# Federal aid obligations and reimbursements

What transportation agencies can do to manage federal aid efficiently and maximize fund usage

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When budgeting for a new project, state transportation departments have various ways to access federal funds. Managing multiple funding programs simultaneously can be quite complex, especially because large projects may secure support from a range of federal and state funding sources. How can State Departments of Transportation (DOTs) leverage their own funding, make the most of federal sources, and handle their reimbursements and obligations properly, ensuring they fully utilize the available capital? This document will guide readers through the federal aid program to help them better understand key terminology and processes as well as the challenges they may encounter.

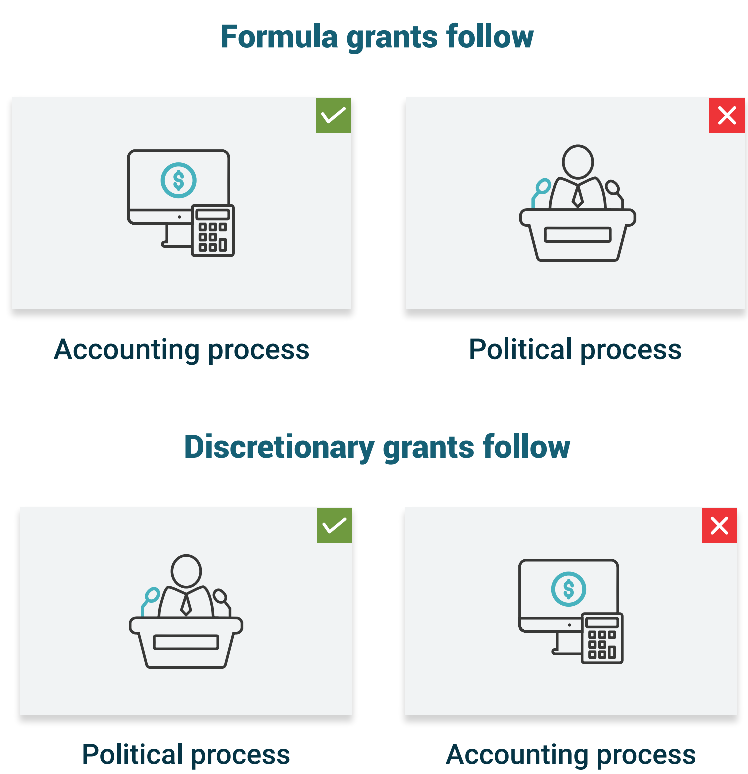
# Understanding the federal funding process
## Formula vs. discretionary grants

There are several sources through which state DOTs can access federal funds for transportation projects. Congress sets aside money to agencies within the United States Department of Transportation (USDOT), including the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA), the Federal Aviation Administration (FAA), and the National Highway Safety Traffic Administration (NHTSA). These funds are authorized in accordance with national priorities.

The Federal Aid Highway Program is the largest example of a federally funded program that supports state highway systems. The program was implemented through the FHWA. However, state DOTs and local agencies have the opportunity to secure funding from entities other than the DOT, such as the Federal Emergency Management Agency (FEMA).

**Formula grants:**
Money given by the government based on set formulas.

**Discretionary grants:**
Money you need to compete for.



# Formula grants

A state DOT seeking funding from the federal government for transportation projects will find that most funds flow through formula grants. Formula grants provide funding for projects with a required match from the state DOT, based on formulas set by Congress. Examples of formula funding grants are the Federal Aid Highway Program, the Urbanized Area Formula Grants, and some of the funds provided through the Bipartisan Infrastructure Law (BIL).

The distribution of funds based on formulas is called **apportionment**. Each year, the FHWA uses formulas provided in the law, typically through an authorization bill, to calculate the amount of each state's Federal Aid apportionment, which is assigned by October 1 of that year. The FHWA then divides the amount among different programs based on percentages, which are also outlined in the law.

## An example of how formula grants work

In the case of the Urbanized Area Formula Grants, the formula allows for funds to support the planning, engineering, design, and evaluation of transit projects, as well as bus repair and replacement, passenger facilities, tracks, signals, and communications systems, among other expenses. Within these eligibility categories, funding is distributed based on legislative formulas. For urban areas with populations under two million, the formula is based on the number of people and population density within the project area. Formulations for larger cities take into account bus and fixed guideway usage, revenue, population, and population density.

