



# Infrastructure Development in the New Budget Environment

**GFOA FUNDING REPORT**



# KSGFOA Conference 2019

## Agenda

- Introduction
- Federal Liaison Center
- Legislative update
- Presentation
- Issues/Advocating with GFOA



# Federal Liaison Center

- Congressional Advocacy
  - Tax exempt municipal bonds
  - Infrastructure
  - Deductibility of state & local taxes
  - Remote sales tax
  - Pensions & benefits
- Executive Advocacy
  - SEC
  - MSRB
- Amicus Briefs to the Supreme Court



# GFOA Legislative Priorities

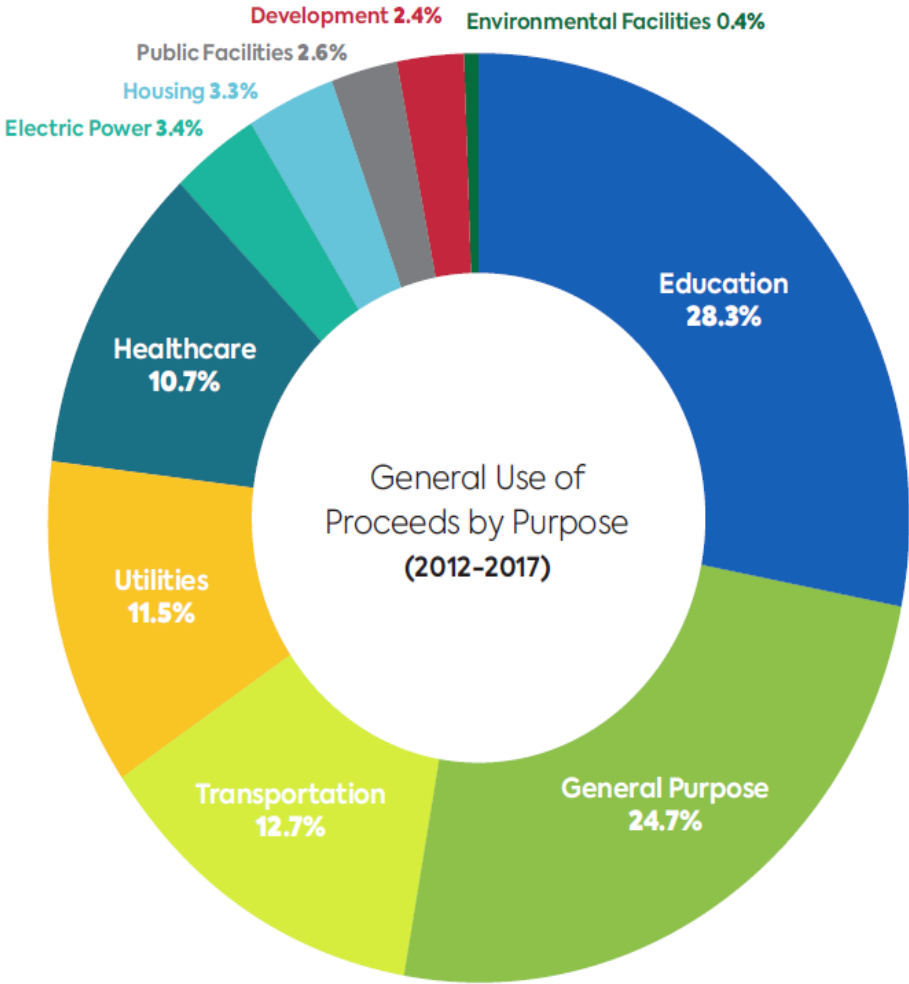
- **Protection of the Municipal Bond**
  - ❖ Munis are bipartisan and apolitical
    - Munis are an easy story to tell (#builtbybonds)
    - Munis aren't \*just\* roads
  - ❖ Munis constitute a strong, vibrant capital market for infrastructure
  - ❖ Pursue continuing education of Congressional leaders and staff
  - ❖ Public Finance Network (PFN)
  - ❖ Municipal Finance Caucus



