The Increasing Use of Federal Earmarks to Fund Local Infrastructure: A Case Study of Illinois Municipal Governments

Karen Kunz*

Local governments have long relied on their ability to issue public debt to fund long-term public works projects. In Illinois, increasing fiscal stress within local and state government has hampered many communities' ability to take on additional credit obligations. As a result, municipalities are increasingly looking to their federal legislators for financial assistance with their public works projects. This study uses federal appropriations legislation and earmark reports, supplemented by survey data and personal interviews with federal, state and local elected officials and agency executives, to explore Illinois' municipal governments' use of federal earmarks to finance local infrastructure needs.

> For many years we had no Capital plan; therefore the roads are in such disrepair that it will take many years and hundreds of millions of dollars to get to a level that we can maintain without financing debt. The biggest challenge is finding alternative sources (state or federal) of revenue so we are not constantly raising taxes on our residents (Survey respondent).

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Editorial Board

Vol. 30, No. 3 Fall 2009, *Municipal Finance Journal* (ISSN 0199-6134) is published quarterly by Civic Research Institute, Inc., 4478 US Route 27, Kingston, NJ 08528. Periodicals postage paid at Kingston, New Jersey (USPS 524-230) and additional mailing offices. Print subscription rate: $295 a year. *Municipal Finance Journal* is also published in an online edition (E-ISSN 1933-9321). Access online edition at http://civicresearchinstitute.com/mfj.html. Print-and-online subscription rate: $359. For subscription information and customer service, call 609-683-4450.

POSTMASTER: Send address changes to *Municipal Finance Journal*, P.O. Box 585, Kingston, NJ 08528.

INTRODUCTION

At $37.8 billion, earmarks contained in congressional appropriations for FY 2005, at $37.8 billion, represented a record high and an increase of 113% over earmarked spending at the start of the decade. Yet even with this dramatic increase, FY 2005 earmarks amounted to a mere 6% of congressional appropriations. Funding for federally earmarked public works projects rose similarly, and at their zenith in 2005 constituted less than 1% of total spending.

In relation to annual congressional spending, federal earmarks for public works were insignificant, amounting to the accounting equivalent of a rounding error. Yet for local governments, federal earmarks are an increasingly important means of funding capital improvements. This study supplements the literature on municipal capital investment financing by illustrating Illinois local governments' increasing use of federal earmarks to finance public works. Analyses of earmarks contained in congressional appropriations and survey data provided by Illinois municipal executives across the state provide the basis for the study. Interviews with members of the U.S. Congress and Illinois General Assembly, federal and local agency and program directors, executives at professional associations, and survey respondents provide empirical perspectives that add depth and supplement the findings.

Controversial earmark-funded infrastructure projects such as the "bridge to nowhere" in Alaska have encouraged the perception of the congressional earmarking process as "pork barrel spending" (Clemmitt, 2006). This study demonstrates, however, that one person's pork may be another's clean water.

TRADITIONAL CAPITAL FUNDING: AN OVERVIEW

The ability of local governments to fund infrastructure needs has been an ongoing concern for decades. More than a quarter-century ago, Pagano (1980, p. 31) argued that financing capital projects and continued maintenance had "exacerbated the fiscal strain for localities." In addition, he noted that these fiscal crises were the result of . . . "shifting (shrinking) revenue bases . . .; increased demand for service delivery systems from the public sector; the changing federal-local relationship; and the changing role of 'public debt,'" as well as the inability of the locality's infrastructure to support community social and economic needs (Pagano 1980, p. 37). Further, he found that capital budgets tend to focus on new construction, whereas maintenance is often an operating budget line item. As infrastructure ages, the community's ability to absorb additional taxes or user fees to support infrastructure maintenance is likely to be the

determining factor in financing necessary repairs, particularly because the orientation of federal categorical programs (i.e., highway and bridge trust funds) was toward new construction (Pagano, 1980, p. 240). These issues remain central to the infrastructure funding challenges faced by municipal governments today.

Financing Infrastructure Needs

Capital projects are generally large and expensive. When possible, funding is often structured through lump-sum appropriation or, alternatively, spread over the 20- to 50-year life expectancy of the asset. A recent study (Wang, Hou, and Duncombe, 2007) argues that the lump-sum, pay-as-you-go funding (pay-go) is sensitive to business cycles. State and local governments experiencing volatile business cycles are more likely to use this method, particularly if the volatility is a result of the first waves of economic expansion, because such volatility increases the risk associated with long-term debt. Pay-go is advantageous for several reasons. It allows governments to:

- Avoid interest and debt issuance expenses;
- Quickly take care of less costly or recurring capital projects;
- Maintain more flexible, non-debt-service driven, future budgets;
- Improve a government's financial position;
- Maintain or improve, as a result of its improved position, the government's bond rating for future borrowing needs.

Further, not incurring debt can help officials and residents maintain what they perceive to be a more responsible fiscal policy and political orientation (Vogt, 2004). For pay-go to work effectively, however, there must be adequate revenues for all purposes, and political officials must be responsible for their spending choices.

In today's less-than-optimal economic circumstances, pay-go has, to a large extent, been supplanted by pay-use or debt financing (Finke, 2007). Pay-use is associated with increased fiscal stress and continued economic instability, such as that resulting from pension, education, and health care funding shortfalls and stagnant or declining revenues. The use of long-term debt allows for benefits and repayments to be spread equally over time, affecting today's users (rate payers) and all future users over the life of the asset (Lee, Johnson, and Joyce, 2008).

