Every Day Counts (EDC)
Arizona Local Public Agency (AZLPA) Stakeholder Council
Meeting Minutes

DATE: Thursday, March 9, 2017

TIME: 10:00AM - 2:00PM

LOCATION: Maricopa Association of Governments (MAG) – 302 N. 1st Ave, Phoenix, AZ 85003

WELCOME AND INTRODUCTIONS

Welcome by Jodi Rooney.

MEETING GUEST AND TOPIC – HURF EXCHANGE

Presentation by Lisa Danka, Debt Management and Compliance Administrator and
Patrick Stone, Federal Aid Administrator

Please review the presentation in the email along with these minutes

The HURF Exchange program is at ADOT's discretion. The minimum exchange rate is 90 cents/$1. Projects must be on the federal aid system; local roads are not eligible. Projects must be clearly identified in a fiscally-constrained TIP. A federally-funded project cannot be converted to HURF Exchange in the middle of a phase. If the TIP amendment needs to reflect money being moved, the IGA should not violate the TIP.

WORKING LUNCH RECAP

Continued conversation regarding the HURF Exchange.

Question:	What if the project needs more money?
	The sponsor can request their COG/MPO program additional funding. Otherwise, additional funding is the responsibility of the project sponsor.
Question:	What if there is left over money on the project?
	The funds are returned to the COG/MPO to be programmed on another project.
Question:	Can the funds go from design to construction and not go back to the COG/MPO?
	Lisa and Patrick will take this back to the agency.

SUMMARY OF DECEMBER 8, 2016 MEETING AND TOPICS

The topics from the December 8 meeting are as follows:

- Disadvantaged Business Enterprise (DBE) Goal Assessment
- LPA Participation on a Federally Funded Project

Feedback from the December 8, 2016 meeting topic include:

- Consultants would benefit from the BECO training.
- It is not very often that the local cities have to use the website.
- The user interface could be enhanced.

PARTICIPANT FEEDBACK AND OPEN DISCUSSION

LPA Inspector Training:

- If you are considering training, be sure that there is a job/project coming up that the inspector can work on. Otherwise, the inspector might find themselves waiting for an extended period of time for a project to arise.

FHWA UPDATE

Update by Tom Deitering, Project Delivery Team Leader and Ed Stillings, Senior Transportation Planner

- FHWA is experiencing a staff shortage. Please be patient with timelines on projects at this time.
- PreScoping – Tom is drafting a process now and will bring ADOT on board when it is completed. The process is not subject to having a project finalized.
    - Refer to the December, 2016 EDC meeting minutes

ROUNDTABLE

Question: When will more TAP funding be available? A suggestion is instead of ADOT conducting a call for projects, it would be useful for a region to use a portion of the TAP funds as part of the TIP rotation on an annual basis. Rural COG and MPOs would need to participate.

Statement: Consider a portion of our EDC meetings being reserved for a legislative update.

- Follow Senate Bill 1025. Sponsor Senator David Farnsworth.

Statement: Randy Everett from FHWA will be joining ADOT as the Central District Administrator.

Statement: Jean Knight with the Lake Havasu MPO will be retiring in early June, 2017.

ANNOUNCMENTS

- Future Quarterly Meetings
    - June 15, 2017 – Previously scheduled for June 8, 2017
    - September 14, 2017
    - December 7, 2017
- Roads and Streets – EDC AZ LPA Stakeholders Council – Featuring the HURF Exchange
    - Presentation by Jodi Rooney, Lisa Danka and Patrick Stone
        - Thursday, April 13, 2017 – Westin La Paloma, Tucson

ADJOURN

March 9, 2017 at 1:15 pm

ATTACHMENTS

Handouts and Sign-in sheet

- March 9, 2017 sign-in sheet
- HURF Exchange handouts

ADOT Project Obligation and HURF Exchange Policies

EDC AZ Local Public Agency Stakeholder Council Meeting
March 9, 2017

Patrick Stone, Federal Aid Administrator
Lisa Danka, Debt Management and Compliance Administrator

Project Obligation Policy

Pages 15 - 36

Project Obligation Policy Overview

- Effective April 1, 2017
- Project funding and inactive projects
  - Applies to all projects regardless of funding source (including HURF Exchange)
- Various project types and sponsors (design vs construction, ADOT Administered vs Local)
- Steps on funding requests
- Discusses when phases of projects will be adjusted or marked as completed
- Inactives (guidance on when projects become inactive, how projects are kept inactive and what happens once a project becomes inactive)
- De-obligations (when they happen, where the money goes)
- Reiterates previously communicated deadlines
  - All loan and transfer requests must be submitted by March 31st
  - All projects must be obligated by June 30th
- Brief section on IGAs

HURF Exchange Program Policy

Pages 37 - 47

HURF Exchange Program History

- Created by Legislature in 1997:
  - Program is at ADOT’s discretion
  - Targeted to rural cities, towns, and counties
  - Authorizes ADOT to provide State Highway Funds (SHF) in exchange for federal aid; only legal use of SHF on local projects
  - Minimum exchange rate of 90¢/$1
  - Projects must be on federal aid system (no local roads)
- Primarily used for construction phase
- Program active 1998-2009 (last project completed in 2014)
- Extremely popular with project sponsors and ADOT - facilitated 145 projects exceeding $91 million
- Shut down in 2009 because SHF revenues declined so precipitously and ADOT could no longer afford the program

HURF Exchange Program Benefits

- Less restrictive design and construction standards
- Fewer requirements
- Less project oversight
- Lower project costs
- Self-administered as opposed to ADOT-administered
- Constructed and open to traffic more quickly than fed aid projects
- Fewer projects for ADOT to administer
- 90% of funds received up-front (in phases) instead of reimbursed*
- Less than half of states have swap programs

*Final 10% is a reimbursement

Eligible HURF Exchange Projects and Costs

- Eligible projects:
  - o Primary purpose is improvement of efficiency and safety of motor vehicle travel on roadways;
  - o On the federal aid system (no local roads) and eligible for STBGP funding;
  - o All phase(s) programmed in approved, fiscally-constrained TIP; and
  - o All phase(s) approved by the COG/MPO Technical Advisory Committee.

- Ineligible costs:
  - o Maintenance
  - o Incurred prior to date of finance authorization
  - o Items outside project right of way
  - o Utility work not directly and unavoidably related to road work
  - o Betterments for utilities.

Historical Utilization by COG/MPO

COG/MPO	Total HURF Exchange $ Paid Out	# of Projects	Average Project Size ($)
CAG	11,493,081.45	38	302,449.51
CYMPO	1,316,373.00	2	658,186.50
FMPO	2,006,459.28	5	401,291.86
MAG	320,394.43	1	320,394.43
NACOG	18,953,257.13	40	473,831.43
PAG	26,419,484.18	13	2,032,268.01
SEAGO	9,982,072.90	5	1,996,414.58
WACOG	13,102,205.06	31	422,651.78
YMPO	7,561,414.52	10	756,141.45
Total	**$ 91,154,741.95**	**145**	**$ 628,653.39**

Issues Under Previous Program

- Informal approach to program management:
  - No formal agency policy or procedures
  - Limited historical/institutional knowledge following 8-yr shutdown
  - Lack of clarity regarding types of fed aid, eligible recipients, etc.

- Limited visibility and understanding regarding SHF impacts and risks

- Inactive projects despite less onerous requirements:
  - Lack of emphasis regarding project delivery expectation and accountability
  - No finance feedback mechanism to project sponsors and COGs/MPOs
  - Problems obtaining close out information

Next Gen HURF Exchange Program

- New ADOT policy FIN 5.01 - establishes a clear expectation of timely project delivery
- Effective 10/1/17 (FFY 18)
- Limited to discretionary fed aid only (Under 200K and Under 5K STP population only; called "STP Other" on ledgers)
- Swap rate remains 90¢/$1
- COG/MPO ledgers will reflect all HURF Exchange transactions
- Current policies and procedures used for fed aid projects will also apply to HURF Exchange:
  - Use or lose by June 30th annually; remaining funds may be transferred or loaned
  - Inactive project management
- ADOT can discontinue the program if SHF revenues decline due to appropriations, transfers or distributions

Next Gen HURF Exchange Program, cont.

- Amount available for the next five years will be determined annually in conjunction with the development of the ADOT 5-year program
- All phases eligible; some federal requirements still apply in construction if fed aid used in design (NEPA, Buy America)
- Currently underway projects not eligible
- Repayment required if project not built within 2 yrs of completion of HURF exchange-funded design
- De-obligated or released funds returned to COG/MPO for reprogramming
- Final voucher to be conducted on all projects
- Projects subject to audit
- ADOT may choose not to engage in a HURF Exchange in cases of misuse of, or failure to repay, HURF Exchange funding
- Tribal entities are not eligible as direct recipients of HURF Exchange funding
- Shut down process is included in policy

HURF Exchange Program Risks

- Subject to several risks associated with the State Highway Fund:
  - Legislative sweep, appropriation, transfer and distributions
  - HURF revenue performance
  - Timely and continuous receipt of federal aid reimbursements
  - Significant changes in federal aid or pro rata match requirements
  - Economic/market conditions

- Loss of fed aid project delivery knowledge and experience in local agencies

Sample COG/MPO Ledger

Northern Arizona Council of Goverments

Federal Aid Transaction Ledger

Federal Fiscal Year 2018

DRAFT Data as of: 10/31/2017

IMPORTANT! Please review the information in the Notes tab for further explanation of the data in this document.

