



# Transportation Subcommittee 2015-17 Fiscal Biennium Budget Highlights

Fiscal Brief

October 26, 2015

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 motor fuels tax, highway use tax, Division of Motor Vehicles fees, and federal funds.

### Actual and Enacted Expenditures and Receipts<sup>1</sup>

	<u>Actual</u> <u>FY 2013-14</u>	<u>Actual</u> <u>FY 2014-15</u>	<u>Enacted</u> <u>FY 2015-16</u>	<u>Enacted</u> <u>FY 2016-17</u>
<b>Expenditures</b>	8,170,569,574	8,336,425,773	8,562,555,439	8,631,131,656
<b>Less: Receipts</b>	5,388,302,629	5,139,165,047	5,302,227,310	5,302,295,507
<b>Net Appropriations<sup>2</sup></b>	\$2,782,266,945	\$3,197,260,726	\$3,260,328,129	\$3,328,836,149
<b>Positions (FTE)</b>	13,025.0	12,366.0	12,399.0	12,399.0

<sup>1</sup> Division level budget and FTE information is provided at the end of this brief.

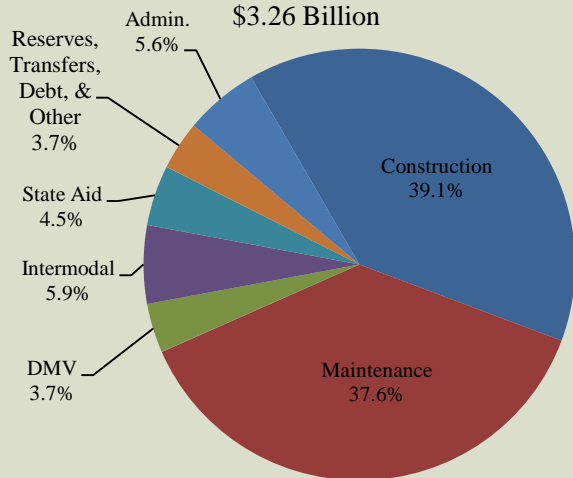
<sup>2</sup> Corrected on 12/11/2015. Net General Fund Appropriations was corrected to Net Appropriations.

### Budget Overview

The enacted FY 2015-16 net appropriations for the Highway Fund and Highway Trust Fund total \$3.26 billion, a 3.6% increase over the FY 2014-15 enacted budget. Combined appropriations fund 12,399 full-time equivalent positions (FTE). The chart below shows the budget by purpose.

#### Highway Fund & Highway Trust Fund Net Appropriations

FY 2015-16  
\$3.26 Billion



S.L. 2015-241, 2015 Appropriations Act (H.B. 97), as amended by S.L. 2015-268, General Government Technical Corrections (H.B. 259) and S.L. 2015-264, GSC Technical Corrections 2015 (S.B. 119), appropriates \$1.95 billion to the Highway Fund and \$1.31 billion to the Highway Trust Fund in FY 2015-16. Legislative adjustments from the FY 2015-16 Highway Fund base budget increase total spending by \$29.1 million and reallocate \$143.0 million in existing funding for roadway maintenance. Legislative adjustments from the FY 2015-16 Highway Trust Fund base budget increase total spending by \$150.5 million due to higher Highway Use Tax (HUT) revenue projections, increased maximum HUT payments for commercial, recreational, and out-of-state vehicles, and redistribution of motor fuel tax proceeds. The budget reflects an emphasis on revenue reform, highway maintenance, and Strategic Transportation Investments program funding. This fiscal brief provides a summary of the enacted FY 2015-16 budget for Transportation.



## **Motor Fuel Tax Changes**

The preliminary FY 2015-17 motor fuel tax forecast indicated sharp declines in the price of gasoline and diesel fuel at the pump, which would have caused a significant loss of motor fuel tax revenues in the Highway Fund and the Highway Trust Fund. The motor fuel tax rate was forecast to drop from 37.5 cents per gallon to 29.9 cents per gallon on July 1, 2015. S.L. 2015-2, IRC Update/Motor Fuel Tax Changes, made two significant changes to the motor fuel tax in order to stabilize future motor fuel tax revenues: it altered the tax rate and the tax formula.

### *Tax rate changes*

S.L. 2015-2 set the motor fuel tax rate at 36.0 cents per gallon from April 1, 2015 to December 31, 2015. The rate will reduce to 35.0 cents per gallon from January 1, 2016 through June 30, 2016 and will reduce to 34.0 cents per gallon from July 1, 2016 to December 31, 2016. Prior to this bill, the tax rate changed every January 1 and July 1. Beginning January 1, 2017, the tax rate will change annually.

