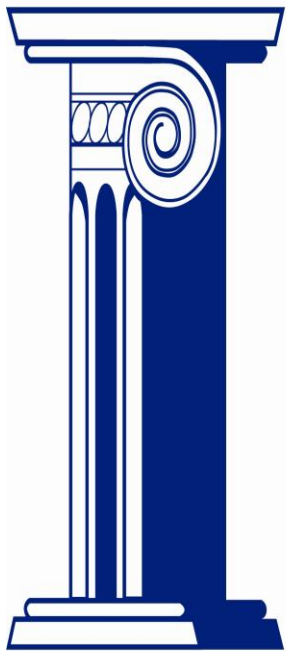


PUBLIC INTEREST



I N S T I T U T E

# **Fuel Tax: What Is a Fair System for Iowa?**

By Jennifer L. Crull  
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**POLICY STUDY**  
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## Executive Summary

Finally we are seeing some much-needed relief at the gas pump this summer, so as you start to enjoy the relief of the reform from property tax, there are several entities that want to sock you with an increase at the pump by increasing your fuel tax. These entities feel that the only way to address the claimed \$215 million shortfall in road funding that the Iowa Department of Transportation (IDOT) predicts is to increase your tax burden.

This POLICY STUDY is going to look at some innovative ways for the state to address the potential funding shortfall without increasing your tax burden. Currently, Iowa is still trying to climb our way out of the recession. We are currently seeing slow positive changes in our economy, but if we go down the road that the Iowa Farm Bureau (IFB) and Iowa League of Cities (ILC) would have us, we would all see an increase in our taxes with the cost of filling our car or truck up at the pump.

Currently the funding for Iowa's roads comes from three major funds: the Road Use Tax Fund (RUTF), Transportation Investment Moves the Economy in the 21<sup>st</sup> Century Fund (TIME-21), and the Highway Trust Fund (HTF). The RUTF and TIME-21 are both state funds to pay for roads, and the HTF is a federal fund to pay for roadways within a state. Currently for every gallon of gasoline you buy, 40.4 cents is going to taxes; with diesel you are paying 47.9 cents to taxes.

In addition to the RUTF, the Legislature created a separate funding stream called TIME-21. This fund was created to address several issues that were developing in our state:

- A large and aging public roadway system.
- Increasing demands on the public roadway system.
- Flattening revenue available for public roadway improvements.
- Increasing construction cost inflation rate.

While the fuel tax is a significant source of state road funding, there is also other revenue that is going into this fund, such as the annual vehicle registration fee, the fee for new registrations, and other fees. It is also important to note that of the funding listed above, 95 percent must be spent on Iowa roadways per the requirement in the Iowa Constitution.<sup>1</sup>

The RUTF then breaks down with 47.5 percent going to Primary Road Fund, 24.5 percent to Counties Secondary Road Fund, 8.0 percent to Farm-to-Market Road Fund, and 20 percent to

Cities Street Construction. The TIME-21 Fund is 60 percent to Primary Road Fund, 20 percent to Counties Secondary Road Fund, and 20 percent to Cities Street Construction.<sup>2</sup>

As the Iowa Department of Transportation examined changes that were developing with the funding stream, there were several red flags that they felt needed to be discussed, as these issues would have a significant impact on the funding stream over the course of time. These are some of the same concerns that led to the creation of the TIME-21 fund.

- Impact of inflation
- Instability of federal funding
- Impact of alternative fuel vehicles
- Increasing fuel efficiency<sup>3</sup>

Currently Iowa ranks 33<sup>rd</sup> out of the 50 states, with Missouri the only state bordering Iowa having a cheaper fuel tax than us. So currently there is an incentive to drive across the border and into Iowa to purchase gas from the other states surrounding Iowa.<sup>4</sup> The same is true with travelers driving through Iowa; they would know that our fuel tax is cheaper than Illinois, Minnesota, or Nebraska, which would lead them to purchase gas in Iowa over those other states.

The National Governors Association has a report out that addresses several innovative state transportation funding and financing ideas for the 21<sup>st</sup> Century. This report addresses several of the flaws that exist with the fuel-tax structure of paying for roads.

- The first argument about the fuel tax is that the purchasing power of the fuel tax decreases yearly.
- The next argument against fuel taxes is that “they are not user fees that finance a specific service or are collected only from the user of that service.”
- The third argument against the fuel tax is the fuel tax doesn’t charge drivers equally.

