A REVIEW AND
ANALYSIS OF
NORTH CAROLINA'S
HIGHWAY SYSTEM

PLANKS, PAVEMENT & PROGRESS

WRITTEN BY

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Foreward

This book is a comprehensive overview of the North Carolina highway system—offering a review of the past, a look at the present and a plan for the future. It accurately portrays the situation at hand in 1987 and 1988 when we were broadening our understanding of the state's highway needs and beginning to develop recommended actions.

Chapter by chapter, the author, North Carolina Transportation Secretary James E. Harrington, provided an expanding base of information for consideration by the bipartisan Highway Study Commission. Secretary Harrington, through his writing and through oral testimony, played a major role in shaping the Commission's discussion and, therefore, a major role in shaping its final product. He was instrumental in building the broad political coalition to design and win legislative enactment of my 1988 concept of a strategic network of limited access, four-lane highways to link us together as one united state, along with the necessary taxes to pay for it.

In 1989, the Commission proposed legislation which eventually ran its course in the North Carolina General Assembly. The outcome of the Commission's work and the debate that followed it can be found in the epilogue section, in the form of North Carolina's Highway Trust Fund Law.

The projects built by this law will meet the highway needs of our citizens as we set our sights on the 21st century. We owe a debt of gratitude to all those involved in the development of the program encompassed by the Highway Trust Fund, with special thanks going to Secretary Harrington for his many contributions.

Better Roads, along with Better Schools, will prepare North Carolina for Better Jobs and a Better Quality of Life for all.

Jim Martin

James G. Martin
Governor

DEDICATION AND ACKNOWLEDGEMENTS

This report is dedicated to the thousands of men and women of the North Carolina Department of Transportation who have planned, built and maintained the state's roads over the years, and to the citizens who have supported the department's efforts throughout those years.

The contributions of many people to the preparation of this report are gratefully acknowledged.

SPECIAL RECOGNITION IS DUE TO:

The Honorable James G. Martin, Governor

The Honorable Harlan Boyles, Treasurer
The Department of State Treasurer

Mr. C. C. Cameron, Executive Assistant to the Governor for State Budget and Management
The Office of State Budget

Mr. Billy Rose, retired Deputy Secretary of Transportation
and former State Highway Administrator

American Association of State Highway and Transportation Officials (AASHTO)
Proceedings of the Annual Meeting, December 1987

Mr. Les Lamm, President, Highway Users Federation

Mr.Paul Stempel, President, General Motors Corporation

Dr. Wilfred Owen, Senior Fellow, The Brookings Institution

Dr. Larry Goode, Manager, Program and Policy Branch, NCDOT

Mr. Larry Sams, Director, Transportation Planning, NCDOT

Mr. James T. Sughrue, Special Assistant to the Secretary (1985-1988)

Mr. David Prather, Special Assistant to the Secretary (1988-1989)

Representative Robert Hunter, Senator William Goldston and members of the
Legislative Highway Study Commission

Senator Kenneth Royall

Representative Sam Hunt

Ms. Ruth Sappie, Ms. Sabra Faires and members of the Legislative Fiscal Staff

(Special thanks to Sherri Creech Johnson and Ellen Holding of the Public Affairs Division, NCDOT, for the contributions they made to the publication of this book in its final form.)

INTRODUCTION

North Carolina is changing rapidly. The forces of growth are redefining our cities and towns, and the characteristics of our rural areas are shifting. These evolutionary developments are increasing the importance of the physical movement of people, products and services.

Good roads are critically important to our ability to adapt to and benefit from the forces of change that confront us. Along with honest and responsible government, a good education for our children and sensible policies for the protection of our environment, roads have an important place among our priorities.

This book was written to contribute to North Carolina's evolution by presenting the present and future needs of the state highway system and by offering suggestions for improvements.

Having met those objectives, it is offered as an example of how the identification of a challenge, combined with a cooperative search for a solution built on consensus, can produce significant positive results.

James E. Harrington
Secretary
NC Department of Transportation
January 1985-December 1989

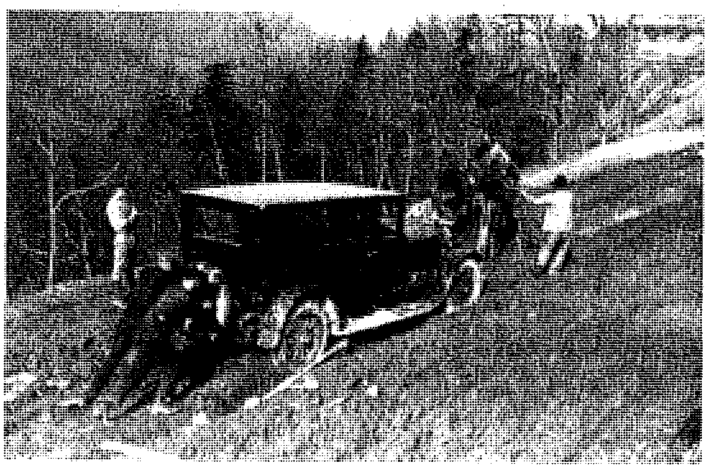
(Note: All the information in this book was current when it was initially published between 1987 and 1989.)

CHAPTER 1

CITING A LONG HISTORY

The history of North Carolina's growth and prosperity has been inextricably linked to the history of transportation in the state, and especially the history of highway development.

North Carolina has the largest state-maintained highway system in the nation — some 76,500 miles in total — and is currently spending more than $1 billion per year on highway maintenance and new construction.



To provide this system, North Carolina relies strictly on user-related sources of funds, such as motor fuel taxes and state license and registration fees. To build and maintain its roads, North Carolina employs some 13,000 people on a full-time basis. Forming a key element within this group are the engineers and administrators who continually study overall highway needs. These people project future needs and plan the program which is designed to serve more than 6 million North Carolinians — as well as the millions of people from out-of-state who use our roads.

As it stands today, North Carolina's overall highway system is comprised of 4,690 miles of principal arterial routes, 4,200 miles of minor arterial routes, 21,000 miles of collector routes and some 63,000 miles of local roads. The arterial system is designed to accommodate rapid long-haul movement, while the collector system provides access to the primary system and the necessary routes for local movement.

A strong interest in roads has always existed in North Carolina. The earliest settlers found only a meager system of Indian trails, but soon began to build on them. First, these trails were widened and improved into bridle trails, and then small mileages of privately-built dirt roads were added.

In colonial times, waterways were the avenues of commerce. Almost all produce moved on rivers and streams within the state, and most manufactured goods arrived by sea. At all locations except the coastal ports, the necessity immediately arose to transport goods farther inland. Therefore, local laws were passed which directed that a road "be built to the nearest landing." By this piecemeal process, the state slowly acquired a system of dirt roads.

As the population of the state grew, so did the demand for roads. Historian Hugh Lefler said, "A law of 1755 authorized the building of a road from Orange Court House (later Hillsboro) to the Cape Fear. Later laws provided for roads from Mecklenburg and Rowan counties to the same river and also from the Guilford-Chatham area. The effects of these laws were felt only slightly before the advent of the Revolution."

A 1783 of map North Carolina shows that the state at that time did have a rudimentary road system. A major portion of the state's commerce, however, still moved over rivers and streams. Such major towns of the day as Charlotte, Salisbury, Salem, Hillsboro, Campbelltown (later Fayetteville), Halifax, Tarboro, Edenton and Wilmington did have road connections, but not all of them to each other.

In 1823, a major step was taken when the legislature appropriated funds to construct the Buncombe Turnpike, the Plymouth Toll Road, The Old Fort-Asheville Road and the Tennessee River Turnpike. And, from 1830 onward, a new element was introduced into the picture – the building of railroads. Originating in England in the 1820s and spreading to America by the early 1830s, railroads caught the public fancy because they represented the newest and most efficient means of travel. As a result, the continuing clamor for roads was somewhat silenced.

In the 1850s, transportation took another turn when the state purchased $180,000 worth of stock in yet another form of transportation improvement — plank roads. This investment went to the Fayetteville and Western, the Fayetteville and Warsaw, and the Fayetteville and Albemarle plank road companies. The importance of the city of Fayetteville to North Carolina's commerce at this time is evidenced by the fact that the plank roads all led there.

As interest in plank roads grew, more private plank road companies were chartered. In all some 84 companies came into existence, but very few of them were successful in actually building roads. Some historians estimate that about 500 miles of plank roads were built during this period at a total cost of about one million dollars. Though the plank roads were an improvement, they did not prove financially practical. Tolls for their use were collected at houses located at intervals along their routes but it was all too easy for the user to leave the road just before coming in sight of a toll house, and then to rejoin it in a few miles after the toll-collector had been bypassed.

With the coming of the Civil War, transportation improvements in North Carolina ground to a halt. During the war, the existing railroads were used heavily for military purposes. By the end of hostilities they were the worse for wear, and it took a considerable period of years for them to be brought back to their pre-war state. Renovation and improvements were delayed during the early years of the Reconstruction period, because the economic condition of the state was so poor that little consideration could be given to the building of roads, railroads or any other form of transportation. By 1870, the state gave up on assistance to railroads and left their further development to private companies.

Meanwhile, the condition of the roads continued to be poor. County control of highways was the rule, and the main resource for road-building or repair was the "labor tax" of about six days a year which the counties were authorized to exact from each able-bodied male citizen. As Hugh Lefler said, "the day when North Carolina would be known as 'the Good Roads State' was far in the future."

In the early years of the twentieth century, the principal emphasis was on the further development of the investor-owned railroads. By 1911, there were railroads covering 4,608 miles and by 1937, this figure had increased only slightly, to a total of 4,763 miles. By the second decade of the century, however, the building of roads received a new emphasis. With the administration of Governor Locke Craig (1913-17), the ground was laid for the construction of a highway system in North Carolina which was to become the envy of the nation.

It was in 1915 that North Carolina took the crucial step toward establishing itself as a leader in highway building. In that year a full-fledged Highway Commission was created. Earlier, North Carolina had set up a group under the same name, and the group published a report in 1902. This report, however, merely set forth a brief account of highway needs, and no formal work of any sort was indicated.

The Highway Commission of 1915 was not a body that actually constructed roads, but it was well on the way toward becoming that. This group was of a blue-ribbon nature, and it was headed by Governor Craig as Chairman. Its Secretary was Dr. Joseph Hyde Pratt, and the members were Professor W. C. Riddick of North Carolina State College, Professor T. F. Hickerson of the University of North Carolina, Colonel Bennehan Cameron, E. C. Duncan and Guy V. Roberts.

This Highway Commission's report for the 1915-16 biennium begins with the following preface: "The State Highway Commission has, since its reorganization in the spring of 1915, been called upon and rendered service in 67 counties of the State. This service has varied from giving lectures, or advising the county officials in regard to road work, to doing entire engineering work for a limited period in a county or township. It has taken charge of and designed and built a few bridges in their entirety, where it deemed it best to prevent serious loss to the counties. It has made plans for a large number of bridges that have been let to contract. The service rendered to the various counties is herein given in some detail showing in alphabetical order the counties served by the engineers of the Commission."

It is clear from the 1915-16 report that a major part of the responsibility for roads was still considered to rest upon the counties. The idea of a unified state highway system was growing, however, and the public was demanding better roads. In 1921, to meet these demands, several significant steps were taken. In that year, the General Assembly authorized the state to take over 5,500 miles of the county roads. To pay for this new state responsibility, a motor fuel tax of one cent per gallon was imposed and a system of motor vehicle license and registration fees was created. By far the most significant action taken was the approval of a $50 million state highway bond issue. The proceeds from this issue were used to construct a system of hard-surfaced roads connecting each of the 100 county seats with all of the others. It was the construction of this system, largely during the administration of Governor Cameron Morrison (1921-25), which again brought North Carolina nationwide attention for its visionary road program. To support this heightened activity, the gas tax was raised to five cents per gallon, and an additional $65 million in highway bonds were approved, bringing the total to $115 million for the period from 1921 to 1927. It was during this period that North Carolina earned the label, "The Good Roads State."

By 1931 North Carolina was, like the rest of the nation, in the throes of depression. O. Max Gardner was governor and the General Assembly was besieged with requests for help from the hard-pressed counties. Accordingly, in 1931 the legislature voted to assume responsibility for county roads, which placed the state government in the position of primary responsibility for all roads in the state except city streets. In doing this, North Carolina became the only state to maintain all of its roads without the imposition of a county property tax.

During the Depression years, to and through World War II, the Highway Fund was stable and provided a tempting source of funds for other purposes. Diversions to General Fund programs, the operation of the state prison system, and grants to cities were among these. However, in 1947, the General Assembly banned the further use of Highway Fund revenues for General Fund purposes, a step taken because of an increasing need for roads.

In 1949, during the administration of Governor W. Kerr Scott, the General Assembly approved yet another bond issue for a total of $200 million. At the same time, the legislature raised the tax on gasoline from six to seven cents a gallon, dedicating the additional cent in tax to debt service on the bonds. During this period, some 12,000 miles of secondary roads were paved, and a further 15,000 miles of farm-to-market roads were stabilized.

In 1951, another historic step was taken. To help the cities with their transportation needs, the General Assembly passed a bill sponsored by Senator Junius Powell to take over those city streets which were part of the state highway system. Under the Powell Bill, the state also gave the municipalities one-half cent per gallon from its gas tax revenue to take care of all other city streets.

By 1965, most of the 1949 debt had been repaid and a new $300 million bond issue was approved. During the administration of Governor Robert W. Scott (1969-73), the need for yet more money became apparent. Legislation was passed to increase the gasoline tax from seven cents to nine cents per gallon, and to increase licenses and fees from 20 to 35 per cent. In 1971, the Powell Bill funding was increased to one cent per gallon.

Another $300 million road bond issue was passed in 1977; a three-cent-per-gallon motor fuel tax increase (from 9 cents to 12 cents) was passed in 1981, and the equivalent of another three-and-a-half cents per gallon in motor fuel tax increase was passed in 1986. These were all major steps taken to strengthen North Carolina's highway program.

Today, North Carolina has a first-class highway system, and yet the demand for further improvement is great.

(Chapter 1 was first published December 11, 1987.)

NORTH CAROLINA HIGHWAY SYSTEM MILESTONES

A Condensed Chronology 1909-1987

1909	Provisions enacted for the registration and identification of motor vehicles, for the transfer of vehicle ownership, and for the regulation of public highway use; initially, the major portion of the fees imposed to be paid to counties and expended for public roads; since 1917, funds collected to be expended by the state for maintenance of roads and bridges.
1915	The General Assembly created the State Highway Commission to cooperate with and advise the counties on road building.
1916	Following the passage of the Federal Highway Act, the state began to receive federal aid on a matching basis to improve interstate highways.
1921	Following the public's demand for a "unified state highway system," the General Assembly authorized the state to take over some 5,500 miles of county roads. One cent per gallon motor fuel tax was imposed to pay for the state's new responsibilities in highway construction and maintenance. $50 million state highway bonds authorized and issued for the construction of a state system of "hard surfaced and other dependable roads connecting, by the most 'practicable' routes, the various county seats and other principal towns of every county."
1923	Two cents per gallon motor fuel tax added (from 1 cent to 3 cents). $15 million state highway bonds authorized and issued.
1925	One cent per gallon motor fuel tax added (from 3 cents to 4 cents). Bus and franchise tax (6% of gross receipts) imposed on carriers of people and property; various changes made, definitions, and deposit requirements added over the years. $20 million state highway bonds authorized and issued. $550,000 of Chowan River Bridge bonds authorized and issued.
1927	Refunds of the tax on motor fuel for non-highway use allowed; rate of refund and claimants eligible for refund changed over the years. Exemptions added in 1931, 1941 and 1959. $30 million state highway bonds authorized and issued. $1.25 million Cape Fear River Bridge bonds authorized and issued.
1929	One cent per gallon motor fuel tax added (from 4 cents to 5 cents).
1931	One cent per gallon motor fuel tax added (from 5 cents to 6 cents). The responsibility of constructing and maintaining all county roads transferred to the state.

1941 A Road Use Tax imposed on all motor fuel, other than gasoline.

1949 $200 million state "secondary road" bonds authorized and issued; the legislation insured that the bond proceeds were to be used "exclusively for the purpose of building or improving roads and the structures for those roads that now or may hereafter make up and constitute the state-maintained county road system, also referred to herein and being commonly known as secondary roads as distinguished from primary roads."

One cent per gallon motor fuel tax added (from 6 cents to 7 cents). The full proceeds of the one cent tax were "reserved" and dedicated to debt service on the $200 million bonds authorized. The one cent levy was to become effective only upon voter approval of the bonds proposed.

1951 As a measure of help to the cities, the General Assembly passed a bill sponsored by Senator Junius Powell for the state to take over those city streets which were a part of the state highway system; and also gave the cities 1/2 cent per gallon from the motor fuel tax revenues to help take care of all other city streets. A statutory formula was used to allocate funds.

1955 The Road Use Tax, imposed in 1941, replaced by Special Fuels Tax and by Highway Fuel Use Tax. The Special Fuels Tax was to apply to combustible gases and liquids other than gasoline used to propel motor vehicles on the public highways. The Highway Fuel Use Tax was to be paid by motor carriers for the privilege of using the state's highways when vehicles were propelled by fuel purchased outside the state. The tax in both instances was to be applied at the same rate as the gasoline tax.

1957 Driver training and safety education fund established to finance driver education programs in public high schools. Vehicle Registration Tax of $1 imposed on passenger and property carrying vehicles registered in state.

1961 Following the creation of the State Prison Department in 1957, the budgetary requirements for the operations of Prisons, Probation and Paroles transferred from the Highway Fund to the General Fund. The budget for 1961-62 amounted to $7 million while the comparable amount for 1987-88 was $265 million.

1962 Investment earnings applicable to temporarily idle cash balances belonging to Highway Fund to be credited to Highway Fund; previously, all investment earnings from whatever source, except trust funds, were credited to General Fund.

1963 Proceeds from 1/4 cent per gallon tax levied as gasoline and oil "inspection fee" collected on highway use motor fuel to be credited to Highway Fund; inspection fees collected on fuel used for non-highway purposes to be credited to General Fund. Previously, all proceeds were credited to the Agriculture Fund which was merged in 1967 into the General Fund.

1965 $300 million state highway bonds authorized and issued; and, the one cent per gallon motor fuel tax for debt service (authorized in 1949) was continued as a dedicated source of payment.

1969 Two cents per gallon motor fuel tax added (from 7 cents to 9 cents).

1971 1/2 cent per gallon increase (from 1/2 cent to 1 cent) in the "Powell Bill" state-shared motor fuel tax allocated to the cities authorized. Equal appropriations were directed to secondary roads.

1975	Vehicle Registration Tax increased by $1 annually (from $1 to $2).
1977	$300 million of state highway bonds authorized and issued; and, the 1 cent per gallon motor fuel tax for debt service (authorized in 1949) was continued as a dedicated source of payment. Vehicle Registration Tax increased by $1 annually (from $2 to $3).
1981	Three cents per gallon motor fuel tax added (from 9 cents to 12 cents). 3/8 cent per gallon increase (from 1 cent to 1 and 3/8 cents) in the "Powell Bill" state-shared motor fuel tax allocated to the authorized cities. Secondary road appropriations similarly increased.
1983	$3 Vehicle Registration tax repealed, annual vehicle registration fee increased by $3 to offset.
1986	3 and 1/2 cents per gallon motor fuel tax added (from 12 cents to 15 and 1/2 cents); the 3 and 1/2 cents increase to be composed of 2 cents per gallon motor fuel tax plus 1 and 1/2 cents per gallon wholesale tax; the wholesale tax rate, equal to 3 percent of the average wholesale price of motor fuel, to be set semiannually. 3/8 cent per gallon increase (from 1 and 3/8 cents to 1 and 3/4 cents) in the "Powell Bill" state-shared motor fuel tax allocated to the authorized cities, together with an equal increase in secondary road appropriations. Driver Education budget transferred to General Fund.
1987	The proceeds from the 1 cent per gallon motor fuel tax added in 1949 and reserved for debt service not to be segregated and maintained in a separate account; future debt service payments to be made from line-item appropriation in biennial budget of Highway Fund.

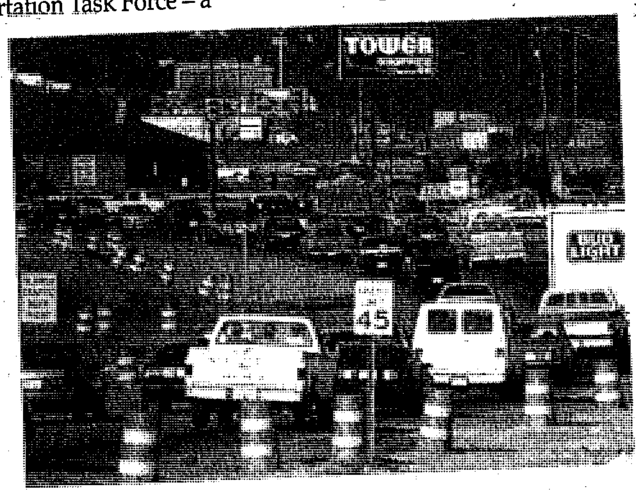
CHAPTER 2

WHERE WE ARE TODAY

The actions of administrations and legislatures over the years have maintained and advanced the status of North Carolina's vast and complicated highway system. The system's maintenance and administrative needs appear to be met in a sound program of revenues and appropriations for the immediate time period and the near-term future. Table 1 shows the source and year of origin of North Carolina's highway related revenues.

But highway construction needed to match the state's explosive growth in population and traffic is a different matter, separate from maintenance and administration, and it is an area that requires attention.

In March 1986, the Transportation Task Force – a committee of legislative and civic leaders from across the state – issued a dramatic and well-documented presentation of a Highway Fund under pressure. The Task Force concluded that "inadequate revenue and increasing demand have combined to produce staggering highway needs."



With this report in hand, the 1986 General Assembly responded by increasing taxes and by transferring the driver education program to the General Fund. The increased taxes of some $125 million annually and the $26 million freed up by the program transfer undoubtedly will have a significant impact on the state's ability to address much of the identified needs – but over a period of years.

As the report indicates, there is an immediate need for "new roads, more lanes on existing roads, more secondary roads and replacement of obsolete bridges." In fact, the Task Force estimated that some "$10.1 billion is needed to address deficiencies that already exist on the state highway system." By the year 2000, growth related deficiencies requiring an additional $7 billion are expected, according to the task force.

THE FEDERAL ROLE

A major factor in North Carolina's highway construction is the Federal-Aid Highway program. From a small beginning, increasing significantly with the initiation of the Defense and Interstate Highway program under the Eisenhower administration, the Federal Aid Highway program now dominates the North Carolina system of constructing new and improved highways.

In 1796, our young nation's Congress granted Colonel Ebenezer Zane permission to build a post road to provide access to the Ohio Wilderness from the river port at Limestone, Kentucky. This road, later to become part of important turnpikes, began the federal government's involvement in highways. Oriented to the development of new territories and stimulation of commerce to and through the riverine transportation network, Congressional levies and road building grants grew in a somewhat on-and-off pattern throughout the nineteenth century. In 1912 Congress authorized $500,000 to pay one-third of the cost of improving "post roads" over which the mail was carried. This initiated not only the first active federal participation in road construction, but also the principle of state/federal cost sharing.

Formula distribution of federal road funds and federal "strings" on the use of these funds by the states began in earnest with the Federal Aid Road Act of 1916 with a five-year appropriation of $75 million. Among the "strings" attached to the use of these funds were the prohibition of tolls on highways constructed with federal funds.

World War I interrupted the program but it was renewed with emphasis in 1920, with an eight-year appropriation of $200 million. Successive Federal Aid

TABLE 1: THE HIGHWAY FUND DATA BANK

		YEAR OF ORIGIN	REVENUES GENERATED IN 1987-88 DOLLARS
TO HIGHWAY FUND:			
Motor Fuel Tax			
	1/4¢/gallon	1907	$9,500,00
	1¢/gallon	1921	38,200,000
	2¢/gallon	1923	76,300,000
	1¢/gallon	1925	38,200,000
	1¢/gallon	1929	38,200,000
	1¢/gallon	1931	38,200,000
	1¢/gallon	1949	38,200,000
	2¢/gallon	1969	76,300,000
	3¢/gallon	1981	114,500,000
	2¢/gallon	1986	76,300,000
	3% sales	1986	64,000,000
Motor Vehicle Fees ad Other Sources			
	Auto and Other Vehicle Licenses and Registration Fees	1909	104,600,000
	Driver Licenses, Title and Transfer Fees	1909	59,700,000
	Bus, Truck and Franchise Taxes	1925	69,200,000
	Other Receipts, Penalties and Refunds	Var.	10,000,000
	Investment Earnings	1962	35,000,000
TO GENERAL FUND:			
Sales Tax	Motor Vehicle Parts and Accessories (3%)	1933	70,000,000
	New and Used Vehicles (2%)	1933	132,000,000

Road Acts provided continuity for the program and an opportunity to add lengthy and increasingly complex requirements to and through the World War II years.

The first hint of the Interstate Highway System emerged in a 1944 study report with the initial route selections designated in 1947. Funding for the Interstate System, initially at relatively low levels, was provided in the early 1950s.

Today's massive and complicated Federal Aid System evolved from the Federal Aid Highway Act of 1956. Headlined by Congressional intent to build and complete the Interstate System, this act set up substantial multi-year authorizations and established a new, complex formula for apportionment to the states. The act also set up the Federal Highway Trust Fund which was aimed at establishing a user-pay system of long-term funding of the Federal-aid program.

More "strings" were attached to the program between 1962 and 1978, resulting in a constantly changing and increasingly complex program. These strings had a significant effect on costs and the determination of priorities. The Appalachian Regional Development Program supplemented highway aid beginning in 1966. Maintenance 3R and 4R authorizations were included in the program beginning with the 1976 Act, which contained accompanying standards and guidelines.

In the 1980s, the Congressional actions continued the pattern of increased complexity and added an element of delay and uncertainty in the enactments of the laws. The 1987 Act, enacted five months after the expiration of its predecessor, sets the funding levels and accompanying game rules through the fiscal year ending in September 1991.

A summary of the allocations available to North Carolina and a history of our recent participation in the Federal Highway Trust Fund is set forth in Table 2.

SYSTEM NEEDS

Visitors to North Carolina from other, more densely populated areas still remark about the ease of access and relatively low traffic congestion on our highways. North Carolina citizens feel differently. They clearly perceive growth of traffic and increasing congestion, and then recognize the need for improved access through our rural areas. They are right.

The historic evolution of North Carolina highway policies, together with the parallel growth of the federal highway program, have resulted in an extraordinary — indeed unique — highway system throughout North Carolina. The extent of this system, the largest state-maintained system in the United States, and the pattern of its use by our citizens and visitors to the state is summarized in Table 3.

TABLE 2: NORTH CAROLINA'S CONTRIBUTIONS TO AND APPORTIONMENTS FROM THE FEDERAL HIGHWAY TRUST FUND

FISCAL YEAR	APPORTIONED TO N.C. (1)	COLLECTED FROM N.C.(2)	CURRENT YEAR %	CUMULATIVE % FROM FY 1957
1974	98.5	174.4	56	59
1975	121.7	174.5	78	62
1976	142.3	151.0	94	64
1977	146.5	187.4	78	66
1978	142.8	194.8	73	66
1979	237.2	201.9	118	70
1980	191.4	185.0	103	72
1981	193.0	175.8	110	74
1982	179.8	186.8	96	75
1983	267.1	218.4	122	81
1984	253.9	302.2	84	81
1985	361.6	346.6	104	83

Source: U.S. Department of Transportation, Federal Highway Administration, Highway Statistics
Note 1: The level of allowed expenditures is set by an Obligation Ceiling, generally lower than the annual apportionments.
Note 2: These collection figures do not include the one-cent motor fuel tax dedicated to the Mass Transit Account.

FISCAL YEAR 1988 FEDERAL AID HIGHWAY CONSTRUCTION FUNDS

		MILLIONS OF DOLLARS		
CATEGORY	MATCH RATIO	FEDERAL	STATE MATCH	TOTAL
Interstate	90/10	43.1	4.8	47.9
Interstate Rehabilitation	90/10	47.1	5.2	52.3
Primary	75/25	64.7	21.6	86.3
Secondary	75/25	17.5	5.8	23.3
Urban	75/25	11.3	3.8	15.1
Bridge Replacement	80/20	38.8	9.7	48.5
Hazard Elimination	90/10	4.1	0.5	4.6
Rail/Highway Crossing	90/10	4.0	1.3	5.3
Total Apportionment*		230.6	52.7	283.3
*Subject to Obligation Ceiling		202.0	44.0	246.0
Minimum Allocation	75/25	67.8	22.6	90.4
Total Federal-Aid Program		269.8	66.6	336.4

But despite these efforts, the economic engine of growth all across the state has outstripped our ability to keep pace with demands on the highway system. In recent years, the state's Department of Transportation has had several opportunities to define the nature and extent of the state's highway needs. The methods developed for use by the Governor's Blue Ribbon Commission in 1980 have formed a framework for these efforts. These data were updated in 1985 and in the report of the Transportation Task Force.

The backlog of highway needs — the list of those improvements believed to be needed just to catch up with current demand — is presented by appropriate program areas. For each program area — urban, rural primary, secondary roads and bridges — criteria were developed for defining the needs. These data, using criteria established for both the 1980 Blue Ribbon Commission and the 1985 Task Force are updated to current 1987 cost estimates as follows:

TABLE 3: EXISTING NC HIGHWAY SYSTEM-1986

(INCLUDES STATE AND MUNICIPAL SYSTEMS)

	MILEAGE	%	TRAVEL (Million Vehicle Miles)	%
Urban	18,047	19.3	23,860	45.1
Arterial	4,201	4.5	17,959	34.0
Collector	1,342		1,036	
Local	12,504		4,865	
Rural	75,583	80.7	29,021	54.9
Arterial	4,690		13,105	
Collector	19,639		13,346	
Local	51,254		2,570	
TOTAL MILES/TRAVEL	**93,630**		**52,881**	

TRENDS IN TRAFFIC GROWTH 1970-1985

	1970	1975	1980	1985	% CHANGE
Total Travel (M Veh-Mi)	29,625	36,400	41,234	49,923	68.5
Urban	9,545	13,445	17,133	22,225	132.8
% of total	32.2	36.9	41.5	44.5	
Rural	20,080	22,955	24,101	27,698	37.9
% of total	67.8	63.1	58.5	55.5	

Urban needs — those improvements required to ease congestion on major thoroughfares and to restore these systems to proper levels of service — amount to $4.9 billion.

Rural primary needs address both capacity and safety related improvements. Widening and/or replacement of rural arterial and collector routes now exceeding desirable traffic carrying capacity will require an estimated $2.3 billion.

Safety considerations — the need for pavement widening or additional lanes on other sections of rural highways — call for an additional $1.6 billion.

The backlog on secondary road improvements needed to meet the desired level of safety and capacity and paving unpaved roads to meet current Department criteria will cost some $0.8 billion for widening and bringing 2,700 miles of unpaved roads up to current standards.

Finally, massive bridge replacement needs remain despite greatly accelerated efforts in recent years to improve the safety of these structures. The backlog of unmet bridge needs reflects the cost of replacing or upgrading the current list of inadequate structures. This total, in 1987 costs, is $1.6 billion.

These totals, summarized in Table 4, represent only the "catch-up" requirements. The continued growth of traffic on the state system will generate additional demands and additional needs while this "catch-up" is being "caught."

We will examine in later chapters the ability of the present program to deal with this backlog, an estimate of future traffic and needs, as well as possible ways to meet these challenges.

TABLE 4: CURRENT NEEDS

Capacity Improvements:		
Urban	$4.9 Billion	
Rural	$2.3 Bilion	$7.2 Billion
Pavement Widenings		$1.6 Billion
Secondary Roads		$0.8 Billion
Bridges		$1.6 Billion
TOTAL		**$11.2 Billion**

(Chapter 2 was first published December 11, 1987.)

HIGHWAYS ARE GOOD INVESTMENTS

South, by east–through a complicated 160-acre tangle of bridges, ramps and signs–twin concrete ribbons weave through the scattered subdivisions and farmland adjoining the sprawling Raleigh metropolitan area.

Just across the county line, two parallel red-clay runners pick up where the concrete stops, crossing I-95 at a massive $16 million earth-and-steel complex near Benson.

The path continues on broad sand and black earth tracks north of Newton Grove, alongside dozens of shiny new turkey barns near Magnolia and Rose Hill, cutting the small veins of secondary roads, then bridging and reconnecting the arteries of commerce serving North Carolina's southeastern coastal plain.

By 1990, after more than 15 years of planning and construction at a cost of $417 million, North Carolina's single most ambitious highway project will open to as many as 25,000 travelers each day.

Bankers, businessmen, developers, truckers and government leaders call it "opportunity."

Engineers call it X-3.

Motorists will call it I-40.

Each day, from the day it opens, it will save North Carolina motorists $177,000 in travel time savings, accidents avoided, reduced fuel consumption and other operating savings. Not counting the incalculable development potential, the increased commerce to and from the ports and markets, the savings alone will pay back the investment in six and one-half years.

That highways both follow and bring prosperity to a state or a region of the state is a given. The growth of business investment along the many transportation corridors all across North Carolina attests to this. The recognition of the importance of good highway transportation is one of the key factors in market analysis for new business investment. In addition, good highway transportation is high on the list of factors considered by financial markets in evaluating the stability and credit of North Carolina's public sector debt-both state and municipal.

During the years, the State Treasurer — independently elected and equally independent in his oversight and management of North Carolina's financial matters — has earned the respect of the state's financiers, in and out of North Carolina. The treasurer's frequent commentary serves to underline the importance of the North Carolina highway program to the economic well-being of the state. The following is quoted from the 1965 report of the treasurer on the 'Bonded Indebtedness of North Carolina':

"The State's policy during the 1920s was to build the roads with borrowed money and let the roads pay for themselves. The wisdom of long-term borrowing for the construction of roads goes back to the question of need.

If there is a clear need for new highway construction that cannot be reasonably met by the use of current revenues, we are of the opinion that long-term borrowing is amply justified. Through the issuance of bonds, the State within a few years gets the use of modern highways that might not otherwise be built for decades. North Carolina's experience in issuing road bonds in the 1920s and in 1949 are cases in point. These bond issues not only met the immediate needs of the State insofar as motor transportation was concerned, but gave powerful impetus to the development of our economy."

Other sources bear out the theme.

The Road Information Program (TRIP), Washington, D.C., using an input/output model developed by economist Dr. Richard R. Mudge, has conducted economic impact studies in several states. These predict the economic impact from an increase in highway funding on a statewide basis in terms of jobs in the construction industry as well as the "ripple effect" of jobs in other sectors, and resulting increases in state and local taxes.

TRIP's April, 1987, analysis of the economic impact of increased highway funding in South Carolina found that each $100 million increase in highway construction activity generated an estimated 4,000 jobs, including 2,651 in the construction industry, 390 in retail trade, 317 in services (hotels, restaurants, recreation), 296 in manufacturing, 79 in finance and real estate and 266 in other industries. The immediate and direct benefits from such increased highway spending would amount to at least $31.5 million, including $11.7 million in corporate taxes and fees to state and local governments, $1.65 million in personal state income taxes, $912,000 in state sales tax revenue and an estimated $17.3 million in vehicle operating cost savings to South Carolina motorists.

In Kansas, a TRIP analysis found in August, 1987 that each $100 million increase in highway funding generated 2,985 jobs, including 1,544 in construction, 500 in retail trade, 372 in services, 169 in manufacturing, 88 in finance and real estate and 312 in other industries. The immediate and direct benefits were estimated at $35.9 million, including $11.7 in state and local taxes, $1 million in personal state income taxes, $400,000 in state sales taxes and $22.8 million in motorist's operating savings.

The relationship between economic development and multi-lane highway access is studied in the December, 1985 report of the Southern Growth Policies Board, "After the Factories." A partial quote from that report follows:

"...trucking, and the ability to link metropolitan growth centers, is a factor in business siting. In addition, the physical beauty and environmental attractiveness of rural locations with convenient access to airports, cities and other production areas, often via interstates, are factors in growth. This holds true for both services and manufacturing."

Quoting from the 1985-86 Annual Report of the State Treasurer:

"Highways generate money by accommodating the private sector. The private sector creates economic activity and pays taxes. In highways, we make money by spending money. The cost is minor compared to the benefits derived. All that is needed is a quantification of the results."

With the broad understanding of the economic importance of highways, there comes a widespread concern on the part of local officials and businessmen that their region of North Carolina is being neglected in timely highway construction.

THE "FAIR SHARE" ISSUE

Given the close relationship between pavement and politics, the statewide nature of the North Carolina system, and the widespread sense of "falling behind" in meeting highway demands, it is not surprising that the question of "fair share" is raised in all corners of the state.

What is more surprising is that the system — even during Highway Commission days - has worked in a fairly even-handed manner over the years.

