

**Restructuring State Public Infrastructure Programs**  
***Analysis for the Washington Legislature***

State of Washington  
Office of Financial Management

December 2008

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## **Study Question 2**

How are the 29 public infrastructure programs guided by state policy in administering state assistance? Do the results reflect policy goals?

All of the 29 programs were asked the same questions about how state policy guided their program's operations. Each program was assessed from five perspectives:

- Did the program include five common accountability elements in their programs operations?
- Which accountability elements were tied to or guided by state policy goals?
- To what extent were the programs' funding allocation and performance measures guided by state policy goals?
- What was the relationship between statewide policies related to growth management, economic development, climate change and Puget Sound water quality and each program?
- How did each program assess progress toward meeting state policy goals?

### ***Defining State Policy Goals***

State policy goals for local public infrastructure assistance programs are defined in a number of different ways. Typically goals are defined broadly or specifically for a program through the state and/or federal statute that created the program. About one-third of the 29 programs have related federal statutes. Policy goals may have been modified over time by legislative action at either the federal or state level. Many state assistance programs are two or more decades old and have experienced several rounds of modifications. These modifications may change or expand the focus of the program and often, add new policy goals for the program to achieve. With only three exceptions, the 29 programs in this study had three, and often more, statutory policy goals to achieve as part of their program mandate. The next two tables illustrate these points.

**Table 20: Program Start Dates and Recent Modifications**

| Program                                      | Year Established          | Recent Modifications to:   |                            |
|--|---------------------------|----------------------------|----------------------------|
|  |                           | Award Criteria             | Finance Methods or Sources |
| Capital and Operating Budget                 | n/a                       | -                          | -                          |
| CDBG Community Investment                    | 1982                      | Program terminated in 2008 |                            |
| Community Development Block Grant (Combined) | 1982                      | -                          | -                          |
| CERB Traditional                             | 1982                      | 2009                       |                            |
| PWAA Construction                            | 1985                      | 2008                       | -                          |
| PWAA Emergency Loan                          | 1985                      | 2008                       | 2008                       |
| Rural Washington Loan Fund                   | 1985                      | -                          | -                          |
| Centennial Clean Water Fund                  | 1986                      |                            | -                          |
| Bond Cap Allocation                          | 1987                      | -                          | -                          |
| Clean Water Act, Section 319                 | 1987                      | -                          | -                          |
| Coordinated Prevention Grant                 | 1988                      | -                          | 2005, 2007                 |
| Water Pollution Control Revolving Fund       | 1988                      |                            | 2007                       |
| PWAA Planning                                | 1989                      | -                          | 2005                       |
| Building for the Arts                        | 1991-1998* codified in    | -                          | -                          |
| CERB Rural                                   | 1991                      | 2009                       | -                          |
| Safe Drinking Water Action Grant             | 1993                      | -                          | -                          |
| Community Services Facilities                | 1995-1996,* codified in   | Program terminated in 2008 |                            |
| PWAA Pre-construction                        | 1995                      | -                          | 2005                       |
| Drinking Water Revolving Fund                | 1996                      | -                          | -                          |
| Water System Acquisition and Rehabilitation  | 2003                      | -                          | -                          |
| Youth Recreation Facilities                  | 2003                      | -                          | -                          |
| Watershed Plan Implementation                | 2004-present <sup>1</sup> | -                          | -                          |
| CERB Job Development                         | 2005                      | Program terminates in 2009 |                            |
| Energy Freedom                               | 2006                      | -                          | -                          |
| Local Infrastructure Financing Tool          | 2006                      | Program completed in 2008  |                            |
| Building Communities Fund                    | 2008                      | -                          | -                          |

<sup>1</sup> Via Capital Budget Proviso

**Table 21: Relationship Between Award Criteria and Statewide Policy Considerations<sup>1</sup>**

| Program                                   | Overarching State Policies |                                 |                         |                            | Statutory Program Policy Goals |                          |              |  |                                      |                |                  |
|---|----------------------------|---------------------------------|-------------------------|----------------------------|--------------------------------|--------------------------|--------------|--|--------------------------------------|----------------|------------------|
|   | Growth Management Act      | State Economic Development Plan | Puget Sound Partnership | Climate Change Initiatives | Public Health                  | Clean Water <sup>3</sup> | Job Creation | Benefits to Low and Moderate Income Households | Fiscal Capacity or Need of applicant | Other Multiple | Other Individual |
| Building Communities Fund                 |                            |                                 |                         | •                          |                                |                          |              | •  | •                                    | •              |                  |
| Building for the Arts                     |                            |                                 |                         | •                          |                                |                          |              |  |                                      | •              |                  |
| Capital and Operating Budget              |                            |                                 |                         | •                          |                                |                          |              |  |                                      |                |                  |
| Community Services Facilities             |                            |                                 |                         | •                          |                                |                          |              |  | •                                    | •              |                  |
| Youth Recreation Facilities               |                            |                                 |                         |                            |                                |                          |              |  | •                                    | •              |                  |
| Centennial Clean Water Fund <sup>2</sup>  | •                          |                                 | •                       |                            | •                              | •                        |              |  | •                                    | •              |                  |
| Clean Water Act, Section 319              |                            |                                 | •                       |                            | •                              | •                        |              |  |                                      |                |                  |
| Water Pollution Control Revolving Fund    |                            |                                 | •                       |                            | •                              | •                        |              |  |                                      |                |                  |
| CDBG Community Investment                 |                            | •                               |                         |                            |                                |                          | •            | •  | •                                    | •              |                  |
| CDBG General Purpose                      | •                          | •                               |                         |                            |                                |                          |              | •  | •                                    | •              |                  |
| CDBG Housing Enhancement                  |                            |                                 |                         |                            |                                |                          |              | •  | •                                    | •              |                  |
| CDBG Imminent Threat                      |                            |                                 |                         |                            | •                              |                          |              | •  |                                      |                | •                |
| CDBG Interim Financing                    |                            |                                 |                         |                            |                                |                          |              | •  | •                                    | •              |                  |
| Rural Washington Loan Fund                |                            | •                               |                         |                            |                                |                          | •            | •  |                                      | •              |                  |
| CERB Job Development                      |                            |                                 |                         |                            |                                |                          | •            |  | •                                    | •              |                  |
| CERB Rural                                |                            |                                 |                         |                            |                                |                          |              |  |                                      |                |                  |
| CERB Traditional                          |                            | •                               |                         |                            |                                |                          | •            |  | •                                    | •              |                  |
| Local Infrastructure Financing Tool       | •                          | •                               |                         |                            |                                |                          | •            |  | •                                    | •              |                  |
| PWAA Construction                         | •                          | •                               | •                       |                            | •                              |                          | •            |  | •                                    | •              |                  |
| PWAA Emergency Loan                       | •                          |                                 |                         |                            | •                              |                          |              |  | •                                    | •              |                  |
| PWAA Planning                             | •                          |                                 |                         |                            |                                |                          |              |  | •                                    | •              |                  |
| PWAA Pre-construction                     | •                          |                                 |                         |                            | •                              |                          |              |  | •                                    | •              |                  |
| Drinking Water State Revolving Fund       |                            |                                 |                         |                            | •                              |                          |              | •  |                                      |                | •                |
| Water System Acquisition & Rehabilitation |                            |                                 |                         |                            | •                              | •                        |              | •  |                                      | •              |                  |
| Safe Drinking Water Action Grant          |                            |                                 | •                       |                            | •                              | •                        |              |  |                                      | •              |                  |
| Bond Cap Allocation                       | •                          | •                               |                         |                            | •                              |                          | •            |  |                                      | •              |                  |
| Coordinated Prevention Grant              | •                          |                                 | •                       | •                          | •                              |                          |              |  |                                      | •              |                  |
| Energy Freedom                            |                            | •                               |                         | •                          | •                              | •                        | •            |  |                                      | •              |                  |
| Watershed Plan Implementation             | •                          | •                               | •                       | •                          | •                              | •                        |              |  |                                      | •              |                  |
| <b>Totals:</b>                            | <b>9</b>                   | <b>9</b>                        | <b>7</b>                | <b>7</b>                   | <b>13</b>                      | <b>7</b>                 | <b>8</b>     | <b>10</b>                                      | <b>15</b>                            | <b>23</b>      | <b>2</b>         |

<sup>1</sup> Policies are reflected in eligibility or rating criteria for awards.

<sup>2</sup> Legislative proviso projects (11 out of 31) are not subject to award criteria.

<sup>3</sup> Clean water includes drinking water, wastewater and non-point source projects.

## **Overarching State Policy Goals**

A second layer of policy goals or expectations exists for many programs, and may be directly or indirectly reflected in statutory or administrative guidance. These goals can be classified in two ways. The first is alignment with statewide policies or initiatives such as growth management, economic development or climate change. While many programs have elements of their guiding statutes which refer to statewide policies (see table 21 above) most of the statutory guidance is framed or interpreted to mean that individual local jurisdictions or projects need to be in compliance with the related state law. The relative extent to which state investment in a project or jurisdiction furthers statewide growth management or economic development goals for example, is generally not considered.

The second classification of policy goals or expectation has to do with alignment of program administration with stated or unstated expectations such as “statewide proportional distribution of funds” or “local governments should not receive state money until they have enacted all possible local revenue sources.” Some of these stated and unstated expectations may be in conflict with each other or with maximizing the ability of a program to achieve its statutory policy goal(s). Below are examples of “policies” or expectations that may be stated or unstated.

- The objective is to build the largest number of public infrastructure projects, serving the greatest number of people.
- It is better to fund a little part of a lot of projects than a larger part of a few.
- We should be looking for the “biggest bang” for the state’s buck.
- The state should provide incentives with the least amount of money possible to motivate recipients to raise or spend the maximum in local funds.
- Local governments should not receive state money for public infrastructure until they have enacted all possible local infrastructure related revenue sources authorized by the state.
- State assistance should be distributed on the basis of need; if a recipient has the ability to fund a project itself or raise the funds then the state should not be involved.
- Regions of the state should receive approximately the same distribution of state aid as they contribute in revenue.
- Local governments should receive state aid in proportion to need or some other overriding state objective. If we distribute state assistance in the same proportion as the amount of revenue received, why should the state be involved at all? The money should just stay where it is collected.
- Local governments expect the state to fully replace federal assistance programs that have gone away over the last 20 years. If a sewer treatment plant or road was build with 80 to 90 percent federal funding 30 years ago, the locals are looking to the state for a similar share and the resources are just not available.
- State funds should only be spent to meet state-defined purposes or objectives; local priorities should not be a factor unless they are aligned with state purposes or objectives.
- State funds should not be spent on growth; growth should pay for itself.
- State funds should be used strategically to further state growth management and economic development goals.

### Programs and the Five Common Accountability Elements

Five grant and loan program accountability elements were identified in the study proviso. All of the programs reported on the use of each element in their program’s operation. The table below summarizes the results. With one exception, all programs used state policy goals as part of the primary considerations in making assistance awards, used evaluation criteria in determining awards and had performance measures in place. Twenty-two programs (75 percent) also had a method in place for assessing progress toward their program’s policy goals. Only five programs (17 percent) had a method of assessing future statewide public infrastructure funding needs for their program.

