

CAPITOL RESEARCH

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State Infrastructure Banks

An interchange at the Fort Lauderdale airport. A bridge replacement in Cleveland. An interstate around North Augusta, S.C., that will help ease the daily commute for thousands of motorists.

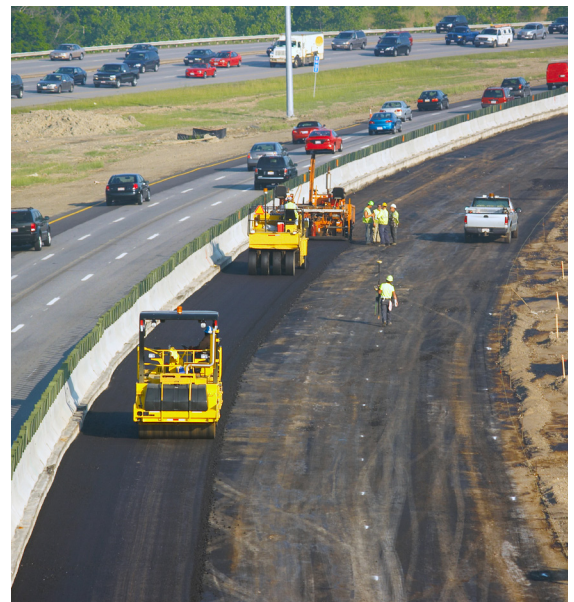
The thing they all have in common is that they were all financed with help from a state infrastructure bank, a type of revolving infrastructure investment fund for surface transportation projects with which 32 states and Puerto Rico have at least some experience.

Operating much like other kinds of banks, these infrastructure banks can offer loans and credit assistance enhancement products to public and private sponsors of certain highway construction, transit or rail projects.

Under the 2005 federal highway authorization bill, known as SAFETEA-LU, all states and territories plus the District of Columbia were given the authority to establish state infrastructure banks. This followed a period during the 1990s when at different times, anywhere from 10 to 39 states were allowed to experiment with these banks under a series of federal pilot programs. The 2005 legislation also allowed for the creation of multi-state infrastructure banks.

Federal and state matching funds are generally used to start a state infrastructure bank. States can then contribute state or local funds and seek additional federal funds to provide more capital.¹

The bank's initial capitalization and ongoing revenue can be used in a number of different ways. The funds can be lent directly to selected projects. The bank can leverage its initial capitalization by providing loan assistance, by using loan repayments as dedicated revenue to sell bonds in the bond market and by providing additional loan assistance with the proceeds of the bond. Finally, the bank can use the funds to guarantee bonds issued by cities, counties, public-private partnerships and other entities, in the process enhancing their creditworthiness and lowering the interest rates they have to pay in the capital markets. Loan guarantees can be particularly beneficial in reducing interest rates on projects in states with cities, counties and special districts that have limited financial capacity.²



While the SAFETEA-LU authorization established the basic requirements and overall operating framework for state infrastructure banks, many states have tailored their banks to meet their own needs and offer their own types of financing assistance. That being said, loans remain the most popular form of state infrastructure bank assistance. The Federal Highway Administration reported that through the end of 2008 (the latest year for which complete data is available), 32 states and Puerto Rico had entered into 609 state infrastructure bank loan agreements totaling \$6.2 billion.³

Benefits of a State Infrastructure Bank

State infrastructure banks can help states stretch their state and federal dollars and meet the demands of financing large, impactful, long-term infrastructure projects. When government agencies and authorities must seek yearly grants and allocations to finance projects, the completion of those projects can be delayed for months or years. State infrastructure banks



can identify, promote and lend money to creditworthy transportation projects to ensure they're built within a reasonable timeframe and in a financially sustainable way. And because these banks act as a "revolving fund," more projects can ultimately be financed.

When bonding is used to finance a project, the bonds are usually one of two types: revenue or general obligation. Revenue bonds often are used to finance infrastructure projects that have the ability to produce revenue through their operations; for example, new highway lanes that can be tolled or public transit facilities on which fares can be collected. These types of bonds are typically guaranteed by the project revenues, but not by the full faith and credit of a state, city or county. General obligation bonds, on the other hand, are backed by the full faith and credit of the issuing authority. These are used to finance projects that rely on government's general revenues, such as income, sales and property tax revenue. Cities, counties and states pledge these revenues to issue the bonds and repay them.

