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**KEEPING IOWA
OUT OF THE MUD**



**A PRIMER OF IOWA
HIGHWAY
FINANCING**

THE IMPORTANCE OF GOOD HIGHWAYS

Iowa's vast network of roads and highways reaches even into the smallest communities in the state. Without this network, living in Iowa would be entirely different. The highway system enables travel to and from school, work, business, and play. These highways tie in with those of neighboring states, allowing access to the more than 4.5 million miles of the nation's highway system. The national highway system makes it possible for Iowa's products to be taken to other parts of the country, and to bring into the state the goods and services Iowans need. In times of disaster, highways are used to transport people, needed supplies, and equipment. There is no doubt that highways play an important role in the health and welfare of the state and the nation.

The condition of Iowa's total highway system has a great effect on the economic situation of the state and upon the safety of its users. The Iowa Department of Transportation (IDOT) feels that 12 or more lives per year could be saved if Iowa's highway system were kept up-to-date and in good repair. They also state that improvement of the non-Interstate primary system could reduce the total number of traffic accidents in Iowa by almost 600 and eliminate 140 personal injury accidents per year. Such a reduction in accidents on Iowa's primary system would save residents almost \$6 million every year.

There are other economic impacts which result from the deterioration of Iowa's highways. A recent study by IDOT showed that per-mile driving costs can be reduced by 15 percent for automobiles, and almost 25 percent for heavy trucks, when highways are improved to meet modern standards of engineering and maintenance.

In Iowa almost every product and every person, at some time, travels on the state's highway system. It is important that it be maintained at a level which will allow highways to play their vital role in the state's total transportation system. Almost 80 percent of all transportation dollars goes to the construction, maintenance and operation of highways. This tremendous annual investment has created an asset which makes possible a strong economy in Iowa, and a high standard of living for Iowans.

THE HISTORY OF IOWA'S HIGHWAY SYSTEM

The history of Iowa's highway system started shortly after the creation of the Iowa Territory. In 1838 a grid system of roads and highways — a road every mile — was designed for the state. Since most roads were to run north and south or east and west, and Iowa's rivers and streams flow diagonally, many bridges were required for the system.

Throughout the 19th century, county and township governments handled most of the road and highway construction and maintenance. Although they followed the grid-system design, Iowa counties built roads with little or no cooperation with other counties or cities. In an attempt to remedy this situation, Iowa State College in Ames was designated to act as the State Highway Commission in 1904 and a more formal approach to building streets and roads began. This improved the situation, and in 1913 the Iowa General Assembly went one step further, establishing a separate Iowa State Highway Commission.

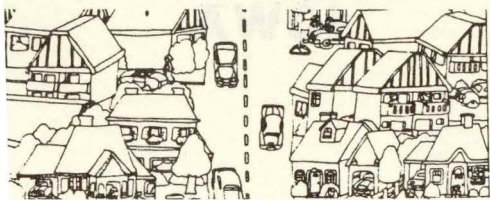
The Federal Government became involved with Iowa highways as early as 1916 when it provided the first federal funds for state roads. It was not until the passage of the Federal-Aid Highway Act of 1956, however, that federal funds became a major factor in financing the Iowa system.

In 1919 the Iowa General Assembly established an Iowa primary road system of approximately 6500 miles and created the Iowa Primary Road Fund to finance these state highways. The Primary Road Fund was supported with revenues from vehicle registration fees, federal aid money and special property assessments. In 1925 Iowa's first gasoline tax was enacted, calling for a two-cent-per-gallon tax to be divided equally among agencies responsible for county, township and primary highways.

A big push "to get Iowa out of the mud" started in 1926; and for the next three years, the Iowa General Assembly explored methods for paying for a large, state-road paving project. After a plan to borrow the necessary funds — using a massive state bonding program — was declared unconstitutional, legislation was quickly passed allowing counties to sell state road bonds which were to be redeemed with primary road funds. Starting in 1929, 98 of Iowa's 99 counties participated in raising a total of \$118 million, which was then used to build new paved highways.

The Iowa Constitution was amended in 1942 to require that all revenue from motor fuel taxes and vehicle license fees be used for the construction, maintenance, and supervision of public highways.

In 1975 the Iowa Department of Transportation was created and included the State Highway Commission, which had administered the Iowa highway system since 1913.



HOW IOWA'S HIGHWAYS ARE FINANCED

Iowa has more than 112,000 miles of city, county, and state roads and highways. The state ranks 10th in the nation in terms of miles of roads, although it is only 25th in total land area and 27th in population. Iowa ranks third in the nation in the number of highway bridges, with over 33,000.

