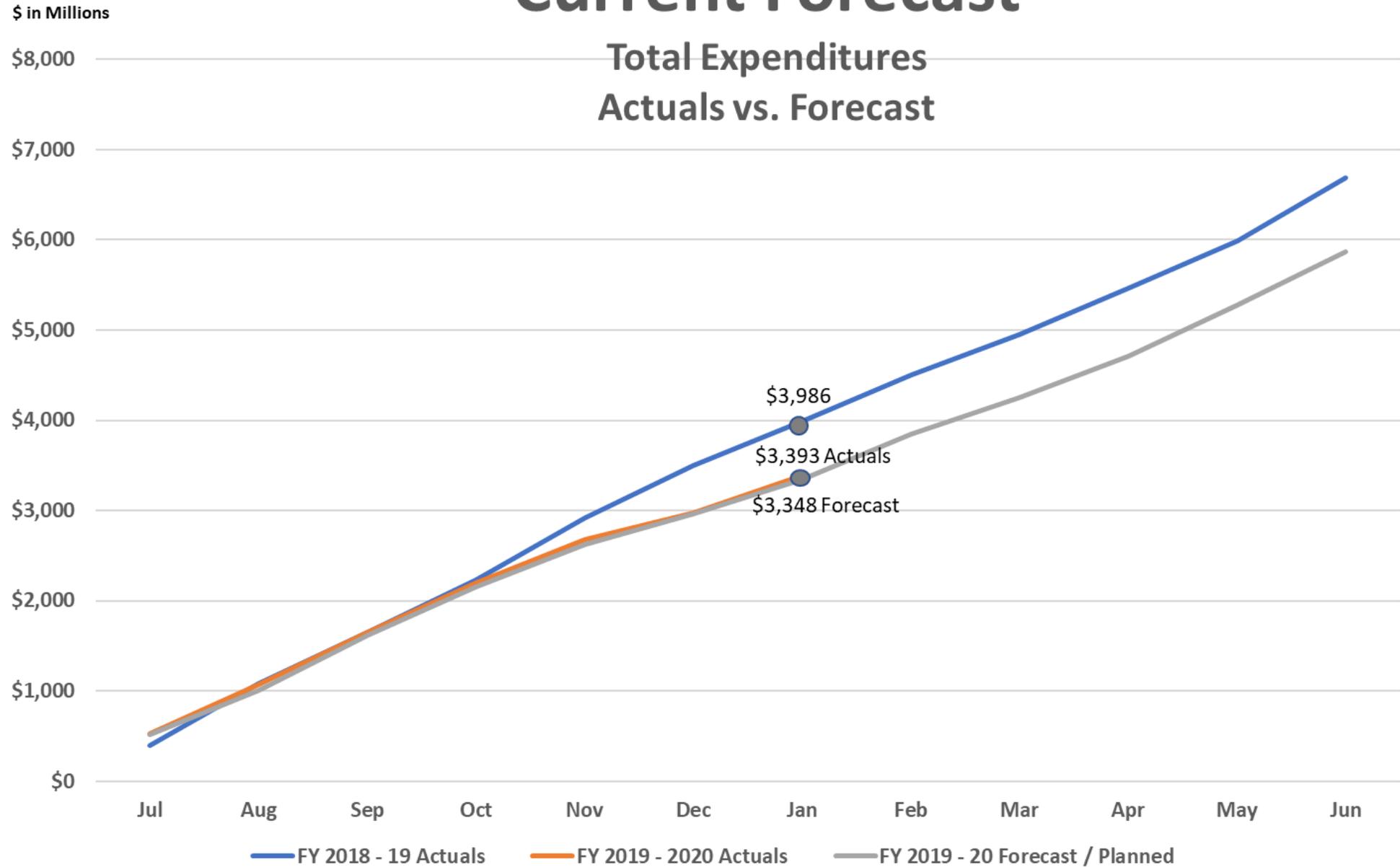
(\$ in millions)

	Oct - Dec 2019	Jan - Mar 2020	Apr - Jun 2020	Jul - Sep 2020	Oct - Dec 2020	Jan - Mar 2021	Apr - Jun 2021	Jul - Sep 2021	Oct - Dec 2021	Jan - Mar 2022	Apr - Jun 2022	Total
Disaster Relief Funding	\$ 36.0											\$ 36.0
Establishment of Emergency Reserve				(61.0)								(61.0)
Build NC \$400 Million Issuance				12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	100.0
Foregiveness of G.F. Loan under S.L. 2019 - 15							90.0					90.0
<b>Totals</b>	<b>36.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(48.5)</b>	<b>12.5</b>	<b>12.5</b>	<b>102.5</b>	<b>12.5</b>	<b>12.5</b>	<b>12.5</b>	<b>12.5</b>	<b>165.0</b>
<b>Cumulative Totals</b>	<b>\$36.0</b>	<b>\$36.0</b>	<b>\$36.0</b>	<b>(\$12.5)</b>	<b>\$0.0</b>	<b>\$12.5</b>	<b>\$115.0</b>	<b>\$127.5</b>	<b>\$140.0</b>	<b>\$152.5</b>	<b>\$165.0</b>	

\*Assumes Treasurer, Council of State approval of bond issuance, assumes \$100 million in expenditures would supplant expenditures from cash; for illustrative purposes presents constant, straight-line expenditures of bond proceeds over two years(actual expenditures will fluctuate).