But the revolving fund aspect of a state infrastructure bank means states can lend funds for projects and receive loan repayments, which can be returned to the system for more project loans. The funding also can be turned into much larger credit lines, multiplying transportation investment capacity.

When transportation projects are financed in a traditional way, funds from a state department of transportation or the federal Highway Trust Fund are spent and two types of risk are assumed. Projects are at risk of delay as state officials wait for the state or federal funds to become available, which may

increase the costs and delay the project's benefits. Secondly, states face the risk that a poorly selected project will fail to produce social or economic benefits and tie up scarce capital resources that could have gone to other potentially more successful projects.

Both of those risks are diminished with state infrastructure bank financing. First, projects don't have to wait for funding and delays and cost overruns are avoided. Secondly, a state infrastructure bank has a built-in project evaluation process. Projects are assessed based on their financial viability, which provides a level of economic discipline that is not always present with traditional state project funding. Better, more benefit-producing projects can be the result.⁴

State Infrastructure Bank Activity

While 32 states have used a state infrastructure bank, more than 87 percent of all loans from such banks made through 2008 were concentrated in just five states and nearly 95 percent of activity in just eight states. The states with the most state infrastructure bank activity through 2008 were South Carolina, Arizona, Florida, Texas and Ohio.

Established in 1997, the South Carolina Transportation Infrastructure Bank has made more than \$3 billion in loans, making it the state infrastructure bank that has provided the highest level of financing of any in the nation. Among the key features of the South Carolina bank:

- It was initially capitalized with state and federal funds and can receive additional funds from these sources as well as other public and private entities.
- Private borrowers can use infrastructure revenue and public borrowers can use dedicated local taxes and revenue to demonstrate repayment capacity.
- The bank can set its own interest rates and repayment terms, though they are subject to agreements with bondholders.
- Unlike some state infrastructure banks, South Carolina's bank can be the primary source of financing for some infrastructure projects. However, projects eligible to receive loans must have strong supplementary financing sources and demonstrate solid streams of future income.

The legislation creating the bank stated its purpose as assisting infrastructure development through providing financial assistance to both public and private developers, ultimately aiming to contribute to enhancing mobility and safety, promoting economic development and increasing the public's quality of life.⁵

One project that has benefited from South Carolina Transportation Infrastructure Bank loans is Interstate 520, a road that encircles the cities of Augusta in Georgia and North Augusta in South Carolina and provides a direct connection to I-20. Completion of the interstate, which is known as the Palmetto Parkway on the South Carolina side, was needed to accommodate increasing traffic volume in the region.



The infrastructure bank approved an initial loan of \$65 million for the first phase of the project in 2001, an additional \$95 million for Phase II in 2005 and a third loan of \$18 million in 2007. The South Carolina Department of Transportation, the city of North Augusta, and Aiken County, S.C., have provided additional funding for the project; a countywide sales tax approved by voters in 2000 provided \$17 million. It also received \$21 million in federal grants. But the South Carolina Transportation Infrastructure Bank loan was the largest funding source for the project, which was completed in 2009.⁶

State Capitalized Infrastructure Banks

Several states—including Florida, Georgia, Kansas and Ohio—have established state infrastructure banks or accounts within their banks that are capitalized solely with state funds.⁷ Virginia has recently joined the ranks of those four states. Such banks allow funded projects to avoid potentially delay-causing federal regulations and restrictions (such things as labor, environmental and “Buy America” requirements) they would otherwise be subjected to if they were financed using federal funds.

Kansas

Kansas’ Transportation Revolving Fund (TRF), established in 1999, provides financial assistance to local governments for transportation projects. Private enterprises also are eligible if they have a governmental unit as a partner. Offering direct loans and credit enhancements, such as loan guarantees and bond insurance, the fund is designed to promote innovative transportation funding solutions.

Bridges, culverts, roads, streets and highways are all eligible for financing, but not transit, aviation, railroad projects or trails. The Transportation Revolving Fund can be used to finance any phase of a project, including planning, design, right-of-way acquisition, construction engineering and construction.

The term of a loan from the Transportation Revolving Fund is limited to the lesser of 20 years or the design life of the project being financed, including the construction period.

Although there is no minimum or maximum amount of assistance set by statute or state regulation, the amount of capitalization means the TRF will not make loans of more than \$6 million to any one borrower during the fiscal year. Also, no single borrower’s capacity can exceed 15 percent of the program’s total capacity.

