

NC FIRST Commission

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Testimony by Carolyn Kramer, Director of the Transportation Investment Advocacy Center of the American Road & Transportation Builders Association

Options For Raising Additional Revenue for North Carolina's Transportation Infrastructure

Honorable Nancy McFarlane, Chairman Ward Nye, and members of the commission, thank you for the opportunity to appear before you today.

My name is Carolyn Kramer. I am Director of the Transportation Investment Advocacy Center (TIAC), a key unit of the Washington, D.C. -headquartered American Road and Transportation Builders Association (ARTBA).

At the outset, I should note that one of the commissioners is Ward Nye, president and CEO of Raleigh-based Martin Marietta Materials. Mr. Nye also serves as ARTBA's first vice chairman.

Since 1902, ARTBA has represented the U.S. transportation design and construction industry. On behalf of more than 8,000 public and private sector members, we advocate for strong investment in transportation to meet the general public and business demand for safe and efficient travel.

Our chapter affiliate in the state is Carolinas AGC, and we are proud to have worked together with them for decades to advance the pro-transportation investment agenda.

The ARTBA Transportation Investment Advocacy Center was established in 2014.

Through the legislative and ballot initiative process, the Center helps private citizens, legislators, organizations and businesses successfully grow transportation investment at the state and local levels.

During the past five years, the Center has tracked 1,700 ballot initiatives across the country aimed at boosting transportation investment, and we have monitored 800 legislative measures. We also hold an annual workshop for state and local transportation advocates in the Nation's Capital where attendees share best practices to successfully advance new infrastructure investment proposals.

In response to your request for information on additional ways to raise additional revenue to fund investments in North Carolina's infrastructure, I am pleased to provide you with an overview of the developments we have tracked on this matter.

MOTOR FUEL TAXES

First, motor fuel taxes continue to be the most popular method for financing investment in transportation infrastructure, and the most efficient way to quickly generate revenue to support those investments.

So far in 2019, four states—Alabama, Arkansas, Ohio and Illinois—have voted to increase state gas taxes for this purpose. That brings to 31 the number of states throughout the country that have raised the gas tax since 2013.

But, not all gas taxes are the same.

Twenty-two states—including North Carolina—and D.C. have migrated from a flat cents-per-gallon excise tax to a variable-rate tax on motor fuels. Variable-rate taxes are fees on motor fuel purchases that fluctuate according to external factors rather than remain at fixed levels. This automatic growth mechanism is popular as states seek to prevent the erosion of their state gas tax's purchasing power from rising construction costs and inflation.

Under the variable rate tax model, states create their own tax formulas and can adjust them based on a variety of factors.

Some of these factors can be changes to inflation as measured by the Consumer Price Index (CPI), or changes to the average wholesale price of fuel. Alabama recently implemented a new tax formula that will adjust based on changes to the National Highway Construction Cost Index. Several states utilize more complex formulas or have instituted variable-rate taxes that utilize different factors.

THE IMPACT OF ELECTRIC VEHICLES

Electric vehicles pose a fundamental challenge to the ability of the gas tax to raise revenue for transportation investment for one simple reason—they don't use gas. While electric vehicle usage is currently only a small portion of the total U.S. vehicle fleet, the development and purchase of these vehicles is expected to grow in the future. This has led many states to implement new fees on these vehicles so that they also pay for the wear and tear they exact on transportation infrastructure.

Three options have been explored with electric vehicle fees: a flat fee, a fee for every mile driven (road usage charge), or a fee on the amount of electricity used.

Twenty-seven states currently have a registration fee for electric vehicles. Twelve of those states also include a hybrid vehicle fee. Most of these fees are assessed annually except in South Carolina, where the fee is biennial.

Six states have indexed their electric vehicle fee in unison with changes to their variable-rate state gas taxes. These fees on passenger vehicles range from \$50 to \$200. Of the states that have enacted an electric vehicle registration fee, two—Wyoming and North Carolina—have increased the original rate.

While most states impose only a flat fee on electric and alternative fuel vehicles, Utah approved legislation in 2019 that will permit drivers to waive the flat fee and partake in a road usage charge. The

program, which will charge 1.5 cents per mile driven and be capped so drivers do not pay more than the annual flat fee, will begin in January 2020 and utilize a third-party GPS tracking device.

