# JOINT TRANSPORTATION COMMITTEE

## Efficiencies in the Delivery of Transportation Funding & Services to Local Governments

## Policy Work Group Meeting #3

**November 5, 2010 | 10:00 - Noon**
**Puget Sound Regional Council – 1011 Western Ave. Suite 500 – Seattle**
**Conference Room**

## A G E N D A

**Objectives**

- Review report outline
- Discuss BERK's evaluation of and preliminary recommendations related to existing funding model and organizational structure
- Review evaluative analysis of agency financial management

**10:00 Welcome** — **Mary Fleckenstein, JTC/All**

**10:05 Project Update** — **Brian Murphy/Paul Roberts, BERK**

- Conversations with agency staff and stakeholders
- Technical Work Group Meeting (October 13, 2010)
- Customer outreach: cities, counties, and ports
- Next steps: review schedule for the rest of the study (page 2)

**10:15 Review Report Outline** — **Brian**

- See page 3

**10:30 Discuss Evaluation of and Preliminary Recommendations Related to the Existing System: Funding Model and Organizational Structure (Report Section 3.0)** — **Brian/Allegra/Paul/All**

- See page 5

**11:00 Discuss Evaluation of Existing Agencies: Management Systems, Programs, and Processes** — **BERK Team/All**

- **Financial Management (Report Section 4.4)** – See page 13 — Heather Rogers
- **Performance Management and Reporting**: what would you like to see? — Brian

**11:45 Roundtable Comments** — **Brian/All**

- Closing comments and other items to consider

**12:00 Adjourn**

# SCHEDULE UPDATE

| | | |
|---|---|---|
| November 5 | Policy Work Group (PSRC offices) | • Discuss findings from evaluative work |
| November 10 | JTC Briefing at WSAC meeting (Spokane) | • Project briefing and discussion with county representatives |
| November 22 | Technical Work Group | • Discuss Draft Final Report |
| November 29 | Draft Final Report due | |
| November 30 | Policy Work Group (PSRC offices) | • Discuss Draft Final Report |
| December 8 | JTC Briefing | • Discuss Draft Final Report |
| January 2011 | Presentations to JTC, House Transportation Committee, Senate Transportation Committee | • Present Final Report |

# DRAFT REPORT OUTLINE

## EXECUTIVE SUMMARY

## 1.0 INTRODUCTION

### 1.1. Overview of study purpose

Series of questions to consider/answer/respond to

### 1.2 Identification of four agencies

Where they fit in the larger transportation funding system

## 2.0 DESCRIPTION OF AGENCY FUNCTIONS

### 2.1 Agency profiles

### 2.2 Summary exhibits

## 3.0 EVALUATION OF EXISTING SYSTEM: FUNDING MODEL AND ORGANIZATIONAL STRUCTURE

### 3.1 Introduction

### 3.2 Alignment with Founding Statutes and Program Goals

### 3.3 Alignment with Current Policy Goals and Local and Statewide Needs

### 3.4 Alignment with Potential Future Policy Direction and Funding Environment

To be discussed today

## 4.0 EVALUATION OF EXISTING AGENCIES: MANAGEMENT SYSTEMS, PROGRAMS, AND PROCESSES

### 4.1 Introduction

### 4.2 Technical Assistance and Oversight

a) Technical Assistance and Oversight Functions

b) Bridge Inspections and Pavement Inventories

### 4.3 Funding and Grant Programs

a) Overall

b) Promotion of Funding Opportunities

c) Application Process and Timeline

d) Project Selection

e) Reporting Requirements

### 4.4 Agency Management

a) Financial Management

b) Communication with Stakeholders

c) Performance Measures

d) Agency Leadership

To be discussed today

### 4.5 Governance and Organizational Structure

a) Boards

b) Staffing and Administration

### 4.6 Conclusions

a) Summary of Recommendations

b) Discussion of Potential Organizational Changes

## 5.0 CONCLUSIONS

# SECTION 3.0
# EVALUATION OF EXISTING SYSTEM:
# FUNDING MODEL AND ORGANIZATIONAL STRUCTURE

## 3.1 Introduction

- **Section 3.0** evaluates 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 environment.
- This examination is organized as follows:
  - **Section 3.2** evaluates programs relative to their founding statutes and program goals.
  - **Section 3.3** evaluates programs relative to today's policy environments and the overall needs of local jurisdictions.
  - **Section 3.4** considers pending changes in the State's transportation funding and policy environment.
- **Section 4.0** contains an evaluation of how individual agencies are performing in terms of management systems, programs, and processes.
- As we evaluate the current system's fit with policy objectives and the funding environment, it is important to consider what alternatives are possible. **Exhibit 1** summarizes the general strengths and challenges associated with alternative models for distribution of funding to local jurisdictions.

> - **Recommendations from Section 3.0** address: *Should the State adopt a different model for serving local transportation needs?*
> - **Recommendations from Section 4.0** address: *Is there an opportunity to improve how the existing agencies function*?

