Innovation Profiles: Toll Credits

Using Toll Credits as Local Matching Funds to Improve Access to Federal Lands

> A **toll credit** is a Federal-aid/Federal Lands matching strategy that can help project sponsors flexibly manage their funding sources. States and metropolitan planning organizations earn credits based on the amount of toll revenue used within their jurisdiction to build, improve, or maintain highways, bridges, or tunnels that serve interstate commerce.

Federal law permits States with toll facilities to earn credits that can be applied towards the non-Federal share requirement on Federal-aid/Federal Lands projects. Toll credits do not generate new money; instead, they can be used as a "soft match" substitute for the non-Federal share of most highway and public transportation projects. While this reduces the burden on States and Local Public Agencies (LPAs), it also de-leverages the Federal funding programs. The cost/benefit of this finance tool very much depends on the trade-offs between more flexibility at the local level and the buying power of the Federal programs. The amount of credit earned equals the amount of excess toll revenues spent on Title 23 highway capital improvement projects and Title 49, Chapter 53 transit projects. To earn toll credits, the State must satisfy the maintenance of effort (MOE) requirement for the fiscal year under evaluation.

The Cottonwood Pass project in Colorado used toll credits as matching funds for a Federal Lands Access Program (FLAP) project. Cottonwood Pass is the highest paved mountain pass over the Continental Divide and traverses Grand Mesa, Uncompahgre, Gunnison, and San Isabel National Forests. Gunnison County applied for the 12.5 miles of the western portion of the pass to be widened, realigned, and paved, enhancing safety and access to Federal lands. While toll credits are not typically eligible to be used with FLAP projects, the Colorado Department of Transportation (CDOT) determines toll credit eligibility on a case-by-case basis and, through discussion, approved this exception. FHWA Central Federal Lands Highway Division (FHWA-CFLHD) designed and constructed the project, with it re-opening in 2019.

Project Highlights:

- CDOT provided nearly $2.9 million in toll credits as part of the project's non-Federal match. This allowed 95 percent of the project's approximately $24.4 million cost to be funded through FLAP, reducing local commitment.
- Projects that use toll credits highlight how Federal, State, and local agencies can work cooperatively to deliver impactful and effective projects. Through close coordination, FHWA-CFLHD, CDOT, Gunnison County, and the U.S. Forest Service (USFS) delivered significant improvements to the mountain pass, which now features a 24-foot-wide paved road with a minimum 7-foot clear zone and additional rock fall ditch capacity.

Project Financing

FHWA's toll credit program allows States with toll facilities to earn credits that may be applied toward the non-Federal matching share of programs authorized by Title 23 and Chapter 53 of Title 49, with the exception of FHWA's emergency relief funds. This provides States, MPOs, and other LPAs the ability to extend their capital budgets and address additional transportation project needs or offset the loss of not having funds available to meet local match requirement. Currently, 30 states have a toll credit balance they are able to utilize.

Figure 1: Before Construction, Existing Road at Western Limit. Image courtesy of FHWA.

States earn credits when they use their toll revenues on projects that build, improve, or maintain highways, bridges, or tunnels that serve the public purpose of interstate commerce. Toll revenues may include toll receipts, concession sales, right-of-way lease revenues, or interest, as well as bond or loan proceeds supported by toll facility revenue.

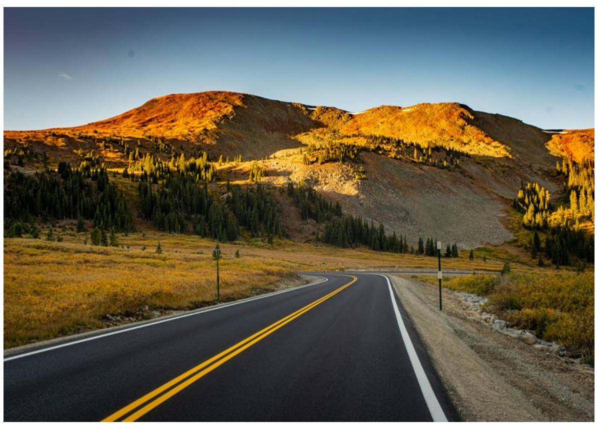

Figure 2: Completed Road below Summit. Image courtesy of FHWA.

To use toll credits, a State must pass an annual maintenance of effort, or MOE test. The MOE determination process reviews a State's non-Federal transportation capital expenditures and certifies that its toll facilities are being properly maintained before excess revenues can be expended and earn toll credits. The State will then apply earned toll credits toward the non-Federal matching share of an eligible project. This occurs when the project agreement is signed, or before the funds are transferred to another agency that is responsible for administering project receiving the toll credit. The amount of credit, which can be up to the total non-Federal share, should be debited from a special account set up for tracking approved toll credits.

Challenges and Lessons Learned

- **Toll credits give project sponsors more flexibility to manage their budgets.** While toll credits do not increase Federal revenues available to the State or LPA overall, there may be benefits in concentrating Federal funds into fewer/larger projects to allow State DOTs or LPAs to utilize their own funding in a more flexible manner. When State DOTs and LPAs earn toll credits and apply them as the non-Federal matching share of Federal programs, it creates flexibility to offset reduced State or local revenues or redirect State or local funds to different projects. In cases where local matching funds are available and State DOTs and LPAs use toll credits in their stead, project sponsors are able to address additional transportation projects that they may not have had the resources for otherwise.
- **Toll credits de-leverage Federal-aid programs, which may already be significantly underfunded.** When State DOTs and LPAs use the "soft match" substitute awarded with toll credits, the matching funds are sourced from the Federal-aid or Federal Lands program and may deplete already underfunded programs such as FLAP.