Paying for local infrastructure in a new era of federalism
A STATE-BY-STATE ANALYSIS
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.

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Methodology

This study of local infrastructure funding tools began with a survey to the 49 state municipal leagues about available options 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 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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$ General revenue   ! Limited   ❄ Roads   🔊 Seawall   🚌 Transit   ⚪ Water

Local Option Motor Vehicle Registration Fee: Authorized, Authorized-not used, Not authorized.
State Infrastructure Banks: Authorized, Authorized-not used, Not authorized.
Executive Summary

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

Meanwhile, 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 the number and scope of infrastructure funding tools, and 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 us 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:

- **28 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.
Paying for local infrastructure in a new era of federalism

Introduction

A new federalism – one in which cities lead on 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. With significant decline in federal investment, and less predictable funding from states, local governments have assumed an even greater proportion of fiscal responsibility. 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.

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. 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 and placed 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 the rare instances in which states have budget surpluses, such as Minnesota, lawmakers are favoring one-time spending increases on transportation over permanent tax increases.

In addition to funding challenges, state spending priorities, both for capital programs and infrastructure grants, are often not aligned with
the needs and priorities of cities. 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, some of which were already completed by cities with the anticipation that these state grants would be available to help pay down the bond payments. In Georgia, cities have some input into state level transportation priorities but are increasingly required to pay for the maintenance of state routes, limiting revenues for other local priorities.

Matching requirements also pose significant barriers, particularly for smaller cities, like those in Wyoming that are finding it extremely difficult to identify matching funds. Many smaller cities also face design and build specification hurdles 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. This results in cities not applying for funding, or being left with huge operation and maintenance cost burdens and 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 their own dedicated 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 tools available to cities to fund infrastructure, including roads, transit and water/wastewater. This state-by-state analysis explores local option taxes and fees, including sales taxes, fuel taxes, and motor vehicle fees, 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, including local options. Within this context, and through the lens of infrastructure funding, this report sheds light on the challenges cities face in embracing their roles within the new federalism.
The Infrastructure Deficit

The decline in infrastructure investment coupled with the 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
Currently, combined annual federal, state, and local capital investments add up to $91 billion, but that level of investment is insufficient to maintain America’s roads over the long term. The Federal Highway Administration estimates that $170 billion in capital investment would be needed on an annual basis to significantly improve road conditions and performance.

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 U.S. transit ridership increase of 9.1 percent over the last decade. Many cities and transit agencies are grappling with reductions in funding for maintenance while simultaneously trying to manage debt burdens and accommodate a surge in ridership.

WATER/WASTEWATER
The majority of the nation’s water systems are between 50 and 150 years old, and in dire need of repair, upgrade or replacement. The American Society for Civil Engineers (ASCE) estimates that the capital investment required to get the nation’s waste and storm water systems up to par over the next 20-25 years to be $1.3 trillion, and the U.S. Environmental Protection Agency (EPA) has estimated that the funding need totals approximately $384.2 billion for drinking water infrastructure. Cities are unable to make up this deficit, and water infrastructure maintenance needs are straining city budgets.
The state of Georgia dedicates an amount between 10 and 20 percent each year for local road and bridge improvements, and this 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, and 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 locals the option to call for a regional tax or an incremental sales tax (.05 percent to -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 either as a vehicle registration fee or as 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, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is 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. Often, they are paid for not just by 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 is also accompanied by cuts in general state aid-cuts that are often not compensated by revenues generated from the taxes.21 These taxes are also inherently regressive toward those with lower incomes 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, local option taxes, particularly sales and fuel taxes, are administered by counties with revenue distributed back to cities. This distribution is typically done via 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 pass overwhelmingly in incorporated cities, but fail in unincorporated areas, leading to no passage.

For example, voters in Pulaski County, Arkansas, recently rejected a quarter-percentage-point increase sales tax dedicated to transit. The proposed tax drew widespread support within the city of Little Rock, but not in parts of the county outside the city, leading to failure to pass. This would have been the area’s first tax dedicated to transit and was projected to raise $18 million annually, with proceeds to expand bus service and create 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 28 states are authorized to levy a local option sales tax.

Cities in at least 19 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 also potentially limits or threatens available funding specifically for infrastructure. This...
is particularly the case during economic downturns, when local revenues are down and capital spending is often reduced to help fill the operating budget gap.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. About 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 a 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 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 levy up to 12 cents of local option fuel taxes in three
Local Option Fuel Taxes

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

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
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, often with no voter approval 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 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 case, 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 the 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.
The state of water and wastewater infrastructure in the U.S. poses some of the greatest challenges for cities, both financially, and in terms of 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. 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, and 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. The U.S. EPA has estimated that the funding need totals approximately $384.2 billion for drinking water infrastructure (in 2007 dollars) and $298 billion for wastewater infrastructure.

Currently, all states have some sort of separate state revolving fund (SRFs) for water and wastewater infrastructure, but they all operate slightly differently, and are subject to local needs and preferences. Congress appropriates approximately $2 billion annually in formula funds to these SRF’s, and states are required to match the share that they receive. The SRF’s 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 in order 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, the federal government and private partners simply to maintain existing infrastructure. But 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 (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, and 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.

These arrangements have been most successful overseas, with some emerging success in the U.S. 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

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Public Private Partnerships

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

[Map showing states with authorized and not authorized P3s]
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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, such as 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, and 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 management control of their projects, leading to questions of transparency and accountability.

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**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 will test 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.
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 in the U.S. have created state infrastructure banks, referred to as “SIBs” or “I-banks” for short. These typically consist of revolving investment funds that can provide loans and grants to infrastructure projects within the state. 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. 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,
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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). 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, Infrastructure 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, but that they were never capitalized, and thus do not currently serve as a funding or financing mechanism for the cities in that state.

Design

State infrastructure 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-serve basis, while others identify and prioritize projects that fit within the scope of the state’s transportation plans.

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 the states that authorize cities to access all five tools (sales taxes, fuel taxes, motor vehicle fees, IBanks 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 State 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 us 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


5. Some states also provide cities with portions of a state gas tax. Some cities also have access to dedicated income and property taxes, utility fees, value capture/special districts and paid use models. These are in addition to debt and are not evaluated here on a state-by-state basis.

6. Traditional financing mechanisms, including debt, dedicated income and property tax, and utility fees, and some emerging models, such as value capture and paid use, are not evaluated here on a state-by-state basis.


15. Ibid.

16. Ibid.


21. Ibid.


25. Many cities also receive a share of a state administered gas tax. This is not included in our analysis.


31. Both the United Kingdom and Australia rely on P3s frequently, and both countries have integrated this financing tool into larger national strategies for addressing infrastructure needs. See the following for international case studies: http://www.brookings.edu/blogs/the-avenue/posts/2015/07/02-water-system-pipes-sabol-kane-panetes


36. In addition to roads, transit and water, some SIBs and state revolving funds support clean energy investments. See the following Brookings Institution report for more information: http://www.brookings.edu/media/research/files/papers/2012/9/12-state-infrastructure-investment-puentes/12-state-infrastructure-investment-puentes.pdf


38. Ibid

39. Ibid