



**Washington State
Department of Transportation**



Customer Service Center Project Peer Review Workshop

Sponsored by:



**U. S. Department of Transportation
Federal Highway Administration**

Final Report

May 7 and 8, 2009

Background:

The Washington State Department of Transportation (WSDOT) is a part of the United States Department of Transportation's (USDOT) Urban Partnership. The program is an initiative to reduce congestion in various geographic regions across the country by implementing Four T's: Tolling, Technology, Transit and Telecommuting.

WSDOT, the Puget Sound Regional Council (PSRC), and King County (Metro) are under an Urban Partnership Agreement (UPA) with the USDOT Federal Highway Administration (FHWA) to implement tolling and other congestion management strategies throughout the Seattle area in the Spring of 2011. Other regions that have been selected for Urban Partnership Agreements include: Miami, San Francisco, Minneapolis, Chicago, and Los Angeles.

WSDOT has been tasked with implementing all electronic tolling with video tolling capabilities on the SR 520 bridge and deploying an Active Traffic Management (ATM) system on the SR 520 corridor and I-90. King County Metro was tasked with increasing transit service as a part of the UPA.

"We need to give drivers an understanding of all their choices and educate them on the use of Smarter Highways," said WSDOT's Tolling and System Development Engineer, Patty Rubstello, "We will also need to change how we do operations as we transition to all electronic tolling."

Overview:

WSDOT invited four toll agency officials, two from Florida, and one each from Colorado and Texas, to share their tolling experiences related to customer service centers and back office accounting operations. WSDOT also asked them to critique and offer suggestions as WSDOT prepares to open the all electronic tolling facility on SR 520. The four agencies and WSDOT convened for a two-day peer review workshop in Seattle, Wa on May 7-8, 2009.

Members of the peer review panel included: Bill Thorp, Assistant Secretary of Finance and Administration of the Florida Turnpike Enterprise; Danna Smith, Traffic and Revenue Analyst for the E-470 Public Highway Authority; Cleve Thorn, Revenue Supervisor for the Texas Department of Transportation; and Keith Sheffler, Toll System Manager of the Miami-Dade Expressway Authority. WSDOT personnel involved in the discussion included: Craig Stone, Urban Corridors Deputy Administrator; Bob Covington, Director of Accounting and Financial Services; Sid Fulford, Financial Reporting and Consulting Services Manager; Bill Ford, Assistant Secretary of Administrative Operations; and Greg Selstead, Director of Tolling Operations. The peer review was hosted by Patty Rubstello, WSDOT Tolling and System Development Engineer in partnership with James Colyar of USDOT Federal Highway Association (FHWA). The peer review was coordinated by WSDOT's tolling engineer, Jacob's Engineering, supported by Russ McCarty, Program Manager; Catherine Sanchez, Deputy Program Manager; and Mark Hoffa, Customer Service Center Procurement Lead.

Each of the invited agencies are either operating all electronic tolling facilities or are currently in the process of transitioning from mixed cash and electronic toll collection to all electronic tolling and have been through much of what WSDOT expects to experience related to tolling SR 520.

Below is a brief synopsis of each agency and their tolling program:

- Florida's Turnpike Enterprise (FTE) is a Department of Transportation owned entity. They are transitioning from mixed cash and electronic toll collection to all electronic tolling on their 460 miles of toll road. FTE manages the SunPass statewide electronic toll collections system and has \$600 million plus in annual total toll revenue.
- E-470 Public Highway Authority (E470) is transitioning from mixed cash collection to all electronic toll collection and their 47 miles of toll road will be fully open road tolling July 4, 2009. E-470's toll road averages \$90 million in annual total toll revenue.
- The Texas Department of Transportation (TxDOT) has been video billing customers for over a year and has to deal with three separate transponder issuers and four party interoperability. TxDOT has approximately 65 miles of toll road and \$49.5 million in annual toll revenue.
- Miami-Dade Expressway Authority (MDX) is currently transitioning from a mixed cash and electronic toll collection operation to all electronic tolling. With 60 tolled lanes being converted to all electronic tolling+- and the addition of new tolled lanes, MDX will have 102 lanes of open road electronic tolling. Their annual total toll revenue is \$111 million.

During the discussions the peer review panel provided detailed experiences of situations they have encountered in their Customer Service Centers and within their back office operations, from accounting to enforcement to customer service. The agency peers also shared with WSDOT their Business Financial Overview. They also outlined the pros and cons of various approaches to opening an all electronic toll road with video tolling, and they shared valuable lessons learned on practically every level of their operations.

At the conclusion of the two day meeting in Seattle, the agency peers discussed their observations, opinions and recommendations among one another, before reconvening with WSDOT to offer their observations and recommendations.

Discussion Summary

Peer Review Experts

Bill Thorp

Assistant Secretary of Finance and Administration

Florida Turnpike Enterprise

William.thorp@dot.state.fl.us



Danna Smith

Traffic and Revenue Analyst

E-470 Public Highway Authority

dsmitt@e470.com



Clive Thorn

Revenue Supervisor

Texas Department of Transportation

rthorn@dot.state.tx.us



Keith Sheffler

Toll System Manager

Miami-Dade Expressway Authority

ksheffler@mdxway.com



Federal Highway Administration Representative

James Colyar

James.Colyar@fhwa.dot.gov



Lessons Learned and Observations

Accounting, Reporting and Revenue Recognition

The panel experts felt overall WSDOT had a good grasp on what is needed to be accomplished prior to opening an all electronic tolling facility; however they still felt there were many points that WSDOT needs to consider.

The following are recommendations focusing on accounting, reporting, and revenue recognition put forth by the four panelists to ensure WSDOT experiences a smooth opening of an all electronic toll facility.

- **GAAP (Generally Accepted Accounting Principles) is not an option, it's a requirement**

Reporting on a GAAP basis is essential for any credibility outside the WSDOT. Bond Rating Agencies, for example, prefer, and in some cases will insist on, GAAP based financial statements. Everyone recognizes the necessity, and credibility, of adhering to GAAP. All are in agreement with this, but the issue becomes -- due to the volume of transactions and convoluted processes associated with the relatively new "all electronic tolling" and related toll enforcement -- how quickly can the tolling agency bring its automated systems into conformity with GAAP when the majority of existing system architectures and system integrators have concentrated on operational processing rather than GAAP financial accountability processing. It is important that as the transactions migrate through the individual life cycles that every event be captured and recorded as an accounting event with debits and credit to the proper accounts in a sub-ledger. With prepay and post pay accounts, those events that affect the receivable or liability accounts must be adjusted real time. As such, significant investment of time and money may be necessary to bring ORT and back office systems into full compliance with GAAP if they are not already. This is where it needs to be understood that the investment of time and money to comply with GAAP is not optional but is required.

- **Need for expert *degreed* accountants**

Too often the tolling system/service providers do not ensure that part of the advisory team is at least a degreed accountant. A CPA or Masters in Accounting or Accountancy would be best. Experience is always a benefit but should not be a substitute for higher education, certification, or graduate level training.

Governmental accounting is complex. Transactions, especially electronic transactions, can be challenging. Operational accounting for these types of transactions is quite complex and subject to requirements imposed by GAAP, the State of Washington, and also the credit card industry. While a bright individual can certainly be trained to do the accounting, only

degreed accountants have the knowledge of the alternative treatments that could be used and the implications and impacts of the various alternatives.

- **Continued financial staff oversight**

It is not recommended that the service provider be allowed to run unchecked. Past experience of the team noticed that quite often the Agency relies heavily on the expertise of the service provider; we felt this required more involvement by the Agency regardless of “the way it is done in the industry”.

Some agencies provide a great deal of independence for the toll operations of the agency. This has substantial benefits and relieves the agency’s CFO from having to get into the details of the toll transactions. These transactions will not be duplicated anywhere else in the agency and the need for detailed knowledge is only within the toll unit.

- **Need for communication between departments**

There is a tremendous need for all departments (e.g, operations, finance) as well as the service provider and system integrator to participate in the development of business rules and the implementation of processes so that every aspect of the business is fully vetted and, once in place, all issues are reported, reconciled, and resolved in a timely manner. There is a need for “transparency” in operational and financial matters to improve disclosure and to improve results.

Regardless of the organization, communication is essential. As stated previously, these reports need to conform to GAAP. In order to prepare GAAP based reports, the person responsible for the reports must have had indepth exposure to the operations of the tolled facility. For example, he or she would need to know the materiality of violations, the likely outcome of bid protests and ongoing litigation. Communication between departments becomes critical. Certainly someone not familiar with the day to day operations could prepare GAAP based reports, if they had a complete checklist of the questions to ask. However, there has never been a checklist that covered every issue that comes up.

- **Importance of reconciliations**

The reconciliations referred to during the peer exchange focused on bank reconciliations, however, these are not the only reconciliations that take place, but serve as a clear example of what could go wrong if reconciliations did not take place or were poorly done. Another example is the relationships that exist between traffic counts and revenue collections. Reconciliation between these two could show either internal or external leakages that might grow to material levels if left unchecked.

Too often, because the business rules used for development are seemingly sound, points in the process that normally would require reconciliation or some other manual control are left to the reliability of the system. The team felt that service providers needed to understand that a verification of the integrity of information being transferred or relied upon is essential.

Reconciliations need to be performed on a timely basis, they need to be accurate, they need to have any variances resolved, and they need to be reviewed and signed off by the appropriate approving authority.

