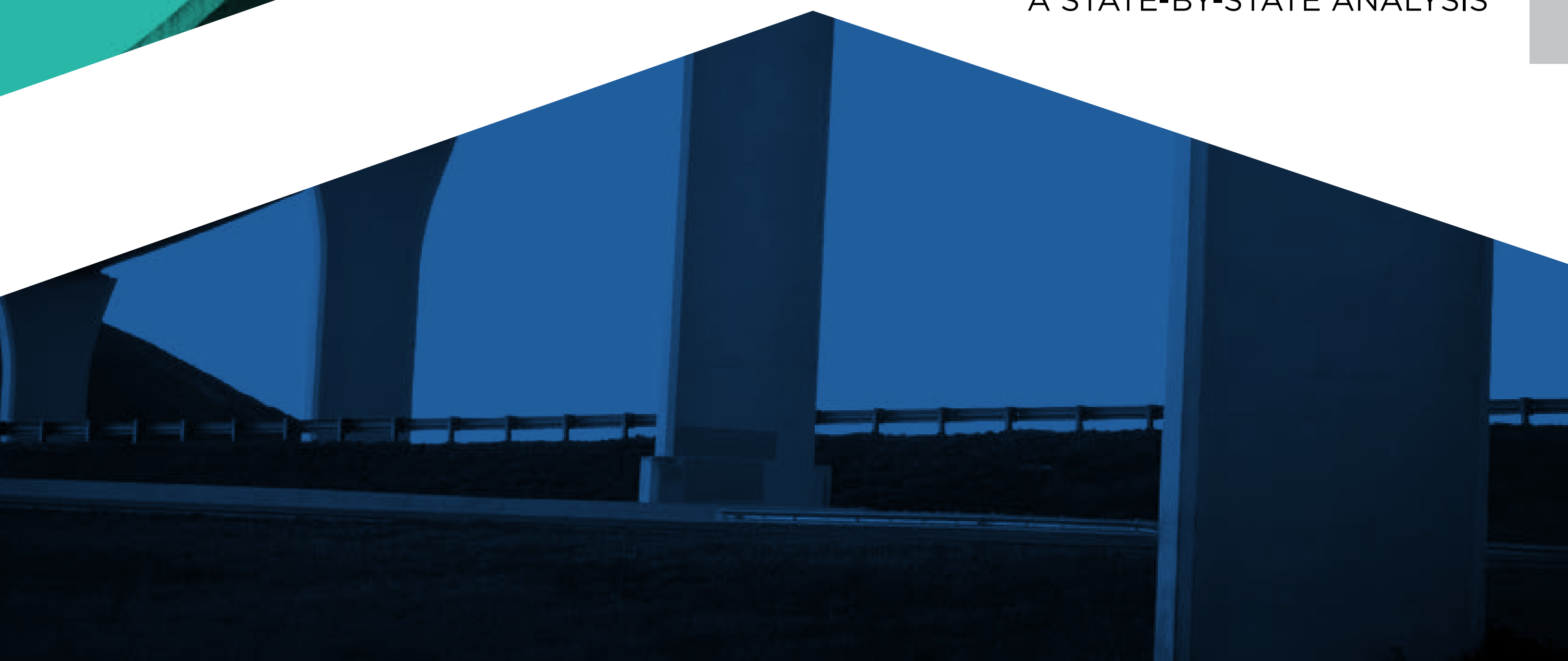
NATIONAL LEAGUE of CITIES | CENTER FOR CITY SOLUTIONS AND APPLIED RESEARCH

Paying for local infrastructure in a new era of federalism

A STATE-BY-STATE ANALYSIS



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About the National League of Cities

The National League of Cities (NLC) is the nation's leading advocacy organization devoted to strengthening and promoting cities as centers of opportunity, leadership and governance. Through its membership and partnerships with state municipal leagues, NLC serves as a resource and advocate for more than 19,000 cities and towns and more than 218 million Americans. NLC's Center for City Solutions and Applied Research provides research and analysis on key topics and trends important to cities and creative solutions to improve the quality of life in communities.

About the Authors

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Methodology

This study of local infrastructure funding tools began with a survey to the 49 state municipal leagues about options available to cities in their state. Thirty eight leagues responded to our survey. We then examined existing sources of data on local infrastructure funding from the American Association of State Highway Officials, the U.S. Census, state departments of transportation (DOTs) and revenue and other federal and state government resources. Determinations to the accuracy of data were based on the date of publication and further clarification and verification from the state municipal leagues.

