

Inventory and Evaluation of the State's Public Infrastructure Programs and Funds



**Office of
Financial Management**
State of Washington

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More than 150 people contributed their time, perspectives and insights in helping the study team understand Washington's infrastructure program and funding system. We thank all of those contributors, who generously shared their experiences, candid observations and ideas to help make the State's infrastructure system even stronger and more effective than it is today.

INVENTORY AND EVALUATION OF THE STATE'S PUBLIC INFRASTRUCTURE PROGRAMS AND FUNDS

Executive Summary

I. INTRODUCTION, PROJECT PURPOSE AND SCOPE

Washington State funds and administers a number of infrastructure grant, loan and technical assistance programs for local and regional governments, special purpose districts, tribes, non-profit entities and other operating agencies. These programs grant and loan millions of dollars annually through competitive application processes and a mix of board, legislative and administrative review and approval processes. Each program is legislatively authorized, and over time the programs have evolved and shifted, with new legislative direction, priorities and funding sources and amounts. New programs have been created, some programs have lapsed, and new funding criteria and directives have been added to some programs.

In recent years, some program observers and stakeholders have noted the complexity of this network of programs, including various application processes and timelines, approval requirements and funding criteria. Reasonable observers have asked reasonable questions about the State's infrastructure programs, including: How efficiently are they operating? Is there collaboration across programs? Can they be consolidated? What is the customers' experience accessing these programs? How successfully are they functioning?

Given these questions, the 2005 Legislature commissioned a study of the State's infrastructure programs, and the Office of Financial Management (OFM) engaged the services of the policy and management consulting firm Berk & Associates to conduct an inventory and policy-oriented evaluation of the State's various infrastructure programs and funding sources. As directed by OFM, the study specifically excludes both transportation and information technology programs and funds.

II. PROGRAM OVERVIEW AND STRATEGIC MAPPING

A. Infrastructure System Characterization

More than 150 interviews were conducted for this project with stakeholders, clients and program staff. Through the interviews, program and funding inventory research and document review, a picture of the State's infrastructure programs emerged. The system can be characterized as:

- A diverse array of infrastructure investment programs offering both loans and grants serving a variety of needs, including economic development and the protection of public health and safety;
- A collection of programs, created and amended by the Legislature one at a time, to meet specific needs identified at that time and not designed to work together or recognized as an integrated system;
- An array of programs with some overlap, some of which benefits local jurisdictions and some of which create system inefficiencies;
- A complex network of programs that is not well understood, even by players involved in one or several aspects of the network – “an elephant that no one can see completely” and that is often misunderstood and under-understood; and
- A set of decentralized programs that, by their nature, lend themselves to suggestions for consolidation and restructuring, many of which have been identified and discussed over the years.

Varying Programmatic Goals Drive Infrastructure Investment. A key finding of this study is that the many State programs that make investments in local infrastructure do so to achieve a range of programmatic goals, with no overarching strategic direction.

Some programs, including **CERB's Traditional, Rural and Job Development Fund** programs make infrastructure investments to support an economic development outcome (with Washington's constitutional prohibition against public lending of credit to private enterprise, infrastructure investment is a particularly important element of the State's economic development toolkit). These programs are by designed by legislative intent, mission, operation, and outcome to function as business recruitment, expansion, and retention incentives, measuring their success in terms of the job and investment outcomes generated by business subsequent to the completion of the public sector project. **CDBG** programs may also have an economic development purpose to infrastructure investment.

Other programs make infrastructure investments to support programmatic goals of meeting regulations that protect public health and safety. Others may make infrastructure investments with the goal of enhancing a community's quality of life. It is important to understand these different programmatic goals, and it is also important to recognize areas of overlap. When seeking locations for expansion or relocation, industry and large business often consider the quality and operation of basic infrastructure such as water and wastewater systems. Those programs that are structured to protect a population's health and safety – or the cleanliness of a community's natural environment – are therefore playing an important role in economic development, providing an essential foundation for private enterprise to build upon.

A conclusion of this study is that despite the varying programmatic goals of programs that make infrastructure investments, there are fundamental commonalities inherent in how they operate and the systems required to support their efficient and effective management.

Financial Context. Exhibit ES - 1 shows the total array of State-to-local infrastructure funding categories in Washington, and the approximate funding levels within each category. For the 2003-05 biennium, the capital budgets for these categories totaled \$2,003,000,000. These budget numbers include both State and, where applicable, federal contributions to the programs. The total State budget (operations and capital) was \$53 billion for the biennium, so capital funding for local infrastructure received 3.8% of the budget. It comprised 34.5% of the total capital budget, \$5.8 billion.

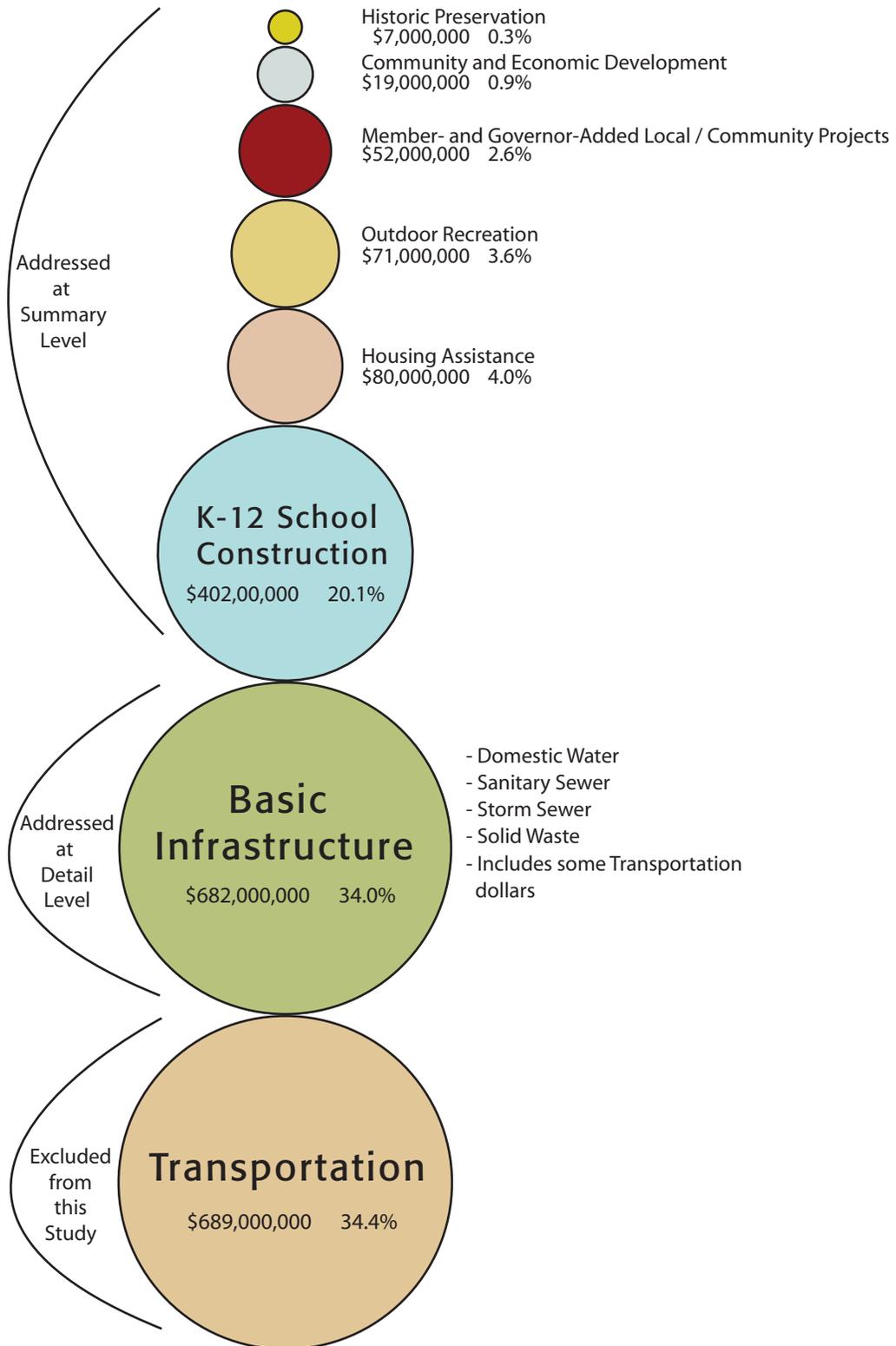
As the Exhibit shows, the program areas encompass State and federal pass-through funding in eight major categories: basic infrastructure (defined as water, wastewater, stormwater and solid waste projects)¹; transportation infrastructure, including public transportation; K-12 school construction; housing assistance; community economic development, including community facilities; outdoor recreation; historic preservation; and member- and governor-added local/community projects.

Related funding types not addressed in this study and not represented in the Exhibit include State-to-State funding programs, such as for State facilities and higher education funding, and natural resource-focused programs not addressing built infrastructure, including salmon recovery, marine restoration, wetlands enhancement and other environmental programs.

As Exhibit ES - 1 reflects, the basic infrastructure and transportation infrastructure categories each make up roughly a third of total local infrastructure funding. K-12 School Construction funding is the third largest single category, at about 20%, and the remaining five categories together make up about 12%. Because the amount budgeted for pass-through infrastructure funding in 2003-05 totaled more than \$2 billion, even the smallest category, Historic Preservation at 0.3%, received \$7 million in funding.

¹ Some funding for transportation is also included in this category through the Public Works Trust Fund, as well as funding of Business and Economic Development Facilities through the CERB programs.

Exhibit ES - 1
State-to-Local Infrastructure Capital Funding in 2003-05:
A \$2 Billion System



Source: Berk & Associates, 2005

Note: Budgets are rounded to the nearest million dollars and include both State and Federal funds.

B. Strategic Mapping to Illuminate the State's Programs

Given the complexity and challenge of understanding the State's programs, several strategic maps and schematic diagrams have been developed to graphically illustrate key aspects of the programs and how they relate to each other.

Legislative History and Program Timeline. Washington's complex network of infrastructure programs and funds is a consequence of State and federal directives and actions taken over time. Exhibit ES - 2 presents a timeline of creation for the State's infrastructure system. As shown in the Exhibit, programs are regularly added and amended by Congress, the Legislature, and the State's voters. Most recently, two new programs were added in the 2005 legislative session: the CERB Job Development Fund and the Economic Development Strategic Reserve account. Other programs were added in 2003 and 2004 – the **Water System Acquisition and Rehabilitation Program** and the **Water Infrastructure Program** – and in 1999 the **Small Communities Initiative** and **State Drought Preparedness Account** were added.

Washington's Infrastructure System Has More Than 80 Programs. Exhibit ES - 3 presents the array of State-to-local infrastructure funding programs currently operating in Washington. The Exhibit shows that there are more than 80 programs and sub-programs administered by 12 State agencies. Programs that are the focus of this report are shown in green, and shared authority among different agencies is represented by dotted lines. Programs for which award lists must be approved by the Legislature, often as part of an agency budget request, are marked with an "L." Those requiring approval by the Governor prior to being submitted to the Legislature, or which the Governor approves without the advice of the Legislature, are marked with a "G."

The Exhibit includes the State's transportation agencies and major transportation programs, since there are areas of intersection and sometimes overlap with transportation programs by the programs included in the study, in particular those administered by the PWB and CERB.

Exhibit ES - 3 focuses in on the basic infrastructure funding programs analyzed in this study. It shows the programs in their organizational location and highlights their funding sources – State funding only, or Federal funding matched with State funding. It also shows what types of assistance can be offered by each program – loans only, grants only, or both loans and grants.

Basic Infrastructure Programs and Relationships. Exhibit ES - 3 also shows where formal relationships exist between agencies to share responsibility for programs, as defined by the Legislature. The **Drinking Water State Revolving Loan Fund (DWSRF)** and the **Water System Acquisition and Rehabilitation Program (WSARP)** are both jointly administered by the State Department of Health (DOH) and the PWB. The **CERB Job Development Fund** is administered by CERB with PWB and legislative project approval, and the **Economic Development Strategic Reserve Account** is administered by the Economic Development Commission with project approval by the Governor's Office. Finally, **Safe Drinking Water Action Grants** are administered by the Solid Waste Program within the Department of Ecology, but the Department of Health identifies which sites are eligible for the program and provides technical oversight regarding water quality standards.

Exhibit ES - 4 lists the basic infrastructure funding programs and shows which project types they fund. The Exhibit reflects the degree of funding overlap among the programs. Projects that address drinking water, for example, can be funded by ten different sub-programs within seven main programs that are

administered by three departments and two Boards within three agencies. In addition, two of these sub-programs require legislative approval for every project.

Six of the listed categories can be funded by five or more different programs. These six categories are: Drinking Water (10 eligible programs); wastewater (10); stormwater (10); flood/irrigation management (9); solid/hazardous waste (6); and transportation (7).

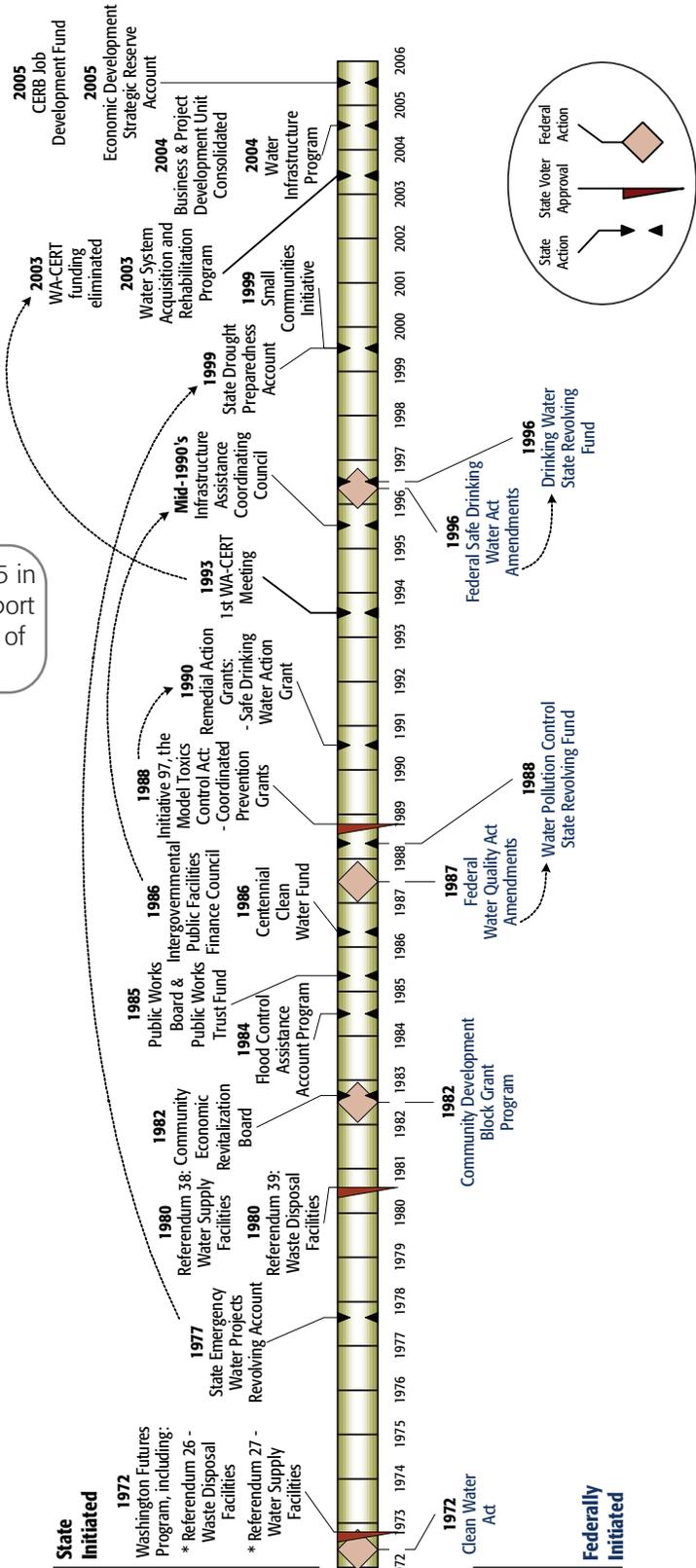
To some extent overlap is unavoidable because there is overlap among the federal programs in which the State participates. For example, some of the CDBG set-asides overlap with the Drinking Water State Revolving Fund and the Water Pollution Control Revolving Fund, even though the DWSRF and the WPCRF do not overlap. When the State has chosen to supplement federal programs with its own programs, which fund similar types of projects, there is also overlap driven by State law. Additionally, some of the overlap shown in the Exhibit is the result of sub-programs sharing part of their requirements with their sibling programs. The PWTF, for example, has two sub-programs shown here that fully overlap regarding the types of projects they can fund, but which differ regarding the situation in which each is used. PWTF Emergency Loans may support the same types of projects as the Construction Loans, but only within the scope of a declared emergency.

However, not all of the categories overlap. Both "Business and Economic Development Facilities" and "Other Utilities," here defined as power, telecommunications and natural gas, can only be funded by CERB programs, including the Job Development Fund. Two other categories, Housing and Health Facilities, are both funded only by set-asides within the CDBG program.

Exhibit ES - 2

Basic Infrastructure Programs: A System of Programs Assembled Incrementally Over 30 Years—Timeline of Program Creation: 1972 - 2006

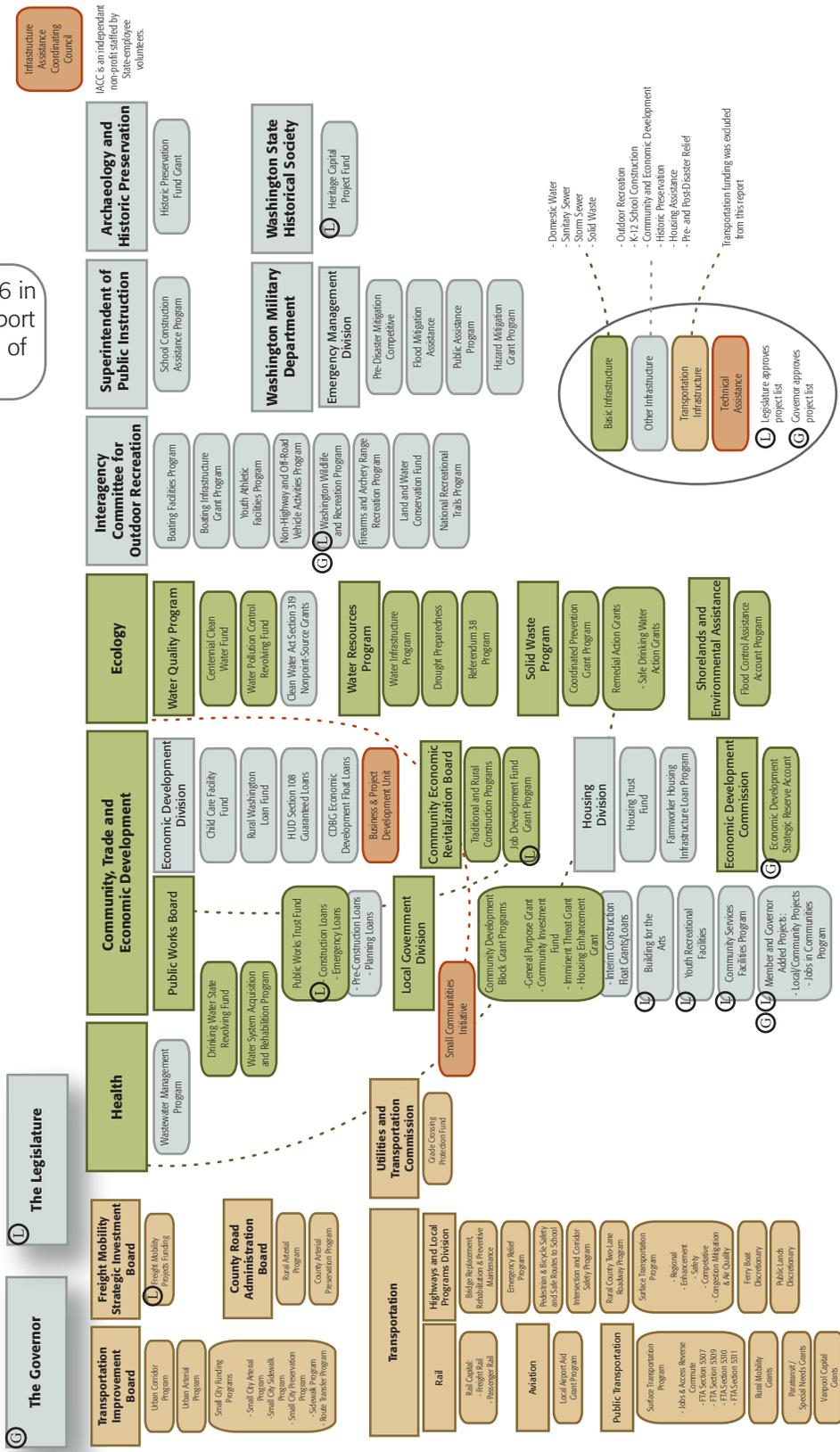
Please see Exhibit 5 in the body of the report for a larger version of this graphic.



Source: Berk & Associates, 2005

Exhibit ES - 3 System Map for All Washington State-to-Local Infrastructure Funding, 2005

Please see Exhibit 6 in the body of the report for a larger version of this graphic.



Source: Berk & Associates, 2005

Exhibit ES - 4
System Map for Washington State-to-Local Basic Infrastructure, 2005

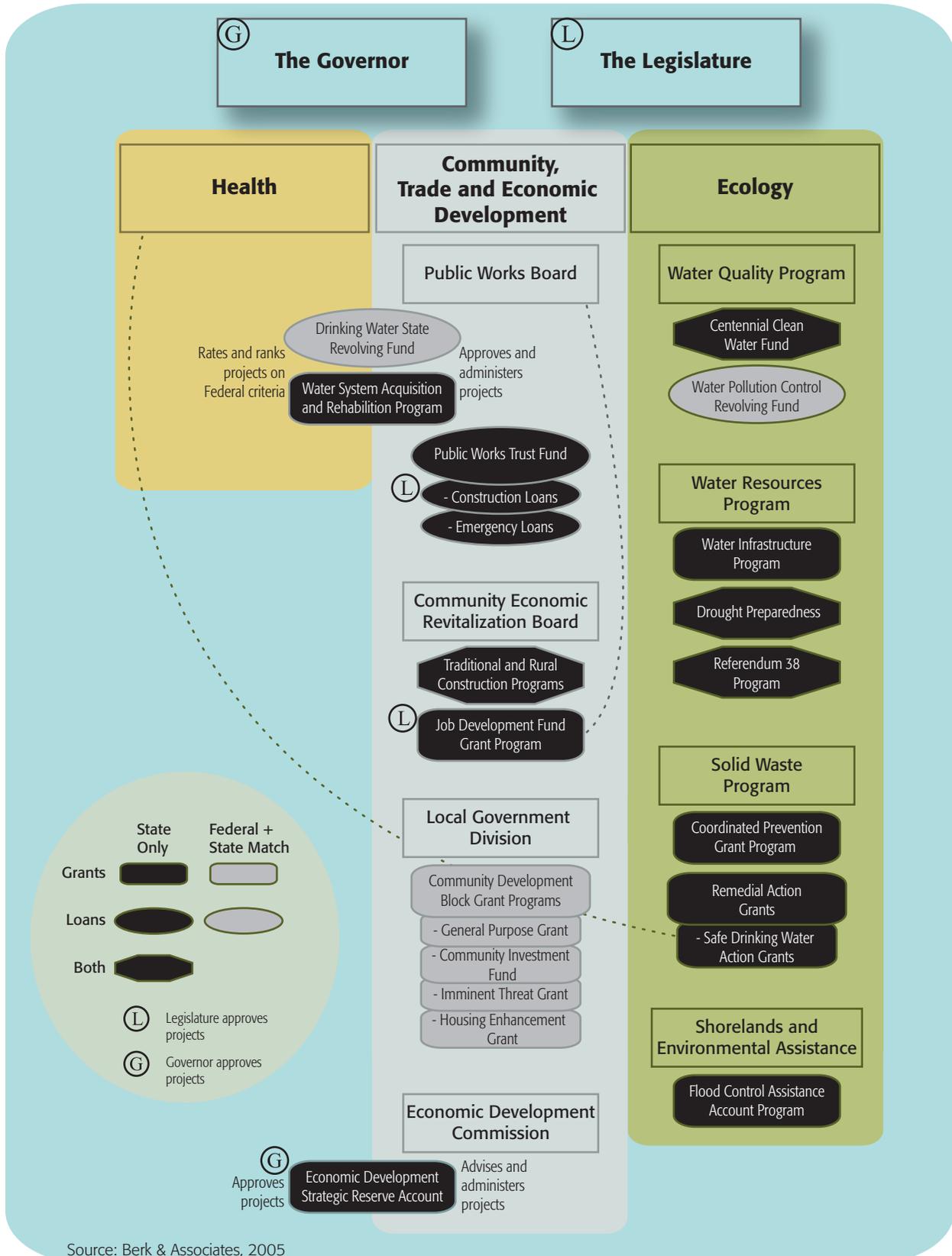


Exhibit ES - 5
Basic Infrastructure Programs and Eligible Project Categories, 2005

Please see Exhibit 8 in the body of the report for a larger version of this graphic.

	Awarded 2004	Capital Budget 2005-7	Drinking Water		Storm Water	Flood/Irrigation Management	Housing	Community Facilities		Outdoor Recreation	Other Utilities	Business & Economic Development Facilities											
			Grant	Loan				Health Facilities	Public Safety														
Public Works Board																							
Public Works Trust Fund Construction Loan	\$155,000,000	\$248,300,417	<input checked="" type="checkbox"/>																				
Public Works Trust Fund Emergency Loan	\$2,154,890	\$3,000,000	<input checked="" type="checkbox"/>																				
Community Economic Revitalization Board																							
Traditional and Rural Construction Programs	\$6,318,137	\$20,448,657	<input checked="" type="checkbox"/>																				
Job Development Fund	\$0	\$0*	<input checked="" type="checkbox"/>																				
* \$50 million in Legislature-selected projects will be administered by staff in 2005-7; \$50 million in grants will be awarded each biennium.																							
Dept. of Health / Public Works Board																							
Drinking Water State Revolving Fund	\$39,000,000	\$20,000,000	<input checked="" type="checkbox"/>																				
Water System Acquisition and Rehabilitation	\$4,000,000	\$2,000,000	<input checked="" type="checkbox"/>																				
Community Development Block Grant																							
CDBG Community Investment Fund Grant	\$5,137,187	\$4,107,728	<input checked="" type="checkbox"/>																				
CDBG General Purpose Grant	\$10,201,164	\$21,668,448	<input checked="" type="checkbox"/>																				
CDBG Housing Enhancement	\$624,578	\$800,000	<input checked="" type="checkbox"/>																				
CDBG Imminent Threat Grant	\$0	\$166,000	<input checked="" type="checkbox"/>																				
Dept. of Ecology Water Quality																							
Centennial Clean Water Fund	\$11,176,478	\$38,000,000	<input checked="" type="checkbox"/>																				
Water Pollution Control Revolving Fund	\$85,161,045	\$239,616,286	<input checked="" type="checkbox"/>																				
Dept. of Ecology Water Resources																							
Drought Preparedness	\$1,600,000	\$6,600,000	<input checked="" type="checkbox"/>																				
Referendum 38 - Water Supply Facilities	\$7,000,000	\$0	<input checked="" type="checkbox"/>																				
Water Infrastructure Program	\$5,800,000	\$12,000,000	<input checked="" type="checkbox"/>																				
Dept. of Ecology Shorelands & Environmental Assistance																							
Flood Control Assistance Account	\$1,214,000	\$2,100,000	<input checked="" type="checkbox"/>																				
Dept. of Ecology Solid Waste																							
Coordinated Prevention Grant	\$18,100,000	\$14,200,000	<input checked="" type="checkbox"/>																				
Safe Drinking Water Action Grants	\$75,750	\$3,000,000	<input checked="" type="checkbox"/>																				
Number of Programs Funding this Infrastructure Category			14	8	10	10	10	10	6	9	3	3	2	2	2	2	2	2	2	2	2	2	2

Source: Berk & Associates, 2005

III. STRATEGIC SYSTEM ASSESSMENT AND PROGRAM EVALUATION

The strengths, challenges and opportunities of the State's local infrastructure funding system are summarized below:

A. Strengths

- Client satisfaction with programs is high
- Washington is considered a national leader in performance measurement
- Washington's infrastructure programs are well respected and the State is considered a national model for infrastructure funding
- Washington offers more programs and funding opportunities to local governments than most states
- The mix of loan and grant funds helps local governments meet their needs, and both play important roles in the system
- Programs are operating as intended by the legislature
- Significant technical assistance is provided and inter-program collaboration happens informally

B. Challenges

- The State has a collection of programs not designed to operate as a system
- Overlap among programs exists and makes the system less efficient
- Not clear how to define program success
- The system of programs continues to grow and change, with new programs added and in some cases deleted
- The proliferation and complexity of programs has unintended consequences
- Increasing project earmarks complicate program operations
- Independent boards operating within administrative agencies pose management challenges
- The effectiveness of many programs is challenged by understaffing

C. Opportunities

- Many component parts are in place to create a workable system
- Statewide infrastructure policy direction is needed
- Client satisfaction is high, but programs are not well understood by observers and stakeholders

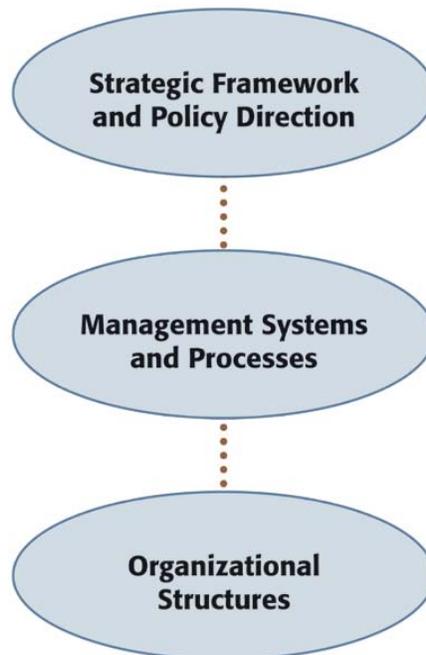
IV. ELEMENTS OF AN OPTIMALLY DESIGNED, GOVERNED AND MANAGED SYSTEM

Overview: Assessment Framework

Recommendations in the following Section are founded on a strategic management framework that integrates and prioritizes three requirements for a well-managed organization or system of organizations: (1) clear strategic framework and policy direction; (2) robust management systems and processes; and (3) aligned organizational structures.

Exhibit ES - 6 shows the linear relationship among these three system attributes, reflecting the concept that an overarching strategic framework, policy direction and priorities should drive implementation of management systems and processes, which in turn help define appropriate organizational structures. Following this construct means that organizations should focus first and most broadly on defining a clear strategy and policy direction, from which meaningful performance and outcome measures can be developed. Operationalizing the strategy and policy direction is the responsibility of agency managers, through design and implementation of effective systems and processes, including information technology, human resources, financial management, and communication and reporting systems. The question of how this can most effectively and efficiently be accomplished, by itself and in alignment with the broader policy objectives, is answered through thoughtfully designed organizational structures and relationships.

Exhibit ES - 6 Strategic Management Framework Aligning Strategy, Systems and Structures



Source: Berk & Associates, 2005

A. Strategic Framework and Policy Direction

An optimal system of infrastructure programs would have:

- Strategic Policy Direction on State Investment Goals and Priorities
- Strategic Plans and Planning Processes for Each Program
- Performance Measures That Effectively Communicate Program Impacts and Outcomes

B. Management Systems and Processes

Desired management systems include:

- Excellent Service Provision
- Responsiveness to Customer Needs and Stakeholder Feedback
- An Efficient Award Process
- Financial Management, Including Fiscal Policies and Tools
- Communication and Reporting
- Information Technology Systems
- Organizational Learning and Growth

C. Aligned Organizational Structures

In an optimal system, organizational structures in place would be aligned with organizational missions and operating requirements. Programs with similar missions would be organized together. Where programmatic requirements and features dictate different operating approaches and/or different constituencies, separate organizations should be considered. The goal is to have mission-focused organizations, with efficient internal systems and relatively clear constituent bases. Developing such an organizational structure is more art than science, and represents one of the most challenging leadership tasks. There is often pressure to reorganize structures to solve underlying strategic or systemic problems – this is a pressure to be resisted as it will not solve the root problems.

Organizational structure questions have been posed in this study: should there be consolidation or reorganization of existing programs and agencies? The best approach for the State would be to centralize program administration to provide “just enough” program management and oversight, and no more. Where programs do similar or related activities, their work would be centralized in as few organizations as possible. A particular question for Washington’s dispersed network of programs is how integrated and coordinated the key internal management systems should be – particularly the fiscal management of loan and grant funds, and data collection, analysis and reporting systems – two areas where system standards and integration are appropriate. At a minimum, effective coordination across programs is needed to provide for data integration and common outcome reporting measures, information sharing and best practices discussions, and organizational learning.

V. RECOMMENDATIONS

Nine major recommendations are organized into three related categories: strategic framework and policy direction; management systems and processes; and organizational structure.

A. Strategic Framework and Policy Direction

Overview. Four recommendations are presented below to increase the strategic focus and direction of the State's infrastructure programs, and to recognize the systemic effects of program relationships. The recommendations are intended to enable the State's programs to work together, across agencies, as an interactive system, with alignment between policy, management and performance outcomes.

1. Govern and Manage the Programs as a System

The programs are a de facto system of investing and distributing millions of dollars annually across the State. The programs need to be recognized as a system, in which action in one part of the organism triggers impacts and reactions elsewhere. Strategic policy direction and management approaches that enable the whole system to function more effectively are needed.

2. Strategic Direction on State Investment Goals and Priorities is Needed

Given biennial spending of around \$650 million on the State-to-local infrastructure programs included in this report (plus nearly \$700 million in State-to-local transportation funding), the State has a responsibility to assume a more strategic investment approach to the distribution of this funding. A more focused approach to program creation is recommended, one that makes best use of the existing program network, and that discourages the creation both of new programs to address specific new needs, and member- or Governor-added projects that duplicate areas of focus by one of the existing competitive programs. Instead, development of a strategic investment framework that provides overarching policy direction to the programs is recommended, resulting in more focused operational management and priority-setting. This policy direction should be broader than those programs identified in this report as having to do with "basic" infrastructure. Funding for a broader range of infrastructure, including transportation infrastructure, should be included under this strategic investment framework.

A particular area to be addressed in this framework is the dynamic tension that exists on the one hand between the State's responsibilities for infrastructure safety, public health and system preservation, and on the other hand, the need for the State to participate effectively in economic development initiatives. These two areas of focus are important and interlinked, and the State strategic direction on infrastructure investments should articulate a commitment to both while establishing overarching goals and priorities for investments made across programs. Until this year, the economic development component of infrastructure investment had been an underemphasized element of the State's system; this has been redressed through the two new economic development funds created by the Legislature. However, with the **CERB Job Development Fund** sunsetting in 2011, this mechanism to address economic development needs is temporary.

