



Pennsylvania Peer Exchange on DOT Financial Practices and Programs

Summary Report

May 2 and 3, 2019

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Harrisburg, Pennsylvania

Overview

This customized exchange provided an opportunity for a small group of state DOTs (Pennsylvania, Ohio, and Delaware) to discuss common issues, compare best practices, and engage in a facilitated dialogue about managing and strengthening key aspects of their transportation programs. The objective was to develop internal capacity by providing opportunities for interdisciplinary collaboration and learning within each DOT and sharing of best practices among the states.

Introduction

Susan Howard of AASHTO welcomed the group and introduced the BATIC Institute. She mentioned the upcoming BATIC National Financial Management Symposium being planned for the fall and invited the participants to provide their input on future training offerings. Jim Ritzman of PennDOT also welcomed the group and discussed the recent [Risks to Transportation Funding Report](#) produced by the Pennsylvania Transportation Commission and underscored the challenges currently facing all DOTs. Jim praised the capacity building and resource offerings from the BATIC Institute, and emphasized the importance of peer exchanges as a source of new ideas for states to continue to improve their operations.

Program Development

Funding and Forecasting

- Pennsylvania participants offered some opening remarks about the challenges related to uncertain funding and revenue forecasting and the impacts to capital programming. It was observed that Pennsylvania is very focused on Interstate System investment.
- Ohio discussed their recently passed legislation for a motor fuel tax increase and registration fees for electric and hybrid vehicles. Their new Governor was a champion of the measure and it moved very quickly through the legislative process. The DOT had to provide extensive program-specific detail on the funding required to justify the fee and tax increases. They are estimating the increases will net \$450 million per year to ODOT beginning July 1 of this year. Looking forward, Ohio forecasts revenues out to 2054 to match debt associated with the availability payments for the Portsmouth Bypass (Veteran's Memorial Highway) Public-Private Partnership.
- DelDOT shared that their revenues are stable and the state has not increased motor fuels taxes in 20 years. However, they have seen an increase in consumption as a result of neighboring states

raising their tax rates. They have increased some DMV fees and are participating in the I-95 Corridor Coalition Mileage Based User Fee Pilot to explore future funding options.

- Each of the participating state DOTs generate revenue forecasts internally. But they differ in whether or not they are required to have forecasts approved. One state discussed ways their recent legislation has expanded oversight requirements, but noted that they worked with legislators to help identify productive forms of oversight and were able to avoid having the legislation dictate where funding should be directed.

Planning and STIP

- DelDOT controls 90% of the state's roadways and they obligate all federal funds and manage the projects. They have recently started over-programming so they can hit their expenditure forecasts. They have a decision process within the planning department that ranks projects that come in from the MPOs. Recent changes include revamping the scoring and moving to a two year capital planning cycle.
- PennDOT also controls most roadways. They use a distribution formula (based on lane miles, VMT, etc.) for planning regions, which put together their individual TIPs, based on PennDOT guidance, that are combined into the STIP. Amendments made to the TIPs flow up to the STIP.
- Ohio has a four year plan that is updated every two years with a formal quarterly STIP amendment process. They also over-program.

Advance Construction

- The group discussed how advance construction (AC) is handled in the STIP. There has to be a line-item showing that anticipated AC conversions to federal-aid funds in each year are fiscally constrained because the anticipated conversions may not be project-specific.
- The states have different practices for utilizing AC with certain types of projects. Ohio primarily uses AC for GARVEE bonds and loans from the State Infrastructure Bank to MPOs. Pennsylvania uses it more extensively, particularly with local projects. Both Pennsylvania and Delaware use AC to manage inactive projects, but they do not have any GARVEEs.
- DelDOT shared that they have begun rolling up obligations into consolidated programs of projects for things like bridges. This reduces the need for STIP amendments.
- The group reviewed results from the BATIC Institute Research Brief on Advance Construction, including AC balances nationwide and for the states represented at the peer exchange. One chart showed that overall AC use has increased by 45% since 2011, with the aggregate AC balance increasing from \$42 billion to \$61 billion. Other charts showed the AC balances over time for the states at the peer exchange, with the states not identified. The participants correctly identified their state AC usage patterns and proceeded to explain why the use of AC has changed over time. The participants discussed the drivers of trends in their states' AC usage.

