

Financing Public Infrastructure Report Preview

House Committee on Ways and Means

Ted Barnett

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Outline of preview

1. Statutory charge
2. What do we mean by public infrastructure?
3. Current funding sources overview
4. Infrastructure development challenges
5. Exploring programs at the local, regional, and state level



Statutory Charge in H.471 (Act 72)

- (a) On or before January 15, 2024, the Joint Fiscal Office shall submit a report to the House Committee on Ways and Means and the Senate Committee on Finance on financing public infrastructure improvements in Vermont municipalities. The report shall include the following:
 - (1) a review of public infrastructure financing programs in other states and municipalities that may be implemented in Vermont;
 - (2) recommendations for aligning State and federal assistance for public infrastructure; and
 - (3) recommendations for harmonizing or expanding existing infrastructure improvement programs and distribution of funding.



What Do We Mean by Infrastructure?

- The definition of “public infrastructure” can be broad
 - Core definition of roads, bridges, water and sewer infrastructure
- In the Build Back Better Framework, the Biden Administration added “people powered” infrastructure to the definition
 - Childcare
 - Eldercare



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What Do We Mean by Infrastructure?

- This report will use the definition of “improvements” found in 24 V.S.A. (§ 1891 and 1893)
- ‘Improvements’ means the installation, new construction, or reconstruction of infrastructure that will serve a public purpose and fulfill the purpose of tax increment financing districts as stated in section 1893 of this subchapter, *including utilities, transportation, public facilities and amenities, land and property acquisition and demolition, and site preparation.*”
- Some areas are narrowed even further:
 - **Utilities:** This report does not consider broadband, which is being addressed elsewhere via a mechanism of deployment through CUDs
 - **Transportation:** State and federal-aid roads and bridges have their own sources of funding through the annual T-Bill. This report focuses on streetscaping and multi-modal/recreation trail development
 - **Public facilities and amenities:** Does not include school funding through the Education Fund



Current Sources of Infrastructure Funding – Local

- Local tax revenue
- Local bonding
 - The Vermont Bond Bank has funded over \$1.2 billion worth of infrastructure projects since 2000
- Local ARPA
 - Municipalities collectively received \$200 million in local fiscal relief
 - Some towns and cities have decided to spend this funding on infrastructure
 - Funds must be obligated by December 31, 2024

Source: <https://ccrpc.maps.arcgis.com/apps/dashboards/5f7ef3740e4847f19b15d32cb5cb7d92>



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Current Sources of Infrastructure Funding – State

- Not intended to be an exhaustive list
- DEC – waste and clean water funding
 - Clean Water Revolving Loan Fund
 - Drinking Water Revolving Loan Fund
 - Pollution Control Grants and State Revolving Fund
- AOT – bike and pedestrian funding
 - Transportation Alternatives
 - Bike and Pedestrian Program
 - Recreational Trails Program
 - Municipal Park and Ride Program
- ACCD – economic and community development
 - Downtown Sales Tax Allocation
 - Tax Increment Financing
 - Brownfields Revitalization Funds Loan Program



Current Sources of Infrastructure Funding – State

- Not intended to be an exhaustive list
- Agency of Administration – Municipal Technical Assistance Program
- BGS funds municipal building energy improvements
- State Infrastructure Bank – Revolving loan funding for roads, bridges, and other transportation infrastructure
- Vermont Economic Development Authority – Provides revolving loan funding through Clean and Drinking Water programs and loan funding for a wide range of economic development programs



Current Sources of Infrastructure Funding – Federal Legislation

- **Two recent pieces of legislation authorized billions of dollars of funding, much of which has been used to support local infrastructure development**
 - ARPA: Collectively \$1.25 billion allocated to Vermont to spend at the state and local level
 - State authorized \$30 million of these State Fiscal Relief funds for water infrastructure
 - Infrastructure, Investment, and Jobs Act: \$550 billion in funding allocated outside of the typical formula funding process. Including:
 - \$1.5 billion for brownfield revitalization projects around the country
 - \$44 billion for state clan and drinking water revolving loan programs
 - *Note – there are many restrictions on IIJA transportation funds - can only be used for eligible projects, have extensive prioritization/planning requirements, and the State has many existing needs and state of good repair priorities it must meet.*