- **Video tolling requires new revenue recognition principles**

In the old “cash-toll world,” revenue recognition was on a simple “cash basis.” With All Electronic Tolling, the lines of revenue recognition become blurry as to when to recognize revenue now that we have pre-paid, post-paid, and violator statuses.

Most toll transactions can be handled using a cash basis of accounting. Revenue is recognized when it is received and as it is received. A dollar received today, is a dollar earned today.

Video tolling can be prepaid or postpaid. Prepaid transactions are not really problematic from a revenue recognition view. The prepaid video customer has called in and set up an account for their vehicle which is prepaid with either cash that has been deposited with the agency or a credit card which has had an initial balance drawn against and deposited into the customer account. When a prepaid user travels through a tolling point, the transit is recorded triggering a transfer from the customer account to the revenue account. Revenue is recognized when the transaction occurs.

If a violation occurs for which you cannot collect, no revenue should be recognized.

Post-paid video billing however poses more challenges. Revenue should still be recognized when earned, however, recognition principles also direct that this should be the case only when such revenue is available.

Post-paid video tolling is relatively more expensive and a toll agency will generally add a surcharge to the bill to cover higher costs of video billing. When a fifty-cent toll becomes \$2.50 owed, customers might resent the surcharge.

- **Don't rely on system integrators accounting expertise**

Toll agency financial staff cannot relinquish their responsibility to ensure all accounting, reconciling, and reporting aspects of their toll collection and toll enforcement system are on parity with GAAP and best business practices.

Many times system integrators are familiar with or have a general understanding of basic accounting policies and procedures but may not be fully informed on the specific requirements of a state agency in your particular state.

The Department's own IT staff needs to be part of the design and QA process to ensure that the design is being adhered to and that the outcomes are as expected.

- **Robust reporting**

Rating agencies have raised the flag that toll agency reporting often times does not appear to be robust enough to provide adequate disclosure of financial data and operational data dealing with collections, receivable aging, and disposition of transactions, not to mention sufficient means to adequately measure, monitor, and mitigate the risk of All Electronic Tolling. Reporting at the lowest level may not seem to be a requirement today but you don't want to limit what information you can obtain from your system.

Reporting capability should be robust. There are two types of reports that will need to be generated. Those needed for day to day operations and regular periodic reporting and those one offs that cannot be planned for. Therefore the design of the system needs to be data driven. Capture as much data as possible and have a data base engine strong enough to handle complex queries, (e.g., How many 5 axle vehicles traveled from point A to point B on June 14th?).

- **Understanding the life cycle of a transaction**

Tolls at the simplest level are nothing more than a financial event that will change as time goes by. Almost every possible change has a financial impact on reporting. The provider must understand not only the possible changes but the financial impact of those changes. Often heard in the tolling industry from providers is the uniqueness of tolling; an understanding of the life cycle of the transactions might change your outlook on the simplicity of tolling. Tolling is simply a series of financial events, very basic in nature.

All Electronic Tolling transactions can take many "twists and turns" during their life cycle from "cradle to grave." For example, an apparent violation

may be invoiced, fees added, fees deducted, escalated to court, voided, or finally, after sending a legal citation, be determined to be a pre-paid customer who simply did not have his or her license plate updated on their account.

A transaction begins when the customer passes through a tolling point and does not end until payment is received or written off. The multiple avenues that a transaction can take are numerous and each needs to be understood and accounted for.

- **Transaction level accountability**

ALL transactions need to be tracked from the moment they are created in the lane, and a toll is “owed” until the final disposition is recorded. This is the “cradle to grave” concept of accountability.

- **Adequately trained staff**

Staff positions handling financial matters need to be filled with individuals who understand what their jobs entail and who have the necessary background/education to fulfill their job duties. They need their responsibilities clearly defined and then be held to fulfilling those responsibilities.

- **Keep it as simple as possible**

Many times, properly tracking and accounting for transactions is hindered because the operational and/or the financial process is made overly complex and difficult to understand by those who are tasked with monitoring and reconciling the process, resulting in failure to fully achieve GAAP and accountability.

- **With authority comes responsibility, with responsibility comes accountability**

Financial and operations staffs have been entrusted with positions of authority related to funds collected, or to be collected, by the tolling agency. With these positions of authority come responsibility to ensure those funds are safeguarded, properly reconciled, and properly reported and to be ultimately accountable to the bond holders and to the public for the successful oversight of these transactions within their care, custody, and control.

Don't forget YOU are the responsible party!

Summary of Presentations and Discussions

Customer Service Center Peer Review Workshop

Attendees:

Peer Review Panel:

Bill Thorp
Florida Turnpike Enterprise
William.thorp@dot.state.fl.us

Danna Smith
E-470 Public Highway Authority
dsmit@e470.com
303.537.3790

Cleve Thorn
Texas Department of
Transportation
rthorn@dot.state.tx.us
512.486.5568

Keith Sheffler
Miami-Dade Expressway Authority
ksheffler@mdxway.com
305.637.3277 X 2109

Federal Highway Administration Representative:

James Coylar
James.Coylar@fhwa.dot.gov
360.753.9408

WSDOT and Other Participants:

Bill Ford
FordB@wsdot.wa.gov
360.705.7440

Bill Covington
CovinB@wsdot.wa.gov
360.705.7336

Sid Fulford
fulforS@wsdot.wa.gov
360.705.7936

Craig Stone
StoneC@wsdot.wa.gov
206.464.1222

Greg Selstead
Selsteg@wsdot.wa.gov
360.705.7801

Jennifer Charlebois
CharleJ@wsdot.wa.gov
206.716.1106

David Pope
PopeD@wsdot.wa.gov
206.464.1285

Patty Rubstello
Rubstep@wsdot.wa.gov
206.464.1299

Lucinda Broussard
BroussL@wsdot.wa.gov
253.534.4699

Ramona Lovelace
LovelaR@wsdot.wa.gov
360.705.6976

Christine Simmons
SimmockK@wsdot.wa.gov
206.464.1225

Heather Reitmeier
Reitmeh@wsdot.wa.gov
253.534.4669

Tyler Patterson
Patter@wsdot.wa.gov
206.716.1134

David Hopkins
Hopkida@wsdot.wa.gov
206.464.1194

Grant Rodeheaver
RedeheG@wsdot.wa.gov
360.705.7601

Helena Smith
SmithH@wsdot.wa.gov
206.464.1206

Amanda Cecil
Cecil.amanda@leg.wa.gov
360.786.7429

David Forte
Forte.David@leg.wa.gov
360.786.7312

Bart Cima
Bcima@ibigroup.com
206.915.2971

Catherine Sanchez
Catherine.sanchez@jacobs.com
206.295.8810

Rick Gobeille
Richard.gobeille@jacobs.com
212.944.2000

Mark Hoffa
Mark.hoffa@jacobs.com
206.310.3279

Russ McCarty
Russ.mccarty@jacobs.com
206.948.5880

Day 1 Agenda – Thursday May 7, 2009

1. Welcome and Introductions (9:00 -- 9:30 a.m.)
2. Peer Agency Presentations – Part 1 (9:30 – 10:30 a.m.)
 - a. Bill Thorp, Florida’s Turnpike Enterprise
 - b. Danna Smith, E-470
3. Break (10:30 – 11:00 a.m.)
4. Peer Agency Presentations – Part 2 (11:00 -- Noon)
 - a. Cleve Thorn, Texas Department of Transportation
 - b. Keith Sheffler, Miami-Dade Expressway Authority
5. Working Lunch (Noon – 1:00 p.m.)
6. WSDOT Working Session (1:00 – 3:00 p.m.)
 - a. Accounting
 - b. Traffic and Revenue Reporting
 - c. Revenue Recognition
7. Peer Review Report Presentation (3:00 – 4:30 p.m.)

Day 2 Agenda – Friday May 8, 2009

1. Peer Review Report of recommendations from Day 1
2. Adjourn

Objectives:

- Transition from cash to all electronic tolling
- Implement video tolling with all electronic tolling
- Discuss lessons learned from all agencies
- Learn from others who have already struggled with the transfer to all electronic facilities
- Prepare a final report including suggestions from the panel experts

