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## The Cost of Earmarks

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# THE COST OF EARMARKS

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A Thesis  
Presented to the  
Faculty of  
California State University,  
San Bernardino

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In Partial Fulfillment  
of the Requirements for the Degree  
Master of Public Administration

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by  
Nicholis John Zappia

June 2016

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Nicholis John Zappia

June 2016

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## ABSTRACT

Finding revenue is a challenge that faces many municipalities in the United States. As the tax base continues to decline and demand for government services increases, local governments are forced to make hard choices. Low on the list of priorities for local governments is the maintenance, and construction of infrastructure. Traditionally there have been several ways for local governments to fund long-term infrastructure projects including, federal-aid through the process of earmarking. The practice of earmarking has been around since the first congress, but hit its peak between 2003 and 2007. The earmarking process is controversial for several reasons; earmarking bypasses traditional merit procedures for distribution of federal-aid, earmarking is said to add costs to the agency awarded the funding, and earmarking has been linked to Congressional scandals and wasteful spending. In this paper I explore how an earmark, designated to local governments to fund long-term infrastructure projects, contributes to the costs of the project.

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## CHAPTER ONE

### INTRODUCTION

Governmental financial management is a complicated process of balancing limited resources and copious amounts of need. In recent years, governments at all levels have experienced a collapsing tax base that has significantly decreased their revenue stream. As a result, state and local governments are allocating a smaller amount of funding to an increased number of programs, in order to keep up with the increased demand for everything from everyday general services to long-term capital projects (Kunz, 2008). Low on the list of priority spending is long-term capital projects, most notably the development and maintenance of infrastructure.

The slow decay of American infrastructure is an issue of public safety. Regular maintenance of bridges, roadways and water systems prevents delays in interstate commerce, extensive vehicle repair costs, unsafe travel, and a poisonous water supply (Dannin, 2011). The recent lead poisoning disaster in Flint, Michigan illustrates the public health concerns weak infrastructure and regulation can create. Incidents of mass flooding resulting from weak levies in New Orleans after hurricane Katrina, the disintegration of the I-35 bridge in Minnesota, and the explosion of underground pipes in New York, San Diego, and Los Angeles further demonstrate the need to rejuvenate public works systems (Rubin, 2012). According to Bell et al. (2005), the National League of Cities

“stressed the efficacy of an infrastructure system should be measured not only by the investment in the physical structure but also by the service the investment provides” (p. 11). Thus, infrastructure building and maintenance should be considered a means of job creation and economic development within a community. However, there is a tendency to ignore infrastructure projects until a disaster occurs. Fiscal stress, stagnant revenues, and the decrease in intergovernmental revenue sharing have made it more difficult to fund capital improvement programs, that aide in the repair of broken infrastructure (Kunz & O’Leary, 2012). The consequence is an infrastructure plan that is limited and often unproductive, because government agencies are in need of funding sources to address this growing concern.

Building and maintaining bridges and roads generate high costs and lack in political reward, thus government spending has focused on education, healthcare, and social programs, which are higher on the list of constituent concerns (Kunz, 2008). With a large number of state and local governments faced with fiscal challenges, one of the few options for funding infrastructure programs is reliance on federal government assistance. Federal funding has become a safety net to finance infrastructure projects, but the availability and eligibility of federal grant programs is often timely and difficult (DeFigueiredo & Silverman, 2007). As an alternative, state and local officials have reached out to federal legislators for alternative funding methods (Kunz, 2008). One such form is

the use of earmarked funds, a controversial budgeting practice that has been highly scrutinized in the last ten years.

The practicality of earmarking funds for local infrastructure projects is debatable, because it is argued that earmarks actually cost the states, agencies, and organizations in added execution costs. Often, the functions of earmarks are funded from within the original budget, decreasing the “top line” not adding additional funding (Savage, 2009). For example, in Fiscal Year (FY) 2008 Congress deducted \$3.5 billion from multiple accounts in the Department of Defense’s (DOD) budget, in order to account for 2108 earmarks Congress added during the appropriations process (Savage, 2009). Other studies have shown that earmark funds have become a revenue replacement for particular projects, and traditional revenue sources are shifted to other areas. Borg and Mason (1990) found that increased revenue from lottery sales that are earmarked for school aid, resulted in a decrease in traditional federal and state aid allocated to schools. Further, without earmarks agencies are often forced to increase spending on lobbying efforts and other tactics to secure extra funding for budget deficient programs (Nixon, 2014). Thus, a key question is whether earmarked funds designated for infrastructure, and other capital projects cost state and local governments more in added costs, or does the absence of earmarking create an additional financial burden on state and local governments? The literature is relatively silent on this subject, and there is a need for a broader look at how earmarking affects state and local government budgeting. The core question this

research aims to address is: To what extent does earmarking funds for infrastructure projects inflate the overall cost of the project? Further, this research explores related questions: First, how does earmarking funds diminish the viability and overall outcome of infrastructure projects. Second, how are earmarked funds handed down from congress more, or less, effective than traditional funding tools, such as grants and designated tax funds?

The purpose of this study is to explore the extent of state and local government's reliance on earmarks to fund infrastructure projects. Specifically, whether the absence of earmarked funds affect the ability of state and local governments to fund infrastructure projects, or whether the added execution costs of earmarking funds make budgeting without earmarking more effective. The study will use raw data to analyze projects designated for earmarks and the effects of the projects final outcome on the agency it was designated.

In order to answer the research question, to what extent does earmarking funds for infrastructure projects inflate the overall cost of the project, I will first, introduce the process of earmarking, and review the advantages and disadvantages of the process. Next, I will describe infrastructure financing options for local governments. I then present a methodology to illustrate with a case study of the Coachella Valley in California, specifically how earmarks used for infrastructure projects effect project costs in local governments. I conclude that earmarks are only a supplemental not a direct cause of the inflation of the overall project costs, earmark funding is not more or less effective as a funding

source than traditional funding tools, and earmarks as a funding source are similar to grants in functionality, but lack the oversight and competitive nature.

## CHAPTER TWO

### THE PROCESS OF EARMARKS

#### Earmarking from the Beginning

The legislative practice of securing funds for specific projects to increase support for other legislative actions has been a government practice as far back as the first Congress. The authoring of the Lighthouses Act of 1789, which made state-owned lighthouses federally monitored, gained votes through “pork-belly” politics. In exchange for votes, members of Congress authored funding (earmarks) into the bill for a new lighthouse in Virginia, and new piers on the Atlantic coast, at the request of members of Congress that needed to satisfy constituents (Kelly, 2012). Over two hundred years later trading votes for earmarks became common practice.

From 1990 to 2006 it appeared legislation saw a steady increase in the practice of earmarking. As a comparison, consider in 1996 the federal defense-spending bill contained 270 earmarked projects, but the 2006 version of the bill contained over 2800 earmarked projects (Savage, 2009). According to Porter and Walsh (2006), the total number of earmarks increased by over 71 percent (4,126 in 1994 to 13,997 in 2005). Conversely during the same time period, the total dollar allocated for earmarked projects decreased from \$5.92 billion to \$1.95 billion (Porter & Walsh, 2006). This represents a 67 percent decrease from 1994 to 2005. The decrease was the result, in part, of smaller projects receiving

earmarked funding, such as Labor and Transportation, compared to extensive bridge and road projects in prior years (Porter & Walsh, 2008). Overall from 1990-2006 more than 100,000 earmarks worth over \$290 billion were tacked onto spending legislation (Crespin et al., 2009).

