

# AMERICA'S TRILLION-DOLLAR REPAIR BILL

*Capital Budgeting and the Disclosure of State Infrastructure Needs*



**THE VOLCKER ALLIANCE**  
*Working for Effective Government*

- Introductory Remarks: William Glasgall, The Volcker Alliance
- Presentations by:
  - Jerry Zhirong Zhao, Humphrey School of Public Affairs, University of Minnesota
  - Camila Fonseca-Sarmiento, Humphrey School of Public Affairs, University of Minnesota
  - Senator Bo Watson, Tennessee Senate Finance, Ways and Means Committee
- Questions and Discussion
- Concluding Remarks: William Glasgall, The Volcker Alliance

# About The Volcker Alliance

**The Volcker Alliance was launched in 2013 by former Federal Reserve Board Chairman Paul A. Volcker, who served in the federal government for almost 30 years.**

**The mission of the Volcker Alliance is to advance effective management of government to achieve results that matter to citizens.**

# Truth and Integrity in State Budgeting: Reports and Resources

# Truth and Integrity in State Budgeting

## Reports and resources for states

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# Evaluating State Budgets: Five Principles and Grades

# Five State Budget Principles

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Our evaluation of state budgets is guided by these best practices



- **Budget forecasting**—States should use a consensus approach to establish single, binding estimates for revenues and expenditures. States should also make predictions about revenues and expenditures for more than one following fiscal year.



- **Budget maneuvers**—States should pay for expenditures with recurring revenue earned in the same year.



- **Legacy costs**—States should consistently make the contributions for pension and retiree health care plans that actuaries determine to be necessary.

Our evaluation of state budgets is guided by these best practices



- **Reserve funds**—States should enact clear policies for deposits into and withdrawals from rainy day and other reserves.



- **Budget transparency**—States should provide the data that public officials, advocacy groups, and citizens need to thoroughly understand budgets. These budgetary disclosures should include the costs of debt, tax expenditures, and deferred infrastructure maintenance.

*While states widely publish their huge obligations for debt, pensions, and other postemployment benefits, few reveal deferred maintenance liabilities that may equal or exceed what they owe for retirement costs. This deprives most states of the Volcker Alliance's top A grades for transparency.*

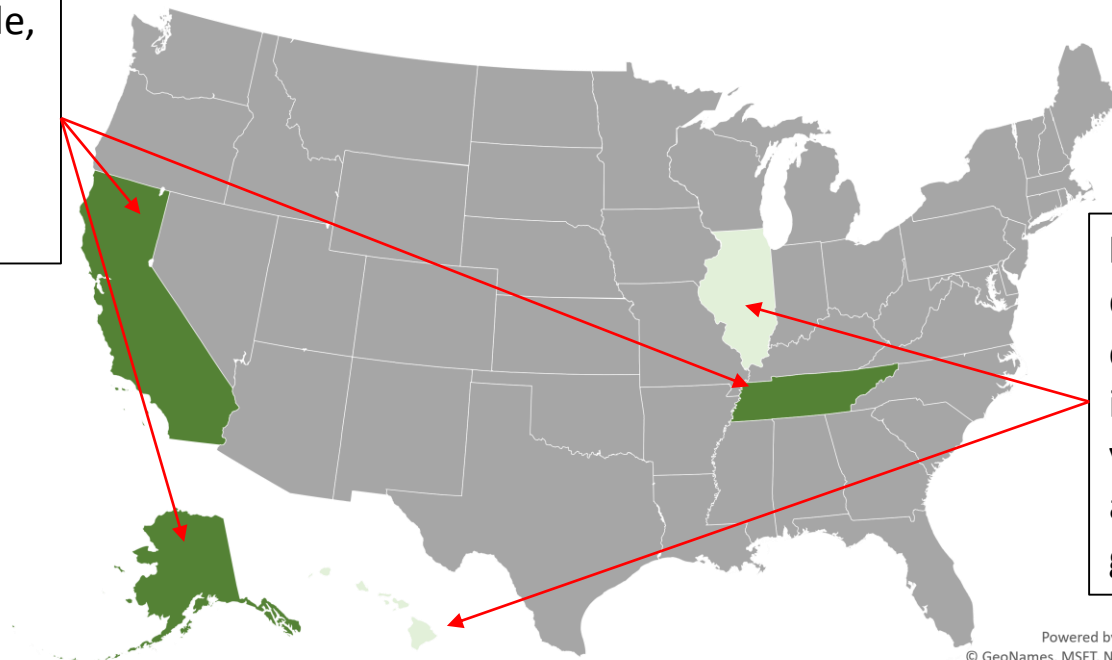


# Evaluating State Budgets

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## Deferred maintenance cost disclosures drive transparency grades

**AK, CA, TN:** Volcker Alliance average A transparency grade, FY 2016-18, includes deferred maintenance cost disclosure



**HI, IL:** Recent deferred maintenance cost disclosure improvements; not yet reflected in 3-year average transparency grades

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# America's Trillion Dollar Repair Bill

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## Featured Speakers



**JERRY ZHIRONG ZHAO**



**CAMILA FONSECA-SARMIENTO**

# America's Trillion Dollar Repair Bill: Research and Findings

# America's Trillion Dollar Repair Bill

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## Infrastructure conditions in the US

- Infrastructure in the US is in poor condition
  - Graded as **D+** by American Society of Civil Engineers (2017)
- This research examines the disclosure of infrastructure needs in state budgeting



THE 2017 INFRASTRUCTURE REPORT CARD



## Research focus

- Capital budgeting processes
- Capital budgeting documentation
- State infrastructure needs and gaps