CURRENT YEAR FUNDS

	APPORTIONMENTS /1					
Description	HURF EX	HSIP/3	SPR /4	STP other	Total	FFY OBLIGATION AUTHORITY /2
Carry Forward **LAPSES ON 6/30**	0.00	0.00	0.00	0.00	0.00	0.00
Current FFY Apportionments /5	0.00	519,767.00	125,000.00	1,928,495.00	2,573,262.00	2,442,878.00
Loans In /7	0.00	0.00	0.00	0.00	0.00	0.00
Loans Out /8	0.00	0.00	0.00	0.00	0.00	0.00
Repayments In /9	0.00	0.00	0.00	590,698.00	590,698.00	590,698.00
Repayments Out /10	0.00	0.00	0.00	0.00	0.00	0.00
Transfers In /11	135,000.00	0.00	0.00	0.00	0.00	135,000.00
Transfers Out /12	0.00	0.00	0.00	(150,000.00)	(150,000.00)	(150,000.00)
FFY Total Available **LAPSES ON 6/30** /13	**135,000.00**	**519,767.00**	**125,000.00**	**2,369,193.00**	**3,013,960.00**	**3,018,576.00**

AUTHORIZED FINANCE ACTIONS /14

					Processing Status /16									
ADOT#	TIP#	Sponsor	Action/15	Location	PB Expected	PB Received	PF Transmitted	Finance Authorization	HURF EX	HSIP	SPR	STP OTHER	TOTAL OF AMOUNT	DECLINGING BALANCE OA
TNACHUR2	NAC17-HUR2	NACOG	New Auth	NACOG HURF EXCHANGE TEST PROJECT - 2		1/1/2018	1/6/2018	1/8/2018	80,000.00				80,000.00	2,938,576.00
								Total Used	80,000.00	0.00	0.00	0.00	80,000.00	
								Remaining Apportionments	55,000.00	519,767.00	125,000.00	2,369,193.00	2,933,960.00	

NOT YET AUTHORIZED

ADOT#	TIP#	Sponsor	Action/15	Location	PB Expected	PB Received	PF Transmitted	Finance Authorization	HURF EX	HSIP	SPR	STP OTHER	TOTAL OF AMOUNT	EXPECTED DECLINING BALANCE OA
CCN 18-002D	CCN 18-002D	COCONINO CO-NACOG	New Auth	MORMON LAKE RD MILL & OVERLAY	10/1/2017							115,765.00	115,765.00	2,822,811.00
CLD 18-004D	CLD 18-004D	CLARKDALE	New Auth	MAIN ST & BROADWAY OVERLAY	10/1/2017							147,750.00	147,750.00	2,675,061.00
PNG1801P	N/A	NACOG	MPA	NACOG 2018 WP - SPR	10/1/2017						93,750.00		93,750.00	2,581,311.00
T008801C	WIN 17-012C	WINSLOW	New Auth	HISTORIC ROUTE 66; SNIDER AVE - SIMMONS AVE	10/1/2017							737,500.00	737,500.00	1,843,811.00
FY18LTAP	VARIOUS	ADOT	New Auth	LTAP - FFY18	1/1/2018							15,000.00	15,000.00	1,828,811.00
H891801C	6714 / YVV 18-003C	ADOT	New Auth	SR 89 PAULDEN TURN LANES	43101							143,805.00	143,805.00	1,685,006.00
NAC 17-014C	NAC 17-014C	NACOG	New Auth	NACOG REGIONAL SIGN REPLACEMENT - PHASE 3	1/1/2018					268,000.00			268,000.00	1,417,006.00
NAC 18-016C	NAC 18-016C	NACOG	New Auth	NACOG REGIONAL STRIPING PROJECT	1/1/2018					300,000.00			300,000.00	1,117,006.00
SZ15601C	TAY 16-004C	TAYLOR	New Auth	PAPERMILL RD	1/1/2018							811,250.00	811,250.00	305,756.00
T005801C	YYV 17-007C	YAVAPAI CO-NACOG	New Auth	BOYNTON PASS - BOYNTON CANYON RD TO DRY CREEK RD	1/1/2018							1,114,971.00	1,114,971.00	(809,215.00)
TNACHURF	NAC17-HURF	NACOG	New Auth	NACOG HURF EXCHANGE TEST PROJECT	1/1/2018				45,000.00				45,000.00	(854,215.00)
PNG1901P	N/A	NACOG	New Auth	NACOG 2019 WP - SPR	07/01/2018						31,250.00		31,250.00	(885,465.00)
								Expected Totals	45,000.00	568,000.00	125,000.00	3,086,041.00	3,824,041.00	
								Remaining Apportionments	10,000.00	(48,233.00)	0.00	(716,848.00)	(890,081.00)	

LAPSING FUNDS /17

	APPORTIONMENTS /1					
	HURF EX	HSIP	SPR	STP	TOTAL	OA
Planned Lapsing - 06/30/18	10,000.00	(48,233.00)	0.00	(716,848.00)	(755,081.00)	(885,465.00)
Lapsed - 07/01/18	0.00	0.00	0.00	0.00	0.00	0.00
Planned Lapsing - 09/30/18	10,000.00	(48,233.00)	0.00	(716,848.00)	(755,081.00)	(885,465.00)
Carry Forward to FFY 19	0.00	0.00	0.00	0.00	0.00	0.00

HURF Exchange Program Resources

- ADOT HURF Exchange Policy – FIN 5.01
- ADOT Project Obligation Policy – in development
- ADOT HURF Exchange web page – in development
- ADOT Federal Aid Highway Program web page: http://www.azdot.gov/about/FinancialManagementServices/transportation-funding/federal-aid-highway-program
- COG/MPO Federal Formula Funding Ledgers – posted on the ADOT Federal Aid Highway Program web page
- Functional Classification Maps: http://www.azdot.gov/maps/functional-classification-maps
- HURF Exchange IGA template – in development

ARIZONA DEPARTMENT OF TRANSPORTATION
POLICIES AND PROCEDURES

FIN-#.## Project Obligations

Effective: April 1, 2018
Supersedes: None
Responsible Office: Financial Management Services, Resource Administration

Review: November 1, 2018
Transmittal: 2017 - April

1.01 PURPOSE

This policy establishes the process to be used by Arizona Department of Transportation (ADOT) and Local Public Agency (LPA) personnel on initiating project funding authorizations and the treatment of inactive projects.

1.02 SCOPE

This policy applies to projects contained within the Statewide Transportation Improvement Program (STIP), regardless of funding source.

1.03 AUTHORITY

23 CFR 630.106(a)(5)
FHWA Order 4560.1c Financial Integrity and Review (FIRE)
A.R.S. §28-6954
ADOT Stewardship and Oversight Agreement

1.04 BACKGROUND

Effective April 1, 2017, the following policy, procedures and responsibilities apply to the identification and treatment of inactive projects. This policy also outlines the proper timing of funding requests and project close outs, which are a critical factor in inactive projects

Inactive projects represent idle state, regional, local and/or federal funding which could be applied to other projects, thereby improving Arizona's transportation infrastructure and the fiscal stewardship of scarce financial resources.

Generally, the most common reasons projects become inactive include:

- The project was authorized for funding too early (i.e., more than 30-60 days before the project is scheduled to advertised or work is ready to begin);
- Failure of the local public agency to invoice ADOT for reimbursement monthly or quarterly on self-administered (SA) projects or those administered by agencies with certification acceptance (CA) status;
- Lack of notification to ADOT of the completion of the project or current phase of the project.

1.05 DEFINITIONS

Authorization	Approval by FHWA (federal) or ADOT (non-federal) of a budget request for a project
Certification Acceptance Agency (CA)	A Certification Acceptance agency has a signed agreement with ADOT allowing them to administer most aspects of project development and construction
CMAQ	Congestion Mitigation Air Quality – federal funding source associated with improving air quality and reducing congestion
COG	Council of Government – regional planning organization for non-metropolitan areas
FHWA	Federal Highway Administration
Finance Authorization	Approval of project funding by FHWA for federal aid projects or by Resource Administration for non-federal projects, including HURF Exchange. No expenditures incurred prior to the date of finance authorization are eligible for reimbursement.
FMS	Financial Management Services
HELP	Highway Expansion and Extension Loan Program -
HSIP	Highway Safety Improvement Program – federal funding source to fund projects aimed at reducing fatalities and serious injuries using data driven, strategic approaches
HURF Exchange	Highway User Revenue Fund (HURF) Exchange Program – this allows planning organizations and their local agencies to swap out federal funds for state highway funds to design and construct projects
IGA	Intergovernmental Agreement
Inactive Obligation	Eligible transportation project with unexpended Federal obligations for which no expenditures have been charged against the Federal funds within the past 12 months or more
Inactive Project	Project that has not had billing activity within established timeframes set by ADOT and FHWA. Timeframes are: • 180 calendar days – Projects are considered inactive by ADOT • 270 calendar days – Projects authorized for greater than $50,000 with no expenditures are considered inactive by FHWA • 365 calendar days – Projects that have unexpended federal funds greater than $150,000 are considered inactive by FHWA
LPA	Local Public Agency
MPO	Metropolitan Planning Organization – federally mandated and funded transportation policy making

	organization for metropolitan areas
Obligation	Action that creates a legal liability or definite commitment on the part of the Government, or creates a legal duty that could mature into a legal liability by virtue of an action that is beyond the control of the Federal Government. Payment may be made immediately or in the future
PL	Metropolitan Planning – federal funds used for making transportation investment decisions in metropolitan areas
PMDR	Project Management Design Review – these are funds paid by the local agency to cover ADOT's costs associated with project development
PRB	ADOT's Project Review Board, responsible for approving changes to scope, schedule and budget for all ADOT funded projects in the current fiscal year
Resource Administration	ADOT's Financial Management Services Resource Administration Unit, which processes and obligated project funding
Scope, Schedule and Budget	Projects being submitted must have a Scope (brief description of project), a Schedule (advertisement and close out dates) and the Budget (total cost of the project being requested)
Self-administration project	Self-administration allows a Local Public Agency to administer the development of a specific project. Requires a separate approved Self Administration Consideration Request form
SPR	Statewide Planning and Research – federal funds used for making transportation investment decisions throughout the State
STBGP	Surface Transportation Block Grant Program – federal funds used for most highway transportation projects, excluding local roads and rural minor collectors
TAP	Transportation Alternatives Program – federal funds used for smaller scale transportation projects, including pedestrian and bicycle facilities, recreational trails and safe routes to schools projects

1.06 POLICY

Effective April 1, 2017, it is the policy of ADOT that:

1. Finance authorization be requested only when a project is ready to proceed;
2. Projects are closed out in a timely manner; and

3. ADOT Financial Management Services will review, track and report on all inactive projects on a monthly basis, and may take action to deobligate funding on projects which do not demonstrate sufficient progress or are no longer valid.

1.07 PROCEDURES

The procedures cover requests for project funding and adjustments to existing project funding.

Funding Requests

1. ADOT design projects. The ADOT PM should:
    a. Request funding only when work is ready to begin. The request must include the project scope, schedule and budget.
    b. Begin work within 30 days of the date of authorization by FHWA. If the project requires the design contract to be advertised, the advertisement should occur within 30 days of the date of authorization.
    c. Bill directly to the project to enable ADOT to invoice for reimbursement.
    d. 45 days after the award of the construction contract, FMS will close out all non-construction phases and deobligate any remaining funds in excess of $50,000. For Right of Way and Utility phases, Resource Administration will verify with those sections that the phases can be closed. The funding will be returned to the appropriate contingency fund (Statewide or RARF).

2. ADOT construction projects:
    a. ADOT Procurement or Contracts & Specifications should request funding only when the project is ready to be advertised.
    b. Advertise the project within 30 days of the date of authorization.
    c. Resource Administration will adjust any funding balances after award of the contract.
    d. 45 days after the award of the construction contract, Resource Administration will deobligate any remaining funds from the non-construction phases in excess of $50,000. For Right of Way and Utility phases, RA will verify with those sections that the phases can be closed. The funding will be returned to the appropriate contingency fund (Statewide or RARF).
    e. Bill directly to the project to enable ADOT to invoice FHWA for reimbursement.
    f. Field Reports (for projects advertised through C&S) or the Project Manager (for projects advertised through Procurement) will submit the close out package to Final Voucher within 90 days of project completion.
    g. After completion of the final voucher on the project, any excess funding will be returned to the appropriate contingency account (Statewide or RARF).

