Infrastructure Review Task Force (IRTF) Annual Report to the Legislature (2025)

Approved: Chairman R. Brad von Gillern

Executive Summary

In the 2025 Legislative session, lawmakers established the Infrastructure Review Task Force (IRTF) through LB 558. Before the end of the year, the task force convened on three occasions in meetings attended and participated in by members of the legislative and executive branches, officials from the Nebraska Department of Transportation (NDOT), members of the transportation construction industry, and industry experts. Discussion between IRTF participants determined:

- ➢ Transportation infrastructure (state highways and bridges) facilitates $5.3B per annum in economic activity across the majority of sectors in Nebraska, forming a backbone of our state's economy on which over a half million jobs depend.

- ➢ NDOT buying power has declined over the past five years as revenues have remained relatively steady while highway construction costs rose dramatically. This dynamic is thought to be driven largely by a few discrete factors discussed in this report. Simply put, assuming a continuation of the aforementioned trend, NDOT will be unable to meet current goals for system maintenance, let alone make substantial capital improvements.

- ➢ Many states are experiencing similar challenges. This affords Nebraska the opportunity to evaluate and learn from actions considered and taken by others. This has the potential to help the Task Force to offer viable options to the broader legislative body on means to diversify and/or expand NDOT revenues to sustain investment in critical infrastructure.

- ➢ Investment in transportation infrastructure entails immediate, as well as medium-and-long-term economic return on investment. Moreover, it has seen broad popularity among citizens, who have demonstrated nationwide enthusiasm for expanded or alternative infrastructure funding

Determining viable ways to diversify and grow Nebraska transportation revenues will be essential in both the near-and-long-term for maintaining and improving Nebraska's transportation infrastructure. The Task Force will, in this coming year, further their evaluation of viable options with intent of bringing the larger legislative body into the discussion in 2027.

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Introduction

In the 2025 Legislative session, Nebraska state lawmakers enacted LB 558 to establish the Infrastructure Review Task Force (IRTF). IRTF was created with a mandate to:

> "(a) Review [...] Nebraska's transportation infrastructure network; (b) Examine [...] Nebraska's historic transportation infrastructure development efforts and expected future [...] needs; (c) Utilize [...] the annual report on the needs of the state highway system prepared by the Department of Transportation and any other information or resources available to the department; (d) Examine the [...] condition of Nebraska's transportation infrastructure [...] and make recommendations as to how Nebraska might maintain and ensure safe transportation infrastructure now and in the future; (e) Consider transportation through the lens of its economic impact on Nebraska; and (f) Research any federal funding that may be available to Nebraska and make recommendations as to how Nebraska might obtain and use such funds" (NRS § 50-1601).

Per LB 558, IRTF is chaired by the Chairman of the Revenue Committee of the Legislature and includes as participants the governor and a designee of the governor, chairperson of the Transportation and Telecommunications Committee of the Legislature, Speaker of the Legislature, Director-State Engineer (i.e. Nebraska Department of Transportation Director), Tax Commissioner, and three legislators appointed by the Executive Board. For 2025, the task force members included:

IRTF Members (2025)	
Chairman R. Brad von Gillern (Revenue Committee)	Speaker John Arch
Senator Mike Moser (Transportation & Telecommunications Committee)	Senator Tom Brandt
Director Vicki Kramer (NDOT)	Senator Stan Clouse
Commissioner James Kamm (Revenue)	Senator Jason Prokop
Mr. Chris Hawkins (Governor's designee)	Mr. Kenny Zoeller (on behalf of the Governor)

In 2025, IRTF convened three times and included participation from a variety of individuals beyond the task force membership. The task force welcomed involvement from NDOT officials and industry experts to provide perspective regarding Nebraska's infrastructure funding resources, needs, and the importance of investing in transportation infrastructure.

The task force is obliged by NRS § 50-1601(6) each year, beginning in 2025, to produce a report setting forth the "results of its work study and its recommendations" on or before December 1. This report is produced pursuant to that requirement and presents the task force's findings and recommendations for ensuring a safe, efficient system that supports economic growth.

1. Nebraska's Transportation Revenue

NDOT's transportation system is funded by a combination of state and federal sources, mainly through user fees.

Federal Funds

Approximately 50% of NDOT's funding comes from federal programs authorized through surface transportation legislation, such as the Infrastructure Investment and Jobs Act (2021), which typically authorize funds for intervals of 5 fiscal years. Funding is primarily driven by user-generated revenues (e.g. motor fuel taxes, truck-related fees) deposited into the Federal Highway Trust Fund. Recurring shortfalls in recent years have been filled by transfers from the US Treasury General Fund. These transfers, totaling $275 billion since 2008, are not sustainable and underscore the long-term gap between HTF revenues and spending needs. Funds are allocated annually through the federal appropriations process. Formula funds provide the most consistent funding stream, supporting long-term planning and investment in core areas. Formula programs, some directed locally, also support a broad range of projects, including state and local roadways, bridges, and pedestrian/bicycle facilities.

