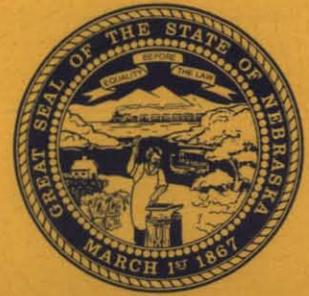


NEBRASKA NATURAL
RESOURCES COMMISSION



State Water Plan
PUBLICATION NUMBER 404

Funding Nebraska's Future Natural Resources Development

DECEMBER, 1972

STATE OF NEBRASKA

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SOIL & WATER CONSERVATION
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STATE OF NEBRASKA

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December 14, 1972

The Honorable J. James Exon, Governor

and

Members of the Legislature

It is my privilege to submit on behalf of the Natural Resources Commission this Special Recommendation, the fourth in a continuing series that is an integral part of Nebraska's State Water Plan. This report has been prepared in response to Legislative Resolution 48 of the 1972 session which called for, among other things, an investigation of sources of revenue and alternatives of financing a statewide land and water development fund.

Nebraska's growth from a trackless prairie to a modern state has been based largely on the development of the most abundant natural resources within its boundaries -- water and fertile soil. Continued conservation and development of these two resources in the future offers an unequalled opportunity to maintain and improve the way of life achieved by past accomplishments.

This Special Recommendation examines many of the avenues open to the State to participate in and encourage this development through a land and water development fund. Many of the potential uses of such a fund and possible sources of revenue are discussed in this report. Many examples are given to illustrate the range of possibilities, not to make specific recommendations on priorities or to limit potential sources or uses of funds. Much of this information was obtained from an analysis of the water development funds of other states, but an analysis of the conditions unique to Nebraska was also necessary, particularly the legal and institutional constraints. Recommendations for action based on these investigations have been included in the final section of the report.

Since creation of a state water development fund would involve the activities of several other State agencies, further review by all appropriate agencies is recommended to determine how these agencies should be involved in the establishment and operation of interim or optimum development funds.

Nebraska's future course in developing and protecting its resources will ultimately be determined by decisions on funding. Only through concerted action on the recommendations contained herein can the funds necessary to assure optimum development of the State's resources by allotted and invested in the future.

Respectfully submitted,

Ted Johnson, Chairman

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Photographs furnished by the Soil Conservation Service, Corps of Engineers, Bureau of Reclamation, Game and Parks Commission, State Historical Society and the Natural Resources Commission.

NEBRASKA'S WATER: KEY TO THE FUTURE

The good life enjoyed by Nebraskans today is the legacy of the pioneers who created a state in the middle of what was once called "the great American desert". Finding a limitless prairie with almost no timber or building stone, and faced with fire, blizzard, and drought, they utilized what was available to build homes and raise crops—the fertile soil and the sod.

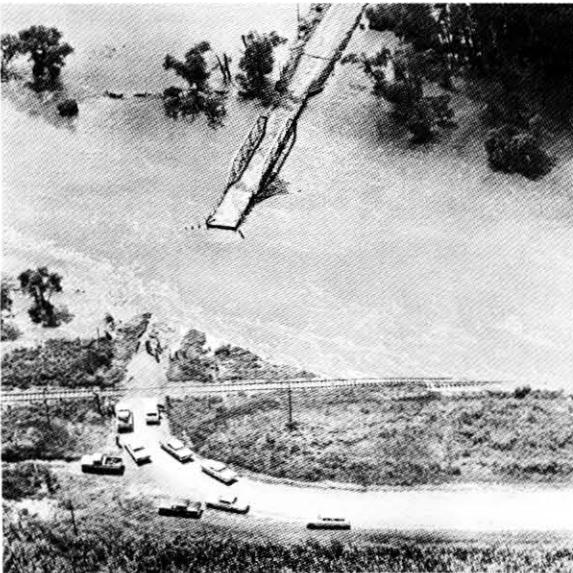
They learned the hard way that the soil was always available, but the rains have their own time. They found that water was the key to survival and later to prosperity as they built an economy based on agriculture within their State.

In the future, the state's economy must keep pace with the national and regional economy if we are to continue to enjoy the good life. Though agriculture will continue to be its backbone, other industry is needed for diversity and continued growth. For these industries, for agriculture, recreation—our whole way of life—water will be the key to the future. Nebraska generally has an ample supply of water for the present and the future, but it must be conserved and used wisely, where it is needed, when it is needed, to provide maximum benefits for all the people.

By helping to conquer some of the problems that have plagued Nebraskans for generations, we can

make an important contribution to our future way of life. There is no problem associated with water, or the lack of it, which threatens the whole State with destruction, thirst, or crop failure. However, there are some areas where floods bring disaster often and other areas where drought creates economic hardship. Some areas have almost no recreation or fishing waters; some areas have so much water going into the ground that farmland is becoming marshy and homes uninhabitable. The areas of transition between these extremes at times extend across the entire State.

