



Infrastructure Funding in the New Budget Environment



INTRODUCTION

Federal grants have helped maintain a quality standard of living for communities across the country for over a century. There are over a thousand federal grant programs that transfer funds to state and local governments in support of a multitude of policy issues. State and local governments rely on the funds from federal grants to assist in providing what the citizens of their localities need. Over the years, the federal grant system has grown and changed to accommodate the constantly shifting priorities of American communities. Transportation, healthcare and education initiatives are all supported in some way by federal grants. Today, federal and local lawmakers meet the challenges of updating and enhancing our nation's infrastructure through collaborative efforts; underlining the importance of federal transfers to state and local governments.



The Federal Grants System: A Brief History

The federal grant-in-aid system has its roots in post-revolutionary America. The new federal government used lands acquired after the American Revolution to fund the national defense and settle war debts. The early years of the grant system were marked by many small developments, as conventional philosophy over the influence of the federal government was still developing. This resulted in grant policies that varied. Some policies implemented direct cash transfers to the states, and others used funds for distinct purposes, like purchasing school supplies for the blind.

Incremental changes gave way to a paradigm shifting expansion of the federal government's role in supporting state and local governments. From 1933 to 1938, the number of federal grants more than doubled, while funding more than tripled from \$214 million to \$790 million, in response to The Great Depression. Enduring through fluctuations in the political landscape, how grants are used shifted permanently. Additional adjustments occurred over the decades and by 2010, there were over 1000 federal grant programs. The grant system we have today covers hundreds of policy issues and seeks to improve the quality of life for communities everywhere.

