

Chapter 2

Guidelines for Operating and Program Development Projects

The information in this chapter applies only to organizations awarded assistance for operating or program development projects. It is designed to help grantees understand the steps necessary to comply with the state and federal requirements associated with receiving operating and program development grants. Regardless of the funding sources assigned to a project, the Washington State Department of Transportation (WSDOT) requires all organizations to follow the cost principles standards and administrative requirements outlined in the following federal regulations:

- Administrative requirements in the Code of Federal Regulations (CFR) 49 CFR Part 18 (State, local or Indian tribal governments) or 49 CFR Part 19 (non-profits, hospitals, and institutions of higher education), whichever is applicable.
- Accounting requirements in the Office of Management and Budget (OMB) requirements codified under 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards and/or 48 CFR Part 31(private for profit), whichever is applicable.

Note: Internet links to these documents can be found in [Appendix G](#). Effective December 31, 2014 OMB circulars A-87 and A-122 were superseded by 2 CFR Part 200.

The most important concepts to remember while managing an operating project are to:

- Implement policies and procedures that ensure compliance with state and federal laws and regulations.
- Ensure all accounting and administrative procedures comply with OMB circulars, Federal Transit Administration (FTA) regulations, and state regulations.
- Carry out the project as it is prescribed in the grant agreement.

Note: Grantees must also follow the guidelines found in [Chapter 1](#).

Operating Projects

Organizations are awarded operating grant funds to support passenger transportation service projects. Grantees are reimbursed for actual eligible expenses, less passenger fares and/or, donations and revenue provided by participating organizations to support the project local match. Expenses may include both direct and indirect costs (if approved by WSDOT). There must be an operating deficit to qualify for a reimbursement. For more information, refer to the Operating Deficit section on [page 2-8](#).

Volunteer Drivers

Many organizations rely heavily on the use of volunteers to provide services to the general public and persons with special transportation needs. Operating a volunteer driver program can be challenging. To better assist organizations with establishing and managing a volunteer driver program, the Agency Council on Coordination (ACCT) updated and re-published *Volunteer Drivers – A Guide to Best Practices* in 2013. It also outlines various requirements and provides information on best practices found throughout the United States. To receive a copy of the guide, contact a WSDOT Public Transportation Division staff member. The guide is also available at www.wsdot.wa.gov/transit/training/vdg/default.htm.

If your project uses volunteer drivers, your agency is required to have a volunteer driver policy.

Using Personal Automobiles for Passenger Transportation

The ACCT *Volunteer Drivers Guide* outlines the minimum requirements for the approved use of personal automobiles for passenger transportation services. The requirements state that these vehicles shall have:

- A valid state license and registration.
- Fully functioning heating and ventilation systems.
- Fully functioning, clean, and accessible seat belts that meet state and federal guidelines.
- Functioning doors and handles on all doors.
- An accurate speedometer and odometer.
- Windows free from cracks. Any windshield chips must be properly sealed and must not hinder vision.
- Functioning interior lighting within the passenger compartment.
- Adequate sidewall padding and ceiling covering.
- Two exterior rear view mirrors, one on each side of the vehicle.
- Seats that are not damaged or broken and are in good working order. Seats must be free from protruding sharp edges, etc.
- Functioning lights, turn signals, and windshield wipers.
- Tires with tread depth that exceeds state minimum requirements.

Program Development Projects

Organizations are awarded program development grant funds for a variety of planning purposes associated with meeting the public transportation needs of a community. As with operating projects, grantees are reimbursed for actual eligible expenses, less revenue provided by the organization or another entity to support the project.

Eligible Services

The grant agreement with WSDOT outlines the eligible services under each project. It also identifies the funding sources used for the project(s) and the eligible service modes (fixed route, demand response, etc.). Only services identified in the grant agreement are eligible for reimbursement.

At a minimum, the services must be eligible for the type of funding awarded for the project. Below is a list of funding sources that provide funding to support public transportation operations and, in some cases, program development.

