Economic Development

State DOT involvement in economic development can be viewed as a complement to state participation in land use planning and control. Normally economic development activities are aimed at increasing the land use for commercial purposes and providing transportation facilities to enhance the state’s economy. These activities can range from passive to active, depending on the state’s view of its role in economic development.
Project Design to Assist Local Businesses

At the most basic level of involvement, state DOTs can take specific actions to assist local businesses within the context of individual projects. Such actions might include special access provisions, design for wide turning radii, drainage improvements and similar efforts to assist an individual business. These actions normally must be done according to specified policies that keep the action within reasonable bounds and do not provide favorable treatment of one business over another.

State Infrastructure Banks

The Nature of State Infrastructure Banks

State infrastructure banks (SIBs) are revolving investment funds that can be created and operated by a state government. They are designed to increase the financing capability of states by more effectively using scarce public funds to finance parts of the states’ transportation program. SIBs are originally seeded with federal money and a 25% local match. They can lend these funds to a wide variety of projects with a considerable amount of flexibility, thereby initiating projects that would not otherwise be feasible.\(^1\)

A state infrastructure bank, which could hold both state and federal funds, is initially started by forming the bank through state legislation. The state then directs the use of this money towards projects beneficial to the state, for example, transportation projects. This money is usually loaned at a low interest rate to developers or sponsors of state-level projects. Thus, the SIB slowly grows as these loans are paid back with interest and these funds are again directed toward new projects. As the loans are paid off, the money can be used again for additional projects. In essence, SIBs use federal funds, usually with a state match to provide the capital needed to create a private bank for infrastructure projects.

Infrastructure banks can do any of the following.

- Accelerate projects that may be of lower funding priority, perhaps by combining SIB funds with traditional or other innovative funding options.
- Increase the range of projects that may receive financial assistance.

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Better fit the type of financing to a project’s needs, including flexible term loans, lines of credit, letters of credit and bond insurance.

Maintain the longevity of the funding opportunities by recycling the original funds as loans are repaid.

Potentially free up traditional grant funds for projects that cannot be innovatively financed.

Leverage the fund’s resources by guaranteeing debts or issuing bonds for itself.

Creating State Infrastructure Banks

A state usually needs new legislation to create an SIB, which designates authority over the financial management of the funds. In addition, there may be specific legal or administrative barriers to SIB implementation that must be addressed. The legal needs of SIB customers are also considerations. FHWA recommends that enabling legislation be as flexible as possible, and it has written model legislation to guide states. SIB’s can be housed entirely within the state DOT, be jointly administered by two or more state agencies or be administered by an independent agency.

SIBs’ customers can be either public entities such as local governments, special financing districts, and port authorities, private corporations or public-private partnerships. Potential projects should undergo an initial screening for adequate revenue streams, basic eligibility and conformance with planning mandates. Final project selection should be done by weighing the benefits and pitfalls of candidate projects, including the importance of the transportation problem, impact on mobility and safety, and financial viability.

Loans must be repaid at an interest rate that protects the revolving fund. Repayment must commence within five years (or earlier with certain highway projects) and be completed within 30 years.

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1 Ibid., p. 2

### EXAMPLES OF STATE INFRASTRUCTURE BANKS

- **Ohio**
- **Florida**
Ohio’s SIB Structure

Ohio was selected as a pilot state to participate in the State Infrastructure Bank program and was the first state to make a loan under this program. The state legislature passed a short bill that provided the following SIB structure.

- Established the fund and gave maximum flexibility as to how the fund could be operated.
- Allowed a wide variety of assistance, such as loans, loan guarantees, letters of credit, leases and interest rate subsidies.
- Gave ODOT the authority to select SIB projects, determine the general rules of operation, and the terms of any financial arrangement.
- Allowed the SIB to fund a wide range of public and private transportation projects, including the cost of planning.