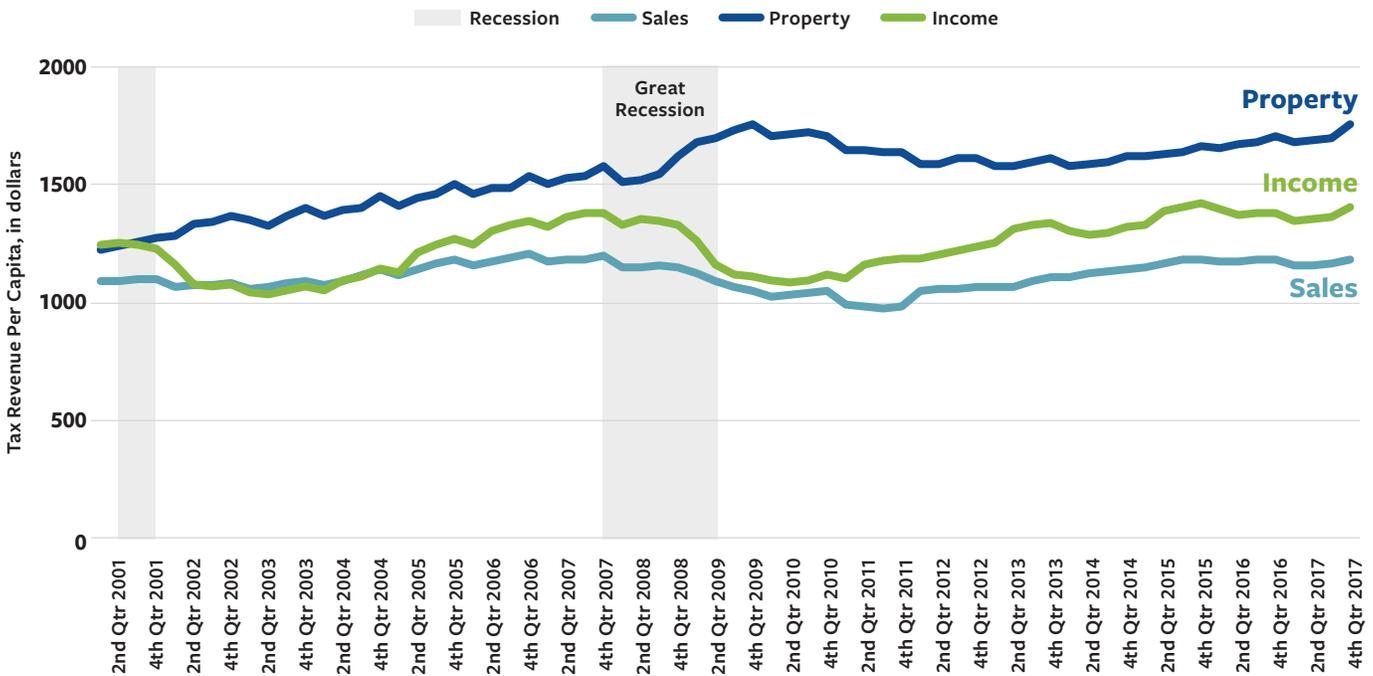
SLIMMING BUDGETS & SHIFTING PRIORITIES

The post-recession era of public financial management has presented real challenges to finance officers of state and local governments. Measuring with traditional indicators shows an economy that has grown beyond pre-recession productivity, but, according to the Bureau of Economic Analysis, recovery back to pre-recession GDP levels has been historically slow. Two years after the recession, GDP was 3.8% lower from pre-recession highs; the worst rate of recovery from a recession in over 60 years.¹ Many factors should be considered when

measuring economic strength, but ultimately, tax revenue fluctuates with overall economic conditions. Outside of transfers from the federal government, states receive the majority of their tax revenue through sales & income taxes, along with surcharges and fees, while many local governments rely heavily on the collection of property taxes.² The recession diminished all of those resources substantially but local governments, and their reliance on property tax revenues, may have had the most arduous path back to pre-recession budget environments.

Figure 1. National Totals of State and Local Tax Revenue, By Type Of Tax

2001–2017, Inflation Adjusted, Per Capita



Source: U.S. Census Bureau, Quarterly Summary of State and Local Tax Revenue. Analysis performed by Government Finance Officers Association

¹ Bureau of Economic Analysis, National Bureau of Economic Research

² Urban-Brookings Tax Policy Center, State & Local Government Finance Data Query System

When measuring on a per capita basis while accounting for inflation, all 3 major revenue generators for state and local governments decreased once the recession started and have largely just only returned to pre-recessionary levels as of 2018.

The impacts of tighter state and local government budgets are seen and felt everywhere. Breaking down grant expenditure by function and recipient shows how the allocation of grant funds has shifted while budgets for state and local governments have tightened.