In 2006, former California Congressman, Randy Cunningham, was convicted, and sentenced to eight years in prison for taking over \$2 million in bribes from military contractors in return for earmarks that would clear the path for government contracts (Kunz & O'Leary, 2012). Cunningham's conviction put a spotlight on the earmarking process and quickly created claims of government corruption (Lazarus, 2010). Media and watchdog groups began to expose the opportunistic practices within Congress, leading to public outcry and reforms (Savage, 2009). In 2007, the total number of earmarks dipped due in part to a self-imposed moratorium Congress established, because earmarking became "out of hand and was used and abused in a fashion we have not seen before in recent years" (Doyle, 2011).

The moratorium period lasted less than a year while Congress debated reforms for the earmarking process. In 2008, despite a crippling recession the Emergency Economic Stabilization Act contained over \$17 billion in earmarks, and in 2009 another \$7.7 billion was included in the Omnibus Spending Bill (Crespin et al., 2009). In 2011, with media attention focused solely on the negative aspects of earmarking Congress put a hiatus on the practice, because

earmarks had “become a symbol of a Congress that has broken faith with the people” (Seymour, 2012).

In 2012, public interest group Taxpayers for Common Sense (TCS), reported that earmarks were not on hiatus just less transparent and renamed (Nixon, 2012). TCS claimed Congress created numerous “slush funds” in budget documents, reduced funding for projects in the President’s budget, and moved the money into the various funds to pay for particular projects, “earmarking” (Nixon, 2012). According to Citizens against Government Waste (CAGW), the 2014 budget included \$2.7 billion in individual legislator requested projects (Zelizer, 2014). It would appear that legislators have just found new terms for earmarking, such as letter-marking to secure funds on a smaller scale (Zelizer, 2014).

The practice of letter-marking is a less transparent process than earmarking. According to Mills et al., (2015) “letter-marking is a common practice among members of Congress that spans several agencies for a wide range of projects” (p. 7). Letter-marking begins with a constituent request for funding. Requests come in two ways; programmatic requests, which allow Congress to designate funding for an entire program, but not the specific projects completed within the program, and language requests, which persuades an agency to fund a program, but does not definitively direct funding (Mills et al., 2015). Once Congress has made the programmatic or language request it is inserted into the language of a spending bill (Mills et al., 2015). Then the requesting Member of

Congress will write letters to heads of agencies “encouraging” them to fund particular programs and projects in their districts (Mills et al., 2015). It is unknown to what extent the practice effects agency decision making, but there is some evidence to suggest it is not as successful as earmarking.

After the sixteen-day government shutdown in October 2013 claims that the earmark hiatus was a smoke screen, and letter-marking replaced the practice with the same result was debatable. Political science professor Scott Frisch believed, “without the grease or lubricant of earmarks, it’s much more difficult to reach a compromise on some of these tough issues” (Kelly, 2012, p. 1). Members of Congress, Republican and Democrat, have come to rely on earmarks as a financial tool for funneling funding into their districts for large projects such as, bridges, roads, and universities. Absent earmarks state and local governments must find other revenue sources to fund these projects. With so much of state and local funding designated to fund operating expenses, the loss of earmark funding could be detrimental to the capital budgeting process.

### Operationalizing Earmarks

The term earmark has several different definitions, commonly earmarks refer to legislative provisions that direct approved expenditures to specific states, cities, and districts, to be designated for specific projects (Lazarus, 2009). According to Lazarus (2009), earmarks are placed in specific appropriation bills at the request of members of Congress in order to fund specific projects in their districts. Requests are added to a spending bill after appropriations committees

have approved the text of the legislation, thus never actually voting on the earmark (Poos, 2011). The earmark process makes the concept difficult to define. Porter and Walsh (2006) explain “according to Congressional Quarterly’s American Congressional Dictionary, because all appropriations set aside funds for some ‘purpose, use, or recipient,’ under the broadest definition virtually every appropriation is earmarked” (p. 3).

The Office of Management and Budget (OMB) (2007) defines earmarks as the following:

Funds provided by the congress for projects, programs, or grants where the purported congressional direction (whether in statutory text, report language, or other communication) circumvents otherwise applicable merit-based or competitive allocation processes, or specifies the location or recipient, or otherwise curtails the ability of the executive branch to manage its statutory and constitutional responsibilities to the funds allocation process (OMB.gov).

The OMB definition brings into question the ability of the executive to have discretion over legislative actions (Cuellar, 2012). Kunz and O’Leary (2012) found:

Definitions within the branches of government differ considerably... the most explicit of which is the executive branch’s perception of earmarks as an impediment to its ability to manage statutory

requirements. Senate rules equate earmarks with directed spending and a focus on spending that wasn't originally provided for in legislation or committee reports, whereas the House defines congressional earmark' as spending authority requested by specified individuals that has circumvented the formula-driven, competitive award process (pp. 585-586).

Interest groups established for the purpose of "watching" government spending habits such as Taxpayers for Common Sense (TCS), and Citizens against Government Waste (CAGW), have come to similar conclusions for the definition of an earmark. TCS defines earmarks as, "legislative provisions that set aside funds within an account for a specific program, project, activity, institution, or location. These measures normally circumvent merit-based or competitive allocation processes and appear in spending authorization, tax and tariff bills" (Taxpayers.net, 2015). CAGW has a more detailed and perhaps more extreme sense of the definition. CAGW refers to earmarks as pork barrel spending, and defines them as a "line item in an appropriations bill that designates tax dollars for a specific purpose in circumvention of established budgetary procedures" (cagw.org, 2016). According to the CAGW Pig-Book (2016) a project must meet one of seven criteria to be considered "pork," those criteria are as follows:

- 1) requested by only one chamber of Congress,
- 2) Not specifically authorized,
- 3) not competitively awarded,
- 4) not requested by the President,
- 5) greatly exceeds the President's budget request or the

previous year's funding, 6) not the subject of congressional hearings, or 6) serves only a local or special interest (cagw.org).

It has been acknowledged that there exists a variety of definitions that have historically been linked to earmarks in and out of government. Doyle (2011) pointed out that "the term congressional directed spending item appeared as a substitute for earmark" in 2007 and has since been used in spending bills (p. 70). Further, Doyle (2011) explains that the variations of the earmark definitions throughout the literature points to the complexity of the practice in the public budgeting process, and clouds the accuracy of measuring earmark outcomes. According to Porter and Walsh (2006) the definition of earmarks can be generalized into four factors:

- 1) the specificity of the recipient; a provision that gives specific direction of who is supposed to receive the funds and for what project,
- 2) the congressional origin; projects requested from members of Congress or added on to the President's budget,
- 3) exemption from the normal competitive requirements of budgeting process; a lot of earmarking projects would normally call for a bidding war among contracts, however the earmark process bypasses this process and awards specific contracts, and
- 4) presence of statutory text; the instructions for directing the funding of earmarked projects are most commonly found in appropriations committee reports (pp. 4-7).

As is the case with most research in the social sciences determining the “real” definition of a term can be a complex exercise. It is suggested that concepts instead be broken down into either a nominal or operational definition (Babbie, 2011). The operational definition specifies the exact way a concept will be measured for a particular study (Babbie, 2011). For the purposes of this study the definitions of earmark and infrastructure have been operationalized, and are defined as specific funding designated for a particular project.