Asset Management

- The states discussed strategies they have used to improve asset management. They noted that the more formalized TAMP process has helped foster greater communication between DOTs and MPOs that has informed planning and programming. One challenge noted is that the federal

performance measures are primarily for the National Highway System, but the majority of the roadway mileage in states is not on that system.

- Pennsylvania discussed how they developed an investment strategy prior to TAMP, with a focus on reducing the number of structurally deficient bridges.

Program Management

Fiscal Management Information System (FMIS)

- There are currently several division offices and their DOT counterparts participating in a focus group to identify opportunities for improvements to FHWA's FMIS. FHWA suggested that state participants should reach out to their colleagues on the focus group with their requests and ideas.
- Pennsylvania created a new state system that allowed them to go paperless and improve efficiency on their end, including uploading all data to FMIS. States discussed items that are frequently rejected by FMIS, conditions that cause the system to slow down, and other issues that impede workflow as well as work arounds the states have developed. It was noted that the FMIS help desk has a long backlog of requested improvements, with certain data field improvements being prioritized.
- FHWA noted that they will be posting certain project information from FMIS on the federal website USAspending.gov. There will be new guidance on the need for clearer project titles and descriptions to make them more useful to the public.
- Pennsylvania is redeveloping their internal systems for current billing. Many existing systems are not accommodating new funding and finance mechanisms – such as P3s and TIGER/ BUILD grants that are not FHWA trust-funded sources – and require a manual workflow. The group discussed the challenges of managing funds associated with these complex programs. This also involves succession planning, as the intricacies of managing these projects and programs require significant institutional knowledge.
- It was noted that FMIS has gone way beyond its original purpose of obligation control – to include tracking of all sorts of project-related data.

Earmarks Repurposing

- FHWA provided a brief update on the status of the ongoing program to enable states to repurpose old earmarks. While much of that funding has been successfully repurposed, there remain some eligible earmarks within the past 10 years that can be utilized for new projects.

Toll Credits

- The group reviewed some of the results from the BATIC Research Brief on Toll Credits. Pennsylvania described their recent activities to claim all available toll credits back to 2004. They had been collecting the information but not applying. Delaware explained that they had gone through a similar process several years ago, when they decided to use toll credits to match ARRA projects, but they need to apply again. Ohio uses toll credits to match local projects, and did use them with GARVEEs so that the debt service could be funded 100% with federal aid.
- Some states went through a transition in accounting systems that complicated the application process. Negative credits applied can arise as the result of deobligating funds from qualifying projects. The group discussed various strategies for using toll credits in the future, including holding

a modest balance as contingency for future use, assisting local agencies that lack match, etc. Pennsylvania shared that it has developed a system to streamline the application process.

- Although many states have expressed a desire for a toll credit marketplace FHWA indicated that one major concern or hurdle would be a perceived need for an audit of the program and an increase in internal controls. The idea of a marketplace is appealing both to states that have limited match funding available and states that have high toll credit balances.

Fund Swaps and Transfers

- Pennsylvania does not currently but is considering transferring funds among programs. FHWA noted that some states do take advantage of this flexibility; for example to simplify management by maintaining a single type of funding on a project.
- The group also discussed fund swapping. AASHTO mentioned their survey of states regarding the practice of exchanging federal for state funds with local agencies. This practice is becoming more widespread.

Lunch Discussions

Fast Act Rescission

- FHWA representatives weighed in on the 2020 Rescission, reassuring states that the Q&As will be updated to clarify relevant dates and specifics of process. The group shared that many states are considering fund transfers and planning to convert AC balances to blunt the impact. As states seek to minimize the impact of the rescission, they need to consider how those actions might affect their August redistribution funding. AASHTO's position is that the rescission should be canceled.