**Table 22: Self-Reported Accountability Elements of Programs**

| Program                       |   | Program Elements  |                     |                      |   |   |
|-------------------------------|---|---|---------------------|----------------------|---|---|
|                               |   | Policies that are primary considerations determining awards | Evaluation criteria | Performance measures | Method for assessing progress toward policy goals | Method of assessing future infrastructure needs |
| Totals                        | Programs that have element                  | 28  | 28                  | 28                   | 22  | 5   |
|                               | Programs that partially have element        |   |                     |                      |   | 13  |
|                               | Programs that don't have element            | 1   | 1                   | 1                    | 7   | 11  |
| Programs                      | Building Communities Fund                   | •   | •                   | •                    | •   |   |
|                               | Building for the Arts                       | •   | •                   | •                    |   | Partial   |
|                               | Capital and Operating Budget                |   |                     |                      |   |   |
|                               | Community Services Facilities               | •   | •                   | •                    |   | Partial   |
|                               | Youth Recreation Facilities                 | •   | •                   | •                    |   | Partial   |
|                               | Centennial Clean Water Fund                 | •   | •                   | •                    | •   | Full  |
|                               | Clean Water Act, Section 319                | •   | •                   | •                    | •   | Full  |
|                               | Water Pollution Control Revolving Fund      | •   | •                   | •                    | •   | Full  |
|                               | CDBG Community Investment                   | •   | •                   | •                    | •   | Partial   |
|                               | CDBG General Purpose                        | •   | •                   | •                    | •   | Partial   |
|                               | CDBG Housing Enhancement                    | •   | •                   | •                    | •   | Partial   |
|                               | CDBG Imminent Threat                        | •   | •                   | •                    | •   |   |
|                               | CDBG Interim Construction Financing         | •   | •                   | •                    | •   | Partial   |
|                               | Rural Washington Loan Fund                  | •   | •                   | •                    | •   | Partial   |
|                               | CERB Job Development                        | •   | •                   | •                    | •   |   |
|                               | CERB Rural                                  | •   | •                   | •                    | •   | Partial   |
|                               | CERB Traditional                            | •   | •                   | •                    | •   | Partial   |
|                               | Local Infrastructure Financing Tool         | •   | •                   | •                    |   |   |
|                               | PWAA Construction                           | •   | •                   | •                    | •   |   |
|                               | PWAA Emergency Loan                         | •   | •                   | •                    | •   |   |
|                               | PWAA Planning                               | •   | •                   | •                    | •   |   |
|                               | PWAA Pre-construction                       | •   | •                   | •                    | •   |   |
|                               | Drinking Water State Revolving Fund         | •   | •                   | •                    | •   | Full  |
|                               | Water System Acquisition and Rehabilitation | •   | •                   | •                    | •   | Full  |
|                               | Safe Drinking Water Action Grant            | •   | •                   | •                    | •   | Partial   |
|                               | Bond Cap Allocation                         | •   | •                   | •                    |   |   |
| Coordinated Prevention Grant  | •   | •   | •                   | •                    | Partial   |   |
| Energy Freedom                | •   | •   | •                   |                      |   |   |
| Watershed Plan Implementation | •   | •   | •                   | •                    | Partial   |   |

## **Accountability Elements and State Policy Goals**

We evaluated which accountability elements in each program were guided by or tied to state policy goals – both programmatic statutory policy goals and statewide overarching policy goals. Overall, the alignment between policy goals and program accountability elements was good for the majority of programs. The weakest alignment was in the area of assessing statewide infrastructure needs, since few programs had a method for assessing need.

### ***The Relationship Between Funding Allocation, Performance Measures and State Policy Goals***

There is a strong relationship between funding allocation, performance measures and programmatic statutory policy goals.

- Programmatic statutory policy goals were primary considerations in determining assistance awards for 28 of 29 programs (see Table 22 above). No specific statutory policy goals are stated for operating and capital budget special projects.
- Both programmatic (28 out of 29) and overarching policy goals (21 out of 29) were tied to either eligibility or award criteria for most programs (see Table 2 in Appendix B). Policy goals represented 50 percent or more of eligibility or award criteria in 16 of 18 programs with point based award systems. Eleven programs do not have point based award systems however policy goals were still used in most cases in determining funding. (See Table 23 below).
- Twenty-two programs (75 percent) reported having a method of assessing progress toward meeting policy goals (see Table 1 in Appendix B).
- Some programs had a relatively large number of statutory policy goals. This larger number of goals may dilute the ability of the program to attain any individual objective or create conflicts in award systems.
- Policy goals are tied to performance measures in 26 (90 percent) of 29 programs. (See Table 5 in Appendix B).
- Policy goal based performance measures represented 50 percent or more of all performance measures for 17 of 28 programs (61 percent). (See Table 5 in Appendix B)

**Table 23: Relationship Between Eligibility/Evaluation Criteria and Statutory Policy Goals**

| Program                                   | Statutory Program Policy Goals |                          |              |                               |                                   |                |                  | Relationship Between Eligibility/Evaluation Criteria and Statutory Policy Goals |                   |                           |
|---|--------------------------------|--------------------------|--------------|-------------------------------|-----------------------------------|----------------|------------------|---|-------------------|---------------------------|
|   | Public Health                  | Clean Water <sup>1</sup> | Job Creation | Low/Moderate Income Household | Fiscal Capacity/Need of Applicant | Other Multiple | Other Individual | Aligned <sup>2</sup>  | Partially Aligned | Not Possible to Determine |
| <b>Totals:</b>                            | <b>13</b>                      | <b>7</b>                 | <b>8</b>     | <b>8</b>                      | <b>15</b>                         | <b>23</b>      | <b>2</b>         | <b>24</b>   | <b>2</b>          | <b>3</b>                  |
| Building Communities Fund                 |                                |                          |              | •                             | •                                 | •              |                  | •   |                   |                           |
| Building for the Arts                     |                                |                          |              |                               |                                   | •              |                  | •   |                   |                           |
| Capital and Operating Budget              |                                |                          |              |                               |                                   |                |                  |   |                   | •                         |
| Community Services Facilities             |                                |                          |              |                               | •                                 | •              |                  | •   |                   |                           |
| Youth Recreation Facilities               |                                |                          |              |                               | •                                 | •              |                  | •   |                   |                           |
| Centennial Clean Water Fund               | •                              | •                        |              |                               | •                                 | •              |                  | •   |                   |                           |
| Clean Water Act, Section 319              | •                              | •                        |              |                               |                                   |                |                  | •   |                   |                           |
| Water Pollution Control Revolving Fund    | •                              | •                        |              |                               |                                   |                |                  | •   |                   |                           |
| CDBG Community Investment                 |                                |                          | •            | •                             | •                                 | •              |                  | •   |                   |                           |
| CDBG General Purpose                      |                                |                          |              | •                             | •                                 | •              |                  | •   |                   |                           |
| CDBG Housing Enhancement                  |                                |                          |              | •                             | •                                 | •              |                  | •   |                   |                           |
| CDBG Imminent Threat                      | •                              |                          |              | •                             |                                   |                | •                | •   |                   |                           |
| CDBG Interim Financing                    |                                |                          |              | •                             | •                                 | •              |                  | •   |                   |                           |
| Rural Washington Loan Fund                |                                |                          | •            | •                             |                                   | •              |                  |   |                   | •                         |
| CERB Job Development                      |                                |                          | •            |                               | •                                 | •              |                  | •   |                   |                           |
| CERB Rural                                |                                |                          |              |                               |                                   |                |                  | •   |                   |                           |
| CERB Traditional                          |                                |                          | •            |                               | •                                 | •              |                  | •   |                   |                           |
| Local Infrastructure Financing Tool       |                                |                          | •            |                               | •                                 | •              |                  | •   |                   |                           |
| PWAA Construction                         | •                              |                          | •            |                               | •                                 | •              |                  |   | •                 |                           |
| PWAA Emergency Loan                       | •                              |                          |              |                               | •                                 | •              |                  | •   |                   |                           |
| PWAA Planning                             |                                |                          |              |                               | •                                 | •              |                  | •   |                   |                           |
| PWAA Pre-construction                     | •                              |                          |              |                               | •                                 | •              |                  |   | •                 |                           |
| Drinking Water State Revolving Fund       | •                              |                          |              |                               |                                   |                | •                | •   |                   |                           |
| Water System Acquisition & Rehabilitation | •                              | •                        |              |                               |                                   | •              |                  | •   |                   |                           |
| Safe Drinking Water Action Grant          | •                              | •                        |              |                               |                                   | •              |                  | •   |                   |                           |
| Bond Cap Allocation                       | •                              |                          | •            | •                             |                                   | •              |                  | •   |                   |                           |
| Coordinated Prevention Grant              | •                              |                          |              |                               |                                   | •              |                  | •   |                   |                           |
| Energy Freedom                            | •                              | •                        | •            |                               |                                   | •              |                  |   |                   | •                         |
| Watershed Plan Implementation             |                                | •                        |              |                               |                                   | •              |                  | •   |                   |                           |

<sup>1</sup> Clean water includes wastewater and non-point source projects.

<sup>2</sup> 50 percent or more of the eligibility and award criteria are aligned with the program's statutory policy goals.

### ***The Relationship Between Programs and Statewide Policies***

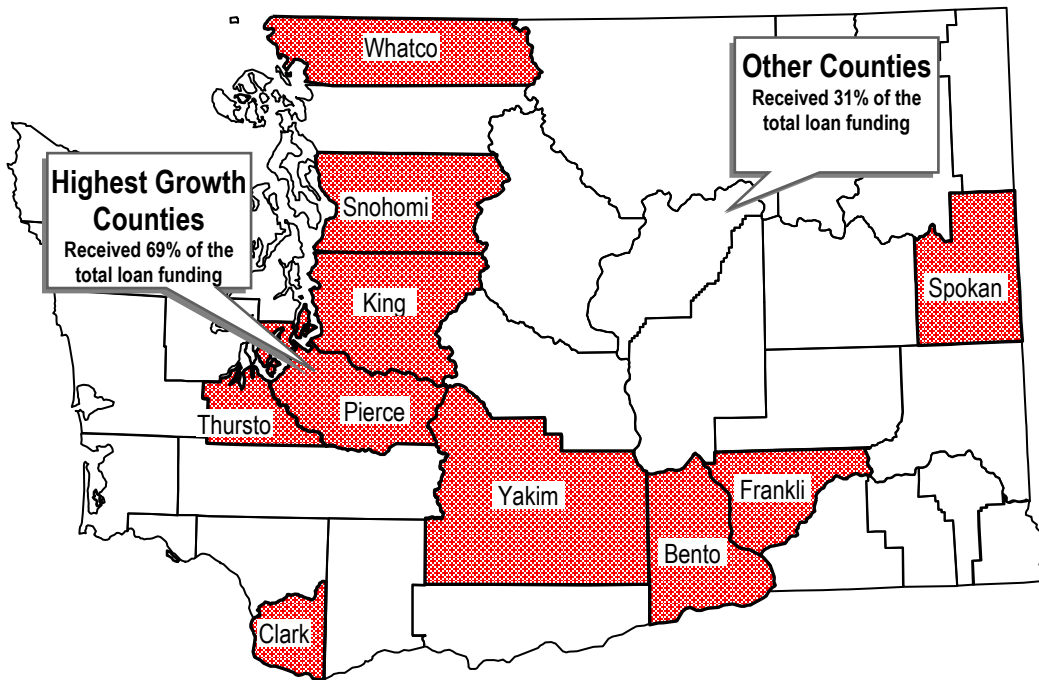
On average, programs most often reported that they helped implement (12 of 29 or 41 percent) the overarching state policies reflected in the Growth Management Act, the State Economic Development Plan, Climate Change Initiative or Puget Sound Partnership Initiative (See Table 3 in Appendix B). Six programs on average (21 percent) reported they both helped implement *and* potentially conflicted with, the same state policies. Four programs on average (14 percent) reported potential conflicts. Three programs reported that they neither helped implement nor conflicted with the overarching state policies.

The following maps depict state assistance (grants and loans) to the geographic areas where one might expect to see the most state investment aligned with the Growth Management Act, the State's Economic Development Plan and the Puget Sound Partnership initiatives. Climate change initiatives have not been well enough defined to lend themselves to analysis. The geographic areas reported include the 10 highest population growth counties in the state over the last decade (Growth Management), regional employment growth 2005-2007 (Economic Development Plan), and the area bordering Puget Sound receiving water quality related state assistance.

A high proportion of grant and loan assistance was allocated to high-growth counties over the last five years. A high proportion of water quality related assistance, relative to the number of counties in the geographic area, was also allocated to the counties bordering Puget Sound. The alignment between job growth and allocation of grants and loans is not as clear. Grants and loans, in general, were not predominately allocated to lower employment growth areas of the state for example (the lowest two employment growth regions received 21 percent of state assistance). Neither were grants and loans predominately allocated to the two highest employment growth areas (29 percent). The region designated as Puget Sound (King, Pierce and Thurston Counties) received the largest share of state assistance at 34 percent. When just economic development related grant and loan program awards are compared to job growth by region the alignment between programs and job growth is still unclear.