The Iowa Department of Transportation is responsible for state and U.S. numbered highways, which total about 10,000 miles. Iowa's 99 counties are responsible for 90,000 miles of roads and highways. Cities are responsible for the remaining 12,000 miles.

The system of highways for which IDOT is responsible, called the primary system, carries about 57 percent of Iowa's vehicular traffic. The secondary road system, including the farm-to-market roads, carries 19 percent of Iowa's traffic and is managed by county governments. The cities' portion of the highway system handles the remaining 24 percent of vehicular traffic in the state.

The tax on gasoline was increased from two to three cents per gallon in 1927. From the money raised, one and two-thirds cents of the three cents was designated for state roads, and the remainder was reserved for county or secondary roads. In addition, motor vehicle registration fees (license plates), which were previously dedicated to the Primary Road Fund, were divided, with half of the money going to the state road fund and the other half to secondary roads. In 1945 the gas tax rate was raised to four cents per gallon, with three-fifths of the dollars collected from the additional one cent going to the secondary road fund and two-fifths to the municipal street construction fund, which meant cities would receive a share of the money for the first time.

Road Use Tax Fund

Today the largest source of funds for the three systems which make up Iowa's highway network is the Iowa Road Use Tax Fund (RUTF). In 1942 when the 19th amendment to the Iowa Constitution was ratified dedicating motor fuel taxes and vehicle registration fees for highway use, Iowa legislators realized that the highway needs of the state could not be met by those funds alone. In 1949, the RUTF was established, and two additional sources of highway funds were created: a use tax on the purchase of new motor vehicles, and ten percent of the state sales tax — an amount estimated to be equal to the tax on motor vehicle parts and accessories. The dollars produced by these new revenue sources are not protected by the Constitution of Iowa. In other words, the legislature may choose to use this

money for purposes other than those involving highways. Traditionally, the money was deposited into the RUTF; but on July 1, 1975, the ten percent of sales tax revenue was taken away from the road fund permanently. In 1983 the legislature lent \$15 million of motor vehicle use tax money to buy railroad rights-of-way and another \$1 million to help support Iowa mass transit.

The 1949 legislation enacted to create the RUTF also established a formula for distributing the funds to the state, counties, and cities. The initial formula was: 42 percent to the state primary road fund, 15 percent to the county farm-to-market fund, 35 percent to the county secondary fund, and 8 percent to the city street fund.

In January, 1953, a state tax was placed on diesel fuel. The rate was four cents per gallon, the same as for gasoline. In July, 1953, the gasoline tax was increased to five cents per gallon and the diesel fuel tax was increased to six cents per gallon. The extra one cent in the diesel tax rate resulted from the recognition of the increased efficiency of diesel engines. One cent of both the gasoline and diesel fuel tax rates was dedicated to the paving of graveled portions of the primary or state system.

In 1955 the gasoline and diesel fuel tax rates were increased by one cent per gallon, to six cents and seven cents, respectively. The revenue from this one-cent increase was dedicated to widening existing 18-foot-wide pavements on the primary road system.

In 1965 the taxes on gasoline and diesel fuel were raised to seven and eight cents per gallon, respectively. They were increased again in 1978 and in 1981, to reach the present level of 15.5 cents per gallon on diesel fuel, and 13 cents per gallon on gasoline and special motor fuels.

In 1984 the monies coming into the RUTF are divided among the three levels of highway jurisdiction, using the following formula:

State (primary system)	45%
Counties (secondary and farm-to-market systems).....	37%
Cities and towns (municipal system)	18%

County and Municipal Taxes and Bonding

Much of the money used for city and county roads comes from taxes and bonds levied by city and county governments. Cities and towns collect a large part of their street and highway money through property taxes and special assessments. (A special assessment is the share charged to property owners along a new or reconstructed street or road to pay the cost of the construction.) Almost 40 percent of county and over 60 percent of city roadway programs are funded by local taxpayers. The balance comes from the RUTF along with a small amount from the Federal Government.

Federal Highway Trust Fund

Approximately 20 percent of the money used each year to meet street, road and highway needs in Iowa is distributed through the Federal Highway Trust Fund (FHTF). The FHTF was created by the Federal-Aid Highway Act of 1956. The Act also expanded the concept of an Interstate highway network and made the Federal Government responsible for financing 90 percent of the construction, maintenance, and repair costs of that new, modern system. The Federal Government participates at lesser percentages on primary, secondary, and municipal systems.

