

The NC FIRST Commission was created in March 2019 to evaluate North Carolina’s transportation investment needs. Their job is to advise the Secretary of Transportation of new or better ways to ensure that critical financial resources are available in the future. As part of this process, we’ll be looking for input from you, the people of North Carolina! This brief overviews fees collected by the Division of Motor Vehicles (DMV) and how shifting mobility preferences, technological advancements, and population changes may reduce these fees in the future.

N.C. Division of Motor Vehicle Fees

Overview

The North Carolina DMV collects numerous fees that enable you to lawfully operate a vehicle (**Figure 1**). The primary DMV fees are driver license fees, vehicle titling fees, and vehicle registration and inspection fees. This brief focuses on license, registration, and inspection fees. DMV fees are deposited into the Highway Fund to support maintenance and operations and into the Highway Trust Fund to support NCDOT’s capital program.

In FY 2020, DMV processed more than 1.4 million original and renewal driver license issuances and registered 8,251,423 million vehicles, with DMV fees providing 21.4 percent of the state’s total revenues for transportation investment. Due to the COVID-19 pandemic, DMV revenues are 3.6 percent lower than in FY 2019. The revenue loss is related to the five-month extension (from March 1 to August 1) for citizens to renew and pay for driver licenses, vehicle inspections, and vehicle registrations.¹ Revenues will therefore be higher in FY 2021 due to delayed payments from the filing extension, plus the inflationary adjustment that went into effect on July 1, 2020,² even though the number of DMV transactions is forecast to remain steady. DMV fee revenue will continue to grow in the near term due to ongoing inflationary adjustments, but its long-term stability is questionable.

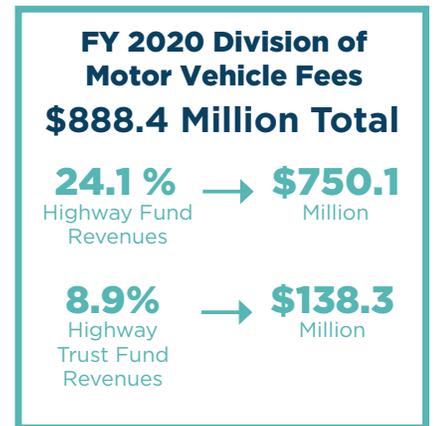


Figure 1: DMV Fees Deposited in Highway Fund and Highway Trust Fund

Highway Fund	Highway Trust Fund
Driver License	Vehicle Title
Vehicle Registration	Misc. Registration
Safety Inspection	Lien Recording
Emissions Inspection	
Dealer	
Lien Recording	
Hearings	
Internat'l Registration Plan	
Motor Carrier	
Restoration	

¹ 2020 N.C. Sess. Laws, Chap. 2020-3, §4.7(b)

² 2015 N.C. Sess. Laws, Chap. 2015-241 (N.C. Gen. Stat. §20-4.02)

How Do DMV Fees Work?

Unlike the revenues generated from motor fuels and highway use taxes, DMV fees are less impacted by the state’s economic condition. During economic downturns, households may reduce travel and delay trading vehicles, but individuals generally tend to maintain ownership of their vehicles. As a result, revenues from DMV fees remain consistent with minimal annual growth. The legislature raised most DMV fees by 30 percent in the 2015 budget. Revenue increases in **Figure 2** and **Figure 3** are attributable to this fee increase. The law also authorized DMV to apply an inflationary increase to DMV fees every four years, beginning on July 1, 2020.³ The first inflationary adjustment increased fees by 7.8 percent. The next fee adjustment will occur on July 1, 2024.

Driver licenses.⁴ DMV issues three classes of individual and commercial driver licenses, an ID card, and three types of learner permits for teenagers, commercial drivers, and motorcyclists. The most common license issued is a Class A license. Prior to 2006, the legislature required DMV to issue licenses every five years, but it extended the time to every eight years.⁵ Drivers aged under 21 and over 66 have a shorter duration. Graduated licenses are issued in three levels with varying driving rights to teenagers between the ages of 15 and 17. The third level, a full provisional license, expires at age 21. For older drivers, the license expires five years after the person turns 66 and requires registration every five years thereafter.