3. Strategic Plans and Planning Processes are Needed for Each Program

Each program should develop a strategic plan that is in alignment with the State's overall strategic direction and priorities, and that articulates goals and action steps in key areas, including: program improvements and customer service; financial and cost management; internal systems development and improvement; communication and reporting; and organizational growth and learning. These plans should also include outcome-based performance measures. Performance measures and metrics should flow from and be aligned with overall strategic direction, goals and activities. The strategic plans are the place to link the GMAP outcome measures to agency activities. This is necessarily an iterative process – the agency's planned activities need to be congruent with the outcome measures they wish to report. If the activities can't support the measures, management should look critically at both ends – at the internal systems in place and at the reasonableness of the performance measure.

4. Create an Infrastructure Policy Forum to Coordinate Across Agencies and Programs

In addition to supporting better coordination and collaboration, establishing an Infrastructure Policy Forum would facilitate organizational learning and growth. Even with existing programmatic objectives which range from ensuring public health and safety to environmental protection to economic development, these programs share a common tool – infrastructure investment – and many common functions. They have much to learn from one another, including best practices related to providing technical assistance; soliciting and evaluating applications; grant and loan management; and overall financial management.

The Infrastructure Policy Forum may serve as the best mechanism to advance this study's recommendations, particularly in the short-term. The study's first three recommendations listed above call for more coordinated management of the State's infrastructure investing programs. Until overarching strategic direction is formally established by the State's policy makers, the Forum can serve to articulate increasingly broad strategic direction and priorities, can advance cross-program coordination and help the programs align around shared strategies. Given this role, we recommend that the Forum be established as an early step in improving management of the State's infrastructure investment programs.

Composition of the Forum's membership is critical, both to ensure adequate representation of diverse views, including those of local government, and to ensure that Forum participation is an agency priority. It will also be necessary to provide adequate staff and other resources to support the Forum's success.

The Forum could be modeled on the **Governor's Forum on Monitoring Salmon Recovery and Watershed Health**, comprised of agency heads who meet quarterly to coordinate technical and policy issues and actions. The Forum was created by Executive Order, is staffed by the IAC, and is required to report biennially to the Governor, the Legislature and the Salmon Recovery Funding Board. Another model is the **Governor's Economic Revitalization Team (GERT)** in Oregon, in which eight agency heads meet monthly to bring their combined resources to bear on priority projects. GERT was also formed by Executive Order, and issues an annual report describing progress on the group's activities and programs. The Team also issues an Annual Performance Progress report, with key metrics.

B. Management Systems and Processes

Overview. The State’s infrastructure funding programs are working relatively well in terms of day-to-day service provision and customer service. Funds are disbursed to local entities based on delineated procedures and following clear selection criteria, guidelines and processes. Program staff are focused on providing technical assistance to the jurisdictions to develop good project applications, and efforts are ongoing to provide good customer service through outreach with communities and on-call assistance in completing project applications.

Organizational efficiency and effectiveness is very much dependent on having good internal systems and processes in place. While the importance of internal systems is often underappreciated, functional and integrated systems enable an organization to deliver quality services in a timely and cost-effective manner. This evaluation finds that the most significant improvements needed within the State’s network of programs are system improvements in three related areas: financial management; communication and reporting; and information technology systems.

5. Recognize and Effectively Manage the Infrastructure Programs as Banks

Staff with specific expertise in fund management and banking, as well as staff with expertise in public fund management and local financing alternatives for local infrastructure investments, should be engaged to review and manage program funds and portfolios. This expertise will augment existing staff expertise in program-specific issues such as economic development, environmental management and basic infrastructure planning. Fund management practices for each program should be analyzed, and a baseline assessment should be prepared of the practices, principles and tools in place for each program. Best practices and common financial policies for the programs should be developed to ensure that programs are putting their resources to work as effectively as possible. Issues to be addressed should include loan rate strategies, terms and conditions offered; risk-modeling; fund balance levels and reserve requirements; cash management approaches and other aspects of fund management.

The maintenance of funding sources in perpetuity is highly desirable, with interest rate strategies established to support this outcome. These interest rate strategies should not be developed for individual programs in isolation, however, as it is important to maintain a mix of funding sources, including sustainably managed loan programs – and lower cost loans or grants for jurisdictions which cannot afford loans priced to offset inflation over the lifespan of the program. The tension between providing low-cost funding to communities that need it, while at the same time practicing sound financial management, will continue to be a challenge.

Interest rate strategies for individual programs should be established and updated not only with reference to other programs in the system, but also with regard to conditions in the municipal bond market. For credit-worthy clients, prevailing market rates have significant impact on the relative attractiveness of State programs. To make most efficient use of public funds, the State should explore ways to support and facilitate local government access to the bond market, including mechanisms to pool debt to achieve more desirable terms. Other states provide examples of how this may be done.

To support programs operating effectively as banks by efficiently distributing available funds, options should be explored to streamline award-making processes. Options include pre-appropriation of

funds, non-appropriation for State Revolving Funds and a reduction in the number of oversight bodies that must approve awards.

The relationship among overlapping programs – particularly the **Public Works Trust Fund** and Ecology's **Water Quality Program** – should be specifically analyzed, including an assessment of appropriate interest rates, loan terms and award conditions to enable the programs to function effectively and efficiently as a system.

6. Invest in Financial Management Systems that Increase Efficiency and Reduce Duplicated Efforts

Currently, each program and agency has its own accounting and financial reporting system, which is not integrated with the State's central accounting and financial reporting system (AFRS). For some programs, accounting information is entered two or three times, once in the program's accounting system, again at the agency level, and again into AFRS.

7. Invest in Modern Enterprise Information Systems to Support Integrated Program Decision-Making and Reporting

The State needs effective information systems tools that can efficiently track program operations and funding awards, and that can integrate across programs, activities and departments. The State is currently operating with legacy systems that are 10, 12, 13 or more years old. While some programs and agencies have better systems than others (IAC's PRISM system is especially notable for effectively integrating all aspects of program management from on-line applications to grant tracking to performance monitoring), in general the State has historically underinvested in information systems that can make programs function more efficiently, by themselves and as a system. The programs assessed each have different information systems and different levels of expertise about information technology and systems management. With renewed emphasis on accountability, performance measures and results – by the Governor, the Legislature and the public – good program data and data reporting tools are critically needed. Cross-agency efforts to design and acquire a new enterprise data management system are currently underway between CTED and DOE. This effort should be approved and supported with financial and staff resources.

8. Use Information Technology to Create a Single Portal of Electronic Entry into the State's System for Improved Information Processing, Collection and Reporting

A single portal would serve multiple purposes and have multiple benefits. It would:

- Enable the State to capture comprehensive information on program applications and jurisdictions' needs
- On-line applications could be updated as needed by jurisdictions and from year-to-year
- Serve as a host for a needs database – local governments could enter their capital facility projects and needs into the system on an annual basis, enabling the State to assemble a relatively low-cost Statewide infrastructure database (while such a database would be useful for cataloging

communities' known basic infrastructure needs, it would be less relevant for programs such as CERB which respond to opportunities to support the siting or expansion of specific businesses)

- Performance measures by program could be posted to the home page, providing easy access to this important information

The IACC's website could be a starting point for the portal. The Council could play a role in creating or participating in creating a single portal into the State system of infrastructure programs. The IACC is not a State agency or program, but a non-profit organization staffed by volunteers, so appropriate roles and the source of additional support resources would need to be determined. Staff are already working on a local infrastructure needs assessment database (LINAS) which would enable local governments to centrally report their infrastructure needs.

C. Organizational Structure

Overview. Many organizational issues and options were assessed in this study. These include: joining administration of the two environmental state revolving loan funds – the Water Pollution Control SRF and the Drinking Water SRF; adding the WPCRF to the DWSRF/PWTF joint administration arrangement; supporting programmatic and financial administration of program; grouping CTED's infrastructure programs together into one Division in the agency; spinning CTED's infrastructure programs off into a separate agency; and others. For each option, the potential benefit of the change was assessed against the costs: administrative, financial, legal, political and programmatic.

9. Group CTED's Infrastructure Programs in One Division within the Agency

Co-locating CTED programs that make investments in local infrastructure will facilitate information sharing and collaboration around program needs and opportunities, and even more importantly, will provide an organizational platform for integrated system improvements in the most needed areas: financial management, communication and reporting, and information technology systems.

While program goals may range from the protection of public health and safety to economic development, these programs share much in common, including their use of infrastructure investment as a means to achieve their programmatic goals, the financial management challenges of operating effectively as banks, and some portion of their typical client base. In today's decentralized system, program staff do a commendable job collaborating with other programs, through formal and informal mechanisms including the IACC, the SCI and simply by knowing one another's programs and assisting communities in locating the most appropriate funding source.

Co-locating programs in one division represents the best opportunity to establish broad, unifying strategic direction, together with common practices, common systems and common reporting. The desired result is not merely a change to the Department's organization chart, but a group of related programs that truly operate as a division.

It is important to continue to recognize the differences among these programs, acknowledging that while local infrastructure investments are a common focus, this tool may be employed to differing ends. Our proposed name for this new division – the Economic and Infrastructure Investment Division – reflects this complexity.

A concern articulated by some stakeholders is that grouping the programs – and their funding – together will make them more of a fund-raiding target, or will otherwise reduce funds flowing to the programs. While this would not be a desirable outcome, the systemic and organizational benefits of grouping entities that share much in common outweighs the potential risks associated with their grouping.

Exhibit ES - 7 shows those CTED programs recommended for co-location within the Economic and Infrastructure Investment Division. Other programs noted are not recommended for co-location, though they may share some of the same commonalities. Therefore, it is recommended that these other programs participate in the Infrastructure Policy Forum and be held to common financial management practices. The Exhibit reflects the rationale guiding each recommendation.

The option of separating the infrastructure programs, particularly the Public Works Board, into a new agency is one that likewise has had its proponents, and CTED has recently created the Public Works Board Division. However, separating the Boards, and/or programs from CTED and creating a new agency is not recommended at this time. Such a reorganization is likely to further silo these programs, and consequently work against addressing the common challenges they face. Addressing the key challenges – improving and integrating application processes; developing financial management principles and standards – improving data collection and reporting systems; and developing appropriate performance measures will go a long way toward integrating the individual programs into a more efficient and cohesive system of programs.

**Exhibit ES - 7
Recommended Co-Location of CTED
Economic and Infrastructure Investment Programs**

Economic Development Division	Local Government Division	Housing Division	Comments
Programs Recommended for Co-Location			
Community Economic Revitalization Board Traditional Program Rural Program Job Development Program Business and Project Development Unit	Public Works Trust Board Public Works Trust Fund Programs Drinking Water State Revolving Fund Water System Acquisition and Rehabilitation Program		These programs share a focus on “basic” infrastructure development, though they do so for different programmatic missions.
	Community Development Block Grant Programs – Local Government Division General Purpose Grant Community Investment Fund Imminent Threat Grant Housing Enhancement Grant Planning-Only Grant Public Service Grant Housing Rehabilitation Grant Interim Construction Float Grant/Loan		Many CDBG programs share a focus on basic infrastructure development. While other programs do not, it would be undesirable to locate CDBG staff in separate divisions, particularly given the common federal requirements under which the programs operate.
Child Care Facility Fund	Capital Programs Building for the Arts Community Services Facilities Program Youth Recreational Facilities Program Local/Community Projects; Jobs in Communities Program		While not focused on “basic” infrastructure, these programs share the practice of supporting capital development in local communities.
	Small Communities Initiative		SCI is an important element in the State’s basic infrastructure funding system.
Programs Not Recommended for Co-Location			
Community Development Block Grant Programs – Business Finance Unit CDBG Economic Development Float Loan Rural Washington Loan Fund Section 108 Loan Guarantee		Housing Trust Fund Farmworker Housing Infrastructure Loan Program	These programs are currently administered separate from the State’s other CDBG programs. Given their focus on support for private enterprises, they should remain apart from the proposed new division. A focus on affordable housing separates these programs from others recommended for co-location in the proposed new division.

INVENTORY AND EVALUATION OF THE STATE'S PUBLIC INFRASTRUCTURE PROGRAMS AND FUNDS

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ATTACHMENTS

- Attachment A. PROGRAM INVENTORY: SUMMARY TABLES
- Attachment B. PROGRAM INVENTORY: DETAILED TABLES
- Attachment C. PROGRAM INVENTORY: SUMMARY OF OTHER LOCAL INFRASTRUCTURE INVESTMENT PROGRAMS
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- Attachment F. PROFILES OF LOCAL INFRASTRUCTURE FUNDING IN OTHER STATES
- Attachment G. STAKEHOLDER INTERVIEW SUMMARIES
- Attachment H. CLIENT AGENCY INTERVIEW SUMMARIES
- Attachment I. SOURCES: INTERVIEWS CONDUCTED AND BIBLIOGRAPHY

Acronyms Used in this Report

AFRS	Accounting and Financial Reporting System	JDF	CERB Job Development Fund Program
BPD	Business and Project Development Unit	JLARC	Joint Legislative Audit and Review Committee
CCWF	Centennial Clean Water Fund	KPM	Key Performance Measures (Oregon)
CDBG	Community Development Block Grant	LINAS	Local Infrastructure Needs Assessment
CERB	Community Economic Revitalization Board	MMBA	Michigan Municipal Bond Authority (Michigan)
CFHMP	Comprehensive Flood Hazard Management Plans	MVET	Motor Vehicle Excise Tax
CIF	Community Investment Fund Grant (CDBG)	OFM	Office of Financial Management
CLP	Construction Loan Program (PWTF)	OSPI	Office of Superintendent of Public Instruction
CPG	Coordinated Prevention Grant	PA	Public Assistance Program
CSBG	Community Services Block Grant	PFCLRA	Public Facilities Construction Loan Revolving Account
CSFP	Community Services Facilities Program	POG	Priorities of Government
CTED	Department of Community, Trade & Economic Development	PRISM	Project Information System
CWA	Clean Water Act	PUD	Pubic Utility District
DAHP	Department of Archaeology and Historic Preservation	PWAA	Public Works Assistance Account
DOE	Department of Ecology	PWB	Public Works Board
DOH	Department of Health	PWTF	Public Works Trust Fund
DWSRF	Drinking Water State Revolving Fund	RCW	Revised Code of Washington
EDSRA	Economic Development Strategic Reserve Account	REET	Real Estate Excise Tax
ELP	Emergency Loan Program (PWTF)	RWLF	Rural Washington Loan Fund
EMD	Emergency Management Division	SCI	Small Communities Initiative
FCAAP	Flood Control Assistance Account Program	SDWAG	Safe Drinking Water Action Grants
FMA	Flood Mitigation Assistance Program	SRF	State Revolving Fund
GERT	Governor's Economic Revitalization Team (Oregon)	SRFB	Salmon Recovery Funding Board
GMAP	Government Management Accountability and Performance	SWP	Solid Waste Program (DOE)
GPG	General Purpose Grant (CDBG)	U.S.C.	United States Code
HCP	Heritage Capital Project Fund	WAC	Washington Administration Code
HEP	Housing Enhancement Program (CDBG)	WIGP	Water Infrastructure Grant Program
IAC	Interagency Committee for Outdoor Recreation	WMP	Wastewater Management Program
IACC	Infrastructure Assistance Coordinating Council	WPCRF	Water Pollution Control Revolving Fund
ITG	Imminent Threat Grant (CDBG)	WPCSRF	Water Pollution Control Revolving Fund
		WQP	Water Quality Program (DOE)
		WRP	Water Resources Program (DOE)
		WSARP	Water System Acquisition and Rehabilitation Program
		WSDOT	Washington State Department of Transportation

1.0 INTRODUCTION, PROJECT PURPOSE AND SCOPE

Washington State funds and administers a number of infrastructure grant, loan and technical assistance programs for local and regional governments, special purpose districts, tribes, non-profit entities and other operating agencies. These programs grant and loan millions of dollars annually through competitive application processes and a mix of board, legislative and administrative review and approval processes. Each program is legislatively authorized, and over time the programs have evolved and shifted, with new legislative direction, priorities and funding sources and amounts. New programs have been created, some programs have lapsed, and new funding criteria and directives have been added to some programs.

In recent years, some program observers and stakeholders have noted the complexity of this network of programs, including various application processes and timelines, approval requirements and funding criteria. Reasonable observers have asked reasonable questions about the State's infrastructure programs, including: How efficiently are they operating? Is there collaboration across programs? Can they be consolidated? What is the customers' experience accessing these programs? How successfully are they functioning?

Given these questions, the 2005 Legislature commissioned a study of the State's infrastructure programs, and the Office of Financial Management (OFM) engaged the services of the policy and management consulting firm Berk & Associates to conduct an inventory and policy-oriented evaluation of the State's various infrastructure programs and funding sources. As directed by OFM, the study specifically excludes both transportation and information technology programs and funds.

1.1 Infrastructure Inventory Categories and Key Definitions

Twelve categories of infrastructure programs were identified in the project's scope for inclusion in the study:

- Water quality
- Wastewater
- Stormwater
- Solid and hazardous waste
- Flood and irrigation management
- Emergency management
- Housing
- Health facilities
- Community facilities
- Public safety facilities
- Outdoor recreation

Initial work on the Program Inventory showed that there are a multitude and diversity of State programs within the infrastructure categories of interest. Some of these programs make infrastructure investments to support economic growth and development, while others make investments to protect public health and safety by ensuring adequate provision of essential water and sewer systems. The programs fund basic municipal infrastructure such as sewer, water and drainage system improvements, as well as provide capital funding for a range of community programs including cultural and youth recreational facilities; community service, historic structure and child care facilities; low income and farmworker housing; flood and hazard mitigation; and other programs. The **CERB**

programs also fund “Business and Economic Development Facilities” to support business location and growth. In all, more than 100 programs were identified in the initial scan. Given the breadth of the term “public infrastructure,” and the range and diversity of the 100-plus infrastructure programs preliminarily identified, attention was devoted to developing criteria to define the types of programs appropriate for inclusion in the project.

Infrastructure Definitions. The American Heritage Dictionary of the English Language Fourth Edition (2000) defines infrastructure as: *“the basic facilities, services, and installations needed for the functioning of a community or society, such as transportation and communications systems, water and power lines, and public institutions including schools, post offices, and prisons.”* Similarly, The New Oxford English Dictionary (1993) defines infrastructure as: *“the installations and services (power stations, sewers, roads, housing) regarded as the economic foundation of a country.”* These definitions present a useful starting point for identifying programs which should appropriately be included in this study.

The website of Washington’s Infrastructure Assistance Coordinating Council (IACC) states that, *“At a minimum, ‘infrastructure’ includes the built and natural infrastructure that exists in our communities. Roads, streets, bridges, water systems, sewer systems, solid waste systems, recycling facilities, stormwater systems, energy systems, and irrigation systems are among the built infrastructure that IACC deals with every year.”* The text goes on to say, *“We are also concerned about wetlands, sensitive environmental areas, historical facilities, cultural artifacts, air quality, and other environmental issues.”*

This study – the purpose of which is both to inventory and evaluate – captures summary-level information on a relatively broadly-defined set of infrastructure investment programs. This was necessary to understand the State’s range of infrastructure-related programs. To focus the study on core programs, a more fundamental definition of infrastructure was used to select a sub-set of programs for cataloging and evaluating in more detail.

1.2 Study Scope and Tasks Conducted

Inventory Programs and Funding Sources

A key finding from the many interviews conducted for this study is that no one person has a comprehensive understanding of the numerous programs that comprise the State’s mechanism for distributing infrastructure dollars to local entities. While policy makers, client agencies, program staff and other stakeholders may have an in-depth understanding and firmly held opinions about programs they interact with directly, no one understands more than their piece of the whole.

A primary intent of this study is to identify, map and describe the State’s collection of local infrastructure funding programs, as well as the funding mechanisms that support them. To support informed policy making, it is important to understand the universe of local infrastructure funding programs, as well as other related and connected programs. A significant policy change, reorganization or budget shift related to one program will have impacts on other programs. The more the interconnections among programs are understood, the more informed decision-making can occur, with reasoned tradeoffs and prioritization and fewer unintended and unforeseen consequences.

As described in Section 2.0, analysis in this report focuses on a core set of programs which offer grants and loans to support “basic” infrastructure, whether that investment is made for economic development purposes, to protect public health and safety, or for other goals. Programs providing funding for transportation projects, community facilities, outdoor recreation, and other uses are described in summary detail to provide more comprehensive context.

Funding of State-owned infrastructure, including State government facilities, highways, parks, and universities is not addressed in this study, but is obviously a related topic. Funding for this study did not allow study of State funding for local transportation projects because transportation studies must be funded through the State’s transportation budget. The separation of these issues by this budgeting practice hides real connections and overlap among programs and how local governments approach infrastructure investments. As also noted in this study’s Recommendations (Section 7.0), the relationship between transportation and non-transportation programs should not be disregarded.

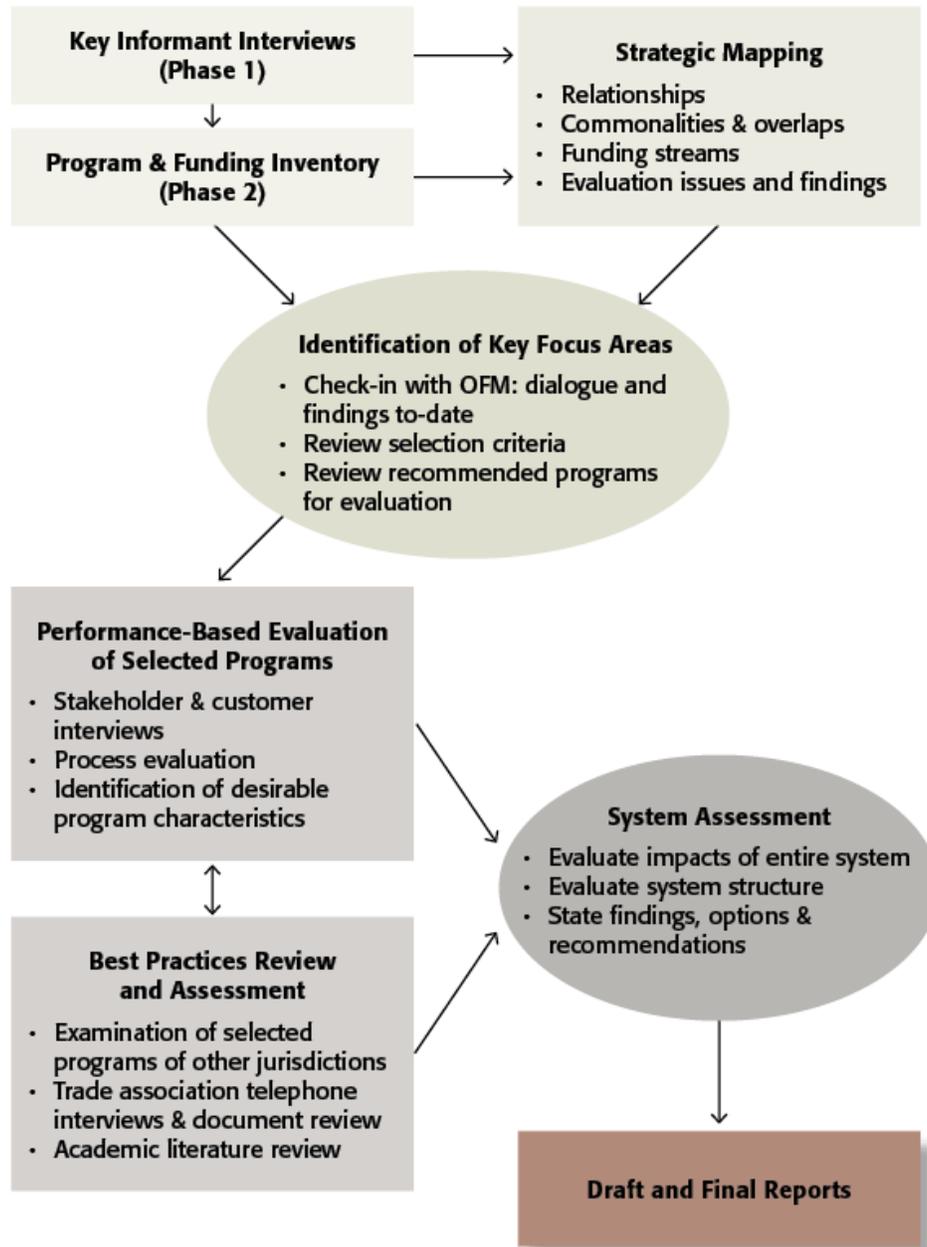
Evaluation of Programs Individually and Collectively

In addition to a descriptive inventory, the scope for this study called for program analysis, evaluation and recommendations. As described below, analysis was conducted of individual programs, and considerable time, discussion and thought was dedicated to evaluating how the collection of programs as a whole operates and is organized.

Study Methodology and Tasks

The study was conducted in a short time frame – three and a half months – from mid-August to December, 2005. Exhibit 1 presents the study’s work plan and a graphic illustration of the key tasks conducted.

Exhibit 1
Work Plan: State Infrastructure Program and Funding Inventory and Evaluation



The tasks delineated in Exhibit 1 are summarized below:

- **Strategic Mapping.** Strategic maps of the programs, purposes, relationships and points of connection or overlap and duplication were developed to visually diagram the programs and their funding sources.
- **Stakeholder and Informant Interviews.** More than 150 telephone and in-person interviews were conducted with legislators, legislative staff, senior agency staff, and board members and representatives of the trade associations that are significantly involved in the State's infrastructure funding process.
- **Identification of Key Program Evaluation Focus Areas.** Approximately 45 infrastructure programs that fit the study's definition and criteria were found to be operating in the State. Of these programs, a smaller subset of programs were identified for assessment in the program evaluation phase of the project. Selection and screening criteria identified were: size and scale of program; scale and impact of program awards; mix of grant and loan programs; mix of urban and rural communities receiving the funding; mix of different sizes of communities receiving the funding, including small, medium and larger communities; and mix of recipient categories, including local governments and special purpose districts.
- **Agency Client Interviews.** The program evaluation and system assessment was informed by information and insights received from interviews with agency clients. Working with OFM and the Departments, a representative sample of local agencies, non-profits and other program assistance funding recipients (the "clients") were identified. The interviews addressed service and delivery questions from the customers' perspective, including:

Is the program operating as it was intended? How efficiently are services provided and the program administered? Are service delivery processes (including the application process and project evaluation criteria) clearly communicated and are those processes consistently followed? Are the program's goals and objectives clearly stated and understood by customers and stakeholders? Are those goals and objectives being achieved? What outcomes are being achieved given the resources allocated? What are the financial and time costs to applicants of submitting an application for the program and meeting program requirements? What are the program coordination and project timing challenges? What is the programs ability to address emerging infrastructure issues and trends

- **Best Practices Review and Assessment.** An important part of the analysis was developing an understanding of the state-of-the-practice and where Washington is located on the spectrum of infrastructure program and funding approaches nationally. Questions addressed included: How is Washington's program structure similar to, and different from, those operating elsewhere? What works well in other states, and under what circumstances? How is success defined and measured in other states? What trends and changes in program administration and governance have occurred in other states? To answer these questions a three-part research effort was undertaken: (1) literature review; (2) telephone interviews with associations and policy groups across the country that have examined this issue; and (3) telephone interviews with program managers and analysts in the individual states that have program and organizational models of interest.

-
- **Performance-Based Program Evaluation and Systems Assessment.** Based on the findings and observations from the previous sub-tasks, the State's infrastructure program was assessed from two perspectives: (1) a "bottom up" review of selected programs and their operating characteristics; and (2) a "top down" analysis of the State's overall infrastructure funding system and its strengths, challenges and opportunities for improvement.

1.3 Relationship to Other Studies

This study built upon the analysis and findings of two previous studies:

The ***Public Works Board's Local Government Infrastructure Study***, completed in 1999, surveyed 487 local jurisdictions including cities, counties, public utility districts, and sewer and water districts, asking for their identified capital facility needs in five areas: streets, bridges, water, sewer, and stormwater. This study, which is the most recent analysis of local government infrastructure needs, found a total infrastructure funding gap of \$3.05 billion in 1998 dollars. The study was purposefully conservative in its methodology, asking jurisdictions to report on only those projects contained in their six-year capital facility plans. It was also conservative in that only 324 jurisdictions submitted information; these jurisdictions comprised 91% of the State's population at the time of the report.

The Joint Legislative Audit and Review Committee's (JLARC) 2001 study, ***Investing in the Environment: Environmental Quality Grant & Loan Programs Performance Audit*** assessed 12 capital budget programs administered by six agencies that disburse environmental grant and loan funds. Programs studied by JLARC that are included within the scope of this study are the **Department of Ecology's Water Quality Financial Assistance Program, the Public Works Trust Fund**, and those programs administered by the **Interagency Committee on Outdoor Recreation**.

The JLARC report recommended actions to achieve the following four key objectives: (1) increase the systemic collection and sharing of information about program applications, projects, and investment outcomes that can be used to better plan and design projects, coordinate investments across programs, evaluate investment performance and learn from past investments; (2) integrate recommended practices into program structures and operations to shift the focus of program activities toward making sound environmental investments; (3) streamline and better integrate program services to local governments; and (4) ensure that funding agencies work together to achieve these goals.

The JLARC study has been supplemented by follow-up briefing reports issued in 2003 and 2005, which state that agencies are making some progress in achieving JLARC's recommended actions, particularly in the area of working with local governments. Progress in implementing cross-agency coordination and in developing investment outcome measures has been less apparent.

New JLARC Study in 2005-06. JLARC is beginning a new study of "all state public infrastructure programs and funds" requested by the 2005 Legislature in connection with the **CERB Job Development Fund** bill (House Bill 1903). The study will identify "the public infrastructure state programs and funds and the purposes each serve; how the program or fund is implemented; the types of public infrastructure projects supported by the program or fund; the dollar amount of the projects funded by each program or fund; the balance of a fund, if applicable; and the geographic distribution of projects supported by a program or fund." In addition, the study will "identify overlaps

or gaps in types of public infrastructure projects” and “evaluate the return on investment for economic development infrastructure programs.” The study is due to the Legislature on December 1, 2006, with a separate evaluation of the CERB Job Development Fund to be submitted by September 2010. JLARC is expected to build from the research, analysis, and findings of this report when completing the study required by HB 1903.

1.4 Strategic Context: Statewide Management and Performance Initiatives

In recent years, Washington has undertaken several major new management initiatives designed to make State government more outcome-oriented and accountable. This study was performed with an understanding of these initiatives and their current alignment, and with a focus on how the State’s infrastructure and funding programs could best be coordinated and aligned within the State’s broader performance management improvement efforts. These efforts include:

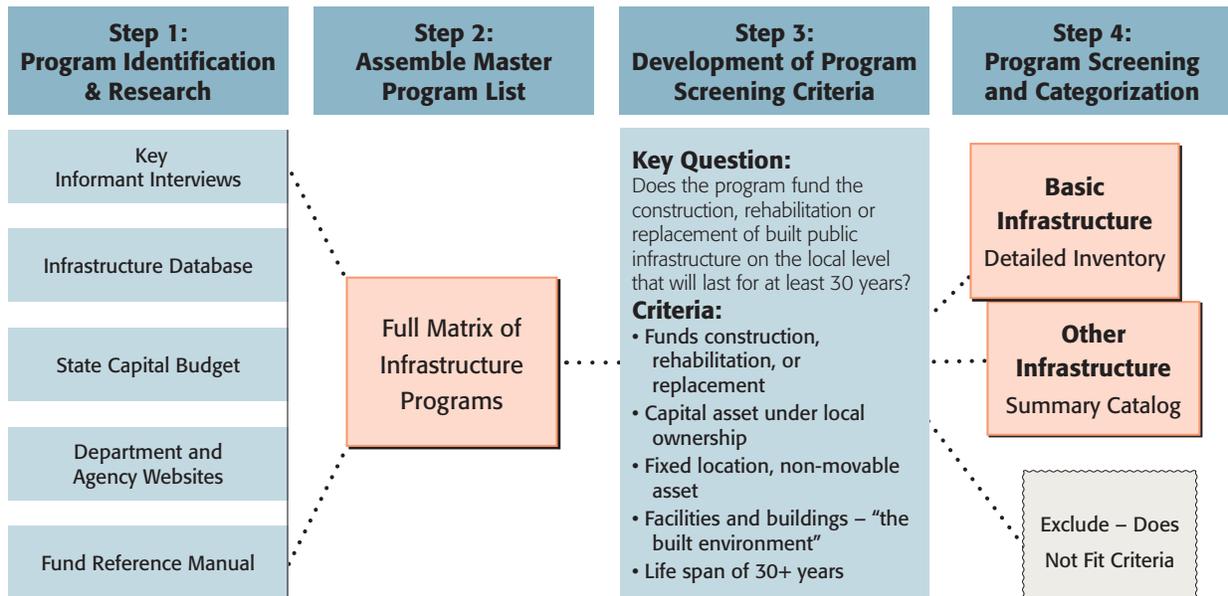
- **The Priorities of Government (POG) program**, begun in 2002, continued in 2004 and currently in the 2007-09 budgeting process. The POG program identified 10 government results areas and associated indicators of success, “purchasing plans,” and major purchasing strategies. The 2004 POG Report, which informed the Governor’s 2005-07 biennial budget request, contained infrastructure-relevant recommendations in two results areas: Economy and Environment. Within the Economy Results section, the report called for stabilizing the Community Economic Revitalization Board (CERB) program funding, and redefining the scope of the CERB investment portfolio and expanding the Small Communities Initiative (SCI) pilot project. The Environmental Results priorities call for improving on-site septic management at the local level; “outside assessments” of natural resource grant programs, data and monitoring activities; and land acquisition and management to improve performance and achieve cost savings.
- **The Governor’s Government Management Accountability and Performance (GMAP) program**, which focuses on program results and performance-based outcome measurement. The GMAP program has identified five initial focus areas: education, healthcare, environment, government accountability, and the State budget. The initiative goes beyond those specific issue areas, however, requiring all agencies to produce and report on outcome-based performance measures of their activities.
- **Strategic Planning Requirements.** Since 1993, the Legislature has required agencies to submit strategic plans to OFM; these are posted on-line at OFM’s web site. The State’s three strategic management initiatives – POG, GMAP and agency strategic planning – are intended to align together in an integrated system of strategic planning and performance assessment.
- **Roadmap for Financial and Administrative Policies, Processes and Systems.** OFM is leading an interagency business improvement program to improve the State’s “back office” functions and systems in the next seven fiscal years. The Roadmap Strategy is intended to leverage State investments in systems and data to achieve cost savings and economies of scale; promote interagency collaboration on improved enterprise management systems and data collection; and promote the adoption of best business policies, practices and processes.
- **Performance Audits.** The 2005 Legislature enacted ESHB 1064, the Statewide Performance Audit measure, which requires the State Auditor’s Office to conduct a statewide performance audit in 2006; the scope of this audit is currently being developed. In November 2005 voters also approved Initiative 900, calling for a system of statewide performance audits.

2.0 PROGRAM AND FUNDING INVENTORY: METHODOLOGY AND CATEGORIZATION

2.1 Program Inventory Methodology

A four-step identification and screening methodology was developed to organize the inventoried programs into a useful analytic framework. This methodology is presented schematically in **Exhibit 2**, followed by a description of the research and analytical process.

Exhibit 2
Infrastructure Program Identification and Screening Methodology



Step 1: Program Identification, Research and Recording. As Exhibit 2 shows, Step 1 used five key sources to identify and develop a complete set of programs to include in the Inventory. The five sources were:

Key Informant and Stakeholder Interviews. The project team interviewed appropriate legislators; legislative staff; senior State agency staff; current and former program staff; board members; city, county and utility district representatives; and representatives of key trade associations concerned with the State’s infrastructure funding process. These interviews informed recommendations regarding criteria and focus areas for the program evaluation, as well as the overall system assessment. Early in the project, a series of telephone interviews were conducted with program managers and staff to determine baseline program characteristics and trends.

