



## SUMMARY

# A Review of the South Carolina Transportation Infrastructure Bank



### INTRODUCTION

Members of the General Assembly asked the Legislative Audit Council to review the operations of the South Carolina Transportation Infrastructure Bank (SCTIB), a state agency that awards grants and loans to local and state agencies primarily for large transportation construction projects.

Our primary audit objectives were to review compliance with state law and policies regarding:

- The awarding of grants and loans for transportation construction projects.
- The use of project revenues and whether funds dedicated to specific projects have been comingled with funds dedicated to other projects.
- Proper accounting and reporting procedures.
- The process for repayment of revenue bonds.
- Hiring of consultants, attorneys, and bonding credit rating agencies.
- Ethics.

MAY 2016

### OVERVIEW OF THE TRANSPORTATION INFRASTRUCTURE BANK

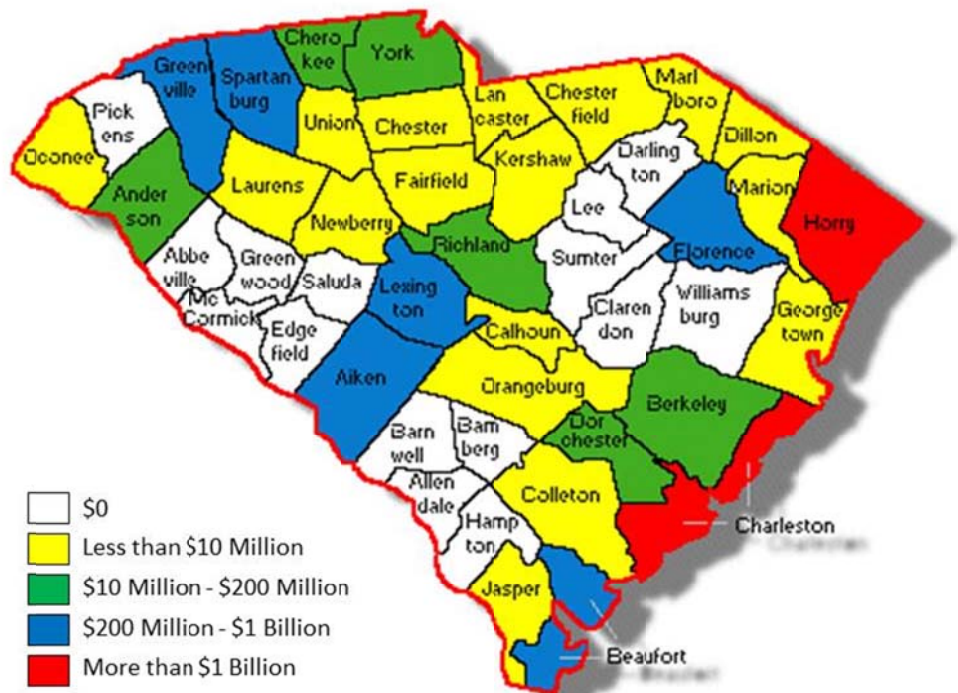
Since its inception in 1997, the South Carolina Transportation Infrastructure Bank (SCTIB) has awarded approximately \$3.8 billion in grants and \$1.0 billion in loans for transportation projects initiated primarily by local governments and the South Carolina Department of Transportation (SCDOT).

SCTIB is a separate agency from SCDOT and is governed by its own seven-member board.

In FY 14-15, SCTIB revenues were \$220.0 million while expenditures were \$282.1 million. As of June 30, 2015, SCTIB owed \$1.99 billion to bondholders for debt incurred to finance its projects.

As shown in the map, since the inception of SCTIB, funding commitments by the agency have been focused in Horry and Charleston counties.

FUNDS AWARDED BY COUNTY AND AMOUNT SINCE INCEPTION OF SCTIB AS OF JUNE 30, 2015



## POTENTIAL CONSOLIDATION OF SCTIB WITH SCDOT

During our review, we found no function performed by SCTIB that could not also be performed by discontinuing the SCTIB and transferring its funds to SCDOT.

The General Assembly created SCTIB in 1997 as a separate agency. The mission of the newly-created agency was to finance larger transportation projects, allowing the resources of SCDOT to be “devoted sooner to smaller, but yet important, rural transportation projects.” We found that consolidating SCTIB and SCDOT would:

- Enable better coordination and prioritization of transportation projects.
- Focus accountability in one state agency.
- Permit the implementation of transportation policy to be managed exclusively by the executive branch of government.

### TWO OPTIONS FOR MERGING SCTIB WITH SCDOT

- DISCONTINUE SCTIB AND ITS BOARD OF DIRECTORS AND ASSIGN THE MISSION OF MANAGING THE ENTIRE STATE-LEVEL, HIGHWAY AND PUBLIC TRANSPORTATION SYSTEM TO SCDOT.
- MAKE SCTIB A UNIT OF SCDOT, WHILE MAINTAINING THE SCTIB BOARD IN AN ADVISORY CAPACITY.

