



**North Carolina's Transportation Future:  
Is the Gas Tax Working?**

*NC Go!*  
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In the midst of hurricane season, North Carolina is facing its own unique *Perfect Storm*. Our transportation system is suffering under the burden of increased use and aging while fewer resources are available for its maintenance, improvements and new projects. When combined with rapidly increasing inflation for transportation construction, the result is a collision between cost, flat funding and increased system use.

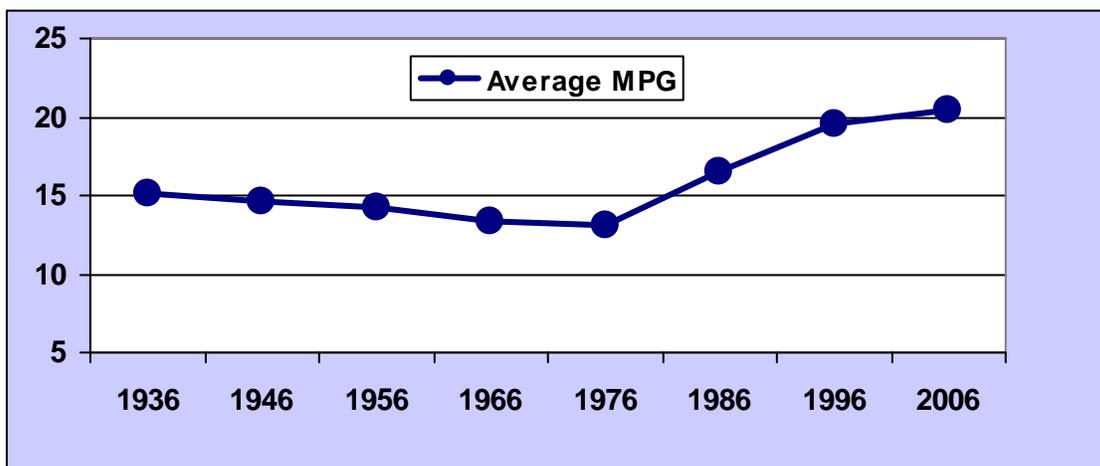
Citizens are demanding increased fuel efficiency in vehicles and relying more upon public transportation, both of which impact the leading source of North Carolina's transportation funding – the motor fuels tax. Despite this, state legislators continue to rely on the gas tax and highway use tax as the main sources of revenue for transportation funding.

Highways and bridges in North Carolina are funded primarily with state resources. North Carolina maintains more lane miles than any state except Texas. In fact, 76 percent of our state's 79,067 miles are controlled by and rely on state, rather than local, funding. While many drivers feel they are paying their fair share via the gas tax, it is important to look at the total picture of state and local funding, especially in comparison to similar states. The questions that should be asked are:

- Are drivers paying equitably given the amount they use the roads?
- How do drivers in North Carolina and other nearby states pay for the roadways?
- Does the current funding system work – and will it work in the long term?

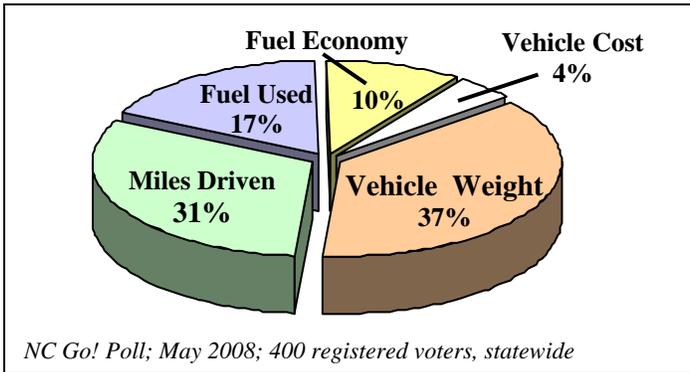
### **Are drivers paying equitably for their mile of road?**

Reliance on the motor fuels tax began early in the previous century and has not kept up with the times. Established in 1921 as a “user pays approach,” the tax on motor fuels was created at a time when there were fewer vehicles on the roads, drivers traveled shorter distances and most importantly, fuel efficiency was not an issue nor was there great variance between vehicles.