So given the arguments above about the fuel tax, this report offers several ways to pay for road systems without the fuel tax being used. This report discusses the following options:

- Debt-financing strategies, including state infrastructure banks;
- Tolling, vehicle miles traveled fees, congestion pricing, and other user fees;
- Public-private partnerships that leverage private capital and expertise; and
- Freight-specific strategies.<sup>5</sup>

Iowa’s approach to addressing our transportation issues has been two-fold. First, Governor Branstad made the IDOT examine their process and figure out how to implement significant cost-saving measures. This is important for every aspect of government. The IDOT has to come up with \$50 million in savings, which is the equivalent of a fuel tax increase of 2 ½ cents.<sup>6</sup> But for the second part, the loud voices so far are pushing for the raising of taxes and fees on Iowa residents. The IDOT has finally released a proposal with suggestions to address funding shortfalls without increasing the fuel tax.

Some of the highlights that are in the best interest of the state would be increasing the oversize/overweight vehicle permit fees, focusing federal funding on the primary road system, and applying state tax on dyed-fuel sales.<sup>7</sup> These ideas are definitely a start in the right direction, but the truth is we still need more long-term solutions.

The proposals in this POLICY STUDY address the way to share the costs with residents and non-residents. The residents of Iowa need long-term solutions that will address the issues of our roadways. Continuing to increase the fuel tax is only a temporary solution, since you can only raise taxes so far. Iowa has to be bold in our approach and look at the private sector for ways to address these issues.

## **Introduction**

For the past several years we have repeatedly been told that the state faces a \$215 million shortfall in funding to address the state's most critical roadways.<sup>8</sup> Along with this stark number we have also heard that 27 percent of Iowa's "bridges are in need of repair, improvement, or replacement."<sup>9</sup> Of the 27 percent, 22 percent of Iowa's bridges "are structurally deficient and five percent are functionally obsolete."<sup>10</sup>

The author of this POLICY STUDY isn't going to argue that Iowa's infrastructure isn't in need of repair, but will address how we are going to pay for these needed repairs. Currently, Iowa is still trying to climb our way out of the recession. We are currently seeing slow positive changes in our economy, but if we go down the road that the Iowa Farm Bureau and Iowa League of Cities would have us, we would all see an increase in our taxes with the cost of filling our car up at the pump.

Iowa taxpayers are just finally seeing some relief at the pumps when they are buying gas or diesel, but there is no guarantee that those prices will continue to stay low as we head into the new year, and the last thing the Iowa Legislature should do is increase the tax burden on the people of Iowa. We need to continue to find different ways to address this problem. Working to have a sound infrastructure is important to Iowa and to the economy of Iowa. We just need to figure out the best way to pay for our needs.

