



# Capital Funding for Infrastructure and Other Amenities in Cities – Incentives for Participation in a Transfer of Development Rights Program

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## I. Introduction

The Puget Sound region is experiencing tremendous growth due to strong economic development, livable and attractive communities and its natural beauty. To accommodate and plan for growth, the State of Washington, in 1990, enacted the Growth Management Act (GMA) (Chapter 36.70A RCW), which outlines goals and requirements for local governments in the region to plan and grow responsibly. Cities are identified in GMA as the primary areas to accommodate future population growth<sup>1</sup>.

The purpose of this paper is to understand the infrastructure funding needs of municipalities in the Puget Sound region, and their willingness and ability to participate in a program for receiving transferable development rights (TDRs). This paper summarizes the findings from Cascade Land Conservancy's conversations with 18 cities in the region. This paper: 1) reviews the literature on state and local infrastructure funding mechanisms; and 2) summarizes the infrastructure funding needs of municipalities in the area.

## II. Current Sources of State and Local Infrastructure Funding

Numerous sources of federal, state, and local infrastructure funding exist for which jurisdictions in Washington may apply. The breadth and diversity of available funding sources are extensive. Several notable studies, listed below, have documented and analyzed

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<sup>1</sup> RCW 36.70A.020(1)

the multitude of infrastructure-funding programs. This section provides a brief overview of select studies and gives examples of how certain funding programs are organized.

Significant studies and sources examined include:

- Joint Legislative Audit and Review Committee, *Inventory of State Infrastructure Programs*. Report 06-11. November 29, 2006
- Berk & Associates, *Inventory and Evaluation of the State's Public Infrastructure Programs and Funds*. Office of Financial Management, State of Washington. December 16, 2005
- Prosperity Partnership, *Regional Housing Strategy Working Group Report on Consensus Housing Strategies*, November 1, 2007
- Puget Sound Regional Council, *Vision 2040*
- Association of Washington Cities, 2008 State of the Cities. *Washington's Invisible Backbone - Infrastructure Systems in Washington's Cities and Towns*

In 2005, the Washington State Legislature directed the Joint Legislative Audit and Review Committee (JLARC) to assemble an inventory of state grant and loan programs that assist local governments and others in developing their infrastructure. JLARC's inventory includes profiles on 75 separate programs. These programs provided more than \$1 billion in grants and loans for infrastructure projects in 2005. The inventory provides profiles of individual programs in detail, including legislative intent, eligibility requirements, and performance evaluation<sup>2</sup>.

In 2005, the Office of Financial Management contracted Berk & Associates to inventory and evaluate the State's public infrastructure programs and funds. This report contains an analytic element, qualitatively assessing the effectiveness of these programs and identifying strengths, challenges, and opportunities. Below are some key findings from the study<sup>3</sup>:

- Washington offers more programs and funding opportunities to local governments than most states.
- Overlap among programs exists and makes the system less efficient.
- Increasing project earmarks complicate program operations.
- Statewide infrastructure policy direction is needed.
- Grouping CTED's infrastructure programs within one division is needed.

<sup>2</sup> State of Washington Joint Legislative Audit and Review Committee (JLARC). *Inventory of State Infrastructure Programs*. Report 06-11. November 29, 2006.

<sup>3</sup> Berk & Associates. *Inventory and Evaluation of the State's Public Infrastructure Programs and Funds*. Office of Financial Management, State of Washington. December 16, 2005.

A system map for all Washington state-to-local infrastructure funding from the Berk & Associates report is shown in Appendix A.

The Association of Washington Cities also maintains a centralized funding database through their web site<sup>4</sup>. This resource provides access to information about infrastructure funding from both federal and state governments, as well as private sources.

A different collection of grants, designed to fund recreation opportunities and other public amenities, is available through Washington's Recreation Conservation Office. This example illustrates that funding sources are available for public goods other than those traditionally associated with the concept of infrastructure. These grants can be for boat launches, trail networks, swimming beaches, farmland preservation, or other public recreation benefits.

