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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.[1] 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.[2] In 2010, 64% of the state budget in Vermont was dedicated to those three areas.[3] In contrast, infrastructure related spending accounted for only 12% of the total budget.[4]

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.[5]

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

[1] 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.
[2] James B. Reed et al., "Surface Transportation Funding: Options for States," p. ix.
[3] 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.
[4] Vermont Legislative Joint Fiscal Office, "2010 Fi$cal Fact$," p.13.
[5] Jaime Rall, Alice Wheet, 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.

transportation taxes. Further, close attention will be given to Alaska in its unique capacity as the only state which explicitly *prohibits* the dedication of revenues.[6]

Gas Tax Dedication

The gasoline tax is one of the most important sources of transportation funding among states, accounting for nearly 50% of infrastructure related spending among states annually.[7] In Rhode Island, South Carolina, and Tennessee transit is funded completely by this tax.[8] This heavy use of gas tax money towards infrastructure related projects is made possible by the use of dedicated taxes. With the exception of Alaska, every state dedicates some or all of its gas tax revenue towards highway and transportation purposes.[9] A map from a National Conference of State Legislatures (NCSL) report documents this in Figure 1 below.

While most states *strictly* dedicate their transportation related revenues towards transportation related state projects, Alaska, Florida, New Mexico, Texas, and Vermont divert some or all of their revenues into other areas.[10] Florida allows some of transportation related funds to be transferred to the state's general fund.[11] New Mexico distributes some of this money to local and tribal governments.[12] In Texas, a quarter of all motor fuel tax revenue is allocated to a fund which supports the state's education system.[13] Vermont dedicates some of this revenue to the Fish and Wildlife Fund, the Department of Forests, Parks, and Recreation, the Education Fund, and the state general fund.[14] Alaska is unique as it is the only state which constitutionally prohibits the dedication of any state revenues.[15] A more detailed profile of Alaska is discussed below. In each one of these states, cash appropriations are handled directly by the legislature giving them power over the direction of the money.[16] This legislative power

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[6] Jeff Ottesen, Ron King, and Eric Taylor, "Let's Get Moving 2030: Alaska Statewide Long-Range Transportation Policy Plan," Alaska Department of Transportation and Public Facilities, February 2008, accessed January 4, 2012, http://www.dot.state.ak.us/stwdplng/cip_stip/Resources/Assets/2030_LRTP.pdf, p. 60.

[7] James B. Reed et al., "Surface Transportation Funding: Options for States," p. 19.

[8] James B. Reed et al. "Surface Transportation Funding: Options for States," p. 25.

[9] Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. 29.

[10] Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. 29.

[11] Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. 61.

[12] Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. 111.

[13] Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. 140.

[14] Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. 145.

[15] Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. 45.

[16] Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," pp. 45-145.

has further implications – often legislators are able to effectively divert otherwise dedicated funds to other projects.[17]

