

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

## Legislative Fiscal Note

**BILL NUMBER:** House Bill 927 (First Edition)  
**SHORT TITLE:** Reestablish NC as the "Good Roads State".  
**SPONSOR(S):** Representatives Torbett, Iler, Shepard, and Tine

<b>FISCAL IMPACT</b>					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
<b>State Impact</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>
General Fund Revenues:	\$3.5	\$8.4	(\$45.6)	(\$89.9)	(\$139.0)
General Fund Expenditures:					
Highway Fund Revenues:	\$93.6	\$536.5	\$648.5	\$714.2	\$487.6
Highway Fund Expenditures:	Expenditures Not Fully Known. See Assumptions and Methodology.				
Highway Trust Fund Revenues:	(\$78.4)	(\$59.2)	(\$45.0)	(\$45.0)	\$244.2
Highway Trust Fund Expenditures:					
State Positions:					
<b>NET STATE IMPACT</b>	<b>\$18.7</b>	<b>\$485.7</b>	<b>\$557.9</b>	<b>\$579.3</b>	<b>\$592.8</b>
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED</b> Department of Transportation					
<b>EFFECTIVE DATE:</b>	Varies				
<b>TECHNICAL CONSIDERATIONS:</b>	None				

**BILL SUMMARY:**

Parts I and II of this bill reduces the motor fuel excise tax rate to 30 cents per gallon effective July 1, 2015, increases the highway use tax rates by one percent, and increases the tax caps for commercial and recreational vehicles effective on January 1, 2016. The bill repeals refunds for timely payment and/or filing for motor fuel distributors, importers, and bulk-end users. The bill establishes a trigger if federal transfers decline more than \$100 million then the motor fuel tax rate increases one cent per gallon on the next January 1, and if federal transfers decline more than \$200 million then the highway use tax will increase by 0.5 percent on the next January 1. If the federal transfer rebounds, the tax increases are eliminated on the next January 1. Increased highway use tax revenues normally deposited in the Highway Trust Fund are transferred to the Highway Fund for the first four fiscal years.

Part III provides for a mid-year outlay from the Highway Fund cash balance for maintenance dredging of shallow draft inlets and deep draft navigation channels, should historical federal funding decline by an average rate of five percent.

Part IV eliminates a \$196,582,981 transfer from the Highway Fund to the General Fund in four equal installments over four years, beginning in FY 2017-18. Effective January 1, 2016, Section

10(b) eliminates the statutory earmark of motor fuel excise tax revenues to the Water and Air Quality Account.

Part V provides for across-the-board increases to certain existing fees collected by the Division of Motor Vehicles and creates a new tiered late penalty for overdue registration renewals.

Part VI creates a new tax on gross premiums attributable to auto insurance policies.

Part VII contains various provisions to “Restore North Carolina’s reputation as the “Good Roads State.”

Part VIII appropriates \$300 million in FY 2015-16 and \$530 million in FY 2016-17 through FY 2018-19 to specific programs, as listed in Table 5.

**ASSUMPTIONS AND METHODOLOGY:**

*Fiscal Impact to Highway Fund and Highway Trust Fund*

The fiscal impact, as shown in Table 1, reduces the motor fuel excise tax rate and eliminates a motor fuel excise tax refund in Part I, it increases the Highway Use Tax in Part II and DMV fees in Part V, it eliminates the Water & Air Quality transfer in Part 4, Section 10(b), it phases-out the General Fund transfer used to support the State Highway Patrol in Part 4, Section 10(a), and it adds a new supplemental tax on gross premiums from motor vehicle insurance contracts in Part VI.

