



# Improving Federal-aid Financial Management:

## A Call for Proposals

May 23, 2012



U.S. Department of Transportation  
Federal Highway Administration



# Agenda

## Innovative Program Delivery

- Looking Back at Financial Innovation
  - Mark Sullivan, IPD Office
- Recent and Potential Innovations
  - David Bruce, Office of CFO
- Process and Timetable
  - Frederick Werner, IPD Office
- Questions and Answers
  - Mark Sullivan (moderator)





# Improving Federal-aid Financial Management: A Call for Proposals

Looking Back at Financial Innovation

**Mark Sullivan**



U.S. Department of Transportation  
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# Authorized in Title 23

## Innovative Program Delivery

- **23 USC 502(b)(1)** “...The Secretary may carry out research, development, and technology transfer activities with respect to...(B) all phases of transportation planning and development (including construction, operation, modernization, development, design, maintenance, safety, financing, and traffic conditions)....”
- **23 USC 502(b)(2)** “...The Secretary may test, develop or assist in testing and developing any material, invention, patented article, or process.”
- **Scope of authority** does not extend outside of title 23





# A Brief History of...TE-045

## Innovative Program Delivery

- Part of Clinton-era Innovative Finance Program
- Objectives: increase investment and accelerate projects
- Solicitation in 1994 sought proposals from State DOTs
- States proposed 88 initial tests:
  - Implementing specific provisions of ISTEA (1991): toll credits and Section 129 loans
  - Testing innovations incorporated into Federal-aid Program via NHS Act (1995): advance construction (AC), partial conversion of AC, flexible & tapered match
- FHWA still accepts TE-045 proposals
  - State requests through 2003: 110
  - State requests from 2004-2009: 0





# District of Columbia – 11<sup>th</sup> Street Bridge

## Innovative Program Delivery

- DDOT GARVEE bond issue, assumed:
  - FHWA to pay 100% of GARVEE debt service
  - DDOT to use \$20 million to match \$80 million GARVEE proceeds
- FHWA requires match for interest/issuance costs
  - DDOT had previous expenditures in excess of required match
  - Available to be applied as a tapered match, but
  - Tapered match not permitted for GARVEE repayments
- TE-045 experiment allows for GARVEE tapered match
  - Approved December 20, 2010
  - Likely result – formal revision of FHWA guidance





# Improving Federal-aid Financial Management: A Call for Proposals

Recent and Potential Innovations

Dave Bruce



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# Issue: Indirect Cost Allocation

## Innovative Program Delivery

How States recover their general and administrative (indirect) costs of implementing the Federal-aid Program

Federal cost regulations generally allow use of two methods:

- Indirect cost rate(s)
- Narrative cost allocation methodology (NCAM)

FHWA policy currently limits States to use of Indirect Cost rates

- 26 States currently have approved indirect cost rate structures

Two recent opportunities to test and evaluate the NCAM

- Potential to shape FHWA cost principles policy





# Vermont: ER Funds

Innovative Program Delivery

Emergency Relief (ER) -- one-time infusion of Federal funds

Indirect cost recovery for ER events – first emerged with Hurricanes Katrina & Rita

Vermont's Request:

- Tropical Storm Irene -- August 27, 2011
- State is receiving \$125 million in ER, has no Indirect Cost Rate Structure in place
- NCAM applies only to ER expenditures
- Test will conclude with close-out of Irene-related projects
- Potential to shape ER guidance





# California: Local Oversight

## Innovative Program Delivery

State DOTs oversee local projects funded w/ Federal-aid  
FHWA acknowledges concerns with oversight nation-wide

- Declared LPA oversight as a “material weakness” for the agency
- Recent IG audit re-confirmed ongoing concerns in this area

## California's request:

- State funds lacking to perform adequate oversight
- Indirect Cost Structure in place, but current methodology does not allocate indirect costs associated with LPA administration
- Under NCAM proposal, Caltrans will hire 9 oversight engineers
- Test will last 3 years, with annual reviews and possible expansion
- Potential to shape LPA oversight policy





# Ideas for Potential Proposals

## Innovative Program Delivery

### Narrative Cost Allocation Methodology (2 CFR 225 App E F(3)):

- Provision available for potential testing: FHWA Indirect Cost Policy memorandum from May 5, 2004
- Indirect and in some cases, direct costs
- Does not involve rates
- Distributes costs directly to benefiting fund sources
- Further testing will help inform policy revisions





