TIME-21 Funding Analysis

A report to the Iowa Legislature, per Section 26,
Senate File 2420, 82nd General Assembly

Prepared by
Iowa Department of Transportation

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Introduction

The 82nd General Assembly of the Iowa legislature, in Section 26 of Senate File 2420, required the Iowa Department of Transportation (Iowa DOT) to conduct an analysis of TIME-21 funding. Specifically the legislation requires the following:

> "The department of transportation shall conduct an analysis of the additional revenues necessary to provide at least two hundred million dollars annually to the TIME-21 fund by FY 2011-2012. The analysis shall include but is not limited to the amount of excise tax levied on motor fuel and adjustments that might be made to various fees collected by the department in order to create an appropriate balance of taxes and fees paid by Iowa drivers and out-of-state drivers. The department shall submit a report to the governor and the general assembly on or before December 31, 2008, regarding its analysis."

As a starting point to this analysis, a reassessment of long-range needs and revenues (including the estimated $200 million most critical annual unmet needs) was made. This was done by assessing changing trends in roadway conditions, revenue and construction costs since the original *Study of Iowa's Current Road Use Tax Funds (RUTF) and Future Road Maintenance and Construction Needs* was completed December 2006.

TIME-21 Background

Throughout the history of Iowa's public roadway system, the Iowa DOT, cities and counties have worked together to assure the system is managed in an efficient manner to address issues that arise, including funding sufficiency. Beginning in 2002, a major initiative was launched to address a "perfect storm" that was arising in the ability to adequately maintain and improve public roadways in Iowa and the country.

The "perfect storm" involved the combination of the following issues (each of which will be discussed in more detail later in this report).

- **A large and aging public roadway system.** Iowa's public roadway system is comprised of over 114,000 miles with approximately 25,000 structures. This system was primarily developed and/or modernized in the 1940s, 50s and 60s which means much of the system is at a point in its useful life of needing reinvestment.
- **Increasing demands on the public roadway system.** While overall travel in Iowa decreased slightly in 2007 (the second time that has occurred in the last three years but only the third time since 1985), large truck travel is still increasing. Between 2005 and 2007, large truck travel in Iowa increased over three percent which is equivalent to an additional 152 million miles of large truck travel in the state over those two years. Some of this increase is due to growth in renewable fuel production in Iowa the last two years. Ethanol production capacity has nearly doubled in the last two years which results in a doubling of truckloads of corn shipped to those plants. That reflects an increase of approximately 600,000 truckloads annually.
- **Flattening revenue available for public roadway improvements.** Revenue to the Road Use Tax Fund (RUTF) and federal Highway Trust Fund (HTF) has flattened recently and it is probable that those funding sources will decline as fuel tax revenue decreases and other forms of funding are negatively impacted by the current economic situation.
- **Increasing construction cost inflation rate.** The inflation of construction costs has been at an extremely high level the last few years which has dramatically reduced the buying power of limited funding.

Actions taken to increase efficiency and reduce administrative costs

In 2002 an ad hoc group of Iowa DOT, city and county representatives was formed to study the public roadway system and identify actions to increase efficiency of operations. The group met throughout 2002 and made recommendations that were shared with the legislature. Those recommendations were the basis of legislation drafted by the Iowa DOT, and subsequently adopted by the legislature in 2003, to accomplish the following:

- Rationalize the Primary Road System by transferring 712 miles to county and city governments.
- Transfer responsibility to the counties for farm-to-market extensions in cities under 500 population.

- Allow the board of supervisors to initiate a change in county road classification to area service ”C.”
- Establish a study committee to evaluate the distribution of the Street Construction Fund of the Cities.

In addition, the Iowa DOT and individual cities and counties took actions to increase operational efficiency that included reductions in staffing, agency reorganizations, consolidation of facilities, reductions in vehicle fleets, sharing of resources (i.e. facilities, staff and equipment), and many others.

These actions resulted in more funding being available for public roadway maintenance and construction. For example, the Iowa DOT’s actions alone reduced operational costs by $35 million annually making that funding available for road construction.

***Study of Iowa’s Current Road Use Tax Funds (RUTF) and Future Road Maintenance and Construction Needs* – December 2006 (2006 RUTF study)**
Despite the actions of the Iowa DOT, cities, counties, and legislature, it became evident that increasing efficiency alone was not going to be enough to meet the increasing needs of Iowa’s public roadway system. Therefore, in 2005, the legislature adopted language directing the Iowa DOT to undertake a study of the long-range construction and maintenance needs of Iowa’s public roadway system and the sufficiency of existing revenues to meet those needs.

Working with the cities, counties and other interested parties, the Iowa DOT completed the study and submitted it to the general assembly December 29, 2006. This study documented the ”perfect storm” facing jurisdictions responsible for maintaining and improving public roadways and the projected $27.7 billion shortfall in funding to meet all current and future needs over the next 20 years.

Recognizing that the $27.7 billion shortfall represented a level of investment that appeared unachievable in light of the needs that exist for all levels of government and the services they provide, the Iowa DOT worked with city and county officials to identify critical needs that would best preserve the system and enhance economic development. The 20-year shortfall to meet those critical needs was estimated to be $4 billion or $200 million per year.

Following are the recommendations from the 2006 RUTF study:

> ***1) Create a Transportation Investment Moves the Economy in the 21st Century (TIME-21) Fund***
> *Additional investment in Iowa’s public roadway system is vital to sustain and grow our state’s economy. This new fund will target new revenue to those areas particularly important to Iowa’s economy.*
>
> *TIME-21 funding for the Primary Road System will be spent on the interstate and Commercial and Industrial Network (CIN) system. This will permit continued development of corridors critical to connect Iowa with regional, national and international markets. Further improvements will increase efficiency and safety resulting in economic growth to all regions of the state. With additional revenue from the TIME-21 Fund to help meet the needs of the interstate and CIN, a greater amount of existing*

RUTF revenue becomes available to address needs on the rest of the Primary Road System, which otherwise would not be addressed for many years.

At the county level, funding will be targeted heavily toward replacing deficient bridges. These bridge deficiencies hinder the efficient movement of agricultural products and jeopardize medical and fire services in rural Iowa. Enhancements to the Farm-to-Market Road System will also be targeted. This system of county roads serves a key role in the support and development of Iowa's value-added agriculture economy. Improvements to the Farm-to-Market Road System are needed to assure efficient movement of products to market and, in particular, value-added biofuel industries. The Farm-to-Market Road System is also taking on an increasing role in support of the commuting of rural Iowans to jobs in regional and metropolitan centers.

At the city level, each community will assess its own unique needs. Many will target funding toward sustaining the overall street network. This will be accomplished by directing resources first to cost-effective maintenance. This will allow cities to budget other local, state and federal funds to streets that are critical to economic growth and development. Reconstruction, expansion and safety will be priorities after maintenance needs are addressed.

2) Enact Changes to the Iowa Code that Generate a Minimum of $200 Million in New Revenue for the TIME-21 Fund

The TIME-21 Fund will ultimately require a minimum of $200 million per year of funding. This funding will be generated using a mechanism or mix of mechanisms described in the "Options for Addressing Funding Shortfall" section of this study. Any funding generated beyond the $200 million necessary for the TIME-21 Fund should be distributed via the existing RUTF distribution formula.

Consistent with past RUTF revenue increases, it is recommended any increase in revenue be phased-in over two years.

3) Establish a 60 Percent State, 20 Percent City and 20 Percent County Funding Distribution Formula for the TIME-21 Fund

To address critical needs and to maximize the impact of additional revenues, the TIME-21 Fund should be distributed as follows:

- *60 percent to the state for use on the interstate and CIN;*
- *20 percent to cities, on a per capita basis, via the Street Construction Fund of the Cities to sustain and improve the Municipal Street System; and*
- *20 percent to counties via the Secondary Road Fund for use on all secondary road bridges and maintenance and construction improvements on the Farm-to-Market Road System. The Secondary Road Fund is distributed to counties using a formula based on area, miles of road, vehicle miles of travel, rural population, and length of bridges.*

4) Continue Evaluation of Alternative Funding Mechanisms

The alternative funding mechanisms evaluated as part of this study, but not adopted by the legislature as funding sources, warrant additional study. For example, the per-mile user fee, which is not technically possible now, may be the best solution to assess user fees in an equitable manner as the country eventually moves toward alternative-fueled vehicles. The Iowa DOT should continue to study alternative funding sources and report at least every five years to the legislature on the advantages and disadvantages, and viability of alternative funding sources.

5) Perform Regular Reevaluation of Needs and Revenues and Report to the Legislature

As documented in this report, there are many issues impacting the Iowa DOT's, cities' and counties' ability to address the needs of the public roadway system. These issues include the rapid changes in construction costs, level of all sources of funding, rising volume of freight movements, increasing ethanol/biodiesel production, changing commuting patterns, aging population, and many others. As a result of this dynamic environment, it is prudent to reevaluate, on a regular basis, the long-range maintenance and construction needs of the public roadway system, and the ability of existing RUTF revenues (including new TIME-21 Fund revenues) to meet those needs. The Iowa DOT, in

consultation with cities, counties and other interested parties, should be directed to conduct a study similar to this one at least every five years and provide a written report to the legislature summarizing the study.

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 CIN 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.

The full study is available on the Internet at
www.iowadot.gov/time21/images/RUTF%20Study%20FINAL%20122906.pdf

House File 932 – May 2007

In response to the 2006 RUTF study, the legislature passed House File 932 (see Appendix A for full bill text) which was signed by Governor Culver May 25, 2007. This bill implemented many of the policy recommendations of the study. Specifically, the bill created the TIME-21 Fund with the following distribution and targeting language.

312A.3 ALLOCATION AND USE OF FUNDS.
Moneys in the TIME-21 fund shall be credited and used as follows:
1. Sixty percent for deposit in the primary road fund to be used exclusively for highway maintenance and construction, including purchase of right-of-way but not including project planning and design. The following projects are eligible for funding under this subsection and shall have funding priority in the order listed:
a. Completion of projects on highways designated as access Iowa highways pursuant to 2005 Iowa Acts, chapter 178, section 41.
b. Projects on highways in the commercial and industrial highway network that are included in the department's five-year plan, or in the long-range plan, for the primary road system. Priority shall be given to projects in areas of the state that have existing biodiesel, ethanol, or other biorefinery plants.
c. Projects on interstate highways.
2. Twenty percent for deposit in the secondary road fund, for apportionment according to the methodology adopted pursuant to section 312.3C, to be used by counties for construction and maintenance projects on secondary road bridges and on highways in the farm-to-market road system. At least ten percent of the moneys allocated to a county under this subsection shall be used for bridge construction, repair, and maintenance, with priority given to projects that aid and support economic development and job creation.
3. Twenty percent for deposit in the street construction fund of the cities, apportioned on the basis of population in the manner provided in section 312.3, to be used to sustain and improve the municipal street system.

House File 932 also included language requiring the Iowa DOT to conduct a periodic review of the long-range needs of Iowa's public roadway system and sufficiency of existing revenues to meet those needs. These periodic reviews are to include an evaluation of alternative funding sources to meet future needs. The first study is due no later than December 31, 2011, and at least every five years after that date.

Finally, in recognition that the bill did not create a revenue stream for the new fund, the bill included language establishing an interim TIME-21 Revenue Committee to study revenue options and report back to the general assembly by January 15, 2008.

TIME-21 Revenue Committee – Fall/Winter 2007
As authorized in House File 932, the Legislative Council established the TIME-21 Revenue Committee to "address the revenue needs of the Transportation Investment Moves the Economy in the 21st Century (TIME-21) Fund." The committee met three times between October and December 2007. At these meetings the committee took testimony from state agencies and outside experts on transportation and then reviewed funding options and alternatives. At their final meeting the committee approved the following recommendations.

- The members of the committee should continue to consider all revenue sources, except fuel tax, for the funding of the TIME-21 Fund.
- The general assembly should change the use tax on motor vehicles to a charge at the time of registration of the motor vehicle so as to make the revenues constitutionally protected.
- The Department of Transportation should research the authority of the governor and Executive Council to utilize or spend General Fund of the State moneys for road and bridge purposes in emergency situations.

The final report of the interim committee is included in Appendix B.

Senate File 2420 – April 2008
During the 2009 legislative session, the legislature again discussed the need for additional funding and reviewed the findings of the interim committee. The legislature passed Senate File 2420 (see Appendix C for a detailed summary of the full bill) which was signed by Governor Culver April 22, 2008. The bill included the following major provisions.

