June 7, 2017

TO: Members of the MAG Street Committee

FROM: Kini Knudson, Phoenix, Chair

SUBJECT: MEETING NOTIFICATION AND TRANSMITTAL OF TENTATIVE AGENDA

Tuesday, June 13, 2017 - 1:00 p.m.
MAG Office, Suite 200, Ironwood Room
302 North First Avenue, Phoenix

The next meeting of the MAG Street Committee will be held at the time and place noted above. Committee members or their proxies may attend in person, via video-conference or by telephone conference call. Those attending by video conference must notify the MAG site three business days prior to the meeting. Those attending by telephone conference please contact MAG offices for conference call instructions. Please call in prior to the time noted above.

Pursuant to Title II of the Americans with Disabilities Act (ADA), MAG does not discriminate on the basis of disability in admissions to or participation in its public meetings. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, by contacting the MAG office. Requests should be made as early as possible to allow time to arrange the accommodation.

The next meeting of the MAG Street Committee will be held at the time and place noted above. If you have any questions or need additional information, please contact Teri Kennedy or Steve Tate at (602) 254-6300.

TENTATIVE AGENDA

	COMMITTEE ACTION REQUESTED
1. Call to Order For the upcoming meeting, the quorum requirement is 13 members.	
2. Introductions and Attendance An opportunity for new members to introduce themselves and record member attendance at the meeting will be provided.	2. For information.
3. Approval of the May 9, 2017 Meeting Minutes	3. Review and approve the minutes from the May 9, 2017 meeting.
4. Call to the Audience An opportunity will be provided to members of the public to address the Street Committee on items not scheduled on the agenda that fall under the jurisdiction of MAG, or on items on the agenda for discussion but not for action. Members of the public will be requested not to exceed a three minute time period for their comments. A total of 15 minutes will be provided for the Call to the Audience agenda item, unless the Street Committee requests an exception to this limit. Please note that those wishing to comment on action agenda items will be given an opportunity at the time the item is heard.	4. For information.
5. Transportation Programming Manager's Report The MAG Transportation Programming Manager will review recent transportation planning activities and upcoming agenda items and other related regional transportation activities.	5. For information and discussion.
6. Presentation on HURF Exchange and Inactive Projects ADOT staff will present information regarding draft policies on:	6. For information and discussion.

- ADOT management of inactive projects, both from federal and other funding sources.

- The upcoming HURF Exchange program.

Please see attachments #1 and #2 for additional information on the draft ADOT policies.

7. Multimodal Level of Service Study

Transportation Research Boards's National Cooperative Highway Research Program (NCHRP) Report 616: Multimodal Level of Service Analysis for Urban Streets explores a method for assessing how well an urban street serves the needs of all of its users. The method for evaluating the Multimodal Level of Service (MMLOS) estimates the auto, bus, bicycle, and pedestrian level of service on an urban street using a combination of readily available data and data normally gathered by an agency to assess auto and transit level of service.

The MAG Multimodal Level of Service study performed the evaluation at nine pilot locations in the MAG region with the intent of gaining greater understanding of how the tool may be utilized to facilitate planning efforts and establish performance metrics for the region. The results of the study provide a greater understanding of the many variables that improve the quality of experiences of all users on the street, however, it underscores the reality that creating an objective metric for non-vehicular travel experience is a complex undertaking. The findings from the study will be presented and discussed.

7. For information and discussion.

8. Reimbursement For Camera/Monitor and Drag Shoe Carbide Equipment on PM-10 Certified Street Sweepers

Each year, MAG programs Congestion Mitigation and Air Quality Improvement (CMAQ) Program funds to encourage the purchase and utilization of PM-10 certified street sweepers. The maximum federal participation rate is 94.3 percent with a local

8. For information and discussion.

agency cash match of 5.7 percent. In addition to the cash match, MAG member agencies are responsible for the cost of additional equipment not eligible for reimbursement. Recently, FHWA reviewed the equipment not eligible for federal CMAQ reimbursement and decided that the camera/monitor and drag shoe carbide items are now eligible for reimbursement. The camera/monitor is considered a safety feature and is offered as standard equipment by some manufacturers. In addition, the drag shoe carbide is also considered as standard equipment. As other questions regarding eligibility on equipment come up, they will be handled on a case by case basis.

9. Appointment of Vice Chair for the Street Committee

At the last meeting of the Committee, Mr. Chris Hauser announced that he was leaving the City of El Mirage for a position in the private sector. With this announcement, he vacated the MAG Street Committee Chair position and Mr. Kini Knudson became the new Chair of the Committee.

The MAG Committee Operating Policies and Procedures approved by the Regional Council provide that the MAG Executive Committee select a vice chairs of MAG committees. Please see Attachment #3 for a memo requesting letters of interest .

9. For information and discussion.

10. Request for Future Agenda Items

Topics or issues of interest that the Street Committee would like to have considered for discussion at a future meeting will be requested.

10. For information and discussion.

11. Member Agency Update

This section of the Agenda will provide Committee members with an opportunity to share information regarding a variety of transportation-related issues within their respective communities.

11. For information and discussion.

12. Next Meeting Date

The next regular Street Committee meeting will be scheduled for Tuesday, July 11, 2017 at 1:00 p.m. at the MAG Offices, Ironwood Room.

