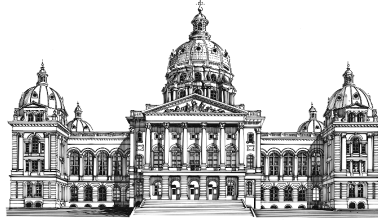

Iowa Legislative Services Agency Fiscal Services

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State Capitol
Des Moines, IA 50319
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Road Use Tax Fund Revenue Update

ISSUE

This *Issue Review* provides background information on the Road Use Tax Fund and the programs funded.

AFFECTED AGENCIES

Department of Transportation (DOT)
Department of Inspections and Appeals
Local governments

CODE AUTHORITY

Section 307A.2(12), Code of Iowa
Section 312.2, 3, Code of Iowa
Section 313.4, Code of Iowa
Section 321.190(1)(d), Code of Iowa
Section 321.191(10), Code of Iowa
Section 452A.3, Code of Iowa

BACKGROUND

In FY 2004, \$1.082 billion was collected and distributed through the Road Use Tax Fund, which was primarily used for construction and highway maintenance. The major revenue sources for the Fund include:

- Taxes on fuels
- Fees collected on vehicle registrations, titles, and driver's licenses
- Use tax collected on motor vehicle purchases
- Underground storage tank fees
- Motor carrier fines

- Interest income

Under Section 8, Article VII, Iowa Constitution, except for administrative costs, all vehicle registration fees, license fees, and motor vehicle fuel taxes are mandated to be spent for the construction, maintenance, and supervision of the State's public highways. The use tax on motor vehicles and equipment, however, is exempt from the constitutional mandate.

CURRENT SITUATION

Revenues

Table 1 below illustrates actual FY 2004 Road Use Tax Fund revenue and projected revenue for the next five fiscal years as forecast by the Department of Transportation (DOT). Before revenues from the motor vehicle use tax are deposited into the Fund, various programs and projects are funded from the use tax, which are also shown in **Table 1**. In FY 2004, 38.8% of revenues were derived from motor vehicle fuel taxes, 34.8% from registration and title fees, 20.7% from net use tax on motor vehicle sales, and 5.7% from other sources.

TABLE 1
ROAD USE TAX FUND RECEIPTS

(Dollars in Millions)

	<u>Actual FY 2004</u>	<u>Estimated FY 2005</u>	<u>Estimated FY 2006</u>	<u>Estimated FY 2007</u>	<u>Estimated FY 2008</u>	<u>Estimated FY 2009</u>
Motor Vehicle Use Tax	\$ 269.3	\$ 276.6	\$ 279.4	\$ 282.6	\$ 291.0	\$ 292.5
Commercial and Industrial Network	-26.6	-27.5	-27.8	-28.1	-28.9	-29.1
Underground Storage Tank Loan	-17.0	-17.0	-17.0	-17.0	-17.0	-17.0
Dept. of Inspection & Appeals	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Net Use Tax	<u>\$ 224.4</u>	<u>\$ 230.8</u>	<u>\$ 233.3</u>	<u>\$ 236.2</u>	<u>\$ 243.8</u>	<u>\$ 245.1</u>
Motor Vehicle Fuel Tax	\$ 420.1	\$ 428.0	\$ 430.7	\$ 433.7	\$ 439.7	\$ 441.7
Registration/Title Fees & Misc.	376.8	387.9	391.2	395.4	406.5	410.0
Underground Tank Fees	20.6	20.8	21.0	21.0	21.0	21.0
Driver's License Fees	18.9	15.9	11.5	17.5	7.5	18.4
Interest	4.9	4.9	5.0	5.0	5.1	5.2
Other	16.3	13.1	13.1	13.1	13.2	13.3
TOTAL RECEIPTS	<u>\$ 1,082.0</u>	<u>\$ 1,101.4</u>	<u>\$ 1,105.8</u>	<u>\$ 1,121.9</u>	<u>\$ 1,136.8</u>	<u>\$ 1,154.7</u>

NOTE: Numbers may not equal totals due to rounding.

Appropriations

A portion of the Road Use Tax Fund revenue is appropriated either through standing appropriations established in the Code of Iowa, or through the annual appropriations process. These "off-the-top" allocations are used to fund various programs, equipment purchases, facility improvements, and departmental operations. **Table 2** illustrates actual FY 2004 and estimated appropriations through FY 2009, and projects the amount of revenue available for distribution after the appropriations are made.