## Data and methodology

### Unit of analysis

- 50 states and DC
- 2016, 2017, 2018

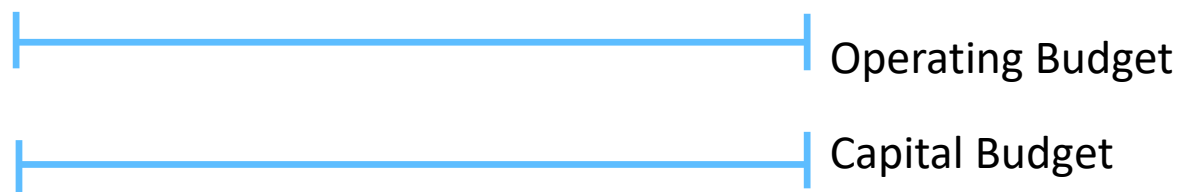
### Internet search and document analysis

- Budget processes
  - Actors
  - Timelines
  - Budget instruction
- Capital budget proposals and bills
- Capital improvement plans (CIPs)
- Reports on infrastructure needs

## Findings: Capital budgeting processes

### Budget cycles

- Operating and capital budget cycles occur *simultaneously*

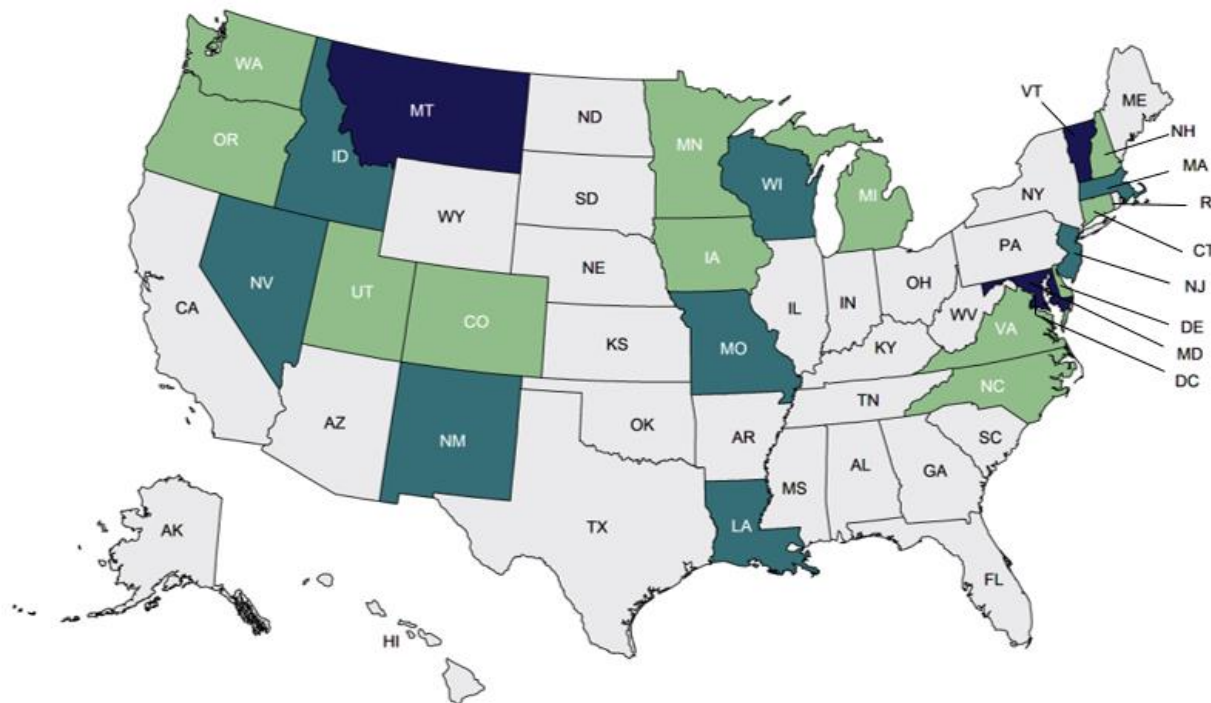