## Exhibit 1 – Alternative Funding Models

| Model | Notes | Theoretical Strengths | Theoretical Challenges |
|---|---|---|---|
| **Appropriated Funding for Projects** | Prior to the establishment of the four agencies being studied, local transportation projects were funded through Legislative appropriations. Independent, board-governed agencies and competitive processes were introduced to reduce the political nature of this model. | • Efficient, requires less State effort and no application process for local jurisdictions<br>• Can be used to target strategic priorities | • Process is political<br>• Uncertain timing and amount of funds make it very difficult for local jurisdictions to plan and manage projects |
| **Direct Allocation** | In this model, a formula (based on population, lane miles, or another calculation) is used to distribute funds. Approximately 30% of funds to local jurisdictions are currently distributed directly to cities and counties via a formula allocation.<br>In addition, funding through CRAB's County Arterial Preservation Program and some federal pass-through funding managed by H&LP are allocated according to a formula basis. | • Efficient, requiring minimal State effort and no application process for local jurisdictions<br>• Transparent and predictable<br>• Formula can be used to target strategic priorities<br>• All jurisdictions receive a distribution | • Difficult to establish a formula that achieves desired outcomes without unintended consequences<br>• Would result in the regular distribution of small amounts of funding (particularly for smaller jurisdictions); it may take many cycles to accumulate enough funding locally to be able to advance a construction project |
| **Allocation via Regional Bodies** | Across the State, 14 Regional Transportation Planning Organizations (RTPOs) cover 38 of Washington's 39 counties. These organizations could be used to select projects for funding. | • Can target funds based on highest priority regional needs | • There is a great deal of variation in staffing and capacity among the 14 RTPOs: concerns about consistency and quality across the State<br>• Shifts burden of project selection from State to RTPOs<br>• Distributes accountability and tracking across 14 agencies<br>• Small jurisdictions may not be well represented, lacking the political capital to ensure their needs are met |
| **Competitive Funding Opportunities** | This is the model employed in most of the programs studied, with funds awarded to projects based on competitive criteria.<br>WSDOT's Federal Highway Bridge Program, Safety Improvement Program and Pedestrian and Bicycle Safety Program are by invitation only and are based on condition inventory and assessment. TIB's Small City Preservation Program operates in a similar fashion. | • Process is not political<br>• Competitive nature targets limited funds in strongest projects and projects that are ready (keeps funds working)<br>• Award criteria can be used to target priorities<br>• Leverages board time and expertise<br>• Concentrates accountability in four agencies | • Requires agency and board support (the efficiency of which is examined in **Section 4.0**)<br>• Jurisdictions may be dependent on multiple agencies for funding for one project<br>• Informally coordinated project selection |

## 3.2 Alignment with Founding Statutes and Program Goals

- *Are the agencies delivering the services and benefits they were designed to deliver?*
  - The overarching purpose of Washington State's grant funding programs is to help local governments plan, fund, and implement high quality projects to meet the needs of communities across the state and strengthen the transportation network. In recent years, jurisdictions' ability to fully fund projects has become a significant challenge, as construction and mitigation costs have increased, while available funding has declined. Transportation projects and maintenance needs must compete with other general purpose government needs within the budget structures of cities and counties. Local governments struggle to assemble funding packages for every project, particularly larger-scale projects.
  - Each of the four agencies was created to address a particular need:
    - **CRAB** was formed in 1965 primarily to conduct oversight and regulation of the administration of county roads. CRAB's oversight and distribution of the motor fuel tax ensures the protection of the State's 18th Amendment at the county level. The agency also acts as a major resource for the Washington State County Engineers and County Public Works staff for transportation-related issues.
    - **FMSIB** was created in 1998 to ensure strategic investments to facilitate the movement of freight, a critical factor to the State's competitiveness. Since freight corridors pass through multiple jurisdictions, the rationale was that freight projects might be deferred in favor of other transportation projects wholly contained within a jurisdiction.
    - **TIB** was created by the Legislature in 1988 with the goal of bringing an objective method to project selection and funding of transportation needs that had previously been funded through earmarks. TIB replaced the Urban Arterial Board which had been administering the Urban Arterial Program since 1967.
    - **Highways and Local Programs** serves as the steward of Federal Highway Administration funds that are allocated to public agencies throughout the state.
  - Our assessment is that agencies have continued to execute programs and deliver services in alignment with their founding statutes and program direction. See
  - **Exhibit** 2.
- *In general, are the programs functioning in the spirit they were intended?*
  - **Assistance for local jurisdictions.** These programs are designed to serve local jurisdictions. When we consider potential opportunities to increase efficiencies, we have to consider impacts to both the State and local entities. In many cases, increasing efficiencies for one party may shift the burden to the other.
  - **Assistance for small jurisdictions in particular.** In many cases, the State program is set up to provide services and expertise that local jurisdictions don't have, with the State providing centralized resources and expertise that reduce the need to replicate these locally across the state. This is particularly valuable for smaller jurisdictions. Specific examples include:
    - Technical assistance. CRAB and H&LP provide significant technical assistance services to small cities and counties, allowing these smaller jurisdictions to have access to technical resources and expertise they would not otherwise have. CRAB's design software is particularly useful for small jurisdictions.
    - Dedicated funding programs. The Small City Arterial Program, Small City Preservation Program, the City Hardship Program, and the Rural Arterial Program are dedicated to serving the needs of small and rural communities.

