

If it can't be perfect, then let's make it simple:

A draft highway network access and user fee-based approach for transportation funding

Overview

Fuel taxes are North Carolina's primary funding source, particularly for maintenance. However, fuel taxes are failing as a funding source, largely due to the increasing disparity in fuel efficiency across the fleet of registered vehicles, which creates a fairness problem, a political problem, and a revenue problem.

The fairness issue is this: since fuel taxes are levied on a per gallon basis, as overall fuel efficiency rises, some drivers are paying far less, and others far more, resulting in a disproportionate burden on the owners of lower fuel-efficiency vehicles and a fraying of the relationship between fuel taxes paid and transportation provided. As a result, it is politically impossible to raise the fuel tax rate to the level that would be required to maintain and appropriately expand the system, and that creates a revenue problem.

Q. I thought that our state had a new funding formula – didn't that solve the problem?

North Carolina has an excellent, data-driven prioritization system called Strategic Transportation Investments (STI). While STI does a great job allocating existing resources, it does not create new revenue, which is insufficient for our growing state, and it does not address the issues associated with our primary source of revenue, the fuel tax.

Q. What would a better approach for transportation funding look like?

An effective transportation funding system would be both sustainable and fair. By "Sustainable" we mean that it would provide the resources needed to maintain and expand the system, both now and as we grow. By fair, we mean that the pricing would reflect the costs of providing the system and the benefits of having ready access to it. A fair system would also mean that it is broadly accepted as being fair, which means that it is politically acceptable.

Q. I understand that RTA is suggesting a possible simple "access-based" solution concept. What is it?

The draft concept proposes a migration from an indirect highway user fee paradigm based primarily on the fuel tax to a more **balanced "network access and usage fee" funding framework, based on** the rationale that drivers of all vehicles enjoy immediate access to an entire functioning transportation network, and that there is a significant cost in providing a network that is both ubiquitous and available.

A network access framework is analogous to other publicly-available utilities such as water, sewer, electric, etc. which have connection fees, monthly access fees, and usage fees. In particular, [mobile phone networks](#) have monthly access charges with unlimited use of some features.

Q. What are the components of a network access and usage fee framework?

This concept would lower* fuel taxes and increase** some existing fees, renaming them under a balanced access and usage approach. See **below** for a draft package; not all elements would have to be included:

Annual or one-time base service / highway network access fees

- Rename the annual driver's license fee as "highway network driver access fees"***
- Rename the one-time tax on vehicle purchases as "highway network access fee"***

Periodic access and usage fees

- Retain the existing highway and diesel fuel tax system, with reduced fuel tax rates*
- Replace the annual vehicle registration fee with a "highway network access and use fee"*** with annual, quarterly, or monthly billing options; consider incorporating a slightly lower rate for vehicles in economically distressed tier 1 counties due to lower usage congestion impacts
- Create a quarterly diesel fuel tax surcharge** for interstate commercial vehicles (similar to Va.)
- Continue to expand the NC Turnpike system which includes per-use pricing

Q. How difficult would it be to implement all of these new fees?

All fees except the diesel surcharge already exist in North Carolina. What would change under this concept is the fee name and level – reflecting a more balanced, access-based framework. The above package of network access and usage fees represent a draft concept; every element or component above would not need to be included.

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Q. Why does this concept have a monthly or quarterly option for the highway network access and use fee?

Under this framework, the highway network access and use fee (vehicle registration fee) could be significantly larger than before, depending on how low fuel taxes go, so a monthly or quarterly option for payment may be appreciated by some drivers. The cost of collection would need to be considered.

There is a second advantage of monthly or quarterly payments: it would reinforce the fact that transportation is a service, not simply paid once.

Q. The concept suggests a potentially slightly lower rate for vehicles in tier 1 counties. Why is that?

While the majority of the fuel tax today goes to maintenance, some portions are used for system modernization and expansion, and so a slightly lower network access and highway usage fee for economically distressed tier 1 counties could be considered.

In terms of overall impact, there are very few populous counties with the distressed tier 1 designation – none of the twenty most populous counties are – and every county in the piedmont crescent from Charlotte to Raleigh is in tier 2 or tier 3 (most prosperous). Moreover, there are no tier 1 counties along either I-40 or I-26 anywhere in North Carolina, and the only tier 1 counties on either I-77 or I-85 are at the Virginia border. However, more than half the counties along I-95 are tier 1 counties, as is every county on the Raleigh-Hampton Roads future Interstate corridor in northeastern North Carolina east of I-95.

The use of Commerce county tier 1 designations that explicitly incorporate economic status would help align with the goals of the STI initiative and the Governor's 25 year vision.

Q. Is there precedent for a network access fee?

Annual electric vehicle access fees were recently added in North Carolina after successful lobbying by RTA; this concept builds upon that framework.

Q. Will these fees be sustainable?

Unlike a fuel tax which declines as fuel efficiency increases, access charges grow as the licensed driver and registered vehicle population grows. Rates could be indexed to the CPI or another appropriate measure.

Q. What rate is required for sustainability and fairness?

Under this concept fuel taxes would fall while other fees would rise. We are not recommending specific rates, other than a rebalancing that will make our fuel taxes more competitive with neighboring states.

Q. What about out-of-state drivers. They won't pay any of our access fees.

This concept retains a fuel tax at a lower rate, which will encourage interstate travelers to purchase fuel here rather than in neighboring state. This will also increase ancillary purchases at convenience stores and nearby commercial establishments which will improve sales tax collections.

Going forward, it may be possible to add overhead gantries at state borders and charge out-of-state travelers a monthly access charge to use our entire network (not a toll), in conjunction with reduced or eliminated fuel taxes.

Q. What about the diesel surcharge for interstate truckers?

Interstate commercial truckers generally pay diesel taxes at the pump like other travelers, but then file mandatory quarterly reports of actual mileage driven and fuel consumed in each state under the [International Fuel Tax Agreement \(IFTA\)](#). These reports are used to determine any required fuel tax rebates or additional payments due to imbalances between travel in higher or lower cost fuel tax states and the fuel consumed while traveling in each state during the prior quarter. Any required diesel fuel surcharges (e.g., neighboring Virginia; also Kentucky and Indiana) are paid quarterly based on travel in those states.

The expectation is that replacing some portions of the diesel fuel tax with a quarterly surcharge will lower pump prices, encourage purchases of diesel fuel by drivers, and result in additional sales tax collections from ancillary purchases.

Q. There have been bills introduced that incorporate some of these elements. Does RTA endorse those?

RTA is not endorsing any particular bill at this time. Our primary goal is to elevate the conversation and spur ideas and discussion about how we fund transportation in our growing state, with an emphasis on rebalancing our approach towards more of an access basis.