Moving Public Transportation
Into the Future

Cost Allocation Plans

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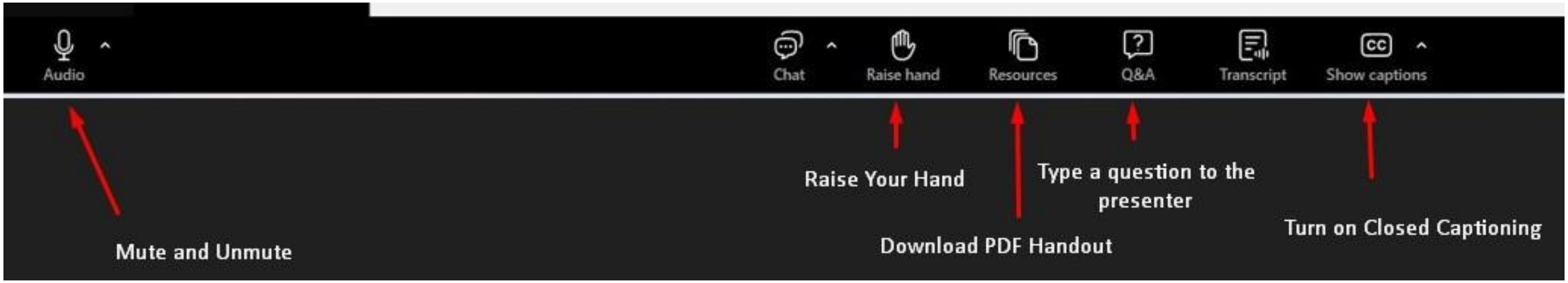
Attendee Task Bar



Session Objectives

- Goals of this Session Include:
  - Discuss the purpose of “Cost Allocation”
  - Develop a standard approach to cost allocation
  - Identify special issues with cost allocation
  - Build a cost allocation model

Target Audience

- This Session is Designed for:
  - Organizations that need an approach to identify costs for individuals service components
  - Transit organizations that provide service under a purchase of service arrangement to other users/groups
  - Transit organizations that need to allocate costs to different FTA programs
  - Multi-purpose human service agencies supported by multiple federal grants

Session Content

Determining Cost Eligibility

2 CFR 200 Subpart E - Basic Considerations

Understanding Direct vs Indirect Costs

2 CFR Part 200 Subpart E - Direct and Indirect Costs

Cost Allocation Plans

2 CFR 200.405 - Allocable costs

Developing a CAP

CAP Examples

Roles and Responsibilities (maintain documentation)

2 CFR 200.332 - Requirements for pass-through entities

Eligible Costs

- To be eligible for reimbursement from federal grant funds, costs must meet all four of the following criteria:
  - Allowable
  - Reasonable
  - Allocable
  - Consistent

Eligible Costs

- Allowable [2 CFR 200.403]
  - The cost conforms with any limitations from federal statute, programmatic regulations, and award-specific terms
- Reasonable [2 CFR 200.404]
  - The cost reflects what a prudent person would pay in a similar competitive circumstance

Eligible Costs

- Allocable 2 CFR 200.405
  - The expense directly benefits the specific federal award or can be distributed among multiple awards in proportion to the relative benefits received
- Consistent 2 CFR 200.403(d)
  - Costs incurred for the same purpose in like circumstances are treated uniformly as either direct or indirect (facilities and administrative) costs

Eligible Costs

- 2 CFR 200 Subpart E
  - Outlines the Federal policy on cost eligibility
- 2 CFR 200.302(b)(7)
  - Recipients and subrecipients must have written procedures for determining the allowability of costs

Eligible Costs

- 2 CFR 200.420 – 200.476
  - Provides principles to be applied in establishing the allowability of certain items involved in determining cost
  - The list is not exhaustive, failure to mention a particular item of cost, including as an example in certain sections, is not intended to imply that it is either allowable or unallowable

Direct vs Indirect Costs

- Direct Costs
  - Those which can be associated on a one-to-one basis with a given service
    - Ex: Driver labor, fuel, maintenance costs
- Indirect Costs
  - Those which support common or joint programs or purposes
    - Ex: Shared costs such as utilities, administrative costs
- Direct Costs + Indirect Costs = Total Costs

Direct vs Indirect Costs

- There are no universal rules for classifying a specific cost as direct or indirect
- The “test” is the degree of ease with which a cost can be assigned with a high degree of accuracy and consistency

Cost Allocation Plans

- Cost Allocation Plan (CAP) a framework used to distribute joint, shared, or indirect costs across various departments, programs, and federal grants
  - Both direct and indirect costs may be allocated in different circumstances