- State Funding
 - Rural mobility – competitive
 - Rural mobility – transit formula
 - Paratransit special needs – non-profit competitive
 - Paratransit special needs – transit formula
- Federal Funding
 - 5310 – Enhanced Mobility for Seniors and Individuals with Disabilities
 - 5311 – Formula grants for Rural Areas
 - 5316 – Job Access and Reverse Commute (JARC)
 - 5317 – New Freedom

Eligible Direct Expenses

An eligible direct expense must be directly related and attributable to the project and the expense must be necessary and reasonable in amount to be eligible for grant reimbursement. Examples of direct expenses include, but are not limited to:

- Driver's and/or dispatcher's wages and benefits
- Vehicle fuel
- Vehicle maintenance costs
- Purchased transportation services (Purchase of Service contracts)
- Marketing and public outreach for the project

Purchase of Service (POS) contracts are subject to procurement requirements identified in both Chapters 1 and 3 and should be competitively awarded and pre-approved by WSDOT for compliance and eligibility. WSDOT staff is available to help determine which requirements apply.

There are conditions on certain types of expenses. The following information will assist with determining what expenses are eligible.

Personal Vehicle Mileage for Volunteers

Occasionally, organizations use volunteers to transport the general public and persons with special needs. This is an eligible activity if all of the following conditions exist:

- A written policy must be in place regarding the use and reimbursement

of volunteer drivers using their own vehicles.

- Volunteers must be under a contract with your organization.
- Trips provided must not conflict with local taxi operations.
- Shared rides must be encouraged.
- Rides are approved and dispatched in advance of the trip.
- The mileage rate reimbursed to volunteers must not exceed the current state mileage rate. The applicable rate is available at www.wsdot.wa.gov/business/travel.

Travel Expenses

Some employee travel expenses are eligible. Use the following information to determine what expenses are eligible for reimbursement.

Note: The following information applies only to your employees. Travel expenses incurred by board members are not eligible unless authorized by WSDOT. If an employee is awarded a Rural Transit Assistance Program (RTAP) scholarship to attend training, the local portion (if any) is not an eligible expense for an FTA-funded project.

In-State Travel Expenses

Travel expenses incurred by employees are eligible for reimbursement if the trip is directly related to the project. The reimbursement rate is based on the current per diem and lodging rates for state employees. Rates specific to areas of the state are available at www.wsdot.wa.gov/business/travel.

Out-of-State Travel

As a rule, out-of-state travel is not eligible for reimbursement. However, the trip expenses may be eligible if an out-of-state trip is directly related to the project. A written request must be submitted to and approved by the WSDOT project manager prior to departure. This request must describe the purpose of the trip and how it will benefit the project. A letter of approval or denial will be sent to your organization and should be kept on file.

Note: WSDOT reserves the right to deny the eligibility of some or all of the related expenses for an out-of-state trip. For more travel information and per diem rates, visit the United States General Services Administration's website at www.gsa.gov/portal/category/21287.

Administrative (Indirect) Expenses

Indirect costs are expenses that benefit more than one cost objective or project. Administrative expenses include items such as administrative salaries and benefits (i.e. management, human resources and accounting personnel, etc.), office supplies, utilities, phone services and rent/depreciation. These costs are eligible only if allocated between projects and/or programs carried out by your

organization, based on a documented cost allocation plan or indirect cost rate consistently applied to all programs. The cost allocation plan or indirect cost rate must be approved by your cognizant agency (the agency you receive the most grant funding from) prior to receiving any reimbursements under the grant agreement.

Audit Expenses

Audit expenses are typically eligible for reimbursement. However, the costs must be reasonably distributed across all the programs your organization operates. If you receive federal funds, either through WSDOT or another funding organization, additional audit requirements may apply. For additional information on the federal audit requirements, refer to [Chapter 1](#).

Employee Leave

An employee's paid leave is an eligible expense. However, there are eligibility conditions depending on how your organization accounts for leave.

