

# INSTRUCTIONAL MEMORANDUMS

## To Local Public Agencies



To: Counties and Cities	Date: January 19, 2024
From: Local Systems Bureau	I.M. No. 3.050
Subject: In-Kind Contributions	

**Contents:** This Instructional Memorandum (I.M.) provides guidance for use of in-kind contributions on a Local Public Agency (LPA) Federal-aid project. Topics addressed include general eligibility criteria, a discussion of the different types of in-kind contributions, the procedures for requesting and receiving credit for in-kind contributions, and example calculations showing how in-kind contributions effect the net cash outlay required by the LPA.

### Definitions

*In-kind contribution* – a non-monetary donation of property, services, materials, or equipment by a third party that is used in the development, construction, or implementation of a Federal-aid project. For the purposes of this I.M., the terms “contribution” and “donation” are considered synonymous.

*Third party* – any governmental agency, group, organization, or individual, except: the Federal government, the Iowa Department of Transportation (Iowa DOT), or the LPA who is the recipient of the Federal-aid. The recipient of Federal-aid is the agency with which the Iowa DOT has a project funding agreement. For example, if a city is the recipient of Federal-aid, but the county is assisting the city in developing the project, the county is considered a third party but the city is not. Throughout this I.M., a third party governmental agency will be referred to as “another agency”.

### Introduction

Section 323 of Title 23, United States Code (U.S.C.) allows third party contributions of funds, materials, equipment, services, or property to be credited toward the non-Federal share of a Federal-aid project’s costs, subject to the restrictions and conditions noted below.

Third party donations of funds may be made upon whatever lawful terms are mutually agreeable to the LPA and third party, subject to the restrictions outlined in Section 2.5.1 of the [Federal-aid Project Development Guide](#). If the total cash received up-front for the project exceeds the required non-Federal share, the Federal share shall be reduced or the excess cash must be returned. The LPA may then simply use the donated funds to pay for the non-Federal share of project costs. Therefore, it is not necessary to include a discussion of donated funds in this I.M. Instead, this I.M. will focus on in-kind contributions.

Since the LPA who is the recipient of the Federal-aid is not a third party, work paid for by the LPA is not eligible as an in-kind contribution. However, an LPA may receive Federal reimbursement for the costs of its own staff work, if certain procedures are followed and certain conditions are met. For reimbursement of LPA design costs, refer to [I.M. 3.330](#), Federal-aid Participation in In-House Services.

Most third party contributions will require FHWA Authorization of an estimated value prior to the donation taking place unless otherwise stated in this I.M. As project development proceeds, documentation of the donation must be provided to support the application of the in-kind contribution toward the non-Federal share of project costs. At the completion of the project, the actual contribution is verified by Iowa DOT prior to payment of a final project reimbursement. If the LPA cannot provide documentation supporting the full estimated value of the contribution included in the FHWA Authorization or the contribution cannot be verified by Iowa DOT, the in-kind value applied to the project will be reduced and the LPA’s cash outlay will increase to meet the required non-Federal share of project costs.

### General Eligibility Criteria

Iowa DOT **does not allow** use of in-kind contributions for LPA projects administered by the Local Systems Bureau, including the following Federal-aid Formula programs: Surface Transportation Block Grant (STBG) Program for roadway and bridge projects, Highway Bridge Programs funded through STBG or the Bridge Formula Program, and Highway Safety Improvement Program (HSIP).

An in-kind contribution must be a project-related activity that would otherwise be eligible for reimbursement with Federal-aid. In other words, if the LPA were to pay for the in-kind contribution instead of receiving it free of charge, the costs would be allowable under the applicable Federal program rules. For example, construction work is an activity eligible for Federal-aid reimbursement. Therefore, the value of construction performed with donated labor, materials, or equipment could be used as an in-kind contribution, provided it contributes to the project and complies with approved project design and environmental conditions.

In general, in-kind contributions credited toward the non-Federal share of project costs must come from non-Federal sources. However, for the Federal Recreational Trails Program, funds or in-kind contributions from some Federal agencies, other than the Federal Highway Administration (FHWA), may be credited toward the non-Federal share of project costs, subject to certain conditions. LPAs that desire to receive credit for funds or in-kind contributions from other Federal agencies should contact the Administering Bureau at the Iowa DOT for assistance.

In-kind contributions may only be used once as part of the required non-Federal match. In other words, the same in-kind contribution cannot be used as match toward two different Federal-aid projects. In addition, if more than one type of Federal-aid is involved in a single project, the same in-kind contribution cannot be used as match for more than one type of Federal-aid.

The specific requirements for receiving credit for in-kind contributions vary, depending on the type of contribution and the type of Federal-aid being matched. In the sections that follow, each type of contribution is discussed in detail, including: a description, the conditions or requirements for eligibility, and the method for establishing and documenting the value of the in-kind contribution.

