



BRIEFLY

State and local governments lack sufficient funds to meet our infrastructure needs. With old systems wearing out and growth straining existing infrastructure, most funding goes to maintenance and catch-up.

But agencies must play catch-up because they failed to expand systems during times of growth. Putting more funding into system expansion now will help prevent future system overloads in growing areas. To this end, Washington must consider new political models and decision processes.

## Infrastructure in Washington: Letting Growth Pay for Growth

State government and many local governments have taken serious steps to address deficiencies in basic infrastructure. Significant amounts of money are being spent on highways and sewage treatment plants, as well as local roads. Most of these expenditures are aimed at remedying deficiencies rather than extending systems to accommodate growth in urban areas. This brief discusses policy changes and specific revenue mechanisms that could create additional funding for the infrastructure needed to support the growth that will head our way in the next decades.

The brief begins with a short discussion of the political environment within which governments make growth and infrastructure funding decisions, followed by a set of principles that should guide efforts to expand infrastructure capacity to meet the needs of growth. We conclude with a series of recommendations for revenue strategies to provide infrastructure funding specifically to accommodate housing and job growth.

### INFRASTRUCTURE FOR GROWTH: POLITICAL ORPHAN

Prior to World War II, large cities developed in an orderly, compact way, and communities outside cities grew slowly, if at all. The old rural infrastructure systems (or lack thereof) suited most of the state. Then with the housing boom of the post-war era, growth spread rapidly into rural areas outside those old cities. The infrastructure to support this new growth rested in large part on federal funding for freeways and wastewater systems, postponing the need for state and local governments to take responsibility for funding the infrastructure of growth. Furthermore, most systems were relatively new, so state and local agencies could direct capital funding to expansion of infrastructure, rather than replacement or retrofit.

Over the last 30 years or so, as growth has strained the state's infrastructure and old systems have begun to wear out, federal funding has diminished. Yet we have not developed a new political model to replace the money and leadership provided by federal agencies. State and local governments struggle to justify extension of roads and utilities to accommodate the expansion and greater density of our urban areas. And with so much energy and money needed to catch up on the investments not made during the past few decades, extensions for new growth often take a back seat.



Under current funding structures, the pattern is rational. From both an administrative and political perspective, concentrating on deficiencies makes a lot of sense. For public works agencies, ensuring the reliability and integrity of existing systems should always be a top priority. From the perspective of elected officials, their voters use the existing systems and expect them to perform adequately. So although expanding infrastructure networks certainly has its rewards – everyone likes ribbon cuttings – the dynamics of government lean toward existing systems.

Further, new infrastructure extensions have weak or non-existent constituencies (i.e. votes in local elections). Because they go through sparsely-populated areas that have infrastructure adequate for current low-density uses (country roads, wells and septic systems), these extensions benefit few current voters. The development and building industries and the owners of developable land will all benefit, but they may not live in the jurisdiction, and, in any case, do not carry many votes.

If infrastructure extensions need to compete for funding with existing systems every year, and for every capital improvement dollar, they will always lag behind. State and local governments need new mechanisms to capture the revenue generated by growth to pay for the infrastructure needed to serve that growth. The previous brief (PB 06-11) noted that this happens to some degree, but the existing mechanisms, especially impact fees, do not provide the magnitude of dollars or the flexibility needed to undertake major projects like arterial extensions, trunk sewer lines or drinking water storage.

## SIX PRINCIPLES

Following are six principles that will guide policy at the state and local level toward a new model of funding that encourages the construction of infrastructure needed for growth.

### 1. State must address fiscal implications of Growth Management

The Growth Management Act (GMA) may be the largest unfunded mandate to hit local governments in a very long time. State legislation established a set of requirements with which local governments must comply, but provided no financial capacity to meet those requirements. The two most important of these mandates are:

Concurrency. The GMA requires that cities and counties have adequate infrastructure in place before new homes or businesses get built. Failure to meet concurrency can mean shutting down development. Yet the state has provided very little capacity to build the needed facilities and exempted its own state highways from the requirement.