The Ohio SIB program was originally given $30 million by the state and had access to federal funds nearly twice that amount in any given year. In its first two years of operation, the SIB funded 15 separate projects ranging from $300,000 to $20 million. Projects consisted of intermodal facilities, roads, interchanges, a viaduct and right-of-way acquisition. Both private and public projects were funded.

Details of lending have been established to protect the fund while serving the public. Interest rates are determined individually for each project, but the average interest rate across all projects must be 75% of the prime rate. In addition, the SIB charges an administrative fee of 0.25% and all closing costs. When bonds are issued, there is also an annual trustee fee of 0.05%. The costs of bonds are determined by the market. The SIB may request collateral or security for the loan in one of many forms, including pledges of tax revenues or fees, mortgages on assets and guarantees from borrowers.

The SIB has established formal criteria for project selection, including ability to repay and guarantee the loan, other financial arrangements, project quality and closeness to starting construction. In addition, the project must meet all environmental requirements and have finished all required studies. There must be an identifiable revenue stream. Ohio DOT suggests that the loans can be repaid from sources such as tolls, tax increment financing, a variety of fees or
property assessments. The list of current projects suggests that Ohio DOT heavily weights the economic impact of a project in its selection process.¹

**Florida’s SIB**

Like Ohio, Florida was selected as a pilot state to participate in the State Infrastructure Bank program. State legislation already existed for the creation of an SIB, giving the Department of Transportation’s Office of Finance bonding authority to leverage state and federal funds. Florida Department of Transportation is decentralized into seven district offices. Therefore, the central office serves only as a pass through point for federal funding, including the SIB capital funding dollars.

Florida has committed repayment dollars to transit projects. In many cases, SIB loans are approved to help transportation districts, MPOs or transit agencies to get a quicker start on preliminary project development that would be otherwise delayed. Florida has designated $10.8 million of its SIB capital towards transit projects, either new starts or additions to existing service. Once the loans for these initial transit projects are repaid, the recovered dollars will remain in a fund specifically for additional transit related funding programs within the seven transportation districts.

FDOT initiated the program by sending letters to the seven district secretaries inviting project submissions. Initially, only one district submitted projects requiring funding. Following subsequent Executive Committee meetings of the district secretaries, benefits of SIB funding became known, producing a greater response from the districts.

**Basic Employment Funding Programs**

**Economic Development Funding Programs**

Many state and local governments have worked to increase income and employment through the provision of public facilities, like highways and local roads, but this approach becomes increasingly difficult because of limited budgets. Therefore, the need to identify which improvements provide the most cost-effective services becomes important.

A premise of ISTEA was that transportation contributes significantly to economic development. ISTEA required that states acknowledge this relationship by

¹ State of Ohio Department of Transportation. State Infrastructure Bank: www.dot.state.oh.us/sib1.htm
discussing this element in state transportation plans. Most states have
developed transportation goals that pertain to economic growth through sound
transportation decisions in the interest of efficient movement of goods and people
across the state highway network. To further implement these goals various
state agencies have enacted programs that provide funding for transportation
improvements that relate to these goals. Some examples of these funding
programs are explained here. These programs target “basic” employment, that
is, employment that brings income into the state from elsewhere; such income is
then re-circulated in the local economy.

**Revitalize Iowa’s Sound Economy (RISE)**

RISE is an attempt by Iowa to direct highway funds toward projects that can have
a significant effect on economic development. RISE projects include the
construction or improvement of roads, streets and highways. RISE, which is
administered through the Iowa DOT Office of Project Planning, provides a
commitment of funds for actions that create and/or retain jobs. The program is
funded from a 1.55 cent per gallon motor fuel tax that yields about $31 million
annually. Almost two-thirds of these funds are spend on the state highway
system, with the balance devoted to city and county roads.

RISE projects are evaluated on a series of factors including the effect on
competition, economic impact to the state, quality of jobs created and/or retained,
and the business’ record of legal violations. There are two types of projects,
Immediate Opportunity and Local Development.

- Immediate Opportunity Projects – These relate to a well-established and
  immediate opportunity for the creation or retention of permanent jobs.