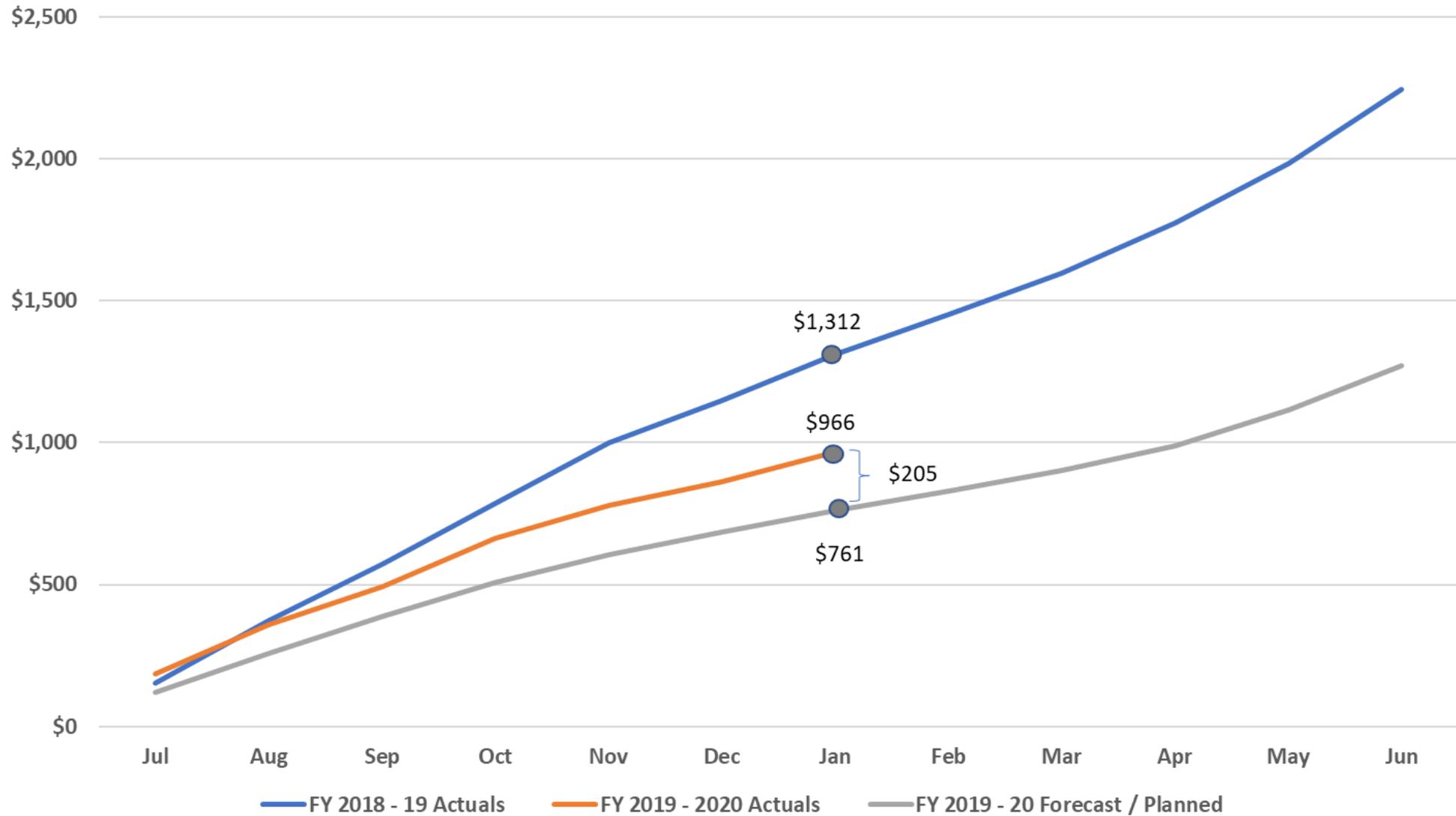
# Current Forecast

## Total Expenditures Actuals vs. Forecast



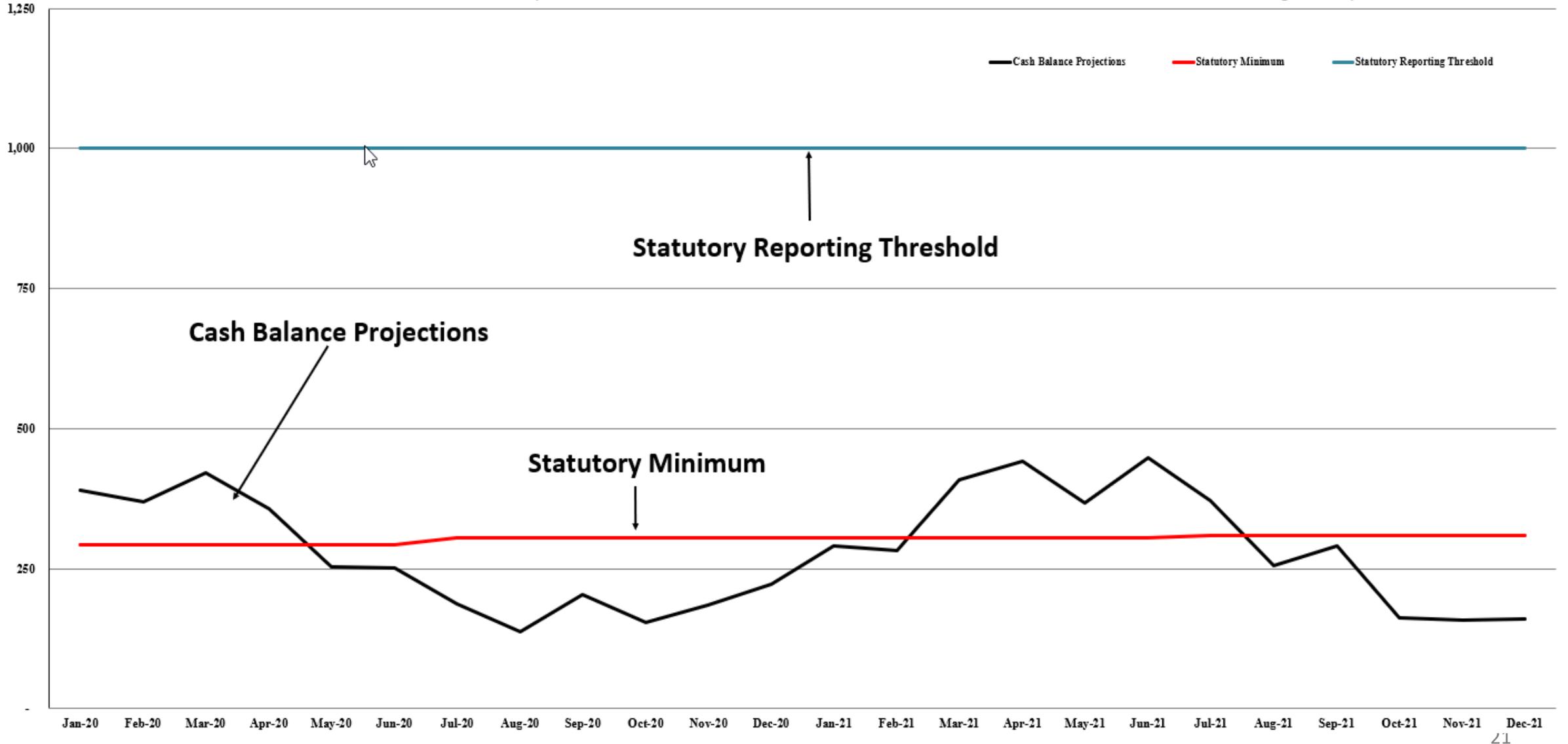
# Operations Program Expenditures Actuals vs. Forecast

