**Cost Allocation**

Effective: January 1, 2008

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**Purpose**

This policy establishes reasoning to address questions that may arise in the future regarding why the Department does not maintain a formal cost allocation plan to allocate overhead expenses to projects.

**Policy**

The Department of Transportation (UDOT) will not perform cost allocation and charge overhead to projects.

**Background**

During the 1990s, the decision was made not to allocate overhead to projects. In conducting research to understand the decision, we have determined the following:

- Federal funds are a fixed amount and do not increase if overhead is allocated to a Federal project.
- The Department is using State funds in addition to Federal funds for projects; thus, there is no advantage to charging overhead to Federal projects.
- Overhead costs are budgeted and paid as part of the base budget.
- Charging overhead to projects would require an additional set of books or would require base budgets to be reduced and to include revenue for overhead.
- This process creates challenges in the budgeting process because one does not know how much overhead will be recovered each year from projects and what the source of revenue will be.
- By not charging overhead, the budgeting process is much simpler and easier to control and monitor.
- Overhead costs are immaterial in relationship to the total cost of a project.

Local Government projects are not charged overhead for the reasons listed above, as well as to show the Department’s willingness to create a partnership with the locals and help them put as much funding as possible into their communities.