Modernizing Transportation Funding in North Carolina

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Prepared for RTA by RTI International

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Overview

North Carolina transportation revenue:

- Current state and evolution
- Strengths and drawbacks of current model
- Potential future scenarios and tradeoffs

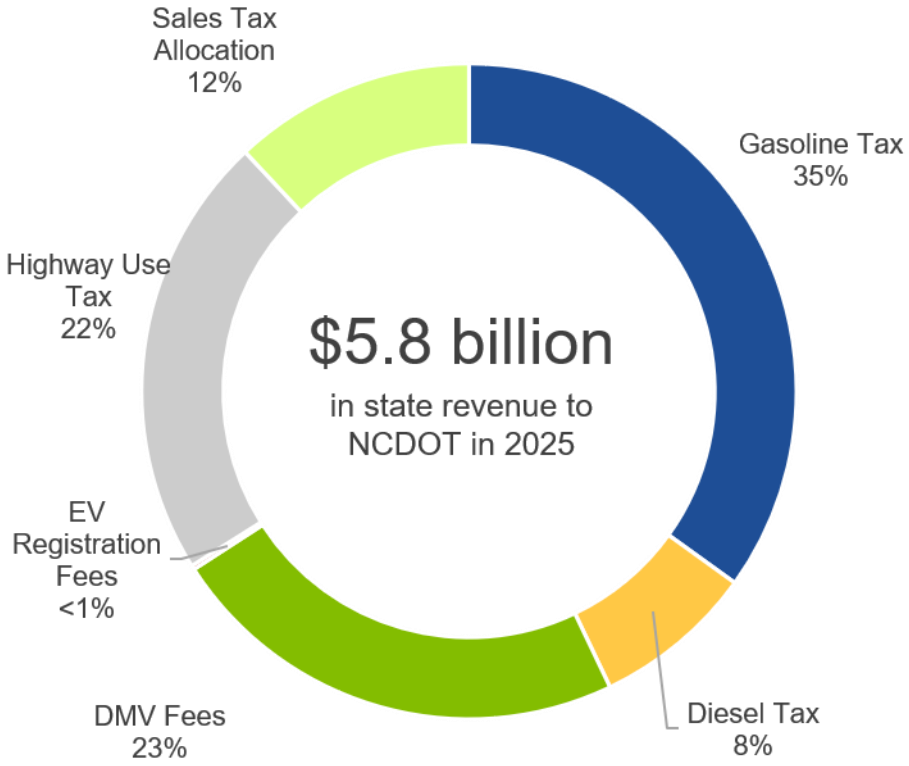


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Current State of North Carolina Transportation Funding

- State funding accounts for around 75% of NCDOT revenue
  - 25% from federal sources, primarily for capital projects
- Gasoline tax makes up largest share of state revenue



