

Check out  
the video

## Federal-aid Program Overview Funding Project Requirements

[www.fhwa.dot.gov/federal-aidessentials](http://www.fhwa.dot.gov/federal-aidessentials)

*Project funding and administrative requirements must be met to qualify and maintain Federal-aid eligibility*



Federal-aid can help local public agencies, or LPAs, complete highway projects. To qualify for Federal-aid and ensure project-related costs are eligible for reimbursement, LPAs must follow Federal funding requirements.

When LPAs develop a financial plan that proposes using Federal-aid, they must consider all the project phases, or cost categories, necessary to complete the project. The three project phases are:

- Preliminary engineering, or PE, including planning, environmental and design
- Right-of-way
- Construction



Before starting any project phase, the State department of transportation, or State DOT, enters into a project agreement with the Federal Highway Administration, the FHWA, which defines the scope, schedule and budget. The State DOT then enters into a subaward agreement with an LPA, which makes the Federal-aid available.

The subaward agreement must be in place prior to the LPA performance of work. Any work incurred prior to the execution of the agreement is ineligible for reimbursement.

LPAs are only reimbursed for work performed within the scope, budget, and performance period defined by the subaward agreement. Therefore, if there are any changes to the project, the State DOT must revise the FHWA project agreement and the subaward agreement before the LPA proceeds.



By executing project agreements in phases, LPAs help ensure compliance with environmental requirements providing that final design, right-of-way, and construction cannot commence until after completion of the environmental process.

When either the whole project or an individual phase of it is completed (depending on the terms of the subaward agreement), the LPA submits a final request for reimbursement, the final voucher. The final voucher results in a withdrawal of any residual funds and a project closeout.

If the project is not completed within certain time frames, the LPA returns all Federal funds.

After project closeout, LPAs remain responsible for archiving accounting records and supporting financial audits.

Let's consider a typical scenario involving Great Mountain Township as it qualifies for Federal-aid and requests reimbursement for costs on a project.

To become eligible for Federal-aid, the township works with its State DOT to include the project in the State's Transportation Improvement Program, or STIP.

Great Mountain estimates it will need \$355,000 to cover the project's direct costs. Indirect or overhead costs, however, are excluded because the township has not completed an indirect cost allocation plan.

Next, a financial plan is developed that details the costs of each project phase—PE, right-of-way, and construction—and each source of funding. For Great Mountain's financial plan, 80 percent of funds will come from Federal-aid and 20 percent from local sources.

When Great Mountain is ready to begin the PE phase, the State DOT executes a subaward agreement, which will make \$24,000 in Federal-aid available.

The subaward agreement references financial management standards, cost principles, audit requirements, and other administrative requirements that Great Mountain must meet to receive funding.



It also references the consultant procurement, environmental, design standards, preliminary engineering, , and other programmatic requirements.

After careful review, Great Mountain also signs the subaward agreement.

Following the signing of the subaward agreement, the preliminary engineering can begin. Great Mountain incurs costs, pays vendor invoices, and maintains a detailed accounting of costs.

Periodically, Great Mountain calculates the amount for Federal reimbursement and submits the request and supporting accounting records to the State DOT for reimbursement.

The costs at the end of the PE phase total \$25,000, and Great Mountain informs the State DOT of the under run.

The State DOT withdraws \$4,000 residual Federal-aid for the PE phase and reflects the change in the subaward agreement. Using the residual for work outside the project scope or rolling the residual to another phase is not allowed unless the FHWA project agreement and the subaward agreement are updated.

Great Mountain already has the right-of-way for the project. However, when right-of-way is required on a Federal-aid project, LPAs must follow Federal right-of-way regulations—even when using local funds to acquire the property.

For the construction phase, Great Mountain will repeat the process of seeking a subaward agreement, performing the work, and requesting reimbursement.

Before starting the phase, the State DOT modifies the FHWA project and the subaward agreement, which makes available \$260,000 in Federal-aid.

Great Mountain starts the effort by advertising the project. During the bid process, the township learns that the construction costs are \$10,000 more than expected.