Cost Allocation Plans

- Cost Allocation Plans:
  - Break down the entire organization's support functions
    - HR, IT, and accounting
  - Allocate those costs to specific departments or grants based on a logical allocation method
    - Headcount, square footage, or usage

Cost Allocation Plans

- Cost Allocation Plans cont'd
  - Identify and distribute actual, accumulated costs fairly across multiple, individual business activities

Indirect Cost Rates

- Indirect Cost Rate (ICR) the specific percentage used to calculate how much of these indirect costs can be charged to a specific grant

Indirect Cost Rates

- Compiles the allocation process into a single, standardized percentage
- Calculated by dividing total allowable indirect expenses by a direct cost base
- Applying a pre-approved or negotiated rate across programmatic functions to recover operating costs

Indirect Cost Rates

- For example, a 15% ICR means you add 15 cents of overhead for every dollar of direct grant costs
  - Applies only to direct grant costs in the base of your rate
    - Ex: an ICR based on direct salaries and fringe would not be applied to an invoice for a capital purchase

Cost Allocation Plans

- **Direct Allocation Method**
  - Only listed as a method for nonprofit agencies in 2 CFR § 200
  - The Indirect Cost is "converted" to a Direct Cost by applying some basis of allocation to the total cost
    - Number of handsets to allocate telephone costs
    - Number of transactions to allocate finance costs
    - Number of workstations to allocate IT costs

Cost Allocation Plans

- Why Allocate Costs?
  - Cost Allocation Plans are necessary if an agency manages multiple transit modes
    - Operating both fixed-route and demand-response/dial-a-ride services
  - -or- receives a mix of different federal funds
    - FTA, HHS, etc.

Cost Allocation Plans

- To separate and track costs properly as a small transit provider without dealing with an indirect rate, you must build a functional Cost Allocation Plan (CAP) based entirely on operational metrics

Cost Allocation Plans

- The goal is to consistently distribute shared direct expenses across your different routes or funding pools using a clear, logical formula
  - Distributing costs for a mechanic's time, shop tools, or shared garage space across FTA Section 5307 vs 5311 grants

Cost Allocation Plans

- Programmatic Cost Allocation
  - A transit agency receives funding under both FTA Section 5310 and Section 5311
  - FTA expects the recipient to develop a reasonable basis for allocating operating costs between the two funding sources that is related to the service provided
  - FTA requires a “Cost Allocation Plan” to distribute costs to the two different, but related programs

Cost Allocation Plans

- Geographic Cost Allocation
  - For transit grant funds spanning state lines geographic cost allocation methodologies are needed to fairly distribute federal money and operating costs across jurisdictions

Cost Allocation Plans

- Local Match Allocation Plan
  - A regional transit authority provides service over a multi-jurisdictional service area
  - Each participating local entity must share responsibility for funding a portion of the local share
  - The authority must allocate local funding needs in an equitable manner to all participating jurisdictions

Cost Allocation Plans

- Charter Service Cost Allocation
  - A transit agency provides charter service in accordance with 49 CFR Part 604
  - The transit agency must demonstrate that it fully recovers the cost of charter service
    - Charter service is NOT eligible public transportation service
    - Losses from charter operations cannot be billed to any FTA program

Cost Allocation Plans

- Pricing Service Provided Under Contract
  - A public transit agency coordinates service with various human service agencies in the area
  - A fully allocated cost analysis is needed to determine how to price contract services

Developing a CAP

- Focus Areas for Transit
  - Driver & Dispatcher Labor: Track hours using logs or scheduling software, separating direct route driving from administrative duties
  - Shared Fleet Expenses: Maintenance, vehicle insurance, and fuel costs that benefit multiple programs

Developing a CAP

- Common Allocation Metrics:
  - Vehicle Revenue Hours (VRH)
  - Vehicle Revenue Miles (VRM)
  - Unlinked passenger trips

Developing a CAP

- Costs that Exclusively Benefit a Single Transit Program are Charged Directly to That Service

Developing a CAP

- Driver Wages & Benefits
  - Directly tracked via timesheets to either the Fixed-Route or Paratransit program
- Vehicle Fuel & Maintenance
  - Directly charged by scanning gas logs and mechanic work orders to specific vehicle fleets
- Ticketing & Specialized Equipment
  - Charged directly to the routes that utilize them

Developing a CAP

- Indirect and Shared Costs
  - Insurance
    - Methodology:
      - Allocated based on Vehicle Count or Asset Value
    - Example:
      - If Fixed Route has 10 vehicles and Paratransit has 5, Fixed Route absorbs 66.67% of the agency's insurance cost and Paratransit absorbs 33.33%