Until 1983 the FHTF was used entirely for highway use and was based on a four-cents-per-gallon motor fuel tax along with taxes on tires and tread rubber, lubricating oils, truck parts, excises on new trucks and trailers and a use tax on vehicles over 5,000 pounds. In 1983 the rate of the federal motor fuel tax was raised to nine cents per gallon, and the use tax on trucks was increased on trucks with gross weights of over 33,000 pounds.

The increased and additional taxes resulted in considerably more money for the FHTF. However, in 1983, for the first time in history, Congress designated some of the new funds for other than highway use. The proceeds from one cent of the nine-cent-per-gallon increase on the motor fuel tax are now used to help finance mass transit in the United States.

Iowa's share of federal highway dollars is decided through a very complicated process. Although Congress decides the upper limit for each state, Iowa, for example, does not automatically get those dollars. First, the Iowa Department of Transportation must contract with road builders on each highway project, and then the state is reimbursed with federal funds as work on the project progresses. During some years the President's budget office does not allow the entire amount authorized by Congress to be obligated by the states. The money remaining in the FHTF is used, on paper, to balance the federal budget or reduce the budget deficit. Funds from the FHTF may be used for:

- Completion of Iowa's Interstate highway system
- Resurfacing, restoration, rehabilitation and reconstruction of Interstate highways
- Some primary highway costs
- Some secondary highway costs
- Some city street and highway costs
- Bridge replacement and rehabilitation

Much of the "new" federal money — the revenue generated by the 1983 increases in motor fuel and truck use taxes — is required to be used by states to complete their Interstate highway programs, to repair Interstate highways, and to repair and replace

inadequate bridges. This means there are very few additional dollars available from the FHTF for use by cities, towns, and counties, or by IDOT for non-Interstate highways.

A Typical Year

During a typical year, between \$800 and \$900 million will be spent to construct, reconstruct, maintain, repair and otherwise serve the state's highway system and its users. That total is generally shared by governmental subdivisions in approximately this way:

Primary System

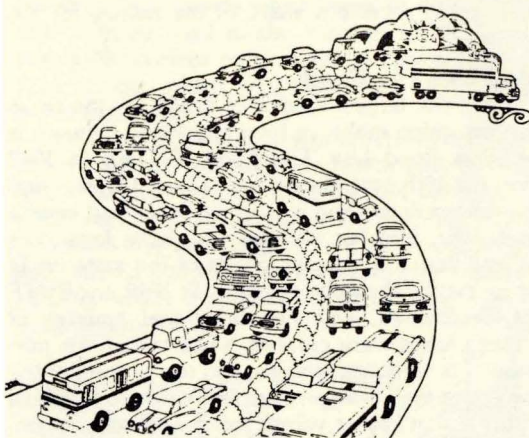
Road Use Tax Fund	\$178 million
Federal Highway Trust Fund	90 million
Other Sources	13 million
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TOTAL	\$281 million

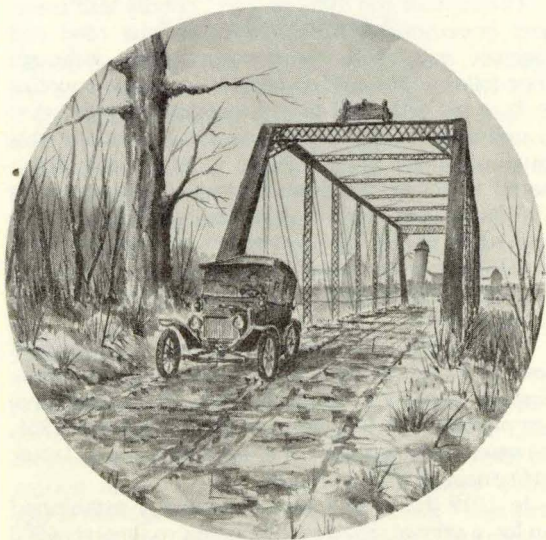
Secondary System

Road Use Tax Fund	\$135 million
Federal Highway Trust Fund	16 million
County Property Taxes	94 million
Other Sources	22 million
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TOTAL	\$267 million

Municipal

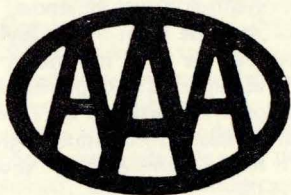
Road Use Tax Fund	\$ 65 million
Federal Highway Trust Fund	14 million
Local Property Taxes	93 million
Other Sources	67 million
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TOTAL	\$239 million





**Iowa AAA
2050 Grand Avenue
Des Moines, Iowa 50312**

***Costs provided in part by:
The Iowa Association of Safety Education***



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