- Constitutional protection was provided to an amount equal to that generated by use tax funds by deleting the imposition of a use tax on motor vehicles and adding an equivalent "fee for new vehicle registration." All three major sources of RUTF revenue (i.e. motor vehicle fuel tax, annual vehicle registration fees and fees for new vehicle registration) now have constitutional protection requiring the funds be used for roads. The large majority of TIME-21 revenue also has constitutional protection.
- Revenue for the TIME-21 Fund was created by:
    - Changing vehicle registration fees and schedules with grandfathering in most cases. Examples of the most significant changes include:
        - Minimum registration fee increased (grandfathered).
        - Weight/value vehicle registration fee reduction schedule extended (grandfathered so that the fee does not increase from the previous year).
        - Pickup truck registration fees adjusted based on type of use. Pickups for business trades (commercial and agricultural use) will be registered at a higher flat fee rate. Pickups for non-business trades will begin to pay a registration fee based on weight and value (grandfathered).

    - Trailer registration fees increased.
    - Title fees increased.
- The Iowa DOT was required to conduct a study of additional revenues necessary to reach $200 million annually. "The analysis shall include but is not limited to the amount of excise tax levied on motor fuel and adjustments that might be made to various fees collected by the department in order to create an appropriate balance of taxes and fees paid by Iowa drivers and out-of-state drivers."

Estimates of TIME-21 revenue resulting from Senate File 2420 are included in the *Needs versus Revenues* section of this study (page 21).

Recent Trends Impacting Roadway Financing

As described in the *TIME-21 Background* section of this study, Iowa has been facing a 'perfect storm' of issues that are causing the current funding crisis. The situation has become more critical since the 2006 RUTF study. Additional information documenting the changes since 2006 for each element of the perfect storm follows.

A large and aging public roadway system

As documented in the 2006 RUTF study, Iowa has a large public roadway system. Table 1 is a summary of mileage and vehicle miles of travel (VMT) by jurisdictional responsibility. In addition to public roadway mileage, there are approximately 25,000 bridges under public jurisdiction.

Table 1 – Mileage and Vehicle Miles of Travel (VMT) by System

	Mileage* (as of January 1, 2008)	% of Total Mileage	2007 Total VMT (1,000,000s)	% of Total VMT	2007 Large Truck VMT (1,000,000s)	% of Total Large Truck VMT
Primary	9,392.56	8.3%	19,224	61.1%	2,552	85.8%
Secondary	90,004.19	78.9%	5,444	17.3%	318	10.7%
Municipal	14,630.42	12.8%	6,813	21.6%	104	3.5%
Total	114,027.17		31,481		2,974	

Source: Iowa DOT – Office of Transportation Data

* This table and report do not include the small amount of mileage within Iowa's parks and institutions.

While the size of Iowa's public roadway system has not increased significantly over the last two years, the infrastructure burden on Iowans remains significant. Nationally, Iowa ranks fifth in number of bridges and 13th in miles of roadway, yet the state ranks 30th in population and 26th in land area.

The public roadway system is deteriorating at a rapid rate due to the age of the system. Much of Iowa's public roadway system was built or modernized in the 1940s, 50s and 60s which means there is a wave of infrastructure needs that require significant reinvestment due to their life cycle. An annual study from the Reason Foundation compares the conditions of roads and bridges of each state using data submitted to the Federal Highway Administration. Table 2 is a comparison of Iowa's ranking in several categories from the report published in October 2006 (the time of the 2006 RUTF study) and the most current report published in July 2008.

Table 2 – Comparison of Iowa's Roadway Condition Rankings from 2006 to 2008

Category	2006 Ranking (based on 2004 data)	2008 Ranking (based on 2006 data)	Change
Rural Interstate Condition	32nd	32nd	-
Urban Interstate Condition	44th	47th	-3
Rural Arterial Condition	45th	43rd	+2
Deficient Bridges	32nd	34th	-2
Urban Interstate Congestion	19th	20th	-1

Source: *Annual Report on the Performance of State Highway Systems,* Reason Foundation, David T. Hartgen, Ph.D., P.E., and Ravi K. Karanam, October 2006 and July 2008

While Iowa's rural arterial condition ranking improved slightly between 2006 and 2008, it still ranks near the bottom of the country. In the other rankings, Iowa has lost ground or remained the same. It is important to note that the data used in this report has a lag time of two years. Therefore, the most current rankings are based on 2006 data which does not reflect the impact recent flooding and the severe winter had on Iowa's public roadway conditions.

Flooding and severe winter impacts

The uncharacteristically brutal winter of 2007-2008 severely impacted the condition of Iowa's public roadway system. According to the State Climatologist Office, Iowa's 2007-2008 winter season recorded an average of 45.1 inches of snowfall (over half of Iowa had more than 60 inches) which is the 10th highest snowfall total in 121 years of record keeping and nearly 160 percent of normal. In addition, frequent freeze-thaw cycles greatly accelerated pavement and supporting roadbed damage to all roadways. All jurisdictions spent the entire spring repairing damaged roadways. The photo below shows one example of the type of damage to local roads due to the severe winter. In some cases, damage to the roadways was so severe that major projects, costing millions of dollars, had to be advanced. One example was the acceleration of a $15.4 million resurfacing project on Interstate 380 between Iowa City and Cedar Rapids.

Stuck County Motor Grader in Black Hawk County

Iowa's roadway conditions were also severely impacted by record flooding in 2008. The primary road system alone sustained approximately $19 million in identifiable damage. The flooding damaged approximately 125 miles of road and approximately 30 bridges on the primary highway system. One example of flood damage on Iowa's roadways can be seen in the photograph below of Iowa 1 in Linn County. This picture is representative of the type of damage caused by flooding to many public roadways across Iowa.

Flood damage to Iowa 1 in Linn County

According to a survey conducted by the Iowa County Engineers Association Service Bureau, approximately $43 million in flood damage was sustained at 16,193 different sites on the secondary road system in 92 counties.

This extreme weather also had an impact on operational expenses for all jurisdictions. The priority for all jurisdictions is keeping roadways open to traffic in a safe manner. This is critical to support the movement of freight and the movement of people to access jobs, health care, education, recreation, etc. To do this in extreme weather conditions, whether it is winter weather conditions or flooding, requires extensive labor, equipment and material resources. According to the Iowa County Engineers Association Service Bureau, county winter operations expenditures increased over 60 percent from FY 2007 to FY 2008. The Iowa DOT used approximately 303,000 tons of salt in FY 2008 which is approximately 160 percent of normal use. To clear the primary road system of snow and ice in FY 2008 required over 522,000 person-hours of labor at the Iowa DOT which is equivalent to 251 full-time positions for one year. These operational costs must be covered using existing budgetary funds; therefore, covering the costs to meet these needs is accomplished by reducing other expenses including routine maintenance to the roadway system. Deferring routine maintenance has a long-term negative impact on the roadway system which is difficult to quantify but is significant. In the event that additional funds are allocated to address increased

maintenance needs resulting from extreme weather events, the funding often comes at the expense of funding available for roadway improvements.

While flooding and severe winter conditions resulted in significant and identifiable deteriorated roadway conditions, of greater concern is the undetectable, incremental advancement in condition deterioration. While there is no way to quantify the loss in useful life of Iowa's public roadways caused by the 2007-2008 weather, transportation engineers acknowledge it is significant.

In summary, the extreme weather conditions caused not only immediate damage to the roadway system but also long-term deterioration reducing the life of the system. These impacts were felt by all Iowans and the frustration they expressed is further evidence of the importance of transportation to our well-being and economy.

Increasing demands on the public roadway system

The most current traffic data available at the time the 2006 RUTF study was published was collected in 2005. Total travel in Iowa, across all systems, from 2005 through 2007 (the most current available) has decreased slightly. However, during that same period, large truck travel on Iowa's public roadways has grown over three percent which represents an additional 152 million miles of large truck travel over those two years. On the interstate system it has grown over five percent for an increase of 40 million miles of large truck travel per year. This continuing increase in large truck travel significantly impacts road and bridge conditions, capacity, operational requirements and the ultimate life of the roadway.

While new renewable fuel plant development has flattened recently, the capacity of existing ethanol plants in Iowa is approximately three billion gallons per year. This is a significant increase over the 1.5 billion gallons estimated in 2006. This doubling in ethanol production results in approximately 600,000 additional truckloads of corn shipped to ethanol plants each year versus 2006 levels for a projected 1.2 million total truckloads of corn per year. An additional 150,000 truckloads each year, over 2006 levels, are due to the shipment of ethanol and distiller grains. As described in the 2006 RUTF study, the transportation requirements of renewable fuel developments result in increased wear and tear on the roadway system and congestion at certain times of day as trucks queue to enter the plants. The increased traffic also causes increased safety concerns at intersections near these developments necessitating intersection improvements up to and including construction of new interchanges.

Collapsed bridge on Eagle Place Road in Audubon County

The impact of the deteriorating infrastructure and inability of the infrastructure to meet the increased demands to move goods are demonstrated in the above picture. The load moving over this bridge exceeded the bridge embargo level resulting in the bridge's collapse.

An emerging impact to Iowa's public roadway system is related to wind energy developments and equipment production. Iowa has become a hub for both the development of wind energy farms and also the manufacturing of components for wind energy equipment. The equipment involved in this industry is large and heavy. Movement of this equipment has an impact on the condition of roadway infrastructure, safety, and the operational characteristics of the roadway, occasionally resulting in the need for changes in intersection design to handle the large sizes. In addition, due to deteriorating bridge conditions, the movement of heavy components is often inefficient as loads are routed around the state to bridges that can safely handle the weight.

Flattening revenue available for public roadway improvements

State RUTF

RUTF revenue increased 0.4 percent in FY 2007 and 2.9 percent in FY 2008 (see Table 3). However, the RUTF revenue for FY 2009 (not including the increased revenue associated with TIME-21 revenue changes) is projected to be less than FY 2008 primarily due to decreasing fuel tax and 'fee for new vehicle registration' revenue.

Even with the increase in RUTF revenue experienced in FY 2008, the average annual growth in actual RUTF receipts from FY 2000 to FY 2008 has been only 1.6 percent. This compares with an average annual growth rate of 3.9 percent between FY 1990 and FY 1999.

TIME-21 revenue will begin to be generated in FY 2009. Over time, the funding source will generate significant revenue (see *Needs versus Revenues* section beginning on page 20); however, it begins very slowly due to the grandfathering provisions of Senate File 2420. In addition, future revenue may be lower due to the downturn in the economy and its probable impact on vehicle travel and vehicle sales. There may also be unanticipated impacts from Senate File 2420 that lower future revenue, such as the ability for vehicle owners with January vehicle registration renewals to renew in December 2008 and avoid the fee provisions that take effect January 1, 2009.

Federal funding

In addition to concerns regarding state revenues for roads, there are increasing concerns about federal funding for roadways. In September 2008, the state came within one week of having to suspend the construction letting of some federal-aid projects in Iowa due to the impending insolvency of the federal Highway Trust Fund (funding for the Highway Trust Fund comes primarily from federal fuel tax). States were notified that only partial federal reimbursements would be made until the Highway Trust Fund received additional funding. This would have meant that the state, counties and cities would not have received full federal reimbursement as anticipated and would need to cash flow projects longer with local/state funds. Ultimately this would have resulted in the delay of new projects that would have been funded with federal aid. Congress passed and the President signed a last minute transfer of $8.017 billion of general revenue to the Highway Trust Fund to keep federal funds flowing at appropriated levels. This one-time fix was intended to keep the Highway Trust Fund solvent through the end of FFY 2009. However, new projections are now raising concerns that this may not have been enough to sustain the distribution of federal funding at current levels through the end of FFY 2009.

In addition, significant and challenging action will be required by Congress to keep the Highway Trust Fund solvent and at current levels in FFY 2010, which begins October 2009. The end of FFY 2009 represents the end of the current federal highway and transit authorization bill that is adopted every five to six years to reestablish federal highway and transit transportation funding levels. The authorization bill is typically passed well after the previous bill expires, and with the challenges facing federal funding in FFY 2010, most people expect the next authorization bill to be significantly delayed. Without specific congressional action to address the interim, this will result in a significant reduction in federal transportation funding in FFY 2010, and future years, pending adoption of a new authorization bill.