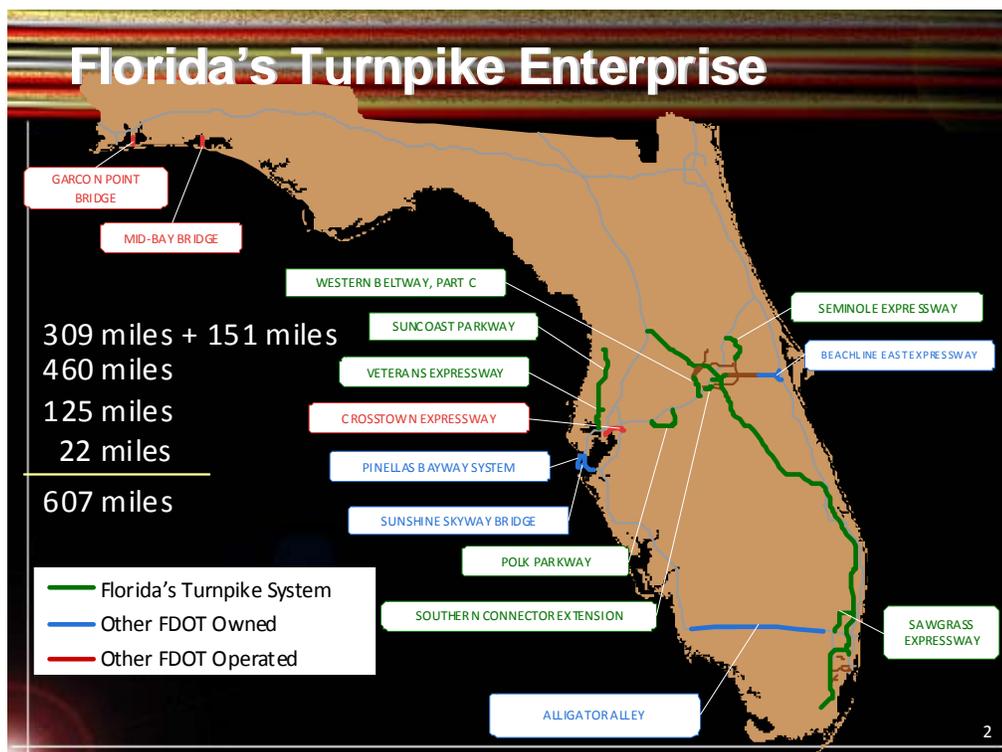


Florida's Turnpike Enterprise

Presenter: Bill Thorp, CPA
Assistant Secretary of Finance Administration

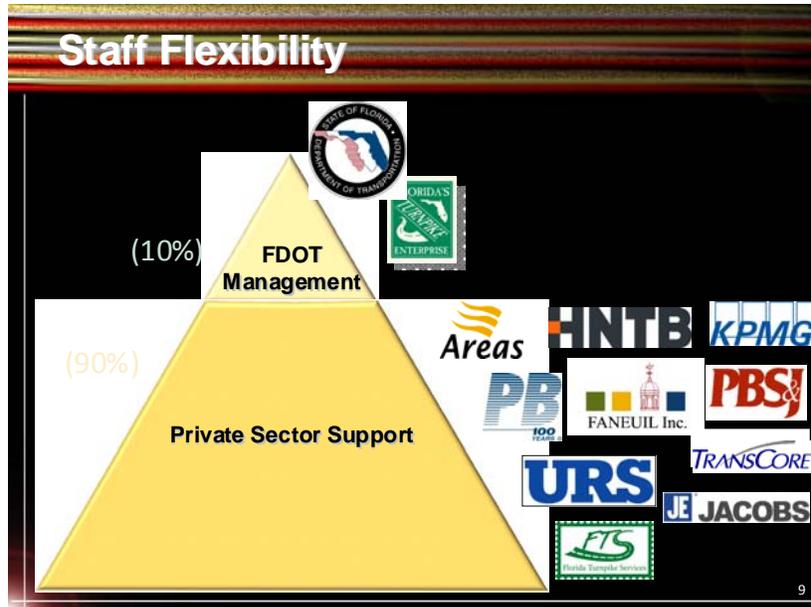
Florida's Turnpike Today:

- Largest toll system in Florida
- Nationally:
 - 2nd largest in revenue
 - 4th largest in length
- User-financed: does not rely on gas taxes
- System of toll roads
- Part of the FDOT
- 607 miles of tolled road
- All electronic tolling in 2010
- Current participation in electronic tolling is 68%



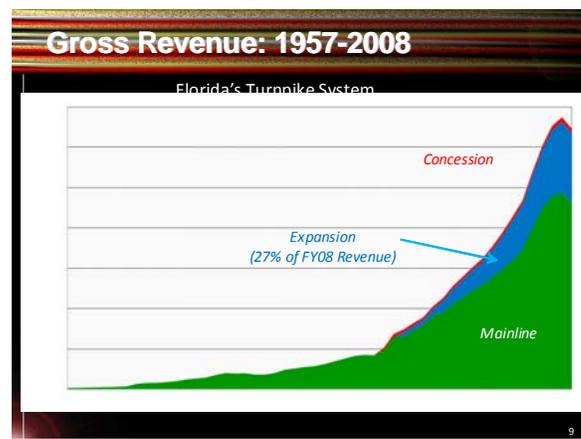
Staffing/Flexibility:

- Currently 10% of employees that work for the turnpike are DOT
- 90% are all private sector support working for the turnpike
- This brings expertise that is valuable and allows us to raise and lower the number of staff working for the turnpike more easily in good times and bad
- Offices are co-located
- DOT positions all have accountability for consultant work

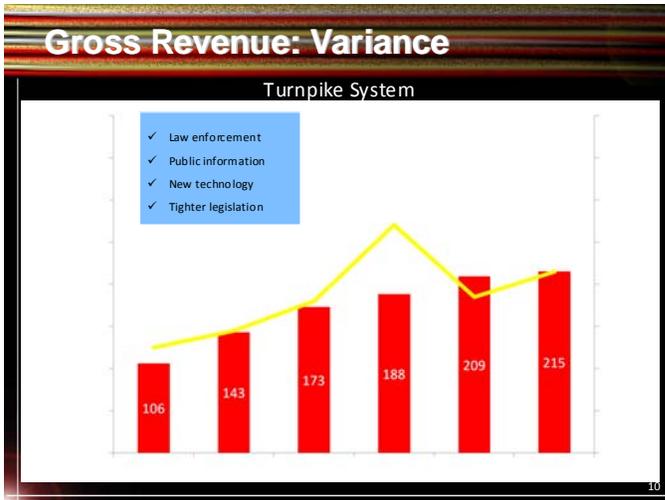


Revenue:

- Tolls data center will also accept money from customers in the form of walk
- In cash, or electronic payments such as a credit card
 - ETC transactions go immediately to the transaction center
 - Information will then get processed to customers account, but not to traffic and revenue reports
 - Cash goes through the traffic and revenue audit system. Then sent back for corrections and up to traffic and revenue accounting systems for reporting purposes
 - Tolls data center will report "unpaid toll notice" if failed to pay after traveling through a toll facility

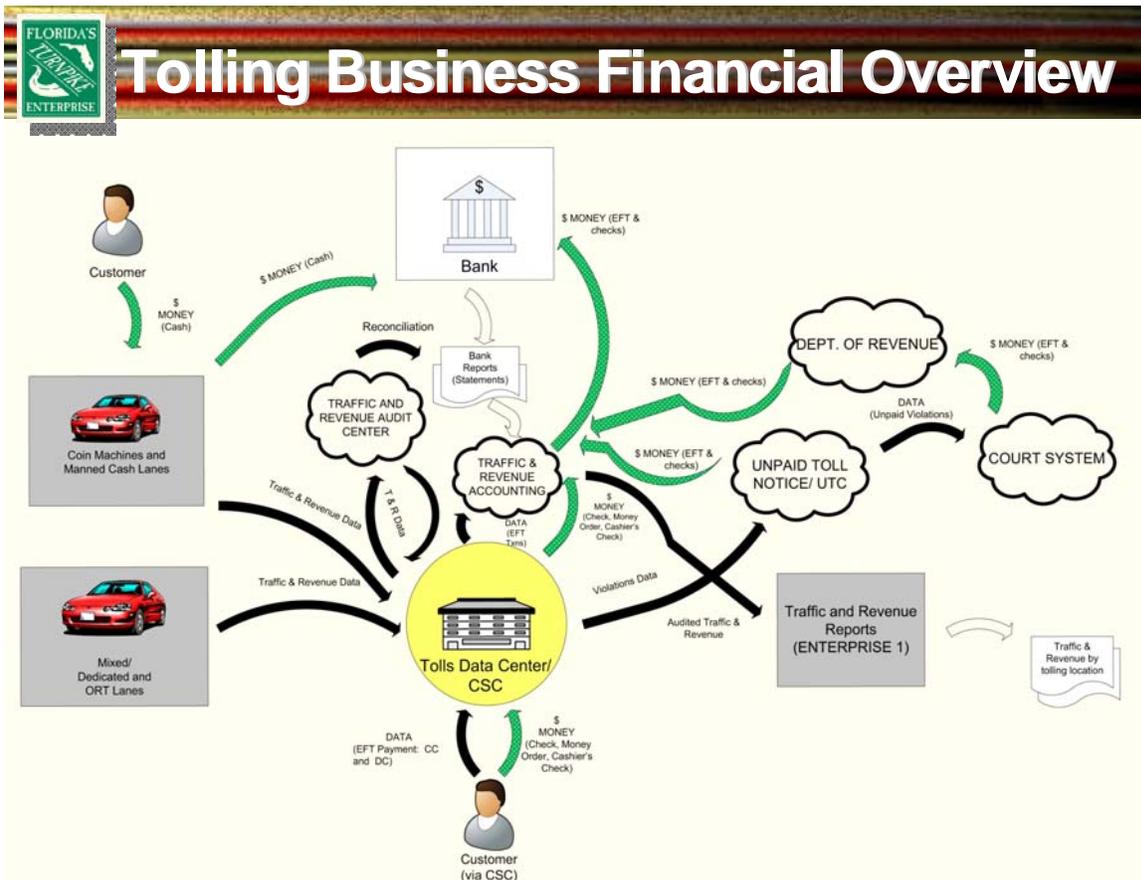


- Will include a toll and administrative fee of 25.00
- If fail to pay customer will receive another notice or two
- If still fail to pay those they will be sent to court system at that point



- On a daily basis cash is moved to the bank from cash booths
- Department of Revenue receives all fine money and distributes appropriately
- Financial statement reports have information about the trends, number of transactions, cost of transactions and various other information

Tolling Business Financial Overview:



Presentation Discussion Highlights:

- Selstead: How many transponders per account do you normally have?
 - A: Definitely going to change per account – some have multiple per account,
- Covington: Revenue Recognition: A sense or understanding regarding the life cycle of a transaction. That's a great method to think about.
- Violations get more complicated when revenue goes through the lifecycle especially with open road tolling.
- Thorp: Not recognizing revenue on violations until its recorded is a great blessing for a number of reasons, including “bad press” by writing off large numbers.
- Thorp: Video tolling approaches.
 - Personally favors, only pre paid video tolling
 - Feels you'll be forced to use post paid
 - With post paid, you have to search down the video
 - Auditors will require you to book in accounts receivable
 - You'll have to have large amounts of accounts receivable
 - Doesn't look good because you have so many write-offs
 - Questions will arise regarding “how hard you looked for the customers.”
 - FL hasn't really figured out what exactly to do yet.