State and local governments shoulder a considerably larger share of the infrastructure financing burden than the federal government. A recent study (Bell et al., 2006) found that in 2002, state and local governments spent $263.5 billion ($316 billion in today's dollars) on capital projects, six times the total amount of federal funding. Local government funding accounted

for the vast majority—an average of approximately two-thirds—of the state/local portion.

Public Debt

Municipal bonds are the predominant financing mechanism used by local governments to finance capital expenditures. General obligation and revenue bonds, the most common options, forestall demands on current revenues and enable governments to coordinate the time pattern of benefits derived from capital facilities with the time pattern of tax payments. In addition, municipal bonds are subsidized by the federal government in that interest income is exempt from federal income tax (CRS, 2001), providing incentive for investors.

Federal law places limitations, based on a population-driven formula, on the amount of tax-exempt debt each state can issue in any given calendar year (Lockler, 2008). Likewise, many states restrict bond authorization to voter approval through referendums or place limitations on the dollar amount of debt that can be incurred, often in a ratio to outstanding debt, debt retired during the current year, property taxes or assessments, or some combination thereof (Vogt, 2004).

When it comes to issuing bonds to fund infrastructure projects, the primary challenges faced by small communities are the high cost of debt service and issuance and the ability to find an investment banker and a market for what will likely be a relatively small (dollar amount) bond offering. Bond banks offer and sell bonds for municipalities, pooling local issuers and backing them with the state's credit in order to reduce borrowing costs for these small communities (Bell et al., 2006). The Maine Municipal Bond Bank (MMBB), for example, offers funding to local government entities through their general bond resolution program and clean water state revolving fund (SRF) programs (MMBB, 2007). MMBB bonds issued in 2004 received Fitch's highest rating of AAA; however, the rating agency noted concerns about a pending referendum that had the potential to limit property tax rates and affect the Bond Bank's ratings (AllBusiness, 2004).

The creditworthiness of state and local governments affects their ability to issue bonds. Nationally Recognized Statistical Rating Organizations (NRSROs), such as Fitch, Standard & Poor's Rating Services, and Moody's Investors Services, are charged with evaluating the credit risk of every bond issued, along with that of the issuing government (SEC, 2008). Bond ratings are significant to both issuer and buyer. A national rating system expands the universe of buyers for municipal debt, and more buyers often results in competition among investors, which lowers interest costs. Institutional investors are often not able or willing to purchase bonds that are not rated by a nationally recognized agency. Further, bond ratings can

make issues more viable on the secondary market, allowing them to be bought and sold throughout their lifetime, rather than simply redeemed when called or at maturity. Finally, only nationally rated bond issues qualify for bond insurance, which provides investors with a guarantee that all future interest and principal payments will be made (Vogt, 2004).

A good rating indicates competent planning and fiscal management and provides incentive for the issuer to maintain and/or improve its practices. A rating upgrade is indicative of enhanced management performance, just as a downgrade indicates weakness. Unfunded liabilities (i.e., outstanding pension and health care costs) can adversely affect a state's credit rating, as can reliance on debt financing to fund non-capital expenditures, such as pension contributions. These activities, in turn, can significantly increase bond issuance and interest costs (Standard & Poor's, 2007). They can also restrict the issuing government's ability to issue bonds for capital; as the government moves closer to the annual federal issuance cap, credit risk increases, thus potentially lowering the ratings issued by the NRSROs. The lower the rating, the higher the borrowing costs. Consequently, downgraded state ratings can significantly deter local borrowing efforts.

Alternative Funding Mechanisms

Local governments have a variety of other options to choose from when funding capital investment projects. Leases, installment-financing, lease-purchase agreements, and revenue leases are popular methods of privatizing the costs of public works. Common examples include certificates of participation and privately placed leases, such as Chicago Mayor Richard Daley's $1.82 billion, 99-year lease of the eight-mile Chicago Skyway to a group of foreign investors (Skorburg, 2004). Contracting out, vouchers, and asset sales, such as the proposed sale of the Illinois State Lottery to fund school construction, are other ways of involving private entities, directly and indirectly, in the provision of public services. These methods can lower costs and improve efficiency and timeliness (Bell et al., 2006).

The use of tax increment financing (TIF), which freezes local property assessments and directs subsequent increases in property taxes that result from economic development to repayment of TIF bonds and/or expenses, can be a long-term option. The City of Peoria, for example, extended the duration of a TIF district as it approached the conclusion of its original 30-year term.

Other alternatives include the use of user fees and impact fees. User fees, such as toll collection, create the purest form of user-related revenue because only users pay for the service. Impact fees, however, are levied across the board to compensate for increased costs of public services, creating a disparity between those who benefit and those who pay (Bell et al., 2006).

Intergovernmental revenues, such as federal and state loans, grants, and revolving funds, provide one of the most comprehensive means of infrastructure financing. Federal highway programs are the largest source of federal infrastructure dollars, although in this decade annual funding increases have failed to keep pace with inflation (Federal Reserve Bank of Minneapolis, 2008; Fischer, 2005), and future revenue projections for the Highway Fund are not sufficient to meet annual state allocations (GAO, 2006). State government acts as a conduit for distribution of federal program funding to local governments and in addition provides state-financed grants, loans, and loan guarantees through state revolving funds and state infrastructure banks. Earmarking is a form of intergovernmental finance in that it directs appropriated federal funds to specified recipients. Earmarking is also practiced at the state level, such as the "member initiatives" included in Illinois spending bills.