Improper Payments

- The group also discussed how to manage improper payments, with FHWA noting that testing often returns inconsistent results that make corrective actions challenging. Even though FHWA is no longer in the "high risk" category based on the total extrapolated improper payments from testing, challenges remain because of the large number of invoices and large amount of federal-aid spending involved. FHWA urged the participating states to continue to do their own testing, improve training of project managers, and improve documentation of billing processes. Examples of especially problematic payments (including lack of documentation) include railroad contracts, safety funds and Emergency Relief funds. FHWA also encouraged the states to ensure that all work occurs during the period of performance and to be mindful of project end dates.

Project Funding and Delivery

Business Systems

- Delaware opened by discussing the challenges they have with their state-mandated financial system and its inadequacies in processing federal claims. They have an in-house system called FACTS that

serves as a workaround for transactional data. Ohio shared that they have the same issue. The state spent a year working with consultants to see if they could migrate over to the state financial system (the same software brand that Delaware uses). However, they are back to using their own system; they must upload relevant data to the state system and work to reconcile it. Significant staff hours are required to audit these non-integrated systems.

- Pennsylvania described their state enterprise system. They worked with consultants to create a “bolt on” application and migrated over to it in 2004, two years after the rest of the state, once the bolt on had been accepted by FHWA. They are satisfied with their system.
- FHWA is planning to share their recent survey of states regarding their business systems to facilitate communication among the states. There seems to be little potential for a universal off-the-shelf product as states have different requirements for interacting with their state systems.

Financing Tools and P3s

- Pennsylvania is nearly complete with their Rapid Bridge Replacement P3. There were a lot of policy makers involved in making the decisions on that large bundle of bridge projects, but the DOT now has a better understanding of how to structure a deal in a way that would help processes flow. The P3 office has moved into the planning department and is educating MPOs and RPOs, often countering the myth that P3s come with free money. Their lessons learned have informed the way they are approaching P3 projects now. FHWA mentioned their [project bundling focus for their EDC-5 Initiative](#).
- The group briefly touched on other finance mechanisms such as State Infrastructure Banks and GARVEEs. Pennsylvania described how its SIB makes low-interest loans to local agencies for bridge projects.

Project Management

- Ohio described their four-day risk-based project closeout workshop last year with participants from all disciplines. They took advantage of an FHWA program that provides facilitators and subject matter experts to help DOTs map their work processes. Ohio felt it was helpful in educating people across the DOT regarding the many steps that have to be completed in order to achieve project closeout. ODOT has mapped out an improved process in paper form and electronically, which feeds into the finance department’s dashboard. They also have automated email alerts to remind non-financial personnel of their pending obligations within 90 days of the end date. The other participants shared that they are using some similar practices, including monthly reminders to key personnel and sign-offs by project managers.
- The participants noted that while everyone within their organizations does a good job, many fail to appreciate the importance of key administrative actions because they do not understand how all the pieces fit together. Finance can end up being the clean-up crew when this is the case. States have more success when they can shift their process to be more proactive rather than reactive.
- FHWA shared that they will be releasing revised guidance on non-federal match and described two new reports that track active projects / end dates and pending current bills.

Institutional Capacity Assessment

Participants engaged in a “Question Storming” exercise to identify capacity building needs. Questions posed to participants:

Think ahead a year or two years from today. What questions, if you were able to answer them in the coming months, would help you to be more successful in your job and/or help your organization to be more successful in meeting your goals during that timeframe? What answers could be transformative in large ways or small?

After independently developing individual questions, the participants were organized into small groups to discuss their ideas and report out their priority questions to the full group. The groups had many similar concerns.

