6.0 FINANCE PLAN

6.1 INTRODUCTION

This chapter summarizes committed and potential sources of funding and finance approaches to support development of the Heartland Expressway Corridor. It explores the funding options available for the Heartland Expressway Corridor and is designed to serve as a starting point to define the eventual funding strategies. As a result, additional analysis would be required to determine feasibility and to develop a detailed financial plan. The chapter includes the following sections:

- Overview of Nebraska highway funding sources and uses of funds
- Heartland Expressway Corridor sources and uses of funds
- Federal funding programs in the federal transportation bill Moving Ahead for Progress in the 21st Century Act, MAP-21
- State funding programs
- Innovative funding options that have been applied on a state, regional, or local basis to fund highway programs elsewhere
- Various options for financing improvements to the Heartland Expressway corridor
- Key strategies for selecting funding approaches and achieving the financial plan are summarized

6.2 NEBRASKA HIGHWAY SOURCES AND USES OF FUNDS

Table 6.1 summarizes the sources and uses of funds for highway programs in Nebraska in calendar year 2011, the most recent year for which this data is published in the Federal Highway Administration's Highway Statistics series. Local governments provide the highest share of funding (39 percent), followed by state highway user tax revenues (28 percent), and federal funds (17 percent).General funds and miscellaneous income comprise the rest.

Table 6.1 – Nebraska State Funding for Highways; Calendar Year 2011, Millions of Dollars

Receipts	Funding	% of Total
State Highway User Tax Revenues	$417.93	28%
Other Imposts and General Funds	$219.35	15%
Miscellaneous Income	$13.20	1%
Payments from Federal Government	$261.28	17%
Payments from Local Government	$580.56	39%
Total Receipts	**$1,492.32**	**100%**

Disbursements	Expenditure	% of Total
Capital Outlay	—	—
National Highway System	$354.92	25%
Other Federal Aid Highways	$216.00	15%
Other Roads and Streets	$72.40	5%
Maintenance and Highway Services	$320.63	22%
Administration, Highway Police, Safety	$224.41	15%
Grants In-Aid to Local Government	$254.83	18%
Total Disbursements	**$1,443.18**	**100%**

Source: FHWA Highway Statistics 2011, Table SF-21 (published February 2013).
Note: The difference between receipts and disbursements is related to different scheduling of program outlays and program receipts.

According to Table 6.1, Nebraska spends most available funds (45 percent) on capital outlays, including preservation activities such as rehabilitation, reconstruction, and replacement. Of the remainder, 22 percent is spent on maintenance and operations (M&O); 15 percent is applied to administration, enforcement and safety; and 18 percent provides grants in-aid to local government.

Of funds expended on capital outlays, 55 percent were expended on National Highway System (NHS) routes. The Heartland Expressway corridor in its entirety is comprised of designated NHS routes.

Nebraska has a long history of financing the entirety of its program on a pay-as-you-go basis, and is one of two states to finance highways without bonds or other borrowing. Bonding has been considered in Nebraska. Specifically, in April 2014 the Nebraska Legislature considered LB1092, which would have allowed the Nebraska Highway Commission to issue up to $200 million in revenue bonds through June 30, 2017 to advance high-priority projects. The bonds would have been backed by the State Highway Capital Improvement Fund, which consists of the quarter-cent sales tax designated for roads. The bill also required that the bonds issued carry an interest rate of 5 percent or less. However, this bill failed on final reading on April 10, 2014. Therefore, no bond proceeds were applied to fund highway programs in 2011, and there were no interest or bond retirement expenditures.

6.3 HEARTLAND EXPRESSWAY CORRIDOR SOURCES AND USES OF FUNDS

Table 6.2 summarizes the projected sources and uses of funds for the Heartland Expressway corridor between 2015 and 2035. The full program is projected to cost $542.1 million, with 89 percent of expenditures related to roadway improvements. The remaining expenditures are for safety, truck parking, and intelligent transportation system (ITS) improvements.

Table 6.2 – Heartland Expressway Projected Sources and Uses of Funds; Millions of Year-of-Expenditure (Inflated) Dollars

Expenditures by Type	2015-2020	2020-2025	2025-2030	2030-2035	Total	% of Total
Roadway	$149.25	$112.00	$153.00	$70.00	$484.25	89%
Safety	$2.20	$21.00	$1.00	$20.00	$44.20	8%
Truck Parking	$5.00	$0.00	$0.00	$5.00	$10.00	2%
ITS	$2.82	$0.85	$0.00	$0.00	$3.67	1%
Total	$159.27	$133.85	$154.00	$95.00	$542.12	100%
Committed Funds	$51.72	0	0	0	0	
Funding Gap	$107.55	$133.85	$154.00	$95.00	$490.40	

Currently, funding is committed for the ‘L62A to Alliance’ project on US-385. This funding is comprised of $30 million from the Build Nebraska Act, and an additional $21.72 million in congressionally designated funds. Significant funding shortfalls remain within the proposed build out construction plan for the completion of the Heartland Expressway.

6.4 FEDERAL FUNDING PROGRAMS

This section describes current federal highway funding sources under MAP-21. It summarizes the existing Federal Aid Highway Program and Nebraska's share of funding. Next, existing federal programs applicable to the Heartland Expressway Corridor are described.

6.4.1 MAP-21

MAP-21 is the current authorizing legislation for funding surface transportation projects for FY 2013 and FY 2014. Prior to MAP-21, each apportioned program had its own formula for distribution, and the total amount of federal assistance a state received was the sum of the amounts it received for each program. MAP-21 instead provides a total apportionment for each state and then divides that state amount among individual apportioned programs.

