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Maximizing non-toll revenue

Getting creative and improving bottom-line best practices to identify and generate alternative revenue for toll agencies

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IDEAS INNOVATION

Getting the most out of alternative revenue

Unlike much of the U.S. transportation sector, toll agencies receive little or no public funding. Like a for-profit business, they are dependent on their customers.

True businesses can raise their fees or rates when costs rise or a challenging economy alters their fundamental financial situation. And between 2008 and 2010, 35 toll agencies in the United States have raised their rates. Yet such changes can be difficult for toll authorities to implement and carry huge political risks, since consumers — many of whom are unaware of the lack of government support — see the authorities as public utilities.

It's critically important for toll authorities to demonstrate they are doing everything possible to improve the bottom line to ensure they have credibility when rate hikes are needed. In addition, bond agencies look favorably on such efforts when additional bond revenues are sought.

So beyond simple toll increases, what else can be done? And what options demonstrate professionalism and a proper focus on the customer?

Starting with a proven strength: service plazas
Traditionally, the majority of most agencies' non-tolled revenue has come from service plazas, islands of retail, restaurants and gas stations along turnpikes and tollways that allow motorists to rest, refuel and revive without leaving the facility and incurring a higher toll. Often operated by a private contractor, the authority then receives a percentage of revenues generated that are then used to maintain, construct and rehabilitate the plazas and for other needs of the toll facilities.

While state departments of transportation are prohibited by federal law from allowing private businesses to operate at rest areas along Interstate highways constructed after Dec. 31, 1959, many tolled portions of the Interstate Highway System were constructed before then without federal dollars. Other toll facilities, such as the Florida Turnpike, have never been integrated into the federal system.

Such service plazas have evolved since that time. New and renovated facilities often include expanded food and franchised restaurant choices, game arcades and community meeting rooms, and ATM and banking facilities, all of which provide shared revenue opportunities. Many authorities also have expanded promotional opportunities at their plazas, from coupons printed on the back of receipts and "Welcome Center" style displays, to back-lit signs, advertorial displays and paid placements on dedicated "Turnpike TV" displays. The Ohio Turnpike Commission generated more than $13.6 million in concession-related revenues in 2009.

Efforts to increase sustainability through recycling or generating power through solar panels and wind turbines also can turn a profit. For example, after Florida's Turnpike Enterprise purchased generators primarily for use during power outages due to hurricanes, the agency also realized it could use them during brownouts to sell excess power back to local municipalities as a credit.

Leveraging surplus property and permitting
Leasing easements for cell phone towers and fiber optic cable lines have proven profitable for many major toll authorities, allowing them to generate revenue as well as benefit operationally from the infrastructure. Such property arrangement also might include mineral rights, gas wells, alternative energy projects, facility use permits and access rights to other kinds of infrastructure, such as closed-circuit television systems.

On a related note, evaluating the collection of assorted fees related to operations shouldn't be overlooked. This can include parking and special use fees, as well as escort, impoundment and towing charges.

Establishing appropriate guidelines for sponsorships
The key to successfully increasing non-toll revenue — traditional and nontraditional forms — is by collecting funds in an appropriate and nonintrusive manner and then reinvesting them in the facility to serve the customer. This perhaps is best illustrated by the potential use and abuse of expanded forms of advertising and sponsorships.

It's easy to undervalue the positive exposure an agency can provide sponsors and advertisers. Granting them access to toll customers can take many forms, including traditional and familiar techniques such as logo signage on the roadways, map advertisements, web site ads and posters on toll booths, as well as more creative methods, including toll holiday sponsorships, park-and-ride lot sponsorships, advertising on cash toll-lane receipts, dynamic message sign ads, and stickers and wraps on everything from transponders to service patrol trucks assisting disabled vehicles.

On the plus side, why should toll agencies or their customers pay for transponders if a company wants to offset the cost by sponsoring them? Such partnerships can be a slippery slope — leading to a toll facility with logos and special signage everywhere, distracting drivers, detracting from the facility's context-sensitive identity, or worse, sending the unintended message that squeezing every dollar out of the infrastructure matters more than serving customers.

Each agency must weigh sponsorship opportunities — as well as other alternative revenue opportunities — against real-world constraints, including regulatory, policy and cost factors, that will automatically rule out some concepts. Compatibility with an organization's image and operating philosophy is critical.

A good rule of thumb is to establish rules for evaluating initiatives against how well they can measurably:

- Enhance safety and/or service to customers
- Improve the bottom line

One excellent example is Florida's Turnpike Enterprise Road Rangers program, which is sponsored by State Farm Insurance. For more than a decade, the Road Rangers have provided free highway assistance services during incidents to reduce delays and improve safety for responders as well as the motoring public. State Farm's sponsorship — which primarily involved repainting the vehicles to include the insurance company's logo — allowed a once struggling program to continue and expand. The funds generated are exclusively used to support the program and provide worthwhile transportation-related services to customers.