Team Results

I. First Team

- a. Uncertainty about future federal funding keeps us up at night.
- b. Before I retire, can FHWA create standardized guidance in an easily accessible, searchable, knowledge library?
 - i. FHWA also operates in silos
 - ii. It’s hard to get updates cleared for publication, it can take a long time to get new guidance approved and made available
 - iii. How to disseminate information in a timely fashion – like military regulations (if a policy is written and not published within 6 months it’s void)?
 - iv. FHWA’s goal of allowing / promoting flexibility complicates the creation of uniform standards

2. Left Handed Team

- a. What’s the best way to share information across our organizations and help everyone see the big picture?
 - i. Aligning state systems to “talk better”
 - ii. Cross-training staff – regular meetings among key units and workshops to help people understand why practices are in place
 - iii. Senior leadership has to recognize this as a key priority
 - iv. Succession planning for key roles
 - v. Institutionalize collaborative activities and processes – within and among state DOTs

3. Lunch Table Team

- a. The future of our organizations keeps us up at night.
 - i. Succession planning for key roles
 - ii. Employee development
 - iii. Managing millennials and learning to adapt to staff turnover
 - iv. Competing with private sector compensation and developing roles that align more closely with graduates' training
 - v. The time it takes to replace someone; working to replace outgoing staff before they leave
 - vi. Executive leadership team buy in
 - vii. Mentor subordinates to help create a stronger pipeline for key positions
 - viii. Internal leadership academy training programs
 - ix. Communicating your mission and how potential employees will be making an impact

4. Team by the Door

- a. How will the next reauthorization change the relationship between DOTs and FHWA?
 - i. One fund or a single block grant
 - ii. FHWA focus solely on the national system
 - iii. Eliminate the project-level match requirement, focus on program performance, perhaps require some maintenance of effort test for states
- b. How can we help planning and financing functions work together more productively?
 - i. Create a hybrid staff position that spans the two areas
 - ii. Objectives aren't always aligned between the two groups
 - iii. Teaching finance to planners

Final Thoughts

The group concluded with a round robin discussion about how to improve financial management with a focus on performance / results. Many participants cited this peer exchange experience as an example of how to:

- Network with peers

- Share challenges and solutions, realize you are not alone in facing or searching for them
- Map out organizational structures and processes
- Engage in open and productive dialogue with FHWA counterparts outside of the normal implementation / oversight roles

Participant List

	Name	Organization	Position
Delaware	Lanie Thornton	DeIDOT	Finance Director
Delaware	Dawn Haw Young	DeIDOT	Assistant Finance Director
Delaware	Amanda Giuttari	DeIDOT	Senior Fiscal Management Analyst
Delaware	Christine Lively	DeIDOT	External Audit Supervisor
Delaware	Micheale Smith	DeIDOT	Senior Fiscal Management Analyst
Ohio	Rich Winning	Ohio DOT	Executive Financial Advisor
Ohio	Sara Downs	Ohio DOT	Chief Financial Officer
Ohio	Alana Haberman	Ohio DOT	Administrator Office of Project Accounting
Pennsylvania	Larry Shifflet	PennDOT	Director of the Center for Program Development and Management
Pennsylvania	Mark Tobin	PennDOT	Chief of the Funding and 12-Year Program Division, Center for Program Development and Management
Pennsylvania	Rob Mulkerin	PennDOT	Manager of the Federal Funds Management section
Pennsylvania	Kristin Mulkerin	PennDOT	Transportation Planning Manager
Pennsylvania	Laura Hannon	PennDOT	Supervisor in the Federal Funds Management section
Pennsylvania	Jeff Rellick	Pennsylvania Comptroller's Office	Commonwealth Accountant Manager
FHWA	Tony DeSimone	FHWA – Headquarters	Senior Financial Policy Analyst
FHWA	Angelia Pecoraio	FHWA - Delaware	Finance Specialist

FHWA	Christine Perez	FHWA - Pennsylvania	Financial Manager
FHWA	Matt Smoker	FHWA - Pennsylvania	Transportation Planner
FHWA	Mark Stephens	FHWA - Ohio	Acting Financial Manager
FHWA	Jeff Blais	FHWA – Resource Center	Financial Program Manager