E-470 Public Highway Authority

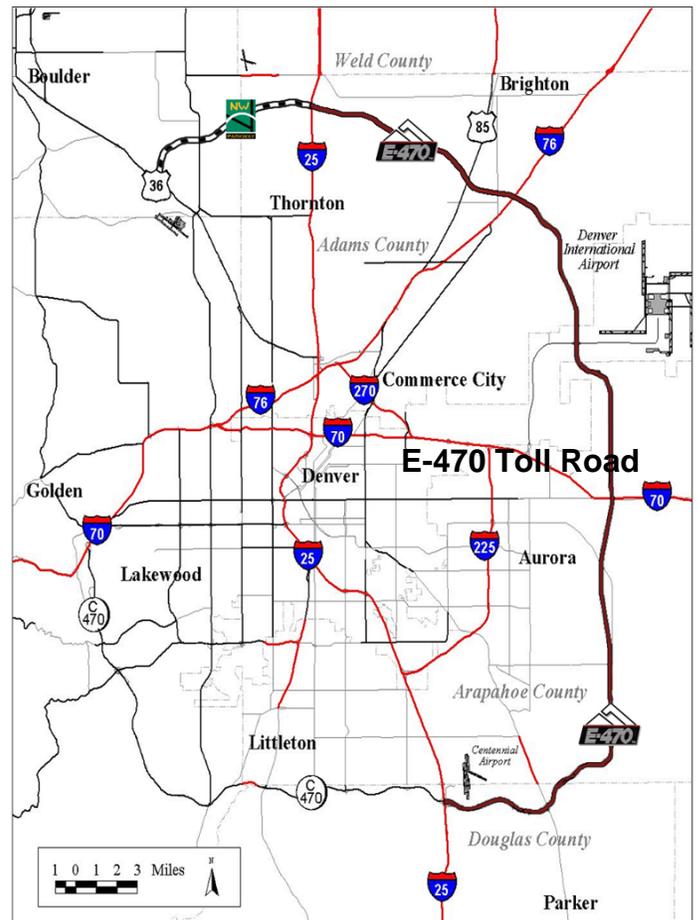
Presenter: Danna Smith
Traffic and Revenue Analyst

Current Facts and Figures:

- Centerline Miles – 47
- Lane Miles – 311
- Current Mainline Toll (4 of 5 Plazas)
 - License Plate Toll / Cash - \$2.50
 - Express Toll - \$2.25
- Current Ramp Toll
 - License Plate Toll / Cash - \$1.00
 - Express Toll - \$0.90
- 2 Axle Cost per Mile
 - Express Toll - \$0.23
 - Cash or License Plate Toll - \$0.26
- 2 Axle End to End Cost
 - Express Toll - \$11.00
 - Cash or License Plate Toll - \$12.25
- Scheduled Toll Increases
 - Every 3 Years

Transaction Types:

- Transaction Breakout
 - Express Toll – 73.8%
 - Cash – 19.5%
 - License Plate Toll – 6.7%
- Express Toll Accounts
 - Number of Accounts – 295,854
 - Number of Transponders – 558,843



Implementation of all electronic tolling:

- January 1, 2009
 - Begin transition
 - Keep toll collectors
- July 4, 2009
 - Total non-stop cashless toll collection
 - Express Toll
 - License Plate Toll (LPT)
 - No more cash transactions

Revenue Recognition:

- Cash Basis
 - Declare revenue when cash is deposited in bank
 - Not based on transaction date
- Accrual Basis
 - Accrue revenue when LPT transaction is posted to LPT account
 - Net out accrual for Debt Service calculation
 - Include accrual for projection comparisons

Solutions to Ensure Revenue Collection:

- Returned Bills – Bad Address
 - Department of Motor Vehicles
 - 3rd party vendor for our of state lookup
 - National charge of address
 - Looking into other databases used by collections agencies
- Unpaid Bills
 - Legally considered “delivered mail”
 - One citation for each transactions on a bill
 - Administrative law court system
 - Collection agency

TCS System Reconciliations:

- Total reconciliation
 - TCS
 - Bank
 - General Ledger

Processes that work well:

- Phasing out cash payments
 - Cash flow isn't affected as dramatically
 - Continued communication to cash customers
- Lockbox payment processing
 - Reduces payment processing time
 - Reduces audit / reconciliation time
- 30 day transaction accumulation period
 - Reduces cost per transaction
 - Bill is sent at same time every month
- Owning our own TCS system
 - Flexibility during learning curve
 - Changes are quick and easy

Issues/Lessons Learned:

- LPT Account Balances
 - Don't allow balances on accounts
 - Customers over pay regularly
- Transaction Complexity
 - Finance and IT both understand what is included in reports
 - Transaction aging process and life cycle



Presentation Discussion Highlights:

- Covington: Revenue Recognition – With the video toll, are you establishing the receivable and the revenue at the time of the transaction?
 - Smith: Yes, we accrue it at the time of transaction.
 - Covington: At that point in time the legal terms, is it all a violation?
 - Smith: It's all toll revenue; any fees and fines on top of a citation are violation revenue. The \$2.00 toll goes to toll revenue, than the fee and fine go to violation revenue. At the point in time of the violation they opt for a hearing. They either don't show or a decision's been made.
 - Covington: Are you treating those on a cash basis?
 - Smith: Toll is already in receivable, if court says you don't have to pay, we don't do a receivable.
- E470: Not everyone gets a bill the first time. If the tag read is suspended, we will issue a violation right off the bat without sending a bill.

- Selstead: Pre paid balance to LPT accounts -- Are there any discounts/incentive?
- Selstead: With your scheduled toll increases every three years do you have flexibility to go back and modify the rates? And what governance?
 - Smith: We use an outside traffic and revenue consultant, Wilbur Smith. They give us projections and present to the board what E470 feels it to be, then board makes decision based on all input.
- Going to try and have a toll increase every year instead of every three years soon.
- Thinking about the difference between a customer and a transaction is important when planning. Most people don't drive on roads all the time.



Texas Department of Transportation

Presenter: Cleve Thorn
Revenue Supervisor

Currently tolled facilities:

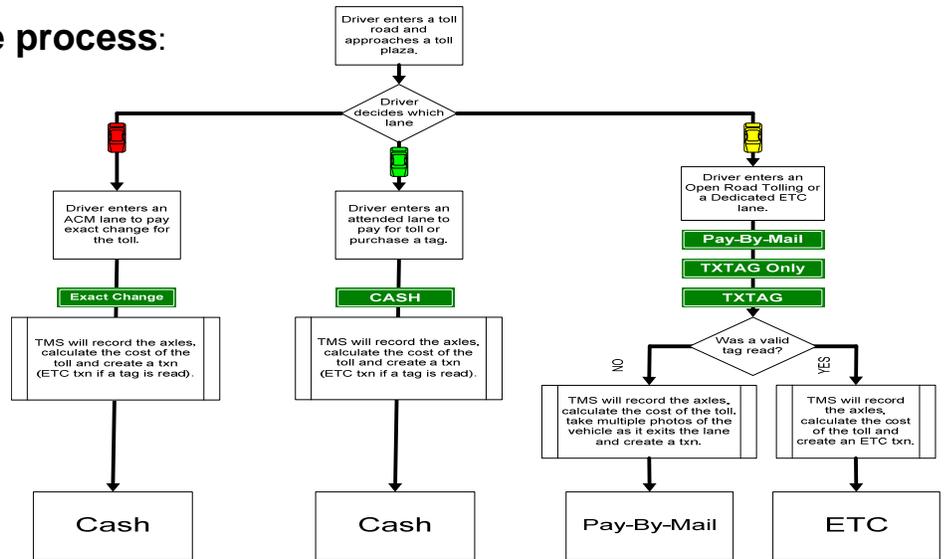
- TxDOT
 - Austin
 - Tyler
 - Laredo
- NTTA
 - Dallas
- HCTRA
 - Houston
- CTRMA
 - Austin



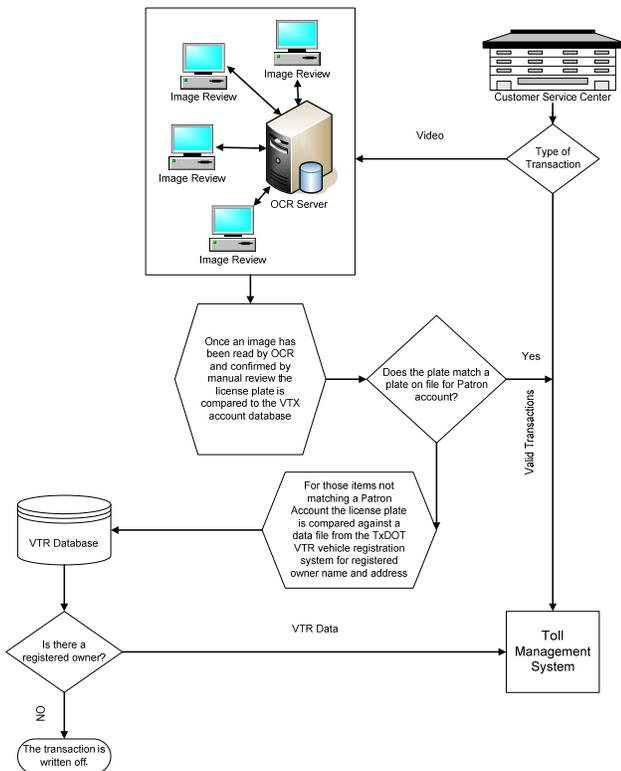
Pay by mail process:

- Invoicing: 15 Days (Anniversary)
 - Violations: After 2nd Invoice
 - Collections: 3rd Party Collections
 - Courts: June (Most Egregious)
 - Violation Conversion Offer (VCO)
-
- Created an invoice instead of a bill.
 - For lockbox information -- put important information towards the bottom of the statement to avoid tearing.
 - Can't rely on DMV information completely because it's not always completely updated.
 - All documents sent out state that you will be sent to collections if not paid.
 - Letters were designed in collaboration with TxDOT by the collection agency

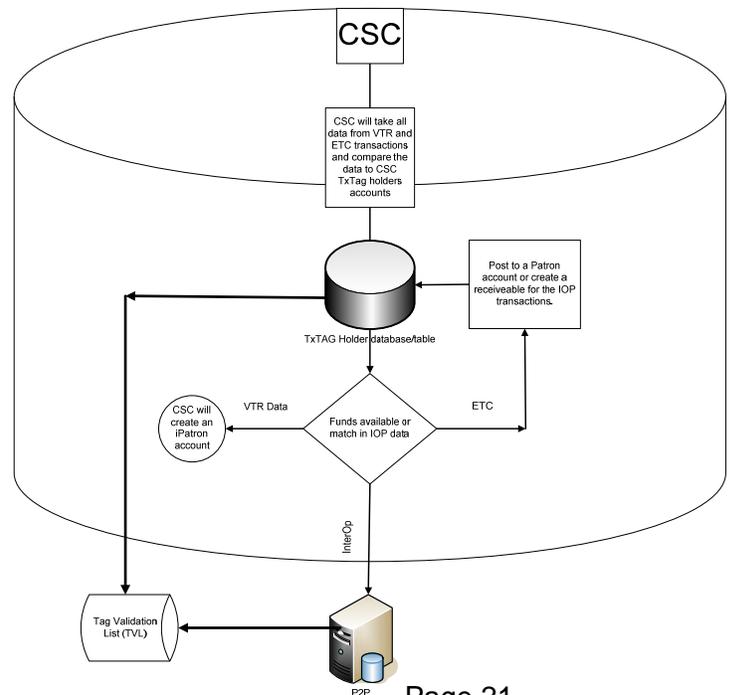
At the lane process:



Customer Service Center Process:

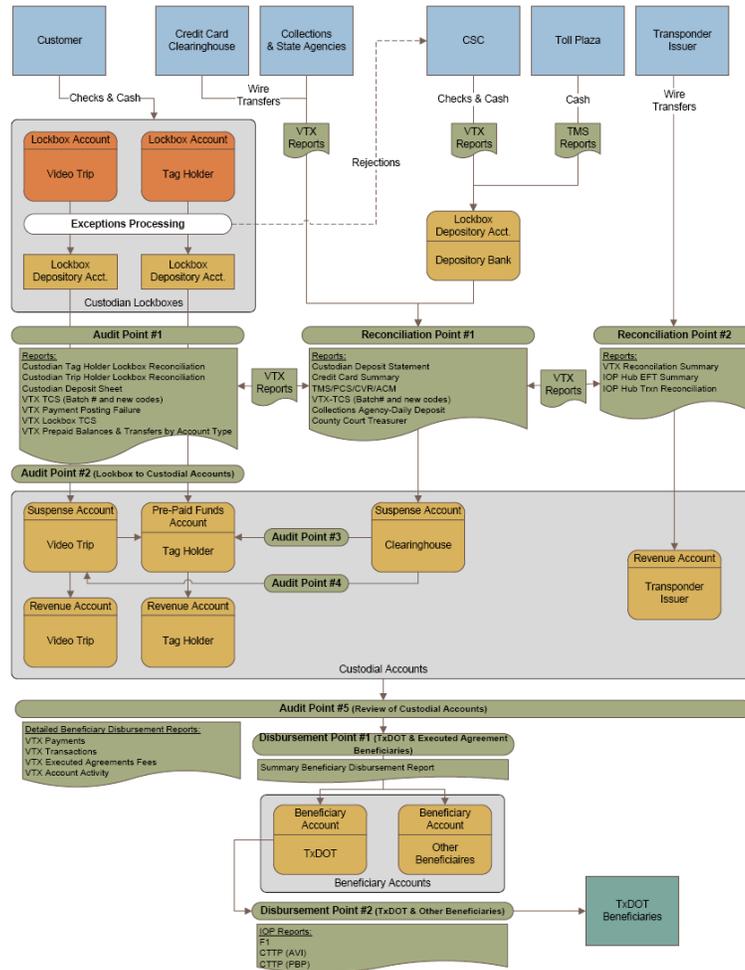


System Process:

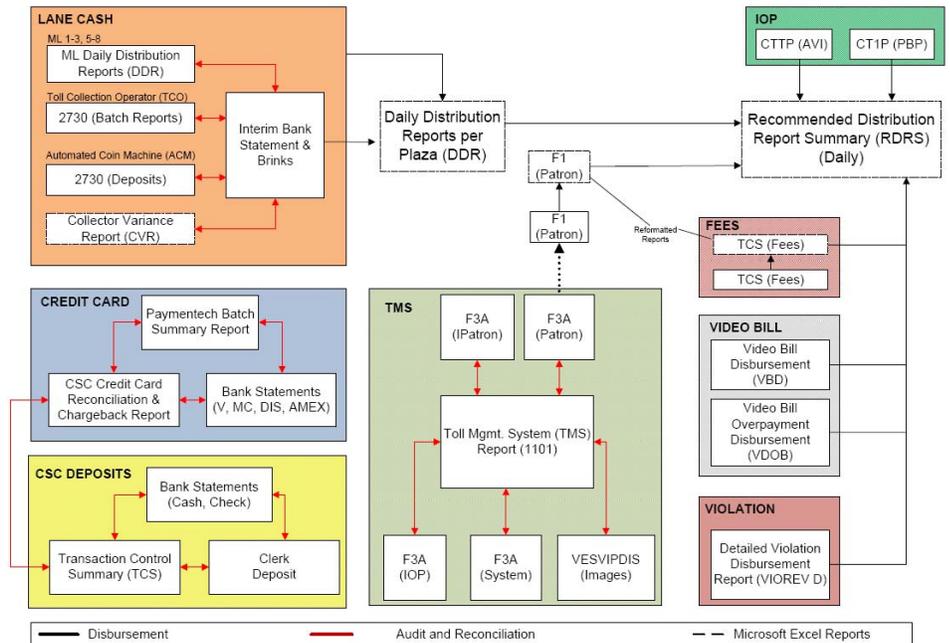


Revenue Flows:

The Lockbox Flow



Customer Service Center Flow



Traffic and Revenue:

- Traffic (Transactions)
 - Cash: 8.2M
 - Pay-By-Mail: 8.5M
 - TxTag: 49.2M

- Revenue
 - Cash: \$7.2M
 - Pay-By-Mail: \$5.2M
 - TxTag: \$36.8M

Challenges:

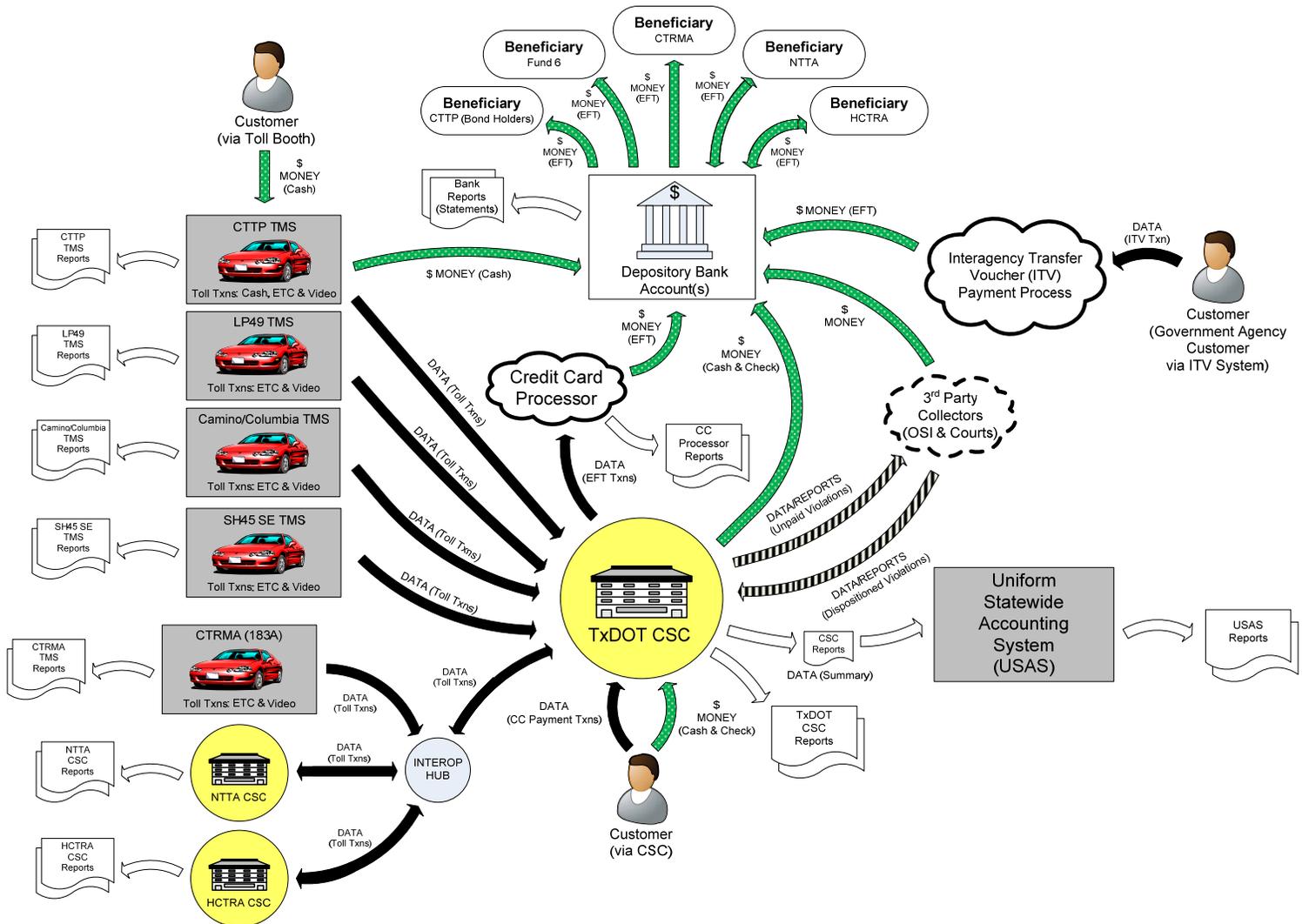
- Payments by Customers/Patterns
- Foreign Currency
- Political Decisions
- Out of State
- Rental/Lease Companies
- Nixies/Customer Address
- Audit Trail/Transaction Level Reporting
- Include your Accounting and Audit Staff