By taking advantage of the opportunity offered by the abundance of water to irrigate suitable lands, the state's economy can be stabilized and greatly enhanced. Only about 4 million of the 19 million irrigable acres are currently irrigated in the State. Five million of the remaining 15 million acres have soils highly suitable for irrigation. At the same time, about 7 million acre-feet of water, some readily available for development, flow out of the State through its streams each year. This potential for irrigation development, coupled with the potential for developing other industries and alleviating many problems, presents a great opportunity for a very significant strengthening and expanding of the state's economy without impairing our quality of life.



The State's Role in Development

In the past, most of the development of our water and related land resources has been carried out by private enterprise or local districts and towns, assisted by the Federal Government. State input has been limited to small efforts through the Natural Resources Commission and the Game and Parks Commission. The Natural Resources Districts recently created by the Legislature have the potential to do much to enhance the development of the state's soil and water resources. However, their tax base is small and the area benefited often extends beyond the area taxed. The State as a whole generally benefits and must participate by investing more funds and more efforts in the conservation and utilization of its resources.

Other states have already recognized this requirement and established the means and provided funds to meet the need. Some have created continuing funds for long-range development; others have attempted to finance all needed projects at one time. The State of Michigan authorized the issuance of 100 million dollars in bonds to invest in water resources development as soon as arrangements can be made. Wyoming, on the other hand, has established a continuing, revolving fund, started with 4 million dollars, to deal with problems and opportunities as they arise. Table 1 shows what action has been taken by some of the other states across the nation.

TABLE 1
Water Resource Development Funds

State	Status of Fund	Year	Source of Funds	Type of Assistance
California	Operational	1957	Bonds, Special taxes	Construction loans, Grants
Idaho	Operational	1969	General fund appropriations, Special tax, Bonds, Revolving fund	Loans
Kentucky	Authorized	1966	Bonds, Users' fees, Revolving fund	Storage contracts, Loans
Kansas	Authorized	1965	General fund appropriations	Storage contracts, Grants
Ohio	Operational	1965	Bonds, General fund, Revolving fund	Land acquisition, Loans, Grants
New Jersey	Operational	1958	Bonds, General fund, Water sales	Land acquisition, Loans, Grants
New Mexico	Operational	1955	Bonds, General fund, State land income	Loans, Grants
Utah	Operational	1955	Revolving fund, General fund	Finance project construction
Wyoming	Operational	1955	Bonds, Revolving fund	Loans
Rhode Island	Operational	1967	Bonds, General fund, Land lease or sales	Loans, Land acquisition
Florida	Operational	1966	General fund, Land sales	Grants, Land acquisition
Texas	Operational	1957	Bonds, General fund	Storage contracts, Loans
Colorado	Authorized	1971	General fund, Revolving fund, Users' fees	Loans



The Need for Additional State Funding

Nebraska must put more than token assistance and moral support into development of its natural resources. In the future, the federal share of project costs on which the State has depended so heavily will decrease as more demands are made upon the federal budget for other uses, and in other states. Federal policy will tend to favor those projects where the state and local interests are willing to participate most actively.

The new "Proposed Principles and Standards for Planning Water and Related Land Resources" published in the *Federal Register* in December, 1971, do not yet contain cost-sharing recommendations but do state that "...these policies will be reviewed and needed changes will be recommended". The guiding principle is that "Reimbursement and cost-sharing policies shall be directed generally to the end that identifiable beneficiaries bear an equitable share of costs...". The days of federal dominance in funding major water resource developments definitely appear to be limited.

The State could benefit in several ways if its level of funding were increased. These funds could

be used to accelerate construction of projects now delayed in the planning stage. State funds could also be used to insure that some presently feasible projects are not lost. For instance, where urban encroachment is anticipated the purchase of reservoir sites before the land becomes too expensive might assure construction of a dam that might otherwise become infeasible. Similarly, state participation in funding a federal project which is beyond the financial capability of a local sponsor might assure the construction of the project. The State could also benefit from greater funding by taking advantage of federal matching-fund programs to secure federal funding which otherwise would not be forthcoming.

The experience of other states indicates the opportunity to build a better future through water resource conservation and development can best be implemented by prudent investments from a state water development fund—a fund authorized and administered with the necessary continuing authority and finances to reach the desired goals.

POTENTIAL USES FOR A WATER DEVELOPMENT FUND

State funds spent on the development of water resources would be an investment—an investment which would provide widespread returns in economic, social, and environmental benefits. The State could participate in projects of existing federal and local programs which benefit the whole State, or it could construct projects that do not qualify for federal assistance but are too large for

local governments.