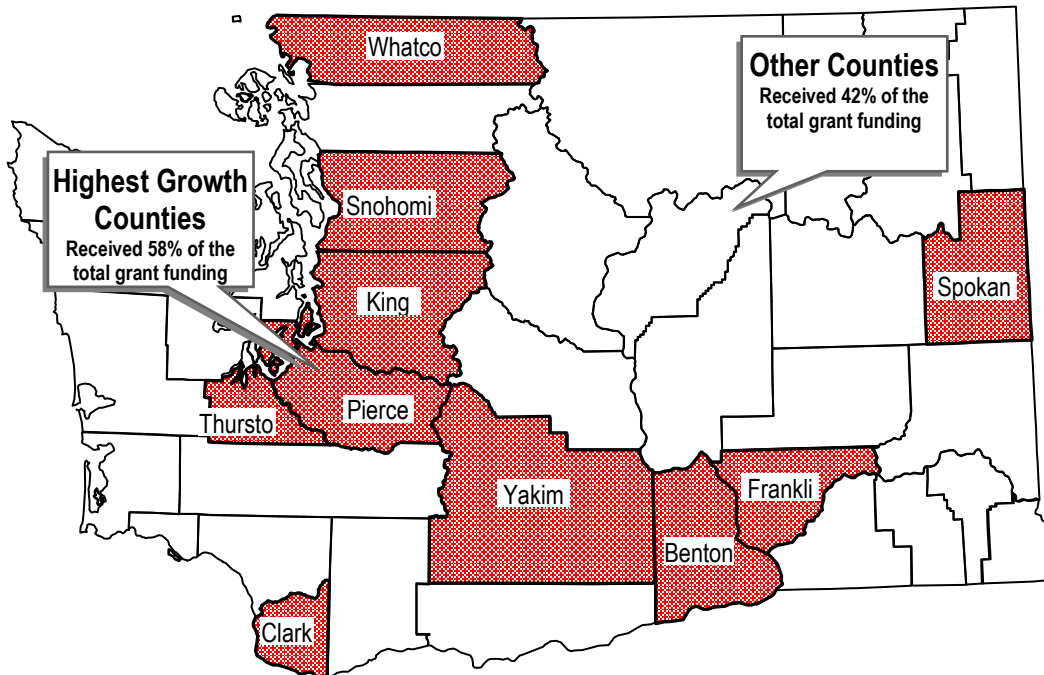
### Ten Highest Growth Counties

Funding Received Through Loans During Five-Year Study Period



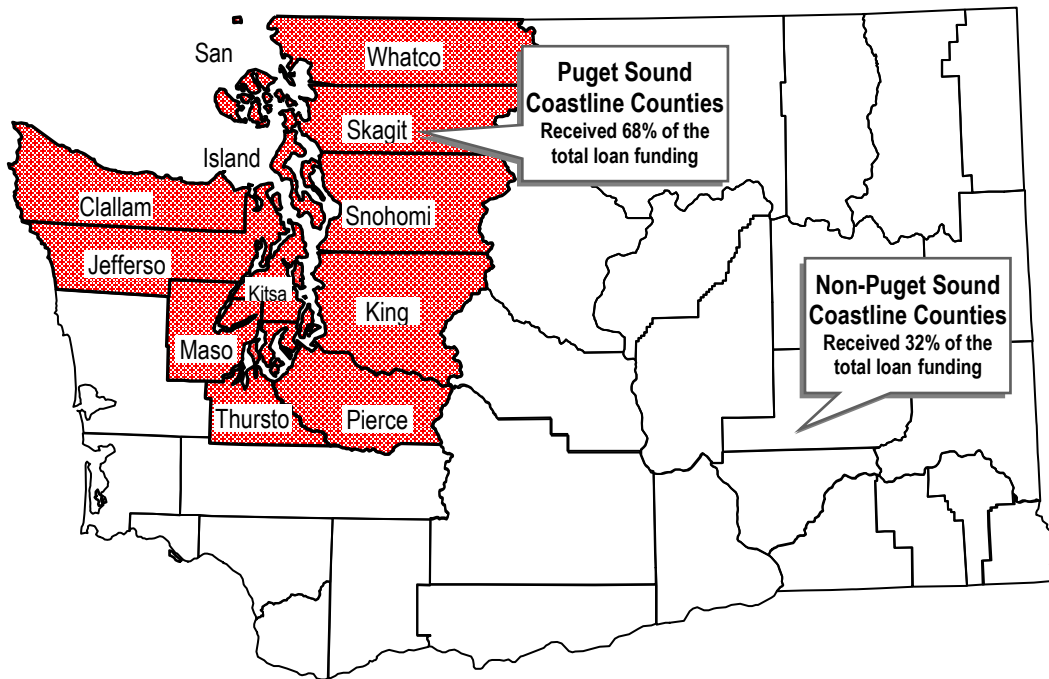
### Ten Highest Growth Counties

Funding Received Through Grants During Five-Year Study Period



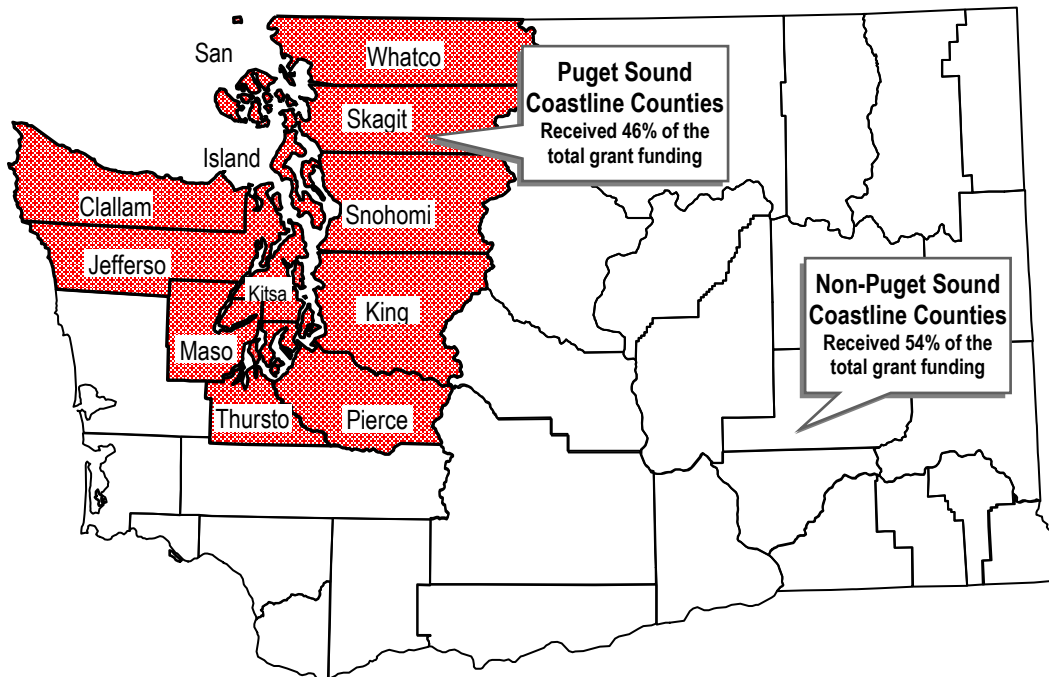
### Puget Sound Coastline Counties

Funding Received Through Loans for Wastewater, Stormwater, Solid Waste and Hazardous Waste Projects During Five-Year Study Period



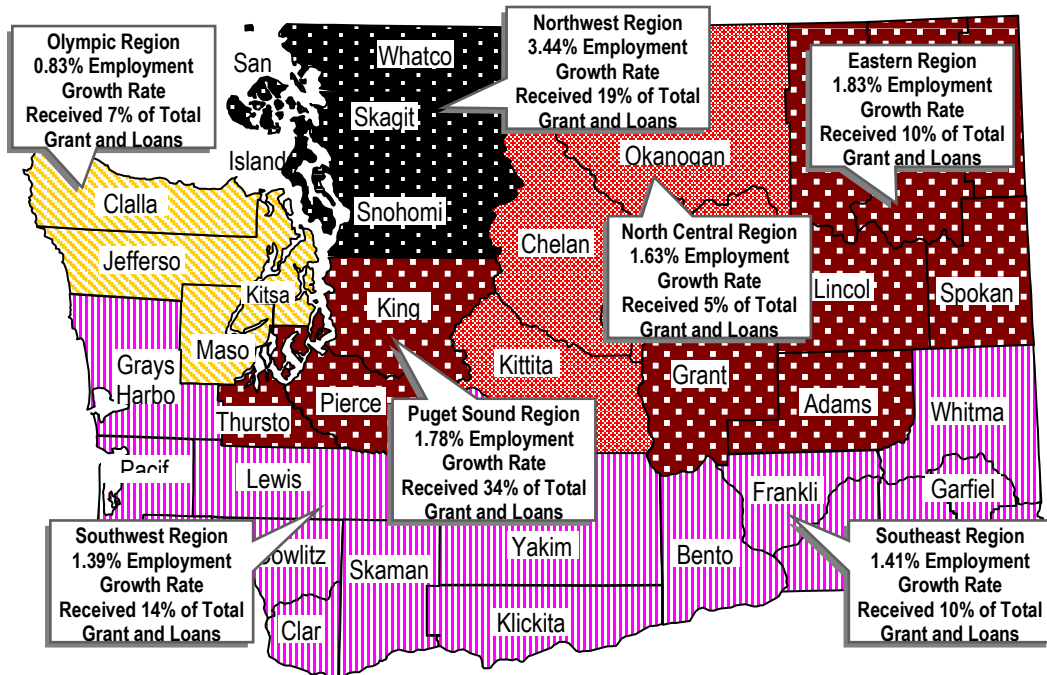
### Puget Sound Coastline Counties

Funding Received Through Grants for Wastewater, Stormwater, Solid Waste and Hazardous Waste Projects During Five-Year Study Period



## Economic Development Regions

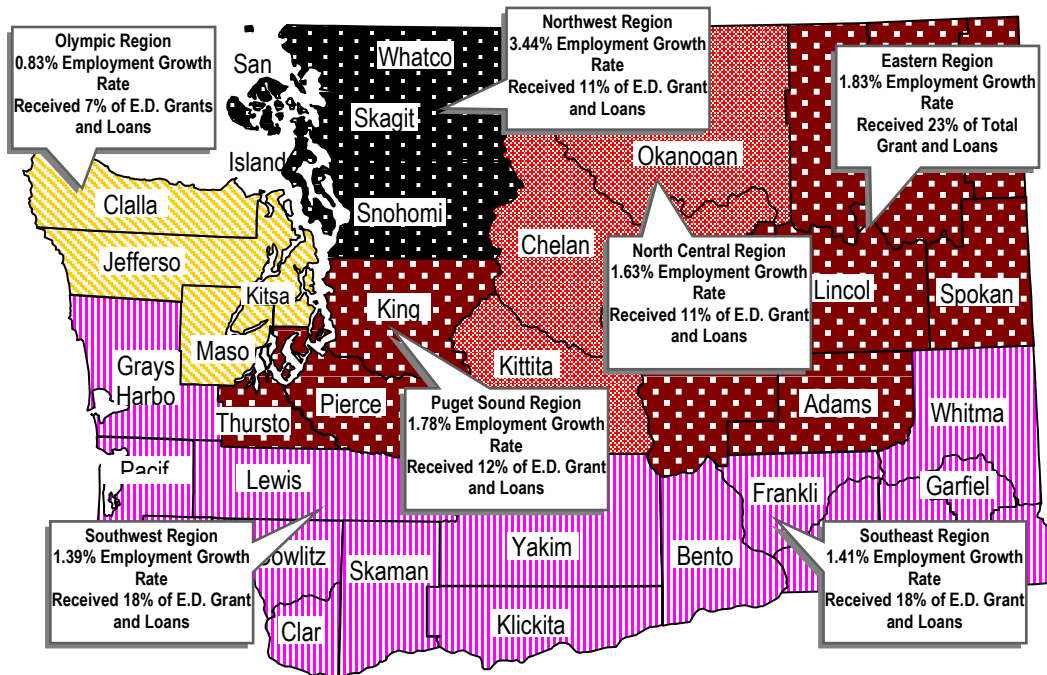
Percentage Increase in Average Employment and Percentage of Total Grant and Loans Received During Study Period



The statewide average employment growth rate was 1.89 percent for the three-year study period.

## Economic Development Regions

Percentage Increase in Average Employment and Percentage of Economic Development Program Grants and Loans Received During Study Period



The statewide average employment growth rate was 1.89 percent for the three year study period. Programs which reported that they support the Economic Development Plan are the CDBG Community Investment program, the CDBG General Purpose program, the CDBG Housing Enhancement program, the CDBG Interim Financing program, the Community Economic Revitalization Board Traditional and Rural programs, the Coordinated Prevention Grant, the Energy Freedom program, the Rural Washington Loan Fund, the Safe Drinking Water Action Grant, and the Watershed Plan Implementation and Flow Achievement program.

### ***Assessing Progress Toward Meeting State Policy Goals***

We were not able to determine the amount of progress that has been made by the 29 grant and loan programs in attaining state policy goals. In order to determine progress, benchmarks would need to be established for each program related to a policy goal and the benchmarks would then be used to assess performance. Many more programs have established program performance measures than were counted in the 2005 JLARC study (28 instead of 14), we found that most policy goal related measures have been in place for a relatively short amount of time. In addition two groups of programs (water quality and PWAA programs) negotiate individual project performance measures with recipients as part of their assistance contracts.

Many programs reported having a method for assessing individual projects, but not aggregate or statewide progress in meeting state policy goals. There may be an underlying assumption that if projects are selected that align with state goals and the projects are successfully completed, then progress by definition is being made. The table below summarizes the information provided by programs about the methods they have in place for assessing progress toward policy goals.