Driver license fees are due at each issuance and are based on a set annual rate. Regular driver license fees are \$5.50 per year for a total of \$44 during a person’s eight-year renewal. Commercial driver license fees are \$21.50 annually. The three graduated license fees are each \$21.50. DMV issued more than 1.4 million original or renewal driver licenses in FY 2020 and collected \$692.7 million in fees.

What is the REAL ID Act?

In 2005, Congress required states to adopt a uniform set of standards for issuing identification cards. Referred to as the REAL ID Act, it prohibits the federal government from accepting identity cards that do not comply. Beginning October 1, 2021, you must present a REAL ID compliant driver license, unexpired passport, or other federally-issued identification card to fly domestically or to enter certain federal facilities, such as military installations.

Annual vehicle registrations. Vehicle registration fees have been in place since 1909, 12 years before the passage of the state motor fuels tax. Residents are required to register vehicles operating in the state each year. Prior to registration, the vehicle must pass inspection and the vehicle must have liability insurance. Vehicle registration fees are deposited in the Highway Fund. Most private passenger vehicles are charged a registration fee of \$38.75 annually. An additional annual fee of \$140.25 is collected on electric vehicles. Registration renewals are billed in combination with local government vehicle property taxes, referred to as the Tax and Tag program.

In FY 2020, DMV processed 8,251,423 million vehicle registrations. Revenues from vehicle registrations are consistent. The revenue growth from FY 2015 to FY 2016 is due to the 30 percent increase in fees that went into effect on January 1, 2016

Figure 2: DMV Revenues, FY 2009-FY 2020

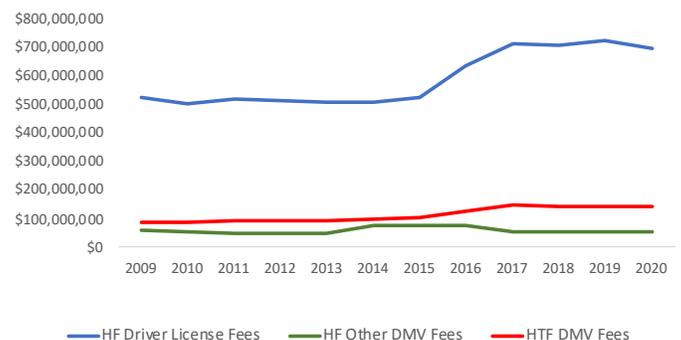
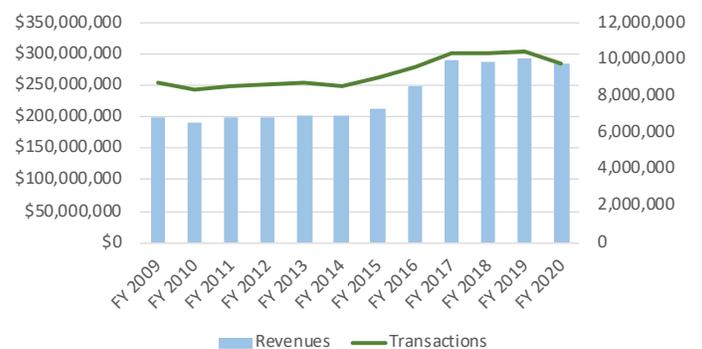


Figure 3: Vehicle Registrations and Revenues, FY 2009-FY 2020⁶



³ Ibid.
⁴ N.C. Gen. Stat. §§20-5 et seq.
⁵ 2006 N.C. Sess. Laws, Chap. 2006-257
⁶ NCDMV

The legislature has authorized two local registration taxes to support public transit operations. Passed in 1997, proceeds from the Regional Transit Authority Registration Tax, capped at \$8, are used to “raise revenue for capital and operating expenses of an authority in providing public transportation systems.”⁷ The public transportation authority enacts the regional tax through a resolution. The legislature authorized the County Vehicle Registration Tax, capped at \$7, in 2009.⁸ Like the regional tax, all proceeds must be spent on operating a public transit system. Both taxes are collected by DMV and distributed back to local entities. As shown in **Figure 4**, four counties levy the regional tax and three counties levy the county tax. Municipalities are also authorized to charge an annual vehicle tax, capped at \$30, for streets and public transit. Up to \$5 may be used for general non-transportation purposes.⁹