PUBLIC SPENDING ON INFRASTRUCTURE DEVELOPMENT

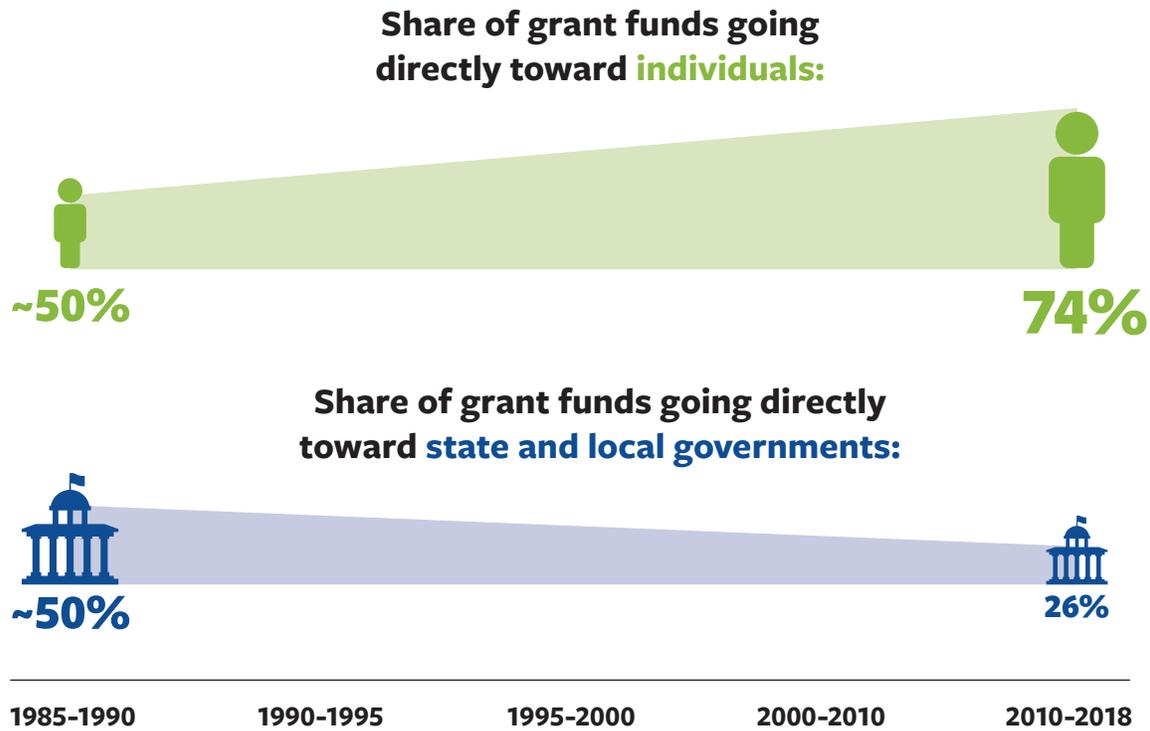
Overall grant outlays have more than doubled in nominal terms over the past 3 decades, but much of this can be attributed to the growth in mandatory spending over that period.³ As a percentage of total federal outlays and national GDP, state and local governments are receiving more from the federal government, but this doesn't tell the full story. Federal grants have received relatively consistent funding, but the proportion of grants that are directly received by state and local governments has shifted.

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³ U.S. Office of Management and Budget, Budget of the United States Government, Fiscal Year 2019: Historical Tables, table 12.3, Total Outlays for Grants to State and Local Governments

Figure 2. How the Share of Grant Funds Has Changed Over Time



Source: U.S. Office of Management and Budget, Budget of the United States Government, Fiscal Year 2019: Historical Tables, Table 12.1. Summary Comparison of Total Outlays for Grants to State and Local Governments: 1940–2023 (in Current Dollars, as Percentages of Total Outlays, as Percentages of GDP, and in Constant (FY 2009) Dollars) at <http://www.whitehouse.gov/omb/budget/Historicals>.

State and local governments are receiving less transfers from the federal government as more funds are transferred to support citizens directly. This makes the grant funding that state and local governments rely on that much more important.

Through a strong partnership with the federal government and a commitment to using best practices in fiscal management, state and local governments have been able to meet the constantly changing and growing

needs of their communities. Even when priorities shift, state and local government officials work to encourage regional economic development and promote the highest standard of living possible for their citizens.

There could be many drivers behind the change in capital expenditure by state and local governments beyond the effects of an economic downturn. As the gap between capital spending and operation and maintenance widens, the average age of our infrastructure increases.

Although certainly not the sole factor in the decrease, capital spending by state and local governments show an inverse relationship with the average age of existing infrastructure systems, and the money spent on maintaining it.

This steady trend of capital investment decreasing while spending on operation and maintenance increases could leave state and local governments in a precarious situation. As funding continues to be pulled toward upkeep expenses, developing new and better infrastructure could become even harder.

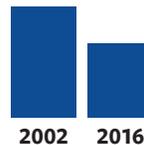
Because it possesses qualities unique to growing the U.S. economy, measurement of overall infrastructure investment is enhanced by framing in terms of gross domestic product. By also accounting for asset depreciation, a clear picture of how overall public investment into infrastructure has trended in recent years is visible.



