

Federal Fund Exchange Programs

Review of Existing Policies and Practices

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Disclaimer

The contents of this report reflect the views of the authors, who are responsible for the facts and the accuracy of the information presented herein. The opinions, findings, and conclusions expressed in this report are those of the authors and not necessarily those of the Florida Metropolitan Planning Organization Advisory Council (MPOAC).

Table of Contents

Chapter 1 Introduction	1
Chapter 2 Arizona.....	2
<i>Organization of the Exchange</i>	<i>2</i>
<i>Eligible Funds and Projects</i>	<i>3</i>
<i>Eligible Agencies</i>	<i>4</i>
<i>Role of the State</i>	<i>4</i>
<i>Exchange Rate.....</i>	<i>6</i>
<i>Matching Funds.....</i>	<i>6</i>
Chapter 3 California.....	7
<i>Organization of the Exchange</i>	<i>7</i>
<i>Eligible Funds and Projects</i>	<i>7</i>
<i>Eligible Agencies</i>	<i>8</i>
<i>Role of the State</i>	<i>8</i>
<i>Exchange Rate.....</i>	<i>8</i>
<i>Matching Funds.....</i>	<i>8</i>
Chapter 4 Colorado.....	9
<i>Organization of the Exchange</i>	<i>9</i>
<i>Eligible Funds and Projects</i>	<i>9</i>
<i>Eligible Agencies</i>	<i>9</i>
<i>Role of the State</i>	<i>9</i>
<i>Exchange Rate.....</i>	<i>9</i>
<i>Matching Funds.....</i>	<i>9</i>
Chapter 5 Connecticut	10
<i>Organization of the Exchange</i>	<i>11</i>
<i>Application Process</i>	<i>11</i>
<i>Screening Process</i>	<i>12</i>
<i>Planning Studies</i>	<i>12</i>
<i>Project Specifics.....</i>	<i>12</i>
<i>COG Quarterly Meetings.....</i>	<i>13</i>
<i>Individual COG Annual Meetings</i>	<i>13</i>
<i>Exchange Rate.....</i>	<i>13</i>
Chapter 6 Iowa	14
<i>Organization of the Exchange</i>	<i>14</i>
<i>Eligible Funds and Projects</i>	<i>15</i>
<i>Eligible Agencies</i>	<i>16</i>
<i>Role of the State</i>	<i>16</i>
<i>Exchange Rate.....</i>	<i>16</i>
<i>Matching Funds.....</i>	<i>16</i>
Chapter 7 Kansas	17

<i>Organization of the Exchange</i>	17
<i>Eligible Funds and Projects</i>	17
<i>Eligible Agencies</i>	18
<i>Role of the State</i>	18
<i>Exchange Rate</i>	19
<i>Matching Funds</i>	19
Chapter 8 Minnesota	20
<i>Organization of the Exchange</i>	21
<i>Eligible Funds and Projects</i>	21
<i>Eligible Agencies</i>	22
<i>Role of the State</i>	23
<i>Exchange Rate</i>	23
<i>Matching Funds</i>	23
Chapter 9 Nebraska	24
<i>Organization of the Exchange</i>	24
<i>Eligible Funds and Projects</i>	24
<i>Eligible Agencies</i>	24
<i>Role of the State</i>	24
<i>Exchange Rate</i>	25
<i>Matching Funds</i>	25
Chapter 10 Ohio	26
<i>Organization of the Exchange</i>	26
<i>Eligible Funds and Projects</i>	26
<i>Eligible Agencies</i>	26
<i>Role of the State</i>	26
<i>Exchange Rate</i>	27
<i>Matching Funds</i>	27
Chapter 11 Oregon	28
<i>Organization of the Exchange</i>	30
<i>Eligible Funds and Projects</i>	30
<i>Eligible Agencies</i>	31
<i>Role of the State</i>	31
<i>Exchange Rate</i>	31
<i>Matching Funds</i>	31
Chapter 12 Utah	32
<i>Organization of the Exchange</i>	33
<i>Eligible Funds and Projects</i>	33
<i>Eligible Agencies</i>	33
<i>Role of the State</i>	33
<i>Exchange Rate</i>	33
<i>Matching Funds</i>	34

Chapter 13 Summary	35
References.....	37
Appendix A Federal Fund Exchange Matrix.....	41
Appendix B FHWA Briefing	43
Appendix C Caltrans Sample Invoice	49
Appendix D Connecticut LOTCIP Guidelines and Materials	50
Appendix E Minnesota Federal Fund Exchange Application	51

List of Figures

Figure 1. HURF revenue distribution flow FY2019.....	3
Figure 2. LOTCIP Flow Chart	11
Figure 3. KDOT federal fund exchange	17

List of Tables

Table 1. Historical HURF Exchange Utilization by COG/MPO (1998 to 2009)	6
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Chapter 1

Introduction

Locally administered Federal-aid projects, managed by State Transportation agencies, allow cities, counties, and other Local Public Agencies (LPAs) to administer Federal-aid projects and provides for construction, reconstruction, and improvement of highways and bridges on eligible Federal-aid highway routes (FHWA, n.d.). These projects are required to remain in compliance with federal program requirements, including environmental determination and mitigation, right-of-way procurement, utility relocation, design standards, detailed project management/contract compliance and quality assurance procedures.

Federal processes and requirements are described as time consuming and costly for local agencies. To address these concerns, several state Departments of Transportation (DOTs) have developed federal fund exchange (or swap) programs. Exchange programs offer a practical solution for both DOTs and local agencies by de-federalizing locally administered Federal-aid projects, allowing local agencies to exchange federal dollars for state dollars. Each state identifies an exchange rate, which is the ratio of state dollars that can be exchanged for federal dollars. Exchange rates vary between states ranging from an equal exchange (1:1) to 75 cents of state dollars for federal dollars (3:4). Where the exchange rate is not equal, the excess funds are used by the state to cover exchange program costs (FHWA, 2018). More information on exchange rates are provided through this document and in Appendix A.

The Federal Highway Administration (FHWA) conducted a survey of current fund exchange programs and reported that fifteen states have an exchange program. The fund exchange survey briefing developed by FHWA is provided in Appendix B.

This research, conducted using a combination of online searches and DOT staff interviews, takes a deeper look into states identified by FHWA as having fund exchange programs. Of the fifteen states identified, Idaho, Indiana, New Jersey, and Wisconsin had limited information online and were unable to be contacted for an interview. This document summarizes findings from the online searches and/or interviews from the remaining eleven states. Please note that the report attempts to accurately summarize information provided by each state reviewed and that names and acronyms used may differ from state to state, even as they refer to the same program or concept (i.e. federal funding program acronyms).



Chapter 2 Arizona

The Arizona federal fund exchange was first introduced in 1997. The Arizona Department of Transportation (ADOT) suspended the program in 2008 due to a sharp decline in Highway User Revenue Fund (HURF) revenues (the HURF is a repository for a variety of fees and charges relating to the registration and operation of motor vehicles on the public highways of the state). The program was reinstated on October 1, 2017, and currently remains active. The first iteration of the HURF exchange, 1998 to 2009, facilitated 145 projects exceeding \$90 million in total value (ADOT, 2018a).

The support for a federal fund exchange emerged during the early 1990s and finally culminated in the legislation which authorized its use in 1997. The council of governments (COGs) and metropolitan planning organizations (MPOs) supported legislation for a fund exchange in light of ADOT's ability to efficiently execute federally funded projects and to quickly deploy discretionary Surface Transportation Block Grant Program (STBGP) funds. Also, COGs, MPOs, and ADOT identified state-funded local projects as being less time and resource intensive than the federal aid process would allow. ADOT and local transportation agencies also identified the flexibility and control over project type and delivery as being a key motivation for the exchange (ADOT, 2019a).

In 1997 the state authorized ADOT to provide State Highway Funds (SHF) to enable local transportation agencies to exchange federal funds for HURF funds. The HURF Exchange program allows cities, towns, and counties, with a population under 200,000, the ability to use state funding in lieu of federal funding for the design and construction of transportation projects (A.R.S 28-6993 G).

ADOT has documented the benefits of their exchange. According to ADOT Director John Halikowski, “[t]his is a win-win for the state and local communities that would otherwise have to depend on ADOT to manage their federally funded projects...” (ADOT, 2018a). Projects funded through the HURF Exchange are intended to cost less, be more flexible, and progress more rapidly than federal aid projects by removing federal regulatory and certification requirements. The exchange is described as popular with project sponsors and ADOT (ADOT, 2018b).

Organization of the Exchange

The HURF represents a set of auto-related revenues (gasoline and use-fuel taxes, motor-carrier taxes, vehicle-license taxes, motor vehicle registration fees and other miscellaneous fees). Historically, the HURF has been a general source of funding for transportation projects on the state system. Figure 1 illustrates the flow of HURF revenue distribution for fiscal year 2019 (ADOT, n.d.a.).

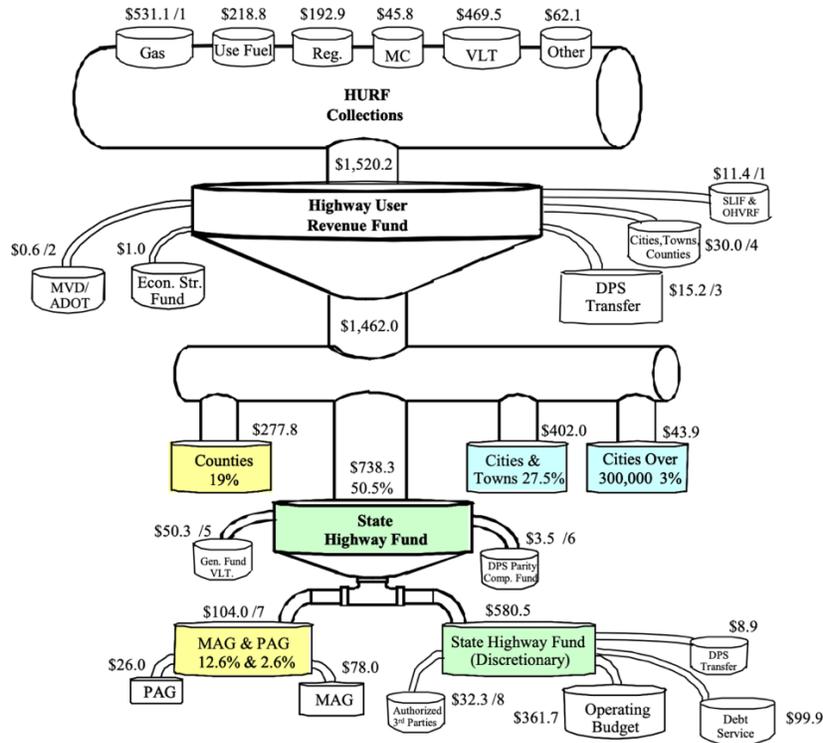


Figure 1. HURF revenue distribution flow fy2019

Source: ADOT, 2019b

Eligible Funds and Projects

Federal STBGP funds are the only fund type eligible for the HURF exchange. The COG/MPO federal aid funding ledger reflects the authorization status of projects in the current federal fiscal year, apportionments and obligation authority, transfers and loans, available, and lapsing funds (ADOT, 2019c). The STBGP funds (identified by sub-categories) appear on the COG/MPO ledgers as “STP <5”, “STP 5-200”, and “STP Other” (ADOT, n.d.). COGs/MPO federal funding ledgers produced by the ADOT Resource Administration database are required to be maintained for up to five years. According to the HURF Policies and Procedures, eligible projects are required to (ADOT, 2019c):

- Have as its primary purpose the improvement of the efficiency, reliability, and safety of the traveling public;
- Be on the federal aid system and be eligible for federal STBG funding (limits eligibility to projects on roads classified as rural minor collectors or above; projects on local roads are not eligible);
- Have all phase(s) approved by the COG/MPO Technical Advisory Committee and be programmed as HURF Exchange in the approved, fiscally-constrained portion of the Transportation Improvement Plan (TIP); and
- Demonstrate a realistic schedule indicating all phases of the project will be completed within three years of the date of finance authorization of the design phase.

