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**HF 351** – Motor Vehicle Fuel Tax (LSB1782HV)  
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Fiscal Note Version – Revised - Table 4 and Table 5

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**Description**

**House File 351** increases Iowa's motor fuel tax for gasoline, gasohol, and diesel fuels by 10.0 cents per gallon. Fuels impacted by this increase include ethanol-blended gasoline, unblended gasoline, diesel, biodiesel, compressed natural gas (CNG), liquid petroleum gas (LPG), liquefied natural gas, and aviation special fuel. The Bill makes several other changes:

- Extends the tax differential formula that determines fuel taxes for ethanol-blended and unblended gasoline through FY 2020. This formula is displayed in **Attachment A**.
- Creates a new biodiesel tax differential formula that determines fuel taxes for diesel and biodiesel. This formula will expire at the end of FY 2020. The tax differential will apply to biodiesel classified as B-11 and above. This tax schedule is displayed in **Attachment A**.
- Increases the annual cost of permits for vehicles of excessive size and weight. Fees are outlined in **Table 2**.
- Increases the tax on special fuel used in aircraft from 3.0 to 5.0 cents per gallon.
- States that the General Assembly intends all funds from the fuel tax increase support construction and maintenance needs on critical road and bridge projects.
- Provides limitations on indebtedness incurred by counties that are leveraged with Road Use Tax Fund (RUTF) dollars. Counties may not use RUTF funds to incur debt that will exceed the useful life of the asset being constructed, reconstructed, improved, repaired, equipped, or maintained.
- Exempts businesses with motor fuel and special fuel available for sale from an inventory tax. The inventory tax applies to all motor fuel that is held for sale the day prior to a change in the fuel tax.
- Requires the Iowa Department of Transportation (DOT) to identify \$10.0 million in efficiencies in FY 2016 and FY 2017.
- Fuel tax provisions of **HF 351** are effective the month following enactment. Provisions implementing bonding requirements are effective immediately. Permit fees for oversize and overweight trucks will increase on January 1, 2016.

**Background**

The Iowa Constitution requires that the Motor Fuel Tax (MFT) be “used exclusively for the construction, maintenance, and supervision of the public highways exclusively within the State or for the payment of bonds...” The MFT, as determined by formula, is 19.0 cents per gallon for ethanol-blended fuel, 21.0 cents for unblended gasoline, and 22.5 cents for all diesel fuel. Since 1989 the MFT has remained at or near current rates, and adjustments since 1989 occurred due to the distribution formula. The Department of Revenue has provided a history of **Motor Fuel and Diesel Fuel Tax Rates**. Other fuels taxed for road use include liquid petroleum gas (20.0 cents per gallon) and compressed natural gas (21.0 cents per gallon). All motor fuel excise tax is allocated to the RUTF. The RUTF allocates funding for road construction to primary roads (under the DOT), secondary and farm-to-market roads (counties), and city streets. Current law allocates 47.5% to Iowa DOT, 32.5% to counties, and 20.0% to cities.

Vehicles that exceed size and weight requirements must apply for permits to utilize Iowa roads. Permits are issued year round, and expire the month one year after issuance. Several types of permits are issued by the DOT, and the number of permits issued has grown each year (**Table 1**). Current and proposed permit fees are displayed in **Table 3**. With the exception of the all-systems permit, all permit fees are deposited in the Primary Road Fund (PRF). Revenues from the all-systems permit are deposited in the RUTF. Permits for vehicles of excessive size and weight amended by [HF 351](#) include:

- **All-Systems Permits** are issued for vehicles or loads for travel on the primary road system and specified city streets and county roads when the dimensions of the vehicle or load exceed statutory limits but the weight is within statutory limits. Routing is subject to embargoed bridges and roads and posted speed limits.
- **Annual Permits** are issued for vehicles or loads for travel when the dimensions of the vehicle or load exceed statutory limits but the weight is within statutory limits. Routing is subject to embargoed bridges and roads and posted speed limits.
- **Annual Oversize and Overweight Permits** are issued for vehicles or loads for travel when either the dimensions or the weight or both exceed statutory limits. Routing is subject to embargoed bridges and roads and posted speed limits. Travel is not allowed on the interstate.
- **Single Round-Trip Permits** are issued for vehicles or loads for travel when either the dimensions or the weight or both exceed statutory limits. The permit shall be for a specific route between an origin and destination.

