

MEMO

To: Abbie Goodman
From: Dennis Coffey
Subject: Tolls as a revenue source for transportation investment in Mass. (and N.E.)
Date: April 5, 2016

Purpose: develop key points about how tolls may benefit state investment in transportation system.

Topics:

- A. Generation of toll revenue.
- B. Fast Act Opportunities.
- C. National data.
- D. Regional cooperation.
- E. Framework for including toll data in ACEC fact sheet for Eng. & Land Surveyors Day at the State House.

A. Toll revenue is collected by 121 public toll entities in the US, including 17 state departments of transportation. This revenue is dedicated to a specific purpose as stipulated by statute or charter and toll bond covenants. The primary objective of tolling is to provide a user fee based revenue stream that can support ongoing maintenance and rehabilitation in a sustainable manner. Toll revenues can be utilized to support construction of new roads or be used to expand or reconstruct a single road or system of roads. Toll revenues can also be leveraged through a financing that advances future revenues to contribute upfront financing proceeds towards construction of new capital projects.

When a toll facility issues debt, the flow of funds as defined in the bond documents dictates the use and priority of toll revenues.

Typically such bond covenants establish priorities for the use of the toll revenue:

- First in line is operations and maintenance and renewal and replacement of the tolled facility.
- Second in line is debt service – funds required to repay the debt.
- Remaining revenues can be used to fund reserve accounts, capital improvements or any legal purpose.¹

The amount of toll debt that a toll facility can support is dependent upon many factors, but the coverage ratio and the market interest rates are two major factors. The tolling authority adopts a finance or fiscal policy that establishes a coverage ratio – that is the annual revenue divided by the annual debt service. Most US tolling agencies establish a 1.5x to a 2.0x ratio.

A ratio of 2.0x means tolls must produce \$2.00 of revenue for every \$1.00 of debt service. Thus, if revenue were to drop by as much as 50% the agency would still be able to meet its debt service obligation.

Toll revenue enables leveraging for capital development of transportation infrastructure and to fund its lifecycle costs.

B. Fast Act Opportunities.

¹ For example, the New York Metropolitan Transportation Authority uses toll revenue from its tunnels and bridges to support its subway system.

Despite trends indicating a reduction of vehicle miles traveled (“VMT”) across the US, recent data from the US DOT shows that Americans increased automobile travel by 3.3% from 2014 to 2015. And, the year 2015 was a record breaking year for US toll facilities, with drivers’ use of tolled facilities increasing by 7% over 2014.²

The FAST Act Section 6020 allows state DOT’s to field test alternative user-based revenue tools, recognizing that the federal gas tax is failing to provide adequate and sustainable revenue required to maintain and enhance the surface transportation network in the US. The FAST Act invites states to submit applications for pilot programs to test and evaluate two or more alternative revenue raising strategies to replace the gas tax. In New England this could provide the incentive for several states to collaborate in an evaluation of mileage based user fees and/or congestion pricing among other potential strategies.

The FAST Act in Section 1105 also established the Nationally Significant Freight and Highway Projects program that enables states or groups of states to improve safety, efficiency and reliability of the movement of both goods and people while generating national and/or regional economic benefits and competitiveness. Since New England is some 90% dependent on trucks for goods movement a regional collaboration to address highway congestion and maintenance would have significant benefits.

The Interstate System Reconstruction and Rehabilitation Pilot Program (ISRRPP) was created by TEA-21 and allowed tolls to be implemented on three reconstructed interstate facilities. Each of the three facilities must be in different states. There is no special funding authorized for the program. As of January 2014, all three of the slots authorized for this program are conditionally reserved for North Carolina (I95 - 2012), Virginia (I95 - 2011) and Missouri (I70 - 2005). Since receiving conditional reservation, these states have not moved forward to implementation under the program. The FAST Act made changes to the program including new requirements for states holding existing slots. These new changes include:

- States awarded approval to toll existing portions of the Interstate Highway System as part of 1998 pilot program must move forward within one-year, including submittal of a final application, completing the NEPA process and executing a toll agreement with US DOT.
- A state may request a one-year extension if it is making substantial progress.
- States that receive new, provisional approval under this pilot program will have three years to complete those requirements or request a one-year extension.

C. National Data.

- Nationally, annual toll revenue has doubled in the past decade to \$13B per year.
- Total mileage on tolled highways has increased by 11% in the past ten years.
- Public Private Partnerships (P3) usually rely on tolling – some 80% of P3 projects since 2007 have a tolling component.

² IBBTA *National Toll Facilities Usage Analysis*, based on a sample of 31 toll facilities throughout the US, comparing 2015 to 2014.

- The Interstate highway system will cost nearly \$2.5 trillion to rebuild over the next 50 years; with declining federal dollars, the states will have to pay more than \$1.8 trillion, nearly three-fourths of the total investment.
- At 18.4 cents per gallon, the federal gas tax was last raised in 1993. Since then, it has lost nearly 40 percent of its purchasing power. The gas tax would need to be raised to nearly 30 cents per gallon to give it the purchasing power it had in 1993.
- 35 US states have tolled facilities including over 6,000 miles of roadway.
- Electronic tolling enhances safety and convenience – resulting in reduced congestion and air pollution.
- Fatality rates on tolled roadways are about 1/3rd that of all US roads.

D. Regional cooperation

State departments of transportation in New England are collaborating on several fronts, including an enforcement reciprocity agreement by Massachusetts, New Hampshire and Maine as a means to enforce toll violator statutes across state lines – a model for the rest of the country. State DOT's are also working together to address planning for freight movements through the region. The upcoming NAASTO meeting in Quebec may include efforts to further collaborate on tolling and data collection.

E. Suggested items for Transportation Infrastructure Fact Sheet for May 10th Day at the State House.

1. Tolling is an equitable means of collecting revenue to support needed transportation investments. However, tolling is not a “silver bullet”, but rather one of the tools available to meet the costs of necessary investments in transportation.
2. Technological improvements such as all electronic tolling collection have made the collection of tolls cheaper and eliminating cash collection at booths has reduced congestion and emissions while improving safety.
3. There are no free roads. There are only toll roads and tax supported roads. A toll is a user fee, similar to a utility bill, not a tax. You only pay for a toll road when you use it. Every road needs maintenance and reconstruction, and that costs money. No road is ever fully paid for. A road, just like your home, requires ongoing upkeep and maintenance. Tolls provide a sustainable source of revenue for ongoing road maintenance and improvement.
4. Public investment (from general revenue) is still an essential component for the development, maintenance and enhancement of our public transportation network of roadways, bridges, tunnels, ports and waterways and transit networks.
5. Tolling enables congestion relief strategies that improve travel time, reduce pollution and increase safety.