State Infrastructure Banks (SIBs) 101

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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

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
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
Federal Aid

State funds

SIB

Initial Projects

Second Round Projects

1. Initial Loans

2. Repayments

3. Second Round Loans

4. Repayments

Capitalization

Products Available:

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

Virtuous Cycle of SIB Lending
The Advantages of a State Creating an SIB

- 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

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

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

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

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

- **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

- **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

- **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
Submit a question using the chat box

Or

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Lesson 3

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
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 24th 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
Questions?

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SIB Resources

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

SAFETEA-LU, Sec 1602

NHS Act, Sec 350
http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=104_cong_public_laws&docid=f:publ59.104
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