### Advantages of Earmarks

In an environment of decreased revenue flow earmarks can assist state and local governments in continued growth, and provide options beyond own source revenues to fund infrastructure, without halting other areas of economic development (Kunz & O’Leary, 2012). Earmarks have taken on a negative connotation due in part to murmurs of government corruption. Despite the arrest of Congressman Cunningham and the funding of Alaska’s infamous bridge to nowhere, earmarks fund needed projects that would be deeply down sized or otherwise not exist (Kunz & O’Leary, 2012). Earmark funding has assisted in financing social programs such as, breast cancer research, and the Boys & Girls Clubs of America (Weisman, 2008), and has several other positive uses including; infrastructure, service vehicle purchases, and building improvements (Kunz, 2008). In 2006, the majority of the \$29 billion in earmarks were distributed to state and local governments to repair roads, sewers, bridges, and other infrastructural needs (Kunz, 2008). According to Kunz & O’Leary (2012),

earmarks bring in funding otherwise not available to state and local governments, such as the funding for railway overpasses in Riverside, California, to relieve high traffic areas and create a safer traffic flow. Earmarks protect federal aid to local government projects from being eliminated when there is a change to the political climate (Barret & Greene, 2013). Writing earmarks into spending bills reduces federal agency discretion, and prevents funds designated to local governments from being reassigned (Weisman, 2008).

Earmark proponents argue that government agencies, such as the Department of Transportation (DOT), do not understand the needs of local governments as well as their congressional representatives (Kunz & O’Leary, 2012). Clemmitt (2006) stated, “federal agencies would shortchange many significant projects if lawmakers didn’t direct funds to them” (p. 535). In 1998, a review of the DOTs funding for Federal Highway Administration (FHWA) projects found that sixty-percent of the projects were not ranked as high-priority based the department’s own merit-based evaluation system (Friel, 2004). Friel (2004) found “several former Transportation Department officials admitted that politics sometimes played a role in such decisions,” but projects “were selected mostly on merit” (p. 4).

State and local governments are expected to go through a rigorous process to prioritize and identify projects to receive traditional federal funding and the benefit of earmark funding (Porter & Walsh, 2006). In 2004, \$10 million for improvements to Interstate 95 and a bridge connecting to beach towns in

Delaware was awarded through the traditional merit funding procedures, and supplemented with earmark funding (Friel, 2004). Friel (2004) explains, efforts to “launch an offensive against earmarks,” fell short after it was discovered that earmarked projects in DOT appropriations would have qualified for merit-based federal funding (p. 3). Opponents often point to community improvement projects such as bike paths, nature trails and sidewalks as wasteful spending funded with earmarks, but DOT program formulas allow for such projects to receive federal funding (Friel, 2004). Further, earmark projects require expenditure justification forms for DOT oversight purposes (Friel, 2004).

Earmark opponents also argue that earmarks increase government spending. Doyle (2011) explains, the budgetary literature has consistently shown no link between the rise in earmark spending and the rise in government spending. Further, after earmark reform policies were implemented in 2009, earmark spending dropped just over fifty percent, but overall federal spending increased forty-nine percent (Doyle, 2011). Porter & Walsh (2006) found that 8,000 earmarks totaling \$10 billion made up only 1.2 percent of the \$822 billion transportation bill in FY 2004, prior to extensive earmark reforms. According to Kunz and O’Leary (2012), earmarks are simply appropriated funds not additional funding. The process simply directs the spending to a particular project, it does not add to the total budget (Kunz & O’Leary, 2012). Eliminating earmarks would not result in a budget savings, but would move spending to other projects, handicapping revenue strapped state and local governments (Kunz & O’Leary,

2012). Porter and Walsh, argue that all appropriations are technically earmarks, because earmarks specify the project to be funded directing agencies how to spend appropriations, therefore, earmarks are “Federal spending with a zip code” (Porter and Walsh, 2006).

Without earmarks local governments with a higher amount of own source revenue will have more options to replace lost earmark funding. However, those municipalities with a smaller pool of own source revenues find it more difficult to replace earmarked funds. The town of Pueblo, Colorado relied on earmarks to fund projects, including \$300,000 to fix an aging sewer system (Nixon, 2014). Pueblo received \$14 million in earmarked funds between 2005 and 2010, and without earmarks the city struggles to find funding for projects they once looked to their representative in Congress to supply (Nixon, 2014). The Pueblo City Manager stated, “before the ban we would contact our Congressional delegations and ask them for help. Now we have to try and navigate the vast federal maze of agencies to see what funding is out there” (Nixon, 2014, p. 2). The navigation has increased the cost of lobbying for federal grants from \$40,000 to \$60,000 out of an already tight city budget (Nixon, 2014).

Earmarks are a defensible practice despite their reputation for being a quid-pro-quo negotiating tactic strictly for the purpose of pleasing constituents and gaining re-election. Cuellar (2012) explains, “pork barrel spending when considered in isolation are probably more transparent than many other political deals” (p. 284). Further, even unreasonable earmarks are valuable in a

legislation system often plagued with conflicting priorities (Cuellar, 2012). Earmark supporters argue that earmarks are a necessary part of the legislation process in order to “grease the wheels,” and gather support for “important legislation” (Porter & Walsh, 2006). Earmarks allow members of Congress to negotiate directed spending to their district, resulting in support for later legislation and avoiding the gridlock that led to the government shutdown in 2012 (Hudak, 2013).

### Disadvantages of Earmarks

Earmarks generate tension between the public desire for funding projects and the resentment toward legislative deal-making. Earmarks in practice create tension; they limit the flexibility of spending, because they do not always align with local priorities and planning strategies, but at the same time free up other funds that would have otherwise been used for earmarked projects (Kunz & O’Leary, 2012). Critics believe local leaders are more equipped to understand their community needs and priorities (Porter & Walsh, 2006). Further, when funding is completely unrelated to local government plans it can go unobligated for long periods of time (Porter & Walsh, 2006). Relatedly, Savage (2009) noted earmarking costs, which include time, energy, and financial resources are not included in the total dollar amount of the earmark. Thus, earmarking costs make it difficult for local governments to execute the earmark, which results in unobligated funding. The Consolidation Appropriations Act of 2016 was created

to repurpose \$2 billion in unobligated earmarks to support infrastructure projects (fhwa.gov).

The unbalanced nature of earmark distribution sparks further criticism of the process (Doyle, 2011). Political leverage, especially for members of the majority party, is a main factor in the ability to secure earmarks for particular districts (Doyle, 2011) Higher ranking members of Congress, such as those in the leadership or members of influential committees, are also in a better position to secure more funding, because they are in a better position to trade votes for funds (Lazarus, 2009). This creates an imbalance, because state and local governments in the most need lack the political capital to get their share (Kunz & O'Leary, 2012). Jeffrey Lazarus (2010) argues, that state and local demand also plays a big role in securing earmarked funds. Areas dense in military bases, or farm land are more likely to secure earmark funding than an area that is in need of road upgrades, because of the benefits such projects can produce (Lazarus, 2010). The unbalanced nature of earmark distributions also creates an uneven tax burden to earmark dollar ratio, for example, New York, which receives around two percent of earmarked dollars, is responsible for over eight percent of the federal tax burden (DeHaven, 2010).

Earmarking can also have an effect on democracy in general. Members of Congress face pressure from constituents to produce tangible results, which require funding. Hollibaugh et al. (2013), explains, while voters “generally view earmarks as unacceptable, they also tend to be more likely to vote for

incumbents who have records of bringing government projects and money to their districts” (p. 1). As a result, Members of Congress will cast a vote for legislation they would normally not support, in exchange for an earmark, that would fund a project in their district. Further, Lazarus (2009) found, that the majority party in Congress has the most influence and means of securing earmarks. As a result, the majority party can secure funding for electorally vulnerable Member districts and increase their chances of getting reelected (Lazarus, 2009). Thus, the majority party would increase their chances of remaining the majority, and continue to control legislative outcomes (Lazarus, 2009).

