

**INSTRUCTIONAL MEMORANDUMS
To Local Public Agencies**



To: Cities	Date: November 4, 2022
From: Local Systems Bureau	I.M. No. 1.250
Subject: City Road Use Tax Fund (RUTF) Information	

Contents: This Instructional Memorandum (I.M.) includes guidelines and procedures for a Local Public Agency (LPA) to better understand the Road Use Tax Fund (RUTF) and how the funding is distributed to LPAs.

DEFINITIONS

Census: A national census is completed once every 10 years. The Secretary of State must certify the census prior to it taking effect. The last census was completed in 2020. <https://www.iowadatacenter.org/> Cities can request a special census if they feel that the current certified population is inaccurate. This often occurs in cities who have experienced rapid growth.

Farm-to-Market road: The Farm-to-Market (FM) system shall not exceed 35,000 miles and consists of intra-county and intercounty routes which serve principal traffic generating areas and connect such areas to other Farm-to-Market roads and Primary highways. These designated routes are in unincorporated areas and are under county jurisdiction. FM maps can be found at: <https://iowadot.gov/maps/Digital-maps/Other-maps/Farm-to-Market-maps>. See the complete definition in [Iowa Code section 306.3.3](#).

Farm-to-Market extension: A designated FM route that is within the boundaries of a city. Jurisdiction and control over this municipal street shall be vested with the governing body of the municipality unless the certified population of the municipality dips below 500 which will result in the transfer of jurisdiction to the county. See [Iowa Code section 306.4 and section 306.5](#). For cities between 500 and 2,500 population, a joint jurisdictional situation applies, but the city retains the Road Use Tax funding.

Federal 536 Report: FHWA-536 is a report summarizing road funding by local governments. Data from Iowa counties and cities regarding the (1) disposition of highway-user revenues; (2) revenues used for roads and streets, identified by source and type of funds; (3) road and street expenditures identified by purpose or activity; and (4) local highway (roads) debt status which is compiled annually. [Link to the Highway Statistics Series Publications](#). The Local Systems Bureau, Reports Specialist, completes this report annually for submittal.

Population: For purposes of funding distributions, a city’s population is as recorded in the most recent state certified census.

Road Use Tax Fund (RUTF): As defined in [Iowa Code section 312.2](#).

Transportation Investment Moves the Economy in the Twenty-First Century (TIME-21): As defined in [Iowa Code section 312A.2](#).

Introduction

The Road Use Tax Fund (RUTF) is a revenue source created in 1949 by the legislature to assist state, county, and city governments with the construction, repair, and maintenance of Iowa’s road infrastructure. In addition to the fuel tax rate, several vehicle registration and other related fees contribute to the RUTF. The RUTF is created and defined in [Iowa Code Chapter 312](#).

Funding Sources

The major sources of revenue for the RUTF are derived from taxes on motor fuel, vehicle registration fees, titles and salvage titles, car rental tax, and fees for new registrations/plates. The legislature sets the fuel tax rate, which was increased by 10 cents through action taken during the 2015 legislative session resulting in the current rate of 31 cents per gallon of gasoline and 32.5 cents per gallon of diesel. Currently, all revenues deposited into the RUTF are distributed by formula to the Primary Road Fund, Secondary Road Fund, Farm-to-Market Fund, and Street Construction Fund and are used by State and local jurisdictions for the construction and maintenance of streets and highways. Before the revenues are distributed, however, various allocations and appropriations are made from the Fund. These “off-the-top” allocations are used to fund programs, equipment purchases, facility

improvements, and Department of Transportation (DOT) operations. After the off-the-top allocations and appropriations are allocated from the RUTF, the net revenues are distributed based on a formula as follows:

- 47.5% – Primary Road Fund (State)
- 24.5% – Secondary Road Fund (Counties)
- 8.0% – Farm-to-Market Road Fund (Counties)
- 20.0% – Street Construction Fund (Cities)

In 2008, the Time-21 Transportation Funding Act was signed into law. TIME-21 increased revenues collected from vehicle registrations, trailer registrations, certificates of title, and salvage certificates of title. Additionally, once the RUTF reaches \$392 Million the revenues collected from all annual vehicle registration fees are deposited into the TIME-21 Fund. These revenues in the TIME-21 Fund are distributed based on the following formula:

- 60% - Primary Road Fund (State)
- 20% - Secondary Road Fund (Counties)
- 20% - Street Construction Fund (Cities)

Once the TIME-21 fund reaches an amount of \$225 Million, the fund is distributed based on the RUTF distribution percentages shown above. [Iowa Code Chapter 312A](#), TIME-21 Fund, will sunset on June 30, 2028.

