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Leveraging tolls as long-term revenue engines

The full value of user-based financing isn't realized until long after construction is complete and the initial debt has been paid.

WHITE PAPER | JUNE 2017

In many states, tolls are the preferred method for delivering large transportation infrastructure projects, whether they are publicly financed or public-private partnerships. And, as many owners are discovering, tolls also can be sources of long-term revenue, funding decades of maintenance and operations, system improvements and other critical transportation projects in growing metro areas.

In this white paper:

- Crisis calls for mix of funding solutions
- Why tolls remain relevant long after the initial construction is financed
- How to ensure tolling for the long-term

Voters, officials want the system fixed
The 2017 Infrastructure Report Card from the American Society of Civil Engineers gives the country's roads a D grade and its bridges a C+. A recent HNTB America THINKS poll shows Americans realize the declining state of transportation infrastructure has far-reaching effects. They want better roadways:

- 92 percent think it's very or extremely important to maintain highways and bridges, improve traffic safety and reduce congestion.
- 85 percent believe congestion contributes to traffic deaths.
- 61 percent see congestion relief and safety as top priorities in surface transportation.
- Only 35 percent consider their local highways and bridges very or extremely safe.

Elected officials, too, indicate they favor an overhaul. Both the White House and Senate Democrats have unveiled proposals to increase infrastructure spending by $1 trillion over the next 10 years.

Tolling is a solution for 35 states
To fix the looming crisis, America needs a mix of funding solutions that work. One of those solutions is tolling. Americans take 16 million trips a day on toll facilities in 35 states and Puerto Rico, according to the International Bridge, Tunnel and Turnpike Association.

Many of those states, uncertain about any future increase in federal funding for highways, are instituting more aggressing tolling projects and programs:

- There are 37 operating priced managed lanes in 16 congested U.S. metropolitan areas, with another 30 projects scheduled to open in the next 10 years.
- **Florida, Texas** and **Virginia** evaluate all new projects as tolled.
- **Wisconsin** recently completed a study of tolling its interstate corridors.
- **Virginia** recently launched a toll relief program for lower-income users, which may help the industry address equity issues.
- **Connecticut** removed tolls from its turnpike in 1985 and now is considering reinstating them to clear a stubborn transportation budget shortfall.
- **Rhode Island** took the bold step in 2016 of passing legislation to toll heavy trucks on 14 bridges to pay for reconstructing those bridges.
- **Maine**, faced with a large volume of out-of-state traffic, opted for a mix of electronic and cash tolling.
- **Oregon** has designed a road-user fee pilot project that offers drivers a choice of pay-by-mile methods for their highway driving in lieu of the state gas tax.

And, most new mega transportation projects — whether public-private partnerships or publicly financed — now have tolling components, including the New NY Bridge (Tappan Zee), Seattle's SR 99 Tunnel, Virginia's Elizabeth River Tunnels and San Francisco's Presidio Parkway.

The White House favors tolls
The Trump Administration has become the second straight White House to call for easing the ban on interstate tolling and giving states maximum flexibility. The White House's position on tolling follows a 12-year trend of federal transportation reauthorizations that continue to relax Washington's grip on user-based financing. Most recently:

- **MAP-21** (2012) allows tolling of newly constructed lanes added to existing toll-free interstate highways and tolling for reconstruction of bridges and tunnels on the interstate system.

- **FAST Act** (2015) Requires the three states participating in the Interstate System Reconstruction and Rehabilitation Toll Pilot Program to demonstrate progress with legislative and environmental approval or lose their slots. Given that mandate, the U.S. Department of Transportation has announced vacancies and will be accepting new applications.

Tolling finances life-cycle costs and other modes
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 **Florida's Turnpike Enterprise**. After extensive study, the state passed 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 were 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.

Some revenue is better than no revenue
A small number of facilities have removed tolls in the past 30 years, but 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 typically politically motivated or made automatically after the initial debt is retired. One argument for eliminating tolls is if the revenue being generated doesn't cover the facility's operating and maintenance expenses, which was the case for Florida's Navarre Bridge in 2004. Still, revenue for operating and maintenance expenses must come from somewhere. Even if toll revenues only partially fund expenses, they still decrease the need to tap into tax funds.

Agencies develop strong rationales for continuing tolls

Below are the common arguments for toll removal and effective counter points. In nearly every instance, a stronger case can be made for keeping tolls than for eliminating them.

"THE BONDS HAVE BEEN RETIRED. IT'S 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.
- If significant toll revenue comes from out-of-state customers, eliminating tolls doesn't make sense. It leaves citizens paying for maintenance of the facility while many 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 much of the toll operations for Georgia's State Road and Tollway Authority. 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.

  Instead, removing tolls has been followed by an increase in traffic volumes and potentially greater congestion.
- There is a physical cost to toll removal. Owners don't simply switch off the system and walk away.

"I PROMISED VOTERS I WOULD REMOVE TOLLS."

- 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 multiple-asset, 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 relocated its regional headquarters to Richardson, Texas, at the intersection of President George Bush Turnpike and Plano Road.

  – Toyota's North American headquarters moved 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 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 and maintained 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 with two important audiences:

1. **Customers.** Messages of increased safety, higher maintenance standards, funding for new capacity and other enhancements make a compelling 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 means seeing this user-based revenue for what it truly is — a financing power tool that continues to produce long after initial construction is complete and the initial debt has been paid.

Resources

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