



# State Infrastructure Banks (SIBs) 101

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# Course Outline

## Lesson 1

### **State Infrastructure Bank (SIB)**

- *how does it work?*
- *why is it useful?*

## Lesson 2

### **The Evolution of SIBs**

- *what is their record?*
- *how do they fit within Federal-aid?*

## Lesson 3

### **The FAST Act: Rebirth of SIBs?**

- *what are the new opportunities?*
- *can't a SIB just de-federalize?*



# Lesson 1

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***What is an SIB?***



# State Infrastructure Bank (SIB)

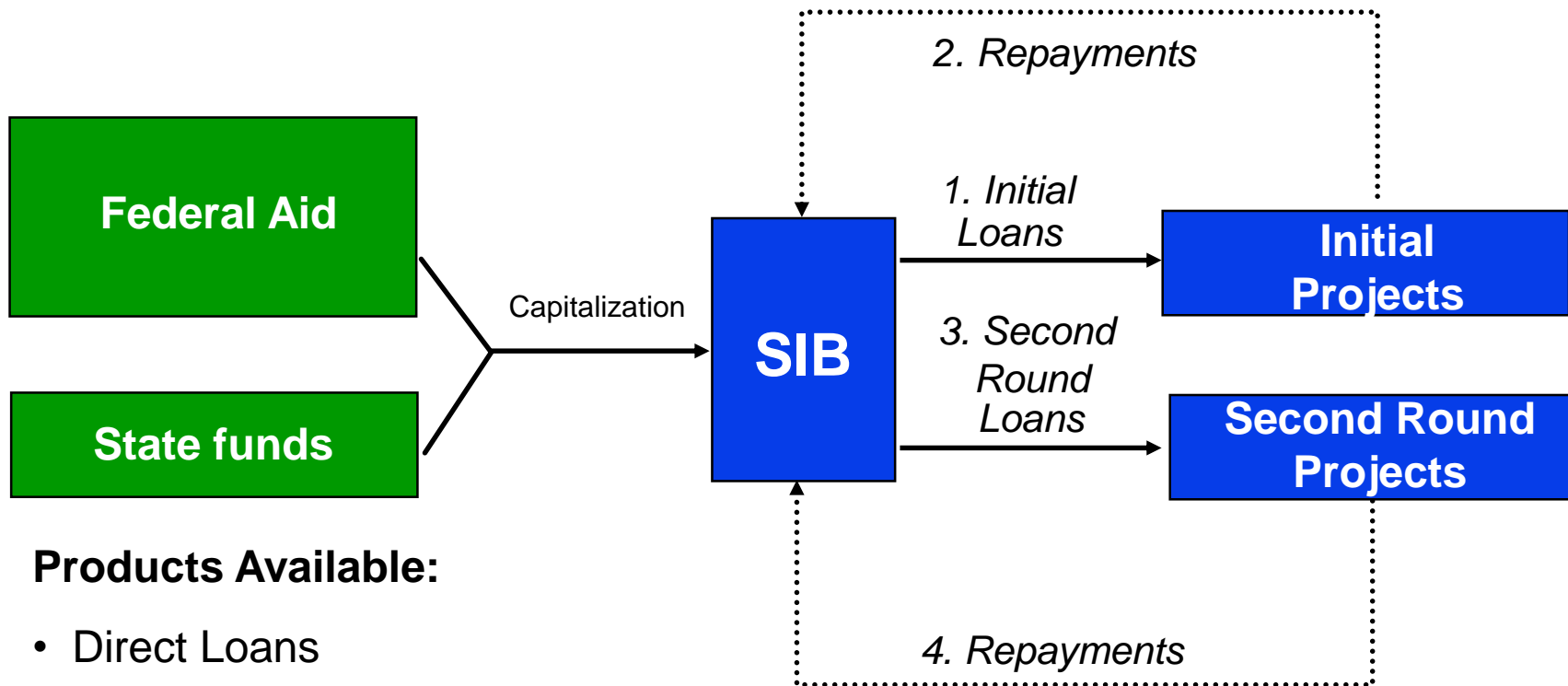
- SIBs are revolving funds created by a State using Federal transportation dollars
  - FHWA, FTA and FRA grant funds, as well as State matching funds, can be used for deposit capital
- The revolving fund is used to provide credit assistance (loans, loan guarantees, lines of credit, etc.) for local transportation projects:
  - Since the funds are revolving, repaid loans go back into the fund for further lending
- Revolving funds are a familiar concept in the water and sewer and clean energy fields