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TABLE OF CONTENTS

Paying for local infrastructure in a new era of federalism

Local Fuel Option Tax
- Authorized
- Authorized-not used
- Not authorized

Local Option Sales Tax
- Authorized
- Not authorized

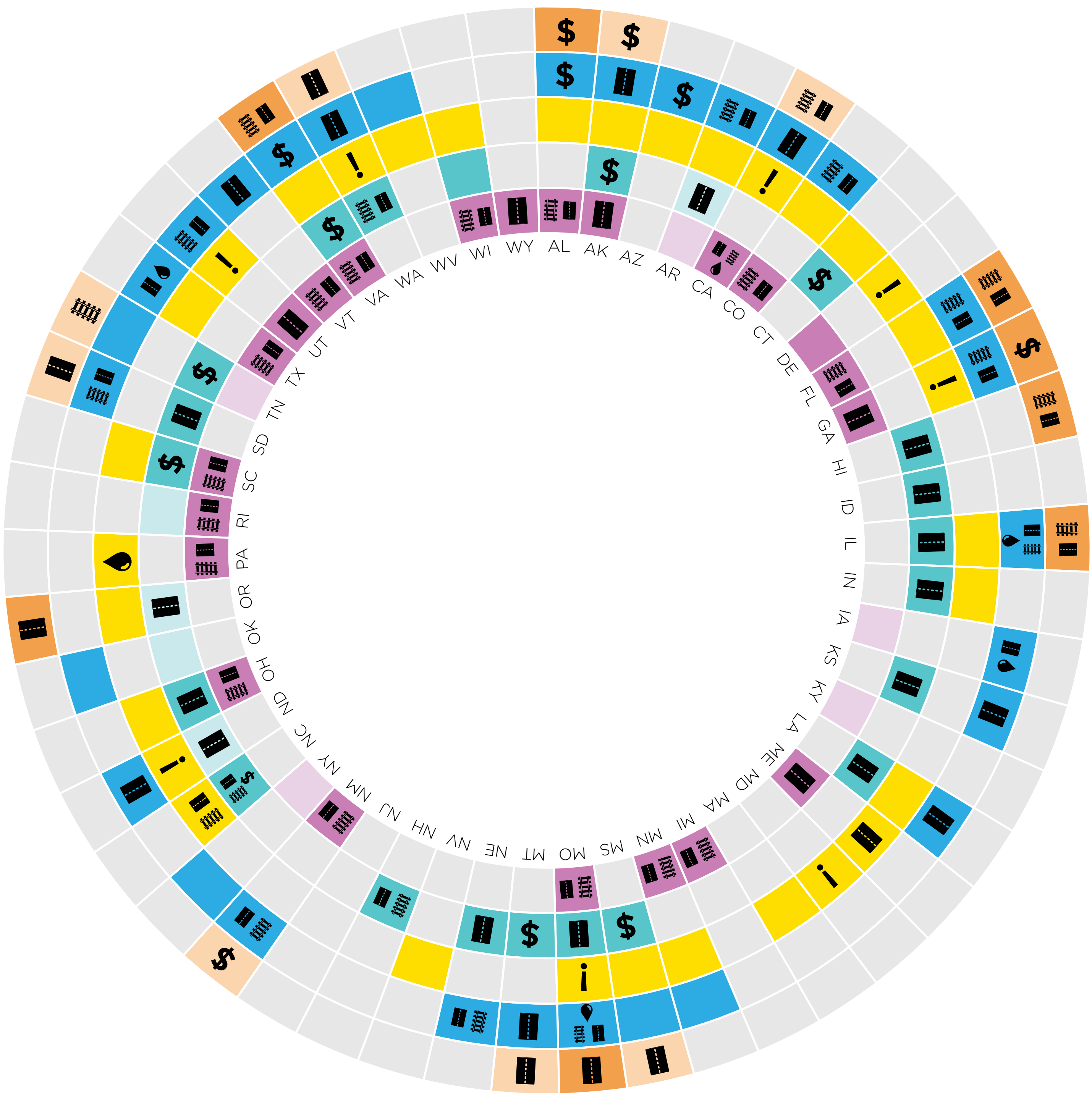
Public Private Partnerships
- Authorized
- Not authorized

Local Option Motor Vehicle Registration Fee
- Authorized
- Authorized-not used
- Not authorized

State Infrastructure Banks*
- Authorized
- Authorized-not used
- Not authorized

*Note: All states have a revolving fund for water.

$ General revenue · ! Limited · Roads · Transit · Water/wastewater



Executive Summary

Our nation's infrastructure is in deplorable condition, with a growing backlog of projects made worse by a slow economic recovery.

Declining funding, increasing mandates and misaligned priorities at the federal and state levels have placed responsibility squarely on local governments to maintain roads, upgrade water and wastewater systems and accommodate growing transit ridership. This represents a new federalism in which cities are taking the lead on issues historically driven by federal and state governments. Undermining this new dynamic, however, is insufficient funding authority at the local level. The ability of cities to meaningfully address growing infrastructure challenges is bound by levers authorized to them by states.

This report presents a state-by-state analysis and comparison of the local tools to fund infrastructure, including local option taxes and fees, such as sales taxes, fuel taxes and motor vehicle fees, as well as emerging mechanisms like state infrastructure banks and public-private partnerships.

Most cities are limited in terms of the number and scope of infrastructure funding tools. Cities also face additional implementation hurdles like county administration overlays and voter approval requirements. Of course, cities are marrying the tools explored here with others, but a patchwork of tactics will only take them so far. Cities need a more deliberate approach that recognizes the central role of infrastructure in the success of our nation's economic engines.

The report is based on state, federal and local government data as well as a survey and interviews with our state municipal league partners. We find that:

29 **states** authorize local option sales taxes.

16 **states** authorize local option fuel taxes.

26 **states** authorize local option motor vehicle registration fees.

32 **states** authorize public private partnerships.

27 **states** have state infrastructure banks.

Introduction

A new federalism – one in which cities lead the nation's most critical challenges – is emerging and can be seen prominently in the funding and managing of our infrastructure systems.

States and local governments own the vast majority of the nation's roads, highways, transit systems, drinking water and wastewater systems.[1] With significant decline in federal investment, and less predictable funding from states, local governments have assumed an even greater proportion of fiscal responsibility.[2] Unfortunately, this devolution has not been sufficiently matched with funding or decision making authority at the local level. As a result, spending on infrastructure maintenance and new investments are the most widespread fiscal stressors for city governments.[3]

At the federal level, the primary funding source for infrastructure is imperiled. The federal fuel tax, which supports the Highway Trust Fund, has not been raised since 1993. Meanwhile, reductions in per capita vehicle miles traveled, coupled with increased fuel efficiency standards, have resulted in net revenue losses for the Fund. If current spending and revenue projections are accurate, the Fund will amass a deficit of $180 billion over the next decade.[4] The outlook is not much brighter for water infrastructure, where federal grants and loans to cities are dwindling in the face of growing need.