- However, budget cycles in Minnesota and Ohio occur *independently*



## Findings: Capital budgeting processes

### Capital Budgeting Processes Separate from Operating Budgeting Processes



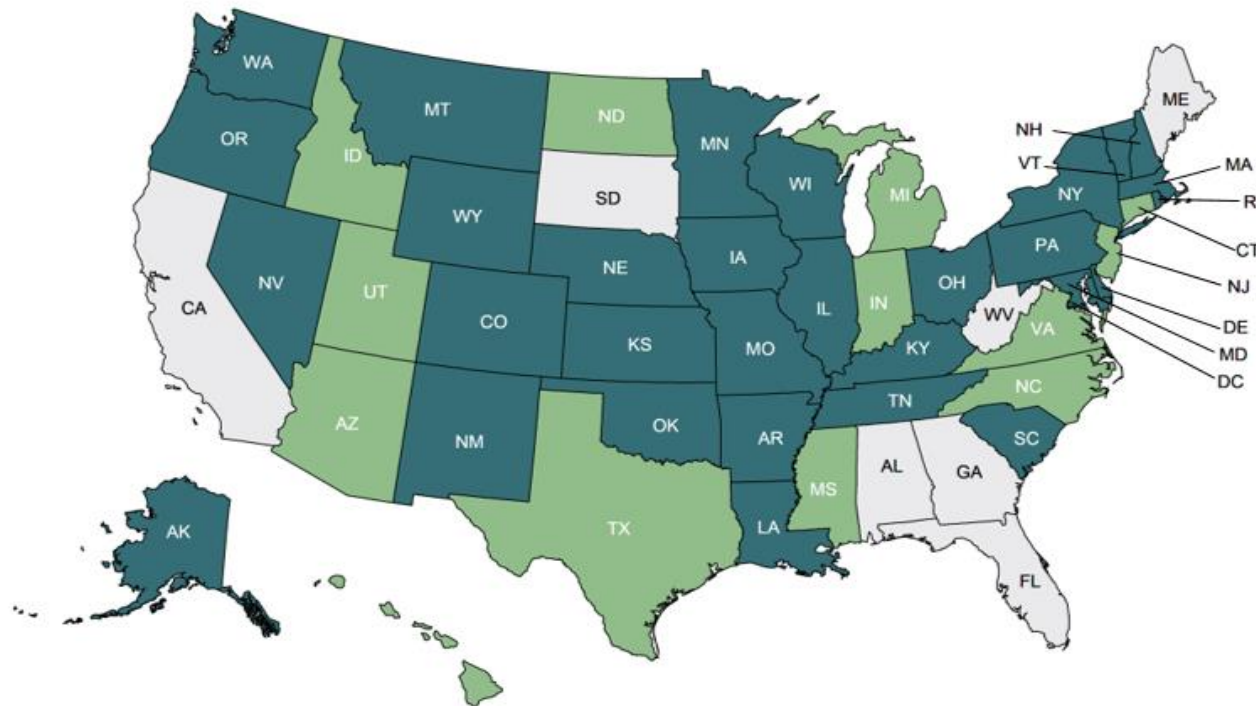
Capital Budget Separation

■ Preparation & Consideration ■ Preparation ■ Consideration ■ None



## Findings: Capital budgeting documentation

### Capital Budget Document

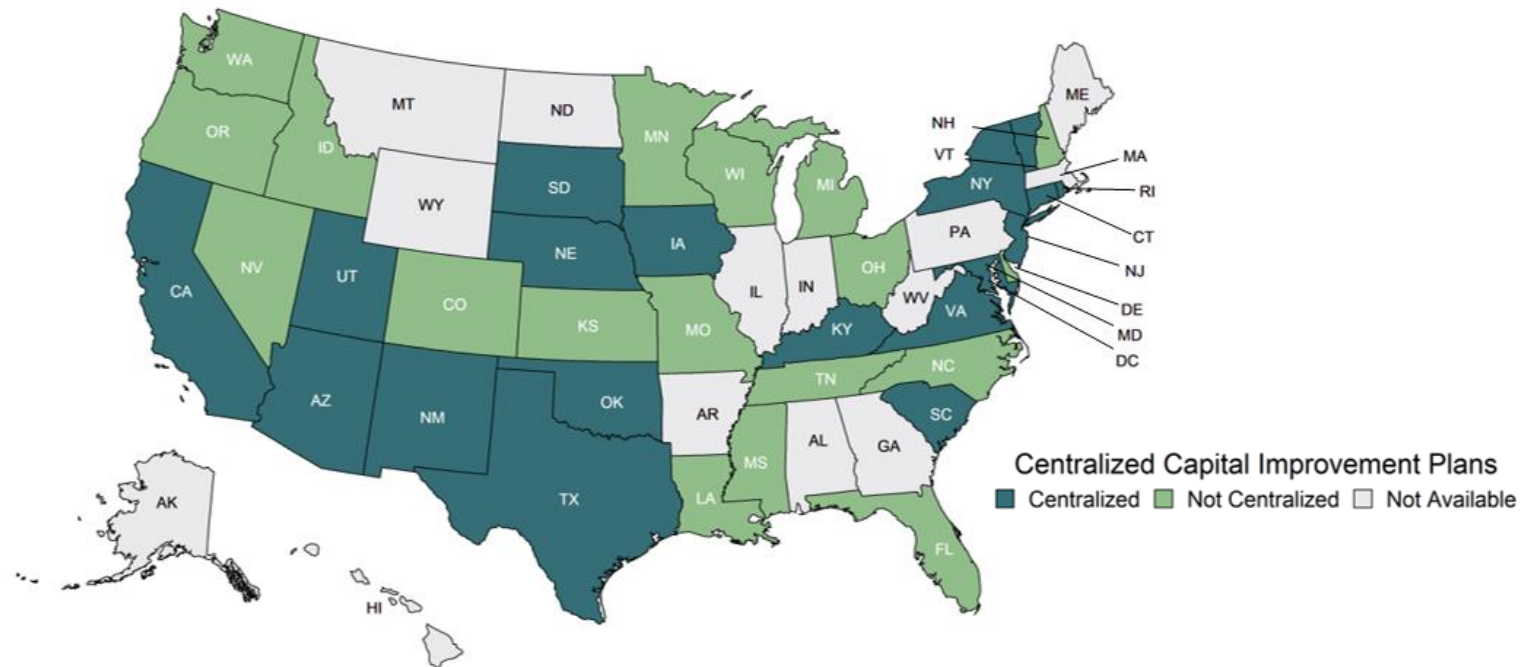


Capital Budget Document

■ Individual Capital Budget ■ Section within the Operating Budget ■ Operating Budget Line-Item