Successes:

- 75% Transponder Penetration
- Violation Conversion Offers (VCOs)
- Invoice
 - Mail House
 - Bar-coding
 - Lockbox
- Pricing

TxDOT Statewide CSC

Tolling Business Financial Overview



Presentation Discussion Highlights:

- All agencies pay each other based on percentages
- Receivable recorded when initially received

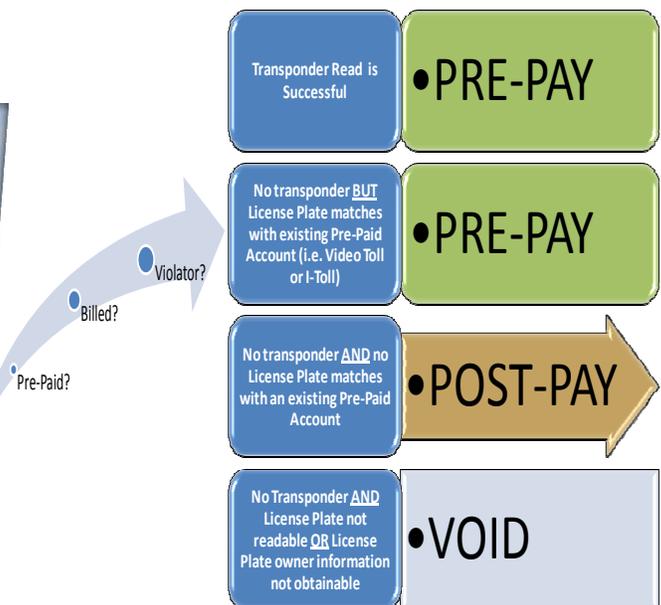
Current Toll System:

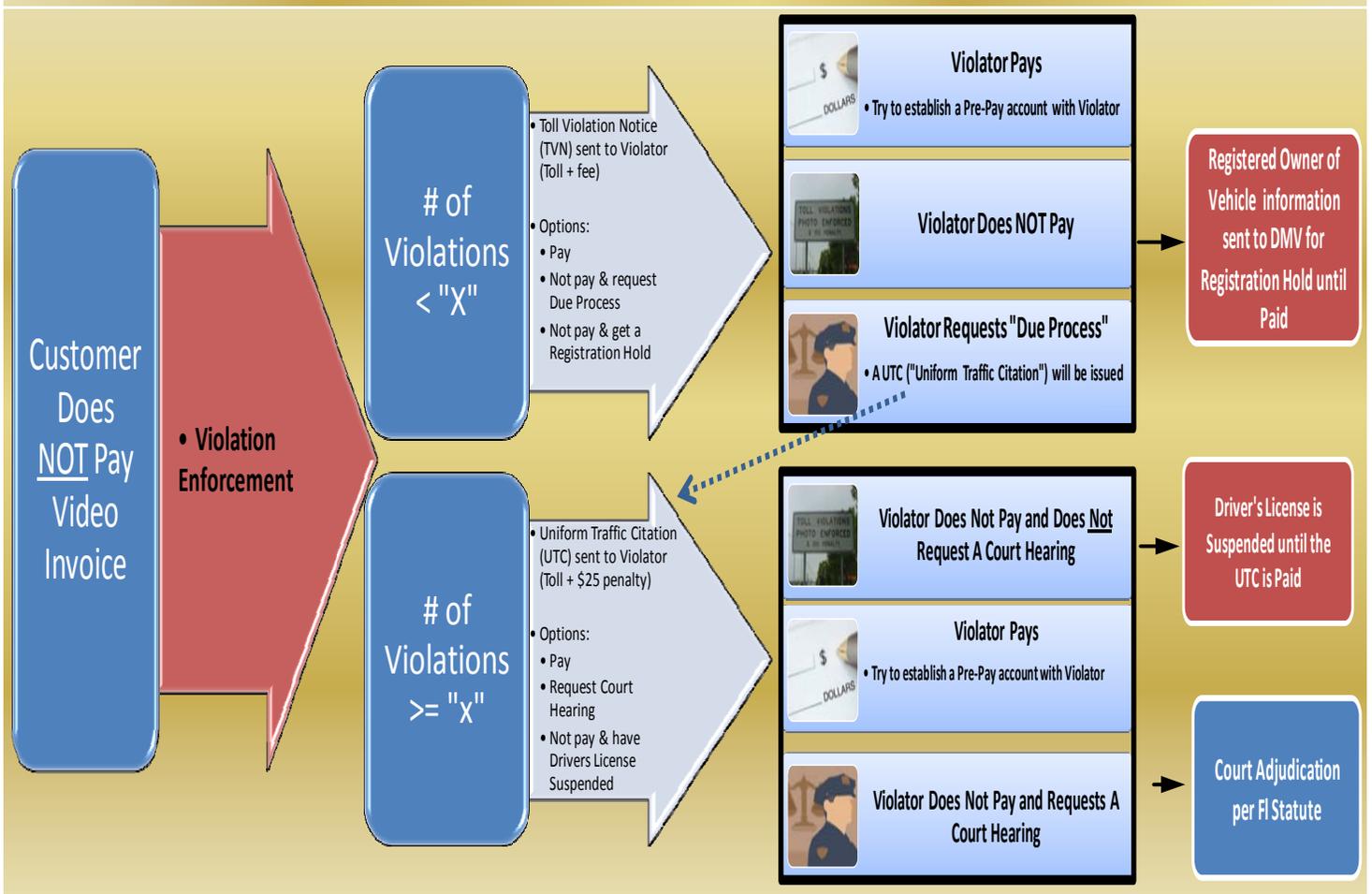
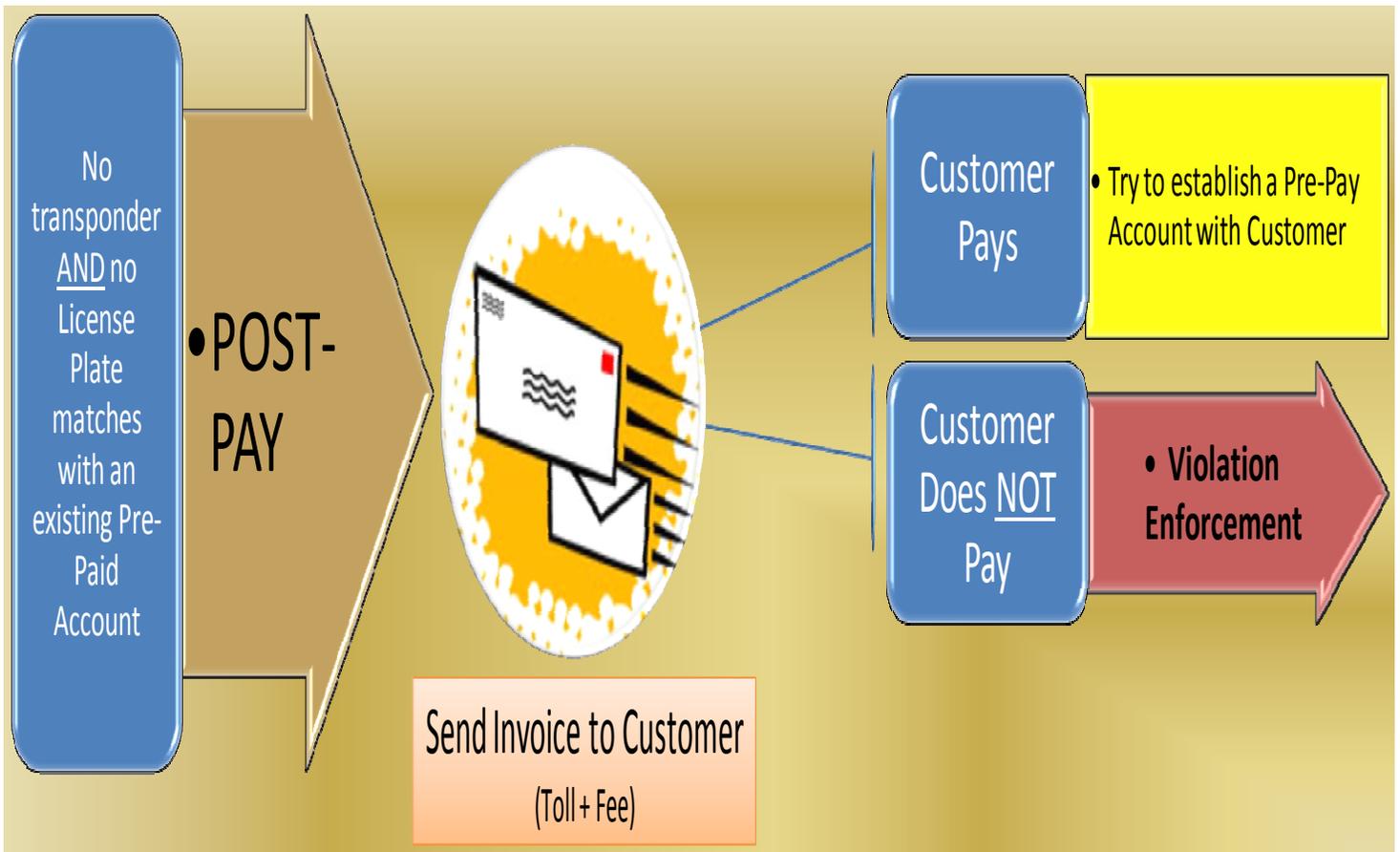
- Five Roadways:
 - SR924 (Gratigny Parkway) 5.4 miles
 - SR112 (Airport Expressway) 4.1 miles
 - SR836 (Dolphin Expressway) 11.8 miles
 - SR874 (Don Shula Expressway) 7.2 miles
 - SR878 (Snapper Creek Expressway) 2.7 miles
- Sixty Toll Lanes
 - 19 Cash, 11 Cash/ETC, 6 low speed Dedicated, 10 Express, and 14 ORT
- Toll Enforcement Center (TEC)
- ETC Transactions through SunPass® CSC