At the state level, declining gas tax revenues have made state programs and funding to cities increasingly unreliable. In Michigan, the state has moved away from user fees as the sole dedicated source of revenue for infrastructure, placing a $600 million dollar burden on the General Fund to fund infrastructure. This will very likely lead to cuts in other areas of the budget that could negatively affect cities. Other states are diverting dedicated gas tax revenue to balancing the state budget instead of addressing critical infrastructure needs. And where the gas tax is not sufficient, some states are raiding local revenues to help fill the maintenance funding gap. In rare instances where states have budget surpluses, like Minnesota, lawmakers are favoring one-time spending increases on transportation over permanent tax increases.

Additionally, state spending priorities, both for capital projects and infrastructure grants, are often not aligned with city needs or priorities. For example, state departments of transportation tend to favor highway and road projects over other types of infrastructures investments. The state of New Hampshire currently has a moratorium on state aid grants for water and sewer projects. Cities had already completed some of the projects with the intention of using these state grants to help pay down bond payments. In Georgia, cities have some input into state level transportation priorities. Yet, they are increasingly required to pay for the maintenance of state routes, thus limiting revenues for other local priorities.

Matching requirements also pose significant barriers, particularly for smaller cities. For instance, localities in Wyoming are finding it extremely difficult to identify matching funds. Many smaller cities also face design and build specification hurdles, which are often tied to state funding. In West Virginia, state water and sewer funding requires new projects to meet specifications that are often "one size fits all" and very complex. Complex and inflexible funding requirements discourage cities from applying for more funding. It can also result in cities being left with huge operation and maintenance costs as well as with the difficult job of finding certified staff to operate the systems.

Of course, the relationship that cities have with their states extends well beyond intergovernmental transfers and grants. Local governments are nested within state structures, and states decide whether cities can raise revenues for infrastructure. Due to funding challenges at the state and federal levels, the authority of local governments to raise revenue – and the ability to freely spend those funds – is vital to maintaining roads, upgrading water and wastewater systems, accommodating increasing transit ridership, and strengthening the overall competitive position of cities.

This report examines the tools available to cities to fund infrastructure, including water and wastewater, transit and roads. This state-by-state analysis explores local option taxes and fees, such as motor vehicle fees, sales and fuel taxes, as well as emerging mechanisms like state infrastructure banks and public-private partnerships. [5]

To further understand how these tools contribute to the capacity of cities to meet their increasing fiscal responsibilities, we assess:

1. Whether the state grants access to cities to utilize the tool;
2. Whether voter approval is required; and
3. Whether the county administers the tool with a distribution of revenue back to cities.

We also discuss the extent to which cities are authorized to use the tools to address local infrastructure priorities, or whether they are restricted to particular uses such as roads. We argue that broader permissible uses (e.g. usage stipulated for roads, transit and water/wastewater as opposed to roads alone) provides greater flexibility to cities to meet their complex needs.

This analysis is not intended to be inclusive of all mechanisms but instead inventories and assesses a number of key ways cities pay for local infrastructure.[6] This common understanding of whether and how these tools are authorized is particularly relevant given an antagonistic political landscape in which many state legislatures and governors are seeking to limit taxes, like local option taxes. Within this context, and through the lens of infrastructure funding, this report sheds light on the challenges cities face as they embrace their roles within the new federalism.

The Infrastructure Deficit

The decline in infrastructure investment, rapid deterioration of existing infrastructure assets and the need for significant upgrades is commonly referred to as the infrastructure deficit. Below are the shortfalls specific to each type of infrastructure included in this analysis:

ROADS

The current level of infrastructure investment is insufficient to maintain America's roads over the long term. Presently, the combined annual capital investments, of all levels of government, amounts to $91 billion.[7] The Federal Highway Administration estimates that $170 billion in capital investment is needed annually to significantly improve road conditions and performance. [8]

TRANSIT

45 percent of American households lack any access to transit, and with the exception of residents in a handful of large U.S. cities, most with access cannot rely on it as their sole means of mobility. Even so, increasing interest in dense, urban living has resulted in a U.S. transit ridership increase of 9.1 percent over the last decade.[9] Many cities and transit agencies are grappling with maintenance funding reductions while simultaneously managing debt burdens and accommodating surges in ridership.

WATER/WASTEWATER

America's water systems are in dire need of repair: the majority of the nation's water systems are between 50 and 150 years old.[10] The American Society for Civil Engineers (ASCE) estimates that $1.3 trillion in capital investment is required to get waste and storm water systems up to par over the next 20-25 years. Moreover, the U.S. Environmental Protection Agency (EPA) has estimated that $384.2 billion is needed to fund drinking water infrastructure improvements and maintenance.[11, 12] Water infrastructure maintenance needs are straining city budgets and at current capacity, cities cannot make up this deficit.[13]

Georgia in Focus

Cities invest far more local revenue in infrastructure projects and improvements than they receive from the state.