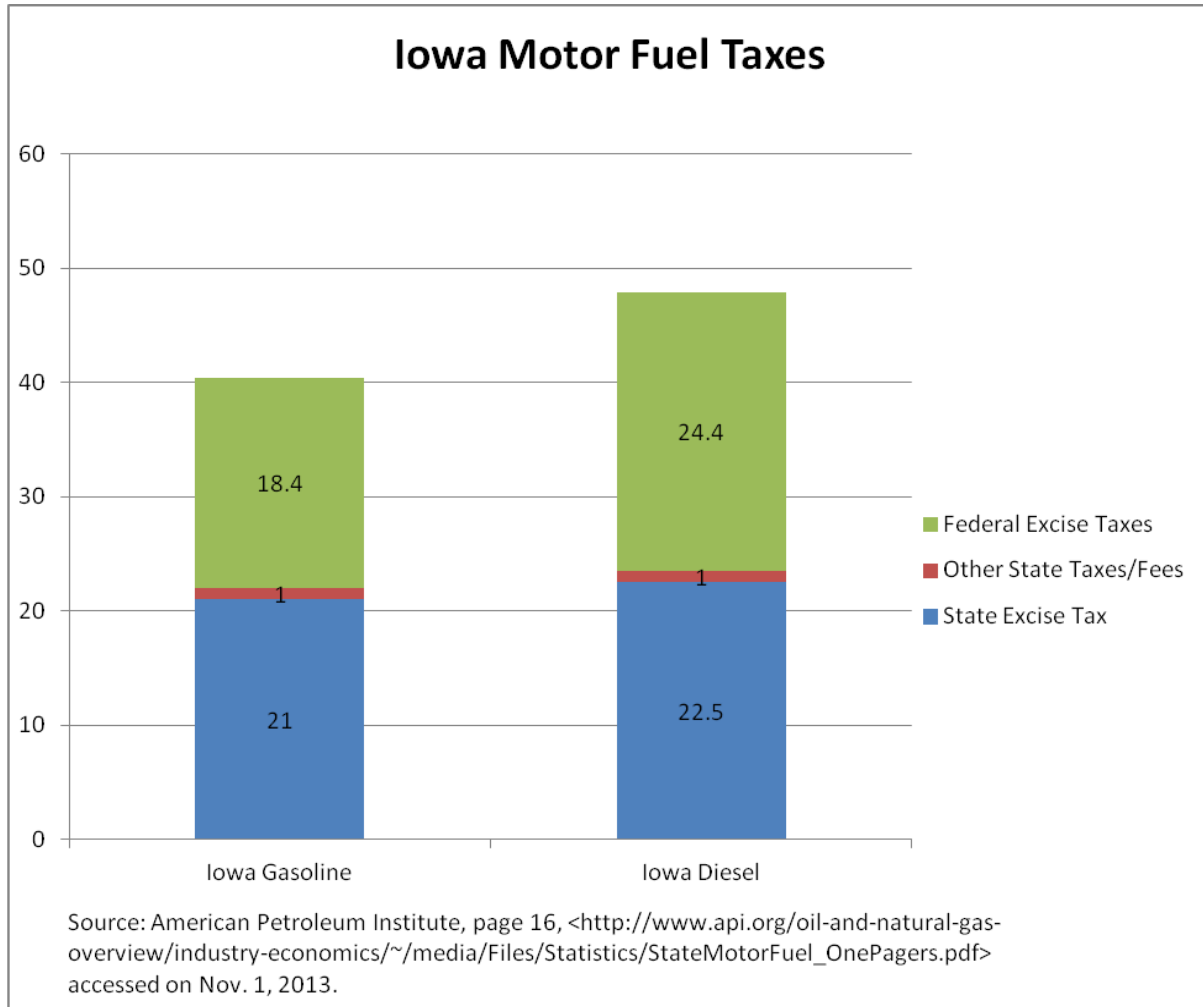
## **Current Situation**

When it comes to figuring out the funding for Iowa roads, it can make your head hurt as you try to understand RUTF. RUTF is revenue dedicated to the upkeep of our highways across the state. This includes the primary road systems, secondary roads, city streets, and farm-to-market roads. This fund was established in 1949 by the 53<sup>rd</sup> General Assembly.<sup>11</sup> The RUTF receives its funding from several different sources. These sources are the motor vehicle fuel tax, motor vehicle registration and title fees, fee for new registrations, and other revenue.

Along with our state funding, we also receive federal funding from the HTF. This fund was established by the Highway Revenue Act of 1956. In 2012, Iowa's share of the HTF was \$565

million.<sup>12</sup> The following chart shows the breakdown of taxes on gasoline and diesel for the state of Iowa. As you can see, for every gallon of gasoline you buy, 40.4 cents is going to taxes; with diesel you are paying 47.9 cents to taxes. This equates to 13 percent of the cost of gasoline when priced at \$3.00 a gallon; for diesel it is also around 13 percent with the cost of diesel being \$3.79 a gallon.<sup>13</sup>

Chart 1



In addition to the RUTF the Legislature created a separate funding stream called “TIME-21.” This fund stands for Transportation Investment Moves the Economy in the 21<sup>st</sup> Century Fund (TIME-21) and was created to address several issues that were developing in our state:

- **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. [Note: Iowa is ranked 7<sup>th</sup> for the number of roads per resident.]<sup>14</sup>
- **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 3 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 RUTF and federal 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.<sup>15</sup>

While the fuel tax is a significant source of state road funding, there is also other revenue that is going into this fund, such as the annual vehicle registration fee, the fee for new registrations, and other fees. The following table shows the breakdown of the 2013 funding sources for the RUTF/TIME-21.<sup>16</sup>

**Table 1 - State Road Funding**

Funding Source	FY 2013 (Millions of \$)	Percent of Total*
Fuel Tax	\$443.80	34%
Fees for New Registration	\$269.30	21%
Motor Vehicle Registration Fees	\$450.80	35%
Motor Carrier Registrations - Fees and Prorate	\$58.90	5%
Interest	\$2.80	0%
Underground Storage Tank Fees	\$21.30	2%
Other Receipts	\$14.10	1%
Payments and Adjustments	\$2.70	0%
Net Statutory Fund	\$14.70	1%
Trailer Registrations and Title Fees to TIME-21	\$19.90	2%
<b>Total RUTU/TIME-21 Revenue</b>	<b>\$1,298.20</b>	