InfrastructureDATABASE. The Infrastructure Assistance Coordinating Council maintains an on-line database of State, federal and other infrastructure funding opportunities. This database (which can be found at <http://www.infracfunding.wa.gov/>) was obtained electronically and imported into the projects database. It was useful primarily in identifying relevant programs and to jump-start research prior to interviewing program staff for more detailed information.

State Capital Budget. The State's 2005-7 Capital Budget was reviewed line-by-line to identify potential programs.

Department and Agency Websites. A careful review of web sites of the following departments and agencies identified additional programs:

- Department of Archaeology and Historic Preservation
- Department of Community, Trade and Economic Development
- Department of Ecology
- Department of Health
- Department of Natural Resources
- Department of Social and Health Services
- Fish and Wildlife Commission
- Interagency Committee
- Military Department
- Office of Superintendent of Public Instruction
- Washington State Parks and Recreation Commission

Identification of Infrastructure-Related Accounts. Through a review of related accounts in the State's Fund Reference Manual, additional programs were identified and included in the Program Inventory.

Program Information Gathering and Recording Methodology. From the five sources described above, detailed information was obtained for each of the programs relevant to the study; these data were keyed into a database developed for the project.

Step 2: Assemble Master Program List. More than 100 potential non-transportation programs were compiled for analysis in Step 4, program screening and categorization.

Step 3: Development of Program Screening Criteria. In commissioning this study, the State is primarily concerned with assessing the system of State and federal funds awarded to regional and local governments, special districts and nonprofit organizations through State-managed project selection and administration processes. Given the breadth of the term "public infrastructure," and the range and diversity of the 100-plus infrastructure programs preliminarily identified in the program scanning phase of the project, special attention was devoted to developing criteria to define the types of programs appropriate for inclusion in the project.

Considering the purpose of this project and through conversations with OFM staff, it was determined the study would focus on State-to-local programs that contribute to long-term built infrastructure. This determination led to crafting of the following screening question to apply to potential programs: *Does the program fund the construction, rehabilitation, or replacement of built public infrastructure on the local level that will last for at least 30 years?*

Step 4: Program Screening and Categorization Process. Each of the 100-plus programs preliminarily identified was evaluated for its appropriateness in the Inventory, based on the screening criteria developed. Programs were screened into the following categories:

A. Include in Detailed Inventory. These programs are those of principle interest to this study. These programs fund non-transportation basic infrastructure including water, sewer, stormwater,

flood/irrigation management and solid waste systems and pass the following screens: Construction, rehabilitation or replacement of capital assets under local ownership; Facilities and buildings – “built infrastructure” – that are non-movable and have fixed locations; and Projects with a life span of 30+ years. A subset of these programs was identified later for particular focus in the program evaluation phase of the project.

B. Include at a Program Summary Level. These programs also constitute important elements in the State’s set of infrastructure funding programs. Funded infrastructure includes community facilities, historic preservation, housing, K-12 school construction, outdoor recreation and pre- and post-disaster relief. These programs are described in **Attachment C**.

C. Exclude – Does Not Meet Criteria. Programs that do not fit the screening criteria were not addressed further in this study. Programs with the following characteristics were excluded: State-to-State funding, such as State funding for the University of Washington or the State parks system; and Programs focused on environmental enhancements such as wetlands, sensitive environmental areas, air quality, habitat preservation and environmental clean-up.

Exhibit 3 presents a summary of programs sorted into the first two categories described above, and Exhibit 6 arrays the programs schematically.

2.2 Funding Inventory Methodology

The Funding Inventory was developed using information from several key sources:

- Interviews with key State personnel
- Data provided by State personnel
- State and federal agency web sites
- State and federal agency program reports
- The Office of Financial Management Fund Reference Manual
- The Department of Revenue’s 2005 Tax Reference Manual
- The Revised Code of Washington and the Washington Administrative Code
- The State Legislature’s Bill Information database

For each program, the budget officer and other key staff provided data on funding sources and funding history. Additional program funding information was collected from Department of Revenue reports and the Office of Financial Management. The Fund Reference Manual and the Revised Code of Washington were extensively consulted to inform the analysis. **Attachment I** lists State employees who assisted in developing the Inventory.

Exhibit 3 - Summary of Programs Included in this Study

Program	Agency	
Basic Infrastructure Funding Programs - Included at Detailed Level		
1980	Referendum 38 - Water Supply Facilities	DOE - WRP
1982	Community Economic Revitalization Board	CERB
1982	Community Development Block Grant General Purpose Grant	CTED
unknown	Community Development Block Grant Imminent Threat Grant	CTED
1984	Flood Control Assistance Account Program	DOE - SEA
1985	Public Works Trust Fund: Construction Loan Program	PWB
1986	Centennial Clean Water Fund	DOE - WQP
1988	Public Works Trust Fund: Emergency Loan Program	PWB
1988	Coordinated Prevention Grant	DOE - SWP
1988	Water Pollution Control Revolving Fund	DOE - WQP
1990	Safe Drinking Water Action Grants	DOE - SWP
1994	Community Development Block Grant Community Investment Fund Grant	CTED
1995	Community Development Block Grant Housing Enhancement Program	CTED
1996	Drinking Water State Revolving Fund	DOH/PWB
1999	Drought Preparedness	DOE - WRP
2003	Water System Acquisition and Rehabilitation Program	DOH/PWB
2004	Water Infrastructure Grant Program	DOE - WRP
2005	CERB Job Development Fund Program	CERB
2005	Economic Development Strategic Reserve Account	CTED/Gov.
Other Infrastructure Funding Programs - Included at Summary Level		
Pre-Construction Planning and Technical Assistance Programs		
	Small Communities Initiative	CTED
	Business and Project Development Unit	CTED
	Infrastructure Assistance Coordinating Council	Independent
	Public Works Trust Fund: Planning Loans	PWB
	Public Works Trust Fund: Pre-Construction Loan Program	PWB
	Wastewater Management Program	DOE
Community and Economic Development		
	Bond Cap Allocation Program	
	Building for the Arts	CTED
	Community Services Facilities Program	CTED
	Youth Recreation Facilities	CTED
	Child Care Facility Fund	CTED
	CDBG Economic Development Float Loan Program	CTED
	Rural Washington Loan Fund	CTED
	Section 108 Loan Guarantees	CTED
	Interim Construction Float Grant/Loan Program	CTED
Historic Preservation		
	Heritage Capital Project Fund	HRC
	Historic Preservation Fund	DAHP
Housing Assistance		
	Housing Trust Fund	CTED
	Farmworker Housing Infrastructure Loan Program	CTED
K-12 School Construction		
	School Construction Assistance Grants	OSPI
Outdoor Recreation		
	Boating Facilities Program	IAC
	Boating Infrastructure Grant Program	IAC
	Firearms and Archery Range Recreation Program	IAC
	Land and Water Conservation Fund	IAC
	National Recreational Trails Program	IAC
	Nonhighway Offroad Vehicle Account	IAC
	Washington Wildlife and Recreation Program	IAC
	Youth Athletic Facilities Program	IAC
Pre- and Post-Disaster Relief		
	Flood Mitigation Assistance Program	EMD
	Hazard Mitigation Grant Program	EMD
	Pre-Disaster Mitigation Competitive	EMD
	Public Assistance Program	EMD

Key
CERB: Community Economic Revitalization Board
CTED : Department of Community, Trade and Economic Development
Gov.: Office of the Governor
DOE: Department of Ecology
SEA: Shorelands and Environmental Assistance
SWP: Solid Waste Program
WQP: Water Quality Program
WRP: Water Resources Program
DOH: Department of Health
PWB: Public Works Board
HRC: Heritage Resource Center
DAHP: Department of Archaeology and Historic Preservation
OSPI: Office of Superintendent of Public Instruction
IAC: Interagency Committee for Outdoor Recreation

3.0 PROGRAM OVERVIEW AND DESCRIPTIONS

Infrastructure System Characterization. More than 150 interviews were conducted for this project with stakeholders, clients and program staff. Through the interviews, program and funding inventory research and document review, a picture of the State’s infrastructure programs emerged. The system can be characterized as:

- A diverse array of infrastructure investment programs offering both loans and grants serving a variety of needs, including economic development and the protection of public health and safety;
- A collection of programs, created and amended by the Legislature one at a time, to meet specific needs identified at that time and not designed to work together or recognized as an integrated system;
- An array of programs with some overlap, some of which benefits local jurisdictions and some of which create system inefficiencies;
- A complex network of programs that is not well understood, even by players involved in one or several aspects of the network – “an elephant that no one can see completely” and that is often misunderstood and under-understood; and
- A set of decentralized programs that, by their nature, lend themselves to suggestions for consolidation and restructuring, many of which have been identified and discussed over the years.

Varying Programmatic Goals Drive Infrastructure Investment. A key finding of this study is that the many State programs that make investments in local infrastructure do so to achieve a range of programmatic goals, with no overarching strategic direction.

Some programs, including **CERB’s Traditional, Rural and Job Development Fund** programs make infrastructure investments to support an economic development outcome (as noted below, with Washington’s constitutional prohibition against public lending of credit to private enterprise, infrastructure investment is a particularly important element of the State’s economic development toolkit). These programs are by designed by legislative intent, mission, operation, and outcome to function as business recruitment, expansion, and retention incentives, measuring their success in terms of the job and investment outcomes generated by business subsequent to the completion of the public sector project. **CDBG** programs may also have an economic development purpose to infrastructure investment.

Other programs make infrastructure investments to support programmatic goals of meeting regulations that protect public health and safety. Others may make infrastructure investments with the goal of enhancing a community’s quality of life. It is important to understand these different programmatic goals, and it is also important to recognize areas of overlap. When seeking locations for expansion or relocation, industry and large business often consider the quality and operation of basic infrastructure such as water and wastewater systems. Those programs that are structured to protect a population’s health and safety – or the cleanliness of a community’s natural environment – are therefore playing an important role in economic development, providing an essential foundation for private enterprise to build upon.

A conclusion of this study is that despite the varying programmatic goals of programs that make infrastructure investments, there are fundamental commonalities inherent in how they operate and the systems required to support their efficient and effective management.

3.1 Financial Context: \$2 Billion per Biennium Flow through the Programs

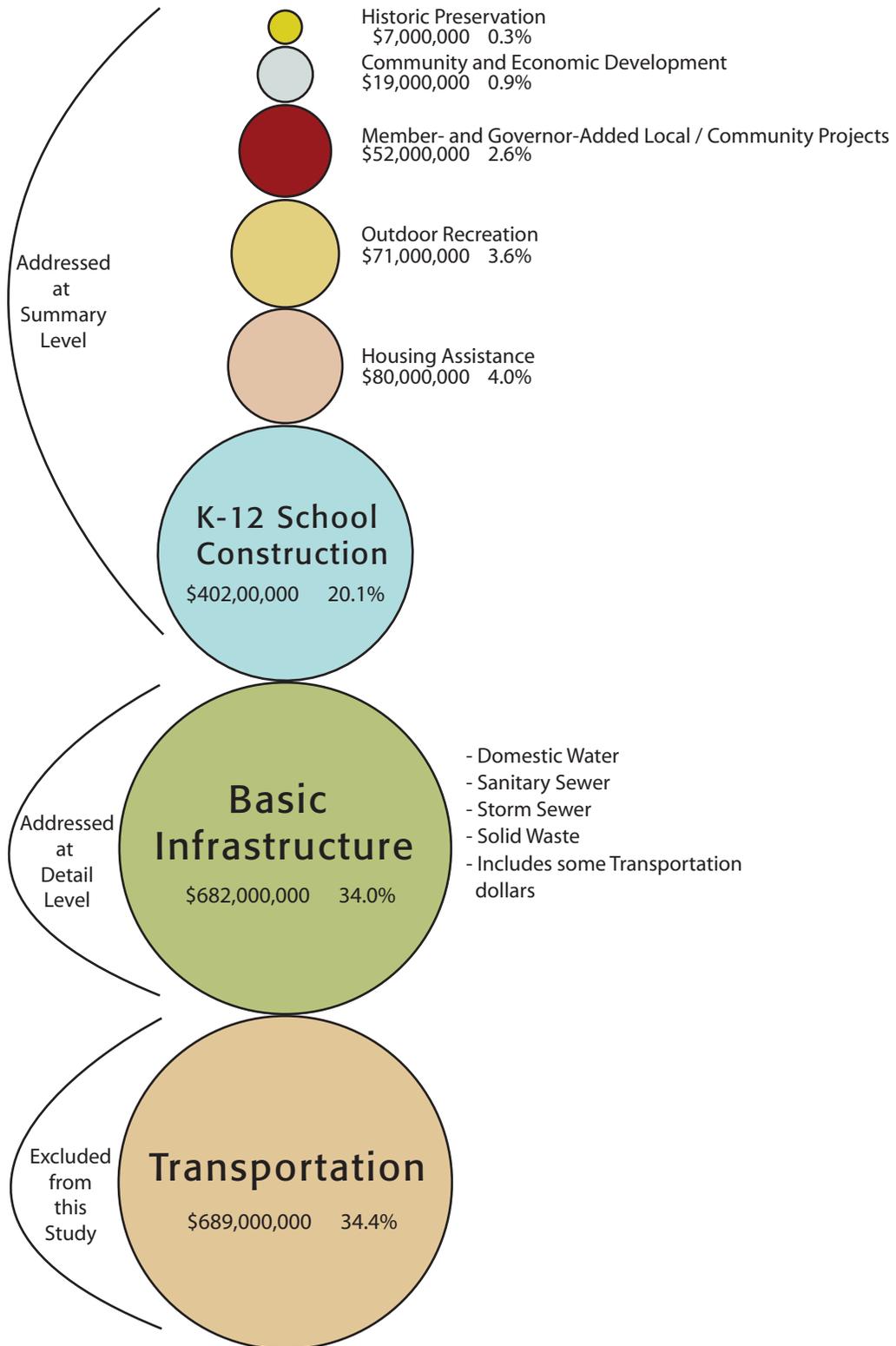
Exhibit 4 shows the total array of State-to-local infrastructure funding categories in Washington, and the approximate funding levels within each category. For the 2003-05 biennium, the capital budgets for these categories totaled \$2,003,000,000. These budget numbers include both State and, where applicable, federal contributions to the programs. The total State budget (operations and capital) was \$53 billion for the biennium, so capital funding for local infrastructure received 3.8% of the budget. It comprised 34.5% of the total capital budget, \$5.8 billion.

As the Exhibit shows, the program areas encompass State and federal pass-through funding in eight major categories: basic infrastructure (defined as water, wastewater, stormwater and solid waste projects)²; transportation infrastructure, including public transportation; K-12 school construction; housing assistance; community economic development, including community facilities; outdoor recreation; historic preservation; and member- and governor-added local/community projects.

Related funding types not addressed in this study and not represented in the Exhibit include State-to-State funding programs, such as for State facilities and higher education funding, and natural resource-focused programs not addressing built infrastructure, including salmon recovery, marine restoration, wetlands enhancement and other environmental programs.

² Some funding for transportation is also included in this category through the Public Works Trust Fund, as well as funding of Business and Economic Development Facilities through the CERB program.

Exhibit 4
State-to-Local Infrastructure Capital Funding in 2003-05:
A \$2 Billion System



Source: Berk & Associates, 2005

Note: Budgets are rounded to the nearest million dollars and include both State and Federal funds.

As Exhibit 4 reflects, the basic infrastructure and transportation infrastructure categories each make up roughly a third of total local infrastructure funding. K-12 School Construction funding is the third largest single category, at about 20%, and the remaining five categories together make up about 12%. Because the amount budgeted for pass-through infrastructure funding in 2003-05 totaled more than \$2 billion, even the smallest category, Historic Preservation at 0.3%, received \$7 million in funding.

3.2 Strategic Mapping to Illuminate the State's Programs

Given the complexity and challenge of understanding the State's programs, several strategic maps and schematic diagrams have been developed to graphically illustrate key aspects of the programs and how they relate to each other.

Legislative History and Program Timeline. Washington's complex network of infrastructure programs and funds is a consequence of State and federal directives and actions taken over time. Exhibit 5 presents a timeline of creation for the State's infrastructure system. As shown in the Exhibit, programs are regularly added and amended by Congress, the Legislature, and the State's voters. Most recently, two new programs were added in the 2005 legislative session: the CERB Job Development Fund and the Economic Development Strategic Reserve account. Other programs were added in 2003 and 2004 – the **Water System Acquisition and Rehabilitation Program** and the **Water Infrastructure Program** – and in 1999 the **Small Communities Initiative** and **State Drought Preparedness Account** were added.

Washington's Infrastructure System Has More Than 80 Programs. Exhibit 6 presents the array of State-to-local infrastructure funding programs currently operating in Washington. The Exhibit shows that there are more than 80 programs and sub-programs administered by 12 State agencies. Programs that are the focus of this report are shown in green, and shared authority among different agencies is represented by dotted lines. Programs for which award lists must be approved by the Legislature, often as part of an agency budget request, are marked with an "L." Those requiring approval by the Governor prior to being submitted to the Legislature, or which the Governor approves without the advice of the Legislature, are marked with a "G."

The Exhibit includes the State's transportation agencies and major transportation programs, since there are areas of intersection and sometimes overlap with transportation programs by the programs included in the study, in particular those administered by the PWB and CERB.

Exhibit 7 focuses in on the basic infrastructure funding programs analyzed in this study. It shows the programs in their organizational location and highlights their funding sources – State funding only, or Federal funding matched with State funding. It also shows what types of assistance can be offered by each program – loans only, grants only, or both loans and grants.

Basic Infrastructure Programs and Relationships. Exhibit 7 also shows where formal relationships exist between agencies to share responsibility for programs, as defined by the Legislature. The **Drinking Water State Revolving Loan Fund (DWSRF)** and the **Water System Acquisition and Rehabilitation Program (WSARP)** are both jointly administered by the State Department of Health (DOH) and the PWB. The **CERB Job Development Fund** is administered by CERB with PWB and legislative project approval, and the **Economic Development Strategic Reserve Account** is administered by the Economic Development Commission with project approval

by the Governor's Office. Finally, **Safe Drinking Water Action Grants** are administered by the Solid Waste Program within the Department of Ecology, but the Department of Health identifies which sites are eligible for the program and provides technical oversight regarding water quality standards.

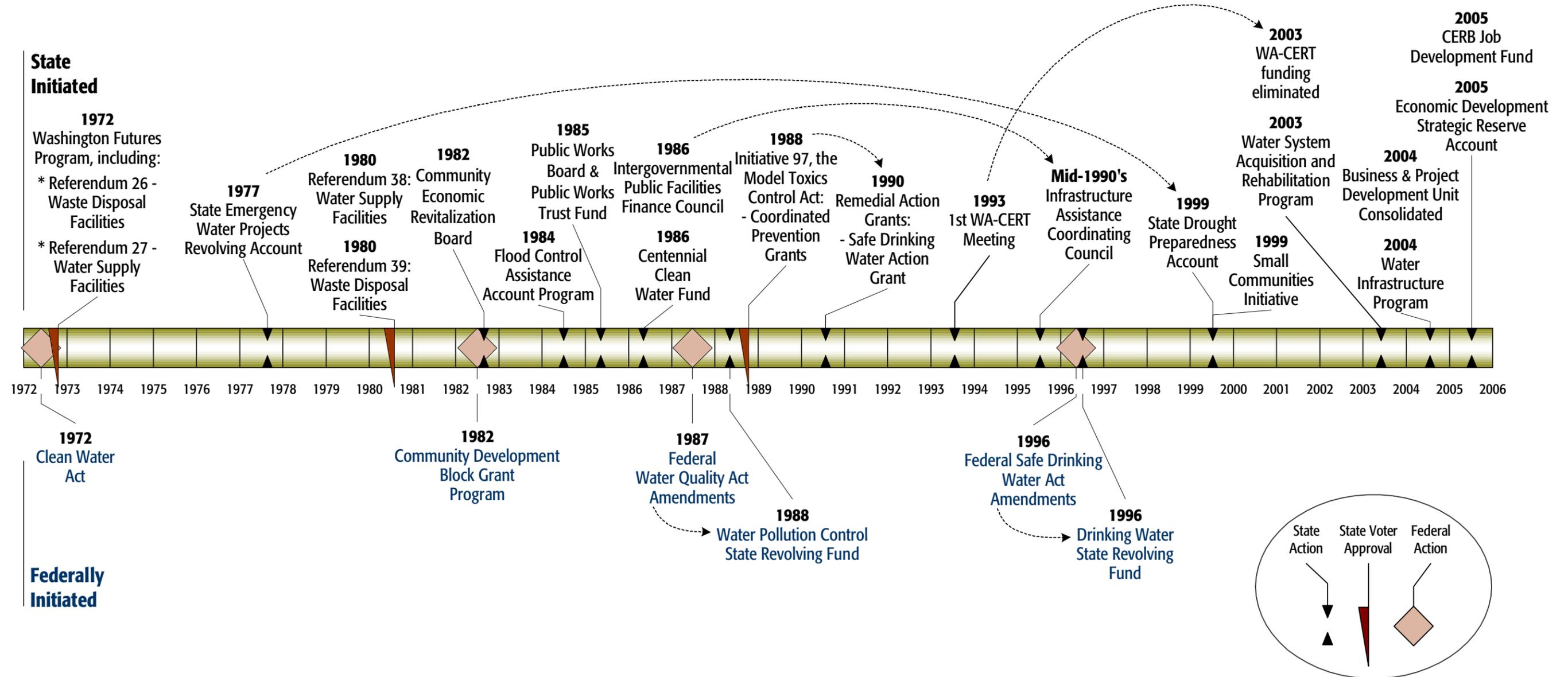
Exhibit 8 lists the basic infrastructure funding programs and shows which project types they fund. The Exhibit reflects the degree of funding overlap among the programs. Projects that address drinking water, for example, can be funded by ten different sub-programs within seven main programs that are administered by three departments and two Boards within three agencies. In addition, two of these sub-programs require legislative approval for every project.

Six of the listed categories can be funded by five or more different programs. These six categories are: Drinking Water (10 eligible programs); wastewater (10); stormwater (10); flood/irrigation management (9); solid/hazardous waste (6); and transportation (7).

To some extent overlap is unavoidable because there is overlap among the federal programs in which the State participates. For example, some of the CDBG set-asides overlap with the Drinking Water State Revolving Fund and the Water Pollution Control Revolving Fund, even though the DWSRF and the WPCRF do not overlap. When the State has chosen to supplement federal programs with its own programs, which fund similar types of projects, there is also overlap driven by State law. Additionally, some of the overlap shown in the Exhibit is the result of sub-programs sharing part of their requirements with their sibling programs. The PWTF, for example, has two sub-programs shown here that fully overlap regarding the types of projects they can fund, but which differ regarding the situation in which each is used. PWTF Emergency Loans may support the same types of projects as the Construction Loans, but only within the scope of a declared emergency.

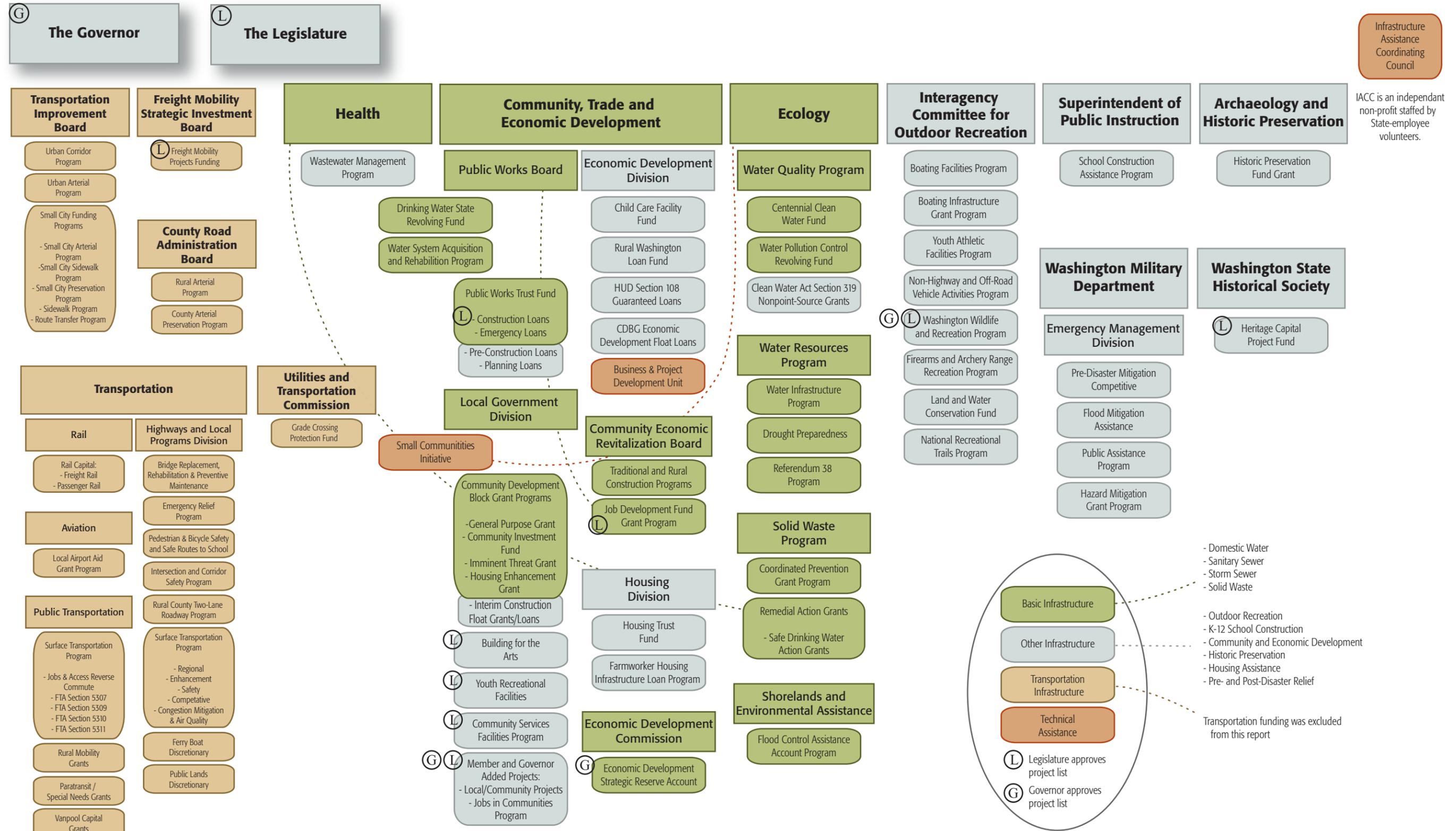
However, not all of the categories overlap. Both "Business and Economic Development Facilities" and "Other Utilities," here defined as power, telecommunications and natural gas, can only be funded by CERB programs, including the Job Development Fund. Two other categories, Housing and Health Facilities, are both funded only by set-asides within the CDBG program.

Exhibit 5
Basic Infrastructure Programs: A System of Programs Assembled Incrementally Over 30 Years
Timeline of Program Creation: 1972 - 2006



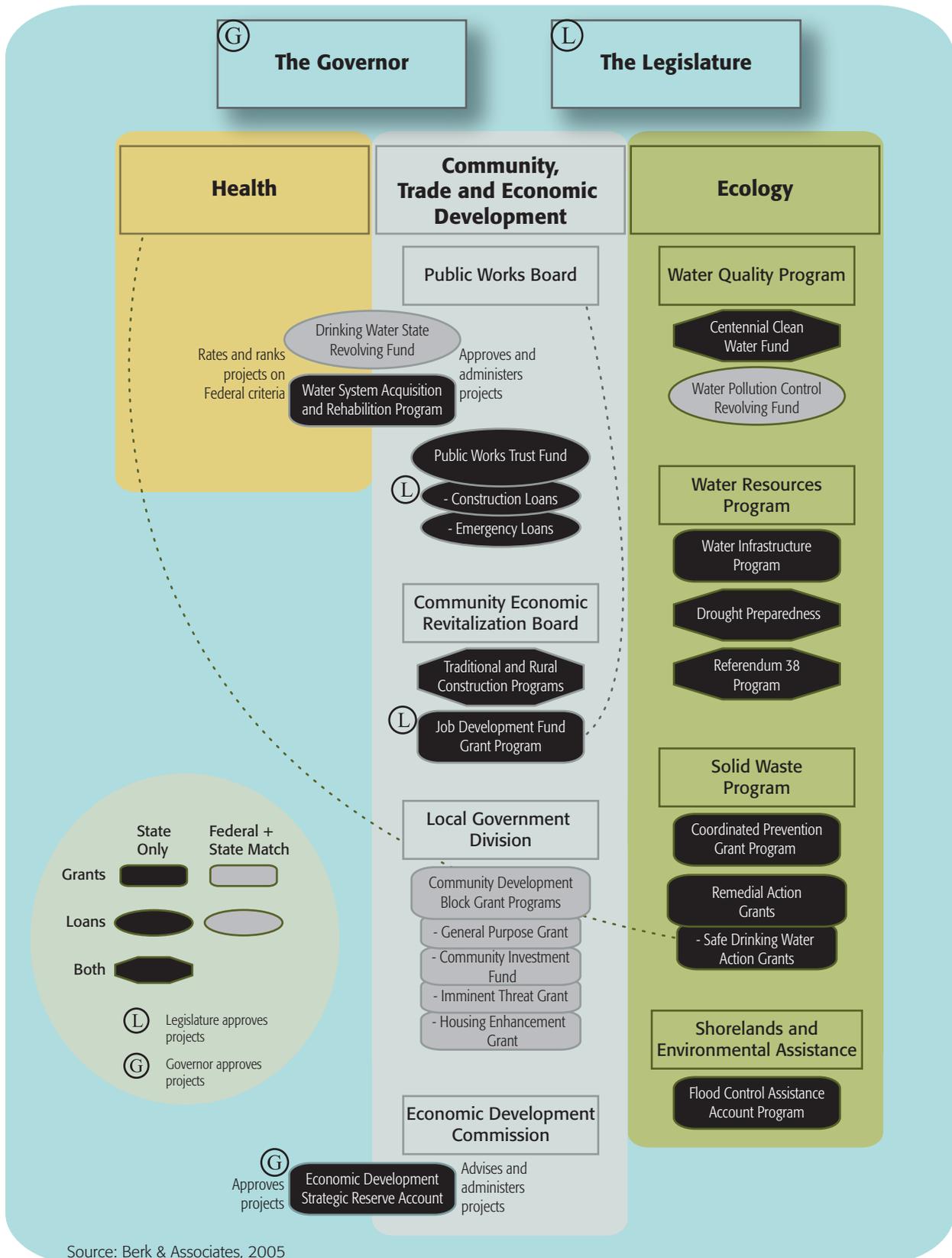
Source: Berk & Associates, 2005

Exhibit 5
Basic Infrastructure Programs: A System of Programs Assembled Incrementally Over 30 Years



Source: Berk & Associates, 2005

Exhibit 7 System Map for Washington State-to-Local Basic Infrastructure, 2005



**Exhibit 8
Basic Infrastructure Programs and Eligible Project Categories, 2005**

	Awarded 2004	Capital Budget 2005-7	Grant		Drinking Water	Storm Water	Flood/Irrigation Management	Housing	Community Facilities	Outdoor Recreation	Other Utilities	Business & Economic Development Facilities						
			Grant	Loan	Waste Water	Solid/Hazard Waste	Emergency Management	Health Facilities	Public Safety	Transportation								
Public Works Board																		
Public Works Trust Fund Construction Loan	\$155,000,000	\$248,300,417		<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>										
Public Works Trust Fund Emergency Loan	\$2,154,890	\$3,000,000		<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>										
Community Economic Revitalization Board																		
Traditional and Rural Construction Programs	\$6,318,137	\$20,448,657	<input checked="" type="checkbox"/>					<input checked="" type="checkbox"/>										
Job Development Fund	\$0	\$0*	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>					<input checked="" type="checkbox"/>						
* \$50 million in Legislature-selected projects will be administered by staff in 2005-7. Beginning in 2007-9, \$50 million in grants will be awarded each biennium.																		
Dept. of Health / Public Works Board																		
Drinking Water State Revolving Fund	\$39,000,000	\$20,000,000		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>													
Water System Acquisition and Rehabilitation	\$4,000,000	\$2,000,000	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>													
Community Development Block Grant																		
CDBG Community Investment Fund Grant	\$5,137,187	\$4,107,728	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>													
CDBG General Purpose Grant	\$10,201,164	\$21,668,448	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>													
CDBG Housing Enhancement	\$624,578	\$800,000	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>										
CDBG Imminent Threat Grant	\$0	\$166,000	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>						
Dept. of Ecology Water Quality																		
Centennial Clean Water Fund	\$11,176,478	\$38,000,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>								
Water Pollution Control Revolving Fund	\$85,161,045	\$239,616,286		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>												
Dept. of Ecology Water Resources																		
Drought Preparedness	\$1,600,000	\$6,600,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>									
Referendum 38 - Water Supply Facilities	\$7,000,000	\$0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>									
Water Infrastructure Program	\$5,800,000	\$12,000,000	<input checked="" type="checkbox"/>					<input checked="" type="checkbox"/>										
Dept. of Ecology Shorelands & Environmental Assistance																		
Flood Control Assistance Account	\$1,214,000	\$2,100,000	<input checked="" type="checkbox"/>					<input checked="" type="checkbox"/>										
Dept. of Ecology Solid Waste																		
Coordinated Prevention Grant	\$18,100,000	\$14,200,000	<input checked="" type="checkbox"/>					<input checked="" type="checkbox"/>										
Safe Drinking Water Action Grants	\$75,750	\$3,000,000	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>										
Number of Programs Funding this Infrastructure Category			14	8	10	10	10	6	9	3	3	2	2	3	1	7	2	2

Source: Berk & Associates, 2005

3.3 Application Funding Cycles and Processes

A key issue identified by stakeholders is the mix of application cycles, time spans and approval processes for the various programs. Exhibit 9 illustrates the application and award timelines for a selection of the State-to-local funding programs. As shown in the Exhibit, the application and approval cycles for local infrastructure grant and loan programs fall within three categories: continual, fiscal year, and calendar year. For some programs, 10 months or even a year may pass between the close of the application period and announcement of awards. As further discussed on page 83, stakeholders interviewed for this study frequently called for a faster and more flexible application process, citing real costs such as missing an entire construction period with some of the longer processes now in place.

Continuous or Open Application Processes. The five programs shown that are open to applications continuously are all located within CTED.

- Two of the programs, the **CDBG Imminent Threat Grants** and the **Public Works Trust Fund Emergency Loan Program**, provide funds in response to emergencies.
- Two other CDBG programs, the **Community Investment Fund** and the **Housing Enhancement Fund**, have prerequisites that must be met prior to becoming eligible for program funds, which are then available on a first come, first served basis.
- A fifth program, **CERB Traditional and Rural**, has an application cycle that runs continuously, with the caveat that the Board meets six times per year, and applications must be completed at least 45 days prior to the meeting at which a project is to be considered.

Fiscal Year Processes. Six of the programs listed run on a fiscal year timeline and have short cycles that allow for two full rounds of funding per biennium (CCWF and Section 319 grants share a line in the Exhibit).