Adjournment

12. For information.

MINUTES OF THE
MARICOPA ASSOCIATION OF GOVERNMENTS
STREET COMMITTEE

Tuesday, May 9, 2017 1:00 p.m.
MAG Offices, Suite 300,
302 North First Avenue, Phoenix, Arizona 85003

MEMBERS ATTENDING

Chris Hauser, El Mirage, Chair
* Jodi Rooney, ADOT
# Emile Schmid, Apache Junction
Paul Lopez for David Janover, Avondale
Jose Heredia, Buckeye
Kevin Lair, Chandler
Aryan Lirange, FHWA
Tim Oliver, Gila River Indian Community
David Fabiano, Gilbert
Jack Lorbeer for Patrick Sage, Glendale
Hugh Bigalk, Goodyear
Rob Dolson, City of Maricopa
Maria Deeb, Mesa
Angela Horn for Robert Woodring, Maricopa County
* Mike Gillespie, Litchfield Park
Kini Knudson, Vice Chair, Phoenix
* Scott Bender, Pinal County
Ben Wilson, Peoria
* Janet Martin, Queen Creek
# Jennifer Jack, Salt River Pima-Maricopa Indian Community
* Andrew Merkley for Phil Kercher, Scottsdale
Dana Owsiany, Surprise
German Piedrahita, Tempe
Jamie McCracken, Tolleson
Grant Anderson, Youngtown

* Members neither present nor represented by Proxy
# Members attending by phone
@Ex-officio member, non voting member

OTHERS PRESENT

Tony Bradley, Arizona Trucking Association
Monique De Los Rios-Urban
Jeff Martin, Mesa
Jodi Sorrell, Mesa
RJ Zeder, Mesa
Jess Knudson, Florence
Margaret Boone, MAG
John Bullen, MAG
Brian Rubin, MAG
Teri Kennedy, MAG
Nathan Prior, MAG
Tim Strow, MAG
Stephen Tate, MAG

1. Call to Order

Chair Chris Hauser called the meeting to order at 1:02 p.m.

2. Introductions and Attendance

A roll call of members attending by phone was conducted. The following member agencies were not represented at the meeting: ADOT, Litchfield Park, Queen Creek and Scottsdale.

3 Approval of the March 14, 2017 Meeting Minutes

Ms. Maria Deeb moved approval of the minutes. Mr. Kini Knudson seconded the motion. The motion carried unanimously.

4. Call to the Audience

No members of the public requested to speak before the Committee.

5. Transportation Programming Manager's Report

Ms. Kennedy briefed the Committee. She noted that workbooks for reporting on FY2018 and FY2019 projects went out this week and are due back to MAG on May 26, 2017. Commitment letters for FY 2019 projects are due in October or November. The due date will be published in the FY 2018 Programming Guidebook.

MAG will send out a verification listing of FY 2017 projects. FY 2017 federally funded projects are due at ADOT no later than June 30, 2017 for obligation.

The rebalancing of the Regional Freeway and Highway Program was presented at the March meeting of the Transportation Policy Committee and acted to recommend the approach to the Regional Council and RC recommended the approach.

In June, MAG will conduct an air quality conformity analysis for the rebalancing. If member agencies have regionally significant project changes that are not included in the Draft TIP, they submit them to MAG for inclusion in the analysis.

It is expected that MAG will issue a Call For Projects in August for the years , FY2021 and FY 2022 for PM-10 and PM-2.5 paving of unpaved roads with CMAQ funding, for the Pinal County Arterial/Bridge program with STBG funding, for bicycle and pedestrian projects with CMAQ and TA funding, and for FY2018 PM-10 Certified Street Sweepers.

6 Arterial Life Cycle Program Status Report: November 2016 - April 2017

Mr. Bullen briefed the Committee. He noted that the Arterial Life Cycle Program (ALCP) is the financial management tool for the arterial component of the Regional Transportation Plan. The program contains 210 projects across 14 jurisdictions. The program is guided by the ALCP Policies and Procedures. These require a status report is provided to MAG committee members which is traditionally done on a semi-annual basis.

Projections of sales tax collections are on track with actual collections. To date collections are only about $100,000 (or 0.3%) below projections. In FY 2017, 53 projects are scheduled for work or reimbursement: 24 design projects, seven (7) right-of-way projects, 18 construction projects and four (4) reimbursement only projects.

To comply with ALCP project requirements, project sponsors need to submit the following: a project overview, a project agreement, a RARF reimbursement request, and a project authorization if the project is federally funded. To date only $17.1 million of $54.1 million eligible RARF expenses have been requested by sponsoring agencies.

7. <u>Arterial Life Cycle Program Project Removal and Gilbert Road Light Rail Extension Funding Reallocation Request</u>

Mr. Bullen briefed the Committee. He began by reiterating that the Arterial Life Cycle Program (ALCP) is the financial management tool for the arterial component of the Regional Transportation Plan. He went on to note that in October 2012, funding for the Gilbert Road light rail extension was added to the ALCP through the removal of sixteen City of Mesa arterial projects from the ALCP. The federal funding was reallocated to the design and construction of a light rail extension in Mesa to Gilbert Road, a distance of 1.9 miles. The agenda item is a request from the City of Mesa to remove five additional projects and reallocate their funding to the Gilbert Road light rail extension.

He went on to note that the ALCP is funded with three sources: the half-cent sales tax (Regional Area Road Fund or RARF), Federal Surface Transportation Program (STP) funds, Federal Congestion Mitigation and Air Quality Improvement (CMAQ) funds. In addition, Arizona Revised Statutes firewall sales tax funds from being transferred to another mode, but places no restriction on federal funds. However, Federal funds are guided by the ALCP Policies and Procedures.