- Organizations that charge leave to the grant as it is earned must:
 - Have a cash-out policy regarding earned and unused leave. The employee must be able to receive a cash payment in the event they leave your organization while still having a paid leave balance.
 - Establish a cash reserve (funded leave pool) or funded accrual covering the dollar value of paid leave earned by employees.
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- Organizations that include paid leave in their approved cost allocation plan may consider the grant allocated proportion of leave as an eligible grant expense.

Organizations that charge employee leave to the project as it is taken may do so. However, leave balances paid at the time the employee leaves the organization is only allowable as an indirect cost spread across all activities of the organization and may not be charged as a direct expense to the grant.

Lease of Passenger Service Vehicles or Facilities

Expenses associated with leasing passenger service vehicles or other related facilities are only eligible if the expenses are identified in the grant application budget or otherwise approved in advance by WSDOT.

Depreciation

Depreciation spreads the actual cost of a capital asset over its predetermined useful life. For the purposes of grant projects, FTA requires straight-line depreciation of capital assets.

Capital assets are any tangible items that are:

- Identified as having a useful life expectancy of more than one year.
- Purchased for a unit price of at least \$5,000. Organizations may approve a dollar threshold less than \$5,000. For the grant, organizations must use \$5,000 or its own policy, whichever amount is less.

- Maintained in physical inventory records.

In general, depreciation is an eligible operating grant expense. However, certain conditions apply:

- Depreciation on assets purchased in whole or in part with state or federal grant funds are not eligible.
- The applicable revenue received for the depreciation expense must be placed into a capital reserve account.

Ineligible Expenses

Some expenses are ineligible for reimbursement under your grant agreement even if they were incurred during the normal course of business. Selected items of allowable and unallowable costs can be located in 2 CFR Part 200.

Unallowable costs include, but not limited to:

- Fines
- Bad debt
- Alcoholic beverages
- Advertising and public relations costs not directly associated with the project
- Costs of fundraising

Grant Agreement Funds

“Grant Agreement Funds” represents the mix of funding planned to be used to complete the grant project(s). “Contractor’s Funds” represent the grantee’s local share of the project costs. The total federal, state and local share of the grant funding is located on the front page of the grant agreement with WSDOT. However, each project may have a different match requirement depending on the funding sources awarded. Grantees will be held to the match ratio identified for each project in the grant agreement.

Match Requirements

Match represents your organization’s share of the total project cost. The matching requirement for each project may vary depending upon the level of matching funds identified in the grant agreement. If the agreement has only one project, the specific local match for the project is identified on the first page of the agreement. In the case of multiple projects, refer to Exhibit I, ‘Scope of Work and Budget’ in the agreement for each project’s matching ratios. General information regarding matching funds for operating grants is explained below.

Note: The match ratio is calculated by dividing the dollar value of the match pledged for the project by the total project cost. As an example:

If the total project cost is \$100,000 and your organization pledged 35,000 in local or in-kind funds for the project the local match would be 35% with a grant share of 65%.

Eligible Matching Funds

Your organization's portion of the net expenses (gross expense minus fares, donations and ineligible expenses) may be obtained from a variety of sources. Eligible matching funds may include the following:

- Local tax revenues such as sales tax receipts.
- Funds from other public agencies.
- Private donations (except passenger donations).
- Advertising revenue.
- Foundation grants.
- State funds received from agencies other than WSDOT.
- In-kind services, including labor (see the Project Records section on [page 2-9](#) for more information).
- Revenue from other grants awarded to your organization.
- Federal Funds:
 - Federal funds from any source may be used to meet match requirements for grant projects that provide only state funds.
 - Non-USDOT federal funds.
- Other funds from your organization not related to the passenger services provided under the project (i.e., freight).
- Reserve funds or retained earnings from your organization.

Note: The local share or match for FTA-funded projects cannot be derived from USDOT funds. However, federal funds passed through a state social service agency (such as Medicaid) are not considered to be federal for the purposes of the Consolidated Grant Program and are eligible for match.

