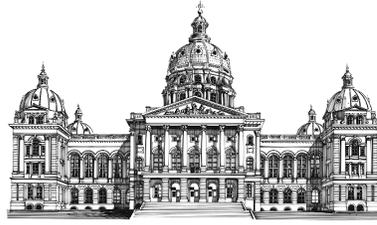

Iowa Legislative Fiscal Bureau

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Road Use Tax Fund Revenue Update

ISSUE

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

AFFECTED AGENCIES

Department of Transportation (DOT)
Department of Inspections and Appeals
City and County governments

CODE AUTHORITY

Section 312.2, Code of Iowa
Section 307A.2(12), Code of Iowa

BACKGROUND

In FY 2002, \$1.036 billion was collected and distributed through the Road Use Tax Fund, which was primarily used for the construction and maintenance of highways. The major revenue sources of the Fund include:

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

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

CURRENT SITUATION**Revenues**

Table 1 below illustrates Road Use Tax Fund revenues. Before revenues from the motor vehicle use tax are deposited into the Fund, various programs and projects are funded from the use tax. In FY 2002, 38.5% of revenues were derived from motor vehicle fuel taxes, 34.6% from registration and title fees, 22.3% from use tax on motor vehicle sales, and 4.6% from other sources.

TABLE 1
ROAD USE TAX FUND RECEIPTS
(in millions)

	Actual FY 2002	Estimated FY 2003	Estimated FY 2004	Estimated FY 2005	Estimated FY 2006	Estimated FY 2007
Motor Vehicle Use Tax	\$ 277.2	\$ 276.6	\$ 278.1	\$ 284.1	\$ 290.2	\$ 291.3
Commercial and Industrial Network	-27.6	-27.7	-27.8	-28.4	-29.0	-29.1
Underground Tank Loan	-17.0	-17.0	-17.0	-17.0	-17.0	-17.0
Dept. of Inspection & Appeals	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Net Use Tax	<u>\$ 231.4</u>	<u>\$ 230.7</u>	<u>\$ 232.1</u>	<u>\$ 237.5</u>	<u>\$ 243.0</u>	<u>\$ 244.0</u>
Motor Vehicle Fuel Tax	399.0	398.2	400.3	401.1	401.3	402.5
Registration/Title Fees & Misc.	358.3	367.3	371.7	377.7	389.5	399.9
Underground Tank Fees	19.4	19.2	19.2	19.2	19.2	19.2
Driver's License Fees	8.4	10.2	13.4	11.4	8.5	10.9
Interest	8.7	8.9	8.8	9.0	10.0	10.0
Other	10.9	11.0	11.0	11.0	11.0	11.8
TOTAL	<u>\$ 1,036.1</u>	<u>\$ 1,045.5</u>	<u>\$ 1,056.5</u>	<u>\$ 1,066.8</u>	<u>\$ 1,082.4</u>	<u>\$ 1,098.3</u>

NOTE: Numbers may not equal totals due to rounding.

Appropriations

A portion of the Road Use Tax Fund revenues is appropriated either through standing appropriations established in the Code of Iowa, or through the annual appropriations process. These "off-the-top" appropriations are used to fund various programs, equipment purchases, facility improvements, and departmental operations. Many of the programs directly benefit State and local highway systems. **Table 2** illustrates actual and estimated appropriations, and indicates the amount of revenue available for distribution after the appropriations are funded.

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

	Actual FY 2002	Estimated FY 2003	Estimated FY 2004	Estimated FY 2005	Estimated FY 2006	Estimated FY 2007
Total Receipts	\$ 1,036.1	\$ 1,045.5	\$ 1,056.5	\$ 1,066.8	\$ 1,082.4	\$ 1,098.3
Statutory Allocations						
1. Primary (to Primary Rd. Fd.)	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5
2. Farm-to-Market (to Farm-to-Market Rd. Fd.)	1.5	1.5	1.5	1.5	1.5	1.5
3. Secondary (to Secondary Rd. Fd.)	9.5	9.5	9.5	9.5	9.5	9.5
4. RISE						
State (to Primary Rd. Fd.)	21.0	21.1	21.1	21.2	21.2	21.2
City	10.5	10.5	10.6	10.6	10.6	10.6
County	1.1	1.1	1.1	1.1	1.1	1.1
5. Park & Institutional Roads (to Primary Rd. Fd.)	6.7	6.7	6.8	6.9	7.0	7.1
6. Secondary & Urban (to Primary Rd. Fd.)	0.5	0.5	0.5	0.5	0.5	0.5
7. Living Roadway	0.3	0.3	0.3	0.3	0.3	0.3
8. Railroad Crossing Surface Repair Fund	0.9	0.9	0.9	0.9	0.9	0.9
9. Railroad Crossing Safety Fund	0.7	0.7	0.7	0.7	0.7	0.7
10. Secondary Bridge	2.0	2.0	2.0	2.0	2.0	2.0
11. City Bridge	0.5	0.5	0.5	0.5	0.5	0.5
12. License Plate Production	3.5	2.5	2.5	2.5	2.5	2.5
13. Highway Safety Projects	5.1	5.2	5.2	5.3	5.4	5.4
14. Dr. License Suspension Service	0.2	0.2	0.2	0.2	0.2	0.2
15. Public Transit (Use Tax)	10.6	11.1	11.1	11.4	11.6	11.7
16. Motorcycle Education Fund (Use Tax)	0.2	0.3	0.3	0.2	0.2	0.2
17. County Treasurers Equipment	0.7	1.0	1.0	1.0	1.0	1.0
18. Fuel Tax Refunds	0.2	0.2	0.2	0.2	0.2	0.2
Total Statutory Allocations	\$ 87.1	\$ 87.1	\$ 87.4	\$ 87.8	\$ 88.3	\$ 88.6
Appropriations						
19. DOT Operating Appropriation	\$ 35.4	\$ 34.7	\$ 35.4	\$ 36.1	\$ 36.8	\$ 37.5
20. Vehicle Registration System Rewrite	0.0	5.0	5.0	0.0	0.0	0.0
21. Driver's License Costs (Polaroid Lease)	4.0	4.0	4.0	4.0	4.0	4.0
22. Other Appropriations	0.6	0.3	0.3	5.3	5.3	4.3
Total Appropriations	\$ 39.9	\$ 44.0	\$ 44.7	\$ 45.4	\$ 46.1	\$ 45.9
TOTAL OFF-THE-TOP ALLOCATIONS	\$ 127.0	\$ 131.1	\$ 132.1	\$ 133.3	\$ 134.4	\$ 134.5
TOTAL AVAILABLE FOR DISTRIBUTION	\$ 909.2	\$ 914.4	\$ 924.4	\$ 933.6	\$ 948.0	\$ 963.9