Eligible Agencies

Eligible entities include Arizona cities, towns, and counties with populations less than 200,000. The Arizona COGs and MPOs representing these populations must program projects into their respective TIP to be eligible for the HURF exchange. The eligible entities are maintained through the Arizona Department of Administration's most recent annual population estimates (Arizona Commerce Authority, 2019).

To participate in the program, eligible local governments enter into an intergovernmental agreement (IGA) with ADOT, obtaining project sponsorship for the HURF exchange program. Project sponsors must complete ADOT's prescribed exchange project forms including a HURF Exchange scoping form, HURF Exchange Project Cost Estimate, HURF Exchange Project and Draw Schedule, and HURF Draw and Final Reimbursement Invoice.

Additionally, the initiation request must include a map showing the project location and the functional classification of the roadway, a copy of the transportation improvement program (TIP) listing reflecting the HURF Exchange programming, and any other ADOT documents required – some projects may require additional documentation beyond what is listed. Once the local public agency (LPA) completes the submission of these documents, the LPA section of ADOT will:

- a) Establish an ADOT project number and assign an ADOT Project Manager (ADOT PM),
and
- b) Initiate an IGA – conditional for project authorization.

Role of the State

ADOT maintains a significant series of roles and responsibilities in the exchange. ADOT reserves the right to suspend the program if SHF revenues substantially diminish. The total amount of available HURF exchange funds is determined annually in conjunction with the development of the ADOT Five Year Transportation Facilities Construction Program. All HURF Exchanges and their respective project transactions are maintained in COG/MPO federal aid funding ledgers produced by the ADOT Resource Administration database. Additionally, ADOT is responsible for authorizing and recording transfers of funding from the SHF into the HURF Exchange sub-fund. The documented transfers occur for each phase of the project and are presented in the state's Monthly Recipients and Expenditures Report.

After needed documentation is submitted and approved, ADOT, with cooperation from FHWA, reviews the project to identify any applicable federal requirements. Applicable federal requirements will then be incorporated into the IGA. The ADOT PM examines the project scope to determine any ineligible costs under the HURF exchange rules. The project sponsor is responsible for covering ineligible expenses. A careful review by the ADOT PM is intended to prevent IGA amendments in the scope, schedule, or budget from emerging as the project progresses.

The assigned ADOT PM is also responsible for receiving and processing finance authorization requests. A timeline must be observed for funds to be released on a phased schedule (see page 8 of HURF Policies and Procedures (HURF, 2019c)). The ADOT PM prepares a Project Funding Request (PFR) for each applicable phase of the project. This request includes all LPA provided documents referred to earlier. Upon receipt of a complete and accurate PFR, the ADOT Resource Administration will perform an additional review to ensure all phases of the project met HURF eligibility. When eligibility has been confirmed, Resource Administration will transfer 100% of the federal apportionments and obligation authority from the applicable COG/MPO ledger to ADOT. Resource Administration transfers HURF Exchange funding to the COG/MPO at 90% of the federal obligation authority transferred to ADOT for the project phase.

For the invoicing schedule per each phase of the HURF, Exchange Projects will follow "a standard protocol of 30%/30%/30%/10% (see page 11 of HURF Policies and Procedures (HURF, 2019 c)). All exchange submissions and invoices are to be submitted to the assigned ADOT PM, whose responsibility is to review, approve, and forward invoices to Financial Management Services (FMS), an ADOT division. Any deviation from the 30%/30%/30%/10% invoicing structure must be approved by the ADOT Chief Financial Officer.

Within 15 days of substantial completion of the construction phase, the project sponsor should notify the ADOT PM. From this point, a project walk-through involving the project sponsor, applicable COG/ MPO, and an ADOT district representative and potentially an FHWA representative (if federal funds were involved in the design phase) is scheduled. A final project-walk-through is required for a closeout package. The ADOT PM is involved in reviewing and approving the closeout package and submits it to Resource Administration. The completed closeout package is sent to FMS Final Voucher Unit. A final voucher review prompts ADOT to reimburse the final 10% of the project's cost to the project sponsor. ADOT reserves the right to refuse to enter into further HURF exchange transactions if project sponsors owe a repayment of previous HURF exchanges and/or have been found to misuse funds. The ADOT shutdown process, for the HURF Exchange, is outlined in detail on page 14 of the Policies and Procedures Document (HURF, 2019c).

ADOT employees are required to track their time on each HURF Exchange project during all phases of the outlined administrative process. The agency is actively involved during the finance authorization process. During project initiation and IGA approval, ADOT project managers work closely with project sponsors to ensure the project scope is feasible. If a project has not reached substantial completion within three years of the date of finance authorization of the first HURF Exchange funded phase, the project sponsor must repay all HURF Exchange funds to ADOT. ADOT may refer projects to the State Auditor General or ADOT's Internal Audit unit in cases of suspected misuse of HURF Exchange funding. ADOT assumes no liability or financial responsibility for complying with all applicable laws, rules and regulations, any additional funding required to complete the project, and any claims due to delays or other circumstances. The HURF Exchange program is offered at ADOT's discretion.

Exchange Rate

The exchange rate allows ADOT to pay 90 cents in SHF for each \$1 of federal funds exchanged. The amount paid to each COG/MPO varies widely as shown in Table 1.

Table 1. Historical HURF Exchange Utilization by COG/MPO (1998 to 2009)

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

Source: ADOT, 2018

Matching Funds

No local match is required. Some COGs/MPOs may require project sponsors to pay a certain percent of the project costs (ADOT, 2019d).



Chapter 3 California

California maintains a strong exchange program with nearly 60 million dollars exchanged each year. In 1992 state legislation was amended to allow Caltrans to appropriate Regional Surface Transportation Program/Regional Surface Transportation Block Grant (RSTP/RSTBG) funds to MPOs, transportation planning agencies (TPAs), and county transportation commissions. The legislation allows the receiving agencies to use RSTP/RSTBG funds for projects based on their annually updated five-year average of allocations. The legislation also outlines the process of involving representatives of local government in the nomination of projects. (Caltrans, 2018). The amendment to subdivision 182.6(g) of the Streets and Highways Code (S&HC) allows for a non-designated, non-MPO represented RTPA to exchange its annual apportionment of RSTP/RSTBG funds on a dollar-for-dollar basis for non-federal State Highway Account funds. If an eligible RTPA elects not to exchange, subsection 182.6(h) permits an eligible county represented by that RTPA to exchange its entire annual sub-apportionment.

Caltrans staff indicated that the exchange has been very popular with partnered agencies. Eligible RTPAs and counties elect to participate annually, demonstrating the popularity of the program. These local agencies view state funds as beneficial because they enable them to avoid the relatively arduous federal aid process. The only potential constraint identified by Caltrans staff was the need for more staff time to facilitate exchange agreements. Chapter 18 of the Local Assistance Program Guidelines (LAPG) provides guidance on the exchange program.

Organization of the Exchange

The STBG is the sole source of RSTBG funds in California. The federal RSTBG funds are divided into urbanized and any area funds. Caltrans' transportation program distributes RSTBG funds according to a formula set in 1992 legislation. The formula is based on census figures and applies to both urbanized and any area RSTBG funds. Only any area RSTBG funds are allowed to be exchanged for state funds.

The process begins with determining what entities are eligible for exchange and for what type of exchange. Eligible agencies are defined by a standard list internal to Caltrans. For each county, it indicates if it is RTPA eligible, state match eligible, 1 percent eligible, or 3.5 percent eligible. The eligibility and amount are sent to the Caltrans implementation group, which generates an RTPA agreement with a cover letter detailing their eligibility. Local entities then have the option to participate or not.

Eligible Funds and Projects

The eligible uses for exchanged funds vary according to the agreement type. County-State agreements are specified in Article XIX of the California State Constitution. For county-state agreements, the allowable uses include the research, planning, construction, improvement, maintenance, and operation of public streets, highways, mass transit guideways (and their

related public or fixed facilities including non-motorized traffic), and mitigation of environmental effects. Projects involving mass transit will not support passenger facilities, vehicles, equipment, and other services (California Constitution Article XIX).

RTPA-State agreements require the apportionment of exchanged funds directed to projects according to subdivision 182.6(d), which details the process of nominating projects. The nomination process does not specify or require any eligible use. When agencies receive state funds through the agreement, they can then choose from a variety of projects within the parameters of Article XIX. The agreement provides variety in terms of eligible uses/projects and may include projects already programmed in a region's Regional Transportation Improvement Program (RTIP) – in conformance with Federal law.

Eligible Agencies

Eligible agencies include Regional Transportation Planning Agencies (RTPAs) and counties represented by populations greater than 200,000 not represented nor designated as an MPO.

Role of the State

The state determines eligibility, provides agreements to eligible entities, requires a list of projects to be funded, and may perform audits. Aside from these roles, Caltrans does not maintain significant oversight relative to oversight provided by other states that maintain federal fund exchange programs.

Exchange Rate

There is no uniform or set exchange rate. The exchange rate is based on the apportionment received according to each entities' agreement. According to Caltrans staff, in recent years there has been a gradual increase in the total amount of exchanged state funds – these trends largely reflect an increase in total federal apportionment received by California. For federal fiscal years (FFY) 2014-2015, 2015-2016, and 2016-2017 an estimated \$57 million of state dollars were exchanged. In FFY2017-2018 and 2018-2019 almost \$61 million was exchanged and FFY2019-2020 nearly \$63 million of state cash was exchanged.

Matching Funds

County match funds must be used to match Federal funds allocated pursuant to S&HC 182(d)(2)* or if in excess, may be used for any transportation purpose authorized by Article XIX of the State Constitution (Caltrans, 2018).

**S&HC 182(d)(2): "An amount not less than 110 percent of the amount that the county was apportioned under the federal-aid secondary program in federal fiscal year 1990-91, for use by that county".*



Chapter 4 Colorado

In 2016, Colorado DOT (CDOT) staff examined strategies to more efficiently and effectively deliver locally administered projects and, as a result, improve customer service, streamline processes, and reduce overall project time. In support of this concept, on October 20, 2016, the Transportation Commission (TC) approved Resolution #TC-16-10-7 (2016) to endorse a pilot project initiative allowing the substitution of state funds for federal funds on select projects. Sixteen candidate projects were recommended for consideration by Region staff and vetted with federal partners.

The state has not proceeded beyond pilots. The projects are currently in various stages of development and completion. Pending project completion, CDOT will discuss the viability of a fund exchange in Colorado. The following sections highlight available information from the pilot program (CTDOT, 2016).

Organization of the Exchange

Eligible Funds and Projects

Surface Transportation Program (STP) funds are eligible for the exchange; consideration was also given to the Transportation Alternatives Program (TAP) and Congestion Mitigation and Air Quality Improvement (CMAQ) funds.

Eligible Agencies

Unable to determine eligible agencies.

Role of the State

Pilot projects are delivered by the local agency with oversight from CDOT.

