

## **Annual Cash Management Report**

<b>Citation of Law or Resolution:</b>	143C
<b>Section Number:</b>	6-11(k)(3)
<b>Due Date:</b>	31 Oct 11
<b>Submission Date:</b>	13 Mar 12

### **Receiving Entities:**

North Carolina General Assembly, Joint Legislative Transportation Oversight Committee

### **Submitting Entity:**

Department of Transportation



STATE OF NORTH CAROLINA  
DEPARTMENT OF TRANSPORTATION

BEVERLY HEAVES PERDUE  
GOVERNOR

1504 MAJ SERVICE CENTER, RALEIGH, N.C. 27603-1501

EUGENE A. CONTI, JR.  
SECRETARY

March 9, 2012

North Carolina General Assembly  
Joint Legislative Transportation Oversight Committee  
16 West Jones Street  
Raleigh, NC 27601

Dear Honorable Chairs:

The North Carolina Department of Transportation ("NCDOT") is submitting its annual report for the state fiscal year ended June 30, 2011 in accordance with the provisions of North Carolina General Statutes §143C-6-11. Among the reporting requirements are 1) NCDOT's cash management policies and 2) results.

As directed, NCDOT manages all operations on a cash-flow basis. NCDOT's 2011 - 2020 Work Program (including the State Transportation Improvement Program) was approved on July 1, 2011 by the North Carolina Board of Transportation. It was developed and fiscally constrained through implementation of cash management policies. The development of the Work Program in this manner allows the Department to align the delivery of projects and programs to financial resources. The 60 month Cash Model output is reported monthly to the NCDOT Board of Directors and is available on the NCDOT website for public review.

NCDOT continues to progress towards a results-based performance organization. Cash management planning is a defined performance measure and is reported in the Department's Annual Performance Report. Please find attached the Department's financial summary for State Fiscal Year 2011 and the supporting documentation for this performance measure.

If you need additional information, please contact me at 919-707-4320.

Sincerely,

Mark Foster,  
Chief Financial Officer  
North Carolina Department of Transportation

Attachments

## Executive Summary:

GS 143C-6-11 (k) Highway Appropriation requires NCDOT to:

1. Utilize cash flow financing to the extent possible to fund transportation projects with the goal of reducing the combined average daily cash balance of the Highway Fund and the Highway Trust Fund to an amount equal to the twelve percent (12%) of the combined estimate of the yearly receipts of the Funds. The target amount shall include an amount necessary to make all municipal-aid funding requirements of the Department.
2. Establish necessary management controls to facilitate use of cash flow financing, such as establishment of a financial planning committee, development of a monthly financing report, establishment of appropriate fund cash level targets, review of revenue forecasting procedures, and reduction of accrued unbilled costs.
3. Report annually, on October 1 of each year, to the Joint Legislative Transportation Oversight Committee on its cash management policies and results.

## Utilization of Cash Flow Financing:

### 10 Year Work Plan Development:

Statistical models were developed specifically to support NCDOT programs. Financial capacity projections serve as the basis for the dollar values found within the Work Plan. The process of developing the multi-year revenue forecast used in the Work Program begins with the revenue projections supporting the Governor's Recommended Budget. The revenue forecast for subsequent years is developed from growth rates of variables related to current transportation revenues. State transportation revenues are derived from user fees in the form of Motor Fuel Tax (MFT), driver and vehicles fees collected by the NC Division of Motor Vehicles (DMV Fees) and a Highway Use Tax (HUT) on vehicle title transfers. Federal transportation revenues are derived from a federal MFT tax and vehicle fees (mostly on trucks). North Carolina's transportation funding comprises 75 percent state revenues and 25 percent federal. The variables and methodologies used to develop the Work Program can be found at

<http://www.ncdot.gov/performance/reform/>. Below is a table depicting projects and programs as planned.