Earmarks can create dependency as was discussed above in the case of Pueblo, Colorado. State and local government leaders become reliant on earmark funding, and as a result increase spending to amplify the effect of their loss (Delany, 2014). Earmarks can also decrease production, for example, in areas like higher education an increase in research grants funded with earmarks, increases the quantity of research, but can decrease the quality of the research (Delany, 2014). This phenomenon is the result of members of Congress making funding decisions outside the scope of their expertise (Porter & Walsh, 2006). Further, earmark funding often times will bypass competitive protocols that limit poor research proposals (Delany, 2014).

Negative media attention on earmarks generally focuses on earmarks as wasted money. News articles and editorials consistently portray earmarks as a

flagrant abuse of legislative power (Crespin et al., 2009). For example, in the FY 2008 Omnibus bill, Rep. David Hobson (R-OH) secured an \$800,000 earmark to fund a “Speedway Super America gas station convenience store, and pizza parlor” (Crespin et al., 2009, p. 3). Negative media attention on earmarks, such as this are justifiable, but political rhetoric for the purpose of increased ratings and website traffic does nothing but influence voters with information they would not have otherwise cared about. Doyle (2011) noted, “According to an editor at *CQ Weekly*, earmarks have been cited as a symbol of everything that’s wrong with Congress” (p. 2). However, there is little awareness of earmark activity amongst voters, and even less evidence to support a claim of swayed voting in either direction (Doyle, 2011).

Lobbying scandals like that of former Congressman Cunningham have created a distrust and given “watch-dog” groups TCS and CAGW cause to discredit earmarks. As a result, earmark support resulting in campaign contributions is a legitimate concern. Rocca, and Gordon (2012) explain, the main target of earmarked funds is not necessarily the voter. The need for members of Congress to attract campaign funding suggests the target would likely be special interest groups (Rocca & Gordon, 2012). If defense contractors were able to bribe Congressman Cunningham to clear the way for government contracts, it is plausible earmarks have assisted in other Congressional favor (Archibald, 2006). Roca and Gordon (2012) found, that members of Congress secure more campaign financing per earmark dollar from defense special

interests groups, which correlates with the point that James Savage (2009) makes, that the majority of earmark dollars comes from the Department of Defense (DOD) budget. For example, in 2008 Rep. Susan Davis (D-CA), sponsored a \$1.2 million earmark to benefit Science Applications International Corporation (SAIC), for the purpose of strategies to mitigate individual stress reactivity and operational defense stress reactions in the military (opensecrets.org), and to partially benefit local defense firms like SAIC and their work with posttraumatic stress disorder (opensecrets.org). The return on investment was \$2.66 million in campaign contributions (opensecrets.org). The chart below shows the general advantages and disadvantages of earmarks.

Table 1. Advantages and Disadvantages of Earmarks

Advantages	Disadvantages
Optional Funding Source	Do Not Align With Local Planning
Prevent Change in Political Climate from Controlling Funds	Political Leverage Creates Allocation Imbalance
Local Municipalities Know their Needs Better and Small Towns have few Options	Create Dependency, Leaving Local Government without the Ability to Find Alternative Solutions
Have Funded Breast Cancer Research and the Boys and Girls Club	Have Resulted in Lobbying Scandal, and Lack Oversight

## CHAPTER THREE

### FINANCING INFRASTRUCTURE

Governmental budgeting in its simplest form is a series of compromises derived from opposing priorities. Scarce resources create a struggle at all levels of government to develop a spending plan that will balance the public demand for better services, and a reluctance to pay increased taxes (Bell et al., 2005). Local governments are often in the worst position, because their budgets are dependent on projecting current revenues from sources such as taxes, miscellaneous fees, and intergovernmental funds, without the luxury of deficit spending as seen in the federal budget (Kunz & O'Leary, 2012). Further, the state legislature, and in some instances voter discretion, can limit the specificity of the fees and taxes local governments can use, including type and amount (Lee, et al., 2008). For example, California's Proposition 13, which limits property tax increases (Finkler et al., 2013) and San Bernardino, California's Measure Z, which increased sales tax 0.25% to fund various public safety activities (sbcity.org). The limits placed on revenue sources creates a fiscal environment where politics will play a bigger role in budgeting decisions. Thus, leaving infrastructure spending vulnerable to last priority status, because it is not at the top of constituent wish lists.

Infrastructure has been defined in academic textbooks and in the text of national associations reports. Infrastructure as defined in textbooks is stationary

assets with long life spans including: bridges, tunnels, dams, water systems and other similar structures (Finkler et al., 2013). The American Society of Civil Engineers (ASCE) has the most comprehensive definition of infrastructure, and have broken the nations system of infrastructure into several categories. The ASCE issues an annual report depicting “the condition and performance of the nation’s infrastructure,” provides this extensive definition for infrastructure:

Critical Infrastructure includes systems, facilities, and assets so vital that their destruction or incapacitation would have debilitating impact on national security, the economy or public health, safety, and welfare. Critical infrastructure may cross political boundaries and may be built (such as structural energy, water transportation, and communication systems), natural (such as surface or ground water resources), or virtual (such as cyber, electronic data, and information systems) (asce.org).

The confines of this research do not require an extensive definition of the term, nor does it require the extended number of categories. Thus, for this research, infrastructure will be narrowed to include transportation, specifically, bridges, roads, highways and highway overpasses. Funding options for infrastructure projects are determined through the process of capital budgeting, which is generally used for debt management and resource allocation to long-term projects with a larger price tag (Bland, 2007). State regulations in most cases require a balanced operating budget, which forces the separation of the

capital budget from the operating budget (Posner, 1993). At the state and local level long-term planning is often represented in a capital improvement plan (CIP) to separate long-term and current spending (Lee et al., 2008). The federal government budget, however, is not issued with a separate capital budget, instead long-term spending must compete with annual appropriations for funding allocation (Kunz, 2008). Further, federal and local long-term assets differ in context. The federal government considers education, human capital and economic stimulation as capital assets, while local governments consider capital assets to be owned assets such as, buildings and equipment (Lee et al., 2008), generally understood to be tangible asset of a particular dollar amount (Posner, 1993).

Capital projects require a significant amount of funding, either in the form of a one-time large lump sum, or some degree of financing and debt use system to complete (Bland, 2007). Local and state governments with limited revenue streams are often forced into creative decision making to plan and execute large capital projects (Bland, 2007). Further, declining federal assistance to state and local governments due to federal government budget issues, have put further stress on state and local governments to finance capital projects on their own (Bell et al., 2005).

The majority of local governments analyze capital investment in the decision making process, and separate those expenses from current spending plans (Bell et al., 2005). Opponents of the capital budgeting process argue that

capital budgets produce project favoritism similar to the practice of earmarking, and can allow for the execution of unnecessary projects, as a political move, without showing an immediate cost on the books (Posner, 1993). Further, the allocation of funding for capital projects can vary depending on the fiscal health of the government (Lee et al, 2008). As a result, this presents a distorted view of overall spending (Lee et al., 2008). Local governments can decrease CIP funding year-to-year to make up for declining revenues without cutting general services (Lee et al., 2008). This practice can lead to long-term infrastructure deficiencies in a local government that struggles to come back from fiscal hardship. For Example, San Bernardino, California transferred funds from gas tax, which is earmarked for street maintenance and construction, to the general fund to cover salary and benefit costs in public works and other departments (SBCAFER, 2012-13). This left an inadequate amount of gas tax funding to complete projects presented in the 2012-13 CIP (San Bernardino Budget 2012-13). Despite criticism capital investments are an imperative factor in how the city takes shape and its viability for economic growth (Posner, 1993).