UNDERSTANDING FEDERAL EARMARKS

Definitions of Earmarks

Definitions of what constitutes an earmark differ (CAGW, 2008; CRS, 2006; OMB, 2008), as do perceptions of scope. Some see earmarks as solely a congressional activity, while others include the office of the president, vice president and first lady, as well as executive and legislative agency directors (GAO, 2008a, 2008b; Lilly, 2006). For this study, earmarks are defined as a congressional designation of funds in circumvention of normal budget review procedures, not specifically authorized or competitively awarded, and serving only a local or special interest (CAGW, 2008; Finnigan, 2007).

It is important to note that earmarks direct the use of funds already appropriated within the federal budget. They are not requests for additional spending and in fact are budget neutral. Reducing earmarks will not reduce federal spending. If a "$10 million earmark were eliminated there *would not be a $10 million budget savings*" (OMB. 2008, p. 4; italics in original). Rather, elimination of an earmark would simply redirect the funds back to agency or program control, which the administration and agency could then spend as they saw fit.

Earmarking raises issues of transparency, accountability, and priority setting. Projects funded by federal earmarks are not vetted through agency or program selection processes. They often did not or would not meet funding criteria; in fact, that is frequently the reason for the earmark request. In addition, earmarked awards are generally not subject to agency or program accountability standards.

Federal earmarks generally occur in committee and conference actions and are often buried in appropriations bills and conference reports. Recent

reform legislation has mandated public disclosure, requiring identification of the dollar amounts and names of the sponsoring legislator(s) for each earmark. This does not negate the log-rolling aspect of the earmarking process; it simply attempts to shed light on those persons participating in it.

Determination of priority setting—agency versus congressional control—is a contentious issue. Legislators argue that they spend more time in constituent communities and are therefore more able to identify needs. Public officials interviewed for this study noted that the image of federal earmarks as new-construction funding that provides legislators with ribbon-cutting photo-ops for reelection is a myth. In contrast to the literature and common perception, most requests from constituents are for repairs and maintenance of existing infrastructure. One U.S. Congress member noted that:

> [Earmarking is important for] needs that can't be filled otherwise. For example, the city of Chicago has no way to fund very busy thoroughfares that connect state routes; they are not state roads, but because of the mass of the city they can't afford major road improvements.

Nevertheless, agency directors and association executives substantiated what one executive articulated, that:

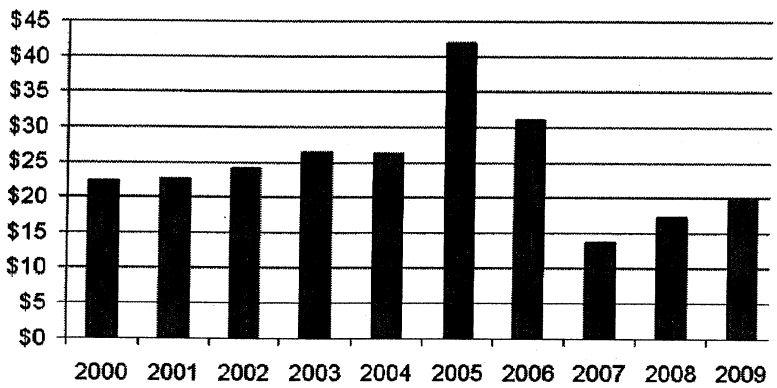
> Earmarks are frustrating; they tie [our] hands. . . . [We] can't make sure the money is going where it is most effective, eliminating merit-based decisions. . . . They take needs-based rational planning and substitute political clout.

Earmarks as Pork-Barrel Spending

Congressional earmarking abuses (i.e., the Rep. Randy "Duke" Cunningham, Jack Abramoff, and Rep. William Jefferson scandals), as reported widely by the media, have associated the process with corruption (Clemmitt, 2006). As a result, the earmark process has been criticized extensively during the past few years. In George W. Bush's 2008 State of the Union address, the president vowed to veto spending bills that did not reduce the number and cost of earmarks by half. His subsequent Executive Order 13457 directed federal agencies to disregard funding directives for earmarked projects contained in committee and other such reports that are attached to appropriations bills but are not backed by force of law (Federal Register, 2008).

More recent presidential campaign rhetoric also promised to curb or eliminate earmarks. And in the House and Senate, almost 100 resolutions, bills, and amendments that were initiated to specifically study, restrict, or eliminate the earmark process were issued during the last five years. More than three-quarters of those were proposed in 2007 and 2008, the

Figure 1: Total Federal Earmarks, FY 2000–2009, Adjusted for Inflation ($billions)



Source: Citizens Against Government Waste, www.cagw.org.

peak years of earmark reform (see Figure 1), yet, all told, only the one bill noted above was enacted into law (THOMAS, 2009).

With all this attention, one would expect to find that earmarks constitute a substantial portion of congressional spending, but that is not the case. During the current decade, the demand for earmarks increased substantially, from 4,326 funded requests at a cost of $22.2 billion, adjusted for inflation, in FY 2000 spending legislation to a peak of 15,411 awards totaling $41.8 billion in current dollars in FY 2005. That comes out to a 256% increase in the number of projects funded and an 88% increase in earmarked dollars in just six years. The slight decline in FY 2004 funding is attributable to the lull between the major transportation funding bills in FY 2003 and 2005.

