

Paying for Secondary Roads Projects

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Secondary roads and other transportation projects account for the biggest share of county spending. Over 20% of county budgets (\$400 million statewide) was devoted to transportation in FY07. The vast majority of transportation spending is for secondary roads. Fortunately, Iowa law gives counties a few different options on how to pay for all those secondary roads projects.

The most common way to pay for secondary roads projects is from the secondary roads fund. After all, that is the name of the fund. And it is the place where most revenue dedicated to road funding goes. For example, revenue from the state road use tax fund must be credited to the county secondary roads fund (Iowa Code §331.429(1)(c)). The majority of local road funding gets into the secondary roads fund, too. But the secondary roads fund can't generate money directly, because counties cannot levy taxes directly into the fund. Instead, counties levy through their general fund tax or rural services fund tax, and then transfer money into the secondary roads fund. That whole process of levying a tax in one fund and then transferring the revenue elsewhere is regulated quite specifically by state law.

Iowa Code §331.429(1) allows counties to transfer a limited amount of revenue from both the general fund and the rural fund to the secondary roads fund. The limit on transfers from the general fund is the dollar equivalent of a tax of \$0.16875 per thousand dollars of taxable value in the entire county. The limit on transfers from the rural fund is the dollar equivalent of a tax of \$3.00375 per thousand dollars of taxable value in the rural area of the county. (Both limits are adjusted slightly to account for delinquent taxes and pseudo-property tax revenue like mobile home taxes and military credit reimbursements.) In both cases, the transfer limit is the "dollar equivalent" of the tax generated by a certain tax rate. That's important because it shows that the limit on transfers applies to all revenue, not just property tax revenue. For instance, many counties impose a local option sales tax (LOST) with at least some of the proceeds used for secondary roads projects. Assume we have a county, County X, with a rural fund transfer limit of \$300,000 that also raises \$50,000 in LOST revenue for secondary roads, which is initially deposited in the rural fund. County X cannot transfer \$300,000 of rural fund property tax revenue PLUS the \$50,000 LOST revenue to the secondary roads fund – it may only transfer \$300,000 total from the rural fund, regardless of the revenue source (property tax, sales tax, etc.).

Some people think that isn't fair. They think that if the public of County X voted for a LOST for secondary roads purposes, then County X should be able to use those LOST dollars as additional secondary roads funding, and not just to supplant current property tax funding. That's a fair point. And the

county is allowed to use the LOST revenue as additional secondary roads funding; it just can't transfer the money to the secondary roads fund. (Pending adoption by the ISAC board and membership, ISAC will pursue a legislative objective in 2008 to make the transfer limit apply only to property tax revenue. Until then, however, the limit applies to all revenue.)

But the fact that the transfer limit applies to all revenue and not just property taxes really doesn't matter a whole lot, because – and here is the most important thing to take away from this article – the maximum limit on transfers is practically irrelevant. I can hear the gasps echoing across the state, so let me explain. The limit on transfers in §331.429 is just that – a limit on transfers to the secondary roads fund. It is not a limit on spending for secondary roads projects. Well, I can hear you all saying, if you can't get the money to the secondary roads fund via a transfer, how the heck can you spend it on secondary roads projects? The answer to that question lies in a couple of definitions. Iowa Code §331.421 defines "general county services" and "rural county services." Both of those definitions specifically include "secondary roads services." Because of those definitions, when Iowa Code §331.427(3) authorizes the board to "make appropriations from the general fund for general county services," and Iowa Code §331.428(2) authorizes the board to "make appropriations from the rural services fund for rural county services," the Code implicitly allows spending for secondary roads projects to be made directly from either the general or rural fund.

Looking back at County X, the supervisors could legally transfer \$300,000 of property tax revenue from the rural fund to the secondary roads fund, at which point they would hit their transfer limit. Then County X could spend an additional \$50,000 (or even more) on secondary roads directly from the rural fund. The same situation applies if the supervisors hit their general fund transfer limit and wanted to spend more money on secondary roads directly from the general fund – that's perfectly within the prerogative of the board. A county can only transfer revenue to the secondary roads fund up to the limits allowed in §331.429. But a county can spend additional money on secondary roads directly from either the general or rural fund, subject only to the available revenue in those funds.

All of the discussion so far has assumed we have a county that wants to spend more money than allowed by the transfer limit. But what if a county wants to transfer less money than the limit allows? That's okay, but only up to a point. Iowa Code §312.2(8) imposes a minimum local effort requirement on counties. If a county fails to transfer or otherwise provide funding equal to at least 75% of the maximum transfer limits in §331.429, its share of the RUTF revenue will be reduced to offset the

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