Exchange Rate

Funds for pilot projects are at a 1:1 exchange.

Matching Funds

Matching funds are required.



Chapter 5 Connecticut

Connecticut's federal fund exchange or Local Transportation Capital Improvement Program (LOTICIP) has two main goals. First, to have municipalities perform capital infrastructure improvements with less burdensome requirements and second, to reduce state resources (staff) involved in the oversight of municipal infrastructure improvements. The Federal STBG Program sub-allocated funding resources can subsequently be directed to more regionally significant improvements on State-owned facilities (CTDOT, 2019). To provide sufficient time for the program to be developed, an effective date of November 1, 2013, was set for the program several months after the legislation was signed on July 1, 2013 (Connecticut Senate SB 842 Sec.74, 2013). CTDOT developed the final language found in Connecticut General Statute (CGS) Chapter 238 Sec. 13a-98n providing for the establishment of the LOTICIP.

The LOTICIP provides state funding in lieu of STBG-Urban federal funding to a municipality through the regional COG for transportation improvements. One of the unique features of this legislation is the authority and flexibility given to CTDOT. The original LOTICIP guidelines were developed jointly and cooperatively by members of the Department, regional Council of Governments (COGs), and municipalities of the state. CTDOT continuously works with local agencies to further develop and refine the guidelines.

The administration of FHWA's \$50-\$60 million STBG-Urban programs has historically resulted in a significant amount of commitment from Department resources. The application of these additional resources was largely needed to ensure Federal Title 23 requirements are met. The projects currently in the LOTICIP range from just under one million dollars to approximately seven million dollars. While Federal Title 23 requirements are well thought out and developed, they may not be conducive for smaller infrastructure improvements.

According to CTDOT staff, the responsive flexibility provided by the legislation has had many beneficial outcomes. The authority given to the Department via guidelines has strengthened communication between the COGs and has reduced the burdensome process of changing State Statute when modifying some aspects of the program. The burdensome process associated with changing legislation has been well demonstrated in the state's much older local bridge program, which is codified extensively in the State Statute.

The program is strictly an urbanized area program. This was a deliberate decision that acknowledged the existing STBG rural major-minor collector program in which rural COGs are permitted to use, at their discretion, small amounts of federal funds. As suggested by the title, the program is intended for capital improvement projects. For this reason, a project value minimum was set at \$300,000 to prevent the program from functioning as a municipal or sub-allocation program.

The COGs or planning regions play a role in the facilitation of the state's federal fund exchange process. The overall STBG-Urban funding is sub-allocated by the COG based on population

numbers from the Census. The overall level of funding is determined in a way that attempts to mirror the Federal Urban program – the sub-allocated pieces for those over 200,000 urbanized areas and the 5,000-200,000 areas. According to CTDOT staff, this approach is seen as equivalent and easiest to defend.

The COGs across Connecticut are responsible for the solicitation, ranking, and prioritization of their municipal member’s project proposals. Application materials must clearly address the needs and purpose of the project. Application preparation is to be carried out by the municipality, along with any supporting documentation. A review procedure allows comments to flow back and forth between the Department and municipalities. An overview of the LOTCIP process is shown in Figure 2.

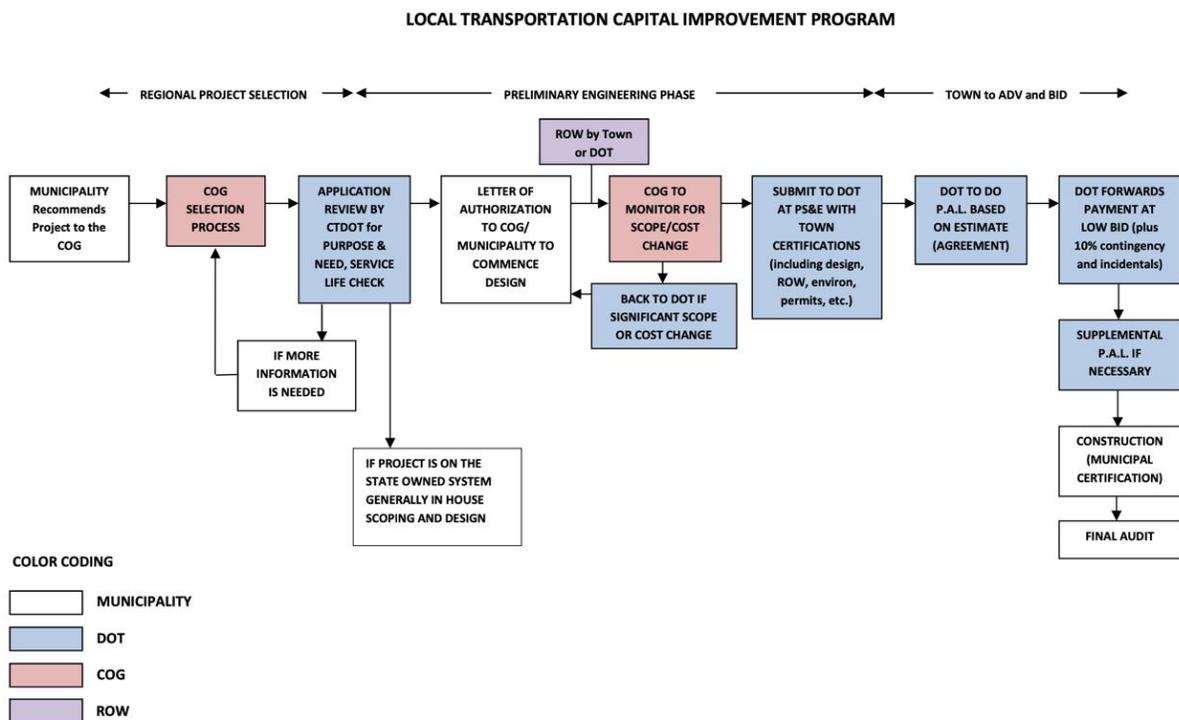


Figure 2. LOTCIP Flow Chart

Source: CTDOT, 2019

Organization of the Exchange

Application Process

The fund exchange in Connecticut places significant emphasis on the application process. Examples of application materials can be found in Appendix C. When the program was first being considered, COGs and municipalities suggested a grant giveaway program. The main concern from the DOT was accountability. To mitigate potential misuse or abuse of a grant giveaway, the Department established what it felt was a middle ground between a federal-aid program and grant giveaway. The development of a fund exchange was difficult from the

perspective of CTDOT. With most Department staff trained in federal-aid, it can be difficult to fundamentally transfer oversight and other responsibilities to a COG and a town. The application materials were designed to assuage these concerns. The Department developed the guidelines to offer what they felt was a sufficient level of information and requirements for COGs and municipalities. From a professional standpoint, the Department recognized the value of having application materials and guidelines that ensure checks and balances from the municipalities. Additionally, Municipal and COG certifications are required as part of the final package submission to have the towns assume full responsibility for their designs.

The application materials provide for an extensive review of the project proposal and include items such as project information, right of way, utilities, storm water drainage system and under drains, rail crossings, pedestrian/ bicycle safety mobility, traffic, environmental resource involvement, public involvement, cost estimate, and replacement/improvement specifics.

Screening Process

The Department reserves the right to reach into project specifics and request modifications and recommendations before a commitment to design or build is issued. According to CTDOT staff, very few projects go through the process without a comment and response exchange. However, staff indicates that over time COGs and municipalities have improved in providing clear purpose and needs in their applications.

Planning Studies

The LOTCIP exchange offers funds for planning studies. Planning studies must be subject to a regulated corridor selection process from the Department. If approved, planning studies are allowed to be funded by both Federal and LOTCIP funds. The decision to include planning studies in the LOTCIP program ensured consistency with the traditional Federal-urban program. The Department maintains the ability to restrict planning studies if they begin to undermine the delivery of capital improvements. This is a program-wide decision and does not apply on a project-by-project basis.

Project Specifics

One of the important elements of the LOTCIP has been operational flexibility and responsiveness. Certain federal requirements are carried over into the LOTCIP program to help guide the program and provide parameters. For example, independent utility and logical termini are federal terms applied to the Department's assessment of specific characteristics of a project. This can prevent non-federally eligible projects from being paid for with state funds. A specific example CTDOT staff provided was a trail project that involved rebuilding a community center – the request was evaluated by federal standards and was not permitted to be rebuilt. Additionally, Department officials reserve the right to identify project specifics they regard as potentially problematic and request these items be addressed.

COG Quarterly Meetings

To facilitate communication and feedback, which continually improves the LOTCIP guidelines, the Department holds quarterly meetings with the COGs. In the meetings, the Department hosts COGs to address a variety of agenda items. The meetings typically involve COG directed questions, and Department provided answers; however, the Department also uses the time to keep the COGs up to date on process improvements. As part of the quarterly meetings, the Department prepares a cash flow summary sheet for the COGs. The cash flow summary sheet is a spreadsheet, which includes information such as project payments specific to each COG. The cash flow summary was introduced a year or two into the DOT's managing of the program after recognizing the value of a partnership-based approach. The guidelines also ensure quarterly reporting to indicate the status of project delivery. This information is used as an input for the Department and subsequently directs when and what degree of funds will be needed from the bond commission. At the end of the formal session, time is designated for LOTCIP related questions and an information exchange.

Individual COG Annual Meetings

In addition to quarterly meetings, the Department also hosts individual or COG specific meetings on an annual basis. In these meetings, an individual COG will meet with DOT staff from engineering and capital services to review their program. The review is centered on a financial assessment, which then operates as a vehicle to determine the direction of future project solicitations. It is also a chance to review what projects have been issued and the status of those projects.

Exchange Rate

CTDOT uses a 1-for-1 exchange rate. According to CTDOT staff, CTDOT officials did not feel it necessary to retain any funds from an exchange rate since they take a portion of statewide allocation to pay for the staff time associated with administering the program. A portion of each COGs allocation can be used to pay for the COGs time to administer the program. So, the costs are contained within the program as opposed to funded by the exchange itself. CTDOT staff expressed concerns that an exchange rate would add an additional layer of complexity, which undermines the intended objective of the program. The costs to administer the program are seen as inherent to the program itself. The only potential conflict in maintaining this even exchange would be a significant change, either increase or decrease, in the level of funding from the STBG-Program.



Chapter 6

Iowa

Iowa introduced the federal fund exchange program, named the Federal-aid swap, to streamline project development and programming. The program was established in 2017 when it passed House File 2013. The Iowa Transportation Commission approved the exchange on February 13, 2018. The fund exchange alleviates the need for LPAs to comply with resource intensive federal aid requirements and optimizes state use of highway funding. Specific federal requirements eliminated through the fund exchange include Davis-Bacon wages, Buy America, and NEPA; Disadvantaged Business Enterprise (DBE) commitments are optional and some environmental requirements remain. According to Iowa DOT and LPAs, the exchange has been a “win-win” due to faster project completion at less cost to the state.

To develop the program, Iowa first collected basic information on existing state exchange programs. Their search revealed variation in match, exchange rate, and eligibility. Consequently, Iowa worked cooperatively with FHWA to develop the state’s version of a fund exchange program. The DOT also worked with cities, counties, planning agencies, other state agencies, and environmental groups to develop their Swap policy (Iowa DOT, 2018a). Pilots were not conducted before introducing the program.

Because the program is relatively new, quantifiable metrics related to its performance are not yet available. The following section summarizes available information.

