

Background Paper #3

Organizational and Administrative Structures

The first part of this chapter is a national perspective of toll organizational models around the United States, to gain a sense of the pros and cons of these models under various circumstances. The next part considers Washington-specific projects and goals, and leads with documentation of interviews with stakeholders in Washington. This chapter concludes with descriptions of organizational models that would appear suited for application in Washington State.

■ **National Perspective**

This section is intended to provide concise baseline information on the alternative organizational models for toll road implementation, highlighting the financial, operational, and policy-setting functions that must be addressed in developing new tolling entities. The paper also will address the toll organization's relationship to Department of Transportations (DOT) with respect to issues, such as outsourcing, budgeting, administrative responsibilities, and jurisdictional boundaries. The paper draws on and presents the experiences in other states and local jurisdictions in establishing new or enhanced tolling organizations. While the emphasis of the paper is on state-level initiatives, it provides an overview that includes state, local, and private toll organization structures being used in the United States.

Overview of Tolling Practices in the United States

Many state and local governments rely on user tolls as a supplement to motor fuel taxes for funding transportation infrastructure construction and operations. The manner in which tolls are applied reflects historical trends, state and local legislative requirements, and policy priorities within individual states and local jurisdictions. This section provides an overview of the range of state- and local-level approaches currently in use across the United States for tolling highways, bridges, and tunnel facilities. While the examples presented in this section capture significant examples of the practices found throughout the United States, they are not all-inclusive. Moreover, the complexity and variations found among institutional arrangements prevents a total categorization of some organizations into a specific type.

Historical Perspective on Tolling Practices

Throughout the 1930s, states followed the Federal lead in using tolls to finance only very special and high-cost and otherwise very special links, mainly tunnels and bridges. In the 1940s and 1950s, prior to the interstate construction era, many eastern states adopted tolling as a primary means for developing major state “turnpikes,” while western states used gas tax revenues to develop “freeways.” Development of tolled highways stagnated, however, following passage of the 1956 Federal-Aid Highway Act, which began development of the Interstate system supported by Federal gas tax revenues.

Interest in tolling as an alternative mechanism for funding transportation infrastructure reemerged in the 1980s and 1990s as states faced growing budgetary and congestion pressures. This was particularly true in rapidly growing urban and suburban areas. In addition, there exists substantial public pressure not to increase fuel taxes.

Tolled facilities also can support efforts in the area of urban traffic management, as witnessed by the increasing interest in high-occupancy toll (HOT) lanes and variable pricing on bridges. The “managed lanes” concept is intended to provide the optimum level of traffic service to the users, along with providing financial support to payment of the project’s construction and operational expenses. In effect, the level of service of the managed lanes is controlled by the level of toll imposed on the user.

Despite previous limitations on the use of Federal funds to construct and operate tolled highways, state and local jurisdictions have experimented with a broad variety of alternative mechanisms for financing their road networks. Thus, tolling practices vary considerably from state to state. However, with the passage of SAFETEA-LU in 2005, there is continued support for potential tolling of Federal facilities and the integration of Federal funds with toll revenues.

Current Practices

What has been the response to the interest in tolling? The response has taken shape through several actions, including:

- **Legislation** - Adopting policies that promote the use of tolling as a revenue source and traffic management tool, and establishing efficient organizational models for implementing policy directives.
- **Finance** - Expanding finance opportunities for all levels of agencies – Federal, state, regional, and local – to participate in meeting the mobility needs of the users.
- **Technology** - Advancing the use of express toll lanes and open road tolling concepts through an integrated electronic payment system, often with the result of changes in organizational approaches to include additional outsourcing and collaborative

operations plans. However, the issue of governance has not reflected the influence from technology as readily.

- **Risk Sharing** – Creating opportunities for public-private partnerships that promote risk sharing between public and private sector groups most qualified to address various risk factors and deliver transportation systems faster and more efficiently.

A review of practices within the U.S. toll industry identified current trends with regard to how the above responses shape organizational practices. The following subsections highlight these trends.

Organizational Approaches

The U.S. toll industry can be segmented into broad organizational categories as described below.

- **Statewide Turnpike Authorities (Independent and DOT-Sponsored State-Level Organizations)** – Statewide turnpike authorities can be separate entities from the state DOT, as is the case in Pennsylvania, Georgia, and North Carolina; or they can be departments within a state DOT, as in Texas and Florida. Statewide authorities and enterprises can often leverage their revenue stream to provide statewide service. Toll revenues collected in portions of the system with higher use can be utilized to improve or construct new facilities in areas where the early revenues do not meet project-specific debt service requirements.
- **Regional Toll Authorities (Regional- and Local-Level Independent)** – Strong local and regional support for meeting regional needs is the bases for regional toll authorities. These authorities may consist of a single county or entity, several jurisdictions, or a semiautonomous board with specific geographic boundaries. Regional authorities are focused on the regional system and promote projects that benefit the region. Texas, Florida, and Colorado allow regional or local agencies to be developed. In Texas, regional or local toll agencies can be created within a county as in the case of the Harris County Toll Road Authority in the Houston area, or for a region of the State as with the Central Texas Regional Mobility Authority in the Austin area, or as a regional agency outside a county government structure as in the case of the North Texas Toll Authority. Florida also has provisions for local and regional toll road organizational approaches.
- **Public-Private** – The need for additional funding partners has facilitated an acceptance of public-private toll road initiatives in some states. While the model varies by state, the intended result is to involve private sector participation in various forms for the advancement of projects that can be paid for over time by a dedicated revenue stream such as toll collections. The final ownership model also may vary by location and the financial plan submitted by the private partner/developer; however, even privately owned and operated facilities must conform to public standards to ensure the safety of the traveling public. Today, we see public-private partnerships

being pursued with greater acceptance by many states and their long-term potential to be a strong component within a State transportation system appears promising.

The public-private partnership approach may require a change in existing toll organization structure in order to proactively oversee public-private partnership activities. The Virginia Department of Transportation, while not a traditional tolling agency, has created special divisions within the Department to address this need. Likewise, the Texas Department of Transportation has recognized the need for specialized expertise on its “side of the table” when negotiating public-private partnerships. Existing toll-only organizations may not need any changes if adequate expertise exists in the form of internal or outsource staffing.

Examples of Legislation and Organizational Approaches

As examples of the above three broad categories of toll organizational structures, recent legislation has been passed to address the renewed interest in using tolls to finance needed transportation improvements and increase the options available to agencies for the implementation of tolling solutions. Legislative actions involving tolling opportunities also determine the organizational structures to be enacted.

