

EXECUTIVE SUMMARY

Introduction

The Legislature directed the Joint Transportation Committee to conduct a study evaluating funding and services provided to local governments by four Washington State transportation agencies: the County Road Administration Board (CRAB), the Freight Mobility Strategic Investment Board (FMSIB), the Transportation Improvement Board (TIB), and WSDOT's Highways and Local Programs division. The goals of this study are to identify opportunities to streamline state government, maximize benefits to local jurisdictions, and improve customer service.

The study has several components:

- Analyze the technical, regulatory, and funding assistance provided by each agency
- Analyze the financial management, governance, and organizational structure of each agency
- Evaluate alternative models to provide assistance and funding to local jurisdictions, as well as alternative organizational and governance models
- Develop recommendations to increase efficiencies while meeting local governments' needs

Study Context

The overarching purpose of the four studied agencies is to help local jurisdictions plan, fund, and implement high quality projects to meet the needs of communities and strengthen the transportation network across the state. In recent years, jurisdictions' ability to fully fund projects has become a significant challenge as available funding has declined. New transportation projects and maintenance needs must compete with other general purpose needs within the budget structures of cities and counties. Local governments struggle to assemble funding packages for every project, particularly larger-scale projects.

The objectives of this study – and of the programs it examines – are a product of these conditions: the need for transportation funding far exceeds available resources, both at the state and local level. Therefore, the dollars that do exist must be deployed *effectively*

CRAB

- Formed in 1965 to oversee and regulate the administration of county roads
- Oversees and distributes the motor vehicle fuel tax, ensuring funds are used exclusively for highway purposes at the county level
- Major resource for County Engineers and County Public Works staff
- 09-11 budget: \$105.4 million (capital) and \$4.5 million (operating)

FMSIB

- Created in 1998 to ensure strategic investments to facilitate freight movement
- Projects are cross-jurisdictional and often serve cities, counties, port districts, and freight movers, including railroads and trucking companies
- 09-11 budget: \$55.0 million (capital) and \$0.7 million (operating)

TIB

- Created in 1988 to bring an objective method to project selection and funding of transportation needs that had previously been funded through earmarks
- Funds projects in urban areas and has a dedicated program for small cities
- 09-11 budget: \$209.4 million (capital) and \$3.0 million (operating)

WSDOT's H&LP

- Serves as the steward of Federal Highway Administration funds
- Functions as a "WSDOT for local agencies," providing technical assistance, regulatory oversight, and funding for cities and counties
- 09-11 budget: \$695.9 million (capital – includes ARRA funds and earmarks) and \$13.5 million (operating)

and *efficiently*. The State and local jurisdictions share a goal of extracting as much value as possible from every dollar spent, maintaining and expanding our transportation network across the state and achieving the ancillary benefits associated with this investment, including increased safety, decreased congestion, and related jobs and economic stimulus.

Study Approach

The study began in May 2010 with an initial presentation to the JTC, describing the proposed approach and key questions. Throughout the project, a Technical Work Group and a Policy Work Group helped guide the process and reviewed draft materials as they were developed. Agency directors were involved in the Technical Work Group, were responsive to requests for information, and contributed significantly to the success of the study.

The customer perspective was represented through four focus groups with cities, ports, county elected officials, and county engineers. In addition, in June 2010 at the Association of Washington Cities conference and in November at the Washington State Association of Counties conference, JTC members heard from panels of representatives on the strengths of the four agencies and the unmet needs and challenges faced by local jurisdictions.

Analysis for the study was conducted through document review, budget and financials review, interviews with agency staff and directors, focus groups and presentations with stakeholders, and discussions with legislators and legislative staff.

System Evaluation: Findings and Recommendations

We first evaluate the four programs under review as a system, examining whether they are functioning as intended and meeting the needs of their customers today. We also consider how appropriate this system might be in the future given potential changes in the funding and policy environments.

a) Alignment with State Transportation Policy Goals

How does the current funding model compare to potential alternatives?

All of the four agencies' funding programs are currently operating as grant programs. Funds are distributed through formula-driven allocations, assessment-based awards, or competitive awards. This system was established incrementally, with the intention of moving away from the political nature of the previous process of funding local projects through Legislative appropriations. The current model has many benefits that draw on the strengths of these different funding approaches.

Are the agencies delivering the services and benefits they were designed to deliver?

Each of the four agencies was created to address a particular need. Our assessment is that agencies have continued to execute programs and deliver services in alignment with their founding statutes and program direction. In addition, the four agencies programs and outcomes are in line with the six State Transportation Policy Goals.

