Illinois Regional Peer Exchange on DOT Financial Practices and Programs

Summary Report

December 6 and 7, 2018

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DOT Financial Practices & Programs

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Chicago, Illinois

Overview

This customized exchange brought together financial professionals from Illinois, Colorado, Minnesota, North Carolina and Virginia to discuss common issues, compare best practices, and engage in a facilitated dialogue about managing and strengthening their funds management and programming practices.

Focus Area: Program Development

Illinois led a discussion about automated connections between the programming system and other systems.

- Illinois described the automated connections between its Program Planning System (PPS) and other systems such as the Illinois Highway Information System (IHIS) that contains an inventory of highway data and other systems that contain project information such as projects awarded.
- Illinois discussed the update of its legacy system to a web-based system that feeds into the Federal Highway Administration’s (FHWA) Fiscal Management Information System (FMIS).
- Illinois explained that the integration of automated systems provides a form of "checks and balances" because internal groups are communicating and collaborating much earlier in the process which also assists in meeting FHWA requirements.

Addressing long-term lifecycle costs

- Some states are “maintenance first,” meaning they must commit funds for maintenance before undertaking capital improvements. Funding is generally tied to performance targets that are used to develop a performance budget.

Prioritization process

- Some states discussed the difficulty in matching projects with existing funding. One state has a statutory requirement to use a scoring process to prioritize projects beginning with the concept phase with no preliminary costs estimated. This creates a challenge to put together a preliminary cost estimate that is reasonable and will not balloon over time. This requires a balancing of the scoring criteria with the benefit/cost of each project. The state also sets aside monies for high impact/low cost projects that do not necessarily score well.
- One state was recently required to break out the “research” line item in its Statewide Transportation Improvement Program (STIP) into individual projects each having a separate line item in the STIP. This is likely related to the requirement in FMIS to have a period of performance end date for each project.
- Several states expressed concern about the level of consistency across FHWA Divisions in how their Transportation Asset Management Plan (TAMP) will be evaluated/measured. Each state must develop a TAMP for the National Highway System (NHS) to improve or preserve the condition of the assets and the performance of the NHS. The TAMP must include investment strategies leading to a program of projects that

would make progress toward achievement of the state targets for asset condition and performance, while supporting progress toward achievement of the national goals identified in title 23. Implementing regulations appear in 23 CFR Part 515 (https://www.fhwa.dot.gov/asset/guidance/faqs.cfm).

Forecasting revenues

- Revenue forecasts are impacted by the regulatory environment and industry practices (e.g. anticipated impact of electric/automated vehicles) requiring states to regularly review those trends when developing forecasts.
- States described a level of risk aversion / risk acceptance, moving from a position where the state builds up cash by waiting on projects, to a position of developing projects (project readiness) while waiting on cash/funding authority.
- There is a perception, and sometimes a practice, that when a project is in the STIP, it will be delivered exactly in accordance with how it first appears in the STIP. Naturally, forecasting becomes more difficult the farther out you go, making it more difficult to deliver on the latter years of the STIP. Uncertainty may be increasing, given the anticipated penetration and impact of electric/automated vehicles.
- One state described its forecasting process in conjunction with the metropolitan planning organizations (MPOs) and rural areas and how this coalition building is useful if forecasts are called into question.

Focus Area: Program Execution

Virginia led a discussion on leadership's role in establishing accountability, visibility, and transparency with regard to project cost estimates and schedules.

- Virginia explained that the initial issue was that data were all over the place. A consultant was hired to develop a public dashboard using Microsoft Project that was highly customized and fully automated. The system adjusts all schedule dates when an individual target date is missed. The state uses this system in conjunction with several others to manage fund obligations.
- The public dashboard shows eight milestones that raised visibility at the executive level. Officials could now see discrepancies and start to see disconnects between cash flow forecasts and project data. The dashboard allows Virginia to bring insight to risks and issues facing locally administered projects with a new focus on data quality.
- States had questions related to messaging the efficacy of the dashboard; how to kick start an effort like this; definitions of schedule, milestones, and "on time, on budget"; as well as any "exceptions". Virginia stressed the importance of identifying a staff champion, communicating urgency and building a common language between engineering and financing staff. Virginia explained that the process to generate the dashboard was considered fair and that there was buy-in generated because end users saw how uncertainty was reduced and costs were constrained by this level of transparency.

Managing uncertainty (financial and political risks)

- One state shared a view of the political cost of high revenue forecasting in the late 1990s and early 2000s. The depth and breadth of uncertainty is getting bigger now (e.g. disruptive technologies). Another state develops forecasts with coalition entities to mitigate political risk.

Demonstrating fiscal constraint (apportionments and obligation authority caps)

- Some states base fiscal constraint on the obligation authority levels and some on the contract authority levels. One state includes August redistribution amounts in its fiscal constraint calculations. For the years beyond the federal authorization, most states use the amounts in the last year of authorization.