**Table One: HB 927 Fiscal Impact To Highway Fund and Highway Trust Fund (Estimates in Millions)**

Tax Type	Description	FY 2015-16		FY 2016-17		FY 2017-18		FY 2018-19		FY 2019-20	
		Highway Fund	Highway Trust Fund	Highway Fund	Highway Trust Fund	Highway Fund	Highway Trust Fund	Highway Fund	Highway Trust Fund	Highway Fund	Highway Trust Fund
Motor Fuels Tax	30 cpg until 1/1/17; then formula	\$ (225.5)	\$ (75.2)	\$ (164.5)	\$ (54.8)	\$ (124.1)	\$ (41.4)	\$ (123.8)	\$ (41.3)	\$ (128.1)	\$ (42.7)
	Repeal Discounts for Timely Payment	\$ 6.0	\$ 2.0	\$ 12.0	\$ 4.0	\$ 12.9	\$ 4.3	\$ 13.2	\$ 4.4	\$ 13.4	\$ 4.5
	Eliminate transfer to Water and Air	\$ 8.4		\$ 8.4		\$ 8.3		\$ 8.3		\$ 8.3	
Highway Use Tax	Increase HUT rate from 3% to 4%	\$ 89.7		\$ 214.7		\$ 219.4		\$ 218.4			\$ 219.0
	Increase long-term lease rate from 3% to	\$ 3.5		\$ 9.6		\$ 9.6		\$ 9.6			\$ 9.6
	Raise cap on commercial vehicles from \$1,000 to \$2,000	\$ 2.8		\$ 6.0		\$ 6.0		\$ 6.0			\$ 6.0
	Raise cap on recreational vehicles from \$1,500 to \$2,000	\$ 0.2		\$ 0.5		\$ 0.5		\$ 0.5			\$ 0.5
	Raise cap on out-of-state vehicles from \$150 to \$200	\$ 0.9		\$ 1.9		\$ 1.9		\$ 1.9			\$ 1.9
Gen. Fund Transfer	Phase out transfer beginning in FY 2017-18	\$ -	\$ -	\$ -	\$ -	\$ 49.1	\$ -	\$ 98.3	\$ -	\$ 147.4	\$ -
DMV Fees*	Increase existing fees 50%	\$ 132.2	\$ (5.2)	\$ 289.8	\$ (8.3)	\$ 298.8	\$ (7.9)	\$ 307.5	\$ (8.2)	\$ 263.4	\$ 45.4
Gross Premium	New 6.5% gross premium tax on all auto insurance policies	\$ 75.3	\$ -	\$ 158.1	\$ -	\$ 166.0	\$ -	\$ 174.3	\$ -	\$ 183.1	\$ -
<b>NET FISCAL IMPACT</b>		<b>\$ 93.6</b>	<b>\$ (78.4)</b>	<b>\$ 536.5</b>	<b>\$ (59.2)</b>	<b>\$ 648.5</b>	<b>\$ (45.0)</b>	<b>\$ 714.2</b>	<b>\$ (45.0)</b>	<b>\$ 487.6</b>	<b>\$ 244.2</b>

\* Of the DMV fees that would otherwise be credited to the Highway Trust Fund, 20% in FY 2016 and 35% thereafter until FY 2020 are transferred to the Highway Fund under temporary disbursement changes.

*Fiscal Impact to General Fund*

As shown in Table 2, two sections of the bill impact the General Fund. Part II, Section 5 increases the short-term lease or rental of a motor vehicle from 8% to 9%. Part IV, Section 10(a) eliminates a \$196,582,981 transfer from the Highway Fund to the General Fund in four equal installments over four years, beginning in FY 2017-18.

Tax Type	Description	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Highway Use Tax	Increase short-term lease rate from 8% to 9%	\$ 3.5	\$ 8.4	\$ 3.5	\$ 8.4	\$ 8.4
Highway Fund Transfer	Phase out SHP transfer beginning in FY 2017-18	\$ -	\$ -	\$ (49.1)	\$ (98.3)	\$ (147.4)
<b>NET FISCAL IMPACT</b>		\$ 3.5	\$ 8.4	\$ (45.6)	\$ (89.9)	\$ (139.0)

*Fiscal Impact to the Civil Penalty and Forfeiture Fund*

Part V, Section 24 creates a new late penalty for delinquent registration renewals, tiered according to the length of delinquency – less than one month (\$15); between one and two months (\$20); and longer than 2 months (\$25). The projections (\$M) provided below are based on average late renewals observed from FY 2008-09 to 2012-13. Existing interest conditions would continue to apply.

Tier	Late Renewals	Penalty	Yield
< 1mo.	1,668,696	\$ 15.00	\$ 25.03
1mo. - 2 mo.	306,111	\$ 20.00	\$ 6.12
> 2mo.	247,263	\$ 25.00	\$ 6.18
		\$	\$ 37.33

While indicative of potential revenue, payer response to the imposition of this new penalty is indeterminate. However, the penalty is expected to incentivize a higher rate of on-time renewal, leading to diminished collections over time. For illustration, this analysis assumes an effective collection rate of 80% and annual decline in assessments of 5%. No leveling is shown within the first four years of implementation, as payer behavior and timing are indeterminate.

