

COMMENTS TO THE JOINT TRANSPORTATION OVERSIGHT COMMITTEE

April 6, 2010

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North Carolina's highway system is a valuable inheritance and a competitive advantage for our businesses. However there are problems with it. We are building a system that we cannot maintain, and we are neither addressing congestion around major cities nor meeting major needs in rural areas.

You have been provided data that reveal the critical shortfall to meet the needs of our transportation system. Your leadership is needed to do something about it.

We firmly believe an independent study of the equity formula is needed and justified. We also believe that we need a formula that will fairly distribute scarce transportation dollars based on 21<sup>st</sup> century needs and conditions. And, we further believe that using an outdated method of distribution—the 21-year-old equity formula—creates its own problems. Some believe they are not being treated fairly under the current formula and some think they will lose dollars if it is changed. Either way points to the fact that something is wrong with the way we're doing it.

North Carolina needs to consider how long to continue using the 21-year-old equity funding formula that is not meeting the needs of the State.

I will offer four areas that illustrate why the equity formula does not do the job it was intended to do.

**The first point: The Equity Formula Was Flawed.**

The equity formula had serious flaws from the beginning. In 1998, the State Auditor reported that the revenue projections given to the Legislature were optimistic and that the original cost estimates had almost doubled. Since then, revenues have continued to fall, in real terms, and costs have continued to rise.

The reality is that the requirements of the equity formula are not a match with the priorities that have been set by NCDOT. The department intends to base project decisions on the importance of the facility--how well it serves the goals of improving congestion, improving safety and improving system condition (asset health). We agree, and we hope you do also, that these are important criteria that should address some of the problems. But, will the result yield a process of trying to put a square peg in a round hole?

Keep in mind that there were problems with the formula from inception. It is my personal opinion that the primary reason the equity formula has survived this long is that very few people understand how it works.

### **The second point: Poor Progress.**

Originally, everyone believed that the Intrastate System could be completed within 10 to 13 years. In the mid-1990s, the completion date was revised outward. We are now 21 years into this construction program. At the current production rate, it will take another seventeen years to complete the Intrastate System. But 17 years would be optimistic because the easy projects are finished.

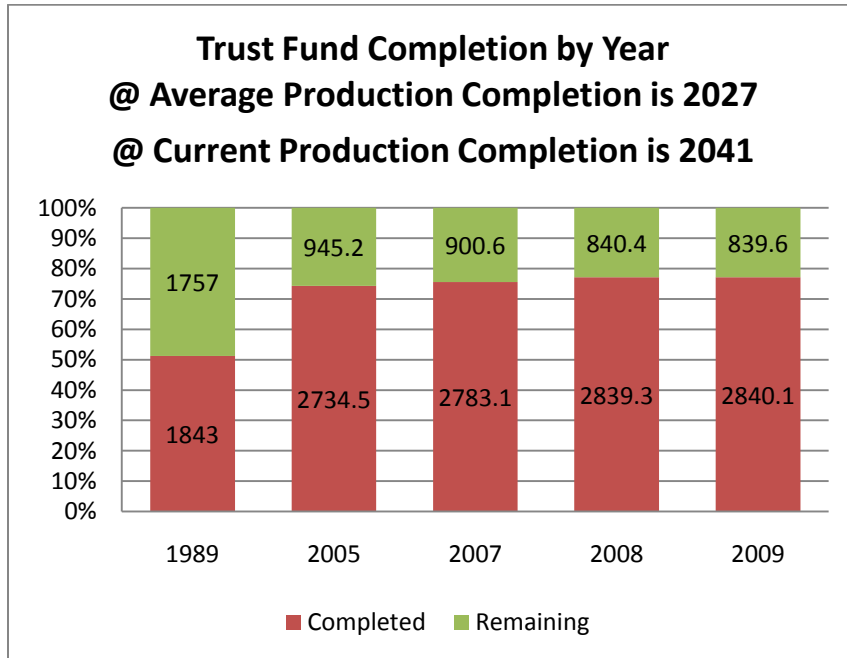


Figure 1: Intrastate System Progress

This chart shows the Trust Fund completion by year. It shows you that the formula has not produced completion of the Intrastate System in 21 years and, at that rate of completion, it would take another 17 years. Don't think a shortfall in revenues is the only reason. The primary lack of progress is attributable to the way the equity formula is structured.

