U.S. Interstate Tolling Merited but Warrants Caution

Comment

Tolling Viable: In recent months, there has been a reinvigorated discussion in the U.S. on the merits of tolling as a way to ensure essential road maintenance and asset renewal funding. In Fitch Ratings' view, tolling could be a viable and meaningful component of any plan to close the highway and local road and bridge funding deficit, which is increasingly a widening chasm that is a significant risk to the U.S. economy.

Needs Fairness: For any plan to be successful that broadly widens the use of tolling, it will need to be perceived as fair. Importantly, it will need to disabuse the general public of its perception of double taxation. Without this, the plan's success would be threatened as widespread public opposition would be adverse to the financial stability of the framework. In particular, any debt that is issued to support ongoing investment will be dependent on a reliable and predictable toll rate-setting framework.

Roads Need to Be Paid for: The unwillingness to be upfront about the true cost of roads for decades created this infrastructure investment cliff that the U.S. faces. It has resulted in unrealistic expectations about the real cost and the obligation of the public to pay for it. Kicking the can further down the road comes with some peril. Leaders need to own up to this reality and propose realistic options that will likely include taxes and user fees.

Considerable System Strength: The more than 47,000 miles of U.S. interstate and 17,000 miles of other limited access highways represent 1.6% of the national roadway network and carries 33% of total vehicle miles traveled, according to the U.S. Department of Transportation's *Highway Statistics 2014*. For most medium- to long-distance commuting, travel and freight delivery trips, this is usually the only efficient road-based option.

In Fitch's view, the history of tolling in the U.S. provides considerable evidence that there is a high ability to implement low to moderate toll rates, depending on the segment, without meaningful long-term diversion risk. Establishing a framework that limits external transfers and directly links user-cost to prudent long-term interstate asset stewardship would be a very positive factor in ensuring the system remains reliable and maintains its economic strength.

Current Framework Fosters Distrust: The current tolling framework across the U.S. seems to have no sustainable, policy-based rationale to the average citizen as to why some highways are tolled and some are not. Whether one pays tolls and a variety of taxes for transportation purposes is an accident of where one lives. Certain states have a surfeit of both, while many do not charge tolls and have lower average tax bills.

There are cross-subsidies, some with a sound basis, but mostly there is little transparency to the citizen. It is important to note that existing toll facilities are better maintained than the untolled sections of the network, and the subsidies received, if any, are limited, but this is not evident to the user. When cost and value are disconnected, and one is paying tolls and taxes, it underscores the view of double-taxation whether fully justified or not.

Demonstrating Value for Money: Most importantly, implementing a new framework will be an opportunity to create transparency across the various enterprise options by establishing consistent operating, management and performance standards, and tracking key performance indicators across both public and private operators that foster confidence in the system. Public confidence is critical to long-term policy and financial and credit stability.

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Myriad Factors to Consider

There are many considerations — economic, social and political — for such a program to be successful. These are a few that are material in Fitch's view:

- Tolling all of the interstates, and possibly limited access highways, in a reasonable manner will be a step towards achieving fairness.
- Higher cost roadway segments, such as bridges and tunnels (on the interstate system and state road system), that are currently untolled may warrant consideration for tolling, and for higher toll rates than the rest of the system to reflect their cost to maintain and renew.
- There may be compelling reasons to make exceptions. The exceptions would need to be limited and the basis would need to be clear.
- As the U.S. transitions away from the gas tax, there will be the opportunity to use policy and technology tools to pursue a variety of options, including dedicated tolls by facility, broader road user charges and taxes, and targeted credits or rebates to offset clear inequities. This could be another important step towards addressing the perception of double taxation.
- The economic strength will vary widely by segment and so will the cost to upgrade and maintain. Regional economic conditions, population densities, socioeconomic trends, network connections and competitive routes will affect the revenue generating ability of roadway sections. In addition, the cost of asset maintenance and renewal will vary meaningfully depending on the current condition and the terrain. Some assets will be able to generate a surplus while others will need subsidies to be viable. Any cross-subsidy will need to have a clear nexus to justify value to the user.
- Tolling has its financial and asset preservation benefits.
- Tolling will require capital investment for revenue collection and enforcement, but in most instances, this cost will be a smaller share of revenue providing meaningful surpluses to support investment.
- The enhancements in toll collection technology permits the elimination of traditional toll plazas and related costs through the use of all electronic tolling, which can be installed and operated with little adverse travel implications. Evolving equipment, technology, laws and policies are also lowering the risk of uncollectable revenues.
- Tolling the highway system will have secondary impacts on connecting roads and other network routes that will need to be considered. In many instances, even lower levels of diversion will have a meaningful impact on the network. These impacts will need to evaluated and largely mitigated.
- Once implemented, tolls can be adjusted with inflation with minimal adverse economic or political implications (provided the system is well-operated and well-maintained) to keep revenues growing to support future needs.
- Opposition will be considerable and careful implementation will be critical. Individual state by state implementation will remain an economic and political challenge, as it has historically. Broader, regional implementation may help mitigate both risks in any individual state, especially by eliminating the "first-mover disadvantage."
- Tolling across the highway will need to be equitable so that some users do not bear an inordinate share of the cost. Tolling only at state lines, for example, will have adverse implications for travel and the perception of fairness.
- Trucks are large users of the interstate system. They carry a significant amount of weight and do exponentially more damage to the road than cars. Toll policies to-date resulted in cars effectively subsidizing trucks and significantly when it comes to large trucks. Policies that balance the conflicting objectives of ensuring that consumers pay a fair share of the cost of transport against socializing the cost to facilitate an efficient delivery system are

important to implement. Freight delivery is important to the workings of the economy so some cross-subsidy is reasonable.

- The transition to autonomous vehicles, especially trucks, will alter the economics and politics of transport. This will require forward thinking on the types of investments needed to ensure safety and reliability. Similarly, policy makers will need forward thinking to carefully balance the cost of the road system directly borne by shippers.
- The operating and investment needs of the entire system will create pressure to have higher toll rates on many interstates that can bear those rates. Managing these pressures so that interstate users do not bear an inordinate burden of the entire roadway systems' costs will be critical to the sustainability of any effort to implement a viable interstate tolling program. High toll rates will exacerbate adverse network impacts and deter travel with negative underlying economic growth implications.
- A new endeavor such as this will provide an opportunity for competition using both public and private management options. Despite the cynicism, there is a record of well-run public sector assets, as well as the potential to garner the innovation and efficiency offered by public-private partnerships, both of which can serve the public interest.