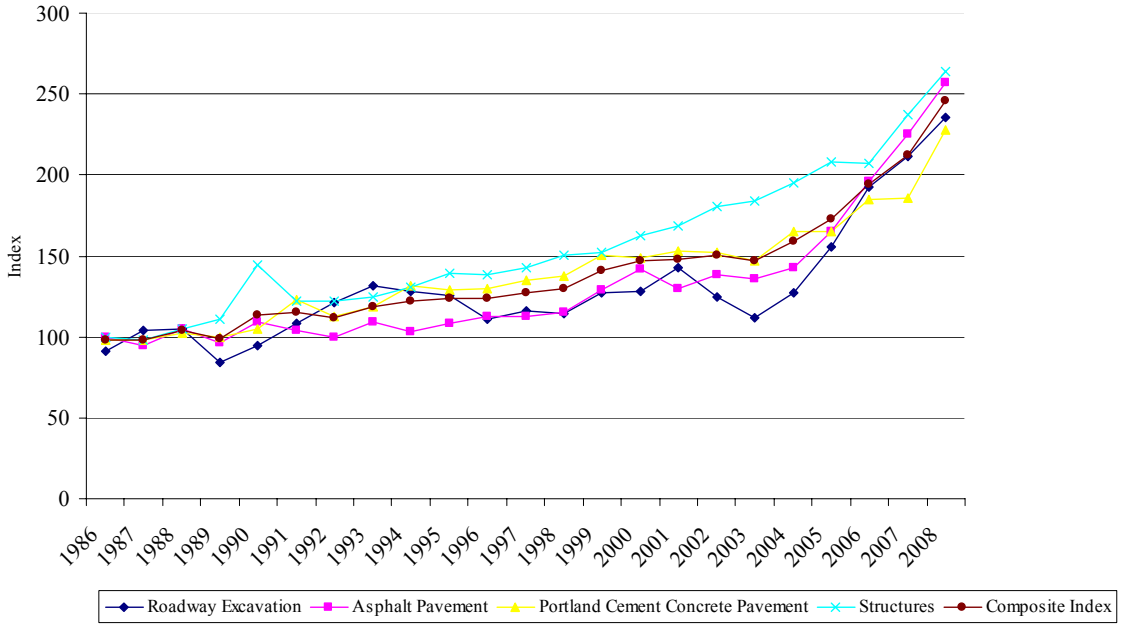
The flattening, and potentially decreasing, revenue at the federal and state level is a significant issue by itself, but when compounded with rapidly increasing construction costs (discussed in next section) the impact is dramatic.

Increasing construction cost inflation rate

As RUTF revenue has increased only slightly since FY 2006, the impact of rapidly increasing construction costs has greatly diminished the buying power of RUTF revenue. The 2006 RUTF study was based on the assumption that construction cost inflation would moderate after several years of hyperinflation that began in FY 2004; however, that has not been the case. Since the 2006 RUTF study was published, the construction cost index in Iowa has grown 26 percent (over the two-year period from January 2007 to the end of December 2008). Over the five-year period from 2004 through 2008, the construction cost index in Iowa has grown 67 percent which is the largest five-year increase in construction costs since the measure has been tracked.

Figure 1 is a graphical representation of the construction cost index for all components of roadway construction from 1986 through the end of 2008. The indices have increased dramatically beginning in FY 2004 reflecting an alarming growth in construction costs. The composite index reflects the overall construction cost inflation in Iowa.

Figure 1 – Construction Cost Index Data for Iowa



Source: Iowa DOT – Office of Contracts

As a result of ongoing construction cost hyperinflation, even with a 2.9 percent annual increase in RUTF revenue in FY 2008, construction cost inflation resulted in an 11.0 percent decrease in buying power compared with FY 2007 (see Table 3). In fact, FY 2008 RUTF revenue has less than 69 percent of the buying power of RUTF revenue in FY 1997. As Table 3 illustrates, this represents a $267 million reduction

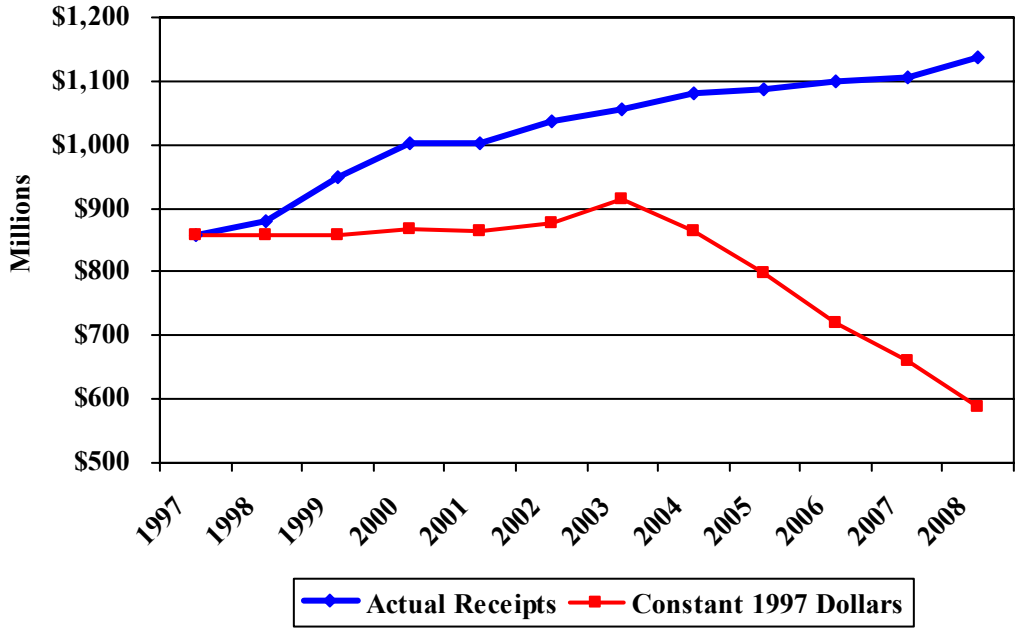
in buying power in FY 1997 dollars. In today's dollars, this means that an additional $517 million is necessary just to have the same buying power as existed in FY 1997.

Table 3 – RUTF Revenue History

Year	RUTF Revenue Actual Receipts (Millions)	Percent Change from Previous Year	RUTF Revenue Adjusted to Constant 1997 Dollars Based on Iowa Construction Cost Index (Millions)	Percent Change from Previous Year
1997	$856	3.1%	$856	0.4%
1998	$880	2.7%	$859	0.3%
1999	$950	7.9%	$857	-0.3%
2000	$1,002	5.5%	$866	1.1%
2001	$1,002	0.0%	$863	-0.4%
2002	$1,036	3.4%	$877	1.6%
2003	$1,057	2.0%	$915	4.3%
2004	$1,082	2.4%	$863	-5.7%
2005	$1,087	0.5%	$799	-7.4%
2006	$1,101	1.3%	$721	-9.7%
2007	**$1,106**	**0.4%**	**$661**	**-8.3%**
2008	**$1,138**	**2.9%**	**$589**	**-11.0%**

Source: Iowa DOT – Offices of Program Management and Systems Planning

Figure 2 – History of RUTF Revenue (FY 1997 to FY 2008)



Source: Iowa DOT – Offices of Program Management and Systems Planning

The impact of construction cost inflation on RUTF buying power is evident in the graphical representation of the historic RUTF data shown in Figure 2. As stated previously, the hyperinflation of construction costs that began in FY 2004 has not moderated and has, in fact, increased.

In addition to construction cost inflation, other operational costs have grown dramatically. The high cost of fuel, which just recently dropped again, dramatically increased operations costs for all jurisdictions. The high cost was compounded with a corresponding increase in fuel usage due to the extreme weather of the past year. For example, the Iowa DOT's operational expenditure for diesel fuel alone increased from $1.99 million in FY 2006 to $4.08 million in FY 2008. This equates to a 105 percent increase over that two-year period.

The cost of salt has increased significantly, driven by high demand from last year's extreme winter conditions, a salt supply that is increasingly difficult to secure, high fuel costs, flooding on the Mississippi River and hurricanes in the Gulf of Mexico. The Iowa DOT's FY 2009 statewide average cost of salt has increased 26 percent (from $50 per ton to $63 per ton) from FY 2008. All jurisdictions in Iowa are facing increasing operational costs due to this increase in the cost of salt and may face salt shortages depending on winter conditions during the 2008-2009 season.

As previously discussed in the section on the impacts of extreme weather, increased unit costs for fuel and salt reduce available funding for routine maintenance resulting in further deterioration of the system and loss of useful life.

Updated Evaluation of Future Needs

As described in the previous section, many of the 'perfect storm' issues have continued beyond 2006, increasing the funding needs to maintain Iowa's public roadway system. In addition, the 2006 RUTF study documented that $200 million additional revenue, phased in over two years beginning in FY 2008, was required to meet Iowa's critical roadway needs. As documented in the *Needs versus Revenues* section (page 20), the estimated TIME-21 revenue does not begin until FY 2009 and does not reach $200 million until well after FY 2018. The impact of not meeting the funding recommendation from the 2006 RUTF study, along with the continuation of the 'perfect storm' issues, have led to the need to reevaluate both the total and critical needs of Iowa's public roadway system.

This reevaluation was not a comprehensive reestimation of needs, but instead is based on updating the needs identified in the 2006 RUTF study to reflect the impact of delayed funding, deteriorating conditions and rapidly increasing construction costs. The details regarding the estimation of roadway needs are documented in the 2006 RUTF study and will not be repeated in this study. This study also does not include documentation of needs by jurisdiction, type or category but rather focuses on statewide public roadway needs.

The same base assumptions, including the future moderation of construction cost inflation, used in the 2006 RUTF study continue to apply. However, a major cause of the increase in needs with this update is the adjustment to reflect the 26 percent increase in construction costs over the last two years. If construction cost inflation continues at these levels into the future, the estimate of needs in this update will again be significantly underestimated.

The 2006 RUTF study was based on an estimate of the 20-year needs of the public roadway system in Iowa, covering the period from 2005 through 2024. This update to the 2006 RUTF study does not extend the period covered but is updated to reflect changes in the two years since the 2006 RUTF study was completed. Therefore, it is important to compare annual needs estimates.

Table 4 is a summary of total needs and critical needs for the state of Iowa as documented in the 2006 RUTF study and reevaluated in this study.

Table 4 – Comparison of Roadway Needs

		2006 RUTF Study (20-year period) (in millions)	2008 Update to RUTF Study (18-year period) (in millions)
All statewide needs	Total	$67,200	$62,700
	Annual	$3,360	$3,483
Critical needs	Total	$43,500	$40,600
	Annual	$2,175	$2,256

Table 4 illustrates that due to the increasing rate of deterioration caused by insufficient investment and extremely severe weather, the average annual total needs have increased from the 2006 estimate of $3.36 billion to the updated estimate of $3.48 billion.

The 2006 RUTF study further defined a critical need level that formed the basis for the TIME-21 funding recommendation. The critical need level is the amount necessary to meet the most critical pavement and bridge preservation needs that exist on Iowa's Interstate system, Commercial and Industrial Network, Farm-to-Market Network and key city streets. In addition, the critical need level partially supports the following categories of need:

- Resurfacing of 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.
- Capacity improvements on high-volume and CIN roads.

Table 4 documents the increase in critical needs from an annual average need of $2.18 billion, as defined in the 2006 study, to $2.26 billion which is a 3.7 percent increase.

Updated Evaluation of Future Revenues

As with the reevaluation of needs, the reevaluation of revenues covers only the remaining 18-years of the original 20-year evaluation period. The details of the original revenue estimation process are included in the 2006 RUTF study and are not repeated in this document.

The revenue estimates have been updated to reflect changes in the last two years, but do not include the estimate of TIME-21 revenue that results from Senate File 2420. The TIME-21 revenue is not included in this section to simplify the comparison of revenue estimates from the 2006 RUTF study with the updated revenue estimate. The TIME-21 revenue is reflected in the next section on comparison of needs and revenues.

The key assumptions for future revenue are the same as used in the 2006 RUTF study and are as follows.

- Federal revenue will remain constant over the study period.
- State revenue from the RUTF will grow about one-half of one percent a year over the study period.
- Local revenue will remain constant over the study period.

All of these revenue assumptions will result in a continuing loss of buying power if construction costs increase even at a modest rate. As demonstrated in Table 3, there has been a dramatic loss of buying power over the last five years due to high construction cost inflation rates and flat revenue.

Table 5 is a summary of estimated revenue for the State of Iowa as documented in the 2006 RUTF study and reevaluated in this study. As with the comparison of needs, it is important to compare annual values due to the different analysis period (18 years versus 20 years).

Table 5 – Comparison of Revenue Estimates (not including TIME-21 revenue)

	2006 RUTF Study (20-year period) (in millions)	2008 Update to RUTF Study (18-year period) (in millions)
Total revenue	$39,500	$35,800
Annual revenue	$1,975	$1,989

The estimate of average annual revenue available to jurisdictions in Iowa from the 2006 RUTF study was $1.975 billion. The updated average annual revenue estimate (not including TIME-21 revenue) is now $1.989 billion which is a 0.7 percent increase.

Needs versus Revenues

The reevaluation of future needs and revenues results in an increase in the funding shortfall for both total and critical needs. Tables 6A and 6B show the increase in funding shortfall over the study period for meeting total needs (Table 6A) and critical needs (Table 6B). Tables 7A and 7B are summaries of funding shortfalls on an annual basis for total needs (Table 7A) and critical needs (Table 7B). None of these tables include the estimated TIME-21 revenue.