A visual of estimated transportation funding distributions from the Iowa DOT perspective can be found here: https://iowadot.gov/program_management/Five-Year-Program and is referred to as the Pipeline Chart. This chart is updated annually.

Current information regarding City funding is located here: https://iowadot.gov/local_systems/City-Reports-and-Funding

Funding Distribution

The RUTF distribution is on a per capita basis for each city. Any changes in a city's official population will have an impact on their RUTF distribution. Nearly all cities will have a new population figure after an official census count is completed and certified, whether it be after the 10-year census or after a requested special census. Cities need to re-calculate their RUTF distribution after receiving their new population number. The allocation of the RUTF is based on current law. Any changes in the law could result in changes to the per capita distribution. Cities are allowed to conduct one special census every decade; any population changes as a result of a special census will affect the city's RUTF distribution at the beginning of the following fiscal year.

RUTF payments are distributed monthly by the state treasurer. Cities should enter this revenue in their general ledger in the RUTF as State Revenue (Chart of Account number 110-210-4400 or 110-2010-4400). TIME-21 payments are part of the monthly RUTF payment and not reported or recorded separately for cities.

Cities can look up their monthly RUTF deposits at: <https://www.iowatreasurer.gov/for-governments/roadusetax>. Select "Street Construction" for the payment type.

Payments are received on the 3rd Tuesday of the Month; however, any city under 500 that has RUTF distributed to the county as a result of the FM transfer of jurisdiction routes do not receive their payments until the 3rd Friday. Payments come from the Treasurer, State of Iowa. If a paper warrant is issued, it will be labeled as Street Construction in the memo line. Any city not receiving these monthly deposits electronically is encouraged to sign up for EFT. Contact the [Local Systems Reports Specialist](#) for assistance.

For FM transfer of Jurisdiction information, refer to the section below.

Budgeting

For budgeting purposes, estimated per capita forecasts are listed on our Local Systems "City Reports and Funding" website: https://iowadot.gov/local_systems/City-Reports-and-Funding. These forecasts are estimates. Actual distributed RUTF are based upon monthly revenues received from a variety of transportation related sources. Cities under 500 will need to subtract the amount allocated to the farm-to-market extensions that are within city limits to make an accurate revenue prediction. See the section below.

Farm-to-Market Transfer of Jurisdiction Routes

Iowa Code section 306.4 requires that cities with a certified population of less than 500 transfer the jurisdiction of the farm-to-market roads (and the corresponding RUTF revenue) to the county. This means that the county is transferred jurisdiction of and is responsible for the maintenance of those FM extensions that are within the city limits as well as the FM routes in the county. Many cities have entered into 28E agreements with their county to return all or a portion of the responsibility for maintenance the roads back to the city, along with associated RUTF revenue. If a city's population drops below 500 after its Census results are certified, they will transfer jurisdiction and control of their FM extensions to the county on July 1st of the following year. A city that previously was below 500 in population must increase its population to more than 750 in a certified census to regain the jurisdiction and control for the FM extensions within city limits as of the next July 1st.

The amount of RUTF revenue that is transferred to the county when they assume the jurisdiction and control for the FM extensions is calculated by taking the total number of miles of FM extension routes within city limits and dividing that by the total number of miles of roads within city limits. The resulting percentage will be applied to the city's monthly RUTF deposit with the amount representing the FM extensions being deposited to the county and the remaining amount associated with the rest of the roadway miles deposited to the city.

Cities under 500 can find their road mileage at the following link:

https://iowadot.gov/local_systems/publications/City-FM-Ext-percentage.xlsx

Example Budget & Farm-to-Market Calculations

Cities' RUTF distributions are based solely on population. Newly constructed roads and map updates will not impact the direct RUTF allocation to the city. However, they will impact the percentage of funds transferred to the County for FM extensions for cities under 500 population. Please refer to the example below that shows how to budget RUTF, adjust the budget for FM extensions in cities under 500, and how changes to the miles of roadways within city limits affect these calculations.