Each year, the state of Georgia dedicates 10 - 20 percent for local road and bridge improvements. This amount is distributed based on a formula that includes population and centerline road miles. There is also a relatively small infrastructure bank for transportation-related grants and loans, but it is very competitive and few city projects get funded. Cities invest far more local revenue in infrastructure projects and improvements than they receive from the state. The state has frequently threatened to raid local revenues to meet state budget shortfalls. Last year, state legislators attempted to take $500 million in local revenues to help meet a $1 billion gap to maintain existing state roads. Political pressure from local officials and city advocates deterred legislators from raiding local revenues. Instead they increased the state gas tax. If the state had been successful, cities would have been forced to implement a sizeable property tax increase. As part of the gas tax increase legislation, the state also gave cities the option to call for a regional tax or an incremental sales tax (.05 - 1 percent), to be voted on by local residents.

Source: Georgia Municipal Association, 2016

Definitions

Local Option Sales Tax (LOST) is a special-purpose tax implemented and levied at the city or county level. LOSTs are always appended onto the base sales tax rate. States vary in how they delegate spending authority for local sales taxes.[14]

Local Option Fuel Tax is a special-purpose tax implemented and levied at the city or county level on motor fuel. These taxes are generally earmarked for transportation-related spending.[15]

Local Motor Vehicle Fee is a tax implemented and levied at the city or county level as either a vehicle registration fee or annual taxes on vehicle value, weight, age, body type or number of wheels.[16]

State Infrastructure Banks (SIB) are revolving infrastructure investment funds that are established and administered by states. A SIB, much like a private bank, can offer a range of grants, loans and credit assistance enhancement products to public and private sponsors of infrastructure projects. SIBs are capitalized with federal aid funds and matching state funds.[17]

Public-Private Partnerships (PPP or P3) are long-term contracts between a private party and a government entity to provide a public asset or service. In this partnership, the private party bears significant risk and management responsibility. Remuneration is typically linked to performance.[18]

Local Option Taxes

A local option tax, including local option sales tax, fuel tax, and motor vehicle registration fee, is one that varies within a state, with revenues controlled at the local or regional level, and is earmarked for infrastructure-related purposes.[19]

Local option taxes have helped cities throughout the country fund projects and weather economic and fiscal challenges. The tax burden, particularly for local option sales and fuel taxes, not only falls on residents but also tourists and visitors. These taxes and fees diversify fiscal burdens and city revenue streams for critical infrastructure, but they are not without challenges.

Local option taxes can exacerbate fiscal disparities between cities because those with low revenue capacity often lack the tax base needed to generate sufficient revenue.[20] In some cases, the authorization of local option taxes can be accompanied by cuts in general state aid-cuts that are often not compensated by revenues generated from the taxes.[21] These taxes can be inherently regressive toward lower income individuals who pay a greater share of their income toward the tax but receive the same level of service.[22] Local option taxes can also promote cross-border shopping and competition among cities.

In some states, counties administer local options taxes, particularly sales and fuel taxes, and then redistribute revenues back to cities. Redistribution typically occurs through a negotiated inter-local agreement, state formula or a combination of both. County-administered taxes can limit local control, but even more problematic is that this type of local option system often requires county-wide approval. Within this system, local option tax measures will often overwhelmingly pass in incorporated cities, but fail to pass in unincorporated areas, leading to no passage.

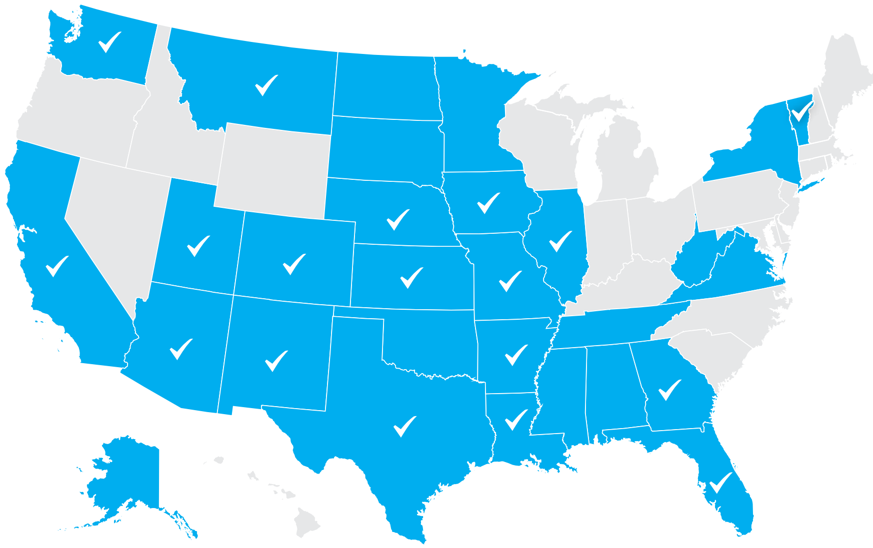
For example, voters in Pulaski County, Arkansas, recently rejected a quarter-percentage-point sales tax increase dedicated to transit. The proposed tax drew widespread support within the city of Little Rock but failed to gain support in other parts of the county. This would have been the area's first tax dedicated to transit and was projected to raise $18 million annually for bus service expansion and the creation of bus lanes. [23]

Despite these drawbacks, local option taxes are some of the few tools bestowed to cities to raise revenue for infrastructure. As such, we examine the authorization and permissible uses of local option sales taxes, fuel taxes and motor vehicle registration fees in cities across the 50 states.

Local Option Sales Taxes

Local option sales taxes are taxes on a broad base of goods and services purchased in an area. The tax rate tends to be relatively low but produces comparatively high revenues. Cities in 29 states are authorized to levy a local option sales tax.

