



# CFO Peer Exchange

Summary Report: Executive Summary  
JANUARY 18, 2017

# EXECUTIVE SUMMARY

## PEER EXCHANGE OVERVIEW

The BATIC Institute is a partnership between the American Association of State Highway and Transportation Officials (AASHTO) and the United States Department of Transportation (USDOT). The BATIC Institute promotes public sector capacity building in the analysis, understanding, and use of innovative project finance techniques through a program of training, sharing of best practices, and technical assistance to all state Departments of Transportation (DOTs) and their local partner agencies.

The Chief Financial Officer (CFO) Peer exchange, organized in partnership with the USDOT, was intended to engage transportation CFOs in an exchange of ideas and best practices, in order to identify common challenges and opportunities, and understand what has worked and not worked, in four major topic areas: Policy, Project Management, Finance and Revenue. Highlights from the four areas are summarized below.

## HIGHLIGHTS BY TOPIC

### Finance

The finance focus area covered agency strategies relating to debt management, the use of bond financing, federal credit programs, and the roles CFOs play in evaluating finance tools and approaches, including the application of public-private partnerships (P3).

- Not all states exhibit the same debt picture. For example a state DOT itself may not issue debt or debt issuance can be devolved to a more local level (e.g. county) where local option revenue streams are available to bond against.
- The current environment of low interest rates have encouraged debt issuance and refunding opportunities but some agencies are at or near their debt ceilings. Generating new revenue against which to issue debt remains a strong challenge.
- Demonstrating clear public benefits is necessary to win support for new debt issuance, which is increasingly being applied to large preservation and rehabilitation projects.
- Agencies' treatment of GARVEEs as a debt instrument varies, such as whether they count against a state's debt ceiling. "Over-leveraging" future federal aid through GARVEEs is a risk, especially when it is tempting to do so because rating agencies consider them favorably.
- States apply a range of debt performance measures, with some states having clear policies on coverage ratios.

### Project Management

Participants discussed the challenges faced by CFOs relating to budgeting, program management, project close-out, and other fiscal matters over the project life cycle. They addressed the role of CFOs in developing and tracking performance measures.

- There was wide agreement among participants on inefficient and inflexible processes for Federal-aid project closeout of inactive projects and the repurposing of old earmarks. The FHWA requirement to conduct an audit for each such project is time-consuming and resource intensive. Applying a process where projects are categorized by risk to identify those targeted for an audit is one option for improvement.
- In a broader sense, greater Federal program management flexibility is desired.

- Participants questioned the extent to which performance measures can be applied appropriately during project programming. For example, how might an agency establish measures that satisfy several potentially divergent criteria: Federal requirements that mandate allocations among certain project types; available revenues; and actual project applications received for consideration?
- Recommended practice suggests a focus on applying outcome rather than output measures to guide project programming and condition assessment. Improved practice would also consider public input when establishing performance measures and the use of a transparent reporting/tracking system.
- Caution should be exercised against using financial performance measures with specific targets that can bias favor toward a fewer number of larger projects, just to reach those targets, at the expense of a focus on a broader array of projects.
- CFO roles are evolving beyond simply managing “fiscal services” including establishing performance measures that set parameters for what projects get programmed.
- Financial constraints are impacting agency operations, project and program delivery. At the same time, workforce capacity limitations impact agencies’ ability to deliver their capital programs, while succession planning and the loss of institutional knowledge is a growing concern.

## Revenue

A discussion on revenue focused on cash management issues and emerging revenue sources, . Participants discussed the challenges in raising new revenue and the implications of tapping new revenue-generating mechanisms.

- Sufficient revenue for transportation remains a persistent challenge. State gas tax revenue collections are mostly stagnant. At the federal level, participants anticipate that FHWA and FTA may have to implement cash management procedures during the out-years of the FAST Act because of projected insufficient revenue collections. Developing contingency plans in the event Federal funding hits a “fiscal cliff” is seen as a wise practice.
- In terms of an ability to raise new revenues, the long lead times to achieve project completion make it hard to demonstrate to the public the connection between direct project benefits and fees paid/revenues raised.
- Road User Charges are gaining momentum as an alternative revenue option but raise a host of implementation issues such as: using technical vs. non-technical mileage tracking and revenue collection methods (e.g. a limited use permit vs. GPS tracking); privacy and equity considerations (e.g. effects on low-income, rural, or drivers that cross borders often); and fraud and evasion concerns.
- An FHWA pilot program (LEAP – Local Empowerment for Accelerating Projects) permits five local public agencies to directly receive Federal-aid funding normally allocated to the State DOT. While the program is designed to streamline processes and reduce costs, there is concern over the ability of local agencies to meet all Federal-aid project requirements and whether State DOTs would remain liable for their fulfillment when aid is allocated directly to local agencies. The pilot program will examine State-local integration and collaboration and what kind of State oversight is appropriate.

## Policy

The primary policy topics for discussion included the CFO's role in developing, funding, and monitoring P3 contracts and the proposed (at the time of the exchange) Federal rule for MPO consolidation.

- In some instances, CFOs retain significant responsibility for P3 screening and contract approvals. In general, however, there is a need to advance peer and best practices for P3 project screening processes.
- While many P3 technical resources are available, especially from FHWA, assistance is needed in identifying the most useful ones. A P3 Peer Group potentially established through the BATIC Institute was offered as one option to facilitate this.
- Participants raised concerns over the proposed Federal rule for MPO consolidation such as how multi-state metropolitan regions may suffer from regional differences in political priorities and how the needs of larger regions within a consolidated MPO may overshadow smaller regions in terms of fiscal constraint and project selection priorities.