## Exhibit 2– Founding Statutes and Program Goals

| Agency and Program | Goal, Intent, or Objective | Source |
|---|---|---|
| **County Road Administration Board** | Provides accountability through standards of good practice, fair administration of funding programs, and technical and professional assistance to Washington Counties | CRAB website |
| **County Arterial Preservation Program** | Preserve counties' existing paved artieral road networks | CRAB website |
| **Rural Arterial Program** | Road and bridge reconstruction | CRAB website |
| **County Ferry Capital Improvement Program** | Major capital improvements to county-operated car ferry systems | CRAB website |
| **Transportation Improvement Board** | Fosters state investment in quality local transportation projects | TIB website |
| **Urban Corridor Program** | Road construction to address congestion from rapid development/growth | BERK description |
| **Urban Arterial Program** | Improve mobility and safety | TIB website |
| **Small City Arterial Program** | Preserve/improve arterial roadway system in cities with population less than 5,000 | TIB website |
| **Small City Preservation Program** | Provide funding for small cities to provide proper pavement management and extend infrastructure longevity | WAC intent language |
| **City Hardship Assistance Program** | Provide rehabilitation and maintenance funds for eligible routes | WAC intent language |
| **Sidewalk Program** | Improve safety, access, connectivity, and address system continuity gaps | TIB website |
| **Freight Mobility Strategic Investment Board** | Create a comprehensive and coordinated state program to facilitate freight movement | FMSIB Mission |
| **Freight Mobility Program** | Strategic investment in statewide freight mobility system, and lessen the impact of freight on local communities | FMSIB mission language |
| **WSDOT Highways & Local Programs** | Provide educational, technical, and financial support to cities, counties, and other transportation partners | WSDOT website |
| **Federal Pass-Through Funding** | | |
| Surface Transportation Program | Flexible funding for States and localities to use on highways, bridges, and transit | Federal website language |
| STP Transportation Enhancement | Expand transportation choices and enhance the transportation experience | Federal website language |
| Congestion Mitigation/Air Quality | Fund projects/programs that contribute to attainment or maintenance of national ambient air quality standards | Federal website language |
| **Program Management Federal Funding** | | |
| Federal Highway Bridge Program | Enhance travel safety through replacement and rehabilitation of bridges | Website program objective |
| Federal Safety Improvement Program | Achieve a significant reduction in traffic fatalities and serious injuries on public roads | SAFETEA-LU purpose language |
| **State Grant Management** | | |
| Pedestrian & Bicycle Safety | Address fatal and injury collisions involving pedestrians and bicycles | Website program description |
| Safe Routes to School | Address pedestrian and bicycle mobility and safety near schools | Website program goal |

## 3.3 Alignment with Current Policy Goals and Local and Statewide Needs

- *Are the agencies delivering services and benefits that are in line with current State policy objectives?*
  - The four agencies and their funding programs address the State's six Transportation Policy Goals: economic vitality, preservation, safety, mobility, environment, and stewardship.
  - Given their broad nature, the State's Transportation Policy Goals do not provide a rigorous framework to determine if agencies are meeting the State's *highest priority* transportation investment needs.
- *Are the agencies meeting the current needs of local jurisdictions? Are there gaps?*
  - **Section 4.0** summarizes customer feedback provided about specific functions of each agency, including technical assistance, regulatory oversight, and funding program management. While opportunities for improvement were identified, in general, local jurisdictions feel these programs are working well and did not articulate the need for structural change at the level of the agency, or significant process change at the program level.
  - **Timing of Funding.** To fully fund their projects, local jurisdictions often need to piece together multiple funding sources. Each component piece of funding helps the jurisdiction show commitment to its project and increases the likelihood of securing additional funding. Therefore, *when* the state agency commits its funds is important
    - CRAB is currently a "first-in" funder, helping local jurisdictions leverage additional funding for their project (if necessary) and supporting preliminary design work that small, rural counties could not afford to undertake without some assurance of funding for the project. The nature of this assistance means not all that projects will come to fruition and has implications on CRAB's re-appropriations level (see **Section 4.4 a**).
    - TIB is the "last-in" funder for all of its programs (excluding the Small City Preservation Program), providing the remaining funding needed to bring the project to fully funded status.
    - Our final report will more fully explore the merits and challenges of "first-in" and "last-in" funding, considering the scale of a project, the funding alternatives available to relatively wealthier and relatively poorer cities and counties, and other factors. We will discuss potential advantages and disadvantages – and the underlying need of customers – to potential changes.
  - **Funding for Preservation.** Discussions with local jurisdictions surfaced consistent feedback that, particularly in the current economic climate, there is a great need for funding for preservation projects. In an environment where local revenue sources are not keeping pace with needs across the board, jurisdictions are struggling to maintain and preserve their existing system, let alone add to it.
    - Some jurisdictions report that match requirements for new construction place them in a dilemma. While they have huge preservation needs, they don't want to pass up the opportunity for State assistance with for an important improvement project. This means they sometimes dig into their preservation funds to match improvement grant awards.
    - If the State chose to focus more resources on preservation funding, it could do so through a formula allocation, which would not require significant organizational support, or through inventory, assessment, and targeted funding for infrastructure with the greatest need. CRAB, TIB, and H&LP staff and systems may be valuable if the latter method is chosen. If a focus on preservation is prioritized at the expense of the funding for new construction that now flows through these programs, there would be less need for these independent agencies and their staff and boards.
  - Other potential challenges, such as state and federal environmental and regulatory mandates, will be discussed in additional detail in the final report.

## 3.4 Alignment with Potential Future Policy Direction and Funding Environment

- *What does the future hold and appropriate is the existing model?*
  - o Generally, the policy goals that led to the creation of the individual agencies have not changed, but the broader goals of the State with respect to transportation may be in flux. Significant changes are occurring both in 1) the amount of funding available for transportation funding, and 2) in the policy direction that drives how these funds will be targeted.