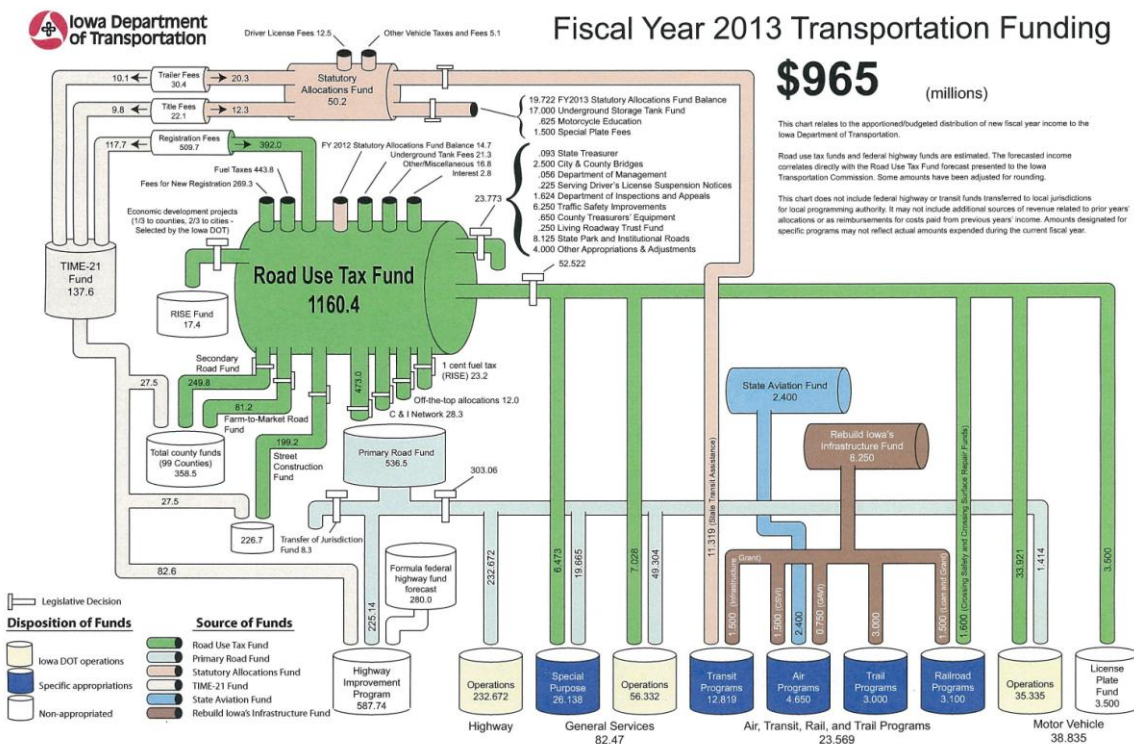
\* - Percentages add up to more than 100 percent due to rounding.

As you can see from the table above, the motor vehicle registrations are the largest percentage of the funding for the roads, followed by the fuel tax. It is also important to note that of the funding listed above, 95 percent must be spent on Iowa roadways per the requirement in the Iowa Constitution.<sup>17</sup>

It is also important to note as we talk about how we get our funding sources the amount of money captured from out-of-state drivers. They also contribute to the wear and tear on our roads. The 2011 Road Use Tax Fund Study that the Iowa Department of Transportation (IDOT) did for the Iowa Legislature included the following paragraph concerning this issue.

Of these funding sources, only fuel tax and pro-rated annual registration fees from commercial vehicles generate funding from out-of-state drivers. The Iowa DOT estimated in their 2008 TIME-21 study that out-of-state drivers generate 20 percent of total travel on Iowa’s roadways but provide only 13 percent of state road revenue, while Iowa drivers produce 80 percent of the total travel on Iowa’s roadways but provide 87 percent of state road revenue.<sup>18</sup>

The following chart shows the current flow of all the funding sources for the state of Iowa.<sup>19</sup> This chart can be very confusing if you are trying to trace through a funding source to a specific program. But as you can see from this chart the vast majority of transportation money, \$587.74 million, is going to pay for the highway improvement program.<sup>20</sup>



The RUTF then breaks down with 47.5 percent going to Primary Road Fund, 24.5 percent to Counties Secondary Road Fund, 8.0 percent to Farm-to-Market Road Fund, and 20 percent to Cities Street Construction. The TIME-21 Fund is 60 percent to Primary Road Fund, 20 percent to Counties Secondary Road Fund, and 20 percent to Cities Street Construction.<sup>21</sup>

**Problems With Funding Sources**

Now that you have a little background in how the state collects the money to pay for our road construction, it is important to look at the problem that is causing the uproar in whether or not we need to increase the fuel tax along with other potential cost increases to you, the taxpayer.