\$ in Millions



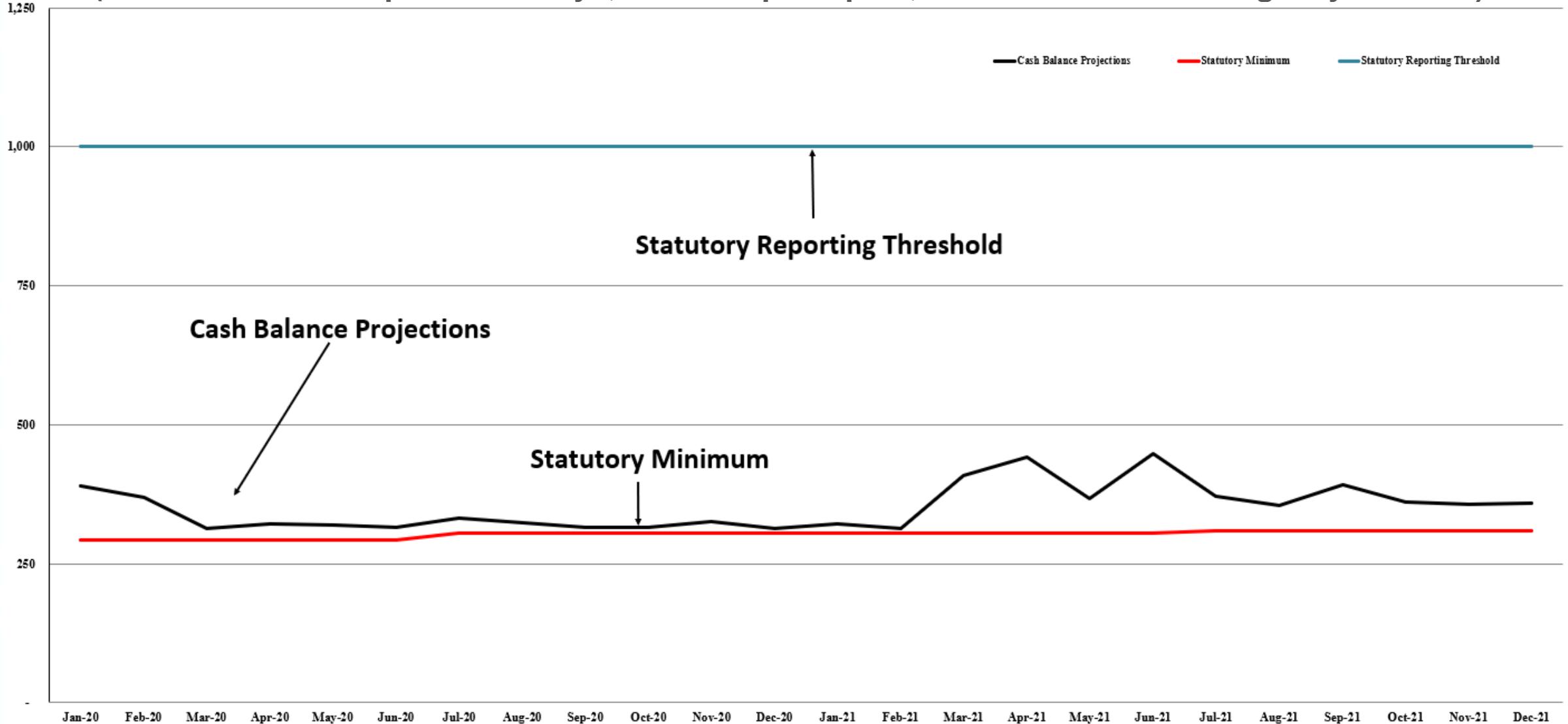
# Monthly Projected Ending Cash Balance

(Assumes immediate invoice payment, FY2020 spend plan, \$61M transfer to Emergency Reserves)



# Monthly Projected Ending Cash Balance

(Assumes invoices paid in 30 days, FY2020 spend plan, \$61M transfer to Emergency Reserve)