## Findings: Capital budgeting documentation

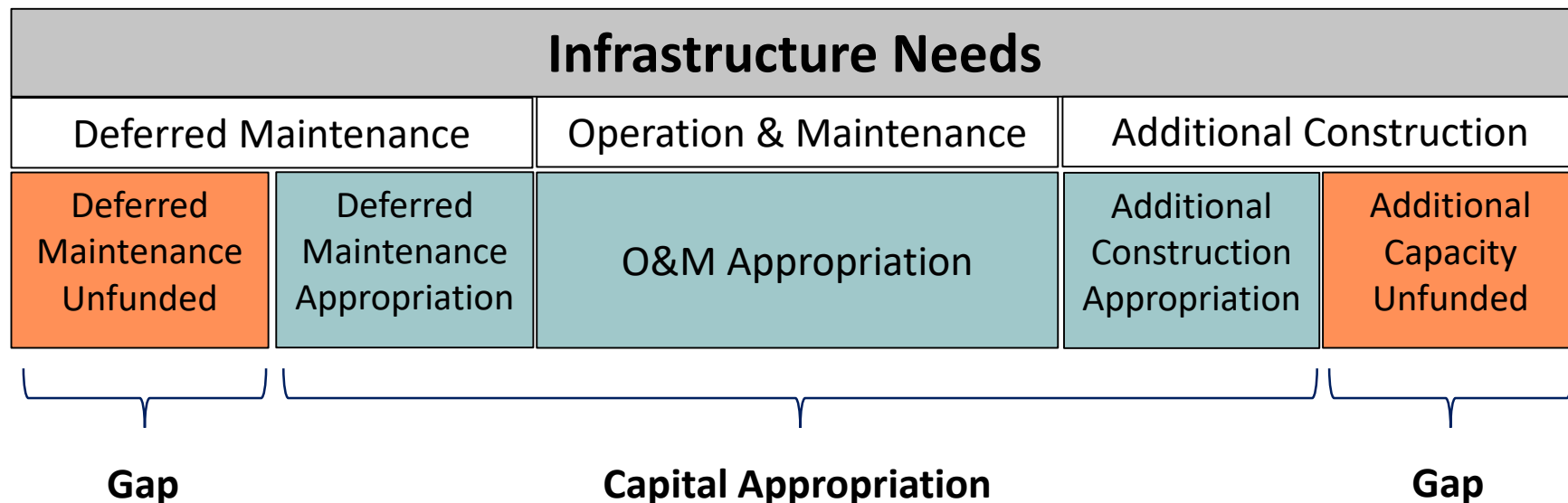
### Capital Improvement Plan (CIP)



**Centralized Capital Improvement Plan:** Unique document that compiles the CIPs of different state agencies.

## Findings: Infrastructure needs

### Components of Infrastructure Needs



## Findings: Infrastructure needs

### Report of Infrastructure Needs

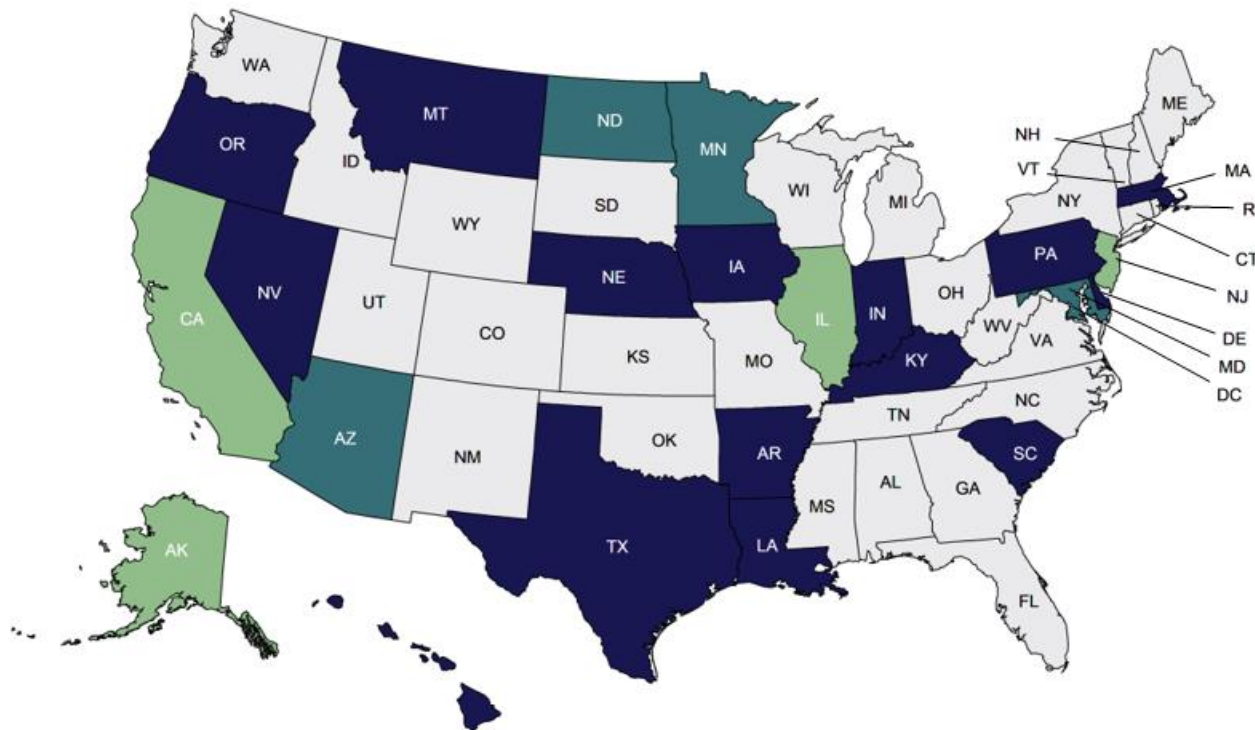
STATE	ISSUED BY	YEARS	COVERAGE	ANNUAL AVERAGE TOTAL NEEDS (BILLIONS)	ANNUAL AVERAGE TOTAL GAP (BILLIONS)
Tennessee	State	5-year (2016-21)	6 sectors	\$9.0	\$6.0
District of Columbia	DC Government	6-year (2018-23)	5 sectors	\$1.1	\$0.8
New Jersey	State	20-year (2000-20)	3 sectors	\$4.9	N/A
Michigan	State	20-year (2016-36)	4 sectors	N/A	\$3.0
Hawaii	University	5-year (2010-15)	5 sectors	\$2.9	N/A
Kentucky	NGO	20-year (2017-37)	12 sectors	N/A	N/A
Washington	NGO	20-year (2017-37)	11 sectors	\$9.5	N/A