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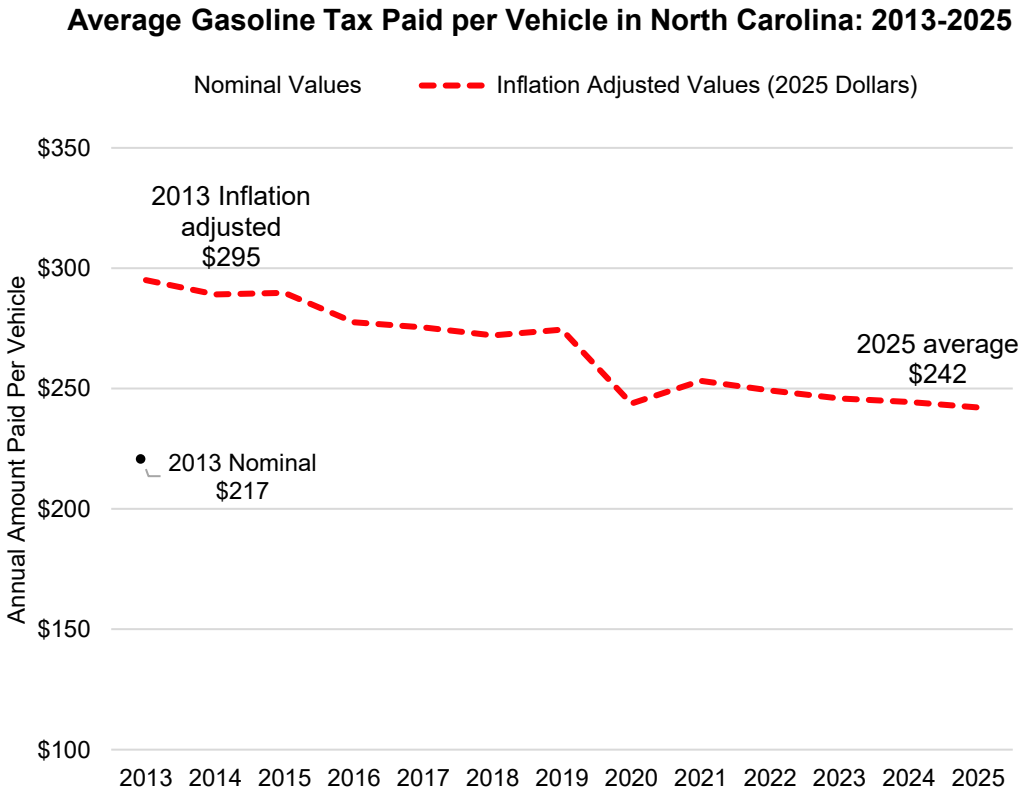
Source: NCDOR, NCDOT

Challenge: Gas Tax Revenue Slowdown

State data and forecasts show steady gas tax revenue growth, but at a slower pace than inflation or road maintenance costs.

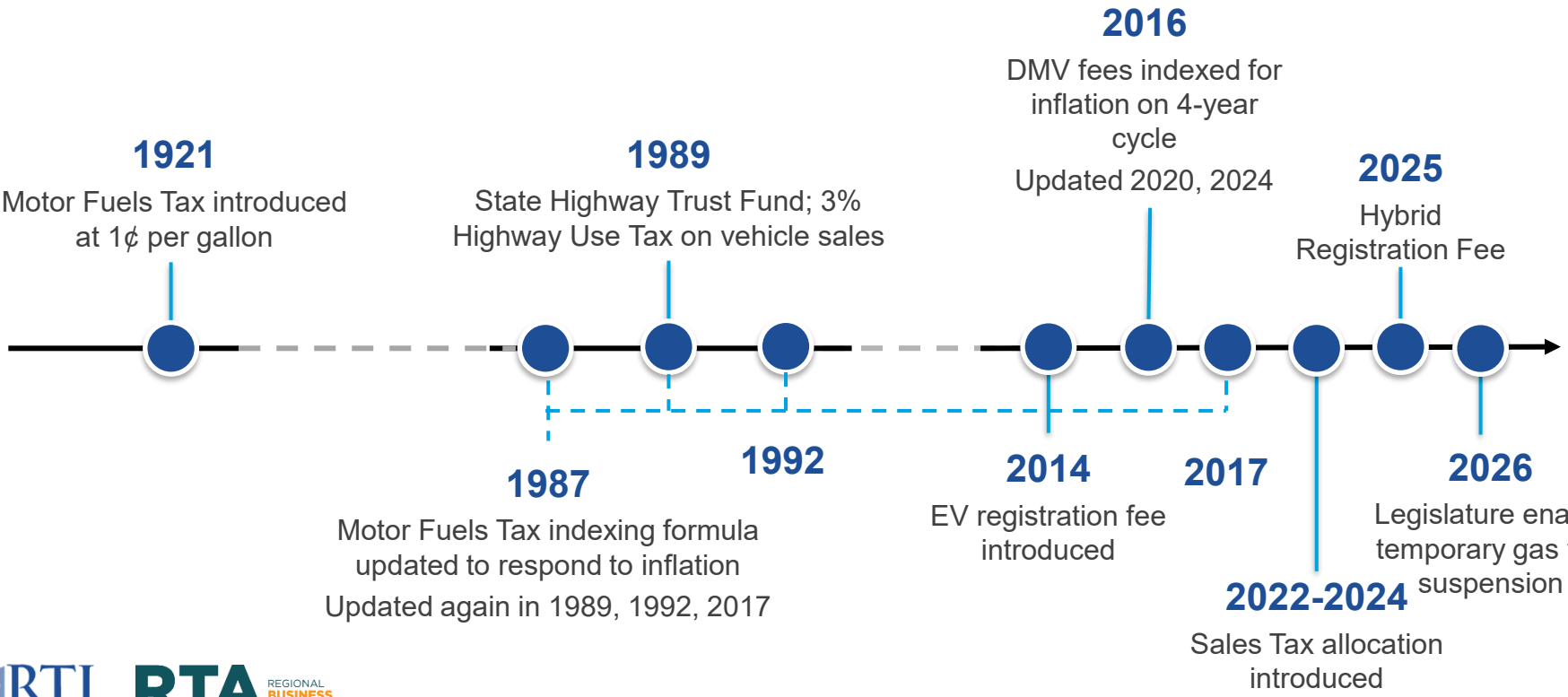
- Since 2014, **Nominal** gas tax **up $25/veh.**
- Since 2014, **Inflation adjusted down $53/veh.**

