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TO: House Appropriations Committee
FROM: Candace Elmquist, Chief Financial Officer, Transportation
DATE: February 11, 2026
SUBJECT: Understanding the use of an Indirect Cost Rate for FHWA-Participating Projects

Effective July 1, 2021 the Agency of Transportation began utilizing an indirect cost rate of 146% on all FHWA-participating projects that had eligible AOT employee labor charges. This rate was effective for all eligible direct payroll transactions incurred during state fiscal year 2022. State fiscal year 2022 was the only year in recent history in which AOT charged FHWA an indirect cost rate. It was retired on 6/30/2022. The second to last time it was utilized was FY2004, and it is likely that the rate was on continuously from the mid-1990s through FY2004.

The use of an indirect cost rate was made possible by AOT having an approved indirect cost plan on file with FHWA. An indirect cost rate plan establishes a percentage rate to distribute pooled eligible administrative costs across programs and is based on the principles outlined in OMB Uniform Guidance for Federal Financial Awards, 2 CFR Part 200. These principles are designed to ensure that federal awards bear their fair share of costs.

When an indirect cost rate is in use, FHWA is resupplying the cash outlays AOT advances on behalf of FHWA's share of the AOT's indirect costs. AOT pays for eligible indirect costs out of its Transportation Fund. After FHWA has confirmed indirect cost eligibility with the indirect cost plan, indirect receipts are received in the federal FHWA fund code via the regular federal billing process. For the indirect receipts to replenish the Transportation Fund, transfers must be completed from the federal FHWA fund code to the Transportation Fund. The amounts are reconciled in the AOT Finance Bureau and then the Department of Finance and Management Financial Operations moves the revenue from the federal FHWA fund code to the Transportation Fund.

**It must be noted that indirect receipts do not increase the total federal FHWA dollar amount AOT will receive from FHWA in a given year. Any and all indirect receipts received by AOT come directly from the FHWA apportionment to AOT from the most recent version of the federal highway bill. The apportionment is a formula-based distribution of dollars identified in the most recent version of the federal highway bill over a set period of time.*

Eligible indirect costs may include items such as:

- **Central service charges:** Rent, Insurance other than Employee Benefits, Insurance - General Liability, Insurance - Auto, ADS Service and Support Expenses, Human Resources Services
- **Utilities charges:** Natural Gas, Heating Oil, Rubbish Removal, Internet/DSL/Cable Modem, Telecom Telephone Service, Electricity, Gas, Sewer, Water, etc.
- **Facilities charges:** Building Maintenance Materials & Supplies,
- **Property management charges:** Lawn Maintenance, General Housekeeping Soaps/Cleaners/Brooms/etc., Snow Removal, Exterminators, etc.
- **General office and office supply charges:** Paper Products, IT & Data Processing Supplies, Postage All Costs for Postal Services, Office Equipment Rental/Lease/Purchase, Desk/Chairs/Tables/Bookcases/etc.

In order for the regular federal billing process to properly capture indirect costs, the State Transportation Accounting and Reporting System (STARS) creates a new expense line for all indirect costs associated with the federal FHWA fund code. The result of this new expense line will likely be that some projects in the FY2027 Transportation Program will have federal expense overruns in FY2027 because project managers were instructed to build the FY2027 budget without assuming the use of an indirect cost rate. With all other personnel movements at AOT and the work needed to build the FY2027 budget, the FY2027 budget build would not have been feasible with the assumption of an indirect cost rate built in to projecting project costs. AOT has confirmed with the Department of Finance & Management that federal FHWA fund code spending authority can be obtained mid-year in FY2027 via the Excess Receipt Request process governed by 32 V.S.A. § 511. There is a possibility that more projects will be identified in the 19 V.S.A. § 10g(2) or 19 V.S.A. § 10g(3) reports within the FY2028 Governor's Recommended Budget as a result of the federal expense overruns that may occur for projects in the FY2027 Transportation Program.