

Questions and Answers

The following questions and answers cover key points arising from the Road Use Tax Fund report and subsequent dialog amongst legislators, community groups and other members of the public.

Why is the DOT issuing a report now?

The 2005 General Assembly required the Iowa Department of Transportation (Iowa DOT) to conduct a study of current Road Use Tax Fund (RUTF) revenues, and projected roadway construction and maintenance needs. The Iowa DOT was required to submit the report on or before Dec. 31, 2006. This mandate was contained in Section 85, House File 868, 81st General Assembly.

What did the study find?

The study, completed by the Iowa DOT in consultation with Iowa's cities and counties, identified a significant financial need in Iowa for maintenance, preservation, enhancement, and expansion of Iowa's public road system over the 20-year period from 2005 through 2024. Federal, state and local revenues over the 20-year period were forecast at \$39.5 billion, compared to estimated needs totaling \$67.2 billion. The \$67.2 billion in needs of Iowa's public roadway system represents the total cost to address all deficiencies that exist now or are forecast to exist in the next 20 years.

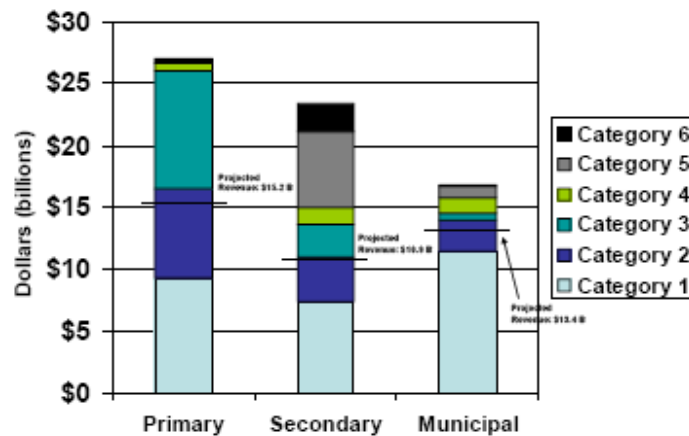
Did the DOT further analyze the \$67.2 billion in needs?

Yes, the Iowa DOT worked with city and county officials to identify those improvements that would provide the greatest benefit to preservation of the system, as well as those improvements that would provide the greatest economic development opportunities. The total needs were evaluated based on minimum thresholds for preservation of the system and then on the economic benefits of different types of improvements on roads with different traffic levels.

The study prioritized the needs into six categories based on a process established during the last legislatively mandated review of future needs and RUTF revenues in 1988. The process involves assigning needs based on a general hierarchy to first maintain, then preserve, expand, and finally modernize the public roadway system. The three highest priority categories of needs cover maintenance, preservation and high return-on-investment needs.

What were the results of the hierarchy of needs analysis?

The following graphic compares the 20-year needs with projected revenues.



The three highest priority categories of needs (i.e., categories 1, 2 and 3) cover maintenance, preservation and high return-on-investment needs.

The estimate of future revenues will allow all category 1 needs (maintenance and administration) and most category 2 needs (resurface high-volume roads, repair/replace structurally deficient bridges on high-volume roads and reconstruct very high-volume roads with poor pavement) to be met.

To address the remaining unfunded category 2 needs would require approximately \$2 billion in additional revenue over 20 years for an average of about \$100 million per year.

To stop deteriorating pavement and bridge conditions in Iowa, and to begin to address capacity and corridor improvements on the interstate and CIN, requires that the most critical category 3 (resurfacing low-volume roads; repair/replacement of structurally deficient bridges on low-volume roads; repair/replacement of functionally obsolete bridges on high-volume roads; reconstruction of high-volume roads with poor pavement; and capacity improvements on high-volume and CIN roads) needs be met. To meet the most critical needs within category 3 an additional \$100 million in funding will be needed annually. To fully fund category 3, an additional \$12.699 billion in revenue over the 20 years will be required.

