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# Should Florida Toll Agencies Be Consolidated?

by Robert W. Poole, Jr. and Daryl S. Fleming, Ph.D., PE



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## Executive Summary

The 2011 Florida legislative session saw several proposals that would have consolidated some or all of the local toll authorities into the Florida Turnpike Enterprise (FTE). Later that year, a Work Group of the Government Efficiency Taskforce (GET) produced a report calling for most of the functions of the local toll authorities of Orlando (OOCEA) and Tampa (THEA) to be consolidated with FTE. The purpose of this study is to assess the arguments for and against the consolidation of toll agencies in Florida.

Our Reason Foundation project team carried out a review of how toll roads and bridges are provided in Florida. Since most of the focus of consolidation proposals is on local toll authorities (LTAs) in the state's major urban areas, we reviewed how other fast-growing states are using toll finance to add modern toll facilities to their urban expressway systems. We also reviewed two relatively recent toll agency consolidations, in New Jersey and Massachusetts. And we also analyzed the GET Work Group's estimate of \$24 million in annual cost savings from consolidation of OOCEA and THEA with FTE.

We found that:

- Toll roads and bridges in Florida are provided by two state agencies (FTE and FDOT itself) and multiple local toll authorities (LTAs). FTE and FDOT operate both long-distance inter-city toll roads and tolled urban expressways. One inter-city toll road is operated by three entities: FTE, FDOT and OOCEA. Florida's large toll agencies—FTE, MDX, OOCEA and THEA—all have excellent national reputations as efficient and innovative providers of toll facilities.

- There are important differences between how *urban* expressways and *inter-city* toll roads must be managed and operated, which suggests that a one-size-fits-all approach to finance, management and tolling policy would be unwise—despite FTE’s demonstrated efficiency and innovation. Advantages of local toll authorities for urban expressways include greater responsiveness to local needs and priorities, more flexible financing, strong incentives for innovation and extensive use of outsourcing to achieve cost savings via economies of scale. Moreover, with local toll authorities, people who pay tolls for urban expressways know that the toll revenues will remain in their urban area to maintain and enhance their transportation system, rather than being redistributed to other parts of the state.
- There is an ongoing trend in other fast-growing states (such as California, Colorado and Texas) to create and support local toll authorities for these very same reasons, rather than having a state agency provide urban toll expressways.
- Two of Florida’s urban LTAs—OOCEA and THEA—are burdened by lease-purchase agreements (LPAs) under which FDOT would eventually take over their toll facilities. This is inconsistent with the premise that LTAs are better suited to be the providers of tolled urban expressways than is a state agency.
- There are economies of scale to be realized in various administrative and back-office operations of toll agencies (such as toll processing), but many of those savings can be realized via outsourcing as an alternative to consolidation. Florida’s major toll agencies (FTE, MDX, OOCEA and THEA) have already captured most of these benefits via outsourcing, either to each other or to private firms.
- The widely cited estimate of \$24 million in annual cost savings from consolidating OOCEA and THEA into FTE is poorly supported. Our assessment suggests that the GET analysis overstates the possible savings by assuming that the level of service to local communities currently provided by OOCEA and THEA (the very reason these agencies were established) is no longer sustained. And much of the remaining projected savings have already been captured by the agencies’ cooperative efforts to outsource back-office processing functions. Our revised savings estimate of \$3.5 million per year is but 15% of the GET Work Group’s estimate.
- Toll agency consolidation in Massachusetts and New Jersey involved merging inter-city toll operators, not urban expressway operators (which exist in New Jersey, but were not included in its consolidation). Annual savings from both consolidations were modest, and not all of the savings would be applicable to Florida.
- Tolling interoperability, another reason cited for toll agency consolidation, is already far along in Florida, with over 80% of electronic toll transactions being handled by the statewide SunPass system (which by the end of 2012 will be interoperable at all Florida toll facilities except three very low-volume local toll bridges). FTE and the LTAs are working cooperatively to address the remaining interoperability problems (most of which concern license-plate tolling plus violations and enforcement). In addition, an agreement is

currently being negotiated under which SunPass will become interoperable with the E-ZPass system used in 22 northeastern and midwestern states.

Our review of Florida toll agencies uncovered a number of areas where reforms other than consolidation would bring about important improvements. This leads us to make the following six policy recommendations for the future:

**First**, rather than consolidating local toll authorities into FTE, the legislature should free OOCEA and THEA from the constraints imposed by their “lease-purchase agreements” with FDOT, under which, in exchange for the state paying for their operating and maintenance costs, the LTAs must eventually turn over their toll roads to the state. Doing that would be inconsistent with our finding that there are many advantages of providing urban tolled expressways via locally controlled agencies, rather than centralizing all toll facility provision at the state level. Therefore, OOCEA and THEA should be “graduated” from this program and become independent, self-supporting urban toll agencies like the Miami-Dade Expressway Authority (MDX), which attained this status in 1996. This change should involve:

- OOCEA and THEA acquiring their expressways from the state, as MDX did;
- Terminating the OOCEA and THEA lease-purchase agreements (LPAs) with FDOT;
- Giving MDX and THEA the authority to operate outside their home county to serve their entire urbanized area (as OOCEA is now authorized to do);
- Enabling THEA to issue its own toll revenue bonds without FDOT oversight, as MDX and OOCEA now do.

**Second**, on a longer-term basis, Florida should consider reorganizing the provision of toll facilities, so that FTE specializes in inter-city toll roads and the LTAs provide all the urban expressways in their regions. This would involve the transfer of several inter-city toll roads (e.g., Alligator Alley) from FDOT to FTE, as well as the acquisition (at a fair and appropriate valuation for a transfer of state assets) of a number of urban expressways and toll bridges from FTE and FDOT by MDX, OOCEA and THEA.

**Third**, legislators should be supportive of the creation or reactivation of additional LTAs in larger urban areas, such as Jacksonville and Southwest Florida, as transportation demand and congestion make tolled expressways useful enhancements of urban mobility.

**Fourth**, legislators should become familiar with the emerging “managed lanes network” in Southeast Florida, being developed incrementally by FDOT, MDX and FTE. Details of how this network should be governed and managed are under study, thanks to a Federal Highway Administration grant, under its Value Pricing Program, to FDOT District 6. Such networks offer great potential for congestion relief and region-wide express-bus/bus rapid transit in urban areas, and may be worth considering for Florida’s other large urban areas in coming years. Managed lanes and urban toll expressways should be considered building blocks toward future highway

finance based largely on miles traveled, rather than fuel consumed, as the fuel tax declines as a sustainable funding source.

**Fifth**, we reviewed and recommend against a recent proposal that would “monetize” the Turnpike, bonding “excess” revenues to support labor-intensive (“job-creating”) non-highway infrastructure projects. In addition to depriving the Turnpike of capital needed to keep pace with growth, this project would, in effect, force Turnpike customers to pay for non-highway projects, putting at risk Turnpike users’ long-standing support for its tolls as pure user fees under the users-pay/users-benefit principle.

**Sixth** and last, we reviewed concerns about the compensation of LTA CEOs being greater than that of Florida’s Secretary of Transportation. Compensation of LTA management is based on benchmarking of compensation levels at comparable agencies nationwide. The problem is not that toll agency compensation is too high; rather, the Secretary’s compensation is below market levels, as pointed out by the governor-elect’s transportation transition team.

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## Part 1

# Introduction

Florida has long been a leader in using toll finance to build highway capacity to keep pace with the state's rapid growth. This policy dates back to the creation of Florida's Turnpike in the 1950s, prior to the beginning of the Interstate highway system. Subsequent decades witnessed the emergence of tolled urban expressways, first in Miami and later in Orlando and Tampa. In addition, a number of local bridges have been developed using toll finance, and more recently tolled "managed lanes" were introduced on I-95 in Miami-Dade County, soon to be followed by reversible tolled managed lanes on I-595 in Broward County.

Over the years, circumstances led to the creation of a number of different toll facility providers in Florida. In addition to what is now called the Florida Turnpike Enterprise (FTE), there are three active local toll authorities (LTAs): Miami-Dade Expressway Authority (MDX), Orlando Orange County Expressway Authority (OOCEA), and Tampa Hillsborough County Expressway Authority (THEA), and a number of others that exist largely on paper. There are also several bridge authorities as well as a number of county or municipal toll bridges or causeways in the Miami area, southwest Florida and the Panhandle.

In December 2010, the transportation transition team for Governor-Elect Rick Scott made a brief review of the toll agency situation, noting that there was no clear rationale for which type of toll road was operated by which type of agency.

- **Long-distance inter-city toll roads** are operated not only by FTE but also by FDOT itself (Alligator Alley, part of Beachline East).
- **Urban toll facilities** are operated not only by local toll authorities but also by FDOT (Pinellas Bayway, Sunshine Skyway Bridge) and FTE (HEFT, Seminole Expressway, Polk Parkway, Sawgrass Expressway, etc.).

Time did not permit the transition team to make specific recommendations, but its report did call for "rationalizing Florida's toll facilities."<sup>1</sup>

Possible reorganization of Florida's toll agencies became a subject of proposed legislation during the 2011 session of the legislature. An early proposal called for consolidating seven expressway authorities into FTE. The bill that emerged (SPB 7198) was somewhat less drastic, but called for consolidating into FTE the Mid-Bay Bridge Authority, OOCEA and THEA. These three agencies (plus the bankrupt Santa Rosa Bridge Authority) have received financial assistance from FDOT in

the form of Lease Purchase Agreements (LPAs, discussed in Part 2), but MDX has no such agreements. The bill also would have abolished six non-operational expressway authorities and repealed the use of LPAs for other transportation authorities.

The Florida Government Efficiency Taskforce (GET) in 2011 created a Work Group on expressway consolidation. Its October 2011 Recommendation Summary proposed consolidating “the administrative functions” of OOCEA and THEA into FTE, estimating annual savings of \$24.3 million per year. It also recommended full consolidation of the Mid-Bay Bridge authority into FTE, estimating annual operational savings of \$400,000–500,000 per year and possible additional savings due to bond refinancing. In addition, the Work Group recommended that all toll collection in Florida be carried out by FTE, estimating savings of \$22 million per year due to “economies of scale using one software system and one vendor.”

At first glance, this proposal sounds logical given (1) the outstanding national reputation of FTE as an efficient and innovative toll road provider, and (2) the existence of economies of scale in various administrative and back-office functions of toll agencies. But the premise of significant cost savings needs to be assessed empirically, and potential cost savings weighed against various policy issues supportive of a valuable role for local toll authorities in large urbanized areas.

Given this interest in toll agency reorganization during 2011, it is expected that the issue will be on the legislative agenda again in 2012. Consequently, this study seeks to provide an assessment of the arguments for and against rationalization and consolidation of the provision of toll facilities in Florida.

## Part 2

# Overview of Florida Toll Agencies

Florida is a fast-growing Sunbelt state that has made extensive use of toll finance to develop a highway system aimed at keeping pace with the state's rapid growth. Because toll agencies have been created in response to needs as they arose over the years, the unintended result is a rather ad-hoc division of responsibilities for different types of toll facilities.

Table 1 provides a brief overview of the various public-sector toll facilities in Florida and their various owners. As can be seen, inter-city toll roads are owned and operated by three different entities: FTE (the state's largest toll agency), FDOT (a largely non-toll agency), and OOCEA (an urban toll authority). For urban toll expressways, in addition to the toll roads operated by the three principal local toll authorities, there are seven such expressways provided by FTE, one provided jointly by FTE and OOCEA, and another provided by the Osceola County Expressway Authority. There is an even larger array of providers of toll bridges: three counties, one small town, three bridge authorities and FDOT. A few of the locally owned bridges do not offer SunPass electronic tolling, which is otherwise available on all of Florida's toll roads and bridges.

Table 1: Florida Toll Facilities					
Type	Name	Route No.	Route.-miles	Owner	SunPass
Inter-city					
	Florida Turnpike Mainline	SR 91	265	FTE	yes
	Suncoast Parkway	SR 589	41.5	FTE	yes
	Beachline East	SR 528	45.5	OOCEA/FDOT	yes
	Alligator Alley	I-75	84.3	FDOT	yes
Urban					
	Beachline West	SR 528	8	FTE	yes
	Seminole Expressway	SR 417	12	FTE	yes
	Southern Connector Ext.	SR 417	6.4	FTE	yes
	Central Florida Greeneway	SR 417	54.1	OOCEA	yes
	Apopka Expressway	SR 414	6.5	OOCEA	yes
	East-West Expressway	SR 408	22.1	OOCEA	yes
	Dan Webster Western Beltway	SR 429	31.8	FTE/OOCEA	yes
	Osceola Parkway	OC 522	12.4	OCEA	yes
	Selmon Elevated Lanes	SR 618A	9.1	THEA	yes
	Selmon Expressway	SR 618	14.2	THEA	yes
	Veterans Expressway	SR 589	15.2	FTE	yes

Table 1: Florida Toll Facilities					
Type	Name	Route No.	Route.-miles	Owner	SunPass
	Polk Parkway	SR 570	24.4	FTE	yes
	Sawgrass Expressway	SR 869	21.8	FTE	yes
	HEFT	SR 821	47.8	FTE	yes
	Airport Expressway	SR 112	4.1	MDX	yes
	Dolphin Expressway	SR 836	16	MDX	yes
	Gratigny Parkway	SR 953	5.4	MDX	yes
	Don Shula Expressway	SR 874	7	MDX	yes
	Snapper Creek Expressway	SR 878	2.7	MDX	yes
Bridge					
	Card Sound Bridge			Monroe Co.	no
	Rickenbacker Causeway	SR 913	1.5	Miami-Dade Co.	no*
	Broad Causeway	SR 922	3.6	Bay Harbor Islands	no
	Venetian Causeway		2.5	Miami-Dade Co.	no*
	Cape Coral Bridge		0.64	Lee County	yes
	Midpoint Memorial Bridge		1.25	Lee County	yes
	Sanibel Causeway		3	Lee County	yes
	Pinellas Bayway	SR 682/679	8.5	FDOT	yes
	Gasparilla Island Bridge		2.5	Gasparilla Island Bridge Authority	no
	Sunshine Skyway Bridge	I-275	4.1	FDOT	yes
	Garcon Point Bridge		3.5	Santa Rosa Bay Bridge Authority	yes
	Mid-Bay Bridge	SR 293	3.6	Mid-Bay Bridge Authority	yes

\*Conversion to SunPass planned for 2012

## A. The Local Toll Authorities (LTAs)

Since the primary focus of attention in 2011 was the possible partial or complete consolidation of major urban toll agencies with FTE, our principal focus in this report will be those three urban agencies: MDX, OOCEA and THEA. They serve the three largest urbanized areas in the state, they deal with growing urban traffic congestion and they are governed by local boards of directors. Each was authorized under Florida Statute 348, Expressway and Bridge Authorities. They differ considerably in size and in a number of other aspects, as summarized in Table 2.