Annual vehicle safety and emissions inspections.¹⁰ Since 1965, legislation has required residents in all N.C. counties to have an annual vehicle safety inspection. Vehicle emission inspections determine how many air pollutants are emitted from the vehicle’s exhaust. Emissions inspections began in 1982 in Mecklenburg County, before expanding to 9 counties in 1996 and to 48 counties in 2006. S.L. 2017-10 directed the N.C. Department of Environmental Quality to end inspections in counties if air quality was not negatively impacted and if, statewide, North Carolina upheld national air quality standards. As a result, residents in 26 counties were no longer required to have annual vehicle emissions inspections. Since December 1, 2018, residents in 22 counties must have an annual vehicle emissions inspection unless the vehicle is less than 3 years old or has fewer than 70,000 miles, was manufactured 20 or more years ago, is diesel-powered, or is a plug-in or fuel cell electric vehicle (**Figure 5**). Vehicles must pass inspections before being registered.

Because the inflationary increase does not apply to vehicle safety and emission inspection fees, these fees remain \$12.75 and \$23.75, respectively. Inspection fee revenues are retained by the inspection station. A separate authorization fee of \$0.85 for safety inspections or \$6.25 for both inspections is collected by DMV. In FY 2020, revenue from vehicle safety inspections totaled \$2.9 million while emissions inspection fees totaled \$19.8 million. Revenues declined sharply compared to FY 2019 due to the five-month extension (from March 1 to August 1) for vehicle inspections.¹¹ Fees are deposited into the Highway Fund, but a small portion of the authorization fees are diverted to the Volunteer Rescue/EMS Fund, the Rescue Squad Workers’ Relief Fund, and the Department of Environmental Quality’s Division of Air Quality (**Figure 6**). Safety inspection revenues have seen minimal growth while emissions revenues vary based on the number of eligible counties and on statutory changes (**Figure 7**). The FY 2014 increase is attributable to a redistribution of \$4.75 to the Highway Fund from two eliminated funds: the Inspection Program Account and the Telecommunications Account.¹²

Figure 4: Regional Registration Taxes

County	Regional Transportation Tax	County Registration Tax
Durham	\$8	\$7
Orange	\$8	\$7
Randolph	\$1	\$—
Wake	\$8	\$7

Figure 5: Counties with Vehicle and Emission Inspection Requirement¹³

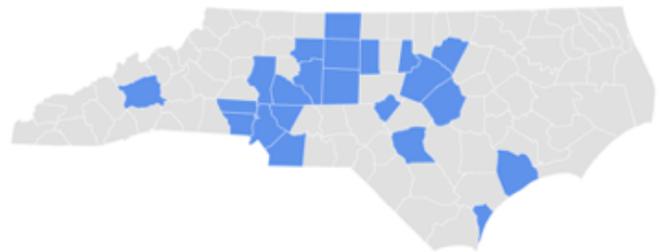
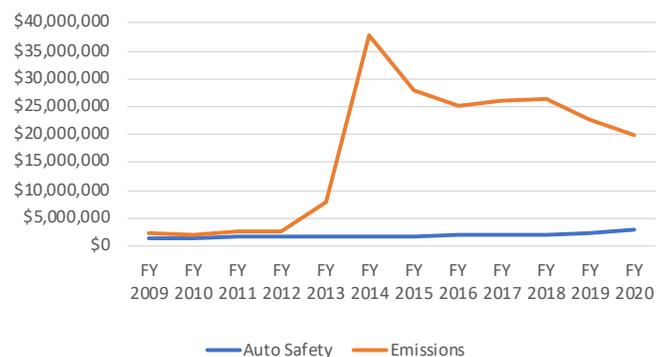