To complete the lower priority categories (i.e., categories 4, 5 and 6) an additional \$13.006 billion would be needed over the 20-year period. Category 4 addresses all remaining capacity improvements, repair/replacement of functionally obsolete bridges on moderate-volume roads and reconstruction of moderate-volume roads with poor pavement. Category 5 includes repair/replacement of all remaining functionally obsolete bridges and reconstruction of all remaining roads with poor pavement. Category 6 includes all remaining roads with geometric deficiencies.

Note: The assignment of needs to these categories does not mean that all jurisdictions make funding decisions in this order, but rather this is intended to prioritize in a general manner the needs that exist in Iowa.

What are the most critical investment needs and the price tag?

The most critical needs on Iowa's public roadway system can be met with an additional \$4 billion in revenue over the next 20 years. This corresponds to an annual revenue increase of \$200 million.

With this level of additional funding, Iowa could meet the needs within categories 1 and 2 (noted in the response to the previous question), and provide \$2 billion toward the most critical category 3 needs, all of which are necessary to sustain and enhance Iowa's economy.

What recommendations did the Iowa DOT make?

The Iowa DOT, city and county officials agreed that existing RUTF revenues should continue to flow through the existing distribution formula and any natural growth in those revenues should also continue to flow through the existing distribution formula.

The Iowa DOT, cities and counties also agreed that revenue from new funding sources or increases in existing funding sources should be placed in a new fund. Specifically, the Iowa DOT, Iowa County Engineers Association, Iowa State Association of County Supervisors, Iowa State Association of Counties, and Iowa League of Cities recommended:

- Creating a new fund (TIME-21).
- Enacting legislation to generate at least \$200 million per year in new revenue for the TIME-21 fund.
- Establishing a 60 percent state, 20 percent city and 20 percent county funding distribution formula for TIME-21.
- Continued evaluation of alternative funding mechanisms.
- Regular re-evaluation of needs and revenues for Iowa's highway system.

If revenues are not increased in some way, what's the outlook?

Absent additional revenue for the public roadway system, Iowans can expect a dramatic decrease in pavement and bridge conditions in the coming years. In addition, congestion in and around urban areas and along much of the interstate (rural and urban) will increase significantly. Finally, corridor improvements on the Commercial and Industrial Network will not be addressed.

All of these impacts to the public roadway system end up damaging Iowa's economy. Transportation costs will increase for both the public and businesses, and opportunities for economic development will be lost to other states.

What are the current sources of highway revenue at the state and local levels?

Federal revenues for public roadways are primarily collected via a federal fuel tax and appropriated by Congress to each state through several programs. These programs include Interstate Maintenance (IM), National Highway System (NHS), Surface Transportation Program (STP), Highway Bridge Replacement and Repair Program (HBRRPP), Highway Safety Improvement Program (HSIP), and special appropriations. The IM and NHS funds are used by the state to fund projects for those systems, both of which are only the Primary Road System. The remaining federal funds are allocated between the state, cities and counties through varying mechanisms.

State revenues for public roadways come from Iowa's Road Use Tax Fund (RUTF). The RUTF consists of revenues from the fuel tax, motor vehicle registration fees, motor vehicle use tax, driver's license fees, and other miscellaneous sources. In FY 2007 it is estimated the RUTF will receive approximately \$1.1 billion, with approximately 40 percent coming from fuel tax, 36 percent from motor vehicle registration fees and 20 percent from motor vehicle use tax. After off-the-top allocations for certain programs and purposes, the RUTF is distributed by formula to the Iowa DOT for use on the Primary Road System (47.5%), counties for use on the Secondary Road System (24.5%), counties for use on the Farm-to-Market Road System (8%), and the cities for use on the Municipal Street System (20%).

Local revenues for city and county roadways come from local revenue sources, such as property taxes, local option sales taxes, tax increment financing districts, bonding (primarily for cities), and assessments. The amount of local revenue each city and county receives varies based on local taxing decisions.