The clear proceeds of these civil penalties are distributed to local education agencies (LEAs) via the State Public School Fund (SPSF) and the State School Technology Fund (SSTF).

Tax Type	Description	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Registration Late Fee	New tiered late penalties for registration renewal	\$ -	\$ 29.9	\$ 28.4	\$ 27.0	\$ 25.6
<b>NET FISCAL IMPACT</b>		\$ -	\$ 29.9	\$ 28.4	\$ 27.0	\$ 25.6

**Part I. Motor Fuels Tax Rate/ Discount for Timely Payment**

Section 1 reduces the motor fuel excise tax rate to 30 cents per gallon on July 1, 2015. The rate remains in effect until January 1, 2017 when the CPI-U: Energy/Population formula is applied. Section 1 also adds an adjustment to the motor fuel excise tax rate if federal funds, excluding non-competitive and discretionary funds, decline \$100 million from the prior year. If this loss occurs, the motor fuel tax rate will increase by one cent over the calculated rate in G.S. 105-449.80 at the start of the next calendar year. A one cent increase is approximately \$50 million. If federal funding rebound, the increase will be eliminated on the following January 1.

Section 2 repeals a discount for timely payment to licensed distributors and importers and a discount for timely filing and payment to unlicensed distributors, bulk-end users, and certain importers. This section makes several conforming changes.

Table 1 includes the fiscal analysis for Sections 1 and 2. No federal revenue decline in excess of \$100 million is expected during the 5-year analysis.

Section 3 sets the effective dates of July 1, 2015 for Section 1 and January 1, 2016 for Section 2.

**Distribution of Motor Fuels Tax:**

Seventy-five percent (75%) of motor fuels tax revenue is deposited in the Highway Fund and the remaining twenty-five percent (25%) is deposited in the Highway Trust Fund. Three formulaic allocations of revenues from the Highway Fund are impacted by this bill, as shown in Table 4. Powell Bill aid to municipalities is derived from ten and four tenths percent (10.4%) of motor fuel tax revenues and both the Wildlife Resources Fund and the Shallow Draft Navigational Channel and Lake Dredging Fund receive one sixth of one percent (0.167%) of Highway Fund motor fuel excise tax revenues. Powell Bill funds are distributed in October and January based on actual revenue collections from the prior fiscal year. The motor fuels tax revenues collected in FY 2015-16 will determine the amount of funds municipalities receive in October 2016 and January 2017.

<b>Table Four: Statutory Adjustments - FY 2015-16 to FY 2019-20</b>					
	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>
Powell Bill	\$ (23,452,000)	\$ (17,108,000)	\$ (12,906,400)	\$ (12,875,200)	\$ (13,322,400)
Wildlife Resources	\$ (375,833)	\$ (274,167)	\$ (206,833)	\$ (206,333)	\$ (213,500)
Dredging	\$ (375,833)	\$ (274,167)	\$ (206,833)	\$ (206,333)	\$ (213,500)

**Part II. Highway Use Tax**

Section 4 increases the highway use tax rate from 3% to 4% and it raises the cap on commercial (currently \$1,000) and recreational vehicles (currently \$1,500) to \$2,000. Similar to Section 1, it adds an adjustment to the highway use tax rate if federal funds, excluding non-competitive and discretionary funds, decline \$200 million from the prior year. If this loss occurs, the highway use tax rate will increase by 0.5% at the start of the next calendar year. A 0.5% increase is approximately \$105 million. If federal funding rebound, the increase will be eliminated on the following January 1.

Section 5 raises the highway use tax rate on short-term leases (deposited in the General Fund) from 8% to 9% and the rate on long-term leases from 3% to 4%.

Section 6 raises the highway use tax cap on out-of-state vehicles from \$150 to \$200.

Section 7 transfers the increased revenues from the Highway Trust Fund to the Highway Fund for four fiscal years. Increased revenues from short-term leases remain in the General Fund.

Changes to the tax rates or caps become effective on January 1, 2016.

**Part III. Funding for Dredging**

Section 9 provides for a mid-year outlay of funds from the Highway Fund cash balance for maintenance dredging of shallow draft inlets and deep draft navigation channels, provided federal

funding for that purpose declines by an average annual rate of 5% for the preceding five federal fiscal years. Should this reduction materialize, NCDOT is directed to transfer to the Department of Environment and Natural Resources by January 1<sup>st</sup> of the current fiscal year an amount equivalent to 20% of actual federal expenditures on maintenance dredging projects for the prior federal fiscal year. Funded activities are to be performed in accordance with memoranda of agreement with the Army Corp. of Engineers, and funds transfers must be reported jointly to the Joint Legislative Commission on Governmental Operations within 30 days.