Discretionary funds are awarded on a project-specific basis through competitive federal programs or congressionally directed spending. NDOT competes aggressively for these grants and collaborates with Nebraska's congressional delegation to supplement core funding and accelerate priority projects. State Planning and Research funds also support a broad range of activities, including statewide transportation planning, research, data collection, performance management, and technical studies; also provides targeted technical support, funds innovation initiatives, and helps meet both state and federal planning requirements.

Obligation authority is a statutory limit of federal funding that state DOTs can obligate to projects during a specified period. Congress establishes OA annually, often at a lower level than the state's appropriated funding, to control the pace of federal expenditures and manage the Highway Trust Fund's cash flow.

State Funds

State funds make up the other approximately 50% of NDOT's funding. All state-generated NDOT funds flow into and out of the State Highway Trust Fund (HFT). This fund is primarily funded by taxes and fees paid by road users and, being entirely separate from the General Fund, ensures that revenues generated by transportation are spent on transportation. This makes NDOT funding more predictable. Funds from the HTF are distributed to the subsidiary funds, such as the State Highway Cash Fund, Highway Allocation Fund, and others. The State Highway Cash Fund (HCF) is statutorily dedicated to NDOT. An annual HCF appropriation serves as a target amount for NDOT's share of HTF revenues.

Major sources of state transportation revenue include:

Motor Fuel Tax (MFT): The MFT applies to gasoline, diesel, and other transportation fuels and is paid on top of the federal motor fuel tax, which is: 18.4 cents per gallon for gasoline and 24.4 cents per gallon for diesel. Compared to other states, Nebraska ranks near the middle of all states in terms of total motor fuel tax rate according to the Energy Information Administration from the U.S. Department of Energy. MFT has 3 constitutive parts:

1. Fixed Rate: Set by the Legislature at 16.3 cents per gallon, with 9.5 of those cents allocated to NDOT and 6.8 to cities and counties to be used for their transportation needs. This portion of MFT is wholly determined by the Legislature.
    - As of 7/1/2025: 16.3 cents per gallon

2. Wholesale Rate: Distributed 66% to NDOT and 34% split between cities and counties; adjusted twice yearly by the Nebraska Department of Revenue pursuant to statute based on the average wholesale price of fuel.
    - As of 7/1/2025: 12.2 cents per gallon

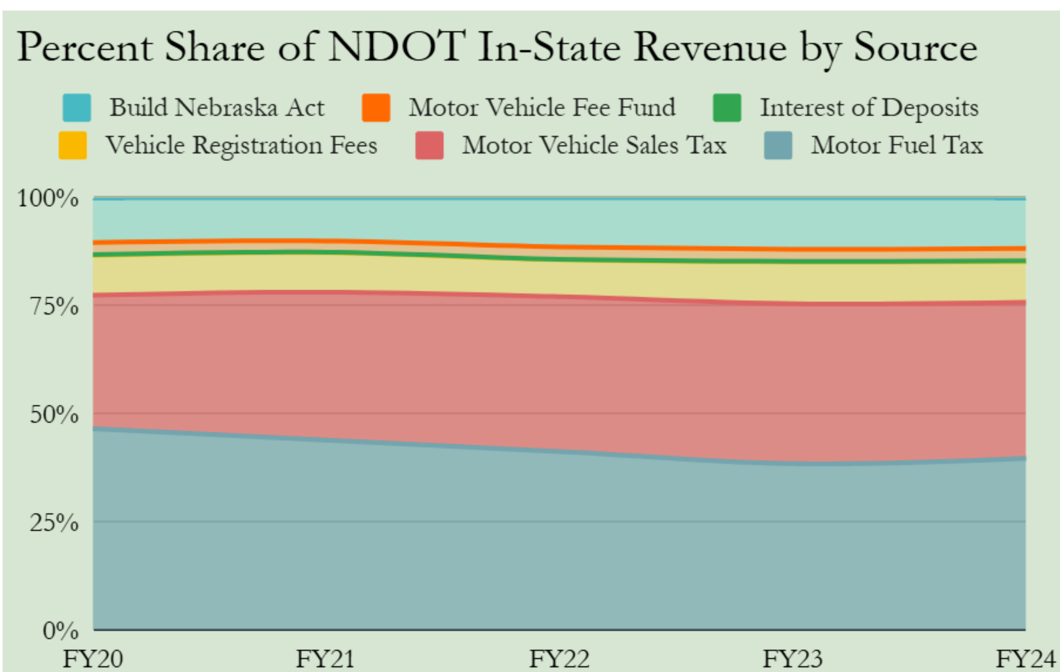
3. Variable Rate: 100% allocated to NDOT and adjusted twice annually based on the State Highway Cash Fund appropriation to ensure NDOT's overall HFT status is sufficient to support NDOT's annual budget (within a range of -1% to +2% of the annual appropriation).
    - As of 7/1/2025: 3.3 cents per gallon

The three distinct MFT components are intended to facilitate more stable and predictable revenue generation. Recent trends indicate that for every cent-per-gallon of MFT generates approximately $14.4 million in revenue to the State Highway Trust Fund.
However, the long-term sustainability of motor fuel tax revenue as a reliable source of revenue is threatened by inflation, increasing construction costs, increasing fuel efficiency, and the ongoing transition to alternative fuel vehicles (e.g. electric vehicles).