# Report on Cash Balances – Key Points

- In 2001, Cash flow financing established by the General Assembly to accelerate projects.
  - In 2014, legislation again emphasized importance of reducing cash and accelerating projects.
  - Cash flow financing differs from traditional funding throughout state government.
- Critical component of legislative policy on cash flow financing is pooling of HF and HTF cash through transfers, inter-fund loans, and combined reporting.
  - This pooling allows NCDOT to maintain lower minimum balances.
  - If policy of pooling HF and HTF cash balances is discontinued either through legislative action or through executive branch policies, then higher minimum cash balances will be required.
- NCDOT thanks General Assembly for recent legislation to provide G.F. loans and assistance to NCDOT. Positive impacts on cash are mostly FY 2020-21 and FY 2021-22.
- Cash balances will be low for the foreseeable future.
- NCDOT continues to work to reduce expenditures, increase revenues, until cash balances are increased, and expenditures can be restored to steady rates.

# Build N.C. Bond Program

- Governed by S.L. 2018-16
- 50% of proceeds for Regional Tier, 50% for Division Tier
- Limitations:
  - \$300 million annually, S.L. 2019 – 251. Increased to \$400 million for FY2019 - 20
  - \$3.0 billion over 10 years
  - Maximum term: 15 years
  - Debt Affordability Advisory Committee targets (Debt service  $\leq$  to 6% of Revenues)

# Build N.C. – Other Legal Requirements

- Issuance requires recommendation from Treasurer and determination that following conditions met:
  - Average ending cash Balance less than \$1.0 billion (January - March).
  - Debt affordability targets not exceeded.
  - NCDOT has consulted with Treasurer, JLTOC and Gov. Ops.
- Council of State approval required per G.S. 142-84.
  - Requires involvement of NCDOT, Treasurer, Department of Administration and OSBM.

# Build NC Summary Data

- First Issuance closed June 2019:
  - AA+ Credit Rating – highest for debt that is not General Obligation
  - True Interest Cost: 2.26%
  - \$329 million in proceeds net of debt service reserves
  - \$110 million in proceeds from trustee through Jan. 2020
  - \$28.6 million in debt service annually
- NCDOT notified Treasurer and General Assembly in November 2019 of intention to issue second series of Build NC bonds.
- L.G.C. staff and OSBM working with NCDOT to issue \$400 million in bonds prior to June 30, 2020
- Yield on AAA bond maturing in 10 years: 1.02%

(Source: Thomson Reuters Municipal Market Data as of February 25, 2020)

**S.L. 2019-251**  
**Financial Management Report**  
**Highlights**

# FHWA Reimbursements

Event		
	Anticipated Reimbursement	Reimbursement Received*
2020 February 6 Rains	\$ -	\$ -
2019 Nov Coastal Storm	\$ -	\$ -
2019 Hurricane Dorian	\$3,004,737	\$ -
2019 June Rains	\$711,969	\$ -
2019 February Rains	\$9,228,398	\$ (2,000,000)
2018 Hurricane Michael	\$1,765,520	\$ (1,500,000)
2018 Hurricane Florence	\$32,567,910	\$ (33,189,506)
2018 TS Alberto	\$7,631,425	\$ (7,841,787)
2016 Hurricane Matthew	\$46,703,507	\$ (46,441,533)
Total	\$101,613,467	\$ (90,972,826)

\*As of 3/01/2020

# FEMA Reimbursements

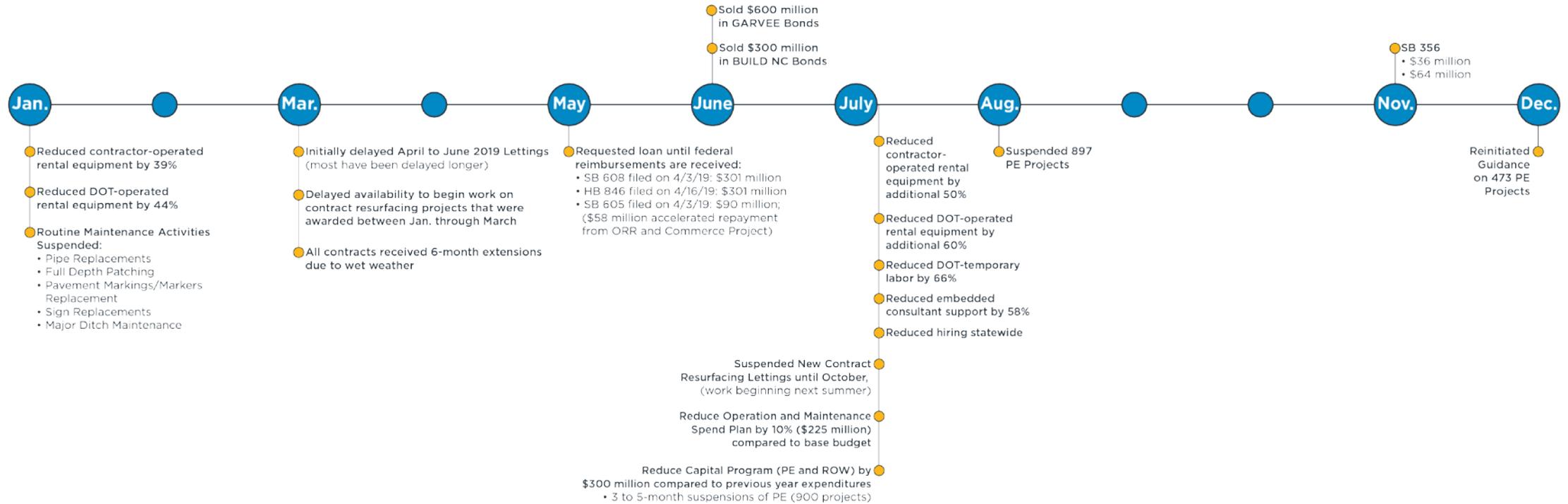
Event	Anticipated Reimbursement	Reimbursement Received*
	2020 February 6 Rains	\$ -
2019 Nov Coastal Storm	\$ -	\$ -
2019 Hurricane Dorian	\$5,771,071	\$ -
2019 June Rains	\$ -	\$ -
2019 February Rains	\$ -	\$ -
2018 Hurricane Michael	\$5,986,681	\$ -
2018 Hurricane Florence	\$81,363,050	\$ (152,267)
2018 TS Alberto	\$ -	\$ -
2016 Hurricane Matthew	\$85,582,449	\$ (65,993,637)
Total	\$178,703,251	\$ (66,145,904)

