

Delivering on the promise of federal infrastructure funds in states

May 9, 2022 | Article

By Kate Luther, Asuquo Mfon, Sara Slayton O'Rourke, and Todd Wintner

Thanks to the combined impacts of the Bipartisan Infrastructure Law and pandemic-related recovery bills, states and localities could have a meaningful effect on lives and livelihoods.

DOWNLOADS

[↓ Article \(6 pages\)](#)

The recent passage of the Bipartisan Infrastructure Law (BIL) will result in \$550 billion in new federal spending, programs, and loan initiatives affecting all levels of government—particularly states and localities. A sizable portion of this funding was announced in the first quarter of 2022. At the same time, state and local governments have been working to make the most of funding from pandemic-related recovery bills such as the American Rescue Plan (ARP) Act. With these bills, agencies could catalyze investments that could meaningfully affect lives and livelihoods in the United States, as well as transform how government agencies provide critical services to residents.

History suggests a centralized delivery team may help ensure that governments effectively and efficiently deploy funds and maximize their potential.

However, these bills also present an unprecedented coordination and capacity challenge. The BIL includes roughly 240 separate funding streams that will flow to state and local governments either directly, in the form of grants and program funds; or indirectly, through local constituents such as private utilities, businesses, and individuals.^[1] Complicating governments' efforts to manage this web of funds is the reality that each program comes with unique timelines and federal oversight provisions. And in many cases, programs may require state and local governments to develop new capabilities. Even funds augmenting existing programs, such as those promoting access to safe drinking water, are at a volume likely to strain existing agency capacity.^[2]

History suggests a centralized delivery team may help ensure that governments effectively and efficiently deploy funds and maximize their potential by providing cross-agency governance, engaging stakeholders, supporting programs, tracking performance, and managing program integrity and risk.

Learning from the past: Four goals to consider for disbursing funds

In the past, acute global events such as the 2008 financial crisis have prompted the disbursement of federal funds. Historically, agencies have struggled to effectively deploy this funding for several reasons, including the breadth and diversity of stakeholders, limited investments in capability building, and insufficient senior-level support for initiatives.^[3] For example, despite the passage of the American Recovery and Reinvestment Act (ARRA) in

response to the 2008 crisis, many projects were not started until several years later, while others did not achieve the scale anticipated due to administrative challenges such as strict eligibility requirements.^[4]

In executing the Coronavirus Aid, Relief, and Economic Security (CARES) Act and ARP, agencies have experienced predictable challenges. For example, many localities have been significantly bottlenecked in distributing Community Development Block Grant and Emergency Rental Assistance funding. States and localities have also faced major program integrity concerns—perhaps most notably with the expansion of eligibility standards for unemployment benefits, which caught many states unprepared to handle sophisticated attacks from fraudsters. Similarly, with billions flowing through state and local governments to subgrantees over a short period of time, it has become increasingly difficult to track the end use of funds.^[5]

Another challenge has been getting resources to the highest-need communities. This problem begins at a macro level, where states and localities with the greatest resources and experience routinely receive a disproportionate share of funding, likely in part because larger states have more advanced technical support for grant writing. For example, nearly 60 percent of FEMA Public Assistance Program obligations made available through CARES and ARP are to the four largest US states, which represent roughly one-third of the US population.^[6] At the local level,^[7] the inequitable distribution of funds was particularly acute in the rollout of the Paycheck Protection Program, with minority-owned and very small businesses seeing much lower rates of success in accessing critical relief funds.^[8]

Considering the challenges states and localities have historically faced in both securing competitive funding and disbursing it—as well as the unprecedented opportunities created through today’s new funding—states and localities might consider rallying around four goals:

- putting pre-allocated funds toward uses with the highest ROI, enabled by cross-agency governance and thoughtful stakeholder engagement across the state

- achieving outcomes promised by these programs through targeted program support and technical assistance
- ensuring each state or locality receives a proportionate share of competitive grant awards made available through both stimulus legislation and annual federal appropriations, with robust tracking of grant and initiative performance
- distributing funds equitably to the areas of greatest need while minimizing fraud losses, so residents in all parts of the community benefit from the opportunity for decades to come