### *Tax formula changes*

Prior to this bill, the motor fuel tax rate formula included a flat rate of 17.5 cents per gallon plus a variable rate of 7% of the wholesale price of gasoline based on a weighted average price of gasoline and diesel for a six-month base period, as reported by the US DOE Energy Information Administration. Beginning January 1, 2017, a new motor fuel tax formula will be used to calculate the tax rate. The formula includes two components: a base tax rate, which is the rate in effect prior to the adjustment; and a variable rate calculated as a percentage adjustment from:

- The percentage change in population, multiplied by 75%, and
- The annual percentage change in the Consumer Price Index for All Urban Consumers-Energy, multiplied by 25%.

### *Impact of motor fuel tax revenues*

Lowering the motor fuel tax rate during the remaining three months of FY 2014-15 reduced Highway Fund and Highway Trust Fund revenues by \$13.5 million. Eliminating the formula and the anticipated drop in the motor fuel tax rate increased Highway Fund and Highway Trust Fund revenue by \$263.6 million in FY 2015-16 and \$159.9 million in FY 2016-17. The increased motor fuel tax revenues were incorporated into the estimated revenues available in the FY 2015-16 and FY 2016-17 transportation budgets.

## **Adjustments to Revenue Availability**

S.L. 2015-241 makes numerous adjustments to transportation revenues and to the purposes for which those revenues are appropriated, including the elimination of the Highway Fund transfer to the General Fund, Division of Motor Vehicles (DMV) fee adjustments, redistribution of motor fuel tax proceeds among the Highway Fund and Highway Trust Fund, and the elimination of certain transfers to other State agencies. Cumulative legislative adjustments from the base budget, including the reallocation of previously transferred funds, total \$301.3M for FY 2015-16 and \$404.6M for FY 2016-17.

### *General Fund transfer elimination*

This \$215.9 million transfer was composed of two components – a direct appropriation to the General Fund that previously supported State Highway Patrol operations and a sales tax refund pursuant to G.S. 105-164.44D, which is repealed by S.L. 2015-241, Section 2.2(b).

### *DMV fee/tax adjustments*

Fees assessed by the Division of Motor Vehicles were last comprehensively adjusted in 2005. Effective January 1, 2016, S.L. 2015-241, Section 29.30 increases these fees by an average of 30% per fee category, raising an estimated \$185.1 million annualized for departmental operations and capital projects. Additionally, S.L. 2015-241, Section 29.34A increases the Highway Use Tax caps on commercial vehicles from \$1,000 to \$2,000, on recreational vehicles from \$1,500 to \$2,000, and on out-of-state vehicles from \$150 to \$200, effective January 1, 2016,



raising an estimated \$10.0 million annualized for capital projects.

#### *Motor fuel tax redistribution*

Historically, net motor fuel tax proceeds have been apportioned to the Highway Fund (HF) and the Highway Trust Fund (HTF) based on a 75/25 ratio. Given the aforementioned revenue adjustments, which would otherwise largely benefit Departmental operations and roadway maintenance, S.L. 2015-241, Section 29.27B alters the motor fuel tax distribution to a 71/29 ratio to increase funding for capital projects. In total, \$76.3 million is shifted from the HF to the HTF in FY 2015-16 and \$73.8 million in FY 2016-17.

#### *Transfers to other State agencies*

S.L. 2015-241, Section 29.4 transfers additional recurring funds to the Shallow Draft Navigation Channel Dredging and Lake Maintenance Fund to support inlet dredging activities, increasing the transfer rate from 1/6<sup>th</sup> of one percent of motor fuel tax proceeds that would be credited to the Highway Fund to one percent. This change reduces revenue availability by \$11.0 million in FY 2015-16 and \$10.4 million in FY 2016-17. Additionally, S.L. 2015-241, Section 29.27B eliminates the motor fuel tax diversion to the Noncommercial Leaking Underground Storage Tank program, effective July 1, 2016, increasing availability by \$2.5 million in FY 2016-17.

### **Improving Transportation Infrastructure**

#### *Bridge Condition*

Reducing the number of deficient bridges has been a priority of each General Assembly since 2011, but progress has been slow. The General Assembly established a bridge program with dedicated recurring funding to target funding for deficient bridges. Deficient bridges are designated as either structurally deficient (SD) or functionally obsolete (FO). Based on 2014 data collected by the North Carolina Department of Transportation (DOT), 16.4% of North Carolina's 12,493 bridges are structurally deficient (SD). Only Pennsylvania has more SD bridges, and only Pennsylvania and Rhode Island have a higher percentage of bridges that are SD. The national

average for the percentage of SD bridges is 7.4%. North Carolina has the third highest number of FO bridges in the United States, at 2,924 bridges, trailing only Pennsylvania and Texas. Ten states have higher percentages of FO bridges.