Motor Vehicle Sales Tax (MVST): The MVST is a 5.5% tax collected on motor vehicle purchases. Approximately 91% of MVST is statutorily directed to the HTF to be shared between NDOT, cities and counties, with the remainder being allocated to the Highway Allocation Fund to be split evenly between cities and counties.

Motor Vehicle Registration Fees: Motor Vehicle Registration fees are assessed based on vehicle type. A standard $15.00 registration fee applies to all passenger and leased vehicles. Commercial and farm truck fees are determined by gross weight. This registration fee has not increased since 1969. Alternative fuel vehicles, including electric vehicles (EV), are subject to up to an additional $150.00 registration fee in order to capture some of the lost revenue that would have otherwise been received through the purchase of gasoline or diesel. All fees (with a small exception for the State Recreation Road Fund) are distributed to the State Highway Trust Fund. This revenue source generated approximately $92 million in revenue for the State Highway Trust Fund in FY2025.

Build Nebraska Act (BNA): Enacted in 2011 (LB 84), BNA allocated a portion of general sales and use tax revenues collected between July 1, 2013 and July 1, 2033 equivalent to a .0025% sales tax (approximately 4.5% of overall sales and use tax receipts) to high-priority transportation infrastructure. These revenues support Expressway system expansion, federally designated High Priority Corridor construction, and other high-priority projects on the state highway system. LB 727 (2023) extended BNA's .0025% allocation to July 1, 2042. This allocation is expected to generate an estimated $120 million in transportation revenue for FY 2025, to be split 85% and 15% between NDOT and cities and counties, respectively.