No one yet has devised a formula, or test, to accommodate the myriad of factors that affect location and construction cost distribution on any measurable, equitable basis across the state. The Federal-Aid system categories set certain priority parameters: Interstate funds are applicable only to Interstates and even Interstate costs vary with the terrain and right-of-way obstacles. Arterial highways do not stop at the county line, so expenditures in one county often work more to the benefit of adjoining counties. Major bridges in the coastal areas and mountainous terrain in the west severely affect costs. Motor fuel taxes are not collected in the areas where the fuel is sold, therefore revenues do not provide a base for equity calculations. Even per capita calculations do not work — major highways have to cross great stretches of rural, sparsely populated areas and cross wide rivers and rugged mountains where few live if they are to serve their purpose.

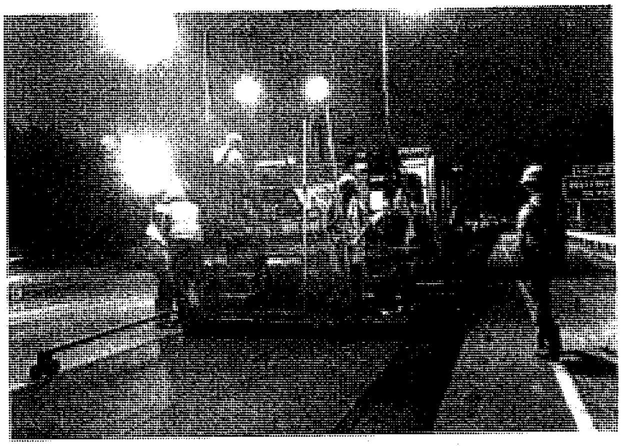
Nevertheless, a per capita comparison offers a partial surrogate for traffic volume, vehicle ownership, and taxes paid.

A rough and inconclusive comparison, by highway division, of per capita highway improvement expenditures during the last nine years, compared with the current estimate for future TIP construction, illustrates the allocation of major construction funds in the recent past and near future. (Table 5)

A study by the Division of Highways covering the past 20 years comes to the following conclusion. Using equal factors of population and land area, the distribution of construction funds between the Eastern, Central, and Western regions of the state has been remarkably equal. Still, there are too many easily discernible flaws in any such analysis to allay the suspicion that others are getting more than their "fair share."

Allocation formulas, geographic or systemic, such as are used in some other states, would eliminate the flexibility of planning and choice necessary to build and improve a statewide system in our rapidly growing and changing state.

It may be that the broad regional representation provided by strong-willed and politically knowledgeable members of an appointed statewide Commission or Board of Transportation is still the best, if imperfect, method of assuring that statewide priorities are met.



The generally favorable reception given the most recent construction program may be an indicator of this. Broad public watchfulness over the execution of the planned projects over time, hopefully, will assure continued public confidence in and support for this system. Earlier-than-planned construction starts would surely help.

TABLE 5: HIGHWAY CONSTRUCTION EXPENDITURES MILLIONS OF DOLLARS, UNLESS NOTED

Highway Division	July 86 Population Estimate	FY 79-1987 Hwy Const Expend (9 Years)	Expend Per Cap (86 $'s)	Ratio State Average	1987 TIP Hwy Const Expend (9 Years)	Expend Per Cap (86 $'s)	Ratio State Average	Total Hwy Const Expend (18 Years)	Expend Per Cap (86 $'s)	Ratio State Average
Division 1	210,961	$172.095	815.77	2.07	$139.774	662.56	1.33	$311.869	1,478.33	1.65
Division 2	369,100	$80.600	218.37	0.55	$144.134	390.50	0.78	$224.734	608.87	0.68
Division 3	404,792	$237.346	586.34	1.49	$263.698	651.44	1.30	$501.044	1,237.78	1.39
Division 4	426,507	$208.345	488.49	1.24	$168.688	395.51	0.79	$377.033	884.00	0.99
Division 5	689,552	$319.142	462.83	1.18	$285.169	413.56	0.83	$604.311	876.38	0.98
Division 6	508,164	$146.261	287.82	0.73	$135.810	267.26	0.54	$282.071	555.08	0.62
Division 7	625,825	$200.728	320.74	0.81	$353.421	564.73	1.13	$554.149	885.47	0.99
Division 8	359,451	$116.167	323.18	0.82	$148.889	414.21	0.83	$265.056	737.39	0.83
Division 9	548,495	$217.301	396.18	1.01	$240.807	439.03	0.88	$458.108	835.21	0.93
Division 10	702,383	$202.565	288.40	0.73	$407.391	580.01	1.16	$609.956	868.41	0.97
Division 11	304,542	$77.825	255.55	0.65	$192.607	632.45	1.27	$270.432	888.00	0.99
Division 12	533,664	$137.404	257.47	0.65	$294.254	551.38	1.10	$431.658	808.86	0.91
Division 13	383,062	$166.151	433.74	1.10	$199.199	520.02	1.04	$365.350	953.350	1.07
Division 14	264,790	$211.671	799.39	2.03	$188.374	711.41	1.42	$400.045	1,510.80	1.69
State Total	**6,331,288**	**$2,493.602**	**393.85**	**1.00**	**$3,162.215**	**499.46**	**1.00**	**$5,655.817**	**893.31**	**1.00**

Source Notes:
Past: Expenditures Including Interstate (Not Including Secondary, Appalachian, Maintenance/Contract Resurfacing) FY 1979-87, 9 Years
Future: TIP Programmed Including Interstate (Not Including Secondary, Appalachian, Maintenance/Contract Resurfacing) FY 1988-96, 9 Years

(Chapter 3 was first published December 30, 1987.)

CHAPTER 4

Politics and Pavement . . . Who Gets What and Why?

He came to kiss the baby fair,
Or so at least he claims;
What really brings him out this way
Is my "X" beside his name.

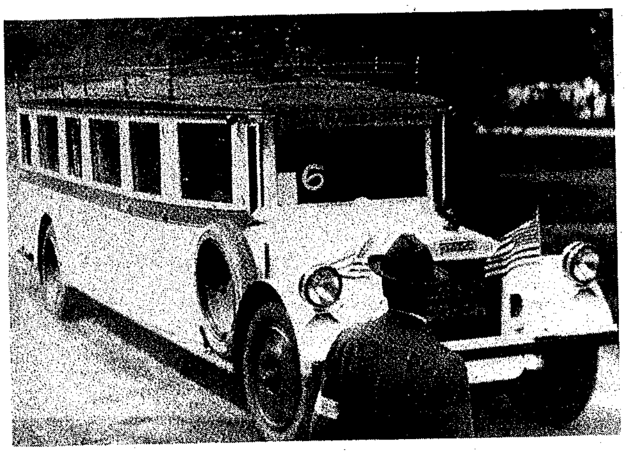
Says he, "This road could use some oil.
Would take away the sludge,
I might could get it done for you
If I were County Judge."

Says I, "This road don't need no oil,
'Cause it don't go nowhere;
The one that leaves this road alone,
Deserves the Judge's chair."

"Politikin"
Frank Andrews

From the early days of the Republic, and before, road building was first a local, then a state government function. The gradual increase in Federal Government involvement has not overtaken this early assumption of responsibility by the states.

From the beginning, public support for good roads has been enormous. Good roads meant better opportunities for the people and obvious improvements in the quality of life, individually and collectively.



This popular "demand" and the public support for good roads were not unnoticed by the politicians. The history of state highway programs reflects the central and growing role of political involvement in highway location and construction decisions.

North Carolina's highway history is replete with gubernatorial and legislative involvement in the "politics" of pavement. (See Chapter 1.) Many governors of North Carolina are still best known for the highway program accomplishments of their reign even though other governmental programs were highly significant.

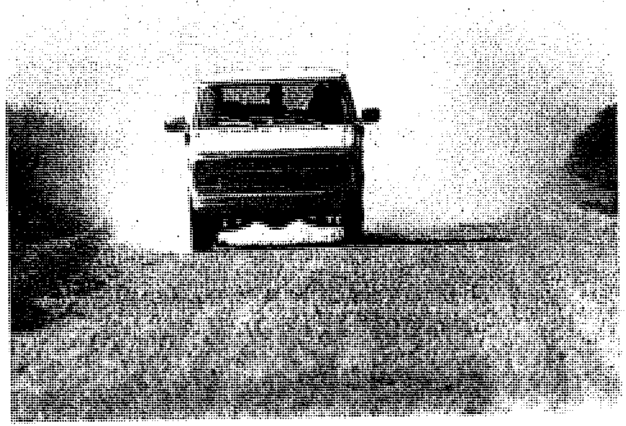
And the role of North Carolina governors has been preeminent from early days. The state constitution sharply limits the legislative role in road-building. Arguably, such limitation has enabled the application of broader, statewide objectives in achieving the goals of improved highways.

Until the early 1970s, the governor and his appointed State Highway Commission had almost unlimited power to decide which highways would be built, where they would be located, and when they would be built. Funds were appropriated, both by Congress and by the General Assembly, to be used within broadly defined programs with few checks and balances. The North Carolina governor was truly "King of the Road."

If the governor were "King" in those days, the Highway Commissioners were "Dukes." The Commissioners had absolute control of all highway matters in their domains.

One highway commissioner attended a road meeting involving some 25 local citizens. When he got out of the Highway Patrol car in which he was being chauffeured, he asked, "How many of you are republicans?" About three-fourths of the people raised their hands. "There's no use stopping here," said the commissioner, who got back in his car and left.

Such unbridled authority often led to excesses or abuses. Promises were made that could not or would not be kept. "November stakes" frequently grew alongside the county roads just before elections, only to rot away in the ensuing months. It was not unusual for a candidate to promise more highway improvements than could be accomplished during the governor's administration. Right-of-way would be obtained, and the road delayed or abandoned when a new governor took office. Regularly, the highway programs outlined or promised by the Highway Commissions were more a recognition of highway needs than of financial capability. It was not unusual near the end of an administration, for many projects to be promised in full knowledge that the next administration would be unable to construct the projects with available funds.



Repeated abuses and excesses of this sort led to an erosion of public confidence in the state's highway program. There was never any assurance of project construction until the bulldozer showed up on the job. Millions of dollars were wasted in the preparation of plans for projects subsequently delayed or abandoned.

Meanwhile, the planning and construction process became more and more complex and time consuming. Beginning in the 1960s, it became less and less possible to plan and build a highway project in the four-year span of a governor's term.

Slowly, but surely, as it always has happened, the good government ethic in North Carolina reacted to these persistent problems. In the 1973 legislative session — following recommendations of the outgoing Scott administration and spurred no doubt by the unprecedented election of Republican Jim Holshouser as governor — the General Assembly enacted a major reorganization of state government administrative functions.

Among the changes instituted in the highway program were:

1) a statutory formula for allocation of state secondary road construction funds for use in each county

2) a requirement for the Department of Transportation to develop a uniformly applicable formula for the allocation of secondary road maintenance funds

3) a requirement that the Department of Transportation develop an annual work program for both construction and maintenance of secondary roads in each county, listing, by priority, the projects to be done

4) creation of a Board of Transportation (in place of the State Highway Commission) with vastly different roles and authority

5) a requirement that the Board of Transportation approve a seven-year schedule of all major transportation improvement projects, together with cost estimates, to be updated annually and published for full public information

6) separate appropriations for maintenance and for construction replaced the lump-sum appropriation previously provided to the Highway Commission to allocate

The North Carolina governor, through his appointed Secretary of Transportation and Board of Transportation, still has significant authority and influence over highway construction programs. But since the Executive Organization Act of 1973, that influence has been tempered by the formalized process of public involvement and knowledge of the program plans.

And the local roads - secondary roads - so much subjected to abuse of privilege in the past, are now selected for paving by formula rather than by local political favor. The requirement is established by General Statute 136-44.7. Secondary Roads:

> *"... Projects on the annual construction program for each county shall be rated according to their priority based upon the secondary road criteria and standards which shall be uniform throughout the state..."*

The priority rating formula, adopted in 1973 following passage of the act, remains virtually unchanged in its application and results.

With stable, continuing funding assured by statute and the 1975 legislation requiring all new subdivisions to build and pave their own roads to state standards, the department has been able to make orderly, multi-year plans to address the backlog of unpaved secondary roads with considerable success. Grading, stone base, stabilization and paving is undertaken, in priority and in sequence over several years with the assurance of

TABLE 6: SECONDARY ROAD IMPROVEMENTS

JANUARY 1977 THROUGH NOVEMBER 13, 1987

County 100	Improvements to Paved Roads Miles	Improvements to Paved Roads Amount	New Paving Miles	New Paving Amount	Grade, Drain, Stabilize Miles	Grade, Drain, Stabilize Amount	Stone & Spot Stabilization No. Roads	Stone & Spot Stabilization Amount	Bridge Replacements No.	Bridge Replacements Amount	Right of Way, Minor Drainage, Rural Fire Depts Etc.	Total
1977	287.13	$4,950,365	329.13	$15,808,574	154.16	$4,555,880	317	$486,683	19	$719,220	$437,582	$26,958,304
1978	455.00	$10,582,639	534.67	$24,729,094	261.73	$7,206,375	1793	$8,081,183	58	$1,291,692	$593,722	$52,484,705
1979	316.94	$6,436,627	417.10	$22,654,452	198.97	$7,294,529	1021	$4,182,864	44	$1,138,907	$941,978	$42,649,357
1980	160.67	$3,811,308	304.57	$21,259,656	176.26	$5,858,976	975	$4,618,478	14	$180,659	$2,200,850	$37,929,927
1981	166.70 59 Roads-Spot Improved	$4,501,422	244.71	$20,566,136	158.66	$7,610,592	1185	$4,728,514	20	$935,298	$2,291,558	$40,633,520
1982	407.98 36 Roads-Spot Improved	$12,466,173	286.44	$21,695,794	102.09	$7,194,181	1974	$9,644,393	30	$1,491,600	$2,257,396	$54,749,537
1983	356.61 19 Roads-Spot Improved	$11,324,118	301.99	$21,427,413	92.67	$4,348,687	2214	$10,141,857	21	$938,375	$1,767,898	$49,948,348
1984	247.56 34 Roads-Spot Improved	$10,147,962	282.50	$20,719,276	95.17	$5,887,918	2252	$9,453,270	16	$660,850	$1,460,028	$48,329,304
1985	274.88 69Roads-Spot Improved	$10,852,652	273.98	$23,248,246	42.71	$2,939,826	2370	$8,832,486	5	$248,520	$2,385,813	$48,507,543
1986	241.83 155 Roads-Spot Improved	$11,317,843	268.92	$26,805,052	65.07	$2,269,581	2618	$9,632,920	14	$656,472	$3,220,418	$53,902,286
1987	390.86 203 Roads-Spot Improved	$16,023,538	369.16	$33,455,914	92.60	$4,650,874	2118	$9,608,573	11	$346,846	$4,191,862	$68,277,607
Totals	3,306.16 575 Roads-Spot Improved	$102,414,647	3,613.17	$252,369,607	1,440.09	$59,817,419	18,837	$79,411,221	252	$8,608,439	$21,749,105	$524,370,438

continuing funding. Over the past decade, new paving of unpaved roads has averaged 330 miles each year, statewide, with significant sums being applied to improving existing paved roads and stone work on other unpaved roads (See Table 6).

GS 136-44.4 ANNUAL CONSTRUCTION PROGRAM: STATE PRIMARY AND URBAN SYSTEMS.

"The Department of Transportation shall develop an annual construction program for the state-funded improvements on the primary and urban system highways and for all federal-aid construction programs which shall be approved by the Board of Transportation."

While secondary road construction was covered by statutory formula, the General Assembly wisely chose to leave the major highway construction program up to the Board of Transportation and to the department's professional highway planners and engineers. Public scrutiny and public participation in the process was to provide for some protection against abuse.

The process takes the form of an annual update of the department's Transportation Improvement Program - the TIP.

Public meetings are held annually in each of the 14 highway engineering divisions to hear requests and comments from local public officials, businesses, organizations and individual citizens to determine the public's views on road construction priorities. The base document is the then-current TIP, which will have been available to the public for several months prior to the start of the meetings.

Each request is reviewed by the Board of Transportation member or members representing each division and by the department's professional staff. The staff review includes examination of project feasibility and justification. In recent years, major projects have been included for "feasibility study" without specific funding or schedule to allow time for thorough analysis before any promise is considered. Another recent refinement of the process includes the calculation of a "benefits analysis" for each major project.

Included in the 1973 Organization Act was a requirement for the department to "develop criteria for determining priorities of projects to insure that the long-range goals and statewide needs as a whole are met, which shall be approved by the Board of Transportation" (GS 136-44.4). In 1986, the department initiated the use of a benefits analysis formula to calculate and compare the cost of projects against the travel and other economic benefits that would result from its construction. The net benefits thus calculated are weighed against minimum values established for like-kind projects and assist the board in evaluating the relative merit and priority of the project against other candidate projects. Other factors are calculated including economic development benefits, consistency with overall policy goals, and a measure of statewide equity in distribution of projects.

Many other elements play into the priority determination, not the least of which is the federal factor. In urban areas, federal law requires a coordinated, continuing, comprehensive transportation planning process for all urban areas with a population over 50,000. North Carolina law (GS 136-66.2) requires that a Thoroughfare Plan be developed for every municipality regardless of size. These plans, based on regularly updated planning data, provide the primary focus for determining priority of state-system roads within the municipal boundaries.

Special federal distribution formulas (interstate, primary, secondary, urban, bridge replacement) earmark the major funds available for TIP programming. There is little flexibility available to the state to adjust funding between categories.

Estimates of available funds in the several categories are prepared by department staff and updated frequently during the period of the TIP process. Final allocation of funding is applied by the department to the priorities recommended by Board members. Schedules are adjusted to fit the estimated availability.

The complex process of trying to match available funds by categories to the project priorities established in the public process contributes to the difficulty in conveying to the public the degree to which the program truly attempts to respond to their perceived needs.

Over the years, the process for determining highway improvement priorities has evolved from a loosely defined, frequently altered arrangement into a more binding, continuing system. The development of transportation improvement priorities is now based on a comprehensive, common sense approach. Highway functional classification systems, municipal thoroughfare plans, local government and public involvement, and economic benefit analyses are only some of the guides used to assist in making the spending decisions.

The TIP, now a fixture in North Carolina's governmental process, has added a significant measure of reliability and credibility to the delivery of the State's highway construction program, and to a significant degree has retained priority designations and schedules even through changes in administrations.

THE 1987 TIP

The 1987 TIP reflected the dual policy objectives of addressing urban traffic problems and intrastate economic development. Highlights of the program included:

- multi-year programming for all modes of transportation
- incorporation of newly-enacted continuing appropriations for aviation, public transportation and the state rail program
- the identification of a state Strategic Highway Corridor Network

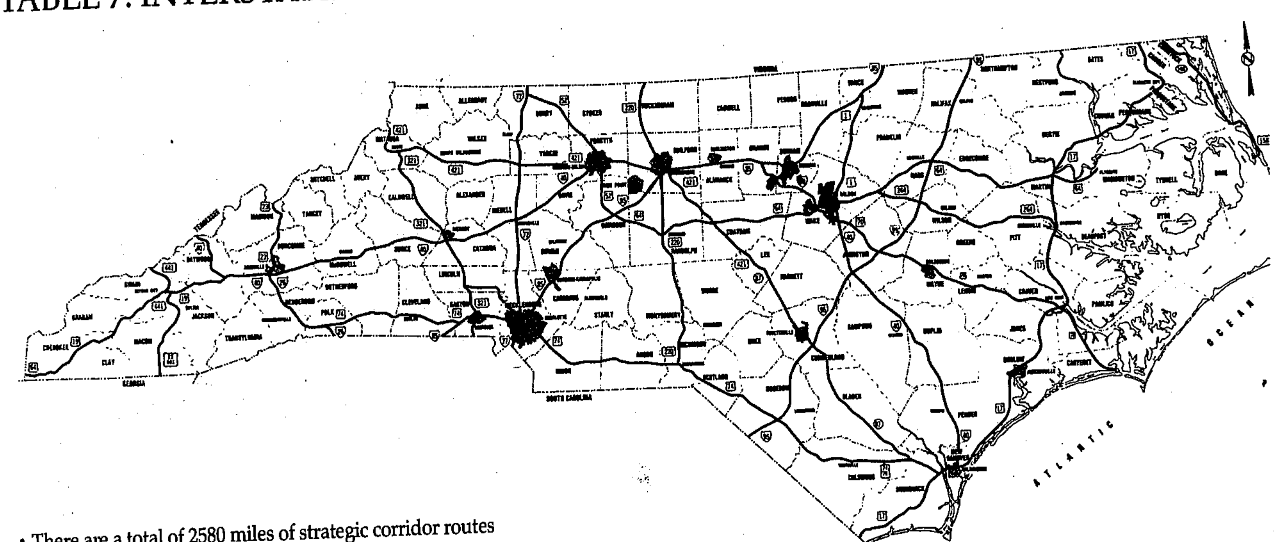
STRATEGIC HIGHWAYS

A key feature of the 1987 TIP was the identification of Strategic Highway Corridors. The guidance to the staff that developed this network was to identify those key corridors where reasonable access to multi-lane highway facilities can be brought to the greatest percentage of North Carolina citizens in the shortest time with the least additional funding. The network outlined in the TIP does this. Table 7 summarizes the characteristics of the network.

There is a larger purpose for designating this network and that is to anticipate the thrust of the federal-aid program after 1991. One very strong possibility being discussed at staff and policy levels in Washington and in the highway planning community is that the federal-aid program beyond completion of the Interstate System will be focused on maintenance and improvement of strategic and defense highways. It is vitally important that North Carolina not be left out as it was in the selection of Interstate routes and that the state be in the forefront of those planning for the future. This Strategic Highways Corridor Network is intended to serve that purpose.

It is equally important that purpose not be overly diluted by the addition of too many other segments of the state's arterial systems to this network. Of course, there are other important highways. There are important connectors to the network and there are important regional highways. These can and must receive attention in program planning. But there must be a focus on those that provide the most benefits the soonest if those benefits are to be realized. To do otherwise would be to spread limited resources so far and wide that the work would never catch up with current needs, much less provide the economic stimulus that will be needed to fund additional roads.

TABLE 7: INTERSTATE AND STRATEGIC CORRIDORS



- There are a total of 2580 miles of strategic corridor routes
- 82 out of 100 counties (82%) are directly served
- All 15 major urban areas (greater than 50,000) are served

WITHIN THREE MILES
- 57 out of 81 (70%) of all urban areas (5,000 or greater) are within three miles of a strategic corridor
- 47 out of 71 (68%) of small urban areas (5,000 to 50,000) are within three miles of a strategic corridor

WITHIN TEN MILES
- 76 out of 81 (94%) of all urban areas (5,000or greater) are within ten miles of a strategic corridor
- 66 out of 71 (93%) of small urban areas (5,000 to 50,000) are within ten miles of a strategic corridor
- Approximately 92% of the state's population is within ten miles of a strategic corridor
- Approximately 79% of the land area of the state is within ten miles of a strategic corridor

(Chapter 4 was first published December 30, 1

LOOKING DOWN THE ROAD

"The trouble with the future is that it is no longer what it used to be."

Paul Valery

Guessing the future for North Carolina highways is anything but simple, simply because there are so many variables to factor. And the longer-term view attempted, the darker the crystal ball. Because longer-term estimates are cloudier, this chapter will attempt to break down the future into two segments; short term from now to mid-1992, and then guess at the longer term to 2020. The near-term projection will benefit from some knowns not enjoyed by the more distant future.

We know the pattern and terms of the Federal-Aid program through fiscal year 1991. As discussed in Chapter 2, the state Highway Fund as now structured will provide stable and adequate funding for maintenance and administration of the program for this near term, and, as we will see, has some capability beyond those essential appropriation levels. Within a reasonable tolerance, the national (and state) economy should be fairly predictable and the turnover of the automotive fleet, while continuing, will involve a fairly gradual transition to newer engines and autos. Beyond that period, we will have to make some less precise predictions concerning population, traffic and commuting patterns, technological advances, revenue growth and inflation trends. And we must hazard a guess at how the Federal-Aid program will contribute to meeting North Carolina's needs.

NORTH CAROLINA POPULATION TRENDS

For the short-term, the estimate is for a population increase of some 300,000 people – for a state population of a little more than 6.7 million – by 1992. Extrapolating from the State Budget Office estimates, the state's population will grow to almost 8.4 million in the year 2020 - nearly one-third more people.

If those numbers are not impressive enough, we will have to contend with and attempt to predict the effect of major shifts in social patterns accompanying this growth. Some of the more important changes taking place include:

- Age group shifts
- More women working outside the home
- Employment shift from manufacturing to service jobs and higher technology employment
- City decentralization
- Downtown redevelopment

AGE GROUP SHIFTS

North Carolinians are growing older (Table 8). In the future there will be more senior citizens in North Carolina, and they will be much better off financially than those of the previous generations. With more money, more time, and better health they are already evidencing a greater use of automobiles— that trend can be expected to continue.

TABLE 8: NORTH CAROLINA POPULATION TRENDS

	PERCENT MALE	PERCENT FEMALE	TOTAL N.C.	MEDIAN AGE
1980 Census	48.5	51.5	5,880,415	29.6
July 1987	48.0	52.0	6,403,426	32.2
1990	47.8	52.2	6,601,815	33.2
2000	47.3	52.7	7,262,895	36.6
2010	47.0	53.0	7,809,530	39.4
2020	46.6	53.4	8,398,069	41.1

MORE WOMEN WORKING OUTSIDE THE HOME

More women working outside the home is a contributing factor to the increased demand on the state's transportation system. The present majority of females will increase and presumably with that will come an increase in two-earner families.

EMPLOYMENT SHIFTS IN INDUSTRY

The new work force is better educated, requires more flexibility in commuting and travels longer distances to better jobs - often fighting through the rush hour traffic. Most of the new employment is in the daytime period, rather than being spread over two or even three shifts, heightening peak demand.

CITY DECENTRALIZATION

We're already seeing this trend in and around all of our major cities and most of the smaller ones. Many households and many jobs are moving from the inner city to the country — but often they are not going in the same direction. Cross-town commutes are now commonplace and the rural, suburban areas are experiencing the traffic jams that were formerly characteristic only of the inner city. This travel is almost entirely by automobile. Given this lower density suburban development pattern and lifestyle, traditional transit service has little application.

DOWNTOWN REDEVELOPMENT

Despite decentralization, changes are taking place downtown that are increasing traffic there, too. The rebuilding of downtown areas, especially our larger municipalities, is characterized by taller and taller buildings featuring financial, insurance and related office employment. The people holding these jobs, however, often choose to live in the suburbs, and they choose to get to work in their own automobile. This creates a dual impact on city streets and on the suburban commuting corridors which in many cases are also the cross-town routes.

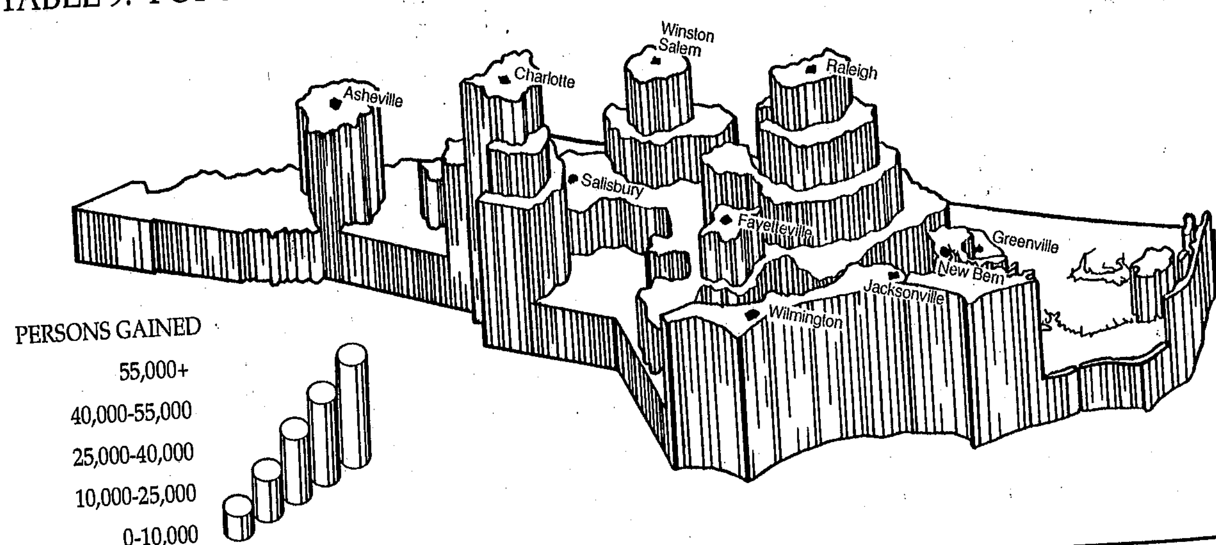
WHERE IS ALL THIS GOING ON?

Where overall growth will occur is as significant as the issue itself. In both numbers and percentage, the growth now evident in and near the metropolitan centers continues. The Metrolina area (Mecklenburg, Union, Gaston, and Cabarrus counties) will grow by some 55,000 people by 1992; the Triangle (Wake, Durham, Orange, Chatham, and Johnston counties) will gain over 72,000 people by 1992. Wake County serves as an example of urban county growth — it is expected to double in population by 2020. In most rural outlying counties the growth rate will be much lower, but there will be exceptions. Dare and Brunswick counties will more than double in population by 2020. Overall, however, the growth pattern will be focused around the urbanizing centers across the state and will create bigger markets (and bigger traffic headaches) in the counties surrounding these growth centers.

The president of the national Highway Users Federation, Les Lamm, in an address to the annual meeting of AASHTO in December 1987, outlined the pattern of evidence showing up in the Transportation 2020 Forums across the United States. Urban area comments show the same trend nationally - a pattern of continued dispersion of growth and above average growth in traffic congestion. The 15 to 20 percent growth rate in sprawl and congested traffic conditions is exacerbated by the maintenance problems associated with aging roads and by inadequate traffic signal services.

Table 9 shows where the impact of this extraordinary growth will be felt the most.

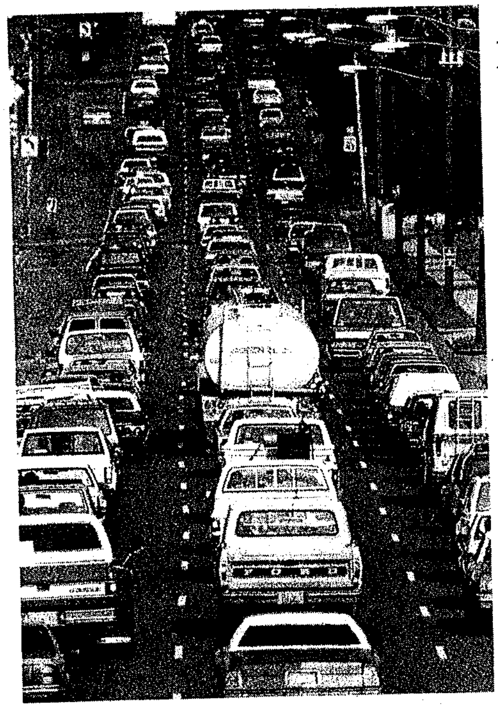
TABLE 9: POPULATION CHANGE, 1980-2000



CHANGING HABITS

As we grow and develop, an evolution is occurring and we are acquiring new habits that are affecting almost every aspect of our daily lives. The automobile is playing a major role in these changes.

Today, we have 1.47 autos per household — we'll have more by 1992, and many more by 2020. Seemingly unrelated events trigger more autos and more traffic. For example, consider the impact of the anticipated major new construction of middle and high schools on the need for teen-age commuting to these new schools.



Another trend toward more truck delivery of goods and services is also adding traffic. Much of this growth stems from the high cost of maintaining and storing inventory. The business response to these costs has been to switch to distribution warehousing, where lower-cost storage and closer-at-hand "just in time" or "zero" inventory control systems have proliferated. This practice has led many manufacturers to reduce their use of rail car shipments, opting for truck delivery instead. Today, 70 percent of all freight dollars go to trucks.

A look at the historical pattern of shipping practices reveals more than just the number of trucks on the roads.

In the 1960s the truck fleet was characterized by short-haul vehicles, many carrying one to five tons in 20 to 30-foot vehicles.

In the 1970s the fleet grew to 50-footers, carrying some 80,000 pounds on inter-city runs.

Today, in the 80s, some trucks are approaching 100 feet in length, carrying loads of up to 100,000 pounds.

In less than 30 years, we have seen a 300 percent growth in highway truck traffic volume, and economic deregulation of the trucking industry will foster a continuation of this trend. The highway "space wars" between trucks and autos and the debate over fair share payment for maintenance of roads can only become more pronounced.

The expected continued decline in short line and spur line railroad service to rural areas will also lead to greater truck traffic.

Rail piggy back services with trucks handling the distribution, may well offset some of the long-haul needs but all in all there will be more trucks on the intrastate and intra-urban roads. And, not inconsequently, because of engine technology advances and other improvements these trucks will carry more pounds per gallon of fuel than ever before.

MORE TRAFFIC, MORE PLACES

Urban traffic demands are obvious now and will continue to grow. Many of our smaller towns will grow to urban stature during the long-range forecast period, and will encounter major traffic problems.

Growth in traffic and demand for improved highways, however, will not be solely an urban matter. The trend toward dispersed living and work opportunities that is occurring will carry with it the need for new and improved routes to what are now rural areas.

Commuting patterns of up to 35 miles one-way are common today. There will be more of these commuters each year into the future, and the average commute is more likely to grow, not diminish, as jobs are located across town from residential suburbs. The family farm, so much a fixture in North Carolina, will remain an attractive residential alternative for many - although they will be farmed after hours and on weekends. By commuting to manufacturing or service jobs, many North Carolinians will still be able to maintain the farm-related lifestyle they prefer.

Other factors will increase the need for rural arterial highway improvements, especially on designated strategic routes. More demand will be placed on rural highways by the pattern of commercial trade - the delivery of goods and services between cities, from farm to market, and from factory to market - across the state and across the state lines. Continued expansion of North Carolina's tourist and travel industry will generate more and more inter- and intrastate traffic. Modern, multilane highways linking all parts of North Carolina to each other and to the rest of the world will be essential.

TABLE 10: TRAFFIC FORECASTS FROM 1990-2020

VMT IN MILLIONS

CATEGORY		1990	1995	2000	2005	2010	2015	2020
URBAN								
	Arterial	23,575	30,088	38,401	49,010	62,551	79,832	101,889
	Collector	1,378	1,759	2,245	2,866	3,657	4,668	5,957
	Local	4,042	5,158	6,583	8,402	10,723	13,686	17,467
TOTAL		28,995	37,005	47,229	60,278	76,932	98,186	125,313
Percent Urban		47.03	49.43	51.84	54.23	56.61	58.95	61.26
RURAL								
	Arterial	14,750	17,099	19.822	22,980	26,640	30,883	35,802
	Collector	15,019	17,411	20,184	23,399	27,126	31,446	36,455
	Local	2,885	3,344	3,877	4,494	5,210	6,040	7,002
TOTAL		32,653	37,854	43,883	50,873	58,975	68,369	79,258
TOTAL VMT		61,648	74,859	91,113	111,151	135,907	166,555	204,571

URBAN RATE 5%/year
RURAL RATE 3%/year
NOTE: Urban traffic volumes exceed rural after 1995. Urban system traffic will quadruple from 1987 to 2020.

WHAT'S THE BOTTOM LINE ON TRAFFIC AND TRAVEL?

The trends established in the past will continue. The estimate shows that total traffic will nearly quadruple between now and 2020. The ratio of urban to rural traffic will be close to two-to-one, stemming from growth in population in and near the urban areas and expansion of urban area limits.

The North Carolina Department of Transportation has projected the growth in traffic on the various segments of our state system in Table 10.

"STAR WARS" ON THE STREETS ?

New technology in automotive engines abounds. Ceramic engine components, superconductivity, magnetic levitation, solar power, the Stirling external combustion engine, and alternates to petroleum-based fuels all are on the drawing board. Indeed, many of these ideas are already on test tracks and in prototype vehicles.

Barring any major dislocation in world oil supplies, however, it will be a long time, well beyond our forecast period, before these new engines themselves have any measurable effect on state highway fund revenues.

However, the technology and research into these new engines and engine components are showing up in today's engines, resulting in a steady increase in fuel efficiency and a steady internal erosion of the highway fund year after year.

Our revenue base is not sound. The continuing improvements in fuel efficiency already proven and on the road have had, and will have, a profound impact on our present method of paying for pavement.

There is a rather clear line of demarcation in trying to forecast the near-term (1992) impacts of technological change, versus attempting longer-range predictions to 2020.

Near term, it is obvious that we'll see more of the same. The changes in automotive design, fleet fuel economy and customer preference for autos are already in place. New cars enter the fleet at the rate of about six percent each year. Half of the cars on the road are under six years old and more than 50 percent of the travel is in vehicles under four years old. Thus, the present model autos and auto engines will set the pattern for our near term forecast.

Paul Stempel, president of General Motors Corporation, recently made the point of improved fuel efficiency in a paper delivered to the AASHTO meeting in San Diego: "Our cars today," said Stempel, "provide over twice the miles per gallon as those built early in the 1970s. In 1974, our total fleet at General Motors averaged 12 miles per gallon. This year (1987) we exceed 26 miles per gallon for all the cars we built."