There are many potential uses and sources for a water development fund, but some may not be possible or practicable because of legal and institutional constraints. Nevertheless, most have been included in the following chapters to show the broad range of possibilities for increasing and accelerating development and conservation.

Participation in Federal Projects

Three federal agencies—the Soil Conservation Service, the Corps of Engineers, and the Bureau of Reclamation—have constructed numerous projects at a cost of hundreds of millions of dollars in this State in the past. The programs under which these projects were constructed are still in operation, but maintaining this same rate of development will require an increase in funding.

SMALL PROJECTS

All three federal agencies plan and construct or aid in the construction of small projects for flood control, irrigation, erosion control, and other purposes. In each case a qualified local sponsor must agree to participate in the project, both legally and financially. The local sponsor must secure the required lands and easements, hold and save the Federal Government free from lawsuits, agree to operate and maintain the project after completion, and in some cases pay all costs over and above the federal limit. Since the property tax burden is already high, some communities and districts are not able to finance their share of needed projects. Local flood protection projects of the Corps of Engineers that would benefit areas downstream as well as the local community might not be constructed in such cases. If state funds were available, the burden on the local community could be decreased in proportion to the amount of benefits accruing outside the local area and projects could be completed which might not be constructed otherwise.

MULTIPURPOSE PROJECTS

All three federal agencies are authorized to construct multipurpose projects including reservoirs for flood control, irrigation, recreation, fish and wildlife enhancement, and other purposes. Lewis

and Clark Lake and Merritt Reservoir are developments of this type.

Conservation Storage Program. The State could participate in multipurpose projects of all three agencies through the water conservation storage program by contracting with the Federal Government to cost-share in the provision of additional storage space in a multipurpose reservoir. In Nebraska, storage space for multipurpose uses is often omitted or not developed to its full potential because of the unwillingness or inability of the local sponsor to obligate itself for all of the necessary funds. This unwillingness often results when it becomes obvious to the local sponsor that the benefits derived from the additional expenditures will accrue outside of the project area; often regionally, or in some cases statewide.

Conservation storage may include allocations for sediment reserve, recreation, fish and wildlife enhancement, low-flow augmentation, irrigation, and water supply for present and future municipal and industrial purposes. This program has been used in other parts of the country by cities and states to purchase storage for many purposes, but primarily for municipal water supplies. Where there is an immediate need for water, the potential user may enter into a contract with the Federal Government to repay the cost of providing additional storage in a reservoir over a period of 40 to 50 years at moderate interest rates. If there is no immediate need for water, but storage is required for future use, a qualified participant may enter into an agreement with the Federal Government that will delay interest and repayment for 10 years after completion of the dam.

Potential Program Uses. Nebraska could take advantage of this program as other states have to

purchase reservoir storage in a number of projects to insure future water supplies for municipal and industrial use or for the many rural water districts now planned or in operation.

In those areas of Nebraska where the groundwater table is declining due to extensive pumping for irrigation and other uses, additional water supplies may be needed to replenish and stabilize the groundwater supply and sustain the economy which has developed. The State could purchase storage space in any future major reservoirs in these areas, possibly many years before the water is needed for such use. The number of good reservoir sites in Nebraska is quite limited. Thus, if a planned project will occupy one of these sites, the dam and reservoir should be designed to allow

for future major uses so that potential benefits are not lost due to inadequate facilities.

In eastern Nebraska the demand for recreation water far exceeds the supply. Part of the small state input into water projects in the past was provided through the Nebraska Game and Parks Commission. The Commission cost-shared basic recreation facilities of major projects as required by federal law. The funds currently allocated to that agency are not sufficient to both continue this program and operate and maintain the existing facilities. A water development fund could assume the cost-sharing function to insure that projects like the O'Neill Unit and the North Loup Division provide optimum recreation benefits for the people of Nebraska.