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1 *Revitalize Iowa’s Sound Economy (RISE)*, Iowa Department of Transportation. p. 71.
2 *Loc. cit.*
3 *Loc. cit.*
Jobs must be basic and not stem from a relocation from within the state. A 20% local match is required. Immediate opportunity projects can be approved within a few weeks.

♦ Local Development Projects – These projects support economic development but do not require an immediate commitment of funds. Example employers are industrial parks and tourist attractions. Iowa DOT evaluates these projects on their development potential, local initiative and transportation and economic need of the area. Approval for local development projects can take a few months.

Iowa DOT also operates the Rail Economic Development (RED) program to stimulate economic development by providing or maintaining rail service. Each project is limited to $100,000 and can be awarded up to 80% of its costs. Applicants must demonstrate that the project has an immediate impact on jobs.

**Wisconsin’s Transportation Economic Assistance (TEA) Program**

Wisconsin’s TEA program is similar to Iowa’s RISE in intent; however, it is administered somewhat differently. Grants can be up to $1 million but a 50% local match is required. Eligible projects include all modes of transportation, such as access roads, rail spurs and widened intersections. There must be an immediate (within three years), measurable and permanent impact on jobs. Funds are provided at a maximum rate of up to $5,000 per each new job created. Besides cost, evaluation factors include the local unemployment rate, the impact on the regional transportation system, and proximity to other TEA projects. TEA is currently funded at $7 million for two years, not including the local match.¹

In its first eleven years of operation, TEA made almost $37 million in grants spread across 152 projects. A 1994 audit reports that the actual average employment gain matched the projections made in the grant applications and the average cost per new job was just $2,225.²

**Performance Measures**

WisDOT Department of Economic Development established performance measures or criteria upon which to evaluate the effectiveness of the overall TEA program.

♦ Grant decisions shall be made before construction of the new or expanded business facility or operation.³

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¹ Source: Transportation Economic Assistance Program (TEA); WisDOT: Programs and Services. [http://www.dot.state.wi.us/dtim/bop/gati.html](http://www.dot.state.wi.us/dtim/bop/gati.html)

² Transportation Economic Assistance Program (TEA); WisDOT: Programs and Services. [http://www.dot.state.wi.us/dtim/bop/gati.html](http://www.dot.state.wi.us/dtim/bop/gati.html)

³ Performance Measures; Local Transportation Capital Assistance Programs, October 7th, 1997. p. 33.
Any TEA grant should be less than one-third of the cost of the new or expanded business.¹
Grants shall have less than $5000 per new or preserved job or the benefit/cost ratio shall exceed 1.²
Rural communities must receive at least half of the awards.³

**Industrial Roads**

Industrial roads programs have traditionally been designed to complement statewide economic development projects, where transportation access poses a problem or causes a development to not be viable without additional or new infrastructure. Administered by the state DOT, industrial roads programs encourage businesses to expand or relocate within the state by providing grants or loans to build or to improve roads, bridges or intermodal connections to a wide variety of sites.⁴

Projects must often be sponsored by a local government agency. Sponsors are encouraged to contact the state DOT. Most states allow funds to apply to acquisition of real property, engineering and design, construction or reconstruction of transportation facilities, and infrastructure improvements.⁵ However, details of the various states’ programs differ.

Industrial roads programs are designed to fund transportation facilities that will:

- Lead to the creation or retention of jobs within the state;
- Stimulate economic development;
- Effectively combine public and private sources of funds to accomplish a worthwhile project;
- Support projects that might not qualify for other funding programs; and
- Complement and enhance the existing transportation system.⁶

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¹ *Loc. cit.*
² *Loc. cit.*
³ *Loc. cit.*
⁴ *“The Program”*; New York State Industrial Access Program, New York State Department of Transportation.
⁵ *“Eligible Costs”*; New York State Industrial Access Program, New York State Department of Transportation.
⁶ *“Projects are designed to…….”*; New York State Industrial Access Program, New York State Department of Transportation.