



Transportation Subcommittee 2014-15 Fiscal Year Budget Highlights

Fiscal Brief

October 9, 2014

The North Carolina General Assembly House and Senate Appropriations Subcommittees on Transportation (Transportation Subcommittees) develop and recommend 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 funds.

Actual and Enacted Expenditures and Receipts¹

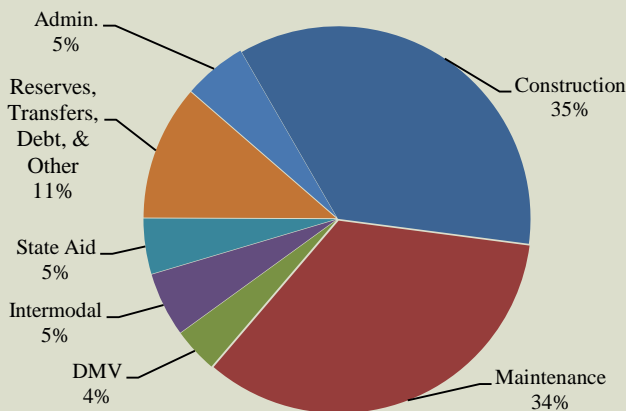
	<u>Actual FY 2011-12</u>	<u>Actual FY 2012-13</u>	<u>Actual FY 2013-14</u>	<u>Certified FY 2014-15</u>
Expenditures	7,406,346,883	8,212,689,355	8,572,339,451	7,853,143,648
Less: Receipts	4,906,938,869	5,099,644,302	5,527,790,107	4,706,608,222
Net Appropriations	\$2,499,408,014	\$3,113,045,053	\$3,044,549,344	\$3,146,535,426
Positions (FTE)	13,154.0	13,122.0	13,025.0	12,393.0

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

Budget Overview

Certified FY 2014-15 Highway Fund and Highway Trust Fund net appropriations total \$3.15 billion, a 4.1 percent increase over the budget enacted by the 2013 General Assembly. Combined appropriations fund 12,663 full-time equivalent positions (FTE). The chart below shows the budget by purpose.

**Highway Fund & Highway Trust Fund
Net Appropriations
FY 2014-15
\$3.15 Billion**



S.L. 2014-100, Appropriations Act of 2014 (S.B. 744), appropriates \$1.98 billion to the Highway Fund and \$1.16 billion to the Highway Trust Fund in FY 2014-15. Legislative adjustments to the FY 2014-15 Highway Fund budget increase spending by \$68 million, in accordance with projected revenues. Highway Trust Fund adjustments increase spending by \$57 million due to higher Highway Use Tax projections and increased Motor Fuel Tax consumption. The Joint Conference Committee Report reflects the continued focus on highway maintenance in the Highway Fund and funding the Strategic Transportation Investments fund in the Highway Trust Fund. This Fiscal Brief provides a summary of the adjusted FY 2014-15 budget for Transportation.



Reforming Highway Maintenance Activities

The Highway Fund supports highway maintenance and operations, including bridge maintenance and repairs, pavement preservation treatments, and other road maintenance activities, such as mowing, repairing guardrails, and filling potholes. The General Assembly made significant changes to increase the transparency of how highway maintenance funds are expended, to increase outsourcing to the private sector, to improve road quality, and to prioritize maintenance activities.

Increasing Transparency

Federal and State law requires each state transportation department to develop a long-range transportation plan for highway construction projects. This plan, referred to as the State Transportation Improvement Program (STIP), includes the stages at which construction projects will be completed over a period of time. The number of projects in the STIP is constrained by the availability of funding over this time period.

S.L. 2013-183, Strategic Transportation Investments Act, authorized a new prioritization formula to select STIP projects that transformed the Highway Trust Fund. Section 34.11(b)(c) of S.L. 2014-100 created a similar program in the Highway Fund. This provision directs the Department of Transportation (DOT) to determine maintenance priorities and develop a three-year maintenance schedule for pavement preservation treatments in each of the 14 highway divisions. The first edition of the Highway Maintenance Improvement Program (HMIP) is due on April 1, 2015.

In addition to the HMIP, Section 34.11(b)(a)(4) of S.L. 2014-100 directs DOT to report the amount of funds needed to fully fund pavement preservation projects that need treatment during the three-year period, but which cannot be completed due to funding constraints.

Section 34.11(c) of S.L. 2014-100 also requires significant changes to the biennial Maintenance Condition Assessment Report (MCAP), due in December. The revised MCAP will better illustrate maintenance priorities and needs, and will compare delivery rates, costs, and staffing levels across highway divisions. The revised MCAP will also make recommendations to the 2015 General Assembly on how DOT can achieve greater efficiencies and savings.