Inflation, fuel efficiency, EV adoption, and external shocks present risks to gas tax stability



Source: Historic data from NCDOR. Consumer Price Index from BLS

Evolution of State Motor Fuels Tax and NCDOT Revenue

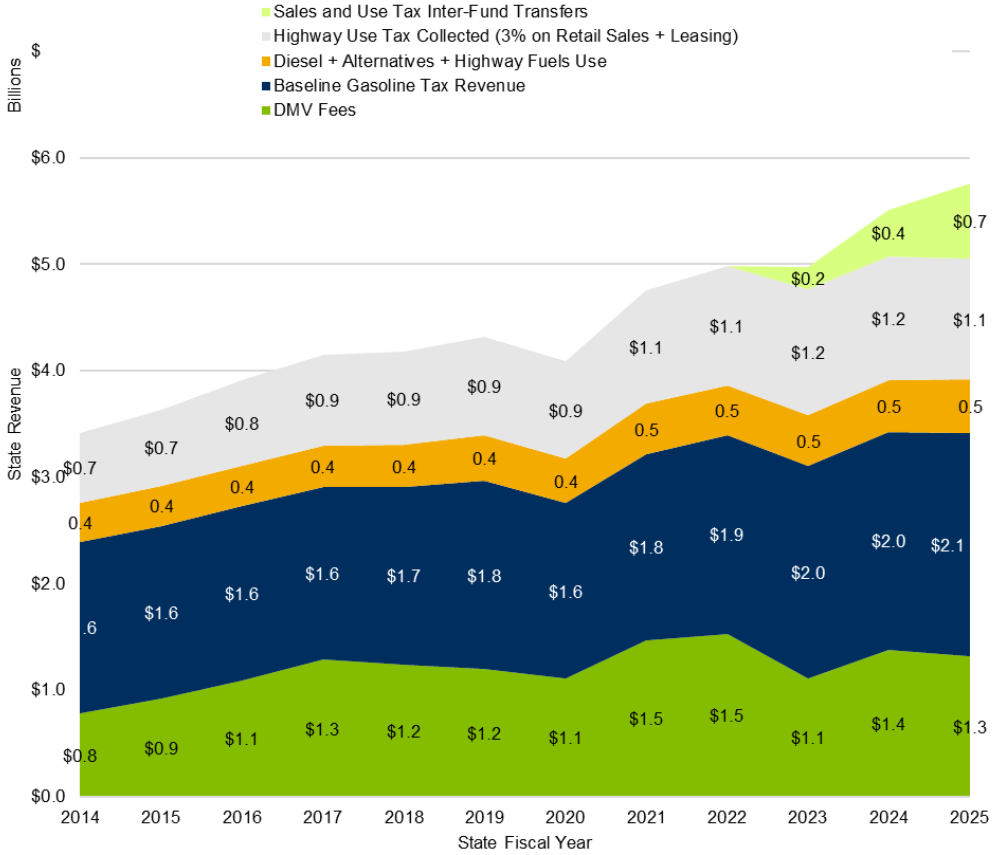


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Source: NCDOR, NCDOT

Diversification of sources supports revenue growth

- State revenue for NCDOT reached **$5.8B** in 2025
  - Driven by **state population growth** and **diversification of funding**
- Contributors included growth of **Highway Use Tax**, and addition of **sales tax allocation** in 2022
  - Gas tax provides **35%** of state funding (was **48%** in 2014).

