ALABAMA DEPARTMENT OF TRANSPORTATION

Bureau of County Transportation
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Bob Riley
Governor

Joe McInnes
Transportation Director

August 11, 2008

MEMORANDUM 2008-16

TO: County Engineers

CC: Division Engineers and Division County Transportation Engineers

FROM: D.E. (Ed) Phillips, Jr., State County Transportation Engineer

REFERENCE: New Overhead Cost Allocation Policy

Please find attached the new ALDOT guideline from ALDOT Director Joe McInnes, in regards to indirect cost charges and county projects that are let to contract through state services.

As stated in his letter, all county projects will have indirect cost charges added to them beginning October 1, 2008. Therefore, all projects let after the September 26, 2008 letting date will incur indirect costs. These indirect costs represent a portion of the administrative overhead costs that are not charged to specific projects. The indirect cost rate is calculated every fiscal year and is submitted to FHWA for verification and approval, and is therefore subject to change every year. Beginning this year, this office will send the counties a copy of the approved indirect cost rate each year once it is received back from FHWA. The rate for the coming fiscal year has been calculated at 11.04% and is currently pending approval by FHWA.

This charge will be reflected in the estimated cost of construction section on the project agreement that counties receive approximately five to six weeks prior to the letting date. The actual indirect cost amount will be included in the invoice that counties receive approximately seven to ten days after the letting date, and will be based on the approved low bid. All aspects of a project where federal funds are eligible to be expended will incur indirect cost charges.

Should you have any questions in regards to this new policy, please feel free to contact me at (334) 242-6203 or Mr. Ed Austin at (334) 242-6751.

DEP/ENA
Attachment

pc: Mr. Joe McInnes, Transportation Director
Mr. D.W. Vaughn, Chief Engineer/Deputy Director
Mr. Don T. Arkle, Assistant Chief Engineer, Policy & Planning
Mr. Ronald L. Baldwin, State Office Engineer
Mr. Lamar McDavid, Director of Finance and Audits
Mr. Edward N. Austin, Asst. State County Transportation Engineer
Mr. Buddy Sharpless, ACCA
File

ALABAMA DEPARTMENT OF TRANSPORTATION

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Bob Riley
Governor

Joe McInnes
Transportation Director

August 6, 2008

TO: Alabama County Commissions/Commissioners
Alabama County Engineers

FROM: Joe McInnes
Transportation Director

SUBJECT: Overhead Cost Allocation Policy

As you undoubtedly realize, we have all been experiencing extreme volatility in the petroleum market which is having a severe impact on state gasoline and motor fuel revenues. Cost increases in this market, as well as the markets for concrete, steel and other materials, have led to significant increases in the costs for road construction and maintenance. While we recognize our partnership with counties in their efforts to manage infrastructure needs on the county road system, the current difficult economic conditions have required us to re-evaluate all costs and revenues applicable to ALDOT's operations.

In fiscal year 2001, we instituted an indirect cost allocation program in an effort to maximize the use of state revenues. This program allowed ALDOT to charge a portion of its administrative overhead costs to construction and maintenance projects using an indirect cost rate approved by the Federal Highway Administration. These administrative costs had historically been funded exclusively with state revenues. The indirect cost allocation program allowed a portion of the administrative costs to be funded with federal funds. While a decision was made at the inception of this program that ALDOT would continue to absorb applicable overhead costs for county road projects, this practice has been re-evaluated given the current economic challenges being incurred. Accordingly, effective October 1, 2008, all county projects funded after that date and managed by ALDOT will incur indirect cost charges. Applicable indirect costs will continue to be absorbed by ALDOT for county projects funded after October 1 that are let to contract by the county and managed by county forces.

Should you have any questions about this change in our cost allocation policy, please contact Ed Phillips or Lamar McDavid. Thank you.

cc: Don Vaughn, Chief Engineer/Deputy Transportation Director
Don Arkle, Assistant Chief Engineer
Mike Harper, Assistant Chief Engineer
Lamar Woodham, Assistant Chief Engineer
Rex Bush, Assistant Chief Engineer\
Lamar McDavid, Director of Finance and Audits
Ed Phillips, County Transportation Engineer