TABLE 2
ROAD USE TAX FUND
OFF-THE-TOP ALLOCATIONS AND APPROPRIATIONS
(Dollars in Millions)

	Actual FY 2004	Estimated FY 2005	Estimated FY 2006	Estimated FY 2007	Estimated FY 2008	Estimated FY 2009
Total Receipts	\$ 1,082.0	\$ 1,101.4	\$ 1,105.8	\$ 1,121.9	\$ 1,136.8	\$ 1,154.7
Statutory Allocations						
1. Primary (to Primary Rd. Fd.)	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5
2. Farm-to-Market (to Farm-to-Market Rd. Fd.)	1.5	1.5	1.5	1.5	1.5	1.5
3. Secondary (to Secondary Rd. Fd.)	9.9	10.1	10.2	10.2	10.4	10.4
4. Revitalize Iowa's Sound Economy (RISE)						
State (to Primary Rd. Fd.)	22.0	22.4	22.6	22.7	23.1	23.2
City	11.0	11.2	11.3	11.4	11.5	11.6
County	1.1	1.1	1.1	1.1	1.2	1.2
5. Park & Institutional Roads (to Primary Rd. Fd.)	7.0	7.1	7.1	7.2	7.3	7.4
6. Secondary & Urban (to Primary Rd. Fd.)	0.5	0.5	0.5	0.5	0.5	0.5
7. Living Roadway	0.3	0.3	0.3	0.3	0.3	0.3
8. Railroad Crossing Surface Repair Fund	0.9	0.9	0.9	0.9	0.9	0.9
9. Railroad Crossing Safety Fund	0.7	0.7	0.7	0.7	0.7	0.7
10. Secondary Bridge	2.0	2.0	2.0	2.0	2.0	2.0
11. City Bridge	0.5	0.5	0.5	0.5	0.5	0.5
12. License Plate Production	3.8	3.1	3.1	3.1	3.1	3.1
13. Traffic Safety Projects	5.4	5.5	5.5	5.6	5.6	5.7
14. Driver's License Suspension Service	0.2	0.2	0.2	0.2	0.2	0.2
15. Public Transit (Use Tax)	8.4	11.0	11.1	11.2	11.6	11.6
16. Motorcycle Education Fund (Use Tax)	0.4	0.3	0.2	0.4	0.1	0.5
17. County Treasurer's Equipment	0.7	0.7	0.7	0.7	0.7	0.7
18. Fuel Tax Refunds	0.2	0.2	0.2	0.2	0.2	0.2
Total Statutory Allocations	\$ 88.0	\$ 90.8	\$ 91.2	\$ 91.9	\$ 92.9	\$ 93.7
Appropriations						
19. DOT Operating Appropriation	\$ 35.1	\$ 40.1	\$ 40.5	\$ 40.9	\$ 41.3	\$ 41.7
20. Vehicle Registration System Rewrite	5.0	0.0	0.0	0.0	0.0	0.0
21. Driver's License System Rewrite	3.6	6.3	0.0	0.0	0.0	0.0
22. Scales & Inspections	0.2	0.0	0.0	0.0	0.0	0.0
23. Mississippi River Parkway Commission	0.0	0.0	0.0	0.0	0.0	0.0
24. Driver's License Costs (Lease)	2.8	2.8	2.8	2.8	2.8	2.8
25. County Driver's License Equipment	0.0	1.1	1.1	1.1	1.1	1.1
26. Weather Information System	0.1	0.1	0.1	0.1	0.1	0.1
27. I-35 Superhighway Coalition	0.1	0.1	0.1	0.1	0.1	0.1
28. Dept. of Management Support Staff	0.1	0.1	0.1	0.1	0.1	0.1
29. Dept. of Personnel Administration	0.1	0.1	0.1	0.1	0.1	0.1
Total Appropriations	\$ 47.1	\$ 50.7	\$ 44.8	\$ 45.2	\$ 45.6	\$ 46.0
TOTAL OFF-THE-TOP ALLOCATIONS	\$ 135.1	\$ 141.5	\$ 136.0	\$ 137.1	\$ 138.5	\$ 139.7
TOTAL AVAILABLE FOR DISTRIBUTION	\$ 946.9	\$ 959.9	\$ 969.8	\$ 984.8	\$ 998.3	\$ 1,015.0
(Receipts Less Off-The-Top Allocations)						

NOTE: Numbers may not equal totals due to rounding.