Infill development. By requiring counties to cut off development from outlying areas, the state implies that future development will take place in already-developed areas. But many of these infill locations have inadequate infrastructure – septic systems, narrow roads, no stormwater systems – that cannot handle additional density. The theory that infill would not require infrastructure investments has proved wrong, yet the state has provided little assistance with upgrades.



## 2. Capture tax revenue generated by growth to use for growth-related infrastructure

A frequently-heard canard is that growth does not pay for itself. In fact, new housing and commercial construction generates more than enough money to pay its way (R.W. Thorpe & Associates, 2005; Washington Research Council, 2001). Most of that money, however, gets siphoned away to state and local general fund budgets. As will be described in more detail below, capturing tax revenue from growth-related activities can provide money to pay for growth-related infrastructure.

An important distinction between growth-related revenue and ongoing tax revenue streams is that the former takes place just once, and in one location. The sales tax on a construction project is paid just once, but the

sales taxes paid by the residents of that project constitute a reliable stream of revenue for as long as that home stands. Because growth itself varies over time, revenue from these one-time building projects does not provide a reliable funding stream for general government purposes. Growth-related revenue does, however, provide an appropriate source of funding for infrastructure, since capital projects can vary, depending on funding.

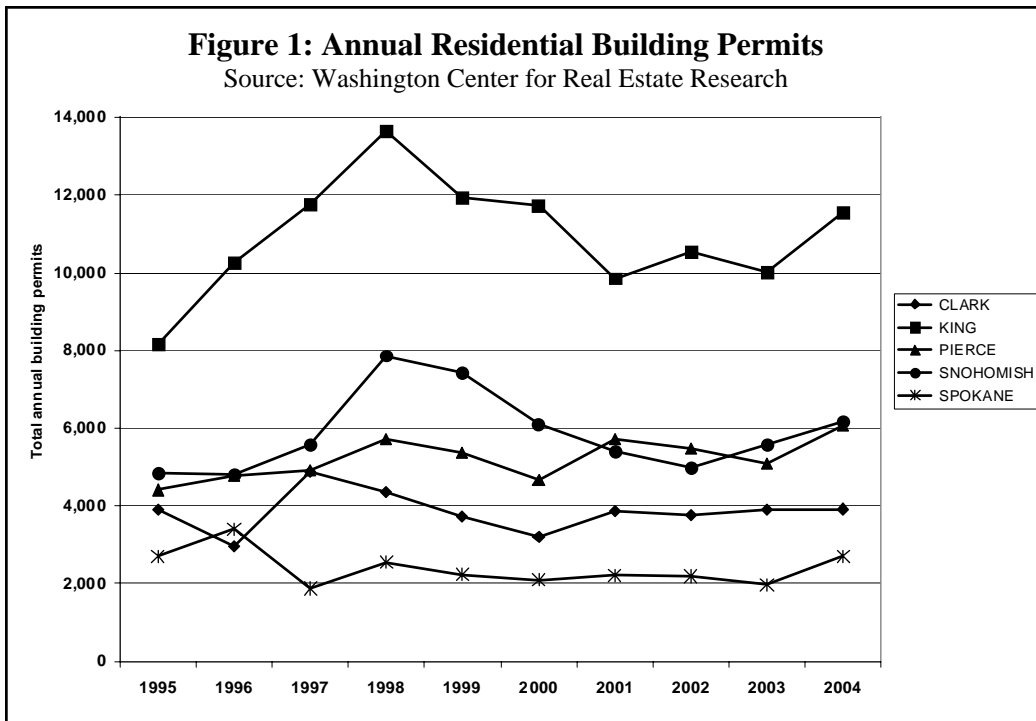


Figure 1 shows how variable development activity can be over short periods of time. For example, between 1995 and 1998, permits rose by 67 percent in King County and 62 percent in Snohomish County, but subsequently fell by 27 percent in King County and 31 percent in Snohomish County. The sales taxes and business and occupation taxes from residential building would have swung just as wildly.

