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Nebraska Legislators Want Infrastructure Bank for Roads Projects, but Disagree on How to Fund It.

LINCOLN — Two key senators in the Nebraska Legislature agree that an infrastructure bank could accelerate major road projects, bridge repair and economic development in the state.

They disagree, however, on how best to pay for the proposed method of funding transportation construction.
Sen. Jim Smith of Papillion supports moving $150 million from the state's cash reserve to launch the transportation infrastructure bank, which is contained in Legislative Bill 960.

Sen. Heath Mello of Omaha argues that the bank could operate with less from the rainy day fund, largely by using money within the existing budget of the Nebraska Department of Roads.

Smith, chairman of the Transportation and Telecommunications Committee, introduced the bill on behalf of Gov. Pete Ricketts, who has called the legislation one of his top priorities for this session. A public hearing on the bill will take place today before the Legislature's budget-setting Appropriations Committee, of which Mello is the chairman.

So it's safe to say negotiations are about to ramp up on the year's big transportation bill.
"I never walk away and throw up my hands," Smith said. "I think Sen. Mello and myself will look for a path forward, and I think we'll get there."

Mello said he's willing to consider using perhaps as much as $50 million from the cash reserve, but he's adamant that the reserve fund needs to remain largely intact as a bulwark against future economic downturns.
"The policy concepts in this bill I support," Mello said. "I cannot support utilizing $150 million of the cash reserve right now."

The infrastructure bank would be the latest in a series of steps taken by state lawmakers in recent years to significantly boost roads funding.

In 2011, they passed the Build Nebraska Act, which directs one-quarter of a cent of the state's sales tax for highways, roads and streets. The measure has generated $70 million a year for expressways and other highway improvements.

Last year, over the governor's veto, senators approved a 6-cent-a-gallon increase in the state gas tax to be phased in over four years. Once fully implemented, the tax hike is projected to raise $75 million annually.

But the governor, Smith and state roads officials say the state still faces a funding gap for new construction, which comes on top of the expense of maintaining 10,000 miles of highway and more than 3,500 bridges.

So they've turned to the idea of a transportation infrastructure bank, which has been around for decades. More than 30 states have them in place.

The governor wants an infrastructure bank to meet three goals: finish construction of the state's 600-mile expressway system, launch a matching-funds program for counties to pay for bridge repair, and prioritize the types of roads improvements that directly spur economic growth by attracting new manufacturing or retail developments.

The infrastructure bank legislation in Nebraska would transfer the $150 million in cash reserve funds to the bank over seven years as needed. At a recent task-force meeting, Roads Department Director Kyle Schneweis explained that over time, the department would funnel "unprogrammed revenue" into the fund to replace the cash reserve money as it is drawn down.

Unprogrammed revenue would include new fuel tax money, federal FAST Act funds and budget funds freed up by program efficiencies, Schneweis said.

Although there are several variations on infrastructure banks, most have been seeded with state and federal funds. Money is loaned out for construction, and repayment of the loans replenishes the bank so a new round of projects can be funded. Often they are used to build or fund toll roads or other projects that generate fees to repay the loans.

Nebraska's infrastructure bank would not issue loans or collect repayments. Whatever money remains unspent by 2033, the year the bill sunsets, would be spent by the department.

"The intent is not to replenish the cash reserve," Schneweis said, "it's to replenish the infrastructure bank."
Another way to look at it: The bank is designed to expire in 17 years.

The Nebraska proposal differs from what many other states call an infrastructure bank, said Porter Wheeler, an economist with expertise in new methods of transportation funding and a consultant for George Mason University in Fairfax, Virginia.

"It's more like a capital improvement fund," Wheeler said. "That's what it sounds and looks like."

But the Nebraska proposal seeks to accomplish a similar goal as other infrastructure banks, Wheeler said, namely to make long-term funding commitments for major, multi-year projects. Most states are struggling to find money for new construction because their roads budgets are increasingly swallowed by maintenance needs.

The key function of Nebraska's infrastructure bank is to provide a place for funds to accumulate until projects can be undertaken, Smith said.

A primary goal is completion of the expressway system, which was designed to provide four-lane connections from the state's largest communities to Interstate 80. In the late 1980s, the state pledged completion of the 600-mile expressway by the year 2003.

A total of 173 miles remain unfinished, but funding has been committed to 41 of those miles under the Build Nebraska Act. That leaves 132 miles of unfunded expressway.

In meetings with Roads Department officials, Smith said he asked them to set a date for completion of those miles.

"I asked (the department) to give me a stretch goal, trim off some years, something that was a little bit out of their comfort zone," he said.

That goal is by 2033.

Another key provision of the bill would enable the Roads Department to use new design and construction approaches employed by many other states. An approach called the design-build method — in which a single entity provides design and construction services — would trim several years off the time to start and complete major projects, roads officials say.

The bill also would create a pilot matching grant program for county bridge repair, a major problem in nearly every county. And it would allow the Roads Department to identify places along expressways and other highways where spur roads or interchanges would promote economic growth.

Still, the coming debate on the infrastructure bank bill probably will come down to funding.

When two-year state budgets were set in 2013 and 2015, the Appropriations Committee had suggested ways to save about $20 million a year that the Roads Department had designated for operational costs, Mello said. At the time, committee members recommended that those dollars be targeted for road construction.

Mello said the department could use such funds and take a smaller bite from the cash reserve. Or the department could seek regular appropriations for the infrastructure bank like any other state program.
"I think that's a strong argument," Mello said.

The debate will take place as lawmakers seek ways to address a projected state budget shortfall of $140 million for the two-year period ending June 30, 2017.

"The burden is on us to make our case to the Appropriations Committee," Smith said.

By Joe Duggan / World-Herald Bureau

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Contact the writer: 402-473-9587, joe.duggan@owh.com