- One state is implementing its STIP constraint based on the total four-year STIP versus constraining projects by fiscal year.

STIP management

- Participants discussed the frequency of STIP amendments, and the bureaucratic management needed to make those changes.

Addressing inflation factors and programming in the STIP

- The group shared best practices for project estimating. One state conducts feasibility studies on prioritized projects while another has a decentralized process, meaning that districts have to absorb anything that goes over the estimate.
- Participants discussed forecasting relative to the STIP. One state presents forecasts twice a year to the state legislature. Another state employs a long-term forecasting process across the state, in which "reasonableness" is impacted by market-driven economics (economic analysis revisited every four years).

Over- and under-programming issues

- Some states do not over program the STIP, but participants shared the concern that if programming is too conservative they will not have projects ready to go if additional funds are available.
- Most states outsource preliminary engineering work to consultants while many states use only state funds for preliminary engineering.
- One state described the political ramifications of a high cash balance as a sign that projects are not being delivered on time. Another state developed an inventory of "needs" to help focus on where funds may be used.
- One state has policies on cash management, fund balances, and advance construction to help it manage cash (15 days of cash on hand is the minimum balance).

Lunch Discussion: Updated FHWA Financial Guidance

In May 2018 FHWA issued updated Project Funds Management Guidance and Q&A's which addressed many of the questions relating to period of performance (POP) end date. What are state DOTs doing to monitor the status of projects approaching the designated POP end date – and related challenges of ensuring that work performed outside of the POP is treated as ineligible?

- One state uses FMIS to monitor end dates and also has a field in its internal systems as well as an employee dedicated to monitoring end dates. Most issues involve local projects. The state does a "look-forward" three months prior to the end date.
- One state has set up a process for automated email reminders and another enters end dates in its project needs database.
- One state uses an aging report beginning at 180 days and decreasing on 30-day intervals prior to the end date; this process is akin to what is used for pro-active management of inactive projects.
- One state incorporates "sunset" clauses in agreements to help motivate locally administered projects to keep moving and to submit timely billings.
- Issues identified by the group include:
  - Project action standard operating procedures are beneficial. While the frequency of a "missed" end date may be low, the impact can be high.

- Communicating what it is and why it is important can be a challenge.
- When work occurs beyond the end date, it creates an administrative burden.
- It is difficult to get locals to submit bills.
- Once a potential issue or violation is recognized, it can be difficult to get the appropriate state and FHWA approvals prior to an existing end date.

Training Opportunities

- Instructor-led Grants Management Training was recently held in Minnesota and was well received. If desired, go through your FHWA Division Office to request it in your state.
- Instructor-led Indirect Cost Allocation Plan training is available.
- National Highway Institute (NHI) on-line training is available for Planning and Research Grants (parts I, II, & III).
- Federal-aid Essentials for Locals is available.
- One state expressed the need for updated/improved indirect cost processes. It is frustrating to have inconsistencies in processes and priorities across federal agencies.
- FHWA is working to update its guidance on transfers and non-federal match.

FMIS Feedback

- The more automation, the better; the FMIS action approval process is cumbersome; advance construction conversions are arduous.
- FHWA should avoid adding cumbersome elements like requiring a minimum of two state signatories.
- Navigation in FMIS-5 is an issue; the process is very time-consuming.
- Have experienced inaccuracy in Business Objects reports (e.g. a project is being reported in advance construction status after funds are obligated).
- There is a lack of responsiveness to FMIS related questions, issues, and inquiries. How are issues being prioritized?
- FMIS-5 latency issues; it is getting better, but it is still slow.
- The transfer process is manual, clunky, and slow; process is not transparent; and transfers are not processed timely.
- Can transfers be automated within FMIS?
- Funds slated for transfer are not "protected" within FMIS and may not be available when the transfer request finally is processed.
- The current process is not very transparent; only the individuals who prepare, send, and receive a transfer request know it exists and which funds will be impacted.
- Email notification is cumbersome and can be unreliable unless there is a provision to loop in back-up folks when the primary points of contact are out of the office.

Focus Areas: Funds Management Policies and Strategies

Minnesota led a discussion on advance construction management policy.

- One state indicated that all projects are authorized using advance construction, with the exception of emergency relief projects. Conversion is based on expenditures.

North Carolina led a discussion on policies and procedures for managing (optimizing) cash balances.

- North Carolina described how it manages cash for capital spending from the state Highway Trust Fund (HTF) and cash for operations and maintenance from the state Highway Fund, which is more certain from year-to-year. North Carolina is required to maintain cash at least equal to 7.5 percent of state revenues (excluding federal funds) and has a target of 20-25 percent. The cash ceiling (maximum balance) is supposed to be $1 billion – if the balance exceeds this ceiling the legislature must be notified. North Carolina officials meet once a month, bringing in major project managers periodically, to review cash balances.
- One state has a "floor" policy to ensure that cash does not run out (15 days of expenditures; $100-200M is the floor, out of $1.5B, approximately 5% of its budget).
- One state uses a Pay-as-You-Go method, whereas the other states use a cash flow model. The group discussed efforts to educate legislators as to how dollars are committed. High cash balances tend to attract attention and are perceived as a management issue. There are unique challenges when communicating operational cash needs vs. capital improvement needs.