Applications can be submitted at any time and are considered and processed as they are received. The approval process is approximately 60 days from application to loan agreement.⁸

“The (Transportation Revolving Fund) is an attractive option for local units of government when they are considering how to finance their infrastructure needs,” said Program Manager Danielle Marten



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in response to email questions submitted by The Council of State Governments. “Projects can be on or off the state highway system, making the program attractive for not only the local’s share of a state project, but also attractive for 100 percent local projects. ... The low cost of the program and exemption from local government debt thresholds attracts borrowers to the (fund).”

Marten said since the inception of the program, the Kansas Department of Transportation has approved up to \$135 million in Transportation Revolving Fund loans. Of that amount, \$112 million was actually drawn upon to fund projects, up to \$9 million remains to be drawn and \$14 million was released back to the program as undrawn funds. The program was placed under a moratorium in the 2009 fiscal year since the ability to transfer additional equity was in question due to the expiration of the state’s 10-year comprehensive transportation program. A new program, called T-Works, was passed in the 2010 fiscal year and enacted in the 2011 fiscal year. The State Highway Fund transferred an additional \$25 million in equity to re-open the program.

“The program is once again loaning funds to local units of government and KDOT plans to review and maximize capacity as we see fit,” Marten said.⁹

Ohio

Ohio’s State Infrastructure Bank had loans totaling \$22.3 million in the 2010 fiscal year. Since the bank was created in 1991, the state has issued 138 loans and two bond issuances totaling more than \$404 million.¹⁰

Under state statutes, the bank can be used as a method of financing “highway, rail, transit, intermodal and other transportation facilities and projects which produce revenue to amortize debt while contributing to the connectivity of Ohio’s transportation system and furthering goals such as corridor completion, economic development, competitiveness in a global economy, and quality of life.”¹¹

“The Ohio (state infrastructure bank) has assisted



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— Jennifer Weeks

every transportation mode except a water project since its creation,” the bank’s administrator, Melinda Lawrence, noted in an email interview. “Various projects include the construction of intermodal parking facilities to repaving projects to new industrial park roads. There have been 12 loans to airports, ranging from a county airport’s runway paving project to the Akron Canton Regional airport and their terminal expansion.”

Lawrence said the state infrastructure bank can be used either to provide 100 percent of funding for a project or to fill the gap for a public entity so that it can move forward with the project. Local governments in Ohio prioritize their transportation needs by project and mode, and the infrastructure bank uses its various funding sources for financing multiple transportation modes based on local needs, she said. The different funding accounts are used according to the type of funding a project is eligible for under federal and state law.

While the program is in good shape now, Ohio’s state infrastructure bank has had its share of ups and downs, Lawrence recalled.

“There was one point in the program where there was less than \$10 million available to loan and we basically had a hiatus on loans for approximately a year,” she said. “Since then, the balance of the bank has built significantly and it has been leveraged to form two bond funds (Title XXIII eligible-projects is one and state-eligible projects is the other). So at this point the demand does not exceed the dollars available to loan. There is a balance of \$66 million between all accounts.”

Lawrence said increasing awareness of the state infrastructure bank’s financing tools will be an

important goal going forward. With new policies to tighten up the program recently approved by the bank’s loan committee and the Ohio Department of Transportation executive leadership, bank officials plan to increase their marketing of the program in the near future.

Lawrence does not foresee additional federal capitalization of the infrastructure bank, since that would require the state to adhere to all federal rules and regulations.

“Ohio likes the flexibility and variety of funding sources in its existing (state infrastructure bank), therefore Ohio would not likely consider capitalizing federal dollars into its existing (state infrastructure bank),” she said.¹²

Florida

Florida was one of the original pilot states for infrastructure banks. Its bank, established in 1997, has two distinct accounts—one a federally funded revolving fund that has not been recapitalized in several years, and the other capitalized solely with general revenue bond proceeds and state funds. The bank can provide loans and other assistance to public or private entities carrying out or proposing projects eligible for assistance under federal and state law. In order to be eligible, the projects must be on the state highway system, provide increased mobility on the state’s transportation system or provide intermodal connectivity with airports, seaports, rail facilities and other transportation terminals. They must be consistent with local Metropolitan Planning Organizations and local government comprehensive plans. The state-funded account also can lend capital costs or provide credit enhancements for emergency loans for damages incurred on public-use commercial deepwater seaports, public-use airports, and other public-use transit and intermodal facilities that are within an area that is part of an official state emergency declaration.