What exactly is the Iowa Road Use Tax Fund (RUTF)? Where does the money come from and where does it go?

Established in 1949 by the 53rd Iowa General Assembly, the RUTF has provided a stable and reliable revenue source for investing in the state's primary, secondary and municipal roadway systems.

After some off-the-top diversions, receipts into the fund are distributed according to a formula of 47.5 percent for the Primary Road System, 24.5 percent for the Secondary Road System, 8 percent for farm-to-market county roads, and 20 percent for city streets. Legislation that went into effect in 2003, which involved the transfer of jurisdiction of some roadways from the state to either a city or county government, requires a share of the Primary Road System funds (1.75 percent) to be paid to local governments.

For state fiscal year 2006, receipts into the RUTF totaled an estimated \$1.101 billion. This represents \$431.1 million in fuel taxes, \$407.2 million in registration and other miscellaneous fees, \$220.1 million in use tax on the purchase of motor vehicles, \$21.3 million from underground storage tank fees, \$11.4 million from driver licenses, and \$10 million in interest.

State Tax on Motor Fuel - 2007 (cents per gallon/cpg)

Fuel	Tax	Effective Date
Regular gasoline	21.0	The last gasoline tax increase was effective 1/1/89. Minor adjustments to the rate are made annually based on the percentage of ethanol-blended fuel sold during the previous calendar year compared to total gasoline sold. The last adjustment was effective 7/1/06 when the rate increased from 20.7 cents per gallon to 21 cents per gallon, and will remain at that rate until 6/30/07.
Gasohol (ethanol blend of 10 percent)	19.0	1/1/89
Diesel	22.5	1/1/89
Liquid propane	20.0	1/1/89
E85	17.0	1/1/06

The mean state tax rate for regular gasoline amongst all states during 2005 was 20.3 cents. Iowa's gross motor fuel tax collections totaled \$443.1 million in 2005. Iowa ranked 30th in the nation during 2005 in gross fuel tax collections.

What has caused the revenue shortfall described in the report?

Federal revenue: Historically, Iowa has relied on federal funding for roads as a steadily increasing revenue source. However, the amount of federal funding for core highway programs has leveled off in recent years.

State revenue: The Road Use Tax Fund (RUTF) used to experience 4.5 percent average annual revenue growth (FY1990 through FY2000), allowing the fund to keep up with inflation.

In recent years, however, the RUTF's growth has lessened. The FY2001 to FY2006 average annual growth has been just 1.5 percent and no growth is forecast for FY2007.

The fuel tax rate was last increased in 1989 to 20 cents per gallon of gasoline. If the fuel tax rate had kept up with inflation, as measured by the Consumer Price Index, the 2006 tax rate would be 32.4 cents per gallon.

Loss of buying power: The purchasing power of the RUTF has declined seven out of the last nine years. The cost of materials used in roadway building have all dramatically increased over the last four years, ranging from a 9.5 percent cost increase for structural concrete to a 33 percent cost increase for reinforcing steel. Roadway excavation costs have increased 66.4 percent.

What has been done to stretch existing revenues?

State: In recent years, the Iowa DOT has reorganized, reduced forces, consolidated facilities, and taken other actions to increase efficiency and reduce administrative costs. Since Iowa DOT administrative costs are funded by the Road Use Tax Fund, savings in this area leaves more money available for highway improvements.

From FY 1996 through FY 2007, the Iowa DOT eliminated 555 full-time positions, a 14 percent decrease. The Iowa DOT was able to reduce the number of resident construction offices, and maintenance offices and garages. This was done by reducing management layers, consolidating functions of field workers and refocusing on services that are most important to the public. The combined changes reduced the Iowa DOT's operational costs by \$35 million annually, making that funding available for road construction.

