



Trust Fund Suspends Lending

***State financial crisis halts
infrastructure program for first
time in 24 years***

By John Kounts

For Washington public utility districts in the water and wastewater business, one of the major consequences of the 2009 state legislative session was the decision by lawmakers to transfer \$368 million from the Public Works Trust Fund to help make up a \$9 billion revenue shortfall in the state's general-fund operating budget for the next two years.

The transfer—representing the lion's share of about \$400 million that was in the trust fund account—means the state Public Works Board, which oversees the trust fund, will not be able to offer local governments and utilities trust-fund loans for construction, planning or pre-construction efforts for the next two years.

For PUDs, the curtailment of lending from the fund suspends a source of low-interest financing for water and sewer projects that had been a mainstay of assistance since the Public Works Trust Fund was created in 1985.

The fund's core mission is to help local governments—mainly cities, counties, PUDs and water and sewer districts—pay for basic infrastructure projects: water and wastewater systems; streets, roads and bridges; and solid-waste and recycling projects.

Since the fund's inception, the Public Works Board has issued 1,779 trust-fund loans worth more than \$2.3 billion, with no defaults on loans in the history of the program. Of this total, PUDs have received 80 loans worth \$90.9 million for their water and sewer projects.

The Public Works Trust Fund was created to address failures in the operation and management of basic infrastructure that frustrated state policymakers in the early 1980s. At the time, national media attention was focused on visible signs of dilapidated infrastructure, such as collapsing highway bridges and broken water mains.

Washington had its share of problems, but unlike most other states at the time, state legislators and community leaders took action to directly address the issue in a comprehensive way.

According to Pete Butkus—who served in the state advisory process that helped conceive the trust fund and later was appointed the program's first executive director—the trust fund and the Public Works Board were the result of several years' work by the Legislature and then-Govs. John Spellman and Booth Gardner. The

fund and board were created to provide both innovative financing of infrastructure replacement projects and incentives for better long-term management of infrastructure systems.

Butkus said policymakers had several primary goals in mind that shaped the work of the fund and board from the outset:

- Create a self-sustaining revolving fund offering low-interest loans instead of traditional grants—which by the early 1980’s had become more difficult to offer under the state’s bonded debt capacity limit.
- Require and encourage better capital facilities planning by local governments as part of receiving financial help from the state.
- Reward good infrastructure management by giving extra credit to applicants demonstrating good management practices.
- Establish the Public Works Board as a group of peers overseeing the loan-financing process and giving guidance to local governments applying for loans

From the beginning, Butkus said, the Public Works Board and trust-fund staff placed strong emphasis on customer service and making the program as simple as possible for applicants and loan recipients.

“We went back to the Legislature 15 times to tweak our enabling statute—RCW 43.155—to make the program more user-friendly and customer-focused,” Butkus noted.

From a modest beginning in 1985 with an initial \$34.6 million in its lending account, the trust fund grew steadily through loan repayments and tax revenues until it was projected to reach nearly \$420 million in the 2010-11 biennium, before the Legislature’s decision this year to transfer most of the money to the general fund.

In addition to loan repayments—at interest rates ranging from 0.25 to 2 percent per year—the trust fund receives revenue from four state tax sources related to the types of infrastructure aided by the fund: 6.1 percent of the revenue from the real-estate excise tax, 20 percent of the revenue from the water utility excise tax, 60 percent of sewerage collection tax revenues, and all the revenue from the state tax on solid-waste service. In recent years, the fund’s total revenue from all tax sources has been between \$75 million and \$100 million a

year. Loan repayments to the fund have been about \$80 million to \$100 a year.

In recent years, requests for loans from the fund have been more than double the amount of money available in the account. Before the 2009 legislative session, the latest forecast of loan requests was for nearly \$950 million against the \$420 million that was projected to be available.

Over the years since the fund’s creation, legislators have transferred money from the fund for purposes other than its official mission several times and for various reasons. In nine past legislative sessions, amounts ranging from \$4 million to about \$65 million were taken from the fund for uses ranging from economic development and job creation to flood control and environmental reviews under the Growth Management Act.

These past transfers meant less money for the trust fund’s conventional low-interest loans, but they were not enough to stop the board from issuing new rounds of loans nearly every year—until the Legislature’s massive \$368 million transfer this year and suspension of the board’s conventional lending for the next two years.

Instead of playing its conventional lending role, the board will spend the next two years disbursing and overseeing several new and revised grant and loan initiatives created by the Legislature and funded by “backfill” money transferred into the Public Works Assistance Account from the state’s bond-funded building construction account.

The board will administer a \$42.6 million “temporary public works grant program” offering \$9.53 million in public works grants for local governments serving rural communities, another \$9.53 million for public works grants to local governments serving high-density urban communities, and \$23.54 million for 21 specific community projects around the state.

The board will have \$2 million available for emergency public works loans to local governments. By contrast, in its last regular lending cycle in 2008, the board issued \$278 million in conventional trust-fund loans.

Board staff members say there will be enough money in the fund account to cover current loan obligations for the next two years.

Legislators made no commitments to restore the \$368 million they took from the trust fund this session for the next bien-

nium. They kept intact, however, the Public Works Board and its 16-member staff, as well as the loan repayments and tax-revenue streams that feed into the fund account.

Over time, the fund can grow and might once again become a major source of infrastructure financing for Washington’s local governments and utility districts.

Concern about the fund’s future, however, is easy to find. Asotin PUD General Manager Tim Simpson, who represents the Washington PUD Association on the Public Works Board, links the state’s economic future to the fund’s prospects for recovery.


“I know that legislators thought they needed to take this money from the fund to deal with the state’s financial crisis,” Simpson said, “but I think they also need to make a strong commitment to returning this money to the fund.”

“The Public Works Trust Fund is one of the most successful infrastructure programs in the country,” Simpson added. “It’s a model that other states and countries have looked to for sustainable funding of basic infrastructure needs, and it’s been a vital part of Washington’s economic development. You can’t have economic development without basic infrastructure like water, sewers and roads.

“It’s important to the state’s future that the Legislature fully restore the trust fund as quickly as possible.”

Until then, PUDs will need to look elsewhere for low-interest financing of their water and wastewater projects.

The WPUWA Water Committee recently discussed the idea of PUDs combining their reserve funds and other available revenues into a shared pool that might help meet project borrowing needs. Participation in the National Rural Utilities Cooperative Finance Corporation — which provides loans to rural electric cooperatives and other utilities — is another possibility under discussion.

PUDs know, however, that the Public Works Trust Fund will be hard to replace with something else. Its 24 years as a unique, national model for infrastructure management and finance make it a tough act to follow. 

John Kounts is Water Program Director for the Washington Public Utility Districts Association. PUDs provide water and sewer services to more than 120,000 customers across the state.