



Arkansas Peer Exchange (AR-LA-MS-TN-TX) on DOT Financial Practices and Programs

Summary Report

November 21 and 22, 2019

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DOT Financial Practices & Programs

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Little Rock, AR

Overview

This customized exchange brought together financial professionals from Arkansas, Louisiana, Mississippi, Tennessee, and Texas to discuss common issues, compare best practices, and engage in a facilitated dialogue about managing and strengthening their funds management and programming practices.

Focus Area I: Program Development

Arkansas led a discussion about utilizing project prioritization software for project selection and program management.

- Arkansas discussed their recent switch to a proprietary technology used for project prioritization and how the tool is mostly advantageous, although there are some challenges.
- Another state in attendance mentioned the drawbacks with relying heavily on project prioritization tools rather than using a mix of proprietary software and in-depth planning meetings with senior staff to address challenging prioritization issues (e.g., urban vs. rural projects).
- One state advised others to be cautious when choosing software not developed by subject matter experts. Developing performance measures and prioritization benchmarks in-house allowed for more specific scoring and ease of data circulation (pavement data, crash data, bridge data, etc.). Ultimately, in-house scoring systems have helped the state to develop more needs-based performance metrics that have helped them to identify priority corridors to study in the future, which affect the state's 10-year plan and STIP through better anticipation of project performance.
- Some states' project prioritization must be approved by either a highway commission or the state legislature; one state has taken an active approach to project prioritization by canvassing the state to talk with legislators and mayors to get a better sense from localities as to which projects are most important.
- Multiple states noted the difficulty in matching state-level and federal-level performance measures, as these performance measures can have a huge impact on overall program development.

Several states chimed in on different types of revenue forecasting and how changing socioeconomic trends and political gridlock are causing them to take unique approaches to program planning.

- Discussion on electric vehicle market penetration and the extent to which revenue forecasts will be impacted with expected VMT to rise 2.2% year over year in the near term.
- Discussion on local funding support from sales taxes, fuel taxes, alternative sources (like gambling revenues), road usage charges, and toll revenues as well as national implications of

each. One state noted the significance of local tax measures supporting funding availability, despite the legislature stalling on critical proposals.

- One state mentioned a trend of over-running bids and the requisite involvement to properly manage both expectations and the “level letting” of contracts.

Focus Area 2: Program Execution and Management

Louisiana led a discussion on its Enterprise Resource Planning (ERP) tool (“LaGov”) that replaced its legacy financial management system, and how other agencies may adopt some of their methods. Then the states engaged in a series of discussions on organizational strategy, project controls and the STIP.

- Proprietary software powered technology covering HR/Payroll, Enterprise Core, supplier resource management, business intelligence and analytics, asset management, in-house billing, and lifecycle cost management. Notably includes a detailed project cost/value/milestone tracking mechanism.
- Conducted a peer review with another state to identify challenges and needs prior to implementing new ERP system.
- Conversion from the old system to the new was the most difficult part but obtaining customized software for Louisiana’s specific utilization ultimately positioned them well for future needs and changes.
- Big change always needs a devoted champion from within an organization to see through transitions related to new technologies and ensure success in the future.
- The states engaged in a project controls discussion covering project financial planning, conservative apportionment planning, obligation of federal funds, and project prioritization.
- Group discussion on the frequency of formal STIP adoptions, average annual amendments, and administrative modifications. Sometimes there is difficulty with the amendment process because of legislature involvement. STIP changes are mainly based on a threshold of funding or proportional changes which dictate whether the change will be a modification or amendment.

Lunch Discussion: Rescission, Improper Payments, Toll Credits

FHWA facilitated a conversation on the FAST Act funding rescission, improper payments and toll credits over lunch.

- Rescission repeal provision is in the Continuing Resolution (CR) – prior to the CR announcement, discussed federal scoring for future programs and MPO spending. The announcement of the CR passage and rescission cancellation came during the lunch discussion.
- Improper payments discussion:
 - Improper Payments Work Group is addressing project delivery issues to reduce improper payments and improving guidance on “bucket billing” and “truing up” final vouchers.
 - FHWA has found frequent instances of ineligible funds being billed at the wrong federal share.

- Enhanced project agreement standard operating procedure is used to leverage multi-disciplinary, risk-based reviews and define items to be reviewed by FHWA Division personnel.
- FHWA needs to understand state-by-state challenges and issues regarding improper payments by reviewing more data driven and rigorous approaches from the Division offices and annual improper payment testing.
- Concern over clarifications needed to the 2016 guidance memo; the testing program and compensating controls used to catch and fix improper payments; and the inefficiencies of going after all “improper payments.”
- Discussion of how toll credits are approved and applied and why toll credits may be an effective tool for advancing projects. FHWA is conducting toll credit reviews (not quite an audit).

Focus Area 3: Funds Management

Tennessee led a discussion on funds management and cash policies.