Table 2: Florida's Urban Toll Authorities			
	OOCEA	THEA	MDX
Year established	1963	1963	1994
Board members	5	7	13
Issue own debt?	Yes	No*	Yes
Build outside home county?	Yes	No	No
Centerline miles	100	15	35
Lane-miles	671	112	223
Lease-Purchase Agreements?	Yes	Yes	No
PPP authority	Yes**	Yes**	Yes
Asset value, FY 2010–11 (\$ billion)	\$3.05	\$0.6	\$1.08

**Table 2: Florida's Urban Toll Authorities**

	OOCEA	THEA	MDX
Revenue bonds outstanding (\$ billion)	\$2.70	\$0.324	\$0.925
Debt owed to FDOT (\$ million)	\$270.1	\$200.5	\$47.7
Revenues, FY 2010–11 (\$ million)	\$263.8	\$40.5	\$111.5

Source: "Comparison and Analysis of Florida Toll Authorities," Center for Urban Transportation Research," 2009, updated with figures from the financial statements of OOCEA, THEA and MDX.

\*Technically yes, but constrained by FDOT approval requirement. \*\*Granted by legislation in 2007

Besides the differences in size, the three agencies also differ in what they are allowed to do. Even though all three operate in multi-county urban regions, only OOCEA is currently allowed to build facilities across its home-county lines into other parts of the urbanized area. MDX and OOCEA can issue their own debt, but THEA can only do so with the consent of FDOT, which tends to follow the financially conservative policies of the state Division of Bond Finance.

One of the most important differences is something called Lease-Purchase Agreements (LPAs). This arrangement, which appears to be unique to Florida, is a way for the state (FDOT) to assist start-up local toll authorities by advancing funds to pay their operating and maintenance costs, to be reimbursed by the LTA at a later date. (The reimbursements may occur either at the end of each month after debt service has been paid or after all the outstanding bonds are retired, depending on the provisions of the LPA.) This arrangement enables toll revenue bonds to be issued by or on behalf of the local toll agency based on a pledge of its *gross* toll revenues. That permits a given toll revenue stream to support a larger total bond amount, other things being equal. Most toll roads nationwide are financed based on a pledge of *net* toll revenues—which means revenue that remains after operating and maintenance (O&M) costs have been paid. Investors need assurance that a toll facility will be maintained in excellent condition and thereby be seen by customers as a better choice than non-tolled alternatives. Hence, the common practice of finance based on *net* toll revenues reflects bond buyers' recognition of the business value of proper O&M spending. Florida's LPA mechanism provides an alternate way to provide bond-buyers with this assurance.

However, for the local toll authority, there is no free lunch. Under LPAs, the local toll authority agrees to consider all of FDOT's O&M expenditures as lease-purchase payments by means of which FDOT will eventually end up owning the local toll road. Moreover, the value of any FDOT O&M payments that have not been reimbursed by the LTA becomes a debt owed by the local toll authority to FDOT, which the latter expects to be eventually repaid (in addition to its being able to eventually claim ownership of the toll road). Local toll authorities may also have other debts to FDOT which they must retire: modest loans (generally for start-up costs) from the State Infrastructure Bank (SIB) and/or the Toll Facilities Revolving Trust Fund (TFRTF).

As noted in Table 2, both OOCEA and THEA have LPAs with FDOT, which limits their flexibility and autonomy. MDX in 1996 made an agreement with FDOT under which it made a one-time payment to FDOT to retire the state's outstanding bonds and assumed responsibility for all debt on

its expressways, thereby gaining autonomy from FDOT. In one sense, MDX “graduated” and became a normal, self-supporting urban toll agency, like those in the major urban areas of other fast-growing states (see Part 3). OOCEA and THEA, while both constrained by LPAs, have somewhat different situations. With its much larger size and the ability to operate beyond Orange County and to issue its own debt, OOCEA has more flexibility than THEA, which is confined to just the Hillsborough County portion of its metro area and must rely, de-facto, on the state to issue its revenue bonds.

## B. Toll Collection Interoperability

One of the concerns raised by proponents of toll agency consolidation is that having multiple toll agencies means multiple bills for motorists who travel from one part of the state to another. While this can happen in a small fraction of cases, it is far less common than many people believe. In fact, the toll agencies have been working together to bring about full interoperability within Florida, as well as to make the SunPass system interoperable with the 22-state E-ZPass system of the Northeast and Midwest.

To begin with, over 80% of all electronic toll transactions in Florida are processed by SunPass. OOCEA and Lee County operate their electronic tolling under different brand names—*E-Pass* and *Leeway*. This can be confusing for motorists from outside those areas, but those two systems are fully compatible at the roadside with SunPass—i.e., SunPass transponders work in Orlando and Lee County, and E-Pass and Leeway transponders work on all SunPass toll facilities statewide. FTE also processes all OOCEA, THEA, MDX, Mid-Bay Bridge and Garcon Point Bridge transactions that can be readily assigned to a pre-paid account through a vehicle’s transponder (over 1 billion such transactions during FTE’s FY 2010–11). All of these transactions are fully compatible today and result in a single toll bill to Florida motorists, regardless of which agency’s ETC program they are enrolled in. Each agency clears the others’ pre-paid toll transactions similar to the way checks are cleared from multiple banks.

The latest tolling development, in Florida and several other states, is conversion to cashless, all-electronic tolling (AET). This has already been implemented on portions of the MDX and FTE systems in Miami-Dade County, and on THEA’s Selmon Expressway, and is planned for introduction elsewhere in Florida. While AET benefits motorists by eliminating toll plazas, it also introduces new interoperability issues. The immediate challenge is to obtain accurate billing information for those vehicle owners not actively enrolled in an ETC program (either a SunPass transponder account or a Toll-by-Plate account). This includes residents of Florida as well as residents of other states, especially since Florida is a major tourist destination. Coordination of all violation enforcement activity in Florida is also being addressed.

FTE is providing license plate tolling (Toll-by-Plate) on the southern 47 miles of Florida’s Turnpike (generally known as HEFT), where all-electronic, no-cash tolling is in effect. Motorists are assessed a \$2.50 service fee for the convenience of driving this section of the network without

being actively enrolled in an ETC program. MDX also processes Toll-by-Plate transactions for its own operations as well as THEA's. However, THEA's service fee is only 25¢ in an effort to encourage motorists to use the facility. Therefore, MDX (which conducts these transactions for THEA) independently processes the bulk of the non-FTE image-based transactions in Florida.

Most image-based transactions (IBT) require some kind of manual intervention. This is a slow, tedious process. Each toll agency also has its own policies and business rules for processing these transactions, which complicate the ability to make this function appear seamless (interoperable) to the public. Sharing information between agencies, a necessary part of any interoperability effort, is also done manually for some of these transactions. Therefore, a motorist without an active ETC account and relying on IBT at THEA or MDX can find herself in a situation of having incurred multiple violations, before she knew there was a problem. Invoicing and collecting tolls from owners of vehicles registered in other states further complicate the problem.

A state-wide, cooperative effort by the toll agencies to resolve these problems in Florida is already under way. Initial efforts have focused on increased communication and coordination in processing these transactions among the Florida toll agencies. The policies and business rules associated with processing image-based transactions at each agency vary. Standardizing these policies, to avoid confusing the public, would assist in resolving many of the current problems. A public information campaign may also contribute to the solution by informing motorists of how they can reap the benefits of the new AET programs and minimize any problems.

Interoperability across state borders is also being actively pursued. Florida toll agencies are in active discussions with the Inter-Agency Group (IAG), the organization that coordinates and provides for interoperability for all E-ZPass customers in the 22 northeast and midwest states and an agreement between E-ZPass and SunPass could be announced in the next few months. Once implemented, this will mean SunPass customers will be able to use their transponder on toll roads and bridges in those 22 states, and E-ZPass customers will be able to do likewise when they drive to Florida.

Florida toll agencies are also working to resolve interoperability issues with their counterparts from agencies in other states by actively participating in the industry group Alliance for Toll Interoperability. ATI is currently testing an "interoperability hub" that will support nation-wide interoperability for all image-based tolling transactions.

Resolution of these and other interoperability issues will provide better service to the citizens of Florida and those motorists from outside of Florida who use its toll facilities. Florida toll agencies will also be able to further reduce operating costs and increase net revenues as these interoperability measures are implemented.



## Part 3

# Local Toll Agencies in Other States

Florida is not alone in making use of local toll agencies in fast-growing urban regions. The same process has taken place in a number of other fast-growing states, including California, Colorado and Texas. This chapter provides an overview of these developments.

## A. Texas as the Pioneer

In recent decades, Texas has been among the nation's fastest-growing states. The creation of local toll agencies to supplement what could be paid for out of the state transportation budget began in Dallas and Houston. In 1953 the legislature created the Texas Turnpike Authority (TTA), whose first project was the Dallas-Ft. Worth Turnpike, which opened in 1957. It was so successful that its construction bonds were paid off in only 20 years, after which (as was the custom in those days) the tolls were removed and that highway became a part of I-30. TTA's second project was the Dallas North Tollway, whose first segment opened in 1968. TTA built several extensions in later years, as well as toll bridges in Grand Prairie and Houston.

TTA's focus mostly on the Dallas area left Houston feeling short-changed. So in 1983 Harris County voters authorized the creation of the Harris County Toll Road Authority (HCTRA) to build two tolled expressways: the Hardy Toll Road and the Sam Houston Tollway. Over the years both toll roads proved successful and were expanded, and HCTRA built additional projects, including the all-electronically-tolled Westpark Tollway, and most recently it added the four-lane Katy managed lanes on the rebuilt Katy Freeway (I-10). Today HCTRA operates 124 centerline miles of toll roads encompassing 688 lane-miles, having an asset value in excess of \$2 billion.

With growing transportation needs in the Dallas/Ft. Worth metro area, and local dissatisfaction with TTA, local officials obtained legislative support to spin off the Dallas North Tollway from TTA, forming the basis for a new regional (multi-county) toll authority, the North Texas Tollway Authority (NTTA), in 1997. (Thereafter, TTA would focus primarily on inter-city tollways, becoming the Texas Turnpike Authority Division of TxDOT.) Based in part on the robust revenues being generated by the Dallas North Tollway, NTTA embarked on an aggressive program of urban tollway construction, building the George Bush Turnpike and the Sam Rayburn Tollway, as well as two toll bridges and a toll tunnel. NTTA now operates 97 centerline miles of toll facilities, encompassing 554 lane-miles and an asset value of \$6.2 billion.

The success of HCTRA and NTTA was not lost on legislators from other fast-growing metro areas. To enable them to do likewise, in 2001 the legislature authorized the creation of regional mobility authorities (RMAs). An RMA can be formed by one or more counties, can develop and operate a range of transportation infrastructure, can condemn property for such projects, and can enter into design/build contracts and (where authorized) public-private partnerships. An RMA is governed by a board appointed by the member counties, with a presiding officer appointed by the governor.

The original legislation did not give RMAs the authority to issue bonds. Only one RMA was created based on the original legislation, but after revisions (including bonding authority) in 2003, seven more were created. As of 2011, four of them have toll road projects either in operation or under construction. These four are:

- Central Texas RMA—Austin (SH 183A in operation, Manor Expressway and MoPac Express Lanes being developed);
- Cameron County RMA—Brownsville (East Loop and SH 550 under construction);
- Camino Real RMA—El Paso (Loop 375 Managed Lanes under construction);
- North East Texas RMA—Tyler (first segments of Loop 49 in operation, additional segments under construction).

In addition, the Hidalgo County RMA (McAllen/Pharr) is planning several toll roads to improve connections from an important border crossing. The Grayson County RMA (Sherman/Dennison) is studying a 33-mile extension of the Dallas North Tollway. And the Alamo RMA (San Antonio) has studies under way on the Loop 1604 and US 281 toll projects and anticipates beginning toll project procurements for one or both during 2012.

TxDOT can provide start-up financial assistance to RMAs via several means: a loan from the State Infrastructure Bank (at tax-exempt rates), a “toll equity” zero-interest loan, and “pass-through tolling” support (a kind of shadow toll payment). If an RMA is unable to pay back some of a loan amount, TxDOT may retain an equity stake (i.e., part-ownership) in the project. That is expected to be the exception, rather than the rule.

## **B. California**

### ***Bay Area Toll Authority***

Because of its geography, the San Francisco Bay Area inherently depends on major bridges, which were developed and are maintained via toll finance. Historically, the California Department of Transportation (Caltrans) was responsible for the seven state-owned bridges in the San Francisco Bay Area. But in 1997 the legislature created the Bay Area Toll Authority (BATA) to administer the tolls on those bridges. The region’s metropolitan planning organization—the Metropolitan

Transportation Commission (MTC)—began operating as BATA in 1998. In 2005, the legislature expanded BATA’s responsibilities to include administration of all toll revenue and joint oversight (with Caltrans) of the toll bridge construction program.

### *Golden Gate Bridge, Highway and Transportation District*

The origins of the metro area’s most famous bridge date back to 1925, when the legislature enabled creation of a special Bridge and Highway District to plan, finance, design and build a bridge across the entrance to the San Francisco Bay. Though the bill gave all 21 northern California counties the option of joining the new district, only six close-in counties voted to create it. Despite strong opposition from special interests, especially ferry companies, the Golden Gate Bridge and Highway District, composed of its six member counties, was approved by the legislature in 1928. In 1930, voters within the six member counties approved a \$35 million toll revenue bond issue to finance construction. The last of a series of construction bonds was retired in 1971.

By 1967 traffic on the bridge had grown from 3.3 million vehicles in 1938 to 28.3 million. Despite public pressure throughout the Bay Area to expand existing facilities and create new ones, the district’s board rejected adding a second deck. Instead, they voted in 1967 to create a mass transit system to supplement the bridge. The legislature authorized the district to develop a bus and ferry system in 1969, adding the word “Transportation” to the District’s name and letting it use “excess” toll revenue to subsidize its transit operations.

### *Orange County’s Transportation Corridor Agencies*

By the early 1980s, three new highway corridors were being considered for newly developing southern Orange County. The concept of charging tolls to finance the corridors arose in 1984 since no state funding was available. Two joint powers authorities were formed to finance, construct and operate the new toll roads in 1986: the Foothill/Eastern Transportation Corridor Agency (TCA) and the San Joaquin Hills TCA. Legislation in 1987 gave the TCAs the authority to construct the new roads as toll facilities and issue bonds backed by future toll revenues and development impact fees.

The Toll Roads (as they are called today)—the San Joaquin Hills (SR 73), Foothill (SR 241) and Eastern (SRs 241/261/133)—include 51 miles of new regional toll highways. They are owned and maintained by the state of California, but operated by the TCAs, and they were built without taxpayer dollars. The TCA bonds can only be repaid via tolls and development fees. Since the bonds are not guaranteed by the government, taxpayers are not at risk if future toll revenues fall short.

