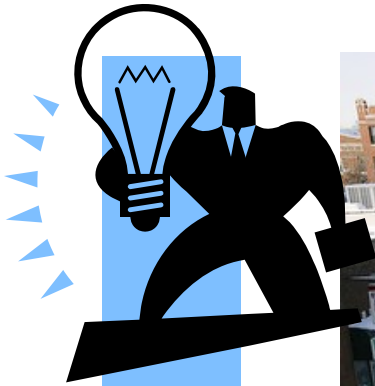


SUSTAINABLE FINANCING and SUSTAINABLE MANAGEMENT

Paying for Tomorrow's Infrastructure

The Keston Institute for Public Finance and Infrastructure Policy
Sacramento, 6 March 2008



Planning
Infrastructure
Project

Financing
Infrastructure
Projects

Managing
Infrastructure
Assets

Michael A. Pagano
Interim Dean, College of Urban Planning
and Public Affairs
University of Illinois at Chicago
MAPagano@uic.edu

GOVERNING

Measuring Performance

The State Management Report Card for 2008



Infrastructure

- The state regularly conducts a thorough analysis of its infrastructure needs and has a transparent process for selecting infrastructure projects.
- The state has an effective process for monitoring infrastructure projects throughout their design and construction.
- The state maintains its infrastructure according to generally recognized engineering practices.
- The state comprehensively manages its infrastructure.
- The state creates effective intergovernmental and interstate infrastructure coordination networks.



Sustainable Management of Infrastructure Asset
The Government Performance Project
Approach



1. The state regularly conducts a thorough analysis of its infrastructure needs and has a transparent process for selecting infrastructure projects.

- ✓ A systematic assessment of future infrastructure needs informs the capital planning process.
- ✓ The state regularly conducts an infrastructure condition assessment in accordance with accepted engineering standards.
- ✓ The state has a formal, multi-year capital plan that both prioritizes capital activities and links directly to the capital budget.
- ✓ The state's selection of projects for inclusion in the capital budget relies on capital planning priorities, condition assessments of infrastructure and public input.
- ✓ The state includes estimates of the operating and maintenance costs of the capital projects in the state capital plan and the capital budget, and it formally links those estimates to the state operating budget prior to legislative adoption.



2. The state has an effective process for monitoring infrastructure projects throughout their design and construction.

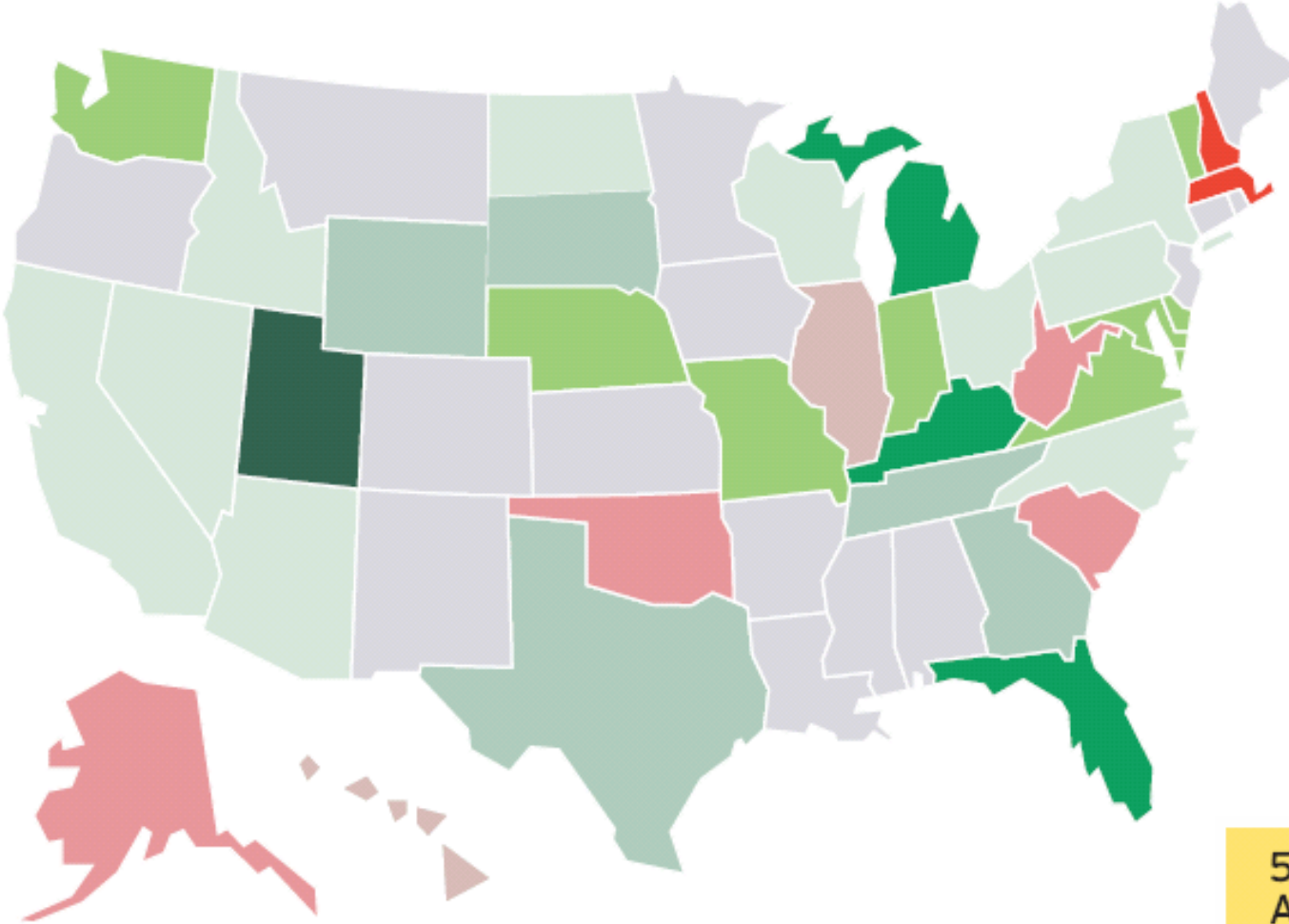
- The state adequately monitors, evaluates, and detects project cost overruns, delays, and safety compliance.
- The state effectively intervenes to take corrective action, as necessary, in managing the construction of capital projects.



3. The state maintains its infrastructure according to generally recognized engineering practices.

- ✓ The state adopts a life-cycle approach to asset management.
- ✓ The state employs current condition assessments in setting priorities for infrastructure maintenance and renewals
- ✓ The state funds maintenance at a level that minimizes a facility's life-cycle costs and that ensures defined levels of service and safety standards are met.

Infrastructure



50-STATE
AVERAGE
GRADE
B-

California

Money **D+**

People **C-**

Information **C+**

Infrastructure **B-**

Capital Planning 

Project Monitoring 

Maintenance 

Internal Coordination 

Intergovernmental Coordination 

The state has taken a comprehensive, long-term look at its infrastructure needs, and is beginning to address them in a systematic way. Voters approved a Strategic Growth Plan proposed by the governor and an accompanying \$42 billion bond package, and are being asked for more in the proposed budget. A bond accountability Web site launched last summer allows voters to see where their money is going by tracking all bond-funded projects.

In a state with a habit of overspending, there is one area of chronic underspending: maintenance for existing assets. This is not a good place to conserve cash. California spends \$2 billion less each year on highway maintenance and rehabilitation than is needed. Even by California standards, that's a lot of money.

Budget Reform.

- Internal budget reforms need to explicitly link the capital and operating budgets of municipalities in order to better gauge the future infrastructure costs that result from present-day investment decisions. An unfunded infrastructure obligation might be avoided. An Infrastructure Deficit

Policies Worth Considering

INNOVATIONS IN PROJECT MONITORING:

- **Alabama:**
Incentive contracting, centralized technology management systems, increased the discretion of project managers up to \$100,000.
- **Florida:**
Scores contractors on past performance—did they finish early, on time or late
- **Georgia:**
Uses technological project management tool to track all projects. They use daily reports from the field to keep the tool updated
- **Utah:**
Rarely allows cost increases. Contractors are expected to anticipate weather delays, and therefore are not granted extensions for projects unless they have experienced a severe weather event or prolonged atypical weather patterns. Even in these instances, the Contractor is not granted more money to complete the project, only extra time is granted. With regards to unanticipated surface/ environment conditions, the Contractor has 7 days to document and report the condition to the state. Otherwise, he will not be eligible to file for extra time or monies if it is needed.
- **Wyoming:**
Can fire or debar contractors.

Policies Worth Considering

FUNDING FOR MAINTENANCE

- **Utah**

A state law requiring that before money may be provided for new facilities—or even for major renovation work—maintenance funding must be provided at a level equal to at least 1.9 percent of the replacement cost of existing facilities.

- **Vermont**

Buildings and General Services proposed the American Association of Public Works guideline that the state must fund 2-4% of the assessed value of property for maintenance each year.

- **Missouri**

The state is obligating 1% of the previous year's operating budget to an Operating Maintenance Reserve Fund for general infrastructure.

- **Virginia**

If agencies save money on the costs of project construction, the state allows the agencies to use as much as 50% toward maintenance reserves.

- **Nevada**

In the 2005-07 budget session, the Governor introduced a new maintenance decision unit to identify and capture the costs associated with the state's deferred maintenance needs.

Policies Worth Considering

AGENCY COORDINATION

- Delaware relies on Livable Delaware Advisory Council. It is composed of executive agencies, local governments, and the private sector. The Council is tasked to assist the Governor in addressing state development and land use issues; recommend legislation and policies; approve and monitor development indicators; and facilitate dispute resolution.
- Kentucky's Capital Planning Advisory Board is composed 16 members from the three branches of government. Represents good mechanism to ensure proper communication among policymakers

Challenges to Sustainable Pricing of Infrastructure: What We Know

- Pricing via taxes ignores willingness to pay, leading to inefficiencies.
- **Some tax structures exact payment from residents and property owners rather than all users (including commuters), and the size of the tax base may lag the growth rate of services demanded by users.**

Aligning Users/Payers

- Governments can create better and innovative financial systems that ensure (1) efficiency is met and the benefits principle followed; (2) equity is met and users pay for infrastructure use, and an ability-to-pay principle is followed; (3) maintenance costs are incorporated into the pricing structure.
- Design a comprehensive infrastructure pricing system that is not limited to general tax sources (property, sales, income) but on a more firm nexus between payer and user.

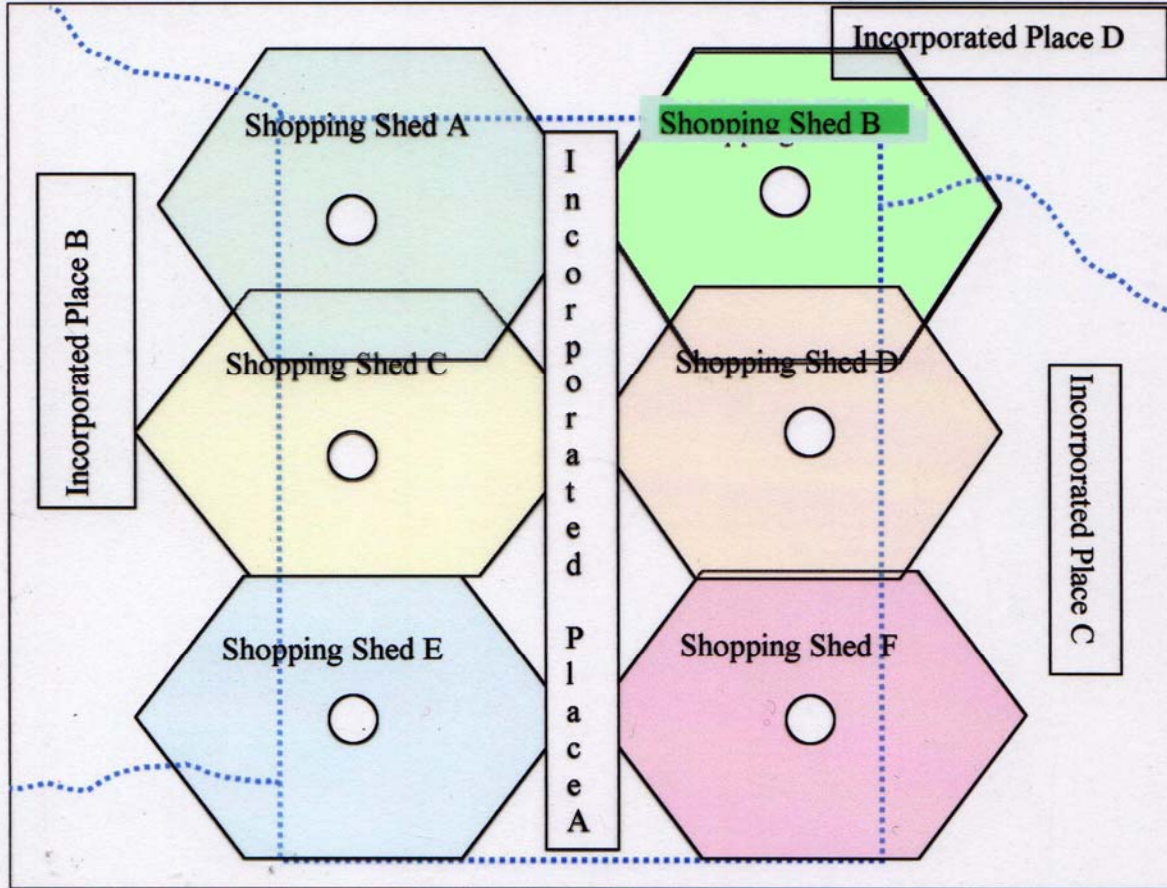
Challenges to Sustainable Pricing of Infrastructure: What We Know