**Table 1**

<b>Permits Issued</b>					<b>Average Growth</b>
<b>Permit Type</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	
All-Systems Permit	277	248	292	272	0.9%
Annual Permit	15,492	16,619	16,575	15,048	1.6%
Annual Oversize Overweight	1,493	1,698	1,846	2,420	15.9%
Single Round-Trip Permit	85,943	89,406	84,263	95,009	6.0%
<b>Total</b>	<b>103,205</b>	<b>107,971</b>	<b>102,976</b>	<b>112,749</b>	<b>5.4%</b>

**Table 2**

<b>Current and Proposed Permit Fees</b>		
<b>Permit Type</b>	<b>Current Fee</b>	<b>Proposed Fee</b>
All-Systems Permit	\$ 120	\$ 160
Annual Permit	25	50
Annual Oversize Overweight	300	400
Single Round-Trip Permit	10	35

### **Assumptions**

#### Permits

- Permits for oversize and overweight vehicles are estimated to increase at recent growth rates. The growth rates are identified in **Table 1**. Over the last four years, the number of permits issued has grown at an average annual rate of 5.4%.

#### Fuel Taxes

- Projections assume that changes to fuel taxes will be implemented on April 1, 2015.

- Motor fuel tax refunds will reduce receipts for gasoline and gasohol by 8.0% each year. Receipts for diesel and biodiesels will be reduced by 2.0%.
- Consumed gallons of ethanol and gasoline are projected to decrease by 1.5% for FY 2016, 1.7% in FY 2017, and average a decline of 2.1% thereafter. Consumed gallons of diesel are projected to grow as follows: 1.4% in FY 2016, 0.8% in FY 2017, 0.5% in FY 2018, 0.5% in FY 2019, and 0.6% in FY 2020. Growth rates are estimated by the Energy Information Agency Annual Energy Outlook.
- Fuel tax rates will be set as follows; ethanol will be taxed at 29.0 cents per gallon, unblended gasoline will be 31.0 cents per gallon, biodiesel will be 29.5 cents per gallon, and diesel will be 32.5 cents per gallon.
  - Ethanol-blended and unblended gasoline market share will remain unchanged. The excise tax will remain unchanged if the blended ethanol market share remains between 70.0% and 75.0%. From FY 2012 to FY 2014, the annual market share averaged 72.1%.
  - Biodiesel will comprise 21.8% of all diesel gallons sold in Iowa, and will be taxed at 29.5 cents per gallon. This assumes that blenders of biodiesel that blend B-10 will increase the blend by 1.0%. Currently, B-10 diesel accounts for 16.2% of the all diesel fuel and B-20 is 5.6%.

**Other Assumptions**

- Aviation special fuel gallons taxes have averaged 39.6 million gallons in FY 2013 and FY 2014. This estimate assumes aviation special fuel consumption will remain constant over the projected fiscal years.
- In FY 2014, approximately 395,000 gallon equivalents of CNG were sold. Consumption of taxable CNG will grow at rates forecast by the Energy Information Agency in the 2014 Annual Energy Outlook.
- Liquid petroleum gas consumption is expected to remain constant from FY 2016 to FY 2020. Assumed consumption is an average of the last three fiscal years.
- The impact of limiting indebtedness incurred by counties that are leveraged with Road Use Tax Fund (RUTF) dollars is unknown but expected to be minimal.
- The impact of waiving the inventory tax is unknown. The Legislative Services Agency is unable to identify whether retailers are able to increase fuel storage prior to a fuel tax increase.
- The DOT will identify \$10.0 million in operations efficiencies. At this time these efficiencies are unidentified. Reduced expenditure due to these efficiencies will be allocated within the Department's budget.