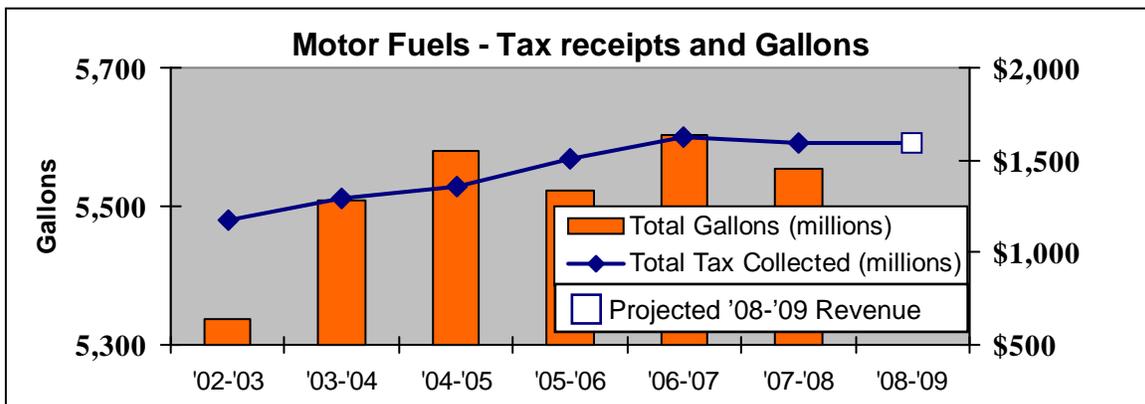
Times are changing, however. While the upwards progression in fuel efficiency has been rather slow, current fuel prices are changing consumer behavior and purchasing decisions, as well as spurring the federal government to action. In March 2008 the reported U.S. auto fleet average was 26.8 mpg, and in April 2008, the National Highway Traffic Safety Administration (NHTSA) announced a goal of 35.7 mpg for cars and light trucks by 2015. This means the trend of paying less per mile driven will only continue.

Currently the North Carolina gas tax allows for 29.9 cents per gallon of gas to be directed to the Highway Fund and the Highway Trust Fund. Increasing fuel efficiency means for the mile you drive, less gas is consumed. Therefore, less revenue per mile traveled to pay for maintenance and improvements. More importantly, because there is not uniformity across vehicles everyone pays different rates. Is it fair for a hybrid or high efficiency vehicle to contribute less, even though its impact in terms of wear and tear is the same as another vehicle?



Not according to citizens around the state. In an *NC Go!* poll from May 2008, respondents were asked what they thought was the fairest gauge of one's use of the highways. The top responses were basing fees or taxes on vehicle weight (37%) or miles traveled (31%) compared to fuel used (17%), fuel economy (10%) and vehicle value (4%).

The volatility in gas pricing has also impacted transportation revenue. Not only is fuel economy decreasing revenue receipts, but gas sales in general are down. Despite our tremendous population growth, NC DOT took in \$27.3 million less in gas tax revenue in 2007 than in 2006. And, as a result of the cap placed on the variable rate component of the gas tax (adjusts incrementally based on price), it is projected that the state will lose out on \$240 million in potential funding this year.