MAP-21 is designed to create a streamlined, performance-based, and multimodal program to address challenges in improving safety, existing infrastructure condition, congestion, efficiency of the system and freight movement, environmental sustainability, and delays in project delivery. Some highlights of MAP-21 include:

Consolidation of federal programs: MAP-21 simplifies the federal surface transportation program by consolidating existing highway programs. It establishes a National Highway Performance Program, aimed at repairing and improving an expanded National Highway System.

Optional enhancements spending: Under the previous transportation bill, states were required to spend 10 percent of STP funds on transportation enhancement activities, including bike, pedestrian, transit, landscaping, public art, or historic projects linked to transportation. MAP-21 does not mandate a specific set-aside for Enhancements, freeing federal transportation dollars for other priorities.

Accelerated project delivery: MAP-21 modifies USDOT administrative procedures to facilitate projects. More types of projects would qualify for a Categorical Exclusion to the National Environmental Policy Act (NEPA), thus enabling more projects to benefit from a streamlined environmental process. The act also facilitates early acquisition of right-of-way.

Enhanced TIFIA financing: MAP-21 provides significant additional funding for the Transportation Infrastructure Finance and Innovation Act (TIFIA), a USDOT program that provides direct lending to qualified projects under relatively favorable terms at attractive rates. The additional funding will enable lending to nearly 10 times as many projects as existing TIFIA funding levels support.

6.4.2 FEDERAL AID HIGHWAY PROGRAM FUNDING

The Federal Aid Highway Program under MAP-21 consists of several individual funding programs to which federal Highway Trust Fund monies are annually apportioned to the states. MAP-21 restructured the core highway funding programs under SAFETEA-LU and consolidated many of the formula programs into six core programs.

Table 6.3 summarizes the apportionment of Federal Aid Highway Funds for the six core programs to Nebraska in federal fiscal year 2014, the most recent year for which this data is published. The table divides funding programs into two categories. The first includes programs for which Heartland Expressway improvements are eligible, but the corridor competes with all other projects within the State of Nebraska that are also eligible for these programs. The second category is other federal programs, which comprise the remainder of Nebraska's Federal Aid Highway Program funding, but are not anticipated to provide funding for any Heartland Expressway Corridor projects.

Table 6.3 – Apportionment of Federal Aid Highway Funds to Nebraska; Fiscal Year 2014, Millions of Dollars

Receipts	Funding	% of Total
Funding Programs for which Heartland Expressway improvements are eligible*		
National Highway Performance Program	$162.55	58%
Surface Transportation Program	$74.77	27%
Highway Safety Improvement Program	$14.46	5%
Railway Highway Crossings Program	$3.56	1%
Subtotal of Funding Programs for which Heartland Expressway improvements are eligible*	$255.34	92%
Other Federal Funding Programs**		
Congestion Mitigation & Air Quality Improvement	$9.82	3%
Metropolitan Planning	$1.57	1%
Transportation Alternatives Program	$6.77	2%
State Planning & Research	$5.48	2%
Subtotal Other Federal Funding Programs**	$23.63	8%
Total	**$278.98**	**100%**

Source: FHWA Funding Notice 4510.772, Fiscal Year (FY) 2014 Supplementary Tables – Apportionments Pursuant to The Moving Ahead for Progress in the 21st Century Act, January 31, 2014 (FHWA 2014b).
* The Heartland Expressway is eligible for these programs, but competes with all other projects within the State of Nebraska that are also eligible for these programs.
** These programs comprise the remainder of Nebraska's Federal Aid Highway Program funding, but are not anticipated to provide funding for any Heartland Expressway Corridor projects.

Four programs for which the Heartland Expressway corridor is eligible provided Nebraska $255 million in highway funding in FY 2014, 92 percent of the state's total allocation of Federal Aid Highway Funding. Relevant programs include:

National Highway Performance Program (NHPP): Under MAP-21, NHPP places a heavy emphasis on National Highway System (NHS) improvement and preservation to meet performance targets established in state asset management plans. The NHS is comprised of rural and urban highways serving major population centers, international border crossings, intermodal transportation facilities, and major travel destinations. It includes the Interstate System, other urban and rural principal arterials, highways that provide motor vehicle access between the NHS and major intermodal transportation facilities, the defense strategic highway network, and strategic highway network connectors. The entirety of the Heartland Expressway Corridor is designated as part of the NHS. Nebraska was apportioned approximately $163 million in NHPP funding for FY 2014, 58 percent of the state's Federal Aid Highway Program funding apportionment. The NHPP program structure allows more flexibility to the State DOT to determine how much funding is provided to state bridges versus pavement condition, as compared to the previous federal transportation bill.

Surface Transportation Program (STP): MAP-21 continues the STP program, which provides flexible funding that may be used by states and localities for projects on any federal-aid highway, including the NHS, bridge projects on any public road, transit capital projects, public bus terminals and facilities, and access to ports. Under MAP-21, eligible activities that may be funded by STP have been expanded, including bridge safety and truck parking which may be applicable to the Heartland Expressway Corridor. At present, 50 percent of each state's STP funds are to be distributed based on population, with the remainder to be used in any area of the state. In addition, each state must set aside a portion of their STP funds (equivalent to 15 percent of the state's FY 2009 Highway Bridge Program apportionment) for bridges not on Federal-aid highways. Nebraska was apportioned $75 million in STP funding for FY 2014, 27 percent of the state's Federal Aid Highway Program funding apportionment. The proposed Heartland Corridor improvements include construction of truck parking at two locations, on Interstate 80 at milepost 22 between 2015 and 2020, and on US 385 near Chadron between 2030 and 2035. Each of these projects is estimated to cost $5 million and are eligible for STP funds under MAP-21.