**Fiscal Impact**

Aviation special fuel tax revenues are deposited in the Aviation Trust Fund. These funds are estimated to increase by \$790,000 per fiscal year from FY 2016 through FY 2020.

Increased revenue to the PRF due to permit fees on excessive size and weight are displayed in **Table 3**.

**Table 3**

<b>Estimated Revenue Impact to the PRF</b> (in millions)			
	<b>Current Law</b>	<b>Permit Fee Increase</b>	<b>Increase</b>
FY 2016	\$ 2.3	\$ 4.0	\$ 1.7
FY 2017	2.5	6.0	3.5
FY 2018	2.8	6.5	3.7
FY 2019	3.1	7.0	4.0
FY 2020	3.4	7.6	4.2

New revenue to the RUTF is displayed in **Table 4**. The RUTF revenues are allocated to street funds by percentages set in the Iowa Code. The PRF receives 47.5%, the Secondary Road Fund receives 20.0%, the Farm-to-Market Fund receives 8.0%, and the City Street Construction Fund receives 20.0%. **Table 5** shows how increased revenue due to [HF 351](#) will be distributed to the street funds.

**Table 4**

<b>Estimated Revenue Impact to RUTF</b>			
<b>(in millions)</b>			
	<b>Fuel Tax</b>	<b>Permit Fee</b>	
	<b>Increase</b>	<b>Increase</b>	<b>Total</b>
FY 2015	\$ 36.77	\$ -	36.77
FY 2016	204.11	0.01	204.11
FY 2017	202.29	0.01	202.29
FY 2018	200.03	0.01	200.03
FY 2019	197.70	0.01	197.70
FY 2020	195.29	0.01	195.29

**Table 5**

<b>Estimated Distributions to Street Funds</b>				
<b>(in millions)</b>				
	<b>Counties</b>			
	<b>Primary</b>	<b>Secondary</b>	<b>Farm-to-Market</b>	<b>City Fund</b>
FY 2015	\$ 17.2	\$ 9.3	\$ 2.9	\$ 7.4
FY 2016	95.3	51.5	16.3	41.0
FY 2017	94.4	51.1	16.2	40.6
FY 2018	93.4	50.5	16.0	40.2
FY 2019	92.3	49.9	15.8	39.7
FY 2020	91.1	49.3	15.6	39.2

The Department of Revenue identified administrative costs of \$150,000 due to [HF 351](#). These costs will be covered by existing resources.

**Sources**

Iowa Department of Revenue  
 Iowa Department of Transportation  
 LSA Calculations  
 Energy Information Agency

/s/ Holly M. Lyons

February 24, 2015

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

## Attachment A

<b>Gasoline/Gasohol Tax Schedule</b>		
(in cents per gallon)		
Ethanol-Blend Market Share Percentage	Ethanol- Blended Tax	Unblended Gasoline Tax
0% - 50%	19.0	20.0
50% - 55%	19.0	20.1
55% - 60%	19.0	20.3
60% - 65%	19.0	20.5
65% - 70%	19.0	20.7
70% - 75%	19.0	21.0
75% - 80%	19.3	20.8
80% - 85%	19.5	20.7
85% - 90%	19.7	20.4
90% - 95%	19.9	20.1
95% - 100%	20.0	20.0

<b>Proposed Biodiesel Tax Schedule</b>		
(in cents per gallon)		
Biodiesel Market Share Percentage	Biodiesel Tax	Diesel Tax
0% - 50%	29.50	32.50
50% - 55%	29.80	32.50
55% - 60%	30.10	32.50
60% - 65%	30.40	32.50
65% - 70%	30.70	32.50
70% - 75%	31.00	32.50
75% - 80%	31.30	32.50
80% - 85%	31.60	32.50
85% - 90%	31.90	32.50
90% - 95%	32.20	32.50
95% - 100%	32.50	32.50