Table 6A – Comparison of Total Funding Shortfall over the Study Period

	2006 RUTF Study (20-year period) (in millions)	2008 Update to RUTF Study (18-year period) (in millions)
Needs	$67,200	$62,700
Revenue	$39,500	$35,800
Shortfall	($27,700)	($26,900)

Table 6B – Comparison of Critical Funding Shortfall over the Study Period

	2006 RUTF Study (20-year period) (in millions)	2008 Update to RUTF Study (18-year period) (in millions)
Needs	$43,500	$40,600
Revenue	$39,500	$35,800
Shortfall	($4,000)	($4,800)

Table 7A – Comparison of Total Funding Shortfall on an Annual Basis

	2006 RUTF Study (20-year period) (in millions)	2008 Update to RUTF Study (18-year period) (in millions)
Needs	$3,360	$3,483
Revenue	$1,975	$1,989
Shortfall	($1,385)	($1,494)

Table 7B – Comparison of Critical Funding Shortfall on an Annual Basis

	2006 RUTF Study (20-year period) (in millions)	2008 Update to RUTF Study (18-year period) (in millions)
Needs	$2,175	$2,256
Revenue	$1,975	$1,989
Shortfall	($200)	($267)

Based on this reevaluation of needs and revenues, the updated annual shortfall in meeting Iowa's most critical public roadway needs is $267 million. This is an increase of $67 million over the annual shortfall identified in the 2006 RUTF study due to worsening system condition, caused by insufficient investment and the impacts of extremely severe weather, coupled with continuing cost escalation.

Analysis of revenues necessary to achieve $200 million of TIME-21 funding by FY 2012

To evaluate the status of TIME-21 revenue, Table 8 was developed which shows recommended TIME-21 funding levels from the 2006 RUTF study ($200 million per year except the first year which was recommended to be funded at $100 million, reflecting a two-year phase-in period).

Table 8 – TIME-21 Funding Shortfall from 2006 RUTF Study Recommendation

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
TIME-21 funding recommendation	$100	$200	$200	$200	$200	$200	$200	$200	$200	$200	$200
TIME-21 funding estimate	$0	$15.2	$61.7	$88.5	$115.3	$131.6	$140.4	$142.2	$155.6	$161.0	$165.5
Annual shortfall	$100	$184.8	$138.3	$111.5	$84.7	$68.4	$59.6	$57.8	$44.4	$39.0	$34.5
Cumulative shortfall	$100	$284.8	$423.1	$534.6	$619.3	$687.7	$747.3	$805.1	$849.5	$888.5	$923.0

As shown in Table 8, it is estimated that the FY 2012 TIME-21 revenue will be approximately $115 million. The FY 2012 shortfall to meet the $200 million critical funding level identified in the 2006 RUTF study is approximately $85 million. The table also demonstrates the cumulative shortfall between the funding level recommended in the 2006 RUTF study and the actual TIME-21 revenue estimate through FY 2018. The cumulative shortfall over the five-year period ending with FY 2012 is nearly $620 million and increases to just under $1 billion by the end of FY 2018. This shortfall in funding is part of the reason the critical need level has risen since the 2006 RUTF study.

Table 9 is similar to Table 8 except it is based on the updated TIME-21 funding recommendation of $267 million per year based on updated critical needs.

Table 9 – TIME-21 Funding Shortfall from 2008 RUTF Study Recommendation

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Updated TIME-21 funding recommendation	$100	$200	$267	$267	$267	$267	$267	$267	$267	$267	$267
TIME-21 funding estimate	$0	$15.2	$61.7	$88.5	$115.3	$131.6	$140.4	$142.2	$155.6	$161.0	$165.5
Annual shortfall	$100	$184.8	$205.3	$178.5	$151.7	$135.4	$126.6	$124.8	$111.4	$106.0	$101.5
Cumulative shortfall	$100	$284.8	$490.1	$668.6	$820.3	$955.7	$1,082.3	$1,207.1	$1,318.5	$1,424.5	$1,526.0

The additional funding required to meet the updated critical needs shortfall of $267 million by FY 2012 is approximately $152 million. With the updated TIME-21 critical need funding level, the cumulative shortfall in funding also increases to the point that by FY 2012 it is over $820 million and by FY 2018 the cumulative shortfall is approximately $1.5 billion.

Options for Addressing Funding Shortfall

The tables on the following pages are modified from versions contained in the 2006 RUTF study. In addition to updated data, these tables include a column that identifies whether the mechanism can result in revenue generation from out-of-state drivers. This will assist the evaluation of the balance of fees collected from Iowa drivers and out-of-state drivers.

Table 10 is a summary of current RUTF and TIME-21 Fund revenue sources and options for generating increased revenue. Table 11 is a list of revenue mechanisms that are not currently utilized, but could be implemented to generate additional RUTF and TIME-21 Fund revenue.

Table 10 - Current RUTF and TIME-21 Fund Revenue Sources and Increase Options

Type of Financing	Description/Mechanism	Estimated Amount Generated	Advantages	Disadvantages	Collected from out-of-state drivers?
Fuel Tax (452A.3)	Cents per gallon tax on motor fuels, including some alternative fuels. Current rate (as of July 1, 2008): • Gasoline: 21.0 cents per gallon • Gasohol/E-85: 19.0 cents per gallon • Diesel: 22.5 cents per gallon The fuel tax is the only significant current source of RUTF revenue that is applied to out-of-state drivers as well as Iowans. The Iowa DOT has estimated that 35 percent of large truck travel in Iowa is from out-of-state trucks and 15 percent of passenger car/small truck travel in Iowa is from out-of-state drivers. In total, approximately 13 percent of RUTF revenue is estimated to be paid by out-of-state drivers primarily due to fuel tax payments.		• Collection and administration process already in place. • Generally proportional to system usage. • Generates a significant portion of revenue from out-of-state drivers. • Paid by all users of the highway system.	• Increased fuel efficiency results in lower revenue. • Higher fuel prices lead to reduced driving and reduced fuel tax collections. • Fees are fixed and do not adjust for inflation.	• Yes (see description)

	Mechanism: Increase fuel tax across the board	• $21 million per year for each cent increase.
		• A four cent increase would generate $84 million per year.
			• Applies to all vehicle types.
			• Increases proportion of revenue generated from out-of-state drivers.
			• Results in a modest increase in annual fuel expenditures for the average driver. According to the University of Iowa, the average driver would see the following annual increase in fuel expenditures.
			  • 1¢ increase: $4.75 per year
			  • 2¢ increase: $9.50 per year
			  • 3¢ increase: $14.25 per year
			  • 4¢ increase: $19.00 per year
			  • 5¢ increase: $23.75 per year
				• Retains ethanol fuel tax reduction.	

	Mechanism: Increase diesel fuel tax only	• $6.5 million per year for each cent increase.	• Increases proportion of revenue generated from out-of-state drivers.	• Increased freight costs for Iowa shippers.	
	Mechanism: Eliminate gasohol/E-85 fuel tax reduction This would result in a fuel tax rate of 20 cents per gallon for gasoline, gasohol and E-85.	• Approximately $6 million per year compared to FY 2009 levels.	• Simplifies fuel tax rate administration. • Simplifies fuel tax rate schedule.	• May impact consumption of ethanol-blended fuels.	
	Mechanism: Add automatic annual adjustment to fuel tax rates based on an inflation index such as the construction cost index Amount of additional revenue generated is dependent on rate of inflation.	• Variable. A three percent adjustment would generate $13 million per year.	• Automatically addresses loss of buying power.	• Could result in significant revenue variations as fuel price changes.	

Type of Financing	Description/Mechanism	Estimated Amount Generated	Advantages	Disadvantages	Collected from out-of-state drivers?
Fee for New Registration (321.105A)	Five percent fee that is imposed on the sale of new and used motor vehicles and trailers		• Collection and administration process already in place. • Provides revenue source based on ability to pay. • Proportional to cost of vehicle.	• Not proportional to system usage. • May discourage sales of motor vehicles. • Fluctuates with economic cycles.	• No
	Mechanism: Increase to six percent.	• $54 million per year	• Brings fee in line with state sales tax rate.		
Driver's License Fee (321.191)	A fee charged for the privilege to operate a motor vehicle. $4 per year (non-commercial)* $8 per year (commercial)* * Does not include the one-time surcharge assessed through 6/30/08 for the driver information system update ($3).		• Collection and administration process already in place. • Does not fluctuate with economic cycles.	• Not proportional to system usage.	• No
	Mechanism: Double driver's license fee	• $12 million per year on average			
	Mechanism: Institutionalize the current $3 surcharge as an increase as of 7/1/09.	• $1.4 million per year			
	Mechanism: Increase driver's license fee by 50 percent and institutionalize the current $3 surcharge into the license fee as of 7/1/09.	• $7.4 million per year			
Registration Fees	Fees charged to register and license vehicles and trailers Fees adjusted significantly by Senate File 2420 to generate revenue for the TIME-21 Fund. Cars, mini-vans, SUVs, and newly purchased non-business trade pickups pay a fee based on the weight and value of the vehicle. Other fees vary by age, weight and/or other factors.		• Collection and administration process already in place.	• Not proportional to system usage. • Higher administrative and enforcement costs. • Encourages retention of older vehicles.	• Only commercial vehicles that pay a prorated fee based on travel within Iowa.

Table 11 - Potential RUTF and TIME-21 Fund Revenue Sources

Type of Financing	Description	Advantages	Disadvantages	Collected from out-of-state drivers?
Sales Tax	Assess sales tax on fuel purchases. A one percent sales tax on fuel would generate approximately $40 million per year based on December 2008 fuel prices.	• Provides a mechanism to apply local option sales tax on the purchase of fuel. • Requires less frequent legislative action on fuel tax because revenues will increase as the price of fuel increases.	• Requires enabling legislation. • Administration and collection system would need to be developed. • Because tax is tied to the price of fuel, the amount of tax could change significantly if fuel prices experience large fluctuations.	• Yes
Severance Tax on Ethanol	A tax collected by the state either based on a percent of value or a volume-based fee on resources extracted from the earth. Typically charged to producer or first purchaser. To minimize the impact on Iowa drivers, the added cost of the severance tax could be offset with a reduction in fuel tax rate on ethanol-blended fuel. Potential revenue is dependent on rate set and volume produced. Assuming the fuel tax rate is lowered for ethanol-blended fuels to offset the addition of a severance tax, an estimate can be developed. The estimated CY 2008 ethanol production used outside of Iowa is 2.8 billion gallons. A severance tax of one cent per gallon would have generated $28 million in CY 2007.	• Creates opportunity to generate revenue from sources outside of Iowa. • Compensates for roadway deterioration resulting from usage of system for the production of ethanol.	• Requires enabling legislation. • Administration and collection system would need to be developed. • Potential regulatory issues. • Could put the producer at competitive disadvantage.	• Yes
Per-Mile Tax	Tax based on the vehicle miles traveled within a state. Based on the vehicle miles traveled in Iowa in 2007 (31.5 billion), a one cent per-mile fee would generate $315 million per year.	• Direct measure of actual costs incurred. • Highly related to needs for capacity and system preservation because as travel and revenue increases, the need for capacity and preservation improvements increase. • May be graduated based on vehicle size, weight, emissions or other characteristics.	• Requires enabling legislation. • Administration and collection system would need to be developed. • Potentially high administrative, compliance and infrastructure costs. • Technology needs to mature. • Privacy concerns.	• Yes
Transportation Improvement District	Geographic areas are defined and tax imposed within the area to fund transportation improvements with voter approval. Revenue potential varies.	• Satisfies urgent infrastructure needs, which exceed available finances. • Encourages state, local and private-sector partnerships. • Users of the system decide to implement.	• Requires enabling legislation. • Administration and collection system would need to be developed. • May be seen as an equity issue.	• Yes, if out-of-state driver makes taxable purchases within geographic area.