i) Figures in 2018 dollars.

**NOTES** N/A: Not available. NGO: Nongovernmental organization.

## Findings: Deferred maintenance

### Disclosure of Deferred Maintenance



#### Deferred Maintenance

■ Main. Appropriation ■ Main. Gap ■ Both ■ No Information

# America's Trillion Dollar Repair Bill

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## Findings: Deferred maintenance

STATE	PERIOD	TOTAL MAINTENANCE GAP <sup>1</sup>	TOTAL MAINTENANCE APPROPRIATION <sup>1</sup>
Alaska <sup>2</sup>	2018	18.24%	0.19%
Arizona	2017	0.31%	0.34%
Arkansas	2017-19	N/A	0.20%
California	2016-17	43.87%	0.46%
Delaware	2018	N/A	0.21%
District of Columbia	2017	3.62%	N/A
Hawaii	2018-19	N/A	9.95%
Illinois	2019	8.22%	0.53%
Indiana	2018-19	N/A	2.31%
Iowa	2019	N/A	0.04%
Kentucky	2019	N/A	0.04%
Louisiana <sup>3</sup>	2018	N/A	0.10%
Maryland <sup>3</sup>	2019	2.33%	N/A
Massachusetts	2018	N/A	0.09%
Minnesota	2018	2.11%	N/A
Montana	2018-19	N/A	0.15%
Nebraska	2017-18	N/A	0.28%
Nevada	2018	N/A	0.02%
New Jersey <sup>3</sup>	2018	0.34%	0.13%
North Dakota <sup>3</sup>	2018-19	0.25%	N/A
Oregon	2017	N/A	0.05%
Pennsylvania <sup>3</sup>	2018	N/A	0.38%
South Carolina	2018	N/A	0.00%
Texas	2018-19	N/A	0.21%

State Maintenance  
Gap: **\$873 billion**



Federal Maintenance  
Gap: **\$170 billion**



Total Federal and State  
Maintenance Gap:  
**\$1.04 trillion**

## Recommendations: Capital budgeting processes

### Best practices in capital budgeting processes:

1. Display the processes for the capital budget
2. Designate an agency to prepare the capital budget
3. Designate a legislative committee for capital budget consideration

## Recommendations: Capital budgeting documentation

### Best practices in capital budgeting documentation:

1. Separate the capital budget from the operating budget
2. Describe the assets coverage and display capital budget-related documents in one place online
3. Standardize the Capital Improvement Plan (CIP)
4. Connect capital budget and Capital Improvement Plan



## Recommendations: Disclosing infrastructure needs

### Best practices for disclosing infrastructure needs:

1. Develop a centralized statewide asset inventory
2. Develop a statewide report on infrastructure needs
3. Consider the creation of a coordination agency to address infrastructure needs