City and county: Cities and counties report similar efforts to increase efficiency and reduce administrative costs. This includes the sharing of county engineers and a reduction in staff.

Cooperative efforts: An ad hoc group of officials representing the Iowa DOT, cities and counties met throughout 2002 to study Iowa's public roadway system and identify actions to increase efficient operations. The group made several recommendations that were subsequently drafted as legislation and adopted by the legislature in 2003, including the transfer of jurisdiction of 712 miles of primary highway to local jurisdictions. This, and other legislative changes, allowed for more efficient maintenance of the entire system.

What revenue alternatives were identified in the report?

The report identified options within the existing revenue sources (fuel taxes, motor vehicle registration fees, use tax on motor vehicles, and driver's license fee), as well as other potential Road Use Tax Fund (RUTF) revenue sources not currently used in Iowa.

The potential RUTF revenue sources include a sales tax on the cost of fuel purchases, a severance tax on ethanol exported from Iowa, a per-mile tax based on vehicle miles of travel within the state, a transportation improvement district tax, bonds for Primary Road System improvements, privatization, toll road segments, development impact fees, and public-private partnerships.

The report briefly describes each option for addressing the funding shortfall, along with brief remarks on advantages and disadvantages of each option.

When were highway revenue sources last increased in Iowa?

Fuel tax: The last fuel tax increase was effective Jan. 1, 1989 (excluding recent adjustments to gasoline tax rates based on gasohol usage).

Use tax: The use tax rate on the sale of motor vehicles was changed from 4 percent to 5 percent in 1993.

Motor vehicle registration fees: Effective Jan. 1, 1993, the annual fee for all motor vehicles including vehicles designated by manufacturers as station wagons, and 1993 and subsequent model years for multipurpose vehicles, except motor trucks, motor homes, ambulances, hearses, motorcycles, motorized bicycles, and 1992 and older model years for multipurpose vehicles, was increased.

Trucks, truck tractors, road tractors, and semi-trailers vehicle registration fees: In 1988 the annual registration fees for vehicles with gross weights from 3 tons to 13 tons was raised by \$20 for each group.

Pickups fees: In 1988 the registration fee for pickups with a combined gross weight of three tons or less was increased from \$55 dollars to \$65.

Non-commercial driver's license fees: A fee of \$4 per year of license validity for a non-commercial driver's license was set in 1987. During the period beginning July 1, 2003, and ending June 30, 2008, a person applying for a new driver's license or for renewal of a driver's license is subject to a fee shall be charged a one-time surcharge of \$3 in addition to the license fee. A person shall not be required to pay the surcharge more than once during the five-year period.

What are the current roadway revenue sources and allocations in Iowa's neighboring states?

- [Iowa](#) (pdf)
- [Illinois](#) (pdf)
- [Minnesota](#) (pdf)
- [Missouri](#) (pdf)
- [Nebraska](#) (pdf)
- [Wisconsin](#) (pdf)
- [State-by-state fuel tax rate comparison](#) (pdf)

What states have increased highway revenues in the last couple years?

According to a January 2007 report from the American Road and Transportation Builders Association, since 1997, 14 state legislatures—Arkansas, Indiana, Kansas (2), Maine (2), Michigan, North Dakota, Ohio, Pennsylvania, Rhode Island, South Dakota (2), Utah, Vermont, Washington and Wyoming—voted to raise their state gas tax for transportation-investment purposes.

The legislature in West Virginia voted to extend the current gas tax for six more years, and the Massachusetts General Court froze the state gas tax rate at 21 cents per gallon.

The gas tax rate increases ranged from 1 cent per gallon (North Dakota) to 6 cents per gallon (Ohio). The average of all of the state highway user fee hikes was 4 cents per gallon.

Connecticut lowered their gas tax by 7 cents from 32 to 25 cents a gallon, effective July 1, 2000.

The Maine legislature not only raised and indexed their annual motor fuels excise to the annual Consumer Price Index (CPI), they also increased the state's car registration fee to raise additional revenue for transportation investment.