Type of Financing	Description	Advantages	Disadvantages	Collected from out-of-state drivers?
Tolling	Implementing fees to travel on road segments. Revenue potential varies based on length of tolled segment and toll rate, but a typical rate is six cents per mile.	• Specific road segments/corridors generate their own revenue.	• Requires enabling legislation. • Expensive to initiate due to needed capital investment. • Ongoing administrative costs. • Requires sufficient traffic levels to generate enough revenue to pay for the costs of tolling, along with the maintenance and construction cost; Iowa may not have any reasonable corridors meeting requirements. • Public resistance may lead to adjustments in travel patterns to avoid tolls. • There are federal restrictions in some cases.	• Yes
Development Impact Fees	A fee charged to developers for off-site infrastructure needs that arise as a result of new development.	• Additional source of funding to off-set increased needs due to new development. • Places the cost of improvement on the development that caused the need.	• Typically a local jurisdiction fee and is difficult to apply statewide. • Potential negative impact on future development. • Can be difficult to establish and administer. • Can be an equity issue when costs are passed on to homeowners in the case of a housing development.	• No
Bonds for Primary Road System Improvements	A written promise to repay borrowed money at a fixed rate on a fixed schedule. Can be limited to very specific situations, such as projects that exceed a certain dollar threshold, projects that cannot easily be phased over time (border bridges) and/or projects that can reasonably generate sufficient revenue (tolls) to service their own bond debts. Revenue potential varies.	• Allows earlier and faster construction of some facilities. • Satisfies urgent infrastructure need, which exceeds available finances. • Avoids inflationary construction costs.	• Requires enabling legislation. • Requires state or community to extend payments for long periods of time. • Does not generate new money. • May cost more over time due to bond interest. • Requires existing annual resources be used for debt service rather than new needs. • May have a negative impact on statewide transportation decision-making. • Pose staffing issues for government road agencies and road consultants/contractors due to significantly changing annual project expenditure levels and cyclical nature.	• Depends on funding mechanism that funds bond repayments.

Type of Financing	Description	Advantages	Disadvantages	Collected from out-of-state drivers?
Public-Private Partnerships (PPPs)	Contractual agreements formed between a public agency and private sector entity that allow private participation in the delivery of transportation projects in one or more of the following areas: project design, construction, finance, operations, and maintenance. Can either be user-fee based (tolls) or non-user-fee based. The non-user-fee based types of PPPs are most viable in Iowa and include design-build and design-build-finance. Revenue potential varies.	• Expedited completion compared to conventional delivery methods. • Avoids inflationary construction costs. • Delivery of new technology developed by private entities. • Purchase of private resources and personnel instead of using constrained public resources.	• Requires enabling legislation. • May be less efficient. • If user-fee based, could lead to higher tolling than under a public-only project. • May limit ability for in-state contractors to participate in construction depending on type of project.	• Depends on mechanism implemented by private owner but would likely generate funding from out-of-state drivers
	Mechanism: Privatization of infrastructure. Typically involves the long-term leasing of toll roads to private sector for up-front payment. Revenue potential varies.	• Influx of one-time capital. • Shifts responsibility to contractor.	• Requires enabling legislation. • Administrative process needed to let, execute, contract, and monitor performance. • Requires high-usage corridor to be marketable; Iowa may not have any candidates. • Built-in toll increases. • Potentially higher tolls to make project profitable. These tolls may result in system inefficiencies as traffic utilizes non-toll roads in lieu of using toll roads. • Requires very long-term decision that removes flexibility. • Very limited ability for in-state contractors to participate in construction.	• Depends on funding mechanism implemented by private owner but would likely generate funding from out-of-state drivers.
	Mechanism: Enable design-build contracting. Design-build involves contractual agreements whereby a single bid is accepted for both the design and construction of a project. A variation of this is the design-build-operate-maintain contract whereby a private contractor is also responsible for operation and future maintenance. At least 32 states have statutory or administrative provisions that authorize design-build.	• Intended to accelerate construction schedule since some activities can occur simultaneously. • Intended to allow construction to begin sooner • Reduces administrative burden by having one contract and point-of-contact. • Can result in reduced construction costs.	• Requires enabling legislation. • May impact ability of in-state contractors to participate in construction. • Not appropriate for all types of projects. • Potential for cost overruns if scope of work is not properly defined up front.	• N/A

Analysis of Fees Paid by Iowa Drivers and Out-of-State Drivers

Table 12 summarizes the share of Vehicle Miles of Travel and RUTF revenue of Iowa drivers and out-of-state drivers. Assuming revenue should be generated based on usage of the system, the data demonstrates that additional revenue should be generated from out-of-state drivers.

Table 12 – Share of VMT and Revenue by Iowa vs. Out-of-State Drivers

	2007 Vehicle Miles of Travel	Estimate of RUTF Revenue
Iowa drivers	80 percent	87 percent
Out-of-state drivers	20 percent	13 percent

Source: Iowa DOT analysis of RUTF revenue and past studies of trip origins and destinations.

Nearly all of the TIME-21 revenue generated as a result of Senate File 2420 is from Iowa drivers.

For the RUTF revenue from out-of-state drivers to match their same proportion of vehicle miles of travel in Iowa would require an almost complete shift to revenue generation based on level of usage of the system (i.e. fuel tax or per-mile tax). However, additional revenue from out-of-state drivers can be generated with changes to certain existing funding mechanisms or by implementation of new funding mechanisms described below.

Existing funding mechanisms that generate funding from out-of-state drivers

As documented in the previous section, there are two existing RUTF mechanisms that generate funding from out-of-state drivers. Those are fuel taxes and pro-rated registration fees from commercial vehicles. Of those two mechanisms, the fuel tax generates the great majority of revenue paid by out-of-state drivers.

The Iowa DOT has estimated that 35 percent of large truck travel in Iowa is from out-of-state trucks and 15 percent of passenger car/small truck travel in Iowa is from out-of-state drivers which results in an estimate that 20 percent of all vehicle miles of travel in Iowa is from out-of-state drivers. In total, approximately 13 percent of RUTF revenue is paid by out-of-state drivers primarily due to fuel tax payments.

Iowa's fuel tax rates are adjusted annually based on the percentage of fuel sold that is blended with ethanol. However, these adjustments are intended to be revenue neutral. The last adjustment to Iowa's fuel tax rates that was intended to generate additional revenue occurred in 1989. This did not negatively impact RUTF revenue in the 1990s when statewide travel was rapidly increasing and a large number of pickups and sport utility vehicles were purchased which resulted in significant growth in fuel tax revenue. However, with overall travel levels now slightly decreasing and an increasing emphasis on improving fuel efficiency, fuel tax revenues are decreasing.

Table 13 – Iowa Fuel Tax Rates

Year	Gasoline	Gasohol	Diesel
1989	20.0 cents per gallon	19.0 cents per gallon	22.5 cents per gallon
2008	21.0 cents per gallon	19.0 cents per gallon	22.5 cents per gallon
2008 (if tax rate kept up with CPI)	34.8 cents per gallon	33.1 cents per gallon	39.2 cents per gallon
2008 (if tax rate kept up with CCI)	49.7 cents per gallon	47.2 cents per gallon	55.9 cents per gallon

As shown in Table 13, the fuel tax rates have not kept up with inflation from either the perspective of the Consumer Price Index (CPI) or Iowa's Construction Cost Index (CCI). In fact, if the gasoline tax rate had kept up with construction cost inflation in Iowa it would now need to be at 49.7 cents per gallon compared with the current rate of 21.0 cents per gallon.

Comparison of fuel tax rates

The following two pages reflect the status of fuel tax rates of all 50 states. The first table reflects tax rates for only the per gallon excise tax rate. The second table reflects the total per-gallon tax rate including sales taxes that some states impose on fuel purchases. The second table provides a more meaningful comparison of tax rates from state to state. Looking only at the gasoline tax rate, Iowa ranks 23rd highest in the country; however, when looking at total tax rates on the second table, Iowa ranks 32nd highest. The surrounding states are shown in red on both tables. Of the surrounding states, only Missouri has a lower overall tax rate on fuel than Iowa.

12/5/2008

Motor Fuel - Total State Taxes
Sorted by State Gasoline Excise Tax
(Does not include other miscellaneous fees and taxes such as sales tax, local tax, etc.)

10/01/2008

		Gasoline	Diesel		Gasohol		Gasoline Price Per Gallon	
Rank by Total Gasoline Tax	State	State Excise Taxes (cents/gal)	State Excise Taxes (cents/gal)	Rank	State Excise Taxes (cents/gal)	Rank	Average Price 12/5/2008	Rank
1	Washington	37.5	37.5	2	37.5	1	$1.90	11
2	**Wisconsin**	**30.9**	**30.9**	**3**	**30.9**	**2**	**$1.78**	**22**
3	Rhode Island	30.0	30.0	4	30.0	3	$1.84	14
4	North Carolina	29.9	29.9	5	29.9	4	$1.76	24
5	Maine	28.4	29.6	6	28.4	5	$1.94	5
6	Ohio	28.0	28.0	7	28.0	6	$1.67	42
7	Montana	27.0	27.0	8	27.0	7	$1.73	29
8	**Nebraska**	**26.0**	**26.0**	**9**	**26.0**	**8**	**$1.75**	**25**
9	**Minnesota**	**25.5**	**25.5**	**11**	**25.5**	**9**	**$1.70**	**36**
10	Connecticut	25.0	43.4	1	25.0	10	$1.94	5
10	Idaho	25.0	25.0	12	25.0	10	$1.75	25
12	Utah	24.5	24.5	13	24.5	12	$1.68	38
13	Kansas	24.0	26.0	9	24.0	13	$1.63	49
13	Oregon	24.0	24.0	15	24.0	13	$1.87	13
15	Maryland	23.5	24.3	14	23.5	15	$1.78	22
16	Delaware	23.0	22.0	20	23.0	16	$1.73	29
16	Nevada	23.0	23.0	16	23.0	16	$1.92	7
16	North Dakota	23.0	23.0	16	23.0	16	$1.84	14
19	Colorado	22.0	20.5	24	22.0	19	$1.72	32
19	**South Dakota**	**22.0**	**22.0**	**20**	**20.0**	**24**	**$1.81**	**20**
21	Arkansas	21.5	22.5	18	21.5	20	$1.64	47
22	Kentucky	21.1	18.1	31	21.1	21	$1.67	42
23	**Iowa**	**21.0**	**22.5**	**18**	**19.0**	**29**	**$1.73**	**29**
23	Massachusetts	21.0	21.0	23	21.0	22	$1.82	19
25	West Virginia	20.5	20.4	25	20.5	23	$1.91	10
26	District of Columbia	20.0	20.0	26	20.0	24	$1.95	4
26	Louisiana	20.0	20.0	26	20.0	24	$1.75	25
26	Tennessee	20.0	18.0	32	20.0	24	$1.64	47
26	Texas	20.0	20.0	26	20.0	24	$1.68	38
30	**Illinois**	**19.0**	**21.5**	**22**	**19.0**	**29**	**$1.75**	**25**
30	Michigan	19.0	15.0	43	19.0	29	$1.67	42
30	Vermont	19.0	19.0	29	19.0	29	$1.92	7
33	Arizona	18.0	18.0	32	18.0	33	$1.83	16
33	California	18.0	18.0	32	18.0	33	$1.88	12
33	Indiana	18.0	16.0	40	18.0	33	$1.66	45
33	Mississippi	18.0	18.0	32	18.0	33	$1.68	38
33	New Hampshire	18.0	18.0	32	18.0	33	$1.79	21
38	Virginia	17.5	17.5	38	17.5	38	$1.69	37
39	**Missouri**	**17.0**	**17.0**	**39**	**17.0**	**39**	**$1.57**	**51**
39	New Mexico	17.0	18.0	32	17.0	39	$1.83	16
41	Alabama	16.0	19.0	29	16.0	41	$1.71	33
41	Hawaii	16.0	16.0	40	16.0	41	$2.61	2
41	Oklahoma	16.0	13.0	45	16.0	41	$1.63	49
41	South Carolina	16.0	16.0	40	16.0	41	$1.66	45
45	Wyoming	13.0	13.0	45	13.0	45	$1.68	38
46	Pennsylvania	12.0	12.0	47	12.0	46	$1.92	7
47	New Jersey	10.2	13.5	44	10.2	47	$1.71	33
48	New York	8.0	8.0	48	8.0	48	$2.13	3
49	Georgia	7.5	7.5	49	7.5	49	$1.71	33
50	Florida	4.0	4.0	50	4.0	50	$1.83	16
51	Alaska	0.0	0.0	51	0.0	51	$2.76	1

Source: - Fuel tax data from American Petroleum Institute as of October 1, 2008
- Fuel price data (for regular gasoline) from AAA (www.fuelgaugereport.com) as of December 5, 2008

Notes: - Iowa's tax rate includes 1 cent per gallon underground storage tank fee
- Border states are in **bold red** font.
- In Alaska, Per SB 4002 passed 8/08 during a special session, the state motor fuel excise tax of 8 cpg is suspended from 9/1/08 until 8/31/09
- Federal fuel tax is not included in analysis but is 18.4 cents per gallon for gasoline/gasohol and 24.4 cents per gallon for diesel
- Price of fuel used for fuel tax calculations in states with sales tax may not correspond to price of fuel shown on this sheet.