Using growth-related revenue for infrastructure not only provides an appropriate nexus between revenue source and public need, it also removes a volatile component from the funding stream for state and local services.

## 3. Direct discretionary infrastructure money to areas accepting growth

State government agencies and regional planning organizations control a number of discretionary infrastructure funds available for local projects or for state projects that will have local impacts. All of these programs



have project selection criteria, and these criteria should shift to support growth. More specifically, the selection process should include a heavily-weighted criterion that measures the degree to which a local government actively supports housing growth, and the degree to which the project in question supports growth. In other words, some substantial portion of discretionary infrastructure funding should reward jurisdictions that work to accommodate their share of growth and should not reward jurisdictions that fail to accommodate growth.

The largest discretionary program at the state level is the Transportation Improvement Board (TIB). The TIB receives 3 cents of the statewide fuel

tax, and funds \$70 million to \$100 million worth of projects per year. To receive TIB assistance (TIB funds average 40 to 45 percent of project cost) local governments apply to one of several programs. The Board then scores applications, using weighted criteria, and awards funding based on these scores. Figure 2 shows the weight given to various

**Figure 2: Scoring System for TIB Urban Programs**

Source: Transportation Improvement Board

Criteria	Weighting points given to each criterion		
	Urban Arterial Program	Urban Corridor Program	Sidewalk Program
	(FY '07 \$27.3 million)	(FY '07 \$34.4 million)	(FY '07 \$4 million)
Safety	50	10	50
Mobility	20	35	n/a
Pavement Condition	15	n/a	n/a
Mode Accessibility	10	10	n/a
Local Support	5	n/a	20
Funding Partners	n/a	30	n/a
Growth & Development	n/a	15	n/a
Pedestrian Access	n/a	n/a	30
<b>Total Points</b>	<b>100</b>	<b>100</b>	<b>100</b>

project selection criteria for the three major urban-area programs. “Growth and development” is an explicit criterion in only one of the three listed programs, receiving a weight of 15 points out of 100. While the “mobility” criterion can apply to capacity-enhancing improvements, it also applies to actions such as freight mobility, signal timing and street grid completion that mostly benefit developed areas.

The TIB is just one example of the infrastructure assistance programs that should be geared more toward helping local governments accommodate growth. While changing project selection criteria will generate some controversy, it will provide much-needed incentives for local governments to accommodate growth.

**4. Assist small jurisdictions with complex processes**

Some of the most effective infrastructure funding and financing tools are also the most complex to implement. Small local governments rarely have the staff or expertise to undertake programs like local improvement districts, latecomer fees or various types of bond financing. As a consequence, many funding and financing tools go unused.

Since much of the housing growth in the state takes place in small cities and areas with small utility districts, this administrative capacity gap must be closed. The state, probably through the Department of Community,



Trade and Economic Development, should maintain staff and expertise to assist local governments in setting up complex infrastructure funding and financing programs. In some cases, as will be recommended below, such support programs could devolve to counties.

### 5. Connect the Buildable Lands program to infrastructure funding

One of the most problematic aspects of the Buildable Lands Process that measures development capacity in six counties is the lack of information about infrastructure availability. Under Buildable Lands, local governments can count as “buildable” land not currently served by infrastructure, and without service on the immediate horizon. So while the land is technically buildable, it can’t actually be used until roads and utilities go in.

For local governments to count land as “buildable,” they should have plans and timelines in place to provide infrastructure to that land. If they cannot do this, such land should not be counted in the inventory of land available to meet housing goals. To meet this sort of requirement, local governments will need to commit part of their long-term funding stream to infrastructure extensions, or plan to use alternate funding methods. In any case, plans to provide infrastructure to buildable lands must have a funding component, and not just be lines on a map. (Washington Research Council, 2005)

### 6. Extend infrastructure planning and funding time horizons to match growth horizons

Comprehensive plans for land use and development typically extend out 20 years. In contrast, the capital facilities elements and capital improvement programs that provide the infrastructure for those growth plans extend out only six years. Since most development depends on the availability of infrastructure, any land use plans that require infrastructure not included in the current six-year CIP must be considered speculative.