In-Kind Match

In-kind match is the fair market value of goods and services donated to an organization by a third party to support the grant funded project. In-kind contributions directly benefitting the project may be used as match. The value of in-kind services must be formally documented, supported, and represent the fair market value cost that would otherwise been paid by your organization for expenses that are eligible under the grant. Organizations must submit documentation describing the method for establishing the value of in-kind contributions as part of its application for the Consolidated Grant Program. WSDOT must approve in-kind match prior to use.

Sale of Advertising Space

All organizations are encouraged to find additional resources to support their projects. One way of accomplishing this is to sell advertising space on passenger service vehicles. The advertising revenues may be used as match for the project.

Guidelines to Follow

Organizations deciding to sell advertising space on vehicles, shelters or stations must have policies in place indicating the types of advertisements acceptable to post. Some basic guidelines are:

- Advertisements that may be offensive or controversial should be avoided, including but not limited to:
 - Alcoholic beverages
 - Tobacco products
 - Political issues
- Political campaign posters may only be posted if equal opportunity is given to all candidates or positions.

Note: It is illegal to use public funds for political purposes. Items such as personal political posters or posters indicating your organization's position on political issues cannot be posted.

Reserve Accounts

A reserve account is a restricted account where funds are placed and set aside for specific uses. All organizations are encouraged to establish and maintain reserve accounts. Below is a discussion about selected types of reserve accounts. Additional and more detailed information can be found in 2 CFR Part 200.

Establishing a Reserve Account

An organization's governing board must approve a resolution to establish, fund and determine the parameters of reserve accounts. Reserve account restrictions and covenants that determine how funds are allocated and used are identified in an organization's financial plan. Balances in these restricted accounts are to be identified in the cash flow statement and are not included as available cash.

Funding a reserve account is not an eligible expense under the federal or state grant agreement. However, organizations may use local tax revenue or income from other funding sources provided the funding agency agrees with its use. Any amount above the cost to provide the services associated with the matching source may be a candidate for establishing a reserve account if your organization has satisfied the matching ratio for your project. However, you will need to review the terms and conditions imposed by the funding source you use. If your contract with that entity does not permit a profit or was made based on a line item budget that did not include a reserve account, you cannot use any of the revenue from these contracts to fund the account.

Capital Reserve Accounts

Any revenue placed in a capital reserve account must be for the future acquisition of capital equipment or facilities to be used for passenger transportation services.

Note: The expense of funding a capital reserve account is not grant-eligible. However, organizations may be able to charge either depreciation or a use allowance to the project for capital assets not purchased with grant funds. Depreciation must be calculated using the “straight-line method” and only the allotted depreciation cost for the grant period is eligible for reimbursement. The amount of depreciation that can be charged to the grant is computed based on the acquisition cost of the asset or the fair market value of a donated asset divided by the number of expected service years less any salvage value. Use allowances are for fully depreciated assets that are still used in project service and are generally limited to a very small dollar value that are subject to negotiation and prior approval by WSDOT. Revenues from depreciation and use fees must be applied to a capital reserve account and retained for capital asset replacement purposes.

Self-Insurance Reserve Accounts

A self-insurance reserve account may be established to provide self-insurance for liability, collision, on-the-job injury or other agency-provided coverage. In the case of organizations purchasing commercial or pool coverage, this reserve account may also be used to cover uninsured losses, such as the cost of the deductible.

Operating or Working Capital Reserve Accounts

Operating reserve accounts and working capital accounts are generally established to fund extraordinary, unanticipated operating situations. As with all reserve accounts, funding and uses are determined by board resolution.

Operating Deficit

In order to qualify for competitive operating grant funding, there must be an operating deficit equal to the subsidy requested. To determine if your organization has an operating deficit, use the following formula.

- Determine net operating expenses: gross expense, less farebox collections and ineligible expenses.
- Add all the operating revenue used for the project to determine total revenue. Do not include the funds from the grant award or local funds either deposited in a reserve account or used for capital purchases as revenue. Typical revenue may include:
 - Local tax revenue
 - State and local subsidies
 - Interest income
 - Advertising revenue
 - Freight revenue
 - Net income from contract service
 - Other operating subsidies (i.e., Medicaid or Title III)
 - Miscellaneous revenue
 - Unreserved retained earnings

An operating deficit can be determined by subtracting the total operating revenue from the net operating expenses.