Federal funds are typically capped at 80% of the net project cost for capital expenditures, but it can reach up to 90% for the cost of vehicle-related equipment that allows states to comply with the Americans with Disabilities Act and the Clean Air Act. If the project cost relates to operating assistance, the federal government will not cover more than half of the bill.

Formulas change depending on the grant. In the case of the Federal-aid Highway Program, eligible projects involve road improvements that fit into a specific functional classification. Additionally, the work must be used for capital improvements and planned upkeep of highway assets (not, for instance, pothole patching, mowing, or snow removal). Eligible projects must also be included in their state's Statewide Transportation Improvement Program (STIP), a collection of projects resulting from collaboration between urban planning agencies.

# Typical flow of formula funds

**Authorization Act**
(can be any act that provided funding)

**Appropriations Act**
Specifies amount of funding
Provides cash for reimbursement (General Fund or Trust Fund)

**Distribution of appropriated funds**
(apportionment or allocation)

**Total federal aid available for use in fiscal year**

**Unobligated balances from prior years' distributions**

**Obligations**
(Federal government's promise to pay)

**Reimbursement**
(Federal government pays its share)

# Discretionary grants

The most common alternative to formulaic federal apportionment is the awarding of a federal discretionary grant. To receive federal discretionary grants, state DOTs must apply for open grants, typically after the federal publication of a Notice of Funding Opportunity (NOFO). The USDOT administers discretionary grant programs by soliciting applications for funding, which it then distributes according to eligibility and evaluation criteria.

When Federal Aid funding is distributed in any way other than according to a statutory formula, the funding is considered an **allocation**, previously known as 'earmarks.' Unlike apportionments, allocations can be made at any time during the year and are divided among states to help with projects that meet legally specified criteria. Not every state gets an allocation, and those that do must use the funding within a specified period or risk having the funding reallocated to another state.

## An example of how discretionary grants work

The BIL set aside $350 billion for federal highway programs to be spent between 2022 and 2026. While most of the funds in the BIL were apportioned based on formulas, some are available through a group of competitive grant programs.

One example of a competitive grant program is Safe Streets and Roads for All (SS4A). Established by the BIL, SS4A provides $5 billion over five years to support local governments in their efforts to prevent roadway deaths. The funds are awarded to communities through either Planning and Demonstration Grants to help develop or complete community action plans or through Implementation Grants to fund projects and strategies identified in action plans.

Besides formula and discretionary grants, Federal investment can also come in a number of other forms, including Loan Financing Programs and Public-Private Partnerships (P3s).

# Know your federal processes

Federal programs require legal authority to operate. In the case of federal funding programs, the FHWA must authorize projects before they begin. A complete authorization process involves determining the scope of work, the length of the project, and an estimated cost.

A project must be included in the STIP to be eligible for Federal Aid funds. The STIP is a multiyear list of projects selected by state DOTs after collaborating with urban planning agencies, commonly referred to as metropolitan or local planning organizations. Once the state DOT has officially included a project in the STIP and the FHWA has authorized funding for it, the final project agreement that includes all the obligation details can be completed.

While apportionments occur programmatically and on a periodic basis, federal agencies make commitments or obligations to state DOTs for fund utilization at a project level. In order to be eligible for funding through the program, state DOTs must provide project-level documentation including, but not limited to, an outline of the scope of work, estimated cost, and timeline of the project so that the FHWA can authorize the agreement before any costs are incurred.

An **obligation** is a commitment the federal government makes to pay a grant recipient for eligible and allowable costs, according to a binding agreement approved and executed by the FHWA. Once this agreement is completed, the funds are considered used, even though the cash has not yet been disbursed.

## Federal Highway Trust Fund insolvency

Occasionally, concerns arise over the possibility of the Federal Highway Trust Fund becoming insolvent. Federal funding is provided for through tax revenue. Agencies' federal funding is often reauthorized for multiple years in advance on the assumption that revenue will continue to top up the available funds. Insolvency occurs when the tax revenue slows or stops, but the money is still allocated. The Highway Trust Fund receives the bulk of its revenues through taxes on gasoline and diesel fuel. As vehicles become more efficient, revenues from the pumps have declined.

As the impact of these shortfalls grows, the country will have to come up with a new way to raise the money to pay for these federal programs. Currently, the Federal Highway Administration program is implementing pilot programs to test new approaches to funding the Federal Highway Trust Fund. General revenue transfers have plugged the funding gap in the short term, delaying insolvency predictions out to 2027.