\*As of 3/01/2020

## Map Act

- \$608 million through March 4, 2020
  - Of this amount, \$274 million to settle cases
- DOT has settled 434 cases of the 670 filed
- Approximately \$200 million costs remain of the cases currently filed
- Unknown number of unfiled claims

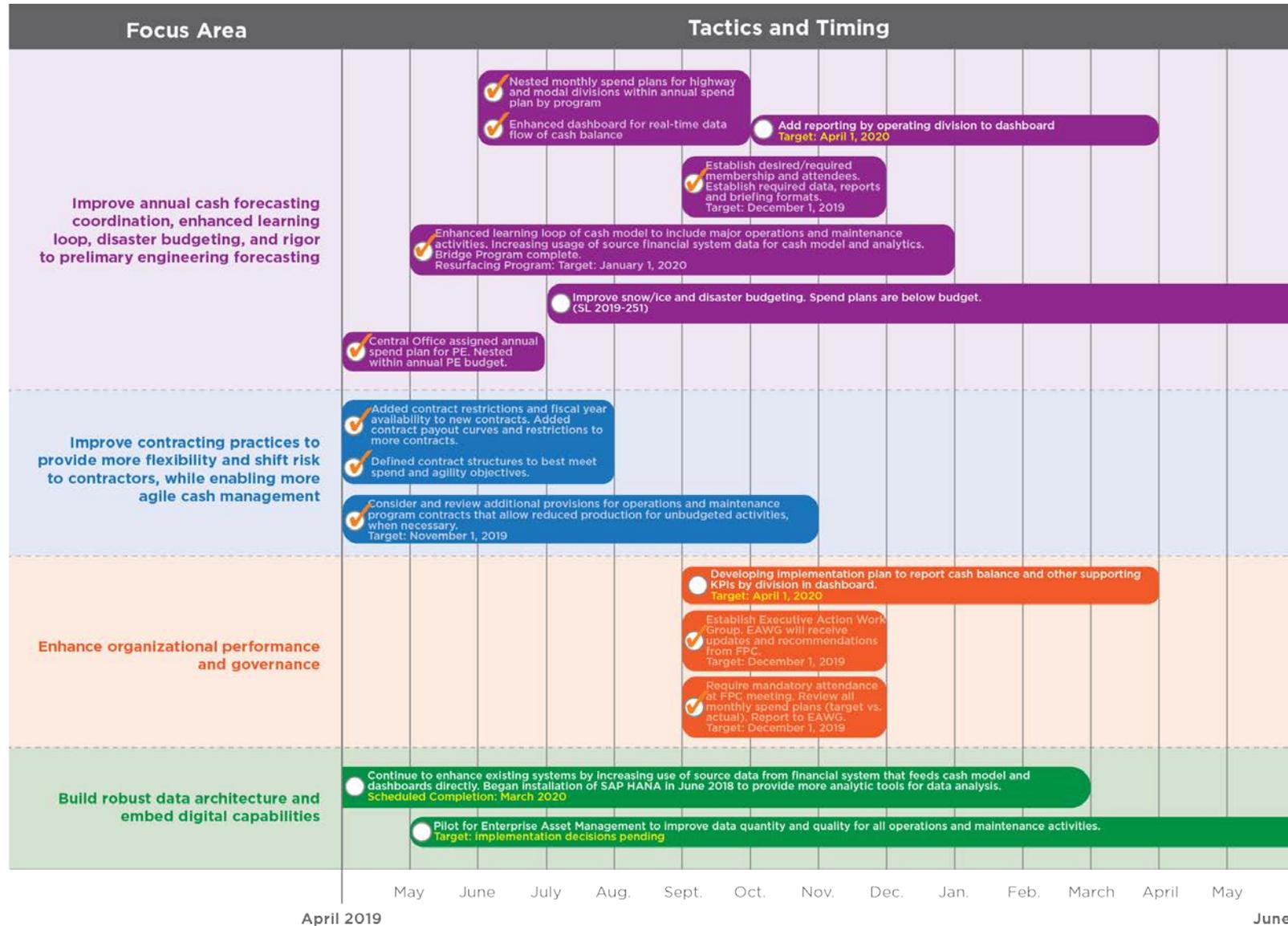
# 2019 Planned Actions



# McKinsey Recommendations Implementation

- Developing better cash models for highway and programmatic divisions through monthly expenditure projections updated quarterly
- Formalized Financial Planning Committee to review spend plan targets and actual expenditures
- Increased communication between financial and operational staff
- Adjust contract language to allow flexibility to address fund availability

# NCDOT Action Plan



# Actions to Keep Cash Balance Above Floor

## Spending Reductions

- Operations and Maintenance Spend Plan for FY 2020 capped spending at \$1.9B
  - Approximately 15% reduction
  - Conference Budget appropriations is approximately \$2.25B
- Capital Program Spend Plan for FY 2020 capped at \$3.7B
  - PE = \$375M
  - R/W = \$473M
  - Construction = \$2,835M
- Expended approximately \$3.5B of \$5.3B thru 02/28/20