In all cases, operating deficits must be calculated based on actual operating income received and earned less actual expenses paid and incurred. A negative balance equals your organization's operating deficit subject to grant reimbursement.

Project Records

Grantees are expected to keep project records in order to adequately document project activities and costs. The procedures used for recordkeeping must comply with 2 CFR Part 200. WSDOT uses the OMB circulars, Governmental Accounting Standards Board (GASB) and Generally Accepted Accounting Principles (GAAP) as standards when assessing if an organization has adequately documented project costs.

Compliance with OMB Circulars

To comply with the OMB circulars, grantees are required to keep a separate set of accounts (or a subaccounts within an accounting system) that clearly identify project costs and associated revenue. In addition, accounting records must include:

- Vouchers or purchase orders prepared for all payments made to vendors. These vouchers must identify:
 - Goods or services purchased.
 - Name of the vendor from which the purchase was made.
 - Name of the program(s) charged for the expenses.
- Time sheets for each employee charging to the project. The time sheets must include the hours spent working on the project.
- If your matching funds include in-kind contributions, you must retain documentation which identifies:
 - WSDOT approval of in-kind use.
 - The means by which value of goods or services was determined.
 - Names of the individuals and/or organizations that provided the goods or services.
 - Goods or services provided by those individuals or organizations.

Note: Grantees should have submitted documentation describing the method for establishing the value of in-kind contributions as part of the application materials for the Consolidated Grant Program. In addition, the value of the in-kind goods and services must be included as an expense for the project as well as a matching source.

Additional Required Records

Grantees are also required to retain the following information related to the project.

- Ridership numbers and ridership trends.
- Operating hours and miles.
- Schedule reliability.
- Revenue miles.
- Marketing materials.
- Schedules.
- DBE purchasing efforts (FTA-funded projects only).
- Program income.
- Charter services.
- Job Access Reverse Commute (JARC) and New Freedom funding.
- Any information helpful in showing the success of the project.
- Other records identified elsewhere in this guide.

Requesting Reimbursement for Operating, Mobility Management, or Program Development Projects

To receive payment for eligible expenses incurred under the grant agreement, a reimbursement request form must be completed, signed by your financial manager or authorized representative and submitted to the WSDOT Public Transportation Division. If the reimbursement request form is incomplete or inaccurate, payments will be withheld until the form is corrected and approved.

All required quarterly progress reports must be submitted prior to a payment being processed. WSDOT prefers reimbursement requests be submitted quarterly. Although reimbursement requests may be submitted as frequently as once per month, grantees must submit a reimbursement request at least once per quarter.

Attention: WSDOT fiscal year closing requirements

Although WSDOT operates on a state biennial for full fiscal closing, we also perform a mid-biennial closing each year. To ensure timely payment, a reimbursement request or an estimate of charges must be submitted by July 15, 2015 for any unreimbursed eligible expenses incurred between July 1, 2015, and June 30, 2016. The final reimbursement request must be received by WSDOT within 30 days of the completion of the project or by July 15, 2017, whichever comes first. Reimbursement requests received after July 15, 2017 may not be eligible for payment.

Refer to [Appendix A](#) for examples of reimbursement request forms and detailed instructions for completing the forms.

No Operating Deficit

Organizations with a net profit for the operations of services are not eligible to receive operating assistance. However, payments are calculated based on project-to-date expenses versus project match. It is not uncommon to have net profits for one quarter and net losses for another quarter. If during the duration

of the project the overall result is a deficit, you may request reimbursement for that shortfall. In this case, the reimbursement request must include the project to date expenses and match, not just those for the period with an operating deficit.

Note: Quarterly progress reports (QPRs) must be completed and submitted to WSDOT at least once per quarter throughout the entire contract period, even if the grant funds are exhausted and the reimbursement amount requested is zero.