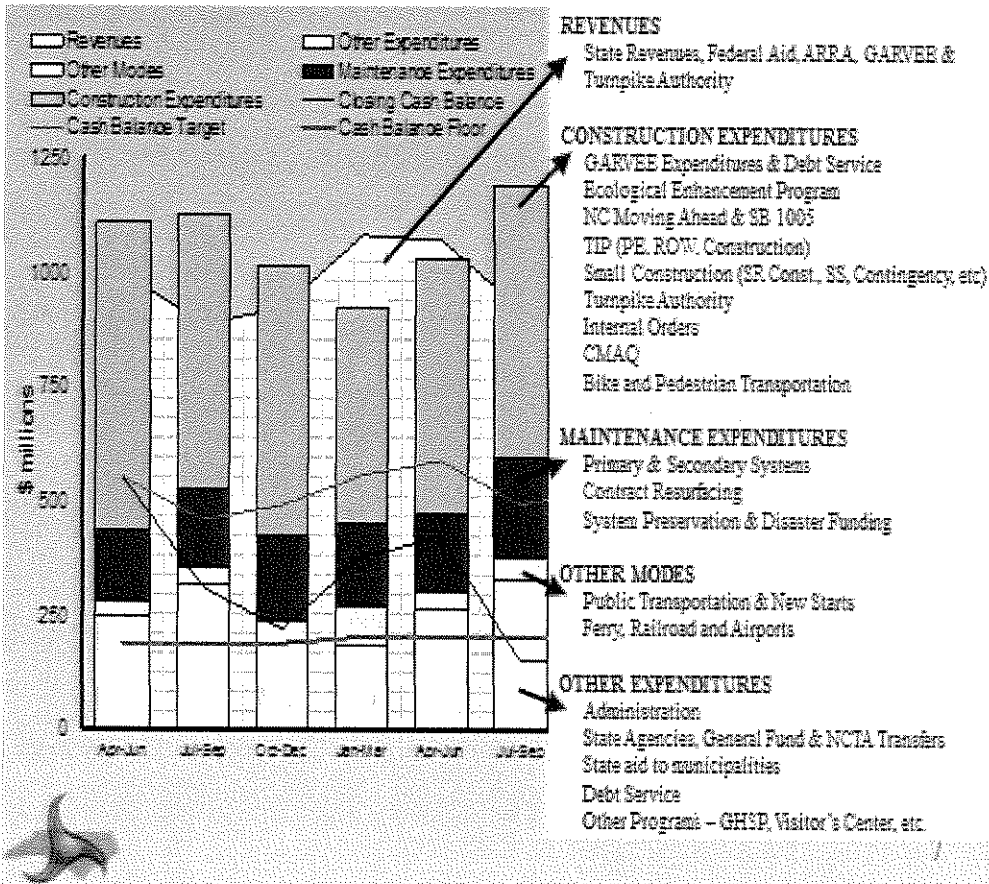
### Workplan Table 2 — Budget by program categories

#### Program & Resource Plan 2011 –2020

	2011		2012		2013		2014		2015		2016		2017		2018		2019		2020		TOTAL	
(\$ in Millions)	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Construction & Engineering	\$3,264	66%	\$3,292	70%	\$3,245	69%	\$3,073	67%	\$2,946	66%	\$2,711	62%	\$2,853	63%	\$2,836	63%	\$2,693	61%	\$2,408	58%	\$28,833	64%
Maintenance	\$1,277	26%	\$1,021	22%	\$1,044	22%	\$1,053	23%	\$1,069	24%	\$1,108	26%	\$1,137	25%	\$1,161	26%	\$1,186	27%	\$1,210	29%	\$11,265	25%
Operations	\$127	3%	\$129	3%	\$130	3%	\$132	3%	\$134	3%	\$219	5%	\$220	5%	\$221	5%	\$222	5%	\$223	5%	\$2,245	5%
Administration	\$290	6%	\$292	6%	\$296	6%	\$300	7%	\$303	7%	\$303	7%	\$310	7%	\$314	7%	\$318	7%	\$322	8%	\$3,047	7%
Total Program	\$4,958		\$4,734		\$4,715		\$4,558		\$4,452		\$4,341		\$4,520		\$4,531		\$4,418		\$4,163		\$45,390	
Transfers	\$364		\$335		\$327		\$307		\$314		\$321		\$328		\$334		\$342		\$349		\$3,320	
Total Budget	\$5,322		\$5,068		\$5,042		\$4,865		\$4,766		\$4,661		\$4,847		\$4,866		\$4,760		\$4,512		\$48,710	

## Cash Model Reports:

Financial reports and issues are reviewed monthly by the Financial Planning Committee as chaired by the NCDOT Chief Financial Officer. Financial Updates are presented to the NCDOT Board of Transportation which includes a 60 month graph from the cash model that includes the following components.