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Current Sources of Infrastructure Funding – Federal Agencies

- Northern Border Regional Commission
 - Federal-State partnership which provides funding for economic and community development projects in interior New England
 - In FY 23, the Catalyst Program gave entities in each state about \$11 million to carry out various infrastructure and economic development projects
- USDA – Rural Development
 - Between 2014 and 2023, USDA-RD has invested on average \$130 million per year in loan funding for various projects in Vermont, and \$18.4 million in wastewater projects.

Sources: https://www.nbrc.gov/userfiles/files/Annual%20Reports/NBRC-2023-Annual-Report_FINAL-print.pdf;
<https://www.rd.usda.gov/rural-data-gateway/rural-investments>



Putting funding together

- A single funding source rarely meets the need of an infrastructure project
- Instead, projects must build a *capital stack*
- Funds in a capital stack can either be blended or braided
 - Blended Funding: Funds can be pooled together and do not need to be reported on separately
 - Braided Funding: Funding sources must be reported on separately



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Example Capital Stack

Source	Funding Amount	Funding type	Implementing Agencies
Tax Increment Financing (TIF)	\$47 million	Bond	Agency of Commerce and Community Development (ACCD)
ARPA – Village Water and Wastewater Initiative	\$2.3 million	Grant	Department of Environmental Conservation (DEC)
State Drinking Water Revolving Loan Fund	\$3.7 million	Forgivable Loan	DEC
Northern Border Regional Commission (NBRC) – Catalyst Program	\$2.25 million	Grant	NBRC
NBRC and the US Economic Development Corporation (USEDAD)	\$750,000	Grant	NBRC, USEDAD
Total	\$56 million		

Sources: <https://vtdigger.org/2023/10/04/killington-cuts-ribbon-on-town-water-project-projects-285-million-in-grand-list-growth/>; <https://www.nbrc.gov/userfiles/files/%2723%20Catalyst%20Program/Vermont%20-%20Award%20Summary%20for%20Website%20Corrected%2020230911.pdf>



Challenges in Implementing Infrastructure Projects

- Capacity
 - More than 100 towns do not have a manager or administrator
 - Even towns with administrative staff have capacity challenges
 - A project with 5 different braided sources of funding has 5 different reporting requirements and grant/financial management requirements (e.g. Davis-Bacon wage requirements)
 - Vermont capacity limited by small town size – many federal funding opportunities for municipalities designed for communities with more than 50,000 people
- Resources
- Political Economy



Challenges in Implementing Infrastructure Projects – Resources

- Small scale of projects mean that technically feasible systems may be cost prohibitive
- Example of Grafton's wastewater system for 97 ERUs (Equivalent Residential Unit)
 - Total Probable Cost: \$8,063,800
 - Amount grant funded: \$3,968,000
 - Amount to be financed: \$5,093,000
- EPA sewer affordability criteria recommend a cost per single family user <2% of median household income
 - \$1,363 per year is threshold for affordability in Grafton
 - Actual cost is forecasted to be \$3,548 per ERU when system is operational
 - Project would need to be entirely grant funded to meet affordability requirements

Source: <https://graftonvt.org/wp-content/uploads/2023/09/2023-09-06-60-Grafton-Public-Meeting-Presentation-Slides.pdf>



Challenges in Implementing Infrastructure Projects – Political Economy

- Projects can be well-funded but still face implementation challenges.
- Example is Westford
 - Grant funding would have paid for 100% of project cost; town held a bond vote to provide \$400,000 at 2% interest for construction contingencies
 - Vote failed 532 to 488
 - Reasons for no votes varied
 - Concerns that infrastructure development would promote too much growth
 - Ongoing maintenance costs of the system