3. ADOT non-construction projects (planning and research, non-infrastructure). The ADOT PM should:
    a. Request funding only when work is ready to begin. The request submission must include the project scope, schedule and budget
    b. Begin work within 30 days of the date of authorization.
    c. Bill directly to the project to enable ADOT to invoice for reimbursement.

d. Notify FMS within 60 days of the completion of the project. The notification must include a Project Close Out letter. The ADOT PM will submit the close out package to FMS.

e. After completion of the final voucher on the project, any excess funding will be returned to the appropriate contingency account (Statewide or RARF).

4. Project Management Design Review (PMDR) fees (locally funded). Funding is obligated to the project once the LPA has submitted their payment to ADOT.
   a. Accounts Receivable will provide a spreadsheet to Resource Administration weekly covering all invoices paid.
   b. Resource Administration will prepare appropriate budget documents in the Department's Financial System (AFIS).
   c. Resource Administration will notify the Project Manager by email once the funding is authorized and provide a copy of the backup documentation.
   d. The Project Manager will ensure charges are billed directly to the project to enable ADOT to invoice for reimbursement.
   e. 45 days after the award of the construction contract, Resource Administration will close out the PMDR phase. The remaining funds will be returned to the appropriate LPA upon completion of final voucher for the associated construction project.

5. ADOT administered local design projects (including federally funded PMDR). The ADOT PM should:
   a. Request funds only when work is ready to begin. The request must include the project scope, schedule and budget.
   b. Begin work within 30 days of the date of authorization by FHWA. If the project requires the design contract to be advertised, the advertisement should occur within 30 days of the date of authorization.
   c. Bill directly to the project to enable ADOT to invoice for reimbursement.
   d. 45 days after the award of the construction contract, Resource Administration will close out all non-construction phases. For Right of Way and Utility phases, Resource Administration will verify with those sections that the phases can be closed. After completion of the final voucher on the project, the federal funds will be returned to the appropriate planning organization. The funds must be either transferred or loaned by March 31st or obligated to another project by June 30th of the current federal fiscal year. Any remaining funding will revert to ADOT after June 30th. Any local funds will be returned to the LPA.

6. Local administered design projects – Certification Acceptance agencies with consultant certification and LPAs approved to self-administer a federally-funded design project. For these projects:
   a. The LPA, through the ADOT PM, should request funds only when work is ready to begin. The request must include the project scope, schedule and budget.
   b. The LPA must advertise or commence work within 30 days of the date of authorization.
   c. The LPA must invoice ADOT for reimbursement of incurred costs at least quarterly to enable ADOT to bill FHWA for reimbursement.

    d. The LPA must notify and submit final invoice to ADOT within 45 days of the award of the construction contract. Once the final design invoice is paid, Resource Administration will close all non-construction phases. After completion of the final voucher on the project, the federal funds will be returned to the appropriate planning organization. The funds must be either transferred or loaned by March 31^{st} or obligated to another project by June 30^{th} of the current federal fiscal year. Any remaining funding will revert to ADOT after June 30^{th}. Any local funds will be returned to the LPA.

7. ADOT administered local construction projects:
    a. ADOT Procurement or Contracts & Specifications should request funds only when the project is ready to be advertised.
    b. Advertise the project within 30 days of the date of authorization.
    c. Resource Administration will adjust any funds after award of the contract.
    d. 45 days after the award of the construction contract, Resource Administration will close out all non-construction phases. For Right of Way and Utility phases, RA will verify with those sections that the phases can be closed.
    e. Bill directly to the project to enable ADOT to invoice FHWA for reimbursement.
    f. Field Reports (for projects advertised through C&S) or the Project Manager (for projects advertised through Procurement) will submit the close out package to Final Voucher within 90 days of project completion.
    g. After completion of the final voucher on the project, the federal funds will be returned to the appropriate planning organization. The funds must be either transferred or loaned by March 31^{st} or obligated to another project by June 30^{th} of the current federal fiscal year. Any remaining funding will revert to ADOT after June 30^{th}. Any local funds will be returned to the LPA.

8. Local administered construction projects - CA Agencies:
    a. The ADOT PM should request funds only when the project is ready to be advertised. The request submission must include the project scope, schedule and budget
    b. The LPA must advertise the project within 30 days of the date of authorization.
    c. The LPA must advise the ADOT PM of the final bid amount within 30 days of bid award. The ADOT PM will notify FMS of this information so excess funds on the project can be deobligated. The federal funds will be returned to the appropriate planning organization for reprogramming on other projects. The funds must be either transferred or loaned by March 31^{st} or obligated to another project by June 30^{th} of the current federal fiscal year. Any remaining funding will revert to ADOT after June 30^{th}.
    d. The LPA must invoice ADOT for reimbursement of costs incurred at least quarterly to enable ADOT to bill FHWA for reimbursement.
    e. The LPA must notify and submit final invoice to ADOT within 60 days of the completion of the project. The notification must include a Project Acceptance letter from the LPA to the contractor and a Close Out letter to ADOT. The ADOT PM will submit the close out package to FMS. After completion of the final voucher on the project, the federal funds will be returned to the appropriate planning organization. The funds must be either transferred or loaned by March 31^{st} or obligated to another project by June 30^{th} of the current

federal fiscal year. Any remaining funding will revert to ADOT after June 30th. Any local funds will be returned to the LPA.

9. Local non-construction projects (planning, non-infrastructure)
    a. The ADOT PM should request funds only when work is ready to begin. The request submission must include the project scope, schedule and budget
    b. The LPA should begin work within 30 days of the date of authorization by FHWA.
    c. The LPA must invoice ADOT for reimbursement of costs incurred at least quarterly to enable ADOT to bill FHWA for reimbursement.
    d. The LPA must notify and submit a final invoice to ADOT within 60 days of the completion of the project. The notification must include a Close Out letter to ADOT. The ADOT PM will submit the close out package to FMS. After completion of the final voucher on the project, the federal funds will be returned to the appropriate planning organization. The funds must be either transferred or loaned by March 31st or obligated to another project by June 30th of the current federal fiscal year. Any remaining funding will revert to ADOT after June 30th. Any local funds will be returned to the LPA.

Projects which cannot meet the time frames noted in this section will be referred to FMS for further dispensation, which will require approval of ADOT's Chief Financial Officer.

Modification of Existing Funds

1. Requests to move funds between two previously authorized phases of a project - The ADOT PM should:
    a. Prepare a Modified Funding Request form and submit to Resource Administration.
    b. RA will process the request and notify the PM once complete.
    c. Bill directly to the project to enable ADOT to invoice for reimbursement.
    d. All requests to move funding from Right of Way will need the concurrence of the ROW Project Coordinator to ensure there is sufficient funding left on the phase to complete work already authorized.
    e. All requests to move funding from Construction will need the concurrence of the Resident Engineer to ensure there is sufficient funding left on the phase to complete work already authorized.
2. Request to add funds to a previously approved local project (additional local or non-state Federal funding) - The ADOT PM should:
    a. For adding non-state Federal funding: Initiate and execute an IGA amendment and work with Multimodal Planning Division Regional Planner to amend TIP to show additional funds.
    b. Prepare a Modified Funding Request form and submit to Resource Administration.
    c. Resource Administration will process the request and notify the PM once complete.
    d. Bill directly to the project to enable ADOT to invoice for reimbursement.
3. Request to add funds to a previously approved state project using State funds or ADOT federal funding - The ADOT PM should:

    a. Prepare a PRB request form
    b. If the request is approved at PRB, RA will prepare and process the paperwork for the additional funding and notify the ADOT PM once complete.

1.08 INACTIVE PROJECTS

Tracking Project Status

Inactive projects are those defined as having no expenditures within the last 180 days. This includes any open balances and any source of funding. Resource Administration also looks ahead for projects that will go inactive in the next 90 days.

Monthly, Resource Administration will update the list of current and potential inactive projects. LPAs, their respective regional planning entity and ADOT project managers will be notified at least 30 days in advance of projects which appear to be turning inactive to enable any issues to be resolved in advance of the project appearing on the inactive list. This includes projects with minimal activities that do not appear to be making substantial progress towards completion.

For both current and potential inactive projects, RA will send an email to the applicable ADOT PM (with a cc to his/her group manager) requesting the following information in writing:

- What is the current status of the project?
- Why is the project inactive?
- When is the next action or invoice expected? A specific date is required.
- Does the excess federal funding need to be de-obligated? If not, what is the justification to keep the project funded?
- ADOT PMs and/or LPAs must either submit (or cause to be submitted) an invoice or provide the information requested above within ten (10) business days of the request for information.

Deobligation of Inactive Project Funding

Funding for projects which cannot demonstrate validity based on the information required in the Tracking Project Status section of this policy will be deobligated by FMS. For projects that are federally funded this will also require consultation with FHWA prior to deobligation.

1. Local Public Agency Projects

   If funding from a LPA project is deobligated, a letter from the ADOT CFO will be sent to the LPA contact, with a cc to FHWA, the applicable COG/MPO, the ADOT Local Public Agency Section and the ADOT PM. The letter will contain the following information:

   - Notification of the date of the deobligation action, noting various federal and IGA provisions
   - The process whereby the LPA may appeal the Department's decision
   - Treatment of the deobligated funding (see Section 1.05.3.4)
   - If applicable, an invoice for any funding which must be repaid to FHWA with a due date
   - Once the repayment has occurred, the IGA covering the project will be cancelled

   For local projects with COG/MPO administered funding (HURF Exchange, CMAQ, sub-allocated STBGP and TAP, urban STBGP and TAP, SPR and PL, or any other type of funding) the released funds will be returned to the COG or MPO. The funds must be either transferred or loaned by March 31st or obligated to another project by June 30th of the current federal fiscal year. Any remaining funding will revert to ADOT after June 30th.

For local projects with ADOT administered funding (State HSIP, Off-System Bridge, Transportation Enhancement, Safe Routes to School or Transportation Alternatives Program or any other type of funding) the released funds will be returned to the appropriate subprogram (Modernization of Projects, Statewide Contingency or Project of Opportunity-Local TAP Projects) for reprogramming on another eligible project in the current state fiscal year.

2. ADOT Projects

If funding from an ADOT project is deobligated, an email will be sent to the ADOT PM identifying the project cancellation. The email will contain the following information:

- Notification of the date of the deobligation action
- Copy of the paperwork showing the project cancellation

Funds deobligated from an inactive project will be returned to the Contingency subprogram for reprogramming on other projects within the same state fiscal year.

1.09 MISCELLANEOUS

Intergovernmental Agreements (IGA)

All Local Public Agency projects, excluding CA agencies, require an IGA with ADOT. Agreements must be executed and all local funds received prior to any project authorization. An IGA will also be required for any ADOT project where a local public agency is contributing funding to the project.

Changes in the project scope, schedule or budget may require amendment of the IGA, resulting in delays. To help avoid this, PMs should carefully review and discuss project documentation with project sponsors to ensure the project scope can actually be completed on time and with the funding provided.