As the Iowa Department of Transportation examined changes that were developing with the funding stream, there were several red flags that they felt needed to be discussed. They felt that these issues would have a significant impact on the funding stream over the course of time. These are some of the same concerns that led to the creation of the TIME-21 fund.

- Impact of inflation
- Instability of federal funding
- Impact of alternative fuel vehicles
- Increasing fuel efficiency<sup>22</sup>

The 2011 RUTF Study projected that over the next twenty years there will be a total funding shortfall of \$32.5 billion to meet current and future needs of all Iowa roadways.<sup>23</sup> Additionally this study pointed out the critical funding needs, which address 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,” is \$4.3 billion over the same 20 years and breaks down to \$215 million per year in state funding shortfall, which we are hearing about repeatedly in the media.<sup>24</sup>

**How Does Iowa Compare with Neighboring States**

The following table compares all of Iowa’s neighboring states for their gasoline tax. As you can see from the table currently Iowa ranks 33<sup>rd</sup> out of the 50 states, with only Missouri having a cheaper fuel tax than us. So currently there is an incentive to drive across the border and into Iowa to purchase gas from the other states surrounding Iowa. The same is true with travelers driving through Iowa; they would know that our fuel tax is cheaper than Illinois, Minnesota, or Nebraska, which would lead them to purchase gas in Iowa over those other states.

**Table 2 - State Gasoline Tax Rates as of January 1, 2013  
(Cents Per Gallon)**

State	Excise Tax	Other Taxes and Fees	Total	Rank
<i>Iowa</i>	<i>21.0</i>	<i>1.0</i>	<i>22.0</i>	<i>33</i>
Illinois	19.0	20.1	39.1	5
Missouri	17.0	0.3	17.3	45
Minnesota	28.5	0.1	28.6	19
Wisconsin	30.9	2.0	32.9	14
South Dakota	22.0	2.0	24.0	28
Nebraska	24.6	0.9	25.5	24

Source: Tax Foundation, <<http://taxfoundation.org/article/state-gasoline-tax-rates-2009-2013>> accessed on Oct. 29, 2013.

Living in Iowa and close to the Missouri border we all know that gas is cheaper in Missouri due to their fuel tax being lower, so if you are traveling south everyone knows to wait until you are in



Missouri to fill up with gas at the lower tax rate. But Governor Candidate Jack Hatch has proposed raising the fuel tax by 2 cents per year for the next five years for a total increase of 10 cents.<sup>25</sup> This increase in the fuel tax will move Iowa from the rank of 33<sup>rd</sup> to the rank of 16<sup>th</sup> based on the data collected by Tax Foundation. This would mean that almost all states surrounding Iowa would have lower fuel taxes except for Wisconsin and Illinois.

Illinois, Nebraska, and Minnesota have increased their fuel tax within the last few years. Illinois also charges sales tax on top of the federal and state taxes paid for gas purchases, which means in Illinois you pay almost 80 cents in taxes per gallon of gas.<sup>26</sup> These increases have led to those states having higher fuel taxes than Iowa.<sup>27</sup> Wisconsin, South Dakota, and Missouri have discussed increasing their fuel tax, but have not acted on it.

### **Innovative State Transportation Funding**

The National Governors Association (NGA) has a report out that addresses several innovative state transportation funding and financing ideas for the 21<sup>st</sup> Century. This report takes into account the issues that Iowa is facing, along with other states that are in the same boat as Iowa. This is not a new problem that Iowa is having concerning the financing of our roadway system. This report addresses several of the flaws that exist with the fuel-tax structure of paying for roads.