Highway Safety Improvement Program (HSIP): HSIP aims to achieve a significant reduction in traffic fatalities and serious injuries on all public roads through the implementation of infrastructure-related highway safety improvements. FHWA requires states to apply a data-driven process to determine how funds should be applied towards planning, implementation, and evaluation of projects. MAP-21 also requires states to adopt performance related safety goals and develop and maintain a Strategic Highway Safety Plan (SHSP) that lays out strategies to address key safety problems. Nebraska was apportioned $14 million in HSIP funding for FY 2014, five percent of the state's Federal Aid Highway Program funding apportionment.

Rail-Highway Crossings Program: These funds provide for the elimination of hazards and the installation of protective devices at public railway-highway crossings, and are administered as part of the Highway Safety Improvement Program. Nebraska was apportioned approximately $3.5 million in funding from this program for FY 2014, one percent of the state's Federal Aid Highway Program funding apportionment. Currently, there are no existing railroad crossings that have been identified for improvements in the long range Vision of the Heartland Expressway Corridor.

Notably, while these programs provided an estimated $255 million in apportionments to Nebraska in FY 2014, they were applied to eligible projects across the state. For Heartland Expressway Corridor projects to receive money from these federal programs, they must compete well against other projects according to the allocation criteria applied by the Nebraska Department of Roads. For Heartland Expressway Corridor improvements to become priorities for receiving Federal Aid Highway Program monies, they must align with these criteria, which vary by funding program.

6.4.3 OTHER FEDERAL GRANT PROGRAMS AND PROVISIONS

This section describes another U.S. Department of Transportation (USDOT) discretionary grant program and MAP-21 provision that are applicable to the Heartland Expressway Corridor.

Freight Provision: MAP-21 includes a number of provisions to enhance freight movement by improving the condition and performance of the freight system. It creates a Primary Freight Network (PFN) and establishes incentives to prioritize projects that advance freight performance goals. As part of MAP-21, USDOT will create a national freight strategic plan and encourages states to develop their own freight plans and establish freight advisory committees. While the Heartland Corridor area is not on the draft PFN list, it potentially has an important role in the development of a Nebraska state freight plan.

Transportation Investment Generating Economic Recovery (TIGER): The TIGER program began as part of the American Recovery and Reinvestment Act of 2009 (ARRA) as a means for the USDOT to invest in critical surface transportation projects that create economic benefits for communities, regions, or the nation. Funds may be applied to the construction, reconstruction, or rehabilitation of routes eligible for Federal Aid Highway Program funding, as well as public transit, freight, and port projects eligible for federal funding.

The grant process is highly competitive, with only 51 projects selected for funding under TIGER I out of 1,457 applications. Under Tiger II, 42 projects were funded, 46 under TIGER III, 47 under TIGER 2012, and 52 under TIGER 2013. Projects are evaluated across five long-term outcomes, including state of good repair, economic competitiveness, livability, sustainability, and safety.

TIGER grants are particularly well suited for projects that are multi-modal, multi-jurisdictional, or otherwise challenging to fund under existing programs. USDOT uses a rigorous evaluation process to select projects with benefit-to-cost ratios greater than 1.0. Projects are also typically "shovel ready," innovative in project delivery, and produce more livable and sustainable communities. Eligible applicants include states, municipalities, port authorities, transit agencies, and most other political subdivisions.

6.5 STATE FUNDING

Nebraska uses three primary revenue sources to fund transportation programs: Fuel taxes, sales taxes on new and used motor vehicles and trailers; and motor vehicle registration fees. A new program, the Build Nebraska Act, will dedicate a portion of state sales tax revenues to highway programs over a 20-year period beginning in 2013.

6.5.1 EXISTING NEBRASKA FUNDING PROGRAMS

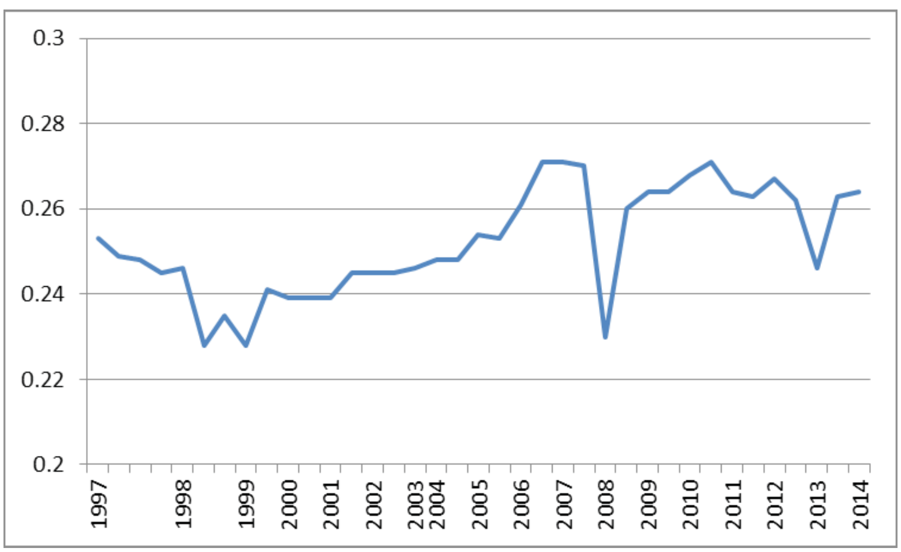

Figure 6.1– Nebraska Historical Fuel Tax Rate; Cents per Gallon, 1997-2014

Fuel Tax

The predominant source of highway funding in Nebraska is the fuel tax, which provides approximately 60 percent of state highway revenues. As of January 1, 2014, the state fuel tax rate for gasoline, gasohol, diesel, ethanol, and compressed fuels is 26.4 cents per gallon. Of this amount, 2.8 cents is a local fixed portion, evenly split between cities and counties; 7.5 cents is a fixed amount for state programs. To ensure stabilized funding for state transportation programs the remainder of the tax varies based on wholesale fuel prices (currently 15.2 cents per gallon) and a variable tax based on projected transportation funding receipts (currently 0.9 cents). The state receives 66 percent of wholesale tax revenues and 100 percent of variable tax revenues. The variable rates reset every January 1 and July 1. Nebraska's historical fuel tax rates since 1997 are summarized in Figure 6.1.