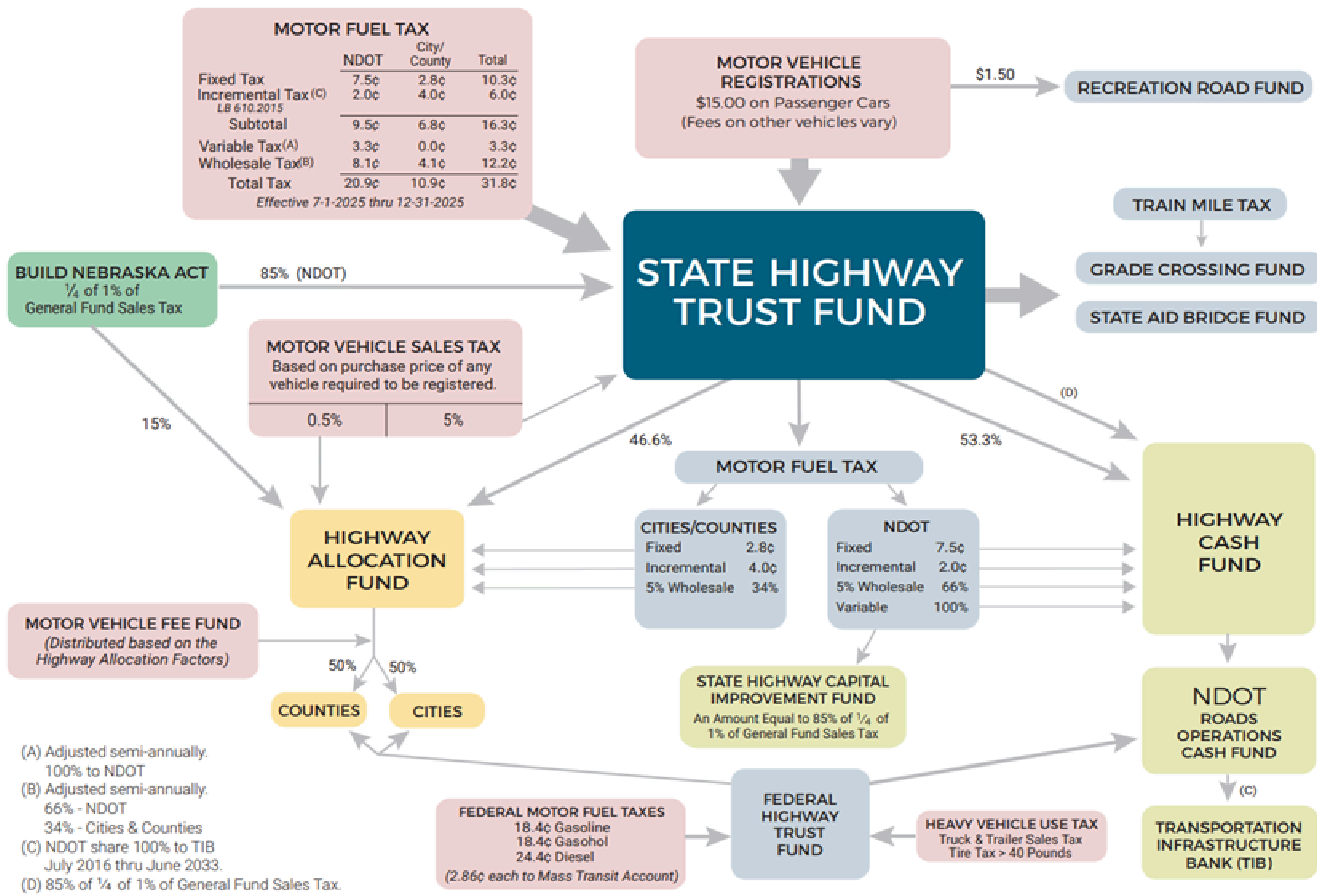
Innovative Financing

Transportation innovative financing involves using alternative financing tools to supplement traditional funding for infrastructure projects. Financing must be distinguished from funding: rather than raising revenues to pay for projects, it aims to accelerate project delivery by leveraging alternative tools (e.g. borrowing, public-private partnerships (P3), deferred payment contracts, value capture). In contrast to a straightforward "pay-as-you-go" approach, financing frontloads capital to advance infrastructure improvements. In 2023 the Nebraska legislature approved bonding authority for the NDOT through LB 727, which authorized $450 million in borrowing, indicating general support for continued deployment of innovative financing tools.

Currently, NDOT is working with USDOT Build America Center (BAC) to explore possibly transforming the State Infrastructure Bank into a fully functional revolving loan program that can finance priority infrastructure projects across the state. NDOT is also pursuing a Regional Infrastructure Accelerator designation through a federal grant opportunity. The award for ACCEL-NE, or Accelerating Critical Conditions for Elevating Livability in Nebraska, would enable NDOT to pursue a project delivery framework for a seven-county region in eastern Nebraska that evaluates and uses alternative delivery and innovative financing approaches, such as further development of a State Infrastructure Bank.

The graphic that follows shows the varied highway funding sources and how they are distributed within the state.

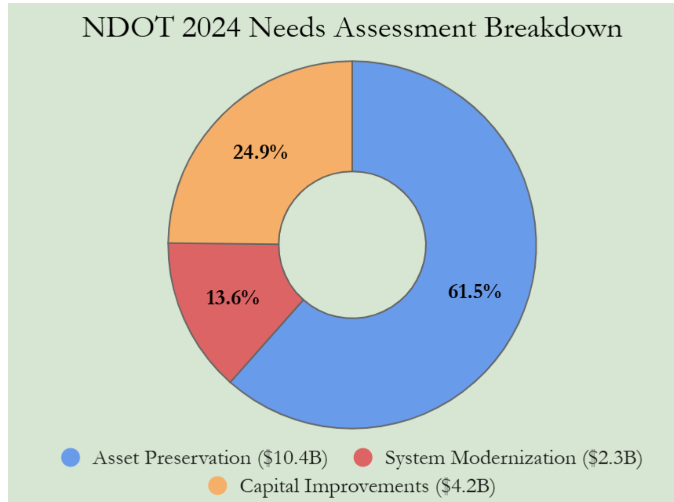
Nebraska Transportation Financing



(A) Adjusted semi-annually.
100% to NDOT
(B) Adjusted semi-annually.
66% - NDOT
34% - Cities & Counties
(C) NDOT share 100% to TIB
July 2016 thru June 2033.
(D) 85% of ¼ of 1% of General Fund Sales Tax.