Mr. Bullen then provided a cost history for the Gilbert Road extension project. The original amount reallocated for the project was $162 million. With completion of Subsequently90 percent plans the cost estimate rose to $184 million. The increase in the cost estimate is attributed primarily to project delays that stem from a lawsuit, stakeholder engagement and a six month increase in projected project duration.

The arterial projects to be removed will fund the extension. These projects were reviewed by Mesa staff and were determined to not needed based on traffic volume and crash data. In total the removal of these projects makes $22.4 million available for the extension.

The ALCP requires that changes to project must be evaluated by the Committee and use the ALCP Project Change Tool. The Tool was designed to compare roadway projects, not roadway and rail projects together. As a result, a new analysis was generated. Analysis of the intersections was based on performance measures - i.e. travel time index, speed and delay - crash data, land use and intersection amenities. Data on the intersections was presented to the committee.

The extension is forecast to increase system ridership by six percent and boardings in Mesa by forty percent. The extension includes stations at Stapley Drive and Gilbert Road, and will include a park-and-ride at Gilbert Road.

The benefits from the extension include an increase in ridership, improved drive access and an expansion of the catchment area for the eastern end of the light rail. This area has a large commuter shed that is expected to see improve economic opportunities with the extension of the light rail. The immediate areas around the light rail stations are also expected to improve.

Mr. David Fabiano moved in favor of the recommendation to approve to the removal of five (5) Arterial Life Cycle Program intersection improvement projects and reallocate the $22,389,393 (2016$) in programmed federal Surface Transportation Program (STP) and Congestion Mitigation and Air Quality (CMAQ) funding to the Gilbert Road light rail extension project as part of the fall 2017 amendments to the Fiscal Year (FY) 2018 Arterial Life Cycle Program, FY 2018 - FY 2022 Transportation Improvement Program and FY 2040 Regional Transportation Plan, contingent on a finding of air quality conformity.

Mr. German Piedrahita seconded the motion. The motion carried unanimously.

8. Presentation on House Bill 2371

Mr. Tony Bradley from the Arizona Trucking Association briefed the Committee on House Bill 2371. He noted that the Bill addressed the local regulation of oversized commercial vehicles.

He noted that the immediate impetus for the Bill was vehicle sign regulations developed by Coconino County that differed from those developed by the State. These regulations had been developed with the aid of a consultant and were intended to be an expression of best practices, however, because they conflict with those of the State, they created an undesired regulatory burden for private operators.

To address the problem, House Bill 2371 was passed. The Bill provides that local public agencies adopt and enforce ordinances that are substantially identical to ones adopted by ADOT that relate to overdimensional or overweighted commercial vehicles.

The Bill does not prohibit local public agencies from adopting ordinances that restrict routes and time of day the movements of oversize and overweight commercial vehicles. Local public agencies, however, are required to provide ADOT in a timely manner these ordinances and ADOT is required to provide this information to the Overdimensional Permit Council and the public.

Mr. Bradley noted that his Association's focus had been on regulations affecting the characteristics of vehicles (e.g. pilot car requirements, spacing of lettering and number of yellow lights on a vehicle) and not on route restrictions. Route restricts that help operators avoid unsafe bridges and other hazards are desirable. He concluded by noting that ADOT is in the process of developing a website listing local agency route restrictions.

Ms. Kennedy indicated that MAG will contact ADOT to identify a contact at ADOT for the proposed website.

9. Regional Freeway and Highway Program Rebalancing Update and Fall Air Quality Conformity

Ms. Kennedy briefed the Committee on the rebalancing of the Regional Freeway and Highway Program. She noted that based on a careful review of project costs and funding estimates, it had been determined that $1.4 billion is unallocated in the Program through the life of the half-cent sales tax. The sources for the unallocated funding include increased sales tax revenue estimates, reduced inflation, increases in other income and cost saving on the South Mountain corridor.

Approximately $1.77 billion in projects are in construction; $2.00 billion in projects are programmed; and $1.25 billion in rebalanced projects are to be added. The total cost of the program is $5.02 billion.

The projects to be added to the program consist largely of projects moved out of the half-cent tax horizon by previous rebalancing efforts. The projects to be added affect all freeways in the Valley.

To implement the rebalancing, it is anticipated that in the Fall, the Regional Council will adopt amendments to the Regional Transportation Plan and the TIP. Subsequently, the cashflow for the Program will need to be monitored closely and reporting on the Program will occur on a quarterly basis beginning now.

10. Draft FY 2018-2022 MAG Transportation Improvement Program

Ms. Kennedy briefed the Committee. She noted that the Draft FY 2018-2022 Transportation Improvement Program includes projects from the entire MAG planning area. This area includes all of Maricopa County and portions of Pinal County.

The development of the TIP has been a year long effort that includes several public meetings beginning in March, data collection from MAG member agencies, travel demand and air quality modeling and anticipated action by the Regional Council at the end of June.

The TIP is developed within applicable Federal and State transportation and air quality laws, regulations, plans and policies. It includes all regionally significant projects regardless of funding source and all projects to be federally funded under Tittle 23 and Title 49 Chapter 53 of the US Code except for planning projects included in planning work programs.

As of the date of the meeting, the Highway section of the TIP includes approximately 840 work phases distributed among a number of different modes. The total amount programmed is $3.8 billion with 25 percent of the cost born by the Regional Sales Tax and 38 percent born by local public agencies. Federal funding makes up the remainder.