1.10 CORRESPONDING DOCUMENTATION

Attachment 1: Obligation Funds, Management Guide, Federal Highway Administration

U.S. Department of Transportation
Federal Highway Administration
1200 New Jersey Avenue, SE
Washington, DC 20590
202-366-4000

Attachment 1: Obligation Funds Management Guide

This guidance defines the expectations and requirements for:

- Properly authorizing and obligating Federal funds;
- Project funds management and monitoring; and
- Promptly closing projects in FMIS.

Sound funds management entails efficiently advancing projects from authorization of the scope of work and funds to closing the project, while ensuring proper use of available Federal funding. This guidance discusses the due diligence that must be taken to ensure the recipient complies with applicable Federal laws and regulations for authorizations and obligations of all types of projects authorized through the Fiscal Management Information System (FMIS).[1] For innovative financing or alternative contracting methods, some alternative considerations may be necessary outside the scope of this guidance. Deviations from this guidance should be documented within the project agreement or in other sources supporting the project.

Since November 2012, the U.S. Department of Transportation's (DOT) independent financial statement auditors have opined that the Federal Highway Administration (FHWA) lacks sufficient internal controls over inactive obligations (also known as undelivered orders). Until this significant deficiency is corrected, there is a risk that the U.S. DOT financial statements could be misstated. While significant progress has been made to address inactive obligations since the 2012 audit opinion, the auditors reiterated their concern about the effectiveness of our funds management in November 2013.

To address the auditors' concerns, FHWA issued revised procedures in December 2013 to further improve Federal funds management and the accuracy of our financial data. These revised procedures were built on the progress made since 2012 and emphasize a proactive approach to project funds management. Specifically, they target high-risk, high-dollar balances while lessening the reporting burden for FHWA and the State DOTs.[2] Our overall goal of this guidance is for State DOTs to focus their efforts on establishing and executing sustainable and proactive procedures for timely review of all FHWA funded projects and ensure Federal obligations are adjusted to align with the project's current cost estimate.[3]

Properly Authorizing Federally Funded Projects

Properly authorizing a project[4] is the first step in sound funds management. A proper authorization includes a clearly defined scope of work for the applicable phase with sufficient funds to accomplish that work. The FHWA is required to authorize all federally funded projects, including those using advance construction (AC) provisions, before work is started[5] or advertised for construction.[6] The Federal share is established when the agreement is executed to fund a project or phase of a project.[7] Federal funds cannot reimburse any cost incurred prior to the authorization to proceed with the project or phase of work, unless specifically authorized in statute or approved under procedures set forth in 23 CFR 1.9(b).[8] The funding authorized in the project agreement must be supported by a documented current cost estimate aligned with the eligible work being completed.[9]

Projects may be authorized only after applicable Federal and State laws and regulations have been met. Each project, or phase of a project, should be supported by information demonstrating that it is ready to advance, such as inclusion in the Statewide Transportation Improvement Program (STIP), letting schedule, project design schedule, etc.[10] Division offices may only authorize the work that is ready to proceed, which typically anticipates the State DOT issuing a request for proposals, qualifications, and/or bids within 90 days and awarding the contract soon thereafter. Authorizing a phase of a project before it is ready to advance is a significant cause of project inactivity and is not allowable. Authorization is FHWA's internal control mechanism to ensure Federal and State laws, regulations, policies and procedures have been met before costs are incurred.[11] The division office's and State DOT's Stewardship and Oversight Agreement outline approvals and actions required for Federal authorizations.

If a State DOT elects to include all phases of work within one FMIS project agreement (i.e., use one Federal-aid project number), each phase should be authorized and funds obligated only when that phase is actually ready to proceed. Authorizing preliminary engineering (PE), right of way, and construction costs at the same time should not occur as this is prematurely obligating phases of work not yet ready to proceed. For example, to authorize construction, 23 CFR 635.309 requires that certain conditions concerning right-of-way acquisition be completed. If the expenses related to right-of-way acquisition have not been previously authorized and incurred (if they are to be paid with Federal funds), then it is typically not proper to authorize the construction phase. When the next sequential phase of a project is ready to proceed, the project agreement may be modified to include additional costs and the phase authorization date may be entered in FMIS to denote the project's progression to the next phase. Certain contracting methods, such as design-build construction, may result in two or more phases being authorized concurrently if, for example, preliminary engineering was not previously authorized for the development of the plans or documents for the request for proposals.

Authorizing each phase of work and the funds necessary for that phase at the time it is ready to proceed ensures that costs are readily traceable to the applicable phase of work and that confirmation has occurred that all Federal requirements have been met for that phase. As each phase is authorized, the actions taken in FMIS should be clearly defined in the State/Division Remarks fields. Each authorized phase of the project needs specific deliverables to be able to determine a reasonable cost estimate for completion of that phase. For example, a deliverable for the PE phase of a project may be the National Environmental Policy Act (NEPA) document or the plans, specifications and estimate (PS&E) package. Project agreements for work to be accomplished under open-ended consultant services contracts should be obligated only based on the specific deliverable and related cost of that deliverable. Such contracts should not be based on the upper funding limit of the open ended contract.

The project authorization should clearly define the scope of work authorized and the estimated total cost of the authorized work. The authorization will document the Federal Government's share of the eligible cost of the project or phase of work.[12] The scope of work should articulate the project location and character of work.[13] The total project cost should account for all costs for the authorized work from all sources—Federal, State, local, private, and donations, including non-participating costs. For example, the total project costs being authorized for a contract to be advertised should be equal to the estimated cost of that contract (i.e., the cost listed in the PS&E, including all participating and non-participating costs). There should be a direct relationship to source documents and the project agreement total cost. It should be noted that phases or contracts not included in the FMIS agreement because they will have no Federal obligations but are part of the "overall" project based on the NEPA document, are not relieved from being subject to certain Federal requirements, such as Buy America requirements.[14]

Non-participating costs associated with the authorized phase of work may be due to ineligible work or a determination by the recipient to not commit Federal funds for a portion of the project. These costs should be identifiable to a reviewer not familiar with the project. Non-participating costs should be included in the total project cost for applicable phases and recorded in FMIS as instructed in FMIS guidance with a description of the non-participating costs noted in the appropriate remarks fields. Although the total cost recorded in the project agreement includes non-participating costs, the Federal pro rata share is based only on those costs that are identified as participating.

Project authorizations with conditional approvals should only be used in very limited circumstances. Such approvals limit FHWA's controls to ensure funds are obligated in accordance with laws and regulations. It is important to note that a conditional approval is an obligation of Federal funds that requires the recipient to satisfy particular conditions before the cost may be incurred and billed to the project. Due diligence must be performed to ensure all Federal requirements are met prior to the expenditure occurring. An example of a legitimate conditional approval is when the State DOT can clearly demonstrate that Federal requirements will be met before a project is awarded, but a need has been demonstrated to advertise the project early and delay of the authorization would negatively impact the project schedule. Conditional approvals should not be made for the purpose of reserving funding before the project is ready to proceed.

Proper Obligations and Advance Construction Authorizations

An obligation is proper when there is a documented binding agreement between a Federal agency and an authorized grant recipient or other legal entity (including another Federal agency).[15] This documentation must support that the obligation is for purposes authorized by law. An AC authorization is an authorization pursuant to 23 U.S.C. 115 for a future obligation associated with State incurred expenses for an authorized project pursuant to this unique provision, except there is no current Federal commitment of funds and the Federal share is not set.[16] Otherwise, AC authorizations are administered in the same manner as a regular project authorization.[17] The Federal share, percent or lump sum, is set at the time of the AC conversion or partial conversion to an obligation of Federal funds.

A proper obligation of Federal funds or AC authorization occurs when the project agreement:

- Clearly defines the eligible scope of work;
- Contains the obligation amount necessary for the work authorized (except for an AC authorization) and that amount is supported by a documented and current total project cost estimate;
- Complies in form with the provisions of 23 CFR 630.106 for initial authorizations or 23 CFR 630.110 for modifications, and the FMIS Manual;

- Meets Federal requirements for such authorization, such as 23 CFR 635 subpart C for physical construction authorization; and
- Is signed by an authorized representative of the recipient and a minimum of two FHWA individuals with that delegated authority.[18]

An obligation of funds is a commitment by the Federal Government to reimburse eligible and allowable costs. Appropriations law requires obligations to be recorded within their period of availability. Under 23 U.S.C. 118, certain Federal-aid funds released by modification of the project agreement or final payment after the period of availability has ended may be reobligated within the same fiscal year that the deobligation occurred.[19]

As previously stated, recording an obligation before a project is ready to proceed (considering documentation, project schedule, and funding) is not allowed except under the mentioned conditional approvals. Examples of unallowable practices include:

- Protecting funds from lapsing at year-end;
- Obligating funds only to use all obligation limitation; and
- Authorizing projects for local public agencies solely to reserve Federal funds for a future project.

Deobligating funds from a recorded obligation solely to free them up, replace them with other funds, or use AC (commonly referred to as "reverse AC") is not allowed unless authorized by statute.[20] Examples of unallowable practices include:

- Deobligating Federal funds solely for the purpose of meeting FHWA's performance goal for inactive obligations, but with anticipated remaining costs, (which is considered under-recording of an obligation); or
- Deobligating Federal funds from projects with no expenditures but leaving an obligation of $1 of Federal funding (because this does not reflect the current cost estimate to complete the phase of work).

When the project does not reflect the total cost under these conditions, costs incurred are unallowable for reimbursement because funds to cover such costs are not properly authorized.

Project Funds Management and Monitoring

Project funds management integrates monitoring of obligations and project performance schedules.[21] Monitoring is an internal control component used to assess the quality of project performance over time.[22] Ongoing monitoring is a primary component of proactively managing obligations to prevent the obligation from becoming inactive, and to prevent fraud, waste, and abuse. Project agreements and obligations should reflect the projects in the applicable STIP and other State scheduling references, such as letting schedules and contract terms. Division offices and State DOTs should manage and adjust obligations to reflect the current cost estimate. If the State DOT does not timely adjust obligations to reflect the current cost estimate, the division office, after consultation with and notice to the State DOT, may unilaterally deobligate unsupported funds (discussed below).

Standard operating procedures (SOPs) are an important internal control tool that can assist division offices with implementing effective project funds management, adequate project delivery systems and other aspects of stewardship and oversight agreements. Documented SOPs facilitate consistently applied stewardship and oversight by division offices to ensure appropriate governing policies are in place. Division offices and State DOTs[23] are encouraged to maintain SOPs describing the responsibilities associated with monitoring all federally funded projects and the frequency with which these responsibilities must be carried out. The SOPs that are kept up-to-date and consistently followed, coupled with effective management controls, minimize the risk of regulatory non-compliance and financial irregularities.

Monitoring should include understanding the project's performance requirements and schedule to ensure the project is progressing appropriately.[24] As a general rule, a project should be advertised (or a request for proposals or qualifications issued) within 90 days of authorization.[25] If the project is not progressing promptly (e.g., not being advertised and awarded), the State DOT should withdraw the project or applicable phase. Once a project or phase is withdrawn, any additional costs incurred may not be billed for reimbursement until the project is properly reauthorized in FMIS with a new authorization date.