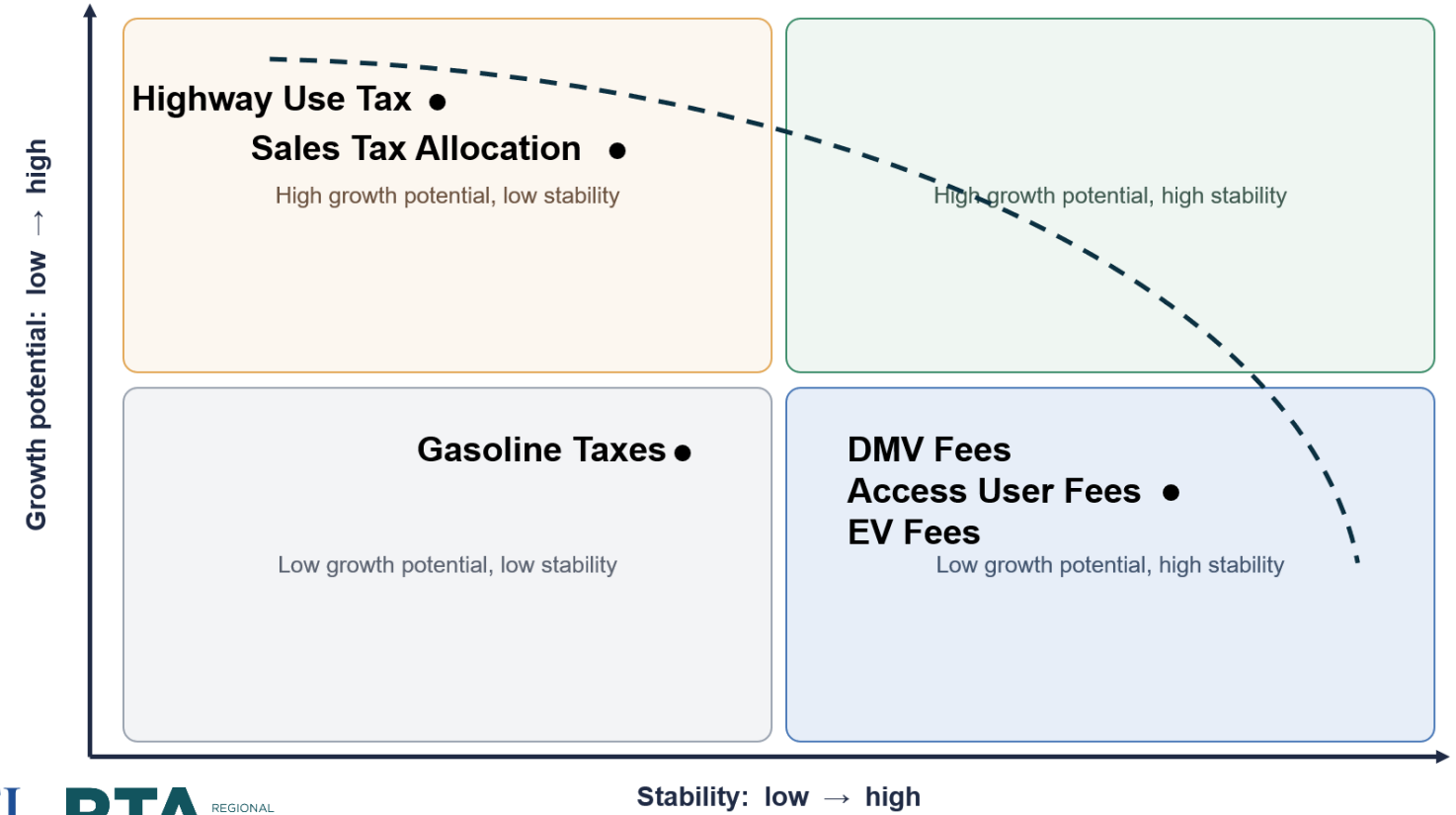


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Source: Historic data from NCDOR