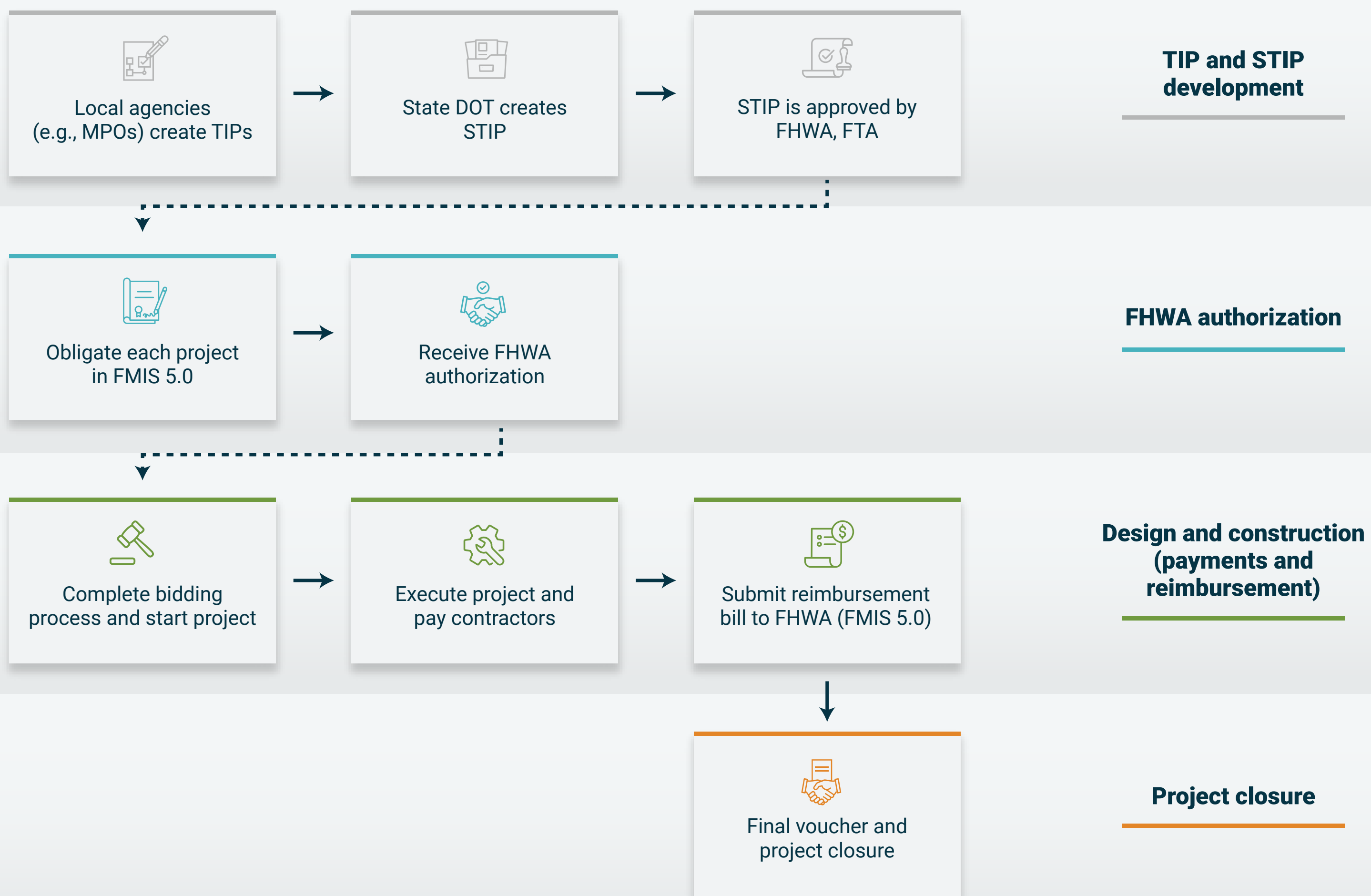
State DOTs must adjust obligations to current costs, or else they could lose some of the funding. They must also keep track of and adjust obligations to reflect increased costs, or else the federal government may not reimburse those costs.

