Representing over 50,000
North Carolina Design &
Construction Professionals

North Carolina Design & Construction

Transportation Funding

(All briefing materials in this paper are courtesy of our friends at NC Go.)

For most of the 20th Century, North Carolina was known as the Good Roads State. Our elected leaders and the public supported the investment in our transportation system that resulted in safe, efficient highways and bridges that connected farms to cities, linked urban centers and encouraged economic growth.

Times have changed. The Motor Fuels Tax – or Gas Tax – is declining over time as vehicles become more fuel efficient. North Carolina will see a 43 percent increase in population – 13.5 million by 2040 – placing further strain on the transportation network.

To have a safe and efficient transportation network that fosters economic prosperity and grows jobs, our current way of doing business doesn't add up. Between now and 2040, if we find no new ways to raise transportation revenue, we face a projected $60 BILLION gap in funding.

North Carolina is unique when compared to many states – specifically our neighbors. Our department of transportation, NCDOT, maintains almost 80,000 miles of highway statewide. It is second only to Texas in terms of total center-line miles.

But what makes our state truly unique is the combination of the large number of miles NC maintains PLUS a centralized ownership/maintenance of our highways. Unlike most states which rely on a mix of local and state dollars, North Carolina almost exclusively uses state funds for maintenance, repair and expanding the transportation system.

Nearly 75% of total transportation funding in North Carolina comes from revenues generated by motor fuels taxes.

The move to vehicles with higher fuel efficiency – including hybrid and electric vehicles – is certainly a positive step in terms of our environment and the public's health. However, higher federally-mandated fuel efficiency standards are expected to result in decreased fuel consumption levels – 96% by 2020 and 81% by 2035. This decreasing level of our state's primary transportation revenue means we need to find a replacement for this crucial funding source within the next ten years.

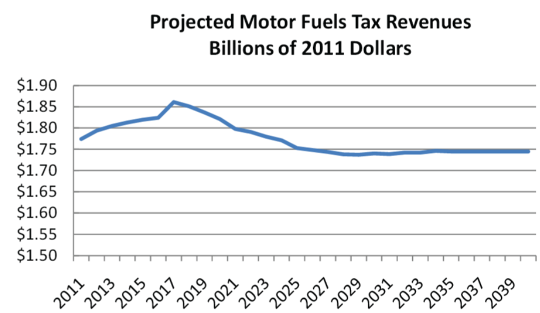
Issues with the Gas Tax

Since the early 1920s, North Carolina's gas tax has remained the major source of transportation funding in our state. Originally 1 cent/gallon, it is currently 37.5 cents/gallon – based on a variable rate. That rate is 17.5 cents per gallon plus 7 percent of the average wholesale price. The variable rate was put in place to address fluctuations in consumption due to pricing. The higher the wholesale price, the less the public consumed, therefore a higher variable component of the tax was levied to keep revenue somewhat neutral. When the price fell and consumption increased, the tax dropped.

North Carolina Design & Construction

Issues with the Gas Tax (cont.)

In 2011, President Obama announced an agreement with thirteen large automakers (which account for more than 90 percent of all vehicles sold in the U.S.) to increase fuel economy to 54.5 miles per gallon for cars and light-duty trucks by 2025. That represents a 5 percent increase in fuel efficiency per year, starting in 2012. That increase in fuel efficiency means we'll all be buying less gas.



Increased fuel efficiency is good; good for the environment and for drivers. But, buying less gas also means paying less in gas tax, and now the future of our state's most important transportation source has become starkly clear. NCDOT projects motor fuel tax revenues to increase slightly until 2018, then decrease until about 2028, and remain flat until 2040. In the face of a growing population, and rising costs to build and maintain transportation infrastructure, our gas tax will only yield about $33.9 billion from 2011-2040.

Yet the problem remains that we need additional funding. In "From Policy to Projects: the 2040 Plan" NCDOT outlines what the financial needs are in the future, to achieve various Levels of Service (LOS). Those are:

Target LOS: A robust transportation system that meets projected needs, addresses growth, ensures safety, offers convenience and accessibility and fosters economic opportunity.

LOS C: A transportation system which is veering toward wide-spread safety concerns, deferred maintenance, and congestion and Land access issues that constrain economic opportunity. Our current status is rated as "LOS C."

Fund at Current Levels: The last option is to stick with the funding we have in place already, which is far below that required to keep our transportation network at even the same service level (LOS C).

Through the 2040 Plan period, the NCDOT will need to invest at least $86.3 billion (in 2011 dollars) just to maintain existing Level of Service (LOS) conditions and $114.1 billion to improve the transportation network's performance and capacity (Target LOS). **Even simply keeping funding at its current level, there is not enough projected revenue forecast.**

Alternative Revenue Ideas

Due to increasing fuel efficiency and the expected decrease in the revenue projected for the state motor fuels tax that will result, the NC Department of Transportation has outlined a number of alternative *(new)* revenue options to help our state meet its transportation needs.