Working with local governments, swapping funds

- Some states have a very formal process for swapping funds (replacing federal funds with state funds), but there are different models. One state was constitutionally prohibited from swapping funds.

Funding lapses, rescissions, transfers, August redistribution

- The group asked about what happens if there are not enough unobligated funds to satisfy the rescission that is scheduled to occur July 1, 2020. FHWA has not yet made a determination.

Institutional Capacity Assessment

Participants engaged in a "Question Storming" exercise to identify capacity building needs. Questions posed to participants:

Think ahead a year or two years from today. What questions, if you were able to answer them in the coming months, would help you to be more successful in your job and/or help your organization to be more successful in meeting your goals during that timeframe? What answers could be transformative in large ways or small?

After independently developing individual questions, the participants were organized into small groups to discuss their ideas and report out their top three questions to the full group. Many groups had similar questions.

Team Results

1. Blue Team

a. Where is the federal government going with reauthorization? Large AC balances are a concern.

b. How will changes in technology impact investment/revenues and planning?

c. How can we improve project close-out? Project dashboards will help.

d. Which way will the political winds blow regarding transportation?

2. Purple Team

   a. How best to automate key processes to improve efficiency and performance?

   b. How do we generate business rules to prepare for advanced technologies? The federal government is not promulgating many regulations or even policies that are helpful in this regard. Some of the guidance that does come out is very prescriptive but not very helpful in terms of dealing with the current and future realities.

   c. What will be the future public-private partnerships environment? Non-traditional transportation modes and technologies (e.g. Hyperloop) may come with different-looking public-private partnerships.

3. Black Team

   a. What keeps us up at night: workforce planning, succession planning, recruitment and retention, mixed generation work forces?

   b. How to get metropolitan planning organizations to program more long-term projects; building relationships; and better delivery on local projects.

   c. Optimizing the federal program; projects ready to go; uncertainty with rescissions and funding.

4. Green Team

   a. Managing "boutique" programs – why do we have to have so many of them?

   b. What do other states federalize – or not?

   c. Bridging communications between engineering, financing, and planning.

   d. Improving project cost estimates.

Participant List

No.	Name	Organization	Position
1	Patrick Girten	Colorado DOT	Budget Operations Leader
2	Eric Ehrbar	Colorado DOT	Federal Transportation Finance leader
3	Tim Kirby	Colorado DOT	MultiModal Planning Branch Manager
4	Kathy McNeill	Illinois DOT	Program Management Section Chief
5	Roxy Heck	Illinois DOT	Manager, Project Control Section
6	Renee Stanton	Illinois DOT	Technical Manager
7	Peggy Smith	Illinois DOT	Senior Fiscal Analyst
8	Justine Sydello*	Illinois DOT	Deputy Secretary
9	Erin Aleman*	Illinois DOT	Director, Office of Planning and Programming
10	Missy Doedtman	Illinois DOT	Program Development Section Chief
11	Tracinda Sisk	Illinois DOT	Bureau Chief of Programming
12	Robin Sylvester	Minnesota DOT	Financial Controller
13	Josh Knatterud-Hubinger	Minnesota DOT	Budget Director
14	Duane Leurquin	Minnesota DOT	Capital Highway Program, Finance Director
15	Patrick Weidemann	Minnesota DOT	Director of Capital Planning and Programming
16	Burt Tasaico*	North Carolina DOT	Director - Office of Strategic Initiatives & Program Support
17	Michelle Overby	North Carolina DOT	Funds Administration Director
18	Leigh Wing	North Carolina DOT	STIP Eastern Region Manager
19	Amna Cameron	North Carolina DOT	Deputy Director of Strategic Initiatives and Program Support

No.	Name	Organization	Position
20	David Wassermann	North Carolina DOT	Western STIP Region Manager
21	Laura Farmer	Virginia DOT	Director, Financial Planning
22	Kimberly Pryor	Virginia DOT	Director, Infrastructure Investment
23	Wendy Thomas	Virginia DOT	Director, Federal Programs Management Division
24	Joan Rost	FHWA	Office of the Chief Financial Officer, Headquarters
25	Arturo Perez	FHWA	Resource Center
26	Chris Hall	FHWA	Illinois Division
27	Sheri Koch	FHWA	Minnesota Division
28	Andre Compton	FHWA	Colorado Division
29	Vershun Tolliver	FHWA	Colorado Division
30	Rachael Blosser	FHWA	Virginia Division

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