The Transit section of the TIP totals to $1.3 billion and is divided between bus and light rail transit modes. Approximately 44 percent of the funding for the light rail mode comes from the half-cent sales tax and local public agencies. Approximately 23 percent of bus funding comes from the half-cent sales tax and local public agencies.

The TIP does not include non regionally significant, non federally funded projects. These include residential street projects and numerous other small projects. The TIP also does not include some funds for planning studies programmed in the MAG Planning Work Program.

The Final Phase Public meeting for the TIP was held earlier in the day. Comments from the meeting will be presented to MAG policy committees, including the Regional Council. It is anticipated that the Regional Council will take action to approve the TIP at the end of June. The Federal Highway Administration, Federal Transit Administration, United States Environmental Protection Agency and Arizona Department of Transportation are expected to take as appropriate review or approval actions thereafter.

11. Request for Future Agenda Items

Ms. Maria Deeb requested an item concerning federal funding available to improve pedestrian and bicycle access to transit facilities (e.g. bus stops).

12. Member Agency Update

Mr. Aryan Lirange noted that ADOT will be conducting several public meetings on Intestate 11.

Mr. Kini Knudson noted that the City of Phoenix had adopted a new pavement cut ordinance.

Mr. Ben Wilson indicated that the City of Peoria had a new Engineering Director.

Chair Chris Hauser noted that he will be leaving the City of El Mirage and that this would be his last meeting as the Chair and representative from El Mirage.

13. Next Meeting Date

The Chair noted that the next regular Street Committee meeting is scheduled for Tuesday, June 13, 2017 at 1:00 p.m. at the MAG Offices, Ironwood Room.

Adjournment

The meeting adjourned at 2:07 p.m.

ARIZONA DEPARTMENT OF TRANSPORTATION
POLICIES AND PROCEDURES

FIN-#.## Inactive Projects

Effective: May 1, 2017 | Review: November 1, 2018
Supersedes: None | Transmittal: 2017 - May
Responsible Office: Financial Management Services |

1.01 PURPOSE

This policy establishes the treatment of inactive projects.

1.02 SCOPE

This policy applies to projects contained within the Statewide Transportation Improvement Program (STIP).

1.03 AUTHORITY

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

1.04 BACKGROUND

Effective May 1, 2017, the following policy, procedures and responsibilities apply to project close outs and the identification and treatment of inactive projects.

Proper fiscal control requires closing out projects in a timely manner to prevent funds from becoming idle and projects becoming inactive.

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

Generally, the most common reasons projects become inactive include:

- The project was authorized for funding too early (i.e., more than 90 days before the project is scheduled to advertise or billable work is ready to begin);
- Failure of the local public agency to invoice ADOT for reimbursement monthly or quarterly on self-administered (SA) projects or those administered by agencies with certification acceptance (CA) status;
- Lack of notification to ADOT of the completion of the project or current phase of the project.

1.05 DEFINITIONS

Agreement Estimate Recapitulation	Final construction recap based on the awarded construction project and all below the line costs
Authorization	Approval of project funding by FHWA for federal aid projects or by Resource Administration for non-federal projects
Certification Acceptance Agency (CA)	Local Public Agency with a signed agreement with ADOT allowing them to administer most aspects of project development and construction
COG	Council of Government – regional planning organization for non-metropolitan areas
COG/MPO Ledger	The COG/MPO federal aid funding ledger. This document reflects the authorization status of projects in the current federal fiscal year, apportionments and obligation authority, transfers and loans, available and lapsing funds. Ledgers are prepared by ADOT Resource Administration for each COG/MPO and posted monthly on ADOT's website at: http://www.azdot.gov/about/FinancialManagementServices/transportation-funding/federal-aid-highway-program
FHWA	Federal Highway Administration, a division of the US Department of Transportation specializing in highway transportation
FMS	Financial Management Services - ADOT division responsible for project funding, accounting, final vouchers, accounts receivable, accounts payable and other accounting and financial management functions
Inactive Project Phase	Project phase that has not had billing activity within established timeframes. Timeframes are: • 180 calendar days – Project phases are considered inactive
LPA	Local Public Agency – refers to a city, county, town or tribal entity that is a sponsor or provides financial contribution to a project phase
MPO	Metropolitan Planning Organizations (MPOs) are agencies or organizational arrangements that carry out the required planning process as described in the Federal-Aid Highway Act of 1962
Project Phase	Specific work phase of a project. Inactives are measured at the project phase level
Ready to Proceed	Stage of work for which funding is being requested is ready to begin expendable and/or reimbursable work activities (advertise/begin

	scoping or design - including project kick off meetings, acquire rights of way, relocate utilities, begin construction or commence a non-infrastructure project phase
Resource Administration	ADOT's Financial Management Services Resource Administration Unit, which processes and obligates project funding
Self-administration project	A Self-administration project is one where a Local Public Agency has been approved to administer the project development

1.06 POLICY

A. Effective May 1, 2017, It is the policy of ADOT that:

1. Finance authorization is requested only when a project phase is ready to proceed. This is defined as the stage of work for which funding is being requested is ready to begin expendable and/or reimbursable work activities (advertise/begin scoping or design - including project kick off meetings, acquire rights of way, relocate utilities, begin construction or commence a non-infrastructure project phase);
2. Project phases are closed out in a process consistent with this policy; and
3. ADOT Financial Management Services reviews, tracks and reports on all inactive project phases on a weekly and monthly basis, and takes action to deobligate funding on project phases which do not demonstrate sufficient progress or are no longer valid.

