



Transportation Subcommittee 2013-15 Fiscal Biennium Budget Highlights

Fiscal Brief

August 22, 2013

The North Carolina General Assembly House and Senate Appropriations Subcommittees on Transportation (Transportation Subcommittee) determine the budgets for the Department of Transportation (DOT) and certain transportation-related programs and services administered by other State agencies. Development and maintenance of the State's transportation system are supported by the Highway Fund and Highway Trust Fund, which are mostly comprised of revenues from the motor fuels tax, highway use tax, Division of Motor Vehicles fees, and federal assistance.

Actual and Enacted Expenditures and Receipts¹

	Actual FY 2011-12²	Actual FY 2012-13²	Enacted FY 2013-14³	Enacted FY 2014-15³
Expenditures	7,406,346,883	8,212,689,355	7,913,902,447	7,771,941,710
Less: Receipts	4,906,938,869	5,099,644,302	4,760,024,648	4,750,231,210
Net Appropriations	\$2,499,408,014	\$3,113,045,053	\$3,153,877,799	\$3,021,710,500
Positions (FTE)	13,154.0	13,122.0	12,977.0	12,655.0

¹ Department or Division level budget and FTE information is provided in tables at the end of this budget brief.

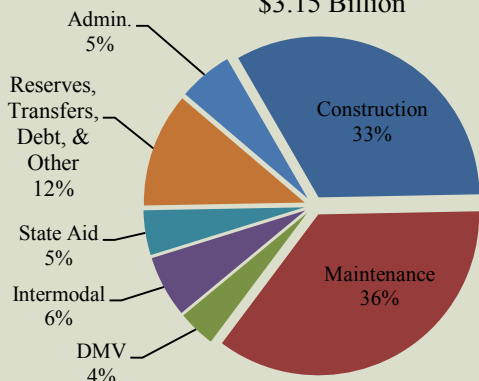
² Actual expenditures, receipts and participation revenues as reported by the Office of State Budget and Management, Department of Transportation, and North Carolina Accounting System for certified and authorized funds codes as of June 30, 2013.

³ Prior year actual and enacted FY 2013-2015 biennial totals reflect the adjustments to certified fund codes required by S.L. 2011-145, Sec.

Budget Overview

The enacted FY 2013-14 Net Highway Fund and Highway Trust Fund Appropriations total \$3.15 billion. This is an increase of 12.0% from the FY 2013-14 Continuation Budget. Combined Highway Fund and Highway Trust Fund Appropriations fund 12,977 full-time equivalent positions (FTE). The chart below shows the subcommittee budget by purpose.

Highway Fund & Highway Trust Fund Appropriation FY 2013-14 \$3.15 Billion



S.L. 2013-360, Appropriations Act of 2013 (S.B. 402), as amended by S.L. 2013-363, Modifications/2013 Appropriations Act (H.B. 112), appropriates \$2.05 billion to the Highway Fund and \$1.10 billion to the Highway Trust Fund in FY 2013-14. Legislative adjustments to the FY 2013-14 Highway Fund budget increase spending by \$352.6 million, in accordance with projected revenues and by appropriating available fund balance. Highway Trust Fund adjustments decrease spending by \$13.5 million due to lower projected motor fuel consumption. The Joint Conference Committee Report reflects the continued focus on using the Highway Fund to improve deficient bridges and resurface existing roadways. The 2013 Committee Report also aligns program allocations in accordance with S.L. 2013-183, Strategic Transportation Investments, which transforms the Highway Trust Fund to construct transportation projects across modes through a new prioritization process. This Fiscal Brief provides a summary of the



adjusted FY 2013-15 biennial budget for Transportation.

Modernizing the Highway Trust Fund

The General Assembly created the Highway Trust Fund in 1989 to provide all areas of the State with access to a four-lane highway, to fund the paving of unpaved secondary roads and the construction of urban loops, and to supplement municipal road funds. S.L. 2013-183 transforms the Highway Trust Fund to create a new Strategic Transportation Investments framework, which will allocate funds and prioritize Highway Trust Fund projects across highway and non-highway transportation modes. Dedicated revenue streams to highway programs were eliminated to create a uniform prioritization process that applies to all modes of transportation.

