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*Agency of Transportation*

October 27, 2011

Mr. Matthew Hake  
Division Administrator  
Federal Highway Administration  
PO Box 568, Federal Building  
Montpelier, VT 05601-0568

**Re: FHWA Test and Evaluation Program (TE-045) Proposal to use Special Event Administrative Cost Allocation**

Dear Mr. Hake:

The State of Vermont Agency of Transportation (VTrans) is requesting authority to conduct an innovative finance research project under the Federal Highway Administration's (FHWA) Test and Evaluation Program (TE-045). The goal of the proposed innovative finance project is to allow VTrans to recover costs associated with administration and oversight of FHWA Emergency Relief Program (ER) projects through the use of a narrative cost allocation plan in lieu of an indirect cost rate. Narrative cost allocation plans are allowed per 2 CFR 225, Appendix E(F)3. Narrative cost allocation plans do not appear to be allowed by FHWA's May 5, 2004 Clarification of Policy on Indirect Costs of State and Local Governments memorandum, which appears to allow only the use of indirect cost rates. VTrans does not currently claim indirect costs that are eligible for Federal-aid reimbursement, and will benefit from the use of a narrative cost allocation plan as intended under 2 CFR 225, Appendix E(F)3. VTrans' proposal will allow the State of Vermont to recover FHWA cost participation in administrative costs that would otherwise be paid entirely with State funds. Recovering the FHWA participation in these costs will help mitigate the adverse impact of Tropical Storm Irene costs on the State's current multi-year Transportation Program. We believe our proposed method will provide a simple nationwide model and equitable way to allocate administrative costs and recover the federally participating portion whenever large ER events occur across the country.

Recently Tropical Storm Irene caused massive destruction to the State of Vermont's highway infrastructure. The magnitude of the damage and subsequent emergency response resulted in a significant cost burden to the State related to administering and overseeing ER eligible work efforts. While these costs may be readily identifiable to an ER event, these costs cannot be readily identified with specific ER projects. VTrans proposes a method to recover administrative costs which utilizes actual ER-related costs already recorded in the accounting system. This method reduces administrative effort by eliminating the calculation of a rate that must be monitored. The requirement that an indirect cost rate be utilized rather than a narrative cost allocation plan imposes an untimely obstacle to funding recovery efforts. FHWA has the opportunity to remove this barrier by teaming with VTrans and allowing this alternative method. A further benefit of this method is greater transparency to the audit efforts of VTrans and FHWA because of the lack of assumptions inherent to rate calculation.

VTrans' proposal is to track all ER administrative costs in a unique cost pool and allocate those costs quarterly to all active ER projects. The pool includes administrative payroll, expenses such as lodging and travel, office supplies and other materials, and work efforts that cannot be readily identified with specific ER projects but are documented as pertaining to ER administration activity. The pool will be allocated to the ER projects based on the relationship between direct costs by project and the sum of those direct costs for the same quarter. The actual allocation entries in the accounting system will be completed in the month following the end of the quarter. In addition, at the time of final voucher, VTrans is proposing that administrative costs not be adjusted. If an entire project is determined to be ineligible or to not be part of the ER disaster event, the administrative costs and project charges will be removed. The administrative costs will not be re-allocated or re-applied to an eligible project. VTrans believes that the efforts associated with redistributing administrative costs at the time of final voucher or if a project is later deemed ineligible will far outweigh any benefit derived from such reallocation. VTrans believes this methodology is equitable and the most cost-effective way for VTrans to allocate those costs. Attached is a visual representation of the proposed method.

VTrans recognizes that testing and oversight will be necessary. The cost pool will be reviewed and certified by our audit section prior to processing the allocation. The review will ensure the pool includes only allowable administrative costs directly related to the ER Program. Unallowable costs will be removed from the pool prior to the allocation. In addition, VTrans will provide an allocation report and related administrative cost pool detail to FHWA staff for review once the audit section has completed the cost pool certification each quarter that VTrans requests ER indirect costs reimbursement. Additionally, VTrans will work with Vermont Division FHWA staff to develop documented cost allocation procedures within one month following approval of our proposed methodology. These procedures will contain additional controls and identify all supporting documentation.

In closing, VTrans requests prompt preliminary approval of our proposed administrative cost allocation methodology so we can begin developing and documenting cost allocation procedures for review and approval by Vermont Division FHWA staff. Once approved, we plan to perform the first allocation for the period ending December 31, 2011 and quarterly allocations thereafter.

Please do not hesitate to contact Leonard LeBlanc at (802)-828-2704 with any questions you may have.

Sincerely,



Brian R. Searles

Secretary of Transportation

Enclosure

cc: Leonard LeBlanc, VTrans Director of Finance and Administration  
Martin Churchill, VTrans Financial Manager  
Peter Mancauskas, FHWA Financial Manager

# Example - TE-045 Irene Cost Allocation