B. Inactive Project Phases

ADOT reviews and reports inactive project phases on a weekly and monthly basis for all project funding sources.

C. Tracking Project Phase Status

Resource Administration tracks the status of all authorized project phases. Project phases that have not shown any financial activity for a period of 150 days are identified and included on the Inactive Project Phase Report. This report is produced monthly and uploaded to the Federal-Aid Highway Program section of the ADOT Internet site located at Federal-Aid Highway Program. The report is broken into two tabs; the first lists all project phases inactive for at least 150 days, but less than 180 days. These are the project phases that will go inactive in the next month, the second tab is all inactive project phases over 180 days, sorted by number of days inactive.

Each month Resource Administration will send out the link to Project Managers for the current month's report. The intent is to resolve any pending issues on potential inactive project phases. The Project Manager is expected to submit legitimate charges to keep the project phase active (staff time, consultant / contractor invoices or invoices from the Local Public Agency). If the project phase is complete, the Project Manager should request the project phase be closed out.

If a project phase has not billed within 180 days, it will appear on the Weekly Inactive Project Phase Report. . This report is produced weekly and uploaded to the Federal-Aid Highway Program section of the ADOT Internet site located at Federal-Aid Highway Program. Each week

Resource Administration will send out the link to Project Managers for the current week's report. The Project Manager is required to provide documentation to Resource Administration within ten (10) working days to justify why the project phase should remain open. This justification shall include:

- What is the current status of the project phase?
- Why is the project phase inactive?
- When is the next action or invoice expected? A specific date is required.
- Is there excess funding that needs to be released? If not, what is the justification to keep the project phase funded?

If the project phase is complete, the Project Manager should request the project phase be closed out.

D. **Project Phase Close-Out**

The intent is to free up funding not required on the project phase for use on other projects. The following categories list specific project administration, project phase activities and treatment of those project phases.

1. ADOT Administered / ADOT Funded - Development and Construction Project Phases:
   a. Resource Administration receives the Agreement Estimate Recapitulation and adjusts the construction funding to agree with the recap and releases any excess funds.
   b. Sixty (60) days after receipt of the Agreement Estimate Recapitulation, Resource Administration releases all available funding on the development phases of the project in excess of $50,000, excluding Right of Way acquisition and Utility Relocation Phases. Funding less than $50,000 will be released from the project at Final Voucher.
   c. After the funding is released, Resource Administration puts the project phases in "C – Review Complete by Resource Admin" status.
   d. The funding will be returned to the appropriate contingency fund (Statewide or RARF).

2. ADOT Administered/ADOT Funded - Non-Construction and Procurement Project Phases:
   a. The ADOT Project Manager is responsible for notifying FMS within sixty (60) days of completion of the project. The notification must include a Project Close Out letter, stating the project is complete. The ADOT PM will submit the close out package to FMS.
   b. After completion of the final voucher on the project, any excess funding will be returned to the appropriate contingency fund (Statewide or RARF).

3. ADOT Administered/ADOT Funded Right of Way and Utility Project Phases:
   a. The ADOT Project Manager is responsible for notifying Resource Administration when project phases for right of way acquisition or utility relocation are complete. The PM will send an email to the Resource Administration inbox stating the project phase is complete and will include confirmation from the Right of Way Group or Utility and Railroad Section confirming the project phase is complete.
   b. Resource Administration releases any excess funds and returns the funds to the appropriate contingency account.
   c. After the funding is released, Resource Administration puts the project phase will be put in "C – Review Complete by Resource Admin" status.

4. ADOT Administered / Local Funded - Development and Construction Project Phases:
   a. Resource Administration receives the Agreement Estimate Recapitulation and adjusts the construction funding to agree with the recap and releases any excess funds.
   b. Sixty (60) days after receipt of the Agreement Estimate Recapitulation, Resource Administration will release all available funding on the development phases of the project in excess of $50,000, excluding Right of Way acquisition and Utility Relocation Phases. Funding less than $50,000 will be released from the project at Final Voucher.
   c. After the funding is released, Resource Administration puts the project phases in “C – Review Complete by Resource Admin” status.
   d. Any released funds are returned to the COG/MPO for reprogramming and are reflected on the next month’s COG/MPO Ledger. The funds must be either transferred or loaned by March 31st or obligated to another project by June 30th. Any unobligated funds will revert to ADOT after June 30th. Any local funds will be returned to the LPA upon completion of the project final voucher.

5. ADOT Administered/Local Funded - Non-Construction and Procurement Project Phases:
   c. The ADOT Project Manager is responsible for notifying FMS within sixty (60) days of completion of the project. The notification must include a Project Close Out letter, stating the project is complete. The ADOT PM will submit the close out package to FMS.
   d. After completion of the final voucher on the project, any released funds will be returned to the COG/MPO for reprogramming and will be reflected on the next month’s COG/MPO Ledger. The funds must be either transferred or loaned by March 31st or obligated to another project by June 30th. Any unobligated funds will revert to ADOT after June 30th. Any local funds will be returned to the LPA upon completion of the project final voucher.