12/5/2008

Motor Fuel - Total State Taxes
Sorted by Total Gasoline Tax
(Total state taxes includes per gallon fuel tax and other taxes applied to fuel such as sales tax)

10/01/2008

		Gasoline	Diesel		Gasohol		Gasoline Price Per Gallon	
Rank by Total Gasoline Tax	State	Total State Taxes (cents/gal)	Total State Taxes (cents/gal)	Rank	Total State Taxes (cents/gal)	Rank	Average Price 12/5/2008	Rank
1	California	48.7	52.0	1	48.7	1	$1.88	12
2	Connecticut	47.2	43.4	5	47.2	2	$1.94	5
3	**Illinois**	**46.0**	**50.2**	**4**	**46.0**	**3**	**$1.75**	**25**
4	New York	42.5	42.5	7	42.5	4	$2.13	3
5	Indiana	41.0	51.5	2	41.0	5	$1.66	45
5	Michigan	41.0	42.9	6	41.0	5	$1.67	42
7	Washington	37.5	37.5	9	37.5	7	$1.90	11
8	Florida	33.2	29.0	16	33.2	8	$1.83	16
9	**Wisconsin**	**32.9**	**32.9**	**10**	**32.9**	**9**	**$1.78**	**22**
10	Hawaii	32.6	51.2	3	32.6	10	$2.61	2
10	Nevada	32.6	24.6	24	32.6	10	$1.92	7
12	Pennsylvania	32.3	39.2	8	32.3	12	$1.92	7
13	West Virginia	32.2	32.1	11	32.2	13	$1.91	10
14	Rhode Island	31.0	31.0	14	31.0	14	$1.84	14
15	North Carolina	30.2	30.2	15	30.2	15	$1.76	24
16	Maine	29.9	31.1	12	29.9	16	$1.94	5
17	Georgia	28.1	31.1	12	28.1	17	$1.71	33
18	Ohio	28.0	28.0	17	28.0	18	$1.67	42
19	Montana	27.8	27.8	19	27.8	19	$1.73	29
20	**Nebraska**	**26.9**	**26.9**	**21**	**26.9**	**20**	**$1.75**	**25**
21	**Minnesota**	**25.6**	**25.6**	**22**	**25.6**	**21**	**$1.70**	**36**
22	Idaho	25.0	25.0	23	25.0	22	$1.75	25
22	Kansas	25.0	27.0	20	25.0	22	$1.63	49
22	Oregon	25.0	24.3	26	25.0	22	$1.87	13
25	Utah	24.5	24.5	25	24.5	25	$1.68	38
26	**South Dakota**	**24.0**	**24.0**	**28**	**22.0**	**31**	**$1.81**	**20**
27	Maryland	23.5	24.3	26	23.5	26	$1.78	22
27	Massachusetts	23.5	23.5	29	23.5	26	$1.82	19
29	Delaware	23.0	22.0	33	23.0	28	$1.73	29
29	North Dakota	23.0	23.0	31	23.0	28	$1.84	14
31	Kentucky	22.5	19.5	42	22.5	30	$1.67	42
32	Colorado	22.0	20.5	35	22.0	31	$1.72	32
32	**Iowa**	**22.0**	**23.5**	**29**	**20.0**	**36**	**$1.73**	**29**
34	Arkansas	21.8	22.8	32	21.8	33	$1.64	47
35	Tennessee	21.4	18.4	45	21.4	34	$1.64	47
36	Alabama	20.9	21.9	34	20.9	35	$1.71	33
37	District of Columbia	20.0	20.0	37	20.0	36	$1.95	4
37	Louisiana	20.0	20.0	37	20.0	36	$1.75	25
37	Texas	20.0	20.0	37	20.0	36	$1.68	38
37	Vermont	20.0	20.0	37	20.0	36	$1.92	7
37	Virginia	20.0	20.2	36	20.0	36	$1.69	37
42	New Hampshire	19.6	19.6	41	19.6	42	$1.79	21
43	Arizona	19.0	28.0	17	19.0	43	$1.83	16
44	Mississippi	18.8	18.8	44	18.8	44	$1.68	38
45	New Mexico	18.0	19.0	43	18.0	45	$1.83	16
46	**Missouri**	**17.6**	**17.6**	**46**	**17.6**	**46**	**$1.57**	**51**
47	Oklahoma	17.0	14.0	49	17.0	47	$1.63	49
48	South Carolina	16.8	16.8	48	16.8	48	$1.66	45
49	New Jersey	14.2	17.5	47	14.2	49	$1.71	33
50	Wyoming	14.0	14.0	49	14.0	50	$1.68	38
51	Alaska	0.0	0.0	51	0.0	51	$2.76	1

Source: - Fuel tax data from American Petroleum Institute as of October 1, 2008
- Fuel price data (for regular gasoline) from AAA (www.fuelgaugereport.com) as of December 5, 2008

Notes: - Iowa's tax rate includes 1 cent per gallon underground storage tank fee
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- Federal fuel tax is not included in analysis but is 18.4 cents per gallon for gasoline/gasohol and 24.4 cents per gallon for diesel
- Price of fuel used for fuel tax calculations in states with sales tax may not correspond to price of fuel shown on this sheet.

Summary of surrounding state road fund changes
In recent years, some of Iowa's neighbors have made changes to their fuel tax rates and/or other road funding mechanisms. Following is a summary of those changes.

Wisconsin
There have been no changes since April 1, 2006. (Source: WUWM)

The annual indexing of the state's gas tax was repealed in December 2005, with the last indexing adjustment made April 1, 2006. As of April 1, 2006, the state gas tax was set at 30.9 cents per gallon. (Source: Wisconsin DOT)

Illinois
There have been no recent changes to the fuel tax rate. However, the price of fuel in Illinois is subject to a sales tax.

Missouri
There have been no recent changes to the fuel tax rate. (Source: Missouri DOT)

Nebraska
The Nebraska state gas tax has seen the following adjustments since July 1, 2007.

Date	Rate
7/1/2007 - 12/31/2007	.270
1/1/2008 - 6/30/2008	.230
7/1/2008 - 12/31/2008	.260
1/1/2009 - 6/30/2009	.264

South Dakota
There have been no changes since April 1, 1999.

Minnesota
Minnesota increased their gas tax by five cents per gallon (two cents effective April 1, 2008 and an additional three cents effective October 1, 2008) and allowed for a gas tax surcharge of up to 3.5 cents per gallon. Effective July 1, 2009, the additional surcharge will be set at 0.5 cents. The surcharge will increase to 2.1 cents July 1, 2010, to 2.5 cents July 1, 2011, and to three cents July 1, 2012.

Automobile registration fees were modified from the current cap of $189 for the first annual registration and $99 for each renewal to a flat fee of $10 and an additional tax of 1.25 percent of the base value (the manufacturer's suggested retail price, MSRP) of the automobile.

Minnesota DOT estimated revenue due to these changes plus two additional changes for rental cars and leased vehicles

Estimated New Tax Revenues: Minnesota Ch. 152: 2009 – 2018 (millions)	
Motor fuel tax increases	$2,476
Motor vehicle registration tax Increase	$1,847
Rental car fee Increase	$23
Sales tax on motor vehicle leases	$113
Total	**$4,459**

Source: Minnesota DOT, National Conference of State Legislatures, and Mississippi Valley Conference 2008

Potential funding mechanisms that could generate funding from out-of-state drivers
Of the list of potential funding mechanisms that are not currently used in Iowa, there are three mechanisms that could generate significant funding from out-of-state drivers:

- Severance tax on ethanol.
- Tolling.
- Per-mile tax.

Severance tax on ethanol
A severance tax is collected by the state either based on a percent of value or a volume-based fee on resources extracted from the earth that are exported out of the state. This fee is typically charged to producer or first purchaser. Due to regulatory/legal restrictions this fee cannot be charged only to ethanol exported out of the state. To minimize the impact on Iowans, the severance tax could be offset by a reduction on fuel tax rates for ethanol-blended fuels.

The potential revenue is dependent on the rate set and volume exported. Estimated CY 2008 ethanol production used outside of Iowa is 2.8 billion gallons. A severance tax of one cent per gallon would have generated $28 million in CY 2008.

Tolling
Instituting tolls on specific roadway segments and/or bridges has been utilized across the country. As part of the analysis conducted by the interim legislative study committee, tolling was evaluated in more detail and an analysis was conducted on the viability of tolling specific roadways/bridges in Iowa. The conclusion of the analysis was that at this time it would not be viable to toll Iowa facilities due to the high cost of capital to implement tolls, the relatively low traffic levels and corresponding toll rates that would be required to cover operating and capital costs.

Per-mile tax
As discussed previously in this report, the fuel tax is a declining source of revenue due to flattening and decreasing travel and increased fuel efficiency. This trend is expected to continue and accelerate as more hybrid vehicles are produced and eventually alternative fueled vehicles come into mainstream production (e.g. the Chevy Volt to be released in 2010 is run primarily by electricity).

To address this situation, study has been underway for several years to identify an alternative-funding mechanism to replace the fuel tax. The University of Iowa, along with the University of Minnesota, published a report in 2002 titled *A New Approach to Assessing Road User Charges*. This report documented a mechanism to collect user fees based on charging a per-mile user fee. The University of Iowa subsequently received a federal grant to begin a pilot test of this concept. In late 2008, the university began soliciting 2,700 participants at the following six sites across the country.

- San Diego, California
- Baltimore, Maryland
- Austin, Texas
- Boise, Idaho
- Research Triangle in North Carolina (including Durham, Raleigh and Chapel Hill)
- Eastern Iowa (Delaware, Dubuque, Linn, Jones, Jackson, Cedar, Clinton, Scott and Muscatine counties)

The pilot test will extend for eight months at which time a final report will be developed and published. It is expected that this study will be a vital part of the national effort to identify a suitable replacement for the fuel tax. More information regarding this effort can be found at www.roaduserstudy.org.

In the best case scenario, it is likely that this type of system would not begin to be implemented within the next 10 years; however, there is discussion of implementing a less sophisticated interim mechanism based on reporting of miles driven.

Findings

1) The updated evaluation of needs and revenues documents that the shortfall in funding necessary to meet critical public roadway needs in Iowa has risen from $200 million per year to $267 million per year (not including TIME-21 revenue).
2) The amount of additional funding necessary to generate a total of $200 million in TIME-21 revenue for FY 2012 is $85 million.
3) The amount of additional funding necessary to generate a total of $267 million in TIME-21 revenue for FY 2012 is $152 million.
4) Out-of-state drivers are not paying their proportional share of RUTF revenue assuming the revenue generated by out-of-state drivers should match their share of vehicle miles of travel on Iowa's public roadways.
5) Existing funding mechanisms that can generate revenue from out-of-state drivers are fuel tax and commercial truck registration fees.
6) Additional funding mechanisms not currently utilized in Iowa that could generate revenue from out-of-state drivers include severance tax on ethanol, sales tax on fuel, tolling, and a per-mile tax.

Recommendation

Additional funding be generated to secure a total of $267 million in annual TIME-21 revenue by FY 2012.

Appendix A
House File 932

PAG LIN

1 1 HOUSE FILE 932
1 2
1 3 AN ACT
1 4 RELATING TO REVENUE FOR THE CONSTRUCTION AND MAINTENANCE OF
1 5 ROADS.
1 6
1 7 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
1 8
1 9 Section 1. NEW SECTION. 312A.1 DEFINITIONS.
1 10 As used in this chapter, unless the context otherwise
1 11 requires:
1 12 1. "Department" means the state department of
1 13 transportation.
1 14 2. "Fund", or "TIME=21 fund", means the transportation
1 15 investment moves the economy in the twenty=first century fund.
1 16 Sec. 2. NEW SECTION. 312A.2 TRANSPORTATION INVESTMENT
1 17 MOVES THE ECONOMY IN THE TWENTY=FIRST CENTURY (TIME=21) FUND.
1 18 A transportation investment moves the economy in the
1 19 twenty=first century fund is created in the state treasury
1 20 under the control of the department. The fund shall be known
1 21 and referred to as the TIME=21 fund. The fund shall consist
1 22 of any moneys appropriated by the general assembly and any
1 23 revenues credited by law to the TIME=21 fund. Moneys in the
1 24 fund are not subject to section 8.33. Notwithstanding section
1 25 12C.7, subsection 2, interest or earnings on moneys deposited
1 26 in the fund shall be credited to the fund.
1 27 Sec. 3. NEW SECTION. 312A.3 ALLOCATION AND USE OF FUNDS.
1 28 Moneys in the TIME=21 fund shall be credited and used as
1 29 follows:
1 30 1. Sixty percent for deposit in the primary road fund to
1 31 be used exclusively for highway maintenance and construction,
1 32 including purchase of right=of=way but not including project
1 33 planning and design. The following projects are eligible for
1 34 funding under this subsection and shall have funding priority
1 35 in the order listed:
2 1 a. Completion of projects on highways designated as access
2 2 Iowa highways pursuant to 2005 Iowa Acts, chapter 178, section
2 3 41.
2 4 b. Projects on highways in the commercial and industrial
2 5 highway network that are included in the department's
2 6 five=year plan, or in the long=range plan, for the primary
2 7 road system. Priority shall be given to projects in areas of
2 8 the state that have existing biodiesel, ethanol, or other
2 9 biorefinery plants.
2 10 c. Projects on interstate highways.
2 11 2. Twenty percent for deposit in the secondary road fund,
2 12 for apportionment according to the methodology adopted
2 13 pursuant to section 312.3C, to be used by counties for
2 14 construction and maintenance projects on secondary road
2 15 bridges and on highways in the farm=to=market road system. At