Organization of the Exchange

There is no application process and the program is run on a project-by-project basis. Eligible agencies receive state funds in lieu of federal funds unless the applicable governing boards choose to “opt-out” of the program. Iowa DOT allocates federal aid to Regional Planning Affiliations (RPAs) and MPOs. In addition, they allocate federal funds for the County Bridge Program, City Bridge Program, Iowa Clean Air Attainment Program, and Highway Safety Improvement Program-Secondary. Prior to approval by the Iowa Transportation Commission, the Swap Program was discussed with stakeholders and it was determined that all the projects funded from those programs would be eligible.

LPAs that participate in the Federal-Aid Swap are still required to observe important environmental and cultural resource reviews. The permitting and consultation requirements are required to be maintained in accordance with applicable agencies, which include the following:

- United States Army Corps of Engineers.
- United States Fish and Wildlife Service.
- Iowa Department of Natural Resources.
- Iowa Department of Cultural Affairs/State Historic Preservation Officer.
- Native Sovereign Tribes and Nations.

- Office of the State Archaeologist.

Eligible Funds and Projects

Swap funds can only be used on road and bridge construction projects and are provided to the LPA on a reimbursement basis (Iowa DOT, 2018b). The Iowa County Engineers Association describes three classes of public roads, which include state primary highways, secondary (county) roads, and city streets. In Iowa, county roads are divided into two systems: the Area Service Roads and the Farm to Market network. The Farm to Market network enhances the transport of commodities produced from rural areas (Iowa County Engineers Association, n.d.). The program covers all Farm-to-Market (FM) projects.

Farm-to-Market funding is available for roadways that are included on the Farm-to-Market road system. The Farm-to-Market Road Fund receives 8% of the revenues deposited into the State Road Use Tax Fund. This amounts to approximately \$107 million annually, divided among Iowa's 99 counties.

Eligible federal funds include STBG Program, Congestion Mitigation and Air Quality Improvement (CMAQ) Program, and Highway Safety Improvement Program (HSIP-S). For STBG funds, RPAs and MPOs are the primary targets. These funds are eligible for 100% reimbursement but are subject to MPO and RPA match requirements. Federal funds flowing through the City Bridge Program are eligible for 80% swap funding with a 20% local match requirement (Iowa DOT, 2018a).

An important feature in connection to eligibility is determining if the project is "Federalized." A Federalized project will have to remain a Federal-aid project and follow all applicable requirements. Activities that may Federalize a project include the following (Iowa DOT, 2018a):

- The project has been authorized by FHWA, or utilized Federal-aid for any phase of work, such as Preliminary Engineering, purchasing Right-of-Way, Utility work, Construction, etc.
- The project has received FHWA Environmental Concurrence (NEPA Clearance). However, if a project was given NEPA clearance as a Programmatic Categorical Exclusion (PCE), it has not been Federalized. An analysis of whether a project is assumed to be Federalized has been run; the analysis looked at whether TPMS Development showed a NEPA Clearance and whether that NEPA Clearance was granted under a PCE. The Federalization information can be found in TPMS Development, next to the map icon, stating the project is "Federalized". However, that is not an all-encompassing list; there are likely projects that haven't been included in that analysis.
- The project has had a Planning Study, that has utilized Federal-aid, and the project may be Federalized. If you've had or are considering a federally-funded planning study, contact your MPO/RPA and the Office of Systems Planning to discuss whether any subsequent work would make it Federalized.
- If the project has had an Interchange Justification Report, the project has likely been Federalized. Contact the Iowa DOT Administering Office for further guidance.

Eligible Agencies

The swap is between the state and local agencies. Participation in Iowa's swap is optional for RPAs and MPOs. According to Iowa DOT staff, all 18 RPAs and 7 of 9 total MPOs chose to participate in the program as of FFY 2020.

Role of the State

With respect to an LPA Federal-aid transportation project, Iowa DOT serves as both an advisor and a monitor. As an advisor, the DOT is responsible for providing guidance and assistance to LPAs to help them successfully implement their Federal-aid transportation projects. As a monitor, the DOT is responsible to FHWA for administering and overseeing the various Federal-aid transportation programs that are available to LPAs. This oversight is accomplished by numerous reviews and approvals of project activities, as outlined in the Instructional Memorandums applicable to those activities (Iowa DOT, 2018c).

Iowa DOT lends expertise and staff time to assist LPAs in ensuring compliance or to acquire the relevant permits. LPAs are ultimately responsible for verifying proper environmental and cultural resource oversight. Iowa DOT reviews contract documents for conformance with the Department standard and reserves the right to review projects during the construction phase (Iowa DOT, 2018b).

Exchange Rate

A one-to-one swap exchange rate is used. Federal funding is swapped with Primary Road Funds on a dollar-for-dollar basis.

Matching Funds

Unless specifically required by the grant program, Iowa DOT will not require match and will reimburse funds at 100 percent up to the programmed amount. For County HBP projects, Iowa DOT does not require match and reimburses funds at 100 percent up to the contract amount. Match requirements for Iowa's Clean Air Attainment Program (ICAAP), HSIP-Secondary, and city bridge program projects continue to apply based on program guidance. Individual MPOs and RPAs can require match, but Iowa DOT will not monitor those requirements.



Chapter 7 Kansas

In 2010, the Kansas Department of Transportation (KDOT) Bureau of Local Projects initiated the Federal Fund Exchange to help local agencies streamline project implementation processes (FHWA, 2015). The program gives LPAs greater control and scope over the use of transportation funds and reduces costly resource-intensive and time-consuming requirements of Federal-aid projects. According to 2015 figures, in the first four years, KDOT committed over \$84.9 million in exchange dollars across the State to be used by eligible local governments on local projects (FHWA, 2015).

Figure 3 shows the federal fund exchange process in Kansas (note: the exchange rate has decreased since this figure was published, see **Exchange Rate** for more information). The exchange involves a three-step process: 1) request to exchange federal funds; 2) fund exchange agreement; 3) request for reimbursement.

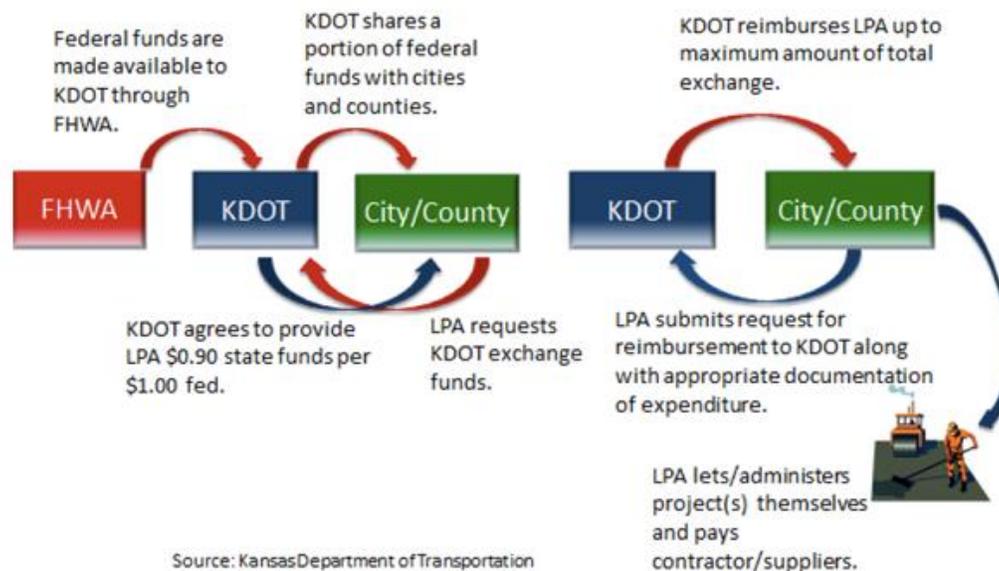


Figure 3. KDOT federal fund exchange

Organization of the Exchange

Eligible Funds and Projects

The LPA is required to use state funds for specific types of transportation improvement projects. State guidelines do not indicate or refer to specific state use of transportation funds. State funds may be used for all phases of a project including preliminary engineering, right-of-

way acquisition, utility relocations, construction, and construction inspection (KDOT, 2018). Acceptable project scopes include, but are not limited to, the following (KDOT, 2018):

- Roadway construction, reconstruction, or rehabilitation.
- Pavement preservation including overlay, mill/overlay, chip and seal, pavement patching or crack sealing.
- Safety improvements including signing, traffic signals, pavement marking, removal of roadside obstacles, installation or upgrade of guardrails, or installation of turn lanes.
- Installation of erosion protection measures in roadside ditches or around drainage structures.
- Construction or reconstruction of sidewalks, Americans with Disabilities Act (ADA) ramps, or pedestrian signals.
- Replacement of deteriorated curb and gutter.
- Storm sewer repairs to restore or enhance positive drainage.
- Bridge construction or replacement, rehabilitation or repair, painting, or bridge removal.
- Construction of low-water crossings.
- Improvements to transit or other multi-modal systems.

Methods used to distribute state funds vary by agency type. STP funds are distributed to counties in proportion to the amount received from the Special City and County Highway Fund and the County Equalization and Adjustment Fund in the preceding calendar year as provided in K.S.A. 68-402b. STP funds are distributed to small urban cities “in proportion to its population relative to the total population of all eligible cities” (KDOT, 2018).

Eligible Agencies

Participation in the program is optional. Eligible LPAs include all counties and cities with populations greater than 5,000 that are not located in a Transportation Management Area (TMA). An eligible LPA may choose to exchange its federal funds or it may use the funds to develop a federal-aid project following the established fund exchange procedures (KDOT, 2018).

Role of the State

The LPAs must adhere to KDOT requirements. Overall, the Department provides LPAs authority in determining which of their roads need improvement. Although, the Department sets specific requirements for when a state-certified engineer is needed on a local project. KDOT also reimburses for labor and equipment for projects completed by LPAs. This reimbursement is consistent with the way the Department has handled previous Federal-aid projects involving local use. Furthermore, KDOT does not require pre-approval for each project provided the project fits within the scope of eligible uses outlined in KDOT's Federal Fund Exchange Guidelines (KDOT, 2018).

The LPA provides the Department an outline of projects along with estimated costs and completion dates in the form of an agreement to KDOT. KDOT then processes and reviews reimbursement requests. When the reimbursement is approved, a check is issued to the LPA

within a few weeks (Harris, 2010). The KDOT Bureau of Local Projects sends staff to perform a final review of the project and confirm compliance with the terms of the agreement (KDOT, 2018).

Exchange Rate

The exchange rate is determined by the Secretary of Transportation on an annual basis. In 2017, KDOT reduced the exchange rate from 90 cents to 75 cents. An article written by Hrenchir (2017) stated that the rate was reduced to account for federal match requirements incurred by the state.

Available funds are determined annually when federal funding is confirmed for a federal fiscal year. Additional reviews of available funding are conducted when necessary. On average, \$15.3 million goes to counties and \$7 million to cities (FFY 11). For 5-Year Plan funds (STP limitation), \$31.1 million is allocated for counties and \$11.6 million is allocated for cities (FFY 2018).

Matching Funds

State funds do not require a local match.



Chapter 8 Minnesota

A review of staff productivity, conducted by the Minnesota DOT (MNDOT), revealed that approximately 200 person-hours were used for every line in the State Transportation Improvement Program (STIP), regardless of project size. This revelation led to efforts for a more efficient distribution of agency resources. These efforts led to the development of a federal fund exchange program spearheaded by the State Aid for Local Transportation (SALT), a DOT Department created to manage and distribute funds in an oversight assistance role. The program kicked-off in 2009 with a call for candidate projects. Several local agencies submitted projects and the program was well-received by participating agencies and has since continued with positive feedback.