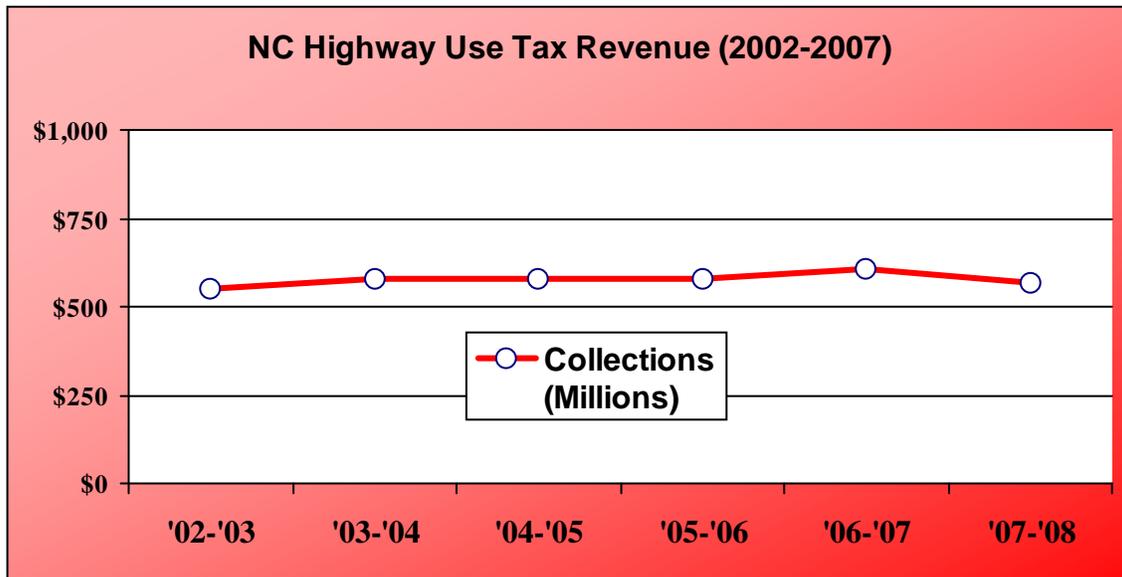


At a time when gas consumption is continually decreasing due to new fuel technologies, gas tax revenue is subsequently reduced. In fact, fuel tax revenue has remained relatively flat over the last five years while the costs of road construction materials have exponentially increased.

Currently we are not paying equitably for our use of the roads. Basing usage on fuel consumption is a best guess at one's use of highways. Increased fuel costs, fuel efficiency and environmental concerns are driving down consumption. Variance in fuel efficiencies between cars result in everyone paying differently for the amount of road they use or impact.

### North Carolina's system compared to other states

In our state the Highway Use Fee is collected at the time a vehicle is titled. The fee is capped at 3 percent of the vehicle's value (includes a trade-in allowance) and yields approximately \$570 million per year. Like the gas tax, revenue for the highway use tax has remained flat for the past several years - even in times of rapidly increasing costs.



Several other states in the Southeast have higher user fees which allows for additional revenue. For every percentage point the NC Highway Use Tax could be raised, about \$200 million would be generated for much-needed transportation projects.

State	Tax	Increase if NC taxed at this rate (millions)
Florida	6% net of trade	\$600
Georgia	4%-7% net of trade	\$200-\$800
South Carolina	5% net of trade, max \$300	Reduction
Tennessee	7% net of trade	\$800
Texas	6.25% net of trade	\$650
Virginia	3%	\$115

When all means of “paying for the roads we use” are tallied, North Carolinians pay less than drivers in most of our neighboring states. Once license fees, registrations, property taxes, use fees and motor fuels tax are combined, it is clear we have been comparing apples to oranges in thinking our contribution is excessive or higher than other states.

### **Does the current system work?**

How North Carolina funds its transportation system worked for most of the 20<sup>th</sup> century, but times have greatly changed. In light of stagnant growth of funding, the Perfect Storm is gaining strength due to the following factors:

- North Carolina's population will increase by 50 percent by 2030, jumping from 8 million residents to more than 12 million.
- Every day more drivers are taking to the roads in our state, **and** each of us are driving more miles and further distances.
- While funding for highway construction has crept up only about 3 percent, the cost of construction has rapidly increased – more than 100 percent between 2002 and 2008.
- Public transportation is in great demand, specifically in certain urban areas, but localities lack the means to address their own unique needs.

If the situation is not addressed soon, the safety and quality of life of North Carolinians will be compromised. Our roads will become more congested and the condition of our roads and bridges will continue to deteriorate. Also, our economic strength will be compromised as businesses choose to locate or do business in areas more conducive to the movement of workers, goods and services.

So how do we counteract our state's historical "user pays" system of transportation funding that is currently failing? North Carolina must find new ways that fairly charge drivers for their use of the road. It is also possible that incremental measures could be taken so no one demographic or geographic region is overly burdened.

First, localities should be provided the same local options as in the Charlotte region – voter-backed sales taxes or other fees. The citizens in fast-growing metropolitan areas should have the ability to approve measures to raise funding for transportation projects like transit and urban loops.

Alternative methods of taxation like vehicles miles traveled, vehicle weight and toll roads must be considered. Each of these more accurately gauges a vehicle's use and impact on our highways. If we want to meet head-on the *Perfect Storm* of transportation needs that is brewing in North Carolina, the time has come to open our minds to new ways to raise revenue, admit we each are responsible for our fair share and have the courage to support leaders willing to invest in North Carolina's transportation system.