Cash withdrawals

With many state agencies feeling ill financially, more infrastructure banks could be on the horizon

By Bill Wilson
Editorial Director

Banking that depends on drive-through traffic.

When you look at the structure of state infrastructure banks (SIBs), most lay their foundation on the volume of motorists. More cars passing through a corridor on a daily basis creates a healthy influx of cash. On the other side of the retaining wall are the businesses and homeowners. Free-flowing traffic is appealing to both.

Taxes and tolls are the primary tools used to repay the loans authorized by SIBs, and with the economy looking up and financial assistance from the federal government looking down, many states might be considering creating their own infrastructure bank to help bolster road and bridge construction activity.

Virginia is one that appears to be prepared to open a major branch. New Gov. Robert McDowell has proposed a $3.3 billion transportation plan, which involves the use of $1.8 billion in accelerated bond issues approved by the state in 2007, the issuing of another $1.1 billion in debt, which would be repaid with future federal highway funds, and the creation of a state infrastructure bank that will hold an initial investment of $400 million. At press time, the Virginia state legislature was debating on the amount of money that should be injected into the infrastructure bank.

Jonathan Gifford of the School of Public Policy at George Mason University prepared a report for Virginia in November 2010 titled "State Infrastructure Banks: A Virginia Perspective." In it, he offered a number of different routes and a few successful runs in the U.S., and believes Virginia is on a direct course to establishing an SIB.

"I think so," he told ROADS & BRIDGES. "I think that is why the secretary was interested in this assessment. The General Assembly is currently in session and they are considering a number of proposals."

But how many other states will follow Virginia's tire tracks? If federal funding continues to decline, many may not have a choice.

Do your banking at home

Through the help of the Federal Highway Administration, more specifically the creation of the Transportation Infrastructure Finance and Innovation Act of 1990 (TIFIA), most states have a form of an SIB in operation. In fact, as of December 2008, 32 state federally chartered SIBs had entered into 579 SIB loan agreements valued at $5.56 billion. However, those loans come with some high hurdles to clear, like the Build America Bond program, which restricts where a state can buy equipment and materials, and Davis Bacon, which requires agencies/owners to pay the best prevailing wages in the area for projects. Furthermore, only

A Breakdown of SIBs in the U.S.

State dollars only	Federally capitalized	Hybrid (separate federal and state accounts)
Kansas, Georgia	Washington, Oregon, California, Utah, Arizona, Wyoming, Colorado, New Mexico, North Dakota, South Dakota, Nebraska, Texas, Minnesota, Iowa, Missouri, Arkansas, Wisconsin, Michigan, Indiana, Tennessee, Maine, Vermont, Rhode Island, New York, Pennsylvania, Delaware, Virginia, North Carolina, South Carolina, Alaska, Puerto Rico	Ohio, Florida

projects that exceed $50 million in total cost, or above 33.3% of the state's federal-aid highway apportionment, qualify. The projects also must be part of the state's long-range transportation plan and the approved state transportation improvement program, and there must be a dedicated revenue source for the repayment of the loan. Still, Gifford pointed out that as of July 2010 TIFIA had helped 27 projects in 13 states and territories totaling $7.9 billion.

However, when used the right way, state-run infrastructure banks carry three key advantages, as pointed out by Gifford:

- The capacity to leverage—The initial capitalization of an SIB can be leveraged through selling revenue bonds with the loan repayments as the revenue stream for debt service. This action does not wear down the bond-issuing capacity of the state;
- The ability to accelerate construction—An SIB allows construction sooner rather than later, eliminating the threat of rising material prices; and
- The ability to avoid other regulations and restrictions—Federally financed projects come with red tape, which can only increase a project's cost.

Gifford identified three operating scenarios for state-run infrastructure banks: direct loans, leveraged loans and credit enhancement. Direct loans, according to Gifford, involve the state starting with an initial capitalization, and then using that money to fund a number of different transportation projects. Once the bank is tapped out, it must wait until loans are paid off before investing in other projects. Under a leveraged loan, an SIB would lend some or all of its initial capitalization and then use the interest payments to secure bonds sold in the capital markets. Proceeds of the sales would provide another wave of funding that could be lent for additional projects. Credit enhancement uses the assets of the SIB to provide loan guarantees to project sponsors. By enhancing their creditworthiness, the guarantee reduces the interest rate the project sponsor has to pay in the capital markets. The dollar value of the guarantee will depend on how much debt the SIB actually generates.

As for the ideal loan, Gifford told Roads & Bridges that it really depends on the makeup of the state.

"It depends a lot on the economics and the situation in the state," he said. "In Virginia we have one of the highest-income counties in the country, and they have very ready access to the capital markets and they have a sophisticated county government that knows how to talk to Wall Street, so having the state guarantee to do credit enhancement is not going to add very much value because the county already has very good credit.

"If you have jurisdictions that do not have much of a history or as strong of a financial balance sheet, then a guarantee from the state could reduce your borrowing cost slightly."

However, even bankruptcy-tarnished states like New Jersey could set up its own SIB. Because the bonds issued by the SIB may not be guaranteed by the state, it would not be counted against a state debt limitation.

"But that would mean that the state would step up and pay the bonds should the project default," said Gifford. "Bond markets would recognize that risk and charge a high interest accordingly."

SIBs aren't recession proof, either. During 2008-09, traffic declined substantially across the U.S. and toll revenues took a hit. Then came the political pressure to put a lock on tax rates. With the two main financial engines stalling out, officials behind SIBs started getting a little anxious with outstanding debt floating around. According to Gifford, some had reserve funds built into projects, but that money counted against the loan.

Still, it has been rare to see a project default on a loan, and most states have been able to keep their heads above water.