Before awarding the contract to the low bidder, Great Mountain requests the additional Federal-aid from the State DOT. The State DOT works with the FHWA to obtain approval, revises the subaward agreement, and notifies Great Mountain that it can proceed. By waiting for the revised subaward agreement, the township ensures that all project-related costs remain reimbursable. Although not necessary for this project, the agreement revision process is also required for certain contract changes that occur during construction.

Project Phase	Federal (80%)	Local (20%)	Total
PE	\$20k	\$5k	\$25k
ROW	-	-	-
Construction	\$268k	\$67k	\$335k
<b>Total</b>	<b>\$288k</b>	<b>\$72k</b>	<b>\$360k</b>

*Revised 4/17*  
*Revised 7/6*

3  
Construction

Subaward Agreement    Perform Work    Request Reimbursement

Construction progresses and Great Mountain incurs costs and then requests reimbursement from the State DOT at regular intervals.

After construction is completed and all costs recorded, Great Mountain submits the final voucher and initiates the project closeout process. In turn, the State DOT withdraws any residual funds.

Great Mountain Township’s example demonstrates that the financial plan reported in the STIP must show adequate funding to complete the project. If a project is started but not completed, LPAs must return all Federal-aid.

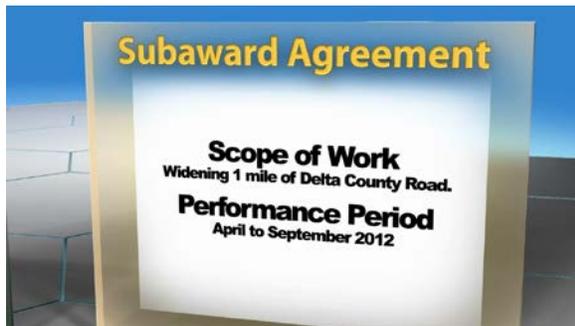
Also, the subaward agreement is contingent on the project agreement between the State DOT and FHWA. The subaward agreement makes Federal-aid available to the LPA, but any costs incurred prior to a subaward agreement are ineligible for reimbursement.



Keep in mind that the subaward agreement evolves as the project progresses and must be revised whenever

- A phase of work starts or ends
- Additional funds are needed or residual funds remain
- There are changes to the project’s scope or performance period

The costs for any work performed outside the subaward agreement parameters of budget, scope, or performance period are ineligible for reimbursement. Additionally, costs incurred prior or the execution of the agreement are ineligible.



Recognize that residual funds for any given phase are withdrawn, and LPAs cannot apply them to another phase.

Lastly, LPAs must meet administrative and programmatic requirements to maintain funding.

For more information on funding requirements, continue your research on this Web site or contact your State DOT.

### Additional Resources

- List of free FHWA Web-based training through NHI, including course 310115, *Introducing Highway Federal-Aid*  
[http://www.nhi.fhwa.dot.gov/training/list\\_catalog.aspx?cat=&key=&num=&loc=&sta=%&typ=3&ava=1&str=&end=&tit=&lev=&dri=](http://www.nhi.fhwa.dot.gov/training/list_catalog.aspx?cat=&key=&num=&loc=&sta=%&typ=3&ava=1&str=&end=&tit=&lev=&dri=)
- Federal regulation covering uniform administrative rules for Federal grants, cooperative agreements, and subawards  
<http://www.gpo.gov/fdsys/search/citation2.result.CFR.action?cfrBean.year=MostRecent&cfrBean.titleNumber=49&cfrBean.sectionNumber=18&publication=CFR>
- Link to publication that explains financing Federal-aid projects from start to finish  
<http://www.fhwa.dot.gov/reports/financingfederalaid/index.htm>
- Link to *A Guide to Federal-Aid Programs and Projects*  
<http://www.fhwa.dot.gov/federalaid/projects.cfm>
- FHWA's LPA Web site that includes reference, contact and training information  
<http://www.fhwa.dot.gov/federalaid/lpa/>
- Federal regulations for determining costs for Federal awards through grants, cost reimbursement contracts, and other agreements  
<http://www.gpo.gov/fdsys/search/citation2.result.CFR.action?cfrBean.year=MostRecent&cfrBean.titleNumber=2&cfrBean.sectionNumber=225&publication=CFR>

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.