The fuel tax rate has ranged between a low of 22.8 cents per gallon from January 1 to June 30, 2006, and a high of 27.1 cents from July 1, 2006 to June 30, 2007 and July 1, 2010 to December 31, 2010. It has averaged 25.2 cents per gallon since 1997.

Sales taxes on new vehicles provide approximately 27 percent of NDOR funding . Vehicle registration fees provide approximately 10 percent of funding. Miscellaneous sources provide another 3 percent of revenues.

Build Nebraska Act

In 2011, the Nebraska Legislature passed the Build Nebraska Act, a multiyear funding commitment to highways. The Build Nebraska Act, which became effective July 1, 2013 and continuing through June 30, 2033, dedicates 0.25 percent of Nebraska's existing 5.5 percent sales tax towards transportation programs. The act allocates 15 percent of revenue to the Highway Allocation Fund, which is the established mechanism for allocating funds from the state Highway Trust Fund to counties and municipalities. The remaining 85 percent of revenues are dedicated to the new State Highway Capital Improvement Fund, of which at least 25 percent must be applied to four-lane expressways and federally-designated high priority corridors (including the Heartland Expressway Corridor). The remainder may be applied to surface transportation projects as prioritized by NDOR, including the reconstruction and new construction of roads, highways, and bridges which are part of, or if built, would be part of the state highway system.

Projections from February 2013 estimate that the Build Nebraska Act will designate an annual average of approximately $62 million to the State Highway Capital Improvement Fund and approximately $11 million to the Highway Allocation Fund from FY 2013 through FY 2017 (Nebraska Department of Revenue 2013). Current NDOR plans call for $30 million in Build Nebraska Act funding for improvements to US-385 from L62A to NE 2 in Alliance, which is part of the Heartland Expressway Corridor, between FY 2016 and FY 2019. This project includes adding an additional pair of lanes to be placed on the west side of the existing 2-lanes.

6.6 INNOVATIVE FUNDING OPTIONS

There are a number of innovative funding options that could potentially be applied to support delivery of the Heartland Expressway corridor program. These funds can supplement state and federal funds available to support improvements to the corridor. It can also help in filling any gaps in funding, if revenues are expected over extended periods of time. Options include vehicle registration fees, tolling, severance taxes, utility easements, local funding, and various value capture approaches, including special assessment districts, tax increment financing, development impact fees, developer contributions, and right-of-way donation. Each program is described below.

6.6.1 VEHICLE REGISTRATION FEES

Presently, annual vehicle registration fees paid by Nebraska motorists include a contribution to the state's Highway Trust Fund. Passenger vehicles pay $15 to the Highway Trust Fund annually, while variable rates for heavy trucks and commercial vehicles range between $18 and $1140 annually based on the registered weight of the vehicle. These registration fees provide approximately $70 million in annual revenue to Highway Trust Fund. These fees are separate from a variety of other registration fees ranging between $0.50 and $2.00 that are applied to the Recreation Road Fund, Department of Motor Vehicles Cash Fund, county general funds, and Nebraska Emergency Medical Systems Operations Fund. Registration fees are also separate from motor vehicle taxes and fees paid by motorists on the value of vehicle plus an additional

$20 fee. Motor vehicle taxes and fees provide revenue for cities, counties, and school systems and do not support the Highway Trust Fund.

Some states have opted to increase vehicle registration fees statewide to provide new revenues for transportation projects. Colorado adopted the Funding Advancement for Surface Transportation and Economic Recovery (FASTER) program to address structurally deficient bridges and deteriorating highways across the state. The program includes bridge and road safety programs funded with vehicle registration fees. The bridge program is funded by a bridge safety surcharge of $18 for the average passenger vehicle that raises an estimated $100 million statewide. The road safety surcharge is $23 for the typical passenger car and raises an estimated $150 million. The programs are also supported by increased late fees for vehicle registration and a new $2 daily car rental fee.

Another option is a dedicated regional vehicle registration fee applied to the program. North Carolina levied a $5 vehicle registration fee over a five-year period to pay for infrastructure improvements in a 13-county region surrounding the Global TransPark, a multimodal industrial park adjacent to air, rail, and highway transportation in the eastern part of the state.

If a $1 annual vehicle registration fee was proposed in the six counties where the Heartland Expressway corridor passes through —Dawes, Box Butte, Morrill, Scotts Bluff, Banner, and Kimball—an estimated $66,000 annually could be raised for transportation improvements along the corridor. This estimate assumes that private vehicle ownership rates in the region match statewide per capita vehicle ownership of 990 private vehicles per 1,000 population. This estimate is based on 2010 Census figures for the six Heartland Expressway corridor counties, with a total population of 67,013. Over 55 percent of the population of corridor counties resides in Scotts Bluff County.

Registration fees can have a stable revenue base if per capita growth in vehicle ownership grows proportionally with the state or regional economy, but fees would need to be indexed to keep pace with inflation. As the Heartland Expressway corridor regional vehicle registration fee example demonstrates, there is potential for a low revenue yield if rates are relatively minimal. Registration fees have a direct tie to transportation, and the levy is a user charge, not a tax, which can make it attractive to policy makers. The state has an existing collection mechanism in place, facilitating administration of the fee.