Distribution

After the off-the-top allocations are funded, the remaining revenues in the Fund are distributed based on formulas to the Primary, Secondary, Farm-to-Market, and Municipal Road Funds as follows: 47.5% to Primary, 24.5% to Secondary, 20.0% to Municipal, and 8.0% to Farm-to-Market.

Table 3 illustrates the distribution of the net Road Use Tax Fund revenue available through the formula to the four road funds.

**TABLE 3
ROAD USE TAX FUND
DISTRIBUTION SUMMARY**

(Dollars in Millions)

	Actual FY 2004	Estimated FY 2005	Estimated FY 2006	Estimated FY 2007	Estimated FY 2008	Estimated FY 2009
Primary Road Fund (47.5%)	\$ 449.8	\$ 456.0	\$ 460.7	\$ 467.8	\$ 474.2	\$ 482.1
Secondary Road Fund (24.5%)	232.0	235.2	237.6	241.3	244.6	248.7
Farm-To-Market Road Fund (8.0%)	75.8	76.8	77.6	78.8	79.9	81.2
Municipal Road Fund (20.0%)	189.4	192.0	194.0	197.0	199.7	203.0
TOTAL FORMULA ALLOCATION	\$ 946.9	\$ 959.9	\$ 969.8	\$ 984.8	\$ 998.3	\$ 1,015.0

NOTE: Numbers may not equal totals due to rounding.

The allocations shown in **Table 2** that were attributed to a particular road fund are included in the formula allocation amounts for each respective fund listed in **Table 3**. In FY 2004, of the total revenue deposited into the Road Use Tax Fund, 41.6% was deposited into the Primary Road Fund, 21.5% into the Secondary Road Fund, 7.0% into the Farm-to-Market Road Fund, 17.5% into the Municipal Road Fund, and 12.4% was distributed as allocations and appropriations for other individual programs and projects. **Attachment A** provides a flowchart that summarizes actual FY 2004 Road Use Tax Fund revenue and allocations.

Transfer of Jurisdiction Fund

Effective in FY 2004, jurisdiction and control of approximately 700 miles of State primary roads classified as Local Service Roads were transferred to cities and counties. As a result, a portion of the State's share of the Primary Road Fund is transferred monthly to the cities and counties that maintain these roads. From FY 2004 through FY 2013, following the 47.5% Road Use Tax Fund allocation to the Primary Road Fund, 1.75% of Primary Road Fund moneys are to be credited to a Transfer of Jurisdiction Fund. The funds are then transferred to cities and counties as follows:

- 75.0% to cities and counties that assume jurisdiction of primary roads:
 - 89.56% to the Secondary Road Fund of counties.
 - 10.44% to the Municipal Road Fund of cities.
- 22.5% to the Secondary Road Fund of all counties.
- 2.5% to the Municipal Road Fund of all cities.

In FY 2014 and beyond, the Transfer of Jurisdiction Fund will be eliminated, and the 1.75% of Primary Road Fund moneys will be distributed to cities and counties as follows:

- 1.575% to the Secondary Road Fund of all counties.
- 0.175% to the Municipal Road Fund of all cities.

Table 4 illustrates the distribution of the Transfer of Jurisdiction Fund to cities and counties that assumed jurisdiction of primary roads.

TABLE 4
TRANSFER OF JURISDICTION FUND
FORMULA ALLOCATION
(Dollars in Millions)

