

Florida Toll Agencies Should Not Be Consolidated

OOCEA and THEA need to become fully independent, self-supporting local toll authorities, like MDX

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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.