Similarly, state authorities must monitor the project schedule to ensure proper project progression and protect the obligation for reimbursement. The project end date is critical to this process since only the work done by the end date is eligible for reimbursement. Finally, the federal government requires final costs to be billed and payment sent within 90 days of a project's closing unless the state DOT files for an extension and is approved.

### Financial Management Information System

The Financial Management Information System (FMIS) is an FHWA accounting system that public agencies in the United States use to streamline their financial operations. By consolidating functions like budgeting, accounting, payroll, and procurement into a seamless digital framework, the FMIS furthers transparency, strengthens accountability, and increases operational efficiency within these agencies. It enables accurate tracking of expenditures, enforces fiscal compliance, and facilitates data-driven decision-making.

## Federal aid management process



# Challenges faced by owners

With all the various funding sources, it's easy to see how state DOTs could get bogged down in the details, lose funding eligibility, or get lost in federal paperwork. No two state DOTs manage their Federal Aid Program in exactly the same way. For example, in some states, programming and project selection and prioritization decisions are concentrated centrally, while in other states, local agencies dictate project preferences and provide significant local funding. Some DOTs submit for reimbursement twice daily through automated systems integrated with the Financial Management Information System (FMIS), while others submit much less frequently. Regardless of how your state navigates the complex world of federal funding, here are some of the challenges owners may face in keeping up with federal funding on their projects.

## Aligning funding with the right projects

Federal formula grants are issued to state DOTs according to a strict set of rules and circumstances, often only for specific project types. State DOTs may have difficulty tracking which grants apply to which projects and have funds properly authorized so that funding can be in place. Once funding is authorized, the project schedule must be maintained for continued funding eligibility. Management and paperwork for these requirements can be arduous. Construction management software helps design the right project schedule, maintain a record of which project elements were completed on which dates, and track deadlines.

## Eligibility and reimbursement

Eligibility for funding depends on various factors, including proper authorization, the nature of the activities being conducted, adherence to an appropriate timeline and schedule, and ensuring that the maximum federal share allowed under the agreement is not exceeded. The USDOT won't authorize certain activities for certain projects (examples may, in some instances, include town hall meetings, mileage reimbursement, hotels, conventions, or conferences), even if they're related to transportation projects. State DOTs must ensure that their projects meet the eligibility requirements for the funding program they apply for and must have expenses authorized before they're incurred.

Program management tools help track and maintain this eligibility across large projects. It takes organization, focus, and time to ensure proper reimbursement policies are followed and all the funding for the project is used. Construction management software can help automate these reimbursement tasks to ensure the paperwork arrives on time and the money is appropriately awarded.

## Need to spend federal money and know where it is being spent

Once a project is authorized and a project agreement is in place, funds obligated through a grant have to be used within a specified time frame, after which any unused funding could be reallocated to another state's DOT. After project completion, the final paperwork must be filed within a stringent time frame, or the funding may be de-obligated. The stakes are high, and the margin of error is thin for these requirements. Deadlines vary by program. Smaller DOTs may rely on spreadsheets to track these requirements. However, the complexity of large project funding can lead to missed deadlines and loss of funding. Cloud-based software that is updated globally can help keep project teams organized and prepared to meet requirements.

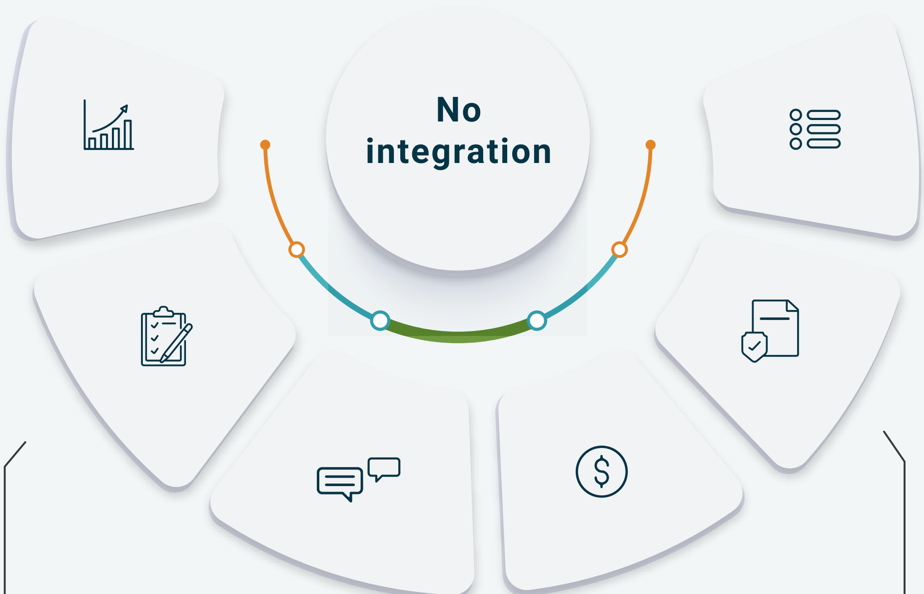
## Reconciling state, federal, and other funding sources

