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Finance Project Funding **Advance Construction**

www.fhwa.dot.gov/federal-aidessentials


This mechanism allows projects to be funded with Federal-aid dollars at a later date

The Statewide Transportation Improvement Program, or STIP, identifies all transportation projects that are eligible for Federal funds. As a result, some agencies have used advance construction, or AC. However, as priorities change and competition for limited resources increase, projects may be delayed. This fund management tool allows agencies to incur costs on a project and submit the full or partial amount later for Federal reimbursement if the project is approved for funding.

Advance construction can be used to fund emergency relief efforts and for any project listed in the STIP, including surface transportation, interstate, bridge, and safety projects. As with any Federal-aid project, to remain eligible for reimbursement, the agency must be able to meet project funding requirements to complete the project and follow all other Federal requirements as the project advances.

Advance Construction (AC)		
Emergency relief	\$6M	AC
Surface transportation	\$12M	
Interstate	\$15M	
Bridge	\$21M	AC
Safety	\$8M	

• Incur costs **now**
 • Submit for reimbursement **later**
If approved

Let's look at how advance construction is used to fund a Federal-aid transportation project, as well as possible risks associated with it, such as Federal funds not being available for your project.

To initiate the advance construction process, your State department of transportation, or State DOT, needs authorization from the Federal Highway Administration, the FHWA. If FHWA approves, the project costs incurred from this point on become eligible for Federal funding provided Federal-aid funds become available.



After authorization, the work begins and agencies start to incur costs.

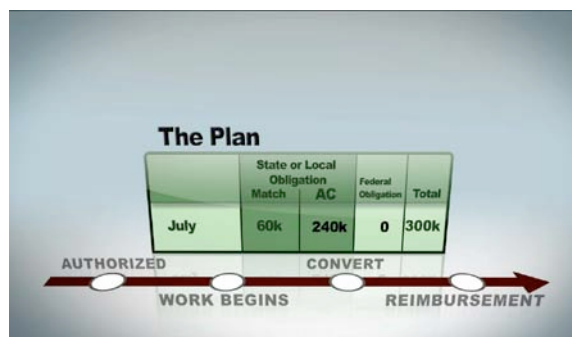
At some point, your State DOT will request that FHWA fund the full or a partial amount of the advance construction balance. If FHWA approves the request, it converts the advance construction from eligible for funding to an obligation to fund and reimburse. Only then can agencies seek reimbursement for costs they incurred up to the obligated amount.



To help illustrate the advance construction process, let's follow a project to widen an intersection. During the planning phase, the local public agency (LPA) discovers it needs to acquire a parcel of land for right-of-way.

The real estate team is ready to move forward, but the Federal funds—some \$240,000, or 80 percent of the total costs—are not currently available.

A consultation in July with the State DOT results in an LPA funding plan that uses advance construction and the State DOT immediately requests authorization for \$240,000 in advance construction for the right-of-way work phase.



The plan outlines a future request to convert advance construction to Federal funds for \$140,000 in November and the remaining \$100,000 in January. The process will convert the \$240,000 in cost from a State or local obligation to a Federal obligation.

As planned, in July the State DOT receives authorization from FHWA that it approves the project for advance construction. This authorization means that while the agency can incur costs of up to \$300,000, none of it is billable until the State DOT requests that the funds be converted and FHWA approves the funds as a Federal obligation.

With authorization in place, the real estate staff begins to acquire the needed parcels of land and to relocate the owners. By October, the LPA has incurred \$25,000 in costs and intends to meet this obligation with its own funds until such time the costs are converted to a Federal obligation.

As planned, in November, the State DOT makes its request and FHWA converts \$140,000 from advance construction to a Federal obligation. The LPA is now able to invoice up to \$140,000—provided it do not exceed the 80 percent matching limit.

By now, the initial \$25,000 in costs has grown to \$100,000. Applying the 80-percent matching limit, the finance department calculates an invoice amount of \$80,000 and submits it for reimbursement.

	State or Local Obligation		Federal Obligation	Total
	Match	AC		
Initial Authorization	60k	240k	0	300k
Partial Conversion	60k	100k	140k	300k
Full Conversion	60k	0	240k	300k

AUTHORIZED **CONVERT**

WORK BEGINS **REIMBURSEMENT**

The project and plans for advance construction continue and the LPA submits invoices in accordance with matching and other Federal requirements. If there are any unspent funds at the conclusion of the right-of-way phase, the LPA must obtain authorization before applying those funds to construction phase activities or any other activities.

As we have just learned, advance construction allows agencies to manage funds and accelerate work on projects. However, FHWA does not view advance construction as an obligation for Federal funds or reimbursement.

This means that if planned Federal funds fail to become available, agencies must either use non-Federal funds to complete projects or suspend work on the projects. Therefore, it's essential that agencies carefully assess their risks before using this technique.

Each State DOT has an established approach to funding and financing projects. The staff can describe how it has successfully used advance construction, as well as the steps taken to manage the associated risks.



If your agency uses advance construction to manage cash flow and accelerate project delivery, it's expected to comply with all Federal requirements.

Web Resources

- Federal-aid fund management tools provide overview of advance construction
http://www.fhwa.dot.gov/ipd/finance/tools_programs/federal_aid/ac_pcac/
- AASHTO briefing paper on advance construction
https://bookstore.transportation.org/item_details.aspx?ID=1770

The content of this document is not a substitute for information obtained from State departments of transportation, appropriate FHWA Division Offices, and applicable laws. Scenarios have been simplified for emphasis and do not necessarily reflect the actual range of requirements applicable to the scenario or this topic. This document was created under contract number DTFH61-11-D-00025 by the Federal Highway Administration, U.S. Department of Transportation, and is offered to the public to heighten and focus awareness of Federal-aid requirements within the local public agencies community and reinforces the importance of these necessary policies, procedures, and practices.

This companion resource is the script content for the video production of the same name.