**Table 24: Methods to Assess Progress Toward Policy Goals**

**KEY**  
 Aligned ●  
 Partially Aligned ○  
 Not Aligned/Not Possible to Determine ○

| Program  | Methods to Assess Progress Toward Policy Goals Aligned with Performance Measures | Method(s) Used to Assess Progress Toward Policy Goals  |  |
|--|--|--|--|
|  |  | Project Based  | Program Based  |
| <b>Building Communities Fund</b>   | ○  | Monitor grantee expenditures and performance   | -  |
| <b>Building for the Arts</b>   | ○  | -  | -  |
| <b>Capital and Operating Budget</b>  | ○  | -  | -  |
| <b>Community Services Facilities</b>   | ○  | -  | -  |
| <b>Youth Recreation Facilities</b>   | ○  | -  | -  |
| <b>Centennial Clean Water Fund</b>   | ●  | Each project scope defines water quality goals/outcomes, Ecology monitors performance from start to three years after completion of each project.                          | The program is working on cross-agency performance measures for statewide water quality outcomes.                        |
| <b>Clean Water Act, Section 319</b>  | ●  | Federal EPA requires states to report annually on program and project results. In addition, the program completes actions described above for Centennial Clean Water Fund. | As described above and to the left   |
| <b>Water Pollution Control Revolving Fund</b>  | ○  | Federal EPA requires states to report annually on program and project results. In addition, the program completes actions described above for Centennial.                  | As described above and to the left. In addition, this program is audited by EPA and the State Auditor at least annually. |
| <b>CDBG</b> (Community Investment, General Purpose, Housing Enhancement, and Interim Construction Financing) | ○  | Project completion milestones, on-site monitoring, close out process   | Outcome data related to HUD goals are gathered and input into HUD's Integrated Disbursement Information System.          |
| <b>CDBG Imminent Threat</b>  | ○  | Compliance with state and federal requirements are monitored; project outcomes are reported to HUD.  | -  |
| <b>Rural Washington Loan Fund</b>  | ●  | Complete job monitoring reports for each project.  | -  |

**Table 24: Methods to Assess Progress Toward Policy Goals**

**KEY**  
 Aligned ●  
 Partially Aligned ○  
 Not Aligned/Not Possible to Determine ○

| Program   | Methods to Assess Progress Toward Policy Goals Aligned with Performance Measures | Method(s) Used to Assess Progress Toward Policy Goals  |   |
|---|--|--|---|
|   |  | Project Based  | Program Based   |
| <b>CERB Combined</b>  | ●  | Collect data on project outcomes, such as jobs created.  | Effective 7/1/09, an expanded list of items will be assessed in the program's biennial report, pursuant to RCW 43.160.900 |
| <b>Local Infrastructure Financing Tool</b>                        | ○  | -  | -   |
| <b>PWAA</b> (Construction, Pre-construction, Planning, Emergency) | ○  | Loan recipients are required to submit quarterly progress reports on whether or not benchmarks are being met. Final results are reported to the Legislature in PW Board's Annual Legislative Report. | -   |
| <b>Drinking Water Revolving Fund</b>                              | ●  | Federal EPA requires states to report annually on program and project results.   | -   |
| <b>Water System Acquisition and Rehabilitation</b>                | ○  | Database tracks and reports on project results.  | -   |
| <b>Safe Drinking Water Action Grant</b>                           | ●  | Project progress and performance monitoring.   | Extent to which program advances policy goals of Toxics Cleanup and Solid Waste and Financial Assistance Programs.        |
| <b>Bond Cap Allocation</b>  | ○  | -  | -   |
| <b>Coordinated Prevention Grant</b>                               | ●  | -  | The program has 5- and 10- year goals and tracks progress towards them.   |
| <b>Energy Freedom</b>   | ○  | -  | -   |
| <b>Watershed Plan Implementation</b>                              | ●  | Monitoring, including measuring the volume of water acquired for instream flows as a result of the projects and the overall program; updated quarterly.  | See description to the left.  |

### Study Question 3

What other funds are leveraged with state public infrastructure assistance?

Leveraging of state investments in public infrastructure can be defined in a number of ways.

#### **Leveraged Economic Growth**

Leveraging has been traditionally reported as the relationship between state investment and private economic activity, both short-term construction related economic activity and long-term economic impacts. For example, the Public Works Board reports on the direct and indirect economic impacts of public works loan financing using an older econometric model. In 2008 the board reported that:

*“The Board has collected more than \$1.241 billion in tax revenue, earned over \$17.1 million in interest earnings and accumulated more than \$711 million in loan repayments. The loans leveraged an additional \$2.6 billion for 1,670 construction projects across the state... The allocation of \$277.95 million through the 2008 recommended loan list will result in a direct investment of \$824.2 million in Washington’s economy. This investment is estimated to result in \$1.929 billion in additional economic activity.*

*It could be estimated that every PWTF dollar yields an additional \$3.60 in economic activity in the state....”*<sup>13</sup>

The report goes on to say that many of its projects would probably have been done anyway due to their nature through financing provided locally with assistance from private financing (municipal bonds) or from other state or federal sources.

Washington currently uses an input-output econometric model to calculate the economic impacts of state investments.<sup>14</sup> This model requires detailed information on the nature of individual project expenditures, information that is not generally easily accessible for the majority of the state’s grant and loan projects.

#### **Funding Leveraged from Other Sources**

Another method of looking at leveraging is to determine the balance of project financing that was invested in public infrastructure from other sources beyond state funding with the assumption that the state was a catalyst. Most grant and loan programs gathered information on the amount of the loan or grant assistance provided and the “total project cost” of the project being funded. However, it was not possible to calculate the percentage of funds ultimately provided by the state for most loan programs or loan and grant programs combined. During the five years examined, a high proportion of projects received funding from more than one source (more than 22 percent), causing the total project cost to be reported multiple times (see Table 16.) In addition, there is no common definition of “total project cost” and the “total project” may have been defined in phases or as including only construction or various components of a project’s costs from design through completion of construction.

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<sup>13</sup> 2008 Legislative Report, Public Works Board, 2008, p. 1.

<sup>14</sup> The Washington Input-Output Model web site, Office of Financial Management, <http://www.ofm.wa.gov/economy/io/default.asp>.

The most accurate depiction of leverage (although some of the problems outlined above still apply) can be seen in the percentage of construction project cost financed through grants.

Some grants are not provided for construction so the number of grants shown in this table is smaller than in some other places. As shown in the table below, on average, state grants leveraged 70 percent of project funding from other sources over the five study years. Leveraging varied among programs with a high of 88 percent to a low of 36 percent.

**Table 25: Grant Financing of Construction Projects**

| Infrastructure Type     | Number of Grants | Amount                    |                      | Percent of Total Project Cost <sup>1</sup> Provided by State Grants |
|-------------------------|------------------|---------------------------|----------------------|---|
|                         |                  | State Grants              | Total Project Cost   |   |
| Stormwater              | 2                | State Grants              | \$957,300            | 64%   |
|                         |                  | Total Project Cost        | \$1,488,246          |   |
| Facilities <sup>2</sup> | 23               | State Grants              | \$14,091,902         | 41%   |
|                         |                  | Total Project Cost        | \$34,606,794         |   |
| Water <sup>2</sup>      | 107              | State Grants              | \$50,143,647         | 41%   |
|                         |                  | Total Project Cost        | \$123,444,892        |   |
| Wastewater              | 44               | State Grants              | \$71,937,959         | 33%   |
|                         |                  | Total Project Cost        | \$215,827,725        |   |
| Other <sup>2</sup>      | 25               | State Grants              | \$54,291,040         | 25%   |
|                         |                  | Total Project Cost        | \$220,249,127        |   |
| Multiple                | 18               | State Grants              | \$7,818,076          | 12%   |
|                         |                  | Total Project Cost        | \$64,718,130         |   |
| <b>Total:</b>           | <b>219</b>       | <b>State Grants</b>       | <b>\$199,239,923</b> | <b>30%</b>  |
|                         |                  | <b>Total Project Cost</b> | <b>\$660,334,913</b> |   |

<sup>1</sup> 12 of 17 grant programs reported total project costs. However, programs did not share a common definition of total project costs. Figures may report costs for a phase or component of a project (for example, design) versus the cost including design through construction for all project phases. Due to the number of multiple awards over several years to some projects, total project costs reported may be overstated.

<sup>2</sup> Water includes Drinking Water and Irrigation/Agriculture. Facilities include Buildings and Facilities and Community and Social Service Facilities. Other includes Transportation, Solid and Hazardous Waste, and Biofuels.

Another perspective on this type of leveraging is to evaluate the proportion of funds that come from loans, grants and private sector (municipal bond) financing. While many local governments also fund infrastructure through accumulated savings and the local contribution therefore should be adjusted significantly upward, these figures provide some relative sense of the proportion of long-term financing provided for public infrastructure. In the same five-year period, far more funding was provided through private lending (municipal bonds) than from state assistance. As summarized in Table 1, bond financing represented 70 percent of total long term construction financing (\$6.5 billion) followed by state loans (23 percent) and grants (7 percent). The relative proportion of public financing by type varied for different infrastructure systems with stormwater, water and sewer projects relying first on bonds and then on loans for funding. Buildings and facilities (primarily nonprofit) relied most heavily on grant funding and community and social service facilities (primarily local government) on bonds (see Table 11).

### ***Tax Revenue Generation***

A third method of looking at leveraging is to assess the amount of additional tax revenue that is generated by a public infrastructure investment. This assessment provides a picture of whether the project directly or indirectly supports construction or development that results in additional tax revenue to state and/or local government. This leverage measure may also be seen as one dimension of looking at return on state investment. If a project generates direct or indirect construction or development that results in significant additional tax revenue it may be seen as paying for all or a portion of itself in the short or longer term. The table below summarizes in a general way the tax revenue impacts of the 29 grant and loan programs.

**Table 26: Leveraged Tax Revenue by Program**

**KEY**

**Direct**  
**May Reduce Revenue**

●  
○

**Indirect**  
**No Relationship**

○  
-

|  | Program                                   | State Tax Revenue             |                             |                        |                                  |               | Local Government Tax Revenue  |                        |                                  |                      |             |                                  |                  |
|--|---|-------------------------------|-----------------------------|------------------------|----------------------------------|---------------|-------------------------------|------------------------|----------------------------------|----------------------|-------------|----------------------------------|------------------|
|  |   | Sales Tax on New Construction | Business and Occupation Tax | Real Estate Excise Tax | Property Tax on New Construction | Utility Taxes | Sales Tax on New Construction | Real Estate Excise Tax | Property Tax on New Construction | Utility Rate Revenue | Utility Tax | Utility Capital Facility Charges | SEPA or GMA Fees |
| <b>Totals</b>                          | <b>Direct</b>                             | 25                            | 9                           | 0                      | 10                               | 9             | 25                            | 0                      | 9                                | 10                   | 9           | 2                                | 4                |
|  | <b>Indirect</b>                           | 1                             | 18                          | 10                     | 10                               | 8             | 1                             | 10                     | 12                               | 7                    | 8           | 14                               | 12               |
|  | <b>May Reduce Revenue</b>                 | 0                             | 0                           | 0                      | 0                                | 1             | 0                             | 0                      | 0                                | 1                    | 1           | 0                                | 0                |
|  | <b>No Relationship</b>                    | 3                             | 2                           | 19                     | 9                                | 11            | 3                             | 19                     | 8                                | 11                   | 11          | 13                               | 13               |
| <b>Site-specific</b>                   | Bond Cap Allocation                       | ●                             | ●                           | -                      | ●                                | ●             | ●                             | -                      | ●                                | ●                    | ●           | -                                | ●                |
|  | Building Communities Fund                 | ●                             | ○                           | -                      | ●                                | -             | ●                             | -                      | ●                                | -                    | -           | -                                | -                |
|  | Building for the Arts                     | ●                             | ○                           | -                      | ●                                | -             | ●                             | -                      | ●                                | -                    | -           | -                                | -                |
|  | CERB Job Development                      | ●                             | ●                           | -                      | ●                                | -             | ●                             | -                      | ●                                | -                    | -           | -                                | -                |
|  | CERB Rural                                | ●                             | ○                           | ○                      | ○                                | ○             | ●                             | ○                      | ○                                | ○                    | ○           | ○                                | ○                |
|  | CERB Traditional                          | ●                             | ○                           | -                      | ○                                | ○             | ●                             | -                      | ○                                | ○                    | ○           | ○                                | ○                |
|  | Community Services Facilities             | ●                             | ●                           | -                      | -                                | ○             | ●                             | -                      | ●                                | ○                    | ○           | ○                                | ○                |
|  | Energy Freedom                            | ●                             | ●                           | -                      | ●                                | ○             | ●                             | -                      | ●                                | -                    | ○           | ●                                | ●                |
|  | Rural Washington Loan Fund                | ●                             | ●                           | -                      | ●                                | ○             | ●                             | -                      | ●                                | ●                    | ○           | -                                | -                |
|  | Youth Recreation Facilities               | ●                             | ○                           | -                      | ●                                | -             | ●                             | -                      | ●                                | -                    | -           | ○                                | ●                |
| <b>System-wide</b>                     | Capital and Operating Budget              | ●                             | ○                           | -                      | ●                                | ●             | ●                             | -                      | ●                                | ●                    | ●           | ○                                | ●                |
|  | Centennial Clean Water Fund <sup>1</sup>  | ●                             | ○                           | ○                      | ○                                | ●             | ●                             | ○                      | ○                                | ●                    | ●           | ○                                | ○                |
|  | Clean Water Act, Section 319              | ●                             | ○                           | -                      | ●                                | -             | ●                             | -                      | -                                | -                    | -           | -                                | -                |
|  | CDBG Community Investment                 | ●                             | ○                           | ○                      | ○                                | ●             | ●                             | ○                      | ○                                | ●                    | ●           | ○                                | ○                |
|  | CDBG General Purpose                      | ●                             | ○                           | ○                      | ○                                | ●             | ●                             | ○                      | ○                                | ●                    | ●           | ○                                | ○                |
|  | CDBG Housing Enhancement                  | ●                             | ○                           | ○                      | ●                                | ●             | ●                             | ○                      | ○                                | ●                    | ●           | ●                                | ○                |
|  | CDBG Imminent Threat                      | ●                             | ○                           | -                      | -                                | -             | ●                             | -                      | -                                | -                    | -           | -                                | -                |
|  | CDBG Interim Financing                    | -                             | -                           | -                      | -                                | -             | -                             | -                      | -                                | -                    | -           | -                                | -                |
|  | Coordinated Prevention Grant              | -                             | -                           | -                      | -                                | ○             | -                             | -                      | -                                | ○                    | ○           | -                                | -                |
|  | Drinking Water State Revolving Fund       | ●                             | ○                           | -                      | -                                | ○             | ●                             | -                      | -                                | ○                    | ○           | -                                | -                |
|  | PWAA Construction                         | ●                             | ○                           | ○                      | ○                                | ●             | ●                             | ○                      | ○                                | ●                    | ●           | ○                                | ○                |
|  | PWAA Emergency Loan                       | ●                             | ●                           | -                      | -                                | -             | ●                             | -                      | -                                | -                    | -           | -                                | -                |
|  | PWAA Planning                             | -                             | ●                           | -                      | -                                | -             | -                             | -                      | -                                | -                    | -           | -                                | -                |
|  | PWAA Pre-construction                     | ●                             | ○                           | ○                      | ○                                | ●             | ●                             | ○                      | ○                                | ●                    | ●           | ○                                | ○                |
|  | Safe Drinking Water Action Grant          | ●                             | ●                           | -                      | -                                | -             | ●                             | -                      | -                                | -                    | -           | -                                | -                |
|  | Local Infrastructure Financing Tool       | ●                             | ○                           | ○                      | ○                                | ○             | ●                             | ○                      | ○                                | ○                    | ○           | ○                                | ○                |
|  | Water System Acquisition & Rehabilitation | ●                             | ●                           | -                      | -                                | -             | ●                             | -                      | ○                                | ○                    | -           | ○                                | -                |
| Water Pollution Control Revolving Fund | ●   | ○                             | ○                           | ○                      | ●                                | ●             | ○                             | ○                      | ●                                | ●                    | ○           | ○                                |                  |
| Watershed Plan Implementation          | ○   | ○                             | ○                           | ○                      | ○                                | ○             | ○                             | ○                      | ○                                | ○                    | ○           | ○                                |                  |