Reform efforts and congressional use of continuing resolutions and omnibus spending bills in FY 2006 reduced earmark funding to $31 billion, adjusted for inflation, for 9,963 requests. Subsequent earmarking declined further, due to continued reform efforts, reaching a low of $13.7 billion in current dollars in FY 2007, but then began a steady ascent again in FY 2008 and 2009 to $17.9 billion and $19.6 billion, respectively. At its zenith in FY 2005, earmarked spending totaled only 6% of congressional appropriations.

SCOPE OF THE STUDY

This study includes archival and empirical components, including evaluation of government reports; collection, coding, and analysis of federal earmark data; and assessment of survey and interview data.

Information and data retrieved from archival reviews of federal and Illinois fiscal and legislative documents and agency reports represent a major component of the study. Inquiries made to agency executives at the Congressional Budget Office (CBO), Congressional Research Service (CRS), the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and the Illinois Governor's Office of Budget and Management (GOMB) all indicated that records containing the total dollar amounts of individual federal and state appropriations bills are not maintained by any office. Consequently, the appropriations spending data presented in this study are based on the author's calculations of individual spending bills.

FEDERAL EARMARK DATA

Several organizations monitor and collect earmark data. OMB's database is broadest, targeting appropriations and authorizing legislation, but limited to fiscal years 2005 and 2008. Other sites provide information about earmarks in specific legislation, such as the 2005 Transportation bill (SAFETEA-LU) or compare earmarks in House and Senate versions of specific legislation. Citizens Against Government Waste (CAGW, 2008), however, maintains files of identified earmarks contained in annual congressional appropriations bills from FY 1991 to date. Their data was used because of its historic and comprehensive nature.

Defining Infrastructure

The American Society of Civil Engineers (ASCE, 2009) periodically conducts a comprehensive review of the country's infrastructure using a classification and rating system that allows for a nationwide perspective and in-depth evaluations of individual states.[1] For this study, a coding system was developed based on ASCE's categorical divisions of:

1. Aviation/air transportation;
2. Bridges;
3. Drinking water;
4. Mass transit;
5. Roads and highways;
6. Railroads;
7. Waterways/water transport; and
8. Waste water (sewage).

[1] ASCE's *2009 Report Card for America's Infrastructure* is available at *http://www.infrastructurereportcard.org/*.

Other capital projects, such as schools, parks, and libraries were omitted because of their dependence on local referendums and property taxes as funding sources. Energy, solid and hazardous waste, security and technology were also not included because of the rarity of solid/hazardous waste earmarks within the data and the challenges inherent in defining energy, security, and technology items for coding purposes.

Identifying Infrastructure Earmarks

More than 67,000 earmarks contained in FY 2000–2007 congressional appropriations, according to CAGW, were individually reviewed and assigned to the categories identified above. Earmarks for dams, ports, ferries, and harbors, for example, were included within the waterway category. Road improvements, signals, pedestrian walkways, and highway bike paths were allocated to the highway category, whereas sidewalks and trails were not considered capital investments. Earmarks for Army Corps of Engineers projects were omitted because of the grand scale of the endeavors, which often affected numerous states and made identification of funding to specific local governments impracticable.

Developing the Case Study

There were a number of reasons for locating this study in Illinois. The state has more local governments (6,994) and more municipal governments (1,311) than any other state in the nation (U.S. Census Bureau, 2007), which provided a large target population for survey distribution. In addition, the state contains a broad range of city sizes, from rural villages with populations of less than 100 to the city of Chicago with its almost three million people. Excluding Chicago because of its unique size, the largest segment of municipal communities in Illinois—47%—comprises towns and villages with fewer than 1,000 residents. Twenty-eight percent of the state's municipalities have populations between 1,000 and 5,000; 18% have 5,001 to 25,000 residents; 4% have populations between 25,001 and 50,000; and only 4% of communities contain more than 50,000 residents.

Additionally, Illinois has had its share of fiscal stress and political challenges. Personal and political conflicts within the capitol, particularly over budget issues, were exacerbated by open hostilities between the governor and speaker of the house that even intervention by congressional members could not resolve. Tensions between the governor and the legislature were also high, in large part because of incongruities in budgeting and spending priorities, and escalated as unsuccessful attempts at capital budgeting unfolded. Finally, the choice was also a matter of convenience. Being a resident of Illinois and in close proximity to the statehouse facilitated data gathering and interview efforts.

The Survey Instrument

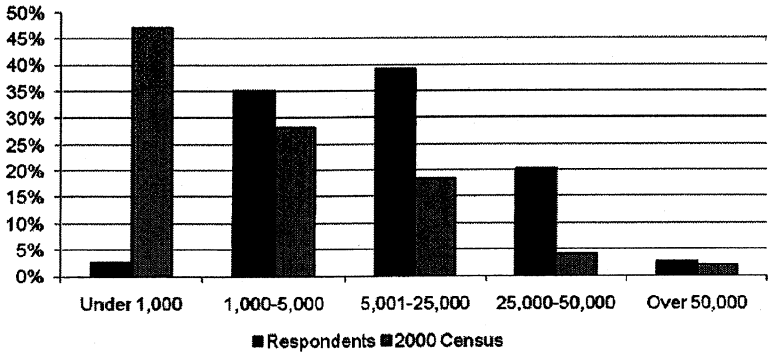
A survey of municipal officers was conducted to assess the characteristics of infrastructure funding with local community governments. Survey distribution was focused on mayors and village presidents because, according to one congressional interviewee (#416), "the majority of earmark requests come from elected officials." Illinois' political structure is such that in communities with mayor or village president and city council or city manager structures, the mayor or village president is elected at large. Seventy-six percent of respondents identified themselves as mayors or village presidents from these governmental structures. The remaining respondents included council members and managers from communities with council/manager structures (20%), and mayors or managers from alternative government structures (4% other).