Potential State Projects

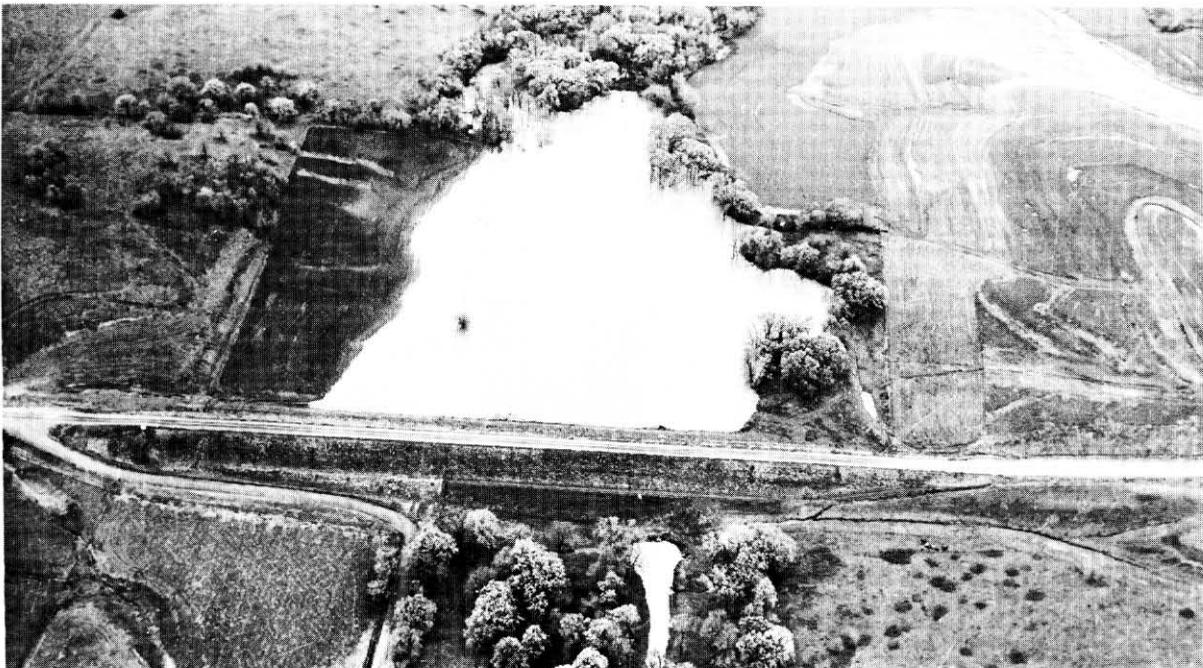
Nebraska could accomplish much needed development on its own initiative. Existing programs of State agencies could be supplemented through the fund or new programs could be created to aid the design and construction of projects which are beyond the means of local districts and not eligible for federal assistance.

Existing Programs. Construction programs of several State agencies could be used to develop the State's water resources if funds were available for this purpose. The Game and Parks Commission participates in planning and funding recreation features of developments by many agencies. Water resource development in the State could be en-

hanced substantially if additional funds could be made available to the Commission from a water development fund to expand the number and amount of recreation, fish, and wildlife features included in development projects.

The Department of Roads has participated in development of water resources through such projects as the I-80 chain of lakes and some combination road-flood control structures. If additional funds were available more emphasis could be placed on land and water conservation in the future by designing roads and culverts to serve these joint purposes wherever practicable.

Potential Programs. A water development fund



could possibly be used by an agency such as the Natural Resources Commission to purchase reservoir sites for future projects after plans are finalized. Sites could be purchased before streets, buildings, and other urban developments increase the price of land to the point where reservoirs would no longer be feasible. The State could buy the land and lease it to interested individuals until the Federal Government is ready to develop a reservoir. A program of this nature is especially needed in the eastern part of the State where urban sprawl is a factor and reservoirs are most needed for flood control and recreation.

A water development fund could also be used to promote proper development of reservoirs and surrounding lands. Project lands acquired with state aid from the existing Small Watershed Fund must be sold and the money returned to the fund within

10 years. In some cases the State would be better served and the reservoir would serve a better purpose if the local sponsor retained ownership.

Many times, more land is acquired for a reservoir than is strictly necessary to avoid leaving the original owner with small, uneconomic parcels. If the State made provisions for controlling future development on all lands that it sold, detrimental development could be prevented.

Funds could also be channeled through the proper state agency to establish a system of protected rivers as recommended in the *Report on the Framework Study* of the State Water Plan. These funds could be used to reimburse landowners for setting aside river frontage, to acquire easements for controlled access, or to purchase land for park use or preservation.

Participation in Local Projects

A water development fund could be used to aid in financing projects of public corporations and political subdivisions such as the new Natural Resources Districts (NRD's), irrigation districts, drainage districts, cities, counties and others.

Natural Resources Districts can plan and construct projects on their own, and they can act as local sponsors for federal projects. Except in special cases, the NRD's must assume this responsibility on Soil Conservation Service (SCS) projects, and they can sponsor others, such as snagging and clearing projects of the Corps of Engineers. The NRD's would be required to provide the needed lands and easements for these types of projects, agree to maintain them, and pay construction costs over \$100,000 on snagging and clearing projects. The State currently has a matching fund for snagging and clearing projects which could be used to aid the NRD's. Natural Resources Districts have broad powers for project development, but their finances are limited. In some cases, the NRD's will not be able to carry out feasible projects without state funds.

There are numerous structures and many miles of irrigation canals in Nebraska that need rehabilitation and modernization. A water development fund could be used, separately or in conjunction with the

U. S. Bureau of Reclamation's small projects programs, to provide grants or loans to irrigation, reclamation, or public power and irrigation districts to rehabilitate, improve, or expand irrigation facilities. Drainage projects in areas where water tables are rising, or in other areas, could also be aided by a water development fund.