### *California's PPP Toll Roads Pilot Program*

The AB 680 legislation, enacted in 1989, authorized Caltrans to enter into agreements with private entities to finance, build and operate up to four transportation demonstration projects. It authorized Caltrans to lease rights-of-way in, and airspace over or under, state highways, to grant necessary easements, and to issue permits or other authorizations necessary to enable private entities to construct these transportation facilities, and to lease those facilities to the private entities for up to 35 years, after which control would revert to the state. The new toll roads would at all times be state-owned. The bill also required that the plans and specifications for each project comply with Caltrans' standards for state projects, and deemed each facility built by and leased to a private entity to be a part of the state highway system during the term of the lease.

Four projects were chosen during a competitive selection process, but only two ended up being built, since the other two faced serious environmental and local opposition.

The 91 Express Lanes is a 10-mile project (two lanes in each direction) that was built in the median of the existing eight-lane SR 91 freeway, connecting residential areas in Riverside and San Bernardino counties with major employment centers in Orange and Los Angeles counties. This \$130 million project was financed and developed by the California Private Transportation Company (CPTC), a joint venture. The Express Lanes project opened to traffic in December 1995. It was the first U.S. toll road to use variable congestion pricing and was also the world's first cashless (all-electronic) toll road. CPTC was responsible for all operations and maintenance, as well as paying for the policing services of the California Highway Patrol. All costs were covered out of toll revenues. Political controversy over a clause in the franchise agreement preventing capacity expansions to competing facilities (to safeguard the toll revenue stream) ultimately led to the Orange County Transportation Authority (OCTA) buying the Express Lanes at the project's third-party-determined value. OCTA has continued the congestion pricing policy, and the Express Lanes are highly popular with commuters.

The other AB 680 project that got built was the South Bay Expressway (SR 125, San Diego County), a new 10-mile toll road from SR 905 near the Mexican border going north to SR 54 in Spring Valley. The \$1 billion, four-lane limited-access tollway, with seven interchanges and a major bridge, was developed by California Transportation Ventures (CTV), with Parsons Brinckerhoff as a major shareholder. PB spent about a decade overcoming litigation over environmental and development issues before being cleared to build the project in 2002, but sold the franchise to Macquarie before construction began. Unfortunately, the Expressway opened shortly before the bursting of the housing bubble and the subsequent recession, leading to traffic and revenue well below projections. CTV filed for bankruptcy in 2010. The San Diego Association of Governments purchased the residual value of the Expressway (\$341.5 million) after the bankruptcy proceedings, becoming the owner-operator in late 2011. Although the private investors and lenders lost around \$650 million of their investment in this facility, there was no taxpayer bailout, and the region acquired a billion-dollar toll road at just 34% of its original cost.

Although both PPP projects were ultimately acquired by local agencies, the legislature in 2009 enacted broader PPP legislation, permitting an unlimited number of projects to be developed. In contrast to the 1989 pilot program, the new law envisions these projects not as fully private but as partnerships, primarily between local entities and the private sector, with the assistance of Caltrans. Among the toll projects being pursued as of 2012 are three tolled mega-projects in the Los Angeles area: truck lanes on the southern part of I-710, a double-deck tunnel to complete the long-planned missing link on the northern part of I-710, and the new High Desert Corridor in northern Los Angeles County.

### C. Colorado

Colorado's venture into modern urban toll roads came in response to the need to complete the partial beltway around the fast-growing Denver area, despite a lack of state funding. Three counties formed the E-470 Authority through a Memorandum of Understanding in 1985, but the new authority did not have the power needed to finance and build a toll road. The legislature passed a Public Highway Authority Act in 1987, providing that legal framework. It granted any such authority several powers that do not require voter approval unless limited by the contract creating the authority, including the acquisition of rights of way via condemnation, issuing bonds, collecting tolls and levying developer fees. With voter approval, an authority may also levy vehicle registration fees and create special districts. The E-470 Public Highway Authority assumed these new powers in 1988. Five other municipalities joined, and the planned facility grew in length to become the entire eastern half of the beltway. Built in stages, the first segment opened in 1991, with the fourth and final segment opening in 2003, with the entire project costing over \$1.2 billion. Today E-470 is the complete 47-mile eastern beltway, financed and built without state or federal funding, relying primarily on toll revenues.

The success of E-470 inspired several attempts to do likewise, so as to complete the remaining northwestern portion of the beltway. A W-470 Authority was created by several jurisdictions in 1987 but was unable to obtain financing and shut down in 1992. In 1998, another set of jurisdictions created the Northwest Parkway Authority, approved by the legislature in 1999. It issued \$416 million in 35-year toll revenue bonds, enabling construction to start on the eight-mile Northwest Parkway section of the beltway in 2001. The Parkway opened to traffic in November 2003, with tolls first collected in January 2004. Unfortunately, traffic and revenue were below projections, and after a bond rating downgrade, the Authority leased the Parkway for 99 years to a consortium of BRISA (Portugal) and CCR (Brazil), both experienced toll road owner-operators.

The final 19-mile W-470 section of the beltway remains unbuilt. This portion of W-470 was originally planned as a toll project to be financed by Colorado DOT's relatively new Colorado Tolling Enterprise (CTE). But CDOT stopped design work on the project in 2008, unable to reach consensus with local communities. Later that year, several of those communities created the Jefferson Parkway Public Highway Authority, to develop the project on their own. In December

2011 it held a bidders' conference as part of the process to develop a public-private partnership (PPP) for the first 10 miles of the remaining beltway.

The state has developed only one toll project via the CTE: the I-25 managed lanes. This project converted the reversible HOV lanes to priced managed lanes on a section of I-25 from downtown Denver to US 36. In March 2009, the legislature reorganized the CTE as the High Performance Transportation Enterprise (HPTE). The HPTE has a board of seven members, four appointed by the governor from each of four regions of the state, and another three selected by the first four members. The Enterprise has powers to levy “user fees” and to issue debt secured by those revenues but the new law says its purpose is “to pursue public-private partnerships and other innovative means” of building roads. The HPTE, like the CTE, will operate within CDOT and may accept grants up to 10% of its revenues. Its first toll project is adding managed lanes to US 36 from I-25 to Boulder.

#### **D. Summing Up: Lessons from Other States**

This brief overview illustrates the resurgence of toll facilities in the large metro areas of fast-growing states. This process has been most successful where the responsibility for urban projects has been largely devolved to local toll authorities, as shown most robustly in Texas and to a lesser but still significant degree in the three major metro areas of California and in metro Denver. In all these cases, local toll agencies, sometimes working with the private sector under PPP arrangements, have been effective in meeting the highway infrastructure needs of major urban areas, with state agencies providing modest assistance, at best.

In none of these states has consolidation of local toll agencies into a state agency taken place. Devolution in California, Colorado and Texas can occur with the formation of local toll authorities either at the county level or among adjacent counties in urbanized areas. State DOTs are generally supportive of this kind of local self-help. It is also worth noting that although the state DOT can assist the local toll agencies in Texas, there is nothing resembling Florida’s lease-purchase agreement (LPA)—under which the state gradually takes over the facilities of local toll authorities—in any of these states. The actual trend, in Texas and elsewhere, is devolution to local authorities, which are intended to be permanent.

## Part 4

# Policy Issues with Toll Agency Consolidation in Florida

Those advocating toll agency consolidation rest their case almost exclusively on the potential of cost savings—primarily in annual operating costs but to a lesser extent also in financing costs. The cost savings question is discussed in Part 5 of this report. In this section, we examine key policy issues, *other than* cost savings, that need to be considered in deciding whether consolidation is desirable.

Four main policy rationales are offered by those favoring the use of local toll authorities (LTAs) in Florida:

- Local control and project development
- More flexible financing
- Innovation
- Outsourcing

Each will be discussed in turn.

### A. Local Control and Project Development

As documented in Part 3, there is a trend toward increased use of LTAs in fast-growing states, most notably in Texas. When asked why this trend exists, Attorney C. Brian Cassidy, who represents several such entities in that state, responded: “Local control is the key concept.” He went on to explain that this major shift in Texas highway policy came about because the state DOT and its turnpike division could not keep up with the needs of urban areas. In addition, he said, “To gain acceptance, these projects need to be implemented at the local level.” Among other things, he said that having a local board as the governing body creates trust among the public that local needs will be met and local concerns taken into account.<sup>2</sup>

An underlying factor in this regard is that major metro area highway investment needs are generally greater than those of either (a) smaller cities and towns or (b) inter-city highways. In part

this is due to the much higher levels of daily traffic that urban expressways must accommodate, but it is also due to the cost of construction (per lane-mile) being significantly higher in major metro areas. A statewide tollway funding system (e.g., a consolidated toll road agency) would, of necessity, need to balance the needs of all parts of the state in setting priorities for its work program. LTA proponents therefore make the point that the LTA can be more responsive to local needs by raising and spending more on its expressway system, and in a more timely manner, than would be likely via a single statewide toll agency.

LTAs in Florida and in each of the states discussed in Part 3 ensure that toll monies collected in a specific urban area *are retained and spent on projects within that urban area*. Florida LTA supporters express concern—perhaps suggested by calls for the state to bail out the bankrupt Santa Rosa Bay Bridge Authority—that under statewide consolidation, some of the toll revenues generated in an urban area could be used for projects in other parts of the state. Were this to come about, it could undermine urban residents’ support for paying tolls, changing their perception from the toll being a user fee to the toll being, in part, a tax for the benefit of others.

One additional point relates to the differences in tolling policies between long-distance, inter-city toll roads and tolled urban expressways. Diane Gutierrez-Scaccetti, Executive Director of FTE, made a point of stressing that agency’s low toll rates in her testimony before the Government Efficiency Taskforce (GET) on Oct. 5, 2011.<sup>3</sup> The average toll on the four principal inter-city toll roads in Florida is 6.63 cents/mile. By contrast, the average toll on 18 urban toll roads (in Miami, Orlando and Tampa metro areas) is 16.91 cents/mile.<sup>4</sup> The higher urban toll rates reflect the much higher costs of building and operating urban expressways compared with inter-city turnpikes. Florida’s urban LTAs also increase their toll rates more often than either FTE or FDOT, to keep pace with inflation. As of Dec. 31, 2010, the average number of years since a toll rate increase was 2.4 years for the three urban RTAs, compared with 14.6 years for FTE regional facilities, 18.5 years for FDOT-owned toll facilities, and 18.7 years for the Turnpike mainline.<sup>5</sup>

In coming years, it is quite possible that urban toll rates will become variable, as a means of managing traffic flow and reducing congestion. Variable tolls of this sort exist on about a dozen managed lanes facilities around the country, including the I-95 Express Lanes in Miami, and are proposed for the I-4 managed lanes in Orlando. Peak and off-peak rates are also in use on the Lee County toll bridges in Florida and on toll roads and bridges in the New York City metro area, San Francisco Bay Area toll bridges, and on the Orange County toll roads discussed in Part 3. Thus, urban tolling differs in several important ways from traditional long-distance turnpike tolling and will differ even more so in the future, as tolls are used as an urban traffic management tool.

## **B. More Flexible Financing**

FTE is well-known nationally as an innovative and well-run state toll authority. FTE operates under conservative financing policies to ensure high bond ratings (and hence lower interest rates on its bonds). By law, any proposed turnpike in Florida must meet an economic feasibility test by



demonstrating that the estimated net toll revenues will be sufficient to pay at least 50% of the debt service on the bonds by the end of the 12<sup>th</sup> year of operation, and to pay at least 100% of such debt service by the 22<sup>nd</sup> year of operation. And for a “turnpike project” funded from revenues of the turnpike system, that project must generate sufficient revenues to amortize project costs within 15 years of opening to traffic.

FTE’s toll revenue bonds are issued with a level schedule of debt service payments over 30 years, described by some as “plain vanilla” revenue bonds. Less conservative financing policies sometimes used on toll projects in other states may involve longer terms than 30 years, and may structure the debt service to be lower in the early years, increasing over time as traffic and revenue are projected to increase.

The state Division of Bond Finance, when issuing bonds on behalf of LTAs, has followed generally similar conservative policies, though there is no statutory mandate for an economic feasibility test. The Division’s conservative practices (30-year, level debt service revenue bonds via competitive bidding) are not mandated by law, but are a matter of policy. These policies generally reduce risk, though they are not a guarantee against occasional failures. (We note in passing that the bonds issued by the now-bankrupt Santa Rosa Toll Bridge Authority were issued by that authority, not by the state, based on debt service that increased over time, based on traffic and revenue projections that turned out to be overly optimistic).

Local toll authorities in Florida contend that FDOT’s conservative financing policies—while suitable for standard inter-city turnpikes where traffic growth is moderate, and for stand-alone toll bridge projects—are less well-matched to the needs of fast-growing urban expressway systems. For projects where traffic growth is much faster than in the inter-city segment, LTAs argue that debt service that increases over time can be a better fit. By taking advantage of both higher traffic growth and inflation-adjusted toll rates, the LTAs could finance larger projects sooner via a more aggressive approach to project finance. Such policies are potentially higher risk than the plain-vanilla state policies, but when such debt is legally the responsibility of the LTA, not the state, then it is not clear that state policy should constrain LTAs from making their own trade-offs about the degree of risk they take on. If the bond market judges that such structured finance is higher risk, it will price that risk into the interest rate on the revenue bonds. LTAs argue that it is appropriate for their locally accountable boards to be able to make such trade-offs.

The three urban LTAs have secured varying degrees of authority to issue bonds on their own behalf, so as to depart from the Division’s plain-vanilla bonding. The 1996 legislation on MDX transferred control of 34 centerline miles of expressway from FDOT to MDX, with MDX issuing its own bonds and paying the amount needed to defease its \$91.3 million outstanding bond balance. In the years since then, MDX has invested \$170 million on completed projects and another \$410 million on ongoing projects, plus contributing over \$300 million in joint construction projects with other state and local agencies.<sup>6</sup>

The legislature granted bond-issuance authority to OOCEA in 2002. A report from the Center for Urban Transportation Research says of this change, “The impacts of this autonomy cannot be overstated because of the increased flexibility the agency now has to creatively structure and restructure its debt in order to accomplish its programmatic goals.”<sup>7</sup> This report goes on to contrast what OOCEA (like MDX) is now able to do without the constraints of state-issued bonds: “This [Division of Bond Finance] financing structure, while relatively safe given reasonable assumptions on future revenues, does not allow a toll agency to take additional advantage of future revenue streams, particularly when attempting to finance a new [urban] facility. Fairly standard practices, such as capitalized interest for the construction period or increasing interest rates in the early years of issuance, are apparently not allowed by DBF.” The report follows this with a graph showing the tripling of OOCEA infrastructure investment in the five years following the legislative action of 2002.