Those 1987 cars — and the 1988-1990 models — will comprise a growing percentage of the vehicles in North Carolina. The addition of these continuously more efficient cars and trucks will continue the steady increase in miles per gallon attained by the vehicle fleet. The resulting reduction in average fuel consumption per mile traveled by motorists on North Carolina highways will continue to depress highway fund revenues. Rapid increases in traffic and miles traveled have hidden this "loss" in dollars, but highway fund revenues will be flat compared to demands. Increased demand will result, as we have already seen, from population growth and from changes that are part of a long-term national pattern. Mr. Stempel again: "...(in 1986) we averaged almost 8000 miles per person (travel in automobiles), versus 4000 in 1960."

The present revenue structure of the state Highway Fund cannot keep the pace set by demands.

In the longer range picture, the impact of technology apparently will depend upon the concurrent behavior of energy prices. Despite the new technology now on the drawing boards and on the test tracks, Mr. Stempel said "...even assuming a moderate rise (in petroleum prices) gasoline will remain the primary fuel for transportation for some time to come."

Others believe that future energy shocks, or prices and availability, will drive the automotive fleet to new technologies during the next three decades.

Regardless of which forecast you believe, it is apparent that the change in automotive engine technology, whether driven by price sensitivity, by the conservation ethic, or by the cost efficiency demanded of the trucking industry, will make the present North Carolina Highway Fund tax base less and less effective as we turn the page on the 20th century.

FOR THE NEAR-TERM, THE N. C. HIGHWAY FUND WILL BE RELATIVELY DEPENDABLE

It was pointed out in Chapter 2 that the present state Highway Fund revenue base will meet the programmed improvements and normal operations of the North Carolina Department of Transportation, near-term. The changes effected by the 1986 General Assembly and the internal efficiencies initiated within the department, combine to satisfy the currently projected needs of the department for a period of our near-term projection.

Table 11 illustrates a conservative forecast of revenues and appropriations for the Highway Fund through fiscal year 1991-1992.

The assumptions underlying those revenue and expense projections are important:

- The North Carolina economy will perform somewhat better than the overall national economy.
- Continued expansion of North Carolina's export of farm and factory products through our ports and a continued influx of foreign investment in the state.
- Continued generally flat growth rate of the highway fund and the possibility that foreign oil producers may press oil prices somewhat higher, taking advantage of the increase in oil imports by the United States from the present 43 percent level to near 50 percent by the end of the period.
- A general inflation rate for maintenance and operating expenditures of 4.5 percent per year (5 percent for Highway Patrol), perhaps conservatively stated given the likelihood of at least one shallow national recession during the period.
- Specific appropriations for small urban construction, state construction, secondary roads, Powell Bill and capital improvements are maintained at the present rate.
- Contract resurfacing will catch up with the system backlog through fiscal year 1989, and then be funded at a stay even level subject to inflationary adjustment.
- No significant change in the level of Federal-Aid funding, with state matching funds remaining essentially level.

If these projections hold beyond the current biennium, there is \$35 to \$38 million available in the state Highway Fund with which to address some of the state's construction needs in this near-term period. How these funds might be used will be addressed in another chapter.

TABLE 11: HIGHWAY FUND – REVENUES AND REQUIREMENTS

REVENUE	1987-88	1988089	1989-90	1990-91	1991-92
MOTOR FUEL TAX					
14 Cents	527.60	538.00	548.76	559.74	569.81
3% sales Tax	64.00	68.80	74.58	76.07	82.00
Gas Insp	9.60	9.80	10.00	10.20	10.38
Highway Use	4.80	4.90	5.00	5.10	5.19
TOTAL MORTOR FUEL	606.00	621.50	638.34	651.34	667.38
LICENSES & FEES	239.39	246.17	253.56	261.17	268.48
INVESTMENT INCOME	35.00	29.70	28.40	27.90	27.23
TOTAL REVENUE	880.39	897.37	920.30	940.18	963.09
BAL. FORWARD & REVERSION	15.70	24.69	23.48	40.87	50.45
AVAILABLE FUNDS	896.09	922.06	943.78	981.05	1013.54
REQUIREMENTS					
DOT Administration	23.44	24.49	25.60	26.75	27.95
DOT Operations Administration	30.92	32.31	33.77	35.28	36.87
Secondary Roads/ Access	64.85	69.25	70.60	71.97	73.23
Small Urban Construction	20.00	20.00	20.00	20.00	20.00
Spot Safety	6.20	6.20	6.20	6.20	6.20
Federal AId Match	67.82	67.82	67.82	67.82	67.82
State Construction Appropriation	60.00	60.00	60.00	60.00	60.00
Maintenance (Includes Ferry)	244.84	255.86	267.37	279.40	291.98
Contract Resurfacing	100.91	101.00	80.00	83.60	87.36
Division of Motor Vehicles	65.95	68.92	72.02	75.26	78.65
Powell Bill	62.85	65.95	67.25	68.60	69.97
Public Transportation	2.50	2.60	2.70	2.81	2.92
Highway Patrol	74.78	78.52	82.44	86.57	90.90
Other Agencies	6.09	6.36	6.65	6.95	7.26
Debt Service	37.96	37.30	38.49	37.39	38.23
Capital Requirements	10.29	10.00	10.00	10.00	10.00
TOTAL REQUIREMENTS	879.40	906.58	910.91	938.60	969.34
BALANCE FORWARD/DEF (-)	16.69	15.48	32.87	42.45	44.20

ASSUMPTIONS AND FORMULAS: Revenues at currently projected growth. No tax change. Investment income per Treasurer's estimate. Balance Forward current estimate '88, then 8.0M reversion annually.
REQUIREMENTS: Expense excalation @ 4.5% annually, except Highway Patrol @ 5%.
Secondary Roads @ 1 and 3/4 cens plus 2M access.
Powell Bill @ 1 and 3/4 cents prior year sales.
Public Transportation @ 4% annual growth rate.
Construction appropriations flat @ current rate.
Contract Resurfacing: 3600 miles/year, 2 years, the @ 2600 miles/year.
Debt Service: Current amortization schedule.

AFTER THE MILLENNIUM

Looking to the 1990-2020 period requires more imagination. Certainly the trends now evident will continue — two million more people will generate much more traffic. Additionally, factors that are not even visible on the horizon today are likely to increase demands beyond present expectations.

THE FUTURE OF THE FEDERAL-AID PROGRAM

One very evident factor is the declining importance of the Federal-Aid system as a solution to the problem. The federal budget deficit is not going away — not this decade, or next, or the next. Any long-term reliance on federal dollars will be on shaky ground, at best. The constant demand to use Federal Highway Trust Fund dollars to offset deficit spending in other areas may be irresistible to the Congress. Another potential "irresistible" temptation, despite strenuous objections, will be expansion of the wasteful and improper Demonstration Project theme that has undermined the current federal highway act. Then there is the temptation to increase energy taxes to subsidize domestic industry, or reduce the deficit, or for some other nonhighway purposes, and the proliferation of schemes to hang more conditions, standards, mandates and sanctions on use of the federal dollar.

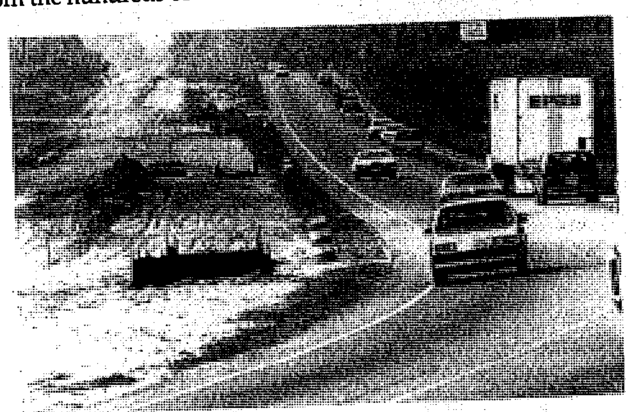
No.

If we are to work our way out of the highway program ditch, we will have to rely largely on ourselves.

And we are not alone. In 1986, nationwide, 24 percent of the $64 billion spent on highways was Federal. The other 76 percent was state and local. By the time the present federal highway act expires in 1991, the federal share will be down to 20 percent or less.

All the states, and many, many highway user groups and interested agencies are today involved in an effort to devise a consensus program for the federal role in highways. This effort centers on the question of the nature of the federal programs after 1991 when the Interstate Highway System is to be completed. But, so far, the evidence suggests that any successor federal program will not provide enough to meet North Carolina's needs.

Nevertheless, we need to exert our best efforts to get a fair shake and a fair program from the hundreds of millions of North Carolina dollars that will be a target for the future Federal program. Our political leaders must remain vigilant, informed and aggressive to prevent a repetition of the "highway robbery" that has been perpetrated on the state in recent decades.



Since 1956, only 83 cents of every highway tax dollar sent to Washington from North Carolina has been returned to the state for highway spending. The distorted allocation of the "transit penny" further compounds the felony.

LONG-TERM HIGHWAY NEEDS, 1990-2020

The unmet highway needs outlined in Chapter 2 are very real. We can accept a lower level of service and higher tempers on the highways, or we can find a way to catch up this backlog. While that is going on, we will gain more people and build up additional needs. Table 12 extrapolates the needs on the same basis and using the same criteria as for those summarized in Chapter 2 to the year 2020.

TABLE 12: LONG TERM GROWTH OF CONSTRUCTION NEEDS
BILLIONS OF DOLLARS

	1988-2000	2000-2010	2010-2020
Urban Systems	2.3[1]	1.9	1.9
Rural Systems	2.3[2]	1.5	1.5
Secondary[3]	0.8	0.7	0.7
Bridges	1.3	1.1	1.1
CONSTRUCTION NEEDS	6.7	5.2	5.2

1 Includes 0.39 billion for the completion of strategic highways in urban areas.
2 includes 0.37 billion for the completion of strategic highways in rural system.
3 Assumes a state goal of paving all currently unpaved secondary roads by 2020.

Can we look 30 years into the future? Perhaps we cannot, but we must try. Those 30 years represent only four "TIPs." When it takes as much as 15 years to plan and build a major project (even when you have the funding), some intelligent planning is obviously essential.

Some things can be assumed and one of them is that there are some constants that will not be changed by growth or trends. One such constant is central to our planning: despite the changes in technology and travel habits, the evolution of North Carolina's transportation system will follow its present pattern well into the next century.

Some regional bus transit may evolve and we may, late in the period, have a few urban areas where some form of light rail or, less likely, high speed transit could supplement the personal auto preference, but those will be limited to a very few select areas and corridors. The primary mode of surface transportation for North Carolina to 2020 will still be the highway.

And in this period, the present structure of the state's Highway Fund revenues will fail to meet the basic needs of the system. In Table 13, the highway fund revenue and expense projection is carried beyond 1992.

Revenue assumptions are projected, extending the

TABLE 13: HIGHWAY FUND – LONG TERM REVENUES AND REQUIREMENTS

	1992-93	1993-94	1994-95	1995-96	1996-97
REVENUE					
MOTOR FUEL TAX					
14 Cents	578.93	587.61	596.61	605.37	614.45
3% sales Tax	83.32	89.23	90.57	96.73	98.18
Gas Insp	10.55	10.70	10.86	11.03	11.19
Highway Use	5.27	5.35	5.43	5.51	5.60
TOTAL MOTOR FUEL	678.07	692.89	703.29	718.64	729.42
LICENSES & FEES	275.46	282.35	289.40	296.65	304.06
INVESTMENT INCOME	20.00	19.50	19.00	18.50	18.00
TOTAL REVENUE	973.53	994.74	1011.69	1033.79	1051.48
BALANCE FORWARD & REVERSION	8.00	-9.58	-35.76	-66.96	-106.57
AVAILABLE FUNDS	981.53	985.16	975.93	966.83	944.91
REQUIREMENTS					
DOT Administration	29.21	30.52	31.90	33.33	34.83
DOT Operations Administration	38.53	40.26	42.08	43.97	45.95
Secondary Roads/Access	74.37	75.45	76.55	77.67	78.81
Small Urban Construction	20.00	20.00	20.00	20.00	20.00
Spot Safety	6.20	6.20	6.20	6.20	6.20
Federal Aid Match	67.82	67.82	67.82	67.82	67.82
State Construction Appropriation	60.00	60.00	60.00	60.00	60.00
Maintenance (Includes Ferry)	305.12	317.32	330.02	343.22	356.95
Contract Resurfacing	90.42	94.49	98.74	103.18	107.83
Division of Motor Vehicles	82.19	85.89	89.75	93.79	98.01
Powell Bill	71.23	72.37	73.45	74.55	75.67
Public Transportation	3.11	3.23	3.36	3.50	3.64
Highway Patrol	95.45	100.22	105.23	110.50	116.02
Other Agencies	7.44	7.77	8.12	8.49	8.87
Debt Service	38.02	37.36	27.66	25.17	5.01
Capital Requirements	10.00	10.00	10.00	10.00	10.00
TOTAL REQUIREMENTS	999.11	1028.92	1050.89	1081.40	1095.61
BALANCE FORWARD/DEF (-)	-17.58	-43.76	-74.96	-114.57	-150.69

ASSUMPTIONS AND FORMULAS: Revenues extrapolated on present tax basis.
Assumes no balance d forward; 8.0M average "reversion".
REQUIREMENTS:
Expense escalation @ 4.5% annually, except Highway Patrol @ 5%.
Secondary Roads @ 1 and 3/4 cents plus 2M access.
Powell Bill @ 1 and 3/4 cents prior year sales.
Construction appropriations flat at current rates.
Contract resurfacing at 2600 miles/year.
Debt Service: current amortization schedule.
Capital: 10M/year replacement program.

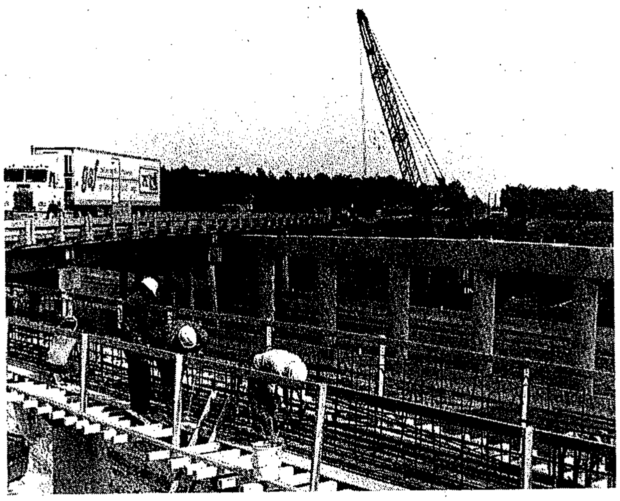
base trends. For this Table 13, we have assumed that the excess availability shown in the near-term forecast (Table 11) has been applied to construction resulting in a reduced cash balance and commensurately reduced investment income.

The approximately 1.5 percent revenue growth rate curve is met and overtaken by the 4 plus percent expense increase curve sometime in 1991 to 1992. The flat-rate, cents-per-gallon tax levy simply cannot keep pace with the increased fuel efficiency in the motor vehicle fleet.

Dr. Wilfred Owen, a Senior Fellow of the Brookings Institution, provided some provocative predictions in his paper to the recent AASHTO annual meeting. Among his predictions:

Current methods of financing highways are obsolete and unworkable for the future. A cost-based "pricing" system will evolve. (Sweden today uses a peak-hour pricing system.)

Eventually tolls will be charged for access to the Interstate system and for comparable high-speed, high-volume, safe highways. Technology will enable the installation of electronic billing systems in highways and vehicles so that the motorist will receive a monthly utility bill for his high-level highway use.



How and when such far-fetched changes might affect the North Carolina system is difficult to imagine. Questions of equity and practicality are obviously involved in any system of charging tolls for different classes of highway service — and charging them of people who have a varying ability to pay.

And, while we can surely devise a tax system that will be fair to all classes of North Carolina citizens, we must be conscious of the traffic burden posed by the truck traffic and non-North Carolinians who comprise a major portion of the systems use.

BUMPY ROAD TO THE FUTURE

Obviously, from the material discussed heretofore, we have a major challenge. We must find a way to catch up on our long-neglected backlog in highway construction. We need to establish a system of construction funding that, once caught up, will match the growth of demands on the system and we will have to restructure the state Highway Fund to provide for these over the long haul. None of these can be accomplished overnight.

Indeed, given the long lead time needed to plan highway projects, and the need for the state's construction industry to gear up to the larger volume required of them, the state solution will have to be in place several years before any results can be expected.

CURRENT CAPACITY LIMITATIONS

The capability of the industry to build and the capacity of the planners and engineers to plan and design the highways impose some limits on what we can accomplish in the near-term. The North Carolina Department of Transportation has examined these limitations, and found that there are some steps that can be undertaken in the near-term that will help "get the show on the road."

The engineers in the department have been working under a policy directive to prepare plans for TIP projects on a schedule that will provide completed designs in excess of the yearly program requirements. This has stemmed from a desire to have substitute projects to use if a planned project's schedule cannot be met for some reason, or in the event windfall federal construction funding becomes available. With this on-the-shelf inventory of existing TIP projects and with a selective acceleration of design work on already programmed projects, the department can produce designs for additional right of way and construction in the 1989-1992 period of some $450 million in contract authority above the present TIP level without strain on the competitive bidding capacity of our construction industry.

The initial new outlay necessarily would be in right of way acquisition. And with at least a one-year advance notice, it appears that North Carolina construction firms can easily adjust to higher levels of contract awards without upward pressure on bid prices. The department's staff estimates indicate that with proper planning to assure geographic distribution of additional projects, and not overloading any segment of the construction industry in monthly lettings, an increase of $150 million or more a year can be handled.

There is something that can be done short term with current funds and within current design and construction capacity. We will discuss how, when and how much in another chapter.

Beyond that - looking to 2020 - the study of and action on longer-term adjustments to the Highway Fund revenue side and commitment to higher levels of construction using state funds will provide the lead time and the incentive for timely planning, design and build up of construction capacity to handle the work load necessary to keep North Carolina rolling.

(Chapter 5 was first published March 30, 1988.)

GETTING STARTED

A PROPOSAL TO TAKE ACTION WHILE DISCUSSION CONTINUES ON LONG-TERM SOLUTIONS

Route 1, Box 3
Mulehead, N.C.
March 3, 2020

Rep. I. R. Brite
Gineral Assembly Building
Raleigh, N.C.

Dear Rep. Brite:

We have been waiting for years to have an automatic mileage counter put on our road, and I'm asking you again to see what can be done about it.

Yesterday I spent over a half hour reading the mileage on my Chevrolectric Runabout, and filling in the tax forms from the Motor Vehicles Department. Not only that, but my husband Ralph was gone all week, driving his triple-trailer rig to Omaha and back, and now I have to add up all the miles in those other states to figure out his monthly tax estimate. Ralph makes me do all his bookkeeping, and if I don't get it right we get those nasty notices from the Motor Vehicles Dept. about interstate taxes. If we had the computer counter on our road, it would all get done like the rich folks in the city.

We pay taxes just like every one else-based on the miles we drive-and I don't know why you can't get us a counting machine here on Possum Holler Road!

Yours truly,

Maude Wayback

P. S. I voted for you <u>last</u> time.

"A journey of a thousand miles must begin with a single step."
Lao-Tzu

Before we can answer Maude's letter, we have a long road to travel. Yes, the technology already exists. We can equip vehicles with tamper-proof, computer-readable odometers. We can meter each individual vehicle as it passes onto or over specific highways and we can exchange mileage-per-vehicle data between states. There is a mechanical ability to do all this and to levy mileage-based taxes, but none of this is on the road.

Maybe the 1999 General Assembly will be acting on such a system—the ultimate user fee system. Until then, the General Assembly will have to work with what we can accomplish with present-day equipment and capabilities if we are going to catch up with North Carolina's vast and growing backlog of highway construction demands.

In subsequent chapters we will look at a number of alternatives, including such traditional issues as:

- increases in the flat-rate motor fuel tax
- variable rate or indexation of the motor fuel tax
- vehicle registration and license fees
- sales taxes levied on new and used vehicles, auto parts and accessories

- non-transportation expenses borne by the highway fund
- adjustments to the secondary road formula and funding
- transit opportunities and alternatives; and
- Transportation System Management (TSM) alternatives.

Given the clear evidence that such traditional funding sources are not going to keep up with technological and traffic-pattern changes, serious study will be required of a number of alternatives that have not been traditional in North Carolina:

- toll roads, bridges and ferries
- local-option participation in highway construction
- local-option funding resources to match
- private participation in transportation development
- weight-distance fees
- tax-increment financing
- local or state impact fees
- tax exemptions in the current law
- public utility administration of transportation facilities and/or services.

This broad range of alternatives, their financial and political feasibility, the effect of adjustments on the state's economic base and state budget, will require long and careful study in order to arrive at a combination that will work in North Carolina. In all likelihood, changes may have to be made in steps over several years to allow for the economic and political adjustments that must be accommodated. Perhaps a tax change can be phased in. Perhaps a dedicated construction fund can be established. Previous studies indicate that some significant changes in our traditional highway fund revenue base will be required to be in place prior to the 1991-92 fiscal year. (See Chapter 5.)

But before that, while the study of these alternatives is going on, there is much we can do to start on this long road.

WHAT CAN WE DO TO GET STARTED?

As pointed out previously, in North Carolina we have the capacity to do more in the near term than currently contemplated by our Transportation Improvement Program. (See Chapter 5.)

Essential elements of our state's Intrastate System (previously referred to as the Strategic Corridor System – Ed.) are positioned so that they can be constructed ahead of the current schedule if funding is made available. Based on:

- plans already drawn or that can be completed in the near term with minimal delay and cost; and
- geographic distribution of construction work, meshed with work already programmed, so as to minimize any demand pull on construction costs,

A number of key highway segments could be started earlier than now contemplated.

Long-standing priority projects, including those reflecting:

- critical current traffic conditions, and/or
- significant economic stimulus potential, and
- projects of importance, locally and regionally, as well as to the state system, can be accelerated in planning, design, right of way acquisition and construction given the indication of available funding to supplement the current program schedule.

Of necessity, all or most of these projects already are programmed in the TIP. Otherwise, they would not have met the criteria. If we knew we would have state funds over and above the present level of construction program funding, we could begin planning on selected key projects. Some examples of possibilities include:

- relief of the massive and dangerous traffic overload on I-40 and I-85 (between Winston-Salem and Durham) as much as four years earlier than the present schedule and at a savings of perhaps $7.5 million. (I-304, I-305, I-900)

- if state funds were available for the I-40 and I-85 projects, the federal-aid Interstate "4-R" funds currently programmed for those projects would be available to apply to new Interstate designations-US-23 to the Tennessee line (A-10) and Charlotte Outer Loop (R-211), offering as much as a two-to five-year acceleration of these important additions to North Carolina's Interstate and strategic intrastate systems.
- key projects on the important US-64, US-17 strategic corridor from Tarboro to the Virginia line could be completed one to four years earlier than currently scheduled (R-2111, R2112, R-2208); and save four or more million dollars.

- the construction of the Wilson bypass on US-264 (R-1023) can be accelerated by two years.
- urgently needed bypasses of New Bern and Jacksonville on the strategic US 17 corridor can be programmed much earlier (R-2301, U-2107), and at a substantially lower cost.
- earlier starts on important segments of the NC-87 corridor serving Sanford, Fayetteville and points east are possible (R-522, R-2238).
- the important connector along NC-24 from Swansboro to US-70 can be accelerated by three years (R-2105).
- provide opportunity for acceleration of key local projects such as Spring Street in Oxford (U-233), the Durham East-West Freeway (U-77), Hudson Boulevard in Gastonia (U-215), and early completion of the approaches to the new Baum Bridge at Nags Head (R-2304).
- accelerated progress on important links in the US-321 schedule (R-212) and in the extension of four-lane service west along US-421 (R-2120).

And there are others, many others, in all areas of the state.

A listing of the widespread opportunities that could be selected for early construction was included in the original text. *(Note: For the sake of brevity in this volume, Tables 14 and 15 were omitted but were filed as a memorandum for record by Secretary James E. Harrington to Archives, December 15, 1989.)*

Because of the planning and design lead time, none of them can be started until 1989 at the earliest. However, an indication in 1988 of the availability of funds in 1989 is essential to take full advantage of this opportunity.

There is a double-barreled effect from state-funded acceleration of construction. If selected TIP projects can be done using state funds only, as opposed to using the federal aid construction program, it will save time and money. Perhaps equally important is the regular construction program funds, mostly federal aid and currently programmed for these selected projects, will be made available to accelerate the construction of other projects to provide an even greater degree of regional equity and faster delivery of badly-needed critical highway projects.

If we had the funds-say $450 million for discussion purposes-we could accelerate much more than that amount in total construction. Between 1989 and 1992, we can make a real dent in our critical backlog of highway construction needs.

WHERE'S THE BEEF?

Those Funds can be found:

- without raising taxes
- in the present structure of the highway fund
- by leveraging the current appropriation for debt service in the highway fund and with a small increase in the current level of appropriations for debt service . . . out of available revenues.

HERE'S HOW

Currently, and for the near-term period through 1991-92, the highway fund debt service appropriation will amount to some $38 million annually. (See Chapter 5, Table 11.) In the current market, this amount of debt service can amortize more than the amount of current highway debt outstanding and refunding a portion of this outstanding debt can reduce the cost and required debt service appropriation. Additionally, in the 1989-1992 fiscal years there will be additional annual availability in the highway fund. (See Chapter 5, Table 11.) If part of that were applied to debt service, it would enable the amortization of an additional $450 million in bonds.

Table 16 illustrates the debt service potential on this basis. This illustration hypothecates 20-year bonds to suggest taking advantage of current attractive market conditions. Incorporation of 10-year call provisions would enable early refunding or refinancing.

Net of the refunding of current debt required, a prudent level of debt service can provide an additional $450 million dollars for highway construction purposes during a four to five year period.

The extraordinary economic stimulus that would be afforded by the acceleration of strategic state and regional projects will provide a significantly high pay-back in highway fund dollars, in general fund revenue base, in new jobs and particularly in traffic safety and in the restoration of North Carolina's standing as the "Good Roads State."

(Editor's Note: The above bond proposal was submitted to the General Assembly in 1988 and was rejected.)

TABLE 16: HIGHWAY GENERAL OBLIGATION BONDS, 20 YEAR AMORTIZATION

						Existing Debt Restructured & New Debt Proposed				
	Existing Debt			Debt Not Refunded		Existing Debt to be Refunded		New Debt Proposed		Grand Total
Fiscal Year	Principal	Interest	Total	Principal	Interest	Principal	Interest	Principal	Interest	Principal & Interest
88-89	24,020,000.00	13,275,105.00	37,295,105.00	24,020,000.00	13,275,105.00					37,295,105.00
89-90	26,765,000.00	11,726,162.50	38,491,162.50	26,765,000.00	8,063,823.00		4,230,100.00		10,500,000.00	49,558,923.00
90-91	27,330,000.00	10,062,600.00	37,392,600.00	26,240,000.00	6,434,050.00		4,230,100.00		17,500,000.00	54,404,150.00
91-92	29,940,000.00	8,287,230.00	38,227,230.00	20,695,000.00	4,979,065.00		4,230,100.00		24,500,000.00	54,404,165.00
92-93	31,640,000.00	6,378,250.00	38,018,250.00	14,795,000.00	3,878,875.00	20,000.00	4,230,100.00	60,000.00	31,500,000.00	54,483,975.00
93-94	32,985,000.00	4,374,875.00	37,359,875.00	15,740,000.00	2,932,290.00	15,000.00	4,228,700.00	75,000.00	31,495,800.00	54,486,790.00
94-95	25,090,000.00	2,574,550.00	27,664,550.00	16,745,000.00	1,925,255.00	25,000.00	4,227,650.00	75,000.00	31,490,550.00	54,488,455.00
95-96	24,120,000.00	1,049,040.00	25,169,040.00	17,820,000.00	853,740.00	30,000.00	4,225,900.00	75,000.00	31,485,300.00	54,489,940.00
96-97	4,860,000.00	150,660.00	5,010,660.00	4,860,000.00	150,660.00	3,440,000.00	4,223,800.00	10,335,000.00	31,480,050.00	54,489,510.00
97-98						4,930,000.00	3,983,000.00	14,820,000.00	30,756,600.00	54,489,600.00
98-99						5,275,000.00	3,637,900.00	15,855,000.00	29,719,200.00	54,487,100.00
99-00						5,645,000.00	3,268,650.00	16,965,000.00	28,609,350.00	54,488,000.00
2000-01						6,045,000.00	2,873,500.00	18,150,000.00	27,421,800.00	54,490,300.00
01-02						6,475,000.00	2,450,350.00	19,410,000.00	26,151,300.00	54,486,650.00
02-03						6,925,000.00	1,997,100.00	20,775,000.00	24,792,600.00	54,489,700.00
03-04						7,410,000.00	1,512,350.00	22,230,000.00	23,338,350.00	54,490,700.00
04-05						14,195,000.00	993,650.00	17,520,000.00	21,782,250.00	54,490,900.00
05-06								33,930,000.00	20,555,850.00	54,485,850.00
06-07								36,310,000.00	18,180,750.00	54,490,750.00
07-08								38,850,000.00	15,639,050.00	54,489,050.00
08-09								41,570,000.00	12,919,550.00	54,489,550.00
09-10								44,480,000.00	10,009,650.00	54,489,650.00
10-11								47,590,000.00	6,896,050.00	54,486,050.00
11-12								50,925,000.00	3,564,750.00	54,489,750.00
12-13										
13-14										
14-15										
15-16										
16-17										
17-18										
Totals	226,750,000.00	57,878,472.50	284,628,472.50	167,680,000.00	42,492,863.00	60,430,000.00	54,542,950.00	450,000,000.00	510,288,800.00	1,285,434,613.00
New Money										

	Refunding	New Money
Series 1989	60,430,000.00	150,000,000.00
Series 1990		100,000,000.00
Series 1991		100,000,000.00
Series 1992		100,000,000.00
Totals	60,430,000.00	450,000,000.00

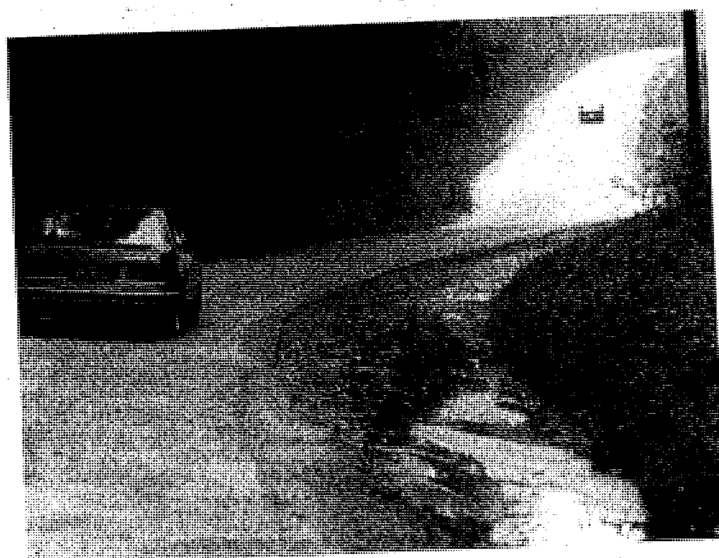
(Chapter 6 was first published May 11, 1988.)

CHAPTER 7

THERE'S NO FREE LUNCH

The search for the means to provide for the vast and expanding North Carolina highway system has occupied the minds and talents of successive state administrations for decades. This long, continuing effort is documented in Chapter 1 and its chronology is summarized on pages 4-6.

As with most of history, the pace of change has accelerated in recent years. Each administration during the past 30 years has found it necessary or appropriate to make some adjustment to the state Highway Fund or to how it is administered. The advent and growth of the federal-aid highway program and the decline in the federal-aid program has hastened the need for significantly increasing the state program.



In all this, there has been one overriding principle—the roads, indeed, the transportation system programs overall should be paid for by the people who use them. That remains a key principle-the "user-pay" system is inherent in our system of highway program funding.

Another principle applies: the funds collected for transportation should be used for transportation. The state Highway Fund, established in 1919, has traditionally been considered a special fund dedicated to the maintenance, operation and construction of the state's highway system. A similar philosophy underlies the original intent of the Federal Highway Trust Fund. Deviation from this principle can only serve to defeat the public support of the user-pay principle and the highway program in general.

In previous chapters, we have attempted to outline the needs of the highway system-now and for the future. In this chapter, we will suggest a number of alternative methods of financing those needs. The amount and timing of additional funding will determine how much and how soon we make progress toward meeting those needs. In all of these alternatives, we are guided by those key principles of user pay and dedicated use of highway funds.

Before we examine the no-free-lunch menu, there are some matters not directly related to specific funding options that should be outlined:

SECONDARY ROAD FUNDING

No discussion of highway funding can neglect the issue of secondary road construction. While the remaining miles of unpaved secondary roads have been shrinking annually, there are still many country roads that need to be paved because of the number of cars that use them. While secondary road annual vehicle miles traveled (VMT) are not growing at the same rate as VMT on the primary system, they are nevertheless growing at a rate greater than the growth rate of the state Highway Fund and of the flat-rate-based allocation to secondary roads. Additional funds are needed to keep the faith with the people who live on the roads and the revenue source and the appropriation should reflect the same cost escalation factors that apply to other system needs.

AID TO MUNICIPALITIES

Similar considerations apply to the allocation of highway funds to municipalities. The Powell Bill formula has traditionally been linked to the secondary road appropriation. North Carolina cities have street maintenance needs far exceeding their present Powell Bill allocations.

TRANSIT

A detailed discussion of transit opportunities does not belong in the discussion of revenue alternatives but several points need to be understood:

- Feasible transit opportunities may exist to a limited degree in North Carolina. Where they are feasible, they will require specific provisions for the services on the highway system because non-highway transit is a long way off for our state.
- Bus lanes, High Occupancy Vehicle (HOV) lanes and related highway transit facilities will be very expensive largely because they will be required and will be practical only in the more heavily populated areas where highway right of way and construction costs are high.
- Transit systems require funding beyond the fare box. No transit system can be entirely self-supporting from fares; furthermore, a subsidy can be justified because effective transit service can reduce the demand for additional highways to carry the same number of passengers in personal automobiles.

TRANSPORTATION SYSTEM MANAGEMENT (TSM) MEASURES

As with transit, TSM measures can reduce demand and thus reduce the requirement for additional highway construction. Funded incentives for effective TSM measures in our congested urban areas will pay dividends, not only in reduced urban highway congestion, but in freeing construction funds for other highway projects.

The easy way to understand TSM is to think in terms of moving people instead of moving vehicles. The average vehicle occupancy rate in North Carolina's major urbanized areas is 1.2 people. If we could experience an average of just two passengers per vehicle, it would reduce the urban roadway demand by 40 percent. That is not likely to happen, given the trends in personal mobility required to meet the changing job and residential markets. There are, however, specific areas where more efficient management of the transportation system can make a real difference in the mobility of the populace and the cost of keeping up with urban transportation demands.

Such improvement can only be achieved by enticements to change individual behavior. Forced solutions will not work. With flexibility and funding, however, there are ways to improve urban mobility without massive highway construction. Some of these ideas being applied or considered today in several North Carolina cities include:

- priority in parking for car pools and van pools.
- elimination of on-street parking, combined with assigned car-pool parking lots.
- HOV lanes, reversible lanes and traffic signal system controls to enhance and enforce rush-hour traffic.
- signal priority systems for transit vehicles.

Now for the menu.

BOND FINANCING

The purest form of user pay, when considering highways, is for the motorists who drive on the road to pay for it. Probably the most easily understood example of a user-paid highway is a toll road. Such roads are built using money borrowed for that purpose and the people driving on the road pay a fee-a toll-that is used to pay off the construction debt. We will discuss the application of tolls later in this chapter but the same principle applies to road construction using general obligation highway bond financing. Roads built with bond money are put to use quickly and the highway fund revenues collected from the motorists who use the roads pay off the debt.

