The Impact of Funding Issues on Project Delivery

Innovative Program Delivery

THE TRADITIONAL project delivery process has no stage specifically labeled "funding," yet funding challenges affect each stage of the process—from right-of-way (ROW) that can't be purchased due to unavailable funds to a project that completes the environmental process only to have policymakers reject the chosen source of funding.

Funding challenges affect project delivery for many reasons:

The T-Rex Project was delivered rapidly, thanks in part to early approval of funding.

Legacy of the Traditional Process: Funding in the Back Office (on the Back End)

Explicitly or not, the traditional project delivery process tended to assume that Federal-aid and State funds, based on gas taxes, will be sufficient to cover the costs of projects identified on state plans. Under the old paradigm, projects would move through preconstruction development stages (planning, ROW, design, and National Environmental Policy Act), after which a State Department of Transportation budget official would match the project to an appropriate category of Federal-aid or state funds. Because the category selected would not affect the project's design, this "back office" or largely administrative function did not require the involvement of the public, potential private concessionaires, or the capital markets. By contrast, new revenue, finance, and procurement options require project sponsors to engage the public earlier.

Lack of Public Involvement Impedes Revenue, Finance, and Procurement Decisions

Although the assignment of Federal-aid funding categories is rarely a topic of public discussion, addressing the resource constraints that confront major projects requires significant public scrutiny of revenue, finance, and procurement options. Public involvement is critical for public acceptance. Options such as tolling, bonding, Transportation Infrastructure Finance and Innovation Act borrowing, or public–private partnerships may require State- and local-enabling legislation or ballot measures. If these options are not considered early in the project development process, significant work can be required to bring the public in later.

Design Must Follow Innovations

Alternative revenue, finance, and procurement options may have implications for the project design. For example, if tolling is considered for a bridge, the design might be different in order to reduce diversion, enhance enforcement capability, and/or provide space for tolling gantries. Similarly, a value capture option (e.g., using revenues from air rights located above a new tunnel) can have design implications. If these options are not considered up front, it can be expensive and difficult to re-do the work.

Non-Parallel Process Prolongs Environmental and Other Disputes

The traditional project delivery process does not ensure that such revenue, finance,

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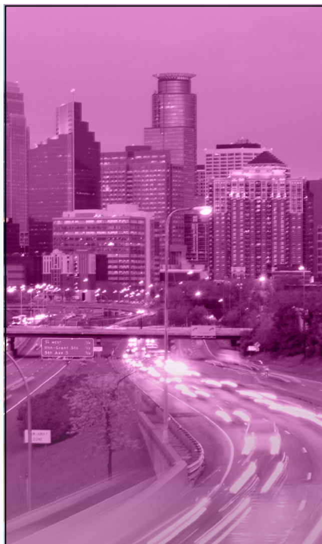

FUNDING ISSUES & PROJECT DELIVERY

Quick Facts

- Early consideration of revenue and finance can substantially accelerate project development.
- According to a 2000 Federal Highway Administration report, up to 36 percent of "NEPA" delays could be attributed to lack of funds or a lowering of funding priority for the project.
- Program delivery involves taking a holistic approach, that is, considering alternative revenue, finance, and procurement options up front to deliver more projects in less time.

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and procurement decisions occur in parallel with the planning, design, and environmental processes. Therefore, the consideration of alternative project delivery options after the issuance of a Record of Decision (ROD) may trigger a reopening of the environmental process. For example, a State may have to issue a Supplemental Environmental Impact Statement if tolling is added to a project after the ROD has already been approved. This new process may reopen the environmental or alignment conflicts, causing further delay and preventing the project from being delivered.

Fiscal Constraint at the Program Level, but Less Planning at the Project Level

Federal planning regulations and guidance specify that all projects that receive Federal-aid assistance must appear on a Statewide Transportation Improvement Program (STIP). The STIP must be "fiscally constrained," that is, the State must demonstrate that it has sufficient funds to construct the projects during the term of the STIP.

Yet for projects that have not yet been added to the STIP, past experience with the Federal-aid program often provides State and local transportation agencies significant incentive to delay consideration of alternative funding options. For example, congressional earmarking may reward project sponsors on the basis of their demonstrated need. That may in turn give an advantage to projects with inadequately developed funding plans, versus those that show initiative or local support in getting dedicated funding or identifying innovative revenue, finance, and procurement approaches. Similarly, few States have developed processes to encourage local governments to be proactive in identifying innovative solutions, rather than to wait for their sub-allocations.

Conclusion: Addressing Funding Challenges Will Help Program Delivery

Certainly funding shortages are not the only challenges to overcome in the pro-

The Woodrow Wilson Bridge is a major project in the Washington, DC metropolitan area.

gram delivery process. However, because funding-related challenges are not clearly identified as such, they are more difficult to resolve. Highlighting the points in the process where funding causes delay or prevents project development may help States gain public support to obtain needed funding or to consider alternative project delivery options. The traditional project delivery process masks the funding issue and prevents the public from both recognizing and addressing a key challenge to project delivery. ∎

FHWA'S Office of Innovative Program Delivery (IPD) works to identify issues and improve project delivery by integrating revenue, finance, and procurement options into the delivery process. In addition, IPD is:

- Working with the planning community to bring revenue considerations into the process
- Commissioning white papers by thought leaders
- Through our Opportunity State Initiative, working with select States as they endeavor to incorporate innovative financing and revenue strategies into their program delivery process. IPD will share lessons learned at regional workshops.

Additional information and resources are available at **www.fhwa.dot.gov/ipd.**

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PROGRAM AREAS OF THE OFFICE OF INNOVATIVE PROGRAM DELIVERY

IPD provides a one-stop source for expertise, guidance, research, decision tools, and publications on program delivery innovations. Our Web page, workshops, and other resources help build the capacity of transportation professionals to deliver innovation.

PROJECT DELIVERY

IPD's project delivery team covers cost estimation, financial planning, and project management and assists FHWA Divisions with statutory requirements for major projects (e.g., cost estimation, financial plans, and project management plans).

PROJECT FINANCE

IPD's project finance program focuses on alternative financing, including State Infrastructure Banks (SIBs), Grant Anticipation Revenue Vehicles (GARVEEs), and Build America Bonds (BABs).

PUBLIC–PRIVATE PARTNERSHIPS

IPD's P3 program covers alternative procurement options (e.g., toll concessions and availability payments), which can reduce cost, improve project quality, and provide additional financing options (e.g., Private Activity Bonds [PABs]).

REVENUE

IPD's revenue program focuses on how governments can use innovation to generate revenue from transportation projects (e.g., value capture, developer mitigation fees, air rights, and road pricing).

TIFIA

The Transportation Infrastructure Finance and Innovation Act (TIFIA) program provides credit assistance for significant projects. Many surface transportation projects—highway, transit, railroad, intermodal freight, and port access—are eligible to apply for assistance.

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