# Federal Liaison Center

## PROJECTS FUNDED BY TAX-EXEMPT BONDS

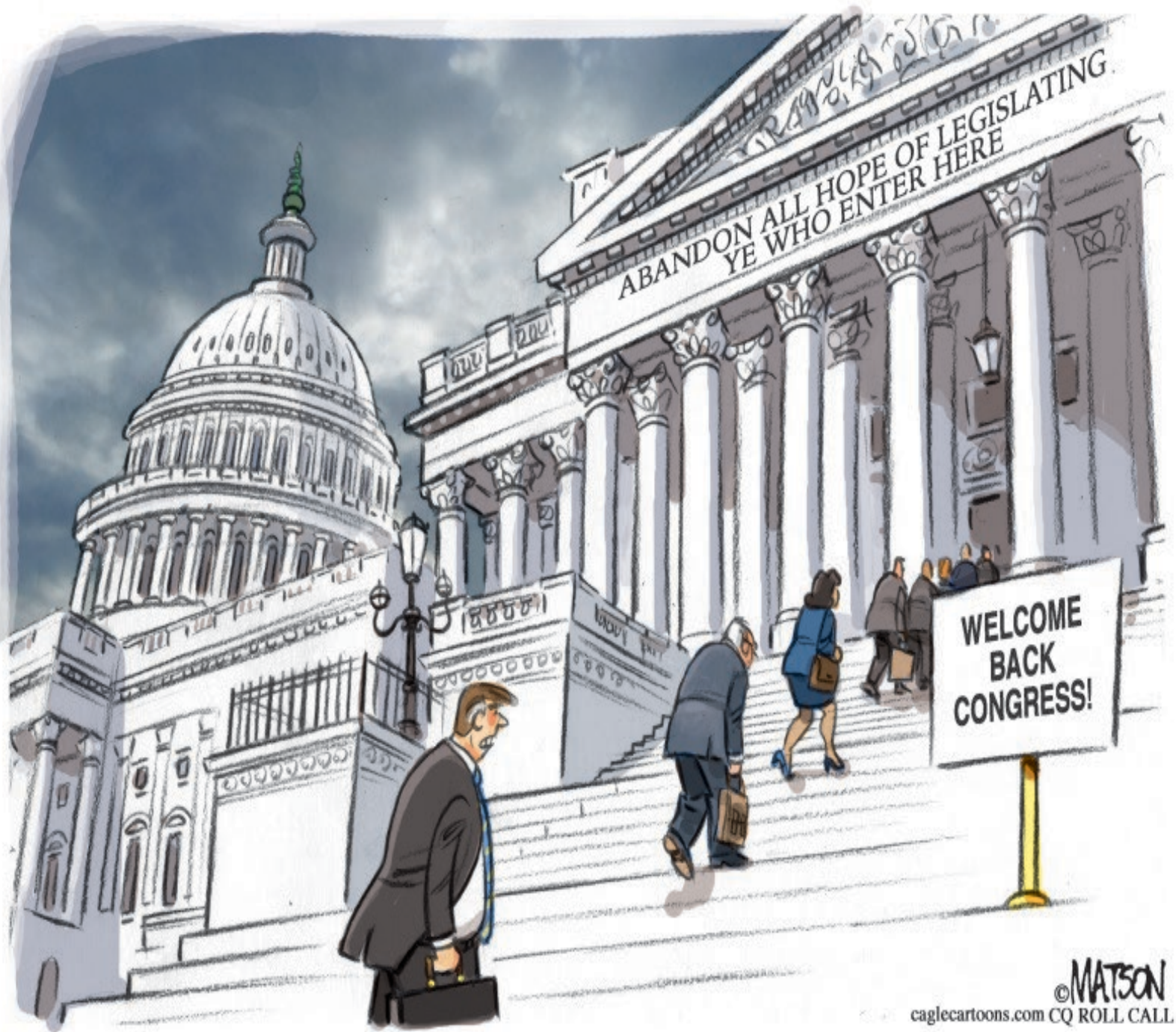
Table 2. Projects funded by bonds by type and five year average



Source: Thomson Reuters



# Current Mood



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caglecartoons.com CQ ROLL CALL