Bond financing offers the quickest, most dependable and least expensive method of catching up on a backlog of badly needed high traffic volume roads. To illustrate the practicality of bond financing, see Table 17 which portrays the cost of bonds versus the value of the roads, over time,

TABLE 17: PROJECTED BOND COST VERSUS EQUIVALENT HIGHWAY COST
$300 MILLION FOR 20 YEARS

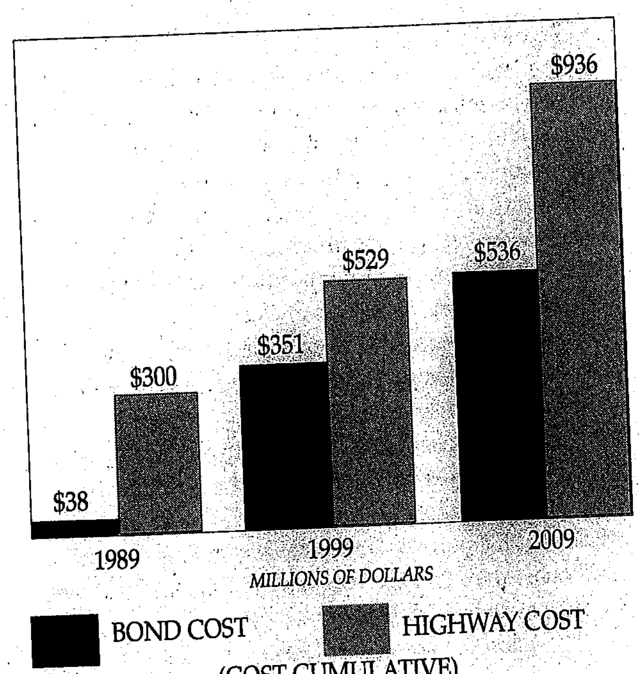


TABLE 18: REVENUE ALTERNATIVES – MOTOR FUEL TAXES AND INDEXING

	FISCAL YEARS							
SUMMARY OF NEW REVENUES	'87-'88	'88-'89	'89-'90	'90-'91	'91-'92	'92-'93	'93-'94	'94-'95
MOTOR FUEL TAX								
1¢/gallon	$37.686	$38.429	$39.197	$39.981	$40.701	$41.515	$42.345	$43.192
2¢/gallon	$75.371	$76.857	$78.394	$79.963	$81.401	$83.029	$84.690	$86.384
3¢/gallon	$113.057	$115.286	$117.591	$119.944	$122.102	$124.544	$127.035	$129.576
WHOLESALE FUEL TAX PRICE								
3%	$59.920	69.171	$79.962	$89.958	$101.345	$103.372	$105.439	$107.548
4%	$79.894	$92.229	$106.616	$119.944	$135.126	$137.829	$140.585	$143.397
5%	$99.867	$115.286	$133.270	$149.930	$168.908	$172.286	$175.732	$179.246
CONSTRUCTION AND RIGHT OF WAY COST INDEX	1.00000	1.05838	1.12018	1.18561	1.25488	1.32822	1.40586	1.48318
FUEL TAX INDEXING								
Total Fuel Revenue	$595.434	$630.193	$666.992	$705.951	$747.197	$747.197	$790.867	$837.097
Tax/Gallon	$0.158	$0.164	$0.170	$0.177	$0.184	$0.180	$0.187	$0.194

that are built with those bond funds. In almost every case, using practically any interest/inflation rate assumption, there is a two-for-one ratio of value to cost.

Whether financed by tolls, or by existing user-fee taxes, or by additional user fees, bond financing of high-volume highways offers the most immediate, most economical method of meeting unmet needs on our system.

USER FEES

Included in this category are those elements that North Carolinians have tended to rely on more heavily over the years, or those which have been discussed more frequently in the context of highway fund sources.

Flat-Rate Motor Fuel Tax

The original, and most traditional, highway funding method was tolls. However, the ingenious travelers in the early days on post roads, plank roads, and the forerunners of the modern highway system, regularly and literally found a way around the toll collector. This gave rise to the most prevalent alternative funding source-the motor fuel tax. In North Carolina, the imposition of a motor fuel tax in 1921 initiated the use of this revenue source with much of this initial levy directed toward the amortization of the first North Carolina state highway bond issue which was approved that same year.

This user tax has been increased, first by two cents in 1923, and subsequently, frequently to the 1988 level of 14.25 cents per gallon. This tax is fixed at a flat rate and collected at the point of wholesale distribution. There is an additional motor fuel tax, adopted in 1986, that varies with the price of fuel which is discussed below.

The value of a one-cent increase in the flat-rate motor fuel tax depends, obviously, on the amount of fuel used by the motor vehicle fleet. Based on current growth rates in motor fuel sales, a penny tax will generate almost $38.5 million in fiscal year 1988-89, and this penny levy will grow to $40.7 million by fiscal year 1991-1992, reflecting ai estimated annual growth rate of about 1.9 percent. Table 18 summarizes the revenue potential over time.

The flat-rate motor fuel tax alternative offers several advantages:

- It is dependable and predictable.
- The collection system is already in place and is relatively easy to administer.
- This user fee closely reflects highway use and demand.
- As a traditional tax, it is easy to explain to the publ

There are, however, disadvantages:

- The combined state and federal fuel taxes, now running at the equivalent of a 40 percent sales tax, considered to be more regressive than most reven levies.
- Increases in the motor fuel tax stimulate further acceleration in fuel efficiency measures and have already combined to reduce per-vehicle-mile rev for the system.
- The relative ease of collection and the high dolla volume involved make this tax a target for non-highway program revenue purposes. Addition congressional efforts to use the motor fuel tax fc energy conservation or deficit reduction purpo: would have a serious adverse effect on state hi; fund revenues from this source.
- The motor fuel tax, which is based on fuel consumption, does not provide a revenue base fixed cost of building and maintaining highwa

each vehicle, many of which are used infrequently.

- Increasing emphasis on alternative fuels-alternatives to petroleum-based fuels-clouds the future of the gas tax as a dependable and predictable long-term revenue source.

VARIABLE-RATE MOTOR FUEL TAX

There are several examples of variable-rate and/or indexed motor fuel taxes in other states. At least 11 states (including North Carolina) now employ a variable tax component that fluctuates with price. In at least one state-Virginia-the experiment didn't work because the rate was established near the peak of crude oil prices and the levy failed the dependability test when oil prices fell. The North Carolina levy, set by the 1986 legislature, has worked fairly well so far. At the rate of three percent levied against the wholesale price of fuels, the tax generated the equivalent of 1.5 cents per gallon initially, and in the second half of 1988 now provides 1.7 cents per gallon.

Forecasting the effect of this variable levy requires estimating the level of fuel prices, a considerably less accurate exercise than forecasting sales in gallons. Based on an estimated escalation of fuel prices and a continued increase in consumption, the revenues generated by the current three percent tax rate increase from some $69.1 million in 1988-89 to some $101.3 million in 1991-1992.

The assumptions and revenues projected at alternate rates are summarized in Table 18.

A common index often discussed in this context and one used in three states, is an index based on construction and right of way cost. Use of such an index against the current tax per gallon would generate an annual 3.5 percent to 4.0 percent increase in tax rates, compared to the present increase of 2.0 percent or less. See Table 18.

Advantages of such variable rates include:

- they are clearly user fees and relate to demand
- both methods adjust to inflationary trends and in this fashion help match inflation in costs. Indexing, based on construction, maintenance and right of way costs, is most effective in matching revenue to costs
- they can be adapted to the current collection and administration system
- once established, subsequent or frequent legislative action is not needed

There are disadvantages:

- neither offsets the fuel efficiency gains in the motor fleet
- an inflationary bias is built into the tax system
- the volatility of oil prices or of the chosen index makes revenue forecasts inexact and undependable
- neither type of tax accounts for the fixed availability capital cost of the system, which is unrelated to frequency of use.

REGISTRATION AND LICENSE FEES

The earliest revenue alternative or supplement to tolls used in North Carolina, even before the motor fuel tax, were fees imposed on registration of motor vehicles. From its beginning in 1909, this levy was dedicated to the maintenance and construction of the highway system.

The funding needs of today's system, however, far exceed the revenue potential of these fees at any politically acceptable level. Essentially, each $1 charge for drivers' licenses generates just over $1 million annually; each $1 for automobile registration generates just under $5 million a year; and each 10 cents per 100 pounds in truck registration generates about $12 million a year. Revenue forecasts at various levels of increase in these fees are shown in Table 19.

TABLE 19: REVENUE ALTERNATIVES – REGISTRATION AND LICENSE FEES

	FISCAL YEARS							
SUMMARY OF NEW REVENUES	'87-'88	'88-'89	'89-'90	'90-'91	'91-'92	'92-'93	'93-'94	'94-'95
DRIVER LICENSE FEE								
$1	$1.074	$1.087	$1.101	$1.114	$1.128	$1.141	$1.155	$1.169
$2	$2.149	$2.175	$2.201	$2.228	$2.255	$2.283	$2.311	$2.339
$3	$3.223	$3.262	$3.302	$3.342	$3.383	$3.424	$3.466	$3.508
$4	$4.297	$4.350	$4.403	$4.456	$4.511	$4.566	$4.622	$4.678
VEHICLE REGISTRATION FEE								
Autos ($1 increase)	$3.521	$3.560	$3.599	$3.639	$3.679	$3.719	$3.760	$3.801
Trucks ($0.10 per 100 lb.)	$11.773	$12.009	$12.249	$12.494	$12.744	$12.999	$13.259	$13.524
Trailers ($5 increase)	$2.412	$2.460	$2.509	$2.560	$2.611	$2.663	$2.716	$2.771
Buses, Special MBL EQ, Mobile Homes, Motor Cycles, RV's ($1 increase)	$0.131	$0.133	$0.136	$0.139	$0.141	$0.144	$0.147	$0.150

There are advantages:

- these are easily understood user fees that address the standby cost of capital invested in the system.
- they are easily administered and collected in the present system.
- at the present or modestly-increased levels, the fees are not usually politically sensitive.

The disadvantages are:

- relatively small revenue gains would be produced by license and fee increases.
- these fees do not derive revenue from non-resident and tourist travel, which comprise a significant element of demand on our system.

SALES TAXES

In North Carolina, sales taxes are not a traditional source of revenue for highways. Although there was some implied commitment in 1983 to allot the increased sales taxes on motor vehicles, parts and accessories to the hard-pressed state Highway Fund, the long-standing tradition of General Fund allocation of sales taxes prevailed.

The purchase of a motor vehicle, or transfer of a motor vehicle, for use in North Carolina imposes a direct burden on the traffic-carrying capacity of the highway system. Roads need to be in place to carry all vehicles, regardless of the frequency of their use, and this requirement for availability of the system creates an underlying demand to provide the capacity. This standby capacity cost is not captured by taxes based on motor fuel consumption.

A tax levied on the sales price of vehicles licensed for use in North Carolina is a logical option to examine.

Such a levy has several major advantages:

- administration and collection would be simple and inexpensive through the existing title transfer and registration process
- a percentage of sales price recognizes not only size and weight characteristics of the vehicle but also the taxpayer's ability to pay.
- the revenue base is large and presumably would reflect inflationary trends
- the individual transaction tax, while fairly large, would be spread over the life of a loan to the purchaser.

Disadvantages relate principally to the amount of the tax.

- if the tax rate creates a less than competitive price situation, auto sales in North Carolina could be lost to neighboring states, although this would be offset by a tax when the title is transferred.

The sums available at various percentage rates are projected in Table 20. Growth in number of autos as well as price patterns generate a significant and growing revenue base.

NON-TRANSPORTATION EXPENSES BORNE BY THE HIGHWAY FUND

Diversion of state Highway Fund revenues to non-DOT functions creates a problem of public trust with respect to the use of these funds, as well as a management problem with administration of a dedicated state Highway Fund budget. It is axiomatic that budget management requires managerial control of the functions budgeted.

Non-DOT functions now carried by the Highway Fund amount to more than $6 million annually-roughly equal to the entire budget for spot safety improvements. These activities include direct appropriations to the Department of Agriculture for motor fuel inspection services, the Department of Revenue for tax collection services, the Department of Human Resources for medical evaluation of licensed drivers and to the Department of Correction for prison labor used in highway maintenance. Certainly these are highway, or highway fund-related functions, and by themselves do not impose significant budgetary concerns in management of the Highway Fund.

The Highway Patrol, which does in fact perform a highway-related function, is administered and managed by a separate agency. This creates considerable budgetary competition beyond the control of the Highway Fund budget management. This cost to the Highway Fund will grow to the $100 million per year range soon. Much of this increased expense is unavoidable if we are to effectively police the extraordinary growth in traffic on our system. However, some means to control the cost allocation should be established to provide for effective management of the Highway Fund.

NON-TRADITIONAL ALTERNATIVES

Included are those elements on which North Carolina typically has not relied heavily, although some have been used or considered in limited degree. Some of these concepts, while non-traditional for North Carolina, are active transportation funding components in other states.

Toll Roads, Bridges, Ferries

The long-standing Tar Heel antipathy to tolls must be re-examined. This most direct, pure user-fee system, with the changes in technology now emerging and the relaxation of federal restraints on toll use, will find increasing acceptance over time.

The federal-aid program legislation has inhibited the imposition of tolls by prohibiting them on roads built or

TABLE 20: REVENUE ALTERNATIVES AT 2%, PART 1

HIGHWAY FUND: MILLIONS OF DOLLARS

SUMMARY OF NEW REVENUES	FISCAL YEARS '87-'88	'88-'89	'89-'90	'90-'91	'91-'92	'92-'93	'93-'94	'94-'95
POPULATION	6,481,548	6,560,623	6,640,662	6,721,679	6,803,683	6,886,688	6,970,706	7,055,748
2% USER FEE ON NEW CARS AND PICK-UPS								
AVERAGE NEW CAR PRICE	$9,421	$9,892	$10,387	$10,906	$11,451	$12,024	$12,625	$13,256
SALES PER YEAR	549,439	557,653	564,456	571,343	578,313	585,368	592,510	599,739
REVENUES	$103.525	$110.327	$117.256	$124.621	$132.449	$140.768	$149.609	$159.006
2% USER FEE ON USED CARS AND PICK-UPS								
AVERAGE USED CAR PRICE	$5,750	$6,199	$6,682	$7,203	$7,765	$8,371	$9,024	$9,727
SALES PER YEAR	1,916,792	1,955,128	1,994,230	2,034,115	2,074,797	2,116,293	2,158,619	2,201,791
REVENUES	$220.431	$242.377	$266.508	$293.042	$322.217	$354.297	$389.571	$428.356
2% USER FEE ON TRUCKS								
NEW (51,000 sales/year)	$24,500	$25,480	$26,754	$28,092	$29,496	$30,971	$32,520	$34,146
USED (180,819 sales/year)	$4,500	$4,680	$4,914	$5,160	$5,418	$5,689	$5,973	$6,272
REVENUES	$41.264	$42.914	$45.060	$47.313	$49.679	$52.163	$54.771	$57.509
2% USER FEE OTHER VEHICLES								
AVERAGE PRICE	$6,500	$6,760	$7,030	$7,312	$7,604	$7,908	$8,225	$8,554
SALES PER YEAR	325,549	332,060	338,701	345,475	352,385	359,432	366,621	373,953
REVENUES	$42.321	$44.895	$47.624	$50.520	$53.591	$56.850	$60.306	$63.973
GRAND TOTAL	**$407.541**	**$440.513**	**$476.449**	**$515.496**	**$557.935**	**$604.077**	**$654.257**	**$708.845**

TABLE 20: REVENUE ALTERNATIVES AT 3%, PART 2

HIGHWAY FUND: MILLIONS OF DOLLARS

SUMMARY OF NEW REVENUES	FISCAL YEARS '87-'88	'88-'89	'89-'90	'90-'91	'91-'92	'92-'93	'93-'94	'94-'95
POPULATION	6,481,548	6,560,623	6,640,662	6,721,679	6,803,683	6,886,688	6,970,706	7,055,748
3% USER FEE ON NEW CARS AND PICK-UPS								
AVERAGE NEW CAR PRICE	$9,421	$9,892	$10,387	$10,906	$11,451	$12,024	$12,625	$13,256
SALES PER YEAR	549,439	557,653	564,456	571,343	578,313	585,368	592,510	599,739
REVENUES	$155.288	$165.490	$175.884	$186.932	$198.673	$211.151	$224.414	$238.509
3% USER FEE ON USED CARS AND PICK-UPS								
AVERAGE USED CAR PRICE	$5,750	$6,199	$6,682	$7,203	$7,765	$8,371	$9,024	$9,727
SALES PER YEAR	1,916,792	1,955,128	1,994,230	2,034,115	2,074,797	2,116,293	2,158,619	2,201,791
REVENUES	$330.647	$363.566	$399.762	$439.563	$483.326	$531.446	$584.356	$642.535
3% USER FEE ON TRUCKS								
NEW (51,000 sales/year)	$24,500	$25,480	$26,754	$28,092	$29,496	$30,971	$32,520	$34,146
USED (180,819 sales/year)	$4,500	$4,680	$4,914	$5,160	$5,418	$5,689	$5,973	$6,272
REVENUES	$61.896	$64.371	$67.590	$70.969	$74.518	$78.244	$82.156	$86.264
3% USER FEE OTHER VEHICLES								
AVERAGE PRICE	$6,500	$6,760	$7,030	$7,312	$7,604	$7,908	$8,225	$8,554
SALES PER YEAR	325,549	332,060	338,701	345,475	352,385	359,432	366,621	373,953
REVENUES	$63.482	$67.342	$71.436	$75.779	$80.387	$85.274	$90.459	$95.959
GRAND TOTAL	**$611.312**	**$660.769**	**$714.673**	**$773.243**	**$836.903**	**$906.115**	**$981.385**	**$1,063.267**

maintained with federal funds. In recent changes to the federal laws, there is a trend to modify or eliminate this restriction. This trend can be expected to continue, and indeed, an effort will be made to eliminate the restraint completely in the next Surface Transportation Act. Even before then, we may want to "buy back" roads now so restricted, when such a move proves to be cost effective.

The toll option should be considered for roads to be bought back before 1992, or for road projects programmed after 1991, or for roads planned for construction using only state funds.

Another inhibition to tolls is the high cost of toll collection. Staff requirements for daily 24-hour attendants, the cost of toll booths, and the traffic delays inherent in

TABLE 21: NORTH CAROLINA FERRY OPERATIONS

FERRY ROUTE	TOTAL TRAFFIC	PERCENT NON-NC	MAINTENANCE COST	COST PER VEHICLE	TOLL (CAR)
SOUTHPORT	74,170	28	$1,206,829	$16.27	$3.00
CHERRY BRANCH	136,978	6	$1,832,599	$10.09	0
PAMLICO RIVER	63,911	3	$1,005,619	$15.73	0
CURRITUCK	20,363	48	$593,107	$29.13	0
HATTERAS INLET	256,879	62	$3,735,013	$14.54	0
SWAN QUARTER	13,650	25	$1,227,231	$79.22	$10.00
CEDAR ISLAND	74,114	58	$2,152,204	$18.10	$10.00

slowing or stopping to pay tolls have worked against toll funding in many instances. Technology now offers answers to these problems. In addition to the use of one-way tolls, and exact change lanes, both common practices today, there is emerging technology in use in pilot projects that enables non-stop vehicle identification and toll collection. These options should be analyzed in the early planning for potential toll projects. Given the lead time for major projects, it is likely that tolls can play a significant role in paying for the high-priced, high-volume highways needed in some locations across North Carolina.

The first and most obvious potential area for toll funding is in the ferry connections within our highway system. Of the seven principle ferry routes now in operation, only three charge tolls and not all of these are on our most heavily used routes.

Each ferry route must be examined for toll fares, related to the cost or value of the service. Careful consideration must be given to the needs of local travelers in relation to those generated by visitors and tourists. There is an added cost to provide toll service to meet Coast Guard regulations for toll service vessels and personnel that must be evaluated against any revenue increase.

Table 21 summarizes the status of our current ferry routes-number of vehicles carried annually, cost of operation, current toll (fare) rates, and the ratio of local traffic to visitor traffic.

Next in order of feasibility of toll financing are bridges, particularly the expensive bridges across the broad waters of our coastal sounds which carry a high volume of non-local traffic. Two major objections to tolls on highways and bridges are the expense to local citizens and the traffic slow-down occasioned by the toll collection process. New technology can provide solutions to both of these problems through the use of multiple fare discounts and scanner billing equipment that can eliminate or mitigate these impacts.

A careful analysis of each proposed bridge project will be necessary to establish the feasibility and rate of tolls. No specific illustration of the effectiveness or applicability of tolls is possible because each project must be evaluated separately. We do not, however, have to calculate the feasibility of tolls on the basis of full-cost funding. It is entirely possible, and practical, to set toll rates at a level to cover only part of the construction cost, using regular construction funds for the balance and still reduce the impact of high cost bridges on the overall state construction program.

For tolls to be cost-effective on roadway projects several factors must be present. First, a predictably high volume of traffic is required. Even with labor-saving toll collection methods, the cost of collection is relatively high compared to other user-fee alternatives. Second, traffic needs to be channelled to the toll road. For example, there is either no convenient alternate route, or a factor of safety, convenience and speed that offsets the use of alternate routes. Further, there is a need to find a way to differentiate between local and resident taxpayers and the visitor or transient traveler passing through in order to achieve and maintain the public support for the system. No doubt there are or will be places across North Carolina where these criteria can be met but each project will have to be evaluated individually. As with toll bridges, it will not be necessary to evaluate these projects on the basis of full-cost recovery but the gains from tolls must significantly exceed the collection and administration costs.

LOCAL OPTION PARTICIPATION

The trend in government, more and more, is to run programs and to pay for them at the lowest level possible. That is why states are bearing more of the financial burden of building highways. In turn, states are encouraging local governments to become partners in road projects.

Any highway plan must be fair in responding to road needs across the state and important urban and rural local roads must get the attention they have needed for a long time. At the same time, some communities have the will and the money to move faster on their road needs than a state/federal program will allow.

If cities want to help get projects moving more quickly by acquiring right of way, helping pay for construction or in other ways, they should be able to do so. In fact, they should be rewarded for their efforts. As we try to draw an overall plan that will address our state's traffic needs, we must have a role for cities to play, and we must make it worth their while to play it.

In this area, our most critical need is for local governments to protect rights of way that will be needed for future highway projects. Local planners and zoning boards can pinpoint future needs and cities can acquire these corridors. This not only reduces the cost of a particular project, it also helps the entire construction program by letting the state use the savings elsewhere.

If cities and urban counties are permitted and encouraged to become partners with the state on highway projects, the state should develop a plan to reimburse these local governments at a later time or to advance their project construction schedule. We must make sure, however, that such a plan does not work against important rural highway projects. In addition, we must remember that not all cities or counties will be able to participate in such a plan. That being the case, the plan must let cities or counties participate only if they want to -- after we have given them a reason to want to.

LOCAL-OPTION FUNDING SOURCES

Along with the authority to participate, cities and counties must have the local-option authority to fund such participation. There are a number of local-option funding sources appropriate to the system expansion.

From time to time, there has been discussion of a local option motor fuel tax. This is not surprising-at least thirteen states have such provisions under which local units of government elect to tax motor fuel sold in their jurisdiction with the funds used on their transportation system. There is some difficulty in applying such a tax in North Carolina, however. The present tax collection system for motor fuel taxes does not match the place the fuel is sold and used. Much of our traffic, and the traffic congestion in our cities, comes from motorists from outside the city who presumably would escape any local tax. Additional local taxes would add to the highly regressive nature of the motor fuel tax, and finally, as with the current state/federal tax, the flat-rate levy will not work effectively over time.

There are a number of possible local-option measures that could be considered. One in use in Florida, a $1 per day fee for all rental cars, would be particularly effective in helping cover highway costs in and near the state's major airports. Others include:

- A property transfer tax for the fast-growing areas.
- Impact fees, already in use in a few North Carolina communities, should be made optional statewide.
- A payroll tax designed to capture the costs of commuting from the commuters.
- The continuing traditional method of local funding for road and street improvements-local revenue bonds-which is perhaps the best indicator of willingness and ability to participate. In the last two years, North Carolina cities have passed over $320 million in road bond authorizations.
- State aid to municipalities-the Powell Bill appropriation-which should be increased to foster this long-standing state local partnership.

PRIVATE PARTICIPATION

The increasing delay in meeting transportation demands, coupled with the recognition that adequate transportation is essential to the economical development of commercial and residential properties, has led to an increasing incidence of private participation in road building. For years, subdivision developers have been required to provide the roads to serve their proposed developments. More recently, the construction of major highway segments and interchanges on arterial highways has been accomplished through private funding (and construction). This trend should be encouraged and expanded because the private developer benefits immediately from the transportation services to the project. There also is rationale for public participation in proportion to the benefit the general public receives from the highway improvement. State funding participation in a privately-built road project should be allowed, as in present law, with careful assessment of the public benefit to be derived from early completion of the project. North Carolina General Statute 138-28.5 now authorizes the practice and state funds should be flexible enough to allow continued funding of appropriate projects.

WEIGHT-DISTANCE FEES

The majority of highway users now pay their way through the motor fuel tax. On the surface, this appears to be a fair and equitable user fee, reflective of highway use by individual motorists. There is, however, a growing disparity in the relationship of highway construction and maintenance costs and the revenue generated by different classes of users.

First, as has been repeatedly pointed out, the flat-rate motor fuel tax does not work in the climate of rapidly increasing fuel efficiency.

Second, these fuel-efficiency gains have come from reduced weight of passenger automobiles and from increased loads pulled by more efficient truck engines. Thus the spread between the per-vehicle contribution toward construction and repair has widened.

The increased loads require thicker and wider highways. The damage to roads from traffic and consequently the cost and frequency of repair, is directly proportional to the weight of that traffic. That heavy trucks cause more damage to roads is an incontestable fact. Four studies during the past 20 years by the U.S. Department of Transportation have clearly established that heavy trucks not only cause greater highway repair costs, but also that the present revenue system does not allocate these costs equitably. An 80,000-pound loaded truck weighs some 20 times as much as an average passenger vehicle. In terms of its impact on a Interstate highway, though, the same truck will cause more damage than 9,000 cars.

This difference is not reflected in the revenue structure. Although trucks use more fuel per mile than do cars, the increased fuel consumption is not proportional to the cost responsibility. Truck registration fees, while increasing with weight, likewise do not reflect the cost-responsibility differential with cars. Nor do they distinguish between similar size trucks that travel different frequency or mileage during the registration period.

The most recent cost-allocation studies show that in North Carolina, small trucks pay some 214 percent of their highway cost responsibility, passenger cars are near parity (96 percent), while heavy trucks pay some 78 percent of their cost impact on the highway system.

A weight-distance tax-now in place in Arizona, Arkansas, Oregon, Colorado, Idaho, New York, Kentucky, New Mexico, Ohio and Wyoming is one approach to this problem. As with any new tax levy, a weight-distance tax system must be carefully studied for ease and expense of administration and it must be evaluated in light of any competitive disadvantage it would cause with other states in the region. Nevertheless, a comprehensive approach to modernizing the state Highway Fund revenue base must consider the equity of cost-based allocation of user fees.

TAX INCREMENT FINANCING

There is a clear relationship between property values and the quality of transportation access to that property. In a simplified definition, recognize that if the government builds a road to provide access to a property, the value of that property is increased. The amount of that value increase is reflected in the tax valuation on the property. The "increment"-the difference in tax value before the road and its value afterward-can be reasonably attributed to the access provided by the road. In some jurisdictions, this relationship is being recognized as a legitimate revenue source for the improvement of the transportation system. Not to be confused with special benefit or impact assessments, the idea behind tax-increment financing is to attribute the growth in taxes on an individual property to the infrastructure improvements serving that property, and allocating that increment to the construction and maintenance of the applicable improvements.

Since the direct value enhancement due solely to transportation is difficult to determine in relation to value enhancement by other government service or facilities, it may be difficult to allocate revenues from tax-increment systems to the appropriate contributing services. There is also some concern about using a traditional local general fund revenue base to finance specific projects.

TAX EXEMPTIONS IN THE CURRENT LAW

The General Assembly, through the years, has authorized and established a number of exemptions from the standing levies in the Highway Fund. No doubt the argument for these was persuasive at the time of adoption. In the exercise of updating and modernizing the state Highway Fund revenue base, however, each of these should be reviewed. Are there still sound public policy reasons for certain classes of vehicles or highway users to be exempted from paying their share of the cost?

A summary of exemptions and exclusions for the most recent fiscal year is shown at Table 22.

PUBLIC UTILITY CHARGES

Now please go back in the book, and forward in time, and read again Maude Wayback's letter on page 28. Maude is writing about a public utility type of user-fee system for highway funding. Not surprisingly, she is complaining about problems with the system still unresolved in the 21st century.

All of us are familiar with and accustomed to paying—monthly or periodically—for electric power, water and sewer service, telephone service, cable television, and numerous other common services that are measured and billed on the basis of standby capacity, peak demand, and individual use. Streets and highways display many of the characteristics of other utilities and utility-type charges may well be an appropriate "user-pay" fee system to fund the transportation needs into the future.

The requirements are simple and currently available. Tamper-proof odometers, which could be read periodically, would allow metered mileage charges. Automatic sensors on vehicles can meter peak-hour use of high-volume highways. Such systems are in place or coming on line in many areas, although practically they are probably rather far in North Carolina's future. There are, however, simpler versions that could be applied within our present system-using annual mileage data gathered at annual vehicle inspections, together with incorporation of computerized toll-assessment systems on

TABLE 22: ANALYSIS OF MOTOR FUELS REFUNDS
JULY 1, 1987 THROUGH JUNE 30, 1988

		GALLONS	AMOUNT	NUMBER OF CLAIMS
NON-HIGHWAY USE:				
	Agriculture & Dairy	4,485,890	$648,950	3,290
	Industry & Commercial - Aviation	4,517,427	$654,846	346
	Sawmill	451,155	$65,326	73
	Agriculture & Sawmill	117,167	$16,989	47
	Commercial Fishermen	932,102	$134,983	535
	Contr. & Construction	876,043	$126,789	121
	State	84,203	$12,209	12
	Railroads	0	$0	0
	Miscellaneous	2,268,074	$327,586	299
	Pleasure Boats	350,790	$50,790	568
	Non-Residential Boat Owners	13,687	$1,987	22
SUBTOTAL		14,096,628	$2,040,720	5,313
OTHER REFUNDS:				
	Highway Department	8,710,207	$1,270,009	4
	Cities	19,188,403	$2,799,420	1,549
	Counties	15,552,248	$2,262,696	487
	Federal Government	639,301	$99,934	116
	Highway Fuel Use	96,283,566	$14,998,921	7,807
	Overpayments	5,867,962	$914,207	304
	City Transit System	2,565,918	$373,966	30
	Volunteer Fire Departments	277,447	$40,445	555
	Sheltered Workshops	427,820	$62,337	143
	Wildlife Commission	4,025,989	$583,768	1
	Taxicabs	1,794,269	$261,492	186
	Private Non-Profit Organizations	368,848	$53,776	70
	Registration Fees	0	$0	0
	Concrete Mixers	1,872,022	$271,439	64
	Volunteer Rescue Squads	236,152	$34,428	234
	Solid Waste Compactors	602,765	$86,758	32
	Bulk Lime Trucks	2,880	$418	2
	Bulk Fertilizer Trucks	1,486	$215	2
	Bulk Feed Trucks	1,067,008	$154,454	24
	School Boards	19,961	$3,120	8
	Exports	287,960	$42,185	15
SUBTOTAL		159,792,212	$24,329,710	11,805
TOTAL		**173,888,840**	**$26,370,430**	**17,118**

highway projects being planned for future construction.

It is unlikely that a utility-type revenue system can be effected or effective unless and until it is applicable nationally. The mobility of U.S. citizens is such that out-of-state visitors are sufficiently numerous to play a significant role in our traffic problems. Nevertheless, there are possibilities that merit exploration in those overburdened commuter routes in and near our urban areas. A utility charge, or toll, for the suburban commuters who contribute the majority of peak-hour demand on urban corridors, should be considered in the planning stage of projects designed to address these commuter corridors.

PLACE YOUR BETS

From among this menu, there is a choice or combination of choices that can meet North Carolina's needs into the 21st century. In making the choice, we should try to keep that in mind-we are moving into the 21st century and the system we devise now should have the resources and staying power to get us there.

(Chapter 7 was first published November 23, 1988.)

CHAPTER 8

A CALL FOR THE CREATION OF A STATE HIGHWAY TRUST FUND

THE ROAD NOT TAKEN

"I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I-
I took the one less traveled by,
And that has made all the difference."

Robert Frost

Would that we could find a road, any road, in North Carolina "less traveled by." There are not any. Our citizens know that, and they are ready now for the state's leadership to lead them out of the woods.

Our highway construction needs are evident, documented and growing daily. The growth in population and traffic is predictable and substantial. The funds and formulas used to address these challenges are inadequate and obsolete.

There is a realization among government leaders and citizens that failure to move promptly in a new direction for highway funding and construction programming will leave us on the old, congested highway to failure-failure to support the economic engine of growth in North Carolina, failure to extend the benefits of economic stimulus to the underdeveloped areas of the state, failure to save tempers and lives in our congested urban areas.

And we cannot meet this challenge in the traditional ways; they have not worked for the past 20 years and they will not work in the future.

EQUALITY, DEPENDABILITY, CONTINUITY

The funding required to meet the state's highway construction needs is important, but so is the need to maintain public confidence and support for a long-running construction program. We must, therefore, address the fair share issue as well. With the tremendous backlog of construction needs, which is not distributed uniformly across the state, there is the potential that many citizens' "wants" will appear to be left out of the catch-up program. The needs list grows each year-and this growth pattern may not be equally distributed either.

Along with the need to catch up with and to anticipate traffic increases on the highway system, there is a real need to promote economic growth in those areas that have not kept pace with the rest of the state. Indeed, the continued growth of the urbanizing areas of the state depends, in large measure, on the ability to attract commuters from greater and greater distances to meet the needs of the work force. Requirements for interstate and intrastate travel and delivery of commerce establish needs that cannot be defined only by local population counts, vehicular travel data or origin and destination formulas.

From the statewide standpoint, however, those highways that provide the greatest benefit to the largest number, that can be built quickly and at the least cost, require the most immediate attention. Without attending to these highways first, the engine of economic growth will sputter and will fail to provide the financial base to expand the system further.

Before examining ways to meet the critical needs on our major arterial system, let us consider secondary roads-those country roads that serve small populations that have increasingly fallen behind in the competition for scarce highway construction dollars.

THE SECONDARY ROAD FORMULA

We have learned, or have been reminded of, the abuse of privilege and power that characterized secondary road paving selection in the past (Chapter 4). We have seen how the legislative direction undertaken in 1973 and 1975 changed the rules and established a fair and objective method of determining paving priority. That system has worked fairly well for some 15 years. It is now time to fine-tune the system, because in many instances the success of the program has created inequalities. The current program, which allocates funds solely on the basis of unpaved mileage, has resulted in circumstances that are, in fact, unfair. In a number of counties, the remaining unpaved mileage has been reduced to the level that the funds allocated are insufficient to cover the cost of finishing the paving job, much less improving existing paved roads. In many counties, where the population density is less than others, or where construction cost differentials have allowed more miles to be paved than in counties where construction costs are higher, the number of homes being reached by new pavement is far less than in many other counties characterized by higher construction costs, greater population densities, or both.

Further, the expansion of residential development along many secondary roads has generated traffic congestion and a safety problem. Widening improvements on paved secondaries are becoming increasingly necessary all across the state.

A revised and updated highway program should recognize the changes that the current system has generated, and should correct the deficiencies in the secondary road formula in the following areas:

(1) Construction Cost Differential

County-by-county construction cost comparisons, based on uniform construction standards, are available, and in a form that enables them to be updated regularly. A portion of the secondary road construction appropriation should be set aside for supplemental distribution to counties where those costs are high.

(2) Total Mileage

To address the serious need for improvements to secondary roads that have already been paved, especially in those areas where rapid suburban growth is generating more traffic than the roads can safely handle, the existing formula should be revised to reflect paved mileage, or total mileage, rather than unpaved mileage alone. Some 30 counties now have fewer than 100 unpaved miles. The present formula does not provide adequate funding to address the remaining unpaved roads in those counties, much less fund needed improvements to the paved system.

(3) Unpaved Mileage

The secondary road program needs enough additional funds to address the construction cost differential, and to adjust the formula to pay for improvements to paved roads. In doing this, it should be possible to have a "hold harmless" floor equivalent to the current allocation for each county, while we supplement the uniform statewide priority system to attend to those roads serving the most traffic. A target of first paving those unpaved roads that serve 100+ vehicles per day could be accommodated in a relatively short period.

EQUITY

No approach to the citizens of North Carolina for additional highway funding should be attempted without offering assurance to those citizens that the funds will be applied fairly and responsibly to meeting their local and regional needs, as well as the needs of statewide arterial system improvements. At the same time, given the nature and extent of the serious backlog and the complexity and timing of planning for additional construction, the program should avoid naming specific projects. Statutory provisions requiring a uniform needs-based priority of funding allocation should satisfy this objective.

There is general acceptance of the concept of establishing a priority "intrastate" system that would connect the population centers with the outlying regions of the state and would reach population centers in other states. Key local or regional connectors to this "intrastate" multi-lane system are an essential element and should be included in any priority designation.

During the years we have seen the benefits of pursuing a clearly defined construction program on a dependable, orderly and uninterrupted schedule. This suggests that any "intrastate" system should be established to meet the key objectives of providing regional access to the most people on the fastest economical schedule and that alterations or additions to the system should be minimized until the job is completed.

A clear legislative establishment of a priority "intrastate" system, in language broad enough to allow professionally engineered routing within broadly defined corridors, should be considered to designate those routes on the rural and urban arterial system that would receive priority of planning and funding.

Among these routes, project or segment selection must be based on needs-to meet current demand and to catch up on the traffic backlog, as well as to build the long stretches of arterials required to serve the commercial and vacation travelers to and through the rural sections of the state. A broad, objectively applied cost/benefit analysis that is used to help determine construction priorities, coupled with an equitable geographic allocation of funds, will serve the continuity of a major new construction program, through successive legislatures or Transportation Boards.

GEOGRAPHIC ALLOCATION CONSIDERATIONS

While a needs-based determination of funding priorities is essential to meeting our highway construction objectives in a timely and practical manner, it is also important to establish and to maintain a funding system that ensures fair play for all areas of the state. Further, there are current and rapidly emerging local highway needs that must not be overlooked in any program that emphasizes a priority "intrastate" system.