# Ideas for Potential Proposals

Innovative Program Delivery

## Tapered Match Guidance:

- Provision available for potential testing: FHWA policy memorandum from December 29, 2009
- Allows non-Federal share to be provided outside of normal progress voucher by progress voucher method
- By policy, may not be used in combination with any of the following project funding techniques:
  - Advance Construction – 23 U.S.C. 115, 23 CFR 630
  - STP Program Approval – 23 U.S.C. 133(e)
  - Bond Funded Projects – 23 U.S.C. 122





# Ideas for Potential Proposals

Innovative Program Delivery

## “Safe Harbor” Indirect Cost Rate:

- Local Public Agencies – many smaller agencies receive Federal funding only occasionally
- 2 CFR 225 App A (A)(2)(b) – while outside of title 23 statutory framework, the Cost Principles provide authority for Federal agencies to test fee for service arrangements
- Providing an entity the option to develop a rate that complies with the applicable cost principles or accept a conservative “safe harbor” rate could ease administrative burden required for development of compliance indirect cost allocation plan





# Ideas for Potential Proposals

## Innovative Program Delivery

### “Safe Harbor” Indirect Cost Rate:

- Architectural & Engineering (A/E) Firms
- Provision available for potential testing: 23 U.S.C. 112(b)(2)(b)
- If considering use of a “safe harbor rate” as part of a State’s risk-based oversight framework, must provide a firm the option to develop a rate that complies with the Federal Acquisition Regulation cost principles or accept a conservative “safe harbor” rate
- May be most beneficial for start-ups in early years of operation to avoid wide swings in rates, or ongoing for very small firms





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Process and Timetable

**Frederick Werner**



U.S. Department of Transportation  
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# Schedule (subject to change)

## Innovative Program Delivery

Date	Event
May 23, 2012	Follow-on webinar with State DOTs
June 28	Proposal deadline
August 15	Announcement of proposals authorized for testing
November	FHWA Award to Division that sponsors best idea
August 15, 2013	Target date to mainstream all innovations that demonstrate benefit





# Submission Form – Description

## Innovative Program Delivery

- Proposal should be transmitted using the Submission Form
- Proposal should not exceed five pages, including Form itself but excluding exhibits
- Description should include purpose of the innovation, the various elements and mechanics of operation, and any costs associated with its implementation
- Costs associated with implementation should include all resource costs, including staff time
- Description should identify the existing FHWA regulation, guidance, policy or practice that the proposal would revise





# Submission Form – Participants

## Innovative Program Delivery

- Close and continuing cooperation between the Division Office and the State DOT will be required
- Cooperation will be required through the application, implementation, and evaluation phases
- Key contacts, with requisite authority should be identified





# Submission Form – Potential Benefits

## Innovative Program Delivery

- Reduction in overall costs
  - Would costs be reduced? These costs could be Federal-aid, State, local, or some combination.
  - If costs are reduced, how would proposed innovation generate cost savings? How would applicant quantify/calculate these savings? What support (documentation) can applicant provide?
- Acceleration in project delivery date(s)
  - Would project delivery date(s) be accelerated?
  - How would proposed innovation generate time savings? How would applicant quantify/calculate these savings? What support (documentation) can applicant provide?





# Submission Form – Potential Benefits

## Innovative Program Delivery

- Optimization of State's cash flow
  - Would State's cash flow be improved or enhanced?
  - If so, specifically how would proposed innovation improve/enhance cash flow?
  - How would applicant quantify/calculate improvement? What support (documentation) can applicant provide?
- Other
  - Describe any potential benefit not covered above
- Third party impact
  - Would proposal have an adverse effect on any third party (i.e., non-FHWA, non-State DOT) entities? If so, describe.





# Submission Form – Implementation

## Innovative Program Delivery

- An implementation timetable, including milestone dates, should be provided
- If the implementation is affected by upcoming Federal or State deadlines, note on submission form
- How would State determine the potential of the innovation to become standard practice, either in its State or nationwide?





# Submission Form – Controls

Innovative Program Delivery

- Consider the proposed innovation's effect on
  - Divisions' oversight/monitoring responsibilities
  - Effectiveness of State's internal controls and ability to comply with appropriate accounting standards
  - Audit vulnerability at both the FHWA and State level



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# Contact Information

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Questions and Answers

**Mark Sullivan  
David Bruce  
Frederick Werner**



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