Because SCTIB has significantly greater bonded debt than SCDOT, if either of the above options were implemented it would be necessary for the General Assembly to amend state law to modify the classes of bonds that may be issued to finance SCDOT projects or amend the S.C. Constitution to increase SCDOT’s annual debt service limit for highway bonds.

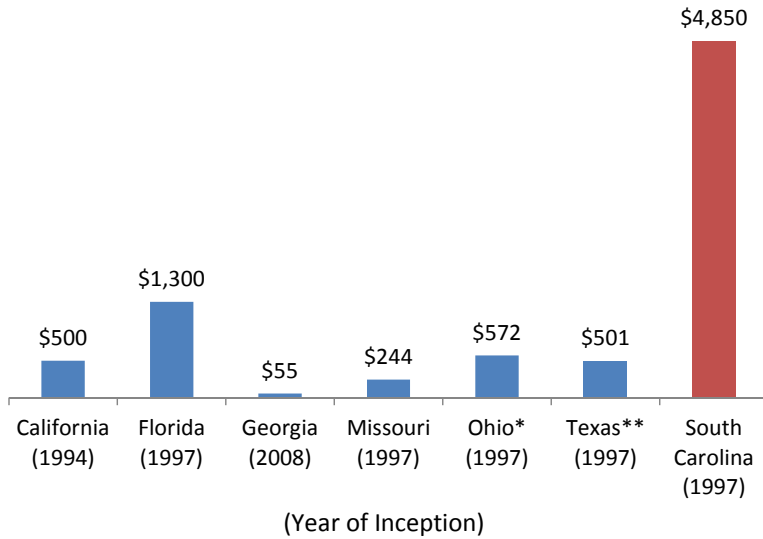
## COMPARISON OF INFRASTRUCTURE BANKS AMONG STATES

We identified 38 states that have authorized infrastructure banks, although some of them may be inactive. In addition, we conducted a detailed analysis of 7 of the 12 states with the most state-administered lane miles in 2014 (excluding 2 states without infrastructure banks and 3 states from which we could not obtain reliable data). The data indicates that, as of 2015, SCTIB:

- Provided significantly more financial assistance to state and local entities than do infrastructure banks in other states.
- Focused on grants, while infrastructure banks in other states focused on loans.
- Generally required that funding be accompanied by a recipient match while the other states generally did not.
- Had a significantly larger threshold for minimum project size amounts compared to other states.
- Was an independent agency, while infrastructure banks in other states generally were part of departments of transportation (DOT) or other entities.
- Had more bonded debt than the combined bonded debt of the seven other states we reviewed. It is important to note that states with low or no bonded debt may have significant bonded debt outside their infrastructure banks.

THE FOLLOWING GRAPHICS SUMMARIZE FINANCIAL DIFFERENCES AMONG STATE GOVERNMENT INFRASTRUCTURE BANKS.

TOTAL INFRASTRUCTURE BANK FUNDS COMMITTED FROM YEAR OF INCEPTION THROUGH FY 14-15 (IN MILLIONS)



Figures are rounded.

\* Ohio reports its loans committed as of September 30, 2015.

\*\* Texas reports its loans committed as of August 31, 2015.

Sources: Financial reports and documents from California, Florida, Georgia, Missouri, Ohio, Texas, and South Carolina.

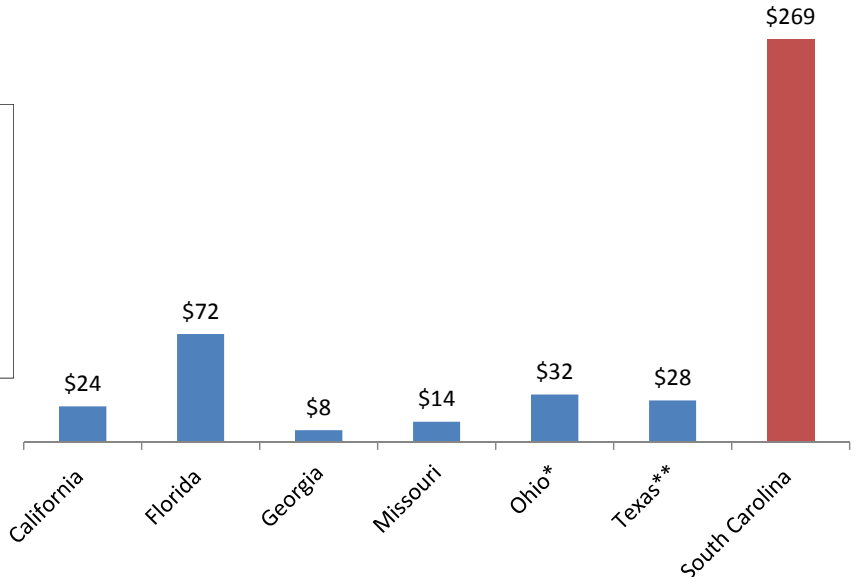
AVERAGE INFRASTRUCTURE BANK FUNDS COMMITTED PER YEAR FROM YEAR OF INCEPTION THROUGH FY 14-15 (IN MILLIONS)