6. ADOT Administered/Local Funded Right of Way and Utility Project Phases:
   a. The ADOT Project Manager is responsible for notifying Resource Administration when project phases for right of way acquisition or utility relocation are complete. The PM will send an email to the Resource Administration inbox stating the project phase is complete and will include confirmation from the Right of Way Group or Utility and Railroad Section confirming the project phase is complete.
   b. Resource Administration releases any excess funds on the project phase.
   c. After the funding is released, Resource Administration puts the project phase in “C – Review Complete by Resource Admin” status.
   d. Any released funds are returned to the COG/MPO for reprogramming and are reflected on the next month’s COG/MPO ledger. The funds must be either transferred or loaned by March 31st or obligated to another project by June 30th. Any unobligated funds will revert to ADOT after June 30th. Any local funds will be returned to the LPA upon completion of the project final voucher.

7. Local Administered / Local Funded - Development and Construction Project Phases:
   a. Within sixty (60) days after the award of the construction contract by the Local Public Agency, the ADOT Project Manager will submit the Agreement Estimate Recapitulation to Resource Administration. Resource Administration adjusts the construction funding to agree with Agreement Estimate Recapitulation and releases any excess funds.

b. Resource Administration releases all available funding on the development phases of the project in excess of $50,000, excluding Right of Way acquisition and Utility Relocation Phases. Funding less than $50,000 will be released from the project at Final Voucher.
c. After the funding is released, Resource Administration puts the project phases in "C – Review Complete by Resource Admin" status.
d. Any released funds will be returned to the COG or MPO for reprogramming and will be reflected on the next month's COG/MPO ledger. The funds must be either transferred or loaned by March 31st or obligated to another project by June 30th. Any unobligated funds will revert to ADOT after June 30th. Any local funds will be returned to the LPA upon completion of the project final voucher. No further invoices will be processed.

8. Local Administered/Local Funded Right of Way and Utility Project Phases:
   a. The ADOT Project Manager is responsible for notifying Resource Administration when project phases for right of way acquisition or utility relocation are complete. The PM will send an email to the Resource Administration inbox stating the project phase is complete and will include confirmation from the Local Public Agency confirming the project phase is complete.
   b. Resource Administration releases any excess funds on the project phase.
   c. After the funding is released, Resource Administration puts the project phase in "C – Review Complete by Resource Admin" status.
   d. Any released funds are returned to the COG/MPO for reprogramming and are reflected on the next month's COG/MPO ledger. The funds must be either transferred or loaned by March 31st or obligated to another project by June 30th. Any unobligated funds will revert to ADOT after June 30th. Any local funds will be returned to the LPA upon completion of the project final voucher. No further invoices will be processed.

9. Local Administered / Local Funded - Non-Construction Project Phases:
   a. The ADOT Project Manager is responsible for notifying FMS within sixty (60) days of completion of the project. The notification must include; a Project Close Out letter completed by the ADOT Project Manager, stating the project is complete and a Project Acceptance letter from the Local Public Agency, stating the project is complete and no further reimbursements are due. The ADOT PM will submit the close out package to FMS.
   b. After completion of the final voucher on the project, any released funds will be returned to the COG/MPO for reprogramming and will be reflected on the next month's COG/MPO Ledger. The funds must be either transferred or loaned by March 31st or obligated to another project by June 30th. Any unobligated funds will revert to ADOT after June 30th. Any local funds will be returned to the LPA upon completion of the project final voucher. No further invoices will be processed.

E. **Deobligation of Inactive Project Funding**

Funding for projects which cannot demonstrate substantial progress pursuant to Section 1.06 C, Tracking Project Status, is subject to deobligation.

Thirty (30) days prior to deobligation, Resource Administration will send an email to the ADOT Project Manager and the Local Public Agency Section and Local Agency, as necessary. The email will outline the current project status (funds available, days inactive) and steps necessary to remove the project from Inactive/Pending Deobligation status or to close out the project.

1. ADOT Projects
   If funding from an ADOT project is deobligated, an email will be sent to the ADOT PM and MPO (if project is within an MPO boundary) identifying the project cancellation. The email will contain the following information:

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

   Funds deobligated from an inactive project will be returned to the appropriate subprogram for reprogramming on another eligible project in the current state fiscal year.

2. Local Public Agency Projects
   If funding from an LPA project is deobligated, a letter from the ADOT Chief Financial Officer will be sent to the LPA, FHWA, the applicable COG/MPO, the ADOT Local Public Agency Section and the ADOT Project Manager. The letter will contain the following information:

   - Notification of the date of the deobligation action, noting various federal and IGA provisions
   - Treatment of the deobligated funding
   - If applicable, an invoice for any funding which must be repaid to FHWA with a due date

   For local projects with COG/MPO administered funding the released funds will be returned to the COG/ MPO for reprogramming and reflected on the next month's COG/MPO Ledger. The funds must be either transferred or loaned by March 31st or obligated to another project by June 30th. Any unobligated funds will revert to ADOT after June 30th.

   For local projects with ADOT administered funding the released funds will be returned to the appropriate subprogram (Modernization of Projects, Statewide Contingency or Project of Opportunity-Local TAP Projects) for reprogramming on another eligible project in the current state fiscal year.

1.07 CORRESPONDING DOCUMENTATION

Obligation Funds, Management Guide, Federal Highway Administration

FIN-5.01 HURF Exchange Program

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

Attachment 1: Obligation Funds Management Guide

This guidance defines the expectations and requirements for:

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

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

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

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

Properly Authorizing Federally Funded Projects

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

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

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

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

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

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

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

Proper Obligations and Advance Construction Authorizations

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

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

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

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

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

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

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

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

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

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

Project Funds Management and Monitoring

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

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

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

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

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

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

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

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

Justifications for Inactive Obligations

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

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

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

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

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

Unilateral Deobligations by the FHWA Division Office

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

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

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

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

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

Closing Federal Projects in FMIS

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

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

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

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

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

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

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

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

Warranty Provisions Associated with Project Closeout

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

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

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

Key Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[5] 23 CFR 630.106(a).