- The newest of these are the **Water System Acquisition and Rehabilitation Program** and the **Water Infrastructure Program**. Their first competitive rounds of grants take place in 2005 with applications due in early fall. Awards are expected to be announced early in 2006 and early in December 2005, respectively. Both are awarding funds appropriated for FY 2006, so no further action by the Legislature is required.
- **CDBG's General Purpose Grant** has a regular cycle with applications due at the end of October and the final award list published mid-March.
- The **Water Quality Program (WQP)** of the Department of Ecology has a combined application cycle for its three programs, the Centennial Clean Water Fund, Water Pollution Control Revolving Fund, and Section 319 grants. The Revolving Fund has a step not required by the other two: EPA approval of each year's award list. All three programs require appropriation to fund the award list.

Calendar Year Processes. The third cycle is for programs whose award cycle begins early each calendar year. These programs also all require projects to be approved both internally by a board or committee, and externally. The three programs in this category have an application due date in the spring, followed by internal staff review. Staff review produces a recommended list that goes before an internal board or committee. The list approved by this body is then sent out for approval by one or more external bodies.

-
- For the **Public Works Trust Fund Construction Loan Program**, the Legislature has final say over which programs get funding.
 - For the IAC's **Washington Wildlife and Recreation Program**, the list first goes to the Governor for approval, then to the Legislature.
 - The **Drinking Water State Revolving Fund** is administered jointly by the Public Works Board in CTED and by the Washington Department of Health. Projects must meet requirements that are evaluated by staff of both agencies before a draft list goes to the Public Works Board. The Board-approved list is then submitted to the federal Environmental Protection Agency for approval, which usually comes in early spring.

All three of these programs also require appropriations to fund the approved project list.

The **CERB Job Development Fund** does not fit neatly into any of these three categories. It is a new program, with its first competitive application period beginning in December 2005. Applications are due in April, and staff expect that CERB will review applications at either or both of the next two Board meetings, in May and July. Per legislative direction, following approval by the CERB Board, projects go to the Public Works Board for approval. Successful projects must be approved by CTED for inclusion in the department's budget request, which will go to the 2007 Legislature for final approval. Funded projects will receive final approval upon passage of the budget, and the funds will be available to recipients in September 2007. This lengthy 18-month process will restrict the types of projects the program will likely fund. Not agile enough to be responsive to most opportunities related to specific business needs (a focus of CERB's Traditional and Rural Programs), the Job Development Fund will likely fund more prospective business development projects.

Technical Assistance Provided. In addition to the one-on-one technical assistance that all programs provide to applicants, most of the programs with regular cycles also offer workshops for potential applicants early in the application period. These workshops help explain how to complete the applications, which often require compilation of technical documentation. The IAC also requires successful grant applicants to attend a workshop after project award, to learn about reporting requirements and how to work with the IAC to receive the funds.

In addition to these program-specific workshops, the Infrastructure Assistance Coordinating Council (IACC) holds an annual conference that brings together representatives from all of the programs, boards and agencies to instruct potential applicants about program offerings, how to apply for them, how to plan, how to meet State and federal requirements of various kinds, and generally how to fund local infrastructure. This conference is typically held in November, to prepare for the following year's funding cycles.

Options to Streamline Process. Exhibit 9 shows that many of the programs examined here have a long duration between the application due date and the date awards are announced. Required approval by State decision-makers may extend the process beyond the creation of final project lists by programs operating a competitive process:

- In five programs a contributing factor in the extended duration is the wait for a budget to be passed that grants the authority to spend the program's funds, which includes money to fund grant and loan awards.

-
- In two programs – the **Public Works Trust Fund Construction Loan Program** and the IAC's **Washington Wildlife and Recreation Program** – an additional step is approval by the Governor and/or Legislature of each individual project on the award list. The new CERB Job Development Program will also require legislative approval of the final award list.

Programs that do not have to wait for funds to be appropriated feature a demonstrably shorter time between application due date and distribution of awards. Two structures allow for funds to be distributed without waiting for budget appropriation:

- The **Public Works Trust Fund's Emergency Loans, the Water System Acquisition and Rehabilitation Program** and the **Water Infrastructure Program** have their award funds pre-appropriated. The agency and/or board then has full say over how to award the appropriated funds, with no need for applicants to wait through a full legislative session to determine if the agency will receive necessary authority to fund the projects.
- In the case of the **Community Development Block Grant program**, the Legislature has chosen to allow the agency full control over the federal funds it awards, not appropriating them at all. While it could require the funds be appropriated, to date the Legislature has left all authority over the federal dollars in the hands of the agency. Meanwhile, the required State contribution to the program has been under-funded for several biennia.

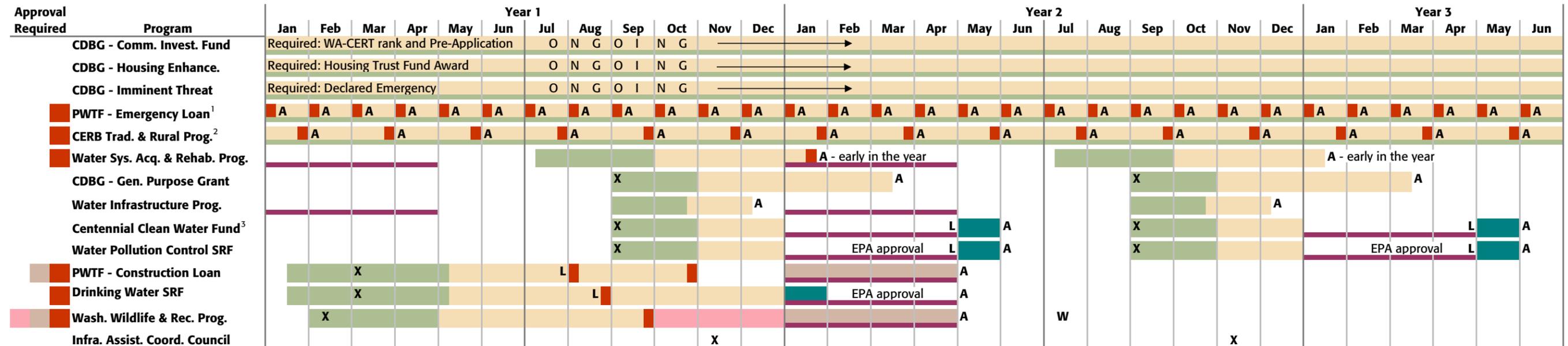
With CDBG in mind, it is interesting that both the **Water Pollution Control Revolving Fund** and the **Drinking Water State Revolving Fund** do require legislative appropriation of funds. These programs receive 80% of their new capitalization funds from the federal government, and money in the revolving fund accounts cannot be spent on anything but SRF awards. Despite these restrictions, the funds must be appropriated. When SRF loans are unexpectedly repaid early, leaving the SRF with more funds than anticipated, the agency cannot spend the excess until it is appropriated, slowing the process by which these dollars can be put back into projects.

Using the programs just described as examples, several options are available to reduce the amount of time between application due date and award date. One is pre-appropriation of funds. Instead of asking for applications and ranking projects before asking for the authority to fund them, programs could instead be allowed to ask for authority to award a budgeted amount, taking applications after the funds are approved. Placing that portion of time required for budget approval before the application process instead of after puts it out of the sight of the applicants, shortening the process from their point of view. Legislative oversight by way of appropriation control would shift from the current biennium to the next biennium.

Another streamlining option is for federal funds, in particular the State Revolving Funds. Because the new federal money coming into the fund, and indeed any money in the revolving fund, may not be used for any purpose but SRF loans, the award process could be shortened by making the federal SRF funds non-appropriated. This would allow the programs to re-loan unanticipated repayments more quickly than can now occur.

The third option for streamlining the award process would be to eliminate the requirement that the Governor and/or Legislature approve the final project list of those programs operating under this structure.

Exhibit 9 Timeline of Selected Program Application and Award Cycles



- C X Pre-Application Workshops
- Y Application Period
- C Internal Review
- L L Draft List
- E Board Approval
- Governor's Approval
- Legislature's Approval⁴
- Budget Appropriation⁴
- Public Comment
- A Awards Offered
- W Successful Applicant Workshop

Note: The Dept. of Ecology's Water Resources Program administers drought prevention and assistance, but does not have a regular grant cycle for this because recently funds have been available only during drought emergencies.
 Note: The Dept. of Ecology's Water Resources Program administers the Referendum 38 bond funds, but all of the funds are allocated and no new awards will be made.

1. Applications are due the 5th of each month for consideration at Board meeting the next month. Funds are appropriated.
2. Applications are due 45 days before each meeting of the Board, which meets six times per year. Funds are appropriated.
3. Section 319 Nonpoint-source Control Grants have the same process.
4. Shown is a 4-month Legislative session; actual session length varies.

Source: Berk & Associates, 2005

3.4 Program Environment and Influences

The State's network of infrastructure programs functions within a set of external drivers and influences, some of which shape program operations, and others of which present evolving challenges for the program to manage. Key program influences and trends include the following factors:

Legislative Intent. The most significant influence on program operations is legislative intent. The legislature has historically defined specific purposes and parameters for each program. Exhibit 10 summarizes legislative intent for the programs assessed in this report.

Increasing Needs. A combination of factors including aging infrastructure constructed in the 1970s and 1980s, population growth and associated capacity needs and increasing expectations for environmental improvements all combine to create significant infrastructure needs and a backlog of unfunded projects in the State. The most recent statewide study was conducted in 1998-99 by the Public Works Board – *the Local Government Infrastructure Study*. The study found that participating local jurisdictions (324 of 487 contacted), including special purpose districts, had a \$3.05 billion unfunded need for transportation, water, wastewater and stormwater improvements (based on the 6-year capital facility plans, a conservative measure of local need in 1998 dollars). Subtracting road and bridge needs of \$1.69 billion from this total, the 1998-99 study found \$1.36 billion in unfunded non-transportation infrastructure needs identified at that time. For context, a more recent federal study of water and wastewater infrastructure systems put the nation's unfunded need at \$1 trillion dollars.

Increasing Materials and Construction Costs and Reduced Purchasing Power. Stakeholders have noted the comparison of available funding to construction cost inflation since 1990. While overall project funding has decreased, construction inflation has increased significantly. In the last two years especially, construction costs have increased dramatically, due to increases in the price of concrete, asphalt, steel and diesel fuel. There is a shortage of some construction materials, Portland cement especially, that contributes to rising prices. While some of these price increases are cyclical, the majority of the increases appear to be structural, due to growth in the Chinese economy and elsewhere around the globe. The result of these trends is reduced purchasing power for public works projects in Washington and across the country.

Increased Policy Focus on Jobs, and Economic Development-Related Projects. Washington State's Constitution prohibits public lending of credit to "any individual, association, company or corporation, except for the necessary support of the poor and infirm" (Article 8, Section 7). This strict limitation on public support of private entities restricts the economic development tools the public sector may employ, making public infrastructure investments a particularly important mechanism to spur economic growth in the State.

With the recent Boeing 7E7 challenge to the State's jobs and manufacturing position, a heightened awareness was created of the worldwide competitive environment and the need to be competitive as a state. A need to have flexible, responsive programs that can serve as economic development tools and incentives was recognized, leading to the two new funds created by the Legislature in 2005. (As discussed in Section 3.3, some question the ability of the Job Development Fund to respond effectively to private sector needs given the program's long application timeline.)

Constituent and Stakeholder Ownership of Key Programs. Several of the programs assessed in this study have track records of success and have developed a loyal group of clients and stakeholders who support the programs and are likely to advocate strongly for their continuation. Such programs include **CERB’s Traditional and Rural Programs**, the **Public Works Trust Fund**, the **IAC**, the **IACC** and the **Small Communities Initiative**.

Exhibit 10

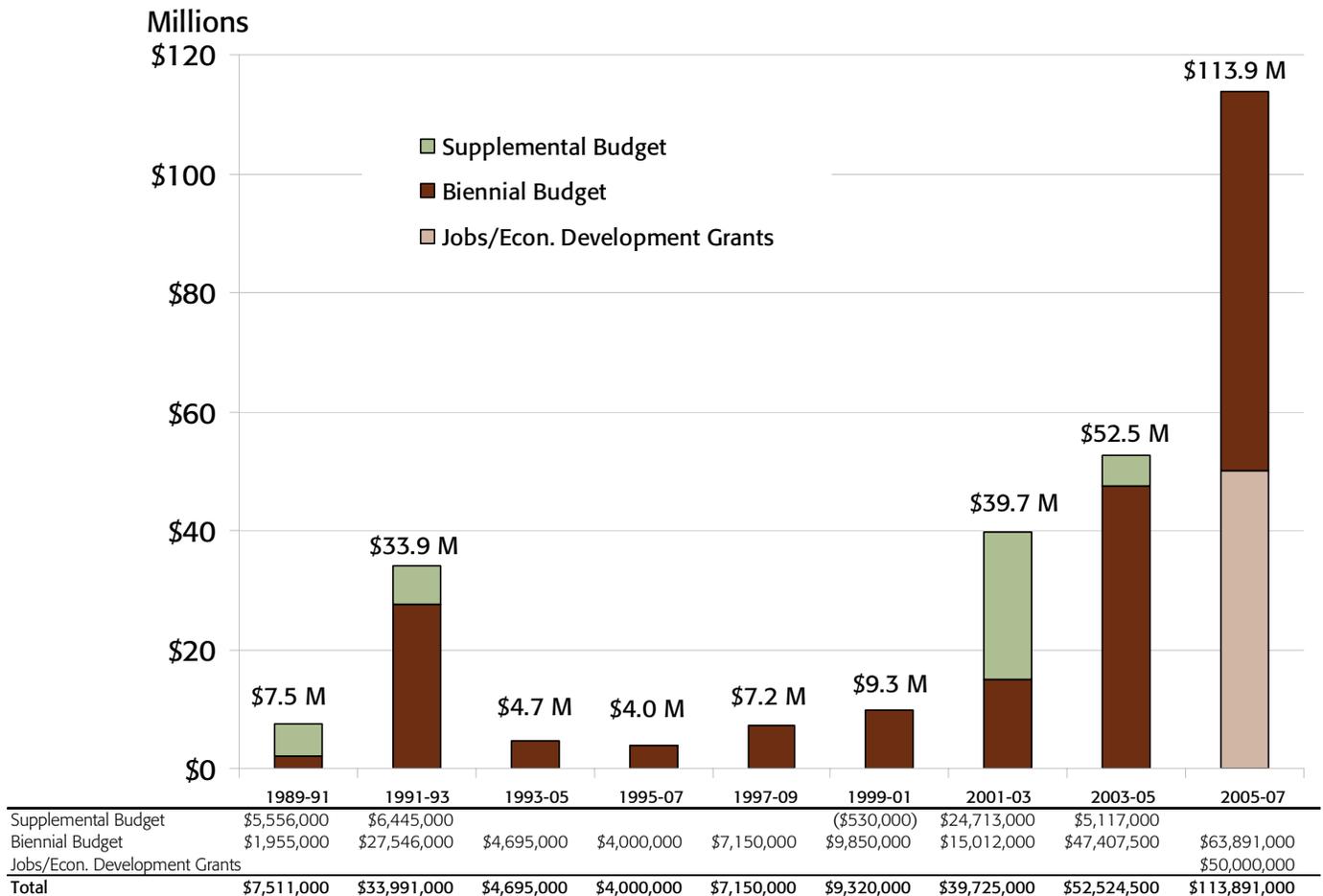
Summary of Legislative Intent for Key Programs Studied

Agency	Program	Legislative Intent Expressed in Statute or Budget Proviso	Source
Department of Community, Trade, and Economic Development, Community Economic Revitalization Board	CERB Traditional Construction Program - 1982	The legislature finds that it is the public policy of the state of Washington to direct financial resources toward the fostering of economic development through the stimulation of investment and job opportunities and the retention of sustainable existing employment for the general welfare of the inhabitants of the state.	RCW 43.160.010
Department of Community, Trade, and Economic Development	Community Development Block Grant Program - 1982	The primary objective of this chapter and of the community development program of each grantee under this chapter is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income	42 U.S.C. Sec. 5301
Department of Community, Trade, and Economic Development, Public Works Board	Public Works Trust Fund - 1985	It is the policy of the state of Washington to encourage self-reliance by local governments in meeting their public works needs and to assist in the financing of critical public works projects by making loans, financing guarantees, and technical assistance available to local governments for these projects.	RCW 43.155.010
Department of Ecology	Centennial Clean Water Fund - 1986	It is the purpose of this chapter to provide financial assistance to the state and to local governments for the planning, design, acquisition, construction, and improvement of water pollution control facilities and related activities in the achievement of state and federal water pollution control requirements for the protection of the state's waters.	RCW 70.146.010
Department of Ecology	Water Pollution Control Revolving Fund - 1988	It is the purpose of this chapter to provide an account to receive federal capitalization grants to provide financial assistance to the state and to local governments for the planning, design, acquisition, construction, and improvement of water pollution control facilities and related activities in the achievement of state and federal water pollution control requirements for the protection of the state's waters.	RCW 90.50A.005
Department of Health/Department of Community, Trade, and Economic Development (Jointly Administered)	Drinking Water State Revolving Fund - 1996	The purpose of the account is to allow the state to use any federal funds that become available to states from congress to fund a state revolving loan fund program as part of the reauthorization of the federal safe drinking water act. Expenditures from the account may only be made by the secretary, the public works board, or the department of community, trade, and economic development, after appropriation. Moneys in the account may only be used, consistent with federal law, to assist water systems to provide safe drinking water through a program administered through the department of health, the public works board, and the department of community, trade, and economic development and for other activities authorized under federal law.	RCW 70.119A.170
Department of Health/Department of Community, Trade, and Economic Development (Jointly Administered)	Water System Acquisition and Rehabilitation Program - 2003	The state building construction account appropriation is provided solely to provide assistance to counties, cities, and special purpose districts to identify, acquire, and rehabilitate public water systems that have water quality problems or have been allowed to deteriorate to a point where public health is an issue.	SSB 5401, 2003-2004 Biennium

Source: Revised Code of Washington, Washington Administration Code, United States Code, and Berk & Associates, 2005

Increase in Member- or Governor-Added Projects. In recent years, there has been an increasing trend toward direct appropriations as an avenue for project-related local government funding. Exhibit 11 shows the growth in direct appropriations graphically: in 1989-91 there were \$7.5 million in such earmarks, increasing to \$40 million in 2001-03 and \$52.5 million in 2003-2005. Including legislatively-selected Jobs/Economic Development Grants related to the **Job Development Fund** (see page 39), total direct project appropriations rose to \$114 million in 2005-07.

Exhibit 11
Member- or Governor-Added Direct Appropriations
Have Increased Significantly from 1989-91 to 2005-07



Source: WA Legislature, CTED, and Berk & Associates, 2005

These appropriations contribute to the fragmentation of the system, and in some cases undermine program decision making and funding. Projects funded in this manner may not be ready to proceed immediately, or the funding amount awarded may not be appropriate. Such projects are sometimes over-funded, and in other cases they are underfunded meaning the project may have fared better if it had gone through a competitive award-making process.

New Emphasis on Outcomes, Results and Accountability Initiatives. In 2001 JLARC's Environmental Quality Grant & Loan Program Performance Audit identified a need to develop outcome-based performance measures. Since then, there has been a new focus and level of attention on development of results-oriented program metrics that answer the question: what did we spend our money on, and what results were achieved? This focus was further developed with the Priorities of Government budgeting process beginning in 2002 and, most recently, through the Governor's GMAP process and measures. In all, there is a significant level of new management accountability guidelines and requirements directed at State agencies and their programs.

3.5 Funding Environment and Trends

Federal and State Requirements. Three of the State's basic infrastructure programs (CDBG, DWSRF and WPCRF), representing 31% of basic infrastructure funds dispersed in the 2003-05 biennium, involve distribution of federal funds according to federally-prescribed criteria and procedures. This translates into limits on flexibility for the administering State entities, but no more so than the limits placed on State programs by the Legislature.

Relative to the amount of federal rules for the block grant programs in particular, State funds often have more stringent rules for eligibility and reporting. Block grants are designed to offer maximum flexibility for the states, while State programs are often narrowly focused on a particular need. Also, State funds are more likely to require approval by outside bodies, in particular the Legislature. As noted above, budget provisos that direct program funding represent another issue faced by State programs that is not as significant an issue for federal programs. The Legislature can change the emphasis of a program through a line in a budget, and it can also earmark program funds for particular projects without requiring the projects to go through a competitive award process. Both of these actions can place constraints on the operations of State programs.

Shifts from Federal, to State, to Local Funding. At the federal level particularly, there have been major structural shifts in the funding philosophy for basic infrastructure. In the 1970's, federal grants were available to fund 75% of water and wastewater facility construction project costs, including building enough capacity to accommodate 20 years of projected growth. In part this approach was taken to encourage compliance with stricter environmental regulations. In addition to federal grants, State grants authorized by Referendum 27 in 1972 (a part of the Washington Futures Program) were available to pay for another 15% of such projects, leaving only 10% of project costs to be paid by local jurisdictions.

By the late 1970's the federal government started to shift more responsibility for funding onto state and local jurisdictions, including having state agencies administer federal funds. In the early 1980's federal funding was decreased and the State stepped up its contribution. The overall level of funding assistance dropped, so projects that had received grant funding covering 75% of costs, including 20 years growth capacity, were now eligible for grants covering only 50% of costs to meet the need at the time of application plus a 10% growth allowance. Regulations still required projects to be built to accommodate 20 years of growth, however, so only part of a project would be eligible for assistance. Local jurisdictions became responsible for a larger portion of project costs.

By the 1990's there was another shift, this time away from grants and toward revolving loan funds. While communities receive benefits from loans with below-market-rate interest, the funds must still be repaid through local sources of funding.

Declining Federal Funding and Program Changes. As one stakeholder noted: “all programs are facing challenges because of funding cutbacks.” In recent years, the shift has been to further reduce federal funding significantly, devolving even greater responsibility to state and local governments. The three federal programs examined here are no exception:

- The federal contribution to Washington State for the **Water Pollution Control Revolving Fund** program has decreased from \$70 million in the 2001-03 biennium to a projected \$42 million for 2005-07.
- The **Drinking Water State Revolving Fund** received a nearly constant amount over the same period, still losing ground to inflation.
- The **Community Development Block Grant (CDBG)** contribution remained between \$30.5 million and \$32.4 million from 1995-07 through 2001-03, following a reduction from \$119.8 million during the 1993-95 biennium. CDBG funding went up slightly to \$37.5 million for 2003-05, but reverted to the former level for the current biennium. The current federal administration is proposing to replace CDBG and 17 other such assistance programs with a single new program called the Strengthening America’s Communities Initiative, to be administered by the Department of Commerce rather than the Department of Housing and Urban Development. It would initially be funded at about two-thirds of what the 18 programs currently receive in total, and the focus would shift to regional economic development. If Congress agrees to the proposal, the federal CDBG program will be concluded. Congress did not fund the initiative for FY 2006, but there is every indication the proposal will be revisited for FY 2007.

Declining State and Local Funding. There is also downward pressure on State and local revenues, in part due to citizen-approved Initiatives that limit tax collection and/or repeal taxes. In 1993 Initiative 601 (I-601) was approved. It limits growth in State spending from the State General Fund to inflation plus population growth. I-601 also made it more difficult for the Legislature to increase taxes and fees by requiring a two-thirds majority in each house to pass such measures, and requiring voter approval for spending over the cap. To date, the State’s voters have not been asked to vote on exceeding the cap. This has, in turn, placed pressure on dedicated transportation funds to support the current level of transportation services. Referendum 47, passed in 1997, cut property taxes 4.7% and limited the growth in property tax collection to inflation or 6%, whichever was lower. Initiative 695 was passed in 1998, repealing the Motor Vehicle Excise Tax. The MVET had provided some funding for **CERB’s Traditional and Rural Programs**, among other programs. When the Initiative was ruled unconstitutional, its intent was enacted through legislation reducing car license fees to a flat \$30. More recently, Initiative 747 was approved in 2001. It placed even tighter restrictions on property taxes, limiting the growth of revenues to 1% without a legislative supermajority.

Measures such as these have constrained the ability of state and local jurisdictions to raise funds to pay for infrastructure while maintaining other services. Actual State funding for infrastructure programs is examined in Section 6.2 beginning on page 84.

4.0 BASIC INFRASTRUCTURE PROGRAM SUMMARIES AND ANALYSIS

This Section provides brief summary descriptions of each of the basic infrastructure programs studied, with additional detail available in **Attachments B** (for basic infrastructure programs) and **C** (for other programs).

4.1 Program Summaries

Public Works Board – Public Works Trust Fund (1985)

The 1985 Legislature created the Public Works Board and the **Public Works Trust Fund (PWTF)** to provide financial assistance to local governments to meet critical infrastructure projects. The Public Works Trust Fund is a revolving low-interest loan program for Cities, Counties and Special Purpose Districts. Eligible projects include the repair, replacement, rehabilitation, reconstruction, or improvement of water, sewer, stormwater, road, bridge, and solid waste/recycling public works systems to meet current standards for existing users, and reasonable growth. The program is administered by the Public Works Board, which sends a recommended project list to the Legislature for approval each session. The Legislature may delete projects from the Board's list, although it never has. The Legislature may not add projects to the list.

As of November 2005, the Fund's total worth is approximately \$528 million, comprised of \$488 million in outstanding loans and \$40 million held as a cash reserve. Given its large size, the Public Works Assistance Account has, over the course of its history, been drawn upon for other purposes: such uses totaled \$125 million in 2005. Of this, \$50 million was appropriated for Section 138 grants in the 2005-07 biennium and \$50 million is identified for appropriation in the 2007-09 biennium for the CERB Job Development Fund. Other funds transferred away include the account's investment interest and, from 2003 through 2007, certain loan repayments, both of which are to be used by CERB.

The **Public Works Trust Fund Emergency Loan Program (1988)** provides immediate repair and restoration of public works services and facilities that have been damaged by natural disaster or are determined to be a threat to public health or safety through unforeseen or unavoidable circumstances. Eligible systems include water, sanitary sewer, storm sewer, road, bridge and solid waste/recycling.

The Public Works Board also administers a pre-construction program created to accelerate construction by providing loans for project-specific design, engineering, permits, bid documents, and easements and a planning loan program which is for updating comprehensive infrastructure plans. These programs increase efficient use of Public Works Trust Fund resources by allocating separate, smaller awards to pre-construction costs, meaning projects are more likely to be ready to proceed when larger construction loans are awarded. These programs are not addressed in detail in this report, but are described briefly here and summarized in **Attachment C**.

Eligible activities for the **Public Works Trust Fund Planning Loans**, which issued its first loans in 1989, include environmental studies (such as biological assessments and environmental assessments) and updates to existing Capital Facilities Plans. Six systems are eligible: bridges, sanitary sewers, domestic water systems, roads, storm sewers, and solid waste/recycling. Public Works Planning Loans may be used for either single or multiple systems. Funds can only be used for work

done by consultants selected under a competitive process. No match is required for this loan, and funds are loaned at zero percent interest. There is a six-year repayment period and a loan limit of up to \$100,000 per jurisdiction, per biennium. Projects must be completed within 18 months after contract execution.

Eligible projects for the **Public Works Board Pre-Construction Loan Program**, which issued its first loans in 1996, include the repair, replacement, rehabilitation, reconstruction, or improvement of eligible public works systems to meet current standards for existing users or users included under assumptions of reasonable growth (generally the 20-year growth projection in the local government's comprehensive plan). Specific activities may include preliminary engineering, right-of-way acquisition, bid document preparation, design engineering, and environmental studies. Six systems are eligible: bridges, sanitary sewers, domestic water systems, roads, storm sewers, and solid waste/recycling.

The Public Works Board also administers both the **Drinking Water State Revolving Fund** and the **Water System Acquisition Program** jointly with the Department of Health. These are described below.

Community Economic Revitalization Board – Traditional (1982) and Rural (1991) Programs

CERB was established in 1982, to “encourage new developments and expansions in areas where growth is desired.” The program provides low interest loans and a limited amount of grants (no more than 25% of awards in a given biennium) “to help finance the local public economic development infrastructure necessary to develop or retain stable business and industrial activity.” Awards are made directly by the CERB Board – legislative approval of projects is not required.

As shown in Section 4.2 and **Attachment E**, Port Districts are the most frequent beneficiaries of CERB awards and industrial building projects (categorically referred to as “Business and Economic Development Facilities” in this report) have historically represented the project type receiving the largest number of awards, as well as the greatest share of the total value of CERB awards. These facilities, which are leased back to businesses in manufacturing sectors, are of a somewhat different nature than other infrastructure funded by CERB or other programs described in this report as funding “basic” infrastructure. In addition to these business facilities to spur private sector development, CERB programs also fund water, wastewater, stormwater and solid waste projects – all under the goal of supporting economic development. A list of all eligible projects includes planning, design, acquisition, construction, reconstruction, replacement, rehabilitation or improvements to bridges, roads, domestic and industrial water, sanitary sewer, storm sewer, railroad (spurs), electricity, telecommunications, transportation, natural gas, buildings or structures, and port facilities.

The **Traditional Construction Program** requires an eligible private sector business opportunity at the time of application, along with evidence that the private investment would not occur without public investments. In the **Natural Resources/Rural Counties Program**, CERB can make an investment without an explicit commitment by a private entity, so long as a feasibility assessment indicates private development will occur if the infrastructure is put in place. Since 1999, 75% of total program funds must go the Natural Resources/Rural Counties Program, and no more than 25% to the Traditional Program.

CERB lacks a dedicated funding source, receiving revenues from a number of different and changing sources of its history. This has resulted in significant swings in total appropriation from biennium to biennium. **Attachment D** – the Funding Inventory – provides more information on this topic, including documentation of CERB’s historical funding sources and levels.

CERB Job Development Fund (2005)

This program was newly established by the Legislature in 2005 through House Bill 1903 which states that the purpose of the program is to “provide grants for public infrastructure projects that will stimulate job creation or assist in job retention.”

For the 2005-07 biennium, the program is administering \$50 million in grants to 14 legislatively-selected projects listed in Section 138 of the Capital Budget. Funding for these projects is supplied via a direct appropriation from the Public Works Assistance Account, while CERB has been allocated \$430,000 in administrative funds to develop program guidelines and a competitive application process which will begin in the 2007-9 biennium. CERB and JLARC are jointly required to develop performance criteria for the grants and evaluation criteria assessing how well applicants have met the community and economic development objectives stated in their applications. The agencies are also instructed to evaluate how well the program as a whole performs in meeting its job creating objectives.

Beginning in the 2007-09 biennium, projects will be selected through a competitive process now being developed. A \$50 million transfer from the Public Works Assistance Account to the Job Development Fund Account will fund the programs in the 2007-09 biennium. CERB staff will administer the program, soliciting, reviewing and evaluating applications and administering grants.

Because funding for the program comes from the Public Works Assistance Account, the Public Works Board staff will be engaged in application review, ranking and rating. The CERB Board will develop a final ranked project list of up to \$50 million and has the option of submitting an alternate list of up to \$10 million in projects. Under an interagency agreement now being finalized among the CERB Board, the Public Works Board and CTED, these lists will be recommended – without modification – by the Public Works Board to CTED for inclusion in the Department’s budget request for the next biennium. The project lists must then be approved by both CTED and the Legislature. The Legislature may delete projects from the list but may not change the prioritized order. It may add projects from the alternate list in order of priority.

As noted in Section 3.3, (page 25), the need for legislative approval of the program’s project list results in a lengthy 18-month application process for Job Development Fund awards. This slow response means that the program is structured to be less responsive to specific business opportunities than CERB’s Traditional and Rural Programs. Projects are more likely to be in support of prospective economic development, or of the rare business development project with an especially long lead time.

The CERB Job Development Fund requires a 66% match of funds by the applicants in order for a project to be considered eligible. Some of these matching funds may be local funds, and a project that can’t demonstrate any local funding likely will not rank high on the recommended project list. Matching funds may also be in-kind funds, such as a purchase of land that will be used in the project. Although the matching requirement states that the funds must be “non-State,” this is interpreted by

program staff to mean “non-Job Development Fund” money, allowing for other State programs to help fund the match requirement.

As with CERB’s Traditional and Rural Programs, the Job Development Fund can be used to support the creation of industrial buildings which are typically then leased to businesses in manufacturing sectors. The CERB Job Development Fund will sunset on June 30, 2011.

Drinking Water State Revolving Fund (1996) and Water System Acquisition and Rehabilitation Program (2003)

These programs are administered jointly by the Department of Health and the Public Works Board. DOH reviews applications for system and project eligibility, and to ensure that the system has the technical, financial, and managerial capacity to take on a loan. DOH scores projects and drafts the prioritized project list. Public Works Board staff are responsible for contract administration, conducting financial and environmental reviews, approving the final loan list, making loan offers, and for billing and tracking loan repayments.

The **Drinking Water State Revolving Fund** provides loans to water systems for capital improvements that increase public health protection and for compliance with drinking water regulations. The program was established in 1996, with the passage of amendments to the federal Safe Drinking Water Act. The U.S. Environmental Protection Agency provides capitalization grants to each of the states, requiring a 20% state match.

The **Water System Acquisition and Rehabilitation Program** was created in 2003 by the State to assist municipal water systems in acquiring and rehabilitating systems that have water quality problems or deteriorated infrastructure. The grant program is intended to maintain safe and reliable drinking water systems throughout the State. Funding is granted through a competitive process, with emphasis on projects that address high health risk.

Community Development Block Grant Program (1982)

The primary objective of the federal Community Development Block Grant (CDBG) program is to “develop viable communities by providing decent housing and a suitable living environment and by expanding economic opportunities, particularly for persons of low- and moderate-income” (HUD web site). State CDBG programs distribute funds to non-entitlement areas: units of local government which do not receive CDBG funds directly from HUD. These non-entitlement areas include cities with populations less than 50,000 and counties with populations less than 200,000. Funded projects must principally benefit low- and moderate-income persons, defined as 80% of county median income.

Washington’s CDBG program consists of seven related set-asides. The State is given a sum of federal money, managed by the U.S. Department of Housing and Urban Development, which is augmented by a 2% State match. This funding is divided among these set-asides by CDBG management, based upon assessed needs. Federal requirements include the development of a Consolidated Plan with needs assessment and action plan components to coordinate how the State’s CDBG funds are distributed.

Washington’s CDBG program is managed with a focus on being flexible and responsive to evolving client needs. The **General Purpose Grant** was created in 1982. From this starting point, today’s

system of seven set-asides has evolved, with each program developed to meet a particular client need. The seven set-asides and their 2006 funding levels are listed in Exhibit 12.

Exhibit 12
2006 CDBG Set-Asides

General Purpose Fund	\$7,000,000
Community Investment Fund	\$3,700,000
Public Services Fund	\$1,766,000
Housing Rehabilitation Fund	\$1,100,000
Housing Enhancement Fund	\$800,000
Planning-Only Fund	\$500,000
Imminent Threat Fund	\$166,000
Total	\$15,032,000

Source: CDBG web site, 2005

Of these programs, the General Purpose Grant, Community Investment Grant, Imminent Threat Grant and Housing Enhancement Grant may be used to fund infrastructure development. As is true in many states, the majority of Washington’s CDBG money is directed at infrastructure needs because this is where locals say that they have the greatest need.

General Purpose Fund Grants and **Community Investment Fund Grants** fund similar projects, including wastewater, stormwater and drinking water projects, community facilities, housing, streets and sidewalks, and senior and youth centers. The CIF program, with its first-come, first-served rolling application process, was established in 1994 as a way to fund projects that arise over the course of a year and need a more prompt response than can be accommodated by the General Purpose Program’s annual application cycle.