Effective monitoring practices include periodic reviews to adjust or modify the project authorization by the State DOT to reasonably reflect the current cost estimate. Adjustments to recorded obligations (or the amount authorized as AC) must be supported by documentation of changes in the project cost and must maintain the Federal share as originally authorized[26] or adjusted at bid award.[27] If the precise cost related to a pending obligation is not known, the funding amount must be based on the best available information. As more precise information becomes available, the State DOT is required to adjust the obligation to match the current estimate. If the project is properly authorized, additional eligible costs that occur during progression of the project (e.g., cost overruns, eligible costs identified during audits, within scope cost increases, and changed field conditions) that may not be represented in the total cost in the project authorization are allowable for Federal participation and the project may be modified to include such costs and corresponding Federal share. The project authorization should be modified as soon as practical to reflect such costs.

If a State desires to have the flexibility to adjust the amount of Federal funds on a project, the project should be authorized as an AC project. As noted, the Federal share or the lump sum amount of an actual obligation of Federal funds should not be changed after the agreement is approved except at contract award.[28] An AC authorization is the avenue a State must use to allow flexibility in levels of Federal funding, unless there is provision in law for one fund source to be replaced with another, such as is available for emergency relief funding. An AC authorization should be treated the same as a regular Federal-aid obligation with respect to meeting all Federal regulatory requirements and policies except that there is no commitment of Federal funds and the Federal share has not been set.

Periodic reviews also include managing inactive obligations (no expenditure activity in the previous 12 months or longer)[29] and monitoring the progress of projects to the next phase of work, as appropriate. When managing inactive obligations, division offices should review billing activity to ensure reimbursement requests are proper and are not devices solely to keep a project from becoming inactive. If monitoring indicates potentially unsupported or unallowable costs are being billed, the division office should initiate corrective actions.

Additionally, expenditures for PE[30] or right-of-way[31] are subject to repayment provisions if the project does not progress to the next phase of work. Division offices should monitor PE projects to ensure they progress to the next phase of work within 10 years from the date of authorization. Division offices should monitor right-of-way projects to ensure they progress to construction within 20 years from authorization. For example, division offices may review PE projects that have been authorized for 3 years and 7 years to ensure work is progressing according to schedule. At 10 years, such projects should be reviewed to confirm right-of-way or construction has proceeded and if not, to determine if a time extension is warranted, or if payback of Federal funds is required.

Adjustments culminating in a deobligation of Federal funds must be supported by a documented cost estimate. A deobligation of funds to the level of expenditures should not occur unless supported by a current cost estimate (except as discussed later when a project becomes inactive), as this violates the requirement to have the total project cost of the authorized phase reflected in the project agreement (i.e., in FMIS) at all times. Deobligating Federal funds removes Federal participation for the work supported by the obligation as it is considered a change in the Federal share authorized. Reducing the Federal funds to the expended amount means that any cost incurred after that date may not be reimbursed because the deobligation removes Federal authorization.[32]

Justifications for Inactive Obligations

Project management and monitoring are partially facilitated through the requirement for quarterly testing of inactive projects. Recipients must demonstrate that the obligation for the tested projects remains proper and that the inactivity is beyond the State DOT's control.[33] Causes beyond their control may include delays such as litigation, unforeseen utility relocations, catastrophic events that materially delay the project or unforeseen environmental concerns.

State DOTs are encouraged to include billing requirements in their subrecipient agreements to ensure requests for reimbursement are processed regularly (e.g., monthly). Lack of billing from local public agencies, utility companies, and railroads should not be used as a justification that the project obligation is proper.

An inactive obligation is proper if it aligns with the State DOT's documented current cost estimate and the State DOT demonstrates that project activity is occurring that requires the remaining amount of obligated funds. The division office should be satisfied that the State DOT's justification sufficiently explains the facts and circumstances causing project delays beyond the State DOT's control and the obligation aligns with a current cost estimate.

An obligation is improper if the State DOT cannot provide adequate justification to explain why the project is stalled or is not under contract, and the division office believes the project will not proceed within a reasonable schedule. An example of this situation may be a consulting services contract that has been put on hold and is not incurring costs. Improper obligations must be adjusted[34] to align the Federal funds obligated with the phase of work's current cost estimate, which may be the current expended amount. The properly documented expended amount is considered to be the current cost estimate if that is all FHWA has to support the costs. If the project will not be completed, expenditures incurred are to be credited back to FHWA and the project authorization withdrawn from FMIS. An AC authorization should be treated similarly and the authorization withdrawn if the project will not proceed in an acceptable timeframe.

If the State DOT or its subrecipient has an active contract in place (i.e., has not been put on hold) and is incurring costs to be reimbursed and sufficient documentation of such activity is provided, the funding should not be deobligated below the contract cost estimate. Also, the division office should encourage the State DOT to notify its subrecipient that the project obligations will be removed if incurred costs are not billed within a specified and agreed upon timeframe.

Unilateral Deobligations by the FHWA Division Office

If the division office's monitoring discloses improper obligations and the State DOT has not acted within a specified timeframe, the division office has the authority to unilaterally deobligate the project to the current cost estimate.[35] A review for project inactivity should begin when a project has been inactive for 9 months. If reimbursements are not processed within the next quarter, the project will be deemed as inactive at 12 months. The division office should work with the State DOT to remedy the inactive status before the project has 12 months of inactivity (i.e., process a claim for reimbursement, or withdraw or deobligate the project). Before 15 months of inactivity, the division office should initiate remedial action, possibly a unilateral deobligation.[36]

Unilateral deobligation is authorized when the obligation is not supported by a documented cost estimate, not adjusted to reflect the current cost estimate, or is considered improper and the State DOT does not act to deobligate the improper amount. The division office must not deobligate funds that are supported by a current cost estimate (e.g., under contract and incurring costs), or if the project is inactive for reasons beyond the State DOT's or the sub-recipient's control.

The division office is required to notify the State DOT in writing that it intends to unilaterally deobligate funds and provide the State DOT with at least 30 days to respond in writing to the proposed action. If the State DOT does not act or respond within the designated timeframe, FHWA may deobligate unexpended obligations to align obligated Federal funds with the current cost estimate. This unilateral deobligation is not permitted from August 1 to September 30.[37]

The division office should provide a clear explanation in the FMIS Division Remarks explaining why it is taking unilateral action and that Federal authorization is removed for the funds being deobligated. Once the action is taken in FMIS, the division administrator or designee should forward the modified project agreement to the State DOT point of contact to ensure all recipients are aware of the removal of Federal participation for future costs incurred until the work activities are re-authorized as described below.

When FHWA deobligates funds due to inactivity or insufficient support for the estimate or failure to meet Federal requirements, all costs incurred after deobligation are unallowable for Federal participation. For example, FHWA deobligates $1,000 in January from the project's unexpended amount. In June, the State DOT requests to obligate the $1,000 and this authorization is approved by FHWA. Any costs incurred by the State DOT (or its subrecipient) between January and June are not eligible for reimbursement because unexpended funds were not under obligation during the period when those costs were incurred. The division offices should review any expenditure on the project that occurred prior to the deobligation, particularly if the deobligation occurred due to inadequate documentation that the project met Federal requirements at the time those costs were incurred.

Closing Federal Projects in FMIS

The State DOT submits a request to FHWA to close a project when it determines that all required work or deliverables on the project and all applicable administrative actions (e.g., reporting, final billings, etc.) have been completed. Effective project management requires coordination of activities among all units and functions. Coordination within the division office and among all appropriate State DOT offices ensures a Federal project does not languish as open and inactive due to barriers preventing the closing of the project.[38]

Project closeout guidance will be further evaluated upon implementation of the requirements contained in 2 CFR 200. This will include guidance on agreement end dates and expected closeout schedules.

A project is considered complete when the work is accepted and the contractor is released from responsibility on the project (except potentially for warranty provisions). For example, upon final acceptance of a project by the State DOT (e.g., the contractor is released from contractual obligations on the project and retainage is released, except where warranty provisions disallow), final billing of a project and final documentation for project closeout should be completed soon thereafter. Project final acceptance procedures are based on each division and State DOT stewardship and oversight agreement and established SOPs.

Project closeout procedures should be initiated when the project has been completed (e.g., the State DOT has accepted the project from the contractor as complete and final payment has been made). Unexpended Federal funds should be deobligated at that time to reflect the State DOT's current cost estimate (total final payment to the contractor, plus anticipated costs for "trailing costs," such as State DOT final reviews of project documents necessary for closing out the project). Obligations should not be kept on a project while the State DOT is working through the final audit process, pending appeals for denied claims, or other litigation unless there is sufficient reason to believe a denial will be overturned on appeal. Adjustments to the obligations can be made as necessary if eligible and allowable costs or credits to the project are identified that were incurred before excess Federal funds were deobligated. For example, obligations may be adjusted to include costs from project litigation resolved after project closeout.

Projects can be closed in FMIS once documentation is collected for retention that supports the project's costs and compliance with Federal requirements.[39] It is a good practice for a division office to include in its SOPs a list of documents the State DOT is expected to retain and those items the division office expects to receive for closeout purposes. The closeout process should ensure that all costs incurred and reimbursed by FHWA are documented and any required milestone reports are submitted and/or retained. Attachment 2 includes a list of documents typically necessary to support the financial record and requiring retention after final billing for financial purposes by the State DOT. These records may need to be retained for longer periods depending upon the status of the project in its entirety based on the project definition for NEPA or major project purposes or to support later phases. Typically, the State DOT retains these records, which are to be made available to FHWA upon request. FHWA internal record retention requirements are contained in FHWA Order 1324.1B - FHWA Records Management.

The record retention period for financial purposes is 3 years and begins when the final voucher is submitted in FMIS.[40] For an AC authorization, the 3-year retention period begins only after the final conversion of State expenditures to Federal obligation has occurred and actual costs are reimbursed by FHWA for the project planned to be closed. The closeout process should be executed expeditiously and the FMIS agreement closed as soon as possible after submission of the final voucher. If a project languishes during the closeout process, there is a possibility of loss of documentary evidence of costs incurred. If documentation is not available to support a cost, those costs are improper and must be repaid.

Project agreements may be reopened to increase the obligation amount and provide for subsequent reimbursement if additional eligible costs are identified during an audit process, as a result of an appeal of a contractor claim, litigation, etc. The project may also be reopened if ineligible costs are identified during the audit process for which funds must be credited back to FHWA. The record retention period restarts if the project must be reopened for such purposes unless there is no change in the obligation or expenditure amount. Again it should be noted, records may be required to be retained for longer periods for other purposes.