July 2025

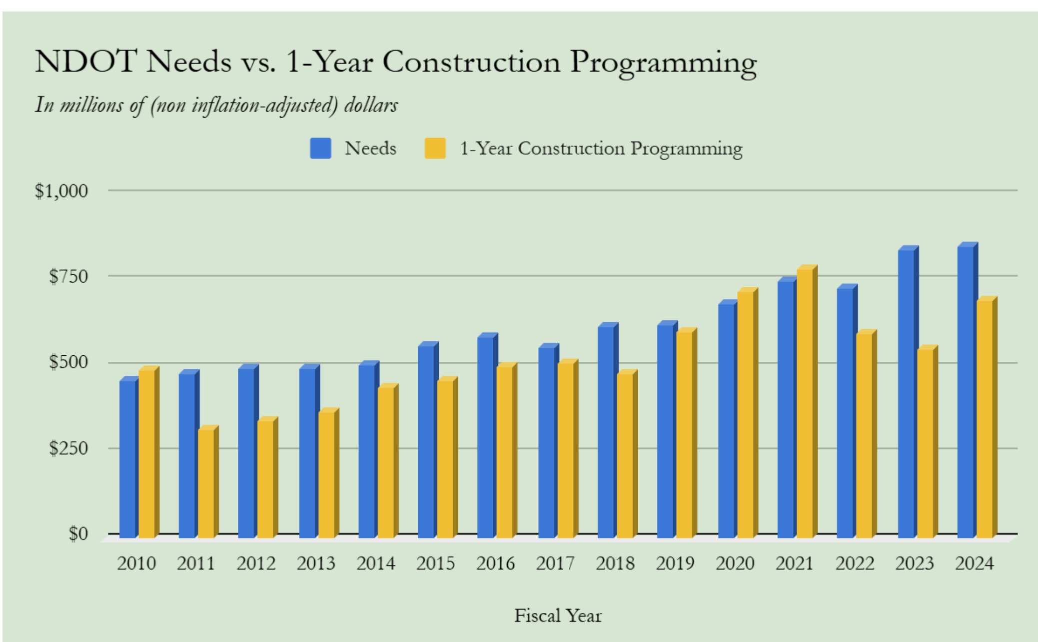
2. Nebraska's Infrastructure Needs



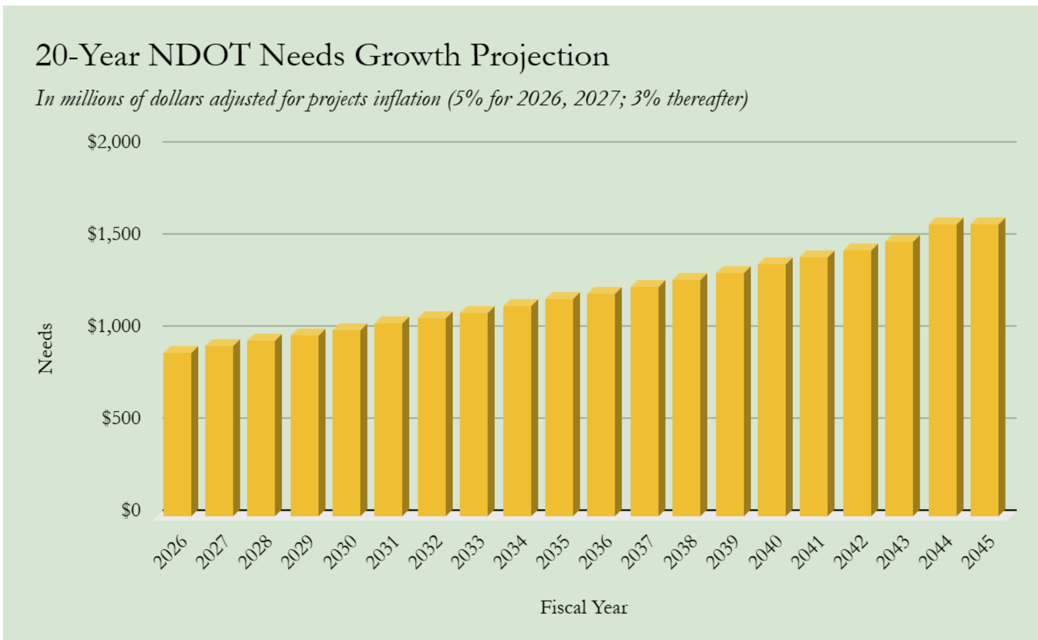
Transportation infrastructure needs continue to grow in Nebraska due to the state's agriculture-driven economy, its position as a major freight corridor, and demographic trends (e.g. urbanization). In rural areas experiencing general population decline, residents rely heavily on personal vehicles to access jobs, healthcare and other essential services. Thus, a safe, reliable transportation system is increasing in importance as Nebraska develops. Generally, Asset Preservation has represented ~ 60% of the total needs, System Modernization~14%, and Capital Improvements ~26%.

Nebraska's Growing Needs and Funding Gaps

NDOT develops an annual report evaluating the condition and future requirements of Nebraska's state highway system over the next two decades. Since 2010, NDOT has experienced an increase in overall annual needs from $460 million to $845 in 2024. During this same period, NDOT's annual published construction program increased from $487 million in 2010 to $689 million in 2024. As shown below, years 2022-2024 saw needs significantly exceed projects NDOT was able to program for that year.



The 2024 State Highway Needs Assessment identified $16.9 billion in total needs over the next 20 years, escalating to $24.3 billion with projected inflation. Since 2015, these needs have been categorized as asset preservation, described as projects to improve and extend the life of the existing assets; system modernization and operation, which are projects including safety, geometric, or mobility upgrades but do not increase capacity; and capital improvements, which describes projects that increase capacity or build something new.