Washington State's Department of Ecology administers a series of grants targeted at improving water quality and related infrastructure. The grants are funded at both state and federal levels, and for the current budget cycle are proposing to fund 21 projects totaling approximately \$72 million. Municipal stormwater planning needs, reclamation, and reuse are some of the areas in which projects are funded. The Centennial Clean Water Grant Program, the Federal Clean Water Act, and the Washington State Water Pollution Control Revolving Fund Loan Program are three examples of the sources administered by the Department of Ecology<sup>5</sup>.

While the sources highlighted here represent some of the main funding options available to cities, it is important to note that this selection is not a definitive list. The overall picture of capital funding in Washington State is highly complex, and thoroughly describing this web of programs is beyond the scope of this paper. The subject is comprehensively addressed in the recently detailed studies by Berk & Associates and JLARC, and should be referred to as authoritative works.

### *Planning for Future Growth*

The Puget Sound Regional Council (PSRC) recently released Vision 2040<sup>6</sup>. VISION 2040 is a regional strategy to accommodate the additional 1.7 million people and 1.2 million new jobs expected to be in the region by the year 2040. In this strategy are multi-county planning policies to accommodate growth pursuant to the GMA. Vision 2040 emphasizes the use of existing and planned facility capacity and investing in facilities and services that reinforce GMA policies. These policies identify cities as primary providers of urban services

<sup>4</sup> <http://www.awcnet.org/portal/StudioNew.asp?Mode=B1&WebID=1>

<sup>5</sup> Washington State Department of Ecology. *Water Quality Grants and Loans*. February 2008.

<sup>6</sup> Puget Sound Regional Council. *VISION 2040 – People, Prosperity, and Planet: The Growth Management, Environmental, Economic, and Transportation Strategy for the Central Puget Sound Region*. For the General Assembly Action on April 24, 2008. February 2008.

and locations for growth. Commensurate with GMA, it is recognized in the Vision 2040 strategy that taking advantage of existing infrastructure and services is both efficient and cost-effective. Also in preparing for future growth, Vision 2040 stresses that new public facilities and infrastructure should be located in a manner consistent with growth patterns outlined in GMA. In planning for growth, Vision 2040 encourages the use of infrastructure as a tool for jurisdictions to proactively direct economic growth; infrastructure must go where growth is planned rather than infrastructure following growth.

### **III. Funding Needs of Cities Required to Accommodate Growth**

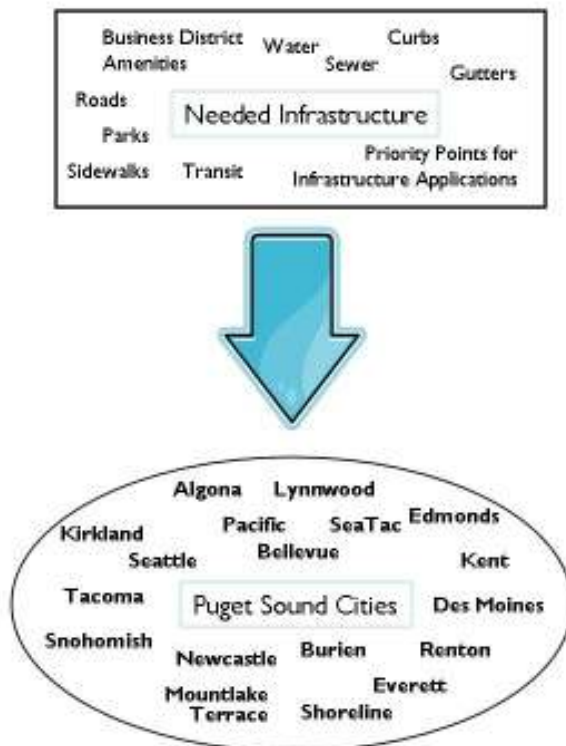
Cascade Land Conservancy (CLC) conducted background research on the infrastructure funding needs of cities for accommodating growth. CLC spoke with representatives from 18 municipalities in the Puget Sound area. From our conversations, we found that cities agree that growth is coming and that planning is needed to accommodate this growth. However, we found that a limiting factor to municipalities realizing development and economic growth is the lack of infrastructure capacity and funding for infrastructure to accommodate this growth. Cities assert that they need financial support to update infrastructure to accommodate the growth that they are required to accept under the GMA.

