National RTAP
Rural Transit Assistance Program

MTAP

FTA U.S. Department of Transportation
Federal Transit Administration

Best Practices in Cost Allocation Webinar Questions and Answers

August 4, 2022

National RTAP and AASHTO Multi-State Transit Technical Assistance Program (MTAP) hosted a Best Practices in Cost Allocation webinar on August 4, 2022. This webinar provided attendees with an understanding of cost allocation and how two State DOTs use it in managing human services transportation programs. A few easy-to-use tools for allocating operational costs were also introduced. Panelists were Richard Garrity of RLS & Associates, John Taylor of PennDOT, Sheila Gombita of Freedom Transit, and Timothy Bradshaw of VTrans.

Access the webinar recording and presentation.

Q: The FTA NTD rep has been really stressing we charge all costs such as fuel and maintenance as direct service costs rather than a service-based allocation. How do we mix the service-based allocation with a direct cost model?

A: Given that most some operators use their vehicles for more than one service mode (a cutaway can shift from fixed route to demand response during the day or rotate among modes throughout a week or a month), trying to account for fuel and maintenance directly rather than based on miles would be challenging and not very meaningful. If there are providers that have distinct fleets by type of service, then they should be allocating costs directly rather than by revenue mile.

In scenarios where the transit agency has a dedicated fleet using 40-foot transit buses for fixed route service and minivans for complementary paratransit, it should be no problem for a transit agency to directly account for fuel cost by those two types of vehicles. However, in smaller transit agencies it is not uncommon for the very same type of vehicle to be used in both modes of service. The Office of Management and Budget (OMB) states that when the level of accounting effort is disproportionate to the accuracy gained, then that's a cost that should be treated as an indirect cost. Rich feels that the smaller agencies should acquaint NTD with operating scenarios in less than large urban environments.

Q: How do states recoup indirect costs for administering 5339 programs? We are currently unable to use any 5339 funds due to FTA's denial of our ICAP rate.

A: Based on the phrasing of the question, it is only a problem if FTA has rejected an indirect cost rate. It's embedded in transit law that up to 10 can be used for state administration; that's a feature that has always been a hallmark of the 5311 program and you're now allowed to do it in the 5310 program. Rich is unaware that there is any such allowance in the 5339 program, so absent and approved indirect cost rate for the state, there would be no recovery of administrative costs. In Pennsylvania, they don't use any of the federal funding for administrative costs; they have a trust fund that's used as part of the state funding to the transit agencies that's also used for administrative costs (which is separate and distinct from the 5339 program).

Q: What about preventative maintenance, which sometimes is a capital award?

A: It is only a problem if the cognizant agency has rejected the indirect cost rate. We would assume an approved indirect cost rate would allow allocation of capital project management. FTA provides a reimbursement ratio, not an accounting classification for preventive maintenance. From an accounting standpoint preventive maintenance is an operating expense and therefore would be treated like any other operating expense in an organization's approach to preparation of an indirect cost rate proposal. The only caveat that Rich would add is if the preventive maintenance was performed in-house, there would be no issues. If it is contracted to a third-party, a cognizant agency might dictate that the agency used modified total direct costs as the direct cost base in their allocation plan because the level of administration for in-house cost varies from the level of administration associated with third-party contract administration. In modified total direct cost you're only allowed to use up to the first 25k in your direct cost base. If the cognizant agency reviewing the proposal knew the entity contracted its maintenance, they could allow them to use modified total direct costs as the base and allow them up to 25k in contract costs in their allocation formula. Otherwise, these third-party contracts will begin to distort the allowable amounts and will not reflect the level of effort of indirect cost burden.

Q: What if your sub-recipient submits a cost allocation plan to their cognizant agency, but the cognizant agency sends a letter saying they didn't meet the threshold, could the state DOT use that letter and cost allocation plan as a base to accept the sub-recipient's rate?

A: If the cognizant agency, which in this case sounds like FTA, does not approve the CP or ICR then a more in-depth financial review may be needed to revise the CP and indirect cost rate based on historical financial data. In this question, it appears as if whoever generated the letter saying it was below a threshold. There technically is no threshold, so this may be something that a state agency has adopted to perhaps minimize their workload. In that case, Rich believes it would be appropriate for the State DOT to step up and assume the role of cognizance and review that documentation and approve an indirect cost rate on their FTA grant awards. Rich spoke about the need to have extensive financial data that supports the indirect rate calculation or the de minimis 10% rate. Vermont really appreciated Rich's insight on if the calculation of indirect expenses is close to the 10% de minimis, apply the 10% de minimis and evaluate on an ongoing basis.

Q: Our Transit is a Department of our County Government. We benefit from the work of other Departments like IT, Treasurer, and Clerk. How do we capture that indirect cost benefit? We currently do not use any of those services in our grant application.

A: In cost allocation, the expenses associated with the incumbent of those costs by sister department could be done as a direct expense if those departments were willing to keep the necessary documentation to substantiate the cost to the transit program. This generally means that they would have to keep, in the case of personnel time, records that reflected their actual after the fact activity devoted to transit versus any other function of the municipal or county government. That generally is a request that goes too deeply and people often will not do that. So, the only way to recover such costs is to prepare an indirect cost rate proposal and get it approved.

Q: Some MPOs/Regional Planning Agencies have a federal cognizant agency (EPA for example).

A: State DOTs usually accept those without any issues. Vermont DOT approves at this level.

Q: What about the acceptance of expired rates? A subrecipient's rate expires before a new rate can be approved. Should we immediately stop accepting those indirect rate costs until a new rate is approved?

A: Rich's answer was "Yes." Vermont concurs. If the sub-recipient's rate has expired, Rich said they should they immediately stop accepting those indirect cost rates until a new rate is approved. That is generally the protocol. What should have happened is the non-federal entity at the local level should have recognized that this rate was about to expire, and the approving agency hasn't gotten around to approving the next cycle the next fiscal year's rate. Perhaps this was because of personnel turnover or pandemic concerns. They've been unable to get their indirect cost rate proposal for the next year into the cognizant agency's hands. In that case, that should have been recognized and a letter requesting an extension should have been issued to the entity that approved the indirect cost rate. They should have asked for an extension. You can ask a cognizant agency to extend your rate for up to a four-year period, but the caveat would be is that once you ask for that and the cognizant agency approves it, you're stuck with that rate from last year for the full four year period and you have to wait for the extension period to expire before you submit an updated indirect cost plan. So, extensions are permissible, but you've got to be very careful about how long a period you request in that extension because it could hamstring you down the road.

Q: Is there guidance on indirect cost used as match?

A: The only thing Vermont applies as indirect costs to match is volunteer in-kind hours for our demand response programs. Rich provided us with an in-kind calculation that complies with the Office of Management and Budget (OMB).

Q: How can we get cognizant agencies, RTAP and FTA to provide training on how to calculate IDC with and MTDC using the simplified method to State DOTs?

A: Please contact Richard Garrity at rgarrity@rlsandassoc.com for any further training needs.

If you have additional questions, please contact National RTAP at info@nationalrtap.org. The panelists shared additional resource documents that we would be able to share with requesters.