The bank will have a two-month application window in 2011 with awards announced in October and funds available in July 2012.¹³

Other key features of the bank include:

- It sets its own interest rates on a project-by-project basis, including rates below market levels based on consideration of project needs.
- It can tailor repayment structures on a need-oriented, project-by-project basis, including payment deferment. Borrowers can avoid payments for up to five years until their project revenue streams stabilize.¹⁴

“The majority of our (state infrastructure bank) projects advance transportation benefits by at least one year, but generally by several years,” Project Manager Jennifer Weeks said in an email interview. “In some instances, (state infrastructure bank) loans have allowed projects to be constructed that may not have been built otherwise.”

Loans have been used to purchase buses and trolleys, construct intermodal facilities, add capacity on

the state highway system, relieve congestion on state and federal highways, build a new airport, and build container terminals at a local seaport.

Weeks said rather than using the infrastructure bank to provide 100 percent of the funding for a project, the state prefers to use it to provide gap or bridge funding to get a project up to 100 percent funding.

“There are cases where a transportation benefit may not be realized without the assistance of (state infrastructure bank) funds or the (bank) has been a financial tool that improved the financial affordability of other debt financing for the project,” Weeks said.

Florida’s model of the state infrastructure bank has been a success other states have sought to duplicate, Weeks said.

“We look at the (state infrastructure bank) as a major tool in our ‘financial toolbox’ with hopes of a viable program in good and bad economic times,” she said. “During these tough economic times, the (state infrastructure bank) has still been able to provide loans at or below market rates and fund numerous transportation projects that have provided a safe transportation system ensuring the movement of people and goods.”

Between federal and state accounts, Florida’s bank has offered \$1.1 billion in assistance to 64 projects and has leveraged \$8.4 billion in total project investment.

“So, for every \$1 loaned, we receive approximately \$8 in product,” she said. “We have mainly focused on the project approach, whereas other states have focused on a program approach.”

But, Weeks said the Florida state infrastructure bank is always looking at ways to improve and to serve additional projects.

“We usually have more applications than we do capacity to loan,” Weeks said. “Not all applications are awarded. Some projects may not be quite ‘mature’ enough at the time of application or there may be financial issues that may cause concerns regarding the repayments of a loan. The project itself, as well as credit and/or financial risk, are part of the application and award process amongst other successful selection criteria. There will always be more projects than there is money.”¹⁵

Georgia

The Georgia Transportation Infrastructure Bank was created by 2008 legislation and capitalized with \$34 million in state funds in the 2009 fiscal year. The statute allows for future federal capitalization as well.¹⁶ The Georgia bank began accepting applications in October 2009. In addition to offering loans to eligible state, regional and local government entities for transportation projects, the bank is also authorized to administer grant money for specific transportation programs. The program website lists several objectives in administering the Georgia Transportation Infrastructure Bank, including:

- Making additional funding available to government units in order to initiate and complete transportation projects.

- Giving priority to bridge and road projects that are close to, at the start of or under construction, have a higher degree of contributed matching funds and have been initiated by government units, particularly cities and counties. Since the primary infrastructure bank funding comes from motor fuel taxes, transit and airport projects are ineligible for assistance.
- Selecting projects for financing that add transportation and economic value to local communities and/or the state.
- Ensuring consistency, fairness and efficiency in the evaluation of applications.
- Providing for a smooth operational process that maintains loan and grant documents, manages the Georgia Transportation Infrastructure Bank capital prudently, tracks loan expenditures/repayments and provides adequate reporting.¹⁷

Virginia

Virginia is the latest state to create its own state capitalized infrastructure bank.

In April 2011, Gov. Bob McDonnell signed into law key transportation legislation that will result in the investment of nearly \$4 billion in the commonwealth’s road, rail and transit networks and fund more than 900 transportation projects during the next three years. The legislation also creates the new Virginia Transportation Infrastructure Bank, which will make low-interest loans and grants to localities, transportation authorities and private-sector partners. The state is using \$283 million from a 2010 fiscal year surplus and savings from a performance audit of the Virginia Department of Transportation to provide the bank’s initial capitalization. Officials plan to use a





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number of different mechanisms and funding sources, including future budget surpluses, during the next three years to provide an additional \$1 billion in capital.¹⁸

“We already had established a federally approved infrastructure bank,” recalled Virginia Transportation Secretary Sean Connaughton during remarks at a conference on public-private partnerships in June. “We wanted to establish our own state bank, one that we had more ability to control, more ability to look for opportunities where we could use any sort of credit financing, credit enhancement, actually doing loans, actually looking for opportunities to issue bonds and leverage the amount of money that we have in this bank so we can actually make some projects happen.”