The Resource Conservation and Development Program aided by the SCS is not restricted to water resource development, but SCS funds are restricted to water or land conservation projects. Resource Conservation and Development areas such as the one in the Panhandle could be made eligible for state aid for their water resource development activities.

Counties, cities, and villages which undertake water development projects could also receive aid from the fund. Local governments at all levels are experiencing difficulties in raising sufficient funds to provide necessary services. In some areas, communities are finding it necessary to go considerable distances to secure water supplies, so extensive delivery systems with high initial costs are required. If a water development fund could be used to make loans or sell bonds at lower interest rates than local governments can obtain, their financial burden could be reduced.

POTENTIAL METHODS OF FUNDING AND OPERATION

The benefits which can be obtained from a water development fund depend in part on the sources of

funds, the amount of funds available, and the methods of operation which can be utilized.

Sources of Funds

Basically there are two sources of revenue for government operations: taxes, either general or special, and projects or programs like water and electric utilities designed to produce income as reimbursement for services. Generally, most state revenues are derived from taxes. Bonds provide a means of accelerating funding, but they must be retired with revenues from one of the two basic sources.

BONDS

The use of bonds to finance capital improvements is becoming increasingly popular at all levels of government. It is a method of using the money of the bond purchaser until the bonds mature or are cashed in.

Revenue bonds are retired solely from revenues derived from the projects financed by their use. Water supply and distribution systems, recreation facilities, irrigation projects, and sewage treatment plants are a few of the types of projects that can be financed by revenue bonds.

General obligation bonds pledge the taxing power of the State to pay interest upon and retire the debt. They usually can be sold at lower interest rates than revenue bonds because they are backed by the assets of the whole State. General obligation bonds are particularly applicable to projects with statewide benefits since the whole State is taxed.

Several states, most notably California, are using general obligation bonds to help finance water development projects. The California State Water Project is financed by the California Water Resources Development Bond Act, approved by the voters in 1960, which authorized \$1.75 billion in general obligation bonds.

Bonds have been used in Nebraska for other than water oriented projects. The State Constitution was amended to provide for the sale of general obligation bonds for highway construction and revenue bonds for University of Nebraska projects.

The State has granted the authority to counties and municipalities to issue revenue bonds to aid industrial development. Projects are limited to improvements suitable for manufacturing or industrial purposes. An extension of the law to include agriculture, the largest industry in the State, would aid in financing local water development projects.

TAXES

Taxes are generally of two forms, general and special. Income and sales taxes are general, state-wide taxes. Special taxes like those on cigarettes are paid by select groups.

Most of Nebraska's tax revenue is allocated to the general fund. The major sources of this revenue are the sales and income taxes. According to *Nebraska Revenue Information* published by the Nebraska Department of Revenue on January 1, 1971, a one-half percent increase in the sales tax rate would produce 18 million dollars in revenue annually. A 1 percent increase in the income tax rate, with a corresponding increase of 0.2 percent in the corporate tax rate, would produce 6.5 million dollars annually.

Special taxes on certain items like cigarettes are levied in Nebraska, and the revenue derived from them has been dedicated to specific uses. A special tax on throw-away bottles or cans, a sales tax on boats and other recreation equipment, natural resource depletion taxes, or taxes on irrigation equipment could be dedicated to a water development fund. Such taxes would be more likely to place the burden on those persons directly benefited because of the close relationship of those taxes with water resources development and use. It is estimated that a tax of 1 cent on throw-away bottles and cans would produce about 2 or 3 million dollars in revenue annually.

Another type of special tax is users' fees. As the name implies the people using the facilities are charged a fee to help pay for the service. This fee could take the form of a charge to use public lakes or fishing areas, or it could be a charge for water used by an irrigator or municipality. Users' fees would probably only be sufficient to supplement a water development fund. More than likely they would only provide enough funds for the maintenance of facilities, but not generate enough income for new development.

INCOME PRODUCING PROJECTS

Interest from loans to public entities, which are primarily intended to aid development, would provide a source of income to a fund. Interest from the investment of temporarily idle funds following a system similar to that of the State Investment Coun-

cil could also be a source of income for a water development fund.

Sale of excess land after the completion of projects, the sale of lots around a reservoir acquired through a state regulated development plan, or the transfer of previously acquired reservoir sites to federal agencies could be used to produce income for a fund, quite possibly with a return on the investment. Revenue from the sale of storage space

in reservoirs would also fall into this category.

In cases where reservoir sites are purchased in advance, income could be derived from the lease of the land until such time as the dam is constructed. After the dam is completed, land which is seldom inundated in the flood storage pool of a reservoir could continue to be leased for agricultural use in a manner similar to that employed by the Corps of Engineers.