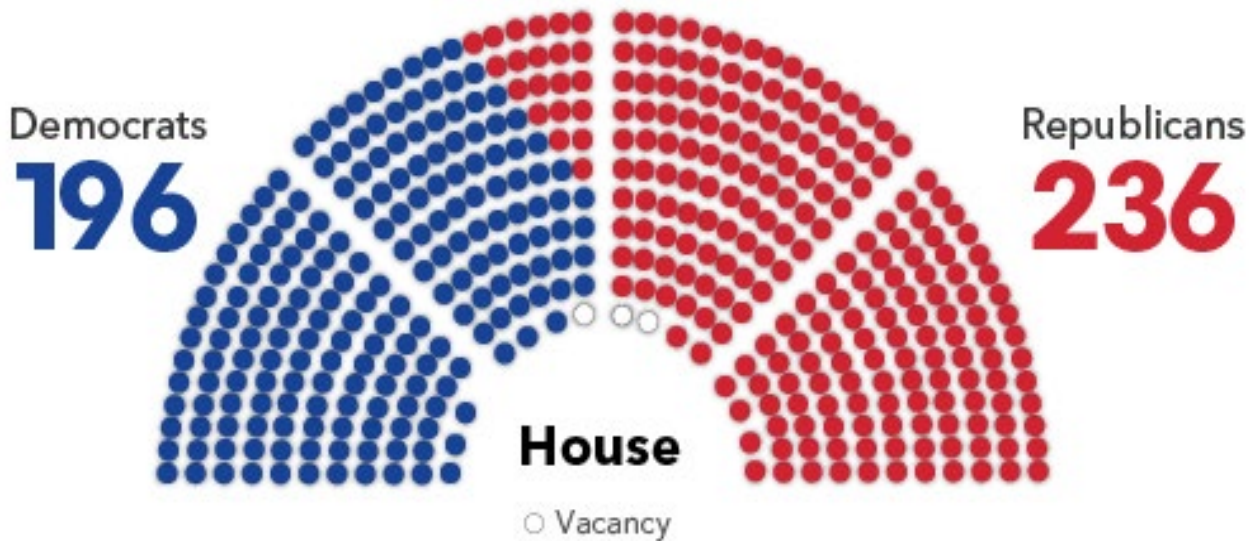
# Current Mood



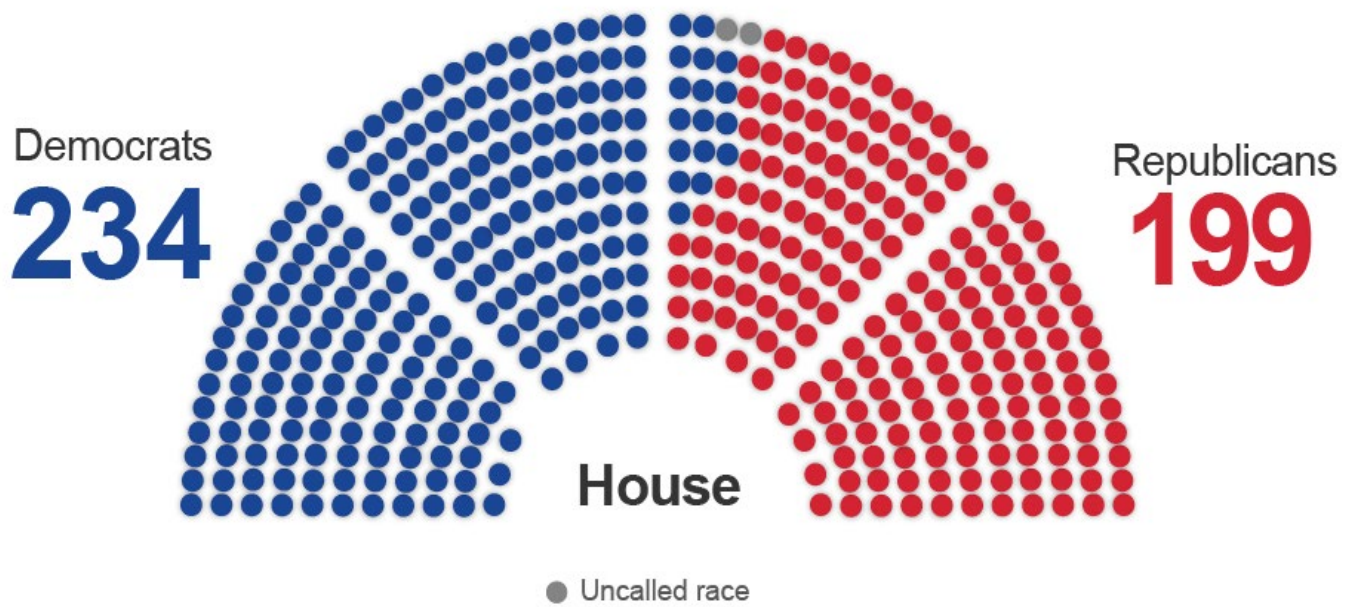
# Balance Shift in the House

## What will 2020 Elections Bring?

115<sup>th</sup> Congress



116<sup>th</sup> Congress

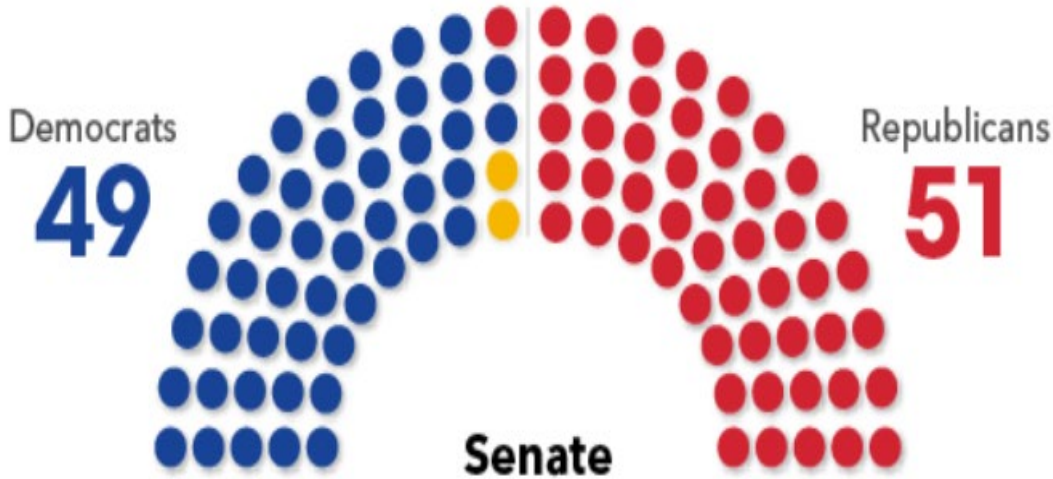




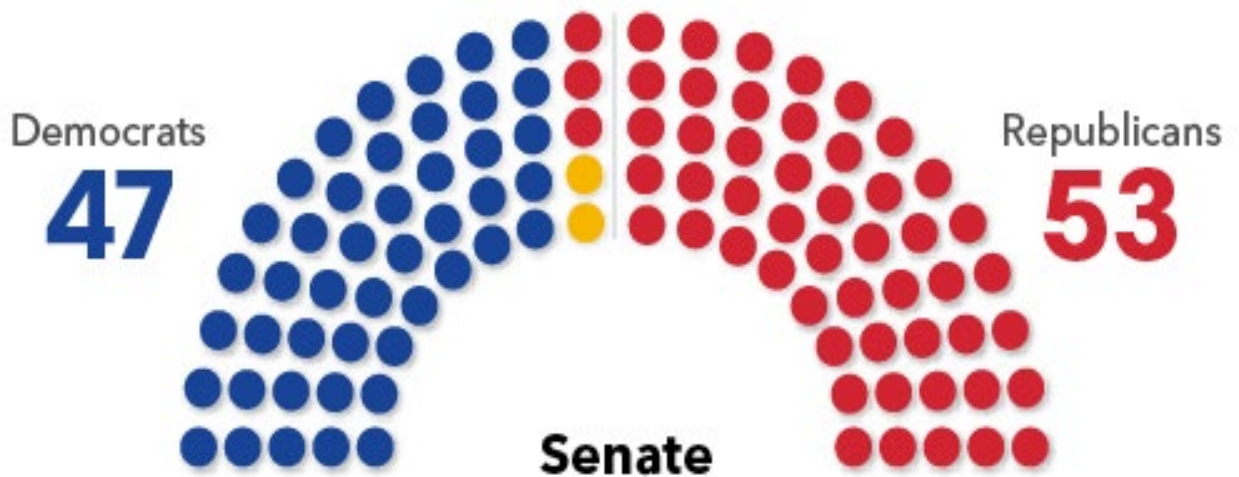
# Senate Balance of Power

## What will 2020 Elections Bring?

115<sup>th</sup> Congress



116<sup>th</sup> Congress



# Project Objectives



- Advocacy Piece**
- Federal Grants**
- Infrastructure**
- Current Budget Environment**
- Federal government's role**



## Introduction

- Grant funding support programs that directly impact the quality of life of citizens
  - Healthcare, education, & infrastructure/economic development programs
- Monetary transfers from the federal government represent intergovernmental relationships across multiple levels
- Current fiscal environment putting more pressure on state and local governments to shoulder cost of infrastructure development and upkeep



### **The Federal Grants System: A Brief History**

- Originates immediately following the American Revolution
- Newly acquired land was awarded or sold to settle war debts and fund the national defense
- Federal grant system changed significantly through policies enacted to mitigate impacts from the Great Depression

## THE FEDERAL GRANT SYSTEM TODAY

### CIG's

#### Capital Investment Grants

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

### CDBG

#### Community Development Block Grant

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

### BUILD

#### Better Utilizing Investments to Leverage Development

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

## THE THREE TYPES OF FEDERAL GRANTS



### General Revenue Sharing

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



### Block Grants/Entitlements

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



### Categorical Grants (4 sub-types)

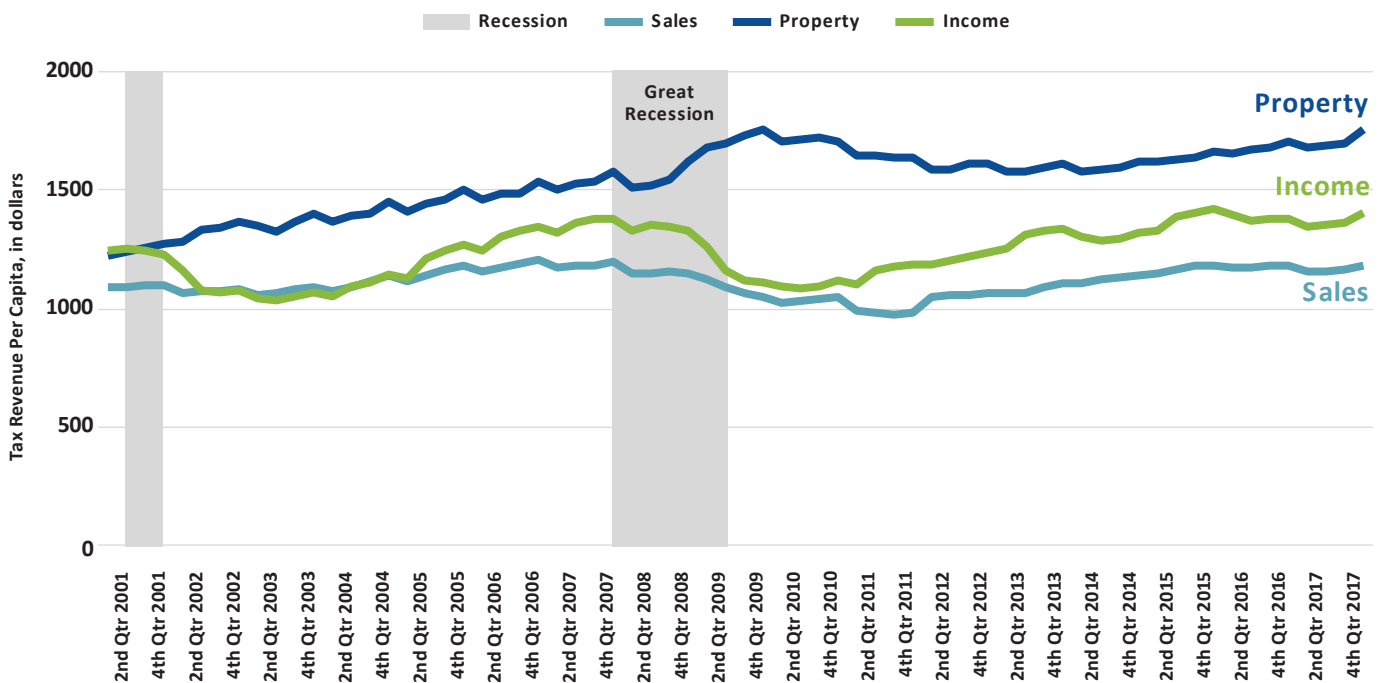
- » Project Categorical: Competitive; requires application
- » Formula Categorical: Operates through legislature/agency mandate
- » Formula Project Categorical: formula for state allocations; application to state
- » Open-end reimbursement: expenses reimbursed
- » Designed for specific projects
- » The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

## SLIMMING BUDGETS & SHIFTING PRIORITIES

- Context is important to understand fiscal environment for public finance officials
- Tax revenue has lagged through recovery from Great Recession
- Markedly slow recovery for modern era
- Questions over ability to withstand next recession

**Figure 1.** National Totals Of State And Local Tax Revenue, By Type Of Tax

2001-2017, Inflation Adjusted, Per Capita



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

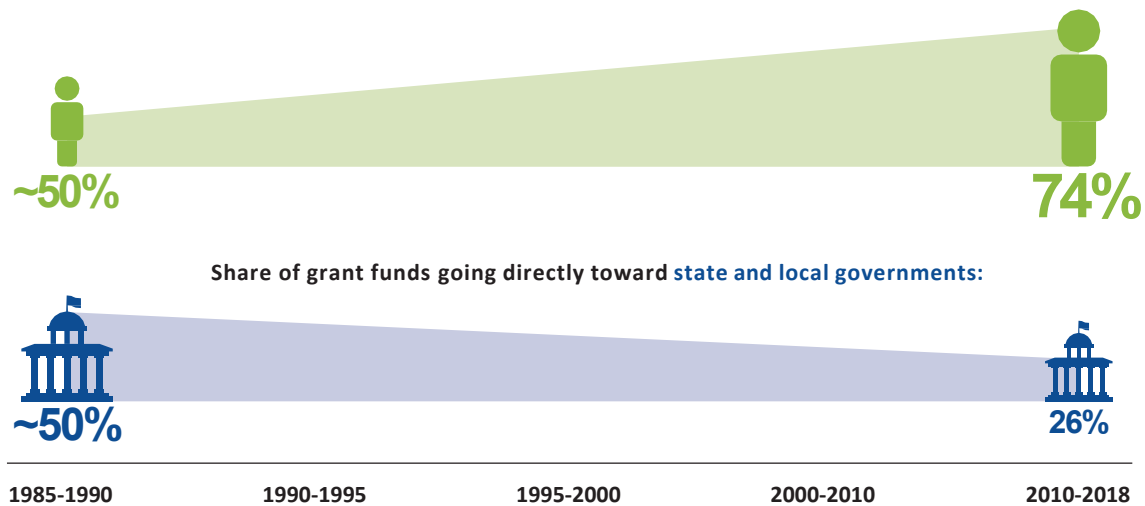
<sup>1</sup> Bureau of Economic Analysis, National Bureau of Economic Research

