

# **Fiscal Constraint**

## **YOE – Cost Bands – O&M**

**FHWA / FTA**

*Let's Talk Planning* Videoconference

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# Today's Discussion

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- Year of Expenditure (YOE)
- Cost Bands and Ranges
- Operating and Maintenance Costs

# Final Planning Rule

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- “Year of expenditure dollars” – effective December 11, 2007.  
*[23 CFR 450.216(l), 450.322(f)(10)(iv) and 450.324 (h)]*
- Optional use of “cost ranges/cost bands” beyond first 10 years of the metropolitan transportation plan. *[23 CFR 450.322(f)(10)(v)]*
- System-level estimates of costs and revenue sources for adequately operating and maintaining federally supported facilities.  
*[23 CFR 450.216(m) and 450.322(i)]*

# Why are we doing this?

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- Consistency:
  - FHWA Major Projects Guidance
  - FTA New Starts (Standard Cost Categories)
- Project continuum
  - Planning → Programming → NEPA → Design/PS&E → Construction*
- Consistent & comparable estimates
- 23 CFR 450

# Year of Expenditure (YOE)

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- “Apples to apples” comparison of project costs – use YOE \$ consistently in STIPs, TIPs, and metropolitan transportation plans to account for reasonable inflation factors.
- Can use local (historic) data when available.
- No local data? → Can use 4% annual inflation rate. *[Internal Guidance, August 18, 2006]*
- Revenues should be adjusted as appropriate to the revenue source (inflation rate may *not* be appropriate).

# Year of Expenditure (YOE)

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- Other YOE estimating methods are available (e.g. statistical model).
- STIP/TIP – After December 11, 2007, any amendments to an existing STIP or TIP or any new STIP or TIP triggers YOE requirement for entire STIP or TIP. This can be done without having the MTP compliant with YOE requirement.
- MTP – After December 11, 2007, any amendments to MTP or any new MTP triggers YOE requirement for the entire plan, as reflected in accompanying financial plan. *(FYI, MTP amendment may not require STIP/TIP update.)*

# Year of Expenditure (YOE)

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- Use of YOE requires DOTs and MPOs to account for cost escalation as part of their fiscal constraint determination. (Revenues may not be growing at the same rate so adjustments might be needed.)

# Cost Bands and Ranges

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- Cost bands and ranges – may use them in the out years (10+) of the plan to account for uncertainty and risk.
- Cost bands and ranges communicate the level of project uncertainty and risk to the public, elected officials, and others.

# Cost Bands and Ranges

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- Use of Cost Bands and Ranges is optional.
- In determining the cost band/range, consider and account for where there are major unknowns about the project or risks of escalation such as ROW, environmental mitigation, design concept and scope, materials, etc.

# Operating and Maintenance Costs

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- Financial plan for the MTP and TIP must include system-level estimates of costs and revenue sources for adequately operating and maintaining federally supported facilities.
- STIP must demonstrate system-level estimates of costs and revenue sources for adequately operating and maintaining federally supported facilities.

# Operating and Maintenance Costs

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- Possible method = historic cost information.
  - **Highways**: per lane mile for roadways, per ft<sup>2</sup> for bridges, by functional class.
  - **Transit**: historic trend data (e.g. revenue miles, revenue hours, vehicle types).
- Sources of historic cost data: cities, state DOTs, transit agencies, National Transit Database.
- This requirement does not mean that the STIP/TIP or MTP has to list specific O&M projects; rather, a system-wide total reflected in the financial plan.

# Questions & Discussion

FHWA Divisions, FHWA Resource Centers, FTA Regions, FTA Metropolitan Offices, Headquarters

# Lessons Learned

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## ■ Bias –

- Tendency to underestimate project costs during the planning and programming processes.
- Tendency for over programming of TIPs and STIPs.
- Tendency for the planning process to be “stove piped,” (i.e. limited review and use of planning cost estimates outside of planning.)

# Lessons Learned

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- Lack of consistency in how planning and programming cost estimates are generated.
- Limited coordination between FHWA Division planners, financial managers, and engineers on planning cost and revenue estimates.
- Limited coordination between state DOTs, MPOs, and transit operators on funding revenues and planning cost estimates.

# Helpful Hints

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- Update project cost estimates with each STIP/TIP and MTP update.
- Contingencies – use them in the cost estimation process even at the plan level.
- Cost bands and ranges – use them in the out years of the plan to account for uncertainty and risk.
- Cost bands and ranges communicate the level of project uncertainty and risk to the public, elected officials, and others.
- Consistency – Use consistent procedures and process to develop cost estimates.

# Helpful Hints

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- Compare cost estimates to past experience.
- Compare “apples to apples” – use YOE dollars consistently to account for reasonable inflation factors.
- In the absence of local inflation data for planning and programming estimates, use of 4% is acceptable.
- Coordination – Coordinate planning cost estimates with other experts (engineers and specialists).

# Helpful Hints

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- Documentation – Outcomes of meetings and agreements should be documented, make sure all parties understand the procedures that were used to develop revenue and project cost estimates. Assumptions and background information.
- Independent Reviews – When possible, undertake an independent review of cost and revenue estimates and processes.

# Helpful Hints

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- Use project financial plan information when available (STIP/TIP and MTP updates)
- Continuity – cost estimates developed in planning should transition into the programming process where they are further refined, then on to NEPA, final design/PS&E, and construction.
- When possible use the same cost estimator or cost estimation team throughout.