While most projects should be promptly closed when the work activity is complete, as indicated by the State DOT's final acceptance, or other work completed (e.g., deliverables from a consultant services contract), some scenarios may cause a project to remain open for a longer period, such as when warranty provisions are part of the construction contract that delay final payments. The decision to close a Federal project should include consideration of the likelihood of the State incurring additional eligible and allowable costs on the contract. Those additional allowable costs should remain obligated based on the current estimate (i.e., payment of retainage to the contractor after successful plant establishment requirements). If the costs are independent of the contract (i.e., by State forces or by separate contract), those costs should be accounted for in a separate project, to allow the construction project to close.

Warranty Provisions Associated with Project Closeout

Many types of warranty provisions may need to be considered prior to closing out a project. In most instances, the project should be prepared for closure upon the State DOT's final acceptance and the contractor is provided final payment. There may be instances where final payment may include a delayed payment for retention for items such as plant establishment requirements.

Keeping a project open solely due to the existence of a warranty is not appropriate. Long-term warranties where periodic evaluation is needed do not justify the project to remain open. Eligible periodic evaluations should be accounted for separately, such as through an indirect cost rate or by setting up a separate project, depending upon the recipient's cost accounting policies. If a failure occurs on a warrantied project or contractual performance is not met, and the contractor or surety makes payments to the State, the original project should be reopened to account for the Federal share of any credits. If repairs are needed that the contractor is not required to provide under terms of the contract, and the repairs are eligible for Federal funding, the State DOT should request a new project authorization for such work because it is outside the original scope of work previously authorized.

Division offices can consult the Office of Infrastructure for additional guidance. Additional guidance is intended to be issued on project closeout to implement 2 CFR 200.

Key Terms

The FHWA uses the following key terms concerning sound funds management and monitoring. Many key terms relate to the Office of the Chief Financial Officer's guidance, "Funds Availability and Reobligating Expired Funds," dated January 17, 2014, which can be referenced for more information pertaining to period of availability.

Current Cost Estimate – A current cost estimate should reflect the anticipated cost of the project in sufficient detail to permit an effective review and comparison of the bids or proposals received. The estimate before the project begins may be based on historical data from recently awarded contracts, the actual cost to complete the work, or a combination of both. As the project progresses, the cost should be adjusted to reflect any contract changes.

Deobligation – A deobligation is the downward adjustment or cancellation and removal of a previously recorded Federal funds obligation associated with a project. This action reduces the obligation on the project agreement.

Expenditure – An expenditure is the actual spending of money (an outlay) or reimbursement that liquidates in whole or in part a previously recorded obligation; reimbursements are requested by the State DOT or other direct recipient, and paid by the Federal Government, to a project or program for which a Federal award was received.

Inactive Obligation – An inactive obligation is an eligible transportation project with unexpended Federal obligations for which no expenditures have been charged against the Federal funds within the past 12 months or more.[41]

Ineligible Costs – Ineligible costs are typically, line item costs determined to not be in compliance with Federal law for reimbursement or are specifically excluded by law as ineligible for Federal participation in a specific program. An example of an ineligible cost due to purpose is a project is funded by Highway Safety Improvement Program (HSIP) funding. Highway improvement costs beyond the limits of the safety improvement or not for the HSIP purpose is ineligible. An example of an ineligible cost due Federal requirements is proprietary items that have not received the appropriate approvals to be reimbursed with Federal funding.

Internal Control – An internal control is a process, implemented by an entity, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of reporting for internal and external use, and compliance with applicable laws and regulations.

Non-participating Costs – Non-participating costs are costs that will not or cannot be reimbursed with Federal funds. These costs are still part of the total cost of the project and must be accounted for in the project authorization. Non-participating costs could occur because of ineligibility or because the grant recipient determined that the specified items will not be reimbursed with Federal funding.

Obligation – An obligation is an action that creates a legal liability or definite commitment on the part of the Government, or creates a legal duty that could mature into a legal liability by virtue of an action that is beyond the control of the Federal Government. Payment may be made immediately or in the future.[42]

Proper Obligation – A proper obligation is an amount of Federal funding recorded as an obligation, which is supported by documentary evidence in writing of a binding agreement between an agency and another entity (including an agency) that is in writing, for a purpose authorized by law, and executed before the end of the period of availability (except for re-obligations permitted under 23 USC 118(c)).[43]

Recipient – Recipient means a non-Federal entity that receives a Federal award directly from a Federal awarding agency to carry out an activity under a Federal program.

Subrecipient – Subrecipient means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program. Subrecipients do not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency.

Unallowable Cost – Unallowable costs are costs that are determined not to meet Federal law, regulation, or policy, or are not allocable to the Federal award and cannot be reimbursed with Federal funds. Such costs may include otherwise eligible costs that did not meet certain process requirements or were determined to be otherwise non-participating by agreement. Examples include costs that are incurred prior to Federal authorization or costs that are incurred after a project is deobligated because of non-compliance with funds management requirements.

Unilateral Deobligation – A unilateral deobligation is the process whereby, after written notice is provided to the State DOT, FHWA may deobligate project obligations that have been determined inactive or otherwise improper without the State DOT's signature when certain criteria have not been met.

Withdrawal – A withdrawal removes all Federal participation on the phase of work and no further costs can be incurred.

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[1] FHWA Order 4560.1C, Financial Integrity Review and Evaluation Program, dated April 21, 2014, establishes the FIRE program requirements, including the framework for financial internal control to support an annual certification required by 31 U.S.C. 1108(c).

[2] State DOTs are referenced in this document as FHWA's primary direct recipient of funding through FMIS. This guidance should be applied as applicable to any recipient of FHWA-administered funds and their subrecipients.

[3] Cost estimates may include a reasonable level of contingency based on documented State practice within the budget and relative risk involved for the cost estimate. That is, the contingency amount may be higher at the start of the project and lower as the project nears completion.

[4] For this guidance, a project is the FMIS authorized project (typically by phase) and should not be confused with a project as defined in NEPA or major project legislation and regulation.

[5] 23 CFR 630.106(a).

[6] 23 CFR 635.112(a), Proper authorizations for AC, which constitutes an authorization to proceed without an obligation of funds, must meet all Federal requirements, the same as a fully obligated project except that the obligation of funds may occur at a later date. 23 U.S.C. 115 and 23 CFR 630, subpart G, prescribes the requirements and procedures for advancing the construction of Federal-aid highway projects without obligating Federal funds apportioned or allocated to the State. There is no authority provided to waive or delay provisions because the project is authorized as AC.

[7] 23 CFR 630.106(f), AC agreements provide an estimated share that may be adjusted when funds are actually obligated to the project.

[8] Federal funds include all sources of funding such as the Highway Trust Fund and General Fund.

[9] 31 U.S.C. 1554(b)(2)(E) requires that obligated balances reflect proper existing obligations to support eligible and allowable expenditures.

[10] 23 CFR 635.309 and 23 CFR 172.

[11] 23 CFR 1.9(a).

[12] The Federal share of eligible project costs is established at project authorization, or the initial AC conversion, using either a pro-rata share or lump sum agreement, as required by 23 CFR 630.106(f). See HCF memo, "Clarification on Modification of Lump Sum Federal Share – Project Agreement," dated January 3, 2012 for more information.

[13] The *FMIS User Manual* provides more information on properly authorizing a project within the system and what information is to be included in a project header.

[14] 23 U.S.C. 313(g).

[15] 31 U.S.C. 1501 defines the documentary evidence requirements for Government obligations.

[16] The AC authorization should represent the estimated Federal share that could be converted to an obligation in the future though there is no requirement to convert the full amount. In addition, the Federal share could be higher if an eligible fund source is available at the time of conversion to an obligation. If the State DOT intends to limit the amount of conversion, that should be documented in the State remarks section of the authorization.

[17] 23 CFR 630.703.

[18] FHWA Order M1100.1A outlines the Agency's Delegation of Authority. Individual offices should also have a delegation of authority document.

[19] Refer to the HCF guidance, "Funds Availability and Reobligating Expired Funds," dated January 17, 2014, for more information on the reobligation authority for funds from the Highway Trust Fund.

[20] 23 CFR 630.110(a).

[21] 49 CFR 18.40(a).

[22] GAO Standards for Internal Control in the Federal Government, November 1999, p. 20.

[23] State DOTs should have similar SOPs in place to be in compliance with 23 CFR 630.106(a)(4), which requires States to have processes in place to adjust project cost estimates at specific intervals such as when a bid is approved, a project phase is completed, design change is approved, etc.

[24] 49 CFR 18.40(a) requires continual monitoring to ensure performance goals are being achieved, such as adhering to the project schedule and budget.

[25] A project moving within 90 days of authorization is based on the requirement in 23 CFR 630.106 to review projects every 90 days.

[26] 23 CFR 630.106(f)(1).

[27] 23 CFR 630.106(f)(2).

[28] See HCF memo, "Clarification on Modification of Lump Sum Federal Share – Project Agreement," dated January 3, 2012, for more information.

[29] 23 CFR 630.106(a)(5).

[30] 23 U.S.C. 102(b), Engineering Cost Reimbursement; and FHWA Order 5020.1, Repayment of Preliminary Engineering Costs, dated April 26, 2011.

[31] 23 CFR 630.112(c)(1) explains right-of-way acquisition requirements.

[32] This reduction or removal of authorization does not apply to costs adjusted due to project closeout and audit activities or when adjusted to account for within scope increases and overruns that occurred when the project was properly authorized.

[33] See HCF memo, "Revised Supplemental Internal Procedures for the Review, Validation, and Testing of Inactive Obligations," dated December 30, 2013, prescribes the requirements for monitoring inactive obligations.

[34] 23 CFR 630.106(a)(5).

[35] If the State DOT fails to comply with 23 CFR 630.106 (a)(3), (4), or (5), the FHWA division office has the authority to take unilateral action to revise the obligation amount of the project or take other action as authorized by 23 CFR 1.36.

[36] See HCF memo, "Revised Supplemental Internal Procedures for the Review, Validation, and Testing of Inactive Obligations" dated December 30, 2013, for more information.

[37] 23 CFR 630.106(a)(6).

[38] Barriers include a "silo effect" due to the lack of communication and notification, missing documentation, uncoordinated audit functions, warranty delays, reobligation challenges, reactive project reporting, and lack of timely funds adjustment. These are discussed further in the Program Management Improvement Team's Final Project Closeout, Phase 2 Report, issued February 2014.

[39] 49 CFR 18.50(a).

[40] 49 CFR 18.42(c) defines the 3-year record retention requirement starting from the date of final expenditure report submission. In the Federal-aid highway program, this report is the final voucher.

[41] 23 CFR 630.106.

[42] GAO Principles of Appropriations Law, Vol II, 7-3.

[43] 31 U.S.C. 1501(a)(5)(B), (C).

Page posted on November 24, 2014.

ARIZONA DEPARTMENT OF TRANSPORTATION
POLICIES AND PROCEDURES

FIN-5.01 HURF Exchange Program

Effective: October 1, 2017 | Review: October 1, 2019
Supersedes: None | Transmittal: 2017-October
Responsible Office: Financial Management Services, Office of the Chief Financial Officer | Page 1 of 11

1.01 PURPOSE

To ensure the timely and effective use of Highway User Revenue Fund (HURF) Exchange funds for the benefit of the traveling public. Due to the less restrictive and more flexible nature of HURF Exchange funding, projects are expected to cost less and progress much more rapidly than federal aid projects.