# Internal Management of Finances

## Department-wide Accounting System

- Prevents expenditures greater than program budget
- Project management of large and small projects with unique tracking codes
- Financial staff and COO approval of funding of project elements
- Project status allows or blocks expenditures

# Internal Management of Finances

## Department-wide Invoice Approval

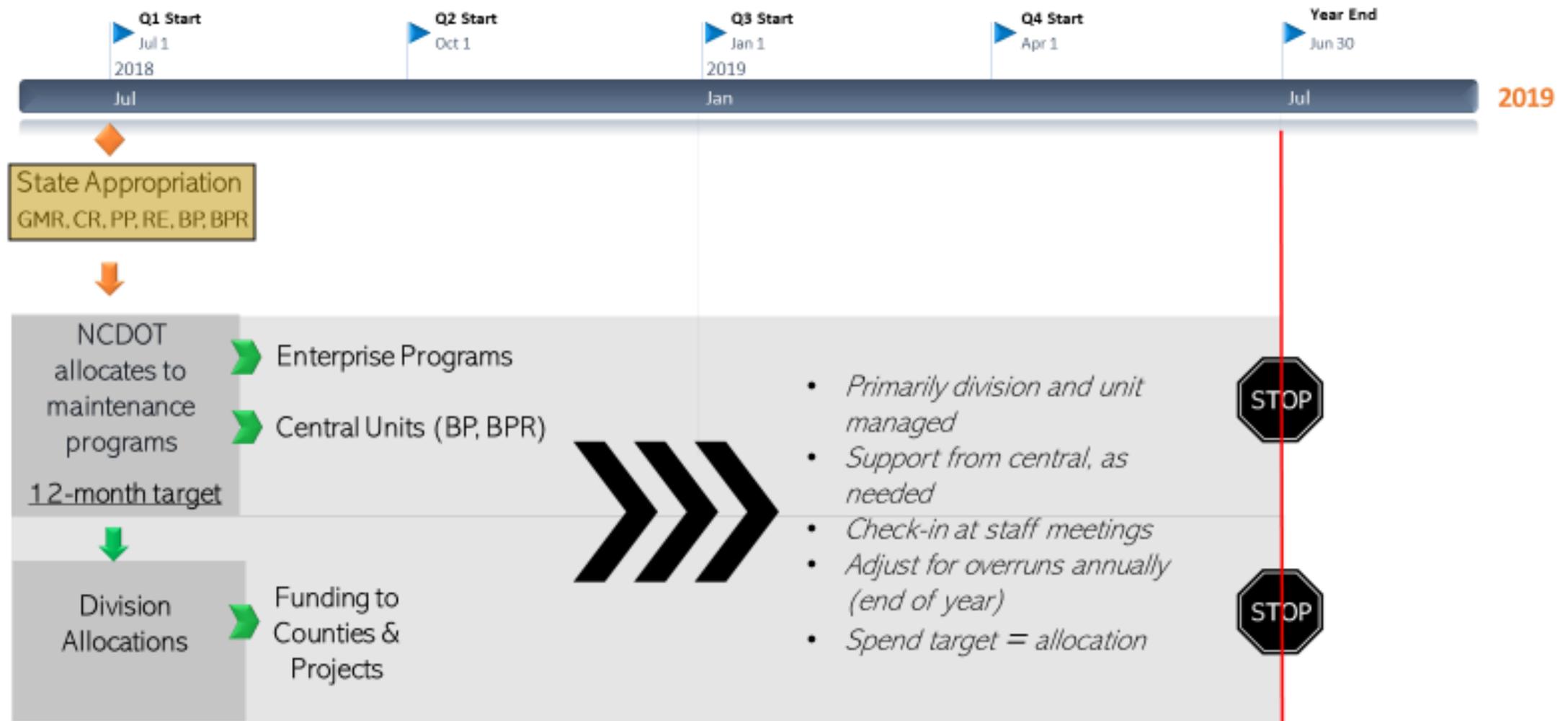
- Three levels of review
- Unit reviews invoice to verify accuracy, places into accounting system
- Inspector General staff review consultant and grant invoices for compliance; construction, ROW and municipal invoices reviewed by appropriate office
- Financial Management staff conduct final review before payment

