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Is Now the Time to Stop the Transfer?

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The Issue

The 21st Century Transportation Committee and some legislators are seeking to take over \$170 million from the General Fund by stopping the so-called transfer from the Highway Trust Fund (HTF) going to the General Fund.

A portion of the HTF is transferred to the General Fund every year as relief for the revenue gap created by 1989 legislation that established the HTF - legislation which re-routed car sales-tax revenue from the General Fund to the HTF.

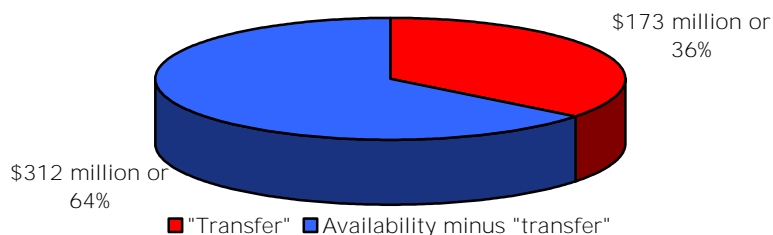
A Large Claim on Limited Budget Resources

In boom times the change in revenue picture caused by taking \$170 million from the General Fund **wouldn't** perhaps matter so much, but these are not those times.

The Fiscal Research Division of the General Assembly estimates there is around \$485 million available for an expansion budget this year, assuming no new or increased taxes or fees and depending on how much is placed into the Rainy Day Fund and expenditures on repairs and renovations.

Stopping the so-called transfer would take up a little over one-third of that availability, leaving around \$310 million for the expansion budget. This is not enough to cover ABC bonuses and a cost-of-living pay increase for state employees and public school teachers, let alone the competing demands in health, education and social services.

How Much Revenue Availability Would Ending the Transfer Consume?



Is Now the Time to Give DOT More?

There is no doubt that the Department of Transportation is still operating inefficiently and will continue to do so for the foreseeable future. At present, the transformation of DOT has not evolved much further than the planning stages. Some new processes have been piloted, **most notably in the Bridge Program, but it is clear that DOT's transformation has not yet** resulted in a widespread change in corporate culture or embedded new, efficient organizational routines.

The main reason for giving DOT more money now is to combat road construction inflation. But any potential savings will be partially, or perhaps wholly, offset by continuing DOT inefficiency. The result: perhaps no savings from starting to build a handful of projects now rather than in one or two years at the cost of not meeting some current important health and education budget needs.

Remember, it was only a few months ago that McKinsey, the management consulting firm, concluded **in its report on DOT that, "By its own admission, [DOT] has remained largely stagnant with respect to building capacity and capability."**

What Will the Money Be Spent On?

DOT's project prioritization process is not currently guided by objective formulas and a transparent decision-making process. North **Carolina's major** road construction program is dominated by decisions made twenty years ago during the crafting of the Highway Trust Fund legislation. Arguably, this major construction program is not informed enough by what North Carolina really needs now and in the future.

The result is that transportation budget resources are not currently allocated strictly on the basis of need, which is problematic considering the tight budget environment.

The Governors' Proposal

The Governor's budget proposes a reduction in the transfer for 2008-09 of \$25 million. **Given the competing demands of this year's budget, the concerns over DOT and the** absence of a proper project prioritization process, this would appear to be the maximum the General Assembly should consider this year.

It is widely recognized that additional resources will be needed in the future for highway maintenance, construction and public transportation. But in the absence of administrative efficiency and reliability, and smart priorities, now may not be the time to end the transfer from the HTF to the General Fund.