



## *Vermont Legislative Research Service*

### **Transportation Funding and Dedicated Taxes**

Over the past several decades, the strain on our nation's infrastructure has increased dramatically – the Federal Highway Administration (FHWA) estimates that highway miles-traveled has increased 161% since 1970 and 35% since 1990.<sup>1</sup> Along with this increasing use there comes a greater demand for infrastructure funding. In 2005, more than two thirds of all state budgets were delegated to three areas: Medicare, education, and corrections.<sup>2</sup> In 2010, 64% of the state budget in Vermont was dedicated to those three areas.<sup>3</sup> In contrast, infrastructure related spending accounted for only 12% of the total budget.<sup>4</sup>

In order to counter this imbalance, many states have monetized their infrastructure through user-fees, taxes, and tolls. In addition, nearly every state has taken initiative to dedicate this revenue directly back into the infrastructure, effectively keeping the funds from being diverted to other sectors or non-infrastructure related projects. These restrictive dedications, however, vary with regard to their level of stringency, which allows legislatures in some states to bypass them altogether.<sup>5</sup>

This report seeks to examine the role that dedicated taxes play in transportation finance across the nation and describe various protocols used by states in dealing with their transportation related revenues. This includes an overview of states which do not strictly dedicate their

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<sup>1</sup> James B. Reed and Matt Sundeen, "Surface Transportation Funding: Options for States," National Conference of State Legislatures, May 2006, accessed December 14, 2011,

<http://www.ncsl.org/documents/transportation/surfacetranfundrept.pdf>, p.2.

<sup>2</sup> James B. Reed et al., "Surface Transportation Funding: Options for States," p. ix.

<sup>3</sup> Vermont Legislative Joint Fiscal Office, "2010 Fi\$cal Fact\$", Joint Fiscal Committee, 2011, accessed December 13, 2011, <http://www.leg.state.vt.us/jfo/publications/2010%20Fiscal%20Facts.pdf>, p.14.

<sup>4</sup> Vermont Legislative Joint Fiscal Office, "2010 Fi\$cal Fact\$", p.13.

<sup>5</sup> Jaime Rall, Alice Wheat, Nicholas J. Farber, and James B. Reed, "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," A Report from A Joint Project Of The National Conference Of State Legislatures and The AASHTO Center For Excellence In Project Finance, May 2011, accessed December 16, 2011, <http://www.ncsl.org/documents/transportation/FULL-REPORT.pdf>, p. 46.



has further implications – often legislators are able to effectively divert otherwise dedicated funds to other projects.<sup>17</sup>



As the NCLS produced map in Figure 1 shows, there are many states that *strictly* dedicate transportation funds through constitutional measures or statutes. There are, however, many ways which states are able to use legislative power and other means in order to subvert these tax dedications. The state constitution of Montana includes a process which allows dedicated

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<sup>17</sup> Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. xiii.



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This report was completed on February 16, 2012 by Jordan White under the supervision of graduate student Kate Fournier and Professor Anthony Gierzynski in response to a request from Janice Peaslee,

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Disclaimer: This report has been compiled by undergraduate students at the University of Vermont under the supervision of Professor Anthony Gierzynski. The material contained in the report does not reflect the official policy of the University of Vermont.