# How SIBs Work

- A State would take Federal-aid funds (e.g. \$40 million) from any of a set of funding categories (NHFP, NHPP, STP, etc.)
  - State provides local match (e.g. \$10 million) and thereby “capitalizes” the SIB with \$50 million
  - Initial credit assistance must be used for projects eligible to be funded under the funding categories used to provide deposit capital
- Subsequent rounds of credit assistance can be used for ANY Title 23 project, giving state greatly enhanced flexibility

# Virtuous Cycle of SIB Lending



## Products Available:

- Direct Loans
- Loan Guarantees
- Interest Rate Buy-downs
- Other



# The Advantages of a State Creating an SIB <sup>7</sup>

- SIB can be used as a supplement to the State's grant program
  - As a supplement, the SIB can stimulate “new” revenue sources, such as local option taxes and fees, that borrowers accept in order to repay loans and other credit assistance
- SIB can also be used as a replacement to the State's grant program for selected projects
  - Project sponsors may prefer a large loan at low interest rates to a small grant



# Why States Provide Credit

- Help projects which are not of high enough priority for grant assistance (e.g., second tier projects)
- Accelerate projects slated for grants in later years of a STIP
- Provide “gap” funding or initial “seed” funding for difficult-to-finance projects, needing some kind of assistance (e.g., tolling projects)
- Assistance, short of grants, to private sector projects:
  - Truck stop electrification/truck parking
  - Electric vehicle charging stations
  - New interchanges only partly funded by the State





# Why Local Governments Request Credit

- Advance a project that may not be high on State grant agenda, but is important to local congestion relief or economic development
  - City of Chandler, AZ borrowed SIB money to advance a segment of freeway, not eligible to receive grants for another three years
- Borrow funds to enable public-private partnership or tolling project
  - For example, a State loan may be the only way of starting a toll project important to local congestion relief or to economic development
- Obtain cheaper, easier borrowing than going to bond markets



# Audience Poll

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***Does your State currently have an SIB?***

# Questions?

Submit a question using the chat box



Or



Dial \*1 to call in your question by phone



# Lesson 2

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## *The Evolution of SIBs, 1995-2015*



# SIBs Across the States

- 33 States have created SIBs since they were first allowed in 1995
  - Although only about a dozen States have very active SIB programs
- There have been over \$8.7 billion in total loans, of which \$4.8 billion has already been disbursed and the rest committed
- This was enabled by only \$678 million in Federal funds and \$716 million in state funds since 1995
- 438 loans have been fully repaid
- 532 loans are still outstanding



# SIBs in Federal Legislation

- Four different Reauthorization Acts have allowed the creation of SIBs:
  - The NHS Act of 1995 (Pilot program)
  - TEA-21 in 1998 (Pilot program)
  - SAFETEA-LU in 2005 (Permanent Title 23 program)
  - FAST Act (Permanent program)
- The NHS Designation Act of 1995 authorized 10 pilot SIB states, with additional states authorized to be included in the pilot in the FY 1996 DOT Appropriations Act
- Each Act has somewhat different rules
  - An SIB operates under the rules of its authorizing Act and uses funds from that authorization



# SIBs in Federal Legislation

- Any new SIB created today would follow the provisions of 23 USC 610 and the FAST Act, and would be considered a Permanent SIB
- In addition, when States with existing SIBs utilize FAST Act apportionments to (re)capitalize their SIB, they are converting their 'Pilot' SIB to a 'Permanent' SIB
- Permanent SIBs are subject to all Federal requirements for new second and subsequent generation lending



