



KDOT Korner

KDOT Launches New Fund Exchange

By Lisa Harris

Fewer strings attached... much more local control... what's not to love?



Federal aid funds can be traded for state funds, with many fewer strings attached for how they are spent.



A significant source of road funding available to counties and many cities in Kansas is the Federal Aid Program. It is administered by the Kansas DOT for the Federal Highway Administration. Local Aid funds are appropriated by KDOT to each local public agency, or “LPA,” using a formula. These funds are to be used only for major construction and rehabilitation projects—and only on designated federal aid routes. A 20 percent local match is required. Projects are programmed as part of the LPA’s 5-year plan.

While Federal Aid funds significantly help counties (and cities >5,000 pop., not in Metro Areas) with major road projects, many other types of projects fall outside the scope of what the Federal Aid Program will fund. That has been a source of frustration to LPA road officials in Kansas, who, if given a choice, would rather spend that money on much-needed maintenance—for roads, bridges, culverts, curb and gutter, sidewalks and signs. Also, they would prefer to not be restricted to spending funds on federal aid routes, but rather use them wherever the need is the greatest—on any road.

A new choice

Now local governments have a choice. With KDOT’s new federal fund exchange program, there are two ways to tap into an LPA’s federal aid allocation:

1) **The customary way:** The local government uses the federal funds with a 20 percent local match for major construction projects on federal aid routes. The projects need to meet federal fiscal controls and they have strong oversight from KDOT. State-approved contractors typically are hired to do these projects. KDOT lets these jobs and collects the local match immediately after letting.

2) **The new option:** The local government exchanges its federal funds with KDOT for state funds, on a reimbursement basis. The state will reimburse up to 90 percent of the local government’s federal aid allocation for local projects, as costs are incurred. Exchanged funds can be used for construction or maintenance projects anywhere they are needed. The projects are under local control, with minimal state oversight. Work can be done by contractors or the LPA’s own employees.

How it works

First, an LPA decides the projects it will complete in a given year with the exchanged funds, and outlines them in an agreement with KDOT, with estimated costs and completion dates. LPAs will pay for those projects up front and then will submit expenses to KDOT, with invoices and

a reimbursement form. Expenses can be sent at any interval the LPA chooses; however, KDOT will only process requests of \$1,000 or more. Once each reimbursement request is received by KDOT, the expenses will be reviewed and approved, a check will then be issued to the LPA within a few weeks.

Questions about the program

• *What are the advantages to an LPA in exchanging federal funds for state funds?* When federal funds are exchanged for state funds, the state funds can be used for a wider range of types of projects, including maintenance of roads, signs, culverts, and bridges. Those projects may not require the extensive engineering (and costs) associated with federal aid projects. And some things that could not be paid with federal funds for federal aid projects (e.g. ROW acquisition and utility relocation) can be paid with the funds received in an exchange.

Another advantage in exchanging the funds is that the local government may be able to avoid some restrictive federal provisions, such as Buy America (for steel), NEPA documentation, and others, depending on the type of project.

• *Are there any disadvantages?* The program pays 90 cents on the dollar, so fewer real dollars are available. But because many maintenance projects require less engineering and inspection than typical Federal Aid projects, the money goes farther.

LPAs will need to be on the ball about following state requirements in letting their jobs. These requirements



Sources:

- Ron Seitz and JR McMahon. Personal interviews. October 18, 2010.
- Norm Bowers. Federal Funds Exchange Program. County Comment. October 2010.
- KDOT. Federal Fund Exchange Program Guidelines. July 29, 2010. <http://www.ksdot.org/burLocalProj/default.asp>



are not new, but since KDOT will not be letting the local jobs, the LPA will be responsible for obtaining permits, acquiring ROW, etc., when needed.

• *Which tasks require an engineer?*

In 2005 KDOT published a K-TRAN report on road-and-bridge related tasks that require a licensed engineer (or supervision by a licensed engineer) and those tasks that don't. That information is available on a quick-reference card available from Kansas LTAP (see page 15). KDOT is using this card to guide decisions about whether an engineer is needed for a given task. If after consulting the card you still have a question about whether part of your project needs to be conducted by an engineer, call KDOT's Bureau of Local Projects for a determination (785-296-3861).