	Actual FY 2004*	Estimated FY 2005	Estimated FY 2006	Estimated FY 2007	Estimated FY 2008	Estimated FY 2009
Transfer of Juris. Fund (1.75% of PRF)	\$ 7.3	\$ 8.0	\$ 8.1	\$ 8.2	\$ 8.3	\$ 8.4
Distribution of Transfer of Juris. Fund						
Cities and counties that assume jurisdiction of primary roads (75.0%)						
Secondary Road Fund of counties (89.56%)	\$ 4.9	\$ 5.4	\$ 5.4	\$ 5.5	\$ 5.6	\$ 5.7
Municipal Road Fund of cities (10.44%)	0.6	0.6	0.6	0.6	0.6	0.7
Secondary Road Fund of all counties (22.5%)	1.6	1.8	1.8	1.8	1.9	1.9
Municipal Road Fund of all cities (2.5%)	0.2	0.2	0.2	0.2	0.2	0.2
TOTAL DISTRIBUTION	\$ 7.3	\$ 8.0	\$ 8.1	\$ 8.2	\$ 8.3	\$ 8.4

* The fiscal years in Tables 1 through 3 are based on the Treasurer of State's 12-month reporting period of June through May instead of July through June. Since the Transfer of Jurisdiction Fund was created in July 2004, the amount credited to the Fund in FY 2004, as shown in **Table 4**, is based on the 11-month period of July through May. Amounts shown for estimated FY 2005 through FY 2009 in Table 4 are based on the 12-month period of June through May.

Effective in FY 2005, jurisdiction and control of approximately 400 miles of Farm-to-Market road extensions in cities with a population of less than 500 were transferred to the respective counties (not shown in **Table 4**). Effective in FY 2005, a portion of the Municipal Road Fund from those cities is transferred monthly to the Secondary Road Fund of the respective counties. The total amount to be transferred is estimated at \$2.1 million annually. **Attachment B** provides a flow chart detailing the distribution of the Transfer of Jurisdiction Fund.

FIVE-YEAR FORECAST

The DOT is required to submit an annual report detailing how the Department proposes to improve the State's transportation system over the next five years. The five-year plan is based on projected State and federal revenues, and the associated costs of each project. In determining projected revenues, the Department develops a five-year forecast based on the most recent fiscal year data.

In comparing actual versus estimated revenues, the actual receipts for FY 2004 were \$5.7 million (0.5%) less than the forecast for FY 2004. Between FY 2005 and FY 2009, the DOT estimates that overall Road Use Tax Fund revenues will increase by a total of \$53.3 million (4.8%). Revenues are expected to increase in the categories listed below:

- Motor vehicle use tax: 6.2%
- Motor vehicle fuel tax: 3.2%
- Motor vehicle registration fees: 5.7%
- Interest income: 5.1%
- Other: 1.8%

Driver's license fee revenues are anticipated to increase 15.3% over the next five years, and are anticipated to fluctuate due to recent legislative changes. Senate File 2192 (FY 2003 Transportation Omnibus Act) changed the maximum length of time that a driver's license may be issued from two or four years to five years. Senate File 97 (FY 2004 DOT Omnibus Act) authorized

a one-time surcharge fee of \$3.00 for each driver's license issued, in addition to the license fee. The surcharge fee is in effect from FY 2004 to FY 2009.

The five-year forecast is subject to change based on shifts in revenue, inflation, and State or federal legislative action.

GASOLINE FUEL TAX INCREASE

In 2001, the General Assembly enacted HF 716 (FY 2002 Ethanol Sales Promotion Act). The Act provided for changes in tax rates based on the gallons of ethanol-blended gasoline sold in the State each calendar year. The rate changes apply in the following State fiscal year. The Act allows the tax rates to change each July 1, depending on the percentage of ethanol-blended gasoline sold during the previous calendar year. Prior to the enactment of HF 716, the State taxed gasoline at 20.0 cents per gallon and ethanol at 19.0 cents.

The following tax schedule was implemented on July 1, 2002, and will be effective through June 30, 2007. The Act provided that after June 30, 2007, the excise tax on gasoline will revert to 20.0 cents per gallon, and ethanol will increase from 19.0 to 20.0 cents per gallon.

Ethanol Percentage	Ethanol Tax	Gasoline Tax
0.0% - 50.0%	19.0	20.0
50.0% - 55.0%	19.0	20.1
55.0% - 60.0%	19.0	20.3
60.0% - 65.0%	19.0	20.5
65.0% - 70.0%	19.0	20.7
70.0% - 75.0%	19.0	21.0
75.0% - 80.0%	19.3	20.8
80.0% - 85.0%	19.5	20.7
85.0% - 90.0%	19.7	20.4
90.0% - 95.0%	19.9	20.1
95.0% - 100.0%	20.0	20.0

For calendar year (CY) 2003, the market share of ethanol-blended gasoline was 62.2%. Since this percentage is within the 60.0-65.0% range, the tax on regular gasoline increased by 0.2 cent, for a tax rate of 20.5 cents per gallon beginning July 1, 2004. The result is an estimated increase of \$2.7 million (2.5%) for the Road Use Tax Fund in FY 2005. The increased revenue will be used to offset losses in Road Use Tax Fund revenues due to the increasing market share of ethanol-blended gasoline.