The exchange provides a process for local state aid agencies to exchange federal funds awarded by the Area Transportation Partnership (ATP) with another local state aid agency “for a share of that agency’s state aid funds” (MNDOT, 2020). ATPs were created to emphasize public involvement in the preparation of transportation plans and programs and are responsible for developing an Area Transportation Improvement Program (ATIP) that covers a minimum four-year period and is incorporated into the STIP. A target for the amount of federal dollars that should be distributed to local agencies by ATPs was set by the state.

When developing the program, MNDOT looked at other states with federal fund exchange programs, including Kansas and California. Although MNDOT looked at other states as a reference, the program was designed to meet specific state needs and follow the Minnesota state constitution (MN State Constitution, Article 14, Public Highway System). The gas tax is divided into very specific percentages between the Trunk Highway system, the county system, and the city system; therefore, the program cannot be applied to exchanges between the state and local agencies. As a result, the program is limited to county to county or city to city exchanges. The program, as it is currently executed, (MNDOT, n.d.b):

- Allows State Aid agencies who have been selected to receive federal funds to trade them with another State Aid agency for state aid funds.
- De-federalizes the project donating the federal funds.
 - Decreases the project delivery requirements for this Local Public Agency (the donor).
 - There is no additional work for the recipient except the execution of the exchange agreement.
- Brings the project of the recipient up closer to allowable federal participation levels.
- Decreases the total number of federal projects processed each year.
- Decreases review queues for the remaining federal projects.

Although the program has been successful in many ways, several caveats were identified by MNDOT staff. Projects may be federalized if they require an Army Corps of Engineers permit, cost estimates need to be as accurate as possible before the agreement is executed, and

County State Aid Highway funds cannot be spent on Municipal State Aid Streets or Trunk Highway routes. There were initial concerns regarding accountability and the potential for delays in project delivery. Agency staff shared that, despite these initial concerns, participating agencies are successful in self-policing and delivering projects on-time. Other challenges encountered include the following:

- Agencies are more willing to donate federal funds than they are to receive federal funds.
- State funds cannot be spent off of the Trunk Highway.
- Difficulty identifying approaches to distribute extra money if project costs are lower than estimated.
- The timing of projects may present difficulty if both projects are not in the same year.
- State aid rules are determined by a committee of cities and counties; therefore, the DOT is only able to serve as a facilitator when rules are being changed.

Organization of the Exchange

Eligible Funds and Projects

Eligible federal funds include the Surface Transportation Program (STP), Highway Bridge Program, and Transportation Alternative Program funds. Transportation alternative funds may be swapped if the donor's project is eligible for state aid funds (MNDOT, 2016).

The state requires at least two projects with federal funding that are both eligible for state aid funds. Both projects must meet the following requirements (MNDOT, 2016):

- Both projects must be in the STIP but do not need to be in the same fiscal year (e.g., County donor in 2012 and County recipient in 2014).
- Projects involved in the swap should be constructed in the year they were programmed in the STIP.
- Have a STIP amendment to correctly request funding levels of each project.
- Federal funds donated cannot exceed federal participation rules for the project.

Projects within an MPO are required to have the MPO's approval for the STIP amendment necessary to document the project exchange in the STIP.

To identify projects for the exchange, SALT sends out a call for projects to District State Aid Engineers (DSAE). Completed exchange applications are sent to SALT (see Appendix E) along with an agency to pair projects with as identified by the DSAE. ATPs and MPOs participate in the initial project selection process, but not the exchange process.

"Fund Swap Agreements" are used to facilitate the exchange. An agreement is written between SALT and the State Aid agency wishing to give up their federal funds for another agency's state aid funds (donor) and a separate agreement is written between SALT and the state aid agency that is willing to transfer their state aid funds for the federal funds (recipient) (MNDOT, 2020). Each of these agreements references the other, although they are not three-party agreements.

The approval process includes the following steps (MNDOT, n.d.a):

- 1) Local agency fills out a fund exchange application.
- 2) The DSAE and SALT review and approve fund exchange.
- 3) SALT prepares the STIP modification.
- 4) STIP modification is approved.
- 5) Agreements are prepared by SALT to designate fund exchange amounts and timing.
- 6) Agreement is executed by local agencies and SALT.
- 7) State Aid Finance transfers state aid funds from recipient agency to the donor agency's state aid account on the timeline listed in the agreement.
- 8) Recipient agency completes federal process to receive funds for the project (plan approval, permits, etc.)
- 9) Recipient agency receives federal funds when the project is authorized and payment requests are submitted.

Internal processes executed by MNDOT staff include the following:

- 1) Confirm application information with current STIP.
- 2) Pair applications for fund exchange.
- 3) Confirm with SALT Finance that recipient agency has sufficient State Aid Funds for a transfer.
- 4) Fill in fund exchange spreadsheet.
- 5) Fill in project tracking to reflect fund exchange:
 - Fill in agreement number.
 - Note agreement type.
 - Note who is involved in swap in execution comments.
 - For Donor projects leave sub type blank or agreement screen information is lost.
- 6) Prepare STIP modification to align projects with proposed fund exchange.
- 7) Submit STIP amendment to OCPPM.
- 8) Prepare fund Swap agreements for recipient and donor(s).
- 9) Execute agreements per normal agreement process.
- 10) Copy SALT Finance when agreements are executed. Save in Fund Swap section of S drive.

Sometimes two or three smaller projects will donate to a single federalized project. MNDOT also has an additional provision in its fund exchange program for advanced construct swaps. During this process, which is typically used by larger agencies that have the funding capacity, funds are released to the receiving agency at a pre-determined point in the future. As soon as both agreements are received by SALT, state aid funds are transferred to the donor agency to be applied to the project as it is being authorized.

Eligible Agencies

Any state aid agency that has been selected to receive federal funds for a project eligible for state aid funding is eligible to participate in the exchange. Exchanges are local, from county to

county or city to city and can occur within a district or between two or more districts. Projects proposed within the same agency may also exchange funds.

Role of the State

The MNDOT State Aid Manual Chapter 5.3 Section III identifies the state as an agent in federal aid projects, relieving the state of any financial responsibility in the project unless explicitly stated in the project agreement (MNDOT, 2020). Once the State Aid Finance office transfers State Aid funds from the Recipient agency to the Donor agency, the state does not engage in the exchange any further.

Exchange Rate

The current exchange rate is 1:1, which MNDOT staff has expressed works well for the DOT and has been well accepted by participating local agencies. Approximately 3 or 4 pairs of projects use the exchange annually, averaging a total of \$1 million to \$1.5 million exchanged in the state per year. Projects being de-federalized are typically less than \$1 million, while projects receiving federal funds are typically larger than \$1 million.

Matching Funds

Matching funds are not required. When matches are done, only a cash match is accepted.



Chapter 9 Nebraska

The Federal Funds Purchase Program (FFPP) was approved in the Nebraska state legislature in 2011. Legislative Bill 98 provided the Nebraska DOT (NDOT) the authority to enter into agreements for the purchase of counties' and cities' share of federal aid transportation funds at a discount rate (Nebraska Legislature L.B. 98; NDOT, n.d.). The FFPP was established to allow NDOT the ability to purchase the federal funds used by LPA's in exchange for state cash – reducing federal requirements and allowing local governments “more flexibility to tailor road and bridge projects to their needs” (AASHTO, 2016). Program benefits listed by NDOT include (NDOT, n.d.):

- Local control of LPA projects.
- FHWA requirements and oversight are eliminated.
- LPAs can fund a wider variety of transportation projects.
- All phases of local projects are eligible for use of the funds.
- Minimal environmental requirements.
- No NDOT/FHWA oversight of required permits, consultant procurement, or contracts.
- Projects using funds will have minimal state oversight.

Organization of the Exchange

Eligible Funds and Projects

Eligible funds include Surface Transportation Block Grant Program (STBGP) funds and Highway Bridge Program (HBP) funds. Eligible roadway activities for STBGP funds include construction, reconstruction, maintenance, or repair of public highways, streets, roads or bridges and facilities, appurtenances, and roadway structures. Eligible bridge activities for HBP funds include construction, reconstruction, improvements, repair, or maintenance (projects that preserve, restore, or correct major roadway or bridge condition). Other eligible activities include erosion protection, sidewalk, ADA ramps, curb and gutter repair, and storm sewer repair.

Eligible Agencies

STBGP eligible agencies include all counties, cities, and “the First Class” cities (more than 5,000 up to 100,000) outside of the Omaha and Lincoln metro areas. HBP eligible agencies include counties with deficient bridges and “First Class” cities (including Lincoln and Omaha) with deficient bridges.

Role of the State

NDOT offers no oversight of required permits, consultant procurement, or contracts. The obtained state funds must be used for highway and bridge needs and may include a variety of other eligible activities.

Exchange Rate

In 2015, Nebraska increased its exchange rate from 80 percent to 90 percent, an increase attributed to “savings from state project delivery efficiencies” (Ban, 2016; AASHTO, 2016). The total annual amount exchanged averages around \$17 million for counties and \$8 million for cities (NDOT, 2020). Ban (2016) explains that, although the states net less after the exchange, the funds go further once federal conditions and procedures are no longer required.

Matching Funds

Unable to determine matching funds.



Chapter 10 Ohio

The federal/state fund exchange program in Ohio was developed to streamline the project development process for bridge projects (ODOT, 2018). In 2015, the Ohio DOT (ODOT) allowed the County Engineers Association of Ohio (CEAO) to exchange up to \$12.5 million per year of federal County Local Bridge Program (LBR) funds for state dollars.

CEAO is central to the overall exchange process. According to the most recent iteration of the program process, a county will first submit a request to exchange federal funds for state funds to the CEAO, and a County Surface Transportation Program (CSTP)/LBR committee determines if the project can be approved for exchange (CEAO, 2019). If approved by CEAO, the county sends the request to ODOT's central office for approval. If approved by ODOT central office, the county and their respective ODOT District will receive an approval letter. According to ODOT staff, the program has had great success.

Organization of the Exchange

Eligible Funds and Projects

The program is limited to LBR funds and bridge projects. State funds can only be used for the construction phase of the project, no federal money can be used in any of the other project phases (CEAO, 2018).

Eligible Agencies

Unable to determine eligible agencies.

Role of the State

After receiving approval from ODOT's central office, if projects are not already programmed, the county works with the respective ODOT district on programming the project and enter into an LPA agreement. A field review is advised to identify any environmental issues that would prevent the project from being part of the exchange program.

The county performs all project development activities with local funds (or other non-federal funding sources). The roles and responsibilities of the county in regards to project development are wide-ranging and extensive and include environmental, right-of-way, design, and final review.

During construction, ODOT will not monitor construction records or material specifications; however, the county may contact the ODOT District if issues arise. When the project is complete, ODOT staff will perform a final review of the project.

Exchange Rate

The exchange rate is \$0.85 state funds for \$1.00 federal funds.

Matching Funds

Unable to determine matching funds.



Chapter 11 Oregon

The Oregon Department of Transportation (ODOT) offers a variety of options that enable local agencies to better complete and manage projects involving Federal-aid funds. In Oregon, the initial iteration of fund exchange was established to minimize the amount of state oversight responsibility on federally funded local projects and provide local agencies a more flexible funding option for the delivery of transportation improvements (Oregon DOT, 2019a). Two methods are provided for the exchange: a traditional fund exchange in the form of the Surface Transportation Block Grant (STBG) fund exchange program (established in the 80s) and the State Funded Local Project (SFLP) (established for the 2015-18 Statewide Transportation Improvement Program (STIP)).

To further accomplish the goal of flexible project delivery, ODOT offers two additional options for administering projects under the federal-aid programs. The first is the Local Public Agency (LPA) Certification Program intended for rural areas (revamped in 2016) – primarily focused, not exclusively, for LPAs within TMAs. The second is an option for state delivery of Local Agency funded federal-aid projects that do not meet the eligibility requirements for state funding or certification. While these additional options are not representative of a fund exchange per se, they offer additional flexibility and control for LPAs in administering Federal-aid projects.

The current exchange funding was approved by the Oregon Transportation Commission on July 20, 2017, as part of the 2018-2021 STIP. The program and Funding Services Manager approved the Fund Exchange on November 8, 2018. The state can apply the funds swapped with a non-TMA MPO in any geographic area. However, funds swapped in TMAs must be used in the same geographic area, potentially making swaps in TMAs more difficult.

ODOT/AOC/LOC Agreement

The ODOT, Association of Oregon Counties, and League of Cities agreement (ODOT/AOC/LOC) is central to the form, function, and organization of Oregon’s current federal fund exchanges and Certification and State Delivery of LPA projects. Key objectives outlined in the agreement include (ODOT/AOC/LOC Agreement, 2018):

- Establish the process for allocating and administering STBG funds among participating local public agencies.
- Identify the selection process for All Roads Transportation Safety (ARTS) and Local Bridge processes.
- Outline expectations for the LPA Certification Program, State Funded Local Projects, fund Exchange and state-managed project delivery.

For non-MPOs, the allocation of funds to local agencies is informed by forecasting done at the local jurisdiction level. The distributions are broken down into shares of 60-25-15 between the state, counties, and cities as spelled out in the AOC-LOC agreement (p.4). Counties and cities manage their own sub-distribution to determine how funds are split within their jurisdiction. A formula is contained in section 4 of the AOC-LOC agreement and the federal share is entered to get an idea of what the amount will be. The Oregon DOT program funding services office provides non-MPO areas the number based on the formula every year and on request. An annual allocation is provided to every city in Oregon, not belonging to an MPO. Every city in an MPO is subject to what the MPO awards them. For TMA-MPOs, the process is different.

According to the AOC-LOC Agreement, local agencies can pool their funds with other local governments or transportation jurisdictions to accomplish one or more transportation project(s).

STBG Fund Exchange

The STBG fund exchange program provides an opportunity for local cities and counties to exchange their Federal STBG dollars for State Highway Fund dollars. The local agency could use the state funds to build any gas tax eligible project. Nearly half of all federal transportation funding, of all types, go to local agencies to deliver projects – STBG is the largest source.

The initial fund exchange began in the 1980s and only involved STP dollars outside of MPOs. It is not known if the initial fund exchange was piloted before statewide implementation. While the original model worked well, Oregon wanted to address state oversight responsibilities within urban areas. With this goal in mind, a certification program was developed establishing a “split” model, with rural areas using the fund exchange and the urban areas using certification. Certification was introduced as a come one, come all approach (see ODOT (2013) for more information). According to ODOT staff, in 2016, certification requirements were narrowed down and the focus was strengthened.

SFLP

While there are similarities between the STBG fund exchange and State Funded Local Projects (SFLP), the exchanges differ in scope. The STBG exchange is a general allocation to agencies, whereas, the SFLP provides state funding to individual projects selected through Oregon DOT or TMA processes.

SFLP provides state dollars in lieu of federal dollars on a select number of state and MPO selected federal funding programs such as safety (ARTS), local bridge, TAP, and CMAQ. The MPO selection requires scoping for federal projects to take place in the context of SFLP. ODOT will typically deliver projects where it involves their right of way/part of the state system.

The AOC/LOC agreement, which introduced the SFLP in 2018, requires SFLP to be reviewed by the transportation commission by 2024. The formula in Section 4 of the AOC/LOC agreement (ODOT/AOC/LOC Agreement, 2018) determines the allocation amount instead of an application

process; the allocation is distributed as already swapped funds. The closest thing to an application is a project agreement once the project starts. The intergovernmental agreement is entered at the start of the project, and this statement indicates the exchanged amount.

For SFLP, there were two to three pilot projects. The pilots indicated that the program was successful enough to implement statewide with some refinements. A lesson from the SLFP pilots was streamlining the exchange rate. Also, they experimented with projects that already had federal funds obligated and wanted to know if these funds could be paid back to the federal government and use state funds. While this can technically happen, all the federal requirements would still apply. The state right of way was also experimented with and the major ADA requirements were more robust with the state than with a local agency. It was determined that there is no value in paying back federal funds. All of the projects are scoped and selected as if they are going to be a federal project.

The TMA MPOs traditionally have not had a project delivery role. The new SFLP, and to some extent, certification program, considered increasing the roles and responsibilities of TMA MPOs to project delivery oversight. Specifically, in regard to the obligation of federal funds.

From ODOT staff's perspective, there has not been significant evidence to suggest fund exchange results in faster and cheaper project delivery; rather, the realized benefits have been in establishing clear roles and responsibilities for agencies. In the existing Oregon fund exchange, the MPO claims a larger share of responsibility for managing a portfolio of projects, the local agency (via certification) can have greater control over their project and clear project delivery options.

Organization of the Exchange

Eligible Funds and Projects

STBG Exchange

Federal STBG Program funds are eligible for the STBG exchange. Planning funds are not eligible for the swap because federal requirements are project and not planning specific. The fund exchange overview document identifies eligible projects as those which develop, improve and/or preserve the existing transportation system, and are gas tax eligible. Specific project types include (Oregon DOT, 2019a):

- Road paving.
- Equipment purchase.
- ADA (Sidewalks).
- Project planning.
- Safety.
- Transit.
- Material purchase.

State funds may be used for all phases of the project.

SFLP

Projects up to \$1 million and located inside TMAs and projects up to \$5 million and located outside TMAs are potentially eligible for SFLP exchange (Oregon DOT, 2019b). Eligible projects include those selected through ARTS, Enhance, Local Bridge, and Active Transportation Discretionary. A portion of Surface Transportation Program Urban (STPU) and Transportation Alternatives Program (TAP) funds are also eligible for state funding.

Eligible Agencies

STBG Exchange

All cities with 5,000 to 200,000 residents, counties, and MPOs under 200,000 residents are eligible for the fund exchange.

SFLP

All local agencies are eligible for the SFLP, with the restrictions identified in **Eligible Funds and Projects**.

Role of the State

The state is responsible for oversight of local government projects with federal funds and shared with local agencies. If a local agency opts to exchange federal funds for state funds then they deliver their project directly with minimal state involvement.

Exchange Rate

The exchange rate for the STBG exchange and the SFLP is 94 cents per 1 dollar, no deposit is collected.

The amount of STBG available to local agencies is determined annually by the state. Section 4 of AOC-LOC agreement uses Federal Fiscal Year 2004 as a baseline for calculating future STBG allocations to local agencies. Cities received \$7,370,785 of STBG funds in FFY 2005, while counties received \$10,957,428 of STBG funds. It is not clear how much per year involve swaps. The program funding service manager of ODOT maintains fund swap totals per year.

Matching Funds

Local agencies can provide financial match to projects delivered by the state but are considered third-parties and are not eligible for reimbursement. The match requirement is incorporated into the exchange rate. The project savings, if any, is rolled back onto the account. According to ODOT staff, local agencies are typically proud if they are under budget despite not having the money returned.



Chapter 12 Utah

The Utah DOT (UDOT) federal fund exchange program was implemented in 2006. No pilots were conducted for the exchange. Most of the initial exchanges were project-by-project, but it's not clear if these projects were evaluated. UDOT staff states that, at the time they were developing the fund exchange, there were no nearby states with a federal fund exchange program. Consequently, there was no collaborative involvement in developing the program.

The exchange is between the State and the Local Public Agency. All exchanges conducted through the program have been initiated at the request of counties, cities, and metropolitan planning organizations (MPOs). The majority of exchanged funds are directed to urban areas. For the rural sub-allocated amount, UDOT uses the Joint Highway Committee (JHC), which has funding sub-allocated to select projects to be recommended to the Utah Transportation Commission (Appointed by the Governor for final approval of all transportation funding).

The JHC is an entity within the state made up of county and city representatives. It was formed to address a requirement for the small urban and non-urban portion of federal Surface Transportation Block Grant Program funds. The program is administered through UDOT, the Utah League of Cities and Towns, and the Utah Association of Counties. The committee solicits involvement from local governments in small urban and non-urban areas and recommends projects. In this vein, the responsibilities of the JHC include initiating a call for projects, helping with project selection, and determining if funding needs to be adjusted.

UDOT's program is divided into project-by-project exchanges and programmatic exchanges. The Utah federal funds exchange guidelines require construction standards comport with AASHTO standards or in accordance with state law regardless of the exchange type.

In project-by-project exchanges, the exchanged funds are applied to stand-alone individual projects. A cooperative agreement detailing the funds exchanged between the local government sponsoring the project and UDOT is executed for each project request. Funds are disbursed on a reimbursement basis and invoices are submitted to and approved by the UDOT project manager according to the cooperative agreement.

The original goal on the programmatic side was to have local agencies administer their own projects, requiring less involvement in project delivery from UDOT. In programmatic exchanges, a Memorandum of Agreement is required between UDOT and the MPO for each exchange. Required project documentation and performance reporting (certifications) are detailed as part of each agreement. The exchange is then reviewed at the end of each fiscal year and UDOT and the MPOs determine if modifications are recommended or if the program should continue.

There is no application process for either the project-to-project or programmatic exchanges, these are handled on a per request basis.

According to UDOT, the majority of the benefits of the exchange programs are realized by local governments and MPOs. For example, in September 2019, one local MPO took four projects off of the Transportation Improvement Program (TIP) because the City found that it was cheaper to use local funding and not contribute any federal funding to the project. When receiving feedback from the local agencies they share that it is more advantageous to use the state dollar instead of the federal dollar. The most notable benefits of the exchange, as stated by a local MPO, are time and cost savings when federal requirements such as NEPA, Buy America, Davis Bacon Wages, and Federal right-of way (ROW) acquisition process are removed. In turn, UDOT can more efficiently utilize the exchanged federal funds on larger projects that are typically already federalized, providing benefits to both parties involved.

Organization of the Exchange

Eligible Funds and Projects

According to UDOT administrative guidelines, both programmatic and project-by-project exchanges include STBG Non-urban, STBG Urban, and STBG Small Urban funds.

Eligible Agencies

Any Local Public Agency can request an exchange of federal for state funds. The limiting factors are usually the federal funding type (for example, Off-System Bridge Funds can only be applied to Local Government Bridges so a State DOT would not benefit by exchanging these funds) and whether or not there are available state funds to exchange.

Role of the State

A UDOT project manager is assigned to each project and serves in a consultation capacity. It is the state's intent that the local sponsor is responsible for all aspects of the project. UDOT does not give any assurances or guarantees regarding the quality of work. Local government sponsors follow their own bid process in awarding contracts. The exchange reflects appropriate coordination between the MPOs/JHC, project sponsors, and UDOT.

According to the DOT's guidelines in both programmatic and project-by-project exchanges "[t]he exchange will reflect appropriate coordination between the MPOs/JHC, the project sponsor and UDOT" (UDOT, 2016). The outcome of this coordination is less state involvement with state funds and more state involvement with federal funds. The UDOT stewardship agreement requires significant state involvement when a project is federally funded.