To address these issues, statutory guidelines should be written to ensure that the Board of Transportation allocates highway construction program funds on a basis that is fair across the state.

The inflexible Federal-aid categories that have applied to past construction programs have made this difficult. Supplemental state funds would enable the Board of Transportation to make adjustments that would ensure that the geographic distribution of total funds be allocated on a more equitable basis.

A formula, applied to each consecutive seven-year period of the TIP, based one-third on population, one-third on vehicle miles traveled, and one third that is allocated equally to each highway engineering division, appears to offer the best results. The formula should be applied to the entire construction program budget-state and federal-with a guaranteed allocation for the seven-year TIP of at least 85 percent of the formula amount to each highway engineering division. That way the state funds could be used to adjust any inequities that might arise from present or future federal funding restraints.

A distribution based on this formula is illustrated in Table 23.

TABLE 23: DISTRIBUTION FORMULA FOR HIGHWAY FUNDS

HIGHWAY DIV	POP DIV SHARE	VMT DIV SHARE	EQUAL DIV SHARE	COMPOSITE DISTRIBUTION VMT (1/3) POP (1/3) EQUAL (1/3)
1	3.47%	41.2%	7.14%	4.91%
2	5.78%	5.64%	7.14%	6.19%
3	6.40%	6.47%	7.14%	6..67%
4	6.72%	7.48%	7.14%	7.11%
5	10.98%	11.32%	7.14%	9.82%
6	8.01%	7.46%	7.14%	7.54%
7	9.88%	9.29%	7.14%	8.77%
8	5.68%	6.23%	7.14%	6.35%
9	8.68%	8.53%	7.14%	8.12%
10	11.21%	9.94%	7.14%	9.43%
11	4.78%	4.70%	7.14%	5.54%
12	8.41%	8.23%	7.14%	7.93%
13	6.07%	6.22%	7.14%	6.48%
14	3.94%	4.38%	7.14%	5.15%
	100.00%	100.00%	100.00%	100.00%

DEPENDABILITY

We have mentioned the need for the people to expect that their highway user fees will go to transportation purposes. We have discussed the need for a continuing availability of funding that will ensure orderly, ongoing progress toward the completion of the construction program. We have emphasized the necessity for the assurance that all areas of the state will benefit equitably from the program.

These objectives can be accomplished by a designated Trust Fund.

The following principles should be incorporated into Trust Fund legislation:

- The traditional revenue base of the Highway Fund should continue to function as the primary source of funds for matching federal funds, secondary road, small urban and spot safety construction, system maintenance and administration of all programs.
- The Trust Fund should define the "intrastate" system and establish the priority guidelines that will be used to determine whether a project is eligible for such funding.
- In addition to the "intrastate" system, construction of the many other local and regional roads must be accommodated. Local needs, rapid changes and equity of distribution of construction activity must be recognized.
- Expenditures from the Trust Fund should be authorized for early right of way acquisition, either directly or to reimburse any approved local efforts to acquire right of way in advance of construction schedules.
- Trust Funds should be applicable for debt service on highway debt, as appropriate, to maintain the credit rating of any North Carolina highway bonds.

CONTINUITY

Above all, the Trust Fund should be inviolate from any use outside the program objectives. Priorities, once established, must be maintained and must include safeguards that allow changes in the program only after thorough review.

The Trust Fund should be established for a sufficient term of years-12 to 15-that will ensure the dependability and continuity of the program.

A "sunset" at the end of the initial term will allow reconsideration of the program once it is essentially accomplished.

A PROGRAM

Here, then, is an outline approach to better roads to the future for North Carolina:

1. Establish a Trust Fund, to ensure continuity and dependability of the major construction program.
2. Determine the reasonable needs of the system, and define goals for meeting these needs in several categories:
   (a) A "Strategic Highway" system.
   (b) "Critical Connectors" to the "intrastate" system.
   (c) Secondary road improvements.
   (d) Urban system improvements.
   (e) Bridge replacements.
   (f) Other local/regional needs not otherwise included.
3. Establish an equitable statewide allocation of funds for construction.
4. Provide an adequate, continuing base of funding for the duration of the program.

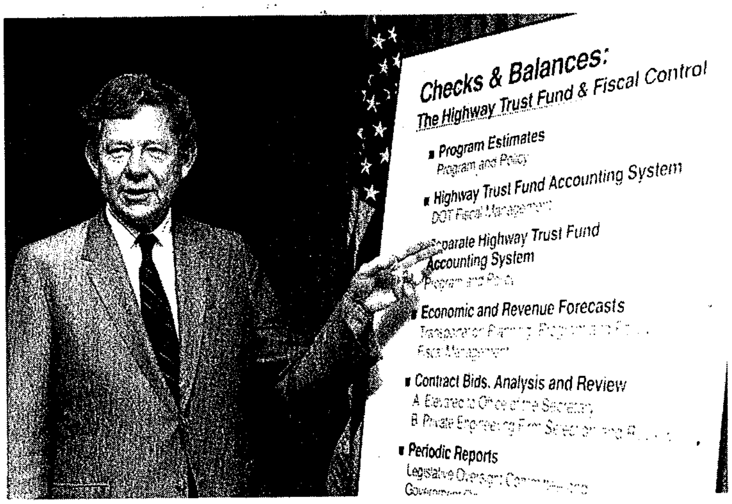
(Chapter 8 was first published in January 1989.)

EPILOGUE

On July 27, 1989, House Bill 399 — North Carolina's Highway Trust Fund Bill — became law.

This law is significant for a number of reasons and it represents the work of many individuals — all of whom cared enough about the state's transportation needs to take action that would make a difference.

In 1987 and 1988, the Highway Study Commission — a broad-based, bipartisan group of legislative and gubernatorial appointees — studied North Carolina's highway construction needs. After reading reams of reports and looking at dozens of maps, charts and graphs, after hearing from transportation professionals, interest groups and concerned citizens, the Commission came to a unanimous conclusion: North Carolina faced a major backlog in vital highway construction . . .a backlog that the current revenue system at the time could not reduce . . . a backlog that the federal program could not resolve. . .and a backlog that we in North Carolina had to tackle if we were to have the roads we needed as we entered the 21st century.



Based on those findings, the Commission unanimously recommended an 8.6 billion dollar highway construction program over 12 years.

The Highway Trust Fund Bill passed in July of 1989, called for a $9.2 billion, 13.5-year state-funded highway construction program — the largest public works project in the state's history.

Four objectives are embodied in the law.

The first is the completion of the "Intrastate Highway System." When this 3,600 mile network is finished, a four-lane highway will stretch to within 10 miles of 96 percent of North Carolina's citizens.

The second objective of the Trust Fund is to build multi-lane connector or "loop" roads near seven of our major urban areas. Asheville, Charlotte, Durham, Greensboro, Raleigh, Wilmington and Winston-Salem will have their traffic congestion eased by this part of the Trust Fund program.

The third objective concerns secondary roads. Within 10 years, all 10,000 miles of the state maintained dirt roads that are carrying 50 or more vehicles a day will be paved. And within six years after that, the remaining 6,000 miles of the state's unpaved roads will be paved.

Finally, as its fourth objective, the Highway Trust Fund will increase by 50 percent the Street Aid to Municipalities allocation. (Powell Bill Funds.)

The revenues for the Trust Fund are generated from a variety of fee and tax increases imposed on those who use the highway system. For example:

• 37 percent will be produced by motor fuel tax increases

• 14 percent will come from increases in vehicle title and registration fees

• six percent will result from the dedication of interest and funds no longer needed for debt service

• and beginning in July 1991, 43 percent will be generated by dedication to the Trust Fund the revenue produced by a three percent highway use tax on motor vehicle title transfers. This tax replaces the two-percent state sales tax on vehicles, a General Fund revenue source which was not spent on highways.

Highway Trust Fund revenues are allocated as follows: 61.95 percent to the intrastate system, 25.05 percent to the urban connector and loops, 6.5 percent to secondary roads, and 6.5 percent to the Powell Bill Program. A geographical distribution formula is written into the law.

In addition, the law establishes a 16-member Joint Legislative Highway Oversight Committee appointed by the President Pro-Tem of the Senate and Speaker of the House, sets a goal of 10 percent for minority business participation and contains a "buy American" provision.

Indeed, this law represents history in the making. We now have a program of transportation improvements that will prepare us to meet the challenges of the 21st century.

Submitted as part of the Epilogue are the following:

- *Highway Trust Fund And Federal Aid Programs Funding Chart*
- *North Carolina's Four Lane Intrastate System Map*
- *Neighboring State Comparison Chart*
- *Highway Study Commission – Chronology of Events leading to passage of the North Carolina Highway Trust Fund Law*
- *The history of House Bill 399*
- *Ratified House Bill 399*

HIGHWAY TRUST FUND AND FEDERAL AID PROGRAMS FUNDING CHART

HIGHWAY TRUST FUND AND FEDERAL AID PROGRAMS
($ in millions)

HIGHWAY TRUST FUND REVENUES

Funding Element	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	13.5 YEAR TOTALS
25% of Gas Tax Revenues	180.39	221.88	227.42	233.11	238.94	244.91	251.03	257.31	263.74	270.33	277.09	284.02	291.12	298.40	$3,465.00
Interest on Trust Fund	8.44	11.23	17.82	18.48	19.47	20.49	21.29	22.69	23.65	24.44	25.26	26.10	26.96	27.85	$287.19
Debt Service Availability		-				9.60	12.10	32.20	38.00	38.00	38.00	38.00	38.00	38.00	$272.40
Title Fee Increase of $30	52.50	61.80	63.65	65.56	67.53	69.56	71.64	73.79	76.01	78.29	80.63	83.05	85.55	88.11	$995.65
Miscellaneous Fees to $10	15.58	18.33	18.88	19.45	20.03	20.64	21.25	21.89	22.55	23.22	23.92	24.64	25.38	26.14	$295.38
3% Use Tax, ($1000/1500 Cap)	294.76	404.80	416.94	429.45	451.90	465.46	479.42	493.80	508.62	523.88	539.59	555.78	572.45	589.63	$6,579.07
Less General Fund Transfer	-279.40	-356.00	-170.00	-170.00	-170.00	-170.00	-170.00	-170.00	-170.00	-170.00	-170.00	-170.00	-170.00	-170.00	($2,632.90)
TOTAL REVENUES	272.26	362.04	574.73	596.06	627.87	660.64	686.75	731.68	762.56	788.16	814.50	841.59	869.46	898.13	$9,261.89

HIGHWAY TRUST FUND EXPENSES

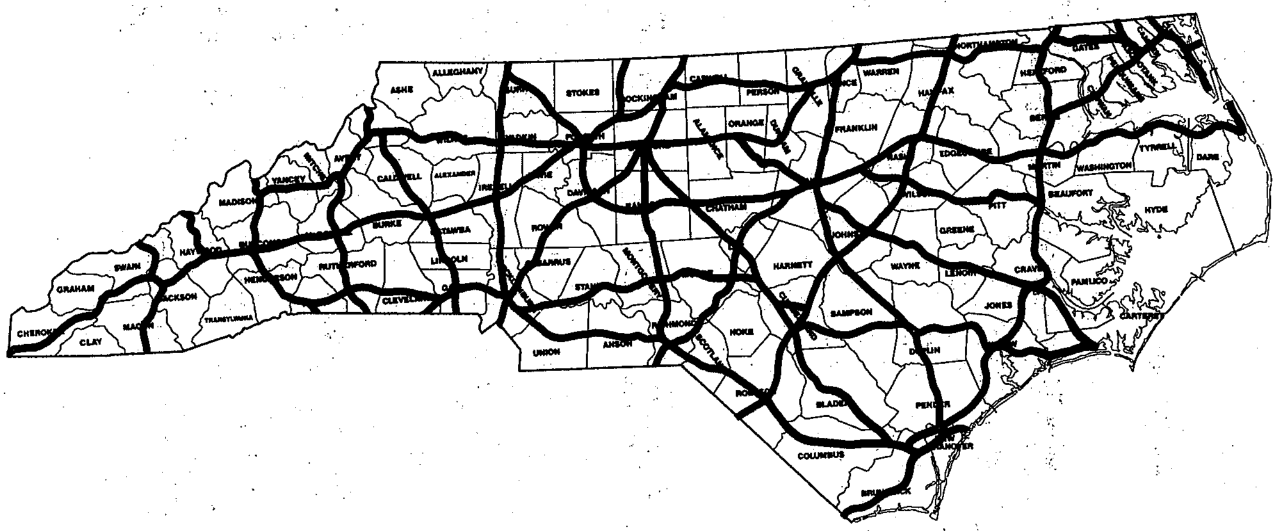
Type	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	13.5 YEAR TOTALS
Intrastate Highway System (61.95%)	146.40	195.80	320.65	332.68	350.87	369.91	384.78	411.28	429.03	443.47	458.32	473.61	568.48	587.18	$5,325.65
Urban loops (25.05%)	59.20	79.17	129.66	134.52	141.88	149.58	155.59	166.30	173.48	179.32	185.33	191.51	208.04	214.88	$2,114.73
Powell Bill Supplement (6.5%)	15.36	20.54	33.64	34.91	36.81	38.81	40.37	43.15	45.01	46.53	48.09	49.69	53.98	55.76	$548.73
Secondary Road Supplement (6.5%)*	40.30	49.90	63.88	66.05	68.89	71.85	74.40	78.20	81.12	83.72	86.39	89.14	0.00	0.00	$853.84
5% Program Administration	11.00	16.62	26.90	27.91	29.42	30.50	31.60	32.75	33.92	35.12	36.37	37.64	38.96	40.31	$418.93
TOTAL TRUST FUND EXPENSES	272.26	362.04	574.73	596.06	627.87	660.64	686.75	731.68	762.56	788.16	814.50	841.59	869.46	898.13	$9,261.89

*(secondary roads funding projections include half of title fee increase)

MAJOR CONSTRUCTION PROGRAM

Category	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	13.5 YEAR TOTALS
Federal Aid Construction w/match	275.00	355.19	364.07	373.17	382.50	392.06	401.86	411.91	422.21	432.76	443.58	454.67	466.04	477.69	$5,533.31
State Construction Program	60.00	60.00													$120.00
Intrastate and Loops Programs	205.60	274.97	450.30	467.20	492.75	519.48	540.37	577.58	602.51	622.79	643.65	665.11	776.52	802.06	$7,440.38
Subtotal	540.60	690.16	814.37	840.37	875.25	911.55	942.23	989.49	1024.72	1055.55	1087.24	1119.78	1242.56	1279.75	$13,093.69
Less P.E.	-70.60	-80.16	-84.37	-90.37	-95.25	-96.55	-92.23	-89.49	-84.72	-75.55	-72.24	-69.78	-62.56	-54.75	($1,104.93)
TIP R/W AND CONST. BUDGET	470.00	610.00	730.00	750.00	780.00	815.00	850.00	900.00	940.00	980.00	1015.00	1050.00	1180.00	1225.00	$11,988.75

NORTH CAROLINA'S FOUR LANE INTRASTATE SYSTEM (WHEN COMPLETED)



NEIGHBORING STATE COMPARISON CHART – AUGUST 1989

Comparisons are made on a typical $13,000 new car with a $3000 trade in, driven 12,000 miles a year, averaging 20 miles per gallon, and owned for five years.

	North Carolina	Virginia	South Carolina	Tennessee	Georgia
Total State Maintained Miles	76,727	53,653	40,689	13,784	17,812
Motor Fuel Tax	$126.90	$113.58	$96.26	$134.76	$62.37
Driver's License	$2.50	$2.40	$2.50	$3.50	$1.13
Vehicle Registration	$20.00	$25.00	$12.00	$20.00	$8.00
Sales/Use Tax	$60.00	$78.00	$130.00	$147.40	$78.00
Other Fees Dedicated to Highways	$7.00	$113.56	—	$227.12	$227.12
Total Annual Cost	**$216.40**	**$332.54**	**$240.76**	**$532.78**	**$376.62**

HIGHWAY STUDY COMMISSION — CHRONOLOGY OF EVENTS LEADING TO THE PASSAGE OF THE NORTH CAROLINA HIGHWAY TRUST FUND

CREATION:
SB 1192, General Assembly, 1987 Session

COMPOSITION:
House Speaker appoints 5 (All Representatives)
The Honorable Robert C. Hunter
The Honorable Martin L. Nesbitt
The Honorable David W. Bumgardner, Jr.
The Honorable Gerald L. Anderson
The Honorable R. Samuel Hunt, III

Lieutenant Governor appoints 5 (4 Senators, 1 Mayor)
The Honorable William D. Goldston, Jr.
The Honorable Kenneth C. Royall, Jr.
The Honorable Marc Basnight
The Honorable Aaron W. Plyler, Sr.
The Honorable Avery C. Upchurch

Governor appoints 5 (1 Mayor, 1 County Commission Chairman, 3 from Business)
Mr. Seddon Goode, Jr.
Mr. Tom Storrs
Ms. Estell Lee
The Honorable Louis Bissette
The Honorable Darrell Frye

MEETINGS: (ALL BUT FOUR HELD IN RALEIGH)
1 November 1987
2 December 1987
3 January 1988
4 February 1988
5 March 1988
6 April 1988
7 May 1988
8 August 1988
9 September 1988 — (Marion public meeting)
10 October 1988 — (Greensboro public meeting)
11 October 1988 — (New Bern public meeting)
12 October 1988 — (Charlotte public meeting)
13 November 1988
14 December 1988
15 December 1988
16 December 1988
17 January 1989
18 January 1989
19 February 1989
20 February 1989

LEGISLATION:
SB 290 introduced by Senator Goldston, and HB 399 introduced by Representative Hunter on February 27, 1989.

HB 399 passed both chambers in July 1989 with different provisions, resulting in the appointment of a conference committee.

Conference committee recommendations passed both chambers, and ratified July 27, 1989.

IMPLEMENTATION:
- North Carolina Trust Fund initial allocations for secondary roads were approved by the North Carolina Board of Transportation at the August, 1989, Board Meeting.
- The first allocations to the Intrastate and Loops Programs were approved by the North Carolina Board of Transportation at the September, 1989, Board Meeting.
- The 13.5-year schedules for the Intrastate and Loops Programs were approved by the North Carolina Board of Transportation at the October, 1989, Board Meeting.
- The first Powell Bill money from the North Carolina Highway Trust Fund will be allocated to cities and towns October, 1990.

Introduced 2-28-89 by: ANDERSON, BEARD, BUCHANAN, CHURCH, CRAWFORD J, FITCH, GRIMMER, HARDAWAY, HUNT S, HUNTER R, LILLEY, NESBITT, PERDUE, RHYNE, WISER

GS Chapters: $, 20, 105, 136

Date		Action
2-28-89	H	REF TO COM ON INFRAST
3- 2-89	H	ASSIGNED TO INF-HWY
3-22-89	H	REPTD TO INFRAST
4- 7-89	HA	REPTD FAV COM SUBSTITUTE
4- 7-89	H	REF TO COM ON FINANCE
4-18-89	H	ASSIGNED TO FIN-HWY
5-30-89	HA	REPTD FAV COM SUBSTITUTE
5-30-89	H	PLACED ON CAL FOR 05-31
5-31-89	HA	AMEND ADOPTED #1
5-31-89	H	AMEND FAILED #2-3-4-5
5-31-89	H	AMEND FAILED #6-7-8-9-10
5-31-89	H	PASSED 2ND READING
6- 1-89	H	AMEND FAILED #11-12&13
6- 1-89	H	PASSED 3RD READING
6- 6-89	S	REC FROM HOUSE
6- 6-89	S	RE-REF COM ON FINANCE
6-29-89	S	REPTD FAV COM SUBSTITUTE
6-29-89	SA	COM SUBSTITUTE ADOPTED
6-29-89	SA	AMEND ADOPTED #1,2,&3
6-29-89	S	PLACED ON CAL FOR 06-30
6-30-89	SA	AMEND ADOPTED #4&5
6-30-89	S	PASSED 2ND READING
7- 4-89	SA	AMEND ADOPTED #6
7- 4-89	S	PASSED 3RD READING
7- 5-89	H	REC TO CONCUR S COM SUB
7- 5-89	H	FAILED CONCUR IN COM SUB
7- 5-89	H	CONF COM APPOINTED
7- 6-89	S	CONF COM APPOINTED
7-24-89	H	CONF COM REPORTED
7-24-89	H	HELD AS MATERIAL
7-24-89	H	PLACED ON CAL FOR 07-26
7-24-89	S	CONF COM REPORTED
7-24-89	S	HELD AS MATERIAL
7-24-89	S	PLACED ON CAL FOR 07-26
7-25-89	S	WITHDRAWN FROM CAL
7-25-89	S	CONF COM REPORTED
7-25-89	S	HELD AS MATERIAL
7-25-89	S	PLACED ON CAL FOR 07-26
7-25-89	H	WITHDRAWN FROM CAL
7-25-89	H	CONF COM REPORTED
7-25-89	H	HELD AS MATERIAL
7-25-89	H	PLACED ON CAL FOR 07-26

North Carolina General Assembly
HISTORY OF HOUSE BILL H 399 (= S 290)
HIGHWAY TRUST FUND

Date: 11/27/89
Time: 11:37 a.
Page: 2

by: HUNTER R Leg. day:H-137/S-128

7-25-89	H	PLACED ON CAL FOR 07-26
7-26-89	S	PASSED 2ND READING
7-26-89	S	PLACED ON CAL FOR 07-27
7-26-89	H	PASSED 2ND READING
7-27-89	S	PASSED 3RD READING
7-27-89	H	PASSED 3RD READING
7-27-89	R	RATIFIED CH.0692

North Carolina General Assembly
HISTORY OF SENATE BILL S 290 (= H 399)
HIGHWAY TRUST FUND
by: GOLDSTON

Date: 11/27/89
Time: 11:37 a.m.
Page: 1
Leg. day:H-137/S-128

ntroduced 2-27-89 by: BASNIGHT, GOLDSTON, PLYLER, ROYALL
S Chapters: $, 20, 105, 136

Date		Action
2-27-89	S	REF TO COM ON TRANSPRT
3-23-89	S	REPTD FAV COM SUBSTITUTE
3-23-89	SA	COM SUBSTITUTE ADOPTED
3-23-89	S	REF TO COM ON FINANCE

GENERAL ASSEMBLY OF NORTH CAROLINA
1989 SESSION
RATIFIED BILL

CHAPTER 692
HOUSE BILL 399

AN ACT TO ESTABLISH THE NORTH CAROLINA HIGHWAY TRUST FUND, TO PROVIDE REVENUE FOR THE FUND, TO DESIGNATE HOW REVENUE IN THE FUND IS TO BE USED, AND TO RAISE REVENUE FOR THE GENERAL FUND.

The General Assembly of North Carolina enacts:

CONTENTS

PART I.
HIGHWAY TRUST FUND.

Section 1.1. Chapter 136 of the General Statutes is amended by adding a new Article to read:

"ARTICLE 14.
"North Carolina Highway Trust Fund.

"§ 136-175. Definitions.

The following definitions apply in this Article:

(1) Intrastate System. The network of major, multilane arterial highways composed of those projects listed in G.S. 136-179, I-240, I-277, US-29 from I-85 to the Virginia line, and any other route added by the Department of Transportation under G.S. 136-178.

(2) Transportation Improvement Program. The schedule of major transportation improvement projects required by G.S. 143B-350(f)(4).

(3) Trust Fund. The North Carolina Highway Trust Fund.

"§ 136-176. Creation, revenue sources, and purpose of North Carolina Highway Trust Fund.

(a) A special account, designated the North Carolina Highway Trust Fund, is created within the State treasury. The Trust Fund consists of the following revenue:

(1) Motor fuel, special fuel, and road tax revenue deposited in the Fund under G.S. 105-445, 105-449.16, and 105-449.43, respectively.

(2) Motor vehicle use tax deposited in the Fund under G.S. 105-171.

(3) Revenue from the fee payable when a certificate of title is issued for a motor vehicle under G.S. 20-85.
(4) Revenue available from the retirement of refunding bonds issued to repay highway construction bonds and deposited in the Fund under G.S. 136-183.
(5) Interest and income earned by the Fund.

(b) Funds in the Trust Fund are annually appropriated to the Department of Transportation to be allocated and used as provided in this subsection. A sum, not to exceed five percent (5%) of the amount of revenue deposited in the Trust Fund under subdivisions (a)(1), (2), and (3) of this section, may be used each fiscal year by the Department for expenses to administer the Trust Fund. The rest of the funds in the Trust Fund shall be allocated and used as follows:

(1) Sixty-one and ninety-five hundredths percent (61.95%) to plan, design, and construct the projects of the Intrastate System described in G.S. 136-179.
(2) Twenty-five and five hundredths percent (25.05%) to plan, design, and construct the urban loops described in G.S. 136-180.
(3) Six and one-half percent (6.5%) to supplement the appropriation to cities for city streets under G.S. 136-181.
(4) Six and one-half percent (6.5%) for secondary road construction as provided in G.S. 136-182.

(c) If funds are received under 23 U.S.C. Chapter 1, Federal-Aid Highways, for a project for which funds in the Trust Fund are allocated, an amount equal to the amount of federal funds received may be transferred by the Secretary of Transportation from the Trust Fund to the Highway Fund and used for projects in the Transportation Improvement Program.

(d) A contract may be let for projects funded from the Trust Fund in anticipation of revenues pursuant to the cash-flow provisions of G.S. 143-28.1 only for the biennium following the year in which the contract is let.

"§ 136-177. Limitation on funds obligated from Trust Fund.

In a fiscal year, the Department of Transportation may not obligate more Trust Fund revenue, other than revenue allocated for city streets under G.S. 136-176(b)(3) or secondary roads under G.S. 136-176(b)(4) and G.S. 20-85(b), to construct or improve highways than the amount indicated in the following table:

Fiscal Year	Maximum Expenditure
1989-90	$200,000,000
1990-91	250,000,000
1991-92	300,000,000
1992-93	400,000,000
1993-94	500,000,000
1994-95 and following years	Unlimited

The amount of revenue credited to the Trust Fund in a fiscal year under G.S. 136-176(a) that exceeds the maximum allowable expenditure set in the table above may be used only for preliminary planning and design and the acquisition of rights-of-way for scheduled highways and highway improvements to be funded from the Trust Fund.

"§ 136-178. Purpose of Intrastate System.

The Intrastate System is established to provide high-speed, safe travel service throughout the State. It connects major population centers both inside and outside the State and provides safe, convenient, through-travel for motorists. It is designed to support statewide growth and development objectives and to connect to major highways of adjoining states. All segments of the routes in the Intrastate System shall have at least four travel lanes and, when warranted, shall have vertical separation or interchanges at crossings, more than four travel lanes, or bypasses. Access to a route in the Intrastate System is determined by travel service and economic considerations.

The Department of Transportation may add a route to the Intrastate System if the route is a multilane route and has been designed and built to meet the construction criteria of the Intrastate System projects. No funds may be expended from the Trust Fund on routes added by the Department.

"§ 136-179. Projects of Intrastate System funded from Trust Fund.

Funds allocated from the Trust Fund for the Intrastate System may be used only for the following projects of the Intrastate System:

Route	Improvements	Affected Counties
I-40	Widening	Buncombe, Haywood, Guilford, Wake, Durham
I-77	Widening	Mecklenburg
I-85	Widening	Durham, Orange, Alamance, Guilford, Cabarrus, Mecklenburg, Gaston
I-95	Widening	Halifax
US-1	Complete 4-laning from Henderson to South Carolina Line (including 6-laning of Raleigh Beltline)	Vance, Franklin, Wake, Chatham, Lee, Moore, Richmond
US-13	Connector from I-95 to NC-87	Cumberland
US-13	Complete 4-laning from Virginia Line to US-17	Gates, Hertford, Bertie
US-17	Complete 4-laning from Virginia Line to South Carolina Line (including Washington, New Bern, and Jacksonville Bypasses)	Camden, Pasquotank, Perquimans, Chowan, Bertie, Martin, Beaufort, Craven, Jones, Onslow, Pender, New Hanover, Brunswick
US-19/ US-19E	Complete 4-laning from US-23 to NC 194 in Ingalls	Madison, Yancey, Mitchell, Avery
US-19	Complete 4-laning	Cherokee, Macon, Swain
US-23	Complete 4-laning and upgrading existing 4-lanes from Tennessee Line to I-240	Madison, Buncombe

US-23-441	Complete 4-laning from US-19/US-74 to Georgia Line	Macon
US-52	Complete 4-laning from I-77 to Lexington (including new I-77 Connector)	Surry, Davidson
US-64	Complete 4-laning from Raleigh to Coast (including freeway construction from I-95 to US-17)	Edgecombe, Pitt, Martin, Washington, Tyrrell, Dare
US-64	Complete 4-laning from Lexington to Raleigh	Davidson, Randolph, Chatham, Wake
US-70	Complete 4-laning from Raleigh to Morehead City (including Clayton, Goldsboro, Kinston, Smithfield-Selma, and Havelock Bypasses predominately freeways on predominately new locations)	Wake, Johnston, Wayne, Lenoir, Craven
US-74	Complete 4-laning from Charlotte to US-17 (including multilaning of Independence Blvd. in Charlotte, and Bypasses of Monroe, Rockingham, and Hamlet)	Mecklenburg, Union, Richmond, Robeson, Columbus
US-74	Complete 4-laning from I-26 to I-85	Polk, Rutherford
US-158	Complete 4-laning from Winston-Salem to Whalebone	Forsyth, Guilford, Rockingham, Caswell, Person, Granville, Vance, Warren, Halifax, Northampton, Gates, Hertford, Pasquotank, Camden, Currituck, Dare
	New bridge over Currituck Sound	Currituck
US-221	Complete 4-laning from	Avery, McDowell,

	Linville to South Carolina	Rutherford
US-220	Complete 4-laning from I-40 to US-1	Guilford, Randolph, Montgomery, Richmond
US-220/NC-68	Complete 4-laning from Virginia Line to I-40	Rockingham, Guilford
US-264	Complete 4-laning from US-64 to Washington (including Wilson and Greenville Bypasses) (including freeway construction from I-95 to Greenville)	Wilson, Greene, Pitt
US-321	Complete 4-laning from Boone to South Carolina Line	Caldwell, Catawba, Lincoln, Gaston
US-421	Complete 4-laning from Tennessee Line to I-40	Watauga, Wilkes, Yadkin
US-421	Complete 4-laning from Greensboro to Sanford (including Bypass of Sanford)	Chatham, Lee
NC-24	Complete 4-laning from Charlotte to Morehead City	Mecklenburg, Cabarrus, Stanly, Montgomery, Moore, Harnett, Cumberland, Sampson, Duplin, Onslow, Carteret
NC-87	Complete 4-laning from Sanford to US-74	Lee, Harnett, Cumberland, Bladen, Columbus
NC-105	Complete 4-laning from Boone to Linville	Watauga, Avery
NC-168	Complete multilaning from Virginia Line to US-158	Currituck
NC-194	Complete 4-laning from US-19E to US-221	Avery

"§ 136-180. Urban loops.

Funds allocated from the Trust Fund for urban loops may be used only for the following urban loops:

Affected

Loop	Description	Counties
Asheville Western Loop	Multilane facility on new location from I-26 west of Asheville to US-19/23 north of Asheville for the purpose of connecting these roads. The funds may be used to improve existing corridors.	Buncombe
Charlotte Outer Loop	Multilane facility on new location encircling City of Charlotte	Mecklenburg
Durham Northern Loop	Multilane facility on new location from I-85 west of Durham to US-70 east of Durham	Durham, Orange
Greensboro Loop	Multilane facility on new location encircling City of Greensboro	Guilford
Raleigh Outer Loop	Multilane facility on new location from US-1 southwest of Cary northerly to US-64 in eastern Wake County	Wake
Wilmington Bypass	Multilane facility on new location from US-17 northeast of Wilmington to US-17 southwest of Wilmington	New Hanover
Winston-Salem Northbelt	Multilane facility on new location from I-40 west of Winston-Salem northerly to I-40 in eastern Forsyth County	Forsyth

"§ 136-181. Supplement for city streets.

Funds allocated to supplement the appropriations for city streets made under G.S. 136-41.1 shall be distributed to cities as provided in that statute.

"§ 136-182. Supplement for secondary road construction.

Funds are allocated from the Trust Fund to increase allocations for secondary road construction made under G.S. 136-44.2A so that all State-maintained unpaved secondary roads with a traffic vehicular equivalent of at least 50 vehicles a day can be paved by the 1998-99 fiscal year. This supplement shall be discontinued when the Department of Transportation certifies that, with funds available from sources other than the Trust Fund, all State-maintained unpaved secondary roads, regardless of their traffic vehicular equivalent, can be paved during the following six years. If the supplement is discontinued before the Trust Fund terminates, the funds that would otherwise be allocated under this section shall be added to the allocation from the Trust Fund for projects of the Intrastate System.

"§ 136-183. Revenue available from retirement of bonds credited to Highway Trust Fund.

Beginning with the 1994-95 fiscal year, the State Treasurer shall credit the following amounts of revenue to the Trust Fund:

Fiscal Year	Yearly Amount
1994-95	$ 9,600,000
1995-96	12,100,000
1996-97	32,300,000
1997-98 and each subsequent year until the Trust Fund ends	38,000,000.

These amounts represent increased revenue resulting from the retirement of refunding bonds issued to repay highway construction bonds. In each fiscal year, the State Treasurer shall credit to the Trust Fund one-fourth of the amount set in the table for that year within 10 days after the end of each calendar quarter.

"§ 136-184. Reports by Department of Transportation.

(a) The Department of Transportation shall develop, and update annually, a report containing a completion schedule for all projects to be funded from the Trust Fund. The report shall include a separate schedule for the Intrastate System projects, the urban loop projects, and the paving of unpaved State-maintained secondary roads that have a traffic vehicular equivalent of at least 50 vehicles a day. The annual update shall indicate the projects, or portions thereof, that were completed during the preceding fiscal year, any changes in the original completion schedules, and the reasons for the changes. The Department shall submit the report and the annual updates to the Joint Legislative Highway Oversight Committee.

(b) The Department of Transportation shall make quarterly reports to the Joint Legislative Highway Oversight Committee containing any information requested by the Committee. The Department shall provide the Committee with all information needed to determine if funds available under the Trust Fund and the Transportation Improvement Program are being spent in accordance with G.S. 136-17.2A."

Sec. 1.2. Chapter 120 of the General Statutes is amended by adding a new Article to read:

"ARTICLE 12E.

"Joint Legislative Highway Oversight Committee.

"§ 120-70.50. Creation and membership of Joint Legislative Highway Oversight Committee.

The Joint Legislative Highway Oversight Committee is established. The Committee consists of 16 members as follows:

(1) Eight members of the Senate appointed by the President Pro Tempore of the Senate, at least two of whom are members of the minority party; and

(2) Eight members of the House of Representatives appointed by the Speaker of the House of Representatives, at least three of whom are members of the minority party.

Terms on the Committee are for two years and begin on January 15 of each odd-numbered year, except the terms of the initial members, which begin on appointment. Members may complete a term of service on the Committee even if they do not seek reelection or are not reelected to the General Assembly, but resignation or removal from service in the General Assembly constitutes resignation or removal from service on the Committee.

A member continues to serve until his successor is appointed. A vacancy shall be filled within 30 days by the officer who made the original appointment.

"§ 120-70.51. Purpose and powers of Committee.

(a) The Joint Legislative Highway Oversight Committee shall:

(1) Review reports prepared by the Department of Transportation under G.S. 136-184.

(2) Monitor the funds deposited in and expenditures from the North Carolina Highway Trust Fund and the Highway Fund.

(3) Determine whether funds in the Trust Fund are spent in accordance with G.S. 136-17.2A and Article 14 of Chapter 136.

(4) Determine whether any revisions are needed in the funding for a program for which funds in the Trust Fund may be used, including revisions needed to meet any statutory timetable for the program.

(5) Report to the General Assembly at the beginning of each regular session concerning its determinations of needed changes in the funding for programs funded from the Trust Fund.

(b) The Committee may make interim reports to the General Assembly on matters for which it may report to a regular session of the General Assembly. A report to the General Assembly may contain any legislation needed to implement a recommendation of the Committee.

"§ 120-70.52. Organization of Committee.

(a) The President Pro Tempore of the Senate and the Speaker of the House of Representatives shall each designate a cochair of the Joint Legislative Highway Oversight Committee. The Committee shall meet at least once a quarter and may meet at other times upon the joint call of the cochairs.

(b) A quorum of the Committee is nine members. No action may be taken except by a majority vote at a meeting at which a quorum is present. While in the discharge of its official duties, the Committee has the powers of a joint committee under G.S. 120-19 and G.S. 120-19.1 through 120-19.4.

(c) The Committee shall be funded by appropriations made to the Highway Trust Fund and allocated to the Intrastate System projects. Members of the Committee receive subsistence and travel expenses as provided in G.S. 120-3.1. The Committee may contract for consultants or hire employees in accordance with G.S. 120-32.02. The Legislative Services Commission, through the Legislative Administrative Officer, shall assign professional staff to assist the Committee in its work. Upon the direction of the Legislative Services Commission, the Supervisors of Clerks of the Senate and of the House of Representatives shall assign clerical staff to the Committee. The expenses for clerical employees shall be borne by the Committee."