The Projected Cash Balance is represented by black line with the green line representing twelve percent (12%) of the combined estimate of the yearly receipts of the Funds with the red line representing a cash floor equal to five percent (5%) of the estimates of yearly receipts.

**Forecast to Actual History:** The model is sound and has guided the department in resource allocation and project delivery. The model was an invaluable aid during the economic downturn of SFY 2009 as the department managed a \$300 million revenue shortfall. Lawsuits filed delaying major projects planned to be under construction impacted model performance in SFY 2011 (TIP # R-3329 Monroe Connector toll project & TIP # B-2500 Bonner Bridge). Once the planned receipts and planned expenditures were adjusted for the effect of the NCTA financing delay, the model performed at a good level for SFY 2011.

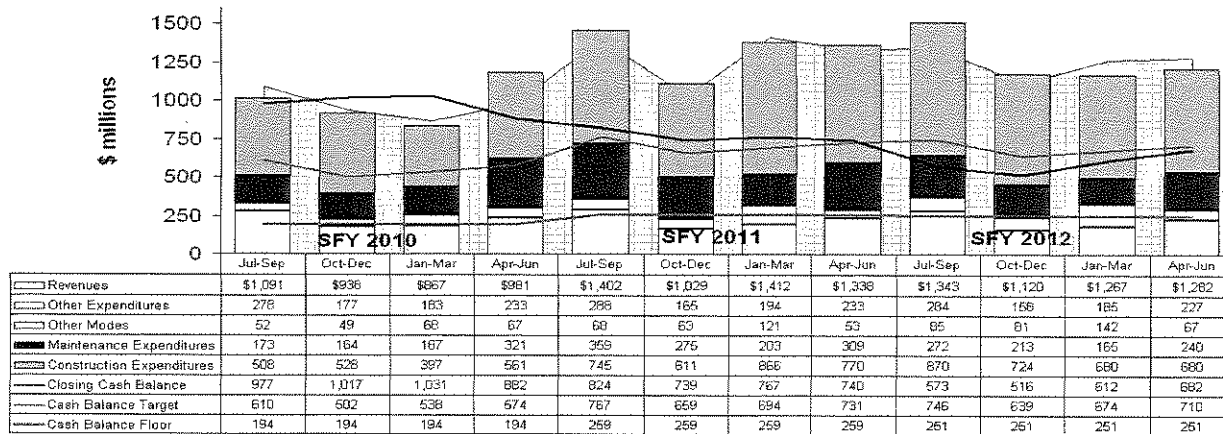
The department's cash balance as of June 2011 was \$967 million (excluding bond proceeds held by Trustee). The cash balance as of December 2011 is \$843 million, approximately 6% above the target. The cash balance is reflective of the above mitigation delays, acceleration of federal aid billings due to federal revenue uncertainty, cash reserved to service debt and the planning time to deliver initiatives recently prioritized in the legislature's SFY 2012-2013 Biennium budget and NCDOT prioritization process.

## 2011 Annual Performance Report Metric: Percent of Planned Expenses to Actual Receipts

**Background:** NCDOT is a state agency that has legislative authority to operate on a “cash flow” basis. The department may let contracts against revenue it expects to receive in the future. Advantages of a cash flow method are: 1) acceleration of multi-year project awards; 2) user fees strategically expended for immediate needs 3) cash is not “idle” as multi-year project expenditures are matched to multi-year revenue collections.

**Objective:** The Department’s objective is to forecast receipts and expenditures within a plus or minus 5% target to effectively manage cash.

36 Month Cashflow



**Results:** As of June 30, 2011 actual revenues collected equaled \$4,694.8 million versus planned collections of \$5,181.4 million which is -9.4 % or \$486.6 million less than forecast. For the same period, actual expenditures equaled \$4,481.3 million versus \$5,323.7 million or -15.8 % less than forecast. Excluding NCTA, the combined average forecast variance of -3.4% was within tolerance. NCTA planning was altered by a lawsuit.