2 16 least ten percent of the moneys allocated to a county under
2 17 this subsection shall be used for bridge construction, repair,
2 18 and maintenance, with priority given to projects that aid and
2 19 support economic development and job creation.
2 20 3. Twenty percent for deposit in the street construction
2 21 fund of the cities, apportioned on the basis of population in
2 22 the manner provided in section 312.3, to be used to sustain
2 23 and improve the municipal street system.
2 24 Sec. 4. NEW SECTION. 312A.4 FUTURE REPEAL.
2 25 This chapter is repealed June 30, 2028.
2 26 Sec. 5. NEW SECTION. 307.31 PERIODIC REVIEW OF REVENUES
2 27 == EVALUATION OF ALTERNATIVE FUNDING SOURCES.
2 28 1. The department shall periodically review the current
2 29 revenue levels of the road use tax fund and the sufficiency of
2 30 those revenues for the projected construction and maintenance
2 31 needs of city, county, and state governments in the future.
2 32 The department shall submit a written report to the general
2 33 assembly regarding its findings by December 31 every five
2 34 years, beginning in 2011. The report may include
2 35 recommendations concerning funding levels needed to support
3 1 the future mobility and accessibility for users of Iowa's
3 2 public road system.
3 3 2. The department shall evaluate alternative funding
3 4 sources for road maintenance and construction and report to
3 5 the general assembly at least every five years on the
3 6 advantages and disadvantages and the viability of alternative
3 7 funding mechanisms. The department's evaluation of
3 8 alternative funding sources may be included in the report
3 9 submitted to the general assembly under subsection 1.
3 10 Sec. 6. Section 312.2, subsections 12 and 13, Code 2007,
3 11 are amended to read as follows:
3 12 12. The treasurer of state, before making the allotments
3 13 provided for in this section, shall credit monthly from the
3 14 road use tax fund to the revitalize Iowa's sound economy fund,
3 15 created under section 315.2, the revenue accruing to the road
3 16 use tax fund in the amount equal to the revenues collected
3 17 under each of the following:
3 18 a. From the excise tax on motor fuel and special fuel
3 19 imposed under the tax rate of section 452A.3 except aviation
3 20 gasoline, the amount of excise tax collected from one and
3 21 ~~eleven=twentieths~~ three=fourths cents per gallon.
3 22 b. From the excise tax on special fuel for diesel engines,
3 23 the amount of excise tax collected from one and
3 24 ~~eleven=twentieths~~ three=fourths cents per gallon.
3 25 13. The treasurer of state, before making the allotments
3 26 provided for in this section, shall credit monthly from the
3 27 road use tax fund to the secondary road fund the revenue
3 28 accruing to the road use tax fund in the amount equal to the
3 29 revenues collected under each of the following:
3 30 a. From the excise tax on motor fuel and special fuel
3 31 imposed under the tax rate of section 452A.3, except aviation
3 32 gasoline, the amount of excise tax collected from
3 33 ~~nine=twentieths~~ one=fourth cent per gallon.
3 34 b. From the excise tax on special fuel for diesel engines,
3 35 the amount of excise tax collected from ~~nine=twentieths~~
4 1 one=fourth cent per gallon.
4 2 Sec. 7. Section 315.4, Code 2007, is amended to read as

4 3 follows:
4 4 315.4 ALLOCATION OF FUND.
4 5 Moneys credited to the RISE fund shall be allocated as
4 6 follows:
4 7 1. ~~Twenty thirty=firsts~~ Four=sevenths for deposit in the
4 8 primary road fund for the use of the department on primary
4 9 road projects ~~exclusively for highways which are identified~~
~~4 10 under section 307A.2 as being part of the network of~~
~~4 11 commercial and industrial highways.~~ as follows:
4 12 a. Fifty percent for highways that support the production
4 13 or transport of renewable fuels, including primary highways
4 14 that connect biofuel facilities to highways in the commercial
4 15 and industrial highway network.
4 16 b. Fifty percent for highways that have been designated by
4 17 the state transportation commission as access Iowa highways
4 18 pursuant to 2005 Iowa Acts, chapter 178, section 41.
4 19 2. ~~One thirty=first~~ One=seventh for the use of counties on
4 20 secondary road projects, including secondary roads that
4 21 connect biofuel facilities to highways in the commercial and
4 22 industrial highway network.
4 23 3. ~~Ten thirty=firsts~~ Two=sevenths for the use of cities on
4 24 city street projects.
4 25 Commencing June 30, 1990, all uncommitted moneys in the
4 26 RISE fund on June 30 of each year which are allocated under
4 27 this section for the use of counties on secondary road
4 28 projects shall be credited to the secondary road fund.
4 29 Sec. 8. TIME=21 REVENUE COMMITTEE.
4 30 1. The legislative council shall establish a study
4 31 committee for the 2007 legislative interim to address the
4 32 revenue needs of the TIME=21 fund created in this Act. The
4 33 membership of the committee shall consist of eight members of
4 34 the general assembly as follows:
4 35 a. Four members of the senate, two appointed by the
5 1 majority leader of the senate and two appointed by the
5 2 minority leader of the senate.
5 3 b. Four members of the house of representatives, two
5 4 appointed by the speaker of the house and two appointed by the
5 5 minority leader of the house.
5 6 2. The committee may consider the revenue options proposed
5 7 in the 2006 report prepared by the state department of
5 8 transportation entitled "study of Iowa's current road use tax
5 9 funds (RUTF) and future road maintenance and construction
5 10 needs", as well as any other revenue options and related
5 11 issues. The committee shall report its findings and
5 12 recommendations, including a proposal for funding the TIME=21
5 13 fund, to the general assembly by January 15, 2008.
5 14
5 15
5 16
5 17 PATRICK J. MURPHY
5 18 Speaker of the House
5 19
5 20
5 21
5 22 JOHN P. KIBBIE
5 23 President of the Senate
5 24

5 25 I hereby certify that this bill originated in the House and
5 26 is known as House File 932, Eighty=second General Assembly.
5 27
5 28
5 29
5 30 MARK BRANDSGARD
5 31 Chief Clerk of the House
5 32 Approved _____, 2007
5 33
5 34
5 35
6 1 CHESTER J. CULVER
6 2 Governor

Appendix B
2007 TIME-21 Revenue Committee Report

Legislative Services Agency

FINAL REPORT

TIME-21 Transportation Funding Study Committee

January 2008

MEMBERS

Senator Thomas Rielly, Co-chairperson
Senator John Putney
Senator Pat Ward
Senator Steve Warnstadt

Representative Geri Huser, Co-chairperson
Representative Jim Lykam
Representative Rod Roberts
Representative David Tjepkes

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I. Committee Proceedings
II. October 17, 2007, Meeting
III. November 19, 2007, Meeting
IV. December 19, 2007, Meeting
V. Recommendations
VI. Materials Filed With the Legislative Services Agency

AUTHORIZATION AND APPOINTMENT

The TIME-21 Transportation Funding Study Committee was established by the Legislative Council to "address the revenue needs of the Transportation Investment Moves the Economy in the Twenty-first Century (TIME-21) Fund created in 2007 Iowa Acts (chapter 200), for funding of roads and highways."

I. Committee Proceedings

The Committee was originally authorized to meet two days during the 2007 Legislative Interim, with an additional day subsequently authorized. The Committee met on Wednesday, October 17, 2007, Monday, November 19, 2007, and Wednesday, December 19, 2007, at the State Capitol, Des Moines, Iowa.

II. October 17, 2007, Meeting

Introductory Comments. Ms. Nancy Richardson, Director of the Department of Transportation (DOT), described the four components of Iowa's current transportation situation. These include the fact that Iowa is in the top 10 states in regard to road miles and bridges with the infrastructure having been constructed between 1940-1960, the use of the roads has increased each year with commercial use increasing at a faster pace than private automobiles, a flattening of revenue sources with growth since 2000 of only 1 percent, and the cost of maintenance and construction soaring in the last few years.

Recap of Public Hearings. Co-chairperson Rielly and Senator Putney provided a recap of public hearings held across the state during the 2007 Legislative Session. The recap involved the concerns and recommendations presented at the public hearings held in Johnston, Fort Dodge, Logan, Oskaloosa, Toledo, Clinton, Marion, and Waterloo. The comments related to concerns about the transportation system, e.g., the need for maintenance, barge traffic, airports, and bike trails; and to the methods for obtaining additional revenue, e.g., gas tax increase, pickup truck registration fee increase, and all user fee increases. Senator Putney stated that a common denominator at the hearings was increasing pickup truck registration fees.

DOT Resource Binder. Mr. Stuart Anderson, Director of the Office of Systems Planning, DOT, provided the Committee members with a TIME-21 resource binder. The binder contains 12 chapters dealing with various aspects of Iowa's transportation system, especially funding sources. Information in the binder includes DOT's Road Use Tax Fund (RUTF) Study submitted to the General Assembly in December 2006, RUTF formula changes and fuel tax rates, historic RUTF revenue, transportation-related fine data, other states' revenue sources and tax rates, and a summary of potential Iowa funding mechanisms. Mr. Anderson discussed in depth the potential Iowa funding mechanisms. These were separated into two general categories. The first is the current RUTF revenue sources and involves increases in the fuel tax, use tax on motor vehicles, driver's license fees, registration fees, and other miscellaneous fees. The second category involves potential RUTF revenue sources including sales tax on fuel purchases, severance tax on exported ethanol, per-mile tax, transportation improvement districts with the authority to levy taxes, bonds, privatization, tolling, and development impact fees.

Effects of Revenue Sources. Dr. Paul Hanley, Director of Transportation Research at the Public Policy Center at the University of Iowa, discussed the anticipated impacts of an increase in the state fuel tax as it relates to passenger vehicles. He noted that, when surveyed, people overestimate the amount of fuel taxes, both federal and state, that a person pays in a year. It is estimated that the average amount is approximately $500 per year. Considering only the state fuel tax, the average amount per year per vehicle varies from a low of $62 to a high of $227. Dr. Hanley indicated that a three-cent-per-gallon fuel tax increase would increase the amount paid per year per vehicle by $9 to $33 depending on the vehicle miles traveled. He noted that the tax-to-

income ratio by various income groups indicates that the fuel tax is progressive for low to middle income levels, but is regressive when seen from middle to high income levels. In regard to registration fees, if such fees are based upon the valuation of the vehicle, the fees are progressive in nature.

Transportation Funding. Dr. Don Racheter, Public Interest Institute at Iowa Wesleyan College, stated his belief that transportation is a needed government service. He added that whenever possible there should be a connection between the user and the funding of transportation needs. Thus heavy trucks would pay higher registration fees and tolls might be used as a revenue source. He opined that if the state wishes to assist farmers and other groups it should do so on a case-by-case basis rather than a blanket exemption or reduced fees for certain vehicles or pickup trucks. He commented on various funding approaches. These were bonding, which results in paying more; severance tax on ethanol, which is a disincentive if other states do not also do it; license fees, which are disproportionate to usage; use tax, which is also not tied to usage; and registration fees, which are best tied to usage by basing them on weight with a flat rate.

Committee Discussion. The Committee discussed how much money should be made available to the TIME-21 Fund and the sources of the funding. It was agreed that $200 million each fiscal year should be available with the amount being phased in over two to three years. The types of funding which the Committee will continue to consider is the fuel tax, use tax on motor vehicles, driver's license fees, registration fees, other miscellaneous fees, transportation improvement districts, privatization, tolls for bridges, development impact fees, public-private partnerships, and design and build agreements. A letter is to be sent to the Governor from the co-chairpersons seeking his views on the amount and funding sources which he considers acceptable.

III. November 19, 2007, Meeting

Department of Transportation. Mr. Anderson provided the Committee with the information it requested at the October 17, 2007, meeting. The information contained a graph indicating the Iowa gas prices and gas tax comparison with statewide vehicle miles of travel; a chart of the average price of regular unleaded gas compared to the average fuel price for calendar years 1980 to the present; a summary of the road funding status in Illinois, Minnesota, Missouri, Nebraska, South Dakota, and Wisconsin; a pie chart of state highway revenues and allocations for FY 2005-2006 for Iowa and South Dakota; and a summary of trailers registered in Iowa during calendar year 2006. In addition, Mr. Anderson provided a new chapter 12 for the TIME-21 resource binder that was previously issued. The new chapter provided the effects of implementing additional funding mechanisms requested at the previous Committee meeting. These included increasing the minimum registration fee to $65 for automobiles, minivans, SUVs, and pickup trucks, and adjusting the weight-value formula by extending the year each adjustment to the formula occurs by one year, two years, three years, and four years.