# Building Tennessee's Tomorrow

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Featured Speaker

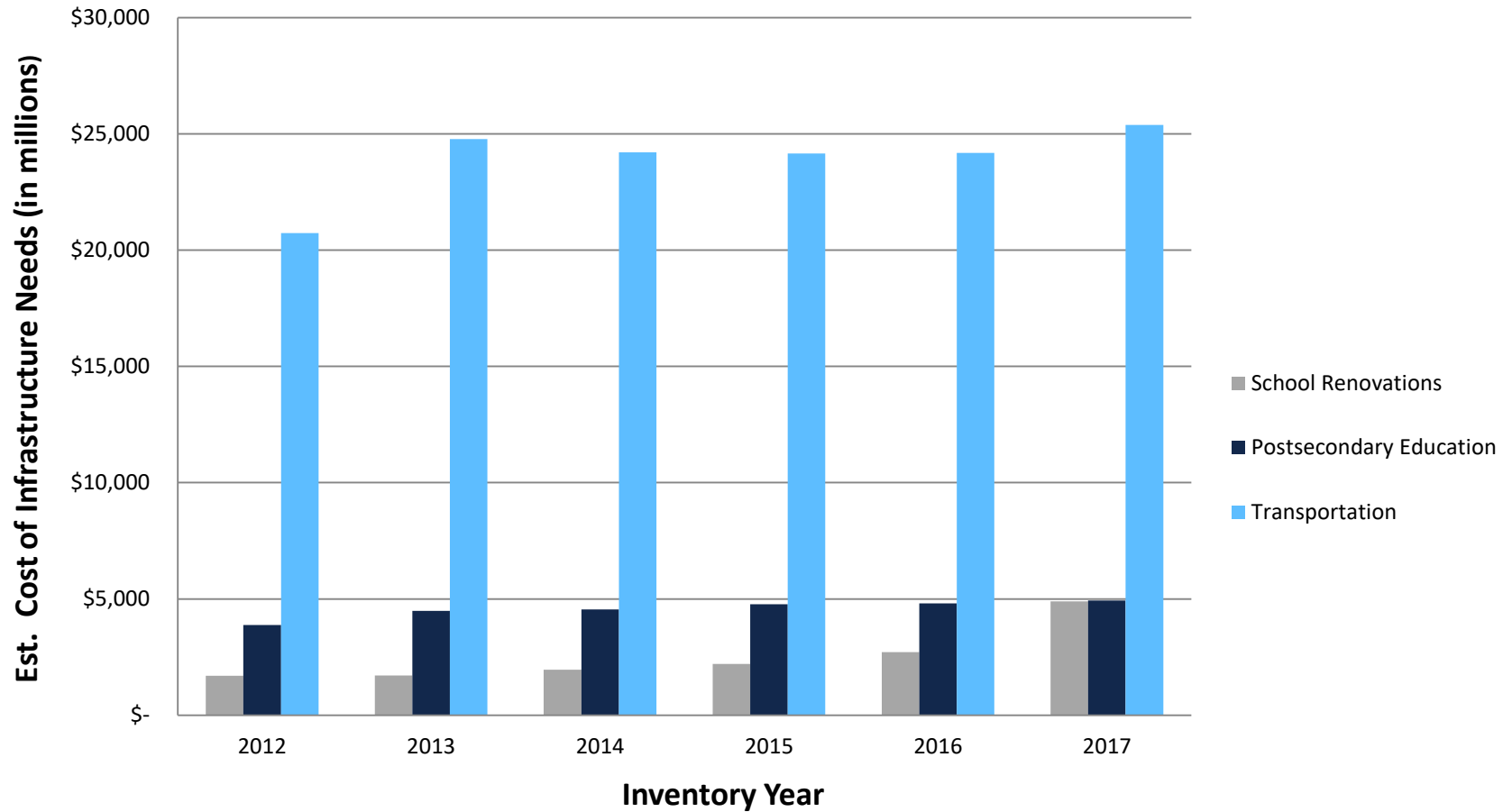


**SENATOR BO WATSON**

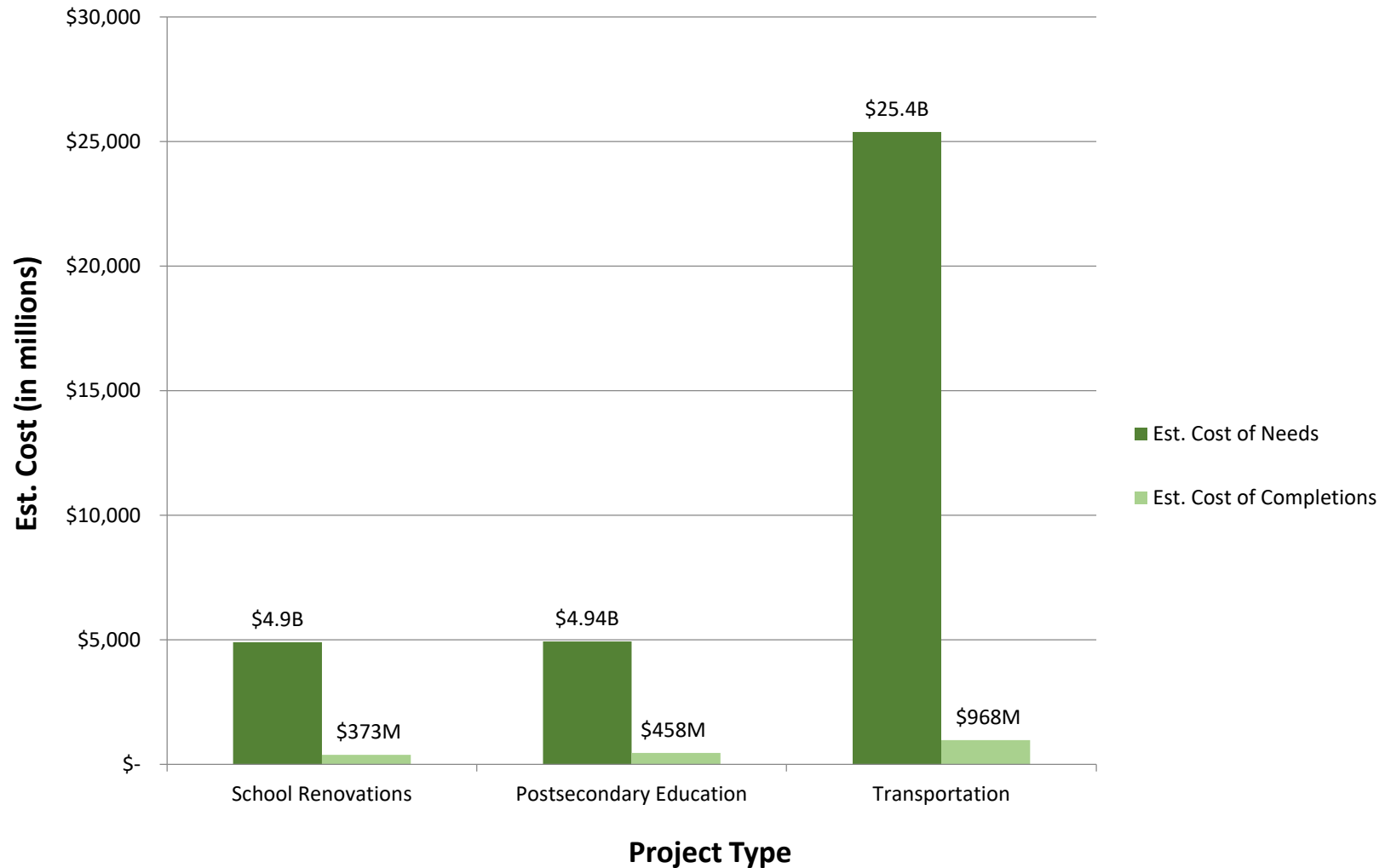
# Building Tennessee's Tomorrow: Anticipating the State's Infrastructure Needs