The CIF was created initially with an economic development focus, but has broadened to include general infrastructure projects. Projects funded through the CIF must be ready to proceed and rank in the top three of the county’s **Washington Community Economic Revitalization Team** (WA-CERT, see page 45) list. CDBG staff helps applicants during the pre-application phase with technical assistance and planning. Once an application is approved, funds can be dispersed to go out in a matter of weeks. Usually the funds are depleted by September or October of each calendar year.

The **Housing Enhancement Grants Fund** works in conjunction with the **Housing Trust Fund** (administered through CTED’s Housing Division), which provides loans and grants to support low and very low income housing. The two programs are complementary in that the Housing Trust Fund can pay for water and sewer lines from a house’s property line to the house, while the Housing Enhancement Grants Program can provide water and sewer lines up to the property line.

The **Imminent Threat Fund** “provides funds to address unique emergencies posing a serious and immediate threat to public health safety on a funds available basis. Upon formal Declaration of Emergency, costs can be recovered for a temporary repair or solution while funding for a permanent fix is secured” (CTED web site).

Department of Ecology Water Quality Program (1986, 1988)

The mission of DOE's Water Quality Program is to "provide low-interest loans, grants, or loan and grant combinations for projects that protect, preserve, and enhance water quality in Washington State." The Program consists of three funds under a joint application and common administration.

The **Centennial Clean Water Fund** (CCWF) was established by the State in 1986 to provide low-interest loans and grants for wastewater treatment facilities and to fund related activities to reduce nonpoint sources of water pollution, i.e. sources not tied to a single, identifiable source such as a pipe, ditch, conduit, animal feeding operation, or vessel. The current outstanding principal balance on the funds' seventeen loans is approximately \$3,900,000. Unless there is limited demand for one or the other category, 66.6% of the competitive funding is made available to hardship community construction projects and 33.3% is reserved for nonpoint activity projects. Eligible projects include comprehensive sewer or stormwater planning, construction of water pollution control facilities, related land acquisition, new sewer systems to eliminate failing or failed on-site septic systems; design for water pollution control facilities; facilities plans for water pollution control facilities; and implementation of best management practices on private property.

The **Water Pollution Control Revolving Fund** (WPCRF) provides low-cost financing or refinancing to local governments for projects that improve and protect the State's water quality. Projects may include publicly-owned wastewater treatment facilities, nonpoint source pollution control projects, and comprehensive estuary conservation and management programs. The United States Congress established the State Revolving Fund (SRF) loan program as part of the Clean Water Act (CWA) Amendments of 1987, which authorized the EPA to offer yearly capitalization grants to states for establishing self-sustaining loan programs. The funds as distributed from the federal government are known as the **Clean Water State Revolving Fund Program**. The State provides a 20% match to these federal funds. No less than 80% of funds must go to water pollution control facility projects and no more than 20% may go for activities projects. However, if there is a limited demand for loans during a funding cycle in either of these categories, the money can be shifted to the other category to more fully utilize the limited loan funds available. Historically 97% of the funds available have been offered to local governments with water pollution control facilities projects.

The State Revolving Fund is used to provide low-cost financing or refinancing to local governments or tribes to plan, design, and construct publicly owned wastewater treatment facilities. It is also utilized for nonpoint source pollution control projects, local loan funds to implement best management practices such as eliminating failing on-site septic systems, stormwater management, comprehensive estuary conservation and management programs, or land acquisition for land application of treated wastewater. SRF loans are prohibited from being used to acquire land for the wastewater treatment facility.

The **Section 319 Nonpoint Source Grants Program** (Section 319) provides grants to reduce nonpoint sources of water pollution. The United States Congress established the Section 319 program as part of the CWA Amendments of 1987. The Section 319 program does not fund water pollution facilities projects, and so is not addressed in detail in this study. It does function as an important component of the Water Quality Program, providing a mechanism under the joint application to meet Water Quality goals through projects such as the implementation of stream and habitat restoration,

use of best management practices, stormwater pollution control, water quality monitoring, lake restoration efforts that focus on pollution prevention, and on-site management programs.

Department of Ecology Water Resources Program

The mission of DOE's Water Resources Program is to "support sustainable water resources management to meet the present and future water needs of people and the natural environment, in partnership with Washington communities." The Program is tasked with permitting all uses of surface and ground water in the State, with the authority to ensure that public benefit is met. The Program acts to ensure sufficient streamflow exists to support fish, wildlife and recreational uses, while providing adequate agricultural irrigation. Most projects involve converting open, unsealed ditches to pipes, or improving diversions and dams to enhance wildlife habitat.

The **Water Infrastructure Program** was created in the 2003-5 biennium, with \$5.8 million in Governor-identified projects. The program's 2005-7 biennial budget is \$12 million, which will be distributed through a competitive process. Grant funding is provided solely for infrastructure improvement projects and other water management actions that benefit stream flows and enhance water supply. Project benefits must resolve conflicts between water uses for municipalities, agriculture, and fish restoration, improving the efficiency of irrigation, and so enhancing the availability of water for streamflow purposes including fish, wildlife and recreational uses. The streamflow or fish habitat improvements gained from the project must be proportional to the investment of State funds.

The **Drought Preparedness Program** funds drought relief, projects and activities to prepare the State for future droughts and climate change, and compliance activities. Funding for this program is largely depleted, and it has no significant dedicated, on-going funding. It has received supplemental appropriations during recent droughts, however. Eligible infrastructure and equipment includes pumps and accessories, discharge lines, pipelines, canals and laterals with control structures, liners for leaky pipes and canals, diversion structures, reregulating reservoirs, measuring devices, and wells, including pumps and accessories. Eligible measures that may also be funded include the means for implementing water conservation procedures, acquiring alternate water sources, or transferring water rights, provided that the proposed measure represents an additional cost to the applicant as the result of drought conditions, and not as a substitute for normal water supply costs.

Funds for the **Referendum 38 - Water Supply Facilities Program** are fully allocated and no new grants are expected to be awarded. In 1980 voters approved Referendum 38, known as the Water Supply Facilities 1980 Bond Issue. It was designed to provide financial assistance to public bodies that manage water such as irrigation districts and public water supply systems. The referendum authorized the State Finance Committee to issue \$125 million in bonds (\$75 million for public water supply systems and \$50 million for agricultural water supply facilities) either alone or in combination with fishery, recreational or other beneficial uses of water. The Department of Ecology has been responsible for administering the \$50 million in bond funding for agricultural water supply facilities. Ecology has provided grants and loans to public irrigation districts to help them repair or improve existing agricultural water conveyance facilities such as ditches, pipes and other irrigation systems.

Department of Ecology Shorelands and Environmental Assistance Program

The State established the **Flood Control Assistance Account Program (FCAAP)** in 1984. Funding, which comes from the State's General Fund, was cut by 50% for the 2003-05 biennium, and has not recovered to previous levels. The program is designed to assist local governments in reducing flood hazards and damages by providing technical and financial assistance in the development and implementation of comprehensive flood hazard management plans (CFHMPs), engineering feasibility studies, physical flood damage reduction projects, acquisition of flood prone properties, public awareness programs, flood warning systems and other emergency projects.

Department of Ecology Solid Waste Program

The **Coordinated Prevention Grant Program** helps local governments develop and implement their hazardous and solid waste management plans. The program was founded by the State in 1988 and receives funding from the Hazardous Substances Tax. Solid and Hazardous Waste Planning and Implementation Grants are available to local planning authorities for writing or updating a Local Comprehensive Solid Waste Management Plan or Local Hazardous Waste Plan. A local planning authority with an Ecology-approved plan – as well as lead implementation agencies – may also receive money through this type of grant for plan implementation projects. Solid Waste Enforcement Grants are available for jurisdictional health departments and districts for support enforcement of solid waste regulations. Originally, most grants were awarded for planning purposes, however, today about 99% of all grants are for projects focused on implementation.

Safe Drinking Water Action Grants help local governments or local government applying on behalf of a provider to provide safe drinking water to areas where a hazardous substance has contaminated drinking water. The Department of Ecology provides funding, generated from the Hazardous Substances Tax, through the Remedial Action Grants Program. DOE administers the grant so that remedial action goals are met, while the Department of Health identifies sites and provides technical oversight to ensure that State regulations regarding drinking water are met.

Technical Assistance and Funding Coordination Programs

The following independent programs exist to help applicants successfully navigate Washington's complex array of local infrastructure investment programs. In addition to these independent programs, many of the programs described above provide customer service and technical assistance, with the larger programs maintaining field staff dedicated to this purpose.

Stakeholders and clients interviewed for this study praised the work done by the Small Communities Initiative and the Infrastructure Assistance Coordinating Council, stating they provide an invaluable service in helping local jurisdictions navigate the complexities of pursuing infrastructure funding in Washington. Both programs are cited as small, underfunded models of the kind of coordination and technical assistance that is needed on a larger scale.

In addition to these formal avenues of assistance and collaboration there also is continual, informal, ad hoc collaboration between staff of the different programs to help particular projects find the proper funding sources and any other help necessary to solve the issue being addressed.

Small Communities Initiative

In 1999, CTED in collaboration with the Departments of Health and Ecology, formed the Small Communities Initiative (SCI) to assist small, rural communities that are simultaneously struggling with economic viability and compliance with health and environmental regulations. Since its founding, SCI has helped 11 communities complete and sustain a range of projects.

The primary goals of SCI are to help Washington's small communities gain access to State resources in order to promote compliance with environmental and public health requirements, and to support the economic vitality of Washington's small communities. Most of the assistance provided by SCI is related to finding funding to address failing water and wastewater systems.

To help communities complete projects efficiently, SCI works to establish and sustain working relationships between the communities and both funding and regulating agencies, as well as fostering interagency coordination and communication. SCI achieves this mission by helping small incorporated cities or utility districts develop more focused projects, make strategic investments, identify and access appropriate fund sources and meet all funding requirements.

SCI is governed by a steering committee of members representing CTED and the Departments of Health and Ecology. Initially staffed by one person, CTED now employs two full-time SCI program managers.

Infrastructure Assistance Coordinating Council

The Infrastructure Assistance Coordinating Council (IACC) offers an annual training and information conference and a searchable web site on program offerings. The IACC is a non-profit organization made up of staff from State and federal agencies, local government associations, nonprofit technical assistance firms, tribes and universities. The IACC is an all-volunteer organization with staff time donated by various organizations.

Each November, the organization sponsors a workshop bringing together potential applicants and Washington's wide array of local infrastructure funding programs, including representatives of federal programs. Jurisdictions are able request review of their specific needs by "Tech Teams" comprised of staff from relevant programs and regulatory agencies. They meet with staff from a local jurisdiction to discuss infrastructure problems and offer suggestions for solutions, assistance with planning, and direction toward appropriate funding sources. The IACC web site hosts its *InfrastructureDATABASE*, which catalogs more than 200 federal and State sources for infrastructure funding and technical assistance.

Business & Project Development Unit

The Business and Project Development Unit (BPD), which is located in CTED's Economic Development Division, works to encourage in-state and out-of-state businesses to establish and expand operations in Washington. In addition to providing location searches and research on matters such as labor market, workforce training, taxes, regulations, financing, transportation, and incentives, staff "partner with communities on infrastructure development, permitting and other actions in support of your project." BPD staff are familiar with State and federal infrastructure funding sources and they market and package various investment resources to support business siting, retention and expansion projects.

In addition to serving as general resources, BPD personnel function as field staff for the CERB program, being the primary agents to market and package its products, providing hands-on assistance to both public (local government) and private (business enterprise) parties in completing the application process. BPD staff assist in all CERB loans and grants, helping to present and advocate for projects to the CERB Board, introducing representatives of the public sector applicant (frequently an Economic Development Council) and the private sector enterprise in question.

Washington Community Economic Revitalization Team (WA-CERT)

The history of the WA-CERT program dates back to the late 1980s and early 1990s, when it was formed as the Governor's Timber Team and tasked with addressing the economic impacts of the timber crisis. Reconfigured as WA-CERT in 1993, the principal function of the program became to provide an on-line database that allows counties and tribes to register their economic development projects, listing them in priority order. The "WA-CERT list" allows state, federal and non-profit funders to quickly understand a community's prioritized needs. Of the programs studied here, the Community Development Block Grant Community Investment Fund requires that projects be ranked in the top three of an applying county's WA-CERT list.

Funding for WA-CERT was cut in the 2003 budget and the online database is no longer maintained by CTED. CTED still accepts and files lists of local project priorities provided by counties on a volunteer basis.

4.2 Analysis of Program Awards

The award histories of a sub-set of basic infrastructure programs were analyzed for this study, including the PWB's Public Works Trust Fund (1996-2005), CERB's Traditional and Rural Programs (1995-2005), Community Development Block Grant Program (1992-2005), Drinking Water State Revolving Fund (1997-2004), Centennial Clean Water Fund (2000-2006) and Water Pollution Control Revolving Fund (2000-2006).

The subsequent analyses make no distinction between awards issued competitively and those stemming from budget provisos. Projects resulting from budget provisos tend to be relatively large, so their inclusion may skew the results of the following analysis towards larger projects.

The following pages present summary level analyses describing the distribution of awards, the impact of inflation (based on the Construction Cost Index for Seattle computed by the Engineering News-Record) and a breakdown of awards by client and project type. The analyses adjusting program funding for construction inflation are intended to be a measure of the value of construction projects "purchased" by the program over the respective time periods. This analysis should not be confused with the separate issue of how inflation is affecting the long term financial health of the programs' fund balances. Such an analysis would need to consider external sources of fund capitalization and revenues.

Attachment E provides a more in-depth description of the data and more expansive summary analysis.

Key Findings

The distribution of program awards over time is highly variable. This finding is not altogether surprising as the programs fund a wide array of clients and projects, which themselves differ in both size and character. Additionally, programs were exposed to variations in funding that have contributed to the observed fluctuations in award patterns. Clear examples of this include the **CERB Traditional and Rural Programs'** lack of a dedicated funding source and the use of funds in the **Public Works Assistance Account** for programs other than those administered by the Public Works Board. In general, programs have tended over time to fund an increasing number of high value awards that are accounting for a larger share of total program funding.

Inflation in construction costs has reduced the purchasing power of each dollar of program funding. This erosion of the value of total awards has been offset in all programs other than the **Centennial Clean Water Fund** by an increase in the total nominal value of annual awards. This increase has been sufficient in most cases to offset losses due to inflation: the inflation-adjusted value of total annual awards for all programs other than the Centennial Clean Water Fund is greater at the end of the period analyzed than at the beginning. Most programs, however, including the CCWF, show a decline in total annual awards from 2004 to 2005. This finding is consistent with trends in annual budgets described in Section 6.2 beginning on page 84.

However, it is difficult to determine from this brief analysis if the funding programs are "keeping pace" with inflation while delivering the same level of service and meeting client demand. The CCI adjustment considers only nominal dollars spent and is intended to be a gross measure of the amount of infrastructure "purchased" over the time periods analyzed.

Moreover, program staff have raised concerns that the rate of construction inflation greatly outpaces contributions to the growth of funds from loan repayments as loan rates are often set below the rate of construction inflation. A fund's total value may be growing more quickly than inflation, but only because of continued federal and/or State capitalization. If these external contributions to a fund's base are eliminated – as has always the plan for federal contributions to state revolving loan funds – the interest rate strategies of some programs are not structured to support the programs in perpetuity by counteracting the effects of inflation.

The U.S. EPA's Region 10 prepared a draft Program Evaluation Report of the State's **Water Pollution Control State Revolving Fund** program for State Fiscal Year 2003-2004 which supports this concern. The issue is linked to overlap and competition with the Public Works Trust Fund, which it says drives down the interest rate charged for program loans: "The Department needs to complete the actions necessary in order to adjust loan interest rates so that the purchasing power of the Fund is being maintained. As part of this process the Department needs to develop and implement a cooperative water infrastructure financing strategy with the Public Works Board."

Programs face choices in how they respond to the effects of inflation on individual awards. Even with the upward trend in total annual awards distributed, a program may need to reduce the number of awards given in order to maintain the purchasing power of individual awards. Likewise, if the goal is maintaining the number of awards distributed, a program may need to decrease the size of "typical" distributions, even if nominal budgets don't decline. As mentioned in

Attachment H, interviews with staff of agencies that have received awards revealed concerns that rising construction costs limit how far program funds can go toward completing projects.

Additional analysis would be required to determine impacts of inflation on the purchasing power of “typical” or “middle of the road” award for each program, as variations in award types and sizes over time mean that the median award values listed on the following pages are not necessarily a reliable measure of how a program’s “typical” award has changed. As shown in the bullet points below, programs seem to have responded differently to changes in total funding and the impacts of inflation.

- The total annual value of awards made by the **PWB’s Public Works Trust Fund** exhibited a net increase, even when adjusting for construction inflation. The program awarded a relatively stable number of loans over the time period analyzed, with a greater proportion of awards going to high value loans.
- The total annual value of awards distributed by the **CERB Traditional and Rural Programs** showed a net increase even when adjusting for construction inflation. The number of awards increased with a greater proportion tending to go to high value awards over the analysis period. More low-cost feasibility studies were funded with grants in 2004 and 2005.
- The total annual value of **Community Development Block Grant** awards showed a net increase even when adjusting for construction inflation. The number of awards increased over the analysis period.
- The total annual value of **Drinking Water State Revolving Fund** awards showed a net increase, even when adjusting for construction inflation. The number of loans increased, with a greater proportion of awards going to high value loans over the analysis period.
- The total annual value of awards distributed by the **Centennial Clean Water Fund** decreased over the time period studied. The number of awards declined, with a greater proportion tending to go to high value awards over the analysis period.
- Total funds distributed by the **Water Pollution Control Revolving Fund** showed a net increase, even when adjusting for construction inflation. The number of loans declined with a greater proportion of awards going to high value loans over the analysis period.

PWB – Public Works Trust Fund

As shown in Exhibit 13, the annual number of loans awarded from the Public Works Trust Fund programs has varied over the ten year period from 1996 to 2005. A maximum of 72 loans was issued in 1996 and a low of 31 loans was issued in 2003. For the period, 586 loans, totaling \$1.23 billion, were distributed. Exhibit 13 also illustrates that the average loan value has tended to increase over time, while the median value has remained relatively constant. This is the result of the PWTF awarding a greater proportion of large value loans over the time period.

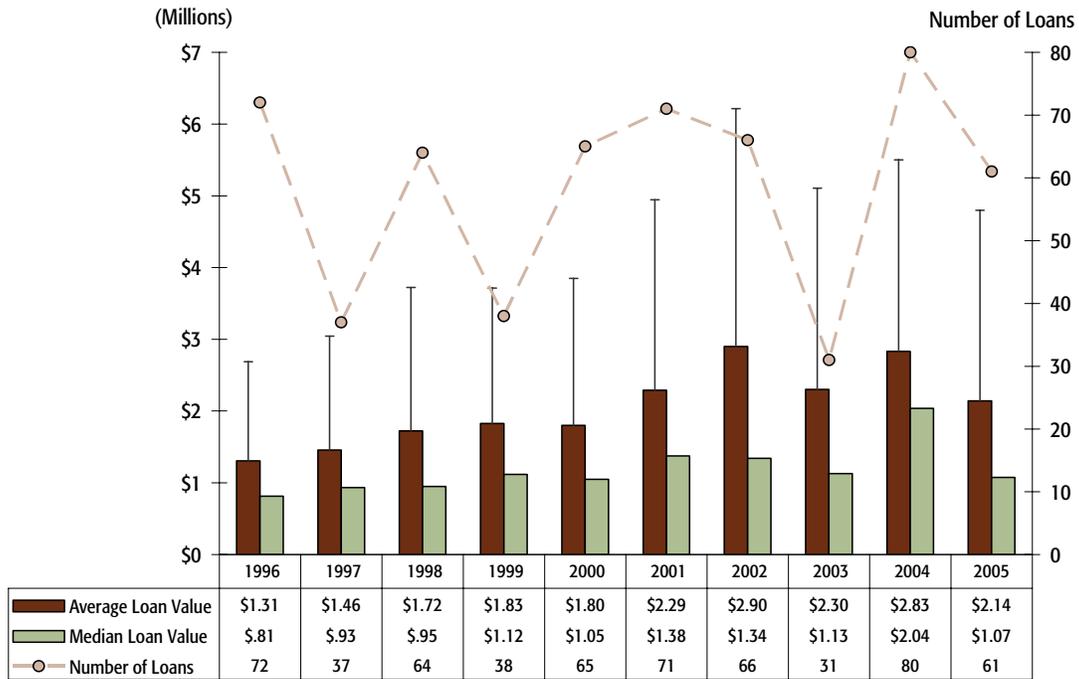
Exhibit 14 demonstrates that the total value of all loans issued in a given year has shown substantial variation with, a general upward trend. The total of all loans peaked in 2004 at \$226.5 million before dropping in 2005 due to the appropriation of funds for Section 138 projects (see page 37 for a description). The nominal increases in total loan value have slightly offset the losses due to construction cost inflation. The median loan value has increased from 1996-2005, but adjusting for construction inflation, the increase nearly disappears.

Exhibit 15 shows that cities were the most frequent beneficiaries of PWTF awards, collecting 56% of all loans. Cities also received the majority of funding, securing 63% of all loan monies awarded. Counties, frequently described by stakeholders as not receiving proportionate benefit from the PWTF program, received 7% of awards given, or 12% of the value of all awards.

Exhibit 16 illustrates that while domestic water projects collected the highest share (47%) of loan awards, equal to 37% of all loan monies awarded, sanitary sewer projects received the largest dollar share of loans (40%), with domestic water projects collecting 37% of the total funds awarded.

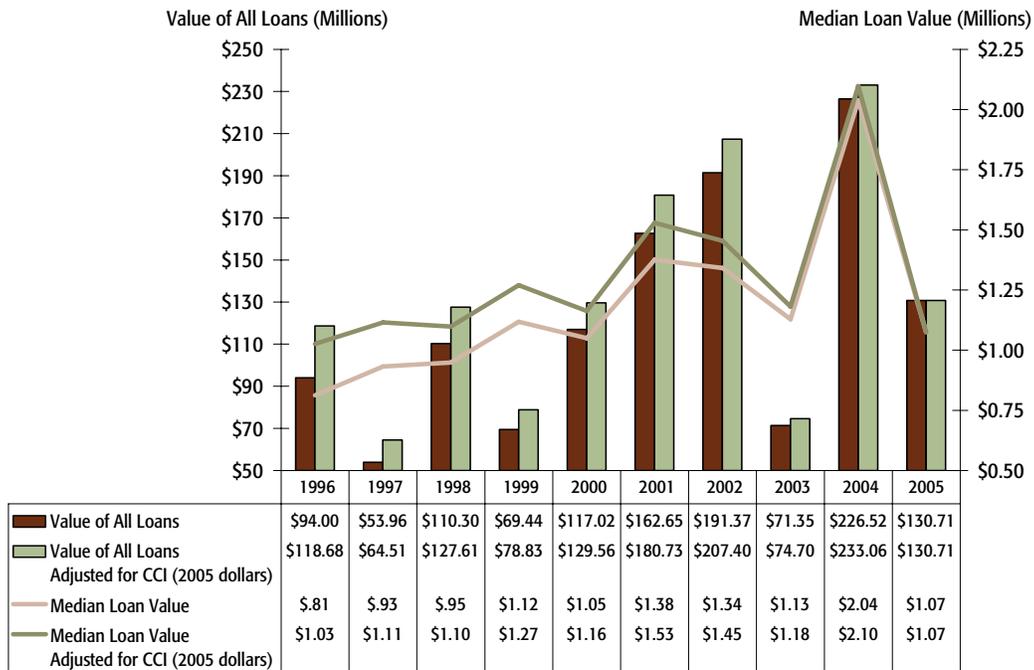
For further analysis of Public Works Trust Fund awards, including trends in award types and award amounts over time, see Section 3.1 of **Appendix E**.

Exhibit 13 – Distribution of Public Works Trust Fund Loans, 1996-2005



Source: PWB Award History and Berk & Associates, 2005
 Note: The magnitude for the standard deviation of the average is denoted by bar (T).

Exhibit 14 – Public Works Trust Fund Loans Adjusted for Inflation, 1996-2005



Source: PWB Award History, Engineering News Record, and Berk & Associates, 2005
 Note: CCI represents the Construction Cost Index computed by Engineering News Record (ENR) for Seattle, WA.

CERB Traditional and Rural Programs

As shown in Exhibit 17, while there has been some variation, the number of yearly awards made by the Community Economic Revitalization Board's programs has tended to increase. Over the 11-year period, 97 awards totaling \$46.0 million were distributed. In most years, relatively equal proportions of high and low value awards were issued. In 2004 and 2005, an increase in the number of relatively low cost feasibility studies changed the proportion of low and high value awards, ultimately reflecting an increase in the number of large value awards being made.

Exhibit 18 illustrates that the award value has varied over time, showing a net increase from 1995 to 2005. These nominal increases in total award value over the time period have more than offset the losses due to construction cost inflation. Adjusted for construction inflation, the 2005 median value award purchases considerably less than it did in 1995 although this finding should be carefully considered in light of the increase in feasibility studies over the same period. These projects cost substantially less than construction projects and therefore reduce the median award value.

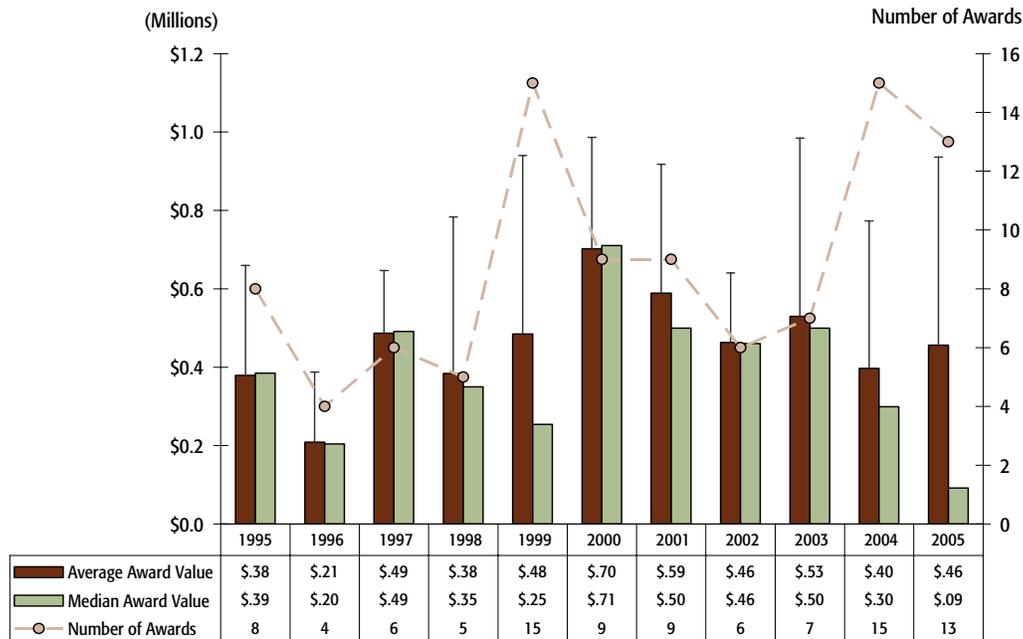
Exhibit 19 shows that the average grant value has varied and in 2003, 2004 and 2005 CERB awarded more grants – with a significantly smaller average size – than previously. The average loan value increased over the same time period, showing the program's shift toward distributing a higher share of total awards as loans. Exhibit 20 shows that over the ten year period, grants accounted for 51% of the total number of awards, but accounted for only 32% of all CERB funding.

Exhibit 21 shows that Port Districts were the most frequent beneficiaries of CERB awards, collecting 56% of all distributions. Port Districts also received 55% of all award monies – the highest share. Cities received the second greatest number of awards (24%) and the second greatest dollar share of all awards (23%).

Exhibit 22 shows that industrial building projects collected the highest number and value of awards, receiving 34% of the total number of awards and 44% of all monies awarded. Feasibility studies collected 20% of the total number of all awards but accounted for only 1% of total CERB funding.

For further analysis of CERB awards, including trends in award types and award amounts over time, see Section 3.2 of **Appendix E**.

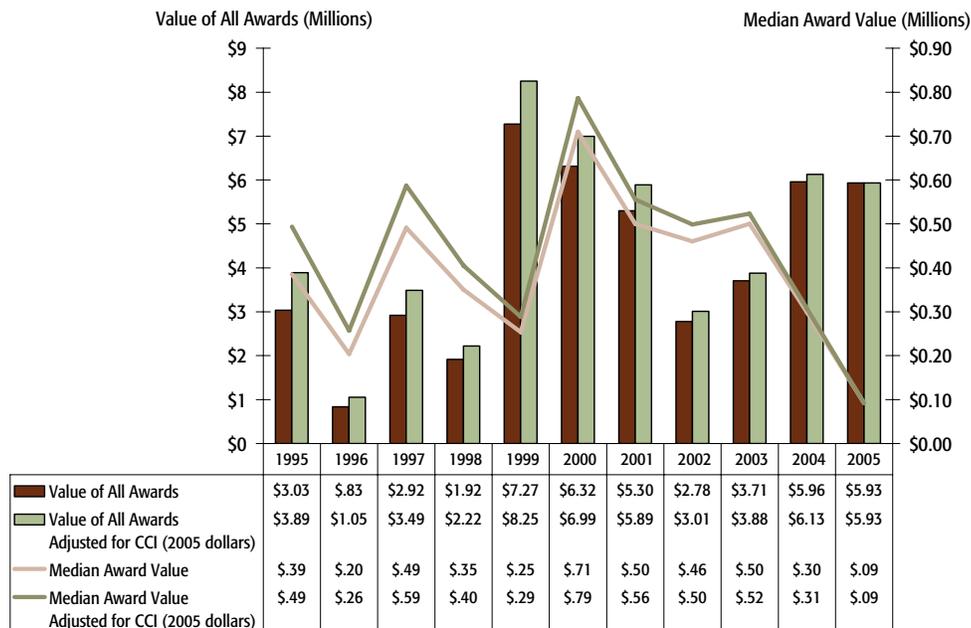
Exhibit 17 - Distribution of Community Economic Revitalization Awards, 1995-2005



Source: CERB Award History and Berk & Associates, 2005

Note: The magnitude for the standard deviation of the average is denoted by bar (T).

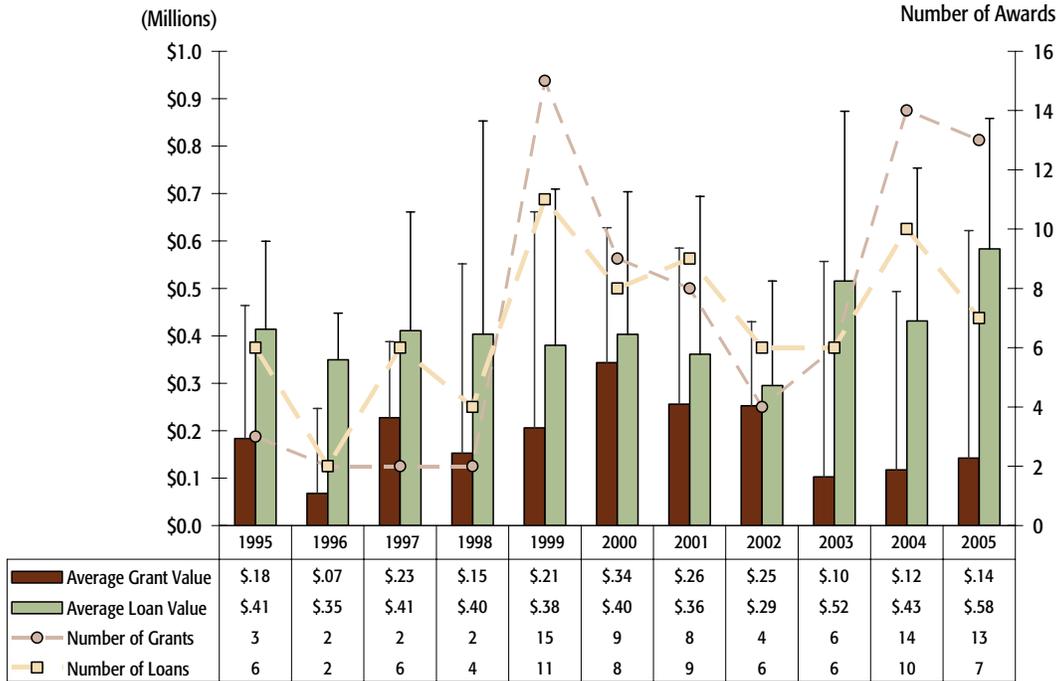
Exhibit 18 - Community Economic Revitalization Awards Adjusted for Inflation, 1995-2005



Source: CERB Award History, Engineering News Record, and Berk & Associates, 2005

Note: CCI represents the Construction Cost Index computed by Engineering News Record (ENR) for Seattle, WA.

Exhibit 19 - Distribution of Community Economic Revitalization Grant and Loan Awards, 1995-2005

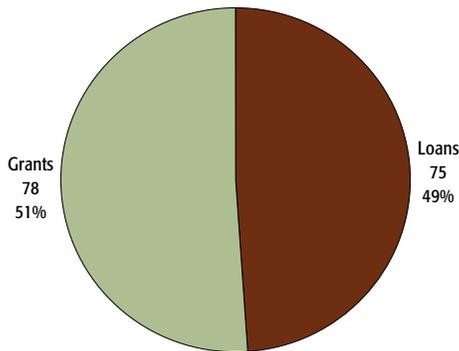


Source: CERB Award History and Berk & Associates, 2005

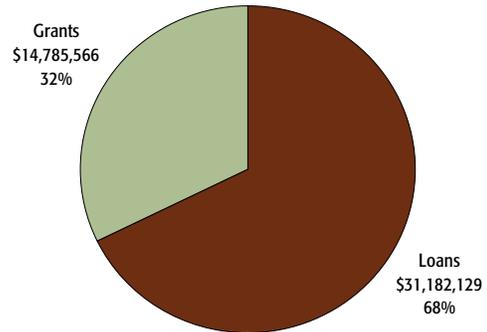
Note: The magnitude for the standard deviation of the average is denoted by bar (T).

Exhibit 20 - Community Economic Revitalization Board Grants and Loans, 1995-2005

Number of Awards



Value of Awards

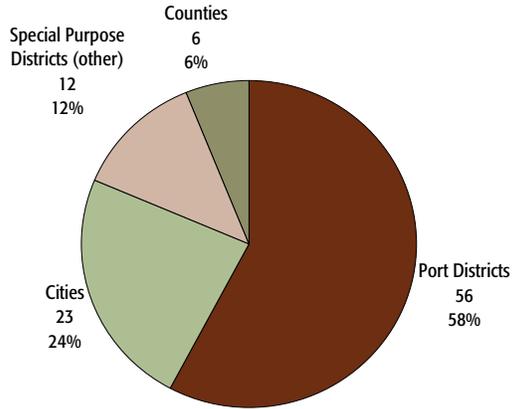


Source: CERB Award History and Berk & Associates, 2005

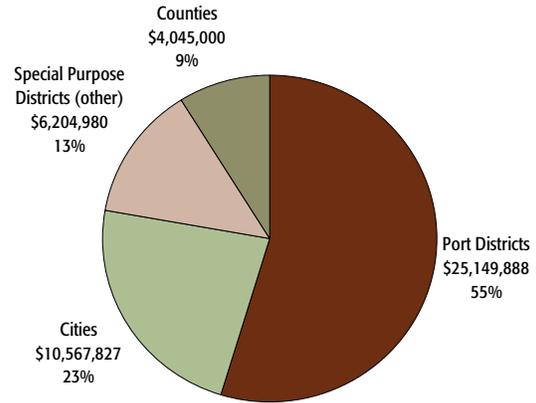
Note: An award to a CERB client could contain both grant and loan monies.