Some states have explored utilizing a charging station to impose a charging fee per-kilowatt (per-kW) used, per-kilowatt hour (per-kWh), or per charging session. Several challenges have been encountered with this concept because most electric vehicles are charged at a personal residence, not on the road. Such a challenge could be solved by submetering or by installing personal charging stations. But this assumes all owners accurately or correctly report their usage. In fact, some electric vehicle users have expressed additional concerns over the fairness and accuracy of a per-kW fee at personal charging stations.

An example of a diverse electric vehicle fee encompassing multiple aspects can be found in Iowa's 2019 approved legislation. House File 767 approved a \$130 electric vehicle fee, a \$65 plug-in hybrid vehicle fee, a \$9 fee for the battery used in electric and plug-in hybrid vehicles, and a \$0.026 tax on each kWh purchased at a nonresidential location.

GROWING VEHICLE FUEL ECONOMY

While growing fuel economy across all vehicle fleets helps the environment and saves money, it also compromises the ability of the conventional fuel tax to fund transportation investment. To compensate for this, several states are considering imposing road usage charges (RUC). A RUC, also called a mileage-based user fee (MBUF) or vehicle-miles traveled (VMT) fee, establishes a cents-per-mile charge that drivers pay instead of a flat state gas tax at the pump.

The amount of money raised can be determined in a variety of ways, including via a Global Positioning System (GPS) or a mileage reporting device installed in the vehicle (by the driver or state agency) that tracks only miles driven. Odometer readings offer a similar tracking function.

Ten states have held or are in the process of holding pilot programs to test this funding method. Additionally, two multi-state pilots are being held: the Western Road Usage Charge Consortium, and the I-95 Corridor Coalition. Two states—as I mentioned Utah and now Oregon—have instituted voluntary, limited participation in a road usage charge program.

OTHER STATE APPROACHES FOR FUNDING TRANSPORTATION INVESTMENT

This year, New York became the first state in the country to announce the introduction of “congestion pricing” in urban areas. The program is expected to begin in 2021 and will require motorists to pay a toll when entering zones within Manhattan. The tolls will be variable, depending on the time of day, with drivers charged just once per day via their E-ZPass transponders or their license plate numbers.

Facing an urgent need to address highway improvements, Virginia this year approved legislation that includes a local fuel tax levied on districts bordering the Interstate 81 corridor. The tax of 2.1 percent on

the average wholesale price of fuel is in addition to the existing state fuel tax. Two other regions in Virginia—Northern Virginia and Hampton Roads—already have the local fuel tax in place.

Several states are exploring revenue streams not directly tied to the use of roads:

- Along with the motor fuel tax increase approved earlier this year, Arkansas lawmakers put a measure on the 2020 ballot to renew an existing half-cent statewide general sales tax that is used for transportation improvements. The measure was originally approved by voters in 2012.
- Minnesota uses a vehicle-specific sales tax on auto parts and rentals to fund transportation projects.
- Illinois, Arkansas and Mississippi have legislation to partially or wholly dedicate revenue from casinos to road and bridge repairs.
- Illinois also dedicates a portion of its tax on cigarettes to transportation infrastructure.
- To capture out-of-state revenue, Georgia implements a \$5 per night fee on hotel reservations.
- South Carolina permits tax payers to file for a refund of the portion of the 2016 state gas tax increase they paid.

CONCLUSION

In summary, state funding of vital transportation infrastructure is very important, but it does not happen in a vacuum.

The federal highway program also plays a critical role in supporting North Carolina's investments in infrastructure.

Federal funds provide, on average, 51 percent of annual capital outlays for highway and bridge projects made by state governments. In North Carolina, this figure is 46 percent.

However, the federal gas tax—the primary revenue stream for the nation's transportation investment program via the Highway Trust Fund (HTF)—has not been increased since 1993. To make up for the decreased purchasing power, Congress has instituted multiple transfers of general funds to supplement existing trust fund revenues.

As Congress prepares for the scheduled 2020 reauthorization of the federal highway and public transit programs, the uncertainty over the Highway Trust Fund will be the paramount issue facing North Carolina and every other state. Congress and the Trump administration are now facing an \$18 billion average annual shortfall between incoming trust fund revenues and the amount needed to preserve current surface transportation investment levels. Absent congressional action, states could face a 40 percent cut in investment beginning in 2021.

ARTBA continues to advocate in the Nation's Capital for a permanent revenue fix for the Highway Trust Fund. Our Carolinas AGC chapter joins us in the fight. While this commission addresses the state funding issues here in North Carolina, we will also need your help in coming months to aggressively advocate for a solution with members of the state's congressional delegation.

Thank you again for the opportunity to appear before the commission.

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