Due to the State's aging infrastructure and the rate at which bridges were moving into the deficient categories, DOT emphasized the need for more bridge funding and requested the General Assembly focus of repairing and replacing SD bridges. According to DOT, inflationary adjustments combined with the increasing number of SD bridges required an additional \$40 million recurring to maintain the current number of SD bridges. Reducing the number of SD bridges required a much greater investment. According to DOT, \$90 million in recurring funds is needed to reduce the percentage of SD bridges from 16.4 percent to 10% over 15 years.

S.L. 2015-241 increases funding to bridges by \$57.1 million in FY 2015-16 and by \$88.7 million recurring in FY 2016-17. The total bridge program budget is \$210.5 million in FY 2015-16 and \$242.1 million in FY 2016-17. Every \$1 million of funding replaces approximately one bridge or preserves 3 to 4 bridges. S.L. 2015-241, Section 29.6 maintains the restriction of bridge program funds on repairing or replacing SD bridges and expands eligibility to include large culverts in poor condition but limits spending on culverts to no more than 10 percent of bridge funding. DOT may use other sources of maintenance funding, such as primary or secondary maintenance funds, to repair FO bridges or to maintain bridges not rated as deficient.

#### *Roadway Condition*

S.L. 2015-241 also makes significant investments to improve the condition of State maintained roads. Resurfacing funds are increased by \$57.6 million in FY 2015-16 and by \$89.2 million recurring in FY 2016-17. Funds for pavement preservation, used for chip seal applications, are increased by \$35.0 million in FY 2015-16 and by \$20 million recurring in FY 2016-17.

Resurfacing and chip seals applications are full-surface pavement treatments but resurfacing includes a



1 ½” to 2” application of asphalt for a smooth riding surface while chip seals include smaller aggregate chips with a thin application of a liquid asphalt base, impacting ride quality. Resurfacing is used on roads on the primary system and high volume secondary roads while chip seals are restricted to roads with daily traffic volumes less than 15,000 vehicles. The total resurfacing budget is \$466.4 million in FY 2015-16 and \$497.9 million in FY 2016-17. Every \$1 million of funding resurfaces approximately 12.5 lane miles. The total pavement preservation budget is \$100.0 million in FY 2015-16 and \$85.0 million in FY 2016-17. Every \$1 million of pavement preservation funding seals 66 lane miles.

S.L. 2015-241, Section 29.16 directs DOT to divide the additional resurfacing funding equally among counties during the biennium. Base budget resurfacing funds will continue to be distributed to counties based on the following formula: 50% share from the pavement needs survey, 37.5% based on total paved lane miles, and 12.5% per share of total population. S.L. 2015-241, Section 29.17 expands the eligible uses of the pavement preservation fund to include crack sealants and eliminates the requirement that a minimum of 4,700 lane miles must be treated each year.

Secondary roads make up 80% of the State’s highway system. The budget increases funds to secondary roads by \$38.8 million in FY 2015-16 and \$18.1 million recurring in FY 2016-17. The total secondary road maintenance budget is \$306.0 million in FY 2015-16 and \$285.3 million in FY 2016-17. Secondary road maintenance funds can be used to pay for staffing and are used to support activities such as repairing potholes or guardrails, mowing, lighting, and litter removal.

The State Transportation Improvement Program (STIP) is the State’s 10-year (2016 - 2025) plan and construction schedule for highway and non-highway projects. Legislative adjustments increase STIP funding by \$161.5 million in FY 2015-16 and by \$175.8 million in FY 2016-17, adding \$1.6 billion in additional funding for construction over the 10-year schedule. These funds will significantly expand the number of projects currently programmed and will

enable some projects to be accelerated. In comparing the 2016-2025 allocations to the three Strategic Transportation Investment tiers, the Statewide Tier will be expanded to include \$686 million more for projects. The Regional Tier and the Division Tier will include an additional \$514 million each over the next 10 years, with each of the 14 Highway Divisions receiving \$36.7 million more. The Board of Transportation is expected to vote on STIP amendments resulting from S.L. 2015-241 at its January 7, 2016 meeting.

Section 29.15A of S.L. 2015-241 expands the number of turnpike projects that can be designed, established, purchased, constructed, operated, and maintained from a total of nine projects to eleven. It also removes the cap on the number of turnpike projects the Department is authorized to study, plan, develop, and preliminarily design. The Triangle Expressway, previously counted as three projects, is treated as one project. These changes enable the Department to construct eight Turnpike projects in addition to the Triangle Expressway, the Monroe Connector/Bypass and the I-77 Express Lanes project.