**1) Possible changes transportation funding levels**

- o **Federal funding**
  - Authorization of current federal transportation policy (the 2005 Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU)), which encompassed $287 billion in approved funding, expired on September 30, 2009. Reauthorization of the Act may not occur until March 2011 or later.
  - Three times in the past two years, Congress has had to deposit General Fund dollars into the Highway Trust Fund account to keep it solvent. Simply put, the federal gas taxes and other revenue sources that go into the fund are not keeping up with expenses. According to one comprehensive study, the funding gap is estimated at $400 billion for the 2010-15 period and $2.3 trillion for 2010-35.[1]
- o **State funding – Motor Vehicle Fuel Tax trends**
  - **Exhibit 3** shows projections for the State's per capita fuel consumption. Consumption ultimately determines the amount of motor vehicle fuel tax revenue the State will earn, which is the primary funding mechanism for CRAB and TIB as both of these agencies receive a direct allocation of a portion of the $0.375 cents per gallon motor vehicle fuel tax. Other agencies are also impacted by reductions in gas tax revenue projections because the Legislature must decide how to distribute a smaller amount of funding.
  - The "risk scenario" incorporates fleet changes due to a more rapid integration of new Federal CAFE standards and increasing market penetration of hybrid and electric vehicles. This represents a very significant risk for the agencies. If gas tax revenues fall at this rate, CRAB and TIB will face severe financial constraints. In response to less drastic reductions, TIB eliminated its call for new projects in 2009 as it needed the full amount of its cash flow to service commitments from past awards (typically the agency uses a portion of its cash flow to service past commitments and a portion to begin new projects). If the risk scenario comes to pass, both agencies would very likely have to halt the award of new projects (at least temporarily, and then establish a lower award level), and may face challenges in meeting the cash flow needs of previously awarded projects.
  - In response to recent reductions in projected motor vehicle fuel tax revenue, TIB not only did not issue a call for projects but also reduced staff. Given its portfolio of projects had decreased, TIB reduced its engineering staff who work with local jurisdictions on project selection and monitoring by two FTEs. Under the current staffing configuration, three engineers monitor projects across the state. A future significant reduction in gas tax revenues would likely require reductions at both TIB and CRAB, with repercussions to local jurisdictions that rely on site visits and support from agency engineers.
  - Depending upon the timing and levels of reduction, a scenario in which the agencies consolidate grant-making responsibilities may be recommended.

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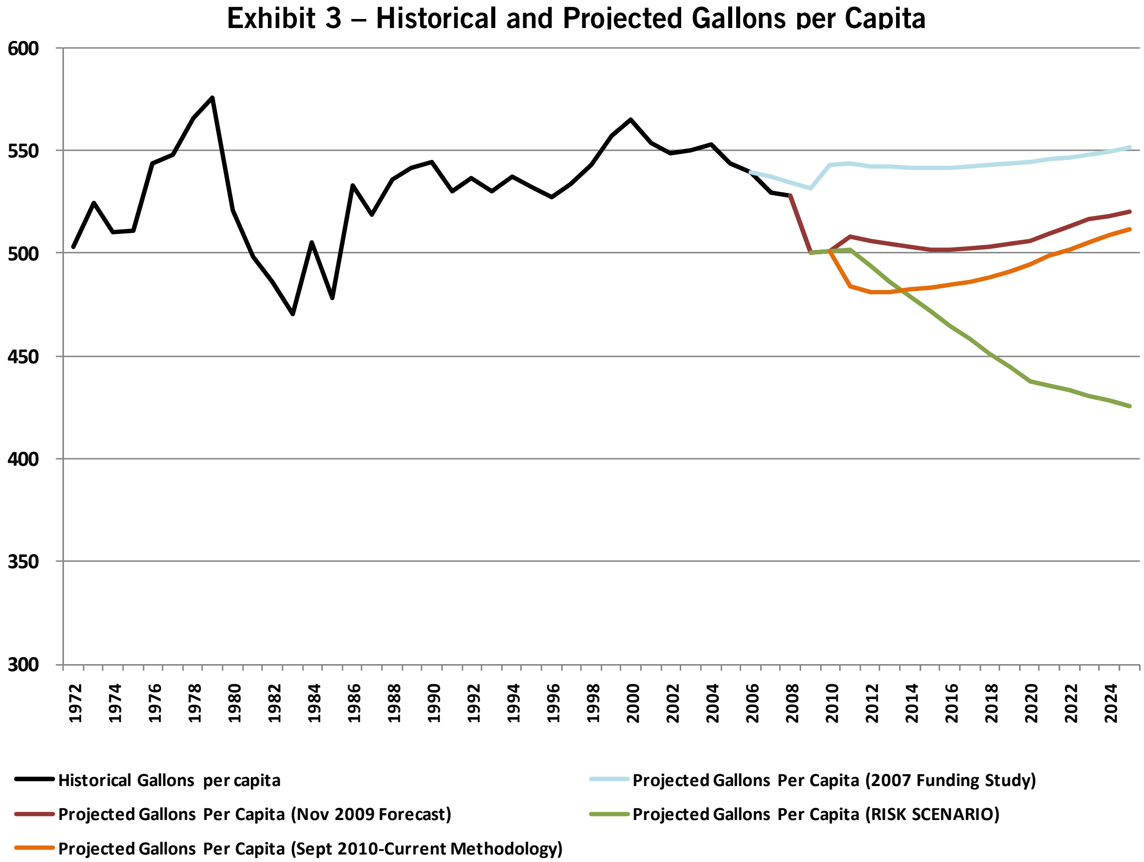
[1] *Paying our Way: A New Framework for Transportation Finance*. Final Report. February. 2009. Surface Transportation Infrastructure Financing Commission. pp. 3-4.




- **New revenue sources**
  - If the State identifies new revenue sources and *increases* transportation funding, a continuation of the existing competitive model would be recommended. Programs may need to be shifted to align with new State policy priorities.