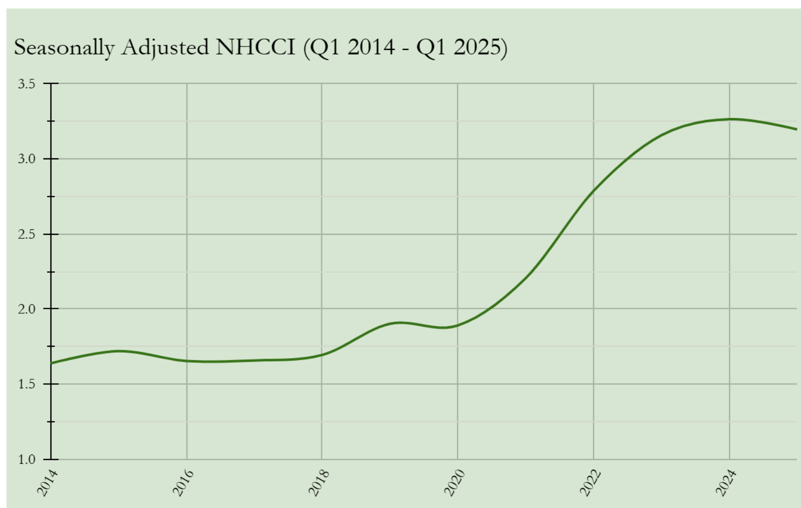
3. Cost Inflation & NDOT Buying Power

Construction cost inflation represents a significant factor affecting NDOT resources by diminishing buying power over time. The inflation dynamic is multivariable in its causes and potentially profound in its effects, particularly if current trends in transportation revenue generation (discussed below) persist.

Recent Cost Trends

According to the 2024 NDOT Needs Assessment, the state's needs over the next 20 years are estimated to total $24.3 billion in 2045 dollars. Implicit in this figure is an assumption of an average of 3% inflation from FY 2027 through FY 2045. However, since 2021, construction costs, as indicated by the National Highway Construction Cost Index (NHCCI), have shown a propensity to inflate on a per annum basis of well over 3%. While NHCCI indicated a slightly negative 12-month trend (-1.1%) between Q1 of 2024 and Q1 of 2025—possibly indicating market stabilization and an accompanying "leveling-out" of construction cost inflation—previous years boasted gains of +20% (2021-22), +25.4% (2022-23), and +11.2% (2023-24).

Importantly, the period of time immediately following 2020 was characterized by a number of extenuating pandemic-related circumstances having to do with labor and supply chain dynamics. However, as will be discussed below, other persistent factors are expected to continue to drive highway construction costs higher in both the near and long term.



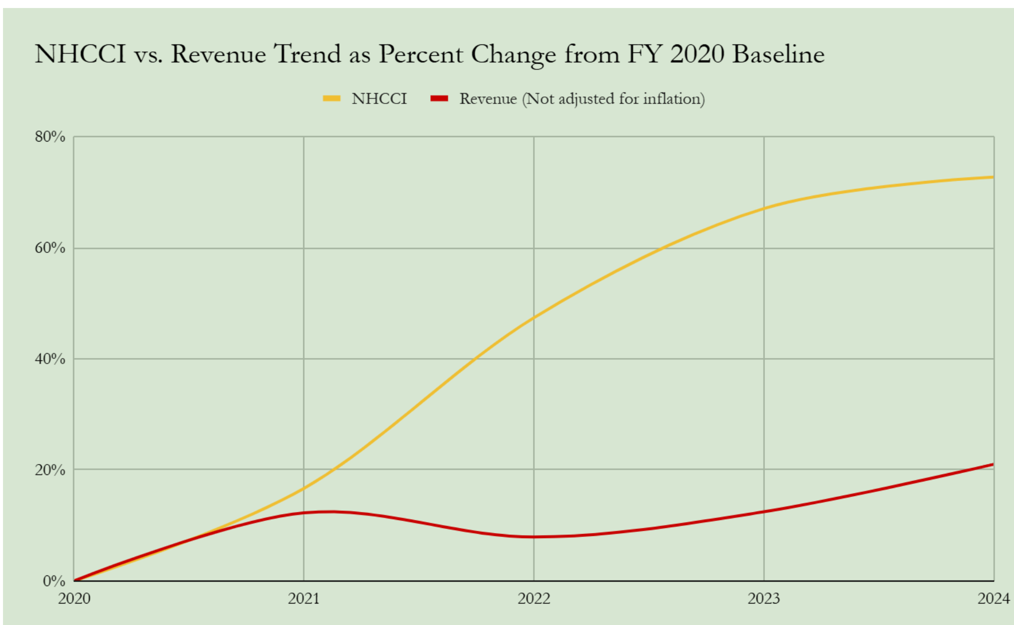
Speculation about the 20-year trajectory of highway construction cost inflation falls outside the scope of this report. However, it is worth noting that NDOT's assumption of 3% average rate of inflation over the time period in question appears to be an optimistic one, potentially underestimating the impact on the state's ability to meet projected needs over the next two decades.