Prioritizing Maintenance Funds

Prior to the 2011 budget, the System Preservation account funded projects that extended pavement life through preservation treatments. Due to the number of deficient bridges, the 2011 General Assembly earmarked all System Preservation funds to fix bridges. From FY 2011-12 through FY 2013-14, preservation treatments were instead funded from the primary and secondary maintenance funds and from the general maintenance reserve fund. Section 34.18 of S.L. 2014-100 permanently earmarks System Preservation funds by changing the fund's name to the "Bridge Program". The Bridge Program is funded at \$153.0 million in FY 2014-15.

Section 34.11(f) of S.L. 2014-100 codifies a new pavement preservation program and establishes a new fund dedicated to preservation treatments. The Appropriations Act funds pavement preservation at \$65.0 million in FY 2014-15 and directs that additional funding may be used from other maintenance accounts.

Increasing Outsourcing

Consistent with the 2011, 2012, and 2013 transportation budgets that increased outsourcing of preconstruction and technical services activities. Section 34.13(a) of S.L. 2014-100 deepens existing outsourcing targets, expands outsourcing for pavement preservation activities, and requires the Department to plan for future staffing cuts. The 2013 budget required DOT to increase the amount of funding that is outsourced overall in the Technical Services and Preconstruction divisions and set additional requirements for three units within these divisions. The 2013 budget also included outsourcing requirements for the Department to meet in FY 2013-14 and FY 2014-15. DOT did not meet its outsourcing targets. As a result, S.L. 2014-100 increased the amount of outsourcing required in FY 2014-15 on the Roadway Design unit and overall.

The 2014 budget lays the foundation to outsource the majority of full-surface pavement preservation treatments in the future. Currently, private industry performs the majority of highway resurfacing projects in North Carolina. Prior to resurfacing, DOT uses various full-surface pavement preservation treatments to preserve and extend the pavement life between resurfacing treatments. Approximately 15 percent of full-surface pavement preservation treatments are currently outsourced. Section 34.11(j) of S.L. 2014-100 directs DOT to conduct trainings and workshops to encourage the private industry to invest in the equipment



necessary to perform this work. Section 34.11(i) of S.L. 2014-100 defines yearly outsourcing targets through FY 2017-18 when 80 percent of full-surface pavement preservation treatments are required to be outsourced.

Section 34.16 of S.L. 2014-100 requires DOT to review the organizational structure and staffing levels in the 14 highway divisions and in the Preconstruction and Technical Services divisions and to report to the Joint Legislative Transportation Oversight Committee by December 1, 2014. In addition to the 297 positions eliminated in this budget, the Department of Transportation is granted the authority to eliminate additional positions within the Preconstruction and Technical Services divisions to meet the FY 2014-15 outsourcing requirements. The study will examine the need for additional position cuts and will make recommendations regarding further reductions to meet the future outsourcing requirements.

Improving Ride Quality

Chip seals, a form of full-surface pavement preservation treatment, are a cost-efficient tool that increases the life of asphalt pavements. A chip seal treatment is applied using a liquid base followed by a layer of aggregate chips. A single application chip seal does not produce a flat surface, which results in a rougher and noisier ride than a flat surface. S.L. 2014-100 directs DOT to restrict the use of single chip seals as a means to improve road quality. S.L. 2014-100 prohibits the use of single chip seals in subdivisions, on access routes with heavy truck traffic, and on secondary roads with daily traffic volumes over 15,000 vehicles. The Department is directed to use additional chip seal layers that contain smaller aggregate chips, apply a cap to a single chip seal to produce a smooth surface, or use other full-surface pavement preservation treatments to improve ride quality.

Currently, the majority of DOT's contract resurfacing projects takes place in the spring near the end of the fiscal year. Resurfacing projects and full-surface pavement preservation treatments cannot be applied during the winter. To establish a letting schedule that enables funds appropriated to contract resurfacing to be used prior to winter, Section 34.11(b)(d) of S.L. 2014-100 directs DOT to let contracts that total 70 percent of the prior year's funding amount by September of each year, beginning in FY 2015-16. To allow time for DOT to prepare for this accelerated schedule, Sec. 34.11(e) requires 60 percent of contract resurfacing funds to be let by November 1, 2014. The ride quality will improve by

accelerating the schedule to resurface roads by six to nine months each fiscal year.