Operation & Maintenance: **\$240 Billion** spent by state and local governments; **\$27 Billion** spent by Federal government



Capital: **\$102 Billion** spent by state and local governments; **\$72 Billion** spent by federal government

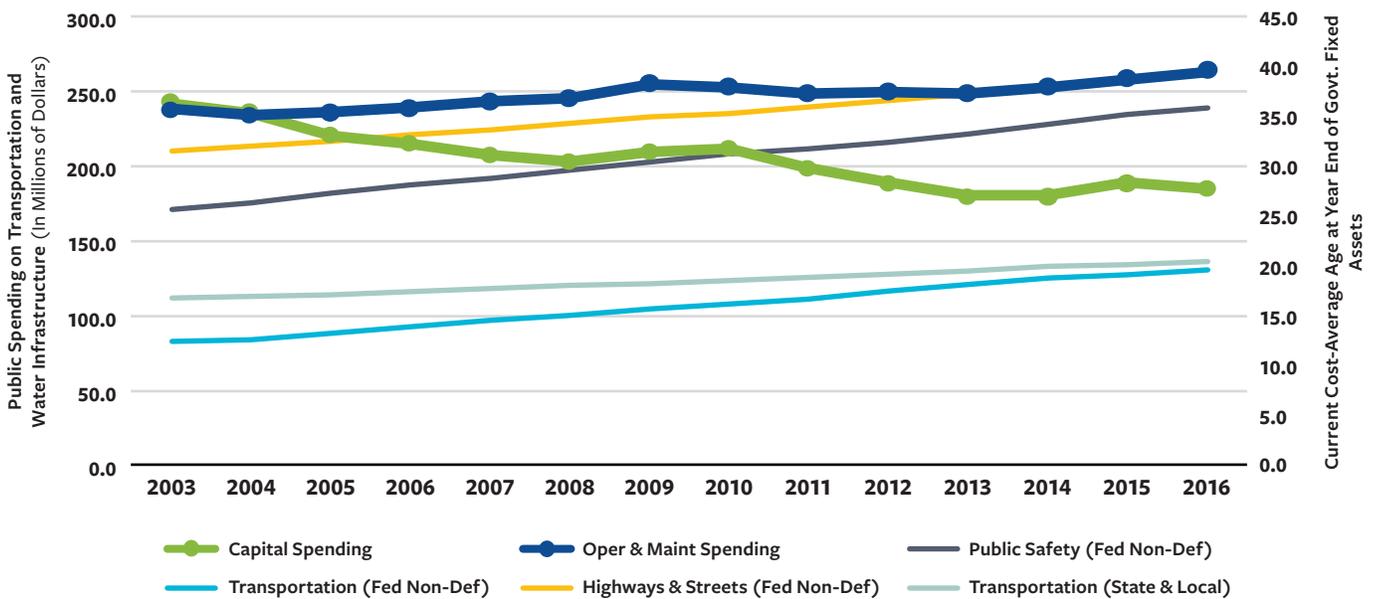


State and local capital spending on transportation and water infrastructure totaled **\$102 billion in 2016**; down from about **\$150 billion in 2002**.



Since 1986, federal grants have composed about **38%** of state and local capital spending on transportation and water infrastructure.⁴

Figure 4. Public Spending on Transportation and Water Infrastructure vs. Current Cost Average Age at Year End of Government Fixed Assets (2001-2016)



Source: Bureau of Economic Analysis “Standard Fixed Assets Tables” and Congressional Budget Office “Public Spending on Transportation and Water Infrastructure, 1956-2017 <https://www.cbo.gov/publication/54539> of GDP, and in Constant (FY 2009) Dollars) at <http://www.whitehouse.gov/omb/budget/Historicals>.

⁴ Source: Congressional Budget Office, Public Spending on Transportation and Water Infrastructure, 1956 to 2017

There has been a noticeable drop in public net investment into infrastructure since 2000, in terms of GDP. To continue providing the essential developments that support a vibrant economy, state and local governments need a federal partnership that is consistent in its investment into public infrastructure.

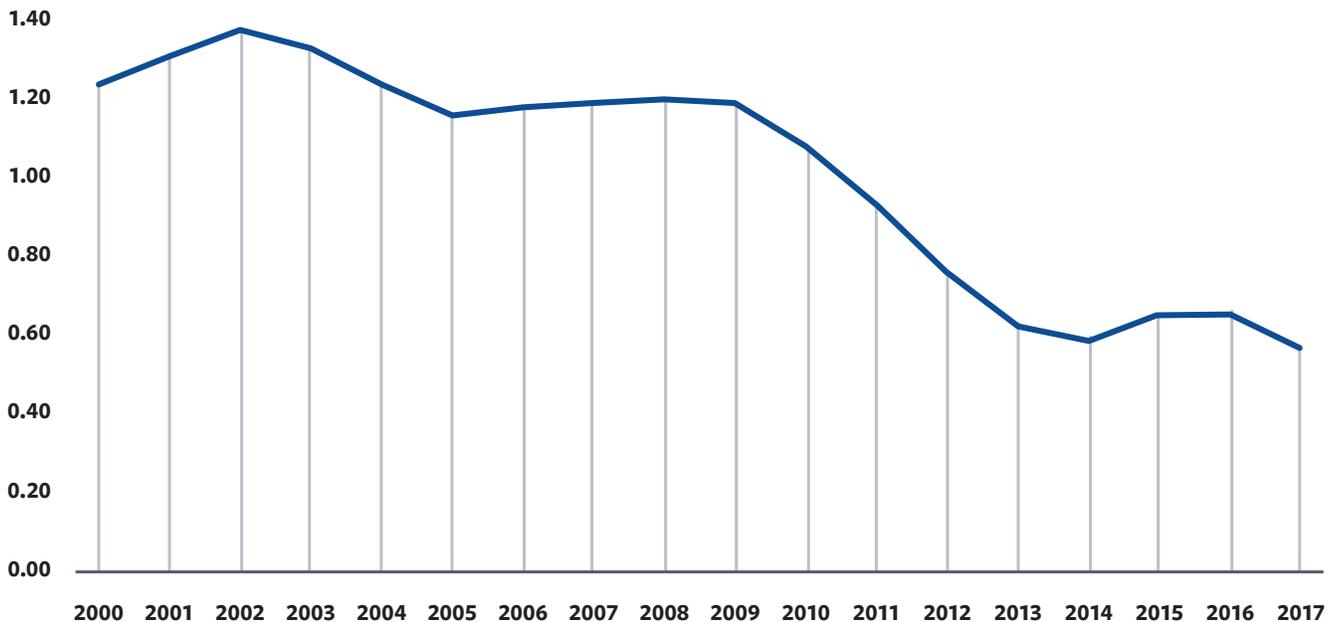
The U.S. national infrastructure apparatus is tied directly to the ability of individuals, businesses, and state and local governments to produce, and sustain the benefits of, economic productivity. Falling too far behind on that kind of investment could hinder overall economic growth on local, regional, and even national levels.

According to the American Society of Civil Engineers, should the current trend of investment into infrastructure continue, U.S. GDP will sustain \$3.9 trillion in losses, \$7 trillion in business sales will be lost and 2.5 million American jobs will be foregone, all by 2025.⁵

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Source: American Society of Civil Engineers

Figure 5. Overall Net Investment into Infrastructure (As a % of GDP)



Source: U.S. Bureau of Economic Analysis, Net government investment: Federal: Nondefense [B892RC1A027NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/B892RC1A027NBEA>, January 19, 2019.