The first argument about the fuel tax is that the purchasing power of the fuel tax decreases yearly. In order for a fuel tax to maintain the same buying power from year to year it has to be indexed to the consumer price index (CPI). But the downfall with this approach is that if the CPI decreases, then fuel taxes also decrease. Therefore there is no guarantee of the same buying power from year to year.<sup>28</sup>

The next argument against fuel taxes is that:

they are not user fees that finance a specific service or are collected only from the user of that service. This differs, for example, from tolls collected to maintain, operate, or upgrade a particular road or facility. Fuel-tax revenues are appropriated through a complex process that provides funding for a variety of transportation projects. Some states are examining the feasibility of increasing the development of user-fee-based projects to diversify their transportation revenue portfolio, although not all projects (such as rural roads and bridges or certain transit projects) are necessarily well-suited to a pure user-fee model.<sup>29</sup>

The third argument against the fuel tax is the fuel tax doesn't charge drivers equally. We pay fuel tax on the number of gallons of fuel purchased, so if you have a high-fuel-efficiency car you will pay less fuel tax per miles driven than someone who owns a less-efficient vehicle. As the report states, the following issues aren't being addressed with the fuel tax:

While it is desirable from an environmental standpoint to promote efficient vehicles, it also is important to consider the costs of miles traveled, regardless of fuel type used, in terms of road wear and congestion. Users pay the same motor-

fuels tax regardless of whether the user is driving during off-peak hours on a road with ample capacity or on a congested road during peak periods. The result is that motor-fuel taxes do not necessarily result in the most efficient approach to managing transportation demand, particularly as compared to congestion-pricing schemes or vehicle-miles-traveled fees priced to manage demand. Additionally, motor-fuel taxes currently apply to petroleum-based fuels, but do not cover alternative fuels such as electricity.<sup>30</sup>

So given the arguments above about the fuel tax, this report offers several ways to pay for road systems without the fuel tax being used. This report discusses the following options:

- Debt-financing strategies, including state infrastructure banks;
- Tolling, vehicle miles traveled fees, congestion pricing, and other user fees;
- Public-private partnerships that leverage private capital and expertise; and
- Freight-specific strategies.<sup>31</sup>

So let's take a look at these different options and how they can help the state of Iowa, drivers, and taxpayers.

### Debt-Financing Strategies

Ideally states in the past have followed the system of pay-as-you-go, which allows them the ability to avoid debt. But this isn't always the best situation. Because as we well know, if you put off projects or extend them over several years, the prices increase. Also, problems arise as you fix one part, but not another. Therefore the NGA report addresses the use of debt strategies to pay for road construction and maintenance projects for state and local governments.

Debt is a touchy subject. Every state in the United States, except for Nebraska and Wyoming, has issued debt at some point in time to pay for transportation projects.<sup>32</sup> Yet states are leery of gaining too much debt, which is a very important concern. But as a family considers borrowing money to build a house, it is cheaper to get the house built and be living in it. Otherwise you are paying to still build the house and paying rent to live somewhere else. This is the case with the roads system. It is also important to note that interest rates for state and local governments have been at an all-time historical low. For the last five years interest rates have been at well below 5 percent and most of the time below 4 percent.<sup>33</sup> This means borrowing money is very cheap with the current economy.

State and local governments should take the time to make use of "bonding instruments, such as Grant Anticipation Revenue Vehicles (GARVEEs) and private activity bonds; federal credit assistance from the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program; and state infrastructure banks."<sup>34</sup> The great thing about these forms of debt is that the state and local government can work with private investors to find revenue sources to pay for transportation projects.

States have to weigh the long-term outcomes of projects with the cost to decide what is in the best interest of the state, but it is important that states make use of all the tools they have at their disposal for projects.

### **Tolling and Fees**

Tolling and fees are not as readily used in the United States as they are in other countries. But they are still an important source of revenue that needs to be considered when states are trying to figure out how to pay for transportation projects. Currently, only about 5 percent of revenue from highway user fees and taxes come from toll roads.<sup>35</sup>

Advances in technology have allowed tolls and fees to come back to the spotlight as an option to pay for transportation costs. In the past a toll road or bridge required the driver to stop and physically pay the toll to drive on the road or bridge. Our electronic advancements now allow cars to pay with electronic toll collections (ETC).