## **Materials and Equipment**

### **Description**

This type of in-kind contribution includes materials physically incorporated into the project, or use of equipment to carry-out a project eligible for funding under Iowa's TAP or Federal Recreational Trails program. Typically, these consist of materials or equipment used for construction of the project. However, in some cases, pamphlets, brochures, trail maps, etc. may also be considered as a material contribution, if there is a direct connection to the project being funded. But, under no circumstances will the cost of any promotional items (e.g., pens, key chains, mouse pads, etc.) be considered as an in-kind contribution.

### **Conditions or Requirements for Eligibility**

1. The Federal-aid being matched shall be from [Iowa's TAP](#), Federal Recreational Trails Program, or Surface Transportation Block Grant (STBG) Program.
2. The donated materials or equipment shall be used on or incorporated into the project only *after* FHWA Authorization of in-kind materials or equipment and *before* FHWA approval of the project closure document.

### **Valuation and Documentation**

Credit for in-kind contributions of materials or equipment will be based on the fair market value of the materials or equipment used on or incorporated into the project. The quality and condition of materials or equipment may be reviewed by the Administering Bureau prior to approving the in-kind value.

#### **Materials**

The fair market value will be estimated. Documentation shall include a detailed description of all donated materials, and an itemized estimate that includes a quantity and unit value for each item, and a total value for all donated materials. Support for the unit value may include current invoices, price sheets, quotations from local suppliers, or other information that is sufficient to establish the fair market value.

The in-kind value may not include general office supplies or other materials not used specifically for the project. Such costs, if the LPA were to pay for them, would be indirect costs. In order to receive credit for such indirect costs, the LPA would have to develop a special indirect cost rate in addition to its regular indirect cost rate in accordance with 2 CFR 200 and the Iowa DOT would have to review and approve the special rate. These types of contributions would require a significant amount of additional effort for both the LPA and the Iowa DOT, but are unlikely to significantly change the indirect cost rate; therefore, the Iowa DOT has elected to not allow credit for such indirect costs under these procedures.

## Equipment

If the equipment will not be permanently incorporated into the project, the fair market value will be determined based on the estimated time the equipment will be used during development or construction of the project. Documentation shall include an itemized estimate that includes the following for each piece of equipment: a description (type and size), the hourly rate, the number of hours the equipment will be used, and the total estimated value for its use. The hourly rates shall be based on the [Federal Emergency Management Administration \(FEMA\) Schedule of Equipment Rates](#), [EquipmentWatch's](#) Cost Recovery, or the [Iowa DOT Schedule of Equipment Rates](#), as published by the Local Systems Bureau.

If the equipment will be a permanent, integral part of the project, the fair market value will be based on the entire estimated cost or value of the equipment. The value may be based on [EquipmentWatch's](#) Values and Market Data, a purchase price quotation for a comparable piece of equipment, or other information that is sufficient to establish the fair market value.

## Property (Right-of-Way)

### Description

This type of in-kind contribution includes the donation of real property that is required for the construction or implementation of the project.

### Conditions or Requirements for Eligibility

1. The Federal-aid being matched may be from any program or combination of programs funded by Title 23 of the United States Code. Some Federal funds earmarked by Congress may also use property as an in-kind contribution, depending on the specific authorizing legislation.
2. The property may be donated at any time during the development of the project, up until FHWA approval of the project closure document, subject to the following conditions:
  - a) the third party shall be informed of its right to receive just compensation for its property, as determined by an appraisal (if waiving the right to appraisal, a written record must be kept in the LPA parcel file);
  - b) title to the property must be transferred from the third party to the LPA; and
  - c) if the donated property is not needed because a different alignment or project alternative is chosen, title to the property shall be re-vested to the third party.
3. The donation of the property shall not influence the environmental review of the project, such as: the evaluation of the purpose and need, consideration of alternative alignments, or the selection of the final project location.
4. The property is not a 4(f) property (e.g., a publicly-owned park, recreational area, or wildlife refuge).

### Valuation and Documentation

Credit for in-kind contributions of property shall be based on the fair market value of property, as established by a current appraisal which has been prepared and reviewed in accordance with the Iowa DOT's [LPA Manual](#). The appraisal shall not include any increase or decrease in value caused by the project. However, there may be instances when mitigation actions of some type are necessary to make the property viable as part of the final project. Any and all of these necessary mitigation costs will be taken into account when making the final determination on the in-kind value of the property. Documentation shall include a copy of the appraisal.

If the fair market value of donated property exceeds the non-Federal share of project costs, the amount of credit for this type of contribution will be limited to the non-Federal share.