⁵ American Society of Civil Engineers “Failure to Act: Closing the Infrastructure Investment Gap for America’s Economic Future”

THE FEDERAL GRANT SYSTEM TODAY

On the most basic level, a federal grant can be defined as a monetary transfer from the federal government to a state or local government. The differences between grants are mostly found in the processes surrounding how, and who, qualifies for funds.

All federal funds come with an initiative behind them, but some have more narrowly defined purposes. For example, a portion of the Community Development Block Grant (CDBG) is transferred directly to states, or other local governments, based on a formula that relies on population statistics. Once the funds have been distributed, the receiving entity, state or otherwise, is given authority to implement the funds using their discretion. Funds can go towards affordable housing, public infrastructure, administration costs incurred facilitating community development, and more; it's predominantly in the hands of the receiving locality.

In contrast, the Federal Transit Authority's Better Utilizing Investments to Leverage Development (BUILD) grant, a program intended to fund infrastructure for transportation projects, has requirements for the size of the project, the amount of funds the local government contributes to the project, and whether or not the project has "a significant local or regional impact." Unlike the CDBG, BUILD grants are subject to greater influence from federal administrators. The distinction over federal influence is at the heart of what makes one grant different from another.

How the federal government implements the grants-in-aid system can be influenced by the condition of the national economy, social issues that have captured public interest, or the prevailing political ideology. The modern history of federal grants has seen reductions, consolidations, & complete restructurings, and today, all grants fall into 3 general categories. Although they all represent the partnership between federal and local governments, all 3 possess distinct qualities.

THE THREE TYPES OF FEDERAL GRANTS



General Revenue Sharing

- » The direct transfer of cash from the federal government without oversight
- » Funds are transferred without obligation and little overhead
- » Receiving government entity (usually a state) has complete autonomy over funds
- » Ex. 1972 State and Fiscal Assistance Act
- » Distributed \$30 billion to state and local governments over 5 years



Block Grants/Entitlements

- » Transfers of cash to local government contingent on commitment to use funds for broad policy objective
- » Block grants come with limited federal oversight, giving recipient states more authority over funds
- » Allocated through formulas written into authorizing legislation
- » Ex. Temporary Assistance for Needy Families (TANF), Community Development Block Grant (CDBG), Social Services Block Grant



Categorical Grants (4 sub-types)

- » **Project Categorical:** Competitive; requires application
- » **Formula Categorical:** Operates through legislature/agency mandate
- » **Formula Project Categorical:** formula for state allocations; application to state
- » **Open-end reimbursement:** expenses reimbursed
- » Designed for specific projects
- » The most federal oversight of all federal grants
- » Competitive with an application process
- » Ex. BUILD, Capital Investment Grants

The 3 varieties of grants can be placed on a spectrum describing the level of oversight from the federal government. On one end of the spectrum is “general revenue sharing” as it gives states maximum authority over how funds from the federal government would be spent. The opposite end of the spectrum would be occupied by “categorical grants”, some of which require multiple application stages, impact studies and other mandatory guidelines prescribed by the grant issuing agency. Block grants represent that middle of the spectrum, coming with broad directives from the federal government, but leaving the implementation up to the recipient.



Infrastructure Supporting Grants

Our national economy is underpinned by infrastructure that allows us all to connect as consumers, workers, and businesses. The intergovernmental partnership that the grant system represents is especially significant in maintaining the public facilities and infrastructure that promote economic opportunity and a higher standard of living. This shared responsibility through multiple levels of government has produced valuable grant programs that funnel federal resources into community development and infrastructure projects.

There are many other community development and infrastructure grant programs available through different government agencies, but the CDBG, CIG, and BUILD grants are unique in their contribution to projects that have far reaching economic impacts.