- Customers interviewed for this study are generally very satisfied with the four agencies and did not highlight a need for significant structural changes.
- Based on this assessment, we do not see a need or benefit to fundamentally restructure the current model to serve local transportation needs without substantial changes in the environment.

However, as noted below, there *are* significant shifts underway that are already having an impact on local jurisdictions, the state, and the studied agencies.

b) Current Funding Environment

How are local jurisdictions and studied agencies affected by the current funding environment?

Jurisdictions' ability to initiate projects has been compromised due to declining local tax collections resulting from the economic recession. General fund revenues, which fund transportation projects, are needed for other essential public services and there is generally less money available.

At the state level, revised forecasts show declines in projected gas tax revenues of \$1.8 billion over 16 years. If the forecasts are correct, this will reduce the direct allocation to cities and counties, and will directly reduce CRAB and TIB's revenues. CRAB and TIB may not be able to finance new projects, and may have trouble servicing previously-awarded projects and bond obligations.

- Severe and sustained reductions of funding may warrant consideration of consolidation of CRAB and TIB or other strategies to reduce the program administration burden on both agencies, particularly if the agencies are unable to issue new calls for projects or are challenged to service past awards. This potential scenario is not likely until the 2013-15 biennium and may be avoided by either a stronger-than expected economic recovery or a new revenue package.

c) Alignment with Local and Statewide Needs

Are the agencies meeting the current needs of local jurisdictions? Are there gaps?

In many cases, the state program is set up to provide services and expertise that local jurisdictions do not have. State provision of centralized resources and expertise reduces the need to replicate these locally across the State. This is particularly valuable for smaller jurisdictions that could not otherwise afford access to these resources. Customers are generally very satisfied with the services provided by the agencies. Complaints, when they arose, were directed more at functional opportunities for improvement rather than a need for wholesale, structural adjustment. The following three needs or issues came up repeatedly during this project:

- Discussions with stakeholders throughout the study surfaced strong concerns about the ability of local jurisdictions to address immediate and significant **maintenance and preservation needs**.
- Customer input also highlighted a pressing funding need for **bridge maintenance** and several funding gaps were noted.
- **CRAB's first-in funding is critical to smaller, rural counties.** As a first-in funder, CRAB inherently has a portfolio with more uncertainty than that of a last-in funder like TIB. Projects funded by CRAB have a greater likelihood of not achieving fully funded status and are more susceptible to delays because less is known about the project when the funding decision is made. CRAB could be directed to be a "last-in" funder in order to increase the pace at which its funds are used by recipient jurisdictions. However, this would have significant impacts on the types of projects and jurisdictions that would benefit from the program.

Recommendations

1. **State policymakers should consider directing additional resources to address maintenance and preservation needs.**
2. **Without new money, state policy makers should consider reallocating some existing resources to address preservation needs.**
3. **Agency boards and staff should use flexibility within existing programs to focus on maintenance and preservation needs.**
4. **Transportation stakeholders should better communicate the importance of maintenance and preservation projects to the public and to decision-makers.**
5. **Policy makers should seek to address unmet needs related to short span bridges, high cost bridges, and funding for preventative maintenance through additional federal and state resources.**
6. **CRAB should continue to function as a first-in funder, despite the challenges that such a portfolio brings.** The agency should continue to develop stronger portfolio and financial management tools to manage cash-flows and fund balance.
7. **TIB should evaluate the need for and implications to creating a first-in funding mechanism for cities in its Urban Arterial and Urban Corridor programs.**

d) Possible Change to Transportation Funding Levels and Policy Direction

What does the future hold and how relevant is the existing model likely to be?

The economic situation at both the federal and state levels produces significant uncertainty concerning the amount of investment that will be possible in the future, how new investments will be financed, and what types of projects will be prioritized. Initial discussions around Federal Transportation Reauthorization suggest that Congress may more closely link funding to how well projects meet certain goals. A shift to performance-based funding at the federal level would likely lead to similar shifts in State policy.

- Changes at the state and/or federal level would necessitate another look at the structure and intent of the agencies.
- Continuation of the competitive grant model with its focus on criteria-based selection and accountability are recommended in the event of performance-based funding.

Evaluation of Current Management Systems, Programs, and Processes: Findings and Recommendations

The four studied agencies are generally functioning well and receive positive reviews from their customers, local governments. There are areas for improvements to the current system, most importantly related to portfolio management, financial management, performance measures, and communication with stakeholders.

a) Technical Assistance and Oversight

Overall Technical Assistance and Oversight Functions

All four agencies provide, or facilitate, some level of technical assistance or oversight to local jurisdictions. Overall, customers are satisfied with and genuinely value the technical assistance provided by all the agencies. In particular, the following points were raised:

- Support for smaller jurisdictions is critical. The ability to access technical assistance makes a significant contribution to the overall operations of smaller jurisdictions since they have limited resources.
- Compliance with federal requirements is expensive and often onerous. Some jurisdictions noted that for projects under a certain dollar amount it is impractical to apply for federal funds given the administrative and reporting requirements.
- County engineers identified the potential to improve CRAB standards and engineering software systems, including linking software systems to accounting systems and developing more diverse tools for design and maintenance management.

