

Chronic Underfunding for Transportation:

New York State's Response to Local Infrastructure Needs

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INTRODUCTION

New York State's infrastructure is in desperate need of investment. The state's water infrastructure will require 56.3 billion dollars of investment over the next 20 years¹, 40% of state highways are in poor or fair condition, and 34% of the bridges are rated either functionally obsolete or structurally deficient. Despite this need, infrastructure grants from the federal and state governments have been in decline.² Concomitantly, the State legislature has created new responsibilities for local governments while also restricting their ability to raise revenues. As a result, local governments find it increasingly difficult to pay for construction and maintenance of their own infrastructure. Looking specifically at transportation infrastructure in New York State, this report documents these trends and offers recommendations to help local governments respond to their infrastructure needs.

THE UNDERFUNDED INFRASTRUCTURE NETWORK

The fundamental problem with infrastructure provision at the local level is a lack of funding. Failing infrastructure is very visible, but both politicians and the public seek ways to avoid paying for its provision. Infrastructure is a network that needs to be robust through out the system.

There are two primary mechanisms through which local governments pay for infrastructure investments—direct and indirect funding. Direct funding covers up-front project costs. Indirect funding leverages user fees and tax revenues over a long time horizon through financing mechanisms such as municipal bonds or loans.

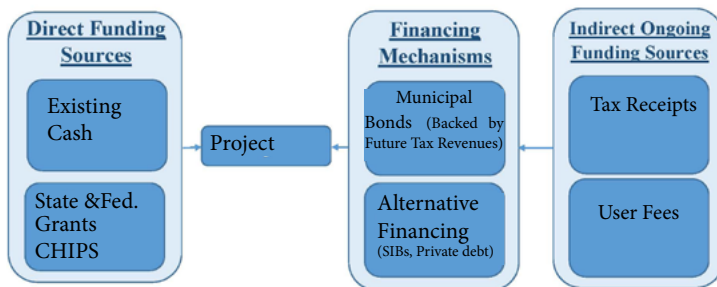


Figure 1 Mechanisms through which local governments pay for infrastructure

The underlying funding stream leveraged is more significant than the financing tools used. The primary sources of funding for transportation infrastructure projects are state and federal grants and taxes (while users fees are often of equal or greater importance in other infrastructure sectors like water and sewer).

The State has increasingly pushed responsibility for covering the cost of infrastructure to the local level without providing a way for localities to raise funds to pay for infrastructure.

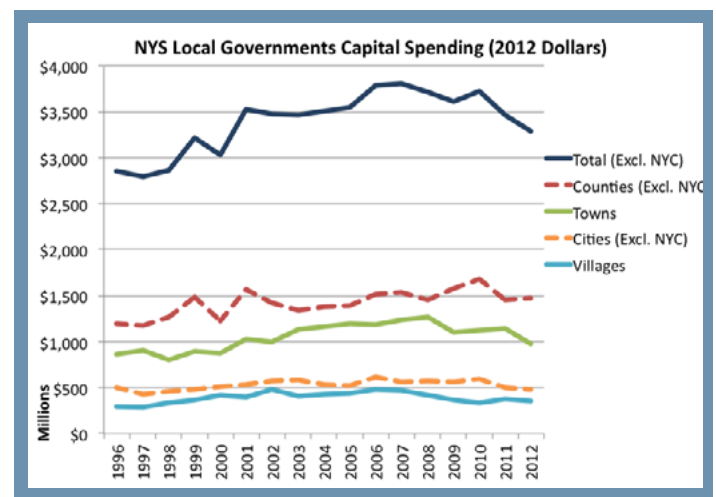


Figure 2 Local government spending on infrastructure has been declining since the recession. Source: Local Government and School Accountability, New York State Office of the Comptroller. (1996-2012).³

INFRASTRUCTURE CONDITIONS AND NEEDS

We analyze where investment is needed in the state's infrastructure. NYS has over 115,000 centerline miles of highway, 74% of which are locally or county-owned. Additionally, the state has over 16,000 bridges, half of which are locally-owned.⁴ While there is a significant amount of regional variation across the state, 33.5% of locally-owned bridges are deemed functionally obsolete or structurally deficient, with another 39.1% of state-owned bridges rated similarly (see figure 4). The state-owned highway infrastructure is also in disrepair. 60% of highways are in good or excellent condition, 31% are rated fair condition, and 9% are rated in poor condition.⁵