Exhibit 21 – Community Economic Revitalization Board Awards by Client Type, 1995-2005

Number of Awards



Value of Awards

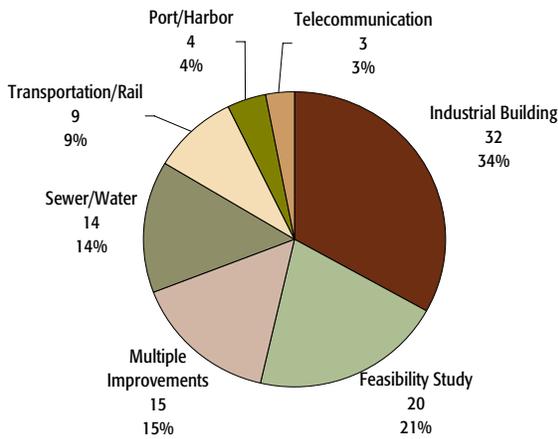


Source: CERB Award History and Berk & Associates, 2005

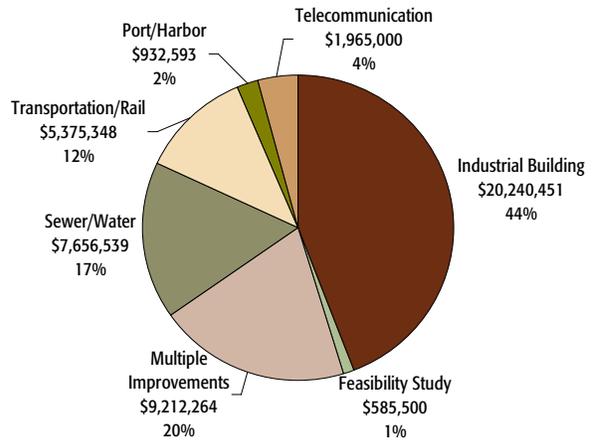
Note: Special Purpose Districts (other) includes ten public development authorities, an airport and a public utility district awards.

Exhibit 22 - Community Economic Revitalization Board Awards by Project Type, 1995-2005

Number of Awards



Value of Awards



Source: CERB Award History and Berk & Associates, 2005

Note: Multiple Improvements include projects combining at least two types of project types.

Community Development Block Grant

Exhibit 23 shows that the annual number of Community Development Block Grant awards has trended slightly upward over the 14-year time period, as has the total annual value. CDBG awards tend to be similar in size and have a larger proportion of lower than higher value awards.

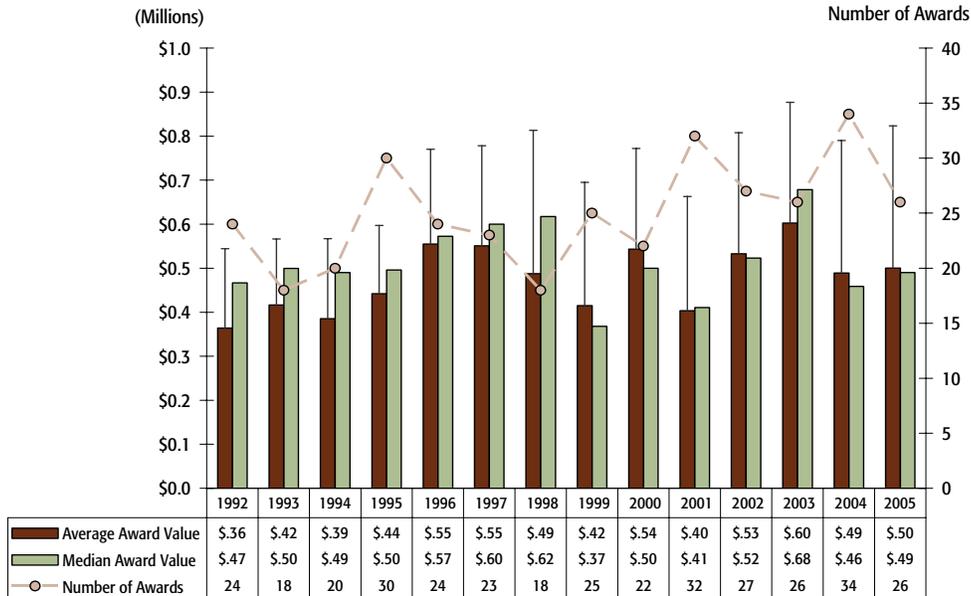
Exhibit 24 shows that adjusting for construction inflation the median value award purchases considerably less in 2005 than it did in 1992. An examination of the value of all awards shows a different picture. Substantial increases in total funding have more than offset the reduction due to construction inflation: in constant 2005 dollars, the total value of awards distributed in 2005 is greater than the total value of awards distributed in 1992.

Cities were the most frequent beneficiaries, collecting 49% of all awards, and the recipients of the greatest dollar share, collecting 51% of all monies awarded, as shown in Exhibit 25. Counties collected 34% of all awards, equal to 32% of the total funds distributed.

Exhibit 26 shows that public facility (sewer/water) projects collected the highest share of all awards, receiving 39% of the total number of awards and 43% of all monies awarded.

For further analysis of Community Development Block Grant awards, including a breakdown by individual programs (General Purpose, Community Investment Fund, Imminent Threat, and Housing Enhancement), trends in award types, and award amounts over time, see Section 3.3 of **Appendix E**.

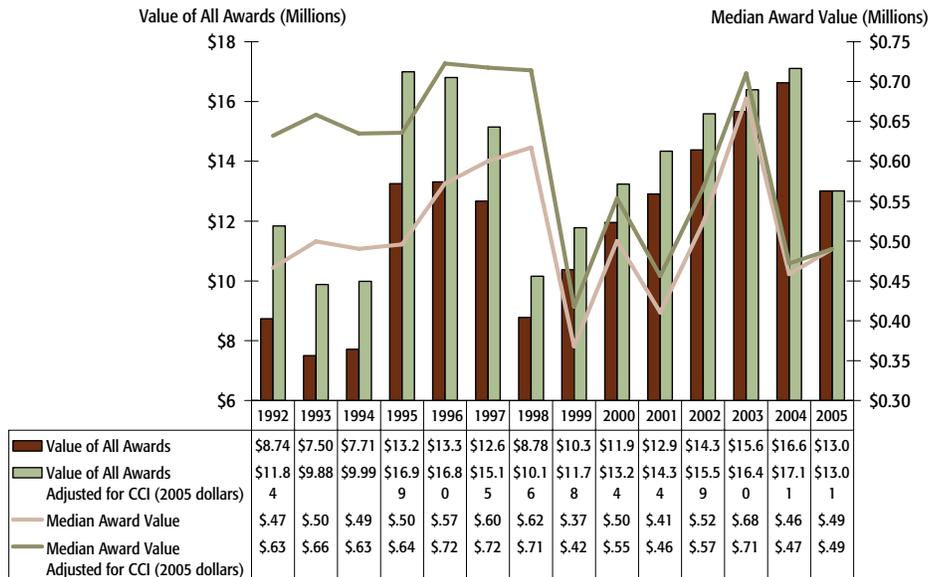
Exhibit 23 - Distribution of Community Development Block Grants Awards, 1992-2005



Source: Community Development Block Program Award History and Berk & Associates, 2005

Note: The chart represents a roll-up of General Purpose, Community Investment Fund, Imminent Threat and Housing Enhancement Grant awards. The magnitude for the standard deviation of the average is denoted by bar (I).

Exhibit 24 – Community Development Block Grants Awards Adjusted for Inflation, 1992-2005

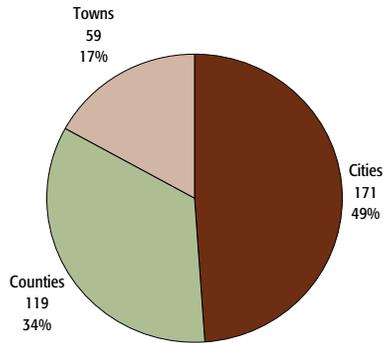


Source: Community Development Block Program Award History, Engineering News Record, and Berk & Associates, 2005

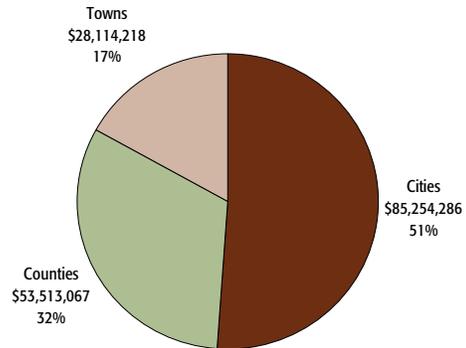
Note: The chart represents a roll-up of General Purpose, Community Investment Fund, Imminent Threat and Housing Enhancement Grant awards. CCI represents the Construction Cost Index computed by Engineering News Record (ENR) for Seattle, WA.

Exhibit 25 – Community Development Block Grant Awards by Client Type, 1992-2005

Number of Awards



Value of Awards

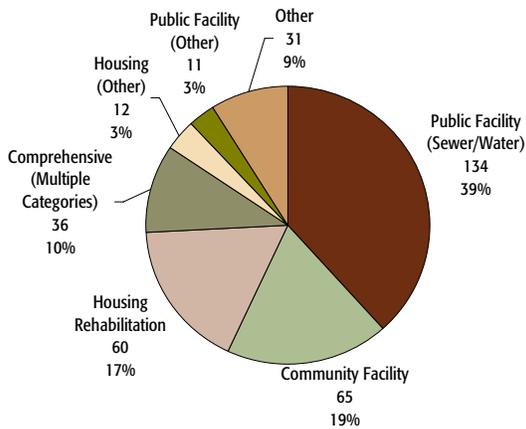


Source: Community Development Block Program Award History and Berk & Associates, 2005

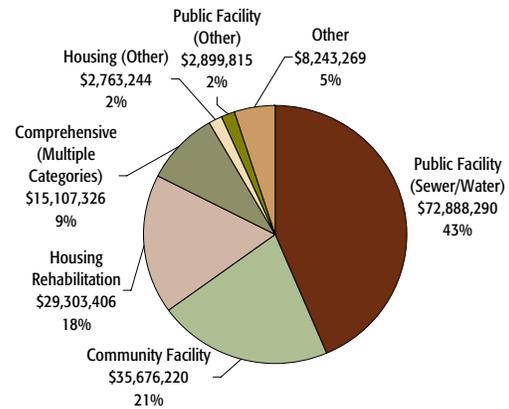
Note: The chart represents a roll-up of General Purpose, Community Investment Fund, Imminent Threat and Housing Enhancement Grant awards.

Exhibit 26 - Community Development Block Grant Awards by Project Type, 1992-2005

Number of Awards



Value of Awards



Source: Community Development Block Program Award History and Berk & Associates, 2005

Note: The chart represents a roll-up of General Purpose, Community Investment Fund, Imminent Threat and Housing Enhancement Grant awards. Other includes ten Imminent Threat, six Public Facility (Transportation), four Public Facility (Fire), three Economic Development, three Housing Enhancement, three Micro Enterprise Loan and two Clearance of Contaminated Site awards. Public Facility (Other) includes a wide array of public facilities.

Drinking Water State Revolving Fund

As shown by Exhibit 27, the number of loans made through the Drinking Water State Revolving Fund has trended upward over the eight year period from 1997 to 2004. A total of 259 total loans were made, equal to \$190.7 million.

The value of the average loan has tended to increase over time, while the median value has remained at relatively consistent levels. This is the result of the DWSRF awarding a greater proportion of loan monies concentrated in large loans over the time period.

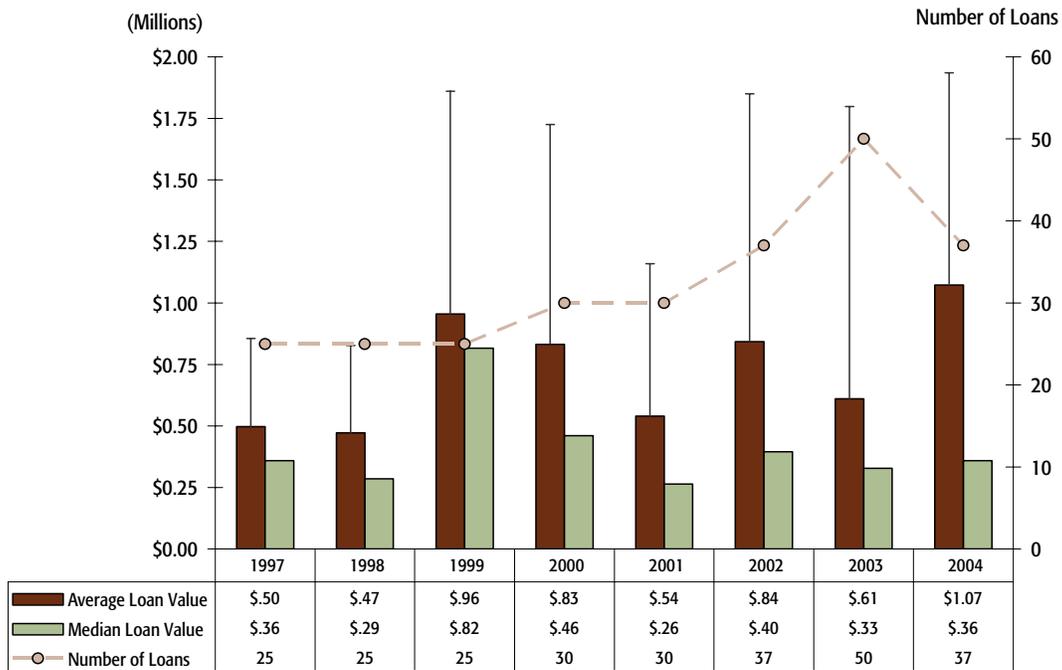
Exhibit 28 shows that the value of all loans made in a given year has increased substantially over the time period, even if adjusted for inflation. An examination of the median award shows a different picture. The 2004 inflation adjusted median value award purchases less than it did in 1997.

Exhibit 29 illustrates that cities were the most frequent beneficiaries, collecting 32% of all loans, as well as the recipients of the greatest dollar share (53%) of all monies awarded. Private non-profits, including water, home and community associations, received the second largest share of awards (28%) and dollar value (17%).

All loans funded domestic water projects as allowed under DWSRF.

For further analysis of Drinking Water State Revolving Fund awards, including trends in award types and award amounts over time, see Section 4.1 of **Appendix E**.

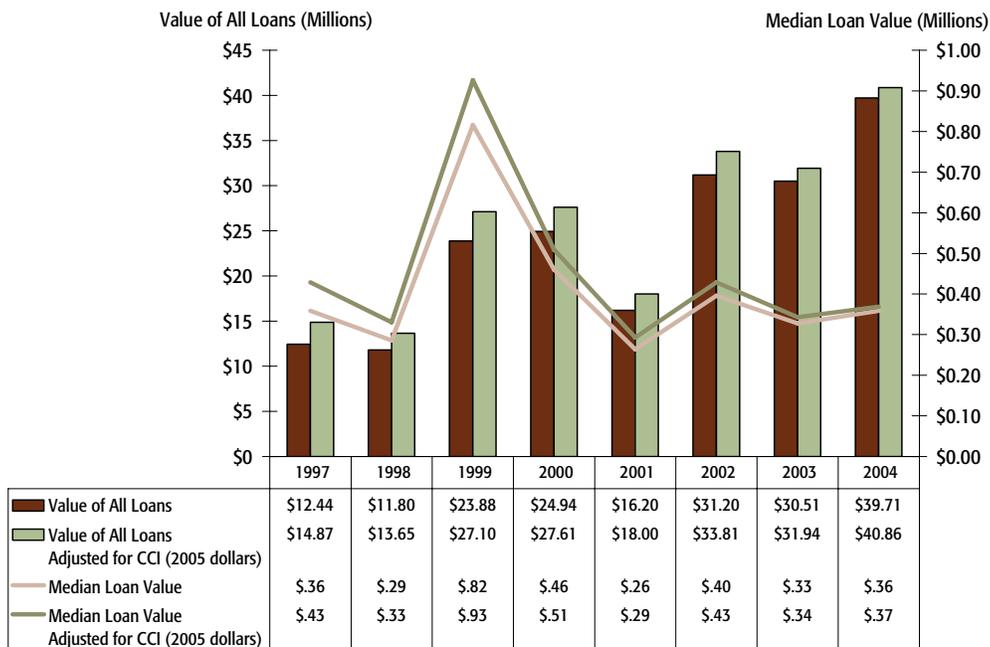
Exhibit 27 - Distribution of Drinking Water State Revolving Fund Loans, 1997-2004



Source: PWB Award History and Berk & Associates, 2005

Note: The magnitude for the standard deviation of the average is denoted by bar (T).

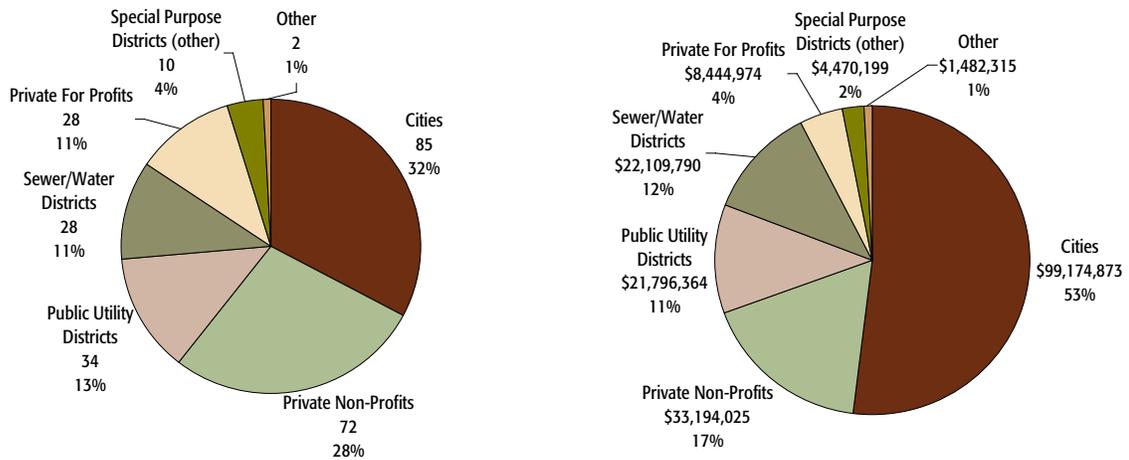
Exhibit 28 - Drinking Water State Revolving Loans Adjusted for Inflation, 1997-2004



Source: PWB Award History, Engineering News Record, and Berk & Associates, 2005

Note: CCI represents the Construction Cost Index computed by Engineering News Record (ENR) for Seattle, WA.

Exhibit 29 – Drinking Water State Revolving Fund Loans by Client Type, 1997-2004
Number of Awards **Value of Awards**



Source: PWB Award History and Berk & Associates, 2005

Note: Special Purpose Districts (other) include seven irrigation districts, two ports districts and a reclamation district. Other includes a county and a housing authority. Private Non-Profits include awards to water, home and community associations.

Centennial Clean Water Fund

The annual number of Centennial Clean Water Fund awards has declined over seven year time period from 2000 to 2006, as illustrated in Exhibit 30. A total of 260 awards, worth \$173 million, were made. The average and median award values have fluctuated over the time period, growing from 2003 to 2005, and dropping in 2006. A greater proportion of high than low value awards were made during the time period with the exception of 2004 and 2005 when the proportions were relatively symmetric.

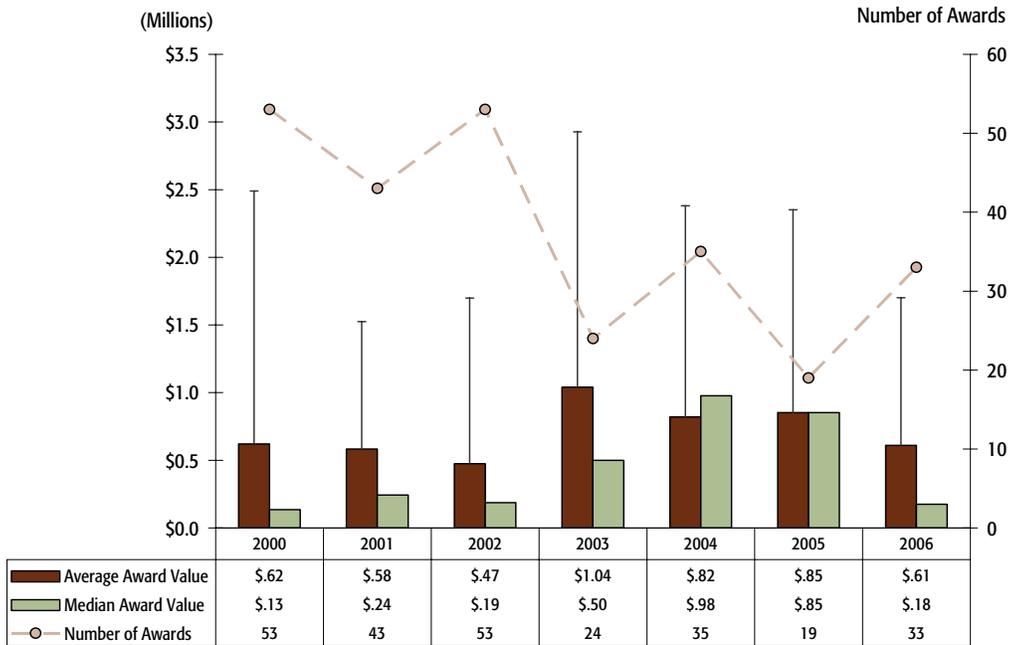
The value of all awards has decreased over the time period, shown in Exhibit 31. The decrease in CCWF purchasing power is exacerbated when adjusting for construction inflation. However, the median award value increased from 2000 to 2005, which more than offset the reduction due to construction inflation. The median value precipitously declines in 2006.

Exhibit 32 shows that while conservation districts received the largest share of the total number of awards (34%), they received only 10% of total award monies. Counties received 24% of the total number of awards distributed, accounting for the greatest share (49%) of total award monies. Cities received 25% of all awards, equal to 35% of all funds distributed.

Detailed reporting of Centennial Clean Water awards by project type was not available for analysis. Generally speaking, two-thirds of competitively granted Centennial Clean Water awards go to Financial Hardship Communities for critical wastewater infrastructure construction. One-third goes for non-point pollution control activities. Actual amounts awarded depend on funds available, and on the number and size of eligible project applications received.

For further analysis of Centennial Clean Water Fund awards, including trends in award amounts over time, see Section 5.1 of **Appendix E**.

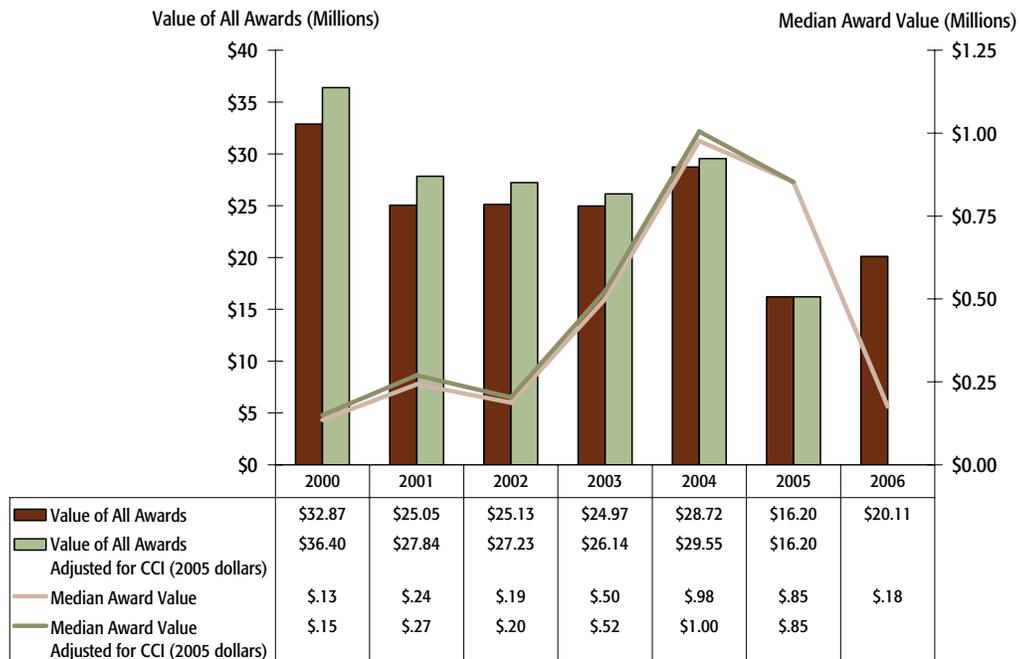
Exhibit 30 - Distribution of Centennial Clean Water Fund Awards, 2000-2006



Source: DOE Award History (2000-2006) and Berk & Associates, 2005

Note: The magnitude for the standard deviation of the average is denoted by bar (T).

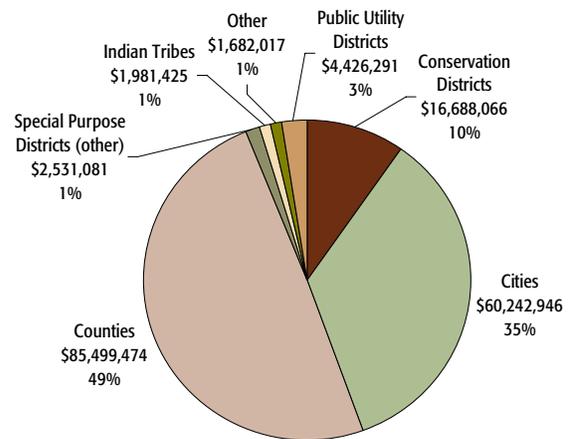
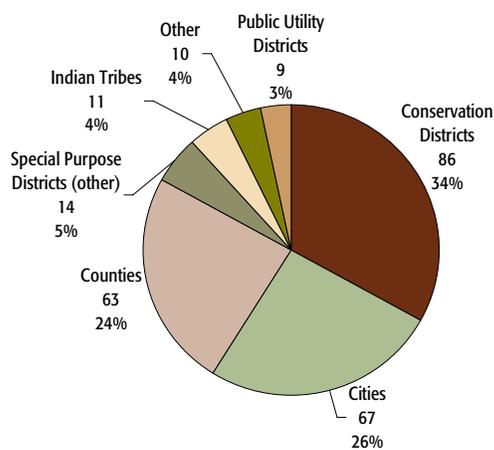
Exhibit 31 - Centennial Clean Water Fund Awards Adjusted for Inflation, 2000-2006



Source: DOE Award History (2000-2006), Engineering News Record, and Berk & Associates, 2005

Note: CCI represents the Construction Cost Index computed by Engineering News Record (ENR) for Seattle, WA.

Exhibit 32 – Centennial Clean Water Awards by Client Type, 2000-2006
Number of Awards **Value of Awards**



Source: DOE Award History (2000-2006) and Berk & Associates, 2005

Note: Other includes five State University, two water alliances, one salmon enhancement group, one salmon recovery board and one State department awards. Special Purpose Districts (other) includes four sewer/water districts, four health districts, three boards, two reclamation districts and one port district awards.

Water Pollution Control Revolving Fund

As shown by Exhibit 33, the annual number of Water Pollution Control Revolving Fund awards has declined over the seven year time period from 2000 to 2006. A total of 229 loans were awarded, equal to \$531.4 million. The average loan size grew between 2000 and 2005 and then dropped off in 2006. The median loan size has remained relatively constant. This is the result of the WPCRF awarding a greater proportion of large value loans over the time period.

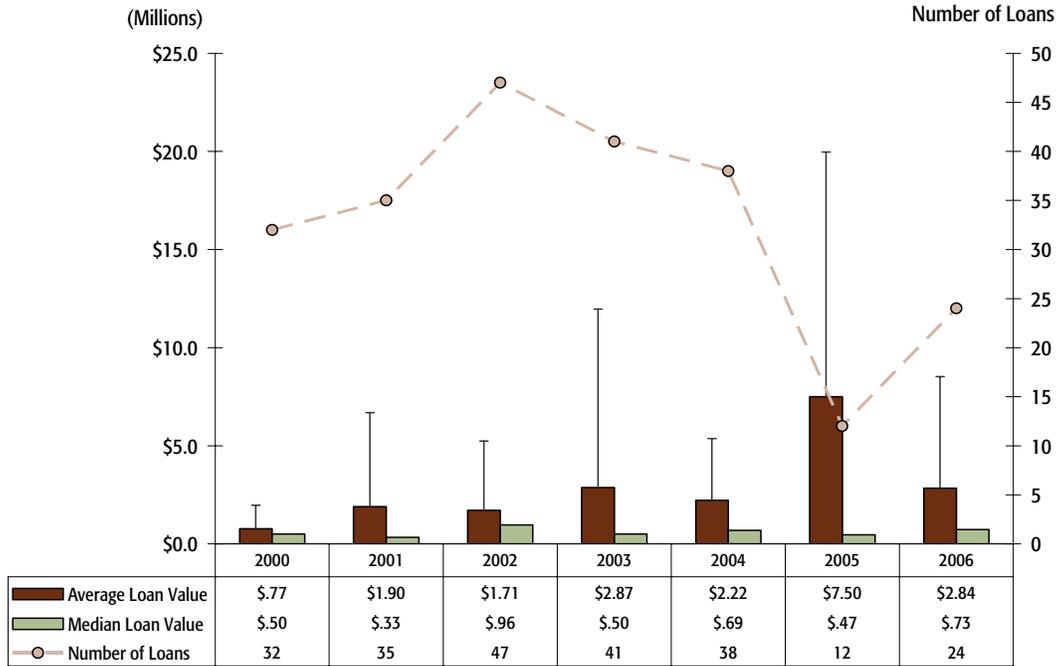
Exhibit 34 illustrates that the total value of all loans distributed increased since 2000, peaking in 2003. The increase in total loan values between 2000 and 2006 more than offset the reduction in purchasing power due to construction inflation. The median loan value has slightly decreased from 2000 to 2006 and is exacerbated when adjusting for construction inflation, but is trending flat.

Exhibit 35 shows that cities were the most frequent beneficiaries, collecting 59% of all loan awards, and the recipients of the greatest dollar share of all loans distributed (49%). Counties had the second greatest share of awards received (20%) and dollars distributed (31%).

Detailed reporting of Water Pollution Control Revolving Fund awards by project type was not available for analysis. Generally speaking, eighty percent of loans are designated for facilities, primarily for wastewater treatment plant planning, design and construction. Up to twenty percent can go for non-point activities, for a wide range of non-point projects (e.g. agricultural best management practices, on-site septic repair and replacement and stormwater). If the demand for non-point activity loan funding is limited, the remainder of funds in this category is rolled over to the facility loan category.

For further analysis of Water Pollution Control Revolving Fund awards, including trends in award amounts over time, see Section 5.2 of **Appendix E**.

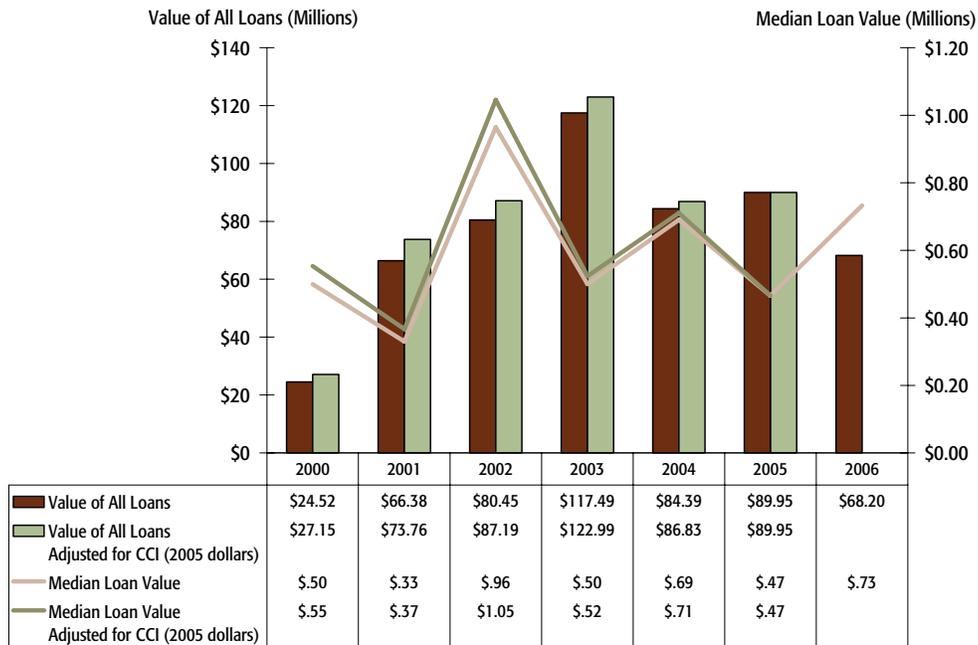
Exhibit 33 - Distribution of Water Pollution Control Revolving Fund Loans, 2000-2006



Source: DOE Award History (2000-2006) and Berk & Associates, 2005

Note: The magnitude for the standard deviation of the average is denoted by bar (T).

Exhibit 34 - Water Pollution Control Revolving Fund Loans Adjusted for Inflation

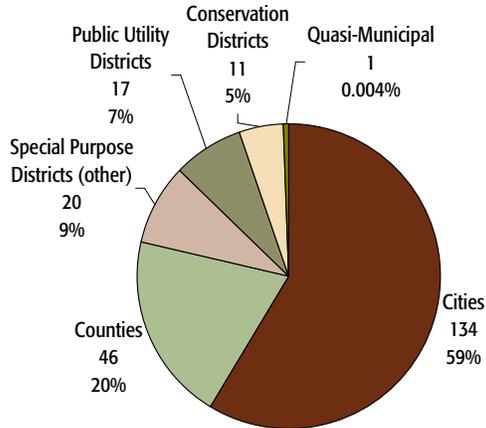


Source: DOE Award History (2000-2006), Engineering News Record and Berk & Associates, 2005

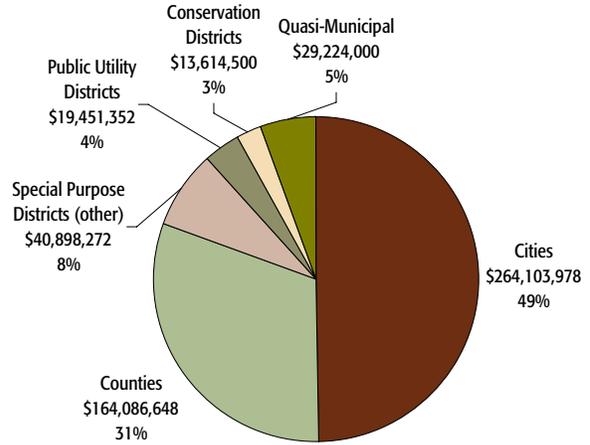
Note: CCI represents the Construction Cost Index computed by Engineering News Record (ENR) for Seattle, WA.

Exhibit 35 – Water Pollution Control Revolving Fund Loans by Client Type, 2000-2006

Number of Awards



Value of Awards



Source: DOE Award History (2000-2006) and Berk & Associates, 2005

Note: Special Purpose Districts (other) include nine sewer/water districts, three health districts, two irrigation districts, two boards, one dike district and one port district awards. Quasi-Municipal includes an award to Lacey, Olympia, Tumwater and Thurston County (LOTT). LOTT is categorized as a quasi-municipal in the PWTF summary.