Estimated Cost of Needed Infrastructure for TN July 2017 – June 2022		
Project Type	Conceptual	Planning & Design + Construction
Transportation	\$ 9,690,325,537	\$ 15,690,040,019
Postsecondary Education	1,626,770,000	3,308,169,501
School Renovations	4,177,415,332	719,368,840
Water and Wastewater	1,141,933,518	3,455,130,391
New Public Schools & Additions	2,474,932,272	1,139,884,626
Law Enforcement	736,720,800	779,503,131
Recreation	557,040,641	695,274,283
Public Buildings	210,091,841	371,363,837
Other Utilities	116,695,000	372,363,284
Public Health Facilities	389,810,000	76,563,203
Libraries, Museums, & Historic Sites	94,316,760	356,077,499
Housing	203,875,000	199,402,878
Industrial Sites and Parks	121,831,900	129,603,050
Fire Protection	123,679,144	78,309,937
Community Development	93,530,426	90,282,870
Storm Water	56,661,500	118,110,985
Other Facilities	67,386,300	49,536,795
Business District Development	27,350,000	87,547,866
Other Education	49,620,000	60,710,000
School-System-wide	8,952,000	40,985,717
Solid Waste	12,260,000	18,757,300
Broadband	8,600,000	10,193,000
<b>Total</b>	<b>\$ 21,989,797,971</b>	<b>\$27,847,179,012</b>