Revenue Sources Balance Growth and Stability



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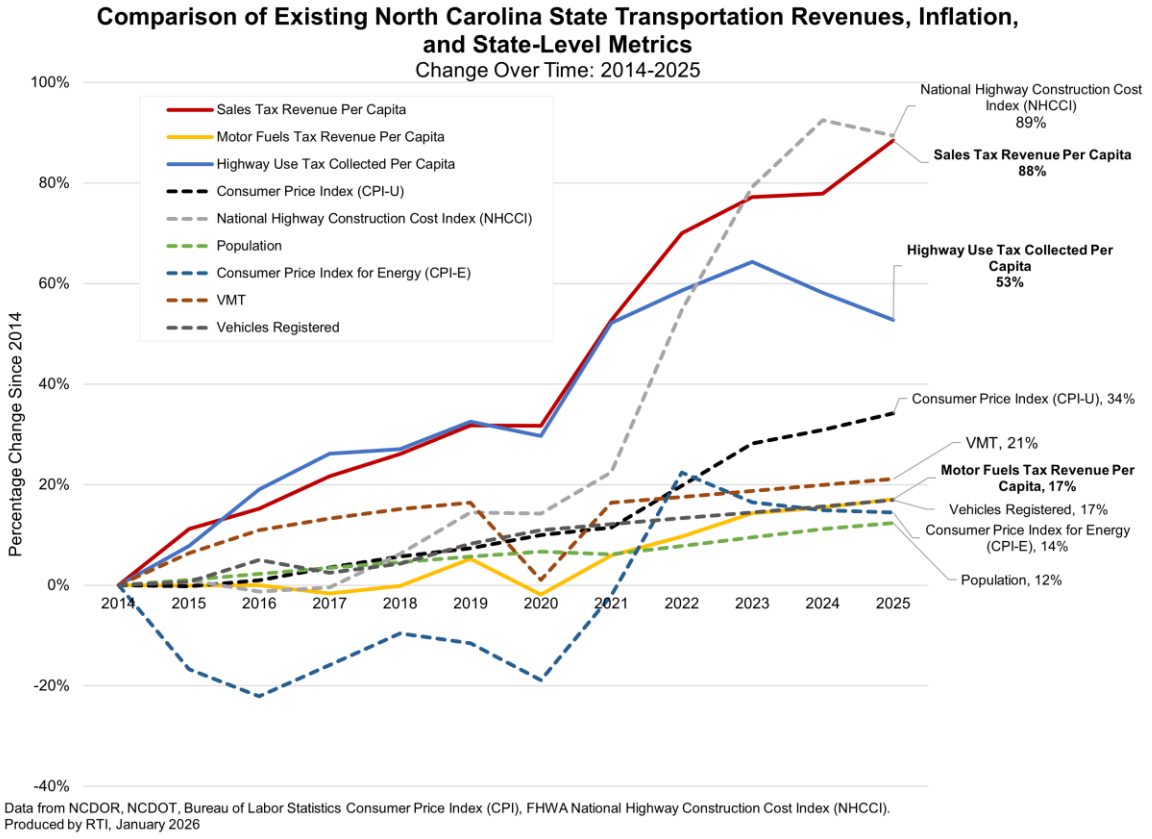
Source: RTI Analysis, Interviews

Comparison of Gasoline Tax Revenue with Inflation

Changes since 2014:

- +17% gas tax per capita
- +34% core CPI and
- **+89% Highway Construction Cost (NHCCI)**

Other state revenue sources (sales tax, highway use tax) have been more responsive to inflation



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Sources: NCDOR, NCDOT, BLS, FHWA NHCCI