THEA is the only one of the three urban LTAs that is still significantly constrained in its bond issuance. In 2010 the legislature granted THEA the authority to issue its own bonds, but the subsequent Memorandum of Agreement between THEA and FDOT, based on the continued existence of the LPA between THEA and FDOT, gave FDOT the right of approval over any THEA bond issues. In 2011 THEA proposed a bond issue to restructure its existing bonded indebtedness, to take advantage of (a) historically low interest rates and (b) unusually low construction-cost bids. THEA proposed a new bond issue that would enable it, rather than FDOT, to fund the projects in its Five Year Work Plan, reducing its FY 2013 long-term debt from \$247 million to \$136 million, and accelerate payments on that debt by nine years. It would also pay off THEA’s loans from the State Infrastructure Bank and the Toll Facilities Revolving Trust Fund (totaling \$66 million). During the years 2012 through 2020, THEA’s average overall debt service coverage would be 1.33 times toll revenue (referred to as 1.33X). FDOT rejected that plan in favor of its own plan, under which FDOT would continue funding THEA capital projects under the LPA. Under this plan, THEA’s debt to FDOT would be \$111.8 million higher than under the rejected THEA plan. Average overall coverage ratio, 2012 to 2020, under FDOT’s plan would be 1.47X, but would dip as low as 1.11X and 1.14X in individual years, whereas under THEA’s plan coverage would never be lower than 1.30X.

### **C. Innovation**

In his question-and-answer session with the Government Efficiency Taskforce, FDOT Secretary Ananth Prasad stated that “There is a lot of value in having regional [toll] authorities,” noting that in addition to being a way to develop local consensus about toll projects, they can introduce new ideas and “out-of-the-box types of projects.”<sup>8</sup> He may have had in mind the innovative reversible express lanes on the Selmon Expressway, developed by THEA. This project has been cited as a national example of providing a dramatic increase in capacity on a crowded expressway without having to widen it, by using six feet of right-of-way in the median for pillars that support three reversible express toll lanes.

LTAs in Florida can cite a number of additional examples of innovation. Among them are the following:

- Early introduction of electronic toll collection (ETC): OOCEA in 1994.
- First new toll plaza configured for open-road tolling (ORT): OOCEA, in 2000.
- First toll plaza conversions to ORT: MDX and OOCEA, both in 2003.
- First agency-wide conversion to all-electronic tolling (AET): THEA, in 2010.
- First joint AET operations & maintenance contract: MDX and THEA in 2010.

This is a partial list, and is meant to be illustrative of the incentive of LTAs in Florida to seek smarter and more cost-effective ways to do business. FTE has been similarly innovative, in developing the statewide SunPass electronic tolling system, its innovative marketing program for SunPass, and as an early adopter of both ORT and AET. These practices are now common in the toll industry in Florida, and in other fast-growing states such as California, Colorado and Texas.

#### **D. Outsourcing**

Consolidation, either of functions or entire agencies, is one possible way to realize cost savings from economies of scale (in situations in which the unit cost of a function declines as it is provided on a larger scale). But contracting with another entity—public or private—is an alternate way of achieving that kind of cost savings. Outsourcing is used fairly extensively by Florida’s LTAs, as well as by FDOT and FTE.

Florida was one of the pioneer states in outsourcing highway maintenance functions. FTE first outsourced maintenance of its mainline in 1991; the contract has been rebid twice, most recently in 2002. In 2000, FTE also went out to bid for maintenance services for 24 other toll facilities around the state, ranging from the Garcon Point Bridge to Alligator Alley. OOCEA first outsourced its highway maintenance in 1993. Under THEA’s LPA, FDOT District 7 provided such maintenance for the Selmon Expressway using a contractor through 2009. As of 2010, THEA has hired its own contractor at an estimated annual savings of \$250,000. MDX has outsourced its highway maintenance since 2000.

Toll collection is also largely outsourced in Florida. OOCEA was the first to do so, starting in 1993, and THEA has outsourced toll collection to FTE for many years. But in 2007, when FTE proposed upgrading the equipment but retaining the traditional barrier toll collection, THEA decided on a different course. Since electronic toll collection was already at the 70% level, instead of upgrading the equipment at a 20<sup>th</sup>-century toll plaza, the upgrade route most agencies had taken next was to convert to open road tolling (ORT), with cash tolling off to the side. But since there was not enough room to convert to ORT, THEA decided to go straight to all-electronic tolling (AET), eliminating all toll plazas and cash collection. THEA asked FTE’s equipment contractor to bid on that project, but they declined. THEA then selected its own equipment contractor, as well as

a construction contractor to demolish the toll plaza and realign the roadway for AET. As part of that process, MDX and THEA decided to capture economies of scale from a combined AET toll operations contract for image-based tolling (IBT). FTE declined to bid on this contract, which was won by a private toll collection firm.

Outsourcing (to each other in many cases) and the reduction and the partial elimination of cash tolling have dramatically lowered the cost of toll collection in Florida. As of 2011, MDX's cost has decreased to 6 cents per toll transaction, THEA's to 10 cents per transaction, and OOCEA's to 11 cents per transaction. These compare with FTE's relatively low and declining 14.6 cents per transaction for inter-city facilities.<sup>9</sup> In fact, OOCEA's and FTE's costs per toll transaction are among the lowest in the nation for toll facilities with a mix of cash and automated toll collection.

THEA also outsourced its insurance policy in 2010. Before then, it received coverage via a property and casualty policy provided by FDOT, a policy which covered many FDOT and FTE assets, as well. While the expectation was that economies of scale in such an arrangement would provide good coverage for THEA at lower cost, one feature of the FDOT policy was a \$1 million deductible on any claim and self-insurance for the first \$10 million of coverage (split 50/50 with FDOT). By going into the market itself, THEA was able to obtain a policy with a \$50,000 deductible and annual premium savings in the \$100,000 range.<sup>10</sup> Similarly, OOCEA has been able to save nearly \$2 million over the last eight years by procuring its own (comparable) insurance, rather than using FDOT's pool coverage.<sup>11</sup>

## Part 5

# Cost-Saving Potential of Consolidation

The potential for cost savings via toll agency consolidation in Florida is based in part on two consolidations that took place in the Northeast during the past decade. The first was consolidation of the Garden State Parkway and the New Jersey Turnpike in 2003. The second was the consolidation of a set of transportation agencies, including the Massachusetts Turnpike, into a new Massachusetts Department of Transportation in 2009. This section reviews both of those consolidations and then turns to the cost savings estimated for toll agency consolidation in Florida.

## A. New Jersey Turnpike and Garden State Parkway

Via an executive order, New Jersey Gov. Jim McGreevy created the New Jersey Toll Road Consolidation Study Commission in March 2002. The commission drew upon an organization model developed by the Hay Group, which estimated annual savings beginning at \$4 million per year in 2003, growing to \$9.8 million per year by 2008. Consolidation legislation passed in May 2003, with the official date of consolidation of the New Jersey Turnpike and the Garden State Parkway on July 9, 2003.

The closest thing to a publicly available report on the results of the consolidation is a Powerpoint presentation from a meeting of the International Bridge, Tunnel, & Turnpike Association in 2005.<sup>12</sup> It describes the initial consolidation of administrative departments in their existing facilities, the leasing of new space to consolidate functions under one roof, introduction of a voluntary separation package to assist in achieving reduced headcount, implementation of new electronic toll collection on the Garden State Parkway, and increased capital spending on widening projects on both toll roads.

In terms of savings during the first two years, the presentation cites a reduction of 212 positions (without stating what percentage reduction that is) and administrative savings of \$8.2 million over the first two years. Additional headcount reduction of “at least 100 positions” and streamlining nine union contracts regarding work rules were listed as things still to be done.

Several factors will help to put this consolidation in perspective regarding lessons for Florida. First, this was a consolidation of two relatively similar long-distance inter-city corridors, not a consolidation of quite different urban and inter-city expressways. Second, part (potentially a large

part) of the headcount reduction was related to the wrapping up of a troubled electronic toll collection upgrade at the Turnpike and implementation of the new ETC system on the Parkway, completion of which would naturally result in reduced headcount. Third, the annual administrative cost savings of \$4.1 million during the first two years (the only such figures we have and at least partly accounted for by the ETC project headcount reductions) amounts to less than 1% of the \$441 million operating budget of the consolidated New Jersey Turnpike Authority for 2005. In addition, other rationales for the consolidation—debt refinancing and accomplishing a project to replace the Driscoll Bridge (where one toll road crosses the other)—could have been accomplished without the consolidation, though the consolidation likely made the latter project somewhat easier.

We also note that while New Jersey consolidated two inter-city turnpikes, it did not seek to consolidate the six independent local toll authorities in that state.

## B. Massachusetts DOT Consolidation

In 2009, the Massachusetts legislature enacted “An Act Modernizing the Transportation Systems of the Commonwealth.” Its purpose was to bring into a single agency a number of formerly separate transportation agencies. Under the new structure, the former Massachusetts Turnpike is now part of the Highway Division, reporting to the Secretary of Transportation along with the divisions of Transportation Planning, Rail and Transit, Enterprise Services, Aeronautics, and the Registry of Motor Vehicles, all of which are now part of a single MassDOT operating budget. Independent agencies with a looser reporting relationship to the Secretary and/or the MassDOT board include MassPort (Port of Boston, Logan Airport and Tobin Bridge) and the Massachusetts Bay Transportation Authority (MBTA—the transit agency for metro Boston).

The report on the first year of the consolidation was released late in 2010.<sup>13</sup> Under the heading of MassDOT Reform Savings, it identifies “over \$100 million in anticipated, annualized and one-time savings.” A table on pp. 2–3 of this report itemizes those savings. Our analysis excludes one-time savings, debt restructuring and savings at MBTA (which is not part of the MassDOT budget). The remaining estimated annual savings are as follows:

Transfer Turnpike employees to state retirement system	\$5.1 million
MassDOT “in-sourcing” of services	2.7 million
MassDOT payroll savings (reduced headcount)	2.7 million
Own flaggers & traffic managers (replacing police)	7.75 million
Revised snow & salt contracts	9.5 million
Outsourced 511 service	1.2 million
Revised IT contract services	1.0 million
Toll money-counting service	0.5 million
Aeronautics division rent saving	0.13 million
Contractor payment website	<u>0.08 million</u>
Total annual savings	\$30.66 million

That is not a trivial amount of dollars. When compared with the FY 2011 MassDOT operating budget of \$429.6 million, it amounts to a savings of 7.1%. However, the applicability of this level of savings to the Florida toll agencies situation is questionable. The Massachusetts consolidation essentially eliminated the state's only toll agency as a stand-alone transportation developer/operator. It did illustrate that there can be some economies of scale in shared services, whether provided in-house or by outside contractors (snow & salt, IT services). However, more than 60% of the estimated savings is due to three factors that are not applicable to Florida:

- Eliminating the very costly but long-standing Massachusetts policy of paying state police officers to handle flagging and traffic control at highway construction sites;
- Snow and salt contracts;
- Outsourcing the 511 service (which could have been done independent of consolidation).

Removing those three items from the list leaves only \$12.21 million in annual operating savings, reducing the percentage saved to 2.8%. That is a very small portion of the \$429 million annual budget.

### **C. Florida Toll Agencies' Existing Efficiencies**

First and foremost, it should be noted that FTE, MDX, OOCEA and THEA are currently operating at cost levels significantly below many of their counterparts elsewhere in the United States—and doing so while providing exemplary levels of service. Even though OOCEA still offers a cash toll option at all toll plazas and FTE continues to offer a cash toll option at most of its toll plazas, these authorities have been able to accomplish this by aggressively implementing ETC and open-road tolling (FTE and OOCEA) and AET (THEA and MDX), and collectively processing their ETC toll operations functions through cooperative agreements. In fact, by outsourcing routine and common services to each other and the private sector, FTE, OOCEA, THEA and MDX have already realized significant cost savings from combining the processing of their toll operations functions. This has also enabled FDOT, OOCEA, THEA and MDX to capture many of the usual benefits from consolidation such as economies of scale from larger operations and avoiding many of the costs of providing and sustaining redundant ETC back-office systems and functions. Though some opportunities for additional savings still exist, these agencies have already reaped many of the possible cost savings from consolidation, and capturing the additional savings can be accomplished without consolidation.

Several metrics are used to monitor and manage toll agency operations. The most appropriate metric for the relative efficiency of toll collection is the cost of toll collection per transaction (total collection costs divided by the number of transactions). Though this metric is affected by economies of scale, it is not affected by other factors such as the average toll rate, the community, or the type of vehicle traffic served by the toll agency.

FTE has been able to reduce its toll operations costs significantly over the last several years. Increases in the percentage of toll transactions realized from the SunPass program and other increases in efficiency (such as those described above) have enabled FTE to reduce its overall toll transaction processing cost from 17.3¢ to 14.6¢ per transaction between 2009 and 2011 (Table 3). For context, a 2007 national study that reviewed toll operations costs for facilities using both cash and ETC collection programs reported toll collection cost per transaction ranging from 23¢ to 62¢ per transaction.<sup>14</sup> Therefore, the FTE’s toll operations cost per transaction compares very favorably with other toll authorities in the United States.

Cash Tolls ¢/Trans’n FY2011	ETC ¢/Trans’n FY2011	All Trans’s Processed FY2009	All Trans’s Processed in FY2010	All Trans’s Processed in FY2011
32¢	8.5¢	17.3¢	15.7¢	14.6¢

Source: “Evolution of Florida’s Turnpike,” presentation to the Florida Government Efficiency Task Force, October 5, 2011, by Ms. Diane Gutierrez-Scaccetti, Executive Director and Chief Executive Officer. Note: FTE data are for FY2008-09; FY2009-10 7 FY2010-11, respectively.

OOCEA has been able to successfully reduce its operating costs over the last several years via the expansion of its E-Pass program. E-Pass transactions have increased from 46% of all toll transactions in 2002 to 75% in 2011.<sup>15</sup> OOCEA has cost-effectively captured a significant portion of non-E-Pass transactions by contracting with third-party toll service providers. OOCEA has also restructured its administrative group, in-sourcing maintenance management and legal services to reduce operating costs, and has taken responsibility for its own insurance needs which has saved OOCEA approximately \$1.9 million since 2004. These changes, in conjunction with its contract with FTE to provide for interoperability of all pre-paid transponder-based ETC transactions (OOCEA processes all its own Toll-by-Plate transactions), have enabled OOCEA to reduce its net operating cost per transaction from 13¢ in 2002 to 11¢ in 2011—which makes it competitive with private sector operations.<sup>16</sup>

THEA has realized significant savings in its operating costs by outsourcing its pre-paid, transponder-based ETC transaction processing to FTE (SunPass). And, even though it is a relatively small toll operation compared to FTE and OOCEA, THEA has been able to reduce its total operating costs from \$12.552 million in FY2008 to \$8.628 million in FY 2011—a 31% savings in total operating costs. THEA has accomplished this by:

- converting to all electronic tolling (AET);
- assuming responsibility for and outsourcing both roadway and toll systems maintenance; and
- outsourcing all image-based toll transactions (license plate toll and violations enforcement processing) to MDX.