Developing a CAP

- Indirect and Shared Costs
  - Communications & Dispatch:
    - Methodology:
      - Allocated based on number of trips/bookings or revenue hours
    - Example:
      - If paratransit accounts for 60% of total annual ride bookings, it takes on 60% of the dispatch and scheduling labor costs

Developing a CAP

- Indirect and Shared Costs
  - Administrative & Executive (G&A):
    - Methodology:
      - Distributed based on FTE (Full-Time Equivalent) labor split
    - Example:
      - If Fixed-Route and Paratransit personnel comprise 70% and 30% of total staff time respectively, the administrative overhead is split in the same 70/30 ratio

Developing a CAP

- Choose Your Allocation Base (Metrics)
  - Metric must accurately reflect how much of a shared resource each program actually uses
  - The three standard transit metrics are:
    - Vehicle Revenue Miles (VRM)
    - Vehicle Revenue Hours (VRH)
    - Square Footage / Usage

Developing a CAP

- Vehicle Revenue Miles (VRM):
  - Total miles driven by vehicles while available to passengers
  - Typically best for allocating fuel, tires, and vehicle maintenance

Developing a CAP

- Vehicle Revenue Hours (VRH):
  - Total hours vehicles spend on the road serving passengers
  - Typically best for allocating dispatch salaries, scheduling software, and driver supervision

Developing a CAP

- Square Footage / Usage:
  - Typically best for facility costs, like allocating garage utilities based on how much shop space is dedicated to maintenance versus administration

Developing a CAP

- Document the Methodology
  - Write down exactly *why* you chose a specific metric
    - Example: “We allocate maintenance using VRM because vehicle wear-and-tear correlates directly with mileage”

Developing a CAP

- Update Regularly
  - CAPs must be updated annually
  - Organizational changes may necessitate a revision to your methodology
  - Even if your methodology is unchanged, allocation rates should be updated based on current metrics

CAP Examples

- Example 1:
  - A $10,000 cost that benefits all programs, to be allocated based on the ratio of each program's personnel costs

Program	Personnel Costs	%	Amount Allocated
A	$20,000	13%	$1,300
B	$10,000	7%	$700
C	$30,000	20%	$2,000
D	$40,000	27%	$2,700
E	$50,000	33%	$3,300
Total	**$150,000**	**100%**	**$10,000**

CAP Examples

- Example 1:
  - Based on the direct costs of personnel, Program A should be allocated 13%, since $20,000 of the $150,000 total personnel costs pertained to Program A
  - Therefore, 13% of the $10,000 to be allocated should go to Program A, which is $1,300

CAP Examples

- Example 2:
  - A $5,000 cost that benefits only two or more programs, but not all programs, to be allocated based on the ratio of each program's personnel costs to the total of such personnel costs

Program	Personnel Costs	%	Amount Allocated
A	$20,000	20%	$1,000
C	$30,000	30%	$1,500
E	$50,000	50%	$2,500
Total	**$100,000**	**100%**	**$5,000**

CAP Examples

- Example 2:
  - Based on the direct costs of personnel, Program A should be allocated 20%, since $20,000 of the $100,000 total personnel costs pertained to Program A
  - Therefore, 20% of the $5,000 to be allocated should go to Program A, which is $1,000

CAP Examples

- Example 3:
  - Telephone costs to be allocated based on the number of handsets in the facility space occupied by each program

Program	# of handsets	%	Amount Allocated
A	3	30%	$600
B	1	10%	$200
C	3	30%	$600
D	2	20%	$400
E	1	10%	$200
Total	**10**	**100%**	**$2,000**

CAP Examples

- Example 3:
  - Based on the number of handsets, Program A should be allocated 30%, since 3 of the 10 total handsets were in the facility space occupied by Program A
  - Therefore, 30% of the $2,000 to be allocated should go to Program A, which is $6,000

CAP Examples

- Example 4:
  - Shared facility costs to be allocated based on square footage of the facility space occupied by each program

Program	Square footage	%	Amount Allocated
A	300	30%	$3,000
B	100	10%	$1,000
C	200	20%	$2,000
D	200	20%	$2,000
E	200	20%	$2,000
Total	**1,000**	**100%**	**$10,000**

CAP Examples

- Example 4:
  - Based on the square footage occupied, Program A should be allocated 30%, since 300 of the 1,000 total square footage occupied by Program A
  - Therefore, 30% of the $10,000 facility costs to be allocated should go to Program A, which is $3,000

CAP Examples

- Example 5:
  - Vehicle operating costs to be allocated to two states based on the number of vehicle revenue miles (VRM) driven in each state

State	VRM	%	Amount Allocated
A	800	40%	$4,000
B	1,200	60%	$6,000
Total	**2,000**	**100%**	**$10,000**