- Discussed accrued and unbilled costs and cash forecasting. Instituted a detailed cash management projection method (with 2-3% of variation) allowing them to more effectively forecast cash.
- Having a large balance of cash may allow the DOT to increase its budget by a certain amount and authorize additional funds in that fiscal year based on the cash balance and out-year projections. By doing this, the DOT accelerates project delivery.
- Some states discussed tracking cash balances each month and targeting the annual end-of-year cash balance, as well as the ability to borrow funds in the short term.
- There was discussion about using advance construction (AC) as a strategy for reducing inactive projects, especially projects with slow or unreliable obligations such as utility relocations or projects involving railroads. AC also is used to bridge across fiscal years, when funding can be delayed, and often is used to manage funds on large projects.

There was a group discussion about fund swapping.

- GAO is currently reviewing fund swap procedures employed by state DOTs.
- Examples were given of some fund swapping practices, especially with respect to local projects where the MPO or other local sponsor often encounters challenges with advancing federal-aid projects.

Focus Area 4: Project Delivery

Texas presented on managing project lettings and tracking obligations.

- Performance based planning supports the agency's decisions on investment strategies that deliver the right projects based on 104 unique performance indicators that inform a larger process.
- Texas uses a quarterly review approach with data-driven project development.
- Review of federal apportionments and obligation authority to improve its business processes.

Tennessee presented on managing inactive projects.

- Tennessee keeps the inactive projects total low by reviewing projects once they hit a designated 9-month period. Any inactive balances above \$50,000 require follow-up with pertinent function areas or governing bodies.
- There was a general discussion on how dealing with inactive projects often is not a finance task but a project management issue and that having fewer inactive projects depends on highly experienced employees.

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 top three questions to the full group. Many groups had similar questions.

Team Results

1. Alpha Team

- a. What is the future of FHWA funding (block grant approach) and the FHWA organization?
 - i. Some agencies that use a block grant method are more flexible in their funding management and are also more program-focused than project-focused.
 - ii. There needs to be better transparency and cooperation between state/federal/local agencies to set performance measures and targets more effectively.
- b. How do you earn the trust of the legislature and avoid a target on DOT’s back?
 - i. One state mentioned that their relationship with the legislature improved once joint meetings with the public were held that showcased the similarities between constituent needs and DOT needs. Furthermore, independent reports have been published that reinforce DOT’s priorities, local communication during legislative sessions, and special assistance during disasters have both raised the DOT’s profile and built trust between the legislature and the public.

2. Beta Team

- a. What incentives can DOTs provide Disadvantaged Business Enterprises (DBE) to become prime contractors?
 - i. Concern about lack of incentives to move from DBE to prime contractor, that the DBE program can be viewed as an entitlement, and that some prime contractors don’t take the DBE program seriously.

- The state DOTs and FHWA Divisions are different but face the same challenges; peer exchanges are useful for improving communications, discussing guidance, and comparing practices.

Participant List

Participant	Organization	Role
Alex Clegg	BATIC Institute	BATIC Institute Support
Andrew Callihan	FHWA	Financial Program Specialist
Anna Biggs	Tennessee DOT	Accounting Project Manager
Barbara Aguiard	Louisiana DOT	Budget Administrator
Brad McCandless	WSP	Logistics & Notes
Brenda Washington	FHWA	Financial Manager
Bryan Grote	Mercator Advisors	Facilitator
Byron Flood	Mississippi DOT	Budget Division Manager
Chad Winchester	Louisiana DOT	Project Development Division Chief
Connie Porter Betts	Louisiana DOT	Transportation Planning Administrator
Corey Key	Arkansas DOT	Program Management Federal Programs Coordinator
Don Johnson	Louisiana DOT	Deputy Undersecretary
Eric Griffith	FHWA	Financial Manager
Frank Vickers	FHWA	Financial Manager
Gerald Varney	FHWA	Finance Team Lead
Janet Lee	Mississippi DOT	Special Projects Officer
Jared Wiley	Arkansas DOT	Program Management Division Head
Jeff Altman	Mississippi DOT	Director of Local Public Agencies
Jennifer Herstek	Tennessee DOT	Finance Division Director
Joe Galbato	Tennessee DOT	Deputy Commissioner & Chief Financial Officer
John Kahle	Tennessee DOT	Program Operations
Kevin Thornton	Arkansas DOT	Assistant Chief Engineer of Planning
Kirk Boyer	FHWA	Financial Management & Policy Team
Mack Dowell	Mississippi DOT	Programming Division Manager
Mary Elliott Bergeron	Louisiana DOT	Highway Program Engineer
Max Inman	Mercator Advisors	Facilitator
Patrick Patton	Arkansas DOT	Fiscal Services Division Head
Peter Smith	Texas DOT	Transportation Planning & Programming Division Director
Robert Granberg	FHWA	Senior Financial Specialist
Stephen Stewart	Texas DOT	Director of Financial Management
Steven Thomas	Arkansas DOT	Program Management Assistant Division Head
Wendy Maxwell	FHWA	Division Finance Manager