<sup>1</sup> Policies are reflected in eligibility or rating criteria for awards.

### Per Capita Funding Effort

Finally, leverage can be assessed on the basis of per capita contributions to total project funding. This method essentially calculates the per capita contribution to the non-state share of grant projects. Generally a smaller population jurisdiction will have a higher per capita share per million dollars of non-state financing (more leverage) than a larger population jurisdiction. This is especially relevant since the average grant size is approximately the same regardless of jurisdiction size (see table below).

**Table 27: Largest, Smallest, and Average (Mean) Financing of Construction Projects by Jurisdiction Size<sup>1</sup>**

**Cities and Towns, Counties, and Special Districts Only**

| Jurisdiction Size | Funding Type    | Largest              | Smallest       | Average (Mean)     |
|-------------------|-----------------|----------------------|----------------|--------------------|
| <b>All</b>        | <b>Combined</b> | <b>\$271,320,000</b> | <b>\$2,000</b> | <b>\$3,987,148</b> |
| <b>Large</b>      | Bond            | \$271,320,000        | \$10,000       | \$31,224,397       |
|                   | Grant           | \$9,999,000          | \$2,000        | \$697,092          |
|                   | Loan            | \$73,237,895         | \$113,334      | \$4,508,389        |
| <b>Medium</b>     | Bond            | \$127,770,000        | \$30,361       | \$5,782,599        |
|                   | Grant           | \$10,000,000         | \$12,000       | \$781,841          |
|                   | Loan            | \$20,359,763         | \$67,417       | \$3,022,791        |
| <b>Small</b>      | Bond            | \$13,280,000         | \$20,000       | \$1,544,971        |
|                   | Grant           | \$5,425,000          | \$3,000        | \$703,307          |
|                   | Loan            | \$10,000,000         | \$16,770       | \$1,541,914        |

<sup>1</sup> Large jurisdictions include populations over 50,000, medium jurisdictions ranged from 10,000 to 49,999, and small jurisdictions include populations under 10,000.

### Study Question 4

How much state funding for public infrastructure is needed over the next six years? What types of infrastructure need additional funding?

### Defining Public Infrastructure Needs

Under current conditions, public infrastructure and associated funding needs are defined through various federal, state and local government efforts. As summarized below, these efforts are not part of an integrated statewide infrastructure needs and finance assessment, but instead represent the result of diverse mandates and strategies. In general, “needs” include public infrastructure that is required in order to meet a federal or state law and associated standards or to fulfill objectives relating to community development. Some public infrastructure efforts also address “gaps” which are defined as the difference between identified local and state funding and the actual cost of capital projects in local government capital facility plans.

*Federal initiatives* and processes associated with the Federal Highway Administration, the Environmental Protection Agency and other federal programs delegate authority to states to carry out mandates and associated service delivery. Some of the federal programs require detailed periodic reports of infrastructure condition and need on a state by state basis.

*State legislative initiatives*, individual program planning and associated studies have also attempted to assess need. As previously discussed, in the past several decades the Legislature has commissioned several studies to examine public infrastructure needs. Each of these studies identified needs that exceeded identified funding capacity or could be addressed within the existing institutional framework. No comprehensive study of public infrastructure need is currently available for all or part of 2009 to 2015. In terms of program planning, most state infrastructure programs are not mandated to engage in long-term infrastructure needs and finance forecasting, nor do they have standard mechanisms in place to do so. Along with past studies, this analysis draws from the self-reported infrastructure and finance data from the study programs that provide grants or loans for public infrastructure (see Appendix B).

*Local government planning efforts* associated with the Growth Management Act (GMA). Local governments that are fully planning under the GMA are required to develop a 20-year capital facilities element of their comprehensive plan and a six-year capital facility plan that defines capital improvements and associated funding sources (RCW 36.70A.070). In addition, many jurisdictions develop separate, more detailed plans for transportation, utilities and parks. Because most public infrastructure is considered a local government capital facility, the local capital facilities plans and associated budgets include substantial information about local government's public infrastructure needs.

### **Public Infrastructure Funding Needs over the Next Six Years**

Indications of public infrastructure needs over the next six years were defined by reviewing several data sets associated with federal, state, and local efforts summarized above. These data sets include:

- Projected appropriations (2009-2015) submitted by the study grant and loan programs;
- Estimated public infrastructure needs that the programs reported above the base appropriation;
- The number of qualified applicants and eligible projects that could not be funded by state programs because the request exceeded the resources available; and
- Actual and projected local government expenditures for public infrastructure.

**Projected appropriations** – Twenty-one out of 29 programs projected appropriations totaling \$2.13 billion, or an average of \$709 million per biennium from 2009-2015. Eleven of the programs defined appropriations that were equal to, or slightly lower, than 2007-2009 appropriations. The remaining eleven defined projected appropriations that were higher (see table below). Overall, the projected appropriations for 2009-2015 exceed the 2007-2009 appropriation levels by \$334 million. Of the total additional request \$107 million was for grants and \$227 million for loans. The eight programs that did not report projected appropriations have either been terminated, are in the process of defining future needs or do not typically develop projections (see Table 14, Appendix B).

**Table 28: Projected Appropriations, 2009-2015**  
**21 Programs Reporting Projected Appropriations<sup>1</sup>**  
(See individual program narratives for additional detail)

| Programs       |  | Estimated Appropriations | Projected Appropriations |                      |                        |                      |
|----------------|--|--------------------------|--------------------------|----------------------|------------------------|----------------------|
|                |  | 2007-2009                | 2009-2011                | 2011-2013            | 2013-2015              | 2009-2015 Totals     |
| <b>Grants</b>  | <b>Building Communities Fund</b>                           | n/a                      | \$31,600,000             | \$31,600,000         | \$31,600,000           | \$94,800,000         |
|                | <b>Building for the Arts</b>                               | \$11,856,880             | \$11,856,880             | \$11,856,880         | \$11,856,880           | \$35,570,640         |
|                | <b>Centennial Clean Water Fund<sup>2</sup></b>             | \$66,816,117             | \$59,940,000             | \$59,940,000         | \$59,940,000           | \$179,820,000        |
|                | <b>Clean Water Act, Section 319</b>                        | \$3,770,838              | \$3,800,000              | \$3,500,000          | \$3,500,000            | \$10,800,000         |
|                | <b>CDBG General Purpose</b>                                | \$19,500,000             | \$24,000,000             | \$24,000,000         | \$24,000,000           | \$72,000,000         |
|                | <b>CDBG Housing Enhancement</b>                            | \$1,900,000              | \$2,000,000              | \$2,000,000          | \$2,000,000            | \$6,000,000          |
|                | <b>CDBG Imminent Threat</b>                                | \$400,000                | \$400,000                | \$400,000            | \$400,000              | \$1,200,000          |
|                | <b>CERB Combined (Rural &amp; Traditional)<sup>2</sup></b> | \$620,000                | \$930,000                | \$930,000            | \$930,000              | \$2,790,000          |
|                | <b>Coordinated Prevention Grant</b>                        | \$25,500,000             | \$27,060,000             | \$28,730,000         | \$30,500,000           | \$86,290,000         |
|                | <b>Watershed Plan Implementation</b>                       | \$11,704,000             | \$15,750,000             | \$15,750,000         | \$15,750,000           | \$47,250,000         |
|                | <b>Youth Recreation Facilities</b>                         | \$8,936,877              | \$7,900,000              | \$7,900,000          | \$7,900,000            | \$23,700,000         |
|                | <b>Totals:</b>   | <b>\$151,004,712</b>     | <b>\$185,236,880</b>     | <b>\$186,606,880</b> | <b>\$188,376,880</b>   | <b>\$560,220,640</b> |
| <b>Loans</b>   | <b>Centennial Clean Water Fund<sup>2</sup></b>             | \$66,883                 | \$60,000                 | \$60,000             | \$60,000               | \$180,000            |
|                | <b>CDBG Interim Financing</b>                              | \$32,000,000             | \$24,000,000             | \$24,000,000         | \$24,000,000           | \$72,000,000         |
|                | <b>CERB Combined (Rural &amp; Traditional)<sup>2</sup></b> | \$19,380,000             | \$29,070,000             | \$29,070,000         | \$29,070,000           | \$87,210,000         |
|                | <b>Drinking Water State Revolving Fund</b>                 | \$107,378,035            | \$63,201,000             | \$69,118,000         | \$75,035,000           | \$207,354,000        |
|                | <b>Energy Freedom</b>                                      | \$0                      | \$0                      | \$25,000,000         | \$25,000,000           | \$50,000,000         |
|                | <b>PWAA Combined</b>                                       | \$327,000,000            | \$421,000,000            | \$456,000,000        | \$494,000,000          | \$1,371,000,000      |
|                | <b>Rural Washington Loan Fund</b>                          | \$8,079,002              | \$0                      | \$4,000,000          | \$4,000,000            | \$8,000,000          |
|                | <b>Water Pollution Control Revolving Fund</b>              | \$140,000,000            | \$116,202,937            | \$110,348,718        | \$106,169,469          | \$332,721,124        |
| <b>Totals:</b> | <b>\$633,903,920</b>                                       | <b>\$653,533,937</b>     | <b>\$717,596,718</b>     | <b>\$757,334,469</b> | <b>\$2,128,465,124</b> |                      |

<sup>1</sup> Includes grants and the face value of loans. Loans must be repaid, most with interest.

<sup>2</sup> Centennial Clean Water Fund and CERB Rural provide both grants and loans. These tables separate their projected total aid based on the ratio of grants to loans for the past five years.