One state increase was phased in over three years (Utah) and one was put in place for only 17 months, then increased again two years later (South Dakota).

It should also be noted that over the same time frame, motor fuels excise taxes were also increased in several states without legislative action. These states have variable rate gas taxes. This means that the tax rate is adjusted at a specified interval on the basis of an index or formula. In Florida and New York there are laws that automatically index the excise tax to some measure of annual inflation to help maintain the design and construction purchasing power of their state highway user fee.

There are seven states that currently have a variable rate gas tax. The rates in Florida, Iowa, Maine, and Wisconsin are adjusted annually. (The gas tax in Iowa is based on the sale of ethanol-blended gasoline.) The rates in Kentucky, Nebraska and New York are adjusted quarterly. The rate in North Carolina is adjusted semi-annually. The legislature in each state passes enabling legislation, but does not need to approve each subsequent change in the variable rate. Maine was the most recent state to adopt a variable gas tax rate, based on inflation, which came into effect in 2003.

Thus, in total, between legislative actions and indexing, the motor fuels excise taxes were increased in 26 states over the past 10 years.

Click on the following link to view a copy of ARBTA's complete report that provides the details of the fuel tax changes in each state.
http://www.artba.org/economics_research/current_issues/ARTBA_State_Gas_Tax_Report_Jan_07.pdf

What states are seeking additional highway revenues in 2007?

Arizona

U.S. Secretary of Transportation Mary Peters (former director of the Arizona Department of Transportation) urged Arizona to look into the option of toll roads constructed by the private sector as a source of funding. The revenues generated from the toll roads could be used to maintain and develop new roads in the state. Another option Arizona is considering is the use of high-occupancy vehicle (HOV) lanes to help reduce highway congestion. The revenue from the fees charged to single-occupant motor vehicles using the HOV lanes would also be used for local road funding.

Pennsylvania

State lawmakers are looking into the option of raising the state's gas tax. In November 2006, the Transportation and Funding Commission identified actions that need to be taken to solve the state's transportation needs. State officials do not see a drastic increase in the state's gas tax in the coming months, but do recognize the need to periodically increase the gas tax to keep up with road

maintenance and development. Currently, the state's gas tax is 31.2 cents per gallon.

Louisiana

More than a year after Hurricane Katrina, Louisiana lawmakers are still looking for ways to rebuild the state's damaged infrastructure. Due to a \$12 million backlog of state highway projects, state lawmaker David Vitter believes toll roads are the most practical way to ensure the projects get done. Gov. Blanco, however, wants to explore other options because of the economic burden toll roads would place on the local drivers. Both Gov. Blanco and Vitter agree that in the crowded northwest roads of Louisiana, toll roads may be a positive way of not only financing highways, but also a way to ease congestion.

West Virginia

Poor road conditions and a backlog of highway projects are being blamed on highway funding shortages. The state receives about \$50 million a year in highway funding, but has 170 pending priority pending that total more than \$20 billion. Most of the state revenue comes directly from the state gas tax and motor vehicle registration fees. A report outlining a review of the funding issue was recently provided to the West Virginia legislature.

What would a 10-cent-per-gallon increase in the gas tax cost individual motorists?

On average, the cost per household vehicle would be \$.85 a week or \$44.20 a year. The added investment in your roadway would cost less than one can of your favorite soda, half the price of a cup of espresso (\$1.85 for a large cup of Starbucks coffee) and a fraction of the cost of one movie ticket (\$7 for a Friday night adult ticket).

- The average miles driven per household vehicle is 12,100 miles per year.
- The average passenger vehicle (2004 and newer) is required by federal law (Corporate Average Fuel Economy) to obtain 27.5 miles per gallon.
- An average passenger vehicle consumes 440 gallons per year or 8.5 gallons per week.

*Iowa Department of Transportation
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