

Chapter 2

The Case of Public Capital Budgeting and Management Processes in the United States

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ABSTRACT

This chapter provides a case study from the United States regarding public capital budgeting and management on the federal, state, and local levels. The U.S. case of the public investment process (or positive theory for United States public investment) is described and compared with the normative theory outlined in Chapter 1 to understand the deviation between the positive and normative theories. This chapter presents an analysis of four main components of the USA capital budgeting system including (1) long-term public capital planning, (2) annual public budgeting and financing, (3) project execution, and (4) public infrastructure evaluation. In addition, this chapter shows public infrastructure needs and financing issues in the United States.

INTRODUCTION

The availability and quality of services provided by public infrastructure are critical factors in improving economic growth. Current levels of funding are far below what is needed to properly maintain, improve and expand system capacity to accommodate future demand and avoid the economic costs and inefficiencies associated with system underperformance (Business Roundtable, 2016). According to a 2013 survey, 65 percent of U.S. manufacturers believe that American infrastructure will be unable to meet the demands of a growing economy over the next 10 to 15 years (National Association of Manufacturers and Building America's Future Educational Fund, 2013). The American Society of Civil Engineers "grades" the country's infrastructure every four years. The overall grade for 2017 was a D+, and ranged from a B for the rail system to a D- for transit (American Society of Civil Engineers, 2017).

DOI: 10.4018/978-1-5225-7329-6.ch002

According to the Department of the Treasury and the Council of Economic Advisers (2010), “well designed infrastructure investments can raise economic growth, productivity, and land values, while also providing significant positive spillovers to areas such as economic development, energy efficiency, public health and manufacturing.” Investing in infrastructure is an engine for long-term economic growth, increasing GDP, employment, household income, and exports. Batina (1998, p.263) found that “innovations in public capital have long lasting effects on output, labor, and private capital, and innovations to output, labor, and private capital also have long lasting effects on public capital.” According to Lynde and Richmond (1992), the reduction in spending on public capital was found to account for approximately 40% of the slowdown in the growth of labor productivity from 1958 to 1989.

We find several major themes in capital management in the United States. First, there has been an increased effort to institutionalize recommended practices in capital budgeting at all levels of government, particularly related to long-term planning and project management. Some governments are lagging, though, and others have theoretically good processes but decisions are ultimately still based largely on political calculation rather than driven by objective prioritization criteria. At the federal level, the ability to gain perspective on capital assets is also hampered by the lack of a separate capital budget. Second, the country is said to be in an infrastructure “crisis” due to the large level of unfunded maintenance needs. This situation is being addressed to some extent in two ways. Organizations are increasing the use of asset management systems to improve their understanding of maintenance needs in the short-term and over the life of an asset. In addition, innovative practices and funding mechanisms are being utilized, especially at the state and local levels. Third, decentralization and fragmentation of infrastructure systems in the United States pose significant challenges to finding solutions to the issues related to planning and maintenance. Coordination and consensus across political boundaries are difficult to achieve.

This chapter begins with a ‘Background’ section that includes discussion of the different levels of government. The next section provides an overview of capital budgeting at the federal level. State and local capital management processes and issues are then described. This section provides an overview of existing knowledge about capital planning, project management, and asset maintenance in state and local governments. The following section discusses the current status of infrastructure systems across the country, along with suggested solutions to the so-called “crisis” of underfunded maintenance and expansion. Finally, the conclusion addresses variations between positive and normative theory.

BACKGROUND

The United States is a federal country with a population of 321.6 million. The GDP per capita in the United States, USD 56 000, is 36% above the OECD average, ranking the United States the 5th richest in the OECD. It is ranked 7th in the OECD on public spending decentralization, as 47.9% of its government expenditures are undertaken at the subnational level (OECD, 2016).

The U.S. structure differs from many other countries in the relationships between the federal government and other levels. According to U.S. Census Bureau (2012), there are 90,106 state and local governments in the United States. This includes 50 states, 38,910 general purpose governments (cities and counties), 12,880 school districts, and 38,266 special districts (e.g., fire protection or water supply districts). These entities have a great deal of autonomy and responsibility for capital related to the services that they provide. Capital spending was \$334.2 billion in 2014-15 for state and local governments combined, which was 13% of total direct expenditures in that year for these organizations (U.S. Census Bureau, 2015).

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