**Estimated Needs Above Base Appropriations** – Eleven programs estimated a total of \$10.3 billion in public infrastructure assistance need beyond the base appropriations projected for 2009-2015 (see table below). The types of public infrastructure that are served, in part, by these 11 programs include: drinking water systems; wastewater, stormwater, and nonpoint source projects; and capital improvements to increase instream flows.

**Table 29: Additional Future Need**  
**Eleven Programs Reporting Funding Needs Beyond Existing Programs by Infrastructure Type<sup>1</sup>**  
 (See individual program narratives for additional detail.)

| Infrastructure Type                          | 2009-2011<br>Loans/Grants | 2011-2013<br>Loans/Grants | 2013-2015<br>Loans/Grants | 2009-2015<br>Totals     |
|--|---------------------------|---------------------------|---------------------------|-------------------------|
| <b>Wastewater</b>                            | \$1,771,521,878           | \$1,794,719,331           | \$1,817,916,784           | \$5,384,157,993         |
| <b>Non-Point Source Projects<sup>2</sup></b> | \$1,186,470,982           | \$1,186,470,982           | \$1,186,470,982           | \$3,559,412,946         |
| <b>Stormwater</b>                            | \$80,000,000              | \$160,000,000             | \$320,000,000             | \$560,000,000           |
| <b>Drinking Water</b>                        | \$126,780,170             | \$138,773,175             | \$150,766,180             | \$416,319,525           |
| <b>Transportation</b>                        | \$61,895,804              | \$68,041,819              | \$74,187,833              | \$204,125,456           |
| <b>Multiple</b>                              | \$39,497,000              | \$37,248,000              | \$34,075,000              | \$110,820,000           |
| <b>Community/Social Service Facilities</b>   | \$8,000,000               | \$8,000,000               | \$8,000,000               | \$24,000,000            |
| <b>Totals:</b>                               | <b>\$3,274,165,834</b>    | <b>\$3,393,253,307</b>    | <b>\$3,591,416,779</b>    | <b>\$10,258,835,920</b> |

<sup>1</sup> Figures by infrastructure type are combined from all programs.

<sup>2</sup> See Department of Ecology program narratives for definition of non-point source projects.

Of an estimated \$10.3 billion in public infrastructure need projected by programs for 2009-2015, approximately 87 percent or \$8.94 billion in public infrastructure need was defined for wastewater and non-point source projects. Drinking water needs assessments have not been completed and are not included. The vast majority of requests were for grants (84 percent, \$7.5 billion) and the balance for loan programs (16 percent, \$1.44 billion). It is important to note that of the 29 state grant and loan programs reviewed, the wastewater and nonpoint source programs were determined to be one of the few programs with a relatively complete method of assessing future infrastructure needs (see Table 30 below).

**Table 30: Methods for Assessing Future Infrastructure Need**

|                       | <b>Program</b>   | <b>Description of Methods for Assessing Future Need</b>   |
|-----------------------|--|---|
| <b>Full Method</b>    | <b>Centennial Clean Water Fund</b>   | 1) Clean Watersheds Needs Survey every four years, required by Environmental Protection Agency, 2) Results of local total maximum daily load planning, 3) demand from past cycles |
|                       | <b>Clean Water Act, Section 319</b>  |   |
|                       | <b>Water Pollution Control Revolving Fund</b>                                    |   |
|                       | <b>Drinking Water State Revolving Fund Program</b>                               | Drinking Water Needs Survey every four years, required by EPA   |
|                       | <b>Water System Acquisition and Rehabilitation</b>                               | Past trends plus a study that was mandated by ESSB 6340   |
| <b>Partial Method</b> | <b>Building for the Arts</b>   | Demand from previous cycles   |
|                       | <b>CDBG General Purpose, Housing Enhancement, Interim Construction Financing</b> | 1) Trend data from applications; 2) annual public hearing; 3) review of local government needs assessments (e.g., Association of Washington Cities, CTED Housing Division)        |
|                       | <b>CERB Rural and Traditional</b>  | Assess amount of funding awarded in current biennium and projected projects in development as reported by CTED's regional services staff.   |
|                       | <b>Community Services Facilities</b>   | Demand from previous cycles   |
|                       | <b>Coordinated Prevention Grant</b>  | Legislatively mandated 10-year Model Toxics Control Act finance report (per HB 1761)  |
|                       | <b>Safe Drinking Water Action Grant</b>  |   |
|                       | <b>Rural Washington Loan Fund</b>  | CTED's regional services managers assess.   |
|                       | <b>PWAA Construction</b>   | Demand from previous cycles   |
|                       | <b>Watershed Plan Implementation</b>   | Each biennium the program requests preliminary proposals from local governments and uses the data to project need.  |
|                       | <b>Youth Recreation Facilities</b>   | Demand from previous cycles   |

<sup>1</sup> Programs not reporting a method to assess future infrastructure needs are not included.

As reported in the program summaries for water quality programs, these programs are federally mandated to complete a comprehensive survey every four years that require project and cost data collected from reliable and verifiable source documentation such as local government comprehensive plans, capital facility plans, system plans, engineering reports and associated estimates of water quality infrastructure needs (see individual program templates, Appendix B).

Conversely, because only five of the 29 programs were determined to have a relatively complete and standardized method for assessing the public infrastructure needs associated with their grant or loan program, the \$10.3 billion in estimated needs for 2009-2015 may not include many needs. This is because, in most cases, state grant and loan programs are not mandated to estimate future infrastructure needs associated with their programs.

### **Estimating Statewide Infrastructure Need and State Funding Requirements**

It is unclear what the relationship is between need and a state share of that need as reported by individual programs. If the full six year public infrastructure expenditure need is represented by the reported \$7.5 billion in grant program requests then another way to look at the state share is to compare past state and local contribution rates to future need (approximately 26 percent for the state and 74 percent for local government across all infrastructure categories). Water, stormwater and wastewater programs have provided grants for 18 percent of past public infrastructure expenditures. Applying this benchmark ratio to \$7.5 billion in need would result in a state grant share of \$1.35 billion over six years. Base appropriations assume a \$560 million funding level, leaving a \$790 million state funding gap.

Loans have made up a larger proportional share of state assistance to local government for the study programs. State loans have been provided for approximately 40 percent of total financing. Again, using past state contribution rates as a benchmark, 40 percent of \$7.5 billion in additional infrastructure investment would represent \$3 billion in loan financing over six years. Loan programs requested \$2.1 billion in base appropriations and \$1.23 billion in additional funds for the same period.

The *Growth Management Effectiveness Study* evaluated need and state contribution to that need by comparing actual expenditures and historically identified capital facility requirements by infrastructure type. This evaluation resulted in a gap between what is being expended toward the identified needs and the current level of local and state funding (see table 31).

**Table 31: Alignment of State Grant and Local Funding<sup>1</sup> with Local Infrastructure Requirements**

|                               | <b>Six Year Requirements 2004-2009</b> | <b>Annual Average Requirements</b> | <b>2005 Local Infrastructure Expenditures<sup>2</sup></b> | <b>2005 State Grant Funding<sup>3</sup></b> |
|-------------------------------|--|------------------------------------|---|---|
| <b>Roadways</b>               | \$10.64 billion                        | \$1.77 billion                     | \$703 million   | \$148.3 million                             |
| <b>Water</b>                  | \$1.58 billion                         | \$260 million                      | \$170 million   | \$2 million                                 |
| <b>Sewer</b>                  | \$3.36 billion                         | \$560 million                      | \$159 million   | \$20.9 million                              |
| <b>Parks</b>                  | NA                                     | NA                                 | \$249 million   | \$58.9 million                              |
| <b>Stormwater<sup>3</sup></b> | \$360 million                          | \$60 million                       | \$51 million  | 0   |
| <b>Other</b>                  | NA                                     | NA                                 | NA  | \$22 million                                |

Notes:

<sup>1</sup> State programs include only those grant programs that funded \$5 million or more per biennium from state dollars

<sup>2</sup> Cities and Counties (does not include special districts)

<sup>3</sup> Includes all jurisdictions

<sup>4</sup> Stormwater expenditures are included at times in sewer and roadway projects

**Qualified Applicants Denied Funding** – Each of the study programs was asked to report on the number of qualified applicants that were not funded in their most recent funding round. Some consider this information a measure of “unmet need”. Twenty-three programs reported 275 qualified, eligible applicants, representing \$475 million in need that could not be funded because the requests exceeded available funds. The programs that reported the highest amounts not funded and the number of applicants denied are as follows: Clean Water Act Section 319 (52); CERB Job Development (52); the Centennial Clean Water Fund (47); Public Works Construction (34); and Watershed Plan Implementation (34) (Table 17, Appendix B, see also individual templates for each program). It was not possible to assess which, if any, of these applicants had applied to another state program and, although denied by one program, may have been approved by another.

**Actual local government expenditures and associated capital facility plans** provide another indication of public infrastructure need. Based on the most recent expenditure data available, local governments are estimated to use local funds for approximately 74 percent of their public infrastructure expenditures on core capital facilities and to have spent \$1.33 billion, or three times the amount of state and federal grant funding used, during the same year.<sup>15</sup>

Despite this significant local government investment, a past review of actual and projected expenditures indicated an estimated infrastructure funding “gap” of \$7.58 billion from 2004-2009 (Table 32).

**Table 32: Local Infrastructure Funding Needs and Estimate of Actual Expenditures 2004 – 2009**

(Dollars in Billions)

| Infrastructure Type | Total Funding Needs | Actual Expenditure 2004 - 2006 | Estimated Expenditure 2007-2009 | Six - Year Total Estimated Expenditure | Funding Gap | Percent Funding Gap |
|---------------------|---------------------|--------------------------------|---------------------------------|--|-------------|---------------------|
| Domestic Water      | \$1.58              | \$0.49                         | \$0.49                          | \$0.98                                 | \$0.60      | 37.97%              |
| Sanitary Sewer      | \$3.36              | \$0.55                         | \$2.25                          | \$2.80                                 | \$0.56      | 16.67%              |
| Storm Sewer         | \$0.36              | **                             | **                              | NA                                     | NA          | NA                  |
| Roadways/Bridges    | \$10.64             | \$2.11                         | \$2.11                          | \$4.22                                 | \$6.42      | 60.34%              |
| Total               | \$15.94             | \$3.15                         | \$4.85                          | \$8.00                                 | \$7.58      | 47.55%              |

Notes:

Assumes King County's \$1.7B Brightwater project is fully funded through rates and bond financing.

Utility numbers are based on 10 of 39 counties and 163 of 281 cities; 15 ports, 18 PUDs and 61 water and sewer districts

\*\* Stormwater capital is reported with Roadways/Bridges.

Source: Meeting the Growth Management Challenge in Growing Communities, November 2008, CTED page 27 used the following data sources:  
 Actual expenditure data - Local Government Financial Reporting System and Legislative Evaluation and Accountability Program, BARS 594 and 595.  
 Funding requirements data - *Washington REALTORS Local Government Infrastructure Study*, Bill Freund and Michael Luis, January 2006 and *2003 Public Works Board Local Infrastructure Database*.

<sup>15</sup> *Meeting the Growth Management Challenge*, Appendix D, p. 233.

The \$7.58 billion estimated funding gap from 2004-2009, as summarized above, is a conservative estimate because it includes only construction related costs associated with the project (e.g., design and construction) and does not include the long-term financing interest costs stemming from bond and loan repayments.

If a similar scale gap plus inflation exists for the six years 2009 to 2015, funding requirements for water, stormwater and wastewater without state or local identified funding sources (unfunded gap) would be \$2.8 billion at a 16 percent per year construction inflation rate. This figure is on top of base expenditures by both local and state government.

Benchmarking a state grant share at 18 percent would yield \$504 million in additional funding beyond traditional appropriation levels. Additional loan financing would total \$1.12 billion using the same method. State loan programs requested an additional \$1.23 billion for the same six year period.

Evidence of funding gaps is further noted by a sample review of 29 local government comprehensive plan capital facilities elements. The review found that 85 percent of the jurisdictions identified needs or projects with no specific funding source in their plan. In addition, survey results from 86 growing communities planning under GMA found that 53 percent of the jurisdictions stated they have included unfunded projects in their capital facilities plans. Along with unfunded projects, local governments may define state grant or loan programs as funding sources when, in fact, the sources are not viable because statewide needs exceed the amount of grants or loans available from the programs. It was not possible to assess or quantify this occurrence because there is no system in place to compare the statewide total amount/type of state grants or loans that local governments plan to rely on (as defined by their capital facilities plan) with the actual amount of funding available from the state grant or loan program.

### **Study Question 5**

Are there any key points from the analysis of state programs that can be used as guidance or considerations in the restructuring implementation plan?

The restructuring implementation plan considers various organizational structures that further streamline all or selected functions related to the grant and loan programs covered in this study. The analysis of current programs does not directly suggest or conclude that specific organizational structures are preferable. However, the analysis does identify potential opportunities, priorities and challenges. These are summarized as follows.