## Services

### Description

This type of in-kind contribution includes the value of labor, technical services, or other work which directly contributes to the development or construction of a project eligible for funding under Iowa's TAP or Federal Recreational Trails program.

### Conditions or Requirements for Eligibility

1. The Federal-aid being matched shall be from Iowa's TAP, Federal Recreational Trails Program, or STBG program.
2. For projects not meeting condition 3 below, the services shall be performed only *after* the FHWA Authorization of the in-kind services and *before* FHWA approval of the project closure document.
3. For planning and environmental studies performed to assist a Federal Recreation Trails Program funded project, services may be performed up to 18 months prior to FHWA Authorization of the in-kind services are also eligible for use as an in-kind contribution.

### Valuation and Documentation

The credit for in-kind contributions of services shall be based on the fair market value of such services. The fair market value can be determined a number of different ways, but in general, the value approved will be comparable to what it would cost the LPA if those services were performed by a construction contractor or a consultant hired by the LPA. Additional guidance for each type of service contribution is provided below:

#### Volunteer Services

The value of volunteer services is determined through a negotiation process between the Iowa DOT and the LPA. The value of volunteer labor shall be estimated in a manner similar to the cost of completing such work by a competitive bidding process. Documentation shall include an itemized estimate that includes descriptions of the comparable job classifications, and the number of hours and wage rates for each. The wage rates used may include employee benefits, allowable indirect costs, and should be typical for the local area.

#### Professional Services

The value of professional services will be based on the fair market value of such services. The fair market value may be estimated using any of the following:

1. estimated number of hours and hourly rates, including direct labors costs, allowable indirect costs and employee benefits;
2. typical percentages of design or construction inspection services as compared to the estimated construction cost (see [I.M. 3.310](#), Federal-aid Participation in Consultant Costs, for these percentages); or
3. a unit cost method, if the unit costs were based on contracts of similar size and scope and the professional services that are typically paid for on unit cost basis. Examples of such services include appraisals, title searches, soil borings, and soil tests.

#### Services by Another Agency

The value of services performed by employees of another agency (i.e., an agency other than FHWA, the Iowa DOT, or the LPA) will be determined in the same way as volunteer or professional services, as appropriate. However, under no circumstances shall another agency's services be valued at an amount greater than what would be paid to a professional contractor doing the same work as the result of a competitive bid process, or in the case of professional services, a consultant acquired through a qualifications-based selection process.



## Procedures

The procedures to request and receive credit for in-kind contributions are as follows:

1. The LPA sends a written request for approval to the Administering Bureau to apply an in-kind contribution as credit toward the non-Federal share of project costs.

The LPA's request for approval shall identify the project in the Statewide Transportation Improvement Program (STIP), specify the amount of in-kind credit that is being requested, provide a description of the requested contribution(s), and include all required supporting documentation. The request for an in-kind contribution should be submitted with the Concept Statement if possible. Otherwise, the request should be submitted as soon as the supporting documentation is available.

Note: As outlined in the preceding sections for each type of in-kind contribution, Federal rules place limitations on when the work associated with the in-kind contribution may be performed in relation to when FHWA Authorization for the contribution has been received. If the work has already been performed prior to FHWA Authorization, it may not be eligible for use as an in-kind contribution.

2. The Administering Bureau reviews the completeness of the submittal. If the LPA's submittal lacks completeness, the Administering Bureau contacts the LPA and requests additional information.
3. When the LPA's request is acceptable, the Administering Bureau requests FHWA Authorization for the in-kind contribution, or if authorization for other project costs has already been obtained, an amendment / modification to the previous authorization is requested. The Iowa DOT's request will document the approved type and amount of in-kind contribution in the R Remarks of the Fiscal Management Information System (FMIS) document.
4. After FHWA approval of the authorization request or amendment / modification, the Administering Bureau notifies the LPA the in-kind contribution has been approved and work associated with the approved in-kind contribution may proceed. The Administering Bureau also provides a copy of approved in-kind contribution notification, along with the supporting documentation, to the Finance Bureau.
5. After obtaining the appropriate approvals from the Administering Bureau and FHWA Authorization, the LPA submits requests for reimbursement of other Federal-aid reimbursable work after expenses have been incurred. To receive credit for the in-kind contribution toward the non-Federal share of project costs, the LPA shall include supporting documentation to indicate the type and amount of in-kind contributions completed to-date. The supporting documentation shall be of the same type previously used to estimate the value of the in-kind contribution, except that the documentation must identify the actual amounts of materials incorporated, equipment used, or services provided. For donations of right-of-way, provide copies of the deed or other legal instrument that conveyed title of the property to the LPA. If documentation supporting the actual value of the contribution meeting the requirements of the Iowa DOT is not provided, the contribution will not be applied toward the non-Federal share of project costs.
6. After reviewing and approving the reimbursement request, the Administering Bureau reimburses the LPA for other eligible and authorized expenses, taking into account the amount of in-kind that has been completed and documented to-date.
7. After the project is complete, the Administering Bureau verifies that all the in-kind contributions claimed for credit have actually been completed. The LPA may be required to provide proof of completion or this may be verified by the Administering Bureau during a site inspection. If some of the work was not completed, the Administering Bureau will adjust the amount of credit received before providing the final Federal-aid reimbursement for the project. If such an adjustment indicates that the LPA has been over-reimbursed, the LPA shall repay a like amount to the Iowa DOT, which in turn will issue a credit billing to the FHWA.