# Internal Management of Finances

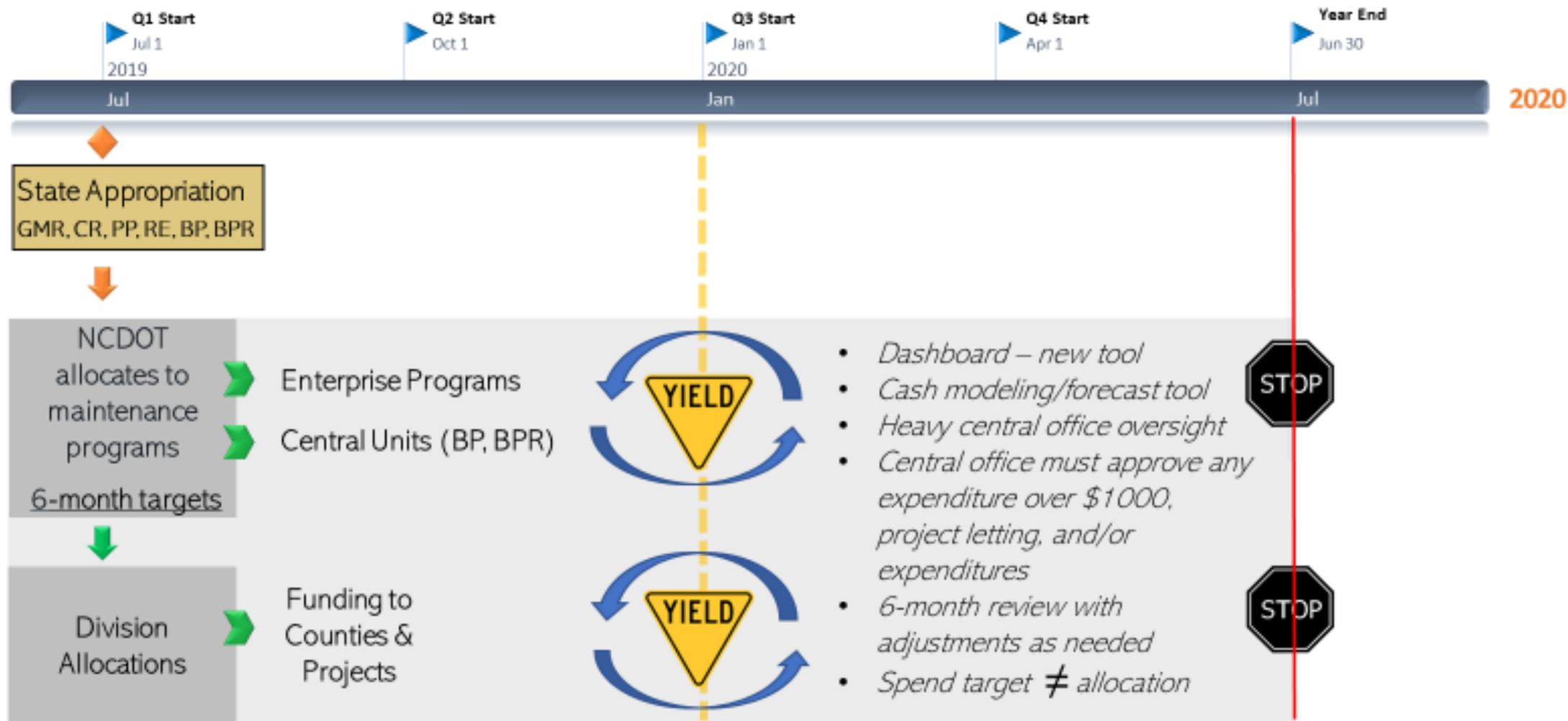
## Division of Highways

- Chief Engineer and staff weekly review requests > \$1000
- Divisions projecting and modeling expenditures through FY, updating quarterly
- Cash Analytics for Operations and Maintenance Activities
- Financial management measures part of performance reviews

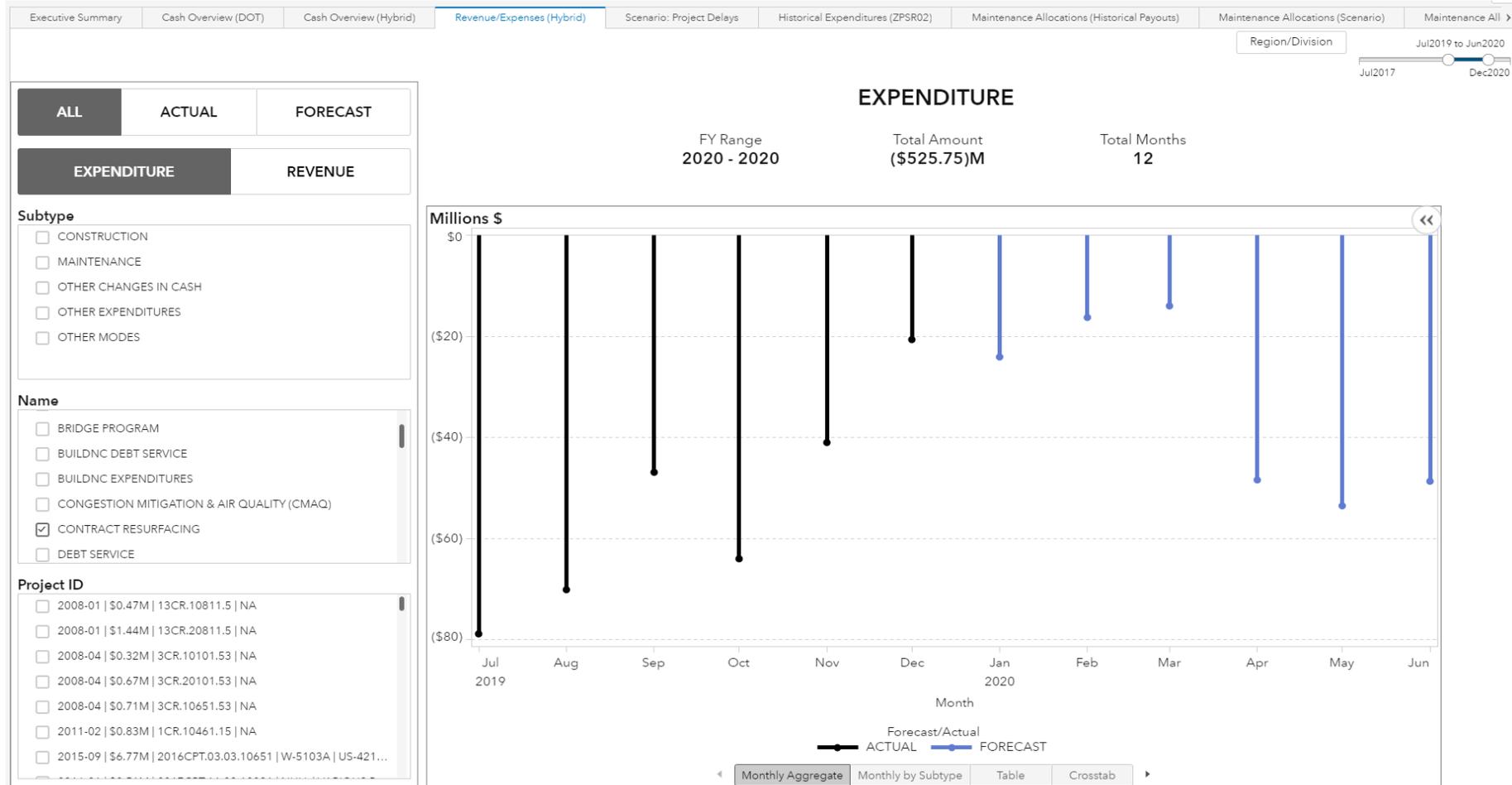
Former Maintenance Allocation Process FY19 and Prior