CDBG

Community Development Block Grant

- » Utilizes formula to distribute funds
- » 70% of funds are directed to metro centers; 30% goes to state block grant
- » Goals: Ensure affordable housing; expand and retain local businesses



CIG

Capital Investment Grants

- » Discretionary & Competitive Grant Program
- » Roughly \$2.3 Billion appropriated annually
- » Funding last authorized by FAST Act
- » Funds light rail, heavy rail, commuter rail, bus rapid transit projects
- » Projects greater than \$300 million



BUILD

Better Utilizing Investments to Leverage Development (BUILD)

- » Originally “TIGER” grants
- » Intended to support multi-modal, regional serving transportation projects
- » Provided \$5.6 billion to 463 projects since 2009
- » Limit of \$150 million to any one state & \$25 million to one project

CASE STUDIES



TOWER 55 MULTIMODAL IMPROVEMENT

Fort Worth, TX

Applicant/Sponsor:
Texas Department of
Transportation

Total Project Cost:
\$91,200,000

Grant Funding:
\$34,000,000

Project Description:

Tower 55, located south of downtown Fort Worth, Texas, is one of the nation's busiest rail intersections, supporting as many as 100 passenger and freight trains daily. To help alleviate the congestion caused by the intersection of two of the largest rail lines in the country, Union Pacific and Burlington Northern Santa Fe, TIGER grant funding was utilized to build an additional north-south track, new signals, and a new interlocking system was installed. These improvements will help reduce accidents by preventing trains from accidentally traveling on the same track, in addition to making the crossing safer for pedestrians and bicycles.

Project Benefits:

The new intersection improvements helped to improve the local economy, create jobs, help the environment, and reduce transportation costs. The project created almost 900 jobs during the 2-year life of the construction project. Over 20 years it will eliminate 165 gallons of fuel. It will also solve one of the worst bottlenecks in U.S. transportation, which will save about \$667 million in transportation costs.

Source: Tower 55 Fact Sheet retrieved January 2019: https://www.up.com/cs/groups/public/@uprr/@customers/documents/up_pdf_natedocs/pdf_up_media_55facts.pdf



FLAMINGO CORRIDOR BRT 2014

Applicant/Sponsor:

Regional Transportation
Commission of Southern
Nevada

Total Project Cost:

\$42,000,000

Grant Funding:

\$13,300,000

Project Description:

The Flamingo Corridor BRT project, which received almost a third of its funding from a TIGER grant, helped to significantly improve transit performance along one of the busiest non-Strip transit corridors. The BRT system reduced transit travel time by creating dedicated bus/bike shared lanes through a heavily congested portion of corridor. The project also included enhanced bus stations, intersection safety improvements, and complete roadway rehabilitation, as well as other improvements. These improvements and others helped increase multimodal accessibility, ridership, and safety.

Project Benefits:

The primary objectives of the Flamingo Corridor project were to improve pedestrian and bicycle safety along a road that saw 3,718 crashes between 2007 and 2009. Other project benefits include: reduced emissions, transit travel time, car crashes, and increased transit ridership revenue. The benefits of the project, calculated from the project start date in 2013 through 2036, highlight the immense impact the BRT will have on the region. During this period the project will confer a transit ridership revenue benefit of \$66,548,003; transit travel time benefit of \$447,330,035; emissions reduction benefit of \$119,520,936; and automobile crash reduction benefit of \$38,680,744.

Source: Regional Transportation Commission of Southern Nevada "Flamingo Corridor Improvements" retrieved January 2019: <http://www.rtcnv.com/wp-content/uploads/2013/05/Narrative.pdf>

CASE STUDIES *CONTINUED*



AUKE BAY LOADING FACILITY 2009

Applicant/Sponsor:
City and Borough of Juneau

Total Project Cost:
\$14,840,000

Grant Funding:
\$3,640,000

Project Description:

Funding from the TIGER grant helped finance the construction of a new, more modern, loading facility at Auke Bay just outside Juneau, AK to improve the distribution services of the local fishing industry. The modernized loading facility will also improve the efficiency of the smaller fishing operations by mitigating the high operating costs.