Source:

https://www.westfordsfuture.com/uploads/1/3/8/4/138498261/_vermont_westford_community_presentation_for_presentation_9-13-23_3_.pdf; <https://vtdigger.org/2023/11/29/mired-in-controversy-westfords-4-million-wastewater-project-faces-uncertain-future/>



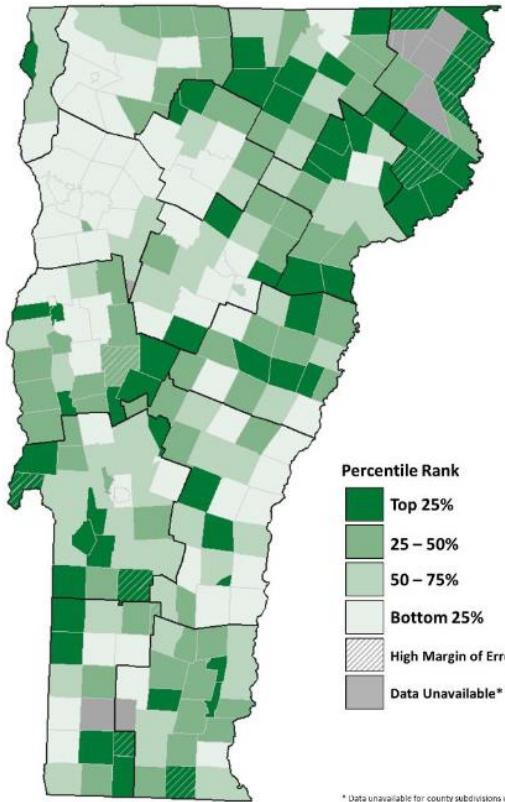
Different Levels of Engagement – Local Capacity

- The Agency of Administration received \$3 million for the Municipal Technical Assistance Program (MTAP) from FY 2023 BAA
 - Intended to “assist those communities with a high need for state and federal grants but lower capacity for accessing and applying for those sources.”
- Communities evaluated through the Vermont Community Index (VCI) based on capacity and need
 - As of October 2023, communities above the 50th percentile in the needs index and communities in the 25-50th percentile that were significantly impacted by the July flooding are eligible
 - Twin Rivers-Ottauquechee Regional Commission (TRORC) and Vermont League of Cities and Towns (VLCT) provide outreach and support to municipalities

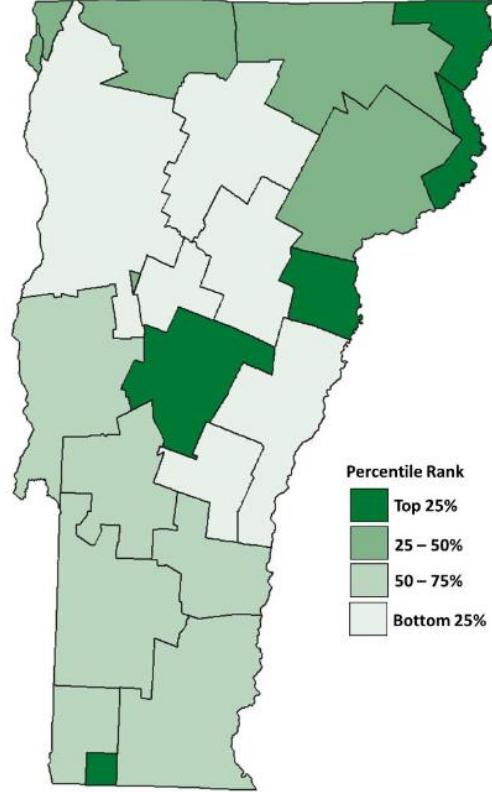


Different Levels of Engagement – Local Capacity

County Subdivision Scores, Ranked by Percentile



Labor Market Area (LMA) Scores, Ranked by Percentile



Source: <https://finance.vermont.gov/sites/finance/files/documents/VCI%20User%20Guide%20-%20MTAP.pdf>



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Different Levels of Engagement – Local Capacity