5.0 SUMMARY ASSESSMENT OF PRACTICES IN OTHER STATES

5.1 Other States Present a Range of Models

Local infrastructure programs have evolved differently in other states, dependent on the context of each state's political structures and philosophies, the age and condition of existing infrastructure and each state's experience with growth. In some cases, states have taken steps to reshape and redirect how infrastructure investment dollars are allocated, creating a more deliberate system out of what was a collection of independent programs.

This Section summarizes the results of a survey of local infrastructure funding programs in other states. The states mentioned below and summarized in profiles found in **Attachment F** were selected to describe the wide range of options states have adopted in developing these types of programs – not because they are seen as closely comparable to Washington State.

A Range of State Roles and Goals for Local Infrastructure Programs

State involvement in funding local infrastructure projects ranges from passing-through federal dollars (Community Development Block Grants, Clean Water State Revolving Funds, Drinking Water State Revolving Funds, federal Clean Water Act Section 319 funds) to investing state dollars in state-directed infrastructure funding programs. Administration of federal programs involves a state match, rating, ranking and recommending projects.

Creation of state programs, on the other hand, entails identifying a funding source, developing program goals and award criteria, and ongoing staffing and management of the program. States that elect to develop such state-controlled funds face the choice of whether to prioritize these funds for basic infrastructure, economic development, or other potential policy goals such as the following:

- **Meet Regulations Related to Public Health and Safety.** Repair or expansion of existing infrastructure may be required to protect public health and safety and to maintain adherence with environmental and health regulations. Water-related state revolving funds are focused toward this end, protecting water quality and supporting the provision of clean drinking water. In preventing communities from violating environmental and health regulations, states may have less control over how such funds are spent relative to state-directed infrastructure investment funds designed with other purposes in mind.
- **Support and/or Manage Growth.** Infrastructure investments can be designed to support growing populations, and – by controlling where infrastructure is developed – to manage and direct growth.
- **Spur Economic Development.** Investment in infrastructure can be utilized to create jobs or promote community revitalization. These ends may be achieved directly through catalytic projects, or by providing basic infrastructure to encourage or support subsequent private development. Such infrastructure can be used as an incentive to entice desired private development.
- **Enhance Quality of Life.** Infrastructure investments may be designed to promote a community's quality of life through the development of cultural facilities, parks and recreation infrastructure, schools, and other important contributors to making a community an attractive place to live.

Washington’s many State-created basic infrastructure programs were established to serve one or more of the above policy goals, leading to today’s conglomeration of programs, each operating independently, striving to be efficient and effective at meeting its own goals. Discussion below describes how Washington and other states fall along three related dimensions representing a range of options for aligning and organizing a state’s local infrastructure investment programs.

5.2 Dimensions of Local Infrastructure Investment Programs

The range of models presented by other states can be plotted along three dimensions addressing policy direction, program organization and outcome orientation. These continua are summarized below.

Dimension 1: Policy Direction – Centralized to Program-Specific

As described above, the policy goals of any individual program may focus on meeting public health and safety, supporting and/or managing growth, spurring economic development or enhancing quality of life. Focus on one or more of these goals may originate from a centralized policy focus, directing a state’s local infrastructure investment programs – as well as other programs – toward priority areas of focus. At the other end of the spectrum, policy direction may be determined at the program level through the legislative intent encapsulated in founding statutes and the evolving rules and criteria which guide the distribution of awards.

Washington is solidly at the right end of this spectrum, described on page 78, below, as a collection of programs, not a designed system. While there is some coordination among programs, policy direction is established at the program level as individual programs have been created by the Legislature to serve different goals.

Dimension 1: Policy Direction



In states with a central policy direction, priority is placed upon a unifying goal such as growth management (**Massachusetts** or **Delaware**) or job growth (**Oregon**). This policy direction serves to focus infrastructure investments toward this common end.

- **Massachusetts** has made “Smart Growth” central to its infrastructure decisions³. Every year, local governments applying for infrastructure funds must submit their land use policies to be reviewed and rated by the Office of Commonwealth Development. The resulting scores are weighted 30% in funding decisions.
- **Oregon’s** Governor’s Economic Revitalization Team “emphasizes multi-agency coordination on projects of local and statewide significance.” Directors of eight state agencies are members of the

³ Smart growth is an approach to planning and development which emphasizes decreasing suburban sprawl through dense urban development supported by public transportation to maintain high livability.

GERT, meeting monthly to bring their combined resources to bear on priority projects. More information on the GERT can be found in the profile of Oregon in **Attachment A** to this document.

- In **Pennsylvania**, the Governor’s Economic Development Cabinet is tracking and inventorying investments made by state departments to improve the coordination of state activities and encourage departments to work jointly and more efficiently. The Cabinet has developed specific policies and criteria focusing infrastructure development to benefit the economy and residents’ quality of life.

In other states, goals and funding criteria for local infrastructure investment programs are established independently, without a unifying infrastructure investment strategy.

- **Michigan** and **Illinois** provide infrastructure funding through independent programs in a wide variety of state departments. Each program makes funding decisions according to its own criteria, and there is little communication across departments. For example, Michigan’s revolving loan programs are administered by using a Priority Project List, in which potential projects are ranked and funded according to specific criteria. These criteria are established at the program level through state law and regulation, and are not part of a broader policy direction coordinating multiple programs.
- **Arizona** also funds infrastructure through a variety of independent programs according to program-specific criteria. Arizona has historically taken a hands-off approach to both economic development and land use, and while there has been policy activity in both realms in recent years, Arizona’s nascent efforts at centralized business development and growth management are not aligned with infrastructure funding programs.

Dimension 2: Program Organization – Centralized to Decentralized

States may choose to consolidate the location of local infrastructure investment programs, or these programs may be relatively decentralized across multiple departments. **Washington** clearly has a decentralized system, with basic infrastructure investment programs located across three departments and multiple divisions and boards. Including transportation and adopting a broader view of infrastructure brings the count to more than 12 separate departments, boards and commissions.

Dimension 2: Program Organization



Like the other dimensions described here, a continuum exists, and not all states are fully centralized or decentralized. In **Illinois**, for example, many separate authorities that finance infrastructure were consolidated in 2004, but other infrastructure grant and loan programs are still scattered among various agencies.

In addition to having central investment priorities, **Massachusetts** provides an example of a state with a highly centralized system. Infrastructure funding programs are all housed in the Office of Commonwealth Development, formed when the Governor merged the former Environmental Affairs,

Housing & Community Development, Transportation and Energy departments in order to break down agency “silos” and promote coordination in the pursuit of “Smart Growth.”

Central policy does not always mean centralized organization. While **Delaware** has strong central policy direction, similar to Massachusetts, its infrastructure investment programs are administered across many different state departments.

Oregon’s programs are organized in almost perfect parallel structure to Washington’s local infrastructure investment programs:

- The Economic and Community Development Department administers several relevant programs including the Special Public Works Fund, CDBG funds, and the Safe Drinking Water Revolving Fund and Drinking Water Protection Loan Fund. These last two funds are administered jointly with the Department of Human Services, similar to the joint administration of Washington’s Drinking Water Revolving Fund by the Public Works Board and the Department of Health.
- The Department of Environmental Quality administers the state’s Clean Water State Revolving Fund through its Water Quality Division, parallel to the administration of Washington’s Water Pollution Control Revolving Fund by its Department of Ecology.

Michigan does not feature a state-controlled funding source equivalent to the Public Works Trust Fund or CERB, although local governments can utilize the Michigan Municipal Bond Authority (MMBA) (described in **Attachment F**) to access lower-cost funds than they could otherwise avail themselves of.

- Program administration of the state’s revolving funds (Water Pollution Control Revolving Fund, the Drinking Water Revolving Fund, and the Strategic Water Quality Initiative Fund) is centralized in one location: the Department of Environmental Quality, Environmental Science and Services Division, Revolving Loan and Operator Certification Section. Staff noted significant advantages in having a single office manage programmatic administration. Clients deal with one district engineer and one project manager, rather than separate staff for water quality and drinking water issues. Additionally, efficiencies are achieved on the state side, as one staff member can be sent to meetings, rather than two. Staff stated while there is some stress on staff, who must be competent in two programs, they generally enjoy the challenge and prefer not to be limited to one program and one set of issues.
- The financial management and administration of the state’s revolving fund programs is handled separately, by the Municipal Bond Authority. Staff report both advantages and disadvantages to this arrangement. The greatest advantage is access to staff and attorneys with expertise in municipal finance – something that would have to be duplicated if the department were charged with financial administration. In terms of disadvantages, staff said there were challenges in aligning the work of two different agencies with different missions and priorities. MMBA staff are “spread among several programs, meaning we have to fight for our place in things.” Staff also cited an initial learning period, during which MMBA staff familiarized themselves with the workings of the environmental programs. According to interviews and a review of related literature, more than 60% of Clean Water Revolving Fund programs operate with separate agencies responsible for program/environmental administration and financial administration of the program.

- CDBG funds are administered via the Housing Development Authority, with very little overlap or collaboration between these funds and the revolving loan funds. Little assistance exists to direct applicants to appropriate funding programs.

Dimension 3: Outcome Orientation – Investment- to Distribution-Focused

Borrowing from a concept initially developed by JLARC’s 2001 study of environmental grant and loan programs, states can be seen on a continuum from investment-focused to distribution-focused. Investment-focused states prioritize achieving specific outcomes, to which performance measures are applied and program effectiveness tested. Programs in such states have articulated strategy and goals (whether centrally derived or program-specific) which are reflected in project evaluation criteria and program outcomes measures. On the other end of the spectrum, distribution-focused programs are focused on meeting locally needs by quickly and efficiently distributing federal and state funds.

Dimension 3: Outcome Orientation



Washington is moving from being distribution-focused to being more investment-driven. Initiatives such as Priorities of Government and GMAP, as well as implementation of recommendations from JLARC’s 2001 study, increase focus on results-based program evaluation.

Oregon has a system of performance measures linked to the state budget process. The Progress Board of the Department of Administrative Services oversees and reports on the performance of individual agencies and the state as a whole.

- **Oregon’s** overall strategic vision is encapsulated in *Oregon Shines II*. This document highlights three key strategic goals: (1) quality jobs for all Oregonians, (2) safe, caring and engaged communities, and (3) healthy, sustainable surroundings. Benchmarks – “high-level societal measures that gauge how Oregon is doing as a whole” – are formed around these three goals and organized into seven categories: economy, education, civic engagement, social support, public safety, community development and environment.
- Annual Performance Progress Reports use performance measure data to describe each agency’s progress toward its mission and goals. Where agency work aligns with Oregon Benchmarks, agency performance measures represent stepping stones to achieving Oregon Benchmark targets. Agencies with no direct link to Oregon Benchmarks align their performance measures exclusively with their own mission and goals. Many agencies have additional measures for internal management.
- Each of the eight member agencies involved in the Governor’s Economic Revitalization Team (GERT), including GERT itself, track key performance measures (KPM) related to their programmatic focus. For example, Oregon’s Economic and Community Development Department is evaluated based on nine KPM ranging from total jobs created and retained to penetration rates and customer service scores. It is reported that the different performance measures for the GERT-related agencies are sufficiently in synch to avoid conflict related to local infrastructure investments, and in fact provide incentives for interagency collaboration.

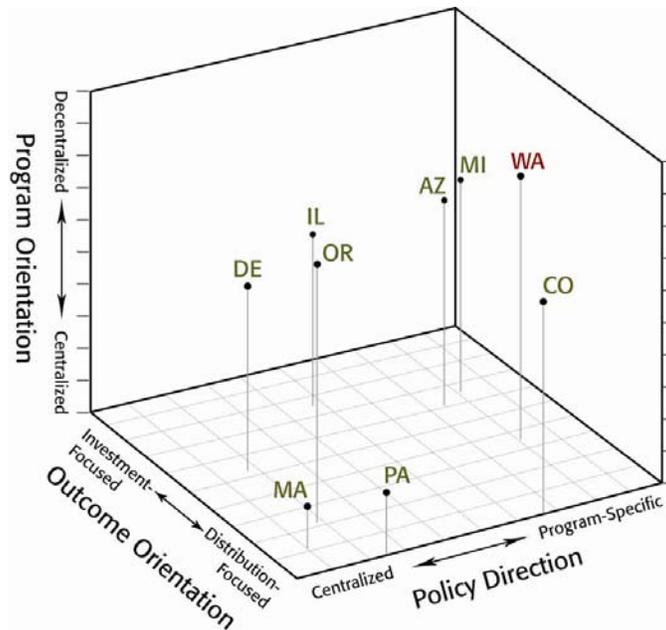
Illinois is an example of a distribution-focused system. The state’s infrastructure programs were each founded with a policy purpose, but their subsequent administration is focused on helping eligible applicants, efficiently distributing funds and ensuring project compliance with funding terms. Performance measurement and coordination among programs around broader policy goals are uncommon.

Similarly, in administration of **Michigan’s** revolving funds, there is no post-project monitoring or testing of outcomes. Program staff stated that they lack the resources to conduct such post-project outcome tracking. This highlights that there are state and agency costs associated with being investment-based. The development of appropriate performance measures requires articulated strategy and careful thought. The tracking of data requires data collection and data storage infrastructure as well as the time and expertise to manipulate and analyze this information. Project data collection generates costs for local government which will presumably be absorbed by the program through the grant or loan process.

5.3 Intersection of Dimensions

Exhibit 36 graphically illustrates the intersection of the three dimensions discussed above. The discussion which follows explores the relationships between two pairs of dimensions.

Exhibit 36
The Intersection of the Three Dimensions

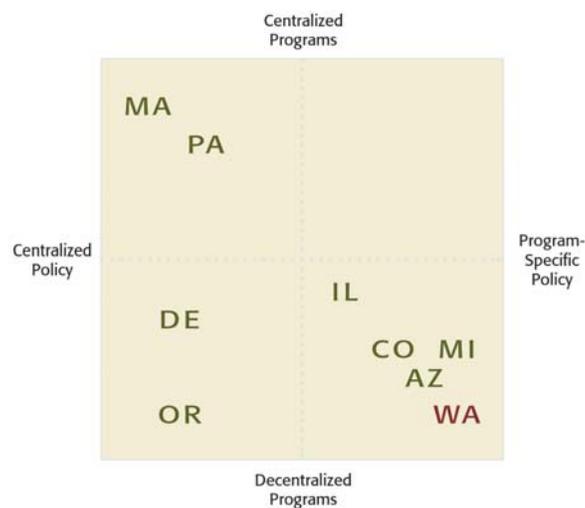


Note: Information related to outcome orientation was not available for Colorado and Pennsylvania.

Intersection of Policy Direction and Program Organization

The intersection of the two dimensions related to the source of policy direction and the structural arrangement of programs across a state's organizational chart is represented in Exhibit 37. This matrix illustrates that most states reviewed, like Washington, determine policy direction at the program level and have decentralized programs. Other states, such as Massachusetts and Pennsylvania, have centralized policy direction and consolidated programs. Delaware and Oregon are able to apply a common policy direction to a relatively decentralized collection of programs.

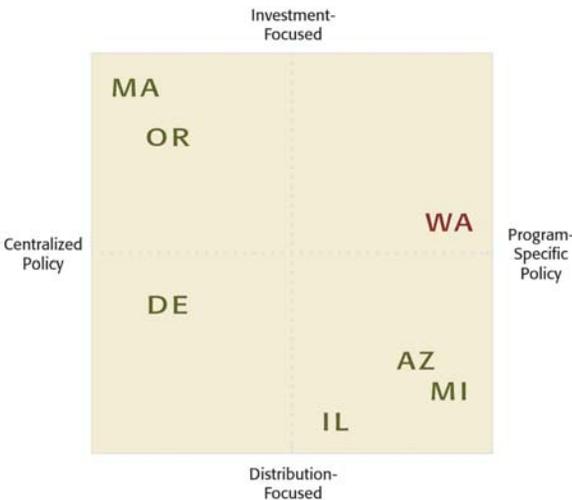
Exhibit 37
The Intersection of Dimensions
Related to Policy Direction and Program Organization



Intersection of Policy Direction and Outcome Orientation

Exhibit 38 illustrates the relationship between the source of policy direction and the outcome orientation of programs. Massachusetts and Oregon feature a centralized policy direction, as well as a strong investment orientation. Arizona and Michigan, and to a lesser extent, Illinois, operate in a distribution-focused manner with program-specific policy direction. Washington is unique among the surveyed states, having program-specific policy direction and a relatively more investment-focused orientation.

Exhibit 38
The Intersection of Dimensions
Related to Policy Direction and Outcome Orientation



Note: Information related to outcome orientation was not available for Colorado and Pennsylvania.

6.0 STRATEGIC SYSTEM ASSESSMENT AND PROGRAM EVALUATION

6.1 Key Findings: Strengths, Challenges and Opportunities of the Current System

Strengths

Client Satisfaction with Programs is High. The programs studied have strong, satisfied constituencies which generally give the programs high marks. The programs are seen as effective and well-functioning means of distributing funds to local agencies.

Washington is Considered a National Leader in Performance Measurement. The State is frequently cited for its work on the Priorities of Government, and more recently for its focus on performance audits and program accountability.

Washington's Infrastructure Programs are Well Respected and the State is Considered a National Model for Infrastructure Funding. Washington's infrastructure programs and funding are considered to be among the handful of best programs in the nation. Reviews of best practices nationally hail Washington as among the best states in terms of attention and funding devoted to infrastructure maintenance, and the quality of the programs administered. As one interviewee from another state said: "Washington has fabulous programs." When the question of what programs are innovative and cutting edge is posed across the country, a common response is that Washington's programs should be examined.

DOE's integrated **Water Quality Program** joint application has been featured as a model for others to emulate. A draft Program Evaluation Report of the State's WPCRF program for State Fiscal Year 2003-2004 was prepared by the U.S. EPA's Region 10. The paper finds that DOE's integrated solicitation process that allows agencies to submit one application for three programs is "unique to Washington state (and) makes Washington's program especially effective at both maximizing the number of projects receiving assistance in any one year and at maximizing the water quality benefits that the state is obtaining from its water quality financial assistance programs." The Water Quality Program is lauded for voluntarily establishing the Washington Water Quality Financial Assistance Advisory Council, comprised of constituents, federal partners and others. While not binding, the Council's input and advice helps shape program policy.

The **IAC** also offers its clients a combined application for its grant programs, although some programs have their own sections within the application. Applicants can transmit electronic copies of application materials using the IAC's custom-built, Internet-enabled grant-management tool called PRISM. The State of Oregon has purchased PRISM and is manipulating it for use by three state agencies that it plans to link together using the software. The Bonneville Power Administration uses the software, as does Washington State's Department of Fish and Wildlife, and an upcoming presentation of PRISM's capabilities to California's State Off-Highway Program will explore whether the program could benefit that state as well.

The State's **CDBG** program is also recognized nationally for being innovative and responsive to changing customer needs. The Community Investment Fund program and its ability to quickly

respond to local needs without a lengthy application cycle is unique to Washington State, noted as a “stand-out program” by staff. It has also received national attention for its use of “Float Loans” to put grant funds to work between the time money is awarded and finally expended.

Similarly, since its inception the **PWTF** has been lauded as an exceptional program, praised for being customer-focused, accessible and responsive to local government needs. No other state studied had developed such a flexible local infrastructure funding tool.

Washington Offers More Programs and Funding Opportunities to Local Governments than Most States. Washington goes beyond the program offerings in many states, some of which are limited to the distribution of federal funds. In contrast, the Washington Legislature has provided funding to address a range of local infrastructure needs, through not only construction grant and loan funding, but for planning, emergencies and other related purposes.

The Mix of Loan and Grant Funds Helps Local Governments Meet Their Needs, and Both Play Important Roles in the System. As reflected in the system overview in Section 3.2, the State offers local jurisdictions a choice of loan or grant funds, sometimes within a single program. And while obvious, it is worth noting how very different the two funding mechanisms are. Those involved with the loan funds can be passionate about the benefits of loans, principally the potential for maintaining a dedicated funding source in perpetuity, and about the discipline and responsibility that accompanies loan transactions. That said, stakeholders have noted: (1) that some jurisdictions, especially smaller ones, cannot afford a loan in any amount; and (2) some projects need a grant funded piece to support overall project feasibility. In such cases, grants may be the only viable option for a community to continue to provide basic services or to grow its economy to the point it is able to take on loans or self-finance.

Programs are Operating as Intended by the Legislature. The programs assessed in this study are meeting legislative intent and operating within the parameters provided by the Legislature. Funds are disbursed to local entities based on delineated procedures and following clear selection criteria, guidelines and processes. Agencies are working to provide technical assistance to the jurisdictions to develop good project applications, and efforts are ongoing to provide good customer service through outreach into the communities and on-call assistance in understanding and completing project applications. These findings are consistent with the 2001 JLARC report, which concluded that the environmental grant and loan programs studied are operating as intended and are achieving success as funds distribution programs.

Significant Technical Assistance is Provided and Inter-Program Collaboration Happens Informally. A significant concern identified in stakeholder interviews was the ability of smaller jurisdictions with limited staff resources to access the system. This study finds that significant technical assistance is available within the system to smaller jurisdictions. Although the systemic challenge of sharing information and providing hands-on assistance to a changing set of local government staff is an ongoing management task, the State has responded to this challenge by supporting several organizations and activities to meet the need as effectively as possible. These include two organizations – albeit small organizations in terms of scale and funding – the **IACC** and the **SCI**, which exist to provide access and technical assistance to smaller communities. Both entities operate with limited resources: the IACC is a “volunteer” organization staffed and supported by other programs, notably the Public Works Board (coordinative agency) and the Transportation Improvement

Board (web site support); the SCI now operates with two staff members, up from one the previous biennium.

Perhaps more significantly, client feedback shows that the infrastructure programs themselves make efforts to reach out to communities and to provide technical assistance to local agencies considering applying for funds or who are in the process of applying. Program staff report that, at the frontline staff level, program representatives are knowledgeable about other programs and are able to provide advice and some level of cross-program coordination to local communities.

Challenges

The State Has a Collection of Programs Not Designed to Operate as a System. The State's programs were developed one-by-one, to address evolving needs identified by the Legislature. The result of this as-needed development approach is a sprawling, decentralized network of independent programs, with some points of intersection and connection and some points of overlap. Although the programs were not designed by the Legislature to work together as a system, and agency staff do not see the programs as parts of a whole system, from the client's perspective they are in fact a system, albeit a not very well integrated one.

Overlap Among Programs Exists and Makes the System Less Efficient. Overlap among programs is defined as two programs that are similar enough that local jurisdictions can apply to both for the same project funding. Among the programs that have some overlap are the PWTF and the Transportation Improvement Board; the PWTF and CERB Traditional and Rural Programs; the PWTF's Emergency Loan Program and the CDBG Emergent Threat Program; and the PWTF and DOE's Water Quality Programs.

Of these overlaps, the most significant is between DOE's **Water Pollution Control Revolving Fund** (a component of the Water Quality Program) and the **PWTF**. As noted in the EPA's Draft Program Evaluation report, the two programs are effectively in competition for projects. Because the PWTF offers lower interest rates and disburses funds in advance of project initiation, it is often favored over DOE program funding, which is required by federal law to withhold payment until project costs are incurred. DOE also requires proof of expenditures, the PWTF does not.

In an effort to compete, DOE has lowered interest rates on its programs, with the consequence that the purchasing power of the Water Pollution Control Revolving Fund cannot be maintained. EPA is now suggesting that DOE must adjust interest rates to ensure fund sustainability, and as part of this process, needs to develop a "cooperative water infrastructure financing strategy with the PWB." This cooperative strategy will need to reverse a "counterproductive structural design in the system." This solution could include determining common interest rates and imposition of the same borrowing practices and conditions. It could also include assessing the market and segmenting it according to ability to pay or other measures that would serve to distribute funds more effectively than is now the case.

Not Clear How to Define Program Success. To answer the question of how effectively and efficiently the programs are operating, it is necessary to define what a successful program would look like. What are our benchmarks for success? As noted in the JLARC study – and confirmed in our interviews and analysis – the programs are unambiguously operating successfully as fund distribution agencies. They are also operating well from a process perspective (there is generally process clarity

and transparency) and from a customer service perspective (there is a relatively high level of client satisfaction). However, as the JLARC study noted, we find the programs are operating less successfully as investment programs, with the study calling for an expanded emphasis on outcome and performance measures that focus on the programs as investment tools. In addition to strategic investment success, this report addresses the issue of management success, including how effectively the programs utilize information and reporting systems, financial management systems, and how effectively they evaluate and communicate their activities and accomplishments.

The System of Programs Continues to Grow and Change, with New Programs Added and in Some Cases Deleted. In recent years, the Legislature has added five new programs: the Small Communities Initiative, the CERB Job Development Fund, the Economic Development Strategic Reserve account, the Water Infrastructure Program and the Water System Acquisition and Rehabilitation Program. Each program added by the Legislature broadens and deepens the network of programs and its complexity, as programs develop specific niches and loyal constituencies. In addition to adding programs, some have also been deleted or are no longer funded: programs are created to address particular needs and then sunset. An example of such programs is the Rural Economic Vitality program administered by CERB and WSDOT, which is not currently funded, but could be reactivated if additional federal transportation funds were made available; other programs targeted to assist resource-dependant communities have also been enacted for limited time periods.

The Proliferation and Complexity of Programs has Unintended Consequences. The system can be challenging to navigate, especially for smaller jurisdictions without the staff resources to spend working with the programs. This problem is long-standing and well recognized, and significant efforts have been made to address it. One response to the system's decentralized nature is that other programs have been created to help jurisdictions navigate the network. These programs include the **IACC**, which offers an annual training and information conference and a searchable web site on program offerings, as well as the **Small Communities Initiative (SCI)**, which provides hands-on help to very small jurisdictions (populations less than 1,000). Both programs are under-resourced relative to the need. The IACC in particular could be more effective and could serve as more of a resource within the system if it were funded and had dedicated staff, even one FTE.

Increasing Project Earmarks Complicate Program Operations. Direct legislative appropriations also provide a means for jurisdictions to obtain project funding, and the State has seen an increase in such appropriations in the last several years (see discussion on page 34). These appropriations contribute to the fragmentation of the system, and in some cases undermine program decision making and funding. Many jurisdictions receiving direct appropriations for local and community projects did not even apply to competitive programs offering funding for these project types. Stakeholders and clients interviewed for this study called many projects funded in this manner "good projects" that would likely have received funding had they been submitted through an appropriate competitive program. Interviewees uniformly felt the growing trend in direct appropriations constitutes an undermining of the State's effective and transparent competitive grant and loan programs.

Additionally, projects funded in this manner may not be ready to proceed immediately, or the funding amount awarded may not be appropriate. Such projects are sometimes over-funded, and in other cases they may be underfunded, meaning the local jurisdiction may have fared better if it had gone through a competitive award-making process.

Independent Boards Operating within Administrative Agencies Pose Management Challenges. Washington's programs are a hybrid mix of agency-administered and Board-directed entities, and this itself presents challenges in understanding and management. For an example of how distinctly different the various governance structures are, one need only compare the **CERB Board** with the **Public Works Board**. The CERB Board has four legislators (out of 20 members) and the Board has final approval over projects. The Public Works Board is comprised of professionals from operating entities and citizen representatives. There are no legislators on the Board, although the program's project list goes to the Legislature for approval. The **Office of the Interagency Committee** supports four boards comprised of a mix of citizens and agency staff: the IAC; the Salmon Recovery Funding Board (SRFB); the Governor's Forum on Monitoring Salmon Recovery and Watershed Health; and the Washington Biodiversity Council. Many of the IAC programs have their own advisory boards which provide input on program policy and application evaluation.

A perceived benefit of having a board is that it is considered apolitical. Boards also provide subject-specific expertise to State agencies, the Governor and the Legislature at a very low cost. The drawbacks to boards are intra-agency challenges in determining roles and responsibilities, and in determining an appropriate level of management coordination and accountability. The boards develop their own identity, a track record of successful funds distribution, and a strong network of supporters and stakeholders.

The Effectiveness of Many Programs is Challenged by Understaffing. The programs studied are operating with relatively small staffs, often stretched to cover outreach around the State and process the volume of applications received. Because understaffing can compromise the program's ability to effectively process loan and grant awards, it has a real cost to the State. Programs that are experiencing understaffing currently include the **PWTF, CDBG, CERB, DOE's Water Quality Program** and the **IACC**. CDBG in particular has been under-funded to the point where it has had to resort to 'soft funding' agreements with other agencies to meet the required 2% state match of the federal grant. CDBG is currently working to fix a \$500,000 shortfall in the program's 2007 administration budget.

Opportunities

Many Component Parts are in Place to Create a Workable System. The IACC's work, together with informal staff collaboration and joint administration of several programs creates the beginning of a platform for a more integrated system. What is needed is policy direction that recognizes that the programs constitute a system, and need to be governed and managed in a more systemic fashion.

Statewide Infrastructure Policy Direction is Needed. Stakeholders spoke to this issue through comments such as: "there is no policy direction at all – it's a 'fix what's broken no matter why it's broken approach'"; "we are missing an overall investment strategy – we need a unified purpose for all these programs and clearer goals about infrastructure investments statewide"; and "we need a better understanding of the context and public benefit of capital investment in the State. Are there areas we should be investing in and are not?"

Economic Development Funding has Been a Missing Piece. Until the 2005 legislative session, the **CERB** programs were the only infrastructure funding programs focused on economic development. The **PWTF** does encompass economic development, including growth and economic

development as its fourth funding criteria (out of four criteria specified by the Legislature), but PWB staff and Board members report that the funding demand for projects that address the three higher ranked criteria – public health and safety, environmental health and safety, and system replacement/performance – is such that funding is not available for economic development-focused projects.

Given that CERB's mission is to encourage business expansion and retention in economically distressed communities, this has left larger cities and the urban areas without access to economic development funding. This hole in the funding network created dynamic tension in the system – an unmet need – which the Legislature addressed in 2005 by creating the **CERB Job Development Fund**, which will sunset in 2011, and the **Economic Development Strategic Reserve** account. By providing funding specifically for economic development purposes, these new funds represent a paradigm shift for the State. The Economic Development Strategic Reserve account, especially, provides a tool to put Washington on par with other states that can offer businesses infrastructure and workforce training incentives to remain, expand or relocate in the State.

Client Satisfaction is High, but Programs are Not Well Understood by Observers and Stakeholders. Interviews conducted with clients and their trade association representatives confirm the long-standing perspective that the programs enjoy a broad base of support. Clients report that the programs are “extremely helpful to us” and are well administered, although some of the programs are easier and less bureaucratic to access than others. Some programs have enjoyed long-standing stakeholder support, including **CERB**, the **PWTF** and the **IAC**. Other programs, notably the **DOE** programs, have seen a significant increase in customer satisfaction and stakeholder support as result of attention devoted to this issue by the agency in recent years.

Beyond this positive feedback, however, what is striking is how under-understood the various programs are. As a network of programs, the level of understanding is even more fragmented. Program administrators understand this and deal with it on an ongoing basis, continually working with new staff from the local jurisdictions to explain their programs and procedures, and as appropriate, working to communicate about their program to legislators and staff. The complexity of the system, together with a changing set of agency clients, stakeholders and decision makers, has resulted in many calls for improvements and reforms, some more feasible than others to implement.

6.2 Issues and Improvements Identified by Stakeholders

Overview: Many Perspectives and Many Potential Improvements Identified

As part of the project's research focus, the study team reached out to a broad set of clients, stakeholders and observers of the system to obtain perspectives on what is working well now and what could be improved. Among those interviewed were legislators, legislative staff, State agency staff, program staff, program clients, trade association representatives, and others. We sought broad input and suggestions, and a striking amount of feedback was received. Dozens of perspectives and suggested improvements were provided, some of which were in direct opposition to one another.

Through this interview and research process, it became clear that many of the challenges identified and the solutions suggested have been in existence for some years. In some cases, the concepts have

been around for long enough that they have been tried previously, somewhere in the program's history.

Moreover, it also became clear that an approximation of Newton's Third Law of Motion applies to the State's system of infrastructure programs: for every action (and change or trend) there will be a reaction. Within the State's network of systemically connected programs, there will be consequences – both intended and unintended – for each action taken. Recommendations for programmatic and systemic change need to be carefully considered to first, do no harm, and second, to minimize unintended consequences. With those caveats, the various issues identified in the stakeholder interviews are discussed below:

Application and Award Processes

Unitary Program Applications and Schedules. The single most common suggestion provided by stakeholders (not funding program clients) was that applications should be consolidated into a single form, for the sake of simplicity and uniformity. Consolidating or reorganizing the application periods to be more uniform was a related and frequent suggestion. However, while some local government representatives – recipients of awards – endorsed the concept of a consolidated application, many others indicated that they welcomed having choices among programs and appreciated the opportunity to “shop” across programs.

Program management staff interviewed were also uniformly negative about this idea, calling it impractical and infeasible. They noted that from a client perspective, a “one size fits all” approach is actually less efficient and more cumbersome to navigate: programs have different eligibility requirements – some more, some less and some of which are driven by federal regulations – and mixing these all together would create a more burdensome and complex application process. It would also negate the efficiencies created by the shorter applications developed by programs that are not burdened with federal regulatory requirements.

Staff from the PWB note that a joint application concept has been tried on at least two or three occasions, without success. They note that, at one point the CDBG and PWB Emergency and Planning programs were linked together in one application, which didn't work well due to a mix of federal requirements and greater client demand for PWTF monies (which are not governed by the federal restrictions that CDBG funding is). Another joint application process experiment was a combined application for PWTF Construction and DWSRF Construction programs in the late 1990's. This effort was reportedly considered “an abysmal failure” by both clients and staff. The joint application lasted only one cycle, due to client difficulties navigating and completing the application. The payoff too, in terms of processing efficiency was not there: agency staff simply took the consolidated applications and literally split them into pieces, handing the appropriate sections to the staff from each program.

The joint application for the Water Quality Program's three funds, on the other hand, shows that the single application concept may be applied by sub-sets of similar programs.

One-Stop Shopping: A Single Portal of Entry or Intake into the System. This is another concept suggested by many stakeholders. Discussions with PWB staff that support the IACC's web-based infrastructure database indicate that, with adequate resources, this web site could be enhanced to become a portal through which local governments could make inquires and program staff could provide technical assistance. Using the portal as a means of consolidating the application process is a

related idea, and one with appeal from the perspective of obtaining centralized information on applicants and local government project needs, something the State lacks now. Implementation of this notion, however, would be heavily dependant on the provision of adequate systems, technology and support to achieve this outcome.

Faster, more flexible application processes. Several stakeholders noted that there are real costs to a longer award process – without final approval for funding, some jurisdictions miss a window for starting project construction, and sometimes, an entire construction season. This point was made particularly for the **PWTF** and **IAC** projects that require legislative approval. It was noted that the Legislature has yet to deny a project submitted by the PWB, and yet in a year with a long legislative session, project approval can be withheld until May or even June, a timeframe which intrudes upon the construction season. Projects funded under the new **CERB Job Development Fund** are also likely to suffer from this situation, given the need for four governance levels of approval of the project list: CERB, the PWB, CTED, and the Legislature. Delay is a particular problem for economic development projects because businesses may be unwilling or unable to wait out a long approval process for needed infrastructure work.

Program Mission, Design and Organization

Program Models. Washington’s approach to infrastructure finance can be characterized as a program-based model that responds to locally identified and prioritized needs. As compared to states with centralized infrastructure funding and decision making processes, Washington’s system is relatively decentralized, allowing for more local purview and control. Stakeholders interviewed have a mix of perspectives about this approach: while the majority of those interviewed were comfortable with the State’s approach, some maintained that the State should adopt a more strategic and potentially centralized approach – focused less on distribution to local governments and more on investing to accomplish specific objectives. Conversely, a few interviewees criticized the State’s approach for not providing enough local control and assistance, suggesting that local communities should work together to develop packages of needed improvements, which would then be funded by the State without going through competitive processes.