These recent legislative actions have shown the strong interest in establishing state-level tolling agencies as well as local/regional agencies. A summary of selected recent legislative actions include:

- **Colorado** - Established a statewide tolling enterprise to focus on urban transportation needs. The distinction between an “enterprise” and an “authority” is largely in how the individual states recognize a revenue-generating operation. However, in some cases, it is meant to promote a more business-like approach. The Colorado Tolling Enterprise (CTE) is a DOT-Sponsored agency - the Director of CTE is an existing director-level employee of the Colorado DOT.
- **North Carolina** - Established a state turnpike authority to address transportation needs in both large urban and smaller urban areas. The NC Turnpike Authority is an independent authority with nine board members appointed by the Governor, President of the State Senate and Speaker of the State House.
- **Texas** - Passed a broad transportation bill (HB 3588) in 2003 that provides for the organization of regional mobility authorities (RMA), empowers state DOT Districts to analyze and institute toll roads, establishes a mobility fund to serve as project start-up funding, allows for public-private project development agreements, and established a cross-state corridor for multi-purposes. HB 3588 has added capabilities to existing toll organizations within the State, such as the ability to utilize public-private partnerships.
- **Florida** - Empowered the long-standing Florida’s Turnpike, a District within Florida’s Department of Transportation, to organize and operate more like a business enterprise, reorganizing into the Florida Turnpike Enterprise (FTE). This move was

aimed at allowing the FTE more business-like freedoms of operation, such as: a reduction in project development and delivery schedules through increased completion of tasks in parallel; opportunities to enhance nontoll revenue streams through development of property along the Turnpike; greater focus on customer service; and the flexibility to enter into business relationships with other toll agencies. These can be undertaken while still being organizationally associated with the Florida Department of Transportation.

- **Georgia** - Broadened the powers of a State Road and Tollway Authority (SRTA) to expand its financial authority; and, under separate legislation, established a public-private initiative law that allows for unsolicited proposals to be received and considered by the State. The SRTA is a state-level independent authority.
- **Virginia** - Has been a leader in the development of legislation encouraging the involvement of private ventures into the public transportation arena. Virginia has a fully private toll road operating in the State, the Dulles Greenway, and one public-private toll road, the Pocahontas Parkway (Route 895), the latter being a nonprofit corporation established specifically to develop the Pocahontas Parkway project.

Case Studies

A review of toll and turnpike actions taken during the past few years in Texas, Florida, and Virginia helps to define the current changes being undertaken in U.S. toll industry. The following summary of those case studies is representative of actions being taken in the United States to address the provision of needed transportation projects.

Texas House Bill HB3588: Omnibus Transportation Bill

HB 3588 was adopted June 2003, establishing a framework for broadening the application of tolling across the State as well as establishing a funding mechanism for supporting the broader use of tolls in the state's transportation system. The primary items of HB 3588 as they relate to this study include:

- Establishment of the Trans-Texas Corridor;
- Establishment of guidelines for the creation of Regional Mobility Authorities (RMA);
- Provision for the use of public-private partnerships through the use of comprehensive development agreements;
- Creation of the Transportation Mobility Fund to provide toll equity money for new toll projects, with an annual dedicated revenue of \$250 million;
- Advanced right-of-way acquisition opportunities; and
- Ability to place tolls on non-tolled roads (conversion).

In addition, the Texas Transportation Commission established a policy directive requiring that all new highway projects be assessed with regard to the ability and level of funding that could be achieved from tolling. This directive has essentially put all Texas DOT District Engineers into the business of assessing the use of toll roads with the Texas Transportation Commission acting as the governing body.

Florida's Toll Industry

Florida's toll industry is varied, offering a number of ways of conducting the business of planning, designing, constructing, and operating toll facilities. The Florida "approach" came together over a long period of time through a series of actions and decisions, including:

- **Statewide System Perspective** – Florida's Turnpike – today referred to as the Florida Turnpike Enterprise (FTE) – was created in the late 1950s to provide a limited access roadway that connected central and southern Florida. FTE has shown continued evolution to meet the needs of the State – serving as both Florida's "mainstreet" and its leader in innovative transportation practices and the incubator for change in delivering transportation systems. FTE continues to stress delivery of highway systems along with enhancement of service to its customers through the convenience of electronic payment systems. FTE's successful marketing of their signature "SunPass" transponder serves as a model to all toll agencies. While significant growth and expansion are the norm for FTE, so is continued improvement in their financial standing, as evidenced by continued high ratings from the bond market.
- **Regional Systems Perspective** – Regional Expressway Authorities began in the 1960s as regional leaders saw the need and opportunity to enhance their quality of life and economic opportunities through toll roads. This approach continues today, over 40 years since the initial efforts by the Orlando-Orange County region. Today's regional toll authorities include systems operated by the Orlando-Orange County Expressway Authority, the Miami-Dade Expressway Authority, and the Tampa-Hillsborough Expressway Authority.
- **Local, Stand-Alone Project Perspective** – The enactment of local bills in the Florida Legislature has allowed creation of authorities with specific project purposes. Local tollway authorities have become more prominent since the early 1990s. These authorities often serve to provide connections for specific, significant needs. They can exist under the umbrella of a county government or as an independent board. These have largely consisted of toll-bridge authorities, such as the Mid-Bay Bridge Authority in Okaloosa County and the Garcon Bridge Authority in Santa Rosa County.

Florida's toll industry continues to evolve to meet statewide and regional needs for improved transportation. Florida's flexible implementation options have been created to meet the continued demand for growth in the State.

Virginia's Public-Private Initiatives

Virginia's recent tolling approach includes development of the "public-private transportation act," or PPTA. The PPTA, initiated in 1995, allows private entities to enter into agreements to construct, improve, maintain, and operate transportation facilities. Virginia has not developed a statewide tolling or turnpike authority and there appears to be no movement in that direction. However, the Virginia Department of Transportation (VDOT) has created two special divisions within the Department to review and manage the PPTA program.

The precursor to Virginia's PPTA was development of the Dulles Greenway, a privately owned toll road in northern Virginia. The Dulles Greenway was created prior to the 1995 PPTA and is not subject to oversight by the Virginia Department of Transportation]. Oversight of the Dulles Greenway is provided through the Virginia State Corporation Commission. Seeing the need to enhance upon the approach used to develop the Dulles Greenway and give the State of Virginia more control over the development of publicly accessed highways, the PPTA act of 1995 was passed.

The following observations can be made of Virginia's toll road experiences since passage of the PPTA:

- The State has received 43 unsolicited proposals (through August 2005) and VDOT has issued one RFP for a public-private project. However, only one PPTA project, the Pocahontas Parkway has been developed and opened to traffic to date. It should be noted that the Pocahontas Parkway project has had financial difficulties due to slow growth in traffic demand. Eight additional proposals have resulted in comprehensive development agreements with a total value of approximately \$2 billion (August 2005).
- PPTA proposals submitted to VDOT during the early years of the program were proposals to use VDOT's state and Federal funds to develop and construct toll projects that required additional funds beyond those generated by toll revenues. After acceptance by the State, state funds were essentially earmarked to the specific PPTA project, preventing the use of the earmarked state funds on other VDOT projects.
- A noticeable change in the nature of PPTA submittals has occurred in the past year as private sector teams are starting to include international tollway and financial firms in partnership with U.S. firms. This is consistent with the public-private activities noted in Texas.
- There currently are six PPTA proposals under consideration and review by VDOT (August 2005).

Overview of Organizational Models

Introduction

Tolling entities share common functions: they charge user fees (i.e., tolls), to help finance debt associated with facility construction, operation/management, expansion, and major rehabilitation; and, providing opportunities for enhanced traffic management. While they share common defining functions, tolling entities follow different organizational models. Tolling organizations are sometimes differentiated by their transportation function (e.g., turnpikes that traverse a state, urban expressway systems that connect commuters to an urban core, and urban bridge structures that provide access to and from urban centers and for trade routes). For the purposes of this working paper, tolling entities are described by their governance and structural form rather than by function.