Exchange Rate

In both programmatic and project-by-project exchanges, the exchange rate is set at 85 cents of state dollars per 1 dollar of federal dollars.

The decision to use this exchange rate was based on a study conducted by Kishore and Abraham (2009) with cooperation from the Indiana DOT, FHWA, and the U.S Department of Transportation. The study is based on construction factors unique to bridge projects and used a

case study in Elkhart County, Indiana to compare construction costs between a federal-aid project and a completely locally funded project. Based on the findings, the team was able to develop an equation to calculate the percent difference in federal-aid versus locally funded project costs. UDOT officials applied the formula from the study to help determine what their exchange rate should be. The equation indicated a large cost difference for smaller projects, however, as the size of the projects increased the cost difference between the two funding sources became less significant. UDOT officials found the average cost difference to be 82% and as a result, set the exchange rate at 85%.

In 2019, all four MPO's received Federal funds. Wasatch Front Association of Governments (WFRC); \$51 million, Mountainland Association of Governments (MAG); \$15 million, Dixie MPO; 2.8 million, Cache MPO; \$2.6 million. The JHC received approximately \$12 million to facilitate the off-System bridge, local urban and small urban block grant and transportation alternative programs.

Matching Funds

It is up to the MPO to determine if a match is needed. If a federally funded project has a local match, the exchange is only on the federal portion. UDOT only takes federal money once the project is exchanged.

Project by Project Exchanges

A local match minimum of 6.77 percent of total project cost is required. There is no flexible match agreement for these state exchanged projects like a federal project; rather the local government provides their match with cash, materials, right-of-way, design/construction services, etc. which does not require reimbursement by the project.

Chapter 13 Summary

Although motivation for starting fund exchange programs are relatively consistent, no two state's fund exchange programs are identical. The review of existing federal fund exchange programs revealed several benefits to developing and implementing an exchange program. Several states mentioned reduced demand on Department resources as a primary benefit to the exchange program (although states that maintain a significant role in the exchange may not always experience this benefit to the same degree). For local agencies, the benefits listed were more extensive. In addition to the general advantage of avoiding arduous federal requirements, specific benefits to de-federalizing locally administered Federal-aid projects, included:

- Time and cost savings,
- Improved flexibility in project execution and delivery, and
- Funding for a wider variety of projects.

State involvement varies significantly between exchange programs. While very few DOTs offer no oversight, handing full responsibility for exchange administration to local agencies, most serve in an oversight role with varying levels of involvement. The responsibilities of states with a more hands on role typically include:

- Developing, reviewing, and processing exchange authorization agreements and requests;
- Authorizing and recording transfer of funds and reimbursement requests where applicable;
- Determining project eligibility and reviewing projects for details, such as applicable federal requirements, ineligible expenses, etc.;
- Providing guidance and support to participating agencies for project implementation including compliance review and permit attainment;
- Reviewing and approving project activities and closeout packages.

Exchange rates and match requirements vary between states. Agencies with a 1:1 exchange rate cite funding availability and/or limited need for staff involvement in the exchange as the rationale for the even exchange rate. States with an uneven exchange rate typically use the excess funds to cover federal match requirements and/or Department overhead for the exchange program. The breakdown of exchange rates by state are as follows:

- 1:1: Colorado, Connecticut, Iowa, and Minnesota.
- 94 cents per dollar: Oregon.
- 90 cents per dollar: Arizona and Nebraska.
- 85 cents per dollar: Ohio and Utah.
- 75 cents per dollar: Kansas.
- No set exchange rate: California.

These programs, although very different in organization, requirements, and processes, do not conflict with Federal statutes. Based on the combination of online searches and DOT staff interviews, it can be agreed that exchange programs are considered effective and beneficial for both the state and local agencies.

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Appendix A Federal Fund Exchange Matrix

State	Eligible federal funding programs	Eligible Participants	Exchange Rate	Local Match Required
Arizona	Projects must be on the federal aid system and eligible receipts of STBG funding. Projects on local roads are not eligible.	Cities, towns, and counties with population of 200,000 or less.	90 cents per dollar	No
California	Varies according to agreement type.	RTPAs and counties greater than 200,000.	No set exchange rate – based on the apportionment received according to each entities’ agreement	Yes
Colorado	STBGP, TAP, and CMAQ	Unknown	1:1	Yes
Connecticut	STBG-Urban	COGs and state municipalities	1:1	Unknown
Iowa	STBG, CMAQ, ICAAP, and HSIP	All RPAs and MPOs.	1:1	Not for STBGP. Match requirements for ICAAP, HSIP-S, and city bridge program projects apply. <i>Individual MPOs and LPAs can require match.</i>
Kansas	STBG	LPAs that receive federal funding allocation, including all counties in the state and cities with population greater than 5,000 (not located in a TMA.)	75 cents per dollar (reduced from 90 cents per dollar)	No

Minnesota	STBG, HBP, and, TA	Any local agency selected to receive federal funds for a project and eligible for state aid funding	1:1	No
Nebraska	STBGP and HBP	STBGP: all counties, cities, and “the First Class” cities (more than 5,000 up to 100,000) outside of the Omaha and Lincoln metro areas. HBP: counties with deficient bridges and “First Class” cities (including Lincoln and Omaha) with deficient bridges.	90 cents per dollar (increased from 80 cents per dollar)	Unknown
Ohio	LBR	Unknown	85 cents per dollar	Unknown
Oregon	STBG Exchange – STBG funds SFLP – STPU and TAP	All cities with 5,000 to 200,000 residents, counties, and MPOs under 200,000 residents	94 cents per dollar	Yes - The match requirement is incorporated into the exchange rate.
Utah	STBG Non-urban, STBG Urban, and STBG Small Urban funds	Any LPA	85 cents per dollar	Determined by the MPO. Project by project exchanges – minimum of 6.77%

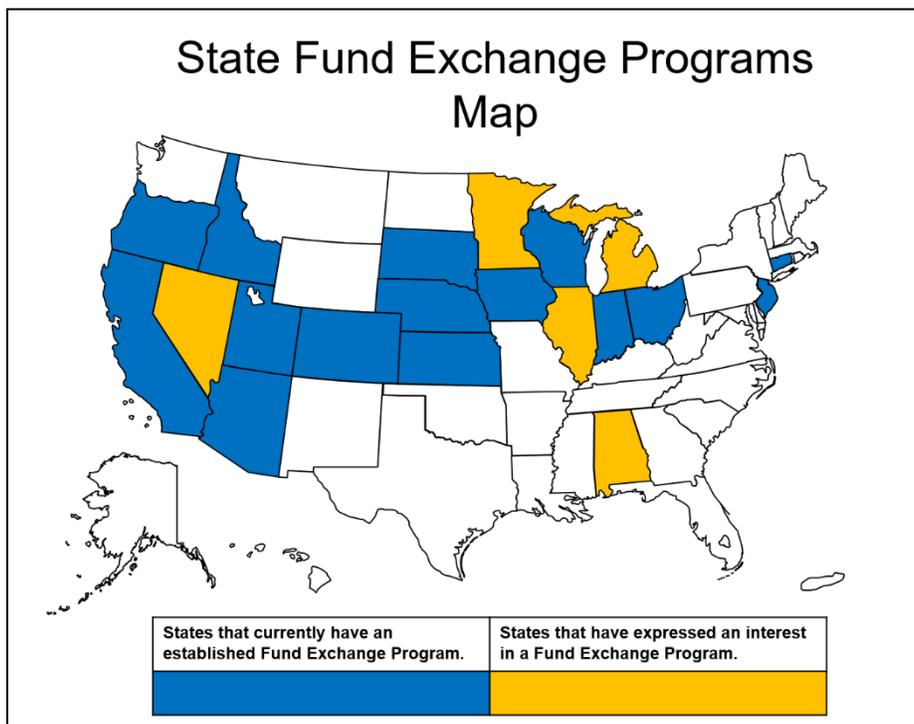
Table Legend

<p>Congestion Mitigation and Air Quality Improvement (CMAQ) Enhancement funds (TE) Highway Safety Improvement Program (HSIP) Iowa’s Clean Air Attainment Program (ICAAP) Surface Transportation Block Grants (STBG) Highway Bridge Program (HBP) County Local Bridge Program (LBR)</p>	<p>Transportation Management Area (TMA) Regional Transportation Planning Agency (RTPA) Council of Government (COG) Local Public Agency (LPA) Surface Transportation Program Urban (STPU) Transportation Alternatives (TA)</p>
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Appendix B FHWA Briefing

This chapter includes results from a federal fund exchange survey conducted by the Federal Highway Administration (FHWA).

Fifteen States report they currently have an established fund exchange program (see map below). These States are AZ, CA, CO, CT, ID, IN, IO, KS, NE, NJ, OH, OR, SD, UT and WI.

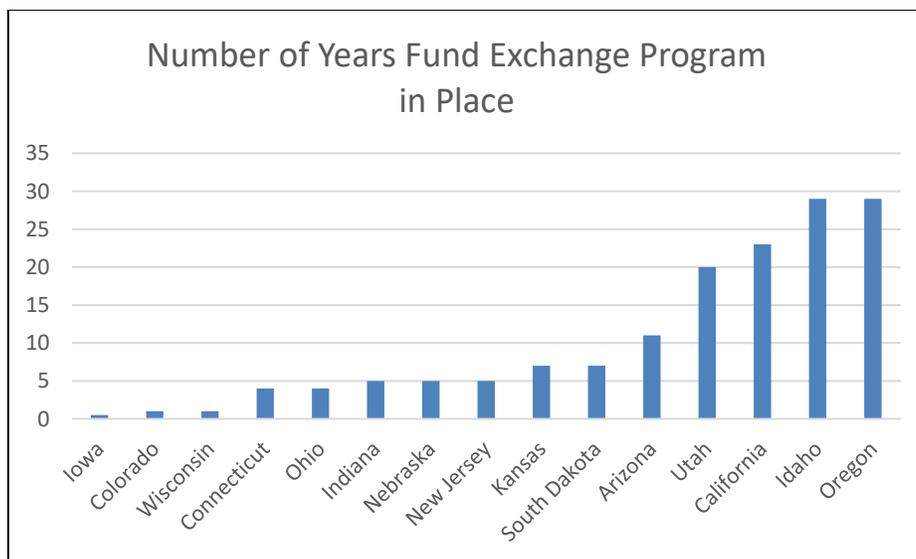


- Three States either have had a fund exchange program in the past and discontinued it or are currently considering its discontinuance. These States include AZ, MI and WI. AZ and MI had discontinued their fund exchange programs due to a lack of State funds to support the programs. However, AZ has recently reestablished their fund exchange program. WI is currently under deliberations as to whether to continue their program.
- Five States have expressed an interest in establishing a fund exchange program. These States include AL, IL, MI, MN and NV. AL and MN indicated that State Statutes were an obstacle to implementation. IL and MI were constrained by limited State funds. NV indicated some sort of MPO constraint.
- Four States allow their LPAs to exchange funds among themselves. These States include CA, ID, MI and MN.

