Tolling and State DOTs: Embracing a New Business Model

By Daniel Faust

"The customer is always right." Although that mantra has guided successful private enterprise for centuries, the principle has not generally penetrated the walls of government—with tolling authorities being a notable exception. Considering the funding crisis that currently besets our national transportation infrastructure, it's time to apply that age-old tenet and its associated methods to another arena to solve an old but growing problem. It's time to use the tolling business model to help transportation agencies make up for maintenance and capital-improvement funding shortfalls.

"States faced with insufficient federal funds, creaky infrastructure, and interstate highways that look like parking lots are turning to alternative revenue sources to fund transportation projects. And tolling, with its industry-transforming technology, is fast becoming the option of choice," explains IBTTA executive director Patrick Jones in the summer 2006 issue of *Transportation Point* (see "The Road to Revenue," page 2). "Today, 33 states have tollway systems, totaling more than 5,000 miles and $7 billion in annual revenues. That's an enormous shift in acceptance from just 20 years ago…the toll industry has come a long way from the days of being considered a nuisance. It has become a viable solution to cash-strapped states."

For transportation agencies in desperate search of funding, tolling presents an obvious and proven solution. For decades, tolls have been supplying vital revenue streams to support the design and construction of major public works. And along the way, tolls—and the authorities that collect them—have advanced an effective and efficient business model for the transportation industry. But agencies accustomed to regulatory and bureaucratic processes must adopt a new approach when instituting tolling. Rather than measuring success based on the needs of the process, in pursuing tolling, state departments of transportation (DOTs) must let the consumer dictate the course.

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Market-Driven and Customer-Focused

What makes toll authorities so special? Throughout their history, toll authorities have differed from traditional transportation agencies largely for one simple reason—they are market-driven, with accountability to a specific customer

base that must be satisfied with the service provided. Because toll agencies rely almost exclusively on tolls to repay funding bonds, they must reliably deliver a high-quality product. If they don't, they lose customers. And if there are no customers, there are no tolls. It's that simple. So, toll agencies must be customer-focused. And that engenders a corporate culture that must align itself with the needs of the customer.

Because toll agencies must satisfy their customers, the projects they build must be highly desirable "lifeline" facilities that people actually want and need. Facilities on a grand scale—such as the George Washington Bridge and the Pennsylvania Turnpike—serve as critical arteries that cannot be severed. Tolling and the toll agency business culture have proven to be the most efficient mechanisms for building and maintaining this critical infrastructure.

Lifeline Projects

Toll projects by definition are lifeline projects. Without evidence of consid-

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erable long-term demand, agencies can't obtain the funding necessary to build such projects. Financial markets provide bonds because they believe their investment will pay off, and they demand that funds be appropriated in a manner consistent with this goal. In fact, underwriters' requirements are detailed in the financial agreements. But the commitment to designing and constructing important facilities doesn't end there.

Customers demand value—the notion that the service provided is appropriately priced. And they demand reliability—the assurance that a consistent level of service will be there every day, year after year. These demands require toll agencies to adopt a results-driven culture focused on asset management.

The Role of Asset Management and Staff

Toll authorities understand that asset management—guided by customer needs and the market forces that provide financing—is essential to ensure that their facilities are sound, safe, and efficient from the customer's perspective. It doesn't hurt if the facilities also offer state-of-the-art amenities. To keep pace with demand, toll authorities must constantly maintain and improve their facilities or risk losing toll revenue from their customers. Driven by these market forces, toll agencies have been persistent leaders in innovation and cost efficiency. Witness the creation and implementation of electronic and open-road tolling, HOT lanes, and one-way tolling, for example.

This focus on service leads to another key difference between toll authorities and traditional government entities: the presence of on-site toll agency staff. Whether it's the Golden Gate Bridge, the Holland Tunnel, or the Benjamin Franklin Bridge, toll facilities across the country are home to dedicated people whose job it is to operate and maintain the facilities. These on-site professionals pride themselves on the condition and safety of, and level of service provided at, their facilities—a level of focused customer service not found within the halls of traditional departments of transportation, whose primary mission has been the building of our Interstate Highway System.

Accountability

Finally, toll agencies have built-in accountability through board governance. Usually overseen by a board of commissioners, toll agency staff are required to report directly on all spending and business activity. This ongoing, direct oversight ensures accountability—unlike many other governmental entities, which are usually guided by a remote political leadership and not driven directly by the realities of the marketplace.

But the attributes that make toll agencies effective aren't confined to toll authorities alone. The characteristics that define such entities can, in whole or in part, be successfully exported to other governmental agencies. And therein lies at least part of the answer to current funding constraints in the transportation field. The toll industry's results-driven approach could prove particularly beneficial if applied to state DOTs to finance and maintain both tolled and nontolled facilities.

Interstate System Legacy

In large part, state DOTs were modeled after the U.S. Department of Transportation (USDOT) and the Federal Highway Administration (FHWA). At the time of their formation in the 1950s, this made perfect sense, as DOTs, the USDOT, and the FHWA were partners in building the Interstate Highway System, one of the greatest public infrastructure projects in history. As a result, organizationally and in terms of business culture, DOTs largely mirrored the federal model. But two major factors have changed in the past half century—the interstate system is virtually complete, and much of this system has deteriorated due to lack of maintenance. So, state entities that were formed with largely one purpose in mind now must rethink their focus and mission. This is no small task, and it is one with which the federal government wrestles as well.

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Today, the federal government is struggling to define its ongoing role in the building and maintenance of our transportation system. As evidenced by the recent release of the National Surface Transportation Policy and Revenue Study Commission's report to Congress (see "National Transportation Policy Commission Sees Major Role for Tolling and Pricing," on page 3 of this issue of *Tollways*), there is still no easy consensus about the appropriate role

of the federal government in funding our highway infrastructure. With the completion of the Interstate Highway System nearly realized, what comes next? What will be the next grand vision? Will the USDOT call the shots? Or will state and local governments lead the way? And where does that leave the legacy highway agencies and DOTs?

The Changing Culture of State DOTs

In response to these questions, state DOTs have begun to shift their focus from “lane-miles paved” or “total letting dollars” to facility operations by emphasizing mobility and technology, an approach that has served the toll industry well for decades. By measuring key operational and customer-focused outcomes such as reduced travel time and the delivery of reliable incident-management services, DOTs are recognizing the benefits of asset management—the idea that money can be better spent improving and upgrading existing infrastructure and satisfying customers in the process—rather than succumbing to external political pressure to fund projects that may not represent the best value for the customer.

While the cultural change in state DOTs has begun, it is by no means complete. State DOTs face substantial political challenges. Rather than answer to a board of governors, often they must please politicians who are coping with issues such as highly vocal constituencies and the rigors of reelection. So, from the outset, state DOTs have a very difficult mandate. Given that mandate and their traditional structure, implementing profound structural change is no walk in the park. However, as detailed below, it is happening.

Since the devastating I-35 bridge collapse in Minnesota in August 2007, bridges and infrastructure have attracted quite a bit of attention. There has been a hue and cry about the lack of funding available for the inspection and retrofitting of aging bridges. An increase in funding alone, however, can't solve this problem. Yes, current transportation funding is tight, but funding is always tight. So the question must be reframed: How is that funding being used? Following the toll industry's example, some state DOTs have begun to answer that question in interesting ways, actually restructuring how they do business.

For example, the Missouri DOT's recent proposal to engage the private sector in the management of more than 800 of its bridges could establish a new standard focused on asset management. This model will demonstrate the value of asset management and will introduce innovation and cost efficiency to a traditional government agency. Over the next 25 years, the private entity will be responsible for replacing and maintaining some of the MODOT's oldest and most worn-out bridges, with funds coming from existing state bridge-replacement appropriations.

In Pennsylvania, the anticipated tolling of I-80 will generate much-needed capital that can be used to improve highways, bridges, and mass transit throughout the state. And these are just two examples among many—consistent with the toll agency model—that are likely to emerge in the very near future.

Spreading the Tolling Business Model

Tolling and toll agencies work. And they have worked for decades. They have helped to provide revenue to repay the funding needed to get important infrastructure built and have provided a model of efficiency for maintaining that infrastructure for generations to come. It's time to take that tolling business model and apply it to transportation agencies across our nation to help fund and realize critical infrastructure improvements.

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"The customer is always right." For transportation agencies coping with crumbling infrastructure, that mantra translates to a simple political and financial reality: Customers must not be sacrificed to vociferous but ultimately peripheral constituencies. By selectively applying the model that has worked successfully in tolling agencies for years—the market-driven, results-oriented model, in which a customer willingly pays for facilities he or she actually wants and uses—a host of government agencies (including state DOTs) could find essential funding to begin to solve our nation's infrastructure crisis.

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