Causes of Cost Inflation

During task force meetings, members dedicated a significant amount of time to discussion of causes of the inflation trends described above. One critical data point taken as a starting point is the substantial delta between NHCCI and other inflation indices (e.g. CPI) over the same time period, indicating a degree of independence between highway construction and other economic sectors. According to industry experts, increased cost of their products is due to higher cost of labor, equipment and material, nearly every element of an infrastructure project. Further, demand for labor and materials used for data center construction across the country has negatively impacted other segments of the construction industry, infrastructure included. Also considered was the impact of the influx of federal dollars flowing from the Infrastructure Investment and Jobs Act (2021) stimulating nationwide demand for highway and bridge construction and possibly driving up bid prices. However, brisk bidding for NDOT projects in recent years indicates that the competition and that contractors may not be taking advantage of increased demand to raise prices.

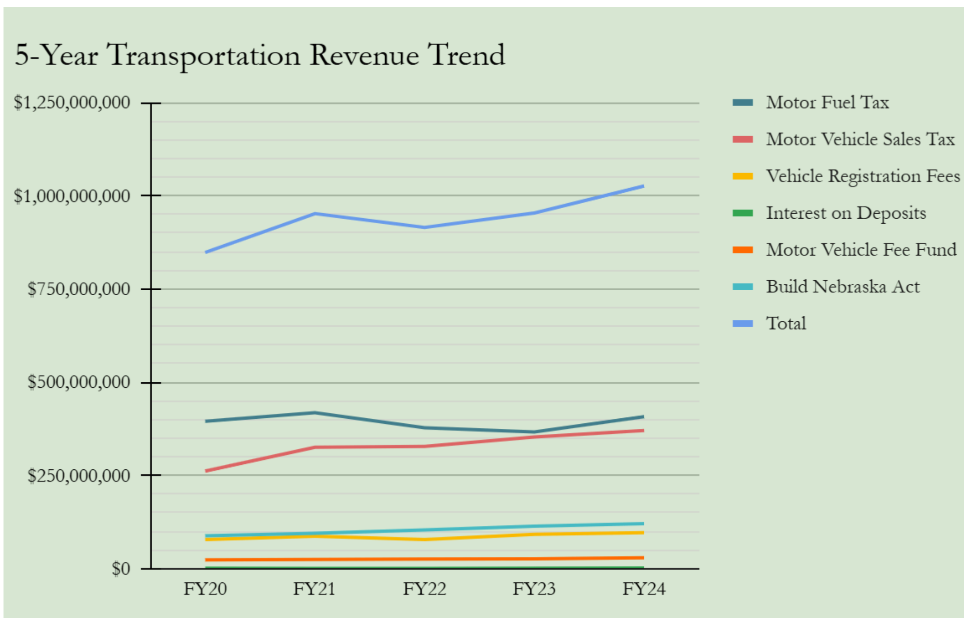
Recent Revenue Trends

During roughly the same period (2020-24) that NHCCI saw a cumulative 42% increase, Nebraska's state transportation revenues increased only approximately 21%. The lion's share of these revenues were generated by the Motor Fuel Tax (MFT)—an average of 42% per annum from fiscal years 2020 through 2024.



That said, in relative terms, the MFT share of total revenues declined year-over-year from 47% (FY 2020) to 38% (FY 2023) before rising slightly to 40% in FY 2024. In absolute terms, MFT revenues remained basically stagnant, growing only 3% over this period. At the same time, revenues from the Motor Vehicle Sales Tax (MVST) grew in absolute terms by nearly 42% and relative terms as a share of total revenues from 31% (FY 2020) to 36% (FY 2024).

The opposing trends in MFT and MVST revenue generation are likely indicative of and downstream from broader—and, perhaps, systemic—economic trends. In particular, fuel consumption per mile driven is in decline as newly-manufactured vehicles increase in fuel efficiency and electric and hybrid vehicles are more widely adopted. The result is that, as fewer gallons of fuel are sold, fewer dollars will be collected through MFT. Simultaneously, sale prices of both new and used vehicles increased dramatically throughout the period under discussion (by approximately 21% and 23%, respectively), likely due to pandemic-related supply chain disruptions and an increase in credit-driven demand as a result of low interest rates from early 2020 through early 2022. While these factors buoyed MVST revenues over the last five years, the volume of vehicle purchases rises and falls over time and the specific dynamics that drove both new and used vehicle prices through the pandemic cannot be counted on to continue indefinitely.