KDOT will spot-check projects for proper use of engineering when engineering is required. If projects are completed without proper engineering, KDOT will meet with the agency with the hope of reaching an understanding about the importance of proper engineering to the state and also to the local agency, for safety and to avoid the possibility of a non-engineer's judgement being called into question in a lawsuit.

• *Is pre-approval from KDOT needed for each project?* Pre-approval is not needed, but the project must be one of the many types eligible for reimbursement. For instance, funds can't be used to purchase salt and sand for winter maintenance. Consult KDOT's *Federal Fund Exchange Guidelines* for eligible projects (see sources, below left).

• *The program allows LPAs to trade funds with each other. Why would a local agency want to trade their own local funds to receive federal aid funds?* This allows LPAs to help each other out. If an LPA has a federal aid construction project in the works, they will need to meet federal requirements anyway. If they plan to spend more than the required 20 percent local match, they could trade some of the extra local match to another LPA and receive federal dollars in return. The donor agency would just need to make sure that they have at least 20 percent local funds available to match the new increased federal dollar amount.

Local exchanges are not restricted to the 90 cents on the dollar exchange rate; local agencies can decide their own rate.

• *Can funds be carried over and accumulated for larger projects?* Yes. State funds received in an exchange can be accumulated for up to three years and sometimes longer—if you have a plan and the state has cash-flow.

• *Can the funds can be used for maintenance on gravel roads?* Yes, it's up to the LPA to decide which of their roads need the funding the most. Most LPAs will probably use the funds on asphalt roads, though, as maintenance on those roads usually costs more and benefits more citizens.

• *What if the LPA does not have funds up-front to spend for reimbursement?* The LPA would need to finance the project, for example with temporary notes.

• *Is the use of in-house labor and equipment eligible for reimbursement?* Yes, it is. This has changed as a result of input KDOT received at training sessions around the state. KDOT will now reimburse for labor and equipment time on projects done by the LPA forces. This is consistent with the way KDOT has handled Federal Aid projects in the past.

Some comments about the program

JR McMahon, Road and Bridge Department Director for Miami County, said the Federal Aid program has been primarily used by counties in Kansas as a bridge replacement program and many counties had difficulty coming up with the 20 percent match. He sees several significant opportunities with the new Fund Exchange Program:

1) Tasks that locals have had to pay for under the Federal Aid program can be reimbursed with the fund exchange, including preliminary engineering, ROW acquisition and utility relocation.

2) The new program provides an opportunity for LPAs to fund transportation aspects of economic development projects. For example, funds could pay for construction for a road to a new business park—something that could bring in additional tax revenue. McMahon sees this as a big advantage over, for example, re-building a bridge when it is not really needed.

3) If your county is in the preservation mode, the fund exchange can be used to give the “best bang for the buck” on your asphalt roads, chip seals, and even sidewalks.

4) LPAs will be able to upgrade signs to meet the new federal guidelines in the *Manual on Uniform Traffic Control Devices* (MUTCD) for retroreflectivity and letter size and height.

McMahon said: “This new program is going to make commissioners, road supervisors and county engineers think harder about where they are going to spend their road dollars. We all need to think creatively to make the best decisions for the community—that’s our responsibility. When used correctly, this [new fund exchange] is a big deal.”

Norm Bowers, Local Roads Engineer for the Kansas Association of Counties, calls the program a win-win for counties and KDOT. “The counties have flexibility to affect some cost savings, and KDOT ends up with additional federal funds.”

Ron Seitz, Chief of KDOT's Bureau of Local Projects, said the biggest benefit to locals in this program is that they will be able to develop their projects in the way that best meets their needs and the needs of their system. Seitz said many local agencies have requested more flexibility with the funds allocated to them. This program provides that.

Conclusion

The new federal fund exchange program really is a whole new way of doing business using federal fund allocations. Any Local Public Agency can benefit from using the program. State oversight is minimal, and the advantages to local agencies are substantial.

KDOT's Bureau of Local Projects has posted detailed information on the program at its Web site, <http://www.ksdot.org/burLocalProj/default.asp>. Local Projects has already conducted classes on the topic statewide and will give presentations at its district meetings in the Spring. There is even a youtube video that describes the program. <http://www.youtube.com/watch?v=fCRKdEjO3Xg>.

If you are an LPA, be sure you are educated about this new program so you can take advantage of it. ■