Project Benefits:

The Auke Bay Loading Facility helped to strengthen seafood and freight industry economic activity, improve transport options in and around Juneau, deliver government programs to more remote communities, and reduce costs of living. The Loading Facility created over 250 construction jobs during the life of the project. The project also significantly reduced fuel costs by reducing the number of fishing trips in the Juneau area, which equates to a savings of 12,000 gallons of fuel, or 134.3 tons of carbon dioxide emissions, annually.

Source: Port of Juneau TIGER Grant Application, retrieved January 2019: https://voa.marad.dot.gov/Solicitation_Awards/docs/mar-380/Auke%20Bay%20TIGER%20DiscretionarySignedFinal-6-3-10_.pdf



CAPITAL INVESTMENT GRANTS (CIG)—LYNX BLUE LINE

Grant Program:
Capital Investment Grant (CIG)

Applicant:
Charlotte Area Transit System (CATS)

Project:
LYNX Blue Line Extension, NE Corridor

Goals:

- » Provide more transportation choices while encouraging consistent travel times. Increase access to job opportunities for surrounding communities.
- » Decrease area traffic congestion through a reduction of Vehicle Miles Traveled.

Impacts:

- » Add 24,500 weekday riders, nearly doubling total weekday ridership for the Blue Line
- » An estimated \$253 million in net earnings and payroll due to construction activity
- » Equivalent of 7000+ jobs created due to construction and economic activity
- » Projected 119,000 fewer daily vehicle miles traveled in corridor

Source: Charlotte Area Transit System: LYNX Blue Line Extension Fact Sheet, retrieved January 2019: <https://charlottenc.gov/cats/transit-planning/blue-line-extension/Documents/BLE%20Fact%20Sheet%202018.pdf>

CASE STUDIES *CONTINUED*



Abandoned Oil Refinery



Site Today



GOLDEN SPRINGS INDUSTRIAL PARK

Santa Fe Springs/L.A. County, CA

Grant Program:

Community Development
Block Grant (CDBG)

Activity Type:

Economic Development

Beneficiaries:

Job seekers. Created over 4,500 jobs, including more than 711 filled by low- and moderate-income persons

Project Total:

\$184 million

» CDBG Funds - \$20 million Section 108 Loan

Result:

Unused property was remediated and redeveloped, bringing new economic life to Santa Fe Springs.

The 265-acre Golden Springs Industrial Park, located just east of Los Angeles in Santa Fe Springs on a formerly closed and contaminated oil refinery, created over 4,500 job including 711 jobs for low- and moderate-income workers. The Class A industrial park was made possible thanks to a \$20 million Section 108 loan which funded an eighth of the project costs.

Source: Department of Housing & Urban Development

ADDITIONAL REFERENCES

1. Dilger, Robert Jay, and Eugene Boyd. "Block Grants: Perspectives and Controversies." July 15, 2014. <https://fas.org/sgp/crs/misc/R40486.pdf>.
2. Dilger, Robert Jay. "Federal Grants to State and Local Governments: A Historical Perspective on Contemporary Issues." CRS Reports. May 7, 2018. <https://fas.org/sgp/crs/misc/R40638.pdf>.



GERMANTOWN NEIGHBORHOOD CENTER

Quincy, MA

Grant Program:

Community Development
Block Grant (CDBG)

Activity Type:

Public Facility

Beneficiaries:

Over 1,500 people are served at the Center annually

Project Total:

\$1.3 million

» CDBG Funds - \$600,000

Result:

An 11,000 square foot facility to support neighborhood families.

When, the Germantown Center, located nine miles southeast of Boston in Quincy in a low and moderate income neighborhood, needed to expand to increase their community impact, CDBG funding helped to finance half of the project's costs. The Center offers programming to help residents better themselves such as peer leader training, training for middle school girls, and women's workshops. The CDBG program helped the YMCA, owner of the Center, find an 11,000 square foot vacant church to construct the new Germantown Center.

Source: Department of Housing & Urban Development



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