Transportation Finance Innovations

Quick Facts

- State Infrastructure Banks can provide loans, lines of credit, and loan guarantees to projects eligible for Federal aid under Title 23 of the U.S. Code.
- States determine loan application process, interest rates, length of loans, and other policies.
- As of September 2016, thirty-three States and Puerto Rico have entered into 834 SIB loan agreements with a total value of $5.9 billion.
- State and local governments continue to explore the concept of revolving funds to finance transportation infrastructure projects. Recent interest has been shown by Alabama, Louisiana, New York, and the City of Chicago.

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S TATE INFRASTRUCTURE Banks (SIBs) are revolving infrastructure-investment funds for surface transportation that are established and administered by States.

How Do They Work?

SIBs function as revolving funds that, much like banks, can offer loans and other credit products to public and private sponsors of Title 23 highway construction projects or Title 49 transit and rail capital projects. Federally capitalized SIBs were first authorized under the provisions of the National Highway System Designation Act. The pilot program was originally available to only 10 States and was later expanded to include 38 States and Puerto Rico. The Transportation Equity Act for the 21st Century (TEA-21) established a new pilot program for the States of California, Florida, Missouri, and Rhode Island. The next highway authorization, the Safe, Accountable, Flexible, Efficient, Transportation Equity Act—A Legacy for Users (SAFETEA-LU) expanded authority to all States to establish SIBs and also allowed the creation of multi-State SIBs.

The initial infusion of Federal and State matching funds is critical to the start-up of a SIB, but States have the opportunity to contribute additional State or local funds to enhance capitalization. Under SAFETEA-LU, States can capitalize their SIB account(s) with additional Federal funds as follows:

- **Highway Account**—Up to 10 percent of funds can be apportioned to the State from the National Highway System, Surface Transportation Program, Bridge, and Equity Bonus programs.

- **Transit Account**—Up to 10 percent of the funds can be made available for capital projects under Urbanized Area Formula Grants, Capital Investment Grants, and Formula Grants for Other Than Urbanized Areas.

- **Rail Account**—Funds are made available for capital projects under Subtitle V (Rail Programs) of Title 49, U.S. Code.

What Are the Benefits?

SIBs complement traditional funding techniques and serve as a useful tool to meet project-financing demands, stretching both Federal and State dollars. The primary benefits of SIBs to transportation investment include:

- Flexible project financing, such as low-interest loans and credit assistance, that can be tailored to the individual projects.
- Accelerated completion of projects.
- Incentive for increased State and/or local investment.
- Enhanced opportunities for private investment by lowering the financial risk and creating a stronger market condition.
- Recycling of funds to provide financing for future transportation projects.

How Is It Used?

Although the authorizing Federal legislation establishes basic requirements and continued on side 2
the overall operating framework for a SIB, States have customized the structure and focus of their SIB programs to meet State-specific requirements. A variety of types of financing assistance can be offered by a SIB; loans are the most popular form of SIB assistance. As of September 2016, 33 States and Puerto Rico had entered into 834 SIB loan agreements with a total value of $5.9 billion.

Potential Advantages

• Accelerate State-approved projects by providing direct loans and other credit assistance.
• Create a permanent additional revenue/financing source based on SIB interest income and other program income earned (revolving fund concept).
• Provide credit assistance with flexible and reasonable terms (including interest rates, repayment schedules, and maturity).
• Provide opportunities to local governments to advance their high-priority projects (through local funds or by borrowing against their State’s allocations of Federal aid).
• Provide opportunities to private sector borrowers to advance desired projects (as long as they are willing to provide a revenue source).
• Support or leverage other borrowing (e.g., issuing its own debt or guaranteeing other entities’ debt).

Potential Limitations

• Need to allocate resources to manage ongoing SIB lending and repayment functions.
• State-monitoring responsibility for duration of SIB activity is longer than typical grant assistance timeframe.
• Brings possibility of default and/or failure to make timely debt-service payments.
• May cause reduction in Federal-aid funds available for other transportation program purposes (to extent Federal aid is used to capitalize SIB).

Considerations

• Underwriting a large number of small loans, loan guarantees, lines of credit, and so forth, may require intensive management/administrative costs.
• Possibility of default may be higher with some local governments and new borrowers.

Types and Terms of SIB Assistance

SIB assistance may include loans (at or below market rates), loan guarantees, standby lines of credit, letters of credit, certificates of participation, debt-service reserve funds, bond insurance, and other forms of non-grant assistance.

Loan Terms

Maximum loan terms are set at 30 years, and repayment must begin no later than 5 years after substantial project completion.

As loans are repaid, the SIB’s capital is replenished and can be used to support a new cycle of projects. For SIBs operating under the rules of the initial pilot program, when SIB loans are repaid, the funding used for capitalizing the SIB loses its Federal designation and becomes State funds, which can then be used to finance any Title 23-eligible transportation project pursuant to State requirements. Projects financed with SIB repayments from TEA-21 and later authorizations must follow Federal-aid requirements in perpetuity.

FHWA retains oversight, monitoring, and reporting responsibilities. SIB eligibility is generally determined by FHWA Division Offices, in consultation with FHWA Headquarters where necessary.

SIBs can also be structured to leverage additional resources. A “leveraged” SIB would issue bonds against its capitalization, increasing the amount of funds available for loans.