The broad organizational categories described previously can be further divided into six organizational types:

1. **State-level Independent Public Toll Authorities** – Independent state agencies established to build and/or operate a comprehensive facility and/or system of toll roads.
2. **State DOT-Sponsored and Operated Toll Entities** – Subunits of state DOTs or other state agencies (with varying levels of autonomy) that are charged with building and operating a toll facility or system.
3. **Regional-Level Independent Public Toll Authorities** – Independent authorities established to construct and/or operate a toll facility, via a combination of state legislation and local mandate.
4. **Local Agency-Sponsored and Operated Toll Entities** – Subunits of city or county governments that are charged with constructing and/or operating a toll facility or system.
5. **Multipurpose Independent Public Authorities** – Authorities that construct, manage, or operate toll facilities along with other public infrastructure (e.g., port authorities).
6. **Public-Private Ventures** – Private organizations that build and/or operate a toll facility, generally through various forms of public-private partnership with the state or local jurisdiction. While there are a limited number of active 100 percent private facilities, particularly for bridges, this is not the focus of this paper. Public-private ventures, or partnerships, that are being formed and allowed in the U.S. report to an agency/organization that represents the public good. Public-private toll road ventures are different from purely public ones in that a private entity typically builds and/or operates the facility. It also is possible that the private entity have responsibility for operation and maintenance of the facility.

While the construction and operation/maintenance of facilities built via a public-private partnership model may fall under private interests – most likely the investors – the government will likely need to ensure that the private partners are living up to their end of the bargain. Thus, the public sector’s role shifts from one of direct governance to regulation and oversight. The effects of public-private ventures on an existing transportation organization vary with the level of expertise available on-staff. There must be recognition that conducting business in a public-private partnership, even in an oversight role, requires the financial and engineering expertise of the agency to be on par with the private sector’s team. One aspect of the public-private partnership that must be carefully considered is assigning roles between the public and private sectors. From a financial management perspective, the private sector prefers to have the authority to manage the facility on a daily basis without direct, hands-on involvement from the public sector sponsor. This does not eliminate the negotiation of specific operational performance and financial terms and conditions to protect the public users and public sponsor.

As with the governance options, this role may be performed at a state- or local-level depending on the nature of the facility and the sponsoring agency. It also could be performed by an existing or newly formed regulatory body, as well as an existing policy-making board. Thus, the public agency/organization typically falls under one of the categories outlined above.

For purposes of the Washington Tolling Study, the organizational categories associated with Local Agency-sponsored/operated Toll Authorities and Multipurpose Independent Public Authorities are not addressed within this Working Paper.

No rules exist for how a tolling entity should be organized and operated, although three considerations tend to drive both organizational structure and agency (or subagency) management:

1. **Mission and Responsibilities** – The organizational structure must be consistent with anticipated functions and objectives of the entity;
2. **Type of Facility** – The nature of the facility or system (e.g., single bridge or highway structure, cross-state thruway, urban commuter route) can influence the selection of governance and management structure; and
3. **Legal Barriers and Requirements** – Laws, constitutional provisions, and current policies and regulations that may drive the selection of some organizational options over others.

These considerations influence nearly every decision about the organizational structure, governance, financial policies, institutional relationships, and responsibilities of a tolling entity. These are discussed further below.

Governance Requirements

The governance of public toll entities is typically split between a policy-making body and a chief executive. Policy-making bodies for public toll entities take many different forms and have varying responsibilities, but are typically multi-member boards responsible for strategic-level decision-making and oversight of the toll authority. Structural options for policy-making bodies are identified in Table 3.1.

Table 3.1 Tolling Entity Governing Bodies

Organizational Type	New Independent Board	Existing Independent Board	Other Governance Options
State-level Independent Authority	Members selected by governor/ approved by legislature to govern new toll entity	Transportation commission or other existing board governs new tolling entity	
State-DOT Tolling Entity	Typically governed by existing Transportation Boards or Commissions	Transportation commission or other existing board governs new tolling entity	
Local-level Independent Authority	Members selected by governor and/or mayor, city council, or county commissioner(s)	Established local authority assumes governance responsibilities	County commission or city council governs new tolling entity
Existing Multipurpose Authority	Typically governed by the authority under which the toll organization is created	Established authority assumes governance responsibilities with possible expansion in representation	

Similarly, toll entity chief executives typically report to the agency’s governing body (i.e., the policy body), but also may be selected and/or accountable to a jurisdiction’s elected executive (and, in some instances, legislative body). Specific options for selecting tolling entity chief executives are identified in Table 3.2.

Table 3.2 Chief Executive Models

Organizational Type	Director Selected by Elected Executive	Entity Managed by Existing Executive	Other Director Selections Approaches
State-level Independent Authority	Governor appoints (legislature may have a confirmation role)	DOT secretary/director serves as toll authority director	Selected by governing body/authority members Selected by DOT secretary
State-DOT Tolling Entity	Typically selected by DOT's senior leadership	DOT secretary serves as toll authority director	Selected by DOT secretary
Local-level Independent Authority	Governor, mayor, or county commissioner(s) select	Director of public works or director of existing authority serves as chief executive	Selected by governing body/authority members

Financial Requirements

Most tolling entities carry out similar financial roles – they finance construction (generally through debt issuance) and manage the collection of tolls to repay debt and fund maintenance and operations. Financial considerations that influence the selection of the preferred organizational structure for a tolling entity include:

- Anticipated mix of funding sources (100 percent toll-financed, hybrid of public funds and tolls, application to higher-level political jurisdictions for financial support (e.g., Federal credit provisions, state financing authorities, etc.));
- Level of financial support (i.e., guarantee) anticipated from the sponsoring state or jurisdiction;
- Debt issuance limitations and procedures of the sponsoring state and/or jurisdiction;
- Underlying creditworthiness of the sponsoring state and/or jurisdiction;
- Interest in pursuing joint development, facility concessions, etc.;
- Role and potential reach of public oversight commissions, including but not limited to the approval of toll rates; and
- The autonomy of the agency also might impact the financial market's level of comfort with regard to receiving higher bond ratings.

If direct affiliation with the sponsoring jurisdiction is advantageous, a beneficial organizational model is one where the tolling entity is a subunit of an existing agency (e.g., a department within a state DOT). A key issue to consider is the degree of autonomy

needed to satisfy investors that political influence is not overriding financial security versus the degree to which integration into the state organization is desirable for management of the state or regional system. A related factor is the extent to which the sponsoring jurisdiction is willing to extend financial support to the tolling entity in the form of financial guarantees and/or direct support. Conversely, to the extent that direct affiliation with the sponsoring jurisdiction is not advantageous, an independent organizational structure may be more appropriate (e.g., an independent public authority). The latter model is not found in its purest form. For example, the North Carolina Turnpike Authority (NCTA), while sponsored legislatively and funded by the North Carolina Department of Transportation (NCDOT), is authorized to have independent staffing, location, and policy Board. However, the NCTA is required to have its annual budget and work program approved by the NCDOT Board of Transportation.

The organizational structure of a tolling entity may affect the availability of non-debt sources for project funding. For instance, it may be easier to commit state funds to a toll project if the tolling entity is part of, or has a close alliance with, the state transportation department. The organizational structure also can determine the taxing capabilities of an entity and, most importantly, the ability of the entity to adjust toll levels to meet debt covenants and/or debt service responsibilities.

Management and Operational Requirements

As with models for governance and finance, models for management and operations of toll entities vary considerably – from large bureaucracies that mirror state transportation departments in terms of scope and capabilities, to small management organizations that outsource nearly every function of operations, to private industry and/or to the state DOT. In establishing a toll entity, public officials will need to consider two important questions about each major functional area:

- **How are policies, procedures, and rules established?** At one extreme, a new tolling entity could be completely autonomous from other areas of government and have full responsibility for establishing its own rules and procedures. At the other end of the spectrum, an entity could be established as part of an existing agency and simply adopt that organization's operational and administrative framework, including detailed policies and procedures, for example. There also are many options along the spectrum where an agency has autonomy in some operational and administrative areas, but falls under the rules and regulations of an existing organization for others.
- **Who performs functions?** There are essentially three options for who will perform operational and administrative functions: internal forces, personnel from other agencies, or the private sector (i.e., outsourcing).

Table 3.3 identifies the key operational and administrative areas a tolling entity may be responsible for, gives examples of specific activities performed in these areas, and where applicable, provides comments on organizational or managerial options. Tables 3.4, 3.5, and 3.6 depict a summary of how three different organizational models address the use of in-house and outsourcing to perform these basic functions.

Table 3.3 Operational and Administrative Functions Common to Tolling Organizations

Managerial and Operational Areas	Types of Activities	Comments Regarding Organizational Approaches
Maintenance	Pavement repair, sign replacement, mowing, snow removal	Geographic extent of toll facility/system influences cost-effectiveness of who performs the work
Traffic Safety/ Enforcement	Speed and toll enforcement, truck weight oversight, accident management	State constitution may define who must provide police service
Technical Services	Planning, design, environmental review, etc.	One-time, periodic demand for services may encourage outsourcing
Toll Operations	Manual toll collection, automation equipment, electronic payment and backroom financial systems	Outsourcing prevalent for toll collection, particularly automatic collection systems
Right-of-Way Acquisition	Condemnation proceedings, utilities relocation	Only government entities have eminent domain authority, but acquisition activities are frequently outsourced
Asset Management	Pavement, structures, toll collection facilities, fleet/equipment/building management	Outsourcing of other activities may reduce asset management needs
ITS	Traffic operations centers, information kiosks, dispatching emergency vehicles, traveler information systems	Need for coordination with regional ITS operators encourages outsourcing to state, regional government, or private sector
Contract Management	Oversight and direction of contracted construction, design, systems development, etc.	Outsourcing of other activities may increase importance of this function as an “in-house” activity
Procurement	Construction, services, equipment, supplies	State and/or local laws may dictate rules and regulations
Legal Services	Rulemakings, law suits, condemnation proceedings, legislative support	Some states dictate role of Attorney General with respect to legal matters
Human Resources	Recruitment, hiring/firing, promotions, training, grievance issues, pay and benefits	State and/or local laws may dictate rules and regulations
Managerial and Operational Areas	Types of activities	Comments regarding organizational approaches
Fiscal Services	Accounting and audit, financial estimates, payroll, accounts payable	Portions of fiscal services functions commonly outsourced; integration with other state agencies critical
Information Technology and Other Support Activities	Hardware/software policies, network development and administration, systems development, web site maintenance	Increasingly, this set of functions at least partially outsourced; integration with other state agencies critical
Marketing and Public Affairs	Advertising and promotions, media relations, intergovernmental coordination	Marketing role not typically a core competence for state and local transportation agencies; staff marketing/communications director utilizes private sector resources

Table 3.4 Operational and Administrative Functions
*In-House and Outsourcing within a State DOT-Sponsored
 Tolling Organization*

Managerial and Operational Areas	Types of Activities	In-House and Outsourcing Comparison
Maintenance	Pavement repair, sign replacement, mowing, snow removal	Can be in-house or outsourced; primarily in-house activity today; may be supported by sponsoring DOT
Traffic Safety/ Enforcement	Speed and toll enforcement, truck weight oversight, accident management	In-house or sister state agency assigned to the toll facility; not outsourced
Technical Services	Planning, design, environmental review, etc.	In-house or outsourced; outsource is common with in-house management-level staff oversight
Toll Operations	Manual toll collection, automation equipment, electronic payment and backroom financial systems	In-house or outsourcing are used; outsource is more common and growing in use, particularly enhanced backroom operations
Right-of-Way Acquisition	Condemnation proceedings, utilities relocation	In-house or outsourcing are used; in-house staff management of outsource acquisition firms
Asset Management	Pavement, structures, toll collection facilities, fleet/equipment/building management	In-house with outsourcing of data collection, condition assessment, and system development is common
ITS	Traffic operations centers, information kiosks, dispatching emergency vehicles, traveler information systems	In-house more common than outsourcing in these agencies
Contract Management	Oversight and direction of contracted construction, design, systems development, etc.	In-house and outsourcing is common; project and program management roles often use outsource professionals
Procurement	Construction, services, equipment, supplies	In-house; some cases of outsource support here also
Legal Services	Rulemakings, law suits, condemnation proceedings, legislative support	In-house or from sponsoring DOT staff
Human Resources	Recruitment, hiring/firing, promotions, training, grievance issues, pay and benefits	In-house with support from sponsoring DOT staff
Fiscal Services	Accounting and audit, financial estimates, payroll, accounts payable	In-house management with outsource of production items, accounting
Information Technology and Other Support Activities	Hardware/software policies, network development and administration, systems development, web site maintenance	In-house, or combination of in-house management and outsource
Marketing and Public Affairs	Advertising and promotions, media relations, intergovernmental coordination	In-house most often with support from sponsoring DOT; some outsourcing for newer agencies

Table 3.5 Operational and Administrative Functions
In-House and Outsourcing within an Independent State-Level Tolling Organization

Managerial and Operational Areas	Types of Activities	In-House and Outsourcing Comparison
Maintenance	Pavement repair, sign replacement, mowing, snow removal	Can be in-house or outsourced; primarily in-house activity today
Traffic Safety/ Enforcement	Speed and toll enforcement, truck weight oversight, accident management	In-house or sister state agency assigned to the toll facility; not outsourced
Technical Services	Planning, design, environmental review, etc.	In-house or outsourced; outsource is common with in-house management-level staff oversight
Toll Operations	Manual toll collection, automation equipment, electronic payment and backroom financial systems	In-house or outsourcing are used; outsource is growing in use, particularly enhanced backroom operations; some areas and existing agencies have labor union issues
Right-of-Way Acquisition	Condemnation proceedings, utilities relocation	In-house or outsourcing are used; in-house staff management of outsource acquisition firms
Asset Management	Pavement, structures, toll collection facilities, fleet/equipment/building management	In-house with outsourcing of data collection, condition assessment, and system development is common
ITS	Traffic operations centers, information kiosks, dispatching emergency vehicles, traveler information systems	Varies with agency size and maturity, but in-house more common than outsourcing in these agencies
Contract Management	Oversight and direction of contracted construction, design, systems development, etc.	In-house appears most common; limited use of program management outsource professionals for this
Procurement	Construction, services, equipment, supplies	In-house; limited cases of outsource support here also
Legal Services	Rulemakings, law suits, condemnation proceedings, legislative support	In-house staff
Human Resources	Recruitment, hiring/firing, promotions, training, grievance issues, pay and benefits	In-house staff
Fiscal Services	Accounting and audit, financial estimates, payroll, accounts payable	In-house management with outsource of auditing and accounting
Information Technology and Other Support Activities	Hardware/software policies, network development and administration, systems development, web site maintenance	In-house, or combination of in-house management and outsource
Marketing and Public Affairs	Advertising and promotions, media relations, intergovernmental coordination	In-house and some outsourcing for newer agencies

Table 3.6 Operational and Administrative Functions
In-House and Outsourcing within an Independent Regional-Level Tolling Organization

Managerial and Operational Areas	Types of Activities	In-House and Outsourcing Comparison
Maintenance	Pavement repair, sign replacement, mowing, snow removal	Can be in-house or outsourced; recently moving toward more outsourcing activity
Traffic Safety/ Enforcement	Speed and toll enforcement, truck weight oversight, accident management	Outsource to sister regional or state agency assigned to the toll facility; not outsourced to private sector
Technical Services	Planning, design, environmental review, etc.	In-house or outsourced; outsource is common with in-house senior management-level oversight
Toll Operations	Manual toll collection, automation equipment, electronic payment and backroom financial systems	In-house or outsourcing are used; outsource is growing in use, particularly enhanced backroom operations. Some areas and existing agencies have labor union issues
Right-of-Way Acquisition	Condemnation proceedings, utilities relocation	In-house or outsourcing are used; in-house staff management of outsource acquisition firms very common
Asset Management	Pavement, structures, toll collection facilities, fleet/equipment/building management	In-house management with outsourcing of data collection, condition assessment, and system development is common.
ITS	Traffic operations centers, information kiosks, dispatching emergency vehicles, traveler information systems	Varies with agency size and maturity, but in-house management with outsourcing of operations is growing
Contract Management	Oversight and direction of contracted construction, design, systems development, etc.	In-house appears most common; growing use of program management outsource professionals for this
Procurement	Construction, services, equipment, supplies	In-house with outsource support here also
Legal Services	Rulemakings, law suits, condemnation proceedings, legislative support	In-house staff counsel with outsourcing for needed support
Human Resources	Recruitment, hiring/firing, promotions, training, grievance issues, pay and benefits	In-house staff
Fiscal Services	Accounting and audit, financial estimates, payroll, accounts payable	In-house management and CFO with outsource of auditing and accounting support
Information Technology and other Support Activities	Hardware/software policies, network development and administration, systems development, web site maintenance	In-house, or combination of in-house management and outsource services
Marketing and Public Affairs	Advertising and promotions, media relations, intergovernmental coordination	In-house management/director with outsourcing

Organizational and Implementation Lessons Learned

Organizational lessons learned are outlined below.

- The organizational and governance structure must be selected to support the vision, mission, goals, and objectives of the tolling agency.
- While some state-level toll agencies continue to support primarily “mainline” and connected facilities, others are charged with developing regional facilities to address specific transportation capacity and traffic management needs. This is the case in Colorado and North Carolina where these new authorities have clear directives to address regional needs rather than to develop a “statewide” turnpike facility.
- Other states have created the ability for local and regional decision-makers to develop independent authorities to address local needs. Florida, Texas, and others have taken this approach. This puts local support of specific projects into the forefront. It also allows for a greater regional base for financial participation and investment, as well as governance models.
- The use of “outsourcing” for multiple elements of the tolling agency’s organization, project/program delivery, and operation continues to grow. Outsourcing utilizes private sector performance, flexibility, and efficiencies to support of a more streamlined public sector management team. Florida and Texas are two states that are utilizing the outsourcing approach to achieve faster program delivery and more efficient operations.
- The potential use of public-private partnerships requires enhanced skills in several areas (financial, project delivery, for example). Therefore, an agency’s organizational structure should consider the potential for public-private partnership models. Those enhanced skills are needed to support specific methods of advertising, reviewing, and approving both solicited and unsolicited proposals for public-private partnerships and concession agreements for transportation projects. Without the proper support of technical, financial, and policy expertise, agencies at all levels of government may not be prepared to successfully perform the financial and engineering negotiations required to assess the overall viability of potential public-private project opportunities.

Summary

The ultimate question with respect to organization and governance is often, “can an existing agency/organization, transportation or otherwise, perform in a more business-like manner as required by the toll industry?” While traditional transportation agencies are adept at managing large-scale transportation programs, their organizations may not be structured to respond quickly to daily changes and the varied demands of customers of a toll road system.

Recently enacted tolling organizations have selected an organization and governance model that allows the merging of strengths from an existing multipurpose transportation

agency alongside a new organization focused solely on tolling opportunities. The reasons for selecting this approach have included:

- The desire to use available technical resources from an existing agency rather than create duplicate capabilities. In this manner, only tolling-specific skills need to be added within the new organization.
- The desire to develop greater synergy in integrating long-range goals and transportation system improvements.
- The desire to have greater control from a centralized transportation agency rather than a more independent agency, whether statewide or regional in nature.
- Providing a means of funding start-up activities, from administrative to project feasibility assessment.

The most current trend for startup tolling agencies also includes the use of outsourcing for general tolling expertise and support. Outsourcing for special tolling skills also supports the need for a streamlined, flexible product delivery and customer service approach. This approach supports the continued implementation and updating of challenging technology advances.

However, one size does not fit all. Thus the best organization model for a new toll agency is one that meets the stated vision and mission of the agency while providing customer and production services in the most efficient manner. As Washington State considers the best governance and organizational approach, discussion of these measures will be conducted to assure the best approach is considered and selected. These discussions and assessment of Washington State’s vision for a tolling agency will be documented in later reports.

Tables 3.7, 3.8, and 3.9 present a summary of operational characteristics for representative organizational models that were identified in previous sections.

Table 3.7 DOT-Sponsored Model Examples

Organizational Issue	Texas Turnpike Authority (TTA)	Florida Turnpike Enterprise (FTE)
Governing Board	Texas Trans. Commission	FDOT Secretary/Commission
CEO Selection	Texas Trans Commission	FDOT Secretary/Commission
Admin. Procedures	Follows TxDOT policies and procedures	Follows FDOT policies and procedures
Debt Authority	TxDOT and Texas Trans Commission	Florida Division of Bond Finance issues debt
Financial Partnership	TxDOT funding eligible for toll roads	DOT funds available under certain conditions
SUPPORT Services	Use TxDOT resources, internal staff, and outsourcing	Use FDOT resources, internal staff, and outsourcing
Project Selection	Texas Trans Commission	Internal with Commission approval
Physical Location	Co-located w/TxDOT	Separate

Table 3.8 Regional-Level Independent Model Examples

Organizational Issue	Orlando-Orange County Expressway Authority (OOCEA)	North Texas Tollway Authority (NTTA)
Governing Board	Appointed Board 3 plus Elected official and FDOT District representative	Appointed Board
CEO Selection	Selected by Board	Selected by Board
Admin. Procedures	Independent	Independent
Debt Authority	Issues own debt	Statutory, Board approval required
Financial Partnership	FDOT, public and private partnerships	TxDOT, local public entity partnerships
Support Services	Internal staff and outsourcing	Internal staff and outsourcing
Project Selection	Internal; consistent with MPO plan	Internal; consistent with MPO plan
Physical Location	Independent offices	Independent offices

Table 3.9 State-Level Independent Model Examples

Organizational Issue	Pennsylvania Turnpike Commission (PTC)	Illinois State Toll Highway Authority (ISTHA)
Governing Board	Independent Board appointed by Governor and State Senate	Independent Board appointed by Governor and State Senate
CEO Selection	Selected by PTC Board	Selected by Governor and Board
Admin. Procedures	Independent	Independent, with assistance by State Contract Management Services agency on major procurements
Debt Authority	Self-authorized	Self-authorized via statute
Financial Partnership	Use of State and Federal funds allowed	Toll revenues only, no mix with state or Federal funding
Support Services	Internal; some outsourcing	Internal, some outsourcing of services such as VES and toll system maintenance
Project Selection	Independent; directed by Legislative action	Independent on existing system; extensions or new routes by Legislative approval
Physical Location	Independent offices	Independent offices

■ Washington State Perspective

The following section summarizes a series of interviews with stakeholders in Washington State regarding tolling organizations and the Washington State context regarding tolling. The interviews were performed in a conversation-like manner beginning with asking participants about their ideas about the vision and mission of tolls in Washington State. Discussions also covered the areas of organization and governance, interagency coordination, public interaction and expectations, and staffing and operational responsibilities of tolling agencies.

We interviewed a member of the Washington State Transportation Commission, representatives of various divisions of the Washington State Department of Transportation, staff from the Puget Sound Regional Council (PSRC), a representative of the Regional Transportation Investment District (RTID), and senior management from King County's Department of Transportation.

Each interview brought different issues and key points to the forefront. Key points from the interviews are summarized below. The primary concerns are identified below.

Financial Control

There were several issues surrounding the financial control of funds flowing to and from toll agencies:

- **Control of Financial Information and Use of Funds Over Time** – The need to provide ongoing monitoring of fund uses and for appropriate information to be made available to all parties was stressed.
- **Controlling income, Expenses, and Cash Flow Schedules** – This issue addresses the need to ensure that project and system funding include planning of income and expenses through the use of detailed schedules.
- **Protection of WSDOT Non-toll revenue Sources if Tolls Fall Short of Meeting Debt Payments** – The concern here was to make sure that appropriate financial safeguards of WSDOT non-toll resources are included on any project that includes a combination of toll revenues and other funds, including WSDOT non-toll resources.
- **Financial Control Requirement Impacts to Toll Organization Structure** – This topic questioned the way in which the financial requirements of a toll organization impact the organizational and operational responsibilities of an agency. Financial requirements are specifically spelled-out in any bond sale. Furthermore, the activities leading up to a bond sale will dictate that the appropriate financial expertise be available to the toll agency.

Regional Focus

The importance of addressing regional issues related to tolling was brought out within every interview. The principal issues were:

- **Importance of Customer Service and Relations at the Regional Level** – This issue addresses the need to be close to the customer with the ability to promptly respond to customer needs. Given that the more urban regions will more likely have tolling systems to assist with traffic management and congestion, the location of customer service and public relations staffing in the regions was viewed as important.
- **Setting of Toll Prices or Pricing Strategies for Managed Lanes** – Traditionally, the setting of toll levels is determined by the need to cover operations and maintenance costs plus Meet debt payment schedules. However, where managed lanes and traffic management are the principal reasons for tolling, there is a need to consider the full impact of price variations upon the transportation network not just the toll system. The interviews brought out the interest in regional involvement in establishing appropriate toll rates and pricing strategies for the managed lane systems.
- **Establishment of Policies at the Regional Level** – This is related to the issue of setting toll levels and managed lane pricing. Regional-level policy setting was viewed as more Responsive to the local users than a state-level agency with no regional representation.
- **The Puget Sound Region May be More Open to Tolling than other Regions of the State** – This observation was made due to the increasing congestion on the urban freeway and interstate corridors and general responsiveness to financing transportation system improvements.

There would appear to be support of a regional transportation entity in the Seattle area with a range of powers available to it. Authority could be for planning and programming only; or, include the authority to plan, design, construct, and operate/maintain tolling systems. A regionally based tolling agency would likely be supported within the Puget Sound Region. The form and comprehensive nature of such an agency's authority would have to be determined.

Public-Private Partnerships

The nature of public-private partnerships (PPP) is unique and continues to evolve throughout the United States. Further, the interviews indicated that the case of PPP in Washington State also will bring its own unique features to the practice. Rules for PPP application in Washington State are in draft form at the time of this writing. Specific issues were:

- **Ability within the Toll Agency to Engage in and Manage Potential Public-private Partnerships** – While not all PPP in Washington State will involve transportation toll facilities, there is a recognized need to have adequate expertise available to the tolling agency(s) to address potential PPP activities involving toll systems.
- **Establish a Separate Public-Private Partnership Oversight Entity that Coordinates with Tolling Experts for Toll Road Projects** – It was suggested that a separate entity could coordinate with a tolling agency(s) as needed for specific expertise related to tolled PPP projects.

Operation

The operation of modern toll facilities and systems has changed considerably over the past decade. In this sense, the expectations of the users often dictate the “viewable” end product, thus influencing the behind-the-scenes operation of payment systems. In particular:

- **The “backroom” operation should appear seamless to the user, providing for a single statement for multiple uses if necessary** – As multiple payment systems are linked together for the benefit of the user, there will need to be a single-statement of transactions. To do this, the backroom operations must become fully integrated at the point of payment level. Fortunately, this approach is well developed in many locations and the art and science of the payment transactions are being enhanced.
- **Coordinate the payment systems with the Washington State Ferry System payment mechanism** – Similar to the previous issue, it would be desirable to incorporate the Washington State Ferry System payment into a multi-agency and use mechanism.
- **What impact would potential union involvement play in a toll agency organization?** This issue will need to be defined as the tolling agency(s) approach is developed. For example, we understand that the Washington State Ferry System currently has contracts involving 20 different workers unions. This is addressed by many states and their approaches can be studied alongside the Washington State labor laws to determine an appropriate answer.

Policy

The issues related to policy areas included those statewide in nature as well as regionally important topics:

- **Would there be free alternate routes to tolled roads?** This is primarily an issue with new alignment facilities, but also could be important on major systems improvements and bridge crossings. The answer, of course, is a policy decision and must be considered on a case by case basis.

- **RTID supports managed lane projects for traffic management purposes** – Puget Sound region policy documents are very clear in their support for pricing for traffic management.
- **Must define the purpose and role of tolling** – This statement is related to the need to clearly delineate the overarching vision of a tolling agency(s). It also can speak to individual projects and systems.
- **Tolling should be introduced as part of the transportation finance package rather than sent to a statewide referendum for approval** – Concern was expressed over the need for statewide referendum for the tolling question and the need for tolling as part of the finance package.
- **Insulation from Politics** – There should be some level of insulation of the tolling agency(s) from purely political decision-making, allowing for full consideration of all technical and financial merits of projects and systems alongside realistic political considerations. While the political nature of our governing process is needed and brings value to the overall process, the issues of technical and financial merit must be weighed alongside the political will to implement a project. Investors will quickly read the political landscape for these signs of support.
- **Who would own and/or operate tolled facilities at the regional level when they consist primarily of tolled lanes on State roads?** Again, a question to be answered in the development of projects of this nature. Ownership of the actual facility will most likely remain with the WSDOT. The operating party for the tolling system can vary.

Statewide Role

The potential role that the State should play was expressed in these ways:

- **Oversight agency at the state level that establishes general tolling policies and operational guidelines, with possible regional representation** – This oversight was seen as a way to provide continuity and consistency among toll systems across the State.
- **Coordination with multi-state or multi-regional issues** – The potential for toll facilities that cross state lines, such as bridges, should be considered and the involvement of state-level agencies made a part of understandings among states.
- **Establishment and oversight of public-private partnership arrangements** – A statewide role in providing consistency and expertise in the area of PPP is important to the tolling agency.

Tolling Systems

Tolling systems are important part of the operation of a toll organization. Some of the issues raised included:

- **Facility-based tolling will grow to become system-based tolling in the urban regions** – Washington State’s historic approach to tolling single projects is viewed as turning to become an approach of developing tolling systems with the urban regions and perhaps the State.
- **Need to consider the ability to leverage revenues among systemwide facilities** – The use of revenues among a system of toll facilities is an important consideration. Many agencies use this approach to leverage excess revenues on existing, mature systems to support newer projects during the early years of traffic growth. As toll systems are developed, the approach to leveraging revenues will be important to timely development and stronger financial ratings.
- **Regional managed lane systems are key elements to traffic management using tolling** – A system of managed lanes is envisioned by many at the regional level as a means of addressing travel demand and improving the quality of travel service through variable pricing strategies. Variable tolling rates are used to ensure a higher quality level of service to the user willing to pay a toll.
- **HOT lanes are supported and dynamic tolling/pricing is appropriate to protect the traffic management and managed lane goals** – This is a general statement from the interviews that confirms what many have suspected in the major urban regions.

Common Themes

Some common trends emerged from those interviews:

- State-level oversight and guidance is needed on all tolling-related issues.
- Regional-level representation is needed on toll pricing, traffic management systems, and customer service.
- Electronic payment systems should be developed, with a single statement of activities for multiple modes and open fiscal accountability.
- The organization should have some insulation from purely political decision-making, allowing for full consideration of all technical and financial merits of projects and systems alongside realistic political considerations.

■ Potential Organizational and Administrative Models for Washington State

Governance and organizational issues must be addressed if tolling in Washington is to move beyond the Tacoma Narrows Bridge and SR 167 Pilot Project. In considering this issue, we investigated trends in the tolling industry around the United States and also interviewed various transportation leaders in Washington.

Historically, tolling in Washington State has been used to finance major bridges. Once the debt was paid, tolls were removed, resulting in the owner, normally WSDOT, to take over maintenance and operation responsibilities. This is the model being used for the new Tacoma Narrows Bridge.

Recently, Washington State initiated a managed lanes pilot project on SR 167, which is different in that tolls are not being used to pay off capital. Rather, they are being used to manage congestion, with the toll revenue being used to pay off expenses, operate and maintain the managed lane, and increase transit, vanpool, carpool, and trip reduction services in the corridor.² In addition, the Tacoma Narrows Bridge project is being developed to allow open road tolling in addition to traditional manual toll collection. These developments are part of the evolutionary change to tolling approaches and pave the way to a modern tolling policy and approach in the State, including addressing the issue of organization and governance models.

Currently, the Washington State Transportation Commission is the Toll Authority. As such, they have the responsibility to set tolls. Selection of toll projects is the prerogative of the legislature.

The results of our national research and state-level stakeholder interviews indicate the growing acceptance of tolling as a means of project finance and traffic management in congested urban regions. Nationally, recent trends point to the development of statewide tolling agencies that have regionally based representation. The continued growth in urban regions and desire for continued mobility with personal automobiles has moved the focus of tolling agencies from statewide turnpikes to urban projects with stronger emphasis on traffic management. In Washington State, we found a clear desire for regionally specific policies for pricing and traffic management, with some level of state oversight.

A significant desire expressed during our work was to have objective criteria applied consistently around the State. The balance between local or regional initiative and consistent policy at the statewide level should account for these concerns:

- A way to combine funds from regional or local entities with state or Federal funds.

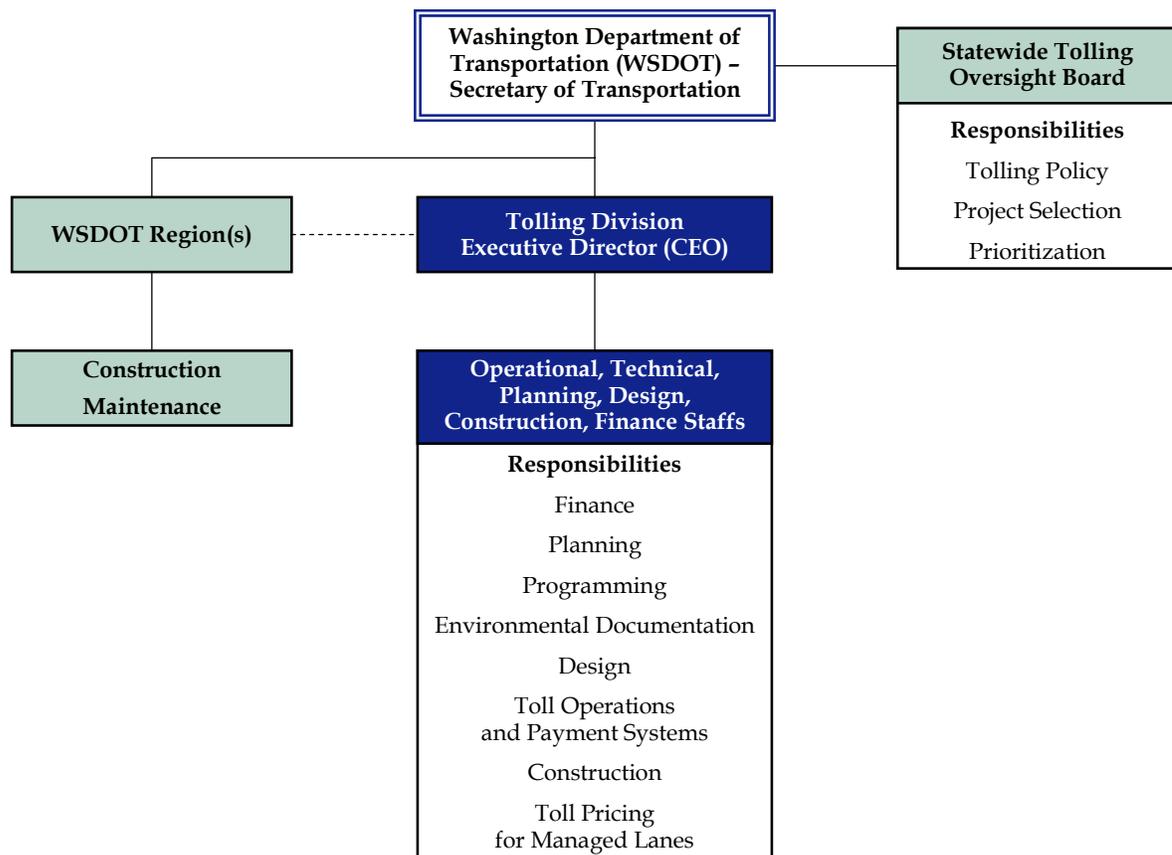
² 47.66 RCW.

- A set of specific, consistent criteria that should be met before tolling or pricing were implemented, potentially administered through WSDOT.
- A means of advancing projects that meet the policy criteria without Legislature action. The authority to approve such projects should rest with the Commission or some other statewide tolling authority, working with information provided by WSDOT.

As a result, two similar, yet subtly different, approaches to governance surfaced as the best candidates for consideration.

Centralized Statewide, whereby all project selection and configuration decisions are made centrally. Within this state-level control, however, localities or regions would have the ability to initiate projects and work with the central administration to advance them through the planning, design, construction, and operation process. Ultimate decision authority, however, would reside within this central body. This organizational model is depicted in Exhibit 3.1

Exhibit 3.1 Centralized Statewide Organization

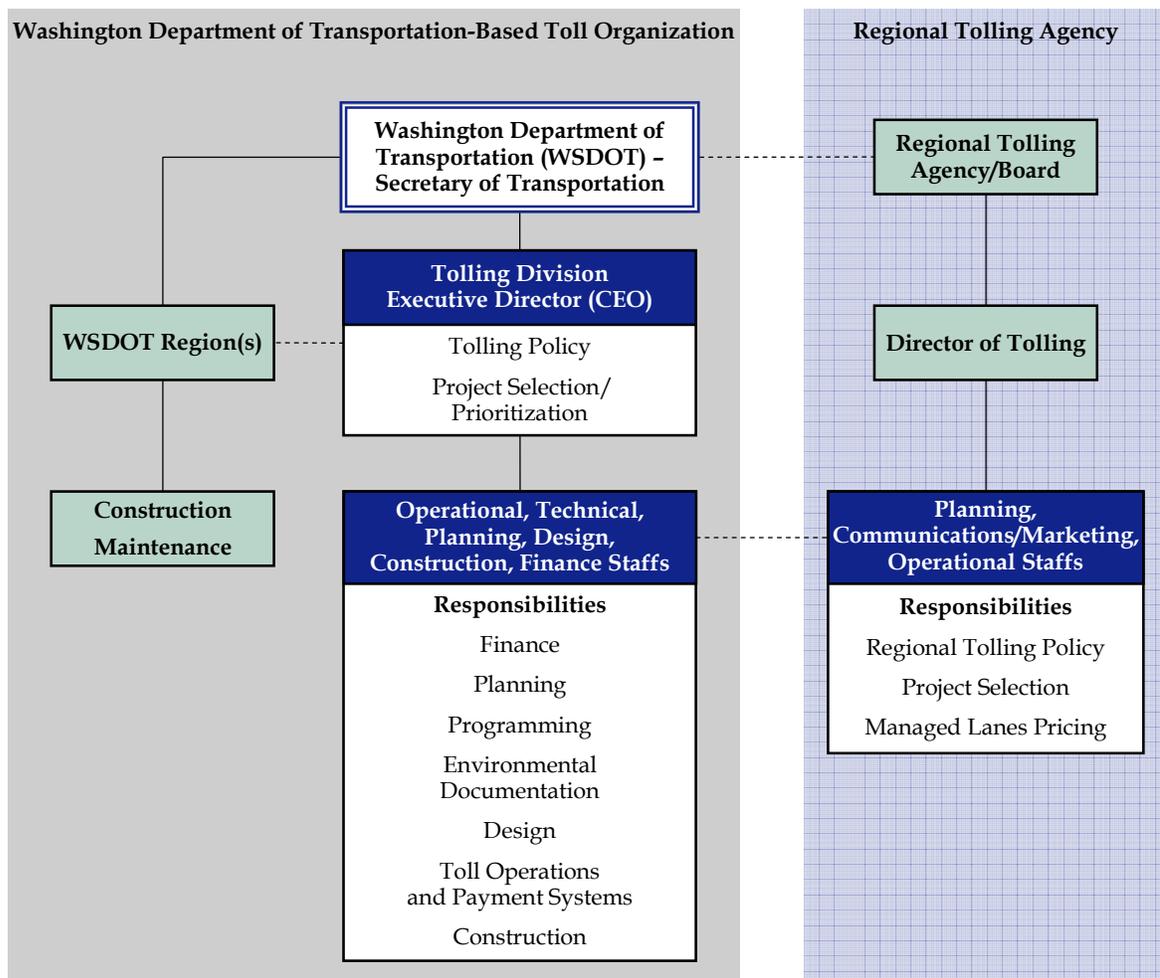


The advantages of this governance structure are that there is a single tolling agency for all levels of project and system development with the potential for close coordination with overall WSDOT project programming. Regional representation can be accomplished through a Statewide Tolling Oversight Committee. Also, tolling expertise can be assembled in a single organization rather than distributed across multiple agencies.

The disadvantage of a centralized governance structure is that there may be a perception that tolling is being imposed from the outside, rather than developed based on local decision-making. This could ultimately make it more difficult to advance worthy projects.

Regional plus Statewide, which allows local or regional tolling authorities to be created to advance projects or systems, with the State leading decision-making in rural areas or other appropriate circumstances. To avoid duplication of specialized functions and expertise, detailed project development, operations, and maintenance activities would always be carried out by WSDOT. This organizational model is shown in Exhibit 3.2.

Exhibit 3.2 Regional Plus Statewide Organizations



The chief advantage of this approach is that it allows regional champions to move projects and systems into the forefront rather than waiting for a state-level champion. The closer connection to the regional support base is viewed by many experts in the toll industry as critical to the success of urban toll facilities. As with the centralized statewide concept, the tolling expertise can be kept centralized.

The disadvantage of this approach is that it requires commitment to continual organizational and operational communication between the regional- and state-level toll agencies. There also is the potential for some redundancy in skills between the state- and regional-level.

Commission Recommendation

The commission weighed the desire for regional initiative with the importance of consistency of policy setting around the State. It recommends that governance of tolling be carried out through a centralized authority with robust and continuous regional input that includes the right to propose projects. In practice, this would mean that the centralized authority would set forth overall policy and criteria for determining which parts of the system could be tolled. Regions could initiate and pursue studies in accord with those criteria, and ultimately apply to the centralized authority for permission to toll. The centralized authority would be responsible for determining consistency with the criteria, and for setting toll rates.

The day-to-day administration of tolling operations, including system development functions (i.e., studies, design, system architecture, technology) would be by WSDOT.

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