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

# PUBLIC SPENDING ON INFRASTRUCTURE DEVELOPMENT

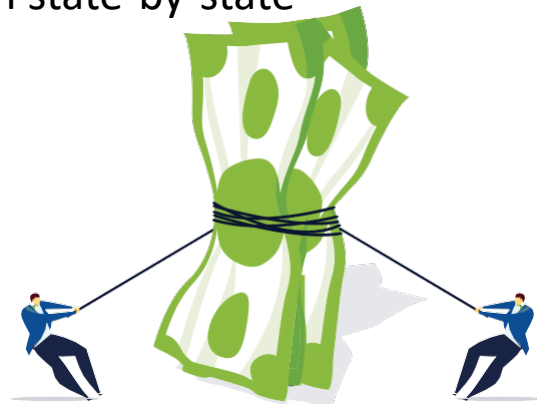
- Nominal measurement of federal transfers to S&L governments can be deceiving
- Mandatory spending makes up large portion of increases
- Greater proportion of transfers going directly toward individual recipients

The impacts of **tighter state and local government budgets** are seen and felt everywhere.

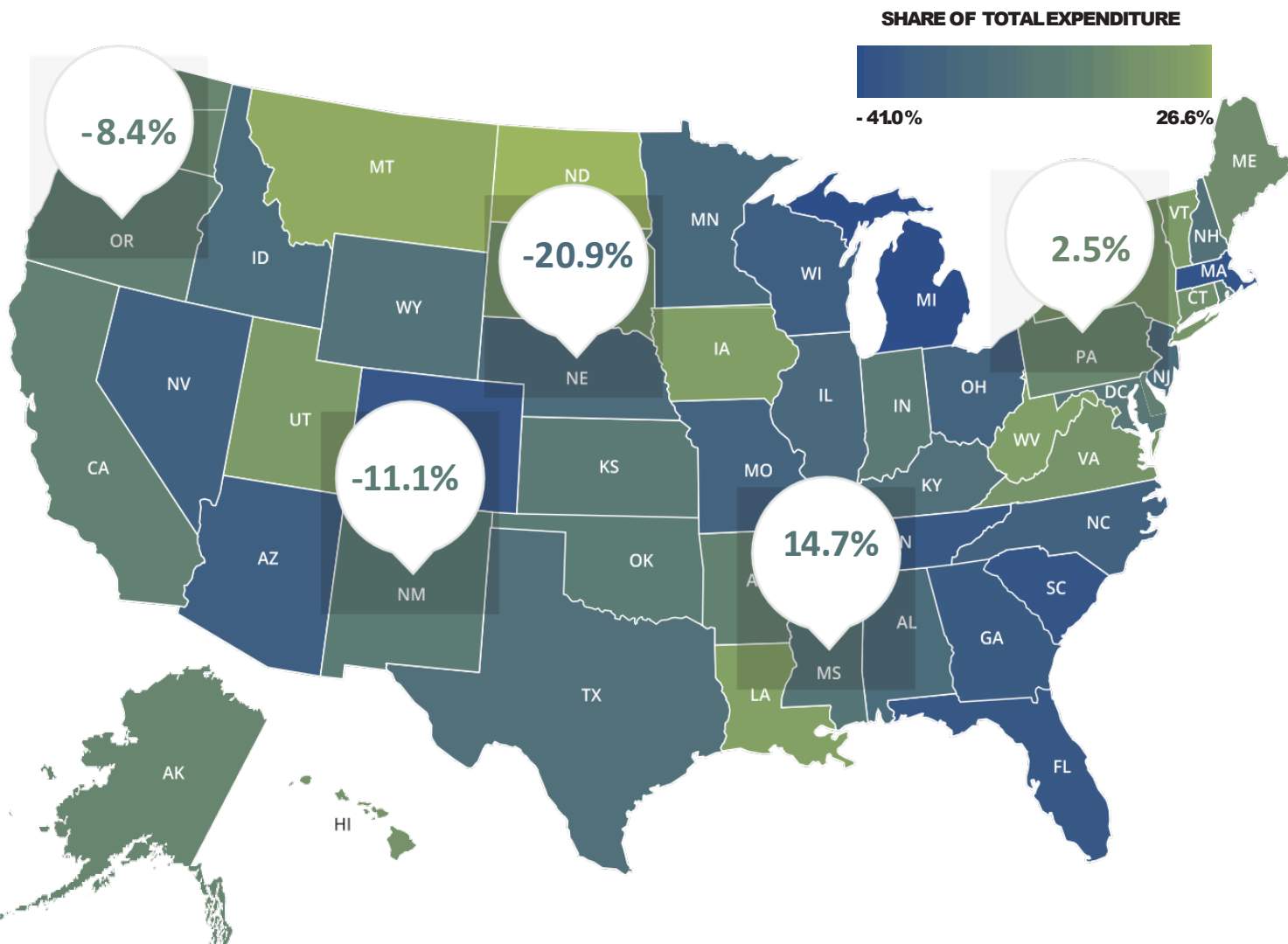


**Source:** U.S. Office of Management and Budget, Budget of the United States Government, Fiscal Year 2019: Historical Tables, Table 12.1. Summary Comparison of Total Outlays for Grants to State and Local Governments: 1940-2023 (in Current Dollars, as Percentages of Total Outlays, as Percentages of GDP,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

- It's about capital spending
- Overall decrease in capital expenditures on state-by-state basis