### Infrastructure Funding Sources

Local governments have several options for long-term financing for capital projects. Since long-term investments have a high cost and a slow rate of return on investment, sluggish revenues make keeping up with such projects difficult (Bland, 2007). The federal government uses up front spending to fund long-term financing, however, if funds are needed elsewhere that funding is abruptly cut

(Posner, 1993). Local governments typically use a mix of financing options depending on the size of the project and the fiscal health of the organization.

### Own Source Revenue

One form of infrastructure financing available to local governments is known as pay-as-you-go. Local governments have typically used general revenues to fund the pay-as-you-go system for financing infrastructure projects, but decades of tax revenue decline have limited availability of funds beyond general operating obligations (Bell et al., 2005). Taxes and fees make up the majority of local government annual general revenue, of which property and sales tax make up the bulk, with small amounts being contributed from stadium and business license tax (TPC, 2016). Own source revenues also use a form of earmarking to fund specific projects. Specifically, transportation infrastructure construction and maintenance, which are partially funded through excise tax and user fees including; vehicle licenses and registration fees, emission fees, and gas tax (Bell et al., 2005). The use of these fees for construction and maintenance of transportation related infrastructure appears to be an efficient and logical use of the revenue, however, vehicle related fees are subject to fluctuations in oil prices, the advancement of clean air technology, vehicle longevity and changes in driver habits (Bell et al., 2005). Further, the majority of these funds carry added costs, similar to those Savage (2009) found in earmarks, resulting in having to either find other sources to fund project costs, planning less projects, or scrapping projects already in the works.

## Intergovernmental Revenue

Local governments receive a fair amount of funding assistance from state governments. Assistance comes in the form of shared tax revenue, reimbursements for prison expenditures or payments in lieu of taxes (NLC, 2016). The National League of Cities estimates that states have provided between twenty and twenty-five percent of local government revenue in the last twenty-years (NLC, 2016). Infrastructure specific funding from state governments to local governments is also done through State Infrastructure Banks, which similar to a private bank supplies municipalities with transportation funding in the form of loans (Bell et al., 2005). In California, the California Infrastructure and Economic Development Bank provides loans in the amount of \$50,000 to \$25,000,000 for up to 30 years, through the Infrastructure State Revolving Fund (ibank, 2016).

Federal funding to local governments is significantly less than state funding at around five percent. One reason is because the federal government uses cost reduction techniques such as, tax incentives to increase local revenue (NLC, 2016). Local governments typically receive funding in the form of grants and loans from the federal government that are designated for specific types of costs including infrastructure projects (NLC, 2016). The federal government distributes grants through different agencies, such as the DOT and the Environmental Protection Agency (EPA) (Kunz, 2008). There are a variety of grant and loan programs used to supplement infrastructure investments

including; the Federal Aid Highway Program, Transit Capital Investment Program, and Clean Water State Revolving Loan Fund Programs (Kunz, 2008). Earmarking plays a significant role in federal grant allocation, because earmark designated projects alter federal agency planning. Thus, funding once designated for a particular state or local government could be stripped at the last minute in favor of an earmarked project (Savage, 2009). Further, since earmarks can be politically driven state and local governments with projects marked as priority or that have gone through the merit process for requesting funds can be denied in favor of a “less” worthy project (Brach & Wachs, 2005).

### Bonds

The most predominantly used types of bonds to fund local infrastructure include; municipal bonds, which are federal income tax exempt through federal subsidies, general obligation bonds, which are secured with the full faith and credit of the issuing party and paid for with general revenues, and revenue bonds, which are assigned a particular revenue stream for repayment purposes (Kunz, 2008). The use of a variety of different bonds allows local governments to use debt as up front revenue to fund infrastructure projects, and not take the immediate hit to general operating fund (Bell et al., 2005) This allows local governments to provide residents with needed projects without cutting back on other critical services.

## Earmarks

Funding infrastructure with earmarks is an inconsistent option for local governments. Earmarks depend on federal allocation, which can be muddled in the political aspects of the budget process (Bell et al., 2005). Members of Congress submit requests for earmarks to the Appropriation committee, which sends the request to the relevant sub-committee (Poos, 2011). The approval or denial of an earmark fully rests on the decision of the sub-committee chair, “whose power and secrecy have lent them the nickname of the cardinals” (Porter & Walsh, 2006, p. 8). Thus, earmark funding decisions are made unilaterally, contrary to regular appropriations, which are subject to debate, scrutiny, and then vote of Congress.

Regular appropriations are broad spending directives for government programs such as, defense, education and transportation. Once Congress approves an agency’s budgets with special spending categories, the agency will then solicit project funding requests (fhwa.gov). Earmarks have a specific statutory destination for use on a specific project (Porter & Walsh, 2006). Porter and Walsh (2006) note, that some spending bills have detailed reports, such as funding for a particular fighter jet, as a matter of accounting procedure. However, earmarks “would add money to the department’s request at a level of specificity below the normal line item level (Porter & Walsh, 2006, p. 5).

Earmarks are also different from regular appropriations because some are written into the reports accompanying appropriations bills and final conference

reports (Porter & Walsh, 2006). The purpose of these reports is not to become law, but to explain congressional intent, thus earmark spending is left to the discretion of the agency it is assigned (Porter & Walsh, 2006). However, it is not often an agency will go against Congress instructions out of fear of retaliation in the following year budget (Porter & Walsh, 2006).

Earmarks are the product of federal political agendas, but since they represent a funding source with a specific purpose, earmarks avoid political debate at the local level. However, earmark funds are only a partial funding source for their designated project, therefore, the awardee must secure the additional funds before the earmark can be obligated (fhwa.gov). Finally, earmarks do not fund continued maintenance and upkeep of a project (Kunz, 2008). As a result, local governments must increase their maintenance and repair budgets in order to account for the added structure. Thus, earmarks can assist in funding local infrastructure needs, if the distribution makes sense with local priorities.

## CHAPTER FOUR

### METHODOLOGY AND DATA COLLECTION

The purpose of this study is to explain the costs associated with earmarking funds for infrastructure in local governments. The relationship between additional costs and earmarks is not well documented in the academic literature, therefore, this paper has become an exploration into the subject.

#### Data Collection and Analysis

As this is an exploratory study, the analysis began with an extensive review of the literature. In order to understand the process of earmarking a wide focus was placed around the relevant subject matter. The literature review consisted of an extensive mix of academic peer reviewed journals, government documents that included budget and finance reports, memorandums, institutional review reports, and congressional appropriations bills. Media documents that included news articles, and press releases was also analyzed. Also included in was a review of documentation and data from national associations, such as American Society of Civil Engineers; and special interest groups, such as Tax Payers for Common Sense (TCS), Citizens Against Government Waste (CAGW), and Center for Responsive Politics ([opensecrets.org](http://opensecrets.org)).

The findings for this research will be presented in a case study of individual earmarks selected from the thousands of line-items reviewed. As stated in Chapter 1, this study uses raw data to analyze the effects of earmarks

on the agency they were designated to fund. The enormous amount of data related to this topic required directed focus for the purpose of presenting research findings. Without a particular level of focus, the data could become a muddled pool of meaningless numbers, but the goal is to present as clear a picture of the true costs of earmark projects as possible.