## Top 3 Infrastructure Needs Statewide 2012-2017

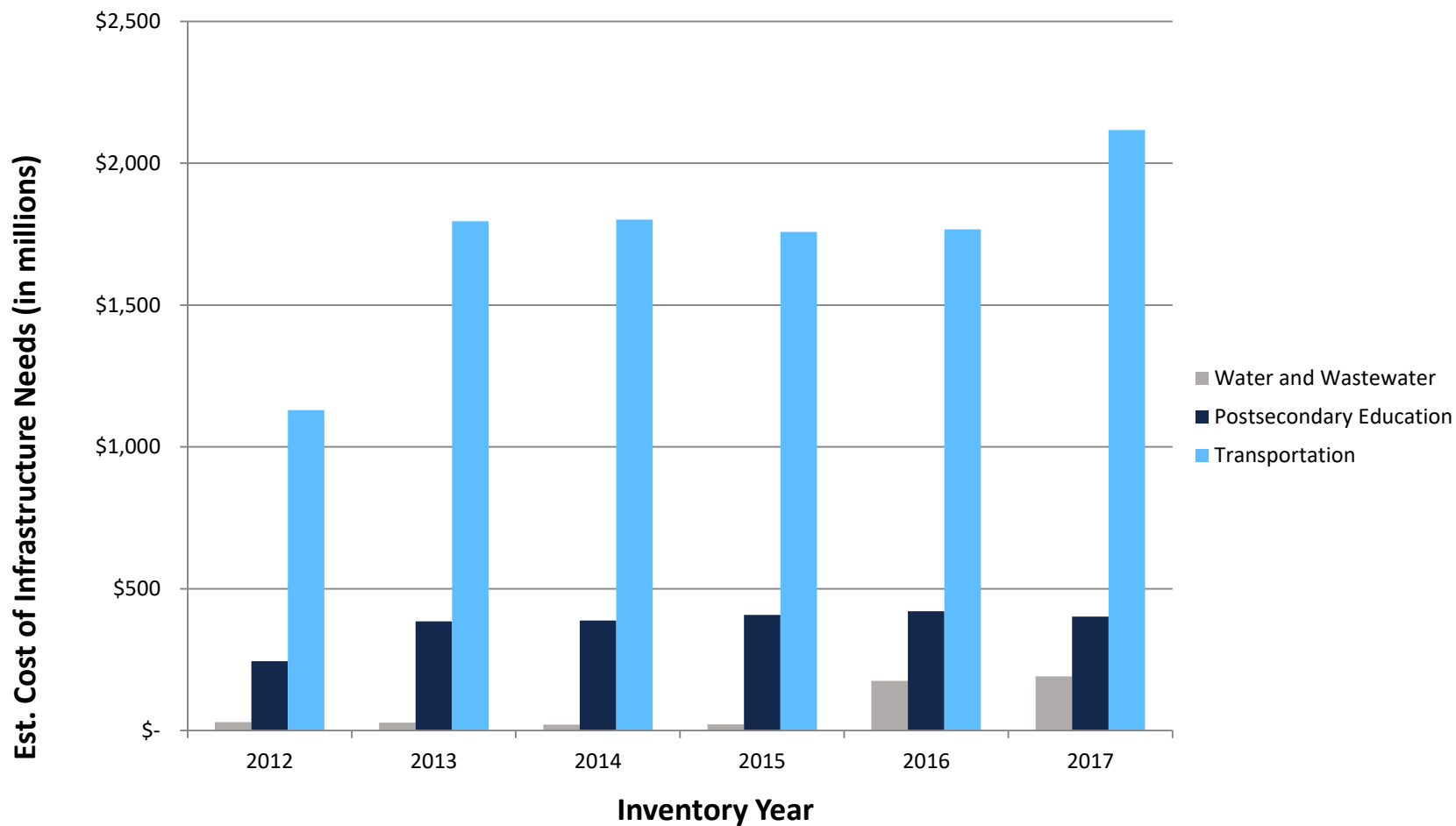


## Needs vs. Completion for 2017



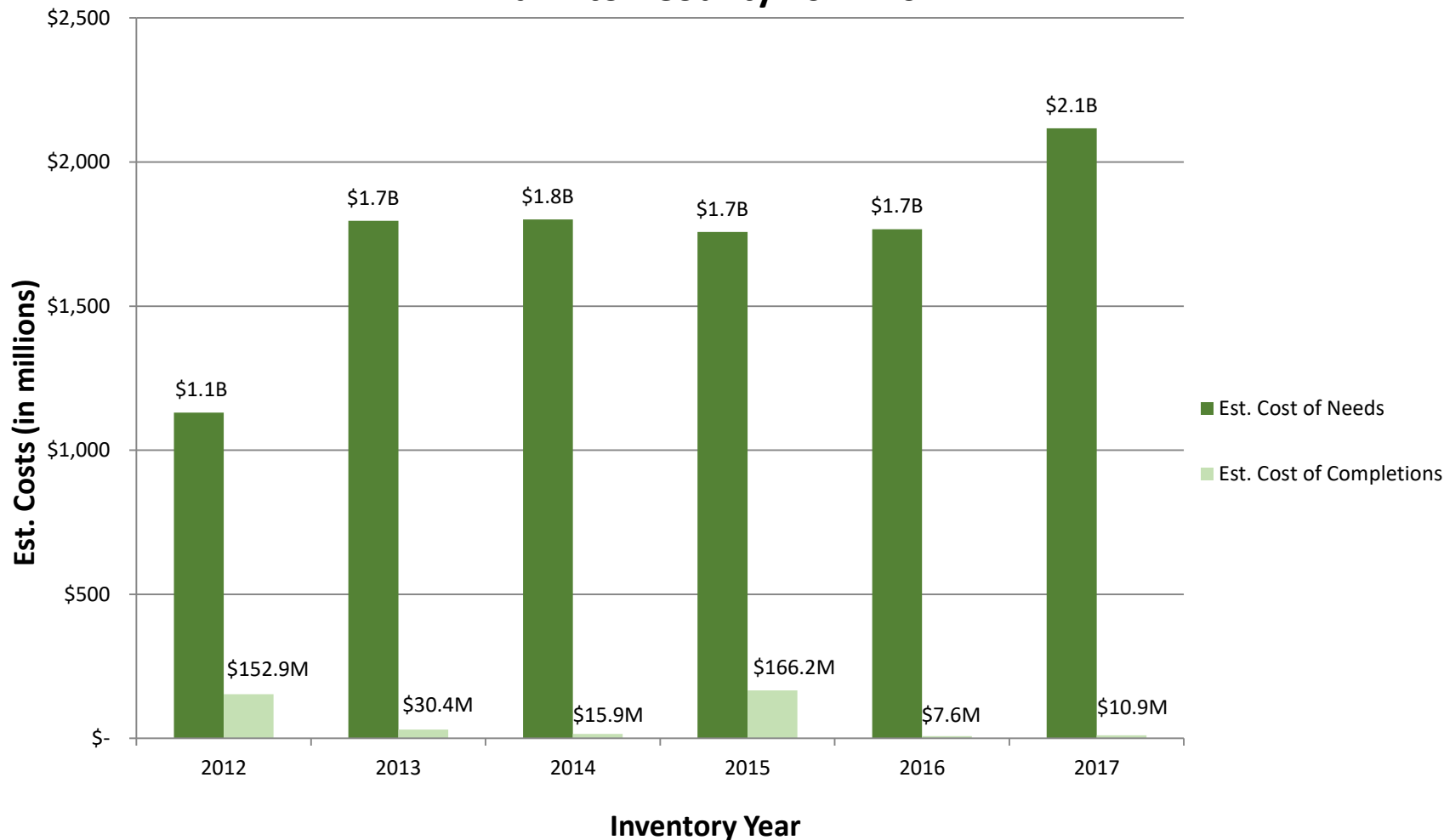
Estimated Cost of Needed Infrastructure for Hamilton County July 2017 – June 2022		
Project Type	Conceptual	Planning & Design + Construction
Transportation	\$ 417,154,000	\$ 1,700,106,918
Postsecondary Education	173,105,000	228,702,321
Water and Wastewater	22,947,000	168,714,476
New Public Schools & Additions	95,000,000	-
Law Enforcement	26,550,000	6,212,600
School Renovations	19,380,000	9,628,000
Recreation	11,432,856	9,860,601
Community Development	3,600,000	12,152,463
Public Health Facilities	9,950,000	2,250,000
Fire Protection	1,000,000	7,476,310
Public Buildings	6,940,000	725,000
Storm Water	6,264,000	1,350,200
Business District Development	-	4,200,000
Solid Waste	-	3,005,300
Other Facilities	-	1,850,000
Libraries, Museums, & Historic Sites	300,000	1,100,000
Industrial Sites & Parks	520,000	-
Broadband	-	-
Housing	-	-
Other Education	-	-
Other Utilities	-	-
School-System-wide	-	-
<b>Total</b>	<b>\$794,142,856</b>	<b>\$2,157,334,189</b>

## Top 3 Infrastructure Needs Hamilton County 2012-2017





## Cost of Needs vs. Completions for Transportation Hamilton County 2012-2017



# Discussion and Questions

## Featured speakers:

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