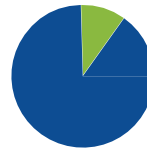


**Figure 3.** Change in State and Local Capital Expenditure (By Percentage), 2012 vs. 2000

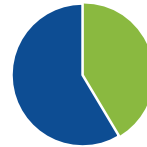


<sup>3</sup> U.S. Office of Management and Budget, Budget of the United States Government, Fiscal Year 2019: Historical Tables, table 12.3, Total Outlays for Grants to State and Local Governments

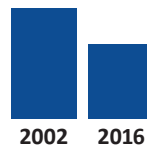
- Burning at both ends
- Snowballing effect as S&L's have less to invest in capital while the cost of upkeep grows
- Average age of infrastructure trends with upkeep costs



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



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



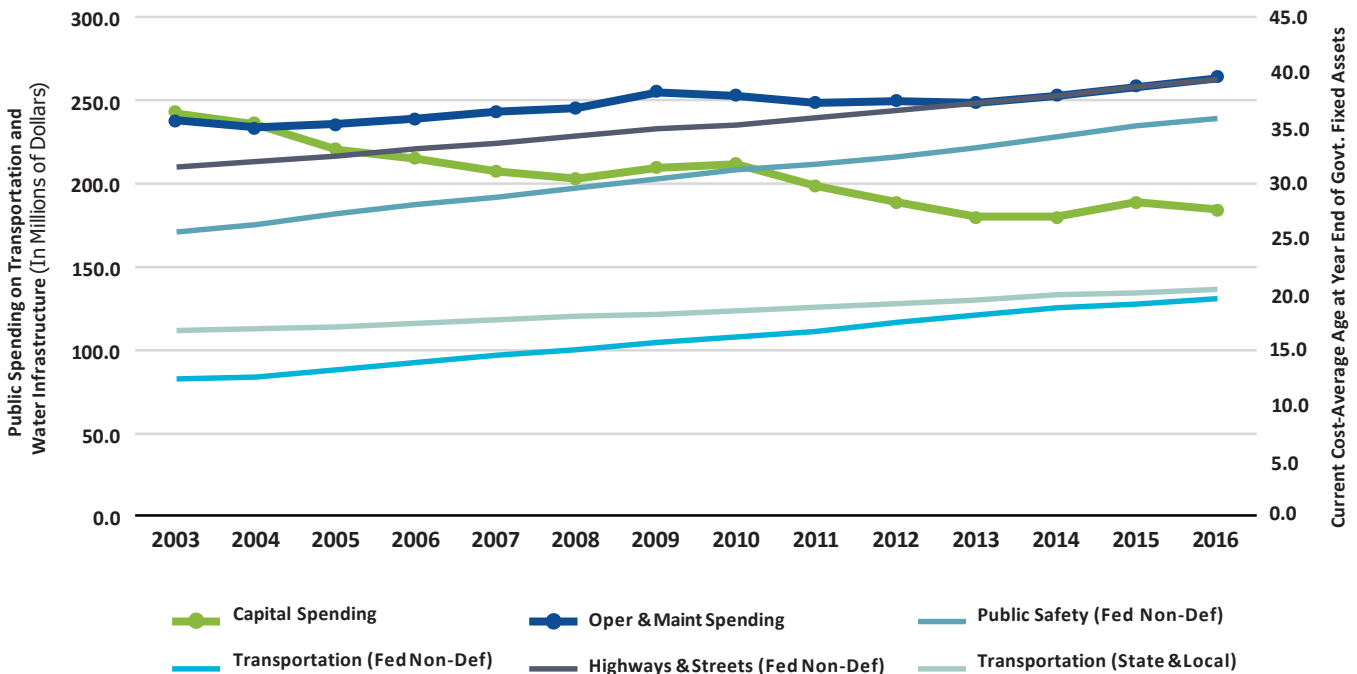
State and local capital spending on transportation and water infrastructure totaled \$102 billion in 2016; down from roughly \$150 billion in 2002.



Since 1986, federal grants have composed roughly 38% of state and local capital spending on transportation and water infrastructure.<sup>4</sup>

**Figure 4.** Public Spending on Transportation and Water Infrastructure vs. Current Cost

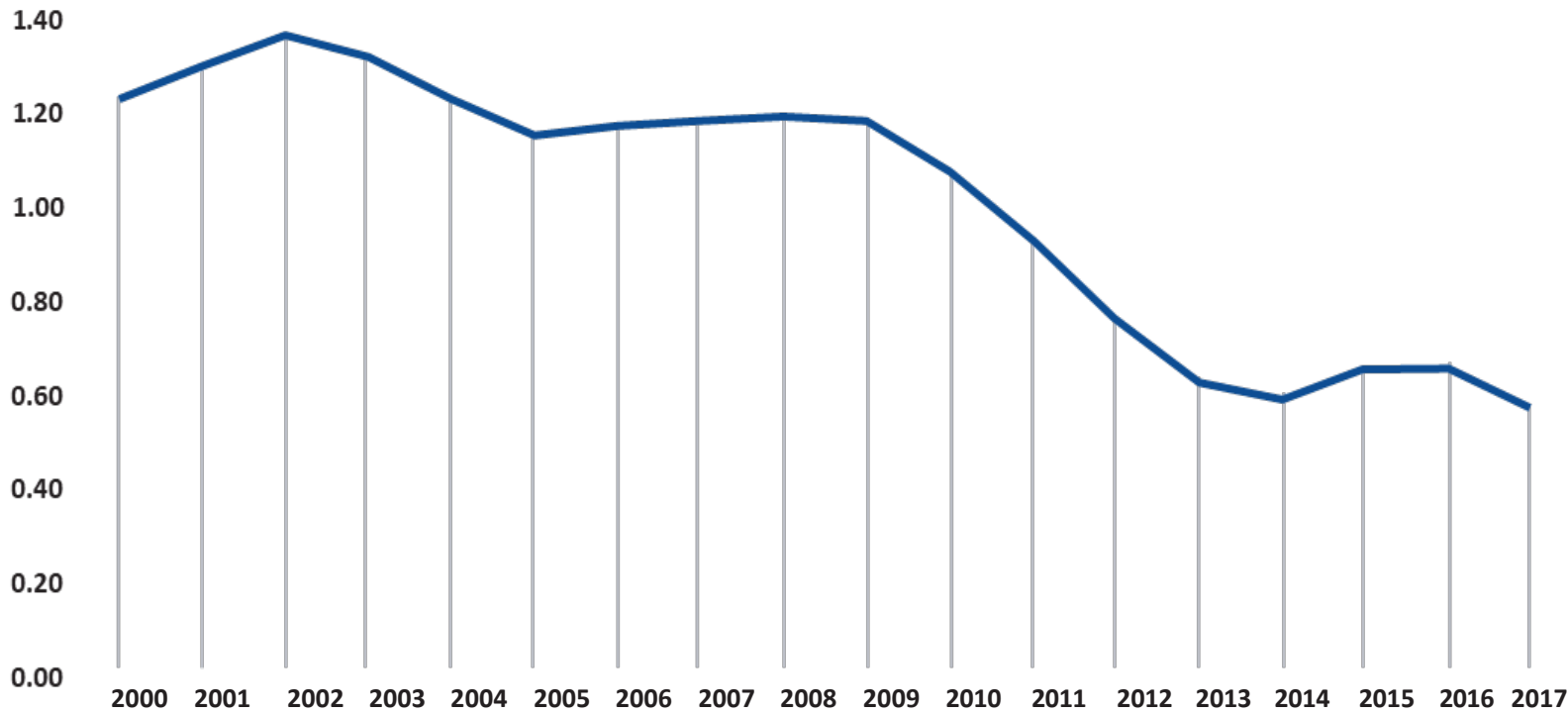
Average Age at Year End of Government Fixed Assets (2001-2016)