Future Toll System with Open Road Tolling:

- 102 ORT travel lanes.
- 45 toll locations/gantries (single gantries)
- Why ORT?
 - Pay only for what you use
 - Everyone shares in the costs to build, operate and maintain the roadway
 - Reduce congestion through mobility solutions
 - Enhance safety

Toll Enforcement Process:





Quest to find the right operating software:

- MDX found software that was:
 - Strong on operational matters
 - Weak on Generally Accepted Accounting Principles (GAAP)
- MDX was looking for:
 - Accountability
 - Easily reconciled
 - Easily understood at all levels
 - Strong internal controls
 - Recognize revenue in appropriate accounting period (full accrual accounting)
 - Configurable to our business rules:
 - Fees structure (video fee, TVN, statement fees, etc.)
 - Write offs (when, how)
 - “Cradle to Grave” concept with full debit/credit accountability

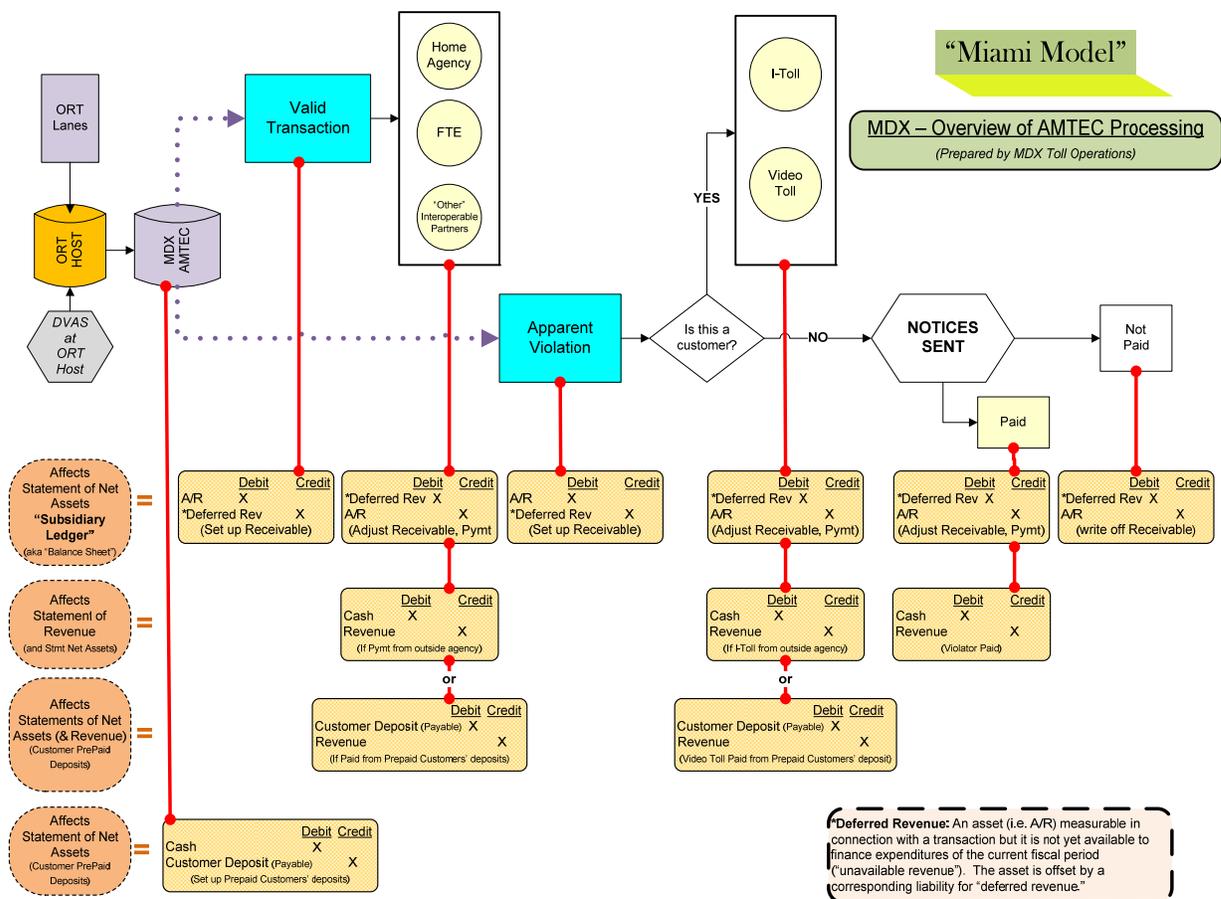
The Life Cycle of a Transaction:

- Reconcilable from “cradle to grave”
 - An apparent violation transaction may take many turns
 - Comes in as an apparent violation (ex. \$1.50 cash toll)
 - No “hit” on a customer list so moves to the next phase
 - Send a Toll Violation Notice or Citation (add a \$25 fee)
 - Find out it’s really a customer (deduct the \$25 fee)
 - Accept payment for \$1.00 (SunPass rate)
 - Maybe the “apparent violation” transaction never makes it too far along in the process because it is “voided” due to an unreadable plate or discovered it is a “non-revenue” police car.

The “Miami Model” – A new approach to an old solution:

- Set up the Receivable and offset it with a Deferred Revenue entry:
 - A/R (debit).....xxxxx
 - Deferred Revenue (credit)...xxxx
- At the time of payment, do a 4-sided entry:
 - Deferred Revenue(debit).....xxxxx
 - A/R (credit).....xxxxx
- Cash (debit).....xxxxx
- Revenue (credit).....xxxxx
- Revenue is recognized when you have the payment in the bank – everyone can understand this.

- Simple adjustment at year end to conform to full accrual accounting for the CAFR (Comprehensive Annual Financial Report)
- Accounts Receivable is tracked/reconciled daily:
 - The A/R is set up as a “subsidiary ledger” (*subsidiary ledger = a record of accounts that provides supporting detail on individual balances. The total of the subsidiary ledger should equal the total of A/R in the general ledger*)
 - The general ledger account is called the “control account”
- The “back office” is not the G/L, but it provides the basis for preparing the journal entry that posts to the G/L.



The “Act of Reconciling”:

- What are we reconciling?
 - Accounts Receivable (includes aging the A/R)
 - Revenue accounts (from A/R or unidentified payments)
 - Cash account (and changes in the Cash balance)
 - Refund accounts
 - Customer Deposits/Payments (if home agency or have Video Toll accounts)
 - *Due to, due from* other interoperable business partners.

Reports:

Inadequate Reconciliations are an obstacle to a successful CSC and TEC back office.

- Reconciliations need to be TIMELY
 - Monthly is good, daily is even better!
 - If done daily, the end of the month is easy.
- Reconciliations need to be ACCURATE
 - Does the reconciliation balance? Are there unallocated variances?
 - Are the variances resolved?
- Reconciliations need to be REVIEWED and signed off by approving authority.