In their 2008 State of the Cities report the Association of Washington Cities addresses their infrastructure needs and discusses their funding shortfalls. Some of these shortfalls include a decline in infrastructure funding from the federal government, state government, and statutory limits on local governments' ability to raise funds due to public initiatives. Furthermore, some municipalities are unable to recapture their costs for public utility services through user fees. Reasons for this listed in the report include small customer bases that cannot afford rates in cities with lower populations, infrastructure costs increasing faster than inflation, and the difficulty cities face in anticipating future mandates. Before cities can be expected to accommodate increased density through a TDR program, they need to serve their existing populations. Cities are aware that they will absorb more growth and are aware that their infrastructure will be increasingly burdened without funding for upgrades and expansions of their services.

#### *Findings*

In CLC's outreach to cities, we found that infrastructure needs are widespread. They range from funding for transit to funding for water, sewers, parks and business district amenities. Figure 1 (below) lists the infrastructure needs of cities in the Puget Sound area. Although infrastructure funding needs differ between cities, their underlying desire is the same; to provide adequate infrastructure as a tool to accommodate growth and direct growth in a manner consistent with GMA and Vision 2040.

**Figure 1:** Cities in the Puget Sound region and their infrastructure funding needs.



Some cities experiencing development, Seattle and Bellevue for example, assert that the high cost of infrastructure creates an unstable balance point between growth and no growth. These cities fear that any additional hurdle to development might derail their growth. Other cities, such as Burien, Auburn, Kent, New Castle, Sammamish, Issaquah, Shoreline and Renton, who are also experiencing growth, express concern over the ability to direct their growth. These cities are witnessing growth but fear that growth patterns are continuing on an old path that is not in line with their plan for growth. Access to infrastructure funding was the provided answer to this issue by these cities. Municipalities want greater access to infrastructure funding to support developments that embody the growth goals of GMA and Vision 2040.

The most serious challenge to city infrastructure systems is inadequate funding. Cities need access to infrastructure funding that is substantial enough to address their needs. According to the Association of Washington Cities, 79 percent of cities indicate that state grants are among the top three most critical funding sources for street improvement and new construction. Additionally, limited state grants and loans are among the top three biggest challenges to financing the cities' sewer/waste water systems<sup>7</sup>. Avoiding situations such as

<sup>7</sup> Association of Washington Cities: 2008 State of the Cities. *Washington's Invisible Backbone: Infrastructure Systems in Washington's Cities and Towns*. 2008.

further infrastructure decay, moratoriums on new construction, difficulties in attracting new businesses and unaffordable utility services are some of the reasons why substantial funding is needed. The following are the recommendations provided in the Association of Washington Cities report:

- Increase assistance available through existing or new infrastructure grant and loan programs.
- Provide greater fiscal flexibility to local governments with existing resources.
- Provide cities that have an insufficient tax base with increased operating budget assistance which will help them address infrastructure deficiencies.

Pursuant to cities needing more sources of infrastructure funding, additional taxing authority is desired by Tacoma, Snohomish, Mountlake Terrace and SeaTac. Cities affirm that any increased ability to access infrastructure money is a positive step toward realizing GMA-planned growth.