### ***Time to Assemble Public Infrastructure Financing***

The primary challenge facing the state, as identified in the analysis, is how to decrease the cost of public infrastructure through reducing the time needed to execute projects. Particularly in the infrastructure areas of wastewater, drinking water and stormwater, existing grant and loan program operating methods lengthen project timelines because of the logistics required to assemble a project's funding package (see Tables 16 and 17). Typically, the 10 primary programs that fund these three categories of public infrastructure provide partial funding commitments sequentially, over two-to-five years or more from initial request. Recipients assemble pieces of financing over a series of funding cycles (usually one year apart) until an adequate funding package is available – signaling a go ahead to begin construction. Recipients reported in the focus groups that they typically applied two or more times before receiving initial funding. Analysis of multiple award projects (concentrated in

water, wastewater and stormwater programs) showed that multiple awards were typically received in years two and three after initial award.

In addition to the cost to recipients, assembly of funding packages over a number of years through accumulation of multiple grant and/or loan awards creates efficiency and effectiveness issues for state assistance programs. It is inefficient to hold the initial funding award for a project for two to four years prior to its use by a recipient, as they try to assemble additional funds. Record keeping and reporting become difficult and more expensive.

Programs can not be as effective because project delay often results in project cost increases proportionately reducing the benefit the grant or loan is providing to the recipient.

### **Examples Public Infrastructure Projects with Multiple Funding Sources**

#### **Wastewater Project in a Small Jurisdiction**

A rural town applies initially in 2002 and receives a Public Works Assistance Account Pre-construction loan in 2004. The town receives interim financing from the Community Development Block Grant Interim Financing program and a grant from the Community Development Block Grant Community Investment program in 2006, a loan and a grant from the Department of Ecology's wastewater programs in 2007, and issued two bonds in 2007 to repay portions of the loans and cover remaining construction costs. The project is still under construction.

|   |   |
|---|---|
| Years from application to final funding | 6 |
| State programs providing funding        | 5 |
| Number of transactions                  | 7 |

#### **Wastewater Project in a Medium Size Jurisdiction**

A city in a growing urban county and a sewer district serving the city apply initially in 2003 for PWAA Pre-construction loans. In 2005 the city receives one and the sewer district receives two loans for the maximum amount allowed. Both jurisdictions secure large PWAA Construction loans, one in 2006 and one in 2007. In 2008 both jurisdictions receive second PWAA Construction loans in the maximum amount allowed. The sewer district receives another Pre-construction loan and a large Water Pollution Control Revolving Fund loan in 2008. The project is scheduled to be completed in 2010.

|   |   |
|---|---|
| Years from application to final funding | 7 |
| State programs providing funding        | 3 |
| Number of transactions                  | 9 |

*How does time delay effect project costs?* Over the last 10 years on average, for every 12 months of construction delay (the equivalent of most grant and loan program’s annual funding cycles) construction costs have increased an average of 16 percent.<sup>16</sup>

For public infrastructure projects that are financed, typically over 20 years, this means that an initial project cost of \$10 million and a total financed cost of \$21 million (project cost plus 20 years of interest) would increase by \$1.6 million in project cost per 12 months of delay plus financing costs (total interest payments) of another \$1.75 million – for a total one-year increase of \$3.35 million. With a two-year delay, a \$10 million project’s overall cost would go up by \$6.7 million to \$27.7 million. Reducing project cost escalation by just 12 months has a significant impact on the ultimate cost of public infrastructure.

To put these numbers into perspective, if state grant and loan programs were able to reduce the time to assemble financing packages from a range of two-to-five years to a range of one-to-three years, the cost savings per \$1 billion in projects could be as high as \$670 million or an amount roughly equivalent to all state grant awards over the last five years. Part of the savings is in basic project costs and part in avoided interest payments.

### **Access to Lower Cost, Long-Term Financing for Smaller Projects**

A second challenge that was identified relates to access to lower-cost public infrastructure long-term financing for smaller local governments and sometimes smaller projects of any jurisdiction. Larger state grant and loan recipients have more options for long-term financing of public infrastructure and have relied heavily on municipal bond financing. Smaller recipients (and sometimes smaller projects) have fewer options and limited access to the bond market. Smaller recipients rely on a few local banks and state loan programs for long-term financing. Private financing is more expensive for smaller recipients than large recipients. The state has been providing the only source of lower-cost long term financing.

The de-facto state role of “bank” for smaller borrowers of public infrastructure financing highlights the higher transaction and delay costs to small borrowers. Smaller borrowers more often have to assemble multiple sources of financing for their projects with attendant costs per application. Reliance on state funding means that assembly time is often greater (increasing costs) than those jurisdictions that have historically been able to borrow “on demand” in the private market to complete their funding packages.

### **Coordinated Implementation of Statewide Policies and Priorities**

A final challenge identified by the analysis relates to the implementation of state policy goals and priorities. The current system of grant and loan programs is decentralized into five “pools” or “administrative groups” of programs that have shared or common elements within each group (see Table 5). One group administers programs that relate to buildings and facilities (primary clients are nonprofit organizations); three groups administer programs that primarily fund water, wastewater and stormwater projects (majority of clients are local governments) and one group primarily administers programs that fund site-specific infrastructure focused on facilitating economic development (majority of clients are organizations furthering economic development).

<sup>16</sup> Trends in Highway Material Costs web site, Washington Department of Transportation, <http://www.wsdot.wa.gov/biz/Construction/constructioncosts.cfm>.

Unique to each group are award procedures and decision making, legislative approval/oversight, policy board oversight, capital and operating budget recommendations, and needs assessment and accountability measures. The majority of multiple awards and the majority of *state* water and water quality funding is concentrated in two groups: one that includes Public Works Board programs and Department of Health drinking water programs, and a second group that includes Department of Ecology water quality programs.

There is no statewide coordination procedure in place across one or more of the five groups either by infrastructure system or as a whole. Coordination can be achieved in a number of ways ranging from structural change to interagency agreement to interagency work groups. Potential points of coordination fall into roughly three categories.

#### Potential Cross Group **Policy** Coordination

- Statewide infrastructure investment planning, including routinely assessing statewide public infrastructure needs and identification of desired measurable policy-based improvements.
- Statewide budget decisions/oversight, including strategic investments to further statewide priorities.
- Statewide infrastructure system planning (e.g., wastewater or stormwater).
- Statewide infrastructure system budget decisions/oversight.
- Routine grant and loan program statutory policy goal review.

#### Potential Cross Group **Administrative** Coordination

- Loan program financial policies and interest rates.
- Award criteria and weighting.
- Funding application and award procedures.
- Award contract administrative procedures.
- Data collection and reporting.
- Infrastructure system-based needs assessment.
- Infrastructure system-based performance measures.
- Statutory change recommendations to streamline or coordinate administration.

#### Potential Cross Group Business **Process** Improvement

- Identification of business process improvement targets.
- Approval of implementation measures to achieve targets.
- Measurement of success.
- Determining ongoing adjustments.

### **Potential Best Practices**

This study did not specifically seek or evaluate best practices among the 29 study programs. However, the inventory and analysis did highlight practices that are potential best practice candidates. Best practices are program operating procedures that achieve outcomes either more efficiently or effectively than prevailing or standard practices. Best practices are typically evaluated for replication in other organizations in order to improve operations. Potential best practices that were described in the inventory of grant and loan programs include:

- Interagency contracting between the Public Works Board and the Department of Health to administer selected portions of Department of Health drinking water grant and loan programs.
- Each of the five groups jointly-administer grant and loan programs consolidated or used common practices for different aspects of program operations. The extent, methods and outcomes that resulted varied from group to group. Potential best practices may be discovered as a result of comparing each group's practices with each other or with joint administrative practices of transportation grant and loan programs.
- Five programs have comprehensive statewide public infrastructure needs assessment methods in place (See table 22).
- Three programs have clearer and more concise alignment between policy goals, award criteria and performance measures (Drinking Water programs and Watershed Plan Implementation program).
- Some administrative groups of programs have common definitions, data and reporting systems that better facilitated reporting and comparison across programs with similar clients or infrastructure systems (Programs administered by Public Works Board and programs related to facilities administered by CTED) .
- Some programs fund local initiatives that reduced the demand for, and future cost of, public infrastructure that may serve as models or best practices (Coordinated Prevention Grants, Centennial Clean Water Fund and Drinking Water State Revolving Fund).
- One state loan program (Water Pollution Control State Revolving Fund) indexes the state loan interest rate to bond market rates creating a defined level of benefit regardless of market conditions. This also allows the program to lend a larger proportion of funds when competition for funding is highest (high interest rate environment).

# ANALYSIS CONCLUSIONS AND RECOMMENDATIONS

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## Investment in Local Public Infrastructure

### ***What's Working***

- Communities across the state, together with state government, invested \$9.1 billion in local roadways, water, sewer and drainage systems between 1998 and 2006.<sup>17</sup>
- Of the \$9.1 billion spent on public infrastructure, the state and federal government provided 26 percent of the resources (GMA Study, Nov. 2008).
- Local public infrastructure investments in water, sewer, stormwater, solid waste and buildings over a five-year period were financed through a combination of local funds often from utility rate revenue, municipal bonds (\$4.6 billion), state low-interest loans (\$1.7 billion) and state grant programs (\$659 million). Bonds and loans are repaid with interest, generally over 20 years, from local sources.
- The state of Washington's combined local public infrastructure revolving loan programs are large (current portfolio of outstanding loans is \$3.3 billion at an average interest rate of 1.38 percent). The size of the portfolio is growing as loans are repaid and additional capital comes into the loan programs.
- The State of Washington uses federal private activity bond authority to further economic development projects and finance supporting public infrastructure at tax-exempt bond interest rates through the state's Bond Cap Allocation Program. An estimated \$385 million in tax-exempt bond authority was used over five years for local public infrastructure related investments by private sector firms and economic development entities.

### ***What Could Be Improved***

Significant confusion appears to exist regarding about how much funding actually goes to local governments and other recipients of state assistance. Loan principal amounts are reported as "awards" or "state assistance," which can lead to an incorrect perception that much more state funding is going to local government than is really being received. Loans are repaid to the state with interest from local tax or ratepayer revenue, and the typical "benefit" to local government is the difference between what would have been paid in private borrowing interest costs and state loan interest costs. The state is not funding the initial cost of the project (for example, a \$30 million sewer treatment plant). Instead, the state is reducing long-term financing costs (for example, reducing 20 years of interest from 4.5 percent interest rates to 0.50 percent interest rates).

### ***Recommendations***

Consider a reporting standard for state loans (and other interest rate buy-down programs) that is defined as the value of lower-than-market-interest payments rather than the face value of the loan, to clarify for everyone the value created to local governments and other loan recipients of state loan programs.

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<sup>17</sup> *Meeting the Growth Management Challenge.*

# Implementation of State Policy Goals

## ***What's Working***

- Some general progress based on individual project outcomes is being made toward statutory legislative policy goals established for the 29 state grant and loan programs related to water, wastewater, stormwater, solid waste and buildings administered by the state departments of Ecology; Health; and Community, Trade and Economic Development.
- Most of the 29 programs are aligned with one or more umbrella state policies (the Growth Management Act, the State Economic Development Plan, climate change initiatives or Puget Sound Partnership).
- Programs (approximately one third) that are required to comply with federal policy or administrative direction have integrated that federal direction into all elements of their programs.

## ***What could be Improved***

- The inventoried 29 state grant and loan programs are guided by a wide, sometimes inconsistent, array of stated and unstated policy goals. Some programs have too many policy goals to reasonably attain.
- Nearly all of inventoried state grant and loan program's award systems explicitly emphasize alignment with stated policy goals in their point system and/or eligibility criteria. One quarter of awards meet 74% or less of possible award points. Programs with awards receiving the least points included Building for the Arts, Youth Recreation Facilities, Local Infrastructure Financing Tool, CERB Job Development, Community Development Block Grant, Centennial Clean Water Fund and Water Pollution Control Revolving Fund. Eleven programs have no point rating system, including Capital and Operating Budget Special Projects.
- The state does not have a method for routinely reviewing and adjusting public infrastructure policy goals for individual programs over time.
- The state does not have a method in place for aligning state grant and loan programs to support statewide objectives either within an infrastructure system (e.g., water programs) or across infrastructure systems (e.g., growth management). Any adopted method should include clear articulation of statewide policy goals and identification of progress benchmarks in order to provide consistent statewide direction.
- There is not a strong connection between state policy goals, state infrastructure assistance programs and local government capital facility financing plans required by state law. Local plans identify infrastructure capacity issues that are required to be addressed in order to support statewide growth management and economic development objectives.
- The state does not have a process in place that facilitates prioritization of public infrastructure investments.
- Local reliance on state grants and loans, as reflected in projected funding in capital facilities plans, exceeds availability of actual funding. This is in part because there is no way of knowing how much funding will be available from the state. Without accurate information

on funding, it is difficult for local governments to know the magnitude of adjustments that need to be made to land use plans or other strategies and policies.