Recommendations

- 8. CRAB should work with County engineers to undertake a review of current and future software product offerings and training.**

Monitoring Pavement and Bridge Conditions

With the exception of FMSIB, each of the agencies has some responsibility for the maintenance of up-to-date information on the conditions of roads and bridges across the state. Given the involvement of three agencies, stakeholders in state government expressed some confusion about “who does what” and raised questions about whether there might be inefficiencies or areas of overlap. However, areas of overlap were not identified.

b) Funding and Grant Programs

Promotion of Funding Opportunities

Agencies promote their various funding programs through presentations and trainings, direct mail, websites, and through their related professional associations. Early notification and information helps customers to determine their eligibility and assess their prospects for funding under the program, reducing the number of applications less likely to be funded.

Local governments are appreciative of the efforts by all of the agencies to minimize this burden and expedite the application process. The consensus from customer focus groups is that agency funding programs and eligibility requirements are clear and commonly understood.

Application Process and Timeline

The possibility of a joint application for all four agencies and a coordinated application cycle were explored; however, the potential challenges were found to outweigh the benefits. In addition, on the customer side, there was little demand. Per findings of our review, we have determined that the application process should remain within each agency and a joint application or coordinated application cycle not be developed. Agencies should continue efforts to streamline their applications, gathering information only when it is needed for actual decision making.

Project Selection

Project selection varies both by agency and by program. Some funding programs operate according to a formula-driven allocation. Allocations for other programs are determined by assessments according to need or a particular circumstance. Three programs administered by H&LP combine competitive awards with condition-based assessments, with qualifying jurisdictions invited to compete. Other programs rely entirely on a competitive process for program selection.

The TIB and CRAB boards have the authority to make funding awards without legislative approval. Projects funded by FMSIB and H&LP's Pedestrian and Bicycle Safety and Safe Routes to School programs must be approved by the Legislature before funds can be awarded to local jurisdictions. This can mean that a full construction cycle may pass between the time project awards are determined by the agency and recipient jurisdictions actually begin construction.

Recommendations

9. FMSIB and WSDOT should be given final approval authority for their projects.

Reporting Requirements

State reporting requirements for projects were identified by cities and county engineers as a potential challenge, particularly for smaller jurisdictions. All agreed that making such requirements as efficient as possible is an important goal. Agencies should continue to streamline reporting requirements to the greatest possible degree for recipient jurisdictions.

Federal reporting requirements were identified by customers as particularly onerous. In particular, cities and counties identified the costs of federal compliance as a significant impediment to seeking funds under the various federal programs.

Recommendations

10. Opportunities to create a combined quarterly project update should be explored so a jurisdiction with a project funded by multiple funding sources could complete a single update.

11. Washington should collaborate with other states to advocate for less onerous project reporting requirements for federally funded projects.

c) Agency Management

Portfolio Management

Portfolio management refers to the agency's practices around understanding, influencing, and managing to the on-time and on-budget status of its current array of projects. One of the challenges inherent in the role the agencies play is that they have little direct control over individual projects once they are underway. In the aggregate, however, these projects determine the quality of an agency's overall portfolio and affect its ability to efficiently manage its finances.

- While agencies do not have direct control over project timelines and costs, they are taking steps to better track and manage their portfolio of projects. These steps differ significantly in their scope and ability to actually affect portfolio performance.

Financial Management

Sound financial management ensures that agencies are financially healthy, pay customers in a timely fashion and spend appropriations efficiently. The agencies are all managing to a unique set of project funding requirements and budgeting constraints. Policy changes could improve metrics like appropriations versus expenditures, but this would affect the type of project and jurisdiction that ultimately receives funding.

- CRAB and TIB manage to the revenue stream from motor vehicle fuel taxes, adjusting award amounts each year as appropriate.
- FMSIB and H&LP develop line-item capital budgets by project and do not manage funds on a cash-flow basis.
- Collectively, the four agencies have program administration expenses that average 1% of their total capital budgets. In other words, one cent on the dollar is spent on program administration, and the rest is distributed to local jurisdictions.