Back Office Service Provider Issues:

Performance

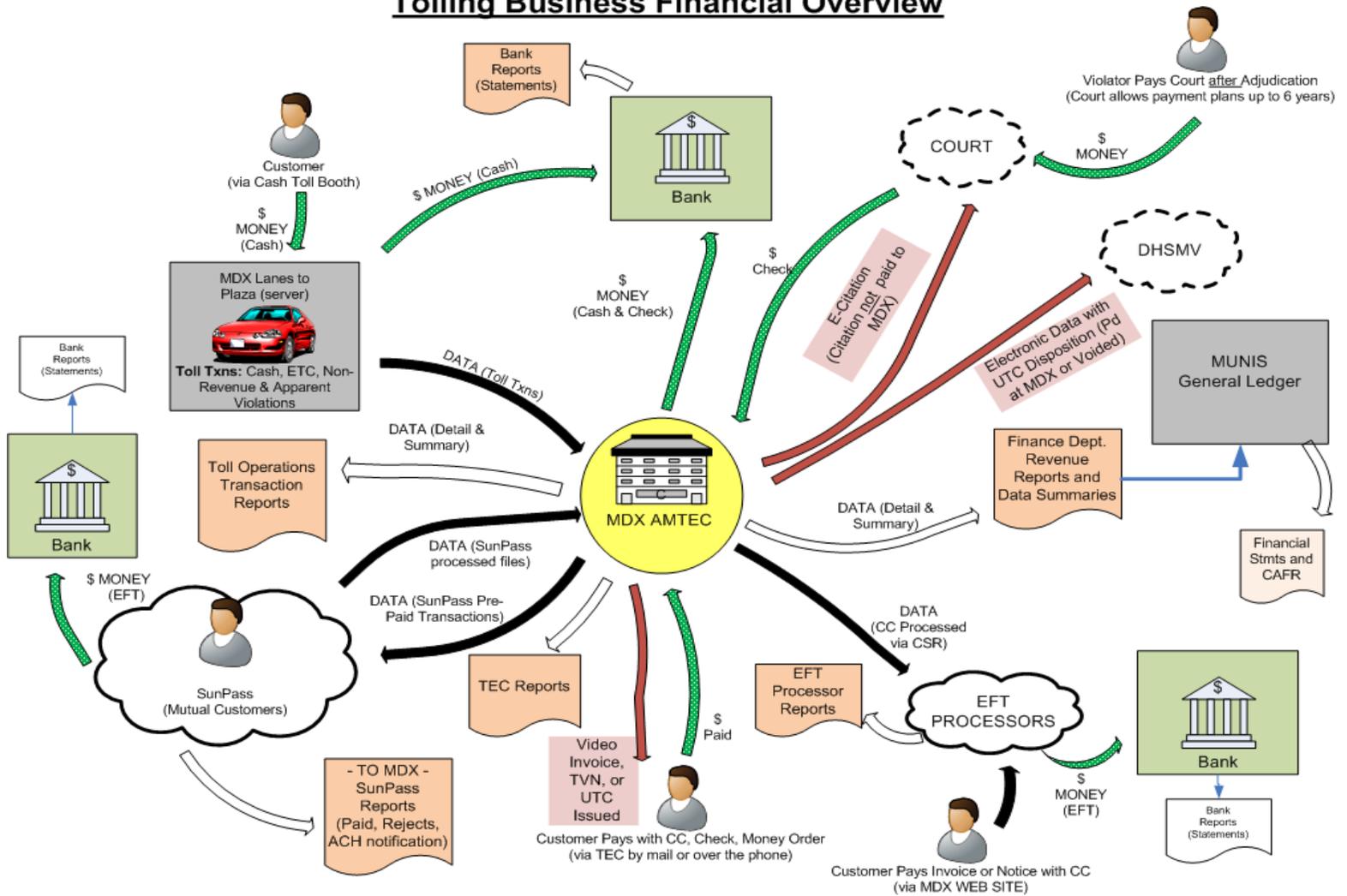
- No clear appreciation for internal controls.
- No clear appreciation for segregation of duties.
- No clear appreciation for the reconciliation process.
- No clear appreciation for monitoring operational flows.

People

- Staffing numbers too low to handle the work
- Not having an experienced, degreed accountant in oversight position
- Not allocating adequate staffing for reconciliations and accounting functions
- Minimal training in reconciliation process (and minimal oversight)
- Positions filled with unqualified individuals
- Position’s responsibilities not clearly defined
- Low pay scale (you get what you pay for)

Miami-Dade Expressway TEC

Tolling Business Financial Overview



Current Tolled Facilities:

- Tacoma Narrows Bridge
- SR 167 HOT lanes
- *SR 520 will begin tolling October 2010*

Challenges:

- The need to develop consistent reports with common terminology
- Accountability associated with fund type and linkage to local community through the rate setting process

Outcomes:

- The development of benchmarks and the need to put these benchmarks into the proper context

Lessons Learned:

- Developing a contract and business model that is “right-sized” to meet the accounting, system integration and customer service needs

Future Goals:

- The Organizational Challenge
 - Unique Mission
 - Unique Role
 - Unique Projects
- The Concept of One
 - One in-vehicle device
 - One customer account number
 - One contact number for customer service

Financial Reporting:

- WSDOT Accountability and Financial Services (AFS) develops monthly financial statements for both TNB and 167 HOT Lanes.



SR 167 HOT lanes



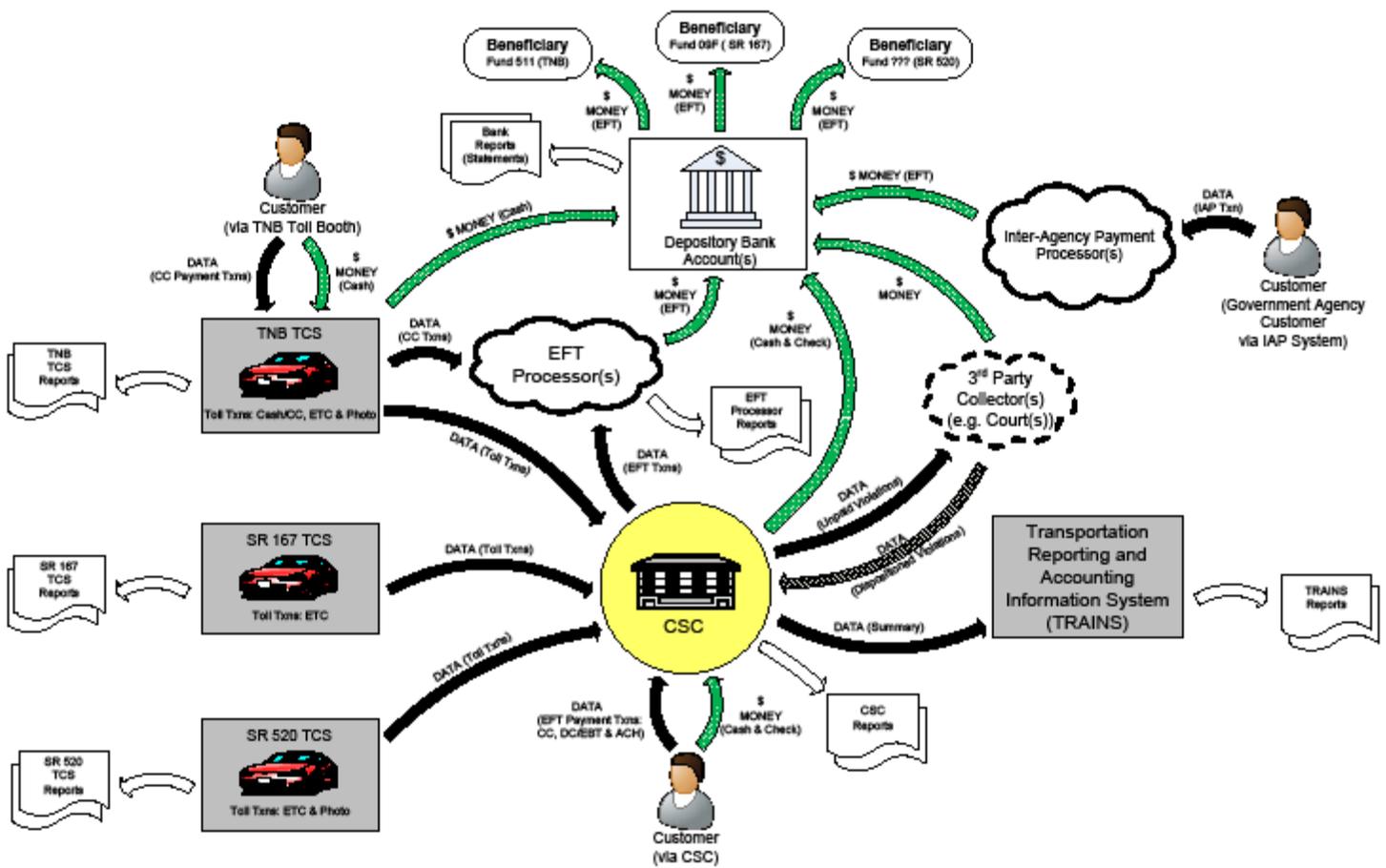
Tacoma Narrows Bridge



Artist's rendering of what electronic tolling might look like on the existing SR 520 Bridge

- Statements go through a review process with toll operations, financial planning, and budget prior to presentation to WSDOT Executives.
- Notes have been developed to communicate detail requested by the public.
- Common terminology developed for the Financial Statements, Financial Plan and Traffic and Revenue Reports.

WSDOT Statewide CSC **Tolling Business Financial Overview**



CSC Financial Overview WSDOT_20090504

DRAFT FOR DISCUSSION

5/6/2009

Post Presentations Discussions Highlights:

- As you have more tolling points, your cost of transaction will ