Improving Federal-aid Financial Management: A Call for Proposals

May 23, 2012
• Looking Back at Financial Innovation
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Looking Back at Financial Innovation

Mark Sullivan
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
- FHWA still accepts TE-045 proposals
  - State requests through 2003: 110
  - State requests from 2004-2009: 0
• 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
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Recent and Potential Innovations

Dave Bruce
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

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
State DOTs oversee local projects funded with 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

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
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:
  - STP Program Approval – 23 U.S.C. 133(e)
  - Bond Funded Projects – 23 U.S.C. 122
“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
“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
<table>
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<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>May 23, 2012</td>
<td>Follow-on webinar with State DOTs</td>
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<tr>
<td>June 28</td>
<td>Proposal deadline</td>
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<tr>
<td>August 15</td>
<td>Announcement of proposals authorized for testing</td>
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<tr>
<td>November</td>
<td>FHWA Award to Division that sponsors best idea</td>
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<tr>
<td>August 15, 2013</td>
<td>Target date to mainstream all innovations that demonstrate benefit</td>
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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
• **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

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

- 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?
• 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
Contact Information

Mark Sullivan
Senior Advisor
Office of Innovative Program Delivery
Federal Highway Administration
Room E84-306
1200 New Jersey Avenue, SE
Washington, DC 20590
(202) 366-5785
mark.sullivan@dot.gov
Contact Information

Dave Bruce
Program Analyst
Office of the Chief Financial Officer
Federal Highway Administration
(802) 828-4567
David.bruce@dot.gov
Frederick Werner
Project Finance Manager
Office of Innovative Program Delivery
Federal Highway Administration
404-562-3680
Frederick.werner@fhwa.dot.gov
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Questions and Answers

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