**2) Possible changes occurring in the state and federal policy direction**

- Initial discussions around Federal Transportation Reauthorization suggest that Congress may link funding to how well projects meet certain goals. The specifics about what those goals are and how they are measured could significantly change the types of projects that the federal government funds. For example, highway advocates are concerned that a heavy emphasis on reducing greenhouse gases could reduce the number of highway projects in favor of passenger rail.
- It appears likely that there will be important shifts in the nation's transportation policy goals, including a broader focus on outcomes and the relationship of transportation to the environment, housing, land use, energy and national defense.
- A shift to performance-based funding at the federal level would likely lead to similar shifts at the State and would suggest continuation of the competitive grant model with its focus on competition and accountability. However, a shift in federal priorities or policies could result in a different mix of grant programs perhaps tailored to focus on topical areas of focus including those listed above.
- To prepare for this likely evolution, agencies should continue to assess and refine their program outcome measure and other performance metrics to clearly demonstrate results. This will be covered in **Section 4.0**.

## 3.5 Conclusion

- Summary of findings
  - The current model of direct distribution and competitive funding programs has many benefits
  - Agencies are meeting the objectives they were established to fulfill
  - Customers are generally very satisfied
  - The current funding situation at both the federal and the state level produces a lot of uncertainty as to the amount of investment that will be possible in the future, how new investments will be financed, and what projects will be prioritized. Changes at the state and/or federal level would necessitate another look at the structure and intent of the agencies.
- Based on this assessment, we do not see a need or benefit to fundamental changes to the model currently used to serve local transportation needs at this time.
- As decisions regarding future policy and funding direction are made at the federal and state levels, the current model will need to adapt to those changes. This could mean changing the current mix of programs to respond to changing policy direction or changes in the types of projects funded, structural changes to adapt to a different funding picture, or other changes.
- **Section 4.0** will evaluate the functional performance of each agency, identifying opportunities for improvement. If significant short-comings are found, or if significant opportunities to improve efficiency are identified, structural and organizational changes may be considered.

# SECTION 4.0
# EVALUATION OF EXISTING AGENCIES: MANAGEMENT SYSTEMS, PROGRAMS, AND PROCESSES

## Section 4.4 a: Financial Management

***Current Agency Roles and Practices***

- Agency practices and policies are described below under the following categories: 1) capital appropriations versus expenditures, 2) fund balances, and 3) operating and administrative costs

***1) Capital Appropriations Versus Expenditures***

- As shown in the exhibits on the following pages, with the exception of TIB, the agencies all have capital appropriations that have significantly exceeded their expenditures during the biennia analyzed
- There are a number of reasons why an agency might not spend its appropriation, most commonly:
  - The appropriation is for capital projects that overlap fiscal periods (over time, with predictable appropriations, this can be managed)
  - Capital projects for which the appropriation was intended have been delayed
- Agency financial management is significantly affected by how they receive their funding. CRAB and TIB receive monies from a dedicated funding stream, while FMSIB and WSDOT receive project-based appropriations. Given the importance of this distinction, we look first at CRAB and TIB and then FMSIB and WSDOT.

**<u>CRAB and TIB</u>**

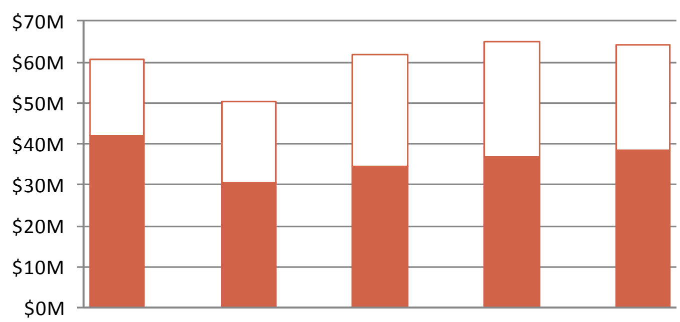
- CRAB and TIB use a budgeting process that is fundamentally different than FMSIB and WSDOT's. Because they have a dedicated revenue stream from motor vehicle fuel taxes, they manage to this revenue stream, adjusting amounts awarded each year as appropriate.
- Among decision-makers at the State, there has been a concern expressed that CRAB is not distributing funds to local agencies as quickly as is desirable, often with a comparison made to TIB. This concern was not voiced by customers. To better understand how CRAB and TIB differ in this respect, we look at the following:
  - **What phase of a project do agencies target?** As discussed in **Section 3.2**, CRAB is often a "first-in" funder, providing preliminary design assistance to counties, while TIB is the "last-in" funder for all of its programs (excluding the Small City Preservation Program), providing the remaining funding needed to bring the project to fully funded status. This structural difference in the kind of assistance provided has very direct implications on agency reappropriation levels.
    - Because of its "first-in" role, providing assistance during a project's planning phase, projects funded by CRAB have a greater likelihood of not achieving fully status and are more susceptible to delays because less is known about the project when the funding decision is made. While CRAB's this may lead to greater reappropriations (particularly as it may be difficult to reallocate funds from a project that does not go beyond the planning phase to another ready-to-go project in the same CRAB region), this policy benefits small and rural districts who might not have the capacity to access to other funds.
    - CRAB does not score funding plans as part of its project selection criteria, though it relies on staff assessments of funding viability. TIB requires a project funding plan and letters of commitment from other funding sources. The financial plan (through local match or funding partners criteria) is a scored component to project selection.

- **How are the agencies addressing projects that fall behind schedule?** Many factors affect the timeliness by which a project is completed and it is important to be very careful in evaluating whether projects across the four agencies are completed "on schedule." Projects vary considerably in scale and complexity, and the meaning of "on schedule" must be considered carefully. This discussion will be covered more fully in the final report.

  All four of the agencies try to work closely with the local jurisdiction that is managing the project to understand the cause and potential solutions to a delay. TIB's dashboard publicly tracks and identifies projects that have fallen behind schedule. CRAB cuts funding if a project hasn't reached construction in 6 years. Counties can get a one year extension with CRAB Director's approval.
- **How do the size and complexity of projects funded under different programs contribute?** The size of the project and the sophistication of the local jurisdiction receiving funding impact project timelines. Both TIB and CRAB fund projects that can vary substantially in size and complexity, and both work with small jurisdictions as well as large.
- **What other factors should be considered?** CRAB maintains a higher fund balance in order to maintain its obligation to not shift any funds between its five regions and to ensure RATA funds are available for funding emergency projects if necessary.

