

Prepared Comments
Hawaii Institute for Public Affairs, "Report on the State of Physical Infrastructure in Hawaii"
Tuesday, July 13th, 2010

Introduction

I would like to congratulate the Hawaii Institute for Public Affairs (HIPA) for producing an important report that is sure to focus economic development policy on infrastructure.

This report identifies the required "catch up" investment in infrastructure that will be necessary to improve overall productivity in Hawaii's economy and set the conditions for future economic growth.

With this report, federal, state, and county governments should begin to prepare the public for a sustained effort to improve Hawaii's existing infrastructure and invest in new types of infrastructure necessary for the 21st century.

This morning, I would like to make some brief comments on the impact the American Recovery and Reinvestment Act (ARRA) or the Stimulus package on Hawaii's infrastructure. The ARRA was passed by Congress on February 13, 2009.

Benefit of ARRA to Hawaii

The total benefit of the Stimulus package to Hawaii is estimated to be \$2.19 billion. This figure includes such things as grants, loans, tax incentives and credits, social benefit payments, and increased federal agency spending.

As of March, the Council of Economic advisors estimates the total job impact for Hawaii due to ARRA to be 11,000 jobs. During this same time period, all recipients of ARRA grants in Hawaii subject to the so called "1512 reporting requirements" reported 5,580 direct jobs saved or created due to ARRA funds.

State of Hawaii entities have been awarded a total of 164 awards for \$1.28 billion and have spent \$585 million. State of Hawaii entities have reported a total of 4,211 jobs saved or created due to ARRA.

Impact of ARRA funds on Hawaii's infrastructure

Investing in infrastructure is a key part of the Stimulus package. The Stimulus package provides funds, both by formula and by competition, for investment in infrastructure for transportation, water, sewage, the environment, government facilities, communication, energy, housing, and scientific research.

There are three important ways the Stimulus package has improved Hawaii's infrastructure:

First, by providing over \$663 million in direct federal investment in CIP and R&M;

Second, by making available financing subsidies for over \$1 billion in additional CIP investment;

And third, by introducing a new accountability and transparency framework that could make the public more willing to fund future infrastructure projects.

\$663 million in CIP and R&M

The federal, state, and local governments have \$663 million in CIP and R&M projects funded through ARRA.

A majority of these projects – over \$400 million – are being undertaken by federal agencies directly. The federal agencies with a majority of the projects include:

- The Department of Defense with 116 projects for a total of \$264 million;
- The General Services Administration has two major projects for \$128 million;
- And the Department of Interior has 31 projects for \$29 million

The state and county governments have another \$242 million in CIP and R&M projects underway. These projects are for transportation infrastructure but also include investments in housing, energy, drinking water, and waste water.

The state and county government are also jointly participating on competitive opportunities under ARRA in areas such as broadband, energy, and health IT.

New financing options under ARRA

Under ARRA, a variety of new financing options have been made available by the Treasury Department to stimulate and encourage infrastructure investment. Hawaii has potentially over \$1 billion of additional infrastructure projects that can benefit from Treasury Department programs. These programs basically reduce the borrowing costs for financing infrastructure for state and local government.

- To date, the state government and counties have issued \$699 million in Build America Bonds. The Build America Bond is a new type of taxable bond under which the Treasury Department will make a direct payment of 35 percent of the interest payments on the Build America Bonds to state or local government issuer.
- The counties have been allocated \$90 million in Recovery Zone Bonds and \$135 million in Recovery Zone Facility Bonds. Similar to Build America Bonds, these bonds must be used in county-designated 'recovery zones'. The Treasury Department will pay 45 percent of the interest costs for these bonds.
- Finally, the state has been allocated \$61.8 million in Qualified School Construction Bonds (QSCB), \$13.3 million in Qualified Energy Conservation Bonds (QECB), and \$7.4 million in Qualified Zone Academy Bonds. An issuer of these types of bonds has the option to receive a subsidy from the U.S. Treasury essentially allowing the issuer to borrow without incurring interest costs.

Hawaii must move quickly to take advantage of these new Treasury programs as most expire at the end of 2010. It is not yet clear if Congress will authorize the continuance of these programs in the future.

Accountability and transparency framework

ARRA funds come with unprecedented transparency and reporting requirements. These so called 1512 reporting requirement requires recipients of ARRA funds to provide detailed quarterly reports on the use of ARRA funds and the status of ARRA funding projects through a web based reporting system.

We are in fact in the middle of a new reporting period.

Believe me the initial implementation of the 1512 reporting process brought tears of frustration to everybody involved.

But I have come to believe that the transparency measures of the Stimulus program should and could be adopted by state and local government.

The public has a right to understand why and how a project is selected, the progress of a project through the procurement, construction, and commissioning process, and how each completed project impacts system-wide improvements in performance.

This information should be available on-line in an easy to understand format.

With this enhanced transparency, the public's confidence in government's ability to undertake infrastructure improvement will improve, and hopefully the public's willingness to pay for infrastructure will follow.

Conclusion

In conclusion, Hawaii has benefited from ARRA and has been able to make additional investments in infrastructure. The Treasury Department has used ARRA to demonstrate new financing programs that essentially provides a direct subsidy to state and local governments for infrastructure investment. If kept after ARRA, these programs could be a useful tool to improve Hawaii's infrastructure.

Because of the Stimulus package, the public's expectation of transparency has greatly increased. I believe the federal government will impose ARRA-like reporting requirements for all federal grants once ARRA ends. It will be only a matter of time before the public will come to expect this level of transparency for state funds as well. I would like to suggest to HIPA that they include in the next report, the required investment needed in information technology and training at the state level to meet these new transparency expectations.