CAP Examples

- Example 5:
  - Based on the VRM, State A should be allocated 40%, since 800 of the 2,000 total VRM were driven in State A
  - Therefore, 40% of the $10,000 vehicle operations costs to be allocated should go to State A, which is $4,000

CAP Examples

- Example 6:
  - Vehicle operating costs to be allocated to two programs based on the number of vehicle revenue miles (VRM) driven for each program

Program	VRM	%	Amount Allocated
5310	800	25%	$5,000
5311	2,400	75%	$15,000
Total	**3,200**	**100%**	**$20,000**

CAP Examples

- Example 6:
  - Based on the VRM, the 5310 program should be allocated 25%, since 800 of the 3,200 total VRM were driven for 5310 operations
  - Therefore, 25% of the $20,000 vehicle operations cost to be allocated should go to the 5310 grant, which is $5,000

Roles and Responsibilities

- State's Role in Cost Allocation
  - Where a non-Federal entity only receives funds as a subrecipient, the pass-through entity will be responsible for negotiating and/or monitoring the subrecipient's Indirect Costs
    - State = Pass-Through Entity
    - Local transit providers = Subrecipient

Roles and Responsibilities

- State Responsibilities
  - It is the state’s job to ask questions about subrecipient costs
  - When a state government acts as a pass-through entity, it bears ultimate financial and legal liability to the federal government for how those grant funds are spent
  - The federal awarding agency maintains a direct legal relationship *only* with the state (the direct recipient)

Roles and Responsibilities

- The State Must Verify Compliance
  - Because there is no direct legal link between the federal government and local subrecipients, the state must step into an oversight and enforcement role to ensure compliance
  - The state has the authority to withhold payments, issue special conditions, or terminate the subaward entirely

Roles and Responsibilities

- Recovery of Unallowable Costs
  - The federal government may claw back costs that have been reimbursed and later determined to be unallowable
  - The state will in turn recoup those funds from the subrecipient

Roles and Responsibilities

- 'Remedies for Noncompliance'

  [2 CFR 200.339]

  - If a subrecipient fails to comply with federal statutes or the terms of a federal award, the pass-through entity is legally permitted to temporarily withhold cash payments pending correction of the deficiency or take other legally available remedies

Roles and Responsibilities

- 'Collection of Debts'

  2 CFR 200.346

  - Any funds paid to a subrecipient in excess of the amount to which they are finally determined to be entitled constitute a debt to the federal government
  - If not paid within a reasonable timeframe, the pass-through entity can reduce the debt by making an administrative offset against other requests for reimbursements

Roles and Responsibilities

- Maintain Documentation
  - Subrecipients must maintain documentation and be able to demonstrate the connection from the cost being incurred to the request for reimbursement
    - Example: In reviewing your monthly fuel bill and approved CAP, the State should be able to replicate the amount you are requesting for reimbursement from your grant

Roles and Responsibilities

- Maintain Documentation cont'd
  - The State must be permitted access to your documentation
    - 'Requirements for pass-through entities'
      - 2 CFR 200.332(b)(5): The text of the Uniform Guidance states that subrecipients must allow their pass-through entity access to their records and financial statements in order to 'fulfill monitoring requirements'

Roles and Responsibilities

- Maintain Documentation cont'd
  - A cost that cannot be supported and verified with documentation cannot be reimbursed from federal grant funds
    - 'Factors affecting allowability of costs'
      - 2 CFR 200.403(g): The text of the Uniform Guidance states that to be allowable under a federal award, a cost must "be adequately documented"

Roles and Responsibilities

- Maintain Documentation cont'd
  - Subrecipients must maintain adequate documentation to support all costs charged to a Federal award
    - 'Policy guide'
      - 2 CFR 200.400(d): The text of the Uniform Guidance states that accounting practices must be consistent with federal cost principles "including maintaining adequate documentation to support costs charged to the Federal award"

Roles and Responsibilities

- Audit Standards
  - Costs must be disallowed in the absence of a verifiable audit trail
  - Lack of an invoice, receipt, signed time sheet, etc. = disallowed cost
    - ‘Audit requirements’
      - 2 CFR 200.501(e): Mandates that even if an entity is exempt from a full Single Audit, its cost records must be available for review or audit by federal officials, pass-through entities, and the GAO

Roles and Responsibilities

- Communication
  - Open communication between the state and subrecipient is crucial for prompt cost reimbursement
  - Subrecipients should ensure the proper personnel are in contact with the state
    - The main point of contact for invoice questions often holds an accounting role, but may not be familiar with the actual cost drivers

Roles and Responsibilities

- Best Practice: Ask Questions
  - Asking questions before requesting reimbursement is a best practice
  - Clarifying whether a cost is allowable or verifying required documentation upfront avoids costly paybacks, audit penalties, and interest charges

Presenter

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