**Exhibit 1**

**CRAB (RAP) Capital Budget Versus Expenditures**

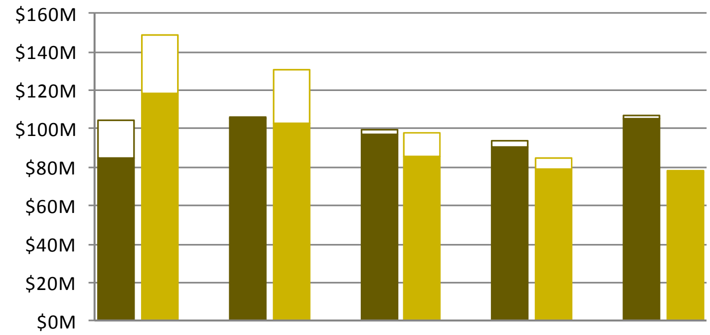



| | 1999-01 | 2001-03 | 2003-05 | 2005-07 | 2007-09 |
|---|---|---|---|---|---|
| Total RAP Budget | $ 60.6 M | $ 50.2 M | $ 61.7 M | $ 64.9 M | $ 64.0 M |
| RAP Expenditure | $ 42.0 M | $ 30.5 M | $ 34.5 M | $ 36.7 M | $ 38.4 M |
| RAP % Budget Expended | 69% | 61% | 56% | 57% | 60% |

- CRAB's County Arterial Preservation Program (CAPP) is allocated based formula and is not included here
- CRAB distributes approximately 56%-69% of its RAP capital budget to local jurisdictions in a biennium
  - RAP specifically targets small jurisdictions that do not typically have the money to pay for preliminary engineering up front. These jurisdictions wait for their award, and sometimes the preliminary engineering uncovers issues that could lead to higher costs or project delays.
  - A ramification of this "first-in" funder role means that RAP projects funded by CRAB have a higher likelihood of not reaching a fully funded status.

**Exhibit 2**

**TIB Capital Budget Versus Expenditure**




| | 1999-01 | 2001-03 | 2003-05 | 2005-07 | 2007-09 |
|---|---|---|---|---|---|
| UATA Budget | $ 104.4 M | $ 105.6 M | $ 99.2 M | $ 93.4 M | $ 106.6 M |
| UATA Expenditure | $ 84.9 M | $ 105.4 M | $ 96.7 M | $ 90.6 M | $ 105.1 M |
| UATA % Expended | 81% | 100% | 97% | 97% | 99% |
| TIA Budget | $ 148.8 M | $ 130.5 M | $ 98.2 M | $ 84.6 M | $ 77.5 M |
| TIA Expenditure | $ 118.1 M | $ 103.0 M | $ 85.3 M | $ 79.1 M | $ 77.4 M |
| TIA % Expended | 79% | 79% | 87% | 93% | 100% |

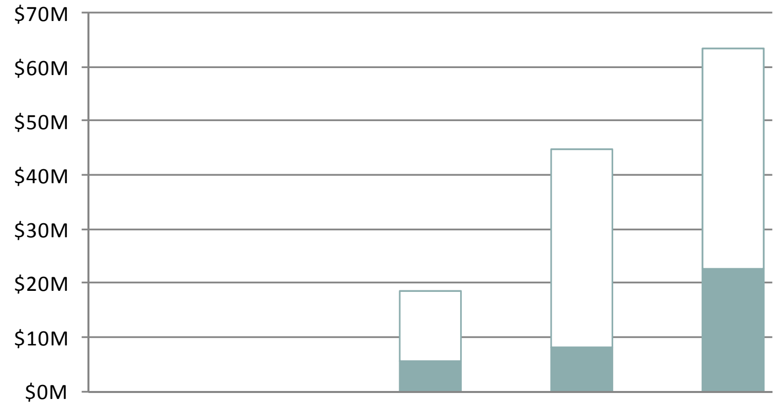
Note: The Urban Arterial Trust Account (UATA) funds the following competitive grant programs: Urban Arterial Program, Small City Arterial Program, and the Sidewalk Program (urban and small city). The Transportation Improvement Account (TIA) funds the Urban Corridor Program.

- Small City Preservation and City Hardship Assistance programs are not competitive and so not included.
- TIB distributes approximately 79%-100% of its total capital budget to local jurisdictions a biennium.
  - TIB is typically the "last-in" funder, contributing to projects that have established funding plans and letters of commitment from other funders

**FMSIB and WSDOT H&LP**

- FMSIB and WSDOT develop line item capital budgets by project. The Legislature appropriates the full amount the agency will contribute to a project in the biennium approval is given. This means that the agencies cannot manage funds on a cash-flow basis. As legislative approval and appropriation may occur as much as a year after high-scoring projects are recommended by the agencies, and as full project amounts are appropriated at once, this process naturally leads to large reappropriations.
- Where the project is in its lifecycle makes a big difference: if the project is expected to take more than two years to complete, the money is typically re-appropriated in future biennia. This can lead to higher levels of appropriated funds that are not disbursed to local jurisdictions during the biennium.
- Like CRAB and TIB, FMSIB and WSDOT differ in the types of projects they fund and the point in time at which they commit funding
- Exhibits on the following page show capital budget versus expenditures for FSMIB and WSDOT.

