

FINAL REPORT
ROAD USE TAX SUBCOMMITTEE
of the
SENATE COMMITTEE ON WAYS AND MEANS

December, 1977

Pursuant to approval given at the July 14, 1977, meeting of the Legislative Council, a Subcommittee of the Senate Committee on Ways and Means was approved to review the House passed bill House File 491. The Subcommittee is composed of the following members:

Senator Bass Van Gilst, Chairperson
Senator Eugene Hill
Senator David Readinger
Senator James Redmond
Senator Roger Shaff

The Subcommittee held three meetings to discuss the provisions of House File 491 and to discuss incentives for the production of grain distilled alcohol to be blended with gasoline to produce a mixture called gasohol. At the first meeting held September 26, 1977, the Subcommittee reviewed the changes that House File 491 would effect on the current law. (A comparison is attached to this final report.) Information was received to support the allocation of road use tax funds to the primary, secondary farm-to-market and city road systems. The Subcommittee was told that each penny per gallon of fuel tax increase will generate approximately \$15.3 million from the tax on gasoline and \$2.5 million from the tax on diesel fuel.

The Subcommittee was informed that under current law, funds in the road use tax fund are distributed among the primary road fund, the secondary and farm-to-market road funds, and to the cities after allocations are made from the road use tax fund to these separate funds. These initial allocations from the road use tax fund prior to the allocation of the road use tax fund under the allocation percentages are referred to as "off the top" allocations.

Under the present law, approximately \$21.4 million are allocated off the top prior to distribution under the 47-38-15 (Primary-secondary-city) distribution formula. Because of these "off the top" allocations, the total percentage from the road use tax fund to the jurisdiction road funds is not actually 47% to the primary road fund, 38% to the secondary and farm-to-market road fund and 15% to the city road systems. The fund is actually distributed as follows:

<u>FY 1977 FORMULA: 47-38-15: \$21.4 M OFF-THE-TOP</u>				
Jurisdiction	Off-the-top	Distribution	Total	True %
State	\$20.6	\$130.8	\$151.4	50.6%
County	0.4	105.8	106.2	35.3%
City	0.4	41.8	42.2	14.1%
Total	\$21.4	\$278.4	\$299.8	100.0%

House File 491 provides for a 3 cents per gallon gas tax increase and a 3 1/2 cents per gallon diesel tax increase for total new revenue of \$53.6 million. Under the House passed bill the funds would be located as follows:

HF 491 FORMULA - AS PASSED: 45-37-18; \$11.0 M OFF-THE-TOP

Jurisdiction	Off-the-top	Distribution	Total	True%
State	\$ 9.8	\$153.0	\$162.8	46.4%
County	0.6	125.8	126.4	36.0%
City	0.6	61.1	61.7	17.6%
Total	\$11.0	\$339.9	\$350.91/	100.0%

1/ Total revenues have been reduced by \$3.7 million to reflect city, county, and school fuel tax exemptions.

This version eliminates \$2.5 million allocated to the primary road fund to match with federal funds for interstate construction. This bill eliminates the 1/2 cent per gallon credit to the primary road fund for a loss of \$9.3 million to the primary road fund.

The Senate Subcommittee approved the adoption of House File 491 with the additional appropriation of \$7.1 million to the primary road fund for a total allocation as follows:

PROPOSED PLAN: 45-37-18 \$18.1 M OFF-THE-TOP

Jurisdiction	Off-the-top	Distribution	Total	True%
State	\$16.9	\$149.8	\$166.7	47.5%
County	0.6	123.1	123.7	35.3%
City	0.6	59.9	60.5	17.2%
Total	\$18.1	\$332.8	\$350.91/	100.0%

1/ Total revenues have been reduced by \$3.7 million to reflect city, county, and school fuel tax exemptions.

The amendment to House File 491, is attached to this report.

At the second meeting held October 25, 1977, the Subcommittee conducted a public hearing to allow interested citizens to voice their opinions concerning the proposed fuel tax increase. At this meeting representatives of the Iowa Good Roads Association, Waterloo Chamber of Commerce, Iowa State Association of Counties, and the Association of General Contractors testified before the Subcommittee. The Iowa Gasoline Dealers Association presented petitions signed by approximately 20,000 people opposing a motor fuel tax increase based upon a percentage of price.

At the last meeting of the Subcommittee held on November 14, 1977, the Subcommittee reviewed information concerning the distillation from grain of alcohol to be used with 90% gasoline to

produce a mixture called gasohol. The Committee reviewed the Nebraska gasohol program. Nebraska in 1971, provided a three cents per gallon fuel tax reduction on all gasohol sold and in 1977 the fuel tax reduction was increased to five cent per gallon. The Subcommittee voted to exclude from Iowa motor fuel tax the first ten million gallons of gasohol sold in the state. A copy of the amendment which will provide a motor fuel tax refund on the first ten million gallons of gasohol sold in this state is attached to this final report. The Subcommittee also requested that a letter be drafted to the Midwest Conference of the Council of State Governments to encourage the accumulation of information and legislation pertaining to gasohol. A copy of this letter is attached to this final report.

Section-by-section comparison of House File 491 with the existing Iowa law:

House File 491

Current Law

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| 1. Legislative expression of policy not to build diagonal highways. | Departmental discretion. |
| 2. Limit freeway expressway system to 2660 miles. | Present limit - 3000 miles. |
| 3. Reclassification review board to establish policies for transfer of jurisdiction of roads. | Ambiguous in the area of resolving disputes between jurisdictions upon transfer. |
| 4. Provides for a transfer of money to repair roads upon transfer of jurisdiction. | Allows only repair of roads prior to transfer. |
| 5. Amends 307A.2 - requires twenty-year road needs study every four years beginning July 1, 1979. | 1960 needs study to allocate revenues among counties. |
| 6. Includes in Institutional Park Roads the state fair ground roads and area school roads. Requires institutional park roads needs study every four years. | These roads are not now in Institutional Park Roads. |
| 7. Allocates road use tax funds as follows: | |
| a. Primary roads - 45% | 47% |
| b. Secondary roads - 28% | 29% |
| c. Farm-to-market - 9% | 9% |
| d. Streets cities - 18% | 15% |
| e. \$500,000 to highway - railroad grade surface repair fund | |
| f. 0.65% road use tax fund for Institutional Park Roads and strikes 2.5 million dollar allocation for matching federal funds on primary road construction. | Formerly Institutional Park Roads received 1.4 million dollars annually. |
| 9. Hold harmless counties for secondary road funds at July 1, 1975 level until 1981. | |
| 10. Hold harmless counties for farm-to-market road use tax funds until 1981 at July 1, 1975 level. | |

House File 491:

Current Law:

11. Eliminates cities' restrictions on use of funds.
12. Requires annually a five-year road construction program to be submitted by cities greater than 5,000.
14. Clarifies road reclassification requirement.
16. Raises MOTOR FUEL TAX TO 10 CENTS PER GALLON and exempts political subdivisions from payment. Was 7 cents per gallon.
17. Raises DIESEL FUEL TAX TO 11 1/2 CENTS PER GALLON. Was 8 cents per gallon.
18. Exempts political subdivisions from diesel fuel tax.
19. Strike credit of 1/2¢/gallon to primary road fund. 1/2¢/gallon motor and special fuel tax off top to primary road fund.
21. Requires functional reclassification of roads.
22. Direct use of most current needs study beginning July 1, 1977 to allocate secondary road funds.

HOUSE FILE 491

1 Amend House File 491, as amended, passed and
2 reprinted by the House as follows:

3 1. Page 5, by inserting after line 34 the follow-
4 ing:

5 "7. The treasurer of state, before making the
6 allotments provided in this section, shall credit
7 annually to the primary road fund from the road use
8 tax fund the sum of seven million one hundred thousand
9 dollars."

10 2. Page 10, by inserting after line 20 the follow-
11 ing:

12 "Sec. ____ Chapter three hundred twenty-four
13 (324), Code 1977, as amended by Acts of the Sixty-
14 seventh General Assembly, 1977 Session, chapters one
15 hundred six (106) and one hundred seven (107), is
16 amended by adding the following new section:

17 NEW SECTION. Any person, other than a licensee,
18 who shall use motor fuel containing not less than
19 ten percent grain alcohol distilled from corn, may
20 apply for a refund of the motor fuel tax paid. Each
21 claim shall be upon a form prescribed by the department
22 of revenue and certified by the claimant under penalty
23 for false statement. Each claim shall have attached
24 the original invoice showing the purchase of the motor
25 fuel containing grain alcohol. The invoice shall
26 be serially numbered covering no more than one purchase
27 of motor fuel and shall show the date of sale, the
28 name and address of the seller and of the purchaser
29 and the gallons purchased in words and figures, the
30 price per gallon of the motor fuel alcohol mixture,
31 the per gallon rate of tax paid and the total purchase
32 price. The department may waive the invoice
33 requirements for invoices made on a billing machine.
34 A refund shall not be made for a motor fuel alcohol
35 mixture purchased outside the state of Iowa nor for
36 purchases made more than three months prior to the
37 date of the claim for refund. The right of a refund
38 shall not be assignable.

39 The department of revenue shall provide by rule
40 for claims made accompanied by a certified copy of
41 the original invoice. The department of revenue shall
42 provide by rule such procedures to assure the validity
43 of claims and may provide that such additional
44 information as necessary to verify a claim shall be
45 provided by the claimant.

46 The department of revenue shall refund the motor
47 fuel taxes paid on a mixture of motor fuel and grain
48 alcohol only on ten million gallons of the motor fuel
49 alcohol mixture sold each calendar year in this state
50 for which claims are received by the department."

1 3. Renumber the sections as necessary in
2 conformance with this amendment.

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7 COMMITTEE ON WAYS AND MEANS
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November 28, 1977

Mr. James H. Bowhay
Regional Director
Midwest Conference of the Council of State Governments
Suite 1200 - 203 North Wabash
Chicago, Illinois 60601

Dear Mr. Bowhay:

During the 1977 interim, the Iowa Senate Road Use Tax Subcommittee of the Senate Standing Committee on Ways and Means briefly reviewed an area of recurrent interest to legislators in the midwest. The Iowa legislative committee investigated the distillation of alcohol from agricultural products to be used in a mixture of 90 percent gasoline and 10 percent alcohol as motor fuel, commonly referred to as gasohol.

The Subcommittee reviewed the Nebraska legislation and the Nebraska gasohol pilot distribution program (copies of which are enclosed). The Subcommittee recommended exempting from the state motor fuel tax the first ten million gallons of gasohol sold in the state. (A copy of this proposal is attached.)

Because of the interest expressed by the Subcommittee, a concern shared by the full Ways and Means Committee, we wish to recommend that the staff of the Midwest Conference of State Legislators continue to compile information concerning legislative and scientific improvements to the production and distribution of gasohol.

Also enclosed is a paper by Dr. Peter J. Reilly, reviewing the energy balance involved in the production of gasohol. If you have other information reflecting technological advances or other incentive legislation, please send a copy to the Iowa Legislative Service Bureau.

Thank you for your assistance in collecting and disseminating information about gasohol and other subjects of particular concern to midwest legislators.

Very truly yours,

SENATOR NORMAN G. RODGERS
Chairperson
Senate Committee on Ways and Means

NCR:dg
enclosures