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

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

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

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

[10] 23 CFR 635.309 and 23 CFR 172.

[11] 23 CFR 1.9(a).

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

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

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

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

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

[17] 23 CFR 630.703.

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

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

[20] 23 CFR 630.110(a).

[21] 49 CFR 18.40(a).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[39] 49 CFR 18.50(a).

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

[41] 23 CFR 630.106.

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

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

Page posted on November 24, 2014.

ARIZONA DEPARTMENT OF TRANSPORTATION
POLICIES AND PROCEDURES

FIN-5.01 HURF Exchange Program

Effective: October 1, 2017
Supersedes: None
Responsible Office: Financial Management Services,
Office of the Chief Financial Officer

Review: October 1, 2019
Transmittal: 2017-October
Page 1 of 11

1.01 PURPOSE

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

1.02 SCOPE / APPLICABILITY

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

1.03 AUTHORITY

A.R.S. § 28-6993(G)

1.04 BACKGROUND

Annually, ADOT provides federal Surface Transportation Block Grant Program (STBGP) funding on a discretionary basis to Arizona's Councils of Governments (COG) and Metropolitan Planning Organizations (MPO), which then program the funds for specific local projects in the applicable region. To use STBGP funding, federal law requires LPAs to be "certified" by the Federal Highway Administration (FHWA) to administer federal aid projects. Since most cities/towns/counties with population of 200,000 or less receive very little federal funding, it is not cost effective to become certified. Therefore, these LPAs must contract with a certified entity (usually ADOT) to develop and construct their projects.

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

ADOT routinely administers federally-funded projects and can generally deploy the discretionary federal funding quickly. In light of this, the COGs/MPOs and ADOT supported legislation in 1997 authorizing the exchange of HURF monies distributed to the State Highway Fund (SHF) for COG/MPO STPBG funding. Known as "HURF Exchange," this program is targeted to cities/towns/counties with population of 200,000 or less. It enables these LPAs to build projects using state funding, avoiding the expensive and time-consuming federal regulatory requirements. Because the HURF Exchange results in reduced costs and administrative burden for participating LPAs and transfers that burden to ADOT, the statute allows ADOT to pay $.90 cents in SHF for each $1 of federal funding exchanged.

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

1.05 DEFINITIONS

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

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

1.06 POLICY

A. Availability and Amount

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

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

3. The only types of federal aid eligible for exchange are the Under 200,000 population and Under 5,000 population categories of STBGP provided to COGs/MPOs. The annual amount of HURF Exchange available to each COG/MPO for programming will be based on its pro-rata share of discretionary funding in these categories.

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

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

B. Funds Management

1. STBGP funds will be converted to HURF Exchange funding only at the time an approved HURF Exchange project phase seeks finance authorization. Conversions not associated with a HURF Exchange project finance authorization will not be processed.

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

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

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

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

C. Eligible Entities, Projects and Costs

1. Entities eligible for HURF Exchange funding include Arizona cities, towns and counties with population of 200,000 or less, according to the most recent annual population estimates produced by the Arizona Department of Administration pursuant to Executive Order 2011-04, and unincorporated areas.

2. To be eligible for the HURF Exchange program, a project must have as its primary purpose the improvement of the efficiency and safety of motor vehicle travel on roadways. Pursuant to A.R.S. § 28-6993(G), all HURF Exchange projects must be on the federal aid system and be eligible for federal STBGP funding, limiting eligibility to projects on roads classified as rural minor collectors or above. Projects on local roads are not eligible. All phase(s) of HURF Exchange projects must also be approved by the

COG/MPO Technical Advisory Committee and programmed as HURF Exchange in the approved, fiscally-constrained portion of the Transportation Improvement Plan (TIP).

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

- Maintenance, which is scheduled or unscheduled work that is performed to preserve existing infrastructure, in reaction to an event (crash) or season (potholes), or work requiring regular reoccurring attention, such as fence repair, culvert cleanouts, etc.
- Scoping.
- Costs incurred prior to date of finance authorization.
- Any items outside of the project right of way.
- Utility relocation which is not directly and unavoidably caused by the road work.
- Betterments of utilities.

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

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

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

D. Project Initiation and Intergovernmental Agreements (IGA)

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

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

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

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

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

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

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

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

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

E. Finance Authorization

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

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

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

a. If performed by the LPA's staff – the TIP listing, map, the final itemized project phase budget, scope, schedule including the start and completion of work, and an invoice for the first 30% of HURF Exchange funding.

b. If performed with consultants/contractors selected based on qualifications – the TIP listing, map, the project budget, scope and schedule including the start and completion of work.

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

Other documents may also be requested by ADOT.

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

5. Upon receipt of a complete and accurate PFR, Resource Administration will review the project phase information to ensure eligibility under the HURF Exchange program. Once eligibility is confirmed, Resource Administration will transfer 100% of the federal apportionments and obligation authority from the applicable COG/MPO ledger to ADOT. This transaction will appear as a "transfer out" on the ledger.

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

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

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

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

10. LPAs must begin work, initiate selection of consultants/contractors or advertise the project, as applicable, within 60 days of the date of authorization.

