



# FINAL REPORT

## TIME-21 Transportation Funding Study Committee

January 2008

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### 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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### 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.”



## TIME-21 Transportation Funding Study Committee

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### 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-



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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



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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.



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### 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.



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### 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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