- **Reliance on only one general tax (property, sales, income) has spatial implications that can exacerbate destructive competition .**

Illustration from Cities: Taxing Authority

- The fiscal system in many cities encourages city officials to make infrastructure investment decisions that are clearly anti-regional in character but simultaneously are smart choices for the city's fiscal health (e.g., investing in the transportation infrastructure at a city's edge for an automall in order to reap sales tax revenues and also to shift costs of congestion and road infrastructure on neighboring cities).

Hypothetical Spatial Distribution of Shopping Areas in a Sales-Tax City Surrounded by Incorporated Municipalities



Source: Ann O'M. Bowman and Michael A. Pagano, *Terra Incognita: Vacant Land and Urban Policy* (Georgetown University Press, 2004)

Challenges to Sustainable Pricing of Infrastructure: What We Know

Interlocal/Regional Agreements

- The metropolitan region is increasingly the demographic as well as the economic unit of local life and global competitiveness. The new “glocal” nature of regions requires infrastructure delivery at new and flexible scale. Infrastructure is a prime area for governance reform, requiring horizontal cooperation among local governments and vertical integration with the state and federal government. A regional solution to a regional problem.

Challenges to Sustainable Pricing of Infrastructure:
What We Know

Valuing Assets

- Revenues from asset sales or lease-back arrangements can be used for infrastructure maintenance. Recent sale-leasebacks of highways (Indiana Toll Road, Chicago Skyway) are a recognition that the monetary value of assets held by the government sector are sizable and can leverage resources from private investors and users. Contractual language that requires a prescribed level of maintenance/repair and restoration protects the government's initial investments.

Challenges to Sustainable Pricing of Infrastructure:
What We Know

Invest Prudently

- It is not uncommon to underfund infrastructure maintenance during times of fiscal difficulties. Full disclosure of the present and future costs of a fixed assets, including a defensible assessment of revenue sources to fund those future costs, needs to accompany any infrastructure investment proposal from the city.

A Sustainable Vision

Infrastructure Grades, Government Performance Project, 2008

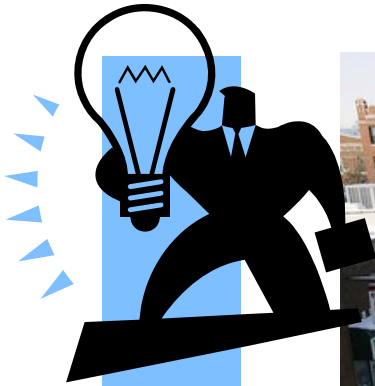
Criterion	STRENGTH	MID-LEVEL	WEAKNESS
Planning	10	27	13
Monitoring	11	38	1
Maintenance	7	19	24
Coordination	10	36	4
Intergovernmental	25	25	0

Fully fund infrastructure investments! The costs of an asset are not only the initial construction costs and later the renovation costs. Operating and maintaining the facility require planning for day-to-day use and adequate funding.

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