Program Coordination and Consolidation. The desire to have coordinated efforts among the State’s grant and loan programs, many of which serve the same clients, is a long-standing issue. The 2001 JLARC study called for greater coordination, information sharing and learning among State agencies, for example. CTED also has suggested that “regular coordinating meetings among funding programs to share best practices on grants management, funding priorities, etc.” would be a good idea⁴. However, getting agencies to work together on non-mission-critical issues is an ongoing and uphill challenge. Best practices research on program management suggests that the most effective way to facilitate inter-program coordination is to work from the top down – consolidating governing structures and funding streams. This would suggest, for example, that the **CERB Board** and **Public Works Board** be consolidated.

⁴ Source: August 31, 2004 memo regarding additional information requested by OFM for the 2005-07 budget submittal.

Indeed, program and funding consolidation was suggested by a number of stakeholders interviewed. As one interviewee noted: “program coordination is a weak option – we should go all the way to program consolidation.” The most extreme expression of this preference was to “put all the money in one pot.” However, federal funding restrictions, for one, make this an impractical idea. Another concept identified would be to consolidate or coordinate selected program functions, such as fiscal management of loan and grant funds and information technology systems. At the management systems level, there are potentially efficiencies to be realized from grouping the same functions performed across multiple programs.

Program Independence. The converse of program consolidation is increased independence for certain programs. Some advocates and stakeholders for the **Public Works Board** have expressed a desire for the Board to become an independent agency, following the precedent recently set by the newly-established **Department of Archaeology and Historic Preservation**, recently spun off from CTED. There is tension and some criticism of CTED, as the parent organization, for its overhead fees, which are imposed as a cost to the PWTF.

Program Scope and Definitions. The question of whether the **PWTF** should expand its purview to jails and other public facilities has been under discussion for several years. At issue is whether to ask the Legislature to expand the definition of “critical public works” in the Trust Fund’s authorizing legislation to encompass jails and perhaps other public facilities. The reasoning behind this ongoing debate involves a desire to have the PWTF be responsive to changing needs, particularly those of the counties. The PWB itself took up this issue at its May 2004 Board retreat, when it discussed numerous policy options for the strategic future of the organization, deciding at that time not to ask for an expanded definition.

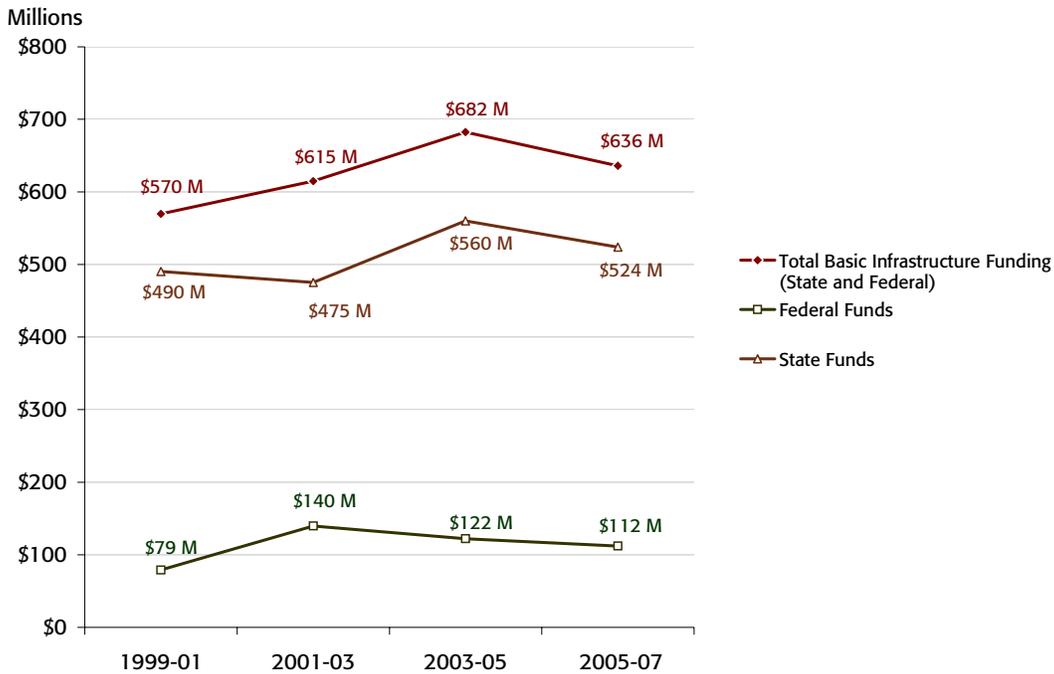
Program Funding and Financial Management

Program Funding: Changes in State and Federal Funding Levels Result in Program Funding Challenges. Exhibit 39 shows that the total federal contribution to Washington’s basic infrastructure over the past four biennia has remained nearly constant. Similarly, while showing a small net increase, State funding has not changed significantly over the period.

If one compares the total 2005-07 budget to 1999-01, State contributions to local infrastructure are up over \$25 million. If one compares 2005-07 with 2003-05, on the other hand, State support is down \$36 million. The budget for 2003-05 increased \$85 million over the prior biennium, but it included a \$115 million increase to the Public Works Trust Fund. While a few programs are either near the end of a one-time bond authorization or suffering from reductions in the collection of taxes, new programs are being created. Members of the Legislature and Governor have also been increasing the amount of funds directly appropriated for projects, and in some cases one-time actions have been turned into new programs (although not all of the money is new).

In terms of State funding, the overall impression to take away is that there has been quite a bit of activity which has had significant impact on some programs, but which has not created significant changes to the overall level of State contribution.

Exhibit 39
Basic Infrastructure Program Biennial Capital Budgets: 1999-01 to 2005-07
Totaled State and Federal Contributions

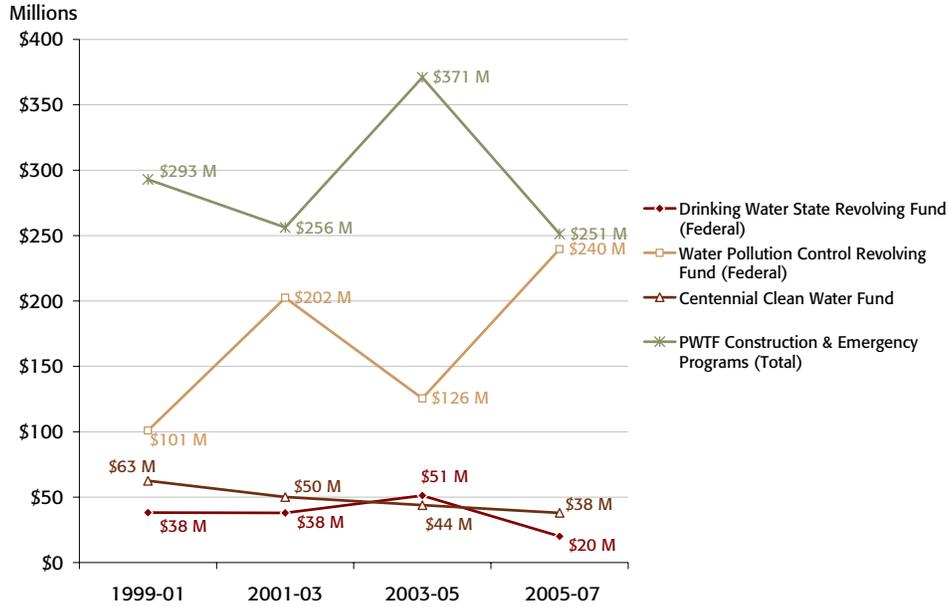


Source: Program Inventory, Berk & Associates, 2005

These fluctuations in State funding have meant that the programs studied are experiencing various levels of funding-related challenges.

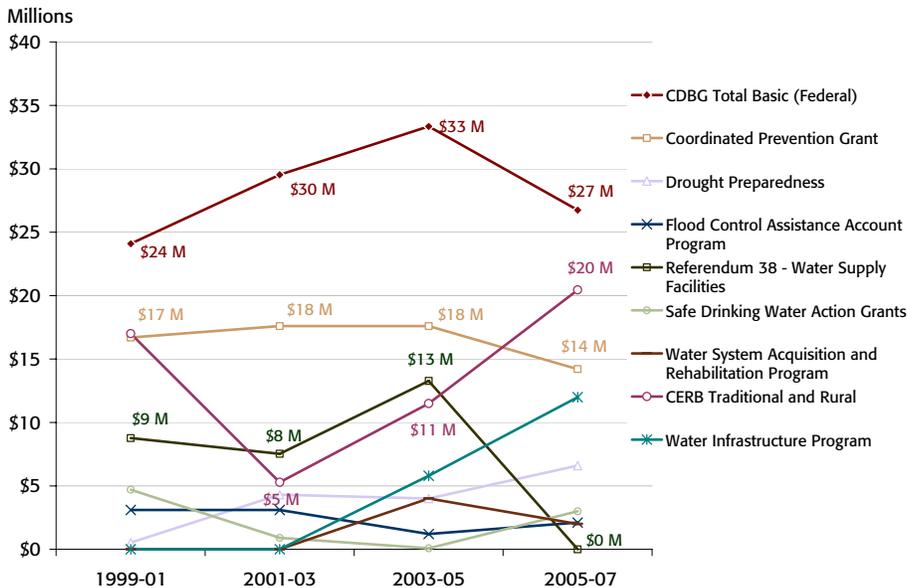
- The **Public Works Assistance Account** has grown significantly since its inception in 1985. In 1999, the Public Works Board, under the guidance of the Office of Financial Management and the State Treasurer’s Office, undertook the use of the Accelerated Loan Commitment Model (ACLM) to create additional Public Works Trust Fund loan funds. Over \$260 million in additional loan funds were generated from 1999 through 2005, in turn, creating an increase in loan repayment revenue. The use of this ACLM model – along with increases in revenue from the Real Estate Excise Tax – has had a significant impact on the Public Works Assistance Account Fund balance. This fund balance has proven tempting, however, and recently the account’s funds have been appropriated for other programs such as CERB’s Traditional and Rural Programs and the CERB Job Development Fund, leading to budget declines for the PWTF programs, as can be seen in Exhibit 40.
- In contrast to the PWF, **CERB’s Traditional and Rural Programs** lack a permanent funding source to augment revenue from loan repayments and investment earnings on account balances. Funding for these programs has been cobbled together from a mix of sources throughout its 23-year history. As reflected Exhibit 41, the organization’s funding has moved up and down across the biennia.

Exhibit 40
Basic Infrastructure Program Biennial Budgets: 1999-01 to 2005-07
Budgets Over \$50 Million – Includes Both State and Federal Funds



Source: Program Inventory, Berk & Associates, 2005

Exhibit 41
Basic Infrastructure Program Biennial Budgets: 1999-01 to 2005-07
Budgets Under \$50 Million – Includes Both State and Federal Funds



Source: Program Inventory, Berk & Associates, 2005

Funding for federal programs has been either flat, decreasing, or threatening to disappear since 2001.

- The **Community Development Block Grant** programs, for example, have stagnated at the Federal level, as shown in Exhibit 40. After a period of increases, funding for this program declined between the prior and current prior biennia. As mentioned in Section 3.5, the entire program is currently at risk of disappearing due to an administration proposal to shift development funds out of the Department of Housing and Urban Development and give them to the Commerce Department.
- The other Federal programs examined here, the **Drinking Water State Revolving Fund** and the **Water Pollution Control Revolving Fund**, are both experiencing a decline in Federal funding while simultaneously enjoying budget increases, as shown in Exhibit 40. Washington's DWSRF was allocated \$50 million in Federal funds during federal fiscal years 1998 and 1999, \$40 million for 2004-05, but only a projected \$38 million for 2006-07. The WPCRF received \$70 million in Federal funds in 2001-03, but only a projected \$42 million in 2005-07. The recent budget increases shown in Exhibit 40 are due entirely to growth in repayments of principal and interest.

Despite generally flat State and federal contributions, the total amount awarded annually by most programs examined has grown in recent history (see Section 4.2). This reflects the power of loan programs, which continue to recirculate their funds, using additional contributions to grow the size of the base. With variable federal and State budgets, and the planned elimination of federal capitalization grants for the State Revolving Fund programs, a program's ability to not only maintain the size of the fund but to offset the eroding affects of inflation as well is dependent upon its implementation of excellent financial management practices.

Program Financial Management. Given the magnitude of dollars flowing through the funds each biennium (more than \$680 million for basic infrastructure alone), some stakeholders noted that the programs are in the banking business, and should be operated according to best banking practices. Moreover, they question the efficacy of operating separate banks for each program. Would it be more efficient to consolidate the programs' banking functions and administer them centrally using uniform standards, practices and expert guidance on risk, return, and fund balance matters?

Currently, each program operates as an independent financing center, with its own loan offerings, including length of loan, interest rates and amortization schedules. Program staff make independent decisions about cash and fund balances and reserves – the ratio of balances to dollars at work – based on programmatic risk-return assessments. Each program also has its own accounting system for recording and tracking loan transactions.

While programs are feeling the pinch of constrained administrative budgets, one opportunity is to ensure that staff who deal with the banking side of administration are skilled in banking and finance. An interview with a staff person from Michigan's Revolving Loan and Operator Certification Section, which administers the State's revolving loan funds, highlighted that there are both benefits and costs with separating program administration and financial management: the most important factor is whether the staff doing financial management have the proper level of expertise to operate the program effectively from a banking perspective.

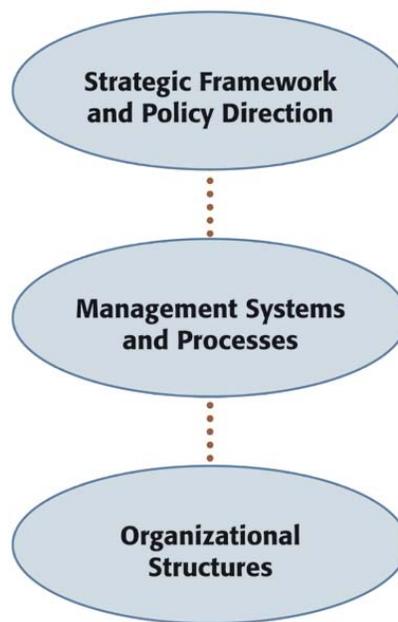
6.3 Elements of an Optimally Designed, Governed and Managed System

Overview: Assessment Framework

From the beginning of this study, a question that has been of interest is: what would an optimal system look like, if it were designed from scratch? This subsection outlines the elements of an optimal system, which in turn lays a foundation for program recommendations in Section 7.0. The analysis in this Section is based on a strategic management framework that integrates and prioritizes three requirements for a well-managed organization or system of organizations: (1) clear strategic framework and policy direction; (2) robust management systems and processes; and (3) aligned organizational structures.

Exhibit 42 shows the linear relationship among these three system attributes, reflecting the concept that an overarching strategic framework, policy direction and priorities should drive implementation of management systems and processes, which in turn help define appropriate organizational structures. Following this construct means that organizations should focus first and most broadly on defining a clear strategy and policy direction, from which meaningful performance and outcome measures can be developed. Operationalizing the strategy and policy direction is the responsibility of agency managers, through design and implementation of effective systems and processes, including information technology, human resources, financial management, and communication and reporting systems. The question of how this can most effectively and efficiently be accomplished, by itself and in alignment with the broader policy objectives, is answered through thoughtfully designed organizational structures and relationships.

Exhibit 42 Strategic Management Framework Aligning Strategy, Systems and Structures



Source: Berk & Associates, 2005

Strategic Framework and Policy Direction

An optimal system of infrastructure programs would have:

Strategic Policy Direction on State Investment Goals and Priorities. Currently, this is an important missing piece within the system. A strategic policy framework could provide an overarching vision, direction and focus around which the programs could be coalesced. The form of this policy direction could be relatively simple; for example, it could state that Washington values stewardship of its existing infrastructure while investing strategically in facilities that enhance the State's economic vitality and competitiveness. In many respects, the dialogue associated with developing such a policy statement would be as important as the statement itself.

Strategic Plans and Planning Processes for Each Program. Strategic plans for the programs would reflect alignment with the State's overall strategic direction and priorities, and would articulate goals and action steps for program improvements and customer service; financial and cost management; internal systems development and improvement; communication and reporting; and organizational growth and learning. Currently, agencies are statutorily required to submit strategic plans to OFM, and certain funds are also required to have business management plans, but the infrastructure programs have no such requirements. This too, is a missing piece within the system. Especially for programs governed by independent boards and that operate as quasi-independent entities, the lack of strategic planning requirements seems to be an oversight to be addressed. Any program with its own operations, funding, dedicated staff, and customer and stakeholder base is one that should have its activities focused and directed by a strategic plan and effective planning process.

Performance Measures That Effectively Communicate Program Impacts and Outcomes. Effective performance measures should integrate and cut across individual programs to answer broad policy questions such as: what did we spend our money on and with what outcomes? How many projects did we fund last biennium, and of those, how many were completed?

Performance measures and metrics should flow from and be aligned with overall strategic direction, goals and activities. Aligning these elements so that it is clear what the programs should be accomplishing, and how effectively they are meeting those objectives, is an iterative process, one that can be expected to take several cycles of thoughtful data collection, assessment and strategic planning and performance measure development.

Management Systems and Processes

These management systems include:

Excellent Service Provision. The infrastructure programs studied are performing well on this dimension which involves working continually to fulfill the organization's mission and deliver the highest quality programs possible. The impression taken away from interviews with program staff, as well as discussions with stakeholders and client organizations, is that program personnel hold themselves to high standards and are focused on running excellent programs to provide quality customer service and highly effective outcomes.

Responsiveness to Customer Needs and Stakeholder Feedback. A subset of Excellent Service Provision, this is the one aspect of the programs that has been perhaps most thoroughly assessed.

The programs studied are attuned and focused on customer service and responsiveness, and therefore score well on this dimension of program management.

An Efficient Award Process. An effective system would carefully balance the need for oversight with stakeholder desire for a speedy post-application award process. Overly long award timelines are problematic from the perspective of applicants. When a year to 18 months pass between submitting an application and receiving awarded funds, planning is challenged and whole construction seasons may be missed.

Financial Management, Including Fiscal Policies and Tools. The infrastructure loan programs studied essentially act as banks, receiving funds, making disbursement decisions, assessing risk and return factors, setting interest rates, monitoring the portfolio and determining appropriate cash balances, reserve levels and loan distribution levels. The grant programs too, need to manage cash flow and fund balances. Banking is an established field, with much science associated with its practice, including financial modeling and best practice standards. Currently, each program manages its own banking functions, according to internally developed practices and procedures and with different internally-developed analytic, tracking and reporting methods. An optimal system would take advantage of well established principles and practices in the field, and would provide more uniform and coordinated principles and standards for programs to manage toward, and against which the programs' fiscal management practices could be evaluated. An optimal system would also have each program's accounting and information systems integrated with the State's central accounting and financial reporting system (AFRS); this is currently not the case for most programs.

Communication and Reporting. Given the complexity of the program network and the relative lack of understanding about the various programs, effective communication and reporting systems are especially warranted. Program administrators need to be able to tell the story of their programs – directly, concisely and supported by meaningful measures and metrics. All of the programs assessed in this study could do a more effective job in this area.

Information Technology Systems. Investing in and harnessing the power of modern information technology systems to centrally collect, analyze and report on the State's infrastructure needs, program activities and performance is a critical element of effective system management. A modern, effective information technology system to help manage the State's infrastructure programs would be substantially different from the status quo. Such a system would provide a single portal for information entering the system, and integrated, on-line processes from application to award to tracking and monitoring and closeout. It would also allow for cross-program and intra-program trend analysis, monitoring and reporting. Currently, databases and information systems are siloed within programs, and there is not commonality or integration among systems. Programs operate their own, custom-built, "make-shift" systems, often relying on off-the shelf applications such as Microsoft Excel or Access. As a result, it is difficult to collect, assess and compare performance measurements of various programs, even those within the same agency.

Organizational Learning and Growth. Well-managed organizations recognize the importance of self-reflection, learning and continual improvement, all of which takes time and comes in addition to the entity's regular workload and deadlines. Because it is not a part of day-to-day operations, organizations often need the framework of a strategic plan – with organizational learning as a strategic goal – to make it a focus and incorporate learning processes into the organization's fabric and internal systems.

Aligned Organizational Structures

In an optimal system, organizational structures in place would be aligned with organizational missions and operating requirements. Programs with similar missions would be organized together. Where programmatic requirements and features dictate different operating approaches and/or different constituencies, separate organizations should be considered.

The goal is to have mission-focused organizations, with efficient internal systems and relatively clear constituent bases. Developing such an organizational structure is more art than science, and represents one of the most challenging leadership tasks. There is often pressure to reorganize structures to solve underlying strategic or systemic problems – this is a pressure to be resisted as it will not solve the root problems.

Organizational structure questions have been posed in this study: should there be consolidation or reorganization of existing programs and agencies? The best approach for the State would be to centralize program administration to provide “just enough” program management and oversight, and no more. Where programs do similar or related activities, their work would be centralized in as few organizations as possible. A particular question for Washington’s dispersed network of programs is how integrated and coordinated the key internal management systems should be – particularly the fiscal management of loan and grant funds, and data collection, analysis and reporting systems – two areas where system standards and integration are appropriate. At a minimum, effective coordination across programs is needed to provide for data integration and common outcome reporting measures, information sharing and best practices discussions, and organizational learning.

The following Section takes up these themes and makes specific recommendations relevant to the current state of Washington’s local infrastructure funding system.

7.0 RECOMMENDATIONS

7.1 Strategic Framework and Policy Direction

Overview. Four recommendations are presented below to increase the strategic focus and direction of the State's infrastructure programs, and to recognize the systemic effects of program relationships. The recommendations are intended to enable the State's programs to work together, across agencies, as an interactive system, with alignment between policy, management and performance outcomes.

1. Govern and Manage the Programs as a System

The programs are a de facto system of investing and distributing millions of dollars annually across the State. The programs need to be recognized as a system, in which action in one part of the organism triggers impacts and reactions elsewhere. Strategic policy direction and management approaches that enable the whole system to function more effectively are needed.

2. Strategic Direction on State Investment Goals and Priorities is Needed

Given biennial spending of around \$650 million on the State-to-local infrastructure programs included in this report (plus nearly \$700 million in State-to-local transportation funding), the State has a responsibility to assume a more strategic investment approach to the distribution of this funding. A more focused approach to program creation is recommended, one that makes best use of the existing program network, and that discourages the creation both of new programs to address specific new needs, and member- or Governor-added projects that duplicate areas of focus by one of the existing competitive programs. Instead, development of a strategic investment framework that provides overarching policy direction to the programs is recommended, resulting in more focused operational management and priority-setting. This policy direction should be broader than those programs identified in this report as having to do with "basic" infrastructure. Funding for a broader range of infrastructure, including transportation infrastructure, should be included under this strategic investment framework.

A particular area to be addressed in this framework is the dynamic tension that exists on the one hand between the State's responsibilities for infrastructure safety, public health and system preservation, and on the other hand, the need for the State to participate effectively in economic development initiatives. These two areas of focus are important and interlinked, and the State strategic direction on infrastructure investments should articulate a commitment to both while establishing overarching goals and priorities for investments made across programs. Until this year, the economic development component of infrastructure investment had been an underemphasized element of the State's system; this has been redressed through the two new economic development funds created by the Legislature. However, with the **CERB Job Development Fund** sunseting in 2011, this mechanism to address economic development needs is temporary.

3. Strategic Plans and Planning Processes are Needed for Each Program

Each program should develop a strategic plan that is in alignment with the State's overall strategic direction and priorities, and that articulates goals and action steps in key areas, including: program

improvements and customer service; financial and cost management; internal systems development and improvement; communication and reporting; and organizational growth and learning. These plans should also include outcome-based performance measures. Performance measures and metrics should flow from and be aligned with overall strategic direction, goals and activities. The strategic plans are the place to link the GMAP outcome measures to agency activities. This is necessarily an iterative process – the agency’s planned activities need to be congruent with the outcome measures they wish to report. If the activities can’t support the measures, management should look critically at both ends – at the internal systems in place and at the reasonableness of the performance measure.

4. Create an Infrastructure Policy Forum to Coordinate Across Agencies and Programs

In addition to supporting better coordination and collaboration, establishing an Infrastructure Policy Forum would facilitate organizational learning and growth. Even with existing programmatic objectives which range from ensuring public health and safety to environmental protection to economic development, these programs share a common tool – infrastructure investment – and many common functions. They have much to learn from one another, including best practices related to providing technical assistance; soliciting and evaluating applications; grant and loan management; and overall financial management.

The Infrastructure Policy Forum may serve as the best mechanism to advance this study’s recommendations, particularly in the short-term. The study’s first three recommendations listed above call for more coordinated management of the State’s infrastructure investing programs. Until overarching strategic direction is formally established by the State’s policy makers, the Forum can serve to articulate increasingly broad strategic direction and priorities, can advance cross-program coordination and help the programs align around shared strategies. Given this role, we recommend that the Forum be established as an early step in improving management of the State’s infrastructure investment programs.

Composition of the Forum’s membership is critical, both to ensure adequate representation of diverse views, including those of local government, and to ensure that Forum participation is an agency priority. It will also be necessary to provide adequate staff and other resources to support the Forum’s success.

The Forum could be modeled on the **Governor’s Forum on Monitoring Salmon Recovery and Watershed Health**, comprised of agency heads who meet quarterly to coordinate technical and policy issues and actions. The Forum was created by Executive Order, is staffed by the IAC, and is required to report biennially to the Governor, the Legislature and the Salmon Recovery Funding Board. Another model is the **Governor’s Economic Revitalization Team (GERT)** in Oregon, in which eight agency heads meet monthly to bring their combined resources to bear on priority projects. GERT was also formed by Executive Order, and issues an annual report describing progress on the group’s activities and programs. The Team also issues an Annual Performance Progress report, with key metrics.

7.2 Management Systems and Processes

Overview. The State's infrastructure funding programs are working relatively well in terms of day-to-day service provision and customer service. Funds are disbursed to local entities based on delineated procedures and following clear selection criteria, guidelines and processes. Program staff are focused on providing technical assistance to the jurisdictions to develop good project applications, and efforts are ongoing to provide good customer service through outreach with communities and on-call assistance in completing project applications.

Organizational efficiency and effectiveness is very much dependent on having good internal systems and processes in place. While the importance of internal systems is often underappreciated, functional and integrated systems enable an organization to deliver quality services in a timely and cost-effective manner. This evaluation finds that the most significant improvements needed within the State's network of programs are system improvements in three related areas: financial management; communication and reporting; and information technology systems.

5. Recognize and Effectively Manage the Infrastructure Programs as Banks

Staff with specific expertise in fund management and banking, as well as staff with expertise in public fund management and local financing alternatives for local infrastructure investments, should be engaged to review and manage program funds and portfolios. This expertise will augment existing staff expertise in program-specific issues such as economic development, environmental management and basic infrastructure planning. Fund management practices for each program should be analyzed, and a baseline assessment should be prepared of the practices, principles and tools in place for each program. Best practices and common financial policies for the programs should be developed to ensure that programs are putting their resources to work as effectively as possible. Issues to be addressed should include loan rate strategies, terms and conditions offered; risk-modeling; fund balance levels and reserve requirements; cash management approaches and other aspects of fund management.

The maintenance of funding sources in perpetuity is highly desirable, with interest rate strategies established to support this outcome. These interest rate strategies should not be developed for individual programs in isolation, however, as it is important to maintain a mix of funding sources, including sustainably managed loan programs – and lower cost loans or grants for jurisdictions which cannot afford loans priced to offset inflation over the lifespan of the program. The tension between providing low-cost funding to communities that need it, while at the same time practicing sound financial management, will continue to be a challenge.

Interest rate strategies for individual programs should be established and updated not only with reference to other programs in the system, but also with regard to conditions in the municipal bond market. For credit-worthy clients, prevailing market rates have significant impact on the relative attractiveness of State programs. To make most efficient use of public funds, the State should explore ways to support and facilitate local government access to the bond market, including mechanisms to pool debt to achieve more desirable terms. Other states provide examples of how this may be done.

To support programs operating effectively as banks by efficiently distributing available funds, options should be explored to streamline award-making processes. Options include pre-appropriation of

funds, non-appropriation for State Revolving Funds and a reduction in the number of oversight bodies that must approve awards.

The relationship among overlapping programs – particularly the **Public Works Trust Fund** and Ecology's **Water Quality Program** – should be specifically analyzed, including an assessment of appropriate interest rates, loan terms and award conditions to enable the programs to function effectively and efficiently as a system.

6. Invest in Financial Management Systems that Increase Efficiency and Reduce Duplicated Efforts

Currently, each program and agency has its own accounting and financial reporting system, which is not integrated with the State's central accounting and financial reporting system (AFRS). For some programs, accounting information is entered two or three times, once in the program's accounting system, again at the agency level, and again into AFRS.

7. Invest in Modern Enterprise Information Systems to Support Integrated Program Decision-Making and Reporting

The State needs effective information systems tools that can efficiently track program operations and funding awards, and that can integrate across programs, activities and departments. The State is currently operating with legacy systems that are 10, 12, 13 or more years old. While some programs and agencies have better systems than others (IAC's PRISM system is especially notable for effectively integrating all aspects of program management from on-line applications to grant tracking to performance monitoring), in general the State has historically underinvested in information systems that can make programs function more efficiently, by themselves and as a system. The programs assessed each have different information systems and different levels of expertise about information technology and systems management. With renewed emphasis on accountability, performance measures and results – by the Governor, the Legislature and the public – good program data and data reporting tools are critically needed. Cross-agency efforts to design and acquire a new enterprise data management system are currently underway between CTED and DOE. This effort should be approved and supported with financial and staff resources.

8. Use Information Technology to Create a Single Portal of Electronic Entry into the State's System for Improved Information Processing, Collection and Reporting

A single portal would serve multiple purposes and have multiple benefits. It would:

- Enable the State to capture comprehensive information on program applications and jurisdictions' needs
- On-line applications could be updated as needed by jurisdictions and from year-to-year
- Serve as a host for a needs database – local governments could enter their capital facility projects and needs into the system on an annual basis, enabling the State to assemble a relatively low-cost Statewide infrastructure database (while such a database would be useful for cataloging

communities' known basic infrastructure needs, it would be less relevant for programs such as CERB which respond to opportunities to support the siting or expansion of specific businesses)

- Performance measures by program could be posted to the home page, providing easy access to this important information

The IACC's website could be a starting point for the portal. The Council could play a role in creating or participating in creating a single portal into the State system of infrastructure programs. The IACC is not a State agency or program, but a non-profit organization staffed by volunteers, so appropriate roles and the source of additional support resources would need to be determined. Staff are already working on a local infrastructure needs assessment database (LINAS) which would enable local governments to centrally report their infrastructure needs.

7.3 Organizational Structure

Overview. Many organizational issues and options were assessed in this study. These include: joining administration of the two environmental state revolving loan funds – the Water Pollution Control SRF and the Drinking Water SRF; adding the WPCRF to the DWSRF/PWTF joint administration arrangement; supporting programmatic and financial administration of program; grouping CTED's infrastructure programs together into one Division in the agency; spinning CTED's infrastructure programs off into a separate agency; and others. For each option, the potential benefit of the change was assessed against the costs: administrative, financial, legal, political and programmatic.

9. Group CTED's Infrastructure Programs in One Division within the Agency

Co-locating CTED programs that make investments in local infrastructure will facilitate information sharing and collaboration around program needs and opportunities, and even more importantly, will provide an organizational platform for integrated system improvements in the most needed areas: financial management, communication and reporting, and information technology systems.

While program goals may range from the protection of public health and safety to economic development, these programs share much in common, including their use of infrastructure investment as a means to achieve their programmatic goals, the financial management challenges of operating effectively as banks, and some portion of their typical client base. In today's decentralized system, program staff do a commendable job collaborating with other programs, through formal and informal mechanisms including the IACC, the SCI and simply by knowing one another's programs and assisting communities in locating the most appropriate funding source.

Co-locating programs in one division represents the best opportunity to establish broad, unifying strategic direction, together with common practices, common systems and common reporting. The desired result is not merely a change to the Department's organization chart, but a group of related programs that truly operate as a division.

It is important to continue to recognize the differences among these programs, acknowledging that while local infrastructure investments are a common focus, this tool may be employed to differing ends. Our proposed name for this new division – the Economic and Infrastructure Investment Division – reflects this complexity.

A concern articulated by some stakeholders is that grouping the programs – and their funding – together will make them more of a fund-raiding target, or will otherwise reduce funds flowing to the programs. While this would not be a desirable outcome, the systemic and organizational benefits of grouping entities that share much in common outweighs the potential risks associated with their grouping.

Exhibit 43 shows those CTED programs recommended for co-location within the Economic and Infrastructure Investment Division. Other programs noted are not recommended for co-location, though they may share some of the same commonalities. Therefore, it is recommended that these other programs participate in the Infrastructure Policy Forum and be held to common financial management practices. The Exhibit reflects the rationale guiding each recommendation.

The option of separating the infrastructure programs, particularly the Public Works Board, into a new agency is one that likewise has had its proponents, and CTED has recently created the Public Works Board Division. However, separating the Boards, and/or programs from CTED and creating a new agency is not recommended at this time. Such a reorganization is likely to further silo these programs, and consequently work against addressing the common challenges they face. Addressing the key challenges – improving and integrating application processes; developing financial management principles and standards – improving data collection and reporting systems; and developing appropriate performance measures will go a long way toward integrating the individual programs into a more efficient and cohesive system of programs.

Exhibit 43
Recommended Co-Location of CTED
Economic and Infrastructure Investment Programs

Economic Development Division	Local Government Division	Housing Division	Comments
Programs Recommended for Co-Location			
Community Economic Revitalization Board Traditional Program Rural Program Job Development Program	Public Works Trust Board Public Works Trust Fund Programs Drinking Water State Revolving Fund Water System Acquisition and Rehabilitation Program		These programs share a focus on “basic” infrastructure development, though they do so for different programmatic missions.
	Community Development Block Grant Programs – Local Government Division General Purpose Grant Community Investment Fund Imminent Threat Grant Housing Enhancement Grant Planning-Only Grant Public Service Grant Housing Rehabilitation Grant Interim Construction Float Grant/Loan		Many CDBG programs share a focus on basic infrastructure development. While other programs do not, it would be undesirable to locate CDBG staff in separate divisions, particularly given the common federal requirements under which the programs operate.
Child Care Facility Fund	Capital Programs Building for the Arts Community Services Facilities Program Youth Recreational Facilities Program Local/Community Projects; Jobs in Communities Program Small Communities Initiative		While not focused on “basic” infrastructure, these programs share the practice of supporting capital development in local communities. SCI is an important element in the State’s basic infrastructure funding system.
Programs Not Recommended for Co-Location			
Business and Project Development Unit Community Development Block Grant Programs – Business Finance Unit CDBG Economic Development Float Loan Rural Washington Loan Fund Section 108 Loan Guarantee		Housing Trust Fund Farmworker Housing Infrastructure Loan Program	Given their focus on support for private enterprises, these programs should remain apart from the proposed new division. The CDBG programs listed here are currently administered separately from the State’s other CDBG programs. A focus on affordable housing separates these programs from others recommended for co-location in the proposed new division.