State DOTs must keep track of which elements of their project are being acquired with federal money and which are acquired with local or state money. With all the different requirements and timelines, it can be easy to let some funding go unused or miss a filing deadline for reimbursement, leaving money on the table. It can also be difficult to align funding sources with their intended uses. State DOTs must direct their consultants and contractors to submit payment applications or invoices with sufficient details to ensure that project reimbursements can withstand a federal audit.

## Lack of automation

The federal reimbursement program enables DOTs to leverage state funding to increase the size of their capital programs and often add the desired scope to projects, but it also creates a need for added regulation, compliance, and federal oversight. Time spent by DOT project managers and other stakeholders is time taken away from delivering the project. Owners can benefit when they integrate directly with the FMIS to eliminate manual processes, automate the obligation process, and accelerate the billing or reimbursement process.

## The problems and pain points caused by a lack of automation




**REPORTING**
Broad reporting requirements for the public and federal agencies

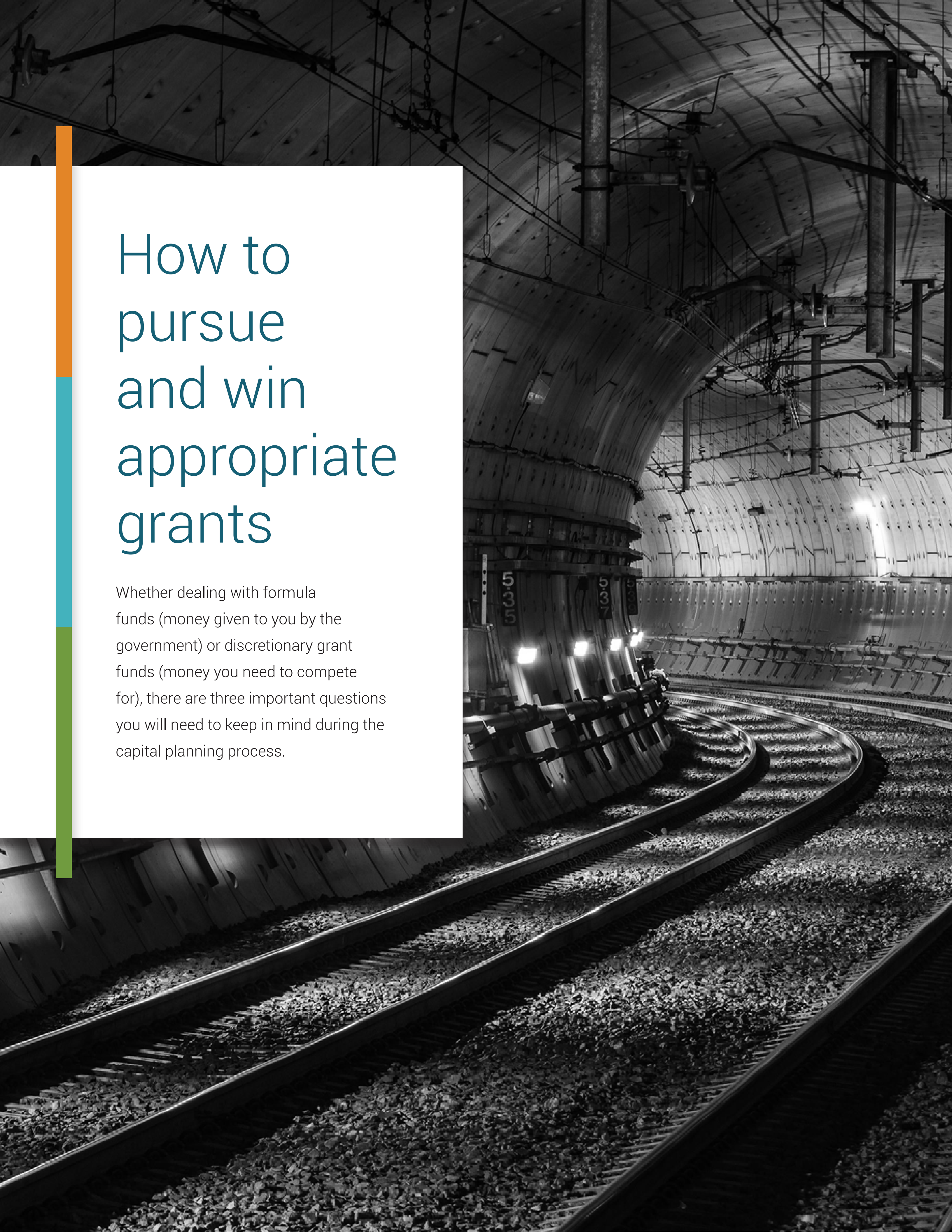
**DOTs USE EXCEL FILES**
No alerts, approval workflows,version tracking; crashes as data increases, difficult to collaborate remotely