Cities in at least 20 states have dedicated portions of the local option sales tax for infrastructure-related purposes. Other states permit revenues to be directed for general uses, which the city may or may not choose to spend on infrastructure. Although authorizing revenues for general purposes permits the greatest level of flexibility to a local government, it can potentially limit or threaten available funding specifically for infrastructure. This is common in



Local Option Sales Taxes

- Authorized in 29 states
- The option is used by cities in all 29 states
- Voter approval required in 18 states

Authorized
Not authorized
Voter approval required

economic downturns, when local revenues decrease and capital spending is often reduced to help fill operating budget gaps.[24]

In Texas, cities are able to impose a sales tax of up to two percent. Within that rate, cities have the authority to impose an optional street maintenance sales tax. Approximately 250 cities have levied this tax, with funds limited to maintaining and repairing municipal streets and sidewalks.

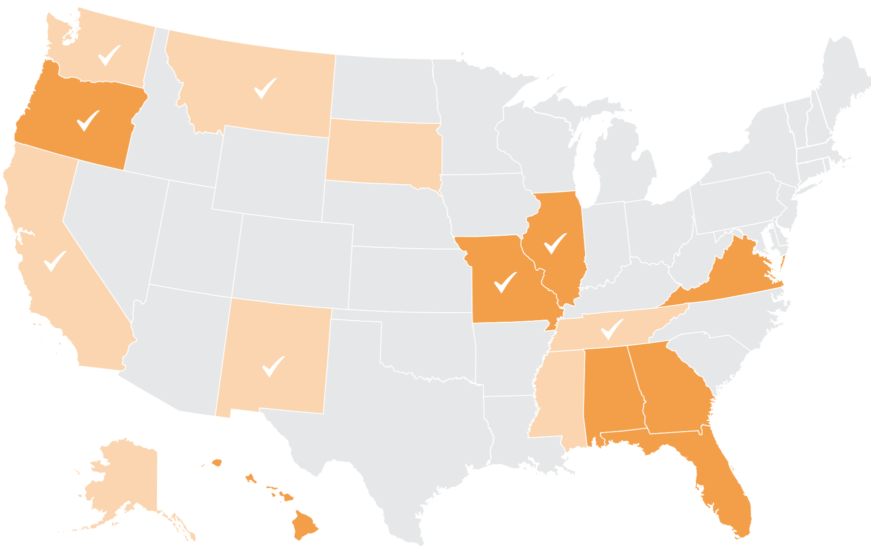
Similarly in Georgia, the state places a two percent cap on local sales taxes. Most cities collect revenues from a local option sales tax and special purpose local option sales tax (SPLOST), which are levied at the county level and distributed to jurisdictions based on a locally agreed-upon distribution arrangements. The SPLOST portion is time limited (five or six years, typically) and used exclusively for capital projects in cities and counties. Voters approve a defined list of projects. As a result of a 2012 law, some regions of the state (three out of 12 regions) also approved a regional tax of one percent for 10 years to complete a list of transportation projects. The project list for the regional tax is largely defined by the state.

Local Option Fuel Taxes

The local option fuel tax is an excise tax that is typically levied as pennies per volume of fuel sold, rather than a percentage of the fuel price.[25] The fuel tax tends to be a favorable option with cities and voters because it is paid for by drivers who are the direct beneficiaries of improvements. However, fuel taxes can encourage people to buy gasoline in neighboring jurisdictions that do not have a tax. Additionally, given changing driving habits and fuel efficiencies, revenues from the tax are less reliable (as is often the case with state and federal fuel taxes). As such, the revenue base provided by the fuel tax is often considered supplemental.

Sixteen states permit cities to levy a local option fuel tax. Cities in only eight states actually levy the tax or receive funding from a county administering the fuel tax.

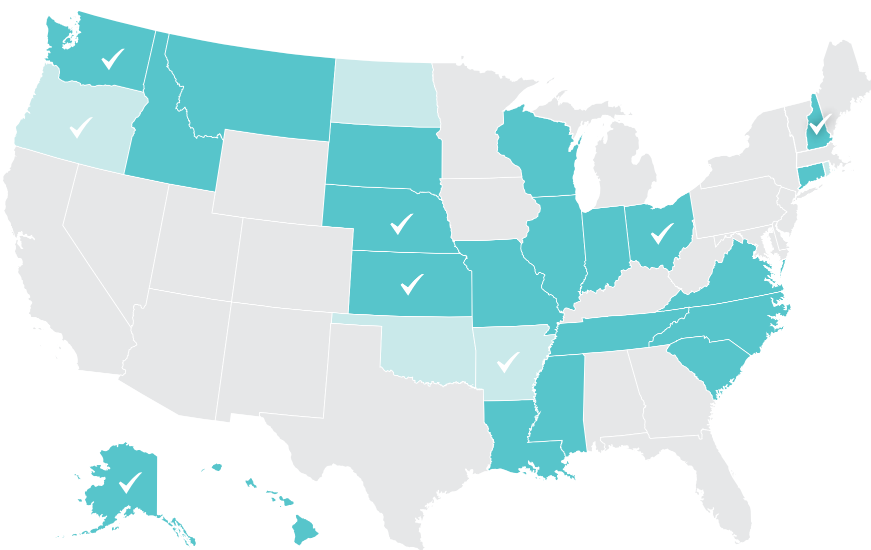
In the states where fuel taxes have been adopted most widely, they are primarily used to maintain and improve roads. Florida, Illinois, Michigan and Virginia are among the few states permitting cities to levy local option fuel excise taxes for transit. In Florida, county governments are authorized to



Local Option Fuel Taxes

- Authorized in 16 states
- The option is used by cities in eight states
- Voter approval required in eight states

Authorized
Authorized-not used
Not authorized
Voter approval required



Local Option Motor Vehicle Registration Free

- Authorized in 26 states
- The option is used by cities in 21 states
- Voter approval required in eight states

Authorized
Authorized-not used
Not authorized
Voter approval required

levy up to 12 cents of local option fuel taxes in three separate levies on fuel sold within the county. The funds are used for transportation expenditures, with proceeds distributed to municipalities through an inter-local agreement or a default formula.