In CY 2001 and CY 2002, the marketshare of ethanol-blended gasoline was 53.6% and 55.4%, respectively. As a result, gasoline was taxed at 20.1 cents per gallon in FY 2003, and 20.3 cents per gallon in FY 2004. The increase in revenues to the Road Use Tax Fund was \$600,000 in FY 2003 and \$1.8 million in FY 2004.

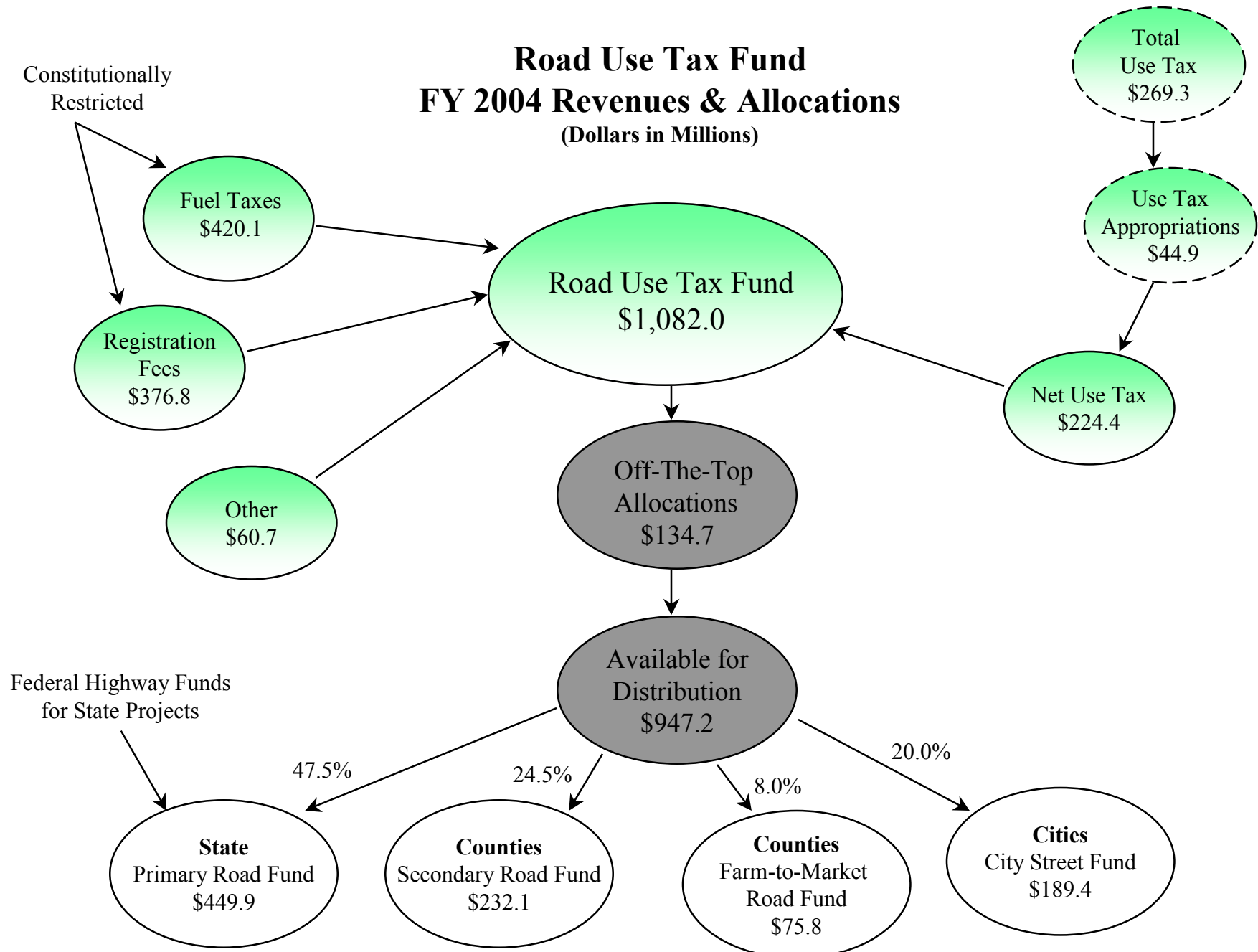
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Road Use Tax Fund Revenue Update
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Road Use Tax Fund