The use of an electronic delivery method limited the parameters of the sampling pool to potential respondents with viable Internet addresses. Of the 1,311 cities and villages in the state, 340 municipalities had valid email addresses for their executive officers. After accounting for bounce-backs (invalid addresses) and those who opted out, 332 surveys, comprising 25% of the total population, were sent electronically to communities within the state. Two subsequent solicitations for participation were sent, garnering a total of 103 responses, or 31% of those who received the survey. In relation to the 1,311 communities within the state, the overall response rate was 8%.

Although some rural Illinois communities—such as Rio with a population of 240—have Internet access, overall these smaller municipalities may be less likely to have Internet service or have the technological sophistication to maintain an IP address or use email. At 47%, they make up the largest portion of Illinois municipal governments, but they are underrepresented in this study, with respondents totaling only 3% of the total (see Figure 2). As a result, respondents from the other population categories are proportionally greater than their U.S. Census distribution. Commentary from legislators seems to support this distribution; they indicated that the majority of earmark requests came from mid-range population communities. It is possible, however, that a combination of survey delivery systems using email and the U.S. postal service could alter the findings of this study. Further, elected officials and authorities from county, township, and special districts were not included in this study, but it is possible that their contributions could have added to this research.

Survey questions centered on the receipt of federal earmarks and Illinois member initiatives between FY 2003 and FY 2007, identification of the most pressing current and anticipated public works needs, and identification of the methods most commonly used to finance capital projects and those anticipated for future use. Respondents were also asked about capital budgeting practices and the use of lobbyists to obtain earmarks.

Figure 2: Percentage of Respondents vs. Total Illinois Communities by Population Range



Sources: US.Census Bureau, 2000 Census Population Compared to 1990: Illinois Municipalities, Census 2000 Redistricting Data Summary File, PL 94-171, http://illinoisgis.ito.state.il.us/census2000/censusData/2000/docs/munipop.xls,and data complied by author.

Personal Interviews

The survey instrument invited every respondent to participate via written comments and/or a 30-minute, informal and anonymous personal interview. Approximately 10% of the respondents took part, some through lengthy comments and others through conversations often an hour or more in duration. In addition, eight U.S. and state legislators, including legislative leaders from both parties, were very generous with their time and expertise, as were directors from five federal agencies, three state agencies, and officials within the state executive branch, including the Governor's Office of Management and Budget and the Illinois Auditor General's Office. Interviews with executives from seven professional organizations and two academic sources close to the Illinois budget and political processes for more than 20 years provided additional insights. Interviewees' comments are interspersed throughout this paper to supplement the collected data and highlight or emphasize findings where appropriate.

THE CASE STUDY: ILLINOIS LOCAL GOVERNMENTS' USE OF FEDERAL EARMARKS TO FUND INFRASTRUCTURE

The Importance of Federal Earmarks

Politicians and bureaucrats interviewed for the study noted that it is the role of congressional and state elected officials to help their communities

get the resources they need. Legislators argue that they know the needs of their districts far better than decision makers in federal and state agencies. According to one interviewee (#513):

> The suggestion that their [bureaucrats'] decisions are better because they're vetted is not always the case. Legislators vet requests as well. Bureaucrats don't have the luxury of experience, time, and manpower to do site visits. Legislators do.

Further, the use of federal earmarks and member initiatives are ways to increase communication between citizens and their government by engaging them in the process (Interviewees #505, #513). Such communications have increased substantially in the last few years. One legislator noted that "not a day goes by without a request for capital infrastructure needs" (#519). According to another (#416), "requests have increased at least 50%" during his time in office. "Success getting major projects done spurs more requests."

Illinois lawmakers found that the marked hostility between the governor and the general assembly made it difficult to provide for their constituents. Two interviewees (#314, #325) said that requests for member initiatives have almost stopped coming in because "people don't think that this governor and general assembly can get anything done." Overall, it was the perception of interviewees that the lack of trust and allegations of misdeeds by the legislative and executive branches of state government resulted in the breakdown of cooperation between the two branches, impeding state funding and state assistance in claiming federal funding for local governments. As a result, local governments were left to solicit funding from their congressional representatives for much-needed projects that may not have met the requirements necessary for traditional program funding or that may have had a greater degree of urgency at the local level than the priority given to them by federal or state agencies.

When asked whether they had received federal earmarks or member initiatives within the past five years, fully 66% of participants responded positively. Only 14% of the participants received federal earmarks in FY 2003; however, by FY 2007, 42% had received earmarked funding, an increase of 200%.