While most states require cities to earmark local fuel taxes for transportation projects, a few also permit the revenues to be used for general purposes. Oftentimes, no voter approval is needed. Again, while this structure grants cities the greatest level of flexibility, it can limit funds to critical infrastructure.

Local Option Motor Vehicle Registration Fee

A local motor vehicle registration fee is typically a registration fee (such as a wheel tax or personal property tax) applied annually either at a flat rate or rate based on vehicle value, weight, age, body type, or number of wheels. Unlike the fuel tax which has a revenue base that is likely to decline over time, revenue produced from a local option registration fee varies according to the number of the vehicles on the road and, in some cases, the size and age of those vehicles.[26]

Cities in 26 states are authorized to levy a local option motor vehicle fee. These fees are utilized by cities in 21 states, with eight states requiring voter approval. Revenues can be dedicated to roads in at least 17 states, to transit in three states (New Hampshire, North Carolina, Washington); and to general revenue in eight states (some with infrastructure earmarks).

In Indiana, a local wheel and excise surtax can be adopted by counties; but, if counties do not act, it can be levied by the county income tax council which is made up of members from all cities and towns in the county and county council. The number of votes each member has is based on population. If adopted, the local wheel and excise surtax revenue is distributed to counties, cities and towns.

In North Carolina, the state General Assembly recently authorized a local motor vehicle fee for cities. The fee can be up to $30, with $5 for general purposes, $5 for public transit and the remainder to be used for streets.

Water and Wastewater

The state of water and wastewater infrastructure in the U.S. poses some of the greatest challenges for cities, both financially and for service provision.

City governments are faced with the parallel challenges of struggling to afford to replace aging infrastructure while also feeling squeezed to meet federal mandates. The majority of U.S. water infrastructure is around 50+ years old, and some legacy systems are more than 100 years old. Additionally, most large metropolitan areas are served by multiple water systems, which require coordination between state and local governments to run smoothly.[27] These governance and finance challenges, in combination with the increasing age of water infrastructure and the water shortages experienced in some regions of the country, foretell what could be significant water crises in the decades to come. City leaders should prepare for this challenge, as well as plan for the technological and green infrastructure improvements that will be necessary to keep their water systems federally compliant and capable of meeting the needs of their communities. In 2007, the U.S. EPA has estimated that the funding need totals approximately $384.2 billion for drinking water infrastructure and $298 billion for wastewater infrastructure.[28]

Currently, all states have some sort of separate state revolving fund (SRFs) for water and wastewater infrastructure. They all operate slightly differently and are subject to local needs and preferences.[29] Each year, Congress appropriates approximately $2 billion in formula funds to these SRFs. States must match the share that they receive. SRFs, then, make loans to cities, and in some cases, smaller cities and projects are favored for financing assistance. Some states manage to address their water infrastructure needs by using a combination of state and local programs and taxes, while other states are limited in their ability to leverage different tools.

For instance, in Virginia, water/wastewater infrastructure needs can be addressed by local taxes as well as via the Virginia Resources Authority. The Virginia Resources Authority is a state-created revolving loan fund that can issue bonds and bundle different projects from different cities to drive down issuance, insurance and other costs. The state can also provide appropriations for nutrient removal in wastewater treatment plants. Additionally, the state created a Stormwater Local Assistance Fund, but policymakers reported that the resources appropriated for these needs pale in comparison to the expected costs.

Many states also authorize special financing districts for water infrastructure needs. In the state of Missouri, cities can utilize tax increment financing (TIF) as well as special assessments and programs such as Neighborhood Improvement Districts or Community Improvement Districts that impose special property tax levies or sales taxes to fund water infrastructure projects specific to that district.

Local leaders are stretching the value of every dollar available from local, regional, and state authorities. They are also relying on the federal government and private partners to simply maintain existing infrastructure. Yet, the current level of investment is not enough to create, or maintain, a modern water infrastructure network for the 21st century.

Emerging Tools

Local option taxes and fees have provided cities with additional revenues to maintain and expand critical infrastructure.

Despite the proliferation of these local sources of revenue, the lack of flexibility in the administration and utilization of these tools as well as an anti-tax state political environment have encouraged cities to continue to pursue new ways to pay for infrastructure. Some emerging tools, including public-private partnerships (PPPs or P3s) and state infrastructure banks, help cities leverage existing revenues through innovative financing and, in some cases, provide new revenues.

Public Private Partnerships

Public-private partnerships, also known as PPPs or P3s, are contractual arrangements between public agencies (state or local governments) and the private sector to provide infrastructure for the public. Both public and private partners contribute financially and share in the risk and reward. The government partner administers and regulates the infrastructure, while the private sector infuses capital and focuses on the operational and executive aspects. This division of roles helps drive innovation because cities can present a problem to businesses for development in a competitive environment rather than specifying the "best" solution.[30]

These arrangements have been most successful overseas, with some emerging success in the U.S.[31] Currently, 32 states have some variation of public-private partnership-enabling legislation. Two states, Kentucky and Tennessee, currently have bills under consideration in their state legislatures that would enable use of public-private partnerships. State enabling legislation provides the legal and financial

Public Private Partnerships

- Authorized in 32 states
- Thirteen states are authorized for P3s for all types of infrastructure

Authorized
Not authorized

frameworks necessary to pursue these partnerships, which otherwise might not exist for cities.