Types of Aid

Financial aid could be provided in the form of grants which would not have to be repaid; grants on which recovery of all or part of the cost is expected, such as the resale of land bought with money from the Small Watershed Fund; or loans at low interest rates.

Outright grants like those to communities for sewage treatment facilities could be made to cities, counties, special purpose and Natural Resources Districts, or state agencies for various types of water related activities with benefits extending beyond the local area. Participation in federal matching-fund programs could be in the form of a

grant if the project serves a public purpose. Grants could also be provided to the Bureau of Reclamation and SCS to accelerate final planning and design of authorized projects.

Loans could be made to public agencies for water development projects such as irrigation systems, rural water supply facilities, and other water related development. The State of Wyoming makes loans available to all water development projects. The State of Idaho makes loans only to public agencies during the project construction period. These operations not only aid development, but they also provide a source of revenue to the fund.

Methods of Operation

Annual appropriation by the Legislature to an agency budget is a possibility for funding water projects. This approach has its merits because the exact schedule of financial requirements for water development activities is many times dependent on local and federal action, as well as state participation, and funds need not be appropriated until needed. It also permits the Legislature to discuss and weigh the relative needs for water development funds versus providing other deserving state services. However, this approach makes it difficult to plan for the future, and it precludes participation in the federal conservation storage program because of the contingencies it introduces into the repayment contract.

Several states use a revolving fund to finance water development. This is generally one large fund, supplied from several different sources, with known assets and liabilities so expenditures can be programmed years in advance if necessary, and the surplus invested to increase income. The State of Nebraska does not have a true revolving fund at this time, though there are some funds, such as the Small Watershed Fund, which are called revolving funds.

A true revolving fund for water resources development in Nebraska could be created and supplemented with appropriations from the general fund, or with steady income from a special tax.

Some of the cost recovery type projects discussed previously could also supplement the revolving fund.

A revolving fund could be initiated by the sale of bonds. This method is quite popular with other states because it provides a way to raise a large amount of funds in a relatively short period of time. The State of Idaho started its development fund in this way with authority for the issuance of 4 million dollars worth of bonds.

Major multipurpose projects of federal agencies like the Bureau of Reclamation take from 5 to 15 years to complete construction. However, some non-federal entity must assure the repayment of reimbursable costs that far in advance. If the agency controlling a revolving fund is assured of the availability of funds, it can plan well into the future to participate in such long-range projects.

A water development fund could be established within an existing agency such as the Natural Resources Commission. The Commission now administers the Small Watershed Fund and the Snagging and Clearing Fund. The statutes controlling these two funds could be amended to give the Commission authority to provide aid to public agencies for acquisition of land or construction of projects according to a cost-sharing method based on the distribution of benefits.

ALTERNATIVES AVAILABLE FOR ESTABLISHMENT OF A WATER DEVELOPMENT FUND

There are many courses the State of Nebraska can follow in the development of its resources and the expansion of its economy. Before the framework of Nebraska's State Water Plan was formulated, decisions on the development of its water and related land resources were made on a project-by-project basis. The cumulative effect of these decisions determined the course followed by the State. Now, as its natural resources become more scarce and more valuable, and the population to be served becomes greater, it is necessary that the

State play a greater part in the development, conservation, and management of its resources to shape its own future. In the end, it will be the decisions on funding which largely determine the state's future course.

Many potential courses of action presented in Chapters 2 and 3 face certain restrictions, both constitutional and financial, which make them impossible or impractical under existing conditions in Nebraska. Finances are limited and definite constitutional restrictions are evident.

Constitutional Restrictions

Several constitutional restrictions limit possible courses of action toward establishment of a water development fund. The most evident restrictions involve a prohibition against pledging the credit of the State, limitations on state indebtedness, and a ban against continuing legislative appropriations.

Article XIII, Section 3 of Nebraska's Constitution states that "The credit of the State shall never be given or loaned in aid of any individual, association, or corporation...". This section has been interpreted by the Supreme Court to prevent the State from extending its credit to private enterprises. It would therefore prevent the State from undertaking such activities as loans to rehabilitate, improve, or expand private irrigation facilities. It is not clear whether this section would prohibit loans to political subdivisions such as NRD's, cities, or counties, but in a similar interpretation dealing with miscellaneous corporations, the Supreme Court ruled that this included the public corporations or political subdivisions of the State. Based on this precedent it is entirely possible that the Court would also hold that the credit of the State cannot be extended to such subdivisions of government.

Section 1 of Article XIII of the Constitution effectively prohibits the State from issuing any reve-

nue or general obligation bonds to fund a water development fund. That section prohibits the State, with certain exceptions provided by previous amendments, from incurring indebtedness in excess of \$100,000. Water resources development is not one of the exceptions.