In particular, electronic toll collection (ETC) tags, which enable drivers to pay without stopping at toll booths, are now widely available. These systems use transponders mounted on vehicles that are identified by readers located in dedicated and/or mixed-use lanes at toll plazas. They have been proven to minimize crashes, reduce harmful emissions, save fuel, and decrease roadway delays.<sup>36</sup>

Tolling can allow for price increases during peak use of roads and bridges. This will help lower congestion by making people think about their traveling. Do I need to make this trip now, or should I wait a couple hours and cross the bridge or road when the price is lower?<sup>37</sup>

The use of tolls and user fees also allows state and local governments the ability to “access private capital, leverage existing public assets, and price transportation facilities to encourage more efficient use of transportation assets.”<sup>38</sup> The major advantage that tolls and fees have over the fuel tax is the ability of the person to choose. If I want to get to my destination in a quick and less congested manner, I will choose to pay; otherwise, if I don’t want to pay I won’t. The mentality of the United States has been to jump in the car and go, without thinking about the wear and tear to the car and road or congestion. The use of tolls and fees forces people to start looking at all costs and make decisions that are best for them while also decreasing the demand on our highways and bridges.

### **Public Private Partnerships (PPPs)**

Many states have taken the approach of building and maintaining their roadway with only public-sector resources. State and local governments need to embrace the greater use of the private sector concerning the delivery of transportation projects.<sup>39</sup> “The primary benefits of PPPs for states or other public sector entities include access to significant private capital, the potential for reduced costs and accelerated project delivery, sharing or shifting project risk, and the opportunity for more efficient management.”<sup>40</sup> For example, consider this:

**Pennsylvania Turnpike Lease Proposal:**

Pennsylvania is considering leasing the 550-mile Pennsylvania Turnpike. The state received a bid by a private consortium to lease the turnpike for 75 years for a total of \$12.8 billion, including \$2.3 billion for payoff of existing turnpike debt. In return, the consortium would be allowed to increase tolls by 25 percent in the first year and 2.5 percent or the rate of inflation thereafter. The revenues, net of debt retirement, would be placed in the Pennsylvania State Employees Retirement System and would yield an estimated \$1.1 billion annually for expenditure on transit road and bridge projects throughout the state. The private consortium's bid recently expired after the Pennsylvania legislature did not authorize the lease during the last legislative session, and Governor Edward Rendell has indicated the state will continue to pursue the turnpike lease next year. An alternative proposal to lease I-80 to the Pennsylvania Turnpike Commission in order to toll it was not approved by the federal government.<sup>41</sup>

States need to make better use of the resources that they have available and realize that the private sector is able to deliver the same product such as the management of a roadway more efficiently than the public sector can. The main issue is the need of states to make better use of all the resources they have at their disposal versus relying on a tax that just isn't working.

**Freight Financing Strategies**

Currently in the United States freight transportation is a growing concern:

According to the U.S. Bureau of Transportation Statistics, trucks haul about 65 percent of the freight value, 58 percent of freight tonnage, and 32 percent of the ton-miles of total shipments. In most U.S. metropolitan regions, freight trucks represent close to 10 percent of roadway vehicles. Measured in tons, railroads carry approximately 30 percent of intercity freight and 47 percent of U.S. freight in ton-miles.<sup>42</sup>

Freight demand is also expected to increase by 92 percent by the year 2035.<sup>43</sup> With this concern states have to come up with a way to deal with the impact these trucks have on the roadways:

States can use several options to upgrade and improve their capacity to move freight. For instance, some federal loan programs specifically target freight finance. Additionally, states can consider increased use of PPPs and increased freight-focused user fees. These options mirror those discussed earlier, but are modified for freight. In addition, some states are examining the potential for truck-only lanes or roads to facilitate freight movement while reducing freight-related congestion on roads and highways.<sup>44</sup>

There is much concern over the damage trucks transporting freight do to the road compared with the damage of cars. "The U.S. Department of Transportation in its most recent Highway Cost Allocation Study estimated that light single-unit trucks, operating at less than 25,000 pounds, pay

150 percent of their road costs while the heaviest tractor-trailer combination trucks, weighing over 100,000 pounds, pay only 50 percent of their road costs.”<sup>45</sup> Therefore it is important to encourage shipping of freight in other modes of travel and making sure that when heavy trucks are used they pay their fair share of the road repair fund.