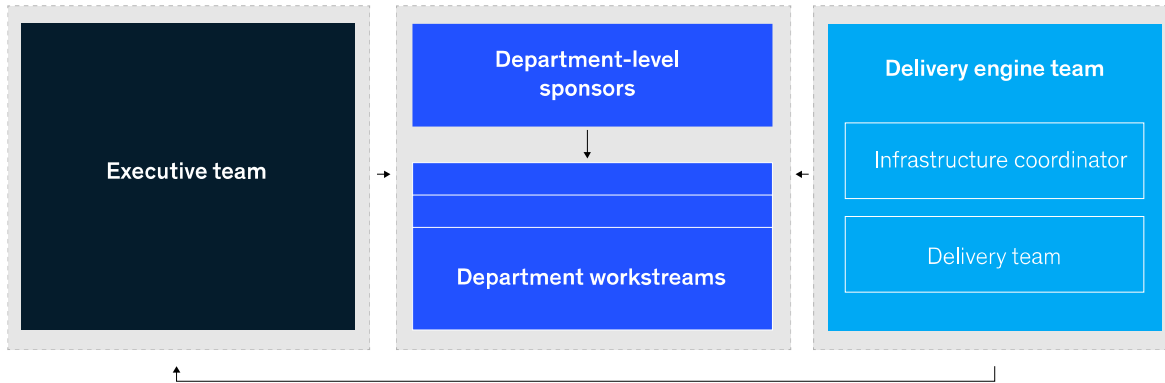
Getting organized: A centralized delivery team

In times like these, many states have historically relied on traditional project management offices (PMOs) to manage programs aimed at deploying federal funds. PMOs primarily focus on tracking initiatives within a program and can be useful when the goal is clear, limited coordination is required, and initiatives are straightforward.

However, given the wide range of stakeholders, large amounts of funding, and evolving goals related to the BIL and other recent and pending federal funds, state and local leaders may want to go beyond establishing a traditional PMO by bringing key functions together into a centralized delivery strategy. A centralized delivery team, led by an infrastructure coordinator,^[9] could serve as a problem-solving partner with agency leaders, initiative owners, and other stakeholders by accelerating the pace and efficiency of delivery (exhibit). In addition to tracking initiatives across various programs, a centralized team could enable capability building across agencies, ensure sustainable impact, and help states and localities meet the four goals above.

A centralized delivery team model can effectively and equitably disburse federal funds.

Delivery team model



McKinsey
& Company

The delivery team members support, but don't supplant, agency implementation resources in cross-functional roles. Included in this team are a fully dedicated program manager and partially dedicated members with expertise in fields such as finance, stakeholder engagement, law, and HR—though exact roles and responsibilities will be tailored based on the agency's mission and goals. The team may have an engaged executive sponsor and structural accountability. This team may be housed within the governor's office or a functional agency and may be deployed to support programs and mitigate roadblocks across agencies.

A centralized team could be responsible for developing and implementing a data strategy by translating aspirations into measurable targets.

This team may be responsible for four core functions.

Cross-agency governance and stakeholder engagement

The centralized team could keep track of streams of funds, program requirements, and any potential capability gaps across agencies. It could also identify and convene stakeholders most critical to delivery and actively problem solve with them to set the targeted vision for the program, devise a strategy for competitive grant applications, and create a robust implementation plan for efficient use of funds. And this team could coordinate across agencies with overlapping or adjacent program goals to achieve the highest return on BIL funds. For instance, coordination between public and private partners is critical for successful bids for \$8 billion in hydrogen hub funding. With a centralized team, states could play a pivotal role in coordinating this consortium. The team could also use its centralized position to support senior leadership with relevant facts and best practices, such as stipulations associated with federal funding and best practices in securing competitive grants.

Specific program support

In addition to taking a high-level overall view, the team could provide deep technical assistance to help deliver high-priority programs. This could help to ensure that the state can achieve outcomes promised by each program. For example, currently only about 7 percent of eligible drinking-water systems have historically accessed critical Environmental Protection Agency (EPA) state revolving funds for drinking water.^[10] As both the scale and scope of these funds expand, states could play a vital role in providing the necessary data (for example, lead service line mapping) and identifying potentially eligible projects to improve the rate of application—particularly for smaller and more vulnerable communities. The team could similarly provide technical assistance and support implementation for grantees and partners, such as ensuring all grant applications are complete to improve the odds of securing grants.

Performance tracking and analytics

A centralized team could be responsible for developing and implementing a data strategy by translating aspirations into measurable targets. These targets could then be cascaded into specific performance indicators against which they could measure success and concrete activities for the agency to act on. The team may develop relevant digital tools, which it could use to create transparency on grant progress and initiatives' performance. Doing so could surface risks, allowing the team to quickly resolve issues, and identify opportunities to accelerate progress, both with grant applications and program implementation. Data dashboards could also inform operational decision making and allow the team to track program impact, creating accountability across agency leaders. Finally, this level of impact tracking could help ensure funds are distributed equitably so all parts of the state or community benefit from the opportunity. For example, at a local transit agency, these real-time performance dashboards were used to ensure that all program initiatives were aligned with the agency's mission of improving access, equity, sustainability, and safety of transit services to all residents.

Program integrity and risk management

A core function of the centralized delivery team—starting almost immediately—could be to partner with agencies overseeing specific programs, scan for potential risks related to implementing them, and begin mitigating them. Many states used the integrity challenges exacerbated during the pandemic as an opportunity to update their fraud detection rules, accelerate deployment of third-party fraud detection software, and significantly ramp up staffing across various claims queues—in part through the use of US Department of Labor Unemployment Insurance Modernization Funding.^[11] The centralized team could play a role in managing these efforts to not only reduce the leakage of taxpayer dollars but also provide sustainable ways to decrease backlogs and reduce vulnerability under future potential program expansions. The team could also help agencies prepare for future audit and

oversight from various federal entities. For example, under ARP, many states partnered with their local controller's office to help provide resources for smaller localities on how they were allowed to use Treasury Fiscal Recovery Funds.^[12]

As they start getting organized to deliver funds from the various bills that have recently been passed, state and local leaders could consider a few questions to guide their decision making:

- How will you ensure all various funding streams are mapped against highest-priority gaps?
- What approaches are you considering to ensure your state receives a proportionate share of competitive grants?
- How are you mobilizing internally to support agency leaders in designing and delivering new programs?
- What mechanisms do you intend to put in place to centrally track and communicate progress against program and administration objectives (both internally and externally)?
- What systemic risks do agencies across the state face in distributing funds (for example, labor shortages) and what steps (such as professional licensing reforms) could help mitigate the impact on delivery?
- Where are agencies likely to require a surge of resources (for example, a temporary workforce to process grants or loans) or matching funds, and what adjustments might states need to make to budget for these expenses?

State and local governments are facing immense challenges, but they also have the opportunity to make an impact on residents' lives. A centralized delivery strategy could potentially help agencies increase transparency, accountability, and impact while decreasing the time required to get resources to those who need them most.

1. According to McKinsey analysis.
 2. For more information on the breakdown of BIL funds, see [“The US Bipartisan Infrastructure Law: Breaking it down,”](#) McKinsey, November 12, 2021.
 3. Ian Jefferson, Katie Owen, Jim Scott, and Aly Spencer, [“From transition to transformation,”](#) McKinsey, December 1, 2020; [“Delivering for citizens: How to triple the success rate of government transformations,”](#) McKinsey, May 31, 2018.
 4. Shoshana Lew and John D. Porcari, “Eight years later: What the Recovery Act taught us about investing in transportation,” Brookings Institution, February 22, 2017.
 5. “Justice Department takes action against COVID-19 fraud,” Department of Justice Office of Public Affairs, March 26, 2021.
 6. OpenFEMA Dataset: Public assistance funded projects details - v1, Federal Emergency Management Agency (FEMA), accessed on April 12, 2022.
 7. Dan Garcia-Diaz, “During COVID-19, access to federal emergency rental assistance increased, but some challenges and risks remain unaddressed,” US Government Accountability Office (GAO), February 15, 2022.
 8. *Disaster Relief Fund: Monthly report as of February 28, 2022*, FEMA, March 8, 2022.
 9. For more, see [“Impact officer in chief: The state infrastructure coordinator’s role,”](#) McKinsey, April 20, 2022.
 10. Katy Hansen, Sara Hughes, Andrea Paine, and James Polidori, *Drinking water equity: Analysis and recommendations for the allocation of state revolving funds*, Environmental Policy Innovation Center, August 9, 2021.
 11. “US Department of Labor announces funding to states to modernize unemployment insurance system, combat fraud, address equity,” US Department of Labor, August 11, 2021.
 12. See, for example, “To all local government, public offices and IPAS: American Rescue Plan (ARP) Act frequently asked questions,” Ohio Auditor of State, November 30, 2021.
-

ABOUT THE AUTHOR(S)

Kate Luther is a consultant and **Asuquo Mfon** is an associate partner in McKinsey's Dallas office; and **Sara Slayton O'Rourke** and **Todd Wintner** are partners in the Washington, DC, office.

The authors wish to thank Rob Dunn, Ananya Tandon-Verma, and Jennifer Volz for their contributions to this article.

[Talk to us](#)

EXPLORE A CAREER WITH US

[Search Openings](#)