Figure 6: Distribution of Vehicle Safety and Emissions Inspection Fees

	Safety Only	Safety and Emissions
Inspection Station	\$12.75	\$23.75
Authorization Fee		
Highway Fund	\$0.55	\$5.30
Volunteer Rescue/EMS Fund	\$0.18	\$0.18
Rescue Squad Worker’s Relief Fund	\$0.12	\$0.12
Division of Air Quality	—	\$0.65
Total Authorization Fee	\$0.85	\$6.25

Figure 7: Fees from Vehicle Inspections, FY 2009-FY 2020¹⁴



⁷ N.C. Gen. Stat. §§105-560 et seq.
⁸ N.C. Gen. Stat. §§105-570 et seq.
⁹ N.C. Gen. Stat. §20-97
¹⁰ N.C. Gen. Stat. §§20-183.2 et seq.

¹¹ 2020 N.C. Sess. Laws, Chap. 2020-91, §4.7(b)
¹² 2013 N.C. Sess. Laws, Chap. 2013-360, §34.15
¹³ N.C. Gen. Stat. §143-215.107A(c)
¹⁴ NCDOT financial reports

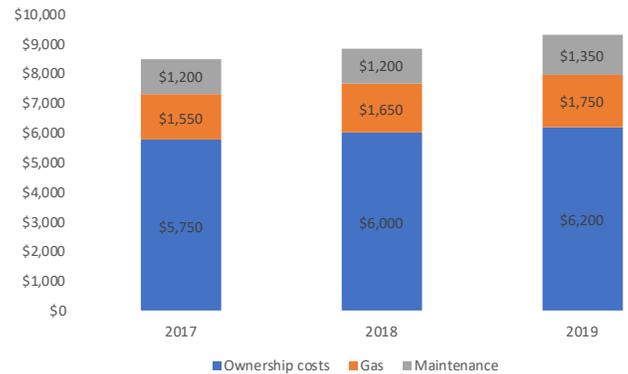
Will revenue from DMV fees decline in the future?¹⁵

Vehicle ownership does not make financial sense, but individuals value the freedom that car ownership brings. Vehicles are a depreciating asset that are highly underutilized, sitting idle 95 percent of the day. The average annual cost of vehicle ownership increased \$450 from 2017 to 2019, which raised the cost of driving a gasoline-powered vehicle by 3.4 cents per mile (Figure 8). What if, in the future, you could travel without having sole ownership of a vehicle with minimal increases in travel time and cheaper than the annual vehicle ownership cost of \$9,300? Would you give up your vehicle or reduce the number of vehicles in your household? The following changes are expected to reduce vehicle ownership in the future and these changes will impact the need for a driver license and associated vehicle ownership fee.

Technology will enable change. Connected and autonomous vehicles will create an environment that invites a shared mobility experience. Mobility-as-a-Service (MaaS) will use technological solutions to manage mobility options. Phone applications will be able to display options to connect you to your desired destination by mode, cost, and time.

The population is shifting to urban areas and is growing less dependent on cars. As discussed in a prior NC FIRST Commission brief,¹⁷ North Carolina’s population is growing, and the majority of the growth will be in urban areas. Urban areas will have more mobility options, including micromobility solutions, like e-bikes or scooters; transportation network companies, like Uber or Lyft; car sharing services; and dynamic public transit systems. In addition, car subscription services can bridge gaps when you need a vehicle for more than the typical short-term rental time frame but less than is offered through vehicle leases. Combined with a generational shift that is more accepting of alternative forms of mobility, it is not a question of “if” but “when” and “how much” these changes will impact future DMV revenues.

Figure 8: Average Annual Cost of Owning and Operating an Automobile, 2017–2019¹⁶



¹⁵ For more information about factors that will influence future DMV revenues, see the NC FIRST Commission’s Issue Brief: Edition 3: The North Carolina Highway Use Tax at www.ncdot.gov/about-us/how-we-operate/finance-budget/nc-first/Pages/resources.aspx.

¹⁷ The NC FIRST Commission’s Issue Brief: Edition 2: Changing Demographics and the Future of Transportation in North Carolina, available at www.ncdot.gov/about-us/how-we-operate/finance-budget/nc-first/Pages/resources.aspx

¹⁶ USDOT, Bureau of Transportation Statistics