It should also be noted that THEA has been able to realize these savings while providing a better level of service to its customers and a higher-quality facility for them to drive upon.



## D. Estimated Cost Savings from Florida Toll Agency Consolidation

An Expressway Consolidation Work Group of the Florida Government Efficiency Taskforce (GET) recently investigated the potential benefits of consolidating the following local toll authorities into the Florida Turnpike Enterprise (FTE) operation:

- Orlando-Orange County Expressway Authority (OOCEA);
- Tampa-Hillsborough Regional Expressway Authority (THEA); and the
- Mid-Bay Bridge Authority (MBBA).

All three authorities currently operate pursuant to a lease-purchase agreement with FDOT. The Santa Rosa Bay Bridge Authority (SRBBA), which also operates pursuant to an LPA with FDOT, was not considered in this investigation. Nor was the Miami-Dade Expressway Authority (MDX), which was established more recently than OOCEA and THEA under a different financing agreement with FDOT, and which is now operating independently, having paid its financial obligations to FDOT. FTE is not subject to an LPA with FDOT.

The Work Group reviewed the organization of each LTA, the size and type of its toll operations, its revenue and transaction volumes, its operating costs and the level of its indebtedness, both in general and to FDOT in an attempt to identify additional cost savings to the citizens of Florida should OOCEA, THEA and MBBA be consolidated into FDOT (FTE). Since the MBBA is a relatively small operation with only two full-time staff, the focus of the Work Group efforts was on OOCEA and THEA. A summary of general information from their observations is presented as Table 4.<sup>17</sup>

<b>Table 4: GET's Summary of Toll Authority Data</b>					
Agency	Lane-Miles	Gross Toll Revenue FY2010-11	Toll Transactions FY2010-11	Bond Debt Outstanding	Long Term Payable to FDOT
FTE	2,112	\$600,897,000	\$652,900,000	\$2,811,830,000	\$162,403,077
OOCEA	671	\$263,787,000	\$292,477,739	\$2,696,415,000	\$270,088,808
THEA	112	\$40,476,072	\$31,634,997	\$324,520,000	\$200,655,481
<b>Totals</b>	<b>2,895</b>	<b>\$905,160,072</b>	<b>\$977,012,736</b>	<b>\$5,832,765,000</b>	<b>\$633,147,366</b>

Matthew Falconer, Eric Silagy, and Robert Stork, "Florida Government Efficiency Taskforce Work Group Recommendations," Expressway and Bridge Authority Consolidation, November 2011, pp 2-3.

The Work Group appears to have relied heavily on an analysis prepared by FDOT at the request of the Senate Budget Subcommittee on Transportation, Tourism and Economic Development for consideration and evaluation of a proposed bill (SB 2152) in the 2011 legislative session. This analysis developed estimates of the possible cost savings from consolidation of OOCEA, THEA and MBBA with FDOT. Chairman Falconer also reportedly visited the facilities of OOCEA, THEA and FTE.

The Work Group met on October 13<sup>th</sup> and November 4<sup>th</sup> 2011 and submitted a summary report that concluded:

*The expressway consolidation work group found there is waste and inefficiency by having separate toll agencies. Each toll agency performs the same functions: administration of road construction and toll collection. Therefore, each agency has duplicative systems and personnel. Significant savings and efficiencies can be achieved through reduction of administrative personnel and consolidation of different systems into one larger system.*<sup>18</sup>

The Work Group also recommended to the GET that Florida should:

*Consolidate all toll collections into a single entity and system, including all administrative functions, software and IT systems, accounting, collection personnel, enforcement, customer service, and billing.*<sup>19</sup>

The Work Group estimated that annual savings in operating costs from consolidating OOCEA and THEA into FTE would be at least \$24.3 million per year.<sup>20</sup> This estimate, which does not include any possible savings from debt refinancing, real estate holdings, leased property and related maintenance and utilities represents 55.5% of OOCEA’s and THEA’s operating costs for 2010 (\$43.788 million).

Table 5: OOCEA and THEA 2010 Operating Costs		
Agency	Category	2010 Operating Costs
OOCEA		\$ 37.704 M
Operations*	\$32.527 M	
Admin	5.177	
THEA		\$ 6.084 M
Operations	\$3.927 M	
Admin	2.157	
Total		\$ 43.788 M

\* Includes O&M costs reimbursed by FDOT per agreement

Source: GET Work Group report

Since many of the possible savings from consolidation, reductions in operations costs from economies of scale, and avoiding redundancy in information technology (IT) have already been realized from the cooperative efforts of these agencies, this estimated savings seems very high. For example, the operating expenses estimated to be incurred by FTE after consolidation of OOCEA and THEA (\$43.788 million - \$24.3million)/year = \$19.488 million/year is actually less than OOCEA’s reported 2011 operating costs (\$20.85 million) of just sustaining remaining cash toll collections at OOCEA’s toll plazas.<sup>21</sup> Though some accounting anomalies may be involved here, this estimated savings suggests that FTE would essentially be absorbing all the costs of

management, technical (design, maintenance and operations), financial, legal, public relations and customer services support functions for OOCEA and THEA. Since OOCEA and THEA are currently processing over 324 million transactions/year (approximately one-third of the nearly one billion transactions processed by these three agencies each year), it is highly unlikely that FTE could simply absorb the costs of this processing. Therefore, this would be a very aggressive estimate of possible savings in operations costs even if these authorities had not been working cooperatively to consolidate most of their transaction processing functions. However, since these agencies are already realizing many of the benefits from economies of scale that consolidation would offer by contracting with each other to conduct transaction processing functions, the estimated savings of \$24.3 million per year does not appear to be defensible. A review of the Work Group’s analysis verifies this observation.

The Work Group report estimated their annual savings by a series of categories: contractual services, administrative costs (salaries and benefits), back-office toll operations and FTE incremental back-office costs, as well as an estimate of annual savings in operating costs from combining the operation of one FTE and one OOCEA toll plaza after consolidation. These categories, and the savings estimates for each category, appear to have been taken directly from FDOT’s evaluation of possible operating cost savings for consolidation of these two LTAs into FTE (Table 6). However, our review and evaluation of the FDOT estimates suggest that the actual savings in operating costs would likely be significantly less than those estimates.

<b>Table 6: GET’s Estimated Annual Cost Savings from Consolidation (000)</b>		
<b>Estimated Authority Costs</b>	<b>GET</b>	<b>Totals</b>
<b>Contractual Services (non-toll ops)</b>		<b>\$ 6,572</b>
OOCEA	\$ 6,145	
THEA	\$ 427	
<b>Administrative Salaries and Benefits</b>		<b>\$ 5,850</b>
OOCEA	\$ 3,781	
THEA	\$ 2,069	
<b>Back-Office Toll Operations</b>		<b>\$ 14,877</b>
OOCEA	\$14,261	
THEA	\$ 616	
<b>Less FTE Incremental Back-Office Costs</b>		<b>(\$ 4,693)</b>
OOCEA	(\$ 4,693)	
THEA	(\$ zero)	
<b>Removal of OOCEA Airport Plaza and Installation of ETC Ramps</b>		<b>\$ 1,712</b>
<b>Total Possible Annual Savings</b>		<b>\$ 24,318</b>

The GET cost savings estimate is fraught with problems. First, there was no clear statement of the assumptions made by FDOT in developing these estimates for the GET Work Group. Therefore, we asked FDOT to provide their basic assumptions for this analysis so that we could properly evaluate it, which FDOT did. Working on the premise that all cost savings should be estimated from actual expenditures and the perspective of the state (citizens) of Florida, the following summary provides FDOT’s assumptions for each category as well as our view as to their validity.

<b>Table 7: Review of GET's Cost-Savings Assumptions</b>	
FDOT Assumptions	Observations
<b>Category 1: Contractual Services (non-toll operations)</b>	
Assumed 50% savings on general engineering consultants, traffic and revenue consultants, construction management consultants, production management consultants, CEI services and audit services	Disagree—Nearly all of these contracted services will be necessary to ensure financial integrity, as well as the safe and efficient operation of these facilities after consolidation.
Assumed 100% savings on internal audit, ROW legal, financial and investment advisory services, public information/marketing services and lobbyists	Disagree—Most of these services (even those that might be in-sourced) will be necessary to sustain viable operations and meet community needs after consolidation.
No savings assumed for other contracted services not referenced above	Agree
<b>Category 2: Administrative Salaries and Benefits</b>	
Assumed 100% savings for administrative salaries and benefits	Disagree—OOCEA and THEA operations would still need to be managed and expansions/additional facilities planned and built.
No savings assumed for non-administrative salaries and benefits	Agree
<b>Category 3: Back-Office Toll Operations</b>	
FTE currently processes 100% of Mid-Bay's transactions, ~80% of THEA's transactions and over 50% of OOCEA's electronic transactions; savings are estimated based on remaining transaction processing	Disagree—All transactions need to still be processed. Savings possible if and only if FTE can process IBT transactions more efficiently than OOCEA or THEA (MDX).
Assumed video/violation enforcement volumes for THEA and OOCEA absorbed into FTE back office operations	Agree on V/E, if and only if FTE fees are not higher than OOCEA & THEA Disagree on other IBT transactions: e.g. THEA and FTE fees for LPT currently at \$0.25 and \$2.50, respectively
Assumed <i>net</i> savings from absorbing E-Pass transponders to SunPass back office	Disagree—The costs of sustaining toll operations, IT, E-Pass service center and marketing functions would still be necessary
Assumed no savings for OOCEA's cash collection process (i.e. assumed cash toll collection costs were the same as OOCEA	Agree, if and only if FTE unit operating costs are not higher than OOCEA's for cash toll collection
<b>Category 4: FTE Incremental Back-Office Costs</b>	
OOCEA ETC operating costs assumed after consolidation included all activities related to incorporating the transaction volumes associated with OOCEA operations into the existing back office.	Agree—However, all ETC operating costs that would be incurred are not included here (e.g. costs associated with IBT functions not part of V/E activity).
THEA ETC operating costs were assumed to be absorbed by FTE operations at no additional cost as FTE already processes all transponder-based electronic toll collection which is approximately 80% of transaction volumes.	Disagree—THEA is currently paying FTE to process pre-paid RF transactions and paying MDX to process the remaining 20% of transactions that are IBT. The cost of IBT processing is an incremental cost to FTE here.
Assumption that the small volume of video/violation transactions could be performed by FTE and that administrative fees charged to customers pursuant to existing business rules would offset additional costs of processing.	Agree—If and only if FTE policies and customer service fees are as OOCEA's and THEA's. Refer to note on Category 3 b) above
<b>Category 5: Removal of OOCEA Airport Plaza and Installation of ETC Ramps</b>	
The analysis included the consolidation of two tolling points (OOCEA Airport and FTE Beachline West Main) into one tolling point.	Disagree—These two toll plazas do not serve all of the same motorists. Their revenue streams are also committed to different bonding requirements.

In summary, the FDOT analysis essentially assumes that FTE would be able to absorb all the costs of management, technical (design, maintenance and operations), financial, legal, public relations and customer services support functions for OOCEA and THEA. The sheer size and complexities of the issues involved in managing these regional facilities ensures that this is not possible. However, the FDOT analysis would also require FTE to absorb most of the costs of approximately one-third of the nearly 1 billion in total transactions processed by these three agencies each year, as well as the costs of sustaining all ETC toll operations, IT support services, the E-Pass Service Centers and the myriad customer services functions they provide. On the premise that FTE's management team and current staffing levels are appropriate to meet their current operating needs, absorbing this level of additional work is simply not feasible even at significantly reduced levels of service to the motorists that use these local facilities.

Our suggested revisions to the Work Group's assessment of potential cost savings from consolidation of OOCEA and THEA into FDOT (FTE) are provided in Table 8. Our specific assumptions for this analysis are as follows:

<b>Table 8: Revised Cost-Savings Estimate from Consolidation (000)</b>				
Estimated Authority Costs	GET	Totals	Revised	Totals
Contractual Services (non-toll ops)		<b>\$ 6,572</b>		<b>\$ 1,623</b>
OOCEA	\$ 6,145		\$ 1,231	
THEA	\$ 427		\$ 392	
Administrative Salaries and Benefits		<b>\$ 5,850</b>		<b>\$ 2,318</b>
OOCEA	\$ 3,781		\$ 1,328	
THEA	\$ 2,069		\$ 990	
Back-Office Toll Operations		<b>\$14,877</b>		<b>\$ zero</b>
OOCEA	\$14,261		\$ zero	
THEA	\$ 616		\$ zero	
FTE Incremental Back-Office Costs		<b>(\$ 4,693)</b>		<b>(\$ 372)</b>
OOCEA	(\$ 4,693)		\$ zero	
THEA	\$ zero		(\$ 372)	
Removal of OOCEA Airport Plaza and Installation of ETC Ramps		<b>\$ 1,712</b>		<b>\$ zero</b>
<b>Total Possible Annual Savings</b>		<b>\$ 24,318</b>		<b>\$ 3,569</b>

FDOT did not provide details of contracts where savings were assumed to be realized. Our review of the services contracted by each agency from data submitted to FDOT resulted in the following list of contracts where savings might be realized from consolidation, leading to a revised estimate of possible contract savings for OOCEA:

***Category 1: Contractual Services (non-toll operations)***

Legal Counsel	\$	7,735
Risk Management	\$	50,000
Black Business Fund	\$	100,425
Employee Assistance Program	\$	1,342
External Auditing Services	\$	84,916
Financial Advisory	\$	109,988
Investment Advisory Services	\$	203,559
Internal Audit Services	\$	421,592
Public Information Services	\$	159,287
Treasury Custody	\$	2,000
State Lobby Services	\$	90,000
<b>Total</b>	<b>\$</b>	<b>1,230,844</b>

However, these savings may not all be realized. For example, auditing (both internal and external), financial advisory and public information services will be needed to serve specific needs of OOCEA facilities regardless of the agency managing these facilities.

The revised estimate of THEA contract savings includes all non-toll services contracts except for general engineering consultant, traffic and revenue consultant and facilities contracts from MDX and maintenance contractor Jorgenson's. As with OOCEA, these savings may not all be realized.

***Category 2: Administrative Salaries and Benefits***

The GET savings estimate for OOCEA includes salaries and benefits for all administrative staff not directly assigned to toll operations. In other words, it effectively assumes that toll operations for OOCEA facilities will no longer need to be managed. However, many of these administrative people will be necessary to sustain toll operations at current levels of service after consolidation. Our revised savings estimate includes savings from eliminating only the salaries, FICA, Medicare and benefits of Executive Director, Deputy Executive Directors of Engineering & Operations, and Administration, General Counsel, Director of Construction and CFO. These savings may not all be realized as mid-level managers would have to replace some of these positions within FTE to sustain ongoing operations and respond to the community's need for facility upgrades and expansion.