Revenue Changes

The Highway Trust Fund transfer to the General Fund was completed in FY 2012-13. Upon the creation of the Turnpike Authority in 2002, the General Assembly established a schedule to phase out the Highway Trust Fund transfer to the General Fund and shift these funds to recurring “gap” funds for toll road projects. The creation of the Mobility Fund in 2010 further earmarked funds previously transferred. As a result, the Highway Trust Fund does not make a transfer to the General Fund in FY 2013-14. Two additional legislative changes impact revenues:

- Effective July 1, 2014, the Highway Trust Fund will receive additional revenues due to an expansion of the Highway Use Tax base. The tax base expansion will apply to dealer transaction fees, such as origination and document fees, that occur during the purchase of a motor vehicle.
- Additionally, S.L. 2013-316, Tax Simplification and Reduction Act, capped the motor fuel tax rate at 37.5 cents per gallon for the period of October 1, 2013 to June 30, 2015, which slightly reduces FY 2013-14 revenues in both the Highway Fund and Highway Trust Fund.

Strategic Transportation Investments

S.L. 2010-183 collapses the dedicated funding streams for interstate projects, secondary roads, urban loops, municipal aid, and the Mobility Fund into a single fund that is divided into the following three tiers:

- Forty percent of funds are distributed based on the prioritization process to the Statewide Strategic Mobility Project tier that includes Interstate, tolled highway, National Highway System routes, freight rail projects on Class I rail corridors, and aviation projects at the State’s four largest airports.
- Thirty percent of funds are distributed to the existing seven transportation regions based on population. In addition to eligible Statewide Strategic projects, the Regional Impact Project tier prioritizes projects between NC or US designated routes, regional public transportation service and multi-county rail lines (excluding short-line railroads), commercial service airports, and ferry projects (excluding vessel replacement).
- Thirty percent of funds are distributed, by equal share, to the 14 highway divisions for the Division Needs Project tier. Project categories within the Division tier include all Statewide Strategic and Regional Impact tier projects, secondary roads, bicycle/pedestrian projects, rail lines (excluding short-line railroads), public transportation, ferry, and aviation projects.

Building upon the premise that project completion should not be determined by legislative mandate, S.L. 2013-183 removes from statute Interstate projects and Turnpike Authority projects for which bonds have not yet been issued. As a result, \$49 million in planned gap funds for the Mid-Currituck Bridge and Garden Parkway are eliminated and transferred to the new Strategic Transportation Infrastructure fund.

Unpaved Secondary Roads

In coordination with S.L. 2013-183, the budget transfers responsibility to pave unpaved secondary roads from the Highway Trust Fund to the Highway Fund and funds the program at \$12 million beginning in FY 2013-14. The original 1989 Highway Trust Fund law dedicated 6.5 percent of revenues remaining after administrative and debt-related expenses to paving unpaved secondary roads. Given the needs of the secondary road system and the declining need for unpaved road funding, S.L. 2005-404, Secondary Road Construction, broadened eligible expenditures to include other improvement needs on the secondary system. The unpaved secondary road paving program is viewed as the most successful Highway Trust Fund



program, paving 89 percent of the State's eligible unpaved secondary roads by FY 2011-12.

Aid to Municipalities

S.L. 2013-183 also alters funding to the Aid to Municipalities program, by restricting the revenue source to 10.4 percent of motor fuel tax revenues from the Highway Fund. Previously, the program was funded by both the Highway Fund and Highway Trust Fund. It was the intent of the General Assembly to hold harmless forecasted municipal payments over five years. Including the revenue loss from the motor fuel tax cap, it is forecast that municipalities will receive a total of \$615,458 more over the course of the next five fiscal years (FY 2013-14 - FY 2017-18).

Funding Highway Maintenance

Consistent with the 2011 and 2012 transportation budgets, the primary goal of the Transportation Committee budget is to preserve program funding to repair, replace, or rehabilitate deficient bridges and to resurface existing roadways. S.L. 2013-360, Sec. 34.3, requires all system preservation funds appropriated over the biennium, totaling \$332.6 million, to be used on structurally deficient and functionally obsolete bridges. The two-year contract resurfacing program, totaling \$835.9 million, will resurface over 10 percent, or 8,300 road miles, of State maintained roadways.

Improving Customer Service

Beginning in March 2013, the Division of Motor Vehicles (DMV) initiated a phased pilot project to improve citizen access to driver license services by extending operating hours to include an additional hour of service during weekday afternoons, as well as Saturday service from 8:00AM – 12:00PM. Initial program phases focused on higher volume locations in Charlotte, Durham, Fayetteville, Greenville, and Raleigh, later expanding to 19 offices by June 2013 in an effort to provide 85 percent of the State's population with access to an office offering extended hours within a 30 mile radius.

To continue and expand the program to 30 total offices by FY 2014-15, S.L. 2013-360 appropriates funds (\$963,829) to support additional part-time personnel and associated operating costs. Funds (\$8.0 million) are also appropriated to begin acceptance of credit and debit card payments for vehicle registration, title, and highway use tax transactions, providing citizens with additional payment options for routine transactions.

Advancing Information Technology

Building on the S.L. 2011-145, Sec. 6A.17, Appropriations Act of 2011, requirement that the Department develop a replacement plan for its legacy DMV information technology systems, S.L. 2013-360 provides \$22.6 million over the FY 2013-15 biennium to advance DMV modernization efforts. In addition to modernizing the platforms for the State Titling and Registration System (STARS), State Automated Driver License System (SADLS), and Liability Insurance Tracking System (LITES), replacement applications are intended to reduce operational and maintenance costs, improve document management, enhance adaptability to policy changes, facilitate data sharing, and integrate business process improvements.

S.L. 2013-360 also continues funding for the Combined Registration and Tax Collection System, also known as the "Tax and Tag Together Program," by budgeting \$14.9 million in recurring receipts and authorizing five additional receipt-funded positions to support and maintain the System, and to account for the collection and distribution of property tax proceeds. S.L. 2005-294 (HB 1779), Property Tax Paid With Vehicle Registration, directed the Department of Revenue and the Division of Motor Vehicles to develop a vehicle registration and tax collection system that integrates combined assessment, billing, and collection of vehicle property taxes and registration fees. Program administration is supported by the administrative and collection fees authorized by G.S. 105-330.5(b).

Ensuring Local Input on Ferry Tolling

Following the Rules Review Commission approval on May 16, 2013 of the rules implementing new and increased fares on five of the seven State-operated ferry routes effective July 1, 2013, pursuant to S.L. 2012-142, Sec. 24.18, Modifications/2012 Appropriations Act, as amended by S.L. 2012-145, Sec. 6.2, Modify 2012 Appropriations Act, the Commission received sufficient written objections to stay implementation of the tolling changes pending legislative review. S.L. 2013-360, Sec. 34.13 replaces the prior tolling requirement and establishes a new locally-initiated process for the expansion of tolling to the four ferry routes that are not currently tolled: Currituck/Knotts Island, Hatteras/Ocracoke, Bayview/Aurora, and Cherry Branch/Minnesott Beach.

Under the new procedure, Metropolitan Planning Organizations and Rural Transportation Planning



Organizations with geographic jurisdiction over each untolled ferry route must submit a resolution approved by their respective Transportation Advisory Committees to request adoption of tolls by the Board of Transportation. However, prior to consideration of a resolution, the Department of Transportation must hold separate public hearings in the geographic areas of each route to explain the methodology used to structure fares, establish potential rates, and address the impact of tolling on funding availability for other transportation priorities. These public hearings must be held no later than March 1, 2014.

While tolling is maintained on remaining routes, including Southport/Ft. Fisher, Cedar Island/Ocracoke, and Swan Quarter/Ocracoke, proceeds are shifted to new reserves to fund ferry passenger vessel replacement projects. Previously, proceeds were used to partially offset operational and maintenance costs across the North Carolina Ferry System, for which an additional \$5.0 million is appropriated. In addition, S.L. 2013-360 grants the Ferry Division additional authority to generate advertising and other revenue, also depositing these proceeds into the newly created reserves for passenger vessel replacements.

Adjustments to Revenue Availability

S.L. 2013-360 reallocates a total of \$72.2 million of available fund balance across multiple construction program accounts to maintenance and other Highway Fund programs. In addition, fee receipts that were previously credited to the non-reverting Division of Motor Vehicles Technology Improvement Account, Inspection Program Account, and Telecommunications Account are consolidated in the Highway Fund to limit balance accumulation. Other revenue adjustments include the diversion of a percentage (0.17 percent) of motor fuel tax revenue from the Highway Fund to the new Shallow Draft Navigation Channel and Lake Dredging Fund, and the implementation of a supplemental annual registration fee of \$100 for plug-in electric vehicles, effective January 1, 2014.

S.L. 2013-360, Sec. 34.14 also incorporates several recommendations from the Program Evaluation Division’s 2012 report, “North Carolina Should Require NC Railroad Company to Pay an Annual Dividend and Strengthen Reporting,” by reinstating dividend payments from the State-owned North Carolina Railroad Company. The Company is required to issue a one-time dividend of \$15.5 million in FY 2013-14, as well as a recurring dividend equal to 25 percent of the income

derived from its trackage rights agreement with the Norfolk Southern Corporation for the preceding fiscal year. In addition, the Company is required to transfer four off-corridor properties to the Department of Administration as a property dividend. One of the four specified parcels, located in New Bern, must be sold; however, the Department of Transportation, North Carolina State Ports Authority, and Department of Administration must jointly evaluate alternate transportation uses for the three remaining parcels located in Morehead City.

