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Tolling U.S. roadways: A real option for DOTs

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Many state DOTs, never having considered tolling roadways before, now have little or no choice but to incorporate the user-financed option into their system management plans. This white paper outlines 10 keys to successful implementation of a toll program.

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The day the funding died

At a congressional oversight hearing on July 27, 2010, U.S. Rep. John L. Mica, the Transportation and Infrastructure Committee Republican leader, declared dead a federal gas tax increase to fund a long-term transportation bill. Although the announcement brought closure, it didn't come as news to state departments of transportation. They had seen the signs, preparing for the worst while hoping for a more helpful result.

Most do not expect the next Congress to accept borrowing to support the Highway Trust Fund. That means DOTs could face a 50 percent decline in federal support in highway funds and a 30 percent reduction in transit funding by October 2011.

Self-reliant DOTs

With the gas tax in decline, primarily due to higher fuel efficiency and a growing fleet of alternative fuel vehicles and co-opted by raids on their road funds, many state DOTs now are looking at how to solve their own problems with little expectation that Washington will be part of the solution.

HNTB believes the shift toward self-reliance points to a new, 21st century delivery model dependent on direct user fees. In fact, there appears to be more interest in tolling now than in the past 30 years, Washington included.

Speaking to a transportation conference hosted by Bradley University and Caterpillar Inc. in April 2010, U.S. Transportation Secretary Ray LaHood noted the Federal Highway Trust Fund has run out of money and that tolling and public private partnerships are the wave of the future.¹ This idea continues a theme from the previous administration.

Interest in user fees seems to be growing as an increasing number of Americans also support tolling. Given a choice between a) new roads funded by an

increased gas tax, b) by new tolls or c) no new roads at all, 41 percent of Americans who responded to a 2010 HNTB America THINKS survey prefer tolls. A strong majority of respondents (84 percent) said they think tolls should be considered project-by-project or as a primary source of transportation revenue.

The sticking point

Current legislation is moving in the opposite direction of need and public opinion. As it stands, the Surface Transportation Authorization Act of 2009 would tighten restrictions on tolling interstates and add new restrictions to the entire Federal-aid highway system.

Further, due to the tremendous interest in tolling, HNTB predicts a battle royal over the available slots in the Federal Highway Administration's Interstate System Reconstruction and Rehabilitation Pilot Program. The program allows up to three existing interstate facilities to be tolled to fund needed reconstruction or rehabilitation. Two of those slots tentatively are reserved by Missouri's Interstate 70 and Virginia's Interstate 81.

However, Missouri doesn't have state authority to implement interstate tolling, and Virginia has indicated it may pull its request for I-81 and reapply for I-95. That means all three spaces could be up for grabs.

A strong tolling arm

If pressure from the surface transportation industry and the public should force Congress to loosen proposed legislation and expand the use of tolling interstates – either for existing facilities, new capacity or both – cash-strapped DOTs interested in establishing a toll program will need guidance.

To help DOTs understand the types of changes that may lie ahead, HNTB offers 10 keys to successfully implementing a strong tolling arm:

1. **Conduct a three-point assessment.** DOTs with the right strategic vision and values are completely capable of operating toll agencies. Experts in the private sector will argue otherwise, citing three things they can deliver that state DOTs cannot:
 - **The ability to raise tolls predictably.** To have a successful tolling arm, the public sector has to have the political wherewithal to adjust toll rates regularly.
 - **The ability to amortize debt over a longer period.** Generally, 30 to 40 years is the limit to recovering debt, but some private organizations say they can

amortize their debt over 75 years. If the public sector can amortize over the same length of time, they can level the playing field.

- **Low labor costs.** Often, the public sector is saddled with onerous agreements that cause exorbitant labor costs, whereas “lighter” private entities can operate without such legacy costs.

But if a DOT can meet those three prerequisites, it can be every bit as nimble and focused as the private sector. The public sector isn’t always going to be the best option. Whether a state goes the public route or the private route depends largely on the specific objectives of the individual DOT. And, every DOT is different.

2. **Establish a statewide strategic vision.** Tolling works best when it is incorporated as part of a statewide strategic vision that has buy-in from the state legislature, the governor’s office and those affected by the new division.

To establish such a vision, DOTs have to ask themselves some provocative questions: Why does our organization exist? What does success look like for us? How does tolling fit with our mission? Without answers to those “compass” questions, it is difficult to manage a parent organization let alone a new, statewide toll program.

Adding a tolling arm is much simpler and will work better internally and for customers if DOTs understand *why* they are doing it.

3. **Learn by example.** Consult other state DOTs with established programs. Best business practices by independent toll agencies and private sector toll facilities can be invaluable input for a program under consideration or in early stages of development.
4. **Focus on the customer.** A tolling entity knows who its customers are, what they want and has the opportunity to provide it to them. Toll organizations sell value in the form of safety, service and convenience for X cents a mile. And, toll customers pay directly for that value.
5. **Be performance-minded.** Meeting commitments to bondholders regarding putting a toll project in revenue service by a certain date, at a certain cost, is a must.

6. **Stress fiscal connectivity before physical connectivity.** Florida’s DOT faced this issue when selling its tolling program in the 1990s. State legislators had a difficult time envisioning a statewide system where the projects didn’t touch each other. What they learned is that it is more important for projects to connect to a toll system trust fund, than it is for them to connect physically.
7. **Think total impact.** If DOTs are going to operate tolling arms, they need to become system-centric organizations, not project-based organizations. That means asking fundamental questions, such as: How will the improvements we make to corridor A affect corridor B? Will those improvements enhance overall system mobility or just that stretch of highway? The key is always to work for the system’s greater good.
8. **Do it for the right reasons.** Certainly, revenue is a key building block, but a tolling system’s primary purpose should be to promote mobility through projects that are locally supported, environmentally sound and economically feasible.
9. **Take the lead.** A national survey sponsored by the American Association of State Highway Transportation Officials shows state DOTs are the most trusted voice in transportation – more than Congress, the U.S. Department of Transportation, governors or state legislatures.
10. **Encourage coalitions and partnerships.** While it is up to each DOT to take a leadership position from a statewide perspective, it should seek collaboration and input from other public and private sector toll agencies to meet the state’s transportation needs. Doing so will certainly help lead to a seamless system of user-financed facilities.

DOTs can use their inherent credibility and take the lead in delivering mobility through statewide tolling systems.

The right card

Tolling is not a panacea. It is, however, becoming one very real solution to funding and maintaining America’s overburdened and deteriorating roadways. Because it can be used as a tool to address crucial, high-profile problems and generate critically needed revenue, DOTs should add tolling to their transportation funding toolboxes.

¹ *Tolling Points*, the official blog of the IBTTA, posted April 11, 2010.

Additional resources

For more information about tolling consult the following:

American Association of State Highway and Transportation Officials

www.transportation.org

American Road and Transportation Builders Association

www.artba.org

Federal Highway Administration

www.fhwa.dot.gov

International Bridge, Tunnel and Turnpike Association

www.ibtta.org

U.S. Department of Transportation

www.dot.gov

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