Advancing Information Technology

S.L. 2013-360, Appropriations Act of 2013 (S.B. 402) allocated \$22.6 million to begin modernizing DOT's information technology systems, focusing on upgrades to systems that directly support the Division of Motor Vehicles. Projects funded to date include:

- replacement of automated testers;
- a statewide queuing solution;
- deployment of driver services kiosks;
- mobile unit replacement;
- a new portal for online transactions; and,
- the planning, design, and replacement of the State Automated Driver License System (SADLS).

With a multi-year modernization plan in place, S.L. 2014-100, Appropriations Act of 2014 (S.B. 744), continues this investment toward modernization by allocating an additional \$9.9 million for FY 2014-15. In addition to completing current initiatives, the additional funds will allow the Department to migrate to a service-oriented architecture, standardize service delivery across devices and platforms, and provide greater support to existing systems, principally SADLS and the State Titling and Registration System (STARS). When completed, these enhancements will reduce recurring operating and maintenance costs, improve document management, provide greater adaptability to policy changes, facilitate data sharing, and better align Division of Motor Vehicles business process improvements with its supporting systems.

Adjustments to Revenue Availability

First, S.L. 2014-100 reallocates a total of \$12.0 million in unencumbered fund balance from multiple intermodal accounts to supplement maintenance funding and expedite other initiatives. Second, the quarterly refund of the Motor Fuels Tax for taxicabs is repealed beginning January 1, 2015, resulting in savings of \$69,420 in the Highway Fund and \$23,140 in the Highway Trust Fund. Third, an additional one-time adjustment of \$1.68 million is made to hold the Draft Navigation Channel and Lake Dredging Fund harmless. Lastly, the Department is authorized to begin converting hard copy titles to electronic records upon request for a fee not to exceed \$3.00 per transaction.



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Actual and Certified Transportation Expenditures and Receipts by Purpose

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

	Actual ⁴ FY 2011-12	Actual ⁴ FY 2012-13	Actual ⁴ FY 2013-14	Certified ⁵ FY 2014-15
Expenditures:				
Construction	1,668,009,380	2,134,023,094	2,208,048,902	2,020,519,654
Maintenance	1,075,236,057	1,147,239,071	1,195,804,225	1,075,505,307
Powell Bill / Aid to Municipalities	138,340,337	142,804,499	145,588,013	146,328,000
Administration	185,775,005	187,828,236	193,293,200	208,068,967
Division of Motor Vehicles	120,982,551	120,744,531	127,072,460	138,555,809
Debt Service (inc. GARVEE ⁶)	119,959,146	140,808,552	133,094,441	122,347,448
Intermodal Divisions:				
Bicycle & Pedestrian	230,003	234,726	236,064	721,023
Public Transportation	85,855,285	165,384,443	228,838,566	116,244,235
Ferry Operations	39,004,562	43,167,273	43,231,763	43,183,277
Airports Program	48,110,935	70,743,368	68,609,046	39,581,614
Rail Services	44,288,094	66,779,829	120,185,294	145,686,311
Reserves, Transfers, & Other Field Operations, Grants, and Equipment	433,991,919	364,094,080	356,401,116	330,234,368
	3,446,563,609	3,628,837,653	3,751,936,361	3,486,738,468
Less: Receipts (Federal & Other)	4,906,938,869	5,099,644,302	5,527,790,107	4,706,608,222

Net Appropriations **\$2,499,408,014** **\$3,113,045,053** **\$3,044,549,344** **\$3,146,535,426**

Positions (FTE) **13,154.0** **13,122.0** **13,025.0** **12,393.0**

⁴ Actual expenditures, receipts and participation revenues reported by the North Carolina Accounting System (NCAS) for certified and authorized fund codes.

⁵ Certified FY 2014-15 totals incorporate certification adjustments pursuant to S.L. 2011-145, Sec. 28.2. Field operations, grants, and equipment cost centers are receipt-supported.

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

Change in FTE, FY 2014-15

	Vacant	Filled	Receipts	New	Transfers	Net Change
Transportation Subcommittee						
Transportation - Highway Fund ⁷	(297.0)	(1.0)	-	31.0	-	(267.0)
Transportation - Highway Trust Fund	-	-	-	-	-	-
Transportation - Turnpike Authority	-	-	-	-	-	-
Total Transportation Subcommittee	(297.0)	(1.0)	-	31.0	-	(267.0)

⁷ The Conference Report eliminates 297 vacant positions in FY 2014-15, of which a minimum of 27 are administrative positions supported by Highway Fund appropriations. The 27 administrative positions being eliminated can be vacant or filled.