# Federal Role in SIBs

- Federal and State roles are distinct: the Federal government provides for initial set-up and oversight, while State manages SIBs on a day-to-day basis
- Federal role:
  - Execute “Cooperative Agreement” with State
  - Perform general oversight, monitoring and reporting on:
    - Eligibility of projects
    - Eligibility of funds used to capitalize SIB
  - Obtain and review annual reports
  - Review SIB periodically to see if legislative requirements are being met





# State Role in SIBs

- Establish State legislation allowing SIBs
- Execute Cooperative Agreement with FHWA
- Submit request for funds needed for deposit capital
- Request funds to be obligated
- Submit payment request to capitalize SIB
- Provide matching funds prior to deposit of Federal funds into SIB
- Set policy, write operating rules and procedures
- Review and approve loan applications



# Project Eligibility

- Only Title 23 and Title 49 projects are eligible
- SIB can be used to provide loans or credit assistance for ANY Title 23 project, giving State greatly enhanced flexibility
- First round SIB projects must go through a Federal review process and meet Federal requirements (e.g., NEPA, Davis-Bacon, DBE, Buy-America, etc.)
  - For second and subsequent rounds of lending, more complex rules (depending on Act used to establish SIB); all Federal requirements apply to any SIB assisted by FAST Act
- Eligibility determined by consultation between FHWA Division Offices, State DOTs & HQ offices



# SIB Operation per Federal Legislation

	NHS Act	TEA-21	SAFETEA-LU & FAST Act
<b>States</b>	Initially up to 10 States; expanded to 38 States and Puerto Rico; provided \$150M in seed money	CA, FL, MO, RI; TX added later	All 50 States, D.C., Puerto Rico, and U.S. territories
<b>Percent of Funding Categories</b>	Up to 10 percent	No limitation	Up to 10 percent
<b>SIB Accounts</b>	Separate highway and transit accounts	No separate accounts	Separate highway, transit and rail accounts



# SIB Operation (Cont.)

	NHS Act	TEA-21	SAFETEA-LU & FAST Act
<b>Use of Repaid Funds</b>	<p><b>Non-federal repayments</b> must be used as State monies on any Title 23 eligible project subject to State requirements.</p> <p><b>Federally funded repayments</b> into SIB considered Federal and all Title 23 requirements apply</p>	<p><b>All repayment funds</b> go back into SIB for lending to Title 23 and Title 49 eligible projects.</p> <p>Federal requirements apply to all rounds of lending.</p>	Same as TEA-21
<b>Annual Reports</b>	90 days after end of Federal fiscal year	Biennially	By end of Federal fiscal year (9/30)



# Common SIB Requirements

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- **Maximum Loan Terms** – 35 years
- **Interest Rates** – At or below market rates; SIBs have flexibility to set appropriate rates
- **Investment Grade Ratings** – Any bonds issued by SIBs must achieve BBB- or higher ratings
- **Allowed Investments** – Temporarily unneeded funds can be invested in investment-grade securities; interest and other earnings must be used for SIB purposes



# Common SIB Requirements

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- **Local match** – Can be provided by State funds or repaid loans
- **Grants** – Not allowed in first round use of SIB capital; more flexibility in subsequent rounds of lending
- **Administrative Expenses** – Up to 2% limit of Federal-aid funds capitalized



# Common SIB Requirements

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- **Use of Repaid Funds** – For any lending from Federal-aid fund capitalized under FAST Act, Federal requirements apply to all rounds of lending



# Test Your Knowledge

## Multiple Answer:

*Federal requirements apply to SIBs use of repaid funds under:*

- *NHS Act*
- *TEA-21*
- *SAFETEA-LU*
- *MAP-21*
- *FAST Act*



# Questions?

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# Lesson 3

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## ***The FAST Act: Rebirth of SIBs?***