Dividends and net proceeds from the sale of the transferred property are credited to the new Freight Rail and Rail Crossing Safety Improvement Fund within the Highway Fund, to be reinvested in projects that enhance freight rail service or improve railroad-roadway crossing safety. Eligible project types may include: track and associated infrastructure improvements; signalization; grade crossing protection, elimination, and hazard removal; and access improvements to industrial, port, intermodal, and military facilities.

For additional information, please contact:

Transportation/Information Technology

<i>Amna Cameron</i>	<i>amnac@ncleg.net</i>
<i>Bryce Ball</i>	<i>bryceb@ncleg.net</i>
<i>Karlynn O’Shaughnessy</i>	<i>karlynno@ncleg.net</i>

*Fiscal Research Division
NC General Assembly
300 N. Salisbury St., Room 619
Raleigh, North Carolina 27603-5925
(919) 733-4910
<http://www.ncleg.net/fiscalresearch>*



Actual and Certified Transportation Expenditures and Receipts by Purpose

Department of Transportation - Highway Fund (84210) & Highway Trust Fund (84290)

	Actual ⁴ FY 2011-12	Actual ⁴ FY 2012-13	Enacted ⁵ FY 2013-14	Enacted ⁵ FY 2014-15
Expenditures				
Construction	1,668,009,380	2,134,023,094	1,950,658,654	1,952,526,514
Maintenance	1,075,236,057	1,147,239,071	1,120,543,988	1,022,097,721
Powell Bill / Aid to Municipalities	138,340,337	142,804,499	142,102,740	136,874,010
Administration	185,775,005	187,828,236	214,343,012	222,785,223
Division of Motor Vehicles	120,982,551	120,744,531	159,911,876	159,832,479
Debt Service (inc. GARVEE ⁶)	119,959,146	140,808,552	138,715,090	122,347,448
Intermodal Divisions:				
Bicycle & Pedestrian	230,003	234,726	751,066	751,066
Public Transportation	85,855,285	165,384,443	116,244,235	116,244,235
Ferry Operations	39,004,562	43,167,273	45,935,538	44,785,538
Airports Program	48,110,935	70,743,368	46,948,227	40,448,227
Rail Services	44,288,094	66,779,829	171,300,788	146,646,636
Reserves, Transfers, & Other	433,991,919	364,094,080	318,117,681	318,273,061
Field Operations, Grants, and Equipment	3,446,563,609	3,628,837,653	3,488,329,552	3,488,329,552 ⁷
Less: Receipts (Federal & Other)	4,906,938,869	5,099,644,302	4,760,024,648	4,750,231,210
 Net Appropriations	 \$2,499,408,014	 \$3,113,045,053	 \$3,153,877,799	 \$3,021,710,500
 Positions (FTE)	 13,154.0	 13,122.0	 12,977.0	 12,655.0

⁴ Actual expenditures, receipts and participation revenues as reported by the Office of State Budget and Management, Department of Transportation, and North Carolina Accounting System (NCAS) for certified and authorized fund codes.

⁵ Prior year actual and enacted FY 2013-15 biennial totals incorporate the certification adjustments required by S.L. 2011-145, Sec. 28.2. Amounts reflected by the "Field Operations, Grants, and Equipment" category include receipt-supported fund centers for field operations, grant programs, and equipment.

⁶ Grant Anticipation Revenue Vehicle (GARVEE) bonds are debt instruments backed by future Title 23 Federal-aid funding.

⁷ Corrects a typographical error found in previous versions of the document.



Change in FTE, FY 2013-14

	Vacant	Filled	Receipts	New	Transfers	Net Change
Transportation Subcommittee						
Transportation - Highway Fund ⁶	(100.0)	-	5.0	-	-	(95.0)
Transportation - Highway Trust Fund	-	-	-	-	-	-
Transportation - Turnpike Authority ⁷	(2.0)	-	-	-	-	(2.0)
Total Transportation Subcommittee	(102.0)	-	5.0	-	-	(97.0)

⁶ The Conference Report eliminates 100 vacant positions in FY 2013-14, of which a minimum of 17 are administrative positions supported by Highway Fund appropriation. A total of 400 vacant positions are eliminated by FY 2014-15.

⁷ The Conference Report eliminates 2 receipt-supported, vacant positions within the Turnpike Authority.