Sec. 1.3. G.S. 136-12 reads as rewritten:

"§ 136-12. **Reports to General Assembly~~;~~Transportation Improvement Program submitted to members and staff of General Assembly.**

(a) The Department of Transportation shall, on or before the tenth day after the convening of each regular session of the General Assembly of North Carolina, make a full printed, detailed report to the General Assembly, showing the construction and maintenance work and the cost of the same, receipts of license fees, and disbursements of the Department of Transportation, and such other data as may be of interest in connection with the work of the Department of Transportation. A full account of each road project shall be kept by and under the direction of the Department of Transportation or its representatives, to ascertain at any time the expenditures and the liabilities against all projects; also records of contracts and force account work. The account records, together with all supporting documents, shall be open at all times to the inspection of the Governor or road authorities of any county, or their authorized representatives, and copies thereof shall be furnished such officials upon request.

(b) At least 25 days before it approves a Transportation Improvement Program in accordance with G.S. 143B-350(f)(4) or approves interim changes to a Transportation Improvement Program, the Department shall submit the proposed Transportation Improvement Program or proposed interim changes to a Transportation Improvement Program to the following members and staff of the General Assembly:

(1) The Speaker and the Speaker Pro Tempore of the House of Representatives;
(2) The Lieutenant Governor and the President Pro Tempore of the Senate;
(3) The Chairs of the House and Senate Appropriations Committees;
(4) Each member of the Joint Legislative Highway Oversight Committee; and
(5) The Fiscal Research Division of the Legislative Services Commission."

Sec. 1.4. Article 2 of Chapter 136 of the General Statutes is amended by adding a new section to read:

"**§ 136-17.2A. Distribution formula for funds expended on Intrastate System and Transportation Improvement Program.**

(a) Funds expended for the Intrastate System projects listed in G.S. 136-179 and both State and federal-aid funds expended under the Transportation Improvement Program, other than funds expended on an urban loop project listed in G.S. 136-180, shall be distributed throughout the State in accordance with this section. For purposes of this distribution, the counties of the State are grouped into seven distribution regions as follows:

(1) Distribution Region A consists of the following counties: Bertie, Camden, Chowan, Currituck, Dare, Edgecombe, Gates, Halifax, Hertford, Hyde, Johnston, Martin, Nash, Northampton, Pasquotank, Perquimans, Tyrrell, Washington, Wayne, and Wilson.
(2) Distribution Region B consists of the following counties: Beaufort, Brunswick, Carteret, Craven, Duplin, Greene, Jones, Lenoir, New Hanover, Onslow, Pamlico, Pender, Pitt, and Sampson.
(3) Distribution Region C consists of the following counties: Bladen, Columbus, Cumberland, Durham, Franklin, Granville, Harnett, Person, Robeson, Vance, Wake, and Warren.
(4) Distribution Region D consists of the following counties: Alamance, Caswell, Davidson, Davie, Forsyth, Guilford, Orange, Rockingham, Rowan, and Stokes.
(5) Distribution Region E consists of the following counties: Anson, Cabarrus, Chatham, Hoke, Lee, Mecklenburg, Montgomery, Moore, Randolph, Richmond, Scotland, Stanly, and Union.
(6) Distribution Region F consists of the following counties: Alexander, Alleghany, Ashe, Avery, Caldwell, Catawba, Cleveland, Gaston, Iredell, Lincoln, Surry, Watauga, Wilkes, and Yadkin.
(7) Distribution Region G consists of the following counties: Buncombe, Burke, Cherokee, Clay, Graham, Haywood, Henderson, Jackson, Macon, Madison, McDowell, Mitchell, Polk, Rutherford, Swain, Transylvania, and Yancey.

(b) Until ninety percent (90%) of the mileage of the Intrastate System projects listed in G.S. 136-179 is completed, the Secretary of Transportation shall, on or before October 1 of each year, calculate the estimated amount of funds subject to this section that will be available for the next seven program years beginning that October 1. The Secretary shall then calculate a tentative percentage share for each distribution region by multiplying the total estimated amount by a factor that is based:

(1) Twenty-five percent (25%) on the estimated number of miles to complete the Intrastate System projects in that distribution region compared to the estimated number of miles to complete the total Intrastate System;

(2) Fifty percent (50%) on the estimated population of the distribution region compared to the total estimated population of the State; and

(3) Twenty-five percent (25%) on the fraction one-seventh, which provides an equal share based on the number of distribution regions.

(c) When ninety percent (90%) of the mileage of the Intrastate System projects listed in G.S. 136-179 is completed, the Secretary of Transportation shall, on or before October 1 of each year, calculate the estimated amount of funds subject to this section that will be available for the next seven program years beginning that October 1. The Secretary shall then calculate a tentative percentage share for each distribution region by multiplying the total estimated amount by a factor that is based:

(1) Sixty-six percent (66%) on the estimated population of the distribution region compared to the total estimated population of the State; and

(3) Thirty-four percent (34%) on the fraction one-seventh, which provides an equal share based on the number of distribution regions.

(d) In each fiscal year, the Department shall, as nearly as practicable, expend in a distribution region an amount equal to that region's tentative percentage share of the funds that are subject to this section and are available for that fiscal year. In any consecutive seven-year period, the amount expended in a distribution region must be between ninety percent (90%) and one hundred ten percent (110%) of the sum of the amounts established under this subsection as the target amounts to be expended in the region for those seven years.

(e) In making the calculation under this section, the Secretary shall use the most recent estimates of population certified by the State Budget Officer.

(f) In developing the schedules of improvements to be funded from the Trust Fund and of improvements to be made under the Transportation Improvement Program, the Board of Transportation shall consider the highway needs of every county in a distribution region and shall make every reasonable effort to schedule the construction of highway improvements in a manner that addresses the needs of every county in the region in an equitable and timely manner."

Sec. 1.5. G.S. 136-28.4 reads as rewritten:

"§ 136-28.4. State ~~policy; cooperation in promoting the use of~~ policy concerning participation by ~~small, minority, physically handicapped and women~~ minority contractors.

(a) It is the policy of this State to encourage and promote the use of ~~small, minority, physically handicapped and women~~ minority contractors in the construction, alteration and maintenance of State roads, streets, highways, and bridges and in the procurement of materials for such projects. All State agencies, institutions and political subdivisions shall cooperate with the Department of Transportation and all other State agencies, institutions and political subdivisions in efforts to encourage and promote the use of ~~small, minority, physically handicapped and women~~ minority contractors in such State construction, alteration, maintenance and procurement.

(b) A ten percent (10%) goal for participation by minority businesses in road or bridge construction, alteration, or maintenance projects is established. The Department of Transportation shall endeavor to award to minority businesses at least ten percent (10%), by value, of the contracts it lets for the construction, alteration, or maintenance of roads and bridges. The Department shall adopt written procedures specifying the steps it will take to achieve this goal, provided that the Department shall give equal opportunity for contracts it lets without regard to race, religion, color, creed, national origin, sex, age, or handicapping condition, as defined in G.S. 168A-3, to all contractors and businesses otherwise qualified.

(c) As used in this section, the term 'minority' has the same meaning as in 49 C.F.R. § 23.5."

Sec. 1.6. G.S. 136-41.1(a) reads as rewritten:

"(a) There is ~~hereby~~ annually appropriated out of the State Highway Fund a sum equal to the net amount after refunds that was produced during the fiscal year by a one and three-fourths cents (1 3/4¢) tax on each gallon of motor fuel as taxed by G.S. 105-434 and 105-435, to be allocated in cash on or before October 1 of each year to the cities and towns of the State in accordance with ~~the following formula:~~ this section. In addition, as provided in G.S. 136-176(b)(3), revenue is allocated and appropriated from the Highway Trust Fund to the cities and towns of this State to be used for the same purposes and distributed in the same manner as the revenue appropriated to them under this section from the Highway Fund. Like the appropriation from the Highway Fund, the appropriation from the Highway Trust Fund shall be based on revenue collected during the fiscal year preceding the date the distribution is made.

Seventy-five percent (75%) of ~~said funds~~ the funds appropriated for cities and towns shall be distributed among the several eligible municipalities of the State in the percentage proportion that the population of each eligible municipality bears to the total population of all eligible municipalities according to the most recent annual estimates of population as certified to the Secretary of Revenue by the State Budget Officer. This annual estimation of population shall include increases in the population within the municipalities caused by annexations accomplished through July 1 of the calendar year in which these funds are distributed. Twenty-five percent (25%) of said fund shall be distributed among the several eligible municipalities of the State in the percentage proportion that the mileage of public streets in each eligible municipality which does not form a part of the State highway system bears to the total mileage of the public streets in all eligible municipalities which do not constitute a part of the State highway system.

It shall be the duty of the mayor of each municipality to report to the Department of Transportation such information as it may request for its guidance in determining the eligibility of each municipality to receive funds ~~by virtue of G.S. 136-41.1 and 136-41.2~~ under this section and in determining the amount of allocation to which each is entitled. Upon failure of any municipality to make such report within the time prescribed by the Department of Transportation, the Department of Transportation may disregard such defaulting unit in making said allotment.

The funds to be allocated under this section shall be paid in cash to the various eligible municipalities on or before October 1 of each year ~~after March 15, 1951~~. Provided that eligible municipalities are authorized within the discretion of their governing bodies to enter into contracts for the purpose of maintenance, repair, construction, reconstruction, widening, or improving streets of such municipalities at any time after January 1 of any calendar year in total amounts not to exceed ninety percent (90%) of the amount received by such municipality during the preceding fiscal year, in anticipation of the receipt of funds under this section during the next fiscal year, to be paid for out of such funds when received.

~~No allocation to cities and towns shall be made under the provisions of this section from the one cent (1¢) per gallon additional tax on gasoline imposed by Chapter 46 of the Session Laws of 1965, unless and until said additional one cent (1¢) per gallon tax produces funds which are not needed for or committed by said Chapter 46 of the Session Laws of 1965, to the payment of the principal of or the interest on the~~

~~secondary road bonds issued pursuant to the provisions of said Chapter 46 of the Session Laws of 1965. The Department of Transportation is hereby authorized to~~ The Department of Transportation may withhold each year an amount not to exceed one percent (1%) of the total amount ~~appropriated in G.S. 136-41.1~~ appropriated for distribution under this section for the purpose of correcting errors in allocations: Provided, that the amount so withheld and not used for correcting errors will be carried over and added to the amount to be allocated for the following year.

The word 'street' as used in this section is hereby defined as any public road maintained by a municipality and open to use by the general public, and having an average width of not less than 16 feet. In order to obtain the necessary information to distribute the funds herein allocated, the Department of Transportation may require that each municipality eligible to receive funds under ~~G.S. 136-41.1 and 136-41.2~~ this section submit to it a statement, certified by a registered engineer or surveyor of the total number of miles of streets in such municipality. The Department of Transportation may in its discretion require the certification of mileage on a biennial basis."

Sec. 1.7. G.S. 136-44.2A reads as rewritten:

"**§ 136-44.2A. Secondary road construction.**

There shall be annually allocated out of the State Highway Fund to the Department of Transportation for secondary road construction programs developed pursuant to G.S. 136-44.7 and 136-44.8, a sum equal to that allocation made from the Highway Fund under G.S. 136-41.1(a). ~~Such secondary roads allocation shall be made in accordance with the provisions of G.S. 136-44.5.~~ In addition, as provided in G.S. 136-176(b)(4) and G.S. 20-85(b), revenue is annually allocated from the Highway Trust Fund for secondary road construction. Of the funds allocated from the Highway Fund and the Highway Trust Fund, the sum of sixty-eight million six hundred seventy thousand dollars ($68,670,000) shall be allocated among the counties in accordance with G.S. 136-44.5(b). All funds for secondary road construction in excess of that amount shall be allocated among the counties in accordance with G.S. 136-44.5(c)."

Sec. 1.8. G.S. 136-44.5 reads as rewritten:

"**§ 136-44.5. Secondary roads; mileage study; allocation of funds.**

(a) Before July 1, in each calendar year, the Department of Transportation shall make a study of all state-maintained unpaved roads in the State. The study shall determine the number of miles of unpaved state-maintained roads in each county, ~~and~~ the total number of miles of unpaved state-maintained roads in the ~~State.~~ State, the number of miles of unpaved state-maintained roads in each county that have a traffic vehicular equivalent of at least 50 vehicles a day, and the total number of miles of unpaved state-maintained roads in the State that have a traffic vehicular equivalent of at least 50 vehicles a day. Except for federal-aid programs, the Department shall allocate all secondary road construction funds on the basis of a formula using the study figures. ~~The allocation shall be~~

(b) The first sixty-eight million six hundred seventy thousand dollars ($68,670,000) shall be allocated as follows: Each county shall receive a percentage of ~~the total funds available for totally state-funded secondary road construction,~~ these funds, the percentage to be determined as a factor of the number of miles of unpaved state-maintained secondary roads in the county divided by the total number of miles of unpaved state-maintained secondary roads in the State.

(c) Funds allocated for secondary road construction in excess of sixty-eight million six hundred seventy thousand dollars ($68,670,000) shall be allocated to each county based on the percentage proportion that the number of miles in the county of state-maintained unpaved secondary roads with a traffic vehicular equivalent of at least 50 vehicles a day bears to the total number of miles in the State of state-maintained unpaved secondary roads with a traffic vehicular equivalent of at least 50 vehicles a day.

(d) Copies of the Department study of unpaved state-maintained secondary roads and copies of the individual county allocations shall be made available to newspapers having general circulation in each county."

Sec. 1.9. G.S. 136-44.7 reads as rewritten:

"**§ 136-44.7. Secondary roads; annual work program.**

(a) The Department of Transportation shall be responsible for developing criteria for improvements and maintenance of secondary roads. The criteria shall be adopted by the Board of Transportation before it shall become effective. The Department of Transportation shall be responsible for developing annual work programs for both construction and maintenance of secondary roads in each county in accordance with criteria developed. It shall reflect the long-range and immediate goals of the Department of Transportation. Projects on the annual construction program for each county shall be rated according to their priority based upon the secondary road criteria and standards which shall be uniform throughout the State. Tentative construction projects and estimated funding shall also be listed in accordance to priority. The annual construction program shall be adopted by the Board of Transportation before it shall become effective.

(b) When a secondary road in a county is listed in the first 10 secondary roads to be paved during a year on a priority list issued by the Department of Transportation under this section, the secondary road cannot be removed from the top 10 of that list or any subsequent list until it is paved. All secondary roads in a county shall be paved, insofar as possible, in the priority order of the list."

Sec. 1.10. G.S. 143B-350(f)(4) reads as rewritten:

"(4) To approve a schedule of all major transportation improvement projects and their anticipated cost for a period of seven years into the ~~future which shall be published in a single document along with a report of the progress accomplished in the past year and the anticipated funding sources for these projects;~~ future. This schedule is designated the Transportation Improvement Program; it must be published and copies must be available for distribution. The document that contains the Transportation Improvement Program, or a separate document that is published at the same time as the Transportation Improvement Program, must include the anticipated funding sources for the improvement projects included in the Program, a list of any changes made from the previous year's Program, and the reasons for the changes;".

Sec. 1.11. The Department of Transportation shall determine on which highways, bridges, and ferries it is economically feasible to collect tolls and shall report its findings to the General Assembly. If the Department finds it desirable to establish toll roads, bridges, or ferries, the Department shall include in its report any legislation needed to establish the toll roads, bridges, or ferries and to implement the collection of tolls, including the creation of a North Carolina Toll Authority.

Sec. 1.12. The Legislative Research Commission may study the long-range transportation needs of North Carolina. In conducting the study the Commission may consider the present and future transportation needs for vehicles, trucks, and passenger vehicles, the use and availability of railroad corridors, and the use and availability of high-speed traffic lanes. In addition the Commission may study alternative methods of transportation within a locality, such as a bikeway or sidewalk. The Commission shall further consider the impact that the Highway Trust Fund has on potential revenue sources for alternative transportation and whether the needs of alternative transportation can be met by either the Highway Fund or the Highway Trust Fund.

Sec. 1.13. G.S. 105-445 reads as rewritten:

"§ **105-445. Application of proceeds of gasoline tax.** ~~Except as provided in G.S. 105-446.2 and 136-41.1, the fund derived from the tax herein levied shall be for the exclusive uses of the purposes set out in this Article, and disbursed on vouchers drawn by the Board of Transportation in accordance with the acts of the General Assembly dealing with the subject matter herein referred to.~~ Seventy-five percent (75%) of the revenue collected under this Article shall be credited to the Highway Fund and the remaining twenty-five percent (25%) shall be credited to the Highway Trust Fund. A proportionate share of a refund allowed under this Article shall be charged to the Highway Fund and the Highway Trust Fund so that seventy-five percent (75%) of the amount of a refund is charged to the Highway Fund and twenty-five percent (25%) is charged to the Highway Trust Fund."

Sec. 1.14. G.S. 105-446.2(a) reads as rewritten:

"(a) The North Carolina Wildlife Resources Commission shall receive one eighth of one percent (1/8 of 1%) of the net proceeds of the taxes on motor fuels levied under G.S. 105-434 and deposited in the Highway Fund. This percentage amount ~~the same~~ shall be paid in accordance with the accounting periods as set forth under G.S. 105-440(a). As used in this section 'net proceeds' ~~shall mean the entire tax collected less one cent (1¢) per gallon nonrebatable tax required to be segregated by Chapter 1250 of the Session Laws of 1949, as amended by Chapter 46 of the Session Laws of 1965.~~ means the amount of tax deposited in the Highway Fund less the amount of any refunds charged to the Highway Fund."

Sec. 1.15. G.S. 105-449.16 reads as rewritten:

"§ **105-449.16. Levy of ~~tax; purposes; special provisions for certain nonanhydrous ethanol.~~ tax, application of tax proceeds, and exemption for nonanhydrous ethanol.**

"(a) A tax at the rate established pursuant to G.S. 105-434 is ~~hereby~~ imposed upon all ~~fuel sold or delivered by any supplier to any licensed user-seller, or used by any such supplier in any motor vehicle owned, leased or operated by him, or delivered by such supplier directly into the fuel supply tank of a motor vehicle, or imported by a user-seller into, or acquired tax free by a user-seller or user in this State for resale or use for the propulsion of a motor vehicle.~~ fuel:

(1) Sold or delivered by a supplier to a licensed user-seller;
(2) Used by a supplier in a motor vehicle owned, leased, or operated by the supplier;
(3) Delivered by a supplier directly into the fuel supply tank of a motor vehicle;
(4) Imported by a user-seller into this State, by a means other than carrying the fuel in a fuel supply tank of a motor vehicle, for resale or to propel a motor vehicle; or
(5) Acquired tax free by a user-seller or user in this State for resale or to propel a motor vehicle.

A supplier who consigns fuel to a reseller may elect to report and pay the tax due on the fuel when the reseller sells or dispenses the fuel instead of when the supplier delivers the fuel to the reseller. ~~For the purpose of this section, "imported" shall not include fuels brought into this State in the usual tank or receptacle connected with the engine of a motor vehicle.~~

The primary purposes of this levy and this Article are to provide a more efficient and effective method of collecting the tax now imposed and collected pursuant to G.S. 105-435, by providing for the collection of ~~said~~ the tax from the supplier instead of the user. ~~The tax herein provided for is levied for the same purposes as the tax provided for in G.S. 105-435. It is not intended that the tax collected pursuant to this~~

~~Article shall be in addition to that provided in G.S. 105-435, but the payment of the tax as provided by this Article shall be deemed conclusively to constitute a compliance with the provisions of G.S. 105-435. The tax levied in this section shall be subject to the provisions of section 13 of Chapter 1250 of the Session Laws of 1949, relating to G.S. 105- 435, in that one cent (1¢) of the amount of tax levied on each gallon shall be applied exclusively to the payment of the principal of and the interest on the two hundred million dollars ($200,000,000) State of North Carolina Secondary Road Bonds therein provided for and as further provided in said Chapter 1250 of the Session Laws of 1949.~~ The tax levied by this Article is in lieu of rather than in addition to the tax levied by G.S. 105-435; payment of the tax levied by this Article constitutes compliance with G.S. 105-435.

(b) ~~Repealed by Session Laws 1985, c. 261, s. 1, effective July 1, 1985.~~ The same percentage amounts of revenue collected under this Article shall be credited to the Highway Fund and to the Highway Trust Fund as are credited to those Funds under G.S. 105-445, and the same percentage amounts of refunds allowed under this Article shall be charged to the Highway Fund and to the Highway Trust Fund as are charged to those Funds under that statute.

(c) Nonanhydrous ethanol is exempt from the tax described in this section if that ethanol is not for sale or distribution."

Sec. 1.16. G.S. 105-449.43 reads as rewritten:

"**§ 105-449.43. ~~Taxes and fees to be paid to Highway Fund.~~ Application of tax proceeds.**

~~All taxes and fees collected under this Article shall be paid to the State Highway Fund.~~ The same percentage amounts of tax revenue collected under this Article shall be credited to the Highway Fund and to the Highway Trust Fund as are credited to those Funds under G.S. 105-445, and the same percentage amounts of refunds or credits allowed under this Article shall be charged to the Highway Fund and the Highway Trust Fund as are charged to those Funds under that statute."

Sec. 1.17. Notwithstanding G.S. 136-176(b), the sum of $11,000,000 for the 1989-90 fiscal year is appropriated from the Highway Trust Fund to the Department of Transportation for administrative expenses of the Trust Fund. This appropriation is in lieu of the allocation under G.S. 136-176(b).

Sec. 1.18. Article 2 of Chapter 136 of the General Statutes is amended by adding a new section to read:

"**§ 136-44.8. Contract requirements relating to construction materials.**

(a) The Department of Transportation shall require that every contract for construction or repair necessary to carry out the provisions of this Chapter shall contain a provision requiring that steel and cement used or supplied in the performance of the contract or any subcontract thereunder are produced in the United States.

(b) Subsection (a) shall not apply whenever the Department of Transportation determines in writing that this provision required by subsection (a) cannot be complied with because such products are not produced in the United States in sufficient quantities to meet the requirements of such contracts or cannot be complied with because the cost of such products produced in the United States unreasonably exceeds other such products.

(c) The Department of Transportation shall not authorize, provide for, or make payments to any person pursuant to any contract containing the provision required by subsection (a) unless such person has fully complied with such provision."

PART II.

INCREASE CERTIFICATE OF TITLE FEE/ALTERNATE TRANSPORTATION FUNDING.

Sec. 2.1. G.S. 20-85 reads as rewritten:

"§ **20-85. Schedule of fees.**

(a) Except as provided in G.S. 20-68, ~~there shall be paid to the Division for the issuance of certificates of title, transfer of registration and replacement of registration plates fees according to the following schedules:~~ the following fees concerning a certificate of title for a motor vehicle and registration of a motor vehicle shall be paid to the Division. These fees are in addition to the tax imposed by Article 5A of Chapter 105 of the General Statutes.

(1)	Each application for certificate of title	~~$5.00~~	$35.00
(2)	Each application for duplicate or corrected certificate of title	~~7.00~~	10.00
(3)	Each application of repossessor for certificate of title	~~5.00~~	10.00
(4)	Each transfer of registration	~~4.00~~	10.00
(5)	Each set of replacement registration plates	~~9.00~~	10.00
(6)	Each application for duplicate registration certificate	~~3.00~~	10.00
(7)	Each application for recording supplementary lien	~~3.00~~	10.00
(8)	Each application for removing a lien from a certificate of title	~~4.00~~	10.00.

(b) Six-sevenths of the revenue collected under subdivision (a)(1) of this section and all of the revenue collected under the other subdivisions in subsection (a) shall be credited to the North Carolina Highway Trust Fund; the remaining one-seventh of the revenue collected under subdivision (a)(1) shall be credited to the Highway Fund. One-half of the amount credited to the Trust Fund under subdivision (a)(1) shall be added to the amount allocated for secondary roads under G.S. 136-176 and used in accordance with G.S. 136-44.5."

Sec. 2.2. G.S. 20-85.1 reads as rewritten:

"§ **20-85.1. Registration by mail; one-day title service; fees.**

(a) The owner of a vehicle registered in North Carolina may renew that vehicle registration by mail. A postage and handling fee of one dollar ($1.00) per vehicle to be registered shall be charged for this service.

(b) The Commissioner and ~~such~~ the employees of the Division ~~as he may designate are hereby authorized to~~ designated by the Commissioner may prepare and deliver upon request a certificate of title, charging a fee of ~~twenty-five dollars ($25.00)~~ fifty dollars ($50.00) for one-day title service, in lieu of the title fee required by ~~G.S. 20-85.~~ G.S. 20-85(a). The fee for one-day title service must be paid by cash or by certified check."

Sec. 2.3. G.S. 136-44.20 is amended by adding a new subsection to read:

"(d) Of the amount appropriated to the Department each year for State construction under the Transportation Improvement Program, the Department may use up to five million dollars ($5,000,000) to develop economical transit alternatives to highway construction. These alternatives may include high occupancy vehicle lanes and rail routes."

PART III.
SALES TAX CHANGES.

Sec. 3.1. The first paragraph of G.S. 105-164.4(1) reads as rewritten:

"(1) At the rate of three percent (3%) of the sales price of each item or article of tangible property when sold at retail in this State, the tax to be computed on total net taxable sales as defined herein but for the purpose of computing the amount due the State each and every taxable retail sale, or retail sales upon which the tax has been collected, or the amount of tax actually collected, whichever be greater and whether or not erroneously collected, shall be included in the computation of tax due the State. Provided, however, that in the case of the sale of any aircraft, railway locomotive, railway car or the sale of any motor vehicle or boat, the tax shall be only at the rate of two percent (2%) of the sales price, but at no time shall the maximum tax with respect to any one such aircraft, railway locomotive, railway car or ~~motor vehicle or~~ boat, including all accessories attached thereto at the time of delivery thereof to the purchaser, be in excess of ~~three hundred dollars ($300.00)~~ one thousand five hundred dollars ($1,500) and at no time shall the maximum tax with respect to a motor vehicle, including all accessories attached when it is delivered to the purchaser, exceed three hundred dollars ($300.00)."

Sec. 3.2. G.S. 105-164.3 reads as rewritten:

"**§ 105-164.3. Definitions.**

The ~~words, terms and phrases when used in this Article shall have the meanings ascribed to them in this section~~ following definitions apply in this Article, except when the context clearly indicates a different meaning:

(1) 'Business' shall include any activity engaged in by any person or caused to be engaged in by him with the object of gain, profit, benefit or advantage, either direct or indirect. The term 'business' shall not be construed in this Article to include occasional and isolated sales or transactions by a person who does not hold himself out as engaged in business.

(2) ~~'Secretary' shall mean the Secretary of Revenue of the State of North Carolina.~~ Reserved.

(3) 'Consumer' shall mean and include every person storing, using or otherwise consuming in this State tangible personal property purchased or received from a retailer either within or without this State.

(4) 'Cost price' means the actual cost of articles of tangible personal property without any deductions therefrom on account of the cost of materials used, cash discounts, labor or service costs, transportation charges or any expenses whatsoever.

(5) 'Engaged in business' shall mean maintaining, occupying or using permanently or temporarily, directly or indirectly, or through a subsidiary or agent, by whatever name called, any office, place of distribution, sales or sample room or place, warehouse or storage place, or other place of business, for the selling or delivering of tangible personal property for storage, use or consumption in this State, or permanently or temporarily, directly or through a subsidiary, having any representative, agent, salesman, canvasser or solicitor operating in this State in such selling or delivering, and the fact that any corporate retailer, agent or subsidiary engaged in business in this State may not be legally domesticated or qualified to do business in this State shall be immaterial. It shall also mean the maintaining in this State, either permanently or temporarily, directly or through a subsidiary, tangible personal property for the purpose of lease or rental. It shall also mean making a mail order sale, as defined in subdivision (8a) of this section, if one of the conditions listed in G.S. 105-164.8(b) is met.

(6) 'Gross sales' means the sum total of all retail sales of tangible personal property as defined herein, whether for cash or credit without allowance for cash discount and without any deduction on account of the cost of the property sold, the cost of materials used, labor or service costs, interest paid or any other expenses whatsoever and without any deductions of any kind or character except as provided in this Article.

(7) 'In this (the) State' means within the exterior limits of the State of North Carolina and includes all territory within such limits owned by or ceded to the United States of America.

~~(8)~~(7a) 'Lease or rental' means the leasing or renting of tangible personal property and the possession or use thereof by the lessee or ~~rentee~~ renter for a consideration without transfer of the title of such property.

~~(8a)~~(8) 'Mail order sale' means a sale of tangible personal property, ordered by mail, telephone, computer link, or other similar method, to a purchaser who is in this State at the time the order is remitted, from a retailer who receives the order in another state and transports the property or causes it to be transported to a person in this State. It is presumed that a resident of this State who remits an order was in this State at the time the order was remitted.

(8a) 'Manufactured home' means a structure that is designed to be used as a dwelling and:

a. Is built on a permanent chassis;
b. Is transportable in one or more sections;
c. When transported, is at least eight feet wide or forty feet long; and
d. When erected on a site, has at least 320 square feet.

(8b) 'Motor vehicle' means any vehicle which is self-propelled and designed primarily for use upon the highways, any vehicle which is propelled by electric power obtained from trolley wires but not operated upon rails, and any vehicle designed to run upon the highways which is propelled by a self-propelled vehicle, but shall not include any implement of husbandry, farm tractor, road construction or maintenance machinery or equipment, special mobile equipment as defined in G.S. 20-4.01, ~~or~~ any vehicle designed primarily for use in work off the ~~highway.~~ highway, or a manufactured home.

(9) 'Net taxable sales' shall mean and include the gross retail sales of the business of the retailer taxed under this Article after deducting ~~therefrom~~ exempt sales and nontaxable sales.

(10) 'Nonresident retail or wholesale merchant' means a person who does not have a place of business in this State, is engaged in the business of acquiring, by purchase, consignment, or otherwise, tangible personal property and selling the property outside the State, and is registered for sales and use tax purposes in a taxing jurisdiction outside the State.

(11) 'Person' includes any individual, firm, copartnership, joint venture, association, corporation, estate, trust, business trust, receiver, syndicate or other group, or combination acting as a unit, body politic, or political subdivision, whether public or private or quasi-public and the plural as well as the singular number.

(12) 'Purchase' means acquired for a consideration whether

a. ~~Such~~ The acquisition was effected by a transfer of title or possession, or both, or a license to use or consume;

b. ~~Such transfer shall have been~~ The transfer was absolute or conditional ~~and by whatever means it shall have been~~ regardless of the means by which it was effected; and

c. ~~Such~~ The consideration ~~be~~ is a price or rental in money or by way of exchange or barter.

It shall also include the procuring of a retailer to erect, install or apply tangible personal property for use in this State.

(13) 'Retail' shall mean the sale of any tangible personal property in any quantity or quantities for any use or purpose on the part of the purchaser other than for resale.

(14) 'Retailer' means and includes every person engaged in the business of making sales of tangible personal property at retail, either within or without this State, or peddling the same or soliciting or taking orders for sales, whether for immediate or future delivery, for storage, use or consumption in this State and every manufacturer, producer or contractor engaged in business in this State and selling, delivering, erecting, installing or applying tangible personal property for use in this State notwithstanding that said property may be permanently affixed to a building or realty or other tangible personal property. 'Retailer' also means a person who makes a mail order sale, as defined in ~~subdivision (8a) of~~ this section, if one of the conditions listed in G.S. 105-164.8(b) is met. Provided, however, that when in the opinion of the Secretary it is necessary for the efficient administration of this Article to regard any salesmen, solicitors, representatives, consignees, peddlers, truckers or canvassers as agents of the dealers, distributors, consignors, supervisors, employers or persons under whom they operate or from whom they obtain the tangible personal property sold by them regardless of whether they are making sales on their own behalf or on behalf of such dealers, distributors, consignors, supervisors, employers or persons, the Secretary may so regard them and may regard the dealers, distributors, consignors, supervisors, employers or persons as 'retailers' for the purpose of this Article.

(15) 'Sale' or 'selling' shall mean any transfer of title or possession, or both, exchange, barter, lease, license to use or consume, or rental of tangible personal property, conditional or otherwise, in any manner or by any means whatsoever, however effected and by whatever name called, for a consideration paid or to be paid, and includes the fabrication of tangible personal property for consumers by persons engaged in business who furnish either directly or indirectly the materials used in the fabrication work, and the furnishing, preparing, or serving for a consideration of any tangible personal property consumed on the premises of the person furnishing, preparing, or serving such tangible personal property or consumed at the place at which such property is prepared, served or sold. A transaction whereby the possession of the property is transferred but the seller retains title or security for the payment of the price shall be deemed a sale.

(16) Except as provided in paragraph f., 'sales price' means the total amount for which tangible personal property is sold including charges for any services that go into the fabrication, manufacture or delivery of such tangible personal property and that are a part of the sale valued in money whether paid in money or otherwise and includes any amount for which credit is given to the purchaser by the seller without any deduction therefrom on account of the cost of the property sold, the cost of materials used, labor or service costs, interest charged, losses or any other expenses whatsoever. Provided, however, that where a manufacturer, producer or contractor erects, installs or affixes tangible personal property upon real property pursuant to a construction or performance-type contract with or for the benefit of the owner of such real property, the sales price shall be the cost of such property to the manufacturer, producer or contractor performing the contract. Provided, further:

a. The cost for labor or services rendered in erecting, installing or applying property sold when separately charged shall not be included as a part of the 'sales price';

b. Finance charges, service charges or interest from credit extended under conditional sales contracts or other conditional contracts providing for deferred payments of the purchase price shall not be considered a part of the 'sales price' when separately charged;

c. 'Sales price' shall not include the amount of any tax imposed by the United States upon or with respect to retail sales whether imposed upon the retailer or consumer except that any manufacturers' or importers' excise tax shall be included in the term.

d. 'Sales price' shall not include any amounts charged as deposits on beverage containers which are returnable to vendors for reuse and which amounts are refundable or creditable to vendees, whether or not said deposits are separately charged.

e. 'Sales price' shall not include amounts charged as deposits on automotive, industrial, marine and farm replacement parts which are returnable to vendors for rebuilding or remanufacturing and which amounts are refundable or creditable to vendees, whether or not such deposits are separately charged. This subsection shall not be construed to include tires and batteries.

f. The sales price of tangible personal property sold through a coin-operated vending machine, other than closed-container soft drinks subject to excise tax under Article 2B of this Chapter or tobacco products, is considered to be fifty percent (50%) of the total amount for which the property is sold in the vending machine.

<u>(16a)</u> <u>'Secretary' means the Secretary of the North Carolina Department of Revenue.</u>

(17) 'Storage' means and includes any keeping or retention in this State for any purpose by the purchaser thereof, except sale in the regular course of business, of tangible personal property purchased from a retailer.

(18) 'Use' means and includes the exercise of any right or power or dominion whatsoever over tangible personal property by a purchaser thereof and includes, but is not limited to, any withdrawal from storage, installation, affixation to real or personal property, exhaustion or consumption of tangible personal property by the owner or purchaser thereof, but shall not include the sale of tangible personal property in the regular course of business.

(19) 'Storage' and 'Use'; Exclusion. -- 'Storage' and 'use' do not include the keeping, retaining or exercising of any right or power over tangible personal property by the purchaser thereof for the original purpose of subsequently transporting it outside the State for use by said purchaser thereafter solely outside the State and which purpose is consummated, or for the purpose of being processed, fabricated or manufactured into, attached to or incorporated into, other tangible personal property to be transported outside the State and thereafter used by the purchaser thereof solely outside the State.

(20) 'Tangible personal property' means and includes personal property which may be seen, weighed, measured, felt or touched or is in any other manner perceptible to the senses. The term 'tangible personal property' shall not include stocks, bonds, notes, insurance or other obligations or securities, nor shall it include water delivered by or through main lines or pipes either for commercial or domestic use or consumption. The term includes all 'canned' or prewritten computer programs, either in the form of written procedures or in the form of storage media on which or in which the program is recorded, held, or existing for general or repeated sale, lease, or license to use or consume. The term does not include the design, development, writing, translation, fabrication, lease, license to use or consume, or transfer for a consideration of title or possession of a custom computer program, other than a basic operational program, either in the form of written procedures or in the form of storage media on which or in which the program is recorded, or any required documentation or manuals designed to facilitate the use of the custom computer program.

As used in this subdivision:

a. 'Basic operational program' or 'control program' means a computer program that is fundamental and necessary to the functioning of a computer. A basic operational program is that part of an operating system, including supervisors, monitors, executives, and control or master programs, which consists of the control program elements of that system. A control or master program, as opposed to a processing program, controls the operation of a computer by managing the allocation of all system resources, including the central processing unit, main storage, input/output devices, and processing programs. A processing program is used to develop and implement the specific applications the computer is to perform.

b. 'Computer program' means the complete plan for the solution of a problem, such as the complete sequence of automatic data-processing equipment instructions necessary to solve a problem, and includes both systems and application programs and subdivisions, such as assemblers, compilers, routines, generators, and utility programs.

c. 'Custom computer program' means a computer program prepared to the special order of the customer. Custom computer programs include one of the following elements:

1. Preparation or selection of the programs for the customer's use requires an analysis of the customer's requirements by the vendor; or

2. The program requires adaptation by the vendor to be used in a particular make and model of computer utilizing a specified output device.

d. 'Storage media' means punched cards, tapes, disks, diskettes, or drums.

(21) 'Taxpayer' means any person liable for taxes under this Article.

(22) 'Use tax' means and includes the tax imposed by Part 3 in Division II of this Article.

(23) 'Wholesale merchant' shall mean every person who engages in the business of buying or manufacturing any tangible personal property and selling same to registered retailers, wholesalers and nonresident retail or wholesale merchants for resale. It shall also include persons making sales of tangible personal property which are defined herein as wholesale sales. For the purposes of this Article any person, firm, corporation, estate or trust engaged in the business of manufacturing, producing, processing or blending any articles of commerce and maintaining a store or stores, warehouse or warehouses, or any other place or places, separate and apart from the place of manufacture or production, for the sale or distribution of its products (other than bakery products) to other manufacturers or producers, wholesale or retail merchants, for the purpose of resale shall be deemed a 'wholesale merchant.'

(24) 'Wholesale sale' shall mean a sale of tangible personal property by a wholesale merchant to a manufacturer, or registered jobber or dealer, or registered wholesale or retail merchant, for the purpose of resale but does not include a sale to users or consumers not for resale.

(25) 'Utility' means an electric power company, a gas company, or a telephone company that is subject to a privilege tax based on gross receipts under G.S. 105-116 or 105-120, a business entity that provides local, toll or private telecommunications service as defined by G.S. 105-120(a) or a municipality that sells electric power, other than a municipality whose only wholesale supplier of electric power is a federal agency and who is required by a contract with that federal agency to make payments in lieu of taxes."

Sec. 3.3. G.S. 105-164.4 reads as rewritten:

"**§ 105-164.4.** ~~**Imposition of tax; retailer.**~~ **<u>Tax imposed on retailers.</u>**

~~There is hereby levied and imposed, in addition to all other taxes of every kind now imposed by law, a privilege or license tax upon every person who engages in the business of selling tangible personal property at retail, renting or furnishing tangible personal property or the renting and furnishing of rooms, lodgings and accommodations to transients, in this State, the same to be collected and the amount to be determined by the application of the following rates against gross sales and rentals, to wit:~~

~~(1) At the rate of three percent (3%) of the sales price of each item or article of tangible property when sold at retail in this State, the tax to be computed on total net taxable sales as defined herein but for the purpose of computing the amount due the State each and every taxable retail sale, or retail sales upon which the tax has been collected, or the amount of tax actually collected, whichever be greater and whether or not erroneously collected, shall be included in the computation of tax due the State. Provided, however, that in the case of the sale of any aircraft, railway locomotive, railway car or the sale of any motor vehicle or boat, the tax shall be only at the rate of two percent (2%) of the sales price, but at no time shall the maximum tax with respect to any one such aircraft, railway locomotive, railway car or motor vehicle or boat, including all accessories attached thereto at the time of delivery thereof to the purchaser, be in excess of three hundred dollars ($300.00).~~

~~The separate sale of a new motor vehicle chassis and a new motor vehicle body to be installed thereon, whether by the same retailer or by different retailers shall be subject only to the tax herein prescribed with respect to a single motor vehicle. No tax shall be imposed upon a body mounted on the chassis of a motor vehicle which temporarily enters the State for the purpose of having such body mounted thereon by the manufacturer thereof.~~

~~Notwithstanding G.S. 105-164.3(16) and regardless whether the seller is a retailer of motor vehicles, the sales price of a motor vehicle is the gross sales price of the motor vehicle less any allowance given for a motor vehicle taken in trade as part of the consideration for the purchased motor vehicle.~~

~~The tax levied under this section applies to all retail sales of motor vehicles regardless whether the seller is engaged in business as a retailer of motor vehicles or whether a tax on the sale of the vehicle has previously been paid under this Article. A purchaser of a motor vehicle from a retailer shall pay the tax imposed under this Article to the retailer, who is liable for collecting and remitting the tax to the Secretary. A purchaser of a motor vehicle is liable for payment of the tax imposed by this Article if the seller is not a retailer. The purchaser shall pay the tax to the Commissioner of Motor Vehicles when applying for a certificate of title for the vehicle. When property is transferred by an individual to a partnership or corporation, and no gain or loss arises as provided by Section 351 or Section 721 of the Code, such transfer is not a sale for the purpose of this subdivision if the transfer is incident to the organization of the partnership or corporation.~~

~~When applying for a certificate of title, a purchaser of a motor vehicle from a seller who is not a retailer shall certify in writing the sales price of the purchased motor vehicle. A purchaser who knowingly makes a false certification of the sales price is guilty of a misdemeanor.~~

~~The Commissioner of Motor Vehicles may not issue a certificate of title for a motor vehicle sold by a seller who is not a retailer unless the tax imposed by this section is paid when the purchaser of the vehicle applies for a certificate of title. The Commissioner shall remit taxes collected by him under this subsection to the Secretary.~~

~~Persons who lease or rent motor vehicles shall collect and remit the tax imposed by this Article on the separate retail sale of a motor vehicle in addition to the tax imposed on the proceeds from the lease or rental of the motor vehicle.~~

(a) A privilege tax is imposed on a retailer at the following percentage rates of the retailer's net taxable sales, or gross receipts from the lease or rental of tangible personal property, as appropriate:

(1) At the rate of three percent (3%) of the sales price of each item or article of tangible personal property that is sold at retail and is not subject to tax under another subdivision in this section.

(1a) At the rate of two percent (2%) of the sales price of each manufactured home sold at retail, including all accessories attached to the manufactured home when it is delivered to the purchaser, not to exceed three hundred dollars ($300.00). Each section of a manufactured home that is transported separately to the site where it is to be erected is a separate article.

(1b) At the rate of two percent (2%) of the sales price of each aircraft, boat, railway car, or locomotive sold at retail, including all accessories attached to the item when it is delivered to the purchaser.

~~Provided further, the tax shall be only at~~

(1c) At the rate of one percent (1%) of the sales price on the following items:

a. Horses or mules by whomsoever sold.

b. Semen to be used in the artificial insemination of animals.

c. Sales of fuel, other than electricity or piped natural gas, to farmers to be used by them for any farm purposes other than preparing food, heating dwellings and other household purposes. The quantity of fuel purchased or used at any one time shall not in any manner be a determinative factor as to whether any sale or use of fuel is or is not subject to the one percent (1%) rate of tax imposed herein.

d. Sales of fuel, other than electricity or piped natural gas, to manufacturing industries and manufacturing plants for use in connection with the operation of such industries and plants other than sales of fuels to be used for residential heating purposes. The quantity of fuel purchased used at any one time shall not in any manner be a determinative factor as to whether any sale or use of fuel is or is not subject to the one percent (1%) rate of tax imposed herein.

e. Sales of fuel, other than electricity or piped natural gas, to commercial laundries or to pressing and dry-cleaning establishments for use in machinery used in the direct performance of the laundering or the pressing and cleaning service.

f. Sales to freezer locker plants of wrapping paper, cartons and supplies consumed directly in the operation of such plant.

~~Provided further, the tax shall be only at~~

(1d) At the rate of one percent (1%) of the sales price, subject to a maximum tax of eighty dollars ($80.00) per article, on the following items:

~~g.~~ a. Sales of machines and machinery, whether animal or motor drawn or operated, and parts and accessories for such machines and machinery to farmers for use by them in the planting, cultivating, harvesting or curing of farm crops, and sales of machines and machinery and parts and accessories for such machines and machinery to dairy operators, poultry farmers, egg producers, and livestock farmers for use by them in the production of dairy products, poultry, eggs or livestock, except such machines, machinery, equipment, parts, and accessories that come within the provisions of G.S. 105-164.13(4c).

The term 'machines and machinery' as used in this subdivision is defined as follows:

The term shall include all vehicular implements, designed and sold for any use defined in this subdivision, which are operated, drawn or propelled by motor or animal power, but shall not include vehicular implements which are operated wholly by hand, and shall not include any motor vehicles required to be registered under Chapter 20 of the General Statutes.

The term shall include all nonvehicular implements and mechanical devices designed and sold for any use defined in this subdivision, which have moving parts, or which require the use of any motor or animal power, fuel, or electricity in their operation but shall not include nonvehicular implements which have no moving parts and are operated wholly by hand.

The term shall also include metal flues sold for use in curing tobacco, whether such flues are attached to handfired furnaces or used in connection with mechanical burners.

~~h.~~ b. Sales of mill machinery or mill machinery parts and accessories to manufacturing industries and plants, and sales to contractors and subcontractors purchasing mill machinery or mill machinery parts and accessories for use by them in the performance of contracts with manufacturing industries and plants, and sales to subcontractors purchasing mill machinery or mill machinery parts and accessories for use by them in the performance of contracts with general contractors who have contracts with manufacturing industries and plants. As used in this paragraph, the term 'manufacturing industries and plants' does not include delicatessens, cafes, cafeterias, restaurants, and other similar retailers that are principally engaged in the retail sale of foods prepared by them for consumption on or off their premises.

~~i.~~ c. Sales of central office equipment and switchboard and private branch exchange equipment to telephone companies regularly engaged in providing telephone service to subscribers on a commercial basis, and sales to these companies of prewritten computer programs used in providing telephone service to their subscribers.

~~j.~~ d. Sales to commercial laundries or to pressing and dry cleaning establishments of machinery used in the direct performance of the laundering or the pressing and cleaning service and of parts and accessories thereto.

~~k.~~ e. Sales to freezer locker plants of machinery used in the direct operation of said freezer locker plant and of parts and accessories thereto.

~~l.~~ f. Sales of broadcasting equipment and parts and accessories thereto and towers to commercial radio and television companies which are under the regulation and supervision of the Federal Communications Commission.

~~m.~~ g. Sales to farmers of bulk tobacco barns and racks and all parts and accessories thereto and similar apparatus used for the curing and drying of any farm produce.

~~n. Repealed by Session Laws 1983, c. 805, s. 2, effective July 1, 1983.~~

~~o.~~ h. Sales to farmers of grain, feed or soybean storage facilities and accessories thereto, whether or not dryers are attached, and all similar apparatus and accessories thereto for the storage of grain, feed or soybeans.

~~p. Repealed by Session Laws 1983, c. 805, s. 2,effective July 1, 1983.~~

~~q.~~ i. Sales of containers to farmers or producers for use in the planting, producing, harvesting, curing, marketing, packaging, sale, or transporting or delivery of their products when such containers do not go with and become part of the sale of their products at wholesale or retail.

(2) At the ~~rate of three percent (3%) of the gross proceeds derived from the lease or rental of tangible personal property as defined herein, where the lease or rental of such property is an established business, or the same is incidental or germane to said business; except that whenever a rate of less than three percent (3%) is applicable to a sale of property which is leased or rented, the lower rate of tax shall be due on such lease or rental proceeds.~~ applicable percentage rate of the gross receipts derived from the lease or rental of tangible personal property by a person who is engaged in the business of leasing or renting tangible personal property, or is a retailer and leases or rents property of the type sold by the retailer. The applicable percentage rate is the rate and the maximum tax, if any, that applies to a sale of the property that is leased or rented. A person who leases or rents property shall also collect the tax imposed by this section on the separate retail sale of the property.

(3) Operators of hotels, motels, tourist homes, tourist camps, and similar type businesses and persons who rent private residences and cottages to transients are considered retailers under this Article. There is levied upon every such retailer a tax of three percent (3%) of the gross receipts derived from the rental of any ~~room or~~ rooms, lodgings, or accommodations furnished to transients for a consideration. This tax does not apply to any private residence or cottage that is rented for less than 15 days in a calendar year or to any room, lodging, or accommodation supplied to the same person for a period of 90 or more continuous days.

As used in this subdivision, the term 'persons who rent to transients' means (i) owners of private residences and cottages who rent to transients and (ii) rental agents, including 'real estate brokers' as defined in G.S. 93A-2, who rent private residences and cottages to transients on behalf of the owners. If a rental agent is liable for the tax imposed by this subdivision, the owner is not liable.

(4) Every person, firm or corporation engaged in the business of operating a pressing club, cleaning plant, hat-blocking establishment, dry-cleaning plant, laundry (including wet or damp wash laundries and businesses known as launderettes and launderalls), or any ~~similar-type~~ similar business, or engaged in the business of renting clean linen or towels or wearing apparel, or any ~~similar-type~~ similar business, or engaged in the business of soliciting cleaning, pressing, hat blocking, laundering or rental business for any of the aforenamed businesses, shall be considered 'retailers' for the purposes of this Article. There is hereby levied upon every such person, firm or corporation a tax of three percent (3%) of the gross receipts derived from services rendered in engaging in any of the occupations or businesses named in this subdivision, and every person, firm or corporation subject to the provisions of this subdivision shall register and secure a license in the manner hereinafter provided in this section, and, insofar as practicable, all other provisions of this Article shall be applicable with respect to the tax herein provided for. The tax imposed by this subdivision does not apply to receipts derived from coin or token-operated washing machines, extractors, and dryers. The taxes levied in this subdivision are additional privilege or license taxes for the privilege of engaging in the occupations or businesses named herein. Any person, firm or corporation engaged in cleaning, pressing, hat blocking, laundering for, or supplying clean linen or towels or wearing apparel to, another person, firm or corporation engaged in soliciting shall not be required to pay the three percent (3%) tax on its gross receipts derived through such solicitor, if the soliciting person, firm or corporation has registered with the Department, secured the license hereinafter required and has paid the tax at the rate of three percent (3%) of the total gross receipts derived from business solicited.

(4a) At the rate of three percent (3%) of the gross receipts derived by a utility from sales of electricity, piped natural gas, or local telecommunications service as defined by G.S. 105-120(a). A person who operates a utility is considered a retailer under this Article.

(4b) A person who sells tangible personal property at a flea market, other than his own household personal property, is considered a retailer under this Article. A tax is levied on that person at the rate of three percent (3%) of the sales price of each article sold by him at the flea market. A person who leases or rents space at a flea market may not lease or rent this space unless the retailer requesting to rent or lease the space furnishes evidence that he has obtained the license required by this Article. A person who leases or rents space at a flea market shall keep records of retailers to whom he has leased or rented space at the market. As used in this subdivision, the term 'flea market' means a place where space is rented to a person for the purpose of selling tangible personal property.

(4c) At the rate of six and one-half percent (6 1/2%) of the gross receipts derived from providing toll telecommunications services or private telecommunications services as defined by G.S. 105-120(a) that both originate from and terminate in the State which are not subject to the privilege tax under G.S. 105-120. Any business entity that provides the service outlined above is considered a retailer under this Article. This subdivision shall not apply to telephone membership corporations as described in Chapter 117 of the General Statutes.

~~(5)~~ <u>(b)</u> The ~~said~~ tax <u>levied in this section</u> shall be collected from the retailer ~~as defined herein~~ and paid by him at the time and in the manner as hereinafter provided. Provided, however, that any person engaging or continuing in business as a retailer shall pay the tax required on the net taxable sales of such business at the rates specified when proper books are kept showing separately the gross proceeds of taxable and nontaxable sales of tangible personal property in such form as may be accurately and conveniently checked by the Secretary or his duly authorized agent. If such records are not kept separately the tax shall be paid as a retailer on the gross sales of business and the exemptions and exclusions provided by this Article shall not be allowed. ~~(6)~~ The tax ~~so~~ levied <u>in this section</u> is ~~and shall be~~ in addition to all other taxes whether levied in the form of excise, license or privilege or other taxes.

~~(7)~~ <u>(c)</u> Any person who ~~shall engage or continue~~ <u>engages or continues</u> in any business for which a privilege tax is imposed by this Article shall immediately after July 1, 1979, apply for and obtain from the Secretary upon payment of the sum of five dollars ($5.00) a license to engage in and conduct such business upon the condition that ~~such~~ <u>the</u> person shall pay the tax accruing to the State ~~of North Carolina under the provisions of this Article and he~~ <u>under this Article; the person</u> shall thereby be duly licensed and registered to engage in and conduct such business. Except as hereinafter provided, a license issued under this subsection shall be a continuing license until revoked for failure to comply with the provisions of this Article. However, any person who has heretofore applied for and obtained ~~such~~ <u>the</u> license, ~~and such~~ <u>if the</u> license was in force and effect as of July 1, 1979, shall not be required to apply for and obtain a new license.

Any person who ~~shall cease~~ <u>ceases</u> to be engaged in any business for which a privilege tax is imposed by this Article, and who ~~shall remain~~ <u>remains</u> continuously out of business for a period of five years shall apply for and obtain a new license from the Secretary upon the payment of a tax of five dollars ($5.00), and any license previously issued under this section shall be ~~null, void and of no effect.~~ <u>void.</u> The burden of proof after such period shall be upon the taxpayer to show that he did engage in such ~~activity~~ <u>business</u> within the period, and that no new license is required.

A retailer who sells tangible personal property at a flea market shall conspicuously display his sales tax license when making sales at the flea market."

Sec. 3.4. G.S. 105-164.6 reads as rewritten:

"**§ 105-164.6. Imposition of tax.**

~~An excise tax is hereby levied and imposed on the storage, use or consumption in this State of tangible personal property purchased within and without this State for storage, use or consumption in this State, the same to be collected and the amount to be determined by the application of the following rates:~~

~~(1) At the rate of three percent (3%) of the cost price of each item or article of tangible personal property when the same is not sold but~~

~~used, consumed, distributed or stored for use or consumption in this State; except that, whenever a rate of less than three percent (3%) is applicable under the sales tax schedule set out in G.S. 105-164.4 to the sale at retail of an item or article of tangible personal property, the same rate, and maximum tax if any, shall be used in computing any use tax due under this subdivision. The separate sale of a new motor vehicle chassis and a new motor vehicle body to be installed thereon, whether by the same retailer or by different retailers, shall be subject only to the tax herein prescribed with respect to a single motor vehicle.~~

(a) An excise tax at the following percentage rates is imposed on the storage, use, or consumption in this State of tangible personal property purchased inside or outside the State for storage, use, or consumption in the State:

(1) At the applicable percentage rate of the cost price of each item or article of tangible personal property that is stored, used, or consumed in this State. The applicable percentage rate is the rate and the maximum tax, if any, that applies to a sale of the property that is stored, used, or consumed.

(2) At the ~~rate of three percent (3%) of the monthly lease or rental price paid by the lessee or rentee, or contracted or agreed to be paid by the lessee or rentee, to the owner of the tangible personal property; except that, whenever a rate of less than three percent (3%) is applicable under the sales tax schedule set out in G.S. 105-164.4 to the sale at retail of an item or article of tangible personal property, then the same rate, and maximum tax if any, shall be used in computing any use tax due under this subdivision.~~ applicable percentage rate of the monthly lease or rental price paid, contracted, or agreed to be paid by the lessee or renter to the owner of tangible personal property that is stored, used, or consumed in this State. The applicable percentage rate is the rate and the maximum tax, if any, that applies to a lease or rental of the property that is stored, used, or consumed.

~~(3)~~ (b) There is hereby levied and there shall be collected from every person, firm, or corporation, an excise tax of three percent (3%) of the purchase price of all tangible personal property purchased or used which shall enter into or become a part of any building or other kind of structure in this State, including all materials, supplies, fixtures and equipment of every kind and description which shall be annexed thereto or in any manner become a part thereof. ~~Said~~ The tax shall be levied against the purchaser of such property. Provided, that where the purchaser is a contractor, the contractor and owner shall be jointly and severally liable for ~~said~~ the tax, but the liability of the owner shall be deemed satisfied if before final settlement between them the contractor furnishes to the owner an affidavit certifying that ~~said~~ the tax has been paid. Provided further, that where the purchaser is a subcontractor, the contractor and subcontractor shall be jointly and severally liable for ~~said~~ the tax, but the liability of the contractor shall be deemed satisfied if before final settlement between them the subcontractor furnishes to the contractor an affidavit certifying that ~~said~~ the tax has been paid.

~~(3a) Every person, firm, or corporation that purchases or acquires a motor vehicle shall pay a tax at the rate of two percent (2%) of the sales price of the vehicle, not to exceed three hundred dollars ($300.00) per vehicle. This tax shall be paid to the Commissioner of Motor Vehicles when applying for a certificate of title or registration plate for the vehicle. A purchaser who furnishes to the Commissioner of Motor Vehicles a certificate from a retailer of motor vehicles engaged in business in~~

~~this State stating that the purchaser has paid the tax levied on the vehicle by this Article to the retailer is relieved of liability for the tax. No certificate of title, or registration and license plate or plates shall be issued for any motor vehicle purchased or acquired for use on the streets and highways of this State unless and until the tax provided for under this Article on motor vehicles has been paid. Nothing herein is intended to relieve any retailer of motor vehicles engaged in business in this State from his liability for collecting and remitting sales or use tax on his sales of motor vehicles for use by the purchasers thereof in this State and no retailer shall be absolved of this liability for his failure to collect the tax from such purchasers. The Commissioner of Motor Vehicles shall remit use taxes collected by him under this subdivision to the Secretary.~~

~~The tax levied under this section applies to all owners of motor vehicles, regardless whether the owner purchased or acquired the vehicle from a retailer of motor vehicles and regardless whether a tax has previously been paid under this Article with respect to the vehicle.~~

~~An owner of a motor vehicle acquired from a seller who is not a retailer shall certify the sales price of the vehicle as provided in G.S. 105-164.4(1).~~

~~Persons who lease or rent motor vehicles shall collect and remit the tax imposed by this Article on the separate retail sale of a motor vehicle in addition to the tax imposed on the proceeds from the lease or rental of the motor vehicle.~~

~~(4)~~ (c) Where a retail sales tax has already been paid with respect to ~~said~~ tangible personal property in this State by the purchaser thereof, ~~said~~ the tax shall be credited upon the tax imposed by this Part. Where a retail sales and use tax is due and has been paid with respect to ~~said~~ tangible personal property in another state by the purchaser ~~thereof~~ for storage, use or consumption in this State, ~~said~~ the tax shall be credited upon the tax imposed by this Part. If the amount of tax paid to another state is less than the amount of tax imposed by this Part, the purchaser shall pay to the Secretary an amount sufficient to make the tax paid to the other state and this State equal to the amount imposed by this Part. The Secretary of Revenue shall require such proof of payment of tax to another state as he deems ~~to be necessary and proper.~~ necessary. No credit shall be given under this ~~subdivision~~ subsection for sales or use taxes paid in another state if that state does not grant similar credit for sales taxes paid in North Carolina.

~~(5)~~ (d) Every person storing, using or otherwise consuming in this State tangible personal property purchased or received at retail either within or without this State shall be liable for the tax imposed by this Article and the liability shall not be extinguished until the tax has been paid to this State. Provided, however, that a receipt from a registered retailer engaged in business in this State given to the purchaser in accordance with the provisions of this Article shall be **prima facie** sufficient to relieve the purchaser from liability for the tax to which such receipt may refer and the liability of the purchaser shall be extinguished upon payment of the tax by any retailer from whom he has purchased ~~said~~ the property.

~~(6)~~ (e) Except as provided herein the tax so levied is and shall be in addition to all other taxes whether levied in the form of excise, license, privilege or other taxes.

~~(7)~~ (f) Every retailer engaged in business in this State selling or delivering tangible personal property for storage, use or consumption in this State shall immediately after July 1, 1979, apply for and obtain from the Secretary upon the payment of the sum of five dollars ($5.00) a license to engage in and conduct such business upon the condition that such person shall pay the tax accruing to the State of North Carolina under the provisions of this Article, and he shall thereby be duly licensed and registered to engage in and conduct such business. Except as hereinafter provided, a license issued under this subsection shall be a continuing license until revoked for failure to comply with the provisions of this Article. However, any person who has heretofore applied for and obtained such license, and such license was in force and effect as of July 1, 1979, shall not be required to apply for and obtain a new license.

Any person who ~~shall cease~~ ceases to be engaged in any business for which a tax is imposed by this Article, and who ~~shall remain~~ remains continuously out of business for a period of five years shall apply for and obtain a new license from the Secretary upon the payment of a tax of five dollars ($5.00), and any license previously issued under this section shall be ~~null, void and of no effect.~~ void. The burden of proof after such period shall be upon the taxpayer to show that he did engage in such activity within the period, and that no new license is required.

~~(8)~~ (g) Notwithstanding any other provisions of this Article, a use tax, at the applicable use tax rate, as hereinbefore provided, is hereby levied upon the storage or use in this State of any motor vehicles, machines, machinery, tools or other equipment brought, imported or caused to be brought into this State for use in constructing, building or repairing any building, highway, street, sidewalk, bridge, culvert, sewer or water system, drainage or dredging system, railway system, reservoir or dam, hydraulic or power plant, transmission line, tower, dock, wharf, excavation, grading or other improvement or structure, or any part thereof. The owner or, if the property is leased the lessee of any such motor vehicle, machine, machinery, tools or other equipment shall be liable for the tax provided for in this paragraph, to be computed as set out below. The useful life of such motor vehicles, machines, tools or other equipment shall be determined by the Secretary in accordance with the experience and practices of the building and construction trades. Said use tax shall be computed on the basis of such proportion of the original purchase price of such property as the duration of time of use in this State bears to the total useful life thereof. Such tax shall become due immediately upon such property being brought into this State, and in the absence of satisfactory evidence as to the period of use intended in this State, it shall be presumed that such property will remain in this State for the remainder of its useful life.

A credit is allowed against the tax imposed on the use of property under this subsection for any retail sales or use tax paid on the property to another state. The amount of the credit allowed is the proportion of the sales or use tax paid as the time of use in this State bears to the total useful life of the property. A credit is also allowed against the local use taxes imposed in this State for any local retail sales or use tax paid on the property to a locality in another state. The amount of the credit allowed is the proportion of the local sales or use tax paid as the time of use in this State bears to the total useful life of the property. No credit is allowed, however, if the state to which, or in which a locality to which, a retail sales or use tax was paid does not allow a similar credit or grant an exemption for property brought into that state from this State. ~~All provisions of this Article not directly in conflict with the provisions of this paragraph shall be applicable with respect to the matters herein set forth. The provisions of this paragraph shall not be applicable with respect to sales of such property within this State or to the use, storage or consumption of such property when purchased for use in this State, and in such cases the full sales or use tax shall be paid as in all other cases, irrespective of the period of intended use in this State.~~

This subsection does not apply to sales of property in this State or to the use, storage, or consumption of property when purchased for use in this State. In these cases, the full sales or use tax, or the privilege tax levied by Article 5A of this Chapter, as appropriate, shall be paid. For purposes of this subsection, the use tax rate of tax on a motor vehicle is considered to be three percent (3%), not to exceed the maximum tax set in G.S. 105-167(a). All provisions of this Article, including the administrative provisions, apply to the tax imposed by this subsection unless they directly conflict with this subsection."

Sec. 3.5. G.S. 105-164.13(16) reads as rewritten:

"(16) Sales of used articles ~~other than motor vehicles~~ taken in trade, or a series of trades, as a credit or part payment on the sale of a new ~~article, provided the tax levied in this Article is paid on the gross sales price of the new article. In the interpretation of this subsection, new article shall be taken to mean~~ article. 'New article' means the original stock in trade of the ~~merchant~~ merchant, and ~~shall~~ is not ~~be~~ limited to newly manufactured articles. The resale of articles ~~other than motor vehicles,~~ repossessed by the vendor shall likewise be exempt from gross sales taxable under this Article."

Sec. 3.6. G.S. 105-164.13(32) reads as rewritten:

"(32) Sales of motor vehicles, the separate sales of a motor vehicle body and a motor vehicle chassis when the body is to be mounted on the chassis, and the sale of a body mounted on a motor vehicle chassis that temporarily enters the State so the manufacturer of the body can mount the body on the chassis. ~~as defined in G.S. 105-164.3(8a), to nonresident purchasers for immediate transportation to and use in another state in which such vehicles are required to be registered, provided the seller obtains from the purchaser and furnishes to the Secretary of Revenue an affidavit stating the name and address of the purchaser, the state in which the vehicle will be registered and operated, the make, model, and serial number of the vehicle, and such other information as the Secretary may require, and provided further that no exemption shall be allowed unless the affidavit is filed with the seller's sales and use tax report for the month during which the sale is made and such report is timely filed. For sales made by a seller who is not a retailer, this exemption applies if the purchaser furnishes the Secretary an affidavit containing the information otherwise required from a retailer within 45 days of the date.~~"

Sec. 3.7. G.S. 105-467 reads as rewritten:

"**§ 105-467. ~~Sales tax imposed; limited to items on which the State now imposes a three percent sales tax.~~ Scope of sales tax.**

The sales tax which may be imposed under this Article is limited to a tax at the rate of one percent (1%) of:

(1) The sales price of those articles of tangible personal property now subject to the three percent (3%) sales tax imposed by the State under G.S. ~~105-164.4(1)~~ 105-164.4(a)(1) and (4b);

(2) The gross receipts derived from the lease or rental of tangible personal property ~~where~~ when the lease or rental of ~~such~~ the property is ~~an established business now~~ subject to the three percent (3%) sales tax imposed by the State under G.S. ~~105-164.4(2);~~ 105-164.4(a)(2);

(3) The gross receipts derived from the rental of any room or lodging furnished by any hotel, motel, inn, tourist camp or other similar accommodations now subject to the three percent (3%) sales tax imposed by the State under G.S. ~~105-164.4(3);~~ 105-164.4(a)(3); and

(4) The gross receipts derived from services rendered by laundries, dry cleaners, cleaning plants and similar type businesses now subject to the three percent (3%) sales tax imposed by the State under G.S. ~~105-164.4(4).~~ 105-164.4(a)(4).

The sales tax authorized by this Article does not apply to sales ~~by a utility of electricity, piped natural gas, local, toll, or private telecommunications services as defined by G.S. 105-120(a).~~ that are taxable by the State under G.S. 105-164.4 but are not specifically included in subdivisions (1) through (4) of this section.

The exemptions and exclusions contained in G.S. 105-164.13 and the refund provisions contained in G.S. 105-164.14 shall apply with equal force and in like manner to the local sales and use tax authorized to be levied and imposed under this Article. A taxing county shall have no authority, with respect to the local sales and use tax imposed under this Article to change, alter, add to or delete any refund provisions contained in G.S. 105-164.14, or any exemptions or exclusions contained in G.S. 105-164.13 or which are elsewhere provided for.

The local sales tax authorized to be imposed and levied under the provisions of this Article shall ~~be applicable~~ apply to such retail sales, leases, rentals, rendering of services, furnishing of rooms, lodgings or accommodations and other taxable transactions which are made, furnished or rendered by retailers whose place of business is located within the taxing county. The tax imposed shall apply to the furnishing of rooms, lodging or other accommodations within the county which are rented to transients. For the purpose of this Article, the situs of a transaction is the location of the retailer's place of business."

Sec. 3.8. G.S. 105-468 reads as rewritten:

"**§ 105-468. ~~Use tax imposed; limited to items upon which the State now imposes a three percent use tax.~~ Scope of use tax.**

The use tax which may be imposed under this Article shall be at the rate of one percent (1%) of the cost price of each item or article of tangible personal property when ~~the same~~ it is not sold but used, consumed or stored for use or consumption in the taxing county, except that no tax shall be imposed upon ~~such~~ tangible personal property when~~, if the property were subject to the use tax imposed by G.S. 105-164.6, such property would be taxed by the State of North Carolina at a rate less than three percent (3%).~~ the property would be taxed by the State at a rate of other than three percent (3%) if it were taxable under G.S. 105-164.6.

Every retailer engaged in business in this State and in the taxing county and required to collect the use tax levied by G.S. 105-164.6 shall also collect the one percent (1%) use tax when such property is to be used, consumed or stored in the taxing county, ~~said~~ one percent (1%) use tax to be collected concurrently with the State's use tax; but no retailer not required to collect the use tax levied by G.S. 105-164.6 shall be required to collect the one percent (1%) use tax. The use tax contemplated by this section shall be levied against the purchaser, and ~~his~~ the purchaser's liability for ~~such~~ the use tax shall be extinguished only upon ~~his~~ payment of the use tax to the retailer, where the retailer is required to collect the tax, or to the Secretary of Revenue, or to the taxing county, as appropriate, where the retailer is not required to collect the tax.

Where a local sales or use tax has been paid with respect to ~~said~~ tangible personal property by the ~~purchaser thereof,~~ purchaser, either in another taxing county within the State, or in a taxing jurisdiction outside the State where the purpose of the tax is similar in purpose and intent to the tax which may be imposed pursuant to this Article, ~~said tax~~ the tax paid may be credited against the tax imposed under this section by a taxing county upon the same property. If the amount of sales or use tax so paid is less than the amount of the use tax due the taxing county under this section, the purchaser shall pay to the Secretary of Revenue or to the taxing county, as appropriate, an amount equal to the difference between the amount so paid in the other taxing county or jurisdiction and the amount due in the taxing ~~county hereunder.~~ county. The Secretary of Revenue or the taxing county, as appropriate, may require such proof of payment in another taxing county or jurisdiction as is deemed to be ~~necessary and proper.~~ necessary. The use tax levied ~~hereunder shall not be~~ under this Article is not subject to credit for payment of any State sales or use tax not imposed for the benefit and use of counties and municipalities. No credit shall be given under this section for sales or use taxes paid in a taxing jurisdiction outside this State if that taxing jurisdiction does not grant similar credit for sales taxes paid under this Article."

Sec. 3.9. Section 4 of Chapter 1096 of the 1967 Session Laws, as amended, is amended as follows:

(1) By rewriting the heading to the section to read: "Scope of Sales Tax.";

(2) By deleting the reference "105-164.4(1)" and substituting the reference "105-164.4(a)(1) and (4b)";

(3) By rewriting subpart (2) of the first paragraph to read:

"(2) the gross receipts derived from the lease or rental of tangible personal property when the lease or rental of the property is subject to the three percent (3%) sales tax imposed by the State under G.S. 105-164.4(a)(2)";

(4) By deleting the references "105-164.4(3)" and "105-164.4(4)" and substituting the references "105-164.4(a)(3)" and "105-164.4(a)(4)" respectively; and

(5) By rewriting the last sentence of the first paragraph of that section to read:

"The taxes authorized by this division do not apply to sales that are taxable by the State under G.S. 105-164.4 but are not specifically listed in this section."

Sec. 3.10. Section 5 of Chapter 1096 of the 1967 Session Laws, as amended, is amended in the first sentence by deleting the phrase "when, if the property were subject to the use tax imposed by G.S. 105-164.6, such property would be taxed by the State of North Carolina at a rate less than three percent (3%)" and substituting the phrase "when the property would be taxable by the State at a rate of other than three percent (3%) if it were taxable under G.S. 105-164.6".

PART IV.

HIGHWAY USE TAX.

Sec. 4.1. Chapter 105 of the General Statutes is amended by adding a new Article to read:

"ARTICLE 5A.

"North Carolina Highway Use Tax.

"**§ 105-165. Definitions.**

The following definitions and the definitions in G.S. 105-164.3 apply to this Article:

(1) 'Commissioner' means the Commissioner of Motor Vehicles.

(2) 'Division' means the Division of Motor Vehicles, Department of Transportation.

"**§ 105-166. Highway use tax imposed.**

A tax is imposed on the privilege of using the highways of this State. This tax is in addition to all other taxes and fees imposed.

"**§ 105-167. Rate of tax.**

(a) Amount. The rate of the use tax imposed by this Article is three percent (3%) of the retail value of a motor vehicle for which a certificate of title is issued. The tax is payable as provided in G.S. 105-168. The tax may not be less than forty dollars ($40.00) for each motor vehicle for which a certificate of title is issued, unless the issuance of a title for the vehicle is exempt from tax under G.S. 105-170(a). The tax may not be more than one thousand dollars ($1,000) for each motor vehicle for which a certificate of title is issued.

(b) Retail Value. The retail value of a motor vehicle for which a certificate of title is issued because of a sale of the motor vehicle by a retailer is the sales price of the motor vehicle, including all accessories attached to the vehicle when it is delivered to the purchaser, less the amount of any allowance given by the retailer for a motor vehicle taken in trade as a partial payment for the purchased motor vehicle. The retail value of a motor vehicle for which a certificate of title is issued because of a sale of the motor vehicle by a seller who is not a retailer is the value of the vehicle set in a schedule of values adopted by the Commissioner, less the amount of any allowance given by the seller for a motor vehicle taken in trade as a partial payment for the purchased motor vehicle. The retail value of a motor vehicle for which a certificate of title is issued because of a reason other than the sale of the motor vehicle is the value of the vehicle set in a schedule of values adopted by the Commissioner.

(c) Schedules. In adopting a schedule of values for motor vehicles, the Commissioner shall adopt a schedule whose values do not exceed the wholesale values of motor vehicles as published in a recognized automotive reference manual.

"**§ 105-168. Payment of tax.**

(a) Method. The tax imposed by this Article must be paid to the Commissioner when applying for a certificate of title for a motor vehicle. The Commissioner may not issue a certificate of title for a vehicle until the tax imposed by this Article has been paid. The tax may be paid in cash or by check.

