Infrastructure Banks Explained: A Common State Tool Gets Mixed Marks

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Virginia Governor Bob McDonnell unveiled an ambitious plan a year ago to improve his state's clogged roads and aging sewers and bridges. The Republican governor touted a number of ideas that would put more money toward the problem without raising taxes. One of those ideas was the creation of a new state infrastructure bank.

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The Cooper River Bridge in Charleston, South Carolina, was financed in part by the state's infrastructure bank.

The bank would lend out money to agencies or localities that wanted to build expensive projects, such as bridges or roads, and needed cash. The state would loan them the money, which would be repaid over a period of many years. Once the repayment money came in, the bank would use it for other infrastructure improvements around the state.

While McDonnell's plan made a splash in Richmond, it was not because infrastructure banks were a brand-new idea. Most states use them. In fact, Virginia already had one. The real debate came over the specifics of McDonnell's plan: where the money would come from,

how it would be spent and whether an infrastructure bank was the best way to use the money.

In the end, McDonnell walked away with a major transportation package , but his ambitious plans for the new infrastructure bank were seriously scaled back. He wound up with a bank with assets of $283 million, but lawmakers were responsible for adding barely a tenth of that. The vast majority of the money came from savings McDonnell found within the transportation department's budget. At this point, he is little more than a quarter of the way to his goal of a $1 billion infrastructure bank.

But the Virginia episode is helpful in understanding both the appeal and the limitations of infrastructure banks. Their success and popularity depend a lot on the specific details of how they are set up, which varies from state to state. McDonnell, after all, wanted to create a new bank, totally paid for with state funds, because he did not think the existing bank, which used federal money, was up to the job.

In this explainer, *Stateline* examines how infrastructure banks work generally, how states have used them for different purposes and what could lie in store for them in the near future.

How do state infrastructure banks differ from state transportation agencies?

The difference is in the the expectation of repayment. Like commercial banks, infrastructure banks do not just let loan repayments sit in a vault. Instead, they lend the money out to other agencies for other projects. The money is always designated to be used for infrastructure improvements, not other state expenses. In addition, the money deposited in the bank often comes from the federal government, although the state frequently makes the decisions about how to use it.

What kinds of projects do they pay for?

The answer depends largely on the state. Perhaps the best-known example of a major project paid for by a state-run infrastructure bank is the Ravenel Bridge over the Cooper River in Charleston, South Carolina. In South Carolina, the infrastructure bank has wide discretion over the types of projects it funds. Mostly, it sticks to projects that cost more than $100 million, says director Debra Rountree, but it has paid for smaller projects, too. For example, it picked up the $30 million tab for installing guard rails on dangerous stretches of highway.

But Jonathan Gifford, of the George Mason University School of Public Policy, warns that infrastructure banks must pick projects that make sense financially. They should either

generate revenues on their own, such as through tolls, or improve the economy enough that they generate more local tax revenue. "A lot of people think a bank means money, but it really means the value added of a bank is the ability to select projects, the ability to advance capital or credit support," Gifford says. "But it's not just a grant program."

What is the track record for infrastructure banks?

Congress first authorized federally funded state infrastructure banks in 1996. Twelve years later, according to a tally by the American Association of State Highway and Transportation Officials (AASHTO), states had lent out more than $5.5 billion. One state, South Carolina, accounted for nearly three-fifths of that total. There have been no major defaults on loans issued by the infrastructure banks.

Isn't an infrastructure bank just another form of debt?

Some critics say it is. Ronald Utt, a research fellow at the Heritage Foundation, believes that the banks do little more than duplicate existing programs. Many of the advantages of the infrastructure banks, Utt argues, can be found in almost any program that issues debt. "Essentially," he says, "what you're doing is using the taxes of tomorrow to fund projects today."

"Any kind of debt instrument comes with a contractual servicing of it, so all debt is self-extinguishing in the normal course of payments," Utt says. "There's no reason why, as some debt is paid off, you couldn't take on more debt to do other projects through more traditional methods."

But Jack Basso, AASHTO's director of program finance and management, says infrastructure banks fund projects differently than investors buying bonds would. "You have a lot more flexibility that you probably wouldn't get in the private market to tailor your activities to how your revenue streams are developing," he says. An infrastructure bank, for example, may backload payments until a toll road is complete, so that the borrower can use the tolls to pay off the loan.

What's the future of infrastructure banks?

President Obama has pushed repeatedly — and unsuccessfully — to establish a national infrastructure bank. That appears unlikely to happen. However, a bipartisan group of three U.S. senators — Democrats Ron Wyden of Oregon and Mark Begich of Alaska, and Republican John Hoeven of North Dakota — wants to give each state $1 billion in bonding authority to use through existing infrastructure banks. These so-called "TRIP bonds" (for Transportation and Regional Infrastructure Project) would reward bondholders with tax

credits instead of paying interest. The senators want to include the idea in a long-stalled rewrite of the federal highway spending bill.

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