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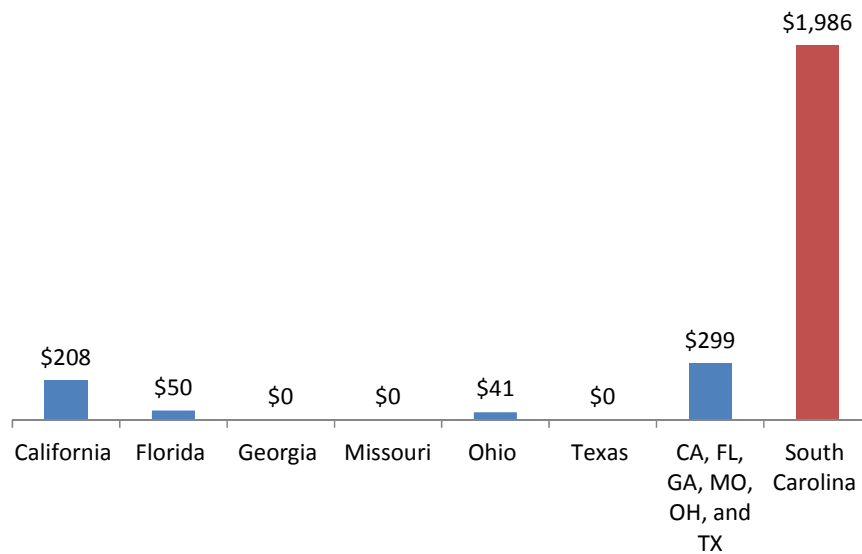
OVERSIGHT AGENCIES

STATE	OVERSIGHT AGENCIES
California *	Governor's Office of Business and Economic Development
Florida	Florida DOT
Georgia	State Road and Tollway Authority
Missouri	Legally separate from the Missouri DOT. Governed by a commission consisting of three DOT commissioners, three DOT staff, and two at-large members.
Ohio	Ohio DOT
South Carolina	Independent Agency
Texas	Texas DOT

\* California's infrastructure bank subsidizes more than just transportation projects.

Sources: State infrastructure bank documents and laws from California, Florida, Georgia, Missouri, Ohio, Texas, and South Carolina.

TOTAL INFRASTRUCTURE BANK BONDED DEBT AS OF THE END OF FY 14-15  
(IN MILLIONS)



Figures are rounded.

Sources: Financial reports from California, Florida, Georgia, Missouri, Ohio, South Carolina, and Texas.

## SCTIB PRACTICES FOR AWARDING FINANCIAL ASSISTANCE

We reviewed the state law, policies, and processes to identify the criteria used by SCTIB to evaluate applications for financial assistance, submitted primarily by local governments and SCDOT. We also reviewed a sample of applications for funding. Through our review, we found that SCTIB:

- Does not publicly communicate when it has funds available for financial assistance.
- Does not have a formal timeline for releasing updated application information, accepting applications, reviewing applications, or awarding funds.
- Has awarded funds to projects without an application.
- Has no formal policies for awarding financial assistance.
- Has not clearly defined what constitutes a project.
- Requires that funded projects exceed \$100 million, but will accept applications that reach \$100 million only by allowing multiple projects to be combined.
- Generally requires a 33⅓ % match for grants and loans yet does not formally communicate this requirement.
- Does not require that SCTIB-approved projects be derived from SCDOT's prioritization list.
- Does not require a minimum rating for applicants to receive funding.
- Contrary to state law, has not promulgated regulations regarding its award criteria or process.

Through Act 98 in 2013, the General Assembly created an additional stream of funding through which SCTIB has awarded financial assistance of \$555.4 million only to SCDOT. We found, however, that the law does not specify that only SCDOT may receive this funding. In addition, we found that the process for awarding Act 98 funding does not include a:

- Specified application format for agencies requesting funding.
- Minimum project size.
- Minimum match for agencies requesting funding.
- List of the criteria for evaluating applications.

FOR MORE  
INFORMATION

Our full report, including comments from relevant agencies, is published on the Internet. Copies can also be obtained by contacting our office.

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## INDIRECT USE OF STATE TAX FUNDS TO REPAY REVENUE BONDS

In the audit request for this project, we were asked to determine compliance with the section of the S.C. Constitution that pertains to the use of bonds to borrow funds.

The S.C. Constitution prohibits the use of tax funds to repay revenue bonds. Separate from the Constitution, however, state law requires an indirect process of using state taxes to repay SCTIB revenue bonds. In this process, each year the General Assembly allocates specific *tax funds* to SCDOT and then requires SCDOT to reallocate *non-tax funds of the same dollar amount* to SCTIB. It is uncertain whether this process is consistent with the Constitution.

## SOUTH CAROLINA ETHICS LAW

Under South Carolina law, state officials and employees are allowed to receive gifts *of any dollar value* as a result of their positions in the government as long as there is no intent to influence public decisions. Certain officials are required to report gifts of \$25 or more in a day and \$200 or more in a year, but they are still allowed to accept gifts of any dollar value.

Without a limit on the dollar value of items given to public employees and officials as a result of their positions in government, there is an increased probability that businesses and other outside entities will use gifts to influence those who make public decisions.