The GET savings estimate for THEA likewise includes salaries and benefits for all administrative staff not directly assigned to toll operations. As with OOCEA, this assumes that toll operations for THEA facilities will no longer need to be managed. However, many of these administrative people will be necessary to sustain toll operations at current levels of service after consolidation. Our revised estimate eliminates only the salaries, FICA, Medicare and

benefits of Executive Director, Director of Operations & Maintenance, General Counsel, Director of Planning and CFO. These savings may not all be realized as mid-level managers would have to replace some of these positions within FTE to sustain ongoing operations and respond to the community's needs for facility upgrades and expansion.

### ***Category 3: Back-Office Toll Operations***

GET's savings estimate for OOCEA assumes that all Toll Operations, Information Technology, E-Pass Service Center and E-Pass Marketing (as well as projects for all four categories) are redundant (i.e., no additional IT costs will be incurred), the existing E-Pass Service Centers and current marketing programs will no longer exist, and that there will no longer be any more projects for OOCEA facilities in these four categories. Our revised estimate recognizes that all of these systems and services will be necessary to sustain ongoing operations and respond to the community's needs for facility upgrades and expansion. GET's savings estimate for THEA includes THEA's \$616,000 Violations Processing contract with MDX. Our revised estimate does not include this as it should be a pass-through for FTE. However, it should be noted that if costs for these services are higher or go up at FTE, the motorists paying these fees will be impacted.

### ***Category 4: FTE Incremental Back-Office Costs***

GET's savings estimate for OOCEA assumed that the only back-office processing costs incurred from consolidation of OOCEA are data lines, SunPass account processing, credit card fees, license plate toll processing, and postage and mailing costs for OOCEA. Our revised estimate includes none of the costs on this line since it recognizes the cost of these systems and services currently being incurred in line items above.

GET's savings estimate for THEA assumed that THEA back-office costs would be absorbed at no cost to FTE. FTE would no longer receive SunPass account processing fees. THEA is currently paying FTE (\$2.1 million/year) for this service. However, from the state's perspective this would be a wash. FTE would, however, incur license plate toll processing costs for THEA (MDX currently charges THEA \$0.372 million/year for this service).

### ***Category 5: Removal of OOCEA Airport Plaza and Installation of ETC Ramps***

Since these two toll plazas do not serve all of the same motorists and their revenue streams are committed to different bonding requirements, combining the operations of these toll plazas into one is not a matter of just declaring it will be done. Travel demands, bonding covenants and other issues (which could affect the net cost or benefit of doing this) all need to be addressed before deciding if these two plazas should be combined. Therefore, the revised estimate assumed no savings for this category.

In summary, after accounting for problems identified in GET's analysis of estimated cost savings, a revised estimate of annual cost savings from consolidating OOCEA and THEA into FTE operations is only \$3.569 million per year—less than 15% of GET's estimate. THEA's own review of the legislative estimate for savings from FTE absorbing THEA's operation, \$817,000 per year, is of similar magnitude to our revised estimate of savings from consolidation of THEA operations at \$1.01 million per year, compared to GET's estimate of \$2.525 million.<sup>22</sup> Remarkably, neither of these estimates considers the substantial savings THEA has realized in its total operating costs over the last several years by a concerted effort to assume responsibility for a number of services previously provided by FTE.

In addition, unlike the GET analysis which implies that the estimated annual savings of over \$24 million per year is a lower bound of what could be realized, we believe that our revised estimate may actually be the upper limit of any potential cost savings from consolidation of OOCEA and THEA into FTE. For example, the GET estimate assumed that \$7.721 million would be saved from elimination of the E-Pass service center(s) but these services would have to be sustained to provide the same level of service to motorists in the Orlando area. A review of the results of the GET estimate also suggests that day-to-day management of toll operations for OOCEA and THEA, as well as all financial monitoring and reporting, traffic and revenue studies, program planning and management, and other critical management functions could all be absorbed by FTE at no additional cost. Clearly, that is not possible.

Several other matters raised by the GET Work Group also need to be considered. The most important of these is the alleged lack of interoperability between toll agencies within Florida, as with toll systems of other states.

The Work Group's report stated that:

*Currently, there are three toll transponder systems in Florida:*

- *Sun Pass,*
- *E-Pass, and*
- *Lee-Way.*

*In addition, several agencies have gone to 'Pay by Plate' systems and 'all electronic tolling.' In these locations there is no option to pay cash, and new customers or customers without transponders are mailed invoices for use of the toll roads.*

*Residents of Florida and visitors must comply with different rules and transponder systems.*<sup>23</sup>

These claims are misleading. In fact, from the motorist's perspective, the vast majority of ETC transactions (all of these ETC services but Pay-by-Plate programs) and processing of those who seek to defraud the system) are currently seamless.

This streamlining has been accomplished through interoperability agreements and significant consolidation of back-office transaction processing services at the major toll facilities in Florida.



For example, FTE is already processing all SunPass pre-paid transponder transactions for MDX and THEA, as well as two other smaller authorities. Though OOCEA and Leeway have their own back-office transaction processing system and process all toll transactions on their networks, OOCEA has had an agreement with FTE for interoperability of its pre-paid ETC transactions since 2000. In fact, FTE reimbursed OOCEA for 109.8 million pre-paid SunPass transactions on OOCEA facilities, and OOCEA reimbursed FTE for 39.4 million pre-paid E-Pass toll transactions on FTE facilities in FY 2010/2011. Leeway has a similar agreement with FTE and OOCEA to provide interoperability for motorists. And finally, MDX's back-office processing system, which is limited to license plate toll and violations enforcement processing, does all IBT processing for itself and THEA, allowing THEA to operate without any back-office processing system of its own.

As a result, FTE processed over 81% of all toll transactions at major toll authorities in Florida (976.9 million out of 1,204.9 million) in FY2010–11 (Table 9).

<b>Table 9: Current Toll Transaction Processing Volumes (millions)</b>				
Agency	All Toll Transactions FY2010–11	Trans's Proc'd by FTE FY2010–11	% Trans's Proc'd by FTE FY2010–11	% Authority Transactions FY2010–11
FTE	652.9	652.9	66.8%	100.0%
OOCEA	292.5	109.8**	11.2%	37.5%
THEA	31.6	25.4	2.6%	80.4%
MDX	220.1	181.0	18.5%	82.2%
Other*	7.8	7.8	0.8%	100.0
<b>Totals</b>	<b>1,204.9</b>	<b>976.9</b>	<b>100.0%</b>	<b>n/a</b>

\* Mid-Bay Bridge and Garcon Point Bridge

\*\* Includes interoperability transactions for OOCEA

Source: Diane Gutierrez Scaccetti, "Evolution of Florida's Turnpike," Presentation to the Government Efficiency Task Force, Oct. 5, 2011.

Therefore, consolidation of most back-office toll transaction processing in Florida has already been accomplished without the LTAs being consolidated into FTE. By outsourcing common services to FTE and each other, the LTAs have already achieved many of the potential cost savings from consolidation by capturing the savings from economies of scale from larger operations and avoiding the costs of sustaining redundant toll systems and functions. Additional savings may be realized from a continuation and expansion of this cooperative effort among the agencies.

Consolidation of the local toll authorities into FTE is not necessary for these cost savings to be realized. In addition, the competitive nature of personnel at each authority, and the fact that their toll operations cost data are becoming increasingly more visible and transparent to the public, suggest that these savings are more likely to be realized through a continuation and expansion of these existing inter-agency cooperative efforts than by a forced consolidation of OOCEA and THEA into the FTE. The fact that the local toll authorities can ensure that a quality product is provided in a timely manner has already been demonstrated.

## Part 6

# Revising the LTA Financing Model

In Part 4 we discussed some of the limitations that have been imposed on local toll authorities (LTAs) as a result of their relationship with FDOT being defined by lease-purchase agreements (LPAs). As of this writing, the three urban LTAs represent three different stages of this relationship. At one end of the spectrum, MDX has “graduated” from being dependent on FDOT. While it continues to make use of loans from various FDOT programs to assist in financing projects, MDX has no covenant with FDOT regarding its O&M costs. MDX is as autonomous as the mature local toll agencies in Texas, Colorado and California. It can be viewed as an example of how the other urban toll agencies could be graduated.

At the other end of the spectrum, THEA is still constrained by its LPA with FDOT. Despite having recently been given nominal authority by the legislature to issue its own bonds, it needs the latter’s consent to issue bonds, according to its MOA with FDOT, and under its LPA FDOT is still in a backstop position for THEA’s O&M (even though THEA has paid all of its O&M costs since 2001). In between these two is OOCEA, which has made good use of its 2002 authorization to issue its own bonds, but is still linked with FDOT via its own LPA.

Our assessment, based on the research completed for this project, is that the LPA mechanism, though it may have been appropriate for assisting these agencies in their start-up years, is no longer suitable for the mature urban toll agencies they have become, and should be terminated for OOCEA and THEA. Continuation of their LPA relationships means they will never become self-supporting expressway providers for their growing urbanized areas, since the premise underlying the LPA is that once these agencies pay off their debt to FDOT, the state will own and operate their toll roads. Our assessment in Parts 2 and 4 finds that there are sufficiently large differences between urban and inter-city toll roads to justify different kinds of agencies to provide them. The task for Florida policymakers should be to enable the transition of OOCEA and THEA to “grown-up” status.

FDOT to some extent acknowledged this natural evolution in its October 2010 MOA with THEA, which defined a schedule for THEA to repay all debt owed to FDOT and allowed THEA to retain ownership of its toll facilities at that point. However, when THEA made a financial proposal to refinance its debt and accelerate the repayment process to FDOT, the Department, guided by the financially conservative state bonding policies, declined the offer.

An FDOT buy-down of a toll facility's initial cost (discussed below) is an alternative to a lease-purchase agreement. If a toll facility is intended to become self-supporting based on toll revenues (and perhaps to eventually become part of a system of toll facilities in that part of the state), then an FDOT buy-down would be the preferable alternative. But if the facility is using toll finance only for initial construction (the 20<sup>th</sup>-century tolling model), and appears to have no further need for project funding, then a lease-purchase arrangement under which FDOT eventually owns and operates the facility may be more suitable.

### A. The FDOT-FTE Buy-Down Model

Toll facilities in Florida have been developed under a number of models. The original Turnpike Mainline was developed as a traditional inter-city toll road (like the Pennsylvania Turnpike, the Ohio Turnpike and others planned in the pre-Interstate era), fully supported by toll revenue bonds and not assisted by any state funding. Most other FTE projects have followed a different model, which we will term the FDOT-FTE model. On a case by case basis, projects such as the Suncoast Parkway, Veteran's Expressway and Polk Parkway received grants from FDOT to buy down the amount that had to be financed for construction via issuing toll revenue bonds. Table 10 summarizes these projects during the last two decades. Note that these FDOT funds were *grants*, not loans. Legislators and FDOT officials decided that these projects should be developed, in the public interest, as toll roads, but judged that their likely traffic and revenue would not support paying for 100% of the construction costs via toll finance.

Table 10: FDOT-Supported FTE Projects, 1994-2010					
Project	Year Open	Cost \$millions	FDOT Funds \$millions	Toll Financed	Percent Non-Toll Financed
Seminole Expressway 1	1994	\$203.5	\$33.5	\$170	16%
Veterans Expressway	1994	\$351.7	\$57.8	\$293.9	16%
Southern Connector Ext.	1996	\$153.3	\$25.2	\$48.5*	68%
Polk Parkway	1999	\$488	\$96.2	\$391.8	20%
Seminole Expressway 2	2000	\$265.2	\$242.8	\$21.6*	92%
Suncoast Parkway 1	2001	\$507.5	\$86.0	\$421.5	17%
Western Beltway C	2007	\$313.9	\$168.5	\$138.0*	56%
All other 1990 projects	1993-2011	\$301.3	\$49.6	\$251.7	16%
Interchange projects	2004-2010	\$221.8	0	\$196.6	11%
I-4 Selmon Connector	Under construc.	\$606.2	\$504.8	\$80.0*	97%
Totals:		\$3,412.4	\$1,264.2	\$2,013.6*	41%

\*These projects also had local and/or private funding

Source: FTE

The FDOT buy-down is analogous to the down payment traditionally required of home purchasers. The idea is to reduce the amount borrowed (the mortgage) to an amount reasonably likely to be affordable via monthly payments. Similarly, the FDOT down payment is sized to make it likely that a facility's projected toll revenues will cover the annual debt-service payments on the toll

revenue bonds plus the O&M expenses. This model has worked well for these FTE projects. It has successfully reduced the financing risk to FTE, as evidenced by strong bond ratings for these projects. From FDOT's standpoint, by investing a modest amount in these projects, it has leveraged its limited resources, allowing more projects to be developed to meet the needs of a rapidly growing state.

## **B. The FDOT Lease-Purchase Agreement Model**

In sharp contrast with the FDOT-FTE buy-down model, FDOT has pursued a quite different approach with local toll authorities. Instead of making a one-time contribution to buy down the amount an LTA must finance, FDOT instead makes loans to the LTA from sources such as the State Infrastructure Bank and the Toll Facilities Revolving Trust Fund, as well as cash advances for O&M services. Because a start-up LTA toll project has its vital O&M costs guaranteed by FDOT, it is able to issue bonds based on its gross toll revenues (rather than the more common nationwide practice of toll roads issuing bonds backed by their net toll revenues). This is an alternate way of obtaining a strong bond rating, since for bond buyers this agreement reduces any uncertainty they may have about whether the new toll road will be properly maintained, enabling all toll revenues to go for debt service.

But because FDOT's annual O&M expenditures are considered payments under the lease-purchase agreement, by making these payments FDOT will eventually acquire ownership of the toll road. Yet in addition to losing its ownership, the LTA must also repay the amounts FDOT has spent. Instead of making payments to FDOT over many years to purchase its freedom, the LTA makes many payments to FDOT over the years to put itself out of business! This is a very heavy price to pay for FDOT's up-front assistance in reducing the LTA's initial financing costs. It is inconsistent with how FDOT assists FTE projects, where similar O&M payments are made and yet project ownership remains with FTE. It is also inconsistent with the idea that a local toll authority is an appropriate ongoing vehicle for large and growing urbanized areas, one that is better suited than an inter-city toll agency to provide and manage urban expressway and managed lanes networks.

There may be a continued role for the LPA mechanism to serve as a kind of incubator for isolated start-up toll facilities in areas of the state where a full-fledged LTA is not feasible. Start-up, stand-alone toll facilities are inherently risky propositions, as illustrated by the bankruptcy of the Garcon Point Bridge. If the state, via FDOT, wishes to assist such projects to reduce the likelihood of their defaulting on their revenue bonds, a mechanism such as the LPA is one possible means. Other ways of doing this are (1) requiring some degree of local investment in the project (which was not the case with the Garcon Point Bridge), and (2) having FDOT "buy down" the amount that must be toll-financed, as discussed above.