In social research the case study is often used to focus attention on a particular instance, as well as produce either descriptive or explanatory insights (Babbie, 2011). The use of a case study allows a researcher to limit the attention to a particular instance, and can assist in the development of general theory (Babbie, 2011). However, critics believe case studies limit the results of the research for several reasons. First, a case study contains bias toward, “the researchers preconceived notions,” which allows the researcher to be more subjective in their analysis (Starman, 2013, p. 40). However, a case study is easily verified in the descriptive detail of the research process (Starman, 2013). Second, it is hard to draw definitive conclusions and generalize results from a single case. (Starman, 2013). As a result, case studies in social science are best used for generating a hypothesis and “cannot contribute to scientific development (Starman, 2013, p. 39). However, case studies are an analytical study, of process or events, and not a statistical study, of frequency or correlation, therefore, a single subject is preferred over multiple subjects (Starman, 2013). Despite the disadvantages and limitations, a case study proved to be the proper tool to accomplish the goal of this study.

## Data and Data Analysis

Earmark data can be taken from several sources. Special interest groups TCS and CAGW have been collecting and monitoring data for several years. TCS provides data from FYs 2008-2010. TCS has organized the data into categories including, House requesting member, Senate requesting member, Appropriations committee requests, state recipient, and appropriations bill. CAGW has been tracking earmarks since the 1990s, and have published an annual “pig book” highlighting the Members of Congress, that have requested earmarks, the amount of the earmark, and in which appropriations bill the earmark is located. CAGW does provide up to date information including earmarking that has been found in 2016 (despite the earmark ban of 2011), but CAGW data is limited in the ability to search for specifics.

Earmark data is also available through the Office of Management and Budget (OMB). The OMB website offers earmark data for FY 2005, and FYs 2008-2010. OMB data proved to be the most useful, because it allowed for the data to be drilled down to the exact project the earmark was designated to fund.

Others sources of data include the DOT, which had data for unobligated earmarked funds as of December of 2015, that are set for redistribution. Data from the DOT was also found in department report AV-2007-066, which was an analysis the Inspector General’s Office

conducted to review earmarks within the DOT. California Department of Transportation (CalTrans) and local government documents also contained minimal data, mostly in the form of notations in the CIP or memorandums.

The nature of this research could potentially take on a wide range of data analysis and investigations. To stay within the scope and size of the exploratory nature of this study, the decision to use a raw data supported case study was made. For comparative purposes charts, graphs, and tables are used to illustrate the relationship between the appropriated earmark funds and the total cost of the designated project.

Earmark Selection. Earmark data for this study was gathered and analyzed between February 2016 and the early part of April 2016. For the purposes of this study, data were gathered from the Office of Management and Budget (OMB). The OMB was selected as the primary source for selecting earmarks, because it allowed the earmarks to be traceable from its origin in an appropriations or authorization bill to the specific project it was allocated. Further, OMB data was a predominant feature in the literature on earmarks, which speaks to its reliability.

### Research Limitations

Subject and Data Limitations. The numerous definitions that exist for the subject of earmarking created a need for a condensed operational definition to fit the structure of the research. Limiting the definition forced the focus on a

particular form of earmarking within government. This limitation served the purpose of this study, however, since local governments earmark funding sources, for example Gas Tax revenue, limiting the definition does not analyze all of the challenges involved in using earmarking as a method of funding within local governments.

Local government budgets present a particular challenge to the research, because it is difficult to isolate earmarks within budget documents. Although, a few local governments indicate “federal earmark” as a funding source it is not a consistent labeling technique. As a result, tracking earmarks from point A to point B is challenging and could result in unintended error. Further, earmarks contained in particular departments are only one source of federal earmarks. The federal budget process is extensive and complex, because of this earmarks can also be found in executive orders, and directives; authorizing and continuing legislation; and general budget documents. The difficulty of isolating the final destination combined with the vast amount of earmarks in the archives of federal data increases the likelihood of data collection and analysis error. Further, Individual error may also impact the research. There are tens of thousands of earmarks located in the abundance of documents reviewed throughout the course of the research process. It would be difficult to ascertain whether every possible earmark was accounted for, or whether a potential red flag was overlooked.

The earmark ban instituted in 2011 proposes unique challenges to this or

any future research on the subject of earmarking. First, the literature concerning earmarks is exceptionally limited after 2011. Further, most studies conducted prior to 2011 focused on distribution and negative aspects of earmarks. Very few focused on the added costs associated with earmarks or the earmarking process. Second, the data is dated. Although, CAGW has noted earmarks in the 2016 budget, the bulk of the data is over half a decade old, which may account for the difficulty in isolating funding destinations.

Researchers Bias. Researchers can frame the concepts and measurements of their research to match personal beliefs, thus eliminating other possible outcomes (Babbie, 2011). The tone of the literature reviewed in this study, in combination with prior knowledge on the subject, had the ability to sway the analysis of data toward a specific preconceived conclusion. However, the research process has been detailed in an attempt to combat the possibility of conclusions being drawn from personal bias.

Convenience Sampling. In this research when selecting earmarks for analysis the convenience of familiarity played a role in the decision. A mental visual of the earmark funded project made it easier to understand the process. For example, an earmark for an overpass on the I-10 freeway in California's Coachella Valley, where a researcher has frequented, will be easier to analyze, than an earmark for the rehabilitation of Kenel Road in South Dakota, where a researcher has never visited. Although, convenience sampling admittedly limits the results of the research, for this particular project the selected earmarks will be

sufficient. However, this particular limitation would need to be overcome in order to pursue future work on the subject.

Despite these limitations, this study effectively addresses the issues surrounding earmarks and answers the research question, to what extent does earmarking funds for infrastructure projects inflate the overall cost of the project?

## CHAPTER FIVE

### CASE STUDY: COACHELLA VALLEY

The following case study is the analysis of an earmark designated to the Coachella Valley for a series of highway interchange upgrades. The upgrades are part of a congestion reduction project for the vastly growing desert area.

#### Selected Earmarks

In FY 2005, Congress issued 6,337 earmarks through the DOT. The majority of the allocated earmarks were issued through the Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA). The SAFETEA was signed into law in August of 2005, with the purpose of supplying \$286 billion in federal money to improve road transportation throughout the United States (fhwa.gov). The SAFETEA, like most authorization and appropriation bills in the early part of the 2000s, contained thousands of earmarks, including Alaska's infamous "Bridge to Nowhere." Despite the general focus on the Alaskan bridge, the majority of the earmarks in the SAFETEA were designated for high priority projects.

The state of California received 544 of the 6,337 FY 2005 DOT earmarks. Two of those earmarks were allocated to high priority projects in the Coachella Valley; \$2.2 million for CONSTRUCTION costs related to the upgrade of the Interstate-10 (I-10) / Indian Avenue (now Indian Canyon) Interchange, and \$2.2 million for CONSTRUCTION costs related to the upgrade of the I-10 / Bob

Hope/Ramon Road Interchange. Table two illustrates the distribution of DOT earmarks in FY 2005.