### **Iowa Department of Transportation Solutions**

In addition to the solutions laid out in the report from the NGA, the IDOT just recently released a two-page list of ideas to address the transportation funding shortfall. Their suggestions are:

- Everyone pays 6 percent for new vehicle registrations vs. the current 5 percent
- Ensure equity of user fees
- Align transportation funding to a growth trajectory as Iowa’s economy strengthens
- Provide incentives to improve rural bridges and road conditions
- Ensure competitive transportation options for shipping products and moving people<sup>46</sup>

They are proposing to increase the permit fee for oversize/overweight vehicles. This will generate approximately \$10 million per year. The IDOT is predicting that this increase to 6 percent will generate \$60 million annually. They also feel that the federal funding Iowa receives should be focused on the primary road system.<sup>47</sup>

They are recommending that the state do away with the fuel tax and switch to a state excise sales tax on fuel. Along with that they want to allow local-option-sales taxes on fuel sales. Additionally, the recommendations include taxing “dyed fuel.” Currently in the state of Iowa if you are purchasing diesel for agricultural purposes, you don’t have to pay fuel tax on it. But nowadays most farmers do utilize the road system to access fields and for transporting grain to the elevators.<sup>48</sup> “Dyed diesel” is diesel with dye that may be purchased tax free based on the use of the diesel. This diesel fuel “is sold for use in farm, construction, and other types of equipment that do not travel under their own power on public roads, except for short distances such as between farm fields.”<sup>49</sup> During 2012, if dyed diesel was taxable it would have generated \$33 million.<sup>50</sup>

These are some of the ideas from the IDOT proposal which will be addressed as the Legislature convenes in the new year.

### **Conclusion**

Iowa’s approach to addressing our transportation issues has been twofold. First, Governor Branstad made the IDOT examine their process and figure out how to implement significant cost saving measures. This is important for every aspect of government. The IDOT has to come up with \$50 million in savings, which is the equivalent of a fuel tax increase of 2 ½ cents.<sup>51</sup> But for the second part the loud voices so far are pushing for the raising of taxes and fees on Iowa residents. The IDOT has finally released a proposal to address funding shortfalls without increasing the fuel tax.

Some of the highlights that are in the best interest of the state would be increasing the oversize/overweight vehicle permit fees, focusing federal funding on the primary road system, and applying state tax on dyed-fuel sales.<sup>52</sup> These ideas are definitely a start in the right direction, but the truth is we still need more long-term solutions.

The proposals in this POLICY STUDY address the way to share the costs with residents and non-residents. The residents of Iowa need long-term solutions that will address the issues of our roadways. Continuing to increase the fuel tax is only a temporary solution, since you can only raise taxes so far until you reach the point of diminishing returns. Iowa has to be bold in our approach and look at the private sector for ways to address these issues.

Clearly the private sector in Iowa has been doing more with less and figuring out ways to expand. Now is the time for Iowa to take the lead. Challenge your elected officials to demand an option for paying for road improvements that doesn't rely solely on Iowa residents and ask them to look at private-sector options that help solve our problems of crumbling bridges and roadways.

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<sup>1</sup> "2011 Road Use Tax (RUTF) Study," Iowa Department of Transportation, December 30, 2011, p. 8, <[http://www.iowadot.gov/pdf\\_files/RUTFStudy2011.pdf](http://www.iowadot.gov/pdf_files/RUTFStudy2011.pdf)> accessed on September 25, 2013.

<sup>2</sup> Dave Heuton, "Lunch to Learn Presentation, Road Funding," Legislative Services Agency, February 25, 2013, <<https://www.legis.iowa.gov/DOCS/IsaReports/FiscalLunchLearn/RoadFunding.pdf>> accessed on October 22, 2013.

<sup>3</sup> "2011 Road Use Tax (RUTF) Study," pp. 9-11.

<sup>4</sup> "State Gasoline Tax Rates, 2009-2013," Tax Foundation, March 21, 2013, <<http://taxfoundation.org/article/state-gasoline-tax-rates-2009-2013>> accessed on October 29, 2013.

<sup>5</sup> David Burwell and Robert Puentes, "Innovative State Transportation Funding and Financing," National Governors Association, <<http://www.nga.org/files/live/sites/NGA/files/pdf/0901TRANSPORTATIONFUNDING.PDF>> p. 2.

<sup>6</sup> Jason Clayworth, "Groups propose 8-cent increase in gas tax," *Des Moines Register*, Jan. 4, 2012, <<http://www.iowadot.gov/transportation2020/pdfs/Groups%20propose%208-cent%20increase%20in%20gas%20tax%20.pdf>> accessed on October 24, 2013.

<sup>7</sup> "Iowa DOT Transportation Funding Concepts," <[https://www.pdiowa.com/media/24269/iowa\\_dot\\_transportation\\_funding\\_concepts.pdf](https://www.pdiowa.com/media/24269/iowa_dot_transportation_funding_concepts.pdf)> accessed on November 14, 2013.

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**Dr. Don Racheter, President, Public Interest Institute**

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