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

    a. If performed by consultants/contractors selected based on qualifications - within 60 days of selection. The submission is to include the consultant scope with itemized costs.

    b. If a competitive bid is required - within 60 days of award. The submission is to include an itemized cost breakout for the awarded contract.

    c. IGA amendments may be required if the final, itemized project budget, scope, and schedule varies from that reflected in the IGA.

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

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

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

F. Project Billing

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

    a. Prior to the start of work - the LPA will submit to the ADOT PM an invoice for 30% of the HURF Exchange funding for that phase. After adjusting the project phase budget as discussed in Section 1.06.E.12, ADOT will advance 30% of the HURF Exchange amount to the LPA within 30 days of receipt and approval of the invoice and documents required in Sections 1.06.E.3.a and 1.06.E.11.

    b. At 30% completion of the work – at least 30 days but not more than 60 days prior to when the funds will be needed, the LPA will submit to the ADOT PM an invoice for an additional 30% of the HURF Exchange funding. The invoice must include copies of project phase invoices received and/or expenses incurred and paid to date which demonstrate the work is progressing to the 30% mark. ADOT will advance the next

30% to the LPA within 30 days of receipt and approval of the invoice and accompanying documentation.

c. At 60% completion - at least 30 days but not more than 60 days prior to when the funds will be needed, the LPA will submit to the ADOT PM an invoice for an additional 30% of the HURF Exchange funding. The invoice must include copies of project phase invoices received and/or expenses incurred and paid to date which demonstrate the work is progressing to the 60% mark. ADOT will advance the next 30% to the LPA within 30 days of receipt and approval of the invoice and accompanying documentation.

d. Final 10%:

i. For Projects involving multiple phases – the final 10% for each phase, except for the last, will be reimbursed within 30 days of the receipt and approval of an invoice and documentation demonstrating the phase is completed.

ii. At final Project completion - The final 10% of HURF Exchange funding will be reimbursed as outlined in the Section G, Project Close-out.

2. Projects are expected to progress according to the scope, schedule and budget in the IGA and submitted pursuant to Sections 1.06.E.3.a and 1.06.E.11. In accordance with ADOT Inactive Project Obligation policies and procedures, LPAs will be required to justify the viability of those projects which do not demonstrate adequate progress. If such justification is not provided, the funding will be deobligated by ADOT. Deobligated HURF Exchange funds will be credited to the applicable COG/MPO and must be transferred or loaned to another COG/MPO or ADOT by March 31, or obligated to projects by June 30 of the fiscal year in which the funds are credited.

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

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

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

G. Project Close-out

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

2. Within 60 days of the completion of the project, the LPA will submit the close-out package to the ADOT PM. The close-out package must include an invoice for the final

10%, the Project Acceptance letter from the LPA to the contractor, and a close-out letter to ADOT.

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

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

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

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

H. Miscellaneous

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

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

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

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

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

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

6. Any HURF Exchange funding used for ineligible costs or purposes, or otherwise misused, must be repaid by the LPA within 30 days of receipt of an invoice from ADOT. The repaid funds will be credited to the applicable COG/MPO to be transferred or loaned to another COG/MPO or ADOT by March 31 or obligated to projects by June 30 of the fiscal year in which the funds were repaid.

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

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

I. Shutdown Process

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

2. ADOT will implement a shutdown process as follows:

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

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

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

   d. COGs/MPOs must reprogram any remaining HURF Exchange projects with federal aid within 60 days of the shutdown date. All applicable federal requirements will apply.

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

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

1.07 CORRESPONDING POLICIES AND DOCUMENTATION

Executive Order 2011-04, Designating the Arizona Department of Administration as the State Agency Responsible for Preparing Official Population Estimates and Projections for the State of Arizona

Arizona Department of Administration, Office of Economic Opportunity - State, County and Place Level Population Estimates: https://population.az.gov/population-estimates

FIN-2.01 Funds Control Policy

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

MGT-14.01 Department-wide Agreement Policy

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

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

ADOT Project Funding Request

ADOT Inactive Project Obligation policy and procedures

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

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

MARICOPA ASSOCIATION of GOVERNMENTS

302 North 1st Avenue, Suite 300 ▲ Phoenix, Arizona 85003
Phone (602) 254-6300 ▲ FAX (602) 254-6490
E-mail: mag@azmag.gov ▲ www.azmag.gov

50th Anniversary
1967–2017

June 7, 2017

TO: Members of the MAG Street Committee

FROM: Teri Kennedy, Transportation Improvement Program Manager

SUBJECT: VICE CHAIR VACANCY

On May 9, 2017, Mr. Chris Hauser vacated the position of Chair of the MAG Street Committee and the current Vice Chair, Mr. Kini Knudson, ascended to Chair. According to the MAG Committee Operating Policies and Procedures, the MAG Regional Council Executive Committee will appoint a new vice chair. Letters of interest for the Vice Chair of the MAG Street Committee are requested from MAG member agencies.

Letters of interest should be submitted to the attention of Mayor Greg Stanton, MAG Regional Council Chair, at the MAG Offices located at 302 North 1st Avenue, Phoenix, Arizona 85003 by Monday, July 24, 2017. It is anticipated that the MAG Executive Committee will take action to approve the appointment of the Street Committee Vice Chair on Monday, August 14, 2017.

Please feel free to contact me or Stephen Tate at the MAG offices at (602) 254-6300 or state@azmag.gov if you have questions. Thank you.

C: MAG Management Committee
MAG Intergovernmental Representatives