4. Options Other States Are Weighing

The situation described in the previous section certainly presents cause for concern. That being said, Nebraska is not the only state facing these or similar issues. Likewise, our state is not the only one grappling with and attempting to formulate solutions to this set of problems. In fact, according to the Transportation Investment Advocacy Center (TIAC), 2025 saw 173 proposed pieces of transportation investment legislation introduced into state houses. Of these, 28 had been signed into law, as of September 2025. This affords Nebraska the opportunity to survey and evaluate some courses of action already considered or undertaken by sister states to aid in solving the problem here.

Legislative Trends in Across the US

During the third task force meeting of 2025, Carolyn Kramer Simons, Senior Director of State Funding Policy with TIAC, outlined 5 primary categories of recurring funding options being employed in other US states. These are:

Motor Fuel Tax Modifications	Electric + Hybrid Vehicle Fees	Vehicle Registration Fees	Road Usage Charges	Road Tolling

According to data on 2025 legislation tracked by TIAC:

1) Since 2020, 12 states have increased or modified motor fuel taxes, including neighboring Colorado and Missouri. In 2025, 8 states considered and 5 adopted modifications to motor fuel taxes. Relatedly, many states have adopted various modes of indexing their motor fuel taxes in order to guard against inflation and compensate for increased fuel efficiency. While Nebraska indexes its wholesale tax rate to the 6-month average wholesale price of fuel, this is considered by many to be insufficiently nimble to cope with ongoing economic shifts. In contrast, several states use alternative indices, with 10 utilizing the consumer price index and 4 employing an index of either national or local highway construction costs.

2) According to data compiled by TIAC, 41 states impose fees on electric and hybrid vehicles, including both registration and charging fees. Nebraska is one of these. In 2025, 17 states (including Nebraska) considered legislation to either establish or modify existing electric and hybrid vehicle fees. Currently, Nebraska's electric vehicle fee of $150 is approximately average among those of 30 states that do not index or differentiate by weight or other factors. Heavier and more active commercial electric vehicles are not subject to a higher fee in Nebraska.

3) In 2025, Colorado and Oregon revised their vehicle registration fees. Colorado changed its registration fees from a fixed amount to reflect the cost to the state to register vehicles, effectively indexing the fee to inflation. Oregon took a more straightforward approach and increased its registration fees for various classes of vehicles by between 66% and 97%. Nebraska's motor vehicle registration fee for non-commercial vehicles with a passenger capacity of fewer than 10 is currently at $15, at which it was set by the Legislature twenty years ago in 2005.

4) As of 2025, 4 states (Oregon, Utah, Virginia, Hawaii) have Road Usage Charge (RUC) programs. None of these programs are mandatory at this point in time, and all extend eligibility only to electric or fuel-efficient vehicles. While RUC programs can make theoretical sense, the work of actually tracking the road usage of drivers may pose considerable logistical challenges, and installation of mechanisms to track mileage on vehicles evokes fear among some of an overreaching state or "Big Brother".

5) Many states draw revenue from road tolling, or charging drivers to use certain roads. Some provide paid "express lanes", which both generate revenue and help relieve traffic congestion, while others have engaged P3 ('public private partnership') agreements in which private investors who assist with some or all of the building or maintenance of roads are compensated with tolling revenue.

5. Nebraska's Need for Strategy

The situation described in sections 1-3 of this report is one in which highway construction cost inflation far exceeds growth in the current ability of NDOT to raise financial resources. This revenue-raising capacity depends primarily on MFT, which has stagnated over five years due to structural factors like increasing fuel efficiency. MVT has posted substantial gains, but these appear driven by pandemic-era supply and demand dynamics. This imbalance underscores the need for strategic optimization and prioritization.

A coherent strategy should provide an account of how resources can be coordinated to meet desired objectives. Section 1 and 4, respectively, detailed Nebraska's existing sources of transportation revenue and options open to it that are currently being weighed and adopted by other states, while Section 2 offered an account of the objectives set by NDOT for system maintenance and expansion. Section 3 provided an additional insight into why currently available resources are insufficient to satisfy important objectives on a 20-year time horizon.

The Legislature, thus, has the task of evaluating potential alternative means of meeting the state's infrastructure needs. Fortunately, as already discussed, there are a breadth of possible options which could be selected to help close the gap between current resources and objectives. Many of these possibilities can be categorized in one of two ways:

Optimizing Resources: This category of options requires increasing NDOT buying power either by growing or adding sources of revenue or shortening project time horizons to mitigate inflation's impact over time.	*Scaling Back Objectives:* This category of options essentially involves lowering expectations for system maintenance and expansion to reflect what currently available and projected resources can fully fund.

Pursuit of options from one category should not be read as mutually exclusive with options from the other—in fact, a viable strategy for Nebraska may require a combination of options falling under each. Public officials should carefully consider actions being taken or contemplated in other states to craft an approach that will maximize NDOT buying power over the next 20 years and ensure that buying power is efficiently allocated to satisfy highest-priority objectives.