"What we wanted to make this program is great in great times and great even in bad financial economic times," Gary Drzewiecki, manager, finance and revenue, for the Florida DOT told Roads & Bridges. "Normally, SIBs are only a small portion of the financial solution, so the majority of the financial solution also ran into hard economic times. It was relatively easy to keep the SIB going because the applications and need were down."

SIBs have indeed been more of a sprinkler instead of a pourer when it comes to funding. Gifford referenced three state-run infrastructure banks in his report (South Carolina, Minnesota and Florida), and the South Carolina Transportation Infrastructure Bank has provided the highest level of financial assistance at $3 billion. It is a little unclear as to just how much loan weight SIBs can carry.

"It is going to look a lot different in Wyoming than it is going to look in Virginia or South Carolina, areas where you've got major port facilities that are going to guarantee a stream of commercial traffic, or urban areas where you have a strong commuter market where you are going to be able to rely on a strong commuter demand," said Gifford.

"Can it be as large as $25 billion? It depends on the state. If you have a large land area and a large population and you are doing [the SIB] at the state level I can see very large levels of capitalization being reasonable for an SIB."

Lending support

Back in 2000, Florida took a page out of its federal SIB and rewrote it

The beauty of the SIB

A state infrastructure bank (SIB) may leverage its initial capitalization by providing loan assistance to infrastructure projects, use loan repayments as dedicated revenue to sell bonds in the bond market and provide additional loan assistance with the proceeds of the bond. For example, an SIB with $1 billion in initial capitalization could use leverage to support up to $5 billion, depending on market conditions, the types of projects available for SIB support and the legal authority of the SIB. Such SIB bonds issued would typically not be guaranteed by the full faith and credit of the state, and hence do not count against a state's borrowing ceiling.

Source: "State Infrastructure Banks: A Virginia Perspective" by Jonathan Gifford

to fit a state strategy. Starting with approximately $150 million, the local SIB quickly became the perfect complement to its Washington counterpart, and to date there have been a total of 69 projects with SIB (federal and state) assistance of $1.1 billion leveraging $8.5 billion in total project costs.

"The state program gives us more flexibility than the federal program," said Drzewiecki. "We have expanded our SIB programs to sea ports, airports, rail, transit, buses and of course roads—that would be a clear indication of success."

Toll revenues and a local option tax levied through the counties have supported Florida's own SIB, and the Florida DOT also has done some internal loans to district offices, which in turn have pledged their allocated state and federal dollars. The future health of the SIB certainly is packed with energy. The ending FY balance is expected to climb over the next 10 years to just over $714 million in 2021.

"We have been able to advance quite a few projects ahead of their normal schedule and in some cases these projects might not have ever been constructed," Jennifer Weeks, SIB program manager for the Florida DOT, told Roads & Bridges. "I get contacted quite frequently by other states asking how we set up our SIB, so I would not doubt it one bit if other states start pursuing this."

Minnesota pursued more than 10 years ago, but since then the state has called off the chase to develop its state-run infrastructure bank. A state-only account within the Transportation Revolving Loan Fund (TRLF) was created in 1997, but according to Brad Larsen, director of Traditional and Innovative Finance for Mn/DOT, the account has never been capitalized with anything.

"We are still contemplating different options," Larsen told Roads & Bridges. "One of the options we have been discussing a little is creating a multimodal account within that state version of the TRLF."

Larsen said the main reason why the state TRLF has remained dormant is because the federal SIB has handled the loan demand for transportation purposes. Originally the thought was to use general funds to capitalize the state

TRLF, but for the last decade Minnesota has been running record budget deficits. The state legislature did supply $16.5 million in general funds back in 2000, but half of that sum was pulled back due to the fiscal crisis.

"We really wanted to capitalize it with state general fund dollars rather than our dedicated transportation highway funds because there would be greater flexibility," said Larsen.

Minnesota has experienced moderate success with the federal TRLF. A total of 27 projects worth about $136 million have received loan assistance.

Since there are only two toll-lane facilities in the state, money to repay the loans have come from a variety of sources, including future state-aid dollars, local property taxes, local special assessments and local tax increment financing arrangements.

"We understand completely that there is more red tape involved in federal-aid projects as compared to state-only projects, however in Minnesota that difference is probably not as evident as in other states," said Larsen. "We have many laws that mirror federal laws. For example, we have state statutes that almost mirror Davis Bacon, and most of our local governments are very used to the federal-aid process."

Bank of America?

Many in Washington have looked to the creation of a national infrastructure bank (NIB) as part of the solution to funding future highway bills.

President Barack Obama has talked about a $60 billion NIB, and current House Transportation & Infrastructure Committee Chairman John Mica (R-Fla.) appears to be excited about the possibilities.

However, questions remain about where the initial investment will come from and how loans will be paid back. Gifford thinks tolling the interstate system is out of the question because many believe that network is already paid for. However, using an NIB to fund new capacity, like high-occupancy toll lanes, could give the vision some life.

"I could imagine an NIB being structured in a way that would allow it to pick economically viable projects that would have a high probability of repayment and the creation of a revolving fund that could support an ongoing investment hurdle," said Gifford. "But I can also imagine the hurdles to doing that are very significant because of the concerns of the national debt and the political influence of the selection of projects."

Florida and Minnesota appeared somewhat neutral on the NIB topic, but Larsen did see some promise.

"In some ways maybe there are some benefits to creating a more national infrastructure bank program under which TIFIA and some of the other federal loan programs would all fit under that same umbrella," he said. **R&B**

Some information for this article was pulled from "State Infrastructure Banks: A Virginia Perspective" by Jonathan Gifford.