In Massachusetts, cities have access to P3s, but only with the approval of the State Inspector General and for projects with construction costs of at least $5 million. The project cost threshold is a barrier to using P3s for water and wastewater projects in many municipalities. Alternatively, Massachusetts' cities can seek, and are often granted, legislative approval for a greater role for private partners and long-term contract operations like the following: design-build, design-build-operate and design-build-operate-finance delivery structures. This special act process, the only viable solution for most cities, requires the submission of a Home Rule petition and a vote by the Legislature, which introduces uncertainty and possible delays into the public procurement process.[32]

Design

There are many different ways that P3s can be arranged, and various levels at which the private sector engages in these partnerships. For instance, in design-build P3s, the private sector is responsible for the project design and construction, while the public sector maintains its traditional role of identifying the infrastructure need, arranging the financing terms as well as owning, operating and maintaining the final asset after construction is completed. In the case of design-build-finance P3s, the private sector is also responsible for setting the financing terms for the project.[33]

Uses

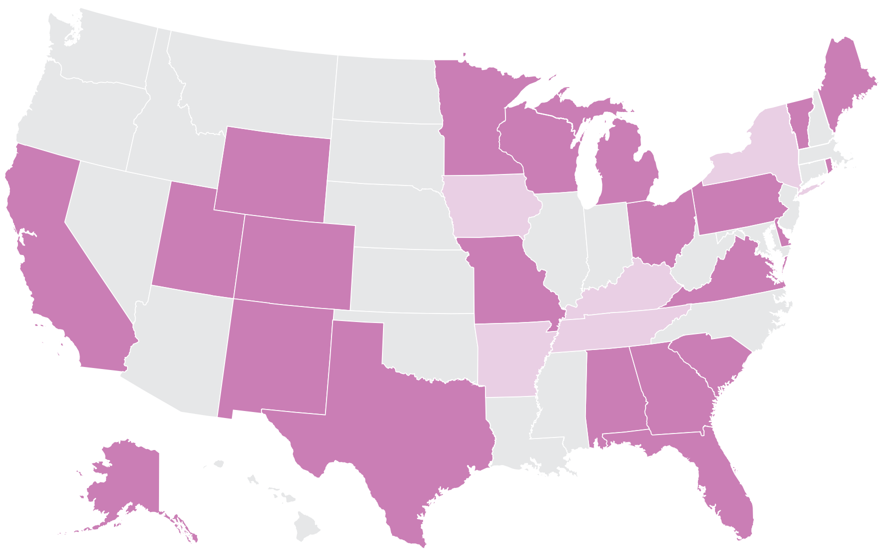
P3s have been used for a wide variety of public infrastructure needs from roads and water/wastewater infrastructure to public buildings. The relative novelty of this mechanism in the U.S. means that there are few examples of American P3 projects that have endured a total financing or project lifecycle.

While P3s are often fiscal solutions that enable cities to pursue infrastructure projects that might have otherwise been delayed or impossible, the engagement of private sector partners brings about new considerations for local governments. Private sector partners often require cities to surrender some of the project management control, leading to questions of transparency and accountability.

Paid-use Models (VMT Fees)

Given the ever-increasing infrastructure deficit, and the nearing insolvency of the Highway Trust Fund, policy makers and researchers are considering alternate methods of paying for transportation infrastructure. The Vehicle Miles Traveled (VMT) fee, also called the mileage-based-user fee, is gaining political traction as a plausible mechanism to pay for our crumbling roads. This model charges motorists for their use of a roadway based on the number of miles they travel. It has been proposed as both a supplement to and a replacement for the gas tax.

Beginning in July 2015, the state of Oregon began a pilot VMT fee program for 5,000 volunteers. Known as OreGO, this pilot program tests different methods of revenue collection. California has also adopted its own pilot program, which will go live on July 1, 2016. Several other states (Washington, Nevada, and Minnesota), and university transportation centers (UTCs), have subsequently initiated research and the development of policy and operational frameworks for these programs.



State Infrastructure Banks

- Authorized in 27 states, 22 of which have active infrastructure banks
- One state (California) deems roads, transit and water projects as eligible, while 15 states deem road and transit projects eligible. Four states deem only road projects as eligible, one state (Wyoming) funds water and roads and one state (Delaware) funds only water projects.

Furthermore, there is always the risk of a project failing, under any funding structure, and in the case of P3 funded projects, there is the added complexity of private sector profiting at the financial expense of taxpaying citizens. Private sector firms typically stand to gain some sort of revenue in exchange for their capital, expertise or flexibility. Elected city officials should carefully consider both the public and private sector interests inherent in these projects, whether this sort of funding mechanism could work in their communities and whether the project they have in mind is appropriate.

State Infrastructure Banks

Many states have created state infrastructure banks, referred to as "SIBs" or "I-banks" for short.[34] These typically consist of revolving investment funds that can provide loans and grants to infrastructure projects within the state.[35] The grant funds and low interest loans offered through these banks can do a great deal to help cities meet their infrastructure needs. While each state operates its fund a bit differently, many make a concerted effort to foster relationships with local governments and to base their selection of projects on regional and local economic impact analyses.

Uses

While state I-banks set aside dedicated funds for infrastructure needs, and each is operated and managed slightly differently, they tend to favor transportation projects over other types of infrastructure.[36] This can be attributed to the fact that, traditionally, revolving funds for water and wastewater projects have been administered separately from those dedicated to road, bridge and transit projects.