6.6.2 TOLLING

Transportation agencies across the country are increasingly turning to tolling as an option to close the increasing gap between traditional funding sources and highway infrastructure needs. However, tolling is not considered a viable option for funding Heartland Expressway corridor improvements for the following reasons:

- Limited incidence of tolling in Nebraska – presently, the only toll facilities in Nebraska are two toll bridges across the Missouri River between Iowa and Nebraska. There are no toll highways in the state.
- Insufficient traffic volume to generate the level of revenues to support the construction, operation, preservation, debt service, and coverage requirements if the toll revenues are used to pay for revenue bonds – most of the Heartland Expressway corridor lacks sufficient traffic density to support a toll schedule to pay its costs.
- Insignificant levels of traffic congestion– the extent of traffic congestion is primarily used to assess tolling potential for urban highway facilities where travel delay costs justify the payment of tolls by commuters seeking an alternative to highly congested non-tolled facilities. The Heartland Expressway corridor runs through mostly rural areas and the level of service rating for the corridor is LOS A or B, which suggests little or no congestion problems at the present time and into the foreseeable future.

- Availability of alternative non-tolled routes to which traffic could be diverted – the Heartland Expressway corridor has non-tolled state highways and local roadways to which traffic could be diverted if tolls were applied along the corridor, especially for long-distance truck movements.
- Sensitivity of auto and truck users to paying a toll to use the corridor, which has traditionally been available without requiring users to pay a toll.
- Uncontrolled access along the Heartland Expressway corridor, including numerous crossroads and other forms of entry and exit, would make it relatively easy for users to avoid toll plazas or barriers. This is in contrast to controlled access highways where access can be gained only by using prescribed on and off ramps, as with most Interstate highways. While controlling access along the Corridor would prevent vehicles from exiting the highway before the tolling facilities, it would be prohibitively expensive to achieve relative to the potential toll revenues.
- Public opposition of tolling along rural state highways.

Tolling in some form might become more viable in the future for selected sections of the Corridor if local communities are willing to support tolling, the potential for traffic diversion is minimized, and revenues from tolling exceed its costs.

6.6.3 SEVERANCE TAXES

A severance tax is a tax imposed on the extraction of non-renewable resources such as oil and natural gas. In Nebraska the severance tax is levied at three percent of the value of non-stripper oil and natural gas severed from the state. The rate for stripper wells producing oil is two percent. At present, no severance tax revenue is applied to transportation programs in Nebraska. Other states, such as Wyoming have used severance taxes to fund transportation programs. For example in FY 2011, Wyoming's transportation program included $72 million in funding from severance tax and mineral royalties. There is significant concern about additional taxation on the extraction of natural resources that include arguments related to discouraging exploration and extraction when other neighboring states may have lower taxing and regulatory restrictions.

There is significant potential to extract oil and natural gas from the Niobrara Shale formation in Kimball, Banner, and other southwestern panhandle counties, adjacent to the Heartland Expressway corridor. Petroleum exploration will require access to transportation and would benefit from regional highway improvements. One method of funding the transportation infrastructure necessary to support this industry is increasing the state's severance tax and/or dedicating a portion of revenues to highway projects.

Severance taxes have the ability to produce significant revenues when extraction is booming and commodity prices are high. However, energy prices—the basis on which the tax is levied—are highly volatile. Gyrations in price can lead to swings in production, as drilling companies shift between oil and natural gas to satisfy market demands. This will result in year-to-year variability in revenues for transportation programs.

Dedicated severance tax revenues for transportation would be relatively easy to administer, since the state already collects severance taxes. But while there is likely to be broad public support for applying severance taxes to improve highways, the petroleum industry is likely to oppose a tax increase.

6.6.4 UTILITY EASEMENTS

Utility easements permit access along corridor rights-of-way to private telecommunications, pipeline, and power companies, in exchange for payments to the owner of the right-of-way. The practice has declined considerably since the late 1990s with the retrenchment of the telecommunications industry. However, there may be potential for oil and/or natural gas pipelines along the Heartland Expressway corridor to serve the emerging petroleum industry in the region.

Oftentimes, using an existing right-of-way, such as a corridor along a railroad or highway, is preferable to acquiring land for such purposes. In such instances, utility companies will make a period rent payment to the owner of the right-of-way based on a portion of the fair-market value of the land associated with their use of the corridor. Given the hazardous nature of oil and natural gas, new pipelines must have appropriate setbacks from existing developments. This complicates the ability to use rights-of-way along urbanized or even moderately populated roadways.

Given the relatively low value of land in western Nebraska, utility easements are not likely to provide a significant source of revenue for the Heartland Expressway corridor, but could provide a small contribution (less than $250,000 annually) towards corridor maintenance.

6.6.5 LOCAL FUNDING

A significant share of Nebraska Highway Trust Fund revenues are set-aside for city and county road programs. In addition, localities raise their own funds to pay for roadway maintenance, primarily through property taxes. Improvements to the Heartland Expressway corridor will primarily be to state highways and will therefore be a state funding responsibility. The occasional project, however, may provide sufficient local benefits or improve a locally-owned roadway such that a share of local funding is warranted. The extent to which local transportation revenue will be available to support the program will depend entirely on the incidence of qualifying projects.

6.6.6 VALUE CAPTURE

Some alternative funding applications generate funding from private sector and local agency partners, rather than users of the transportation facilities. This "value capture" in effect prices the non-transportation benefits of projects and "captures" that value to assist in funding the project that created the benefit. To implement value capture strategies, NDOR policy changes may be needed and further study would be required to determine their feasibility and potential revenue yields.

Five potential value capture approaches are summarized on the following page: special assessment districts, tax increment financing, development impact fees, developer contributions, and right-of-way donation.

Special assessment districts: These districts, also called benefit assessment districts, are formed to provide a specific service or benefit to lands contained within its boundaries. Depending on the enabling legislation, a district's charges may be based on the benefit to property rather than value of the property. The approach has been applied for improvements as basic as sidewalks and streetlights in residential neighborhoods throughout the country to projects as complex as the widening and construction of interchanges on Route 28 near Dulles International Airport in Fairfax County, Virginia. Special assessments are common for street or sewer improvements by Nebraska localities, an example of which is Lincoln's Arterial Street Impact Fee. The revenue yield will depend on the rate of the surcharge. To take effect, a district must be defined and established in accordance with state statute (which includes public notice and several opportunities for public comment).The surcharge may face opposition from property owners and developers.

Tax increment financing (TIF): In Nebraska, this approach is primarily designed to finance the public costs associated with a private development project. Property tax increases resulting from a development are targeted to repay the public investment required by a project. The tax base is frozen at predevelopment levels, and property taxes derived from increases in assessed values (the tax increment) either go into a special fund created to retire bonds issued to originate the development or leverage future growth in the district. In Nebraska, such districts are only permitted in blighted areas, and are typically established by localities. They have a relatively low revenue yield initially but will grow over time as property values escalate. However, in recent years, TIF districts have faced extreme financial duress when the assessed value of district properties has fallen below base tax values. Oftentimes, local governments that initiated the TIF district are required to make up the difference, especially when bond debt is owed from pledged TIF district revenues. TIF districts are relatively attractive to property owners because revenues are pledged without a tax increase. However, this diverts funds from other public priorities.

Development impact fees: These charges are assessed by local governments against developing property to offset the impact it has on existing infrastructure. The fees seek to recover the cost incurred by a local government to provide public facilities required to serve the new or expanded development. Generally the fees are one-time cash payments, the cost of which is typically passed on to the purchasers of the developed property. This approach is most appropriate to fund infrastructure serving new development, and is not typically applied to improve existing infrastructure, as is contemplated along the Heartland Expressway corridor.

Developer contributions and right-of-way donation: These generally take the form of in-kind contributions of right-of-way and sufficient land for constructing interchanges or transit stations/multimodal centers. It has the effect of providing superior access to developer's remaining land holdings. In some areas, developers also may pay for all or part of the cost for a new interchange, not just provide rights-of-way (ROW). Potential opportunities for contributions in the Heartland Expressway corridor include right-of-way donation[1] from local governments or private sector groups along the corridor.

6.7 FINANCING OPTIONS

This section describes several options for financing improvements to the Heartland Expressway corridor. Financing leverages future funds by borrowing against future revenue surpluses to deliver improvements today. Notably, it does not bring new money to the table; it is an approach for managing available funds to accelerate program delivery.

Pay-as-you-go financing, the exclusive approach of the Nebraska Department of Roads to deliver its existing highway program historically, is described first. Other approaches include bonds, grant anticipation notes, private activity bonds, government loan and credit support, state infrastructure bank, and shadow tolling. As is detailed below, utilizing many of these approaches requires specific enabling action by the Nebraska Legislature and further study would be required to determine their feasibility and potential revenue yields.

6.7.1 PAY-AS-YOU-GO

Under pay-as-you-go financing, all capital expenditures are made on a cash basis; when adequate funding authority is accumulated to fully fund a project, it can then proceed into construction. There is no leveraging of funds through debt financing (or borrowing), and therefore no debt service expenses. Pay-as-you-go financing was the traditional way that most state transportation agencies financed their capital programs dating to the establishment of the Federal Aid Highway Program in the 1950s. In recent years, however, many states have opted to apply debt financing using instruments described below. Nebraska, however, continues to apply a pay-as-you-go approach to financing its highway program. Other states that join Nebraska in financing highway programs on a cash basis over the past five years include Iowa, South Dakota, Tennessee, and Wyoming.
An advantage of pay-as-you-go funding is that it enables an agency to remain debt-free, thereby eliminating debt service expenses. A disadvantage, however, is that sufficient funding must accrue before construction occurs. Depending on funding availability, this can result in the lengthy deferral of project investment.

[1]Any property acquisitions, including right-of-way donation, would need to be conducted in accordance with the Uniform Act. For example the owner must be provided an explanation of the acquisition process, including the right of having the agency (i.e. NDOR) appraise the property and to receive and offer of just compensation. Only after receiving such an explanation may the property owner waive these rights and the agency accept the donation (FHWA 2013c).

6.7.2 BOND FINANCING

Bond financing is the most common and most basic form of public debt financing. Public agencies issue long-term bonds backed by a pledged revenue stream. Three of the most common forms of bond financing, general obligation bonds, revenue bonds, and system bonds, are described below.

General Obligation (GO) Bonds: These bonds leverage broad, common tax streams, such as property taxes, sales taxes, and income taxes. They are backed by the "full faith and credit" of the taxing authority with respect to commitment of revenues for repayment. This pledge effectively guarantees that the bondholders will be paid, but requires that a particular tax rate can be adjusted without a public vote. By law, agencies must be able to raise the tax rate on pledged revenue in order to provide the level of funding required for payment of debt service. GO bonds are generally the least expensive, most secure, with the lowest interest rate.

Revenue Bonds: These bonds borrow against future revenues from sources in which investors have great confidence. Bond holders have the first lien against pledged revenues; the balance can be applied to capital and operating expenses. Revenue bond covenants pledge future tax revenues, such as motor fuel taxes, rather than revenues generated by the operation of the transportation facility itself (e.g., tolls or fares). Investors see this as more secure and interest rates are lower. Revenue bonds are the most common approach to long-term finance, and offer relatively affordable rates without requiring the pledge of full faith and credit. Since there is more risk to lenders, however, rates are typically higher than GO debt. In addition, pledged revenue is the only source of funding that pays investors. If revenues are below projection, the agency has limited ability to borrow more. This may require the agency to reduce expenses, restructure debt, and/or identify additional revenues.