Recommendations

- 12. Agencies should not be held responsible for the status of individual projects but should be given appropriate tools that would allow them to track and manage their portfolios to targets that are acceptable for their program and customer needs.** At a minimum, these tools include support for policy changes.
- 13. CRAB should use enhanced portfolio management tactics (as with its proposed WAC changes) to improve project timeliness where possible, and manage financial performance based on real time information about project timeliness.** To the extent that portfolio challenges continue to hinder CRAB's financial management abilities, CRAB should consider thoroughly reviewing the status of all of its active projects and encouraging projects on which progress has stalled to withdraw their request for funding.
- 14. The State should monitor H&LP's budget versus expenditure performance on the Safe Routes to School and Pedestrian & Bicycle Safety programs.**
- 15. Take legislative action to merge TIB's two accounts (UATA and TIA) to allow for simpler cash management.**
- 16. Shift responsibility for cash advances of federal emergency funds to WSDOT and target freed-up funds to immediate county preservation needs.**
- 17. The State should continue to track and monitor the agencies' program administration costs relative to their capital budgets to ensure continued efficiency.**

Performance Measures

Program Outcome Measures are designed to show if agencies and their programs are achieving results. All four agencies are tracking a number of outcome measures for different reports and audiences, including OFM's Performance Measures, WSDOT's Gray Notebook, federal reporting, and others. Although agencies report on several outcome measures, measurements, tracking, and reporting could be improved.

Recommendations

- 18. Agencies should link program outcome measures to program objectives and project selection criteria.**
- 19. The same outcome measures should be tracked consistently over time.**

Internal Agency Measures report on how the agency is functioning and delivering its services.

The four agencies differ considerably in their tracking of internal agency measures, and there are no consistent performance measures to enable comparison across agencies.

Recommendations

- 20. Institute a manageable set of internal performance measures consistent across the four agencies related to financial management, portfolio management, and customer service.**

d) Communication with Stakeholders

Agencies have many audiences, including their customers, their boards, and decision-makers in the executive and legislative branches of state government.

Conversations with customers and stakeholders within state government highlighted the importance of communicating a comprehensive picture of individual and collective performance by the studied agencies. The full story includes:

- A reminder of the distinctive roles and responsibilities of each of the agencies
- Explanation of how these roles are linked directly to related challenges and performance measures
- A compelling summary of the benefits provided by the agencies, focusing on the benefits received by customers
- A discussion of current challenges, taking the time to communicate *why* performance measures may be describing a situation that is not optimal

Recommendations

- 21. Agencies should ensure that their reports and briefings tell the full story, reminding decision makers of their distinctive roles, how these roles create specific benefits and challenges, and an annotated description of current contributions and challenges.**
- 22. Briefings with decision makers and staff should augment written reports, and particular effort should be taken to develop relationships with new policy makers and their staff as turnover occurs.**
- 23. H&LP should work with cities and counties to examine how changes in federal programs, and program reporting requirements, can be communicated as effectively and efficiently as possible.**
- 24. CRAB, FMSIB, and H&LP should identify ways to use their website to communicate more timely information about project and portfolio status.**

e) Governance and Organizational Structure

Boards

CRAB, FMSIB, and TIB all have a governing board.

- Each board provides expertise, capacity, and a body responsible for oversight and accountability of the agency's performance. Customers and state government stakeholders noted that the CRAB, FMSIB, and TIB boards provide credibility and support the agencies' ability to fund projects. This independence has protected the focus and mission of the organizations, as well as their funding streams.
- Customers described the cross representation of agency staff on other boards as a strength of the system.
- Relative to the value the boards provide, the costs of supporting members' travel and providing meeting space are relatively minimal.

Agency Staffing and Administration

Each agency currently provides its own staffing, with the exception of FMSIB, which pays for financial support services from H&LP and website development and maintenance services from CRAB. This model allows FMSIB to maintain minimal staff levels in-house.

Customers recognized, and in some cases expressed concerns, that the four agencies are driven by strong personalities. How these agencies will transition beyond the current leadership is a matter of some interest, if not concern, to the customers and stakeholders.

- A shared services model was considered for providing administrative support functions for CRAB, FMSIB, and TIB. Given the current efficiencies obtained by agency staff and the minimal overhead currently required for funding program administration, we do not recommend such a change at this time given the potential for disruption and challenges.

Recommendations

25. Agency staffing and administration should continue to be provided independently and a shared services approach should only be considered if additional structural changes are needed.

26. CRAB, FMSIB, and TIB should develop formal plans for leadership development and succession.

The recommendations above will enable the current system to operate more effectively, efficiently, and transparently, benefiting current customers, strengthening the relationship of the agencies with stakeholders within state government, and positioning them well for pending shifts towards a more outcome-based funding transportation policy environment.