1.02 SCOPE / APPLICABILITY

This policy applies to the Arizona Department of Transportation's (ADOT) management of the HURF Exchange program, as well as ADOT's interactions with Arizona Councils of Governments (COG) and Metropolitan Planning Organizations (MPO) wishing to participate in the HURF Exchange program and any local project agency (LPA) wishing to receive HURF Exchange funding.

1.03 AUTHORITY

A.R.S. § 28-6993(G)

1.04 BACKGROUND

Annually, ADOT provides federal Surface Transportation Block Grant Program (STBGP) funding on a discretionary basis to Arizona's Councils of Governments (COG) and Metropolitan Planning Organizations (MPO), which then program the funds for specific local projects in the applicable region. To use STBGP funding, federal law requires LPAs to be "certified" by the Federal Highway Administration (FHWA) to administer federal aid projects. Since most cities/towns/counties receive very limited federal funding, it is not cost effective to become certified. Therefore, these LPAs must contract with a certified entity (usually ADOT) to develop and construct their projects.

The use of federal funding also requires compliance with certain federal environmental, procurement and other regulations. These requirements typically result in higher costs than if the project were built with non-federal funds.

ADOT routinely administers federally-funded projects and can generally deploy the discretionary federal funding quickly. In light of this, the COGs/MPOs and ADOT supported legislation in the early 1990s authorizing the exchange of HURF monies distributed to the State Highway Fund

(SHF) for COG/MPO STPBG funding. Known as "HURF Exchange," this program enables cities/towns/counties to build their projects themselves using state funding, avoiding the expensive and time-consuming federal regulatory requirements. Because the HURF Exchange results in reduced costs and administrative burden for the cities/towns/counties and transfers that burden to ADOT, the statute allows ADOT to pay $.90 cents in SHF for each $1 of federal funding exchanged.

The HURF Exchange program is offered at ADOT's discretion.

1.05 DEFINITIONS

Apportionments	Surface Transportation Block Grant Program (STBGP) funds provided by ADOT to COGs/MPOs on a discretionary basis.
Arizona Financial Information System (AFIS)	The Arizona State accounting system
COG/MPO ledger	The COG/MPO federal aid funding ledger. This document reflects the authorization status of projects in the current federal fiscal year, apportionments and obligation authority, transfers and loans, available and lapsing funds. Ledgers are prepared by ADOT Resource Administration for each COG/MPO and posted monthly on ADOT's website at: http://www.azdot.gov/about/FinancialManagementServices/transportation-funding/federal-aid-highway-program.
Federal Highway Administration (FHWA)	A division of the US Department of Transportation specializing in highway transportation
Fiscal Management Information System (FMIS)	FHWA's major financial information system for tracking federally-funded projects
Final Voucher unit	FMS unit responsible for preparing a final project accounting for each project.
Financial Management Services (FMS)	ADOT division responsible for project funding, accounting, final vouchers, accounts receivable, accounts payable and other accounting and financial management functions.
Fully executed IGA	An IGA which has received all required approvals and opinions and has been signed by all parties.
HURF Exchange sub-fund	A sub-fund of the State Highway Fund (SHF) to which SHF monies are transferred for approved and authorized HURF Exchange

	projects.
Infrastructure Delivery and Operations (IDO)	ADOT division responsible for the management, design and construction of state and local transportation projects.
IGA	Intergovernmental agreement
Monthly Receipts and Expenditures Report	A monthly report prepared by the General Ledger unit of ADOT Financial Management Services reflecting receipts and expenditures by fund/sub-fund.
Multimodal Planning Division (MPD)	ADOT division responsible for managing the planning of the statewide transportation network.
Obligation Authority	The amount of apportionments which may be obligated in a federal fiscal year. ADOT provides obligation authority, on a discretionary basis, to COGs/MPOs.
Resource Administration Database	The Access database used by Resource Administration to track federal aid and HURF Exchange funding and produce the COG/MPO ledgers.
Resource Administration	ADOT's Financial Management Services Resource Administration unit, which processes and obligates project funding.
Surface Transportation Block Grant Program (STBGP)	A category of funding under the federal aid highway program. The subcategories of STBGP applicable to the HURF Exchange program are Under 200,000 population and Under 5,000 population. These categories appear on the COG/MPO ledgers as "STP Other."

1.06 POLICY

A. Availability and Amount

1. Availability of the HURF Exchange Program is at ADOT's discretion. ADOT reserves the right to discontinue the program at any time. Appropriations, transfers, distributions or revenue shortfalls which diminish SHF revenues may result in the immediate discontinuation of the program.

2. The amount of HURF Exchange available will be determined annually in conjunction with the development of the ADOT Five Year Transportation Facilities Construction Program (5-year Program).

3. The only types of federal aid eligible for exchange are the Under 200,000 population and Under 5,000 population categories of STBGP provided to COGs/MPOs. The annual

amount of HURF Exchange available to each COG/MPO for programming will be based on its pro-rata share of discretionary funding in these categories.

4. Federal aid apportionments and obligation authority will be exchanged for SHF based on the process discussed in Section 1.06.E. The HURF Exchange rate is $.90 in SHF for each $1.00 in federal obligation authority exchanged.

5. All discretionary funding, including federal aid and HURF Exchange funds, must be transferred or loaned to another COG/MPO or ADOT by March 31 or obligated to projects by June 30 of each fiscal year. Any funding remaining at July 1 will revert to ADOT.

B. Funds Management

1. HURF Exchanges and HURF Exchange project transactions will be reflected on the COG/MPO federal aid funding ledgers produced by the ADOT Resource Administration database.

2. ADOT General Ledger will transfer funding from the SHF into the HURF Exchange sub-fund (DT2030/D2030__) as each project phase is authorized. An exhibit for the HURF Exchange sub-fund will be presented in the Monthly Receipts and Expenditures Report.

3. A monthly reconciliation will be performed by ADOT Resource Administration of the AFIS HURF Exchange sub-fund and the Resource Administration database.

4. HURF Exchange projects will be subject to ADOT's Inactive Project Obligation policy and procedures, which includes inactive projects.

C. Eligible Projects and Costs

1. In order to be eligible for the HURF Exchange program, a project must have as its primary purpose the improvement of the efficiency and safety of motor vehicle travel on roadways. Pursuant to A.R.S. § 28-6993(G), all HURF Exchange projects must be on the federal aid system and be eligible for federal STBGP funding. Projects on local roads are not eligible. All phase(s) of HURF Exchange projects must also be approved by the COG/MPO Technical Advisory Committee and programmed as HURF Exchange in the approved, fiscally-constrained Transportation Improvement Plan (TIP).

2. HURF Exchange funds may be used only for costs directly related to the design, right of way and construction of eligible HURF Exchange projects. Ancillary items such as utility relocation required for the primary purpose of the project, sidewalks and ADA ramps may be included in the eligible project. Other costs, including but not limited to the following, are not eligible for HURF Exchange and are the responsibility of the LPA:

- Maintenance of the HURF Exchange project.
- Costs incurred prior to date of finance authorization.
- Any items outside of the project right of way.

- Utility relocation which is not directly and unavoidably caused by the road work.
- Betterments of utilities.

3. Project phases authorized with federal aid prior to October 1, 2017 are not eligible for HURF Exchange funding. The phase must be completed with its current funding type.

4. Subsequent phases of federally-funded projects authorized prior to October 1, 2017 are eligible for HURF Exchange funding, subject to applicable federal requirements. These projects may still be subject to oversight by ADOT and/or the Federal Highway Administration (FHWA).

5. As of the effective date of this Policy, all new projects, and each phase thereof, must be programmed as either HURF Exchange **or** federally funded. After October 1, 2017, any new projects authorized with federal funds will not be eligible for HURF Exchange.

D. Project Initiation and Intergovernmental Agreements (IGA)

1. All HURF Exchange projects require an IGA and must be initiated through the ADOT Local Public Agency (LPA) section. The LPA will request project initiation and must provide the project scope, schedule, project budget, a map showing the project location and the functional classification of the roadway, a copy of the transportation improvement plan (TIP) listing reflecting the HURF Exchange programming and any other documents which may be required.

   For each phase of the project, additional documents will also be required at the time of finance authorization of the phase based on the delivery method as discussed in Section E, Finance Authorization.

2. Upon receipt of a complete submission, the LPA section will:

   a. Establish an ADOT project number and forward the project to the Project Management Group (PMG) which will assign an ADOT Project Manager (PM), and

   b. Initiate an IGA, which must be fully executed before the project can seek finance authorization.

3. The PM must review any projects funded with federal aid prior to the effective date of this Policy with FHWA to identify applicable federal requirements. The PM must ensure these requirements are incorporated into the IGA.

4. The PM must also review the project scope to identify any ineligible costs under the HURF Exchange program. Such costs will be identified in the IGA and will be the responsibility of the LPA.

5. Changes in the project scope, schedule or budget may require amendment of the IGA. To help avoid this, PMs should carefully review and discuss project documentation with

LPAs to ensure the project scope can actually be completed on time and with the funding provided.

6. A fully executed IGA does not guarantee funding or constitute permission to begin work. The LPA must request and receive finance authorization for each project phase in advance of starting work as discussed in Section E, Finance Authorization. Expenditures incurred prior to the date of finance authorization of the applicable phase are not eligible for HURF Exchange.

E. Finance Authorization

1. Upon full execution of the IGA, the LPA may request finance authorization. Such authorization is to be requested and approved for each project phase based on the schedule in the IGA. Subsequent phases will not be authorized until preceding phases are completed, with the exception of a right of way phase that must be undertaken currently with design.

2. Each phase of a HURF Exchange project must be ready to proceed and must receive finance authorization by June 30 of the fiscal year(s) reflected in the IGA. Funding for project phases which cannot proceed pursuant to this schedule will not be obligated. The applicable COG/MPO is responsible for transferring or loaning the funds to another COG/MPO or ADOT by March 31 or programming it to other projects which can authorize by June 30 of the fiscal year. Any remaining funding will revert to ADOT on July 1. The LPA is responsible for working with the applicable COG/MPO to reprogram the funds for the affected phase(s).

3. To ensure the June 30th deadline is met, the request should be submitted to the ADOT PM no later than May 15th. Depending on the delivery method of the phase, the following documents must accompany the finance authorization request:

   a. If performed by the LPA’s staff or with consultants/contractors selected based on qualifications – the TIP listing, the final, itemized project budget, scope and schedule including the start and completion of work.

   b. If a competitive bid is required - the TIP listing, bid package, and the project schedule including the timeframes for advertising, bid opening, award, start and completion of work.

   c. Other documents as requested by ADOT.