# MAP-21

- Congress did not authorize the capitalization of Federal-aid funds for SIB purposes
- Congress restored such authority in the FAST Act



# FAST Act

- Reinstates provision that allows new Federal-aid apportionments (FYs 2016 through 2020) to be used to capitalize SIBs
- When States capitalize FAST Act apportionments, they are automatically converting their “Pilot” SIBs to “Permanent” SIBs
- States should note that Permanent SIBs are subject to all Federal requirements for new second and subsequent generation lending



# FAST Act

- Allows capitalization of formula funds apportioned under:
  - National Highway Performance Program (\$116.4B over five years)
  - Surface Transportation Block Grant Program (formerly Surface Transportation Program; \$58.3B over five years)
  - National Highway Freight Program (new program providing \$6.3B over five years)
- Capitalization may not exceed 10 percent of funds apportioned to State under each of the above individual formula programs



# FAST Act: SIBs for Rural Projects

- SIBs may establish a Rural Projects Fund for Rural Infrastructure Projects; this fund is separate from the highway, transit and rail accounts
- Projects must be located outside of an urbanized area with a population greater than 150,000
- Project costs must be anticipated to be at least \$10M, but no more than \$100M
- For rural projects, SIBs may issue loans to public *or* private entities
- Loans may not exceed 80 percent of project costs



# FAST Act: TIFIA & SIBs

- TIFIA funds may be used to capitalize the Rural Projects Fund via a secured loan to the SIB
- The loan agreement must be executed with two years of the secured loan being obligated, otherwise the Secretary may extend the term of the loan or withdraw the loan commitment
- The loan must be repaid within 35 years
- Other terms of TIFIA Program apply



# FAST Act: TIFIA & SIBs Continued

- TIFIA is currently developing a conceptual implementation framework for TIFIA capitalization of SIB Rural Project Funds
- TIFIA, in conjunction with OIPD, will be holding a webinar on May 24<sup>th</sup> to:
  - Outline the initial conceptual implementation framework
  - Seek feedback from Financial Managers and relevant State DOT leadership on the proposed framework
  - Solicit additional suggestions on how TIFIA capitalization of Rural Projects Funds could facilitate delivery of smaller rural projects
  - Address/note any concerns that would hinder successful implementation





# Elimination of Federal Oversight of SIBs

- NHS Act legislation allows SIBs which lent out their Federal funds, and are making new loans only with State monies or repaid loans, to be free of Federal requirements
  - They still are allowed to lend only to Title 23 eligible projects, but no Federal reviews are required
- FHWA is using this provision to allow such SIBs to eliminate Federal oversight or close
  - They would then be considered State SIBs
  - SC and UT have eliminated Federal oversight and become State SIBs
  - DC and NY SIBs have closed



# New SIB Guidance

- FHWA in 2014 produced new SIB guidance. It pays particular attention to “de-federalization” issues (i.e. elimination of FHWA oversight)
- NHS Act SIBs can “de-federalize” when certain conditions are met:
  - All federal capitalization monies are lent out
  - SIB can then convert to a state SIB, with the general promise that lending will be kept to surface transportation projects
  - Alternatively, SIB can be closed and balances “granted” to Title 23 projects

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# Course Summary

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# Course Recap

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# SIB Resources

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## **Innovative Program Delivery Office**

<http://www.fhwa.dot.gov/ipd/finance/index.htm>

## **New 2014 SIB Guidance**

[http://www.fhwa.dot.gov/IPD/finance/resources/federal\\_credit/sib\\_pilot\\_guidance.htm](http://www.fhwa.dot.gov/IPD/finance/resources/federal_credit/sib_pilot_guidance.htm)

## **SAFETEA-LU, Sec 1602**

[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109\\_cong\\_public\\_laws&docid=f:publ059.109.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_cong_public_laws&docid=f:publ059.109.pdf)

## **NHS Act, Sec 350**

[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=104\\_cong\\_public\\_laws&docid=f:publ59.104](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=104_cong_public_laws&docid=f:publ59.104)



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