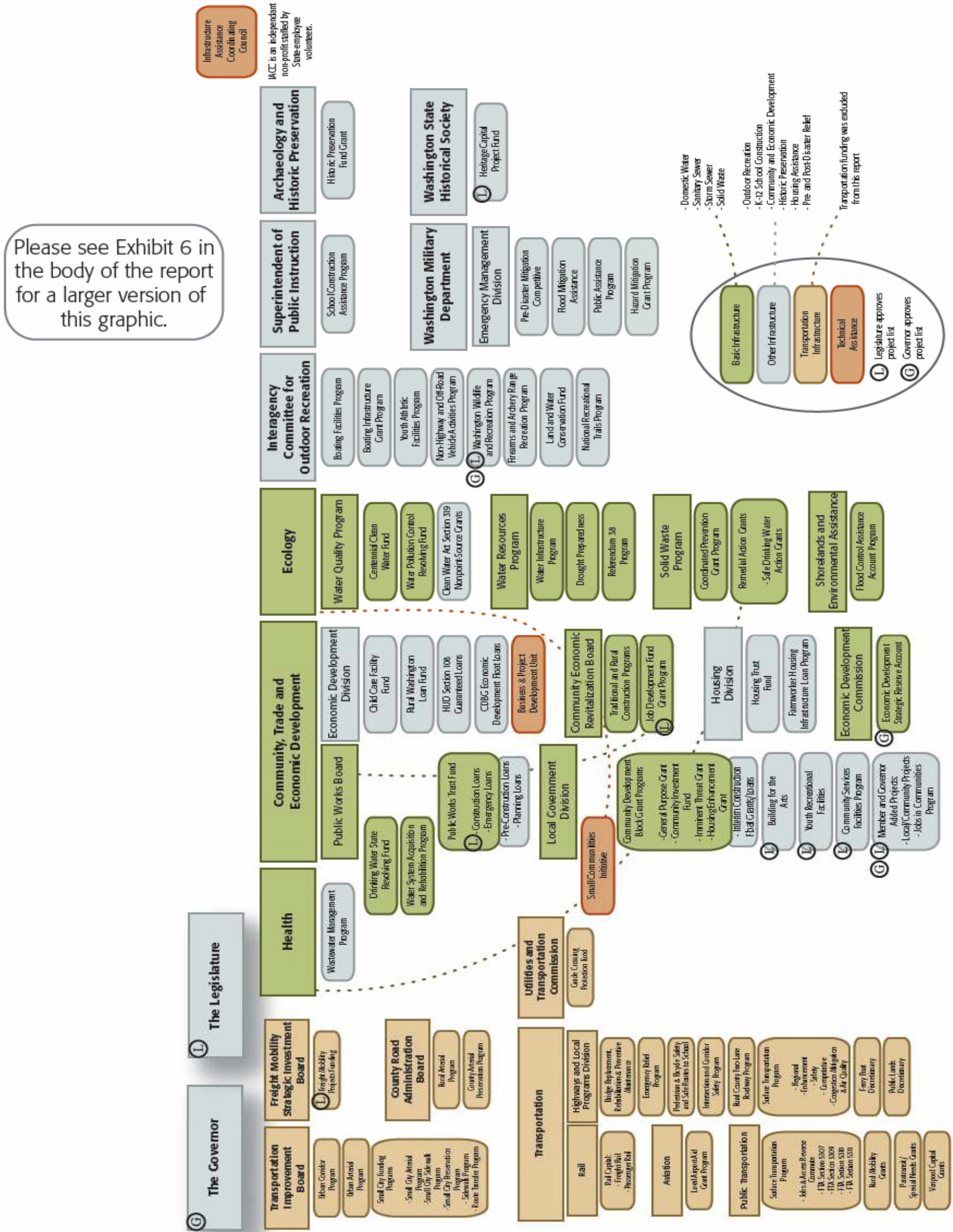
#### **IV. Conclusion**

Many studies on the status of infrastructure funding in Washington exist. These studies are comprehensive and provide thoughtful recommendations to improve existing infrastructure funding mechanisms. Conversations between CLC and cities in the Puget Sound region corroborate the findings of these studies. Further, CLC found that cities embrace the policies and goals outlined in Vision 2040. Cities understand that growth is coming and they need to plan for it. However, cities are skeptical over policies that may potentially derail current development. Cities view infrastructure funding as an effective planning tool to attract and direct the type of development that is consistent with Vision 2040 and GMA. To further effect this type of growth, the cities need access to substantial funding. Alone, TDR programs are not viewed by cities as a strong enough incentive for stimulating economic growth. Cities agree that TDR programs are needed and can be used to encourage and steer growth to appropriately planned urban areas. In light of those statements from cities, infrastructure funding incentives for cities to participate in a TDR program is key to the success of a regional TDR program.

## V. References

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## Exhibit ES - 3 System Map for All Washington State-to-Local Infrastructure Funding, 2005



Source: Berk & Associates, 2005

<sup>8</sup> Berk & Associates *op. cit.*