Expanding tag usage, technology's benefits
The growing prevalence of transponders, as the industry continues its transition to electronic toll collection and its more recent move toward all-electronic tolling, provides a variety of shared revenue opportunities. Typically these take the form of parking arrangements, but tests also have been done with food service partners, such as McDonald's restaurants on Long Island, New York.

For example, the E-ZPass Plus program is available for users who replenish their accounts with a major credit card. They have the option to use their transponder to pay for parking at the three airports run by the Port Authority of New York and New Jersey (John F. Kennedy International Airport, LaGuardia Airport and Newark Liberty International Airport) as well as several other regional airports, parking garages and the parking lots at the New York State Fair when it is in progress.

Airport parking customers benefit by saving an average of 15 seconds by opting to pay by E-ZPass. If the fee is less than $20, the payment is debited from their prepaid account, if it's more, the amount is charged directly to their credit card.

Such programs are easily scalable to similar parking environments, such as theme parks. They also provide built-in opportunities to increase tag participation and generate additional fees.

Likewise, the expansion of electronic toll collection technology provides opportunities to collect fees from rental car customers that might otherwise be lost. Processing transactions and printed account statement fees can serve as additional sources of revenue.

Sharing development costs
Infrastructure development impacts the larger community as well as those who use the facility. When toll agencies develop new roadways, as well as maintain or expand existing infrastructure, opportunities for economic development expand as well, from new housing and commercial developments to sprawling corporate campuses.

Some toll authorities, such as the Illinois Tollway, are encouraging those who directly benefit from such improvements to share up to 50 percent of the cost.

Introduced in 2007, the Illinois Tollway's interchange cost sharing policy has included funding support from individual communities, developers and corporations. Nonprofits, such as the Morton Arboretum, also have partnered on interchange projects, leveraging context sensitive design in beautification efforts that incorporate the organization's image into the facility.

The Tollway also has engaged in environmental impact and sustainability research partnerships with local universities and engineering laboratories. Overall, such nontraditional revenue efforts have brought the Tollway $42 million in the past 15 years and allowed them to leverage $100 million in non-tollway funds since 2007.

Operating partnerships
Since toll agencies have the technology and expertise in payment processing, the expansion of parking services in concert with transit agencies also could provide new revenue sources. Much like the aviation and event parking agreements mentioned earlier, these could include fees collected through ETC readers as well as cash. In addition, a toll agency that operates a facility near a sports stadium or speedway could arrange for the operator to underwrite the temporary suspension of tolls for event-related traffic. This type of partnership would improve traffic flow, revenue and goodwill for both the agency and the event sponsor. Such partnerships also can include intellectual properties, including software, which could be created for a toll facility and then sold by the developer to other customers through a cooperative, mutually beneficial arrangement.

Cost cutting: the other side of the alternative revenue coin

Particularly in tough economic times, it's important to look at ways to reduce and streamline operational costs as well as identifying additional sources of revenue.

It may be as simple as improving back-office efficiencies — transitioning some customer notifications to e-mail and text messaging versus live phone calls — or using technology to conduct virtual rather than real-world public meetings. (Oftentimes such online events draw more participation and input at a fraction of the cost.)

The transition to electronic tolling should have an impact on the cost side of operations. For example, having lessened the need for and volume of manual collections, staffing can be reduced. While this can be a difficult decision — particularly given the long tenure of some front-line employees — agencies can explore voluntary separation incentive plans. The Ohio Turnpike recently instituted such a plan, which included a variety of payment levels based on full- or part-time employee status and years of service. The turnpike recovered its costs in just over 6 months and continued annual savings of $4.68 million.

Agencies also should consider reevaluating and renegotiating contracts and service agreements. Prior to 2010, Florida's Turnpike Enterprise was paying Wachovia Bank 42 cents per transaction when SunPass accountholders replenished their accounts off-system. By adopting a new method, the turnpike's cost per transaction dropped to 15.7 cents in 2010 and reduced payments to Wachovia to zero.

Depending on market conditions, debt refinancing may also be an option, potentially saving millions of dollars on an annual basis.

Conclusion

Agencies' approach to cost cutting as well as alternative revenue will vary depending on the organization's culture, operating philosophy and the regulatory and political environment. Yet all organizations should evaluate both current practices and potential tactics through the lens of putting customers first. Research has shown this approach generates support — not just acceptance — from governance boards and toll facility users alike.

Additional resources

For more information about alternative revenue strategies in the toll industry, consult the following:

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