**MANUAL DATA ENTRY**
Manual data entry into FMIS, reconcile multiple system

**COMPLEX FEDERAL REGULATION**
No system to validate and enforce federal regulation, delays approvals and reimbursements

**PUBLIC FEEDBACK**
Collect public feedback to prioritize projects

**STIP AND TIP PROGRAMS**
No system to develop and amend STIP and TIP programs



# How to pursue and win appropriate grants

Whether dealing with formula funds (money given to you by the government) or discretionary grant funds (money you need to compete for), there are three important questions you will need to keep in mind during the capital planning process.

**Time**
What is the expiration date of your funding?

**Eligibility**
Are you spending the money on the right things?

**Monitoring and reporting**
How will you show the government that it is getting what it paid for?

Purpose-built software can help agencies track and manage multiple funding sources, along with eligibility requirements, and application and filing deadlines, to make sure all possible formula grant funding is assigned appropriately before any money is spent. It can help minimize data entry and increase accuracy while maintaining a clear historical view of every change to leave a reliable audit trail, helping you protect your ability to settle all financial expenses, encumbrances, liabilities, and other accounting that happens after the certificate of completion has been issued, and the FHWA has paid the final invoices. As contractor and consultant invoices are received, such tools can help prioritize which funding is used to pay invoices or progress payments.

The challenges involved in discretionary grants may be more political in nature. To win a discretionary grant, a state DOT must fill out an application and compete for funds. Although some grant programs receive applications for 10 or 20 times the available funding amount, several programs within the BIL have a grant application win rate of 10% to 15%. In the end, federal officials decide which programs to fund based on an assortment of federal criteria.

Challenges in accessing discretionary funds may include neighboring jurisdictions trying to access the same funds or smaller DOTs competing with more sophisticated agencies that may have the capacity to write more compelling grant applications. Local officials will need to successfully work with Congress and the White House in order to secure a discretionary grant, and local, state, and federal priorities must all align. Discretionary funding has its place in funding agencies for transportation projects, but winning discretionary grants could be more nuanced than accessing formula funds.

**PRO TIP**

## Use technology to speed up the process

Receive information from the Federal Highway Administration (FHWA) electronically for faster turnaround times and improved data accuracy. Additionally, planning and program managers should enable electronic approval and sign-off. Lastly, integrate your current system with the **Financial Management Information System (FMIS**) to eliminate manual processes, automate your obligation processes, and accelerate your billing processes.

## About Aurigo Software

Aurigo builds software that helps build the world. Aurigo is an AI-native company that helps capital owners connect planning, construction, and operations in a single environment, improving decision-making and execution. Trusted by over 300 organizations across infrastructure and facilities, Aurigo manages more than $450 billion in capital programs, with over 40,000 projects throughout North America. Aurigo is a privately held U.S. corporation headquartered in Austin, Texas, with global offices in Canada, South Africa, and India.

Learn more at www.aurigo.com

## Schedule a demo

Schedule your demo today to learn how Aurigo Masterworks can help your organization streamline information, accurately track, forecast, and prioritize projects, and help you save time and money.

aurigo®

Aurigo Software Technologies Inc.
Austin, Texas

sales@aurigo.com | (512) 640-3377

**aurigo.com**