### C. A New FDOT-LTA Model

If the legislature chooses to end the current LPAs for OOCEA and THEA, as we recommend they do, they could empower FDOT to apply a variant of the FDOT-FTE buy-down model to these LTAs (as well as MDX). Under this model, each LTA would be responsible for its O&M expenses every month, like normal, mature toll operators. For new projects that might be marginal for 100% toll revenue bond financing, FDOT could make grants or loans to buy down the amount that the LTA must finance based on toll revenues, for the same reasons that it has done so for FTE projects: to leverage limited state funds by enabling more projects to be toll-financed and to ensure the financial soundness of these new LTA projects. FDOT buy-down *loans* would be more appropriate for toll projects with stronger medium/long-term revenue projections. These could be subordinated loans, similar to federal TIFIA loans, with debt-service payments beginning only after the project is completed and toll revenues begin flowing. FDOT buy-down *grants* would be more suited to projects with less-robust revenue projections.

The three urban LTAs now have explicit authority to enter into long-term public-private partnerships (PPPs). Under this approach, similar to what FDOT has used for the Port of Miami Tunnel and the I-595 reconstruction project, a private developer/operator team is selected via competitive bidding to detail-design, finance, build, operate and maintain a toll project for a long term, typically up to 50 years. Long-term PPPs of this kind are quite common in Europe (especially France, Italy and Spain), Latin America (especially Brazil, Chile and Mexico) and Australia. They are well-suited to mega-projects where the risks of construction cost overruns and traffic & revenue shortfalls are greatest.<sup>24</sup> In a well-structured PPP agreement, those risks can be transferred to the private partner, rather than being borne either by the LTA or by the taxpayers. Megaprojects of this nature are under way in Dallas (I-635 managed lanes), Ft. Worth (North Tarrant Express managed lanes), and northern Virginia (I-495 Capital Beltway HOT lanes), in addition to the two south Florida projects.

## Part 7

# Reorganizing Florida's Toll Agencies

As noted in Part 1 of this report, the current division of toll facility responsibilities between the state (FDOT and FTE) and the local toll authorities (LTAs) appears to have evolved in an ad-hoc manner, with the state operating some clearly urban toll roads and at least one LTA (OOCEA) operating part of an inter-city toll road (Beachline East). The transportation transition team for Governor-Elect Rick Scott called attention to this situation, but without making a specific reorganization proposal.

## A. The Raymond James Proposal

A proposal for large-scale reorganization of this division of responsibilities was made in 2011 by investment firm Raymond James. It called for the state to divest to LTAs all current state-operated toll facilities except the Turnpike Mainline.<sup>25</sup> Under a concept termed “public partnerships,” the LTAs would issue new revenue bonds enabling them to purchase the state-owned toll roads and bridges. On the assumption that toll rates would be indexed to some kind of inflation index (such as the consumer price index—CPI), the Raymond James analysts projected the “net incremental revenues” for each of the state-owned toll facilities for the period 2012 to 2041. They then calculated the extent of new revenue bond issuance needed for MDX, OOCEA and THEA to acquire the proposed urban toll roads in their respective urbanized areas and compared the resulting annual debt service to estimated revenues. For each LTA, a graph was presented showing annual revenues well in excess of annual debt service during the 30-year period (though a comparison of coverage ratios for each LTA before and after these acquisitions was not included).

In a separate Powerpoint, posted on the Tampa Chamber of Commerce website, the analysts provide the basis for the valuations used in estimating the potential sale proceeds to FDOT and FTE.<sup>26</sup> Their basic principle is to use a multiple of FY 2009 net revenues, with a “low estimate” based on 15 times that revenue (15X) and a “higher estimate” based on 25X. The presentation notes that those estimates are presented only to provide a ballpark estimate and that actual transaction values would be the result of negotiation and based on an analysis of projected traffic and revenue, estimated operation and maintenance (O&M) costs, projected capital expenditures and timing of expenditures over a 30-year period. Their “low estimate” of the FDOT facilities proposed for sale is \$449.8 million and of the FTE facilities is \$2.78 billion, for a total of \$3.23 billion.

The presentation suggests that this amount be paid in a lump sum to the state by the three LTAs, so as to reduce FTE's debt and the State of Florida's debt by that total amount. The Raymond James presentation provides some details on FTE's current \$2.9 billion in revenue bonds, suggesting that FTE could refund and escrow 51% of its outstanding debt, leaving \$1.426 billion outstanding. Debt service coverage ratios in the 2012–2021 decade would then range between 1.66 and 1.93, compared with a range of 1.62 to 2.01 under status-quo conditions. The second presentation focuses on reducing State of Florida debt, which is stated as being \$28.2 billion as of the end of FY 2010, and notes that "According to the 2010 Debt Affordability Report, there is no bonding capacity under the 7% cap for the next two fiscal years." (It should be noted that this bond cap does not apply to FTE projects.)

Summing up, the second presentation argues that "a Public-Partnership allows FDOT and FTE to unlock the value of the assets and still have them under public control," since the LTAs are public-sector agencies. But it also notes that the LTAs, as operators of urban toll roads, make use of "more progressive rate setting," meaning higher toll rates and more frequent increases, consistent with a more pro-active improvement program, the much higher costs of urban toll facilities, and the value of variable pricing in reducing and managing congestion, as was discussed in Part 4 of this report.

## **B. Assessment and Critique**

The Raymond James proposal is a provocative and timely approach to rethinking who provides which type of toll facility in Florida. We have not attempted to vet its calculations, which in any case are intended only to suggest the magnitude of values involved. But we do have several concerns, which we discuss here before setting forth an alternate reorganization approach.

First, the proposal goes too far in suggesting that all toll facilities except the Turnpike Mainline be divested to LTAs. Several FDOT and FTE facilities in addition to Turnpike Mainline are inter-city routes, not urban ones (e.g., Alligator Alley and Suncoast Parkway). In addition, Polk Parkway is far outside the Tampa urbanized area and is essentially a beltway from I-4 around Lakeland. In addition, FDOT owns and operates the portion of Beachline East in Brevard County, but not the remainder of this largely inter-city toll road. The proposal also assumes (without providing reasons) that the I-95 Express Lanes, which will be 24.5 miles in length when the current Phase 2 is completed (and potentially much longer in coming decades), should be part of the MDX system, despite the Express Lanes being part of a major inter-city highway.

Second, while 15 times annual toll revenues is a plausible (though high, in our view) ballpark estimate of the market value of the set of toll roads in the Raymond James proposal, it is not obvious that the LTAs (which are nonprofit, public-sector entities) should pay the market value to acquire these existing toll roads from FDOT and FTE. A better option would be more like what occurred in 1996, when MDX acquired its current toll roads from FDOT by assuming all existing

and contingent liabilities (including amounts borrowed from FDOT for O&M costs). While the expanded revenue base each LTA would gain via these acquisitions certainly adds value to their systems, they would not be hoping to make a profit via the acquisitions, as would a private firm winning a competition to acquire an existing toll road (such as the long-term leases of the Indiana Toll Road in 2006 and Puerto Rico's PR 22 in 2011). Rather, they would use revenues from the additional facilities to pay for continued expansion and O&M of their now-larger system. In other words, the public policy rationale for the state to gain a windfall via the proposed public partnerships is not clear, and we think the MDX-type approach has merit.

Third, it is not clear how much this proposal would reduce the debt of the State of Florida. Only 14% of the Raymond James "low estimate" value of transferred facilities is for those now owned by FDOT, with 86% being FTE facilities. For the latter, the obvious use of proceeds would be to pay down FTE's existing bonded indebtedness, which Raymond James suggests could be cut in half. To the extent that FDOT still has outstanding bonds on facilities such as Alligator Alley and the Sunshine Skyway Bridge, similar debt pay-downs would be the obvious priority use of sale proceeds.

Toll revenue bonds issued by the State of Florida for FDOT and FTE toll facilities are purely revenue bonds. They are not backed by the full faith and credit of the state, but FTE's O&M costs are guaranteed by the State Transportation Trust Fund, enabling FTE to issue bonds on a gross-revenue basis. Toll road bonds are included in the \$28.2 billion of total state debt, but are part of the "self-supporting debt" category and are therefore not included in the state's debt affordability calculation.<sup>27</sup> Hence, pay-downs or defeasance of toll revenue bond debt would not be likely to affect the state's bond rating or its debt affordability calculation. (On the other hand, retiring some of FTE's bonds would free up a portion of the State Transportation Trust Fund's revenue stream for use on FDOT projects.)

The only case in which state general obligation (G.O.) bonded indebtedness could be reduced as a result of such asset divestitures is if the LTAs paid a significant premium for the toll facilities in question, over and above their bonded indebtedness. If higher prices for the facilities led to higher toll rates than would otherwise be required (in order to pay debt service on larger acquisition bond issues), that would amount to taxing toll-payers in the urban areas to help reduce the state's G.O. debt—a proposition with which we profoundly disagree.

Fourth, not acknowledged in the Raymond James proposal is the fact that FTE toll revenue bonds are secured by a pledge of the revenues of its entire system. The standard bond resolution includes a covenant, enforceable by the bondholders, against the sale of portions of the system. While it does not forbid such sales, it permits them only if the FTE Traffic Engineer can demonstrate that, without the facilities to be sold, FTE will still be able to collect revenues sufficient to maintain a coverage ratio of at least 120% of all debt service (and 100% of all other payments required under the bond documents).<sup>28</sup>



### C. An Alternate Reorganization Proposal

The basic principle for reorganizing responsibilities for Florida toll facilities, longer term, should be to have LTAs own and operate urban toll facilities within their urbanized area and to have FTE operate all inter-city toll roads. As previous discussions in this report have made clear, urban and inter-city toll roads are different in enough respects to require different styles of management and customer relations, as well as different tolling/pricing policies. In addition, in coming decades as the real yield of fuel taxes continues to shrink, large urban areas will need to rely increasingly on tolling and pricing, both for funding and for traffic management. That will further enlarge the differences between urban and inter-city toll facilities.

Table 11 sets forth the current toll facilities whose ownership we suggest be changed in accordance with this longer-term principle. As can be seen, FTE would acquire two new inter-city routes: the FDOT and OOCEA portions of Beachline East and Alligator Alley. OOCEA would acquire Beachline West, Seminole Expressway and the Southern Connector Extension, as well as the FTE portion of the Western Beltway. THEA would acquire Veterans Expressway, the Sunshine Skyway Bridge and Pinellas Bayway, and the new I-4 Selmon Expressway Connector. (It would not acquire the Suncoast Parkway, which is essentially an inter-city toll road.) And MDX would acquire the Sawgrass Expressway and HEFT.

Name	Route No.	Route.-miles	Current Owner	Proposed Owner	Rationale
Beachline East, Orange County	SR 528	39.1	OOCEA	FTE	Inter-city
Beachline East, Brevard County	SR 528	6.4	FDOT	FTE	Inter-city
Beachline West	SR 528	8	FTE	OOCEA	Urban
Seminole Expressway	SR 417	12	FTE	OOCEA	Urban
Southern Connector Ext.	SR 417	6.4	FTE	OOCEA	Urban
Dan Webster Western Beltway	SR 429	31.8	FTE & OOCEA	OOCEA	Urban
Pinellas Bayway	SR 682/SR679	8.5	FDOT	THEA	Urban
Sunshine Skyway Bridge	I-275	4.1	FDOT	THEA	Urban
Veterans Expressway	SR 589	15.2	FTE	THEA	Urban
I-4 Selmon Connector		1	FDOT	THEA	Urban
Alligator Alley	I-75	84.3	FDOT	FTE	Inter-city
Sawgrass Expressway	SR 869	21.4	FTE	MDX	Urban & Bypass
HEFT	SR 821	29.8	FTE	MDX	Urban & Bypass

Two other major toll facilities require further discussion and debate. The first is Polk Parkway, which is not within the urbanized area of either THEA or OOCEA. It functions as a beltway around much of Lakeland. Unless there is political support in that area either to create a new toll authority or to lease the Polk Parkway under a long-term PPP, it should probably remain the responsibility of FTE.

The I-95 Express Lanes are currently owned and operated by FDOT, but with SunPass services provided by FTE. While Phase 1 is entirely within Miami-Dade County, the Phase 2 extension

currently under construction will extend the lanes to Broward Blvd. in Broward County. Likely future extensions could continue the Express Lanes into northern Palm Beach County. Transportation planning in Southeast Florida includes the vision of an express lanes network, which would be an integrated set of managed lanes on expressways currently owned and operated by FDOT, MDX and FTE.<sup>29</sup> Ideally, this network would be seamless, providing uncongested lanes for toll-paying customers and express buses (bus rapid transit) throughout the three-county urbanized area. Pricing policies, signage, enforcement and business rules should be consistent among all the component corridors. The Federal Highway Administration awarded a Value Pricing grant to FDOT District 6 in late 2010 for a project to develop a detailed Concept of Operations for the proposed network. The consultant that will lead this study was selected in late 2011. Ownership and operation of the network should be one of the topics addressed in the Concept of Operations and we hesitate to make a firm recommendation until that work has been done. Given the complexity of such a network, however, we do suggest that it would likely be easier to implement and operate it seamlessly if it is owned and operated by a single entity—whether that be FDOT, FTE, MDX or a private company under some kind of long-term PPP.

Our reorganization proposal has not addressed smaller, isolated toll facilities, such as the Mid-Bay and Garcon Point Bridges in the Panhandle, the Lee County toll bridges, the Card Sound Bridge and the three toll causeways in Miami, as well as the Osceola Parkway near Orlando. Several of these do not accept SunPass, and some have experienced financial difficulties. As isolated facilities with relatively low traffic, they do not have inherent economies of scale in functions such as toll collection. To the extent that the state wishes to ensure the financial viability of these smaller toll facilities, the revised financing policies discussed in Part 6 could be offered to them, as well as guidelines for outsourcing various functions (such as toll collection) either to private industry or to FTE.

We recognize that this kind of sweeping reorganization is not something for immediate legislation. The first priority for near-term action should be to graduate OOCEA and THEA from their LPA relationships with FDOT, giving them independent status similar to that of MDX under which each pays off its indebtedness to FDOT (via refinancing) and acquires ownership of its current toll facilities. Possible future acquisitions of FDOT or FTE facilities by any of the LTAs should be preceded by detailed study of the possible refinancing needed to pay for such an acquisition in a way that would be compatible with FTE bond covenants. Analysis of this sort should spell out the implications for assumed toll rates on the acquired facilities, so that the trade-offs involved (greater local control of the urban tollway system vs. possibly higher toll rates) could be understood and debated.

