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Leveraging tolls in the 21st century

Large projects routinely use tolls to fund a portion of their costs, but the full value of user-based financing continues long after construction is completed and the initial debt has been paid.

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Tolls are fast becoming a fact of life for delivering transportation infrastructure projects, whether they are publically financed or public-private partnerships. But, as many owners are discovering, tolls also can be long-term revenue engines, powering decades of maintenance and operations, system improvements and other critical transportation projects in growing metro areas.

In this white paper:

- The national movement to tolling.
- Why tolls remain relevant long after the initial construction is financed.
- Top staying-power strategies: How to ensure tolling for the long-term.

Tolling is this century's funding solution of choice

Tolling is becoming the 21st century solution of choice for generating additional user-based transportation revenue. The proven funding source is being seriously considered for expanded use by cities, states and even the federal government with support from elected officials across the political spectrum. In fact, with each federal transportation reauthorization, tolling restrictions have been relaxed:

- SAFETEA-LU (2005) created four toll demonstration programs to finance interstate construction and reconstruction, promote efficiency in the use of highways and reduce congestion:
    1. The Interstate System Reconstruction & Rehabilitation Toll Pilot Program
    2. The Interstate System Construction Toll Pilot Program
    3. The Value Pricing Pilot Program
    4. The Express Lanes Demonstration Program
- MAP-21 (2012) allows tolling of newly constructed lanes added to existing toll-free Interstate highways and tolling for new construction of bridges and tunnels on the interstate system.
- President Obama's proposed GROW AMERICA Act (2014) would allow tolling on interstate highway general-purpose lanes.

Other indications that tolling is here to stay:

- Annual toll revenues have more than doubled to $13 billion in the past decade.
- Today, there are 121 public toll entities in the United States that operate nearly 340 tolled facilities. Of those, 19 are new toll agencies, formed in the past decade, and 17 are state departments of transportation.
- Total mileage on tolled highways has increased by 11 percent in the past decade.
- States, such as Florida and Texas, evaluate all new projects as tolled.

In short, tolling is fast becoming a fact of life in the United States. Most new mega transportation projects — whether public-private partnerships or publically financed — now have tolling components:

- While tolling isn't a prerequisite for P3s, many owners are using tolling as a way to make these projects a reality. Nearly 86 percent (18 of 21) of greenfield P3 projects since 2007 have a tolling component.
- And, the majority of recently financed public projects have a tolling component, including New York's Tappan Zee Bridge, Texas' Grand Parkway, California's SR91 and Kentucky's Downtown Crossing.

Tolling finances system and capital improvements after the initial construction is paid

Most of the major turnpikes created in the 1950s paid off their original debt in the mid-1980s. But none of those agencies removed tolls. Why? Toll agencies recognized the importance of the systems they built and how those systems could be leveraged to build new projects or subsidize existing modes:

- After extensive evaluation of transportation needs and funding, **Ohio** decided to leverage its Turnpike in 2014 by increasing tolls and issuing $1.5 billion for 10 new transportation projects that include widening portions of Interstate 75 and replacing the Innerbelt Bridge.
- When its bonds were retired in the 1980s, the **Florida** Legislature considered removing all tolls from the Turnpike System. After extensive study, the Legislature decided to pass legislation in 1990 to leverage Florida's Turnpike to expand its system. The toll rates were doubled, more than $1 billion generated and nine Turnpike-candidate projects were authorized. In the 20 years following the legislation, more than 140 miles have been added to Florida's Turnpike System. The Turnpike does not rely on federal or state funding.
- The North **Texas** Tollway Authority built $5 billion of additional projects from toll revenues.
- **New York's** Metropolitan Transportation Authority uses tolls from its tunnels and bridges to subsidize its subway system.

While a small number of facilities have removed tolls in the last 30 years, most were smaller single-asset facilities or bridges without much opportunity for future expansion and upkeep.

Although rare, when decisions to remove tolls are issued, they are politically motivated or made automatically after the initial debt is retired. However, the common argument for eliminating tolls is if the revenue being generated doesn't cover the facility's operating and maintenance expenses, as was the case with Florida's Navarre Bridge in 2004. Still, operating and maintenance expenses must come from some funding source. If only partially paying costs, toll revenues still decrease the need to tap tax funds. In nearly every instance, a stronger case can be made for keeping tolls than for eliminating them.

Agencies develop strong rationales for continuing tolls

Below are talking points agencies have used to effectively disarm common arguments for toll removal:

"THE BONDS HAVE BEEN RETIRED. THE FACILITY IS PAID FOR."

- If the next federal reauthorization grants states even more tolling authority, any agency that forgoes its tolls will have lost its back office and its tolling expertise at a time when they are needed most.
- Entities that have removed tolls now are struggling for maintenance and capacity improvement funding due to limited DOT funding.
- Connecticut removed tolls from its Turnpike in 1985 and is now considering reinstating them.
- If the majority of toll revenue comes from out-of-state customers, eliminating tolls doesn't make sense. It leaves citizens paying for all of the upkeep and maintenance of the facility while the bulk of users ride for free!
- Close one facility and remaining facilities in a system will be forced to shoulder a higher financial portion of the shared back office and overhead costs. Covering these additional costs may leave them unable to pay their own operating and maintenance expenses. Before tolls were removed from the Georgia 400, the facility funded the majority of the toll operations for Georgia's State Road and Tollway Authority (SRTA). Not only did eliminating tolls leave a hole in SRTA's operations budget, the proposed 285/400 interchange potentially could have benefited from the revenues generated, had the Georgia 400 toll remained. The removal of tolls has been followed by an increase in traffic volumes and, therefore, potentially greater congestion.
- There is a physical cost to toll removal. Owners don't switch off the system and walk away.

"I PROMISED VOTERS I WOULD REMOVE TOLLS IF ELECTED."

- At current interest rates, $1 in annual toll revenues can produce approximately $17 in upfront bond proceeds. Removing tolls means the state is killing a potential revenue stream that could be used to bond other projects. When the Dallas-Fort Worth Turnpike (I-30) removed tolls in 1977, officials eliminated a critical revenue stream that, consequently, delayed additional capacity improvements on the corridor by approximately 35 years. One official admitted, albeit many years later, that removing the tolls from the Dallas-Fort Worth Turnpike was the worst decision he had ever made.
- Eliminating tolls means eliminating a capital program that creates jobs.
- Removing tolls reduces the opportunity for future funding partnerships.
- It limits opportunities for a regional system or a multiasset, statewide financing approach.

"IT'S A BARRIER TO ATTRACTING NEW BUSINESSES."

- Many states have toll roads and, for them, tolling is good for economic development:
  - In the Dallas/Fort Worth area, State Farm Insurance is moving its regional headquarters (8,000 employees) to Richardson and the intersection of President George Bush Turnpike and Plano Road.
  - Toyota's North American headquarters is moving to Plano, Texas, at the corner of the Dallas North Tollway and the Sam Rayburn Tollway.
  - Commercial development and warehousing is springing up around the New Jersey Turnpike Authority's recently completed Interchange 6 to 9 Widening Program.

"WE DON'T NEED TO PAY MORE TAXES!"

- Referring to a toll as a "tax" is not accurate. It's better to describe the toll as a user fee. Taxes are paid by all, user fees are paid only by users.
- Without tolls, taxes likely would be higher!
- There are no "free" roads. Roads are paid for with taxes or user fees.

Best practices help position tolling for posterity

Most toll agencies continue to issue debt to refinance, upgrade and expand their facilities to meet present and future customer demands.

Ensuring tolls remain for the benefit and mobility of future generations begins with frequent, open, communication that targets two important audiences:

1. **Customers.** Messages of increased safety, higher maintenance standards, funding for new capacity and other enhancements make a strong argument for tolling. When customers know their dollars are being spent to improve the facility and their safety, they generally approve of long-term tolling.

   Debt incurred in the interest of providing better customer service and safer facilities is a buffer in itself. Tolls are not typically stripped away from facilities that have outstanding financial obligations. It would be difficult for another entity to pay off or take over the debt in the absence of toll revenue. However, debt should be used only to help fund needed projects in a capital plan.

2. **Elected officials.** If elected officials can tell your story for you when their constituents start asking questions, your agency will be ahead of the game. Strong legislative ties are invaluable to safeguarding tolls' longevity.

As the initial bonds are retired, agencies should be ready with an effective, proactive communications plan that educates elected officials and customers about how tolls will be used *after* the debt is paid.

Tolling offers near- and long-term benefits

Tolling is becoming more commonplace — not only for its capacity to deliver large, near-term transportation infrastructure projects that keep our country moving, but for its long-term stamina. Leveraging tolls in the 21st century means seeing this user-based revenue for what it truly is — a financing power tool that continues to produce long after initial construction and the initial debt has been paid.

Resources

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