### **The third point: The Equity Formula Distorts and Complicates Funding Decisions.**

The equity formula was included in the 1987 Highway Trust Fund Law to ensure that all parts of the state received the funding needed to put a four-lane divided highway within 20 miles of every citizen in the state. In order to meet this goal it naturally favors new construction (based on the list of projects in the bill) at the expense of rehabilitation, bridge replacement, and maintenance.

The equity formula provides no incentive to complete a Funding Region's or a Highway Division's portion of the Intrastate System. As a funding region completes its portion of the

Intrastate System, its equity formula funding drops. In 21 years, only one Division has completed all of its Intrastate System projects.

The equity formula limits the State's ability to address critical transportation needs. To complete a large project, many small projects must be delayed or canceled. Rather than push a large project forward, NCDOT tends to put its money on lots of smaller projects. This works to the detriment of projects like the Bonner Bridge, the Mid-Currituck Bridge, the I-85 Bridges over the Yadkin River, and reconstructing I-95.

Because of the emphasis on the Intrastate System North Carolina cannot even try to solve congestion problems in our Charlotte, Raleigh and the Triad. According to information from businesses involved in logistics and supply chain management, truckers are already avoiding Raleigh because the highway system around this city is unreliable. The new intermodal facility at Charlotte's Douglas Airport may suffer because of congestion around Charlotte.

In summary, you can see the results of the constraints and complications dictated by the equity formula.

- The intrastate program is still being funded but there is no mandate to use that money for the intrastate miles. Only 1 division out of 14 has finished its projects.
- The formula favors new construction; hence the poor conditions of roads and lack of bridge replacement.
- Congestion problems in major metro areas worsen.
- North Carolina's potential as a major logistics location is being threatened by the unreliability of the highway system and congestion in certain regions.

### **The fourth point: The Equity Formula Will Not Match New Federal Bills.**

Over the next 18 months, or so, Congress will reauthorize the federal transportation bill. This bill promises to be the biggest change in transportation funding since 1990. The main proposal being circulated will make many changes in funding and what will have priority. We may see:

- An emphasis on Metropolitan Areas with populations over 500,000;
- A focus on maintaining the system;
- More attention and dollars for freight movement and livability;
- No increase in authorization levels;
- Fewer formula programs;
- More grants for Projects of National Significance (TIGER Grants), and North Carolina certainly did not do well with that program;
- More public-private partnerships; and
- A national Infrastructure Bank.

It is important that you recognize that most of the likely federal changes will make it difficult to match federal dollars with state dollars in the equity formula. Even though NCDOT is moving toward a more objective program of work, constraints by the equity formula and potential inability to match federal mandates could make our transportation problems worse—but at a more rapid pace. Action is needed.

Imagine our transportation system as a patient with some severe health issues. The symptoms require surgery—not a band aid. In this case, you are in charge of the patient’s health. What are you going to do?

## Recommendations

Our main recommendation is for the Legislature to support an independent analysis and review of the equity formula.

We need a funding formula that:

- takes into account the falling revenues allocated to transportation and the current realistic costs of highway construction;
- meets the performance goals of the State;
- helps maintain the existing infrastructure and encourage the completion of priority projects; and
- is flexible enough to match new federal allocation formulas and federal funding streams.

A credible research team can identify the proper analytical strategy. Only the Legislature can assign responsibility for a fair, objective analysis which, when completed, should give you the information you need and can trust. Ask for recommendations that will improve our transportation system and gain the confidence of the public. This is a responsibility that cannot be ignored.

In conclusion, I urge you to assert your authority and recommend an independent study of equity funding that will meet the needs of our state. And, it is my hope that this study will be commissioned by the Legislature in the short session to begin in May. There cannot be delay.

Thank you for your time and attention.