A third constitutional restriction, contained in Section 22 of Article III dealing with appropriations by the Legislature, obviates a true revolving fund. This section has been interpreted to prohibit legislative appropriations which continue year after year. It also requires that unexpended funds lapse back into the general fund at the end of each fiscal year. If any such fund is to continue operating, the money must be reappropriated each year by the Legislature. Past Legislatures have generally recognized this obligation and reappropriated the balance in such funds annually. However, there is the possibility that this will not always hold true in the future, which makes it necessary to introduce a contingency into repayment contracts under the federal conservation storage program. A recent federal law prohibits such contingencies, so it would be impossible to make any long-range commitments for conservation storage under present legal constraints.

Financial Restrictions

Different levels of funding would also necessitate alternative methods of operation. If the level of funding is too low, the chances of obtaining money for any one project are small and project sponsors are discouraged from applying. Sponsors who may have worked 5 years or more to initiate a project are reluctant to rely on the availability of

meager state funds if it will result in further delay. This makes it extremely difficult to schedule expenditures to achieve optimum development.

On the other hand, it is also extremely difficult to schedule the expenditure of large amounts of funds. The *Report on the Framework Study* recommends that 36 projects of three federal agencies be

expedited. Three of these projects planned by the Bureau of Reclamation—the Mid-State Division, North Loup Division, and O'Neill Unit—represent nearly 300 million dollars worth of authorized development in this State. These projects would provide many statewide benefits from recreation, fish and wildlife, flood control, and irrigation—benefits that might be increased and attained sooner if state funds were available. These projects alone could utilize millions of dollars from a state fund at some unpredictable date in the future. Some method of operation must be established whereby needed funds would be available at that time if the maximum benefits from these potential projects are to be realized.

If a fund were established at some intermediate level, it would be possible to participate annually in a number of projects and be able to schedule funding with reasonable certainty so project sponsors would have incentive to apply. Some projects could receive adequate aid through an interim development fund functioning under existing constitutional constraints. However, amendments to the State Constitution and increased funding would



be required to establish a fund capable of financing optimum development of the state's resources.

Possible Courses of Action

Although constitutional restrictions preclude many resource development fund activities the State is not constitutionally barred from developing its resources. Quite to the contrary, the State Constitution appears to anticipate such development by declaring domestic and irrigation uses of water a natural want.

Existing constraints separate possible courses of action into two broad categories; action which can be taken under present constitutional restric-

tions to establish a development fund immediately, and action directed toward future establishment of an optimum development fund through amendments to the Constitution.

ESTABLISHMENT OF AN INTERIM DEVELOPMENT FUND

The State could establish an interim development fund within existing legal constraints by amending existing laws controlling funds ad-



ministered by the Natural Resources Commission. This revised fund, with additional financial support from annual general fund appropriations or through enactment of a special tax, could be expanded to allow either direct state participation or assistance to local entities in the funding of qualified public water development projects. This expanded fund could be administered by the Natural Resources Commission much as its components are now.

Through the interim water development fund limited state assistance could be provided in several forms. State funds could be used to supplement local funds in the required purchase of land for federal projects as is now accomplished through the Small Watershed Fund, but in a broadened form. This broadening of use would be desirable to allow state assistance to worthy projects not now qualifying for this assistance, such as the purchase of land for the relocation of the town of Niobrara.

State funds could also be used to supplement local funds in cost-sharing construction costs with the Federal Government under the conservation storage program. This would encourage the provision of additional project functions in federal projects. The full potential of many projects has not been realized in the past due to lack of local funding capability. This situation is particularly evident in Soil Conservation Service Small Watershed Program structures where local entities often cannot raise the required 50 percent local share of public recreation facilities costs.

Another possible form of state assistance that could be provided through the interim fund involves acceleration of final planning, design, and installation of authorized projects. On projects deemed critical to the State's needs, grants could be provided to the federal construction agencies to accelerate final design and installation, thereby allowing earlier construction.

ESTABLISHMENT OF AN OPTIMUM DEVELOPMENT FUND

Although water resources development in the State would be encouraged and accelerated through an interim water development fund, development would necessarily be considerably less than optimum. Many projects could be aided but other deserving and needed projects would receive no aid. The interim fund would probably not be large enough to allow meaningful participation in large, costly multipurpose projects of the Bureau of Reclamation and the Corps of Engineers, nor would it allow participation in the federal conservation storage program on an annual reimbursement basis. If the State desires optimum recreation development in such projects as the O'Neill Unit and the North Loup Division, or if it desires to assure optimum development of reservoir sites by including storage for future use through the conservation storage program, the water development fund will

have to be strengthened.

Strengthening the fund to allow fuller and more diverse state participation in resources development will necessitate constitutional changes. Several options are available depending on the type of fund desired, the size of the fund, and the diversity of activities it is to be used for.