Table 2. Department of Transportation Earmarks Fiscal Year 2005

Authorization	# of 2005 Earmarks	Amount (\$k)
SAFETEA	6306	\$23,082,999
ESEA	15	\$52,781
TEA 21	8	\$7,681
FSRIA	5	\$208,324
IDEA	1	\$1,469

Office of Management and Budget. (2014). Earmarks in authorization bills [Data File]. Retrieved from <https://earmarks.omb.gov/earmarks-public/by-authorization/summary.html>

### Earmarked Project Background

The Coachella Valley is located at the west end of Southern California’s Sonoran Desert. It is known for its warm climate, annual music festivals, and lush golf courses. The I-10 divides the Coachella Valley in half with residents and businesses on either side. This particular thirty-mile stretch of the I-10, referred to as the Coachella Valley corridor, connects the Coachella Valley to Riverside, Los Angeles and San Bernardino to the west, and Phoenix to the East (dot.ca.gov).

High volumes of population growth during the 1990s and early 2000s have created traffic congestion issues on interchanges and arterial roads throughout the corridor. Congestion is the result of the various purposes the corridor serves to the Coachella Valley including; residents use the corridor as a commuter highway to move from city-to-city for work and recreation in the Coachella Valley area, overpasses and arterial roads connect cities in the area, such as Indian

Canyon and Palm Drive, which connects Palm Springs to Desert Hot Springs, and it remains a travel bypass for interregional travelers heading into Los Angeles, Riverside and San Bernardino from the east and out-of-region travelers into Phoenix from the west (dot.ca.gov). Figure one shows the projected growth of the Coachella Valley through 2030.

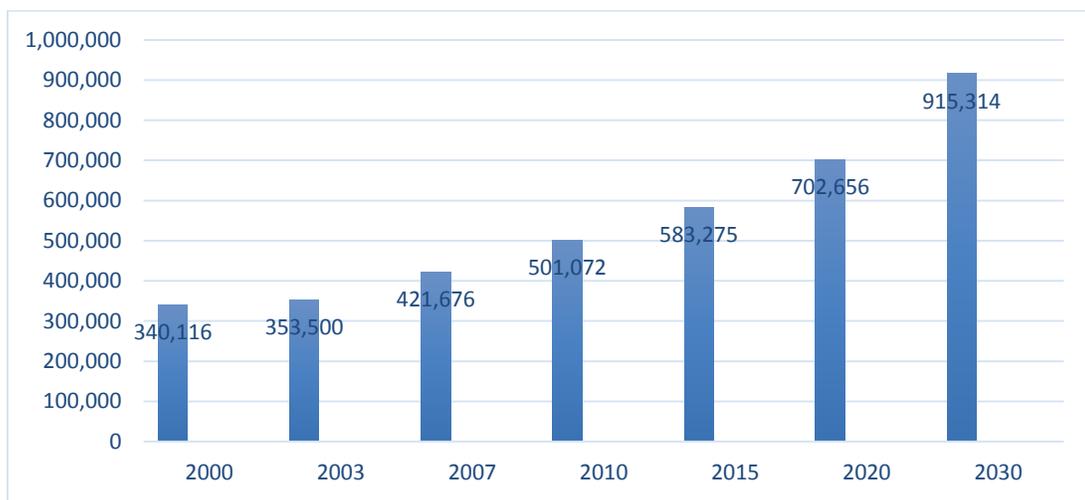


Figure 1. Coachella Valley Projected Growth.

The projected growth of the Coachella Valley prompted the forming of a coalition of government agencies to begin surveying, and conducting environmental and cost analysis studies for a series I-10 corridor upgrade projects. This coalition included; the Federal Highway Administration (FHWA), California Department of Transportation (Caltrans), Coachella Valley Associated Governments (CVAG), Riverside County, the Agua Caliente Band of Cahuilla Indians and the cities of Palm Springs, Desert Hot Springs, Cathedral City,

Rancho Mirage, Palm Desert, Indio, Coachella, Indian Wells, and La Quinta. It was determined that over the next decade commercial and residential development plans throughout the Coachella Valley would increase interregional and commuter traffic along the corridor (dot.ca.gov). The risk of congestions and delays were inevitable, thus the coalition identified seven upgrade projects along the corridor to alleviate traffic congestion issues.

Earmark: Indian Canyon/Interstate-10 Interchange

The DOT FY 2005 SAFETEA authorization bill included an earmark for \$2.2 million dollars allocated for use toward construction costs related to the upgrade of the Indian Canyon Road / I-10 Interchange (ICR-I10). Authorization bill funding is allocated with specific description of use, which limits the realm of eligible costs (dot.ca.gov). Thus, leaving the recipient of the earmark to fit the bill for other costs related to the project. Further, earmarks can typically require a local match of 20%, and earmarks allocated through authorization bills will lapse at the end of the life of the bill (Chiu, 2010). The ICR-I10 earmark was designated for construction support costs having to do with the administration and inspection of the ICR-I10 construction (City Council Staff Report, 2010). As a result, pre-construction activities such as, environmental survey, design engineering, and right of way costs are not an eligible cost the earmark would cover. In addition, the SAFETEA bill had a lapse date of September 30, 2009 (omb.gov).

Project Obstacles and Costs. The coalition of government agencies

gathered to begin work on the I-10 corridor projects designated Palm Springs, California as the lead agency on the ICR-I10 project. This decision was determined based on the proximity to the project and the share of benefit Palm Springs would receive from the upgrades (City Council Report, 2008).

After the completion of the environmental phase of the ICR-I10 project in 2006, the City of Palm Springs (City) faced several challenges and delays resulting from right-of-way acquisition and utility coordination. The right-of-way phase of the project includes acquisition of right-of-way, as well as the coordination of relocation of utilities in the area of the project (City Council Staff Report, 2009). Caltrans requires a cost share for utility relocation of 50/50 between the Utility and the requesting agency. Since the City is performing the right-of-way work on behalf of Caltrans, the City is required to perform said work in accordance with Caltrans master contracts (City Council Staff Report, 2009). In 2008, the City contracted with Dokken Engineering for the design, and pre-construction support activities related to the ICR-I10 project. Costs related to right-of-way and pre-construction support services were not eligible for use of earmarked funds, therefore, the City was forced to seek other avenues to pay for these services. As a result, the city entered into agreement with CVAG for use of Measure A funds on a reimbursement bases to cover the costs of, utility relocation (City share) and Dokken Engineering construction support services (City Council Staff Report, April, 2010). Table three highlights the costs related to construction support activities.

Table 3. Costs Related to Right-of-Way and Construction Support

Activity	Cost	Actor
Planning and Development	\$636,221	Dokken
Structures and Roadway	\$760,353	Dokken
Construction Support	\$186,274	Dokken
Construction Bidding Plans	\$10,008	Dokken
Utility Relocation	\$125,036	So. Cal. Edison

Another big obstacle in the use of authorization bill earmarks for local governments is the continual adjustments made to the obligated (OB) amount.

According to the FHWA:

In a multi-year reauthorization act, (such as SAFETEA), the earmarks are spread out over the life of the act, i.e., a portion of the earmark is provided in each year. Each annual portion is subjected to that year's annual obligation limit (fhwa.gov).

Table four provides a breakdown of the obligation rate of an earmark.

Table 4. Fiscal Impact on a \$2.2 million Earmark (\$ in thousands)

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Totals
Allocate	\$440	\$440	\$440	\$440	\$440	\$2,200
OB %	91%	89%	91%	91%	85%	
Adjusted	\$400	\$391	\$400	\$400	\$374	\$1,966
Federal Highway Administration. (2005). Earmark Obligation Impact. Retrieved from <a href="https://www.dot.state.oh.us/Divisions/Planning/LocalPrograms/Document%20s/Congressional%20FHWA%20Earmark%20and%20Discretionary%20Guidance.pdf">https://www.dot.state.oh.us/Divisions/Planning/LocalPrograms/Document s/Congressional%20FHWA%20Earmark%20and%20Discretionary%20G uidence.pdf</a>						

The end result is a decrease in the original earmark amount, and an increase to the agency financial burden to complete the designated project.