Local Capital Spending

As illustrated in Table 1, between FY 2004 and FY 2007, revenues and capital spending rose slightly, yet spending for current operations rose even more. Proportionally, the increasing costs to operate local governments outpaced increases in revenues. Capital spending reflected this shift in spending as it declined in relation to both general revenues and current operations, decreasing slightly from $2.5 billion in FY 2004

Table 1: Illinois Local General Revenues, Operating and Capital Expenditures, and Federal Earmarks, FY 2004–2007, Adjusted for Inflation ($millions)

	FY 2004	FY 2005	FY 2006	FY 2007
General revenue	$54,065	$53,802	$57,474	$57,409
Current operations	$41,589	$47,353	$48,351	$49,884
Capital outlays	$2,557	$2,254	$2,255	$2,440
Federal infrastructure earmarks (aggregate)	$62	$164	$196	$1
% capital outlays to general revenues	4.73%	4.19%	3.92%	4.25%
% capital outlays to current operations	6.15%	4.76%	4.66%	4.89%
% earmarks to capital outlays	2.42%	7.28%	8.69%	0.04%

Sources: Figures compiled by author from data obtained from Citizens Against Government Waste (*www.cagw.org*); the U.S. Census Bureau, State and Local Government Finances (*http://www.census.gov/govs/www/estimate.html*); and the U.S. Bureau of Labor Statistics, CPI Inflation Calculator (*http://data.bls.gov/cgi-bin/cpicalc.pl*).

to $2.2 billion in FY 2006. And between FY 2003 and FY 2006, local government receipt of federally earmarked dollars rose more than 216%, from $62 million to $196 million, as adjusted for inflation. The $200 million increase in capital outlays in FY 2007 is likely compensation for the lack of earmarks awarded in FY 2007 due to Congress' failure to pass their typically earmark-laden appropriations bills.

Earmarks are awarded in response to constituent requests. The substantial increase in earmarks between 2003 and 2006 signal a corresponding increase in demand for funding assistance, primarily for repairs and maintenance of existing public works. As noted earlier, the dramatic drop in federal earmarks for FY 2007 is due to congressional use of continuing resolutions and omnibus spending bills, rather than an ideological determination to curb earmarking or a decrease in constituent demand.

Do federal earmarks make a difference when it comes to financing capital projects? Most interviewees believe they do. As one legislator (#415) pointed out:

> [Earmarks] are 1-year appropriations, and that's the point—they are not continually funded programs. There is no way with the tax base that little communities can afford these things. They affect health and safety and quality of life.

Respondents who received federal earmarks were asked to identify the dollar amounts received and the category of the infrastructure project for which the monies had been provided. Tables 2 and 3 illustrate the results of

Table 2: Dollar Amounts of Federal Earmarks Received by Percent of Respondents, FY 2003–2007 ($thousands)

FY	$100–$500	$500–$1,000	$1,000–$2,000	$2,000–$5,000
2007	55%	21%	16%	5%
2006	61%	22%	9%	9%
2005	55%	25%	10%	10%
2004	59%	29%	6%	6%
2003	64%	21%	7%	7%

Source: Figures compiled by author from data retrieved from survey.

these queries. As shown in Table 2, the majority of earmark awards were for amounts under $500,000. Although not large sums, in some cases they were the only means of funding for drinking and waste water needs. The largest distribution of federal earmarks to a single Illinois municipality—$10 million for drinking and waste water and highway projects awarded to a community with more than 50,000 residents (not shown)—occurred in FY 2007. Earmarked awards of $1 million to $2 million received by respondents for infrastructure needs almost doubled during the same year, in spite of the fact that overall FY 2007 spending contained the fewest total federal earmarks distributed in more than a decade.

Not surprisingly, the majority of federal earmarks were awards directed to highway projects, and according to respondents, those were primarily for repair of existing roadways rather than new construction. Between FY 2000 and FY 2007, however, earmarks received by respondents for drinking water and waste water projects increased 36% and 23%, respectively, while earmarks for highway funding declined 16%. This corresponds with respondents' shift in emphasis from highway projects to public drinking and waste water funding needs when considering current and future needs.

The Fiscal and Political Environment

Illinois currently faces a structural deficit, the lowest pension funding ratio in the country, and mounting debt. The Center for Tax and Budget Accountability (CTBA) reports that as far back as FY 2005 the state has been unable to meet current services needs with existing revenues (CTBA, 2008). The Illinois Office of the Comptroller reports that at the end of FY 2007, the state had the seventh highest net tax-supported debt per capita in the nation and was number six in the country in highest net tax-supported debt as a percentage of personal income. The issuance of $10 billion in bonds to fund the state's FY 2008 pension contribution requirement reduced the state's unfunded liability but brought the

total of the state's outstanding general obligation bonds to $20 billion (Hynes, 2008).

Escalating unfunded liabilities also hamper the state's fiscal stability. In addition to $9 billion in unpaid Medicaid bills, the FY 2009 budget as originally proposed included a $2 billion deficit, despite congressional balanced budget requirements. With a $40.7 billion unfunded pension obligation (CTBA, 2008a), Illinois has the lowest pension funding ratio (58%) in the nation. Further, the state's governmental accounting estimates of investment returns are based on a higher projected rate of return than national averages; that and broader than average interpretations of conventional accounting standards may provide a more enhanced fiscal outlook than warranted.[2]

The outstanding liabilities legislation passed in 2003, which permits the governor to authorize movement of up to 8% of projected revenues each year from dedicated funds to the general fund without legislative approval, and the governor's selective spending practices caused rating agencies to downgrade the state's credit rating in 2005. Moody's lowered the rating from Aa2 to Aa3; Fitch rated Illinois debt at AA, down from AA+; and Standard & Poor's issued a negative outlook for the state (Pew Charitable Trusts, 2005). Lower ratings add to the cost of borrowing, making the recent proposal to use bond proceeds to make annual pension contributions more expensive. Additional debt has since adversely affected state borrowing credit ratings even further. This year Moody's again lowered the rating of Illinois' general obligation issues from Aa3 to A1 (Miller, 2009).