Department of Revenue. Mr. Dave Casey, Department of Revenue (DR), gave a presentation on constitutional questions relating to the RUTF, motor vehicle use tax fraud, caveat on changing motor vehicle use tax rate, and administrative issues. In his discussion of constitutional restrictions on RUTF, Mr. Casey stated that Article VII, section 8, of the Iowa Constitution specifically restricts the use of motor vehicle registration fees and excise taxes on motor fuel for road construction and maintenance. Based upon this, he concluded that registration fees and motor fuel taxes are to be

included in RUTF but that the use tax on motor vehicles and the environmental protection fee charged are not required to be included.

Mr. Casey stated that the two major reasons for motor vehicle tax fraud is the statement of an incorrect purchase price, especially when the sale is made between individuals, and registration of a vehicle outside of Iowa, especially where there is no sales or use tax imposed in that state. In discussing the changing of the use tax rate on motor vehicles, Mr. Casey emphasized that the Streamlined Sales Tax Project was designed for sales tax collection and that the use tax on motor vehicles is not sales tax. This would permit changing the use tax rate without being in violation of the Streamlined Sales Tax Agreement. He added that another approach would be to reclassify the state use tax as a separate distinct excise tax.

Mr. Casey's discussion on administrative issues indicated that the easiest tax to administer is the motor fuel tax and thus any increase would not cause DR problems in collection because the tax is collected as the fuel is brought into the state and any exemptions are provided by means of refunds. Motor vehicle use tax is easy to administer when vehicles are purchased from a dealer because the tax is paid then. He suggested that if the use tax is to be increased without an across-the-board increase in the sales and use tax rates, it might be better to reclassify the use tax as a separate excise tax. Mr. Casey stated that to impose the sales tax on motor fuel would require a new administrative system since it is not presently taxed under the sales tax. It would be more difficult to collect it from suppliers and exporters than the gas tax. He mentioned that a proposal for a severance tax on exported ethanol is not really a severance tax but would be an export tax and there is not a current system in place for collecting such a tax.

Committee Discussion. The Committee focused its discussion on what funding options should be used to provide the added revenue of $200 million per fiscal year. A proposal was put before the Committee based upon the Associated General Contractors of Iowa proposal that would raise the motor fuel tax across-the-board by 4 cents; increase a driver's license fee by 50 percent with the present $3 surcharge added to it; adjust various motor vehicle registration fees, including a minimum $50 fee; increase the flat fee for trucks based upon weight and age, require new noncommercial and nonfarm pickup trucks purchased after January 1, 2009, to pay registration fees based upon the weight and value formula similar to personal automobiles, extend the weight and value formula adjustment schedule, and reduce the weight and value formula fee by 5 percent on January 1, 2010, and another 5 percent on January 1, 2011; increase trailer registration fees from $10 to $20 per year for trailers weighing 1 ton or less and from $10 to $30 per year for trailers weighing more than 1 ton; and increase title fees from $10 to $20 and salvage title fees from $2 to $5. The proposal was adjusted for purposes of determining the fiscal impact as follows: establish a minimum $65 or $125 registration fee beginning January 1, 2009; charge new 3-ton, 4-ton, and 5-ton pickup trucks a fee based upon the weight and value formula; increase the fees for 6-ton to 12-ton trucks; extend the weight and value formula adjustment schedule; and include the current $3 surcharge as a permanent part of the registration fees beginning July 1, 2008.

The DOT was instructed to provide fiscal impacts of this proposal as adjusted.

The Committee agreed to take this adjusted proposal with the revenue impacts to the members' respective caucuses and the Governor for use as a starting point in negotiations for a final proposal.

IV. December 19, 2007, Meeting

Caucus Report on Submitted Proposal. A member from each caucus from the Senate and the House of Representatives reported on the reception by the member's caucus of the Committee's proposal from the last meeting, which was based upon the Associated General Contractors of Iowa's proposal. The general result was disfavor for an increase in the fuel tax, especially since the Governor had expressed his dislike for such an increase, and a lack of consensus in each caucus for the remaining provisions contained in the proposal.

Motions for Committee Recommendations. Senator Warnstadt made a motion that the provisions contained in the Committee proposal taken to the caucuses, except for the increase in fuel tax, and without any dollar or percentage increases, be the Committee's recommendation. This meant, if adopted, that the Committee would recommend increased funding from an extension of the registration fees for commercial/agricultural trucks, special trucks, and personal pickup trucks; increases in driver's license fees; increases in trailer registration fees; and an increase in title fees.

Co-chairperson Huser proposed the following two amendments to the original motion: a recommendation that the General Assembly change the use tax on motor vehicles to a charge at the time of registration in order to make the revenues constitutionally protected and a recommendation to provide language that authorizes the Governor to spend State General Fund moneys to meet road and bridge safety needs in the event of an emergency.

Senator Putney moved to amend Senator Warnstadt's original motion by striking it and replacing it with language recommending that the Committee members shall continue to consider all sources of funding except the fuel tax. It was agreed that Co-chairperson Huser's amendments would be considered separately. Senator Putney's amendment was adopted.

Co-chairperson Huser's amendment to make the use tax a part of the registration fee was adopted. Co-chairperson Huser's other amendment to authorize the Governor to spend State General Fund moneys for road and bridge safety in emergency situations was withdrawn and a substitute amendment was proposed which would require DOT to research the authority of the Governor and Executive Council to utilize or spend State General Fund moneys for road and bridge purposes in emergency situations. This proposal was adopted.

V. Recommendations

The Committee concluded its work after making the following recommendations:

- The members of the Committee would continue to consider all revenue sources, except the fuel tax, for the funding of the TIME-21 Fund.
- The General Assembly should change the use tax on motor vehicles to a charge at the time of registration of the motor vehicle so as to make the revenues constitutionally protected.
- The Department of Transportation would research the authority of the Governor and Executive Council to utilize or spend General Fund of the State moneys for road and bridge purposes in emergency situations.

VI. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at or in connection with the three meetings and are filed with the Legislative Services Agency. The materials may be accessed from the <Additional Information> link on the Committee's Internet web page:
http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=210

October 17, 2007, Meeting

1. Dr. Paul Hanley, Associate Professor, U of I.
2. Improving Efficiency and Equity in Transportation Finance, Co-chairperson Huser.
3. Public Hearing Recap, Co-chairperson Rielly and Senator Putney.
4. Scott Weiser, Iowa Motor Truck Association.
5. TIME-21 Resource Binder October 5, 2007.

November 19, 2007, Meeting

1. Summary of Road Funding Status in Other States, Submitted by Mr. Anderson, DOT.
2. Iowa Gas Price/Tax Comparison, Submitted by Mr. Anderson, DOT.
3. Summary of Trailers Registered in Iowa, Submitted by Mr. Anderson, DOT.
4. State Highway Revenues and Allocations for Iowa and South Dakota, Submitted by Mr. Anderson, DOT.
5. Outline of Presentation, Submitted by Mr. Casey, DR.
6. Letter to Co-chairperson Huser from Mr. Newhard, Associated General Contractors of Iowa (AGC).
7. Summary of AGC Proposal, Submitted by Senator Putney.
8. Overview of Research on Taxes by Miles Driven, Submitted by Dr. Hanley, Director, Transportation Policy Research, Public Policy Center, U of I.

December 19, 2007, Meeting

1. Description of the Scenarios for Three Funding Proposals with the Three Funding Proposals, Submitted by Mr. Anderson, DOT.
2. Summary of Vehicle Counts by Year, Submitted by Mr. Anderson, DOT.
3. Letter to Co-chairperson Rielly and Co-chairperson Huser from Governor Culver.
4. Letter to Co-chairperson Huser from Deputy Attorney General Julie Pottorff.

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Appendix C
Senate File 2420 – Summary of Key Provisions

- **Fee for new vehicle registration:** The fee replaces the use tax, is paid by the owner to the county treasurer at the time application is made for a new registration and certificate of title for the vehicle, and is five percent of the purchase price or lease price for each vehicle subject to registration. This does not generate additional funding.
  Note: Motor vehicle registration fees are constitutionally protected for roads.

- **Weight/value vehicle registration:** Owners of motor vehicles (e.g., cars, multipurpose vehicles, etc.) will pay an annual registration fee based on 100 percent of the weight/value formula for an additional two years (seven years instead of the current five years). The registration fee continues to decline as the vehicle ages to a minimum flat fee of $50 for a vehicle 12 model years old or older. These changes are grandfathered so no one will see an increase in their registration fees as long as they own the same vehicle they owned prior to January 1, 2009.

- **Trucks:** Beginning with model year 2010 vehicles a pickup truck (defined as a 3-, 4-, or 5-ton truck) will be registered based on the weight/value formula (the formula that applies to cars and multipurpose vehicles) unless the pickup truck qualifies as a business trade truck. Flat fees apply if the 3-, 4-, or 5-ton truck qualifies as a "business-trade" truck.

  - **Pickup truck registration fees (non-business trade):** Beginning with model year 2010 trucks, the annual registration fee for trucks weighing five tons or less is based on the same weight/value formula that applies to cars and multipurpose vehicles.

  - **Pickup truck registration fees (business-trade):** Applies to model year 2010 and future model year trucks that weigh five tons or less and are owned by entities that file as a business for tax purposes or by persons that file a schedule C or schedule F form for tax purposes; the vehicle must be eligible for depreciation under the Internal Revenue Code. The vehicle must display a business-trade truck license plate. Penalties apply for falsely registering a vehicle as a business-trade truck.

    For a business-trade truck weighing three tons or less, the annual registration fee is $150, for up to four tons-$165, and for up to five tons-$180. The registration fee for a truck weighing three tons or less declines to a minimum flat fee of $50 for a vehicle 12 model years old or older but registration fees for four and five ton trucks do not decline. (This flat fee schedule also applies to trucks purchased after January 1, 2009 that are model year 2009 or older vehicles.)

- **Five to nine ton truck registration fees:** Annual registration fees are increased for trucks exceeding five tons but not exceeding nine tons that are purchased or transferred on or after January 1, 2009.

- **Special truck registration fees:** Fees for special trucks registered for up to 18 tons are increased.

- **Title fees:** Title fees increase from $10 to $20. Salvage and lemon law title fees increase from $2 to $10.

- **Trailer registration fees:** Trailers 2,000 pounds or less increase from $10 to $20; trailers over 2,000 pounds increase from $10 to $30. Travel trailer registration fees increase from $ .20 per square foot to $ .30 per square foot.

- **TIME-21 Fund revenues:** Motor vehicle registration fees exceeding $392 million are credited annually from the Road Use Tax Fund (RUTF) to the TIME-21 Fund. Revenues equal to $10 from each title and $8 from each salvage title issued are credited monthly to the TIME-21 Fund. Additional fees from trailer registrations are credited monthly to the TIME-21 Fund.

- **Statutory Allocations Fund:** The SAF is established to fund certain purposes that are currently funded by revenue sources that are not constitutionally protected. Certain revenues that are not constitutionally protected are credited to the SAF and allocated to the Underground Storage Tank Fund, state transit assistance (by formula, same as currently done), motorcycle rider education, and purposes related to special registration plates. Revenues remaining after statutory allocations are funded are credited to the RUTF.

- **Studies**
  - Requires the Iowa DOT to conduct an analysis of additional revenues needed to provide at least $200 million dollars annually to the TIME-21 Fund by FY 2012, including analysis of motor fuel excise taxes and other fees collected by the DOT.
  - Requires the Iowa DOT to cooperate with the Office of Energy Independence and the Department of Natural Resources to study public transit improvements needed to meet state energy independence goals and the needs of Iowa's growing senior population, including a review of current transit revenues and the sufficiency of those revenues to meet future needs.

- **Motorcycle rider education fee:** Increased from $1 to $2 per year of motorcycle license validity. Revenues deposited in the Motorcycle Rider Education Fund.

- **Effective dates**
    - Motor vehicle registration fee increases take effect January 1, 2009, for motor vehicle registration years beginning in 2009 and subsequent years. Fee increases apply when a new vehicle is purchased or when a vehicle registered prior to January 1, 2009, is transferred from the current owner to a new owner.
    - Weight/value formula increases for pickup trucks apply beginning with model year 2010 vehicles.
    - ***Owners of motor vehicles registered prior to January 1, 2009, will not pay more than they currently pay for motor vehicle registration.***
    - Title fee increases take effect January 1, 2009.
    - Trailer registration fees take effect January 1, 2009, and apply to 2009 and future registration years.