In April 2014, the Nebraska Legislature considered LB1092, which would have allowed the Nebraska Highway Commission to issue up to $200 million in revenue bonds through June 30, 2017, to advance high-priority projects identified in the Build Nebraska Act. However, on April 10, 2014 this bill failed on final reading

System Revenue Bonds: This debt instrument leverages future revenues generated by the issuing entity, applying a portion of system-generated revenues first to fund debt service. It works similar to other long-term debt, except that dedicated tax revenues are not pledged. It is commonly applied by transportation agencies pledging system-generated revenues such as toll revenue and parking fees. Advantages of this approach include user participation in funding project capital and operating costs through payment of user charges used for payment of debt service. With growth in project use over time, revenue from future system users can be used to pay for the initial project cost. However, this financing approach applies only to certain types of transportation projects/programs that are capable of generating revenue sufficient to offset all or a portion of capital and operating costs.

Bond financing was last applied by the Nebraska Department of Roads in 1968, when $20 million in bonds were issued to complete Interstate 80 through the state.

6.7.3 REVENUE ANTICIPATION NOTES (RANS)

These include short-term borrowing against the expected receipt of near-term proceeds from tax, grant, bond, and other revenues. It leverages future revenues to allow them to be spent now by issuing debt that typically matures in less than a year. This enhances the agency's cash flow and provides a way to get past periods of low revenue. However, it exposes the agency to volatility of the market. There are also transaction costs, which are offset in part by the lower interest rates associated with short-term debt. It obligates revenues that might otherwise be used to support operations or other uses.

6.7.4 GRANT ANTICIPATION REVENUE VEHICLES (GARVEES)

These instruments leverage future grant funding (such as STP or other Federal Aid Highway Funds) to advance highway construction projects. They are similar to RANs but are long-term rather than short-term issues. Investors must weigh the risks of future authorizations and future appropriations (similar to evaluating risks of future dedicated revenues).The bonds extend the capital capacity beyond state and local dedicated sources. However, it consumes the capacity of grant sources to fund on-going requirements.

6.7.5 PRIVATE ACTIVITY BONDS (PABS)

These are tax-exempt securities on which portions of the proceeds are used for private benefit or use. They allow for increased private sector investment in transportation projects with both public and private benefit by enabling a private sector partner, rather the public agency, to issue debt. PABs encourage the private sector to take an active role in project financing and take the debt burden "off the books" for the public agency, freeing up capacity for other uses. Given the limited potential to apply public-private partnerships to deliver Heartland Expressway improvements, this approach is probably less relevant to the corridor.

6.7.6 FEDERAL LOAN AND CREDIT SUPPORT

USDOT's Transportation Infrastructure Finance and Innovation Act (TIFIA) program is a federal credit assistance program providing direct loans, loan guarantees, and standby lines of credit to eligible projects of national and regional significance.

Projects must demonstrate economic benefit, creditworthiness, attractiveness to private investment, support of international commerce, as well as foster livability, sustainability, enhance national transportation system. Under the program, USDOT acts as investment banker, offering direct loans with interest rates based on the federal government's own long-term bond rates. The MAP-21 bill raises the level of funding available to the TIFIA program from $122 million to $750 million. It also raises the maximum percentage of the project that can be funded by the federal share from 33 percent to 49 percent.

6.7.7 SHADOW TOLLING AND AVAILABILITY PAYMENTS

Under shadow tolling, the project sponsor reimburses the highway contractor/operator proportionate to the use of the facility without the need for direct toll payments by users. In effect, roadway traffic becomes the basis for payments. No actual tolls are paid by motorists using the facility.

Availability payments are similar to shadow tolling, but the project sponsor reimburses the contractor a specified fee for making the facility open and available for public use, rather than structuring payments according to traffic levels.

Both of these approaches can be an attractive option for financing roadway projects in which bonding or other public borrowing capacity is limited or prohibited. Financing is instead arranged by the contractor, with debt repayment scheduled commensurate with the expected receipt of shadow tolling funds. The effective rate of borrowing is likely to be higher than for public financing, but this approach makes financing available when public borrowing is not feasible.

6.8 SECURING FUNDING AND FINANCING OPPORTUNITIES

This section describes strategies for evaluating funding options, and successes in achieving funding for projects elsewhere.

6.8.1 EVALUATING FUNDING STRATEGIES

There are a variety of considerations that go into evaluating and selecting potential alternative funding approaches, including financial, political, legal/regulatory, and administrative/institutional impacts. Each of these is described below:

Financial: These considerations are most important, because the estimate of revenue is critical to any decisions to further pursue a funding alternative. This factor addresses the fundamental question of the expected yield from the revenue source. Generally, this is judged on the basis of a "reasonable" rate of taxation given the size of the tax base. For example, if a sales tax is under consideration, a tax rate of 0.1 percent or 1.0 percent would be judged in the "reasonable" range, while a tax rate of 10.0 percent would be well outside the reasonable range. However, for narrower taxes such as a hotel/motel tax, the reasonable range might be higher. A related factor is stability – a source that could experience significant annual fluctuations would be judged less suitable than a source with less likelihood of year-to-year variance. For example, the employer-paid "head tax" in Portland, Oregon, resulted in a much more stable source of funding than a retail sales tax, which would have been more subject to economic cycles. Finally, this factor addresses the extent to which the revenue stream can be indexed to inflation. This is important because many elements of the costs to be funded are closely tied to inflation.

Key criteria include:

- Revenue yield: An estimate of the revenue that a funding alternative may generate.
- Stability of revenue flow: The likelihood that revenue will be reasonably stable on a year-to-year basis.
- Growth potential: The propensity for a revenue source to grow in relation to the general economy. Revenue yield should grow as the economy grows.
- Response to inflation: The relationship of the funding source to price levels.
- Market acceptance for securing debt: Capacity of the revenue source to support debt repayment, if the revenue source is to be pledge against financing.

Political: This factor addresses equity, or the extent to which the incidence (or burden) of dedicated funding source matches the incidence of the provision of or the benefit from the services that the source funds. For example, if a jurisdiction funds ten percent of the revenues, it should receive approximately ten percent of service. This factor also addresses differential impacts among demographic groups.