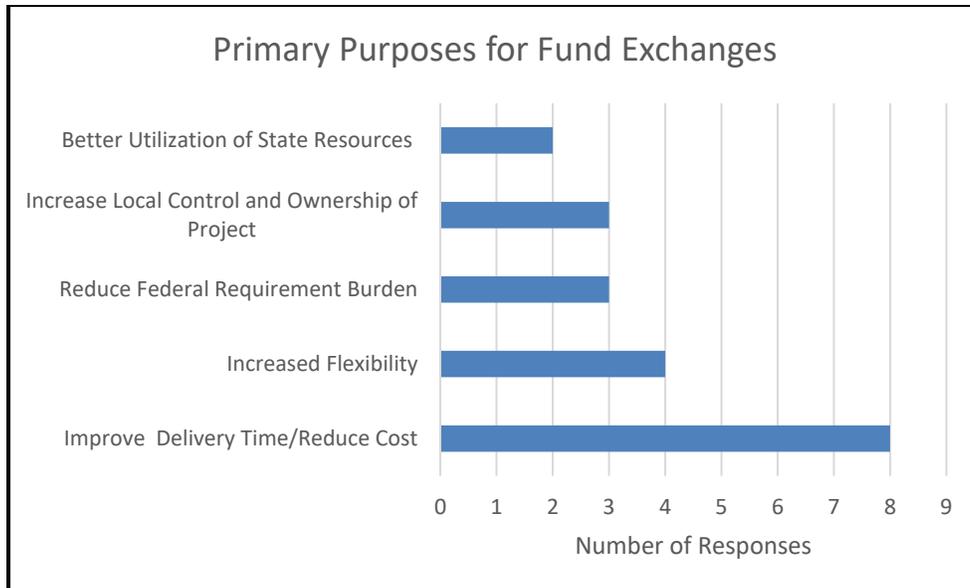
- CA has been allowing LPAs to exchange funds among themselves for the last ten years. The purpose for allowing the practice is to facilitate usage of Federal-aid funds before they are reprogrammed (Use it or Lose it). The process involves the use of fund trading and loan mechanisms.
- MI initiated a pilot program in FY 2016. It has continued the pilot program through FY 2018. The purpose for allowing the practice is that it allows LPAs to utilize project delivery and cost flexibilities not allowed in the Federal-aid program.
- MN has done so for the last nine years. The purpose for allowing the practice is that it facilitates aggregating Federal funds in larger projects, while avoiding Federal requirements on smaller projects.

State DOTs with an existing Fund Exchange Program:

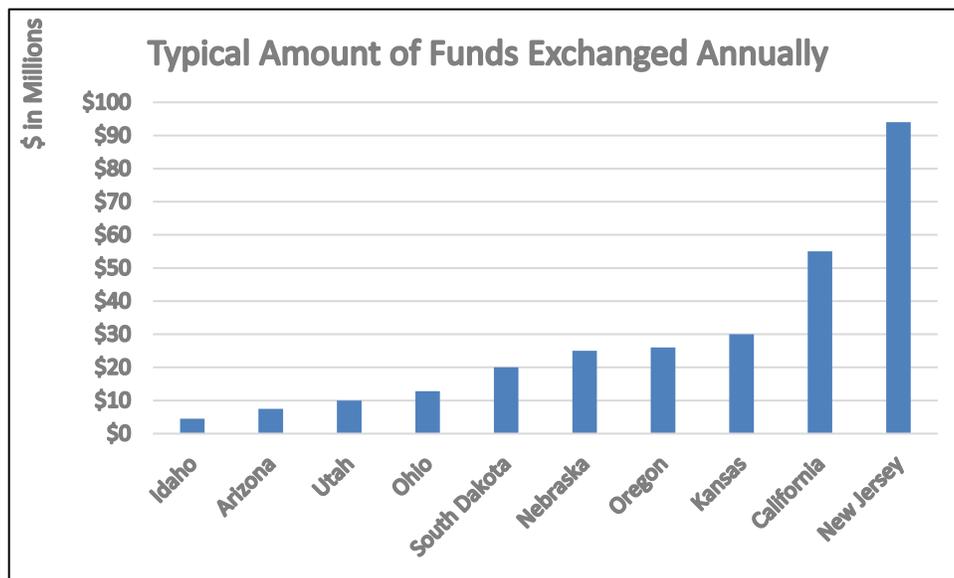
- The number of years a State DOT has had a fund exchange program in-place:
 - 8 States have had it in place for 5 years or less.
 - 2 State had it in place between 5 and 10 years.
 - 4 States have more than 20 years.



- The primary purposes given by the State DOTs for having a fund exchange program:
 - The most common reason is to improve project delivery time and increased flexibility.
 - States also stated the following reasons:
 - to increase local control and ownership of projects,
 - to reduce the federal requirement burden,
 - to reduce project cost, and
 - to better utilize state resources.



- Typical Funding Levels Exchanged:
 - This is highly dependent on the specific State and the size of their Federal-aid Program.
 - Of the 10 states that reported, the average amount was \$28M per year with a range of \$5M to \$94M per year. Six states were between \$10M and \$30M exchanged annually.
 - Connecticut stated its annual exchange is 80% of the Surface Transportation Block Grant (STBG) funds and Indiana stated it was all their eligible STBG funds.



- How are the fund exchanges conducted?
 - Nine states conduct exchanges on a project-by-project basis.
 - Six states conduct exchanges on a program basis.

How are fund exchanges conducted?	
Project-by-Project Basis	9
Program Basis	6

- What were the types of Federal-aid funds used to in a fund exchange?
 - Nearly all use STBG set aside funds for under 200k and under 5k.
 - Two states have swapped Highway Safety Improvement Program (HSIP) funds.
 - One state has swapped off-system bridge funds.
 - One state has swapped Congestion Mitigation and Air Quality (CMAQ) funds.

- What are the Exchange Rates utilized by the State DOTs?
 - 10 States identified has having developed an exchange rate.
 - The rate range is between 60 cents on the dollar to 100%. Most states were around 75-90 cents on the dollar.
 - The rate determination varied by state. Several of them were based on law or state policy, while others are based on cost of LPA projects accomplished locally versus adhering to federal requirements.
 - See table below for specific details:

Exchange Rate Determination by State			
	Exchange Rate determined by State DOT	How was the exchange rate determined?	What is the State DOT doing in exchange for the money they are retaining?
Arizona	90 cents on dollar	ADOT developed the rate back in 1998 and tried to base it on the cost of ADOT oversight.	Some administrative work.
California	100%	Was written into the law that way by the California Legislature.	Not applicable. We are not retaining any funds. We exchange all of it.
Idaho	61.67 cents on dollar	Cost of LPA projects accomplished locally versus those following all federal requirements.	Funding additional rural projects on the state highway system.
Indiana	State law allows up to 100% Past - 75 to 80 cents on dollar	The maximum exchange rate is identified in Indiana State Code, IC 36-9-42.2 Sec. 6(b).	Still match the funds at an 80-20 rate, and if consultants are funded with these dollars then they also must be selected using a qualifications-based approach (similar to the Brooks Act).
Iowa	100%	The IA DOT wanted to encourage participation in the exchange program.	It is anticipated that the retained money will be used on more state transportation projects.
Kansas	Currently 75 Prior to 2018, 90 cents on the dollar	The exchange rate is set annually at the discretion of Kansas' Secretary of Transportation.	100% of Federal funds that are retained by the State through the exchange of funds are utilized by KDOT on State projects.
Nebraska	90 cents on dollar	Set by state policy.	The state is doing State projects in the population areas that qualify for the respective funding in the appropriate areas.
Oregon	94 cents on dollar	Unclear	To offset the program administration costs.
South Dakota	90.08%	LPA gets credit for half sliding scale match 81.95% + 9.025% = 90.975%. STP Allocation * 90.975 =	State writes a check to the LPA and retains the STBG funds.

		$\$137,050.27 / 81.95\% =$ $\$167,236.45.$	
Utah Division	85 cents on dollar	It was selected based on discussions and agreement with the LPAs.	Typically, the funding is put into the pavement preservation and rehabilitation programs.

Appendix C

Caltrans Sample Invoice

Local Assistance Program Guidelines

EXHIBIT 18-F
Sample Invoice-Exchange/Match Program

**SAMPLE INVOICE FOR EXCHANGE/MATCH PROGRAM
(ON AGENCY LETTERHEAD)**

Date of Invoice:

Billing No.: 1, 2, ... , or final

Local Agency's Invoice No.: Invoice No.

[Name, District Local Assistance Engineer]
California Department of Transportation
District Local Assistance
[Street Address or P.O. Box]
[City, CA Zip Code]

Attn: Local Assistance Engineer

Payment of State Match and/or State Exchange funds is claimed pursuant to Local Agency-State Agreement No. _____, Executed on _____

	State Match	State Exchange	Total
Total Amount Claimed	_____	_____	_____
Total of Previous Invoices	_____	_____	_____
Amount Claimed This Request	_____	_____	_____

I certify that the amounts shown in this invoice are true and correct; and the amount claimed is due and payable in accordance with the terms of the Agreement.

Signature

Title

Appendix D

Connecticut LOTCIP Guidelines and Materials

Connecticut General Statute (2013)

Sec. 13a-98n. Local transportation capital program. (a) The Commissioner of Transportation shall establish a local transportation capital program to provide state funding, in lieu of specific federal funding available, to any municipality or local planning agency for transportation improvements to any state or locally maintained roadway or facility that is deemed eligible for federal surface transportation urban program funding.

(b) The commissioner may request the authorization of special tax obligation bonds of the state to establish such state funding. In the absence of state funding in any year, specific and eligible federal transportation funding shall remain available. Such bonds shall mature at such time or times not exceeding twenty years from their respective dates as may be provided in or pursuant to the resolution or resolutions of the State Bond Commission authorizing such bonds.

(c) The Department of Transportation shall accept applications for such state funding from any eligible recipient, based on project priorities, through the appropriate regional council of governments. Any such state funding shall be provided to the recipient through guidelines developed by the Department of Transportation.

(d) Any transportation improvement funded pursuant to the program established in this section will have a service life of approximately twenty years.

(e) Notwithstanding any other provision of the general statutes, this program, when improvements are on a locally owned roadway or facility, shall not be deemed to be a proposed state action, activity or critical activity for the purposes of sections 25-68b to 25-68h, inclusive.

Appendix E

Minnesota Federal Fund Exchange Application

The Microsoft Word version of the application can be accessed using the following link:
<http://www.dot.state.mn.us/stateaid/other/federal-fund-exchange-app.docx>



State Aid Federal Fund Exchange Application

SP:	Click here to enter text.	Classification:	<input type="checkbox"/> Donor or <input type="checkbox"/> Recipient
Tied SP:	Click here to enter text.		
Local agency	Choose an item.		
Project description:	Click here to enter text.		
Type of work	Click here to enter text.		
Old bridge number:	Click here to enter text.	New bridge number:	Click here to enter text.
Desired construction date:	Click here to enter a date.	State Aid eligible:	<input type="checkbox"/> Yes or <input type="checkbox"/> No
Type of federal funds:	Choose an item.	ATP:	Choose an item.
STIP year:	Choose an item.	MPO:	<input type="checkbox"/> Yes* or <input type="checkbox"/> No
Sequence number:	Click here to enter text.	*If yes, which one:	Click here to enter text.
Total estimated project cost:	\$ Click here to enter text.		
Total federal funds in STIP:	\$ Click here to enter text.		
Amount of federal funds needed or to exchange:	\$ Click here to enter text.		

Requestor _____
Local agency signature *Date*

I concur _____
DSAE signature *Date*

Approved _____
State Aid Engineer signature *Date*

TO BE COMPLETED BY STATE AID	
Match this exchange with SP:	
Adequate state aid funds in recipient account:	\$
STIP amendment approved:	
Agreement number:	
Agreement execution date:	
Date CSAH money transferred:	
Amount transferred:	\$