Lowered credit ratings also increase local government expenditures for borrowing and bond issuance. Many communities have issued bonds to fund previous infrastructure needs, leaving some without the creditworthiness required to finance current and future needs. One survey respondent (#519) voiced concerns about the impact of prior bond funding on upcoming capital funding plans. The "existing costs of our water and sewer systems are already high due to past bond issues and loans to fund initial start-up. These have not been retired as yet."

Most municipalities in Illinois rely on bond funding to facilitate their infrastructure needs. Table 3 illustrates the preferred choices of the survey respondents by population size. In the midrange communities, user fees, sales tax increases, tax increment financing, and other, undefined options

[2] The average state pension ration, as of 2006, was 82%. Illinois' three largest pension funds assume 8.5% interest on investments, whereas other states, on average, anticipate an 8% return. The state also uses a 40-year amortization period, as opposed to the 30-year GASB standard. Details can be found in *Promises with a Price: Public Sector Retirement Benefits* at *http://www.pewtrusts.org/uploadFiles/wwwpewtrustsorg/Reports/State_policy/pension_report.pdf*.

Table 3: Top Infrastructure Funding Choices: Percent of Respondents within Each Population Category

	Community Population					
Funding Method	0–1,000	1,001–5,000	5,001–25,000	25,001–50,000	More than 50,000	Not Disclosed
Bonds	50%	25%	32%	53%	100%	23%
Bond banks			6%			
Corporate investment	50%					
Earmarks		4%	10%			8%
Federal matching funds			6%	7%		15%
Lease/sales						
Property tax		4%		7%		8%
Public/private partnerships		4%	8%			
Sales tax		13%	6%	13%		8%
TIFs		8%	16%			
User fees		25%	10%			69%
Other		17%	10%	20%		15%
Total number of respondents	2	25	30	15	2	13

Source: Figures compiled by author from data retrieved from survey.

not contained here were secondary choices. With such a substantial reliance on bond funding, the state's reduced bond ratings, continued structural deficit, and precarious debt structure will make it more challenging for local governments to rely on bond issuance to finance capital projects. Current economic conditions make additional user fees and taxes less palatable. As the choices become more external, corporate investment, public/private partnerships, and earmarks may seen as more viable options.

The politics of Illinois' capital budgetary process have negatively affected local government infrastructure needs and funding choices. The state has been without capital spending legislation since the 5-year *Illinois FIRST* public works initiative expired in 2003. Fiscal instability and escalating political animosity resulted in extended special legislative sessions and stymied attempts at garnering support for a new capital spending bill. The state spent $1.9 billion on highway and waterway construction in FY 2007; however, without a new capital bill, the state faces the potential loss of millions of dollars in federal transportation

matching grants for future projects (Interviewee #502). Many bridges, railways, and water and sewage systems within the state date back to the industrial era. Structural reliability ratings for much of this aging infrastructure have been continuously downgraded by regulatory agencies and monitoring organizations, with a substantial number considered past the point of routine maintenance (ASCE, 2009; Pew Charitable Trusts, 2008).

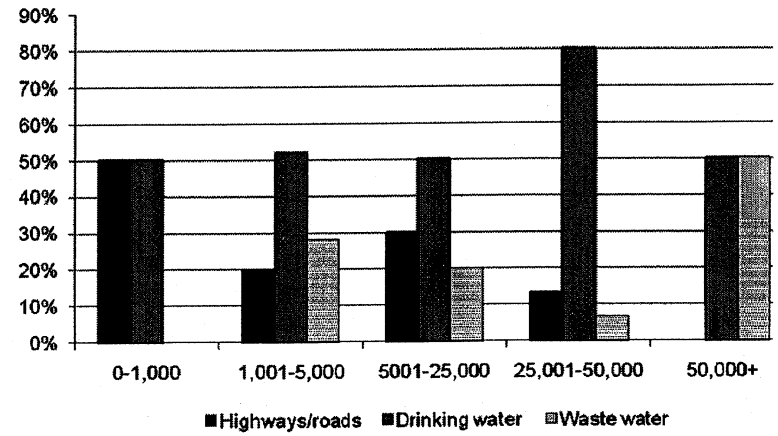
Local governments are similarly encumbered by fiscal challenges such as mandated pension contributions, high debt resulting from funding previous infrastructure needs, higher borrowing costs due to low bond ratings, and sales, income, and property tax constraints. For smaller communities, capital is expensive and financing options are limited. Municipalities that receive few or no federal earmarks face tougher challenges in funding infrastructure through merit-based programs or traditional revenue-generating means, such as increased taxes and bond issuance, if their project needs or fiscal condition do not meet competitive program qualifications. For example, a community with sales and property tax rates that are perceived by residents to be very high would meet considerable resistance to raising taxes to pay for maintenance on several miles of roadway. If the community is fiscally unstable, or has a great deal of outstanding debt, interest and issuance costs for additional bonds may be cost prohibitive. If the State Department of Transportation ranks that community's highway repairs as less urgent than those identified for other communities, it puts the city further behind in the queue, if in the queue at all, for program funds.