## Example Calculations

The purpose of receiving credit for in-kind contributions is to reduce the LPA's net cash outlay required to satisfy the non-Federal share of the total project costs. However, the effect of applying in-kind contributions to a specific project is dependent on several variables. These variables include: the total value of the in-kind contributions, the

maximum amount of Federal-aid available for the project (STIP limit), and the total Federal-aid reimbursable costs.

To illustrate the effects each of these variables can have on the net cash outlay required by the LPA at the end of the project, several example calculations are provided on the following page. These examples demonstrate some important points about in-kind contributions:

- The actual credit received for in-kind contributions cannot exceed the non-Federal share of the total project costs, even if the documented value of such contributions is in excess of the non-Federal share (see Example 1).
- The maximum amount of Federal-aid that can be received is limited by either the total reimbursable costs (see Example 1), or the STIP limit (see Examples 2 and 3), whichever is less.
- When the STIP limit is less than the Federal share of reimbursable costs, in-kind contributions have no effect on decreasing the amount of local cash required (see Example 3).

**Example In-Kind Calculations**  
Net cash outlay required at the end of the project

Cost Item	Baseline (No In-Kind)	Example 1 (Reimbursable Costs Control)	Example 2 (STIP Limit Controls, In-Kind helps some)	Example 3 (STIP Limit Controls, In-Kind has no effect)	Example 4 (Neither Controls)
STIP Limit (1)	\$135,000	\$135,000	\$85,000	\$68,000	\$135,000
Federal Pro-rata Share (2)	80%	80%	80%	80%	80%
Reimbursable Costs (3)					
Preliminary Engineering	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Right-of-Way	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Construction Engineering	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Construction	\$70,000	\$70,000	\$70,000	\$70,000	\$70,000
Total Reimbursable Costs	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
In-Kind Contribution Value (4)	\$0	\$60,000	\$30,000	\$30,000	\$10,000
Total Project Costs (5)	\$100,000	\$160,000	\$130,000	\$130,000	\$110,000
80% of Total Project Costs	\$80,000	\$128,000	\$104,000	\$104,000	\$88,000
Federal-aid Payable (6)	\$80,000	\$100,000	\$85,000	\$68,000	\$88,000
Cash Required (7)	\$20,000	\$0	\$15,000	\$32,000	\$12,000
Effective Reimbursement Rate (8)	80%	100%	85%	68%	88%

**Notes:**

- (1) The STIP limit represents the maximum amount of Federal-aid programmed for the project in the Statewide Transportation Improvement Program (STIP).
- (2) This is the percentage of eligible and properly documented project costs which will be reimbursed to the LPA. These examples use a reimbursement rate of 80%, which is typical for most Federal-aid highway programs.
- (3) Reimbursable costs are any costs that may be reimbursed with Federal-aid. Such costs must be for eligible project activities and FHWA authorization must be obtained prior to beginning any work which will be reimbursed with Federal-aid.
- (4) This is the value of the actual amount of in-kind contributions that were completed or incorporated into the project and properly documented.
- (5) Total project costs are the sum of all reimbursable costs, plus the value of any in-kind contributions.

- (6) The Federal-aid payable represents the maximum amount of Federal-aid reimbursement. This figure is equal to the total project costs multiplied by the Federal pro-rata share, unless this amount exceeds either: (a) the total reimbursable costs, as shown in Example 1; or (b) the STIP limit, as shown in Examples 2 and 3. If the total project costs multiplied by the Federal pro-rata share exceeds either (a) or (b), the Federal-aid payable will be equal to the lesser of these two.
- (7) The cash required is calculated by subtracting the Federal-aid payable from the total reimbursable costs. This amount represents the net cash outlay required at the end of the project.
- (8) The effective reimbursement rate is shown for comparison purposes only. This rate is calculated by dividing the Federal-aid payable by the total reimbursable costs. The effective reimbursement rate illustrates the effect of the in-kind contribution in each of the examples shown above. Generally speaking, in-kind contributions have the effect of increasing the amount of Federal-aid payable, subject to the limitations discussed above.