# A Bottom Line View

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



Source: Congressional Budget Office, using data from the Office of Management and Budget and the Census Bureau  
Failure to Act: Closing the Infrastructure Investment Gap for America's Economic Future

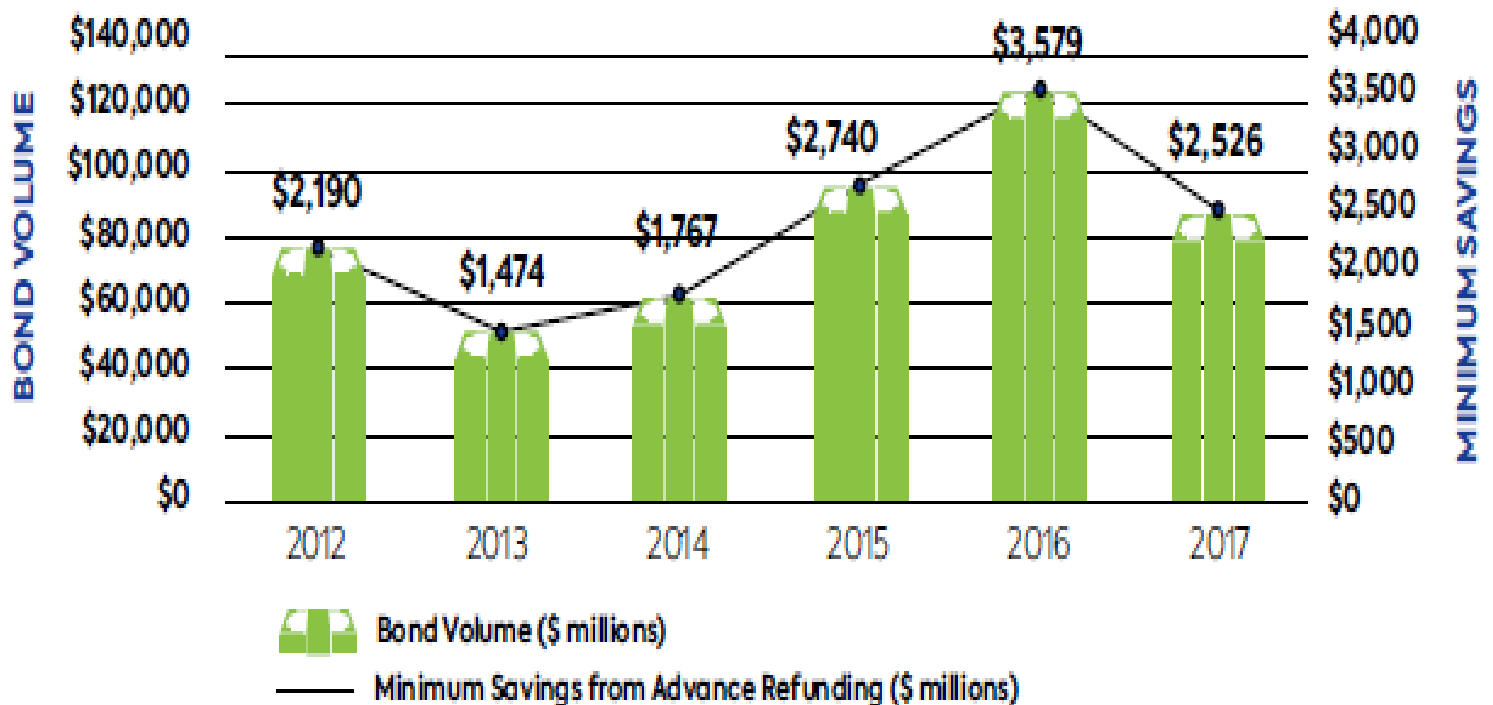
- Relationship between GDP and capital investment
- Losses by forgoing potential economic productivity
- Infrastructure supports entire national economy



# TCJA Impacts - Advance Refunding

- ❖ Savings of 3-8% of par foregone
- ❖ Bringing back AR is our number one goal:
  - Will it stand alone? Not likely!
- ❖ HR 2772 - bipartisan but needs more OH Reps to join Stivers
- ❖ [Restore Advance Refunding](#)