#### ***Part IV. Elimination of Certain Transfers***

Section 10(a) eliminates a \$196,582,981 transfer from the Highway Fund to the General Fund in four equal installments over four years, beginning in FY 2017-18. Effective January 1, 2016, Section 10(b) eliminates the statutory earmark of motor fuel excise tax revenues to the Water and Air Quality Account.

#### ***Part V. DMV Fees***

Part V directs across-the-board 50% rate increases for the following existing fees assessed by the Division of Motor Vehicles:

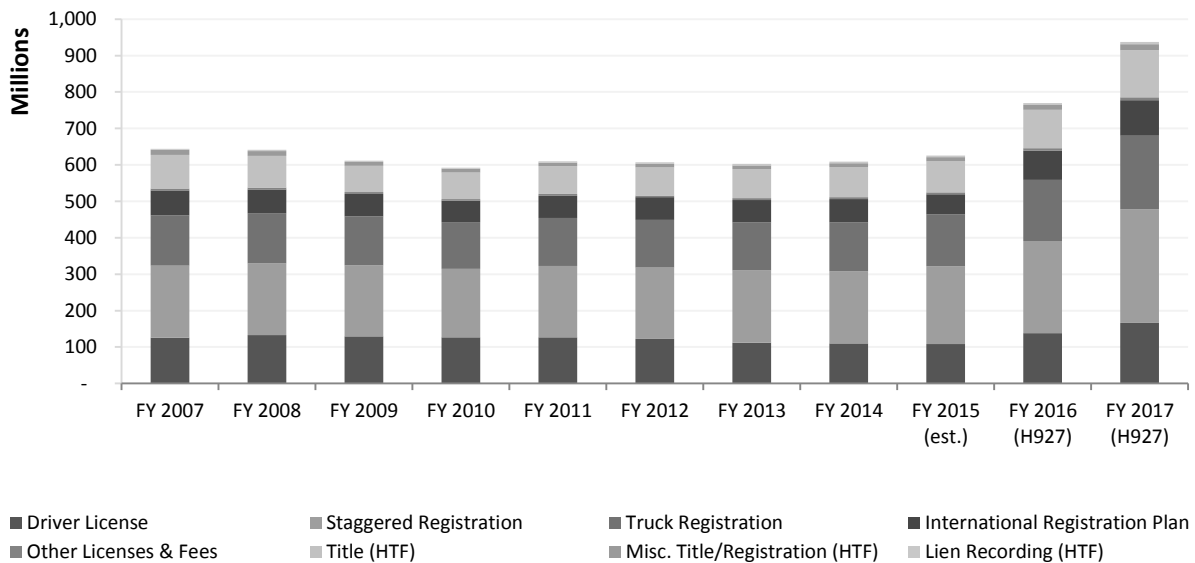
- Section 11 (G.S. 20-7) – license, endorsement, restoration, and permit fees;
- Section 12 (G.S. 20-11) – limited permit and limited provisional license fees;
- Section 13 (G.S. 20-14) – duplicate license fee;
- Section 14 (G.S. 20-16) – driver improvement clinic fee;
- Section 15 (G.S. 20-26) – record fees;
- Section 16 (G.S. 20-37.15) – commercial license application fee;
- Section 17 (G.S. 20-37.16) – commercial license and endorsement fees;
- Section 18 (G.S. 20-42) – document certification fee;
- Section 19 (G.S. 20-50) – temporary plate fee;
- Section 20 (G.S. 20-73) – titling late penalty;
- Section 21 (G.S. 20-85) – registration, lien recording/removal, and titling fees;
- Section 22 (G.S. 20-85.1) – one-day title service fee;
- Section 23 (G.S. 20-87) – passenger vehicle registration fees;
- Section 25 (G.S. 20-88) – property hauling vehicle, trailer, and supplemental registration fees;
- Section 26 (G.S. 20-289) – dealer, manufacturer, and distributor fees;
- Section 27 (G.S. 20-385) – motor carrier fees; and,
- Section 28 (G.S. 44A-4) – lien recording fees.

Estimates are based on FY 2013-14 actual collections and are adjusted for applicable growth assumptions by fee type, as outlined in the January Consensus Revenue Forecast for the 2015-17 biennium, and the proposed mid fiscal year implementation date of January 1, 2016. Rate assumptions range from -3.5% to 20.8% depending on the fee type, relative to FY 2013-14 collections. Out-year estimates align with the growth assumptions contained within NCDOT's 10-year revenue forecast.