***NOTE – road mileage and the impact of farm-to-market extensions on city RUTF revenue is ONLY for cities with a population that has dipped below 500 on a certified census.*

Below are some basic formulas to help illustrate how the population, transfer of jurisdiction of FM extensions, and lane mile updates could impact the RUTF revenue for a city. **Green highlights** reflect the road miles. **Yellow highlights** reflect population and per capita forecast for RUTF distribution. **Blue highlights** reflect the population multiplied by the per capita forecast. (Figures below are for an imaginary city – enter your own city's data)

- Cities over 500 budget process:
 - Current certified population * estimated RUTF per capita forecast = expected FY revenue
 - Ex: **current population of 1489**, and an estimated RUTF per capita forecast of **\$127/person**:
 - $1489 * \$127/\text{person} = \$189,103$ estimated RUTF revenue for the FY
- Cities under 500 (or previously under 500 and still subject to FM transfer of jurisdiction)
 - **City road miles: all streets = 1.75 miles**
 - **Farm-to-Market extension miles = 0.62 miles**
 - % Farm-to-Market transfer to County: $0.62/1.75 * 100 = 35.4\%$
 - This % will stay the same from year to year unless roads are built or abandoned
 - **Current population of 325**, and an estimated RUTF per capita forecast of **\$127/person**:
 - Population: $325 * \$127/\text{person} = \$41,275$ estimated RUTF revenue for the FY
 - $\$41,275 * 0.354 = \$14,611$ transferred to County
 - $\$41,275 - \$14,611 = \$26,664$ revenue for the City (budget this, not \$41,275)

Eligible Uses of the Road Use Tax Fund (RUTF)

Various Iowa Code sections explain how each entity can spend the revenues received from the RUTF. The Iowa Department of Transportation gets its direction primarily from [Iowa Code section 313.4](#). Counties find theirs under their home rule [Iowa Code section 331.429](#) and the Farm to Market roads are in [Iowa Code section 309.10](#). Cities direction for RUTF expenditures is found in [Iowa Code section 312.6](#) which states,

“Funds received by municipal corporations from the road use tax fund shall be used for any purpose relating to the construction, maintenance, and supervision of the public streets.”

The Iowa Code does not give the Department of Transportation authority to interpret or create a definitive list of projects and activities that would appropriately be funded by RUTF. More guidance can be found in both the December [2015 Legislative Guide](#) and the [Street Finance Report Instructions](#). Legislative Guides are prepared by the Legal Services Division of the State of Iowa and provide a general survey of a particular area of the law including code sections, court cases, and opinions from the Attorney General. The above guide states:

“Moneys in the RUTF are dedicated by law to the DOT, county governments, and city governments for highway-related uses. Although a significant portion of the moneys in the RUTF are subject to an explicit constitutional limitation regarding the purposes for which they may be expended, the Iowa Supreme Court has interpreted the limitation to allow expenditures which are not “totally foreign to highways.” This interpretation, together with the opinions of the Attorney General, has allowed the moneys in the RUTF to be broadly and flexibly spent for a variety of highway-related purposes”.

Through studying the court cases, researching definitions, reading opinions from the Attorney General and following the policy information from the Federal Highway Administration 536 report, staff at the Department of Transportation has some examples of projects that can and cannot be funded with RUTF dollars in the project section of the [Street Finance Report Instructions](#) (See Project Definitions). If you would like to discuss a potential RUTF project, contact the [Local Systems Urban Engineer or Reports Specialist](#). Ultimately, if a project is questionable, you may wish to consult the city’s attorney as they would be responsible to defend the city’s use of RUTF.

Note: [Iowa Code section 331.429](#) states that Secondary Road Funds may be expended on “Payment of all or part of the cost of construction and maintenance of bridges in cities having a population of eight thousand or less and all or part of the cost of construction of roads which are located within cities of less than four hundred population and which lead to state parks.” Additionally, according to [Iowa Code section 314.5](#), Secondary Road Funds may be spent on “any road or street which is an extension of a secondary road within a city”. However, these funds CANNOT be expended in a city having a population greater than 2,500 if the houses or business average less than 200ft apart. In other words, the intent of the code is that secondary road funds be constrained to only paying for rural sections of roadway. If the population is greater than 2,500 or the distance between the houses/business averages closer than 200ft, the roadway is considered more urban and would not be eligible for expenditures of secondary roads funds, even if the expenditure is reimbursed. Please note that while Secondary Road Funds may be expended within these areas, the county is under no obligation to do so.

Street Finance Report

[Iowa Code section 312.14](#) requires all cities to submit the Street Finance Report (SFR) to the Iowa DOT by December 1 of each year. In accordance with [Iowa Code section 312.15](#), the Iowa DOT must notify the state treasurer of each city not in compliance with this requirement. Once notified, the state treasurer will withhold the RUTF allocated to the city until the city complies. If a city has not filed its report by March 1 of the following year, RUTF shall not be allocated to that city and all funds withheld under this provision shall revert to the street construction fund of the cities.

The SFR webpage for instructions, training videos, and past reports is located at the following webpage: <https://secure.iowadot.gov/sfr/>. To access a specific city’s current year’s unsubmitted report and make changes within the report, an IOWAID is required. An account can be created from the [SFR webpage](#).