## ADVANCE REFUNDING ISSUANCE



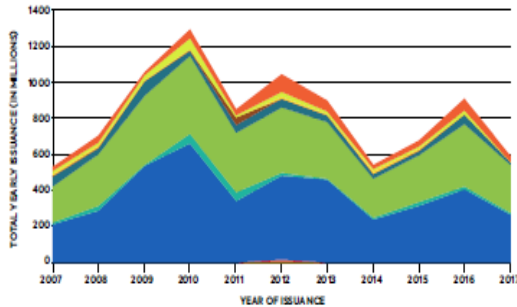
Source: GFOA analysis of Thomson Reuters data



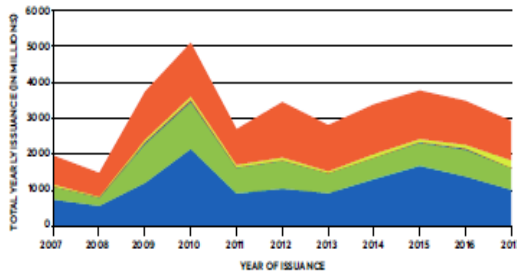
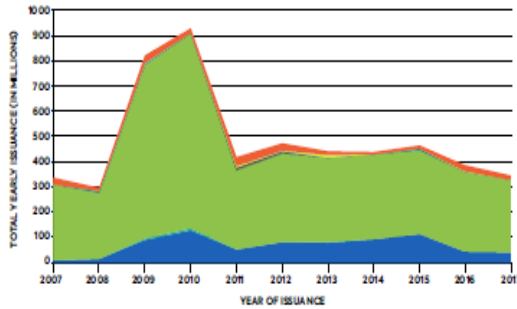
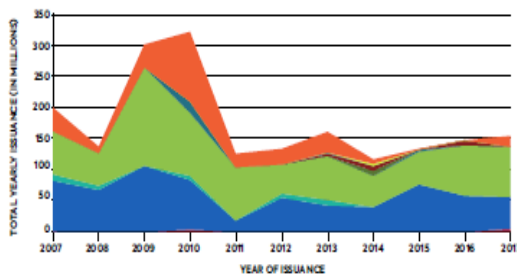
# Bank Qualified Debt (aka Smaller Borrower Exception)

TAX-EXEMPT MUNICIPAL BONDS & INFRASTRUCTURE

BQ BOND ISSUANCE BY GENERAL USE OF PROCEEDS: 2007-2017 (in millions)



- Water, Sewer & Gas Facs
- Transportation
- Solid Waste / Resource Rec
- Single Family Housing
- Seaports / Marine Terminals
- Pollution Control
- Nursing Homes / Life Care
- Multi Family Housing
- Industrial Development
- Health Care
- General Purpose / Public Impact
- Electric & Public Power
- Education
- Economic Development
- Combined Utilities
- Airports



❖ Small Issuer Exception allows smaller jurisdictions working with community banks to issue TE BQ debt

- Pegged to the Borrower!

❖ Right now the cap is \$10m per issuer, we are asking to raise the cap to \$30m, pegged to inflation and based at the level of the borrower

- Cost- NOMINAL!

❖ HR 3967 Municipal Bond Market Support Act of 2019

- Bipartisan, led by W&M
- No Kansas Representatives

❖ [Support Small Issuers](#)

Source: GFOA analysis of Thomson Reuters data as of 11/28/18

# Legislative Priorities

- ❖ Cadillac Tax Repeal – HR 748 overwhelmingly passed by the House 419-6
- ❖ SALT – efforts are well underway to relieve the \$10k cap on the state and local tax deduction
  - Some efforts pay for themselves
  - Other efforts do not take these into account, which may ultimately have less of a chance
- ❖ Build America Bonds (or Direct-Pay Subsidy Bonds)
  - Open the prospect for new buyers
  - Sequestration effects sometimes stop the conversation before it starts



# Resources/Advocacy

- [Public Finance Options: Infrastructure](#)
- [Bringing Sales Tax Into the 21<sup>st</sup> Century](#)
- [Tax-Exempt Bonds and Infrastructure](#)
- **Best Practices/Policy Statements**



# S. 2302- America's Transportation Infrastructure Act of 2019

- Unanimously voted for in EPW Committee
- \$287 Billion
- 5 years
- 27% increase in funding over FAST Act
- Streamline TIFIA application process
- What's next?



# Kansas Delegation

☐ Hon. Roger Marshall

- (R) KS-1<sup>st</sup>
- 202-225-2715

☐ Hon. Steve Watkins

- (R) KS-2<sup>nd</sup>
- 202-225-6601

☐ Hon. Sharice Davids

- (D) KS-3<sup>rd</sup>
- 202-225-2865

☐ Hon. Ron Estes

- (R) KS-4<sup>th</sup>
- 202-225-6216

☐ Sen. Pat Roberts

- (R) Sr. Senator
- 202-224-4774

☐ Sen. Jerry Moran

- (R) Jr. Senator
- 202-224-6521



# Questions & Contact

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□ Federal Policy  
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□ Director, Federal  
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□ 202-393-8022





## CASE STUDIES



### TOWER 55 MULTIMODAL IMPROVEMENT

*Fort Worth, TX*

**Applicant/Sponsor:**  
Texas Department of  
Transportation

**Total Project Cost:**  
\$91,200,000

**Grant Funding:**  
\$34,000,000

#### **Project Description:**

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

#### **Project Benefits:**

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

Source: Tower 55 Fact Sheet



**CAPITAL INVESTMENT GRANTS (CIG) — LYNX BLUE LINE**

**Grant Program:**  
Capital Investment Grant (CIG)

**Applicant:**  
Charlotte Area Transit System (CATS)

**Project:**  
LYNX Blue Line Extension, NE Corridor

**Goals:**

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

**Impacts:**

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

Source: Charlotte Area Transit System: LYNX Blue Line Extension Fact Sheet