### Forecast to Actual History

#### Receipts

SFY	2006	2007	2008	2009	2010	2011
Planned	\$3,953.0	\$3,775.8	\$4,083.0	\$3,896.0	\$4,250.8	\$5,181.4
Actual	3,788.8	3,795.0	3,966.5	3,967.4	3,876.8	4,694.8
Variance \$	\$ (164.2)	\$ 19.2	\$ (116.5)	\$ 71.4	\$ (374)	\$ (486.6)
Variance %	-4.2%	0.5%	-2.9%	1.8%	-8.8%	-9.4%

\* SFY 2011 variance excluding NCTA

-0.23%

#### Expenses

SFY	2006	2007	2008	2009	2010	2011
Planned	\$4,082.0	\$3,838.8	\$4,236.0	\$4,140.0	\$4,348.0	\$5,323.7
Actual	3,791.0	3,608.3	3,954.5	3,871.8	3,944.2	4,481.3
Variance \$	\$ (291.0)	\$ (230.5)	\$ (281.5)	\$ (268.2)	\$ (403.8)	\$ (842.4)
Variance %	-7.1%	-6.0%	-6.6%	-6.5%	-9.3%	-15.8%

\* SFY 2011 variance excluding NCTA

-6.61%

# NCDOT Finances

Select Financial Report:

SFY11: Thru June 2011

Mark L Foster  
Chief Financial Officer

## Receipts

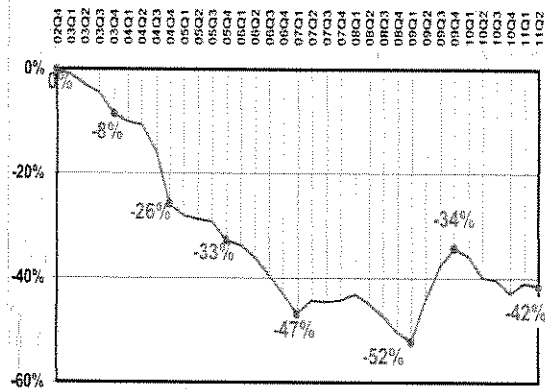
Planned to Actual Receipts	
Planned	\$5,181.4
Actual	\$4,694.8
Variance	-9.4%
Variance Excluding NCTA -23%	

## Expenses

Planned to Actual Expenses	
Planned	\$5,323.7
Actual	\$4,481.3
Variance	-15.8%
Variance Excluding NCTA -6.61%	

## Purchasing Power

Purchasing Power of NCDOT Highway Construction  
Dollars (From CY 2002 to CY 2011 2nd Quarter)



## Forecast to Actual

Receipts		Expenses		Agency Transfers	
State	\$2,790,453,048	Construction	\$1,676,944,637	Direct Transfers:	
Federal	1,023,460,072	Construction Stimulus	302,561,217	General Fund	\$72,894,864
Federal Stimulus	303,429,927	Construction NCTA	271,397,225	Highway Patrol	176,557,822
Local	35,381,036	Maintenance	1,026,102,955	Public Instruction	54,679,783
Grants	62,503,220	Transit	204,211,974	Other Agencies	58,285,869
Debt - GARVEE	165,224,582	Transit Stimulus	23,295,211	<b>Total</b>	<b>\$362,418,338</b>
Debt - NCTA	<u>314,326,017</u>	Debt Service	166,257,408		
		Finance Cost - NCTA	37,869,328	MEMO: GAP Funding to NCTA	
		Admin	248,193,136	from Highway Trust Fund	
		Admin - NCTA	2,089,552	<b>Triangle Expressway - \$25,000,000</b>	
		Agency Transfers	362,418,338	<b>Monroe Connector - \$ 24,000,000</b>	
		State Aid Municipalities	134,288,958		
		Other	<u>25,658,534</u>		
<b>Total</b>	<b>\$4,694,777,902</b>	<b>Total</b>	<b>\$4,481,288,473</b>		
<b>Forecast</b>	<b><u>5,181,406,142</u></b>	<b>Forecast</b>	<b><u>5,323,719,078</u></b>		
<b>Variance</b>	<b><u>\$(486,628,240)</u></b>	<b>Variance</b>	<b><u>\$(842,430,605)</u></b>		
<b>Variance %</b>	<b>-9.4%</b>	<b>Variance %</b>	<b>-15.8%</b>		

**Benefits of Cash Management:**

The Department is using the provisions in GS 143C-6-11 to meet NCDOT's mission and goals by:

- Promoting sound financial management
- Integrating all business functions
- Maximizing cash to deliver projects and programs
- Providing interactive planning and forecasting tools
- Enabling innovative financing
- Establishing management controls to minimize financial risk

Additional information is available <http://www.ncdot.gov/performance/reform/>.