(Receipts less Off-The-Top Allocations)

NOTE: Numbers may not equal totals due to rounding.

Distribution

After the off-the-top appropriations are funded, the remaining revenues available in the Fund are distributed based on formula to the Primary, Secondary, Farm-to-Market, and Municipal road funds as follows:

- 47.5% to Primary
- 24.5% to Secondary
- 20.0% to Municipal
- 8.0% to Farm-to-Market

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

TABLE 3
ROAD USE TAX FUND
DISTRIBUTION SUMMARY
(in millions)

	Actual FY 2002	Estimated FY 2003	Estimated FY 2004	Estimated FY 2005	Estimated FY 2006	Estimated FY 2007
Formula allocations						
Primary Road Fund (47.5%)	\$ 431.9	\$ 434.3	\$ 439.1	\$ 443.4	\$ 450.3	\$ 457.8
Secondary Road Fund (24.5%)	222.7	224.0	226.5	228.7	232.3	236.2
Farm-To-Market Road Fund (8.0%)	72.7	73.2	74.0	74.7	75.8	77.1
Municipal Road Fund (20.0%)	181.8	182.9	184.9	186.7	189.6	192.8
TOTAL	\$ 909.2	\$ 914.4	\$ 924.4	\$ 933.6	\$ 948.0	\$ 963.9

NOTE: Numbers may not equal totals due to rounding.

The allocations shown in **Table 2** that were attributed to a particular road fund are included in the formula allocation amounts for each respective fund listed in **Table 3**. In actual FY 2002, 41.7% of revenues were deposited into the Primary Road Fund, 21.5% into the Secondary Road Fund, 7.0% into the Farm-to-Market Road Fund, 17.5% into the Municipal Road Fund, and 12.3% was distributed as allocations and appropriations for other individual programs and projects.

Attachment A provides a flowchart that summarizes actual FY 2002 Road Use Tax Fund revenues and allocations.

FIVE-YEAR FORECAST

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

In comparing actual versus estimated revenues, the actual receipts in FY 2002 were \$44.4 million (4.5%) more than the forecast for FY 2002. Between FY 2003 and FY 2007, the Department estimates the overall revenues into the Road Use Tax Fund will increase by a total of \$52.8 million (5.1%). Revenues are expected to increase in every category listed below.

- Motor vehicle use tax revenues: 5.8%.
- Motor vehicle fuel tax revenues: 1.1%.
- Driver's license fees and titles: 6.9%.
- Motor vehicle registration fees: 8.9%.
- Interest income: 12.4%.
- Other receipts: 7.3%.

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

CHANGES IN TAX CREDITS ON GASOLINE

For FY 2002, the 2001 General Assembly enacted HF 716 (Ethanol Sales Promotion Act) that provided a tax credit of 2.5 cents per gallon on ethanol-blended gasoline (gasohol) in stations with gasohol sales of at least 60.0% of the total annual gasoline and gasohol volume. It is estimated that these tax credits will reduce General Fund receipts by \$500,000 in FY 2003 and \$1.3 million in FY 2004.

House File 716 also provided for changes in tax rates based on the gallons of ethanol-blended gasoline sold in the State between January 1 and December 31 of each year. The rates will apply to the next State fiscal year. The Act allowed the tax rates to change each July 1 depending on the percentage of ethanol-blended gasoline sold during the previous calendar year (CY). Prior to the enactment of HF 716, the State taxed gasoline at 20.0 cents per gallon and ethanol at 19.0 cents.