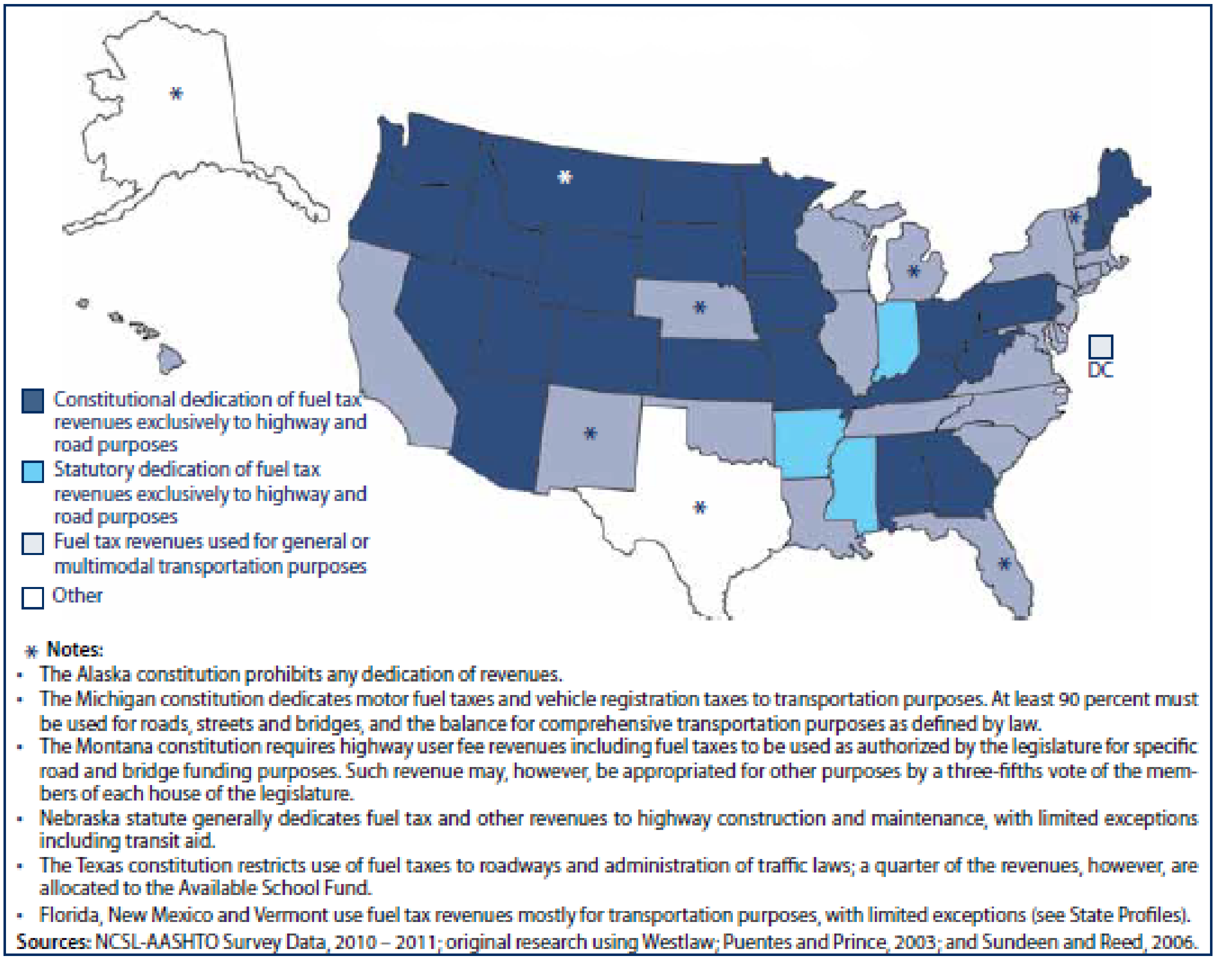

Figure 1: Gas Tax Dedication by State

Source: Jaime Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," National Conference of State Legislatures, accessed December 16, 2011, p.29.

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Diversion of Funds

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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[17] Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. xiii.

funds to be appropriated to other areas if approved by a three-fifths majority of the state legislature. In Virginia, dedicated funds can be diverted by either the governor or the state legislature on the condition that the diverted funds are to be repaid within three years. The legislatures of Arizona, Florida, Kentucky, Minnesota, New Jersey, North Carolina, and Wisconsin have all recently diverted funds regardless of specific dedications. While the majority of states do have specific tax dedications, it is clear that these dedications are not always as effective as they are meant to be.[18]

Alaska

Alaska is the only state in the country that does not dedicate its transportation revenues in some quantity to transportation funding.[19] This is due to a prohibition on such dedications within the constitution of Alaska.[20] In lieu of a dedicated tax source, all of Alaska's internal transportation funding comes from the state's general fund, which is largely supplemented from crude oil sales and in 2010 accounted for 88% of the state's internal revenue.[21] The majority of Alaska's transportation finance however comes from the federal government. Very little of this oil revenue is spent on transportation needs.[22] Lawmakers in Alaska have recognized this problem and are currently taking steps to implement a protocol that directs transportation related revenues back into the infrastructure.[23] Alaska's transportation related revenues, however, are the lowest of any state.[24] In light of this it is unclear to what degree dedicating revenues would be successful.

Conclusion

Dedicated taxes are one of the most useful tools a state can use in order to ensure that certain projects are well funded. Indeed nearly every state in the nation has constitutional provisions or laws which dedicate much of their transportation related revenues to transportation related projects. This has resulted in a steady, reliable stream of revenue which flows directly back into the infrastructure. It is clear, however, that it is well within the power of many state legislatures to divert some of this dedicated revenue to other purposes.

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[18] Jaime Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. 30.

[19] Jeff Ottesen et al., "Let's Get Moving 2030: Alaska Statewide Long-Range Transportation Policy Plan," p. 59.

[20] Jaime Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p. 29.

[21] Department of Revenue: Tax Division, "Annual Report: Fiscal Year 2010," State of Alaska Department of Revenue, 2010, accessed January 5, 2012, http://www.tax.alaska.gov//programs/documentviewer/viewer.aspx?2283f p.4.

[22] Jeff Ottesen et al., "Let's Get Moving 2030: Alaska Statewide Long-Range Transportation Policy Plan," p.59.

[23] Jaime Rall et al., "Transportation Governance and Finance: A 50-State Review of State Legislatures and Departments of Transportation," p.45.

[24] Federal Highway Administration, "Revenues Used by States for Highways – 2009," U.S. Department of Transportation, 2009, accessed January 9, 2012, http://www.fhwa.dot.gov/policyinformation/statistics/2009/sf1.cfm.

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