- Returns expected from state investment are not clearly identified across programs. Potential returns could include:
  - Expected incremental statewide policy benefits or outcomes.
  - Leveraging of non-state project funding adjusted based on community means.
  - Direct or indirect growth multiplier in state and/or local tax revenue.
  - Economic multipliers that could include both construction and permanent employment.
  - Avoided future public infrastructure costs as a result of demand or resource management initiatives.
- State assistance decisions and overarching state policies such as growth management or Puget Sound Water Quality are not aligned. Better alignment could potentially occur by emphasizing the relative contribution a project makes to meeting state or local policy goals in addition to whether or not a local entity complies with related state regulations.

### **Recommendations**

- Create a coordinated state plan that includes statewide policy goals, defines expected statewide incremental policy outcomes, needs/gap analysis and a statewide financing plan. This plan would need to be updated at least every 10 years or whenever major changes are made in regulatory programs effecting infrastructure investment.
  - As part of the state plan, determine the types of measures of return on investment (ROI) to the state that are of the greatest value given the state's policy objectives. Use these measures for reporting and, when appropriate, in evaluating projects or statewide investment priorities.
  - Periodically review each grant and loan program for consistency with, and adjustment to, the statewide plan. Adjust the number or focus of program policy goals as appropriate.
- Consider developing a single or consistent state process or budget mechanism that provides a method for statewide prioritization of public infrastructure assistance.

# Definition of Public Infrastructure Needs and Funding Gap

## ***What's Working***

- Five of 29 state grant and loan programs reported a method for assessing public infrastructure funding needs statewide.
- Nearly all local governments planning under the Growth Management Act define public infrastructure requirements with a multi-year funding plan and update these plans on a regular schedule.<sup>18</sup>
- Most special districts operating water and sewer utilities are required to define public infrastructure requirements in facility master plans submitted to the state.<sup>19</sup>

## ***What Could Be Improved***

- Very few inventoried programs have a method of determining statewide need and the statewide funding gap for the public infrastructure they fund that goes beyond estimating the number of unfunded applications.
- Assessments of statewide public infrastructure need and the statewide funding gap have historically been undertaken about once every 10 years with varying degrees of success. A current assessment of 2009 to 2015 public infrastructure need is not available.
- Various methods of estimating additional state funding needs for the study programs beyond existing appropriation levels show a range of potential additional grant funding. State grant funding estimates vary from \$790 million to \$504 million for six years based on a historical benchmark of 18% state contribution to public infrastructure construction and limited infrastructure needs data. Additional loan funding estimates vary from \$1.12 billion to \$1.23 billion (face value of loans) using a historical benchmark of 40% state loan financing for public infrastructure construction.
- The gap between funding needs and local and state funding availability is growing, especially in the areas of roadways and drinking water.<sup>20</sup>
- Public infrastructure capacity issues are the most acute for cities in transportation, parks and water and for counties in transportation, public safety, sewer or parks.<sup>21</sup>
- Special districts' concerns focus on the cost of compliance with state and federal standards.<sup>22</sup>

## ***Recommendations***

- Establish a registry of current local capital facility and financing plans to provide continuous information on need and the basis for 10-year state plans.
- Require inclusion of the number and cost of projects completed in the last local planning cycle in local capital facility plans to provide local and state method of gauging progress.

<sup>18</sup> *Meeting the Growth Management Challenge.*

<sup>19</sup> *Ibid.*

<sup>20</sup> *Ibid.*

<sup>21</sup> *Ibid.*

<sup>22</sup> *Infrastructure Programs, Part III.*

- Consider allocation of a larger proportion of state public infrastructure assistance to initiatives, programs or projects that reduce the longer-term cost of public infrastructure by reducing demand or creating more sustainable resources.
- Consider allocation of a larger proportion of state public infrastructure assistance to encouraging new or expanded regional public infrastructure solutions that take advantage of scale and reduce the overall public cost of infrastructure.

## **Grant and Loan Program Accountability, Efficiency and Effectiveness**

### ***What's Working***

- Most of the 29 grant and loan programs have at least four out of the five program accountability elements outlined in this legislative study proviso in place, an improvement since 2005.
- Significant integration and consolidation between programs has already occurred through joint administration, joint or common state assistance applications, single state board oversight of related programs, and interdepartmental contracting.
- Over the last five years state grant and loan programs have helped to reduce the future cost of public infrastructure by funding a small number of local initiatives to improve the sustainability of water resources or reduce demand for expansion of infrastructure capacity.
- The 29 state grant and loan program review identified some potential best practices that may be helpful in improving the performance of the entire system.

### ***What Could Be Improved***

- Policy makers and applicants perceive that the current public infrastructure grant and loan system requires applicants (and policy makers) to “hunt” through an overly complex system of potential funding sources to provide the “package” of financing needed to execute public infrastructure projects – at a significant cost in time and money to tax payers.
- Funding is not readily available to meet project construction schedules in order to minimize costs to the public that can occur with delay and longer project completion times. Delay of two years in assembling project “funding packages” for each billion dollars in public infrastructure was found to cost as much as the total of study program state grant assistance for five years (\$670 million).
- The number and cost of applications/awards of state assistance for the same project is inefficient for recipients and the state. This is especially true for small jurisdictions with limited resources in the infrastructure categories of water and wastewater where multiple awards are most frequent.
- Programs could be consolidated even further by building on the progress that has already been made and the models that are being used to consolidate grant and loan program administration through contracting between departments and pooling or joint administration of programs.

- Most programs have four of five accountability elements requested by the Legislature in place (policies directing award criteria, award criteria, performance measures, feedback on policy implementation, and needs assessment). The pieces that are the least developed or consistent with policy direction are: performance measures, feedback and needs assessment.
- Legislative proviso projects in the capital and operating budgets have increased over time to represent the largest grant “program” among the 29 programs reviewed. These projects as a whole were subject to the least number of accountability elements (state policies directing award criteria, application of award criteria, performance measures, feedback on state policy implementation, and needs assessment).
- Statewide performance tracking by system (in contrast to individual program) is weak. Among the things we don’t know:
  - Number of public infrastructure projects completed on time as outlined in local capital facility plans supporting growth management and economic development;
  - Public infrastructure investment that allows or facilitates growth outside urban growth areas (UGAs) with state dollars;
  - How much funding is going to designated high-priority geographic areas for investment;
  - Return on investment indicators tracked and aggregated.
- It is unclear whether best practices are identified and used to make system improvements. Potential best practices that were identified include:
  - Methods of sharing administrative costs within individual departments;
  - Statewide needs assessment methods;
  - Award systems with a clear policy focus;
  - Policy goal related performance measurement;
  - Common project data and definitions to facilitate reporting and comparison within and across programs.
- With a few notable exceptions, regional projects that serve multiple jurisdictions are subject to the same funding maximums as an individual jurisdiction, which provides a disincentive to regionalize.

### **Recommendations**

- Determine methods of reducing real costs of program participation to recipients. Target issues that increase overall project costs the most, such as expanded project execution timelines and long-term financing costs.
- Continue program consolidation and contracting efforts among programs and across departments. Target programs making the most multiple awards.
- Revise funding systems to provide incentives (or at least eliminate disincentives) for regional and consolidated provision of local government services.
- Address the weakest program accountability elements for existing grant and loan programs: performance measures tied to policy goals and needs assessment.

- Improve statewide performance reporting by infrastructure system.
- Use best practices within and across departments to inform efforts to improve grant and loan program outcomes.

## **Funding Local Public Infrastructure**

### **Study Question 6**

Should there be a change in the proportion of state assistance provided by grant, loan or bond support based on the relative cost/benefit of each to the state or to various types of local governments?

### ***Financial Comparison***

Appendix C contains a financial comparison that was developed by Seattle-Northwest Securities (financial advisor to the state) with input from Foster Pepper PLLC (bond counsel to the state), as facilitated by the Office of the State Treasurer. The financial comparison analyzes the relative costs/benefits to the state and to various sizes of local governments of traditional municipal bond financing, grants, low interest state loans and two types of state sponsored municipal bond programs. This analysis looks only at the financial aspects of these programs and does not factor in the government policy costs/benefits or the value of the nature of various streams of financing. For example, the relative value to local governments of continuing access to low-interest loans in a revolving-loan program which allows the same funding to be used repeatedly over time is not factored into the comparison.

### ***Impact of Changes in Worldwide Financial Markets***

The financial comparison was completed at a time (October 2008) of tremendous turmoil in worldwide financial markets, including the municipal bond market. The comparison does not assume or predict how the municipal bond market will look or behave in the short or longer term. Instead, the comparison is built on historical information – five to 10 years of historical data (that does not include 2008) and 20-year financial indexes.

There are a number of recent events that may shift or modify the historical behavior of the municipal bond market as it applies to Washington local governments into the future. The assumptions in the comparison therefore will need to be evaluated in light of any changes that may occur. For example, over the five years prior to 2008, 40 percent of local government bond issues (mostly issuers whose underlying credit was A or lower level Aa) in Washington were insured by bond insurance to increase their creditworthiness and reduce interest rates. Recently the number of AAA bond insurers has decreased dramatically, which essentially makes bond insurance unavailable to many issuers. Whether similar credit support will be available in the future or whether the current credit rating system will be modified and result in changes in the historical cost of municipal bonds remains to be seen.

### ***Why Was the Financial Comparison Done?***

The proportion of total public infrastructure state assistance that is provided by loan, grant, bond interest rate subsidies or other credit support has been determined over time by a series of independent decisions which have accumulated into the system we have today. The state has not

evaluated, like an individual investor might evaluate their investment portfolio, the overall system to determine whether the state may be able to get better “value” by allocating the same money it is investing in public infrastructure in a different way. Just like an investment portfolio, value and risk can be judged in a number of different ways considering both financial (cost/benefit) parameters and desired policy outcomes. Only the financial parameters are considered here and need to be balanced with risk and desired policy outcomes in decision making.

The study proviso specifically asked for a financial analysis that addressed:

- Whether the cost of private market borrowing can be reduced for jurisdictions with higher cost.
- Identification of the benefits from state grants and interest rate subsidies to rate payers and local tax payers.
- A comparison of the terms of a sample of low-interest loans provided to public infrastructure projects with the terms of private market borrowing that the jurisdictions would have been able to obtain. The sample of loans should include different types and sizes of projects and jurisdictions.

In order to answer these questions, the financial comparison in Appendix C was structured to evaluate the cost/benefit of various types of state assistance and compare them to the cost/benefit of standard private market borrowing (long-term municipal revenue bonds) for three sizes of jurisdictions. Municipal bond financing was therefore compared to existing state assistance programs (grants and low-interest loans) and generic forms of state assistance that are being piloted in Washington (bond interest rate buy-downs) or operated in other states (municipal bond banks). The costs/benefits to the state *and* to local governments (including their utility rate and tax payers) were analyzed. A “financial efficiency factor” was developed for each type of assistance that depicts the relationship between the cost to the state of a given option and the benefit to a given size local government and its tax/utility ratepayers.

Instead of using a small sample of state assistance provided to various size jurisdictions, the data from five years of bond, grant and loan transactions was analyzed to determine the typical size loan or grant (and bond issue) for three sizes of jurisdictions: local governments of 50,000 population or greater, local governments of 50,000 to 10,000 population and local governments of less than 10,000 population.

The types of financing for public infrastructure that are evaluated can be defined as follows:

*Municipal Revenue Bonds:* Long-term borrowing to finance the construction of capital improvements backed by local government revenue usually collected monthly or quarterly from utility ratepayers or other types of fee-for-service clients. Local governments generally pay equal payments of interest and principal over a set number of years. Interest is generally at a fixed rate for the entire borrowing period.

*State Low Interest Loans:* Long-term contract loans made by the state to local governments to finance the construction of capital improvements. The interest rate is fixed for the loan period (usually 18 to 30 years) at a level that is below the interest rate that would be paid in the municipal bond market. The state’s largest loan program has three standard rates: 2 percent for larger borrowers, 1/2 of 1 percent (0.05%) for medium-size borrowers and 1/4 of 1 percent (0.025%) for smaller borrowers.















- Evaluate and, if feasible, implement through changes in state statute, accelerating the availability of lower-interest state loans for public infrastructure through issuance of bonds against a portion of existing loan portfolios.
- Evaluate creating a state program that strengthens access to the municipal bond market at lower interest rates for local government borrowers. Such an initiative could be patterned after the state's current local government equipment borrowing pool. Instead of the general tax authority of the state, the pool could be backed by Public Works Assistance Account reserves. The pool may be even more effective if it is coupled with an expanded municipal bond interest write-down program for smaller borrowers.
- Provide a method (statutory and/or structural) of reviewing and adjusting, if necessary, state loan terms and policies when private borrowing conditions significantly change.