- Federal Funding Assistance Program (VLCT)
 - Collected funding sources
 - Guidance on ARPA reporting and compliance
 - The Vermont Federal Funding Guidebook
 - Over 250 direct one-on-one interactions with municipalities



Different Levels of Engagement – Regional

- Outside of New England, county governments do a large share of infrastructure development
- Counties only provide limited services in Vermont
- Regional Planning Commissions
 - Provide technical assistance to municipalities and serve as the link between communities and the state
 - Assist communities in land use planning, clean water, brownfields, grant writing and more
 - Act 47 of 2023 provided \$300,000 to VAPDA to hire housing resource navigators to help match communities and housing organizations with funding sources and provide project management assistance



Other State Programs – Revolving Loan

- Vermont already has revolving loan funds for clean and drinking water, pollution control, and other areas
 - These revolving loan funds are often capitalized by federal funding (e.g. the EPA) – but the loans need to be paid back (not free money).
- New Mexico has implemented a revolving loan fund called the Public Project Revolving Fund (PPRF)
 - Funded through a 75 percent contribution of the state's Governmental Gross Receipts Tax, which is levied on water, sewer, and trash services and repayments of outstanding loans
 - In FY 22, the revolving fund made \$249.6 million of investments in 92 projects
 - Loans available at market rate or at a 2 percent subsidized rate for disadvantaged communities



Other State Programs – Revolving Loan

- Considerations:
- Two main questions for creating a revolving loan fund:
 - What is the source of capitalizing funds?
 - What is the scope and size of investments from the fund?
 - For example, \$20 million can make small contributions to projects in a wider set of communities but would only completely fund a couple of projects statewide
 - What is a recipient's capacity to pay back loans?
- Creating another funding source for municipalities to apply for only exacerbates capacity issues



Other State Programs – Tax Base Sharing

- Minnesota created the Fiscal Disparities program, which collects a portion of the commercial/industrial (C/I) tax base growth from 1971 into an areawide pool which gets shared between communities
 - Allocations depend on a community's population and relative property tax base per capita
 - In 2023, the program shared \$531 million of taxable value (or 34% of the C/I tax base) between municipalities in the Twin Cities metro area.
 - Overall, over 107 communities received contributions from the areawide pool and 72 made contributions
 - Not tied to infrastructure but communities receiving augmented contributions from the pool can use the proceeds to make investments in infrastructure projects



Other State Programs – Tax Base Sharing

- Considerations:
 - Technically complicated to design, implement, and monitor
 - Reducing property tax inequality may have benefits, but communities involved are likely to see any fiscal disparities type program as zero-sum and focus on “winners” and “losers”



Other State Programs – Dedicated Authority

- Some states have created dedicated authorities responsible for coordinating funding or applications
 - Rural Infrastructure Authority (RIA) in South Carolina
 - Focuses on water infrastructure and implements drinking and clean water revolving loan programs, ARPA funding allocated to water infrastructure, and a common application for water infrastructure grants
 - Similar to the Water Investment Division of DEC



Other State Programs – Common Application

- Community One Stop for Growth is a consolidated application and review process for grants for various programs in Massachusetts

Executive Office of Economic Development	Massworks Infrastructure Program Urban Agenda Grant Program Massachusetts Downtown Initiative Rural and Small Town Development Fund
Executive Office of Housing and Livable Communities	Housing Choice Grant Program Community Planning Grant Program HousingWorks Infrastructure Program
MassDevelopment	Brownfields Redevelopment Fund Site Readiness Program Underutilized Properties Program Collaborative Workspace Program Real Estate Services Technical Assistance Commonwealth Places Program

Source: <https://www.mass.gov/doc/fy24-one-stop-nofa/download>



Other State Programs – Common Application

- Programs evaluated using the Development Continuum, which places projects along a project development timeline



Source: <https://www.mass.gov/doc/fy24-one-stop-nofa/download>



Closing thoughts

- Wide range of available funding opportunities, but many towns in Vermont lack the capacity to access them
- Where to expand responsibility for infrastructure development? At the municipal, county, or state level?
- Questions?



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