Currently, all states have some sort of separate revolving funds for water and wastewater infrastructure, with the exception of California, which has one centralized I-bank. California's I-bank supports a wide range of infrastructure projects including roads, water, wastewater, educational facilities, environmental mitigation measures, parks and recreational facilities, port facilities, transit, defense conversion, public safety facilities and power and communications facilities (see case study on page 15). [37] The state of California is the only state in our analysis in which the infrastructure bank funds can be used for such a wide range of infrastructure investments. Twenty-two states in our analysis have active revolving funds dedicated to road and or transit projects. Four states have limited eligible projects to roads.

In some states, I-banks are deemed inactive including Arkansas, Iowa, Kentucky, New York, and Tennessee. This means that they were, at one time, enacted or established via a federal program or state legislative act. However, they were never capitalized, and thus do not currently serve as a funding or financing mechanism for the cities in that state. [38]

Design

State I-banks afford localities some level of fiscal security for infrastructure projects and the opportunity to adhere to long-range plans and to meet ongoing needs. I-banks handle project selection in a multitude of different ways, but almost always do so via some sort of formal selection process. In most cases, there is a committee assigned to review and prioritize the projects. Some committees select projects on a first-come, first-served basis, while others identify and prioritize projects that fit within the scope of the state's transportation plans.[39]

In Oregon, the Oregon Transportation Infrastructure Bank (OTIB) appoints an advisory committee comprised of local officials, Oregon DOT staff and other community representatives to review applicants. As a result, selected projects meet both state and local transportation needs and acknowledge local and regional transportation planning efforts. Other considerations that often play into project selection include the economic benefit rendered by the project, the credit and financial stability of the project sponsor and factors such as innovation and environmental sustainability.

California in Focus

The California Infrastructure and Economic Development Bank (known as IBank) was created in 1994 by Assembly Bill 1495 (Bergeson–Peace) to finance public infrastructure and private development that promotes a healthy climate for jobs, contributes to a strong economy, and improves the quality of life in California communities.

IBank operates pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act contained in the California Government Code Sections 63000 et seq. IBank is located within the Governor's Office of Business and Economic Development and is governed by a five-member board of directors.

IBank has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage state and federal funds.

IBank's current programs and financial tools include the Infrastructure State Revolving Fund (ISRF) Loan Program, Statewide Energy Efficiency Program (SWEEP), 501(c)(3) Revenue Bond Program, Industrial Development Revenue Bond Program, Exempt Facility Revenue Bond Program, Governmental Bond Program and the Small Business Loan Guarantee Program.

These tools provide funds for cities and small businesses to improve critical infrastructure and encourage entrepreneurship. For example, through the Infrastructure State Revolving Fund (ISRF) Loan Program, the City of San Gabriel secured $3.8 million for street repairs, and Sacramento's B Street Theatre received an $8.4 million long-term loan to expand its theatre and arts building. The ISRF has also been used to stimulate upgrades to local flood control, public transit, parks, ports and waste collection infrastructure, amongst others.

IBank is also encouraging public and private investments in clean energy and environmental protection. Cities are able to access a combination of direct loans from IBank or public market tax-exempt bonds for energy efficiency projects. For example, the City of Huntington Beach, the first to receive funds under this initiative, will use a $7.7 million low-interest loan to purchase and retrofit more than 11,000 streetlights with new LED technology resulting in significant annual energy savings.

Since its inception, IBank has provided crucial public financing tools to local governments and can serve as a model for other states that seek to actively leverage public dollars to improve local infrastructure. At its full potential, IBank can be a powerful partner on local infrastructure projects and in meeting statewide goals such as environmental protection, job growth and strengthening public infrastructure.

Source: League of California Cities, 2016

Discussion

Missouri and Virginia are the only states that authorize cities to access all five tools (sales taxes, fuel taxes, motor vehicle fees, I-banks and P3s). However, in Missouri, voter approval requirements limit the ability of some cities to utilize particular local options.

For example, Missouri cities have the local option of imposing a fuel tax, provided that a two-thirds majority vote passes. Although many cities have tried, only one Missouri municipality has successfully imposed this tax, with funding limited to road construction and maintenance, or paying down debt related to roads and streets.

In Virginia, access to a special local option sales tax is limited by jurisdiction eligibility, including population thresholds. Although the state authorizes the additional sales tax, Northern Virginia and Hampton Roads are the only two regions that qualify, with funds allocated primarily for roads and transit.

Kentucky and New Jersey are the only states that do not authorize their cities to access any of the tools examined in this report. Although Kentucky has a state infrastructure bank, it is currently not funded.

Conclusion

Despite the fact that infrastructure is a critical part of daily life for all Americans, the infrastructure deficit in the United States grows with each passing day.

Traditional means of paying for infrastructure no longer cover the costs of building, operating and maintaining elements such as roads and wastewater management facilities. The partnerships between levels of government are eroding, and cities are increasingly on their own to fund necessary infrastructure. The changing nature of funding responsibility demands that we take stock of the tools available to cities and assess whether these are sufficient to meet growing needs.

Our research finds that most cities have limited authority regarding the number and scope of infrastructure funding tools, and that they face additional hurdles like county administration overlays and voter approval requirements.

Of course, cities are marrying the tools explored here with others, including a portion of state gas taxes, dedicated income and property taxes, utility fees, value capture, special districts, paid use models and tax-exempt municipal bonds. However, this patchwork of tactics will only take them so far.

Cities need

1

Strategic and predictable investment from federal and state governments.

2

Better communication between cities and states on funding priorities.

3

Greater local authority to raise revenue and implement creative solutions with multisector partners.

Cities need **a more deliberate approach** that recognizes the central role of infrastructure in the success of our nation's economic engines.

Endnotes

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