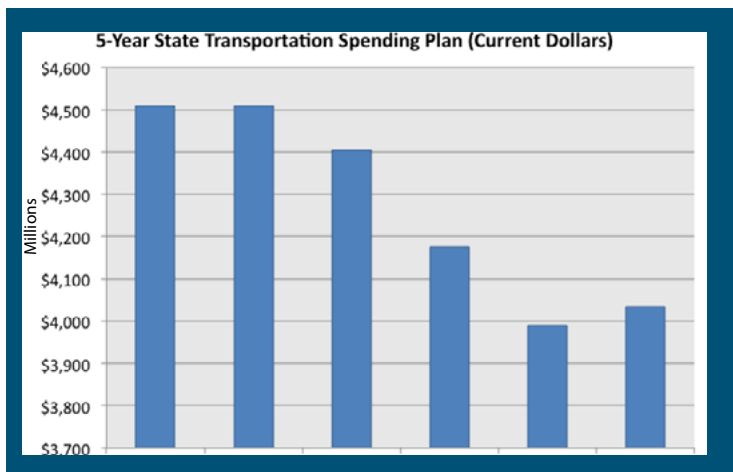


Figure 3 The State's capital spending plan projects a decrease in state contributions to local governments for transportation infrastructure. Source: FY2015 Enacted Budget, Capital Program and Financing Plan⁶

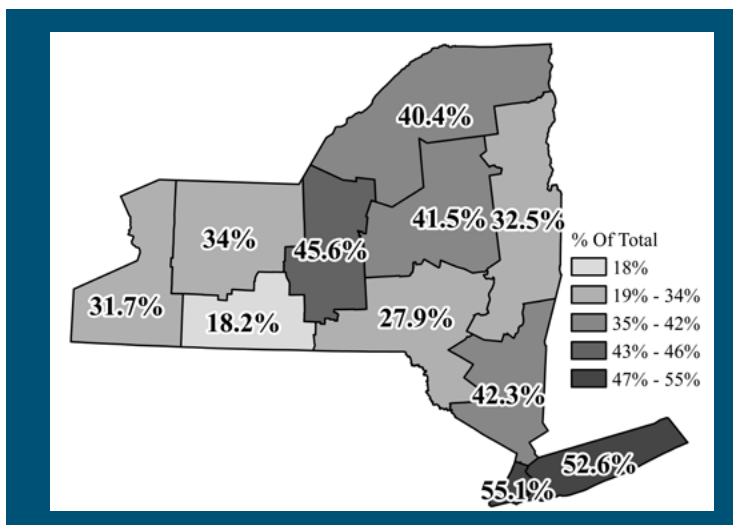


Figure 4 The percentage of bridges rated structurally deficient or functionally obsolete. Source: NYSDOT Management Unit (2013)⁷

PROPOSED SOLUTIONS FOR LOCAL GOVERNMENT

The State should spend the one-time bank settlement windfall on long-term investments in infrastructure. In addition, the state and local governments will have to search for new solutions to fix failing infrastructure. Our report explores several potential solutions to the current crisis.

TAXES

New York State charges some of the highest gas taxes in the country, yet according to the Comptroller, only 22% of this revenue stream goes towards capital improvement of roads and bridges.⁸ Re-dedicating the Dedicated Highway and Bridge Trust Fund to transportation would provide more funding and could improve the fund's credit rating. The state might also explore transforming the gas tax system to a vehicle miles traveled (VMT) user fee, like Oregon and California. The state should provide more options for local governments to raise revenues—such as

dedicated infrastructure sales taxes or exemptions to the property tax cap for infrastructure needs.

CROSS-SECTORAL COLLABORATION

One way that local governments can innovate without having to wait on state action is to change the way infrastructure projects are envisioned. Instead of thinking of each type of infrastructure—like water, sewer, roadways—as separate entities funded separately, projects can be combined under an umbrella vision, such as sustainability or public health. We look at Onondaga County's "Save the Rain" project, which facilitates partnerships between various stakeholders, municipalities, and infrastructure sectors.⁹

STATE INFRASTRUCTURE BANK (SIB)

During his 2014 campaign, Governor Cuomo voiced support for the creation of a new State Infrastructure Bank. A SIB is a financing mechanism designed to provide low-interest loans and credit guarantees to local governments, funding all or part of an infrastructure project. The thirty three existing US SIBs have only loaned 600 million dollars since 1997, and much of this went to fund larger projects. Our report analyzes some of the more successful SIBs such as those in Ohio and Florida. We suggest that if NYS creates a SIB, it should be flexible and focused on local needs. It should receive significant funding from the State and make loans to smaller local projects. Finally, municipalities should have their debt payments on SIB loans exempted from the property tax cap.

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