Representing over 50,000 North Carolina Design & Construction Professionals

North Carolina Design & Construction

CarolinasAGC Building Your Business

AIA North Carolina

ACEC American Council of Engineering Companies of North Carolina

Professional Engineers of North Carolina
A state society of the National Society of Professional Engineers

North Carolina's Voice of Transportation NC Go! www.NCGo.org

Alternative Revenue Ideas (cont.)

Fees would be dedicated to the transportation system – to maintaining state of good repair and providing additional transportation capacity. These fees would also not be – or would be less – sensitive to the effects of improving fuel efficiency.

Auto Insurance Surcharge: Revenues are based on a 10% surcharge levied on the liability portion of the premium paid for auto insurance.

Local Vehicle Property Tax: This option assumes that a 5% increase in existing local property tax collections on motor vehicles would be dedicated for local road projects.

Wholesale Motor Fuel Tax: This is envisioned to be a new tax that assumes an 8% tax rate on the wholesale price of motor fuels.

Interstate Highway Tolling: This option is based on tolling all of the North Carolina's ***Interstate highways*** beginning in 2020. Tolls are set at a rate (in 2011 dollars) of $0.12 cents per mile along the more heavily traveled urban sections and $0.06 per mile in rural sections.

Alternative Transportation Revenue Options	Assumed Year of Implementation	Estimated Revenue Yield Total Through 2040 ($ Billions)
Auto Insurance Surcharge	2020	**$12.16**
Dedicated Local Vehicle Property Tax	2016	**$0.5**
Wholesale Motor Fuels Tax (8%)	2020	**$12.22**
Interstate Tolling	2020	**$41.93**
VMT Fee	2020	**$26.64**

Vehicle Miles Traveled (VMT) Fee: Given the anticipated decline state motor fuel tax Revenues as a result of increasing fuel efficiency, a statewide VMT fee could be considered as a ***replacement revenue source***. While it is recognized that there are significant technology and privacy issues that would need to be resolved prior to the implementation of the fee, it is understood that a VMT based tax is a more sustainable and equitable funding source than the motor fuels tax because it directly links the fee paid with the users and usage of the highway network.

Protect STI

At the end of the 2015 NCGA legislative session, a provision was written into the final biennial budget that would cap state investment in any light rail project at $500,000. This is bad news for our state, for our urban areas, for congestion relief and it goes against the spirit of the Strategic Transportation Investment Law (STI).

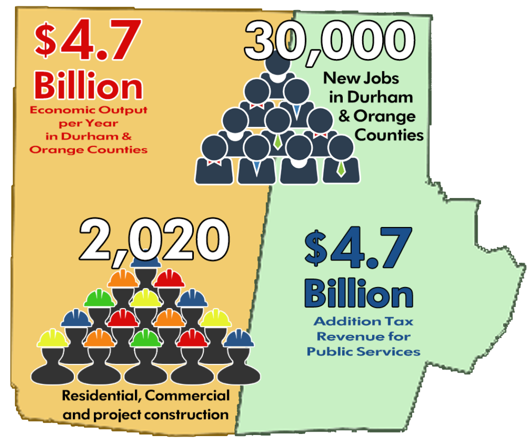
STI, passed in 2013, sought to remove politics from transportation funding decisions. Rather than base multi-billion dollar transportation funding decisions on lobbyists and "pork" projects, STI relies on data-driven scoring and local input to determine what projects get funding through the State Transportation Improvement Program (STIP).

Representing over 50,000 North Carolina Design & Construction Professionals

North Carolina Design & Construction

Protect STI (cont.)

If the tenets of STI are observed, transportation projects that score high would move forward **AND** low-scoring projects would not receive funding. However, this arbitrary $500,000 cap sends the signal that STI can be disregarded at any time. High-scoring projects, like the Durham-Orange light rail, can be pulled out of STI funding and projects that don't meet the STI criteria can still receive funding. ***Back to politics as usual.***



Why it Matters

The Durham-Orange light rail project scored a 56.84 under the Strategic Mobility Formula, identifying it as a *critical infrastructure investment of regional importance*. Capping the state share of light rail funding essentially kills this project because the state investment is critical to obtaining the much larger federal funding component. Federal funding only occurs when there is a state+local funding "match." Citizens in areas like Mecklenburg, Orange and Durham counties have repeatedly shown their desire for light rail service by approving local sales taxes to fund their share of the cost. With a cap of $500,000 on state funds, it will be virtually impossible to get the Durham-Orange line, or other new projects, started.

Currently there is one bill filed in the Senate to address the removal of the light rail cap, SB 170. We urge the General Assembly's support of this measure.