Local governments should extend the timelines for infrastructure planning and funding out to match the timelines of their land use planning. Although funding may be difficult to predict over the long term, local governments actually have more control over that funding than they have over the land uses included in the 20 year plan. Ironically, governments seem willing to commit to long term plans for activities they do not control, while sticking to short term plans for activities they do control. The reverse should apply.

## REVENUE STRATEGIES FOR GROWTH

These six principles suggest the following strategies:

**Create new Growth Arterial Program at TIB.** The central transportation problem for growing cities and counties in the state is the lack of capacity in arterials, and the lack of funding mechanisms to expand and extend the arterial network to accommodate new growth. The state funds the highways system, and developers themselves usually fund the local streets serving their projects. But the main collector arterials get caught in the middle, with their very high cost and limited political constituency.



The state should provide a much higher level of support for construction of arterials in rapidly-growing areas. Such a commitment could be run through a new program administered by the TIB. A new Growth Arterial Program (GAP) would fund only those arterials that need expanding or extending to open new areas for development or to accommodate major infill development. Jurisdictions applying for funding from the GAP would need to demonstrate that they have capacity for new housing and have taken steps to encourage its development. GAP-funded projects could pass through already-developed areas on their way to fast-growing ones. The project selection criteria must make very clear, however, that the GAP cannot fund projects that primarily remedy existing deficiencies. Annual funding for the GAP should be at least equal to the other major TIB programs.

**Create a new Growth Utility Program.** Urban-level utility service, primarily sewers and stormwater systems, do not exist in a remarkable number of otherwise developed areas. These are often islands of lightly-built residential and commercial land that development has leapfrogged. Without utility service they will remain underdeveloped, even though their location suggests they would be attractive residential or commercial areas. As noted in the section on LIDs, getting utilities funded in these areas remains a major challenge, since many current landowners do not want to pay for service they do not feel they need.

To provide money to extend utilities to infill areas, as well as to newly developing areas, a new Growth Utility Program (GUP) would be established, perhaps administered by the Public Works Board. Like the GAP, the GUP would have funding criteria that require applying jurisdictions to demonstrate that the projects will primarily facilitate new housing growth. Clearly, existing homes and businesses will benefit from the new utility service, but the area served by the new lines should have substantial capacity for infill development.

**Tie growth infrastructure programs to Buildable Lands.** Both the GAP and the GUP would require cities, counties and utility districts to demonstrate that the projects for which they seek funding will primarily support housing growth, and one way to show the connection is through the Buildable Lands process. In the six counties that must undertake Buildable Lands, jurisdictions must identify all land that can accommodate housing growth, and where, specifically, housing can be built. This process should point to areas that would benefit from infrastructure extensions appropriately funded by the GAP and GUP.

**Facilitate Local Improvement Districts.** The best way to minimize controversy over infrastructure funding is to ensure a direct relationship between those who pay for infrastructure and those who benefit from it. Local improvement districts or LIDs, accomplish this at the local level by creating special taxing districts consisting only of properties that directly benefit from a new piece of infrastructure. (LIDs have close cousins in road improvement districts and utility local improvement districts – RIDs and ULIDs respectively. The descriptions in this section apply to all variations.) LIDs are especially useful for upgrading old areas where infill would overwhelm existing roads or pipes, and for adding infrastructure, especially sewers, in sparsely-developed areas.



So, why are these tools not used more? A few quotes from the Washington State Local Improvement District Manual provide clues:

*LIDs have a reputation as difficult to administer, time consuming, and a public relations disaster waiting to happen.*

*An LID asks [citizens] to not only put up with a project they may not like personally, and which may disrupt their lives, but also to pay for it.*

*LIDs are complicated and require a cast of thousands.*

*An LID financed project tests an agency's public relations skills like no other.*

And this from a document meant to encourage and facilitate the use of LIDs! The fact that the Manual covers 114 pages with contributions by authors in six disciplines should provide another clue about the difficulty of undertaking LIDs. (Municipal Research Services Center, 2003)