More effective operation than that of the interim fund could be provided by amending a single section of the Constitution. If the exceptions to the constitutional limit on indebtedness were extended to include a water development fund, the administering agency would be able to issue general obligation or revenue bonds. Long-range commitments could be made by the administrators and bonds could be issued when needed to meet obligations. Without the capability of operating as a true revolving fund, however, repayment on such bonds would depend on annual appropriations from the general fund by the Legislature. This dependence on future legislative action could have an effect on the marketability and interest rate of bonds.

Establishment of a true revolving fund, with or without the authority to issue bonds, would enable the State to participate in a broad range of development activities. If the constitutional prohibition against committing future legislatures were removed, a development fund could be provided a continuing income and commitments based on known income and controlled expenditures could be made. Since unexpended funds would no longer revert to the general fund annually, a balance could accumulate permitting participation in large projects in the future.

The most advantageous operation of a development fund could be provided by amending all three constitutional restrictions. By establishing a true revolving fund with the authority to issue bonds and removing the restriction on pledging the credit of the State, many forms of income could be utilized for a wide variety of purposes to provide optimum development.

An alternative method of establishing a future development fund would require fewer constitutional changes and reduce the complexity of administering a fund. A viable water development fund could be established through a single constitutional amendment authorizing the legislative creation of a quasi-public corporation operated by a board of directors elected by the citizens of Nebraska. This corporation could be granted the authorities necessary to assist in or singularly undertake projects for development of the state's soil and water resources. It could be given the authorities necessary to conduct daily business and to exist in every way like a public service corporation. It could be allowed to issue general obligation and revenue bonds which, when approved by the Legislature, could be backed by the "full faith and credit" of the State.

CONCLUSIONS AND RECOMMENDATIONS



Nebraska's most abundant natural resources, fertile soil and water, have contributed substantially to the good life enjoyed by Nebraskans today. Development of these natural resources has played an important role in establishing the state's economy and in shaping the environment of the state's citizens. Future improvement in the present quality of life depends in part on stabilization and expansion of the economy and preservation and improvement of the environmental amenities provided by the state's natural resources.

The cost of conserving and developing the state's water and related land resources will continue to rise as long as economic inflation persists. All indications are that future federal standards will require that state and local interests bear a larger share of these increasing project costs. The State of Nebraska, which has contributed relatively little to its water resource development to date, is the only logical source of the additional funds which must be invested in its future development.

Many courses of action are available to the State to participate in resource development through a water development fund. Certain provisions of the State Constitution now prohibit several of these methods of operation which would be needed to attain optimum development. The restrictions on bonding, pledging the credit of the State, committing future Legislatures to expenditures, and fiscal policies all affect possible operations. However, an interim fund could operate within existing constitutional constraints to accelerate needed development while constitutional changes are being made.

The selection of a course for Nebraska to follow in establishing a water development fund is a very important and complex issue—too important and complex to be determined from a brief study by a single state agency. Establishment of such a fund would have an effect on the programs and responsibilities of many state agencies. To secure input from those agencies with expertise in planning, resource management, finance, and economic development, a thorough study by a legislative body with the necessary means at its disposal to coordinate their efforts and determine the best course of action is needed.

Conclusions

1. Future development will require more funds than in the past, and federal rules are expected to require greater input by others, so the State of Nebraska will be required to assume a more active role.
2. Establishing the type of investment fund which will best be able to encourage optimum utilization of the water and related land resources will require several changes in the State Constitution.
3. An interim development fund established within existing constitutional restrictions could accomplish a certain amount of needed development while constitutional changes are being deliberated, placed before the electorate, and implemented by legislation.

Recommendations

- I. The State of Nebraska, to provide needed aid to programs of resource development promptly, should take action to:*
 - 1. Amend existing laws to provide the Natural Resources Commission the necessary authority to administer an interim Water Development Fund, and*
 - 2. Provide sufficient funds to establish and operate an effective Water Development Fund, and*
 - 3. Establish a committee of concerned state agencies as stated by the Chairman of the Natural Resources Commission in the transmittal letter to aid in the preparation of criteria and rules for allocation of interim funds.*
- II. To establish an optimum program of development in the future, the Legislature should appoint a legislative committee with requisite authorities to more fully investigate the legal and financial aspects of optimum development fund operation to determine the most feasible of the following alternatives:*
 - 1. Amend the State Constitution to authorize the administrators of the Water Development Fund to issue general obligation and revenue bonds, and/or*
 - 2. Amend the Constitution to enable the Water Development Fund to operate as a true revolving fund, or*
 - 3. Amend all provisions of the Constitution which restrict the optimum operation and funding of the Water Development Fund, including the authority to issue bonds, make loans and establish a true revolving fund, or*
 - 4. Amend the Constitution once to create a special quasi-public corporation with the authority to promote water resources development.*