(b) Sale by Retailer. When a certificate of title for a motor vehicle is issued because of a sale of the motor vehicle by a retailer, the applicant for the certificate of title must attach the bill of sale for the motor vehicle to the application. A retailer who sells a motor vehicle may collect from the purchaser of the vehicle the tax payable upon the issuance of a certificate of title for the vehicle, apply for a certificate of title on behalf of the purchaser, and remit the tax due on behalf of the purchaser.

"**§ 105-169. Alternate tax for those who rent or lease motor vehicles.**

(a) Election. A retailer who is engaged in the business of leasing or renting motor vehicles may elect not to pay the tax imposed by this Article at the rate set in G.S. 105-167 when applying for a certificate of title for a motor vehicle purchased by the retailer for lease or rental. A retailer who makes this election shall pay a tax on the gross receipts of the lease or rental of the vehicle. Like the tax imposed by G.S. 105-167, this alternate tax is a tax on the privilege of using the highways of this State. The tax is imposed on a retailer, but is to be added to the lease or rental price of a motor vehicle and thereby be paid by the person who leases or rents the vehicle.

(b) Rate. The tax rate on the gross receipts of the lease or rental of a motor vehicle is eight percent (8%), unless the vehicle is leased or rented to the same person for a period of more than 90 continuous days. In that circumstance, the tax is eight percent (8%) for the first 90 days the vehicle is leased or rented to the same person and is three percent (3%) for the remainder of the period during which the vehicle is leased or rented to that person. The maximum tax in G.S. 105-167(a) applies to the lease or rental of a motor vehicle when the vehicle is leased or rented to the same person for more than 90 continuous days. Tax paid by a person from the first day of a continuous lease or rental period applies toward the maximum tax.

(c) Method. A retailer who elects to pay tax on the gross receipts of the lease or rental of a motor vehicle shall make this election when applying for a certificate of title for the vehicle. To make the election, the retailer shall complete a form provided by the Division giving information needed to collect the alternate tax based on gross receipts. Once made, an election is irrevocable.

(d) Reporting. The Division shall notify the Secretary of Revenue of a retailer who makes the election under this section. A retailer who makes this election shall report and remit to the Secretary the tax on the gross receipts of the lease or rental of the motor vehicle as if the gross receipts were taxable under G.S. 105-164.4(a)(2).

"**§ 105-170. Exemptions from highway use tax.**

(a) Full Exemptions. The tax imposed by this Article does not apply when a certificate of title is issued as the result of the transfer of a motor vehicle to the insurer of the vehicle under G.S. 20-109.1 because the vehicle is a salvage vehicle.

(b) Partial Exemptions. Only the minimum tax imposed by this Article applies when a certificate of title is issued as a result of the transfer of a motor vehicle:

(1) By a gift between a husband and wife or a parent and child.
(2) By will or intestacy.
(3) By a distribution of marital property as a result of a divorce.
(4) To one of the following for the purpose of resale:
  a. A motor vehicle retailer.
  b. A secured party who has filed a security interest in the motor vehicle with the Department of the Secretary of State.
(5) To a partnership or corporation as an incident to the formation of the partnership or corporation and no gain or loss arises on the transfer under section 351 or section 721 of the Internal Revenue Code, or to a corporation by merger or consolidation in accordance with G.S. 55-110.
(6) To the same owner to reflect a change in the owner's name.

(c) Out-of-state Vehicles. A maximum tax of one hundred dollars ($100.00) applies when a certificate of title is issued for a motor vehicle that, at the time of applying for a certificate of title, is and has been titled in another state for at least 90 days.

"**§ 105-171. Credit for tax paid in another state.**

A person who, within 90 days before applying for a certificate of title for a motor vehicle on which the tax imposed by this Article is due, has paid a sales tax, an excise tax, or a tax substantially equivalent to the tax imposed by this Article on the vehicle to a taxing jurisdiction outside this State is entitled to a credit against the tax due under this Article for the amount of tax paid to the other jurisdiction. The credit may not reduce the person's liability under this Article below the minimum forty-dollar ($40.00) tax.

"**§ 105-172. Refund for return of purchased motor vehicle.**

When a purchaser of a motor vehicle returns the motor vehicle to the seller of the motor vehicle within 90 days after the purchase and receives a vehicle replacement for the returned vehicle or a refund of the price paid the seller, whether from the seller or the manufacturer of the vehicle, the purchaser may obtain a refund of the privilege tax paid on the certificate of title issued for the returned motor vehicle, less the minimum tax of forty dollars ($40.00).

To obtain a refund, the purchaser must apply to the Division for a refund within 30 days after receiving the replacement vehicle or refund of the purchase price. The application must be made on a form prescribed by the Commission and must be supported by documentation from the seller of the returned vehicle.

"**§ 105-173. Disposition of tax proceeds.**

Taxes collected under this Article at the rate of eight percent (8%) shall be deposited in the General Fund. Taxes collected under this Article at the rate of three percent (3%) shall be deposited in the North Carolina Highway Trust Fund. In each fiscal year the State Treasurer shall transfer the sum of one hundred seventy million dollars ($170,000,000) of the taxes deposited in the Trust Fund to the General Fund by transferring one-fourth of this amount at the end of each quarter in the fiscal year.

"**§ 105-174. Penalties and remedies.**

The penalties that apply to a failure to pay State sales and use taxes apply to a failure to pay the tax levied by this Article. In addition, if a check offered in payment of the tax imposed by this Article is returned unpaid and the tax for which the check was offered is not paid within 30 days after the Commissioner demands its payment, the Commissioner may revoke the registration plate of the vehicle for which a certificate of title was issued when the check was offered.

In applying the provisions of Article 9 of this Chapter to the tax levied by this Article, the Commissioner shall exercise the power conferred upon the Secretary. A taxpayer who appeals the tax imposed by this Article shall appeal to the Commissioner or the Commissioner's designee instead of to the Secretary."

Sec. 4.2. Effective July 1, 1993, G.S. 105-167(a), as enacted by this act, reads as rewritten:

"(a) Amount. The rate of the use tax imposed by this Article is three percent (3%) of the retail value of a motor vehicle for which a certificate of title is issued. The tax is payable as provided in G.S. 105-168. The tax may not be less than forty dollars ($40.00) for each motor vehicle for which a certificate of title is issued, unless the issuance of a title for the vehicle is exempt from tax under G.S. 105-170(a). The tax may not be more than ~~one thousand dollars ($1,000)~~ one thousand five hundred dollars ($1,500) for each motor vehicle for which a certificate of title is issued."

Sec. 4.3. Notwithstanding G.S. 105-173, as enacted by this act, in fiscal year 1989-90, the State Treasurer shall transfer from the Highway Trust Fund to the General Fund, the sum of two hundred seventy-nine million four hundred thousand dollars ($279,400,000) of the tax revenue deposited in the Trust Fund under that statute by transferring one-third of this amount at the end of the second, third, and fourth quarters in the fiscal year. In addition, in fiscal year 1990-91, the State Treasurer shall transfer from the Highway Trust Fund to the General Fund the sum of three hundred fifty-six million dollars ($356,000,000) of the tax revenue deposited in the Trust Fund under G.S. 105-173 by transferring one-fourth of this amount at the end of each quarter in the fiscal year. The transfers required under this section are in lieu of the transfers that would otherwise be made under G.S. 105-173.

PART V.
MOTOR FUEL TAX INCREASE.

Sec. 5.1. G.S. 105-434(a) reads as rewritten:

"(a) Tax. -- An excise tax is levied on motor fuel sold, distributed, or used by a distributor within this State at ~~the rate of fourteen cents (14¢) per gallon plus three percent (3%) of the average wholesale price of motor fuel, as determined semiannually by the Secretary of Revenue from~~ a flat rate of seventeen cents (17¢) per gallon, plus a variable rate of either three and one-half cents (3 1/2¢) per gallon or seven percent (7%) of the average wholesale price of motor fuel for the applicable base period, whichever is greater. The Secretary of Revenue shall semiannually determine the average wholesale price of motor fuel using information on refiner and gas plant operator sales prices of finished motor gasoline and No. 2 diesel fuel for resale, published by the United States Department of Energy in the 'Monthly Energy Review,' or ~~on~~ equivalent data. The Secretary shall determine the average wholesale price of motor fuel by computing the average sales price of finished motor gasoline for the base period, computing the average sales price for No. 2 diesel fuel for the base period, and then computing a weighted average of the results of the first two computations based on the proportion of tax collected under this Article on motor fuel and Article 36A on fuel for the base period. The Secretary shall notify affected taxpayers of the tax rate to be in effect for each six-month period beginning January 1 and July 1.

To facilitate ~~collection~~ administration of the motor fuel tax, the Secretary shall convert the ~~percentage rate~~ wholesale percentage component to a cents-per-gallon rate ~~to be in effect during the six-month period beginning each January 1 and July 1.~~ The rate ~~to be in effect during~~ for the six-month period beginning January 1 shall be computed from data published for the six-month base period ending on the preceding September 30, and the rate ~~to be in effect during~~ for the six-month period beginning July 1 shall be computed from data published for the six-month base period ending on the preceding March 31. The cents-per-gallon rate computed by the Secretary shall be rounded to the nearest one-tenth of a cent (1/10¢). If the cents-per-gallon rate computed by the Secretary is exactly between two tenths of a cent, the rate shall be rounded up to the higher of the two."

Sec. 5.2. G.S. 105-446 reads as rewritten:

"**§ 105-446. Refund for tax on motor fuel used other than to propel a motor vehicle.**

A person who purchases and uses motor fuel for a purpose other than to operate a licensed motor vehicle may receive an annual refund, for the tax paid during the preceding calendar year, at a rate equal to ~~fourteen cents (14¢) per gallon plus the average of the two wholesale cents-per-gallon rates of tax in effect during the year for which refund is claimed,~~ the amount of the flat cents-per-gallon rate in effect during the year for which the refund is claimed plus the average of the two variable cents-per-gallon rates in effect during that year, less one cent (1¢) per gallon. An application for a refund allowed under this section shall be made in accordance with G.S. 105-440."

Sec. 5.3. G.S. 105-446.1 reads as rewritten:

"**§ 105-446.1. ~~Refunds of taxes paid by counties and municipalities.~~ Refund of tax paid on motor fuel by certain governmental entities and nonprofit organizations.**

~~The following entities shall be entitled to reimbursement for the tax levied by G.S. 105-434 upon filing a statement in writing with the Secretary of Revenue, which statement shall be made upon the oath or affirmation of the chief executive officer of said entity, showing the number of gallons of fuel purchased and used by said entity on which the tax levied by G.S. 105-434 has been paid: the Board of Transportation, counties, municipal corporations, volunteer fire departments, county fire departments, volunteer rescue squads, and "sheltered workshop" organizations recognized and approved by the Department of Human Resources. "Chief executive officer" shall mean the Director of Highways, the mayor, city manager or other municipal officer designated by the governing body of the municipality, the chairman of the board of county commissioners or other county officer designated by the board of county commissioners, or the president or other duly designated officer or agent of a volunteer fire department, county fire department, volunteer rescue squad or "sheltered workshop" organization. Reimbursement shall be at a rate equal to fourteen cents (14¢) per gallon plus the wholesale cents-per-gallon rate of tax in effect during the quarter for which the refund is claimed, less one cent (1¢) per gallon. An application for a refund under this section shall be made in accordance with G.S. 105-440.~~

(a) A governmental entity or a nonprofit organization listed below that purchases and uses motor fuel may receive a quarterly refund, for the tax paid during the preceding quarter, at a rate equal to the amount of the flat cents-per-gallon rate plus the variable cents-per-gallon rate in effect during the quarter for which the refund is claimed, less one cent (1¢) per gallon. The following entities may receive a refund under this section:

(1) The Department of Transportation;
(2) A county or a municipal corporation;
(3) A private, nonprofit organization that transports passengers under contract with or at the express designation of a unit of local government;
(4) A volunteer fire department;

(5) A volunteer rescue squad;
(6) A sheltered workshop recognized by the Department of Human Resources.

(b) An application for a refund allowed under this section must be made in accordance with G.S. 105-440 and must be signed by the chief executive officer of the entity. The chief executive officer of the Department of Transportation is the Secretary of Transportation. The chief executive officer of a county or municipal corporation is the officer designated by the governing body of the county or municipal corporation, such as the chair of a board of county commissioners or the mayor of a city. The chief executive officer of a nonprofit organization is the president of the organization or another officer of the organization designated in the charter or by-laws of the organization."

Sec. 5.4. G.S. 105-446.3 reads as rewritten:

"**§ 105-446.3. ~~Refund of taxes paid on motor fuels used in operation of motor buses transporting fare-paying passengers in a city transit system, in operation of a taxicab transporting fare-paying passengers, and in operation of private nonprofit transportation services.~~ Refund of tax paid on motor fuel used to operate a taxicab or transit system bus.**

~~(a) Any person, association, firm or corporation, who shall purchase any motor fuels, as defined in this Article, for the purpose of use, and the same is actually used, in the operation of motor buses transporting fare-paying passengers, in connection with a city transit system or in the operation of a taxicab transporting fare-paying passengers, both as hereinafter defined in subsection (b) of this section, or in the operation, by private nonprofit organizations, of motor vehicles transporting passengers under contract with or at the express designation of units of local government (such transportation above and hereinafter referred to as private nonprofit transportation services) shall be entitled to reimbursement for the tax levied by this Article upon filing with the Secretary of Revenue an application upon the oath or affirmation of the applicant or his agent showing the number of gallons of motor fuel so purchased and used. Reimbursement shall be at a rate equal to fourteen cents (14¢) per gallon plus the wholesale cents-per-gallon rate of tax in effect during the quarter for which the refund is claimed, less one cent (1¢) per gallon. An application for a refund allowed under this section shall be made in accordance with G.S. 105-440.~~

~~(b) For the purposes of this section the term "city transit system" means a system of mass public transportation authorized to operate within any municipality or within contiguous municipalities and within a zone adjacent to and commercially a part of such municipality or contiguous municipalities as defined by the North Carolina Utilities Commission under the provisions of G.S. 62-260. Any person, association, firm or corporation, who, in addition to the operation of a city transit system as herein defined, holds a certificate from the North Carolina Utilities Commission for operations outside of the municipal limits and adjacent commercial zones or who conducts exempt operations outside of the municipal limits or adjacent commercial zones shall be entitled to the refund provided by this section only on taxes levied upon motor fuels actually used in the operation of the city transit system. For the purposes of this section the term "taxicab" shall mean a taxicab as defined in G.S. 20-87(1); provided, however, that a city transit system as defined herein shall not include limousine operations.~~

A person who purchases and uses motor fuel in a taxicab, as defined in G.S. 20-87(1), while the taxicab is engaged in transporting passengers for hire, or in a bus operated as part of a city transit system that is exempt from regulation by the North Carolina Utilities Commission under G.S. 62-260(a)(8), may receive a quarterly refund, for the tax paid during the preceding quarter, at a rate equal to the flat cents-per-gallon rate plus the variable cents-per-gallon rate in effect during the quarter for which the refund is claimed, less one cent (1¢) per gallon. An application for a refund must be made in accordance with G.S. 105-440."

Sec. 5.5. G.S. 105-446.5 reads as rewritten:

"**§ 105-446.5. Refund of taxes paid on motor fuel used by concrete mixing vehicles, solid waste compacting vehicles, and certain agricultural vehicles.**

~~(a) Refund.~~

A person who purchases and uses motor fuel in one of the vehicles listed below may receive a refund for the amount of fuel consumed by the vehicle:

(1) A concrete mixing vehicle;

(2) A solid waste compacting vehicle;

(3) A bulk feed vehicle that delivers feed to poultry or livestock and uses a power take-off to unload the feed; and

(4) A vehicle that delivers lime or fertilizer in bulk to farms and uses a power take-off to unload the lime or fertilizer.

The refund rate shall be computed by subtracting one cent (1¢) from ~~fourteen cents (14¢) per gallon plus the average of the two wholesale cents-per-gallon rates of tax in effect during the year for which the refund is claimed,~~ the combined amount of the flat cents-per-gallon rate in effect during the year for which the refund is claimed and the average of the two variable cents-per-gallon rates in effect during that year, and multiplying the difference by thirty-three and one-third percent (33 1/3%). An application for a refund allowed under this section shall be made in accordance with G.S. 105-440. This refund is allowed for the amount of fuel consumed by the vehicle in its mixing, compacting, or unloading operations, as distinguished from propelling the vehicle, which amount is considered to be one-third of the amount of fuel consumed by the vehicle."

Sec. 5.6. G.S. 105-446.6 reads as rewritten:

"**§ 105-446.6. Refund on taxpaid motor fuel transported to another state.**

Upon application to the Secretary, any person~~, association or corporation~~ who purchases motor fuel upon which the tax imposed by this Article has been paid, and who transports the fuel to another state for sale or use in that state, may be reimbursed at a rate equal to ~~fourteen cents (14¢) per gallon plus the wholesale cents-per-gallon rate of~~ the rate of tax paid on the fuel, less one cent (1¢) per gallon. The refund application shall require the claimant to furnish evidence satisfactory to the Secretary that the motor fuel for which the refund is claimed has been reported for taxation in the state to which it was transported. As used in this section, to 'transport' means to carry motor fuel in a cargo tank, tank car, barge or barrel and does not include carrying fuel in a tank connected with or attached to the engine of a motor vehicle."

Sec. 5.7. G.S. 105-449.39 reads as rewritten:

"**§ 105-449.39. Credit for payment of motor fuel tax.**

Every motor carrier subject to the tax levied by this Article is entitled to a credit for tax paid by the carrier on fuel purchased in the State. ~~The credit shall be allowed at a rate equal to fourteen cents (14¢) per gallon plus the wholesale~~ at a rate equal to the flat cents-per-gallon rate plus the variable cents-per-gallon rate of tax in effect during the quarter for which the credit is claimed. ~~Evidence of the payment of such tax in such form as may be required by, or is satisfactory to, the Secretary shall be furnished by each such carrier claiming the credit herein allowed. When the amount of the credit herein provided to which any motor carrier is entitled for any quarter exceeds the amount of the tax for which such carrier is liable for the same quarter, such excess may under regulations of the Secretary be allowed as a credit on the tax for which such carrier would be otherwise liable for another quarter or quarters, or upon application within 180 days from the end of any quarter, duly~~

~~verified and presented, in accordance with regulations promulgated by the Secretary and supported by such evidence as may be satisfactory to the Secretary, such excess may be refunded to said motor carrier.~~

~~Unless the Secretary of Revenue exercises his discretion as hereinafter provided, or as provided in G.S. 105-449.40, he shall allow such refund only after an audit of the applicant's records. However, he may, in his sole discretion, make refunds without prior audit or without having been furnished a bond pursuant to G.S. 105-449.40 if the motor carrier has complied with the provisions of this Subchapter and rules and regulations promulgated thereunder for a period of one full prior registration year.~~ To obtain this credit, the motor carrier must furnish evidence satisfactory to the Secretary that the tax for which the credit is claimed has been paid.

If the amount of a credit to which a motor carrier is entitled for a quarter exceeds the motor carrier's liability for that quarter, the excess may, in accordance with rules adopted by the Secretary, be refunded to the motor carrier or carried forward and applied to the motor carrier's tax liability for another quarter. The Secretary may not allow a refund without auditing the motor carrier's records unless the motor carrier:

(1) Has furnished a bond under G.S. 105-449.40; or

(2) Has complied with this Subchapter and the rules adopted under the Subchapter for at least a one-year period preceding the date the application for a refund is filed."

Sec. 5.8. August 1, 1989, Inventory of Motor Fuel. Every distributor of motor fuel, both at wholesale and at retail, must inventory all motor fuel on hand or in his possession as of 12:01 a.m., August 1, 1989, and, on or before September 1, 1989, must report to the Secretary of Revenue the amount of the motor fuel. When filing the report, the distributor must remit to the Secretary of Revenue an additional tax on the motor fuel of three cents (3¢) per gallon plus an amount equal to the increase in the tax based on the increase in the variable cents-per-gallon tax effective August 1, 1989. The report required must be in a form prescribed by the Secretary.

Sec. 5.9. August 1, 1989, Inventory of Special Fuel. Every supplier or reseller of special fuel must inventory all special fuel on hand or in his possession as of 12:01 a.m., August 1, 1989, and, on or before September 1, 1989, must report to the Secretary of Revenue the amount of the special fuel. When filing the report, the supplier or reseller must remit to the Secretary of Revenue an additional tax on the special fuel of three cents (3¢) per gallon plus an amount equal to the increase in the tax based on the increase in the variable cents-per-gallon tax effective August 1, 1989. The report required must be in a form prescribed by the Secretary.

Sec. 5.10. Motor Carrier Refund and Report. Notwithstanding G.S. 105-449.39 to the contrary, a motor carrier that as of 12:01 a.m. on August 1, 1989, has on hand or in its possession motor fuel or special fuel upon which it has paid the tax in effect on July 31, 1989, is allowed a credit of only the amount of tax paid on the fuel when filing the report required by G.S. 105-449.45. Notwithstanding G.S. 105-449.45, a motor carrier must file a report in accordance with that section for the period July 1, 1989, through July 31, 1989, and for the period August 1, 1989, through September 30, 1989.

Sec. 5.11. Annual Refund Rate. Notwithstanding G.S. 105-446, 105-446.5, and 105-449.24 to the contrary, the annual refund rate for tax paid on motor fuel or special fuel for calendar year 1989 is at a rate equal to the weighted average of the two flat cents-per-gallon rates plus the weighted average of the two variable cents-per-gallon rates in effect during that year, less one cent (1¢) per gallon.

Sec. 5.12. Quarterly Refund Rate. Notwithstanding G.S. 105-446.1, 105-446.3, and 105-449.24 to the contrary, the entities eligible under those statutes for a refund of tax paid on motor fuel or special fuel are entitled to a refund at the rate of fourteen and seven-tenths cents (14.7¢) per gallon for tax paid or accrued on fuel purchased before August 1, 1989, but used on or after August 1, 1989.

Sec. 5.13. Notwithstanding G.S. 105-449.39, as amended by this Part, until January 1, 1990, an application for a refund of a credit under that statute must be made within 180 days of the end of the quarter for which the refund is due.

Sec. 5.14. Section 2 of Chapter 7 of the 1989 Session Laws is repealed.

PART VI.

REPEAL ROAD TAX REGISTRATION FEE.

Sec. 6.1. G.S. 20-88.01 reads as rewritten:

"**§ 20-88.01. ~~Registration of certain vehicles for road tax~~ Revocation of registration for failure to register for or comply with road tax.**

~~Owners of passenger vehicles with seating capacity for more than 20 passengers, road tractors, tractor trucks, or trucks with more than two axles shall, in addition to all other registration fees imposed by this Article, pay a registration fee of ten dollars ($10.00) to register for purposes of the road tax imposed by Article 36B of Chapter 105. This fee shall be paid to the Commissioner at the same time as the fees imposed by G.S. 20-87 or G.S. 20-88 are paid. All vehicles licensed for more than 32,000 pounds are presumed to have more than two axles. When registering a vehicle under this section, the owner of a vehicle that is leased to another shall report the name of the lessee to the Commissioner.~~

~~The Commissioner shall report all vehicles registered under this section to the Secretary of Revenue. No registration plate or registration renewal sticker shall be issued for a motor vehicle required to be registered under this section if the owner or lessee of that vehicle is not in compliance with Articles 36A or 36B of Chapter 105. The registration plate or registration renewal sticker issued for a motor vehicle under G.S. 20-87 or 20-88 signifies registration in accordance with this section. The Commissioner may revoke the registration plate for a motor vehicle registered under this section whenever the owner or lessee of the vehicle fails to comply with Articles 36A or 36B of Chapter 105.~~

~~This section does not apply to vehicles owned by the United States, the State or its political subdivisions, special mobile equipment as defined in G.S. 20-4.01(44), and vehicles owned by nonprofit religious, educational, charitable, or benevolent organizations.~~ The Secretary of Revenue may notify the Commissioner of those motor vehicles that are registered or are required to be registered under Article 36B of Chapter 105 and as appropriate, whose owners or lessees are not in compliance with Article 36A or 36B of Chapter 105. When notified, the Commissioner shall withhold or revoke the registration plate for the vehicle."

Sec. 6.2. G.S. 105-449.47 reads as rewritten:

"**§ 105-449.47. Registration of vehicles.**

A motor carrier may not operate or cause to be operated in this State any vehicle listed in the definition of motor carrier unless the motor carrier has registered the vehicle for purposes of the tax imposed by this Article with the ~~Commissioner of Motor Vehicles or the Secretary, as appropriate~~ Secretary. ~~All vehicles required to be registered under this section that are registered in this State under G.S. 20-87 or G.S. 20-88 shall be registered with the Commissioner of Motor Vehicles pursuant to G.S. 20-88.01 for the purposes of the tax imposed by this Article. All other vehicles required to be registered under this section shall be registered with the Secretary.~~

Upon application ~~and payment of a fee of ten dollars ($10.00)~~, the Secretary shall issue a registration card and identification marker for a vehicle. The registration card shall be carried in the vehicle for which it was issued when the vehicle is in this State. The identification marker shall be clearly displayed at all times and shall be affixed to the vehicle for which it was issued in the place and manner designated by the Secretary. Every identification marker issued shall bear a number that corresponds to the number on the registration card issued for the same vehicle. Registration cards and identification markers required by this section shall be issued on a calendar year basis. The Secretary may renew registration cards and identification markers without issuing new cards and markers. All identification markers issued by the Secretary remain the property of the State. The Secretary may withhold or revoke a registration card and identification marker when a motor carrier fails to comply with this Article or Article 36A of this Subchapter."

Sec. 6.3. Section 2 of Chapter 667 of the 1989 Session Laws is repealed.

PART VII.

ESTIMATED INCOME TAX AMENDMENTS.

Sec. 7.1. G.S. 105-163.15 reads as rewritten:

"**§ 105-163.15. Failure by individual to pay estimated income tax; penalty.**

(a) In the case of any underpayment of the estimated tax by an individual, there shall be added to the tax imposed under Article 4 for the taxable year an amount determined by applying the applicable annual rate established under G.S. 105-241.1(i) to the amount of the underpayment for the period of the underpayment.

(b) For purposes of subsection (a), the amount of the underpayment shall be the excess of the required installment, over the amount, if any, of the installment paid on or before the due date for the installment. The period of the underpayment shall run from the due date for the installment to whichever of the following dates is the earlier: (i) the fifteenth day of the fourth month following the close of the taxable year, or (ii) with respect to any portion of the underpayment, the date on which such portion is paid. A payment of estimated tax shall be credited against unpaid required installments in the order in which such installments are required to be paid.

(c) For purposes of this section there shall be four required installments for each taxable year with the time for payment of the installments as follows:

(1) First installment -- April 15 of taxable year;
(2) Second installment -- June 15 of taxable year;
(3) Third installment -- September 15 of taxable year; and
(4) Fourth installment -- January 15 of following taxable year.

(d) Except as provided in subsection ~~(e)~~ (e), the amount of any required installment shall be twenty-five percent (25%) of the required annual payment. The term 'required annual payment' means the lesser of:

(1) ~~Eighty percent (80%)~~ Ninety percent (90%) of the tax shown on the return for the taxable year, or, if no return is filed, ~~eighty percent (80%)~~ ninety percent (90%) of the tax for that year; or
(2) One hundred percent (100%) of the tax shown on the return of the individual for the preceding taxable year, if the preceding taxable year was a taxable year of 12 months and the individual filed a return for that year.

(e) In the case of any required installment, if the individual establishes that the annualized income installment is less than the amount determined under subsection (d), the amount of the required installment shall be the annualized income installment, and any reduction in a required installment resulting from the application of this subsection shall be recaptured by increasing the amount of the next required installment determined under subsection (d) by the amount of the reduction and by increasing subsequent required installments to the extent that the reduction has not previously been recaptured.

In the case of any required installment, the annualized income installment is the excess, if any, of (i) an amount equal to the applicable percentage of the tax for the taxable year computed by placing on an annualized basis the taxable income for months in the taxable year ending before the due date for the installment, over (ii) the aggregate amount of any prior required installments for the taxable year. The taxable income shall be placed on an annualized basis under rules prescribed by the Secretary. The applicable percentages for the required installments are as follows:

(1) First installment -- ~~twenty percent (20%);~~ twenty-two and one-half percent (22.5%);

(2) Second installment -- ~~forty percent (40%);~~ forty-five percent (45%);

(3) Third installment -- ~~sixty percent (60%);~~ sixty-seven and one-half percent (67.5%); and

(4) Fourth installment -- ~~eighty percent (80%).~~ ninety percent (90%).

(f) No addition to the tax shall be imposed under subsection (a) if the tax shown on the return for the taxable year reduced by the tax withheld under Article 4A is less than forty dollars ($40.00) or if the individual did not have any liability for tax under Division II of Article 4 for the preceding taxable year.

(g) For purposes of this section, the term 'tax' means the tax imposed by Division II of Article 4 minus the credits against the tax allowed by Article 4. The amount of the credit allowed under Article 4A for withheld income tax for the taxable year is considered a payment of estimated tax, and an equal part of that amount is considered to have been paid on each due date of the taxable year, unless the taxpayer establishes the dates on which all amounts were actually withheld, in which case the amounts so withheld are considered payments of estimated tax on the dates on which such amounts were actually withheld.

(h) If, on or before January 31 of the following taxable year, the taxpayer files a return for the taxable year and pays in full the amount computed on the return as payable, no addition to tax shall be imposed under subsection (a) with respect to any underpayment of the fourth required installment for the taxable year.

(i) Notwithstanding the other provisions of this section, an individual who is a farmer or fisherman for a taxable year is required to make only one installment payment of tax for that year. This installment is due on or before January 15 of the following taxable year but may be paid without penalty or interest on or before March 1 of that year. The amount of the installment payment shall be the lesser of:

(1) Sixty-six and two-thirds percent (66 2/3%) of the tax shown on the return for the taxable year, or, if no return is filed, sixty-six and two-thirds percent (66 2/3%) of the tax for that year; or

(2) One hundred percent (100%) of the tax shown on the return of the individual for the preceding taxable year, if the preceding taxable year was a taxable year of 12 months and the individual filed a return for that year.

An individual is a farmer or fisherman for any taxable year if the individual's gross income from farming or fishing, including oyster farming, for the taxable year is at least sixty-six and two-thirds percent (66 2/3%) of the total gross income from all sources for the taxable year, or the individual's gross income from farming or fishing, including oyster farming, shown on the return of the individual for the preceding taxable year is at least sixty-six and two-thirds percent (66 2/3%) of the total gross income from all sources shown on the return.

(j) In applying this section to a taxable year beginning on any date other than January 1, there shall be substituted, for the months specified in this section, the months that correspond thereto. This section shall be applied to taxable years of less than 12 months in accordance with rules prescribed by the Secretary.

(k) This section shall not apply to any estate or trust."

PART VIII.
EFFECTIVE DATES AND SUNSET.

Sec. 8.1. The prohibition imposed by G.S. 136-44.7(b) against changing the order of unpaved roads set out in a published list of the top 10 roads to be paved in a county applies to lists adopted for fiscal years beginning with the 1988-89 fiscal year.

Sec. 8.2. This act does not affect the rights or liabilities of the State, a taxpayer, or another person arising under a statute amended or repealed by this act before its amendment or repeal; nor does it affect the right to any refund or credit of a tax that would otherwise have been available under the amended or repealed statute before its amendment or repeal.

Sec. 8.3. Section 3.1 of Part III shall become effective August 1, 1989. The remaining sections in Part III shall become effective October 1, 1989. Part IV of this act shall become effective October 1, 1989, except for Section 4.2, which shall become effective July 1, 1993. Part VI of this act shall become effective January 1, 1990. Part VII of this act is effective for taxable years beginning on and after January 1, 1990. The remaining Parts of this act shall become effective August 1, 1989. Sections 3.3 through 3.6 and Part IV shall apply to sales of motor vehicles made on or after October 1, 1989, except sales of motor vehicles made on or after that date pursuant to a written contract of sale entered into before that date, and shall apply to leases and rental agreements entered or renewed on or after that date.

Sec. 8.4. When contracts for all projects specified in Article 14 of Chapter 136 of the General Statutes have been let and sufficient revenue has been accumulated to pay the contracts, the Secretary of Transportation shall certify this occurrence by letter to the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the Secretary of State. The changes below shall become effective on the first day of the calendar quarter following the date the Secretary sends the letter, unless there is less than 30 days between the date the letter is sent and the first day of the following quarter. In that circumstance, the changes shall become effective on the first day of the second calendar quarter following the date the Secretary sends the letter.

(1) Article 14 of Chapter 136 of the General Statutes is repealed.

(2) Article 12E of Chapter 120 of the General Statutes is repealed.

(3) G.S. 105-445 reads as rewritten:

"**§ 105-445. Application of proceeds of gasoline tax.**

~~Seventy-five percent (75%) of the~~ The revenue collected under this Article shall be credited to the Highway ~~Fund~~ Fund. ~~and the remaining twenty-five percent (25%) shall be credited to the Highway Trust Fund. A proportionate share of a refund allowed under this Article shall be charged to the Highway Fund and the Highway Trust Fund so that seventy-five percent (75%) of the amount of a refund is charged to the Highway Fund and twenty-five percent (25%) is charged to the Highway Trust Fund.~~"

(4) G.S. 105-449.16(b) reads as rewritten:

"(b) The ~~same percentage amounts of~~ revenue collected under this Article shall be credited to the Highway ~~Fund~~ Fund. ~~and to the Highway Trust Fund as are credited to those Funds under G.S. 105-445, and the same percentage amounts of refunds allowed under this Article shall be charged to the Highway Fund and to the Highway Trust Fund as are charged to those Funds under that statute.~~"

(5) G.S. 105-449.43 reads as rewritten:

"**§ 105-449.43. Application of tax proceeds.**

The ~~same percentage amounts of~~ revenue collected under this Article shall be credited to the Highway ~~Fund~~ Fund. ~~and to the Highway Trust Fund as are credited to those Funds under G.S. 105-445, and the same percentage amounts of refunds allowed under this Article shall be charged to the Highway Fund and to the Highway Trust Fund as are charged to those Funds under that statute.~~"

(6) G.S. 20-85 reads as rewritten:

"**§ 20-85. Schedule of fees.**

~~(a)~~ Except as provided in G.S. 20-68, the following fees concerning a certificate of title for a motor vehicle and registration of a motor vehicle shall be paid to the Division. ~~These fees are in addition to the tax imposed by Article 5A of Chapter 105 of the General Statutes.~~

(1) Each application for certificate of title .... ~~$35.00~~ $10.00
(2) Each application for duplicate or corrected certificate of title 10.00
(3) Each application of repossessor for certificate of title 10.00
(4) Each transfer of registration 10.00
(5) Each set of replacement registration plates 10.00
(6) Each application for duplicate registration certificate 10.00
(7) Each application for recording supplementary lien 10.00
(8) Each application for removing a lien from a certificate of title .... 10.00.

~~(b) Six-sevenths of the revenue collected under subdivision (a)(1) of this section and all of the revenue collected under the other subdivisions in subsection (a) shall be credited to the North Carolina Highway Trust Fund; the remaining one-seventh of the revenue collected under subdivision (a)(1) shall be credited to the Highway Fund. One-half of the amount credited to the Trust Fund under subdivision (a)(1) shall be added to the amount allocated for secondary roads under G.S. 136-176 and used in accordance with G.S. 136-44.5.~~"

(7) G.S. 20-85.1(b) reads as rewritten:

"(b) The Commissioner and the employees of the Division designated by the Commissioner may prepare and deliver upon request a certificate of title, charging a fee of ~~fifty dollars ($50.00)~~ twenty-five dollars ($25.00) for one-day title service, in lieu of the title fee required by G.S. ~~20-85(a)~~ 20-85. The fee for one-day title service must be paid by cash or by certified check."

(8) G.S. 105-164.4(a)(1a) reads as rewritten:

"(1a) At the rate of two percent (2%) of the sales price of each manufactured home or motor vehicle sold at retail, including all accessories attached to the manufactured home or motor vehicle when it is delivered to the purchaser, not to exceed three hundred dollars ($300.00). Each section of a manufactured home that is transported separately to the site where it is to be erected is a separate article."

(9) G.S. 105-164.13(32) reads as rewritten:
"(32) ~~Sales of motor vehicles, the~~ The separate sales of a motor vehicle body and a motor vehicle chassis when the body is to be mounted on the chassis, and the sale of a body mounted on a motor vehicle chassis that temporarily enters the State so the manufacturer of the body can mount the body on the chassis."

(10) Article 5A of Chapter 105 of the General Statutes is repealed.

(11) The first sentence of G.S. 105-434(a) reads as rewritten: "An excise tax is levied on motor fuel sold, distributed, or used by a distributor within this State at a flat rate of ~~seventeen cents (17¢)~~ fourteen cents (14¢) per gallon, plus a variable rate of ~~either three and one-half cents (3 1/2¢) per gallon or seven percent (7%) of the average wholesale price of motor fuel for the applicable base period, whichever is greater.~~ three percent of the average wholesale price of motor fuel for the applicable base period."

In the General Assembly read three times and ratified this the 27th day of July, 1989.

JAMES C. GARDNER

James C. Gardner
President of the Senate

J. L MAVRETIC

J. L. Mavretic
Speaker of the House of Representatives

THIS VOLUME PUBLISHED DECEMBER 15, 1989.

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