But despite the apparent difficulty, LIDs offer the best way to unlock the potential for housing in infill settings with fragmented property ownership. Many older sections of urban areas were never laid out by developers as formal subdivisions, and received only minimal infrastructure. These areas can have obsolete housing and commercial property, large or undeveloped parcels, or low value uses, all of which can be converted to housing. But these areas also have small parcels with multiple owners and will see redevelopment and infill on a parcel-by-parcel basis. By spreading the cost of infrastructure upgrades across all property owners and allowing them to pay the cost over many years, LIDs provide a logical way to bring these areas on the market.

The nature of these infill areas suggests that they lie predominantly in inner-ring suburbs that grew outside the boundaries of central cities, with their higher infrastructure standards. As noted in Principle #4, these small suburban cities do not have the staff capacity or money to devote to complex projects like LIDs. So, unless a critical mass of property owners initiates the LID, an underdeveloped area will likely remain that way, freezing out much needed infill housing development.

Technical assistance and expertise from state or regional agencies should be available to local governments and groups of property owners wishing to form LIDs and their cousins. The assistance program could be reimbursable through the overall LID budget, should the project go forward.

To get LIDs moving, local governments should begin to highlight areas that would benefit from LIDs. To begin with, cities and utility districts should map all existing urbanized areas that lack sewer service, and include on those maps the housing growth potential of the area. These maps can be overlaid with logical LID boundaries for sewers, based on drainage basins. Similarly, areas that have multi-family housing potential but lack sidewalks and other basic street-scape amenities, should also be mapped and publicized.

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LIDs have traditionally been locally-driven, initiated by property owners to upgrade their surroundings. In the case of infill housing areas, however, leadership will need to come from local government, since current residents may see little benefit from upgraded infrastructure. Promoting and facilitating LIDs in infill areas is a logical part of the implementation of comprehensive plans.



**Facilitate latecomer processes.** Latecomer processes accomplish the same thing as LIDs, but in a different timeframe and with less involvement by the public sector. In a latecomer process, the first landowner to develop property in an area pays the entire cost of a necessary infrastructure improvement, with all subsequent developers (latecomers) paying their share when they hook a new project into the new facility. The advantage of a latecomer process over an LID is that current property owners do not need to pay anything until they redevelop their property. Latecomer processes work best in areas with a small number of large parcels and developers with deep pockets.

For example, if an area zoned for multi-family housing does not have adequate sewer capacity, the first developer will pay for the larger sewer line in the street. Existing property owners can tie their existing buildings into the new line for free, but if they develop their property and tie an apartment building into the new sewer line, they must reimburse the first developer for a share.

Latecomer processes can also help develop infrastructure in peripheral areas. New subdivisions may be required to upgrade infrastructure under various mitigation programs, but such funding will rarely be sufficient to build trunk systems. Consider, for example, a developer who controls 50 acres out of a 200 acre area. This developer should not be required to cover the entire cost of the arterial and sewer line extensions needed to serve the whole area. The developer may, however, be willing to finance construction of those improvements knowing that the owners of the other 150 acres will pay their share eventually.

This very logical system works quite well – where it exists. The trouble is that, like LIDs, latecomer processes introduce complexities that many jurisdictions do not want, or cannot handle. For latecomers, someone has to decide on the fair shares for all potential users, and someone has to track developments as they tie into the new utility line or use the new streets or sidewalks. This all adds up to one more administrative headache for under-funded public works agencies. Faced with administrative burdens, many jurisdictions have not instituted latecomer processes. As a result, developers needing to add infrastructure have two unappealing choices. First, they can pay for the new facility and give all latecomers a free ride. Or, they can wait until another owner goes first and get the free ride themselves, but risk losing the market initiative.

The solution lies in centralizing administrative processes. There is no reason why the assessment and record-keeping functions must remain with the jurisdiction responsible for the infrastructure. These could reside with a county government for all jurisdictions in the county, or be contracted out by a small jurisdiction to a larger, adjacent jurisdiction. An administrative fee added to the latecomer process could cover the cost of these services.