Key criteria include public acceptance, equity, and incentive/distortion effects, and benchmarking:

- Public acceptance: This can be particularly challenging for "new" taxes and/or fees. What is often desired is a tax that causes the least resistance—e.g., rental car taxes at airports that are imposed on visitors, rather than residents.
- Equity: The relationship between those who pay and those who benefit. Policymakers generally seek to ensure the burden doesn't fall disproportionately on lower-income persons. Sales taxes, for example, are frequently viewed as inequitable since they are regressive (i.e., low-income people pay a higher percentage of their income).
- Incentive and distortion effects: The effect of the tax or fee on segments of the economy. For example, imposing or raising a tax on a certain commodity (e.g., fuel) will cause less of that good to be consumed, distorting the market. It may also create incentives for consumers that help achieve policy objectives (e.g., raising fuel tax may reduce automobile travel, thereby lessening congestion and/or greenhouse gas emissions).
- Benchmarking: The comparison of taxes and fees to neighboring jurisdictions. Levying taxes that are higher than neighboring local jurisdictions can affect the market, necessitating an exercise in benchmarking before entertaining new or increased taxes or fees (e.g., raising the retail sales tax may drive sales to neighboring jurisdictions).

Legal and Regulatory: Any dedicated source of funding must adhere to various State constitutional, statutory, and regulatory limitations. In some cases, there are existing limitations to potential revenue sources. In addition, the source should ideally have a tie to a transportation purpose.

Key criteria include:

- Legislative authority: The extent to which legislative approval is required to apply a new revenue source. Funding options that have already been enabled by the state legislature are much easier to achieve than those that require legislative action.
- Voter approval: State constitutional or legislative requirements may require a referendum, which can slow, and in many cases, defeat an initiative.
- Regulatory authorization: Some funding options may require the development of regulations clarifying administration of legally enabled authority. For example, after voter approval, regulations may specify the collection and enforcement mechanisms of a local sales tax measure.

Administrative/Institutional: This factor addresses the actual methodology of revenue collection and the ease and cost of administration. Revenue sources that rely on existing collection mechanisms are generally preferred. For example, in most states with a pre-existing state sales tax, the state will act as the collection agent for a local sales tax. Unique new taxes may require that the benefiting agency directly collect the revenues and conduct enforcement.

Key criteria include consideration of how a revenue stream will be administered, collected, monitored, and enforced, as well as the potential for revenue leakage:

- Revenue assessment and collection: The efficiency and cost effectiveness of applying a revenue stream should be considered. This includes the costs of collection and compliance. For example, there may be advantages to increasing a tax already in place compared to implementing a new tax for which no collection mechanism presently exists. Some revenue streams (such as tolling) consume an enormous amount of revenues for collection and administration, while others (like the fuel tax) consumer relatively little.
- Monitoring mechanisms: These are procedures to limit evasion and the erosion of revenues, including enforcement.
- Revenue leakage: Any analysis should consider the potential for revenue leakage, which are means—legal or otherwise—of avoiding a new tax or fee. For example, to fund the Alameda Corridor, a rail freight corridor in Los Angeles, a container fee was applied to freight using the new higher-speed railroad corridor serving the Ports of Los Angeles and Long Beach. To avoid paying the fee, shippers were transporting containers by truck out of the ports and then re-assembling them onto railcars at an inland location. This practice served to reduce anticipated revenue from the container fee program.

6.9 SUMMARY

Currently, committed state and federal funds for Heartland Expressway corridor improvements are limited. Sales tax revenues generated by the Build Nebraska Act, adopted in 2011, along with congressionally designated funds will provide $51.72 million in improvements for the L62A to Alliance project on US-385.

Congressionally designated funding, which has provided funds in the past for the Heartland Expressway and similar federally designated high priority corridors throughout the country, have been eliminated by the federal transportation bill MAP-21.

MAP-21 consolidated many of individual programs into fewer but larger and more comprehensive programs. The consolidation of programs provides state DOT's increased flexibility in how they spend federal funding apportionments. This allows state DOT's to have more control on prioritizing needs within their transportation systems and spend the dollars on the projects they determine to maintain the highest performance of their highway system.

Given that federal funding is not expected to increase, the State would need to implement one or more innovative funding options to fully fund corridor improvements. Additional support at the private, local, state, and federal levels would be required to implement these strategies; however, this report is a starting point to define those funding strategies. Promising approaches might include a dedicated vehicle registration fee and severance taxes, both of which have been successful in other states to fund transportation infrastructure. Some alternative funding applications generate funding from private sector and local agency partners, rather than transportation facility users. This "value capture" in effect prices the non-transportation benefits of projects and captures that value to assist in funding the project that created the benefit. In selected locations, utility easements and value capture could provide revenue opportunities that could further strengthen financing capabilities. Since the corridor is not proposed to be a limited access highway and traffic levels are relatively low, tolling is not considered a viable funding option. There is a greater likelihood that funds will be identified for the Heartland Expressway Corridor if the project can be successfully linked to funding for other transportation priorities across the state.

Any funds identified for the project could potentially be leveraged through various financing approaches, including bonds, grant anticipation notes, private activity bonds, government loan and credit support, state infrastructure bank, and shadow tolling. However, pay-as-you-go financing has been the exclusive and preferred approach of the Nebraska Department of Roads to deliver its existing highway program, and it is therefore likely that the state would apply a pay-as-you-go approach to financing Heartland Expressway Corridor projects in the future. In April 2014 the Nebraska Legislature considered LB1092, which would have allowed the Nebraska Highway Commission to issue up to $200 million in revenue bonds through June 30, 2017, to advance high-priority projects identified in the Build Nebraska Act. However, on April 10, 2014 this bill failed on final reading.