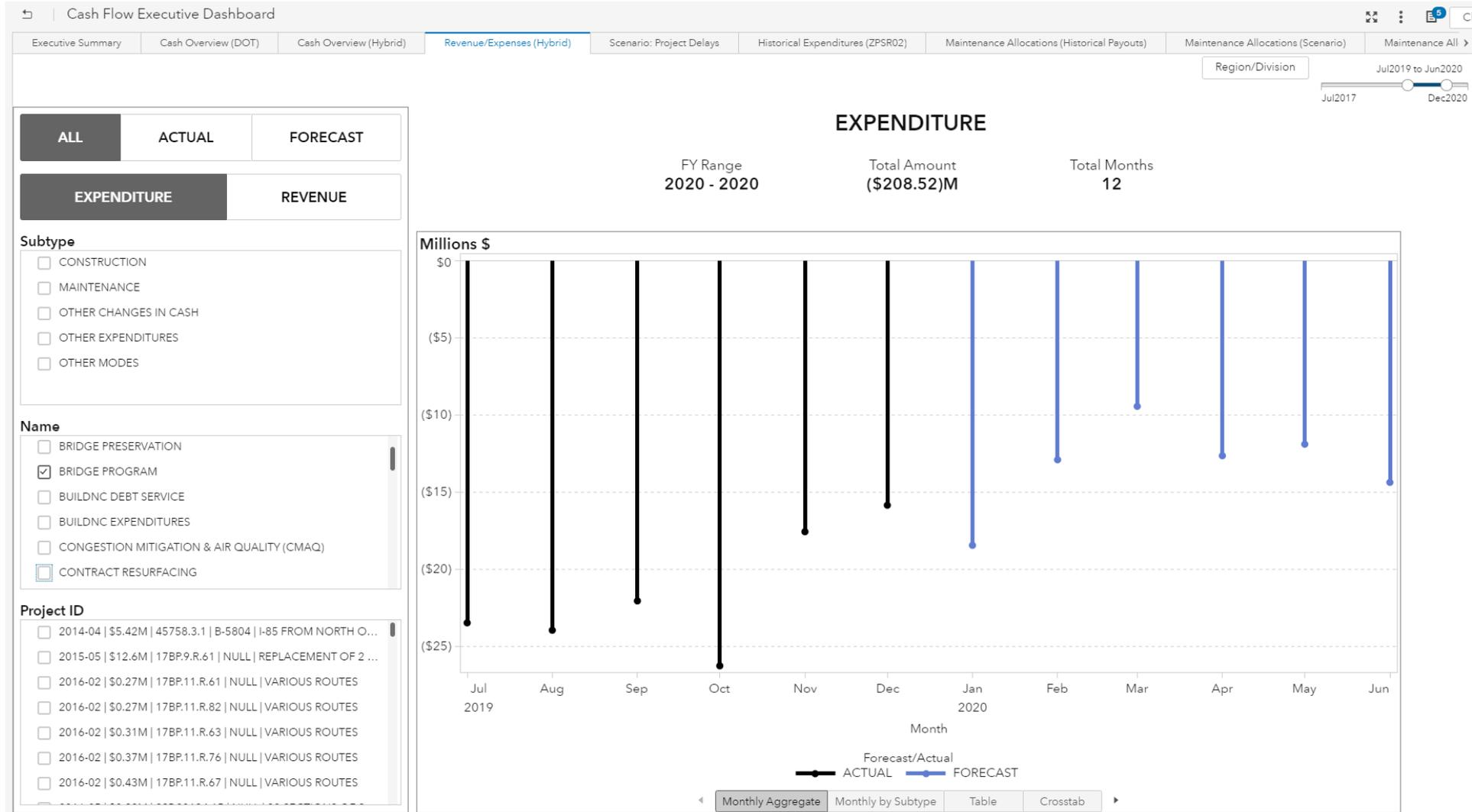
Current Maintenance Allocation Process FY20 - Present



# Contract Resurfacing Forecasting



# Bridge Replacement



# Internal Management of Finances

## Division of Motor Vehicles

- All procurements approved by Deputy Commissioner
- Procurements over \$5000 approved by Commissioner & Chief Deputy Secretary

## Ferry/Aviation/Rail/Integrated Mobility

- Expenditures limited & approved by Deputy Secretary for Multimodal
- Each division provides monthly cash flow forecast
- Financial management measures part of division directors' performance reviews

# Reporting Required by S.L. 2019 - 251

- Weekly Reports
  - Beginning and ending cash balance (posted on web site)
- Monthly Reports
  - Federal disaster reimbursement status
  - When department's cash balance outside target range (replacing when balance above \$1B)
  - HF and HTF balance sheet
- Biennial report
  - Emergency Reserve evaluation
- As needed report
  - Unanticipated budget adjustments when dept. reduces program budgets to meet emergency needs
- One-time reports
  - Performance Audit (conducted by State Auditor)
  - Financial Management

# Questions?



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