



Memorandum

Subject: **INFORMATION**: State Administration of
the Federal-Aid Program (Direct Versus
Indirect Costs)

Date: September 22, 2011

In Reply Refer To:
HIPA-10

From: David A. Nicol
Director, Office of Program Administration

To: Directors of Field Services
Division Administrators

We are providing information on the Federal-aid eligibility of State department of transportation (DOT) costs to prepare internal procedures manuals, such as design and construction manuals. This information also applies to the eligibility of constructing State DOT facilities, such as materials testing laboratories and maintenance yards.

Section 302(b) of title 23, United States Code (U.S.C.), allows State DOTs to claim reimbursement of indirect costs (in accordance with the Federal cost principles of 2 CFR 225). By definition, an indirect cost benefits more than one cost objective (that is, more than one project or activity). Except where specific statutory authority exists, costs to develop internal procedures manuals or to construct facilities used in the administration of the program are not eligible as direct costs to the Federal-aid highway program. These are considered indirect costs that we may approve for Federal-aid reimbursement only if they are allocated among benefitting projects (i.e., cost objectives) through an approved indirect cost rate. If a Federal-aid project is not identified, the State would have to use its own funds.

As an example, the costs associated with construction and operation of a new district or central materials laboratory established to provide testing services for both State and Federal-aid funded construction projects would be considered indirect costs. As such, the annual cost to operate the laboratory, including depreciation, could be reimbursed with Federal-aid funds if the costs are allocated among all benefitting projects, whether Federal-aid or State, based on an approved plan.

This discussion is not a change in regulation or policy, but rather a reemphasis of existing regulation. Participation as a direct cost in the State manuals and facilities described above on active Federal-aid projects would be considered improper, unless specifically authorized by law. You will find additional information on determining the allowability of costs, as well as developing and approving indirect rates, on FHWA's Web site at: <http://www.fhwa.dot.gov/legsregs/directives/policy/indirectcost.htm>.

If you have any questions, please contact Mr. David Bartz at 512-536-5906, Mr. David Bruce at 802 -828-4567, or Mr. Peter Kleskovic at 202-366-4652.