



An Examination of the Iowa Road Use Tax Fund

by Robert N. Stewart

Provision of transportation infrastructure is one of government’s most basic functions. Here in Iowa, governments at all levels have made financial contributions to the construction and maintenance of the state’s roadways. Understanding that sound transportation infrastructure is vital to state and local economies, citizens demand that roadways and streets remain abundant and sufficiently maintained. Does the state’s system of roadway finance have the funds to meet these demands? Is this system equitable? This *INSTITUTE BRIEF* addresses these questions.

The main funding source for Iowa road construction and maintenance is the Road Use Tax Fund (RUTF). Established in 1949, the RUTF receives funding from six sources: fuel taxes, fees on vehicle registration, drivers’ licenses and titles, use tax collected from the purchase of motor vehicles, underground storage tank fees, motor carrier fines, and interest income.¹

RUTF revenues are first spent on “off-the-top” appropriations — statutory allocations, such as license plate production, and departmental appropriations. Once these appropriations are made, the rest of the funds are distributed as follows: 47.5% to primary roads, 24.5% to secondary roads, 20% to municipal roads, and 8% to farm-to-market roads.² Monies for secondary and farm-to-market roads are distributed to counties based on several factors, including a county’s total population, rural population, daily vehicle miles traveled, miles of unsurfaced roads, and miles of paved roads.³ Monies for municipal roads are distributed based on population.⁴

According to the Iowa Department of Transportation, the RUTF received \$1.09 billion in Fiscal Year 2005.⁵ The largest funding source was the fuel tax, which yielded \$430.1 million, followed by \$391.4 million from registration and other fees.⁶ Since 1996, the revenues collected by this fund have increased every year, with the exception of 2001.⁷ However, as the table below shows, the rate at which the revenue has increased has been declining over the past few years. This slow growth is concerning because the Iowa Highway Program is \$118.7 million over budget for Fiscal Year 2007.⁸ As a result, several highway construction projects have been deferred to later years.

Ultimately, funding for Iowa transportation projects can be improved in one of two ways: by increasing the revenue the fund takes in or by revising the formula that allocates the funds. Regarding the raising of revenues, the state faces the following options: increase the tax on motor fuels, end the ethanol tax subsidy, or increase the licensing fees for cars and trucks. Regardless of any merits they may have, the first two options are probably not possible in the current political climate. It is not likely that Iowans are interested in paying a higher gas tax in light of current

Iowa Road Use Tax Fund Revenues (millions)

Year	Amount	%Change
1996	\$ 830.3	
1997	\$ 856.6	3.16%
1998	\$ 879.8	2.71%
1999	\$ 949.6	7.93%
2000	\$ 1,001.8	5.50%
2001	\$ 1,001.6	-0.02%
2002	\$ 1,036.1	3.44%
2003	\$ 1,056.7	1.99%
2004	\$ 1,082.0	2.39%
2005	\$ 1,086.9	0.45%

Source: 2005 Iowa Factbook

gasoline prices. Additionally, with all the hype about ethanol and its implications for the state's economy, subsidies for this fuel will likely continue.

The state may be able to increase RUTF revenue by eliminating the subsidized registration fee for pickup trucks. Under current law, pickup truck owners pay a low, flat fee of no more than \$65, while other automobiles pay a much higher fee, based on the vehicle's value and weight. As *Des Moines Register* columnist David Yepsen explained in a December 2005 article, "the idea [behind subsidizing these fees] was that most pickups were used by farmers and that our tillers of the soil needed (yet another) tax break."⁹ Yepsen goes on to note that a majority of pickups in Iowa are driven by non-farmers.¹⁰ In March 2005, the Fiscal Services Division of the Iowa Legislative Services Agency found that eliminating the subsidy for pickups weighing six tons or less would have increased motor vehicle registration revenues by \$56.4 million during calendar year 2006.¹¹

Barring attempts at raising more revenues, Iowa's elected officials have the option of changing the formula that allocates RUTF money. In a recent position paper, the Iowa Chamber Alliance advocated allocating a larger percentage of RUTF dollars to the "higher-traffic primary system,"¹² which, they claim, gets nearly 62 percent of Iowa's total vehicle miles.¹³ This author suggests looking at ways to reduce the "off-the-top" appropriations, the largest of which is the Department of Transportation operating appropriation.¹⁴ Doing so would free up more funding for the actual road projects.

Abundant and well-maintained roads are a vital part of Iowa's economy. In order to have them, however, funds must be available. The RUTF by no means pleases everyone, and in the future, some cities and counties may have to pay for road projects out of their own budgets. But before revising the formula or reallocating the funds from road-type to road-type, the state must first see to it that all sources of revenue are producing as much revenue as possible and that as much RUTF money is spent on road projects as possible.

Endnotes:

¹ Iowa Legislative Services Agency, "Road Use Tax Fund Revenue Update," Fiscal Services, *Issue Review*, November 16, 2004, <<http://www.legis.state.ia.us/lsadocs/IssReview/2005/IRMBM004.PDF>> (July 14, 2006).

² *Ibid.*

³ "Road Jurisdiction and Funding Transfers," *Summary of the FY 2007 Budget and Governor's Recommendations*, Iowa Legislative Services Agency, Fiscal Division, January 2006, pp. 138-141, <http://staffweb.legis.state.ia.us/lfb/docs/BudgAnalysis/FY2007/LAGAR/LAGAR_FY2007.pdf> (July 18, 2006).

⁴ Iowa League of Cities, "Road Use Tax Money," *Cityscape*, March 1999, <<http://www.iowaleague.org/Resources/FAQPrint.aspx?id=11>> (August 3, 2006).

⁵ Iowa Department of Transportation, "Trans Facts—An Iowa Transportation Profile," <http://www.dot.state.ia.us/dot_overview/transfacts1a.htm> (July 14, 2006).

⁶ *Ibid.*

⁷ Iowa Legislative Services Agency, *2005 Iowa Factbook*, Fiscal Division, January 2006, <http://staffweb.legis.state.ia.us/lfb/factbook/Iowa_Factbook_2005.pdf> (August 4, 2006).

⁸ Mary Beth Mellick, "Department of Transportation Commission Approves FY 2007 Highway Program," Legislative Services Agency, *Fiscal Update*, July 7, 2006, <<http://www.legis.state.ia.us/lsadocs/FiscUpdt/2006/FULRB002.PDF>> (July 31, 2006).

⁹ David Yepsen, "City-slicker pickup owners don't deserve a fee break," *Des Moines Register*, December 20, 2005, <<http://www.desmoinesregister.com/apps/pbcs.dll/article?AID=/20051220/OPINION01/512200340/1035/RSS03&template=printart>> (August 3, 2006).

¹⁰ *Ibid.*

¹¹ Iowa Legislative Services Agency, *Fiscal Note*, Fiscal Services Agency, March 4, 2005, <http://www3.legis.state.ia.us/fiscalnotes/data/81_1450SSv0_FN.pdf> (August 3, 2006).

¹² "Road Use Tax Fund," Iowa Chamber Alliance, 2006 Position Paper, <<http://www.iowachamberalliance.org/RoadUseTaxFund.pdf>> (August 1, 2006).

¹³ *Ibid.*

¹⁴ "Road Use Tax Fund Revenue Update," 2004.

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