### Exhibit 3 – FMSIB Capital Budget Versus Expenditure




| | 1999-01 | 2001-03 | 2003-05 | 2005-07 | 2007-09 |
|---|---|---|---|---|---|
| Total FMSIB Budget | | | $ 18.7 M | $ 44.8 M | $ 63.5 M |
| FMSIB Expenditure | | | $ 5.7 M | $ 8.1 M | $ 22.6 M |
| % Expended | | | 31% | 18% | 36% |

- Beginning in the 2005-07 biennium, FMSIB began receiving $12M per biennium in dedicated state funds from the freight mobility multimodal account and the freight mobility investment account
- FMSIB is a flexible funder to best meet individual project cashflow needs, including sometimes being a "first-in" funder. Projects often have private sector funding participation which can be difficult to secure; FMSIB doesn't commit funds until all partner funding is secure for the project or a stand-alone phase
- FMSIB projects are often quite complex, involving multiple partners and management of cashflow over a relatively long period of time
- Sometimes projects need to spend down federal money within a certain timeframe, so FMSIB will hold back its contribution, acting as a more flexible funding partner

### Exhibit 4 – WSDOT H&LP Capital Budget Versus Expenditure
### Pedestrian & Bicycle Safety and Safe Routes to School Programs


| | 1999-01 | 2001-03 | 2003-05 | 2005-07 | 2007-09 |
|---|---|---|---|---|---|
| Total Ped Bike/Safe Routes Budget | | | | $ 7.0 M | $ 24.3 M |
| Ped Bike/Safe Routes Expenditure | | | | $ 0.8 M | $ 7.4 M |
| % Expended | | | | 11% | 30% |

- The Safe Routes to School program is relatively new (established in 2005), and it takes time to get projects into the pipeline
- While Safe Routes to School Projects are often smaller and simpler in scale, they involve partnering with school districts, which can cause funding delays as they are not as familiar with transportation projects

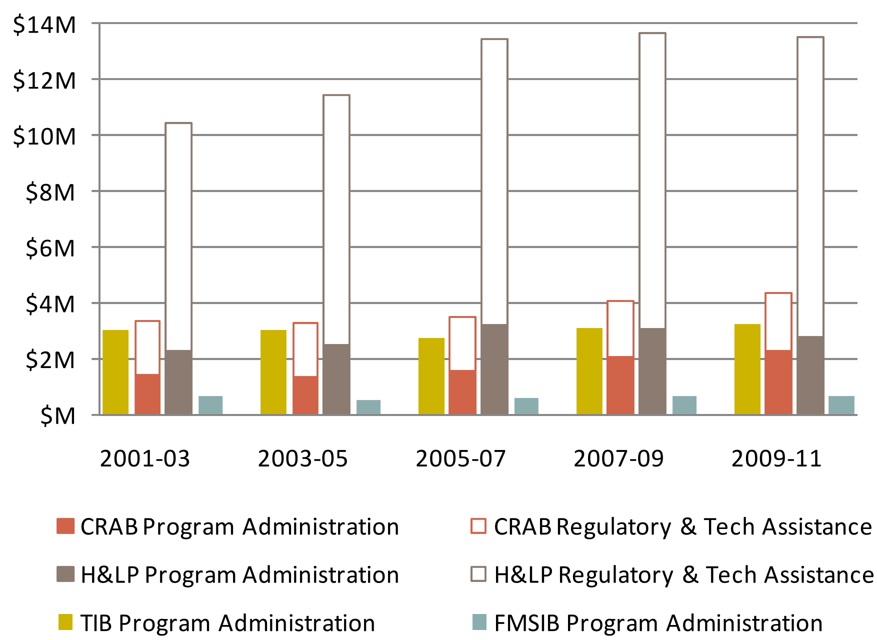
### *2) Fund Balances*

- How are agencies managing their day-to-day fund balances and cash flow?
  - This issue pertains to CRAB and TIB, as they manage a revenue stream (from motor vehicle fuel taxes) which can fluctuate
  - Actual revenues can differ from appropriations. As the Transportation Revenue Forecast Council (TRFC) produces quarterly projections, the agencies have an opportunity to recalibrate periodically, (most typically by adjusting the amounts available for annual award cycles and by tightening policies around when funding increases will be awarded)
  - CRAB's revenues are typically much lower than its biennial appropriations (due largely to re-appropriated funds associated with delayed projects)
  - TIB's account revenues are typically higher than its capital appropriations for those accounts, as these revenues are also funding operating expenses and ensuring that TIB can meet its minimum balance requirements
- CRAB and TIB have minimum fund balance requirements to maintain efficient payment cycles and manage any unforeseen events
  - CRAB has stated an intention to maintain a $10-$12M minimum balance in RATA in order to maintain its obligation to not shift any funds between its five regions and to be able to respond to emergency requests. (CRAB started the 2009-11 biennium with a $39M balance and has been spending it down. The large balance was the result of projects running behind schedule that hadn't billed CRAB, and seeing the balance, the Governor's 2010 Supplemental budget proposed to take some of the balance away from CRAB. This was not ultimately acted upon in the adopted budget.)
  - CRAB's fund balance management is further complicated by restrictions that do not allow the agency to move funds between its five regions. Effectively, this means that CRAB is managing five subaccounts within RATA.
  - TIB maintains a $5M minimum balance in each of its two major capital accounts. TIB staff have commented that if the agency could manage a single account's minimum balance, rather than two, this would lead to tighter financial management. Legislative action would be required.
  - TIB projects that have recently benefitted from cost savings due to lower than expected construction costs lead to larger fund balances as those cost savings are rolled back into the accounts
  - TIB and CRAB do not have targets around 'not to exceed' maximum fund balances, though they acknowledge the importance of not carrying excessively large balances

### *3) Operating and Administrative Costs*

- Agency operating budgets fund significantly different types of activities. All agencies manage grant programs (these costs are shown as "Program Administration in the chart below). In addition, CRAB and WSDOT's Highways and Local Programs have oversight and technical assistance responsibilities that go well beyond grant management. These costs are reflected in their operating budgets.