Relative to the biennial forecast for these fee types, these adjustments represent net increases of \$128.3M and \$296.2M for FY 2015-16 and FY 2016-17, respectively. Compared to actual FY 2013-14 collections, these increases are \$161.0M and \$329.0M, respectively. Based on prior forecast to actual comparisons, Fiscal Research anticipates variance per fee type of  $\pm 10\%$ .

From the titling, registration, and lien recording fees that would otherwise be credited to the Highway Trust Fund, Section 29 redirects 20% of collections during FY 2015-16 to the Highway Fund. This redirection increases to 35% of collections for FY 2016-17, 2017-18, and 2018-19.

**Chart One. Projected DMV Fee Collections – FY 2015-17 Biennium**



This analysis does not address the scope of work for the requisite information technology system modifications to implement HB 927.

***Part VI. Supplemental Tax on Gross Premiums for Motor Vehicle Insurance Contracts***

Part VI creates an additional tax of 6.5% on the gross premiums on insurance contracts for motor vehicles. The Dept of Revenue provided information on the value of insurance premiums related to insurance contracts. Fiscal Research grew this number by 5% for each year based on the historical increases in premiums and then applied the 6.5% rates to determine the revenue impact.

***Part VII. Establish “DOT Report” Program***

Part VII contains various provisions to restore “North Carolina’s reputation as the “Good Roads State”.

Section 32(b)(1) enables citizens to report to DOT road hazards for DOT to repair quickly. Potholes are expected to be fixed within two business days and other issues are to be fixed in 10 business days. DOT estimates the quick repair of potholes will cost \$35 million annually. Section

32(b)(2) requires DOT to adopt procedures to streamline project delivery. It also requires DOT to adopt unit pricing metrics to drive down costs in the future. It is expected this Section will reduce project costs but it is not known how much. Sections 32(b)(3) and 32(b)(4) have no fiscal impact. Section 32(b)(5) authorizes the Joint Legislative Transportation Oversight Committee to hire a consultant to perform a management and operations analysis of the Highway Division. Costs are not known but will be incurred by the Highway Trust Fund. Section 32(b)(6) includes on-line advancements to track the progress of significant highway projects and give greater comparison data to evaluate delivery rates and costs. IT cost, including personnel costs, from Sections 32(b)(1) and 32(b)(6) is approximately \$1,600,000 in FY 2015-16. The recurring cost for operations and maintenance is \$215,000 beginning in FY 2016-17. Part VII becomes effective when it becomes law.

**Part VIII. Appropriations**

Section 33 appropriates \$300 million in FY 2015-16 and \$530 million in FY 2016-17 through FY 2018-19 to specific programs, as listed in Table 5.

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Contract Resurfacing	\$180.0	\$344.5	\$238.5	\$238.5
Port Modernization/Dredging	\$60.0	\$106.0	\$212.0	\$212.0
Municipal Resurfacing	\$30.0	\$53.0	\$53.0	\$53.0
Structurally Deficient Bridges	\$30.0	\$26.5	\$26.5	\$26.5
<b>Total</b>	<b>\$300.0</b>	<b>\$530.0</b>	<b>\$530.0</b>	<b>\$530.0</b>

Some sections of this bill may require additional funding. DOT estimates fixing potholes within two business days, as required in Part VII, Section 32(b)(1) will cost an additional \$35 million per year. DOT estimates it the changes to the DOT website, as required in Part VII, Section 32(b)(1) and Section 32(b)(6), will cost \$1,600,000 in FY 2015-16 and \$215,000 recurring beginning in FY 2016-17. Section 32(b)(5) authorizes the Joint Legislative Transportation Oversight Committee to hire a consultant to perform a management and operations analysis of the Highway Division, but the cost, which will be borne by the Highway Trust Fund, is not known.

Section 32(b)(2) requires DOT to adopt unit pricing metrics and reduce the unit price annually, but associated savings are not known.

**SOURCES OF DATA:** Department of Transportation, Department of Revenue

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Amna Cameron, Bryce Ball, and Rodney Bizzell

**APPROVED BY:**

Mark Trogdon, Director  
**Fiscal Research Division**

**DATE:** April 28, 2015



**Signed Copy Located in the NCGA Principal Clerk's Offices**