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

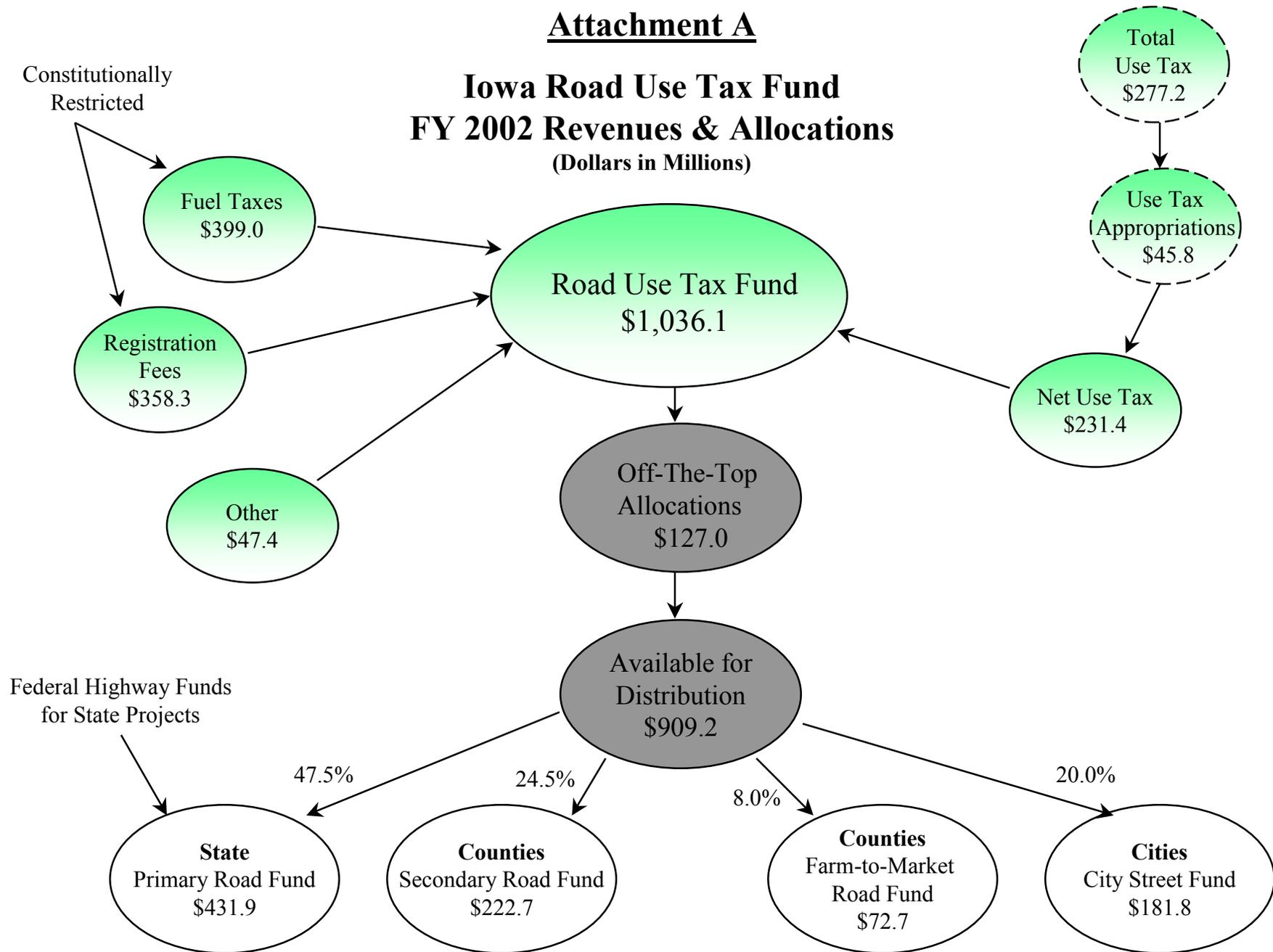
<u>Ethanol Percentage</u>	<u>Ethanol Tax</u>	<u>Gasoline Tax</u>
0% - 50%	19.0	20.0
50% - 55%	19.0	20.1
55% - 60%	19.0	20.3
60% - 65%	19.0	20.5
65% - 70%	19.0	20.7
70% - 75%	19.0	21.0
75% - 80%	19.3	20.8
80% - 85%	19.5	20.7
85% - 90%	19.7	20.4
90% - 95%	19.9	20.1
95% - 100%	20.0	20.0

For CY 2001, the market share of ethanol-blended gasoline was 53.7%. Since this percentage is within the 50.0-55.0% range, the tax on regular gasoline increased by 0.1 cent on July 1, 2002. The result is an estimated increase of \$820,000 (0.20%) for the Road Use Tax Fund in FY 2003. The increased revenue will be used to offset losses in Road Use Tax Fund revenues due to the increasing market share of ethanol-blended gasoline.

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Attachment A

Iowa Road Use Tax Fund FY 2002 Revenues & Allocations (Dollars in Millions)



NOTE: Numbers may not equal totals due to rounding.

Legislative Fiscal Bureau