

# NC CAN'T AFFORD TO STOP

## The Problem

- In 2015, the NC Chamber and aligned business community launched the “NC Can’t Afford to Wait” campaign, successfully securing the first long-term transportation funding reform measures in North Carolina since 1989 (\$1.2 Billion).
- As a result of these reforms, the NCDOT increased the number of active transportation infrastructure projects.
- To meet the increased labor demands to complete these projects, employers in the industry ramped up their hiring practices to grow their operations.
- When Hurricanes Florence and Michael and winter storm Diego walloped our state last year, many of our infrastructure networks experienced catastrophic damage, requiring substantial funds to restore them.
- The NCDOT is currently set to receive approximately \$200-300 million in storm recovery relief from the federal government. Unfortunately, waiting to have access to those federal dollars was not an option, and NCDOT had to use money from the Highway Fund to begin the much-needed work to restore our state’s infrastructure networks. This, however, has caused significant funding issues within the Department and is a principal reason for the cash flow challenges we are currently facing.
- This challenge came at the same time millions of Map Act payments matured and the NCDOT became obligated to pay damages earlier than had been anticipated.
- Now, the NCDOT is dangerously close to dropping below the legislative cash floor balance, which is set at 7.5% of the Department’s appropriations for the current fiscal year (NC G.S.143c-6-11(f)).
- Unfortunately, NCDOT could dip below that floor as early as next month (October 2019). Should that happen, the Department will no longer be able to enter into any new contracts.
- In anticipation of hitting the cash floor balance, NCDOT has already suspended preliminary engineering for approximately 900 transportation projects across the state.
- As our connection to the global economy, North Carolina’s transportation infrastructure networks are integral components of our state’s competitive future.

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- North Carolina cannot afford to stop the progress made in recent years to strengthen the state's transportation infrastructure networks. This is especially true as another two million people are expected to call the Old North State home over the next decade.

## The Impact

- From shipping products around the globe to driving to work, businesses and people in every corner of the state rely on our transportation networks.
- The uncertainty caused by this funding crisis affects a multitude of North Carolina businesses and creates a ripple effect throughout our state's economy.
- While engineering firms are being initially impacted by the suspension of the 900 projects, a year from now it will be construction businesses that have projects delayed, or worse stopped.
- This problem may feel acute, but it has significant long-term impacts.
- In addition to the 900 engineering projects, the NCDOT has delayed numerous construction projects. Three hundred construction project lettings have been pushed back by three years, meaning contracts that would have been awarded this year will now not be awarded until 2022. Many construction projects that were already under contract had their start date delayed until next year.
- It doesn't end there. NCDOT has also delayed 49 projects that were already under contract, with an estimated cost of \$399 million.
  - 27 bridge replacement or rehabilitation projects (\$133 million)
  - 8 Interstate projects (\$47 million)
  - 14 rural and urban rail projects (\$219 million)
- Many employers in the infrastructure industry are being forced to eliminate positions and lay off employees, as these job creators made hiring decisions based on the labor needs for current and pending contracts.
- In an industry that already has difficulty finding a stable workforce, these delays and subsequent layoffs could significantly impact future talent supply.
- From the engineers designing projects to those painting our roads, these funding challenges will impact employees at every level and will pressure employers to make decisions no job creator ever wants to make.

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- Should employers in our state be forced to let employees go, we will lose talent to competing states, and once they're gone, it could be very difficult for us to get them back.
- Businesses everywhere are already struggling to find the skilled talent needed to fill open jobs. North Carolina businesses cannot afford to lose their talented employees to competitors in other states, no matter the circumstance.
- Ultimately, if employees are laid off and businesses struggle to operate, North Carolina could lose coveted talent and valued economic impact to competing states.
- Additionally, if our state can't make improvements to meet the demands of its growing population, we will be at a severe disadvantage that could take years to overcome.
- 96 of North Carolina's 100 counties have projects that will be stopped or will fail to start on time due to this funding crisis. For more than a quarter of those counties, the number of projects extends into double digits.
- The ramifications of this crisis on all businesses in the industry are steep, but those most impacted could be our state's smaller firms.
- For example, those working on the construction side are missing an entire work season. After experiencing delays in the spring, pushing jobs to summer, they are now facing additional delays, which could impact next year's work and force businesses to close for good.

## **Proposed Solutions**

- Even if the state's budget were to be enacted through a veto override, it would not fix the problem our state is facing.
- There is no question that our state needs solutions to this funding crisis, and we need them now.
- To solve our current challenges and to prevent future shortfalls, the aligned business community came together and formed the "NC Can't Afford to Stop" Coalition.
- Working collaboratively, the coalition is focused on developing funding solutions that can address the industry and NCDOT's immediate needs, as well as a long-term, future-focused plan to increase available transportation infrastructure investment for decades to come.

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- With a forward-thinking strategy in place to address our state's infrastructure needs, we can prevent future funding shortfalls, manage risk, create stability and continue strengthening our roads, railways, ports, airports, water and sewer systems, and energy and broadband infrastructure.
- Initial suggested solutions include the following:
  - Create a transportation-specific disaster recovery fund.
    - North Carolina has been hit by several major storms in recent years, leaving our state's transportation infrastructure in need of repair.
    - This comes at a large cost and usually requires swift, immediate attention, which has increasingly strained transportation spending.
    - An established disaster recovery fund could offset the financial hit caused by unplanned natural disasters and would help ensure that the transportation program can remain whole in the event of major disasters.
    - For reference, the average cost of natural disasters for NCDOT has increased dramatically over the last three years. From 2004-2016 the average cost was around \$66 million annually and that has grown to an average of \$222 million since 2017.
    - It is important that the appropriate guardrails be in place for this fund. Our coalition looks forward to working with our state's leaders to develop a plan that protects the rainy-day fund but also provides relief for current funding challenges.
  - Additional Map Act Funds
    - Additional funding to offset the cost being paid towards Map Act damages will help soften the blow to the overall transportation program.
    - More than \$300 million has been spent on Map Act cases in the last 12 months and, out of that, over \$200 million has been paid solely for damages.
  - Pass SB 607/HB 845
    - Passing and enacting SB 607/HB 845 would ensure that revenues generated by the transportation industry remain allocated for use towards transportation projects.
    - These bills direct sales taxes paid by contractors doing work for NCDOT back to the Highway Fund, allowing the sales taxes generated by the transportation industry to be reinvested in transportation.
  - Raise Cash Balance Ceiling/Revise Timeframe Used to Determine Ceiling

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- NCDOT's current cash balance floor and the debt service required leaves the Department with a very narrow budget margin to manage.
  - Allowing the NCDOT to operate within a wider margin would provide some flexibility and the ability to increase the Department's storm/disaster relief budget.
  - Further, using the months January, February and March to determine the NCDOT's ceiling puts the Department at a disadvantage when managing the cash balance. During the winter months, the Department's cash balance is at its highest, as many projects cannot be completed due to low temperatures.
  - Changing the timeframe used to determine the ceiling would better reflect the NCDOT's spending.
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- North Carolina must have a transportation network that can meet the demands of its rapidly increasing population.
  - Predictable, consistent funding is a cornerstone of this process.
  - We must return stability to this process and provide consistent funding for our transportation networks to keep North Carolinians employed and our people and products moving safely and efficiently.