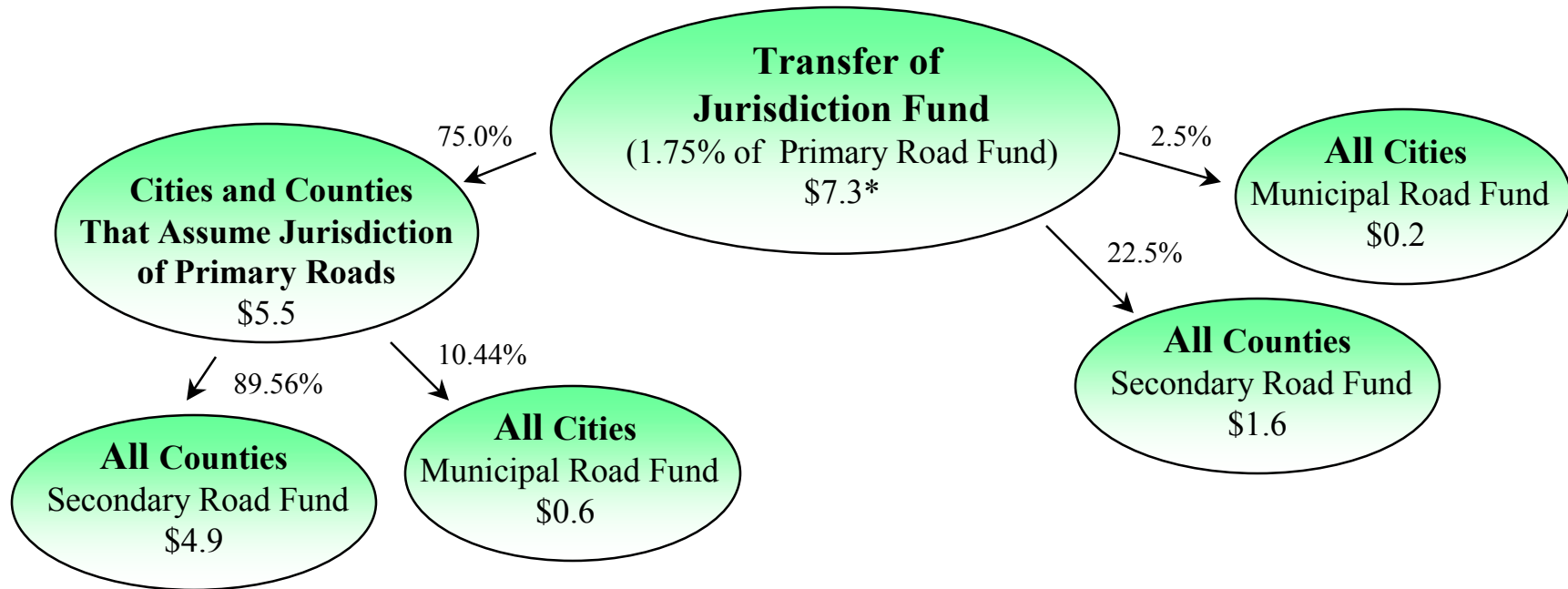
FY 2004 Revenues & Allocations

(Dollars in Millions)



NOTE: Numbers may not equal totals due to rounding.

**Transfer of Jurisdiction Fund
FY 2004 Allocations
(Dollars in Millions)**



* Total Road Use Tax Fund revenues and allocations for FY 2004, as shown in **Attachment A**, are based on the Treasurer of State's 12-month reporting period of June through May instead of July through June. Since the Transfer of Jurisdiction Fund was created in July 2004, the amount credited to the Transfer of Jurisdiction Fund in FY 2004, as shown above, is based on the 11-month period of July through May.

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