Long-term capital planning is essential to ensure that infrastructure needs can be met. Survey data indicate that 84% of Illinois local government respondents have formally adopted capital budgets in place, and of those, 20% are multi-year budgets. Respondents voiced frustration at the lack of a capital commitment at the state level, arguing that "it is the state's responsibility . . . to develop a maintenance plan" (Interviewee #501). Yet in spite of contracted efforts by current and former lawmakers, most interviewees' comments were consistent with one lawmaker who saw "dim . . . prospects of a capital budget in the near future" (Interviewee #325).

The Future of Municipal Capital Spending in Illinois

When asked to evaluate future capital funding needs, respondents in communities of more than 1,000 residents overwhelmingly chose drinking water as their top priority. The respondents from communities with fewer than 1,000 residents indicated that highway funding and drinking water needs were equally the primary focus of future funding. In the largest communities, highway funding was surpassed by drinking and waste water needs. Figure 3 illustrates the hierarchy of concerns of survey participants based on their community size.

Figure 3: Respondents' Primary Future Funding Concerns, by Municipal Population



Source: Figures compiled by author from data retrieved from survey.

One participant from a community with fewer than 5,000 residents characterized his village's upcoming needs as "drinking water #1, waste water a very close 2nd." Another responded that:

> [The greatest challenge facing his city is] funding any capital improvement project with a population that has dwindled from 2,013 to 1,713 over the past 20 years. It puts a tremendous burden on the existing population. We recently spent $4 million on the sewer system and another $1 million on our streets. We will be paying off these debts for the next 15 years.

Respondents indicated that they feel future funding challenges are stymied by the sheer magnitude of infrastructure need, external spending mandates, and internal fiscal challenges. They were concerned about "securing the funds to progress these projects while still fulfilling our current obligations."

CONCLUSION

This preliminary study illustrates local governments' increasing reliance on federal earmarks as a viable and necessary tool to finance capital needs. Why is this important, particularly given that these earmarks are a minute portion of annual earmark totals, which, in turn, are but a drop in the bucket in the federal appropriations process? For many communities, earmarks

make the difference between clean drinking water, functional railroad crossing gates, or efficient sewage systems. As the data show, most grants are single-use awards for less than $500,000, an effective way of financing municipal projects that often do not meet government program criteria without taking on additional debt or raising taxes—both of which are becoming increasingly untenable options.

Federal earmarks and state member initiatives come about through constituent requests for funding grants. The magnitude of the increase in federal earmarks received by Illinois municipalities—more than 200% in just three years—represents an exponentially increasing number of requests, which, in turn, demonstrates an increasing need for alternatives to traditional funding methods. This supports the assertions of congressional and state legislators who, when interviewed, indicated that the number of solicitations they receive has increased each year, particularly for infrastructure maintenance projects. The rising demand is often a result of stagnant or declining program funding levels and the subsequent challenges faced by state and local governments to provide for "health and safety" (as one interviewee labeled public works projects) without raising taxes (which in many cases are already at their maximums), issuing additional debt (which may be cost prohibitive), or selling public assets to pay for immediate needs.

The proliferation of earmarks attests to the ineffectiveness of the current budget process in federal and state governments. Earmarking replaces the merit-based project funding process developed through rational agency analysis with political expediency, because earmarks are often the means for vote trading and "logrolling." This political distribution process does not provide the transactional transparency and accountability that is contained in agencies' and programs' competitive, merit-driven, evaluations methods. The methods by which earmarks are awarded are not often disclosed, and the legislative sponsors or recipients are not always clearly identified, despite legislation intended to reform those aspects of the process.

It has long been asserted that earmarks are a means of congressional credit claiming, especially when lawmakers bring new construction projects to their districts. A noteworthy finding in this study is that line-item reviews of earmarked allocations and concurrence by almost all interviewees indicate that the vast majority of federal earmarks awarded for infrastructure use are for maintenance and repairs of existing structures, rather than new projects as commonly assumed. Although Congress continues to place its emphasis on "bringing home the bacon," ribbon cutting is not essential to that end.

This study raises more questions than it answers. How do other state's local governments fare; are they facing similar challenges to infrastructure

funding? Are federal earmarks becoming an important factor in their financing plans? Should state and local governments that are more fiscally sound subsidize the costs of clean drinking water—for example, for residents in communities with fewer options and resources? If government programs are ineffectual in meeting local infrastructure needs, how should their role be restructured and who should pay for it? As infrastructure crumbles nationwide and more communities face repeated boil orders for drinking water (as has been the case in Illinois), how should needed repairs and upgrades be financed to ensure that sanitation standards are met nationwide, that bridges and roads are traversable, and dams and floodgates are maintained—and that the funds used to facilitate these projects are clearly and fairly distributed?

One solution, offered by an interviewee, is to simply "fund agencies better." Would the earmarked funds allocated to local waterworks projects in the FY 2008 appropriations legislation, for example, have been more effectively spent by increasing the resources of the state water revolving loan funds? How do we determine who knows best and under what circumstances agencies or public officials are best able to assess priorities?

How does the political influence, or lack thereof, of the district representatives/senators and the requesting officials affect the award of federal earmarks? To what degree do awards fund economic development, emergency and community services, and other social infrastructure? How do Illinois communities compare with those in other midwestern states and in other regions? This paper suggests further study in a variety of directions, including an in-depth examination of local public works funding, which promises to be an increasingly challenging fiscal concern, as well as an examination of the use of earmarks to fund other aspects of community life and the degree to which federal directed funding is an effective means of funding municipal needs.

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