Current Revenue Mix Strengths and Drawbacks

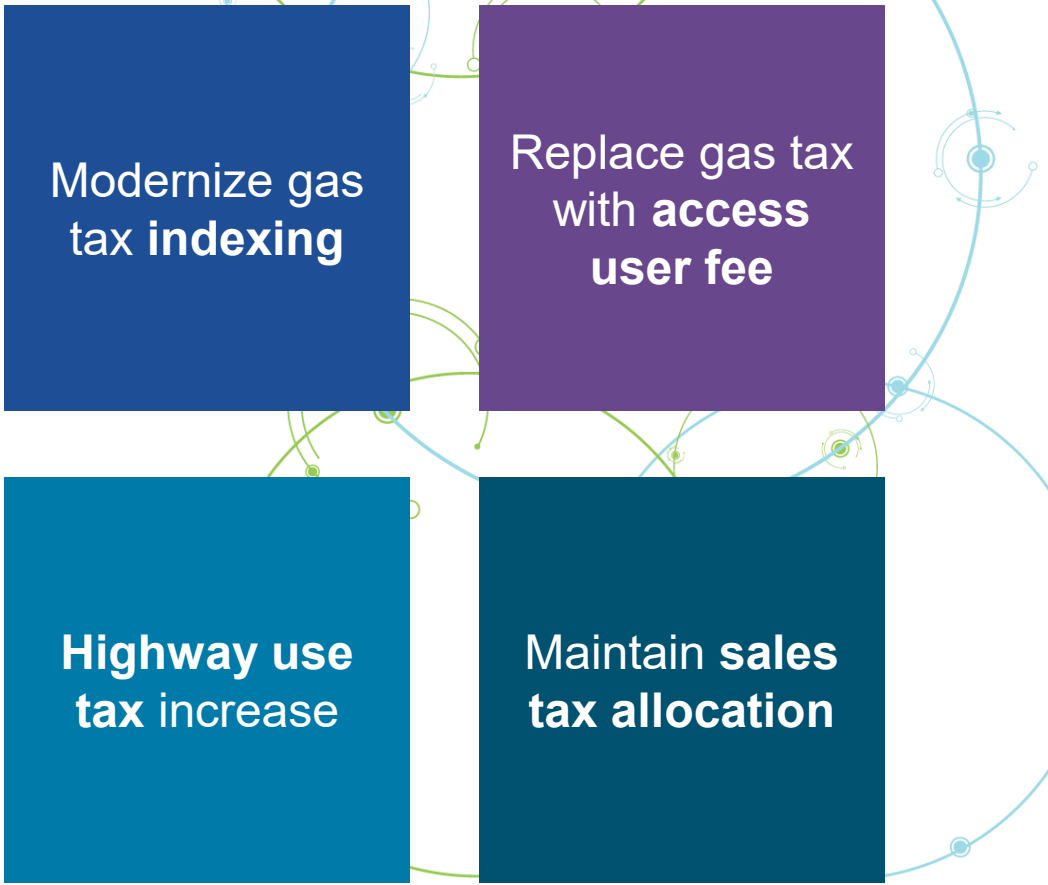
Source *(current % of total)*	Present Use in NC	Strengths	Drawbacks
Gasoline, Diesel Taxes *(35%, 8%)*	41-cent per gallon tax	• Simple to collect, existing systems hard to cheat • Payment directly tied to use of roads	• Losses of revenue from EVs and fuel-efficient cars • Regressive, more costly for rural • Not adequately responsive to inflation
DMV, Registration, Flat (access user) Fees *(23%)*	Title Fee + registration fee EV + Hybrid Fees	• Same payment regardless of travel • Stable revenue source	• Same payment regardless of travel • Not paid by out-of-state drivers • Risk of noncompliance, enforcement
Highway Use Tax *(22%)*	One-time tax of 3% of vehicle value, upon sale or transfer	• Tax paid is proportionate to vehicle value • Responsive to inflation	• Paid once, not annually or periodically • Not paid by out-of-state drivers • Tied to a durable goods purchase
Sales Tax Allocation *(12%)*	6% of sales tax revenue (based on percentage of sales tied to transpiration)	• Flexible revenue source • Responsive to inflation	• May get clawed back for competing funding priorities

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Source: RTI Analysis

Example Options for North Carolina

Example potential rebalancing of existing funding sources for continued resilience and inflation responsiveness



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