4. Upon receipt of a complete finance authorization submission, the PM will prepare a Project Funding Request (PRF) for the applicable phase of the project, checking the HURF Exchange box. The PFR, including the project scope, schedule and budget and TIP listing, will be emailed to the ADOT Resource Administration email box.

5. Upon receipt of a complete and accurate PFR, Resource Administration will review the project phase information to ensure eligibility under the HURF Exchange program. Once

eligibility is confirmed, Resource Administration will transfer 100% of the federal apportionments and obligation authority from the applicable COG/MPO ledger to ADOT. This transaction will appear as a “transfer out” on the ledger.

6. Resource Administration will fund each project phase as HURF Exchange at 90% of the federal obligation authority transferred to ADOT. This transaction will appear as a “transfer in” of HURF Exchange funding to the COG/MPO on the ledger.

7. For projects with federally-funded phases authorized prior to the effective date of this policy, Resource Administration will also amend the end date of the project in FMIS and AFIS based on the schedule reflected in the IGA.

8. Upon completion of the ledger transfers, Resource Administration will approve the PFR and notify ADOT General Ledger to transfer the authorized HURF Exchange amount from the SHF to the HURF Exchange sub-fund.

9. When the funds have been transferred into the HURF Exchange sub-fund, Resource Administration will obligate the HURF Exchange funds on the project phase, establish the project phase budget in AFIS and inform the PM the project phase is open. The PM will notify the LPA that the project phase may be advertised, consultants may be selected or work can begin.

10. LPAs must begin work, initiate selection of consultants/contractors or advertise the project, as applicable, within 30 days of the date of authorization.

11. Upon selection or award of consultants/contractors for each project phase, as applicable, LPAs are required to submit the final, itemized project budget, scope, and schedule including the start and completion of work to the ADOT PM as follows:

- **a.** If performed by consultants/contractors selected based on qualifications - within thirty (30) days of selection. The submission should include the consultant scope with itemized costs.
- **b.** If a competitive bid is required - within thirty (30) days of award. The submission should include an itemized cost breakout for the awarded contract.
- **c.** IGA amendments may be required if the final, itemized project budget, scope, and schedule varies from that reflected in the IGA.

12. For all project phases, if the final, itemized project budget is less than the amount authorized, the ADOT PM will inform Resource Administration, which will release the excess HURF Exchange funding from the project phase and return it to the COG/MPO. This transaction will be reflected on the applicable COG/MPO ledger as a credit in the HURF Exchange column. These funds must be transferred or loaned to another COG/MPO or ADOT by March 31 or obligated to projects by June 30 of each fiscal year.

If the final, itemized project phase budget is greater than the amount of HURF exchange funding authorized, the LPA is responsible for the difference.

13. As each subsequent phase is authorized, any preceding phases will be closed in AFIS pursuant to ADOT's Project Obligation policy and any remaining funds will be returned to the COG/MPO for reprogramming. These funds must be transferred or loaned to another COG/MPO or ADOT by March 31 or obligated to projects by June 30 of each fiscal year.

F. Project Billing

1. The invoicing schedule for each phase of HURF Exchange projects will follow a standard protocol of 30%/30%/30%/10%:

a. Within 10 business days of the date of finance authorization for each project phase and prior to the start of work - the LPA will submit to the ADOT PM an invoice for 30% of the HURF Exchange funding for that phase. This initial invoice may be submitted with the documents required in Section 1.06.E.11.

After adjusting the project phase budget as discussed in Section 1.06.E.12, ADOT will advance 30% of the HURF Exchange amount to the LPA within 30 days of receipt and approval of the invoice and documents required in Section 1.06.E.10.

b. At 30% completion of the work – the LPA will submit to the ADOT PM an invoice for an additional 30% of the HURF Exchange funding. The invoice must include copies of project invoices and expenses incurred and paid to date which demonstrate the work is progressing to the 30% mark. ADOT will advance the next 30% to the LPA within 30 days of receipt and approval of the invoice and accompanying documentation.

c. At 60% completion - the LPA will submit to the ADOT PM an invoice for an additional 30% of the HURF Exchange funding. The invoice must include copies of project invoices and expenses incurred and paid since the previous draw which demonstrate the work is progressing to the 60% mark. ADOT will advance the next 30% to the LPA within 30 days of receipt and approval of the invoice and accompanying documentation.

d. At final completion - The final 10% of HURF Exchange funding will be paid on a reimbursement basis as outlined in the Section G, Project Close-out.

2. Projects are expected to progress according to the scope, schedule and budget in the IGA and submitted pursuant to Section 1.06.E.10. In accordance with ADOT Project Obligation policies and procedures, LPAs will be required to justify the viability of those projects which do not demonstrate adequate progress or the funding will be deobligated by ADOT. Deobligated HURF Exchange funds will be returned to the applicable COG/MPO and must be transferred or loaned to another COG/MPO or ADOT by March 31 or obligated to projects by June 30 of each fiscal year.

3. Expenditures made prior to the date of finance authorization are not eligible for HURF Exchange.

4. All HURF Exchange submissions and invoices are to be submitted to the assigned ADOT PM, who is responsible for reviewing, approving and forwarding invoices to FMS for payment within 10 days of receipt.

5. Any invoicing protocol proposed for the IGA which varies from the 30%/30%/30%/10% structure must be approved in advance in writing by the ADOT Chief Financial Officer.

G. Project Close-out

1. The LPA, applicable COG/MPO and ADOT representative (and possibly FHWA if federal funds were used to design the project) must complete a final project review, which should be done before the close-out package is submitted.

2. Within 60 days of the completion of the project, the LPA will submit the close-out package to the ADOT PM. The close-out package must include an invoice for the final 10%, the Project Acceptance letter from the LPA to the contractor, and a close-out letter to ADOT.

3. The ADOT PM will review and approve the close-out package and submit it to Resource Administration.

4. Resource Administration will review the close-out package to ensure all documentation has been received. Upon confirmation, Resource Administration will forward the close-out package to the FMS Final Voucher unit.

5. A final voucher review will be conducted on all HURF Exchange projects. ADOT will reimburse the final 10% of the cost of the project to the LPA within 30 days of the completion of the final voucher. Upon payment of the final 10%, the project will be closed out in AFIS, any remaining funding will be released from the project and no further invoices will be processed.

6. Any released funding will be returned to the COG/MPO, and will appear as a credit to the project in the HURF Exchange section on the COG/MPO ledger. The released funds must be transferred or loaned to another COG/MPO or ADOT by March 31 or obligated to projects by June 30 of each fiscal year.

H. Miscellaneous

1. Any HURF Exchange funds deobligated, released or otherwise removed from projects will be returned to the applicable COG/MPO for reprogramming and will appear on the ledger as a credit to the project in the HURF Exchange section on the COG/MPO ledger. The released funding and must be transferred or loaned to another COG/MPO or ADOT by March 31 or obligated to projects by June 30 of each fiscal year. Any remaining funding will revert to ADOT on July 1.

2. ADOT employees are required to track their time on each HURF Exchange project using the administrative phase. These costs will not be billed to LPAs without amendment of this policy in advance.

3. If a project developed (including Right of Way acquisition) with HURF Exchange funds is not constructed within two years of the completion of development, the LPA must repay all HURF Exchange payments to ADOT. Upon receipt of an invoice from ADOT, the LPA has 30 days to remit the full amount.

The repaid funds will be deposited in the HURF Exchange sub-fund of the SHF and will be returned to the applicable COG/MPO to be transferred or loaned to another COG/MPO or ADOT by March 31 or obligated to projects by June 30 of each fiscal year. The returned funds will appear on the ledger as a credit to the project in the HURF Exchange section.

4. LPAs are required to retain all records related to a HURF Exchange project for a period of five years after the date of the final payment of HURF Exchange funding from ADOT.

5. All HURF Exchange projects are subject to audit. ADOT may refer projects to the State Auditor General or ADOT's Internal Audit unit in cases of suspected misuse of HURF Exchange funding.

6. ADOT reserves the right to refuse to enter into further HURF Exchange transactions with a LPA which owes repayment of previous HURF Exchange funding or has misused HURF Exchange funds.

7. ADOT assumes no liability or financial responsibility for HURF Exchange projects. LPAs are solely responsible for complying with all applicable laws, rules and regulations, for any additional funding required to complete the project and for any claims due to delays, change orders or any other circumstances.

I. Shutdown Process

1. Certain situations result in the diminishment of SHF revenues, and may result in the immediate discontinuation of the program. These include, but are not limited to: appropriations, transfers, or distributions of HURF or SHF funds; legislative fund sweeps; declining revenues or revenue shortfalls; delays in federal reimbursements; significant changes in federal aid funding or pro rata match requirements; and economic or market conditions. In such situations, ADOT may choose to discontinue the HURF Exchange program.

2. ADOT will implement a shutdown process as follows:

a. FMS will determine the effective date of the shutdown.

b. FMS will notify IDO, MPD, the JPA group and the COGs/MPOs of the shutdown date as soon as possible.

c. HURF Exchange IGAs which are fully executed as of the shutdown date will be honored. No further HURF Exchange IGAs will be executed or initiated after the shutdown date.

d. COGs/MPOs will need to reprogram any remaining HURF Exchange projects with federal aid. All applicable federal requirements will apply.

e. All federal aid projects (with the exception of those of CA agencies) will be administered by ADOT. ADOT staff will charge their time directly to the projects and the LPA will be billed for these charges.

f. The March 31 deadline for the transfer or loan to another COG/MPO or ADOT, the June 30 deadline for obligation of funds to projects and reversion to ADOT on July 1 will continue to apply.

1.07 CORRESPONDING POLICIES AND DOCUMENTATION

FIN-2.01 Funds Control Policy

FIN-5.09 Charging/Distributing Costs to Local, State and Federal Projects

MGT-14.01 Department-wide Agreement Policy

ADOT Local Public Agency Projects Manual: http://azdot.gov/docs/default-source/business/lpa-manual.pdf?sfvrsn=50

ADOT Project Development Process Manual: http://azdot.gov/docs/projects/project-development-process.pdf?sfvrsn=0

ADOT Project Funding Request

ADOT Project Obligation policy and procedures (in development)

State of Arizona Accounting Manual: https://gao.az.gov/publications/SAAM/

Functional Classification Maps: http://www.azdot.gov/maps/functional-classification-maps

Everyday Counts - Arizona Local Public Agency Stakeholder Council

Thursday, March 9, 2017 • 10:00 PM – 2:00 PM

Maricopa Association of Governments (MAG) • 302 N. 1st Ave, Saguaro Conference Room • Phoenix, AZ 85003

Completion of this sign-in sheet is completely voluntary and helps the project team keep an accurate record of meeting attendees. Under state law, any identifying information provided below will become part of the public record and, as such, must be released to any individual upon request. Please print clearly.

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ADOT

Completion of this sign-in sheet is completely voluntary and helps the project team keep an accurate record of meeting attendees. Under state law, any identifying information provided below will become part of the public record and, as such, must be released to any individual upon request. Please print clearly.

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