The Legislature should consider requiring all growth management jurisdictions to adopt latecomer processes. If administrative services are available through other governments, or even private or non-profit entities, there should be few other objections. Most developers are willing to pay their fair share of the infrastructure needed by their projects, but they do not want to end up being chumps.





gal under the state constitution, this bootstrap method of funding infrastructure remains tantalizingly out of reach.

TIF uses the new property tax revenue generated by a project to fund the infrastructure needed to make that project feasible. This requires close coordination between the local government undertaking the infrastructure improvements and the developers of the adjacent land. This close relationship has led courts to conclude that TIF violates the state constitution's prohibition on the lending of the state's credit and its prohibition on the gift of public funds. The 2006 Legislature passed a bill (HB 2673) that would provide local government further TIF options. At this writing, Governor Gregoire has yet to act on the bill.

At this point, the only real solution appears to be a constitutional amendment that explicitly allows a workable TIF program for specific purposes. The Legislature has attempted such amendments in the past, but voters have rejected them. With heightened awareness of the need to build infrastructure, and with a more sophisticated voter information and campaign structure, a constitutional amendment may have a higher likelihood of success than in the past.

**Add new criterion for current Transportation Improvement Board urban programs.** As noted above, the Transportation Improvement Board (TIB) has the largest pool of state money for local infrastructure projects. Figure 2 shows how the scoring system does not place significant emphasis on infrastructure for growth. A glance through the project lists shows that the TIB spends most of its funds in already-developed areas, and although the projects seem worthwhile, few of them add to the state's capacity to absorb growth.

The TIB should add a criterion to its current urban programs that measures the impact of the project on accommodating growth, either in infill situations or in newly developed areas. The weight given to such a criterion should be high enough that projects in newly developing areas that cannot demonstrate improvements in safety, mobility or pavement conditions (they do not have those problems yet!) can score highly.

The TIB has done an excellent job of providing high-impact funding to local projects across the state, enabling cities and counties to make expensive improvements. The great strength of the TIB comes from the political insulation it enjoys and its ability to fund projects that lack strong voter constituencies. Infrastructure for growth will benefit from those same decision making qualities.

### **CAPTURE GROWTH-RELATED TAXES?**

A revenue strategy that has received some level of interest is to capture a portion of the sales, B&O and other taxes collected on construction projects. Since construction varies so much from year to year, state and local governments receive unpredictable windfalls which might be dedicated to infrastructure needed to support that growth.

For example, a modest 2,000 square foot house with a construction cost of \$75.00 per square foot would yield \$9,000 in sales tax to the state, and up to \$4,400 to various local governments. That home would also yield B&O



tax from all of the various contractors. \$1 million luxury homes and high rise condominiums would, of course, yield far more. In periods of rapid growth, these taxes add up to quite a lot of additional revenue to governments.

The challenge of structuring a growth-related revenue program will be to ensure that it captures windfalls while not hampering the ability of state and local governments to catch up on reserves and emergency funds during periods of revenue growth.

**CONCLUSION: FREE MONEY . . . ALMOST**

Much of politics involves decisions about the gathering and allocation of public resources for varying and competing purposes. As this brief and the previous one have discussed, funding for the infrastructure needed to accommodate growth does not tend to fare well in this political game. The noise of today’s problems and today’s constituencies will usually drown out the weak cries on behalf of tomorrow’s residents. Absent the sorts of federal commands and money that built the Interstate freeway system, state and local governments will find their hands full just meeting the infrastructure needs they see today, and will have few resources left for future needs.

This brief proposes to fund the infrastructure needed for future growth using two sources. First, state and local governments need to tap into the windfall revenue generated during periods of rapid housing and commercial development. Second, local areas and projects need better tools and assistance to capture the property value and utility that infrastructure creates. Both of these sources of funds tie directly to growth itself – no growth means no money, and rapid growth means money will be available. Governments should not rely on such sources for general operating purposes, but infrastructure programs can use them.

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