#### *Ports Infrastructure*

S.L. 2015-241 also establishes a recurring funding source for the modernization of State Ports Authority (Authority) facilities, totaling \$35 million annually. This action marks the inception of capital funding for the Authority following its transfer to the Department of Transportation from the Department of Commerce in FY 2011-12. Recipient projects will be chosen by the Authority’s Board of Directors in accordance with its approved Capital Improvement Plan.

#### **Increasing Transparency and Accountability**

S.L. 2015-241, Section 29.14 amends Chapter 136 of the General Statutes to establish the “DOT Report” program. This program advances prior legislative directives to increase transparency, oversight, accountability, innovation and responsiveness to improve the condition of State maintained roads. Notable program components include:

- Requiring a toll-free number and a web application for citizens to report road hazards.



DOT must complete pothole repairs within two business days, safety related repairs within 10 business days, and non-safety related repairs with 15 business days.

- Establishing unit pricing to drive cost savings and implement other mechanisms to streamline and advance project delivery.
- Directing DOT to deliver more information to the public regarding the status of highway projects.
- Requiring DOT to make significant website enhancements to improve citizens' ability to

track project schedules, budgets, and road closures. The status of a) all STIP projects that are programmed in the first five years, b) maintenance projects costing over \$1 million, c) bridge replacement projects, and d) any bridge closings lasting more than one day must be updated monthly.



*For additional information, please contact:*

*Transportation/Information Technology*

<i>Amna Cameron</i>	<a href="mailto:amnac@ncleg.net"><u>amnac@ncleg.net</u></a>
<i>Bryce Ball</i>	<a href="mailto:bryceb@ncleg.net"><u>bryceb@ncleg.net</u></a>
<i>Karlynn O'Shaughnessy</i>	<a href="mailto:karlynno@ncleg.net"><u>karlynno@ncleg.net</u></a>

*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 Enacted Transportation Expenditures and Receipts by Purpose**

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

	Actual <sup>4</sup> FY 2013-14	Actual <sup>4</sup> FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
<b>Expenditures:</b>				
Construction	1,946,838,407	2,042,131,924	2,180,075,328	2,191,877,800
Maintenance	1,189,113,032	1,211,994,132	1,227,435,222	1,300,435,872
Powell Bill / Aid to Municipalities	145,588,013	147,050,152	147,500,000	147,500,000
Administration	194,980,377	215,163,436	218,427,320	195,982,817
Division of Motor Vehicles	126,877,870	139,597,512	138,609,904	138,678,101
Debt Service (inc. GARVEE <sup>5</sup> )	133,090,095	122,177,266	110,659,701	123,052,229
Intermodal Divisions:				
Bicycle & Pedestrian	236,064	197,597	726,895	726,895
Public Transportation	142,606,729	167,766,999	119,173,419	119,173,419
Ferry Operations	40,977,575	46,398,300	45,600,395	45,600,395
Airports Program	50,150,014	68,730,480	56,464,669	51,964,669
Rail Services	113,656,727	144,466,972	145,606,016	145,606,016
Reserves, Transfers, & Other Field Operations, Grants, and Equipment	352,894,633	388,640,490	110,797,385	109,054,258
	3,733,560,037	3,642,110,512	4,061,479,185	4,061,479,185
<b>Less: Receipts (Federal &amp; Other)</b>	<b>5,388,302,629</b>	<b>5,139,165,047</b>	<b>5,302,227,310</b>	<b>5,302,295,507</b>
<b>Net Appropriations</b>	<b>\$2,782,266,945</b>	<b>\$3,197,260,726</b>	<b>\$3,260,328,129</b>	<b>\$3,328,836,149</b>
<b>Positions (FTE)</b>	<b>13,025.0</b>	<b>12,366.0</b>	<b>12,399.0</b>	<b>12,399.0</b>

<sup>4</sup> Actual expenditures, receipts and participation (local/federal/other) revenues reported by the North Carolina Accounting System (NCAS) for certified and authorized fund codes.

<sup>5</sup> Grant Anticipation Revenue Vehicle (GARVEE) bonds are debt instruments backed by future Title 23 federal-aid funding.

**Legislative Changes in FTE, FY 2015-16**

	Vacant	Filled	Receipts	New	Transfers	Net Change
<b>Transportation Subcommittee</b>						
Transportation - Highway Fund <sup>6</sup>	-	(1.0)	(49.0)	1.0	-	(49.0)
Transportation - Highway Trust Fund	-	-	-	-	-	-
Transportation - Turnpike Authority	-	-	-	-	-	-
<b>Total Transportation Subcommittee</b>	<b>-</b>	<b>(1.0)</b>	<b>(49.0)</b>	<b>1.0</b>	<b>-</b>	<b>(49.0)</b>

<sup>6</sup> Of the 50 filled positions eliminated in FY 2015-16, 49 are receipt-supported.