In September 2009, after several years of delays resulting from right-of-way acquisition, the City entered into a Construction Cooperative Agreement with Caltrans and Riverside County to administer the construction of the ICR-I10 upgrade project. The total estimated cost at the time of construction was set at \$25,475,600. The City was able to accumulate the total amount of needed funding through several sources including; the receipt of \$5,517,500 in funds from the American Recovery and Reinvestment Act (ARRA), \$13,656,00 from the State Cash Regional Improvement Program (RIP) and the original earmark funding (City Council Staff Report, July, 2010).

According to City documents, a second earmark in the amount of \$1,120,885, (which would have an original value of \$1.5 million prior to obligation deduction), was used in conjunction with the original \$2.2 million SAFETEA earmark to fund the project (City Council Staff Report, July, 2010). However, this particular earmark could not be traced back to the source, therefore, was not mentioned previously in this analysis.

City documents indicate the original construction estimate of \$25,475,600, would require a local match of \$8,128,500, which would have to be taken from own source revenues (City Council Staff Report,

July, 2010). However, in July 2010, City Council approved a reduced construction estimate of \$16,526,137, as a result of the revised estimate STIP/RIP funds would be adequate to fund the local match requirements, resulting in “\$0 local funding” (City Council Staff Report, July, 2010).

### Case Study Findings

The preceding case study analyzed the effect of an earmark on the designated project and the project’s lead agency. From the analysis of available data, it was determined that the earmark was not a factor in the delayed timing of the project, and was not the direct cause, but a supplemental cause of the added costs to the project. The study reveals that earmarks, similar to other federal funding sources, are partial payment for top priority infrastructure projects. Further, earmark distribution has obligation reduction regulations and expiration dates that further limit their flexibility. It is also important to note that, added costs as a result of administering earmarks, grants, or other federal funding sources is incorporated into the costs of the daily operations of the agency. In order to determine the exact cost of administering the project, staff time would have to be coded directly to the designated project. It is possible that some municipalities code staff time to particular projects to satisfy accounting and audit regulations. However, such information is not available without contacting the agency directly and may not be available to the general public. The raw data used in this study, unfortunately, did

not reveal this sort of data. The ICR-110 project required several sources of funding in order to make up the difference between the original earmark and final cost of the project. The designation of the earmark for construction administration and inspection limited the scope of its use resulting in costs above and beyond the its worth. The only direct cost that the available data revealed, as a result of the earmark, was the local match of \$8 million dollars that was eliminated when a lower construction bid was submitted.

## CHAPTER SIX

### CONCLUSION

Financial management is one of the more technical and grueling sub-disciplines of public administration. Near the top of the list of important topics within that sub-discipline is funding public service needs. The current economic climate in numerous municipalities throughout the United States calls for a study dealing with any type of funding to be given an extensive amounts of attention. This study has just begun to scrape the surface of the examination of earmarks, however, it has presented a few points of consideration. The first point is illustrated in the Coachella Valley case study, which revealed that earmarks are only a supplemental not a direct cause of the inflation of the overall project costs, and do little to diminish the overall outcome. It was determined that the allocation of earmarks brings about specific obstacles to using earmarks as a funding source. For instance, specific use instructions allocate earmarks for a specific portion of the project. In the case of the ICR-I10 earmark, it was designated for use in construction administration and inspection, and not for use in construction support. Thus, Palm Springs had to seek other sources of pre-construction phase funding. In comparison, the \$2.2 million earmark for the I-10 / Bob Hope Drive/Ramon Road Interchange (RR-I10), which was designated for construction administration and inspection, was supplemented with an earmark in FY 2009 in the amount of \$475,000, and another in FY 2010 in the amount of \$500,000

(omb.gov). Both earmarks were designated specifically for research in the pre-construction phase. Unlike the ICR-I10 project, the RR-I10 project received pre-construction and construction phase earmarks, a further example of their limitations and complexities. Earmarks of this nature will require the local government to find alternative sources of funding to support expenses accumulated in project activities, related to, but not designated for, funding from the earmark. As a result, this can lead to internal conflicts, which delay projects, or cause them never to come to fruition (Chiu, 2010). The DOT is currently working with other agencies to 'Repurpose' nearly \$2 billion in unused earmarks, resulting from project delays and cancelations (Chiu, 2010). In addition, earmarks are straddled with obligation regulations, which devalue the earmark over the course of the authorization bill term. In the Coachella Valley case study, the original \$2.2 million earmark was reduced to \$1.9 million as a result of earmark obligations. Local governments receiving federal earmarks must account for this reduction in the planning process. The actual added cost of obligation regulations is unknown without specific payroll data relating to the designated project. This information was not available from the raw data used in this study.

The second point of consideration is earmark funding, despite the negative rhetoric, are not more or less effective as a funding source than traditional funding tools. In all cases of federal-aid for local governments there will be a local match portion, usually near twenty-percent. As a result, larger capital projects, such as infrastructure, will require multiple sources of federal,

state, and local own source revenues. In the Coachella Valley case study, Palm Springs was the benefactor of a last minute low bid, which reduced the overall costs and allowed the City to avoid using own source revenues for local match. A unique situation that does not always end with the same results for all local governments.

The Coachella Valley case study and the literature revealed the same theory; earmarks as a funding source from a functionality standpoint are similar to regular appropriations, however, earmarks have a different form of inception and are given different spending authority. Earmarks have a specific statutory destination, while regular appropriations have a broad purpose. Thus, a regular appropriation can be spent on a project that fits within the umbrella of its purpose. For example, an appropriation made to the DOT for “highways” could be spent on repairs, expansion, construction, or even research. However, an earmark will be given specific instructions for spending, such as \$500,000 for construction research on the RR-I10. Earmarks also avoid the functions of Congressional oversight and in some instance are not written into law. Instead earmarks are written as instructions in committee reports that agencies are expected abide.

Although, earmarks protect allocated funding from a change in the federal political landscape, the way earmarks are added to authorizations and appropriations bills allows Members of Congress to bargain and gain political favor in their district. Earmarks speed up the federal-aid process in the sense

there are fewer project approval hurdles to clear, however, create more hurdles and less funding for municipalities with representatives that lack in political clout. The SAFETEA authorization bill was loaded with earmarks that did not go through the competitive process, some were for legitimate projects related to real needs, and others were “nonsense” that sparked controversy.

### Future Research

The limitations of this study raised more questions for future research to explore. The topic would benefit from a deeper look into the administrative costs related to infrastructure projects. Such a task would require more than the use of raw data. Although, raw data is a good foundation to begin the study, a researcher would need to conduct interviews of those involved with the project, and gain access to specific documents that would contain line items for each cost of the project.

With the injection of earmarks into the 2016 federal budget, further research surrounding earmarks should focus on smaller projects, such as research grants as a comparison to larger capital projects. Such a study could be used to determine if earmarking has a greater cost depending on the nature of the project.

Finally, the principle idea of this research can be applied to all sources of funding in public administration not just earmarking. Extensive studies of infrastructure projects from beginning to end would benefit the discipline in the

sense it could lead to a solution to alleviating added costs, the imbalance of funding distribution, and the evaluation of funded programs.

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