**Exhibit 5 – Agency Biennial Operating Expenditures**



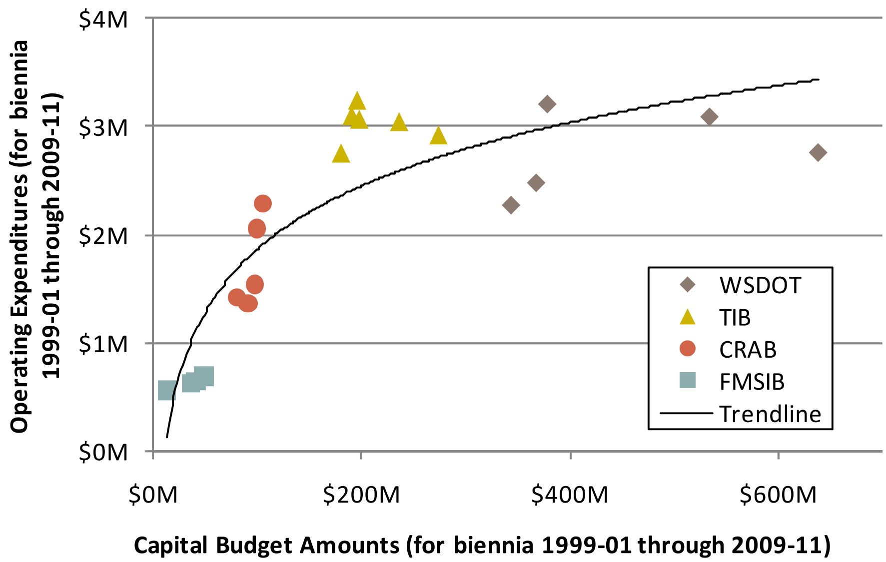

*Note: Data provided by agencies (2009-11 is budgeted and may overstate actual expenditures due to cost saving initiatives). "Program Administration" reflects costs to manage funding programs. For FMSIB and TIB, this equals all operating costs, for CRAB it is operating costs funded by RATA and CAP accounts, and for H&LP it is based on breakout of operating expenses staff functions, as provided by the agency.*

**2009-11 Agency Operating Budgets**

| Agency | Program Administration Costs | Program FTEs | Technical Assistance & Oversight Costs | Other FTEs (for technical assistance, oversight) | Total Operating Budget | Total FTEs |
|---|---|---|---|---|---|---|
| CRAB | $2.3M | 8.75 | $2.1M | 6.85 | $4.4M | 15.6 |
| FMSIB | $0.7M | 2 | - | - | $0.7M | 2.0 |
| TIB | $3.2M | 11 | - | - | $3.2M | 11.0 |
| WSDOT H&LP | $2.8M | 12 | $10.7M | 43.5 | $13.5M | 55.5 |
| **TOTAL** | **$9.0M** | **33.75** | **$12.8M** | **50.4** | **$21.8M** | **84.1** |

- In total, the State has budgeted to spend approximately $9 million in the 2009-11 biennium on funding program management and administration (actual expenditures may be lower due to cost saving initiatives)
  - For the same biennium, capital funds that have been appropriated by the state and federal dollars that have been allotted to these four agencies total $988M
  - 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
- Furthermore, when compared to one another and taking into account the vast differences in the size of the capital budgets they manage, the agencies have similar program administration costs.

**Exhibit 6 – Operating Expenditures Relative to Capital Budgets**




- **Exhibit 6** shows each of the agencies biennial operating expenditures on program administration compared to capital budgets for the same biennium
  - The trend line shows that program administration costs increase as the program budgets increase, and the curve shows that there are some efficiencies of scale gained as agencies manage larger budgets
  - Points above the trend line show program administration costs that are higher relative to the budgets they administer than points below the line
  - On average, the agencies track very closely with the trend line, indicating that after adjusting for the size of the budgets they manage, agencies spend a similar proportion of funds on program administration costs

### *Findings*

- Customers did not have significant comments regarding financial management, timeliness of payments, or project completion. It was noted that TIB, and more recently CRAB, have been reviewing project awards with the intent of reducing the backlog of aging projects.
- Customers did have questions about the transparency of funds management and felt that they didn't have an understanding of how available funds for projects were determined.
- Agencies have program administration costs that average 1% of the capital budgets they manage. This indicates that these programs are efficient vehicles for the State to direct funding to local jurisdiction in a manner that helps achieve program goals.
- 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 these would affect the type of project and jurisdiction that ultimately receives funding.
    - For example, CRAB could be directed to be a "last in" funder similar to TIB in order to increase the pace at which its funds are used by recipient jurisdictions. This would have significant impacts on the types of projects and jurisdictions that would benefit from the program.
    - Counties generally have fewer sources of funding available to them than cities, and in particular do not have ready access to federal funds. Particularly for counties facing severe financial challenges in today's climate, they are very reliant on CRAB funds to do the preliminary engineering and planning necessary to get a project ready to go. If CRAB dollars were required to be "last in," some counties may not have the ability to assemble funding from other sources prior to requesting funding from CRAB to provide the final amount needed. A shift to "last in" funding would likely reduce CRAB's reappropriations, but should be seen as a significant policy shift with implications for the types of projects and recipient counties. Such a change would especially hurt rural counties.
    - Additional opportunities to ensure these funds are put to active use will be explored in the final report.