Finally, while our suggested reorganization has addressed the state's existing toll facilities, what about the future? Future urban toll facilities should be developed by the LTA in each large urbanized area. That means MDX and THEA should be granted the same authority to operate outside their home counties that OOCEA now enjoys, basically being able to serve their entire urbanized area. Transportation planners in metro Jacksonville should consider actively pursuing toll and managed lane projects via the existing Jacksonville Transportation Authority or a new

LTA akin to those in Miami, Orlando and Tampa. And if Lee County's growth rate returns to what it was in the 1990s and early 2000s, that region should re-activate the now-dormant Southwest Florida Expressway Authority. Both the Orlando and Tampa metro areas, as well as Jacksonville, are future candidates for managed lane networks like that being planned for the greater Miami metro area. State policy should facilitate such developments when traffic volumes and congestion warrant.

## Part 8

# Other Policy Issues

In this section of the report we cover other toll-related issues that we consider peripheral to the subject of consolidation, but which might also be the subject of legislative action in the 2012 session.

### A. Compensation of Toll Agency Directors

One of the recommendations of the GET in its consolidation report is “Require regional toll agencies to benchmark regional and state transportation and authority salaries to avoid possibly excessive salaries.” This recommendation turned into a political issue, as indicated by a headlined news story, “New Target in Expressway Fight: Director Salaries.”<sup>30</sup> The article quoted a state senator saying that “he plans to offer a budget amendment that would strip state funding from any of the authorities who pay their directors more than DOT chief Ananth Prasad.”

There are several fundamental problems with this idea. First, the problem lies more with the unrealistically low compensation of the Secretary of Transportation in Florida than with the compensation levels of toll agency CEOs. This issue was addressed by the transportation transition team of Governor-Elect Rick Scott. In a section of its report titled “Secretary Leadership & Pay,” the transition team noted that “Executive directors of expressway authorities in Florida usually make far more than the FDOT Secretary . . . . Most currently receive compensation above \$180,000 and some are in the \$200,000–\$250,000 range.” They recommended that the Secretary’s “compensation level needs to be adjusted to be fair and competitive to attract appropriate talent.” Pointing out that the then-current \$120,000 salary was “less than that of either the District Secretaries or Assistant Secretaries,” the team recommended that the “Secretary of Transportation compensation be set to not less than \$150,000 and preferably up to \$180,000.”<sup>31</sup> In 2011 the legislature approved an increase to the current level of \$140,000, still well below what the transition team recommended.

Second, the urban LTAs already do benchmark their executive compensation levels. The most recent such benchmarking was carried out for OOCEA in December 2011 by Cody & Associates, a management consulting firm in Cocoa Beach, Florida.<sup>32</sup> They surveyed eight toll agencies, both urban ones (E-470 in Denver, HCRTA in Houston, MDX and THEA) and inter-city ones (New Jersey Turnpike, New York State Thruway, FDOT and FTE). For comparison purposes, they also

included senior executives from the City of Orlando, Orange County and the Orlando Aviation Authority. For the eight toll agencies, executive director/CEO salaries ranged from \$137,000 to \$240,000 with a mean value of \$173,000. For the other Florida agencies, the range was similar, with a mean value of \$198,000. Benefits varied considerably. Cody & Associates conclude their analysis by stating: “Based on the salary/benefit survey, we are recommending a starting salary be considered in the \$180,000 to \$190,000 range.”

The bottom line is that a toll agency, whether urban or inter-city, is essentially a business. There is a market for skilled toll agency CEOs, and for a toll agency to be well-run it needs to offer a competitive salary and benefits so as to attract competent talent. While FDOT is not a business in the same sense, it is a major department of government. There is also a market for CEOs of state DOTs, and as a fast-growing state in which transportation infrastructure is a high priority, FDOT should offer market-level compensation for the Secretary position, as the governor-elect’s transportation team recommended.

## **B. “Monetization” of the Turnpike**

A proposal circulated in Tallahassee in 2011 calling for creation by the legislature of a Florida Economic Development and Transportation Commission. The key premise is to fund this new body by transferring “excess Turnpike System revenues to the Commission.” The new commission would proceed to issue debt, secured by a subordinate pledge of Turnpike System revenues. The debt would be used for a “Florida Jobs Now Fund” whose purpose would be “to fund transportation, ports, and inter-modal projects on a priority basis based upon projected jobs to be created.”

This is a bad idea for several reasons. First, it would siphon revenues from the Turnpike that would otherwise be available to fund expansion and modernization of the system. Like other large and well-established inter-city toll road systems, FTE is able to issue new bonds based on the toll revenues of its entire system. Some mature portions of that system may generate more revenues than are needed to cover O&M and remaining debt service on those portions of the system. Those “surplus” revenues are the funds that make system financing possible. To siphon them off for non-FTE purposes would starve the Turnpike system of funds needed to keep pace with its expansion and modernization needs.

Second, by diverting Turnpike revenues to non-Turnpike infrastructure projects, this proposal would convert a portion of the toll payments into taxes, as opposed to user fees. Floridians strongly support the Turnpike and other toll agencies, because they have always been able to trust that their toll dollars are spent 100% on toll road projects that provide direct benefits to them. This proposal would break faith with toll-paying customers of the Turnpike system, weakening their support for tolling on an ongoing basis.

Third, this proposal would end up creating a kind of pork barrel—a pot of money available for political allocation. Integral to the monies being deposited in a “jobs now” fund is the premise that projects be selected not on normal businesslike return-on-investment criteria but rather on how many jobs they would create. That is a recipe for wasting scarce resources on economically unproductive projects.

Ports and intermodal rail are businesses. Investments in those businesses should be based on sound business criteria, which include a major emphasis on increased economic productivity. Economic productivity means mixing optimal amounts of investment in people, equipment and technology to obtain the most bang for the buck, which generally translates into maximizing output per person-hour. A criterion of maximizing the number of jobs is fundamentally at odds with maximized economic productivity.

**Part 9**

# Findings and Recommendations

## A. Findings

Our research has reviewed the three urban-area local toll authorities (LTAs), assessing both their own performance and that of similar entities in the urbanized areas of other fast-growing states. We find that Florida's urban LTAs—MDX, OOCEA and THEA—are relatively efficient and responsive to local needs for improved expressway infrastructure. Like the nationally respected FTE, these agencies are efficient and innovative toll facility providers.

Proponents of consolidation in Florida have cited mostly potential cost savings as the rationale. Even if there were significant cost savings to be had, there would still be public policy considerations to be weighed against such savings. Our analysis concludes that there are fundamental differences between the role of a long-distance, inter-city toll agency and the role of an urban expressway authority. The policy advantages to Florida of having LTAs include greater responsiveness to local needs and priorities, more flexible financing, innovation and using outsourcing to gain economies of scale. In particular, having urban toll expressways provided by a locally controlled authority ensures that the toll revenues collected there remain in that urban area, rather than potentially being redistributed to other parts of the state. For similar reasons, Texas is fostering the establishment and growth of more such LTAs in metro areas that historically have not had them, and Colorado and California have done likewise.

As proponents of consolidation have stated, there are economies of scale in various back-office operations of toll agencies, and there are two ways for smaller agencies to realize them. One is consolidation, either of the agencies or of those back-office functions. The other is outsourcing, which can be done either with a larger agency or with private-sector companies. Florida's LTAs are realizing these economies of scale via outsourcing their back-office toll operations—both to the private sector and to each other. Therefore, when we analyzed the purported \$24.3 million in annual savings from a proposed Florida consolidation, we found that most of the opportunities for cost savings have already been realized by the LTAs. At best, our revised estimate of possible savings would be only \$3.5 million per year, and our analysis suggests that this is likely an upper-bound estimate of possible savings.

The two out-of-state toll agency consolidations that are cited as examples, New Jersey and Massachusetts, involved consolidations of two inter-city toll roads (New Jersey) and the merger of

a state turnpike authority into a consolidated state DOT (Massachusetts). Neither is a direct parallel with consolidation of urban expressway authorities with an inter-city toll agency. Many of the potential cost savings in these consolidations are not relevant to the Florida situation. And both of those consolidations produced only very modest annual cost savings.

The other rationale cited for toll agency consolidation in Florida is interoperability of electronic toll collection. We agree with this objective, but our analysis finds that SunPass interoperability already exists for more than 80% of all electronic tolling transactions, and nearly all remaining limitations on greater interoperability are in the process of being resolved, with the active involvement and cooperation of FTE and the LTAs.

On the issue of toll agency CEO compensation, the LTAs already benchmark leadership compensation, and such compensation is consistent with that of toll agencies in other states and with senior positions in municipal agencies here in Florida. The disparity that exists is that the compensation of the FDOT Secretary is well below market levels, as the transportation transition team for Governor-Elect Scott pointed out.

Finally we assessed the proposed “monetization” of FTE as a bad idea, because it would starve FTE of revenues needed to keep pace with Florida’s growth, would fund labor-intensive rather than productivity-enhancing infrastructure projects, and would subvert the users-pay/users-benefit principle on which public support for tolling in Florida depends.

## **B. Recommendations**

Based on the above findings, our primary recommendation is that the legislature should not consolidate OOCEA and THEA into FTE. Instead, the legislature should take steps to enable OOCEA and THEA to “graduate” from their current status as dependents of FTE and FDOT. They need to become fully independent, self-supporting local toll authorities, like MDX. That would mean:

- Acquiring their expressways from the state, as MDX did in 1996;
- Terminating their lease-purchase agreements (LPAs) with FDOT;
- Having the authority to operate outside their home county, which OOCEA already has, to provide expressways throughout their entire urbanized area; and
- Issuing their own toll revenue bonds, independent of FDOT or the state Division of Bond Finance (as MDX and OOCEA already do).

FDOT should also investigate the possibilities for fostering the development of the Mid-Bay Bridge Authority into a more mature toll agency.

As a longer-term proposition, Florida should consider re-organizing the provision of toll facilities in Florida, as also urged by Governor-Elect Scott’s transportation transition team. Because of the



important differences between urban expressways and inter-city toll roads, we suggest aiming for urban toll facilities ultimately to be owned and operated by LTAs, while all inter-city toll roads would be owned and operated by FTE. The LTAs in Miami, Orlando and Tampa areas should have the opportunity to purchase the state-owned urban expressways within their urbanized areas, if independent analysis shows that this can be accomplished in compliance with FTE bond covenants. FDOT-owned inter-city toll roads such as Alligator Alley should be transferred to FTE in a similar manner.

For the future, the legislature should be supportive of the creation or re-activation of LTAs in other urbanized areas, such as Jacksonville, Southwest Florida and elsewhere as traffic growth warrants. This would be consistent with the governor's and DOT Secretary's priority on shifting to greater use of tolling in Florida, due to the impending decline of fuel tax revenues as a sustainable highway funding source.

We also call attention to the emerging issue of "managed lane networks," such as that being planned for the Southeast Florida urbanized area. Such networks offer great potential for both congestion relief and region-wide express bus service. Managed lanes will likely be added to both tolled and non-tolled expressways, raising the question of which entity is in the best position to operate and manage such networks (which may eventually be needed in the state's other major urbanized areas). This issue should be receiving serious attention in the Concept of Operations study just getting under way via a federal Value Pricing grant to FDOT District 6.

The legislature should reject any proposals to "monetize" the Turnpike that would siphon revenues from this vital system of inter-city toll roads to create a dubious fund to invest in low-productivity, labor-intensive infrastructure projects. Doing so would also convert a portion of Turnpike tolls into taxes, thereby undercutting motorist support for tolls as a users-pay/users-benefit mechanism.

Finally, we recommend that the legislature follow the recommendations of the governor-elect's transportation transition team to ensure that the compensation of the FDOT Secretary is commensurate with the scope of FDOT's budget and responsibilities. Since the LTAs should be transitioned to self-supporting status, it is inappropriate for the legislature to interfere with compensation decisions of the LTAs' locally accountable boards.

## About the Authors

**Robert Poole** is director of transportation policy, and Searle Freedom Trust Transportation Fellow, at Reason Foundation. In 2010, he was a member of the transportation policy transition team for Governor-Elect Rick Scott. In 2010 he served as a member of the Expert Review Panel convened by the Washington State DOT to advise on a proposed \$1.5 billion managed lanes project. In 2008 he was a gubernatorial appointee to the Texas Study Committee on the Role of Private Provision in Toll Projects. He has advised the U.S. DOT Office of the Secretary of Transportation, the Federal Highway and Federal Transit Administrations, and the state DOTs of a number of states, including California and Florida. He is a member of the Transportation Research Board's standing committees on Congestion Pricing and on Managed Lanes. Poole has also testified before U.S. House and Senate Committees, as well as a number of state legislatures. He is the author of several dozen Reason Foundation policy studies on surface transportation. Poole, a Florida resident, received his B.S. and M.S. in mechanical engineering from MIT, and did additional graduate work in operations research at NYU.

**Daryl S. Fleming, PhD, PE** is president of The eTrans Group, Inc., a company which he co-founded in 1998 that provides advisory services to the transportation industry. Fleming is credited with major contributions to several innovative advances in the transportation industry such as all electronic tolling (AET), congestion-based pricing, and state and federal pre-clearance programs for commercial vehicles. Dr. Fleming advises state DOT, port authority, toll agency officials and the private sector on applications of technology to increase the operating efficiency of transport projects from both the owner's and user's perspective. Dr. Fleming also assists in the procurement of these technologies, as well as the management of their development, installation, verification and operation. Prior to forming eTrans, Dr. Fleming held senior management positions at a large vendor serving the transportation industry, a technology provider, a major public agency and at a national consulting firm. He was also a member of the Civil Engineering faculty at the University of Colorado, and has taught in the extension programs at U. C. Berkeley and Cal Poly Pomona. Dr. Fleming earned a PhD and a MScE in transportation planning and engineering from the University of New Brunswick, Fredericton and a BScE in civil engineering from the University of Maine, Orono. He is a registered professional engineer in several states and in Canada.

# Endnotes

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  - <sup>2</sup> Interview with C. Brian Cassidy (Managing Partner, Austin Office, Locke Lord LLP), conducted by Robert Poole, Dec. 22, 2011.
  - <sup>3</sup> Diane Gutierrez-Scaccetti, “Evolution of Florida’s Turnpike,” presentation to the Government Efficiency Taskforce, Oct. 5, 2011.
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  - <sup>5</sup> Brady Sneath, “The Effectiveness of Toll Agencies,” presentation at TEAMFL Finance Workshop, Oct. 20, 2011.
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  - <sup>7</sup> Reich, “Comparison and Analysis of Florida Toll Authorities,” p. 21.
  - <sup>8</sup> FDOT Secretary Ananth Prasad, answers to questions during GET hearing, Oct. 5, 2011.
  - <sup>9</sup> FTE data from FTE annual reports except 2011, which is from FTE data given to GET, Oct. 5, 2011; RTA data from Florida Transportation Commission annual reports.
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  - <sup>16</sup> Peer review input from Nita Crowder, CFO, OOCEA, Jan. 17, 2012

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- <sup>17</sup> Matthew Falconer, Eric Silagy and Robert Stork, “Florida Government Efficiency Taskforce Work Group Recommendations,” Expressway and Bridge Authority Consolidation, November 2011, pp. 2–3.
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- <sup>19</sup> Ibid.
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