Connaughton, the incoming vice chairman of CSG’s Transportation Policy Task Force, said one thing that prompted creation of the new bank is the fact that federal programs like the Transportation Infrastructure Finance and Innovation Act, which helps fund projects of regional and national significance, have become oversubscribed and loans have become increasingly hard to get.

“We have so many projects in Virginia that we think we can actually move forward on with some sort of credit enhancement that we have gone ahead and established our own bank,” he said.

Connaughton believes the bank will help Virginia attract even more private investment to a state that has been aggressive in pursuing public-private partnerships in recent years. He also expects the bank’s initial \$283 million capitalization to give the state a leg up.

“We think we can actually go out and leverage the money and be fairly aggressive in not a very risky manner to essentially increase the amount of money that we have available,” he said. “Particularly now when we’re ... trying to attract private equity and also look at how do you end up making some projects even more affordable by giving interest rate subsidies. We think we have an opportunity to really step out there with some of the projects that we’re doing now as well as some of the others we’ve identified.”

Connaughton said such leveraging will allow the state to take advantage of the current construction market and save significantly on transportation project costs.

“We are seeing (some) projects coming in at 40 percent below what our estimates were,” he said. “We want to get as much money on the street to take advantage of this market as possible.”

Status & Future of State Infrastructure Banks

Although many states have experienced some degree of success in employing state infrastructure banks to help fund their infrastructure projects, observers say not all such banks have reached their full potential, especially when it comes to using capital from federal sources. In a 2010 analysis done for the Virginia Department of Transportation, George Mason University’s Jonathan Gifford writes that “although state (departments of transportation) can allocate up to 10 percent of the federal highway funds apportioned under the National Highway System, Surface Transportation, Highway Bridge and Equity Bonus programs, full utilization of such resources is not commonplace.” Gifford said the accessibility to existing credit options available through the municipal bond market may be a reason for the underutilization. The introduction of the Build America Bonds program in 2009 in particular may have limited use. It may also be difficult to identify revenue streams for smaller scale projects that are locally sponsored. Finally, it may be that the size of project backlogs in many states requires state departments of transportation to fully allocate core federal highway program dollars before seeking other project financing.¹⁹

A variety of proposals have circulated in Washington, D.C., in recent years to establish a national infrastructure bank as well. Sens. John Kerry, D-Mass., Mark Warner, D-Va., Kay Bailey Hutchison, R-Texas, and Lindsey Graham, R-S.C., have proposed

legislation to create a self-sustaining bank funded at \$10 billion that would leverage an estimated \$600 billion in private investment for transportation, energy, water and telecommunications projects and would not give grants.

Rep. Rosa DeLauro, D-Conn., has filed legislation in the House that would create a more expanded version of the bank that would have the ability to issue bonds.²⁰ Sens. Jay Rockefeller, D-W.Va., and Frank Lautenberg, D-N.J., proposed a \$5 billion national infrastructure fund that would encourage private investment in transportation infrastructure through loans, loan guarantees and grants. Although it would be set up within the U.S. Department of Transportation, the senators say the program could be extended to include telecommunications, water resources and energy projects.²¹ The Rockefeller-Lautenberg proposal would allocate \$600 million a year for grants.²²

Others in Congress and in state capitals would like to see an expanded version of the aforementioned Transportation Infrastructure Finance and Innovation Act program. Originally created in 1998, that program sets up loan partnerships between the federal government and eligible applicants, including state and local governments, transit agencies, railroads, special districts or authorities and private entities, to provide financing for transportation projects of regional and national significance.

And Obama administration officials have said they would like to see an expanded Transportation Investment Generating Economic Recovery program. That's the competitive grant program created by the 2009 American Recovery and Reinvestment Act to fund multimodal and multijurisdictional projects that promise significant economic and environmental benefits.²³

The future of these federal programs is likely dependent on what emerges from the next surface transportation authorization still under debate in Washington. The kinds of federal funding and financing resources that will be available to states going forward may go a long way in determining whether state infrastructure banks continue to grow in popularity. If uncertainty about the future of the federal highway program continues, the role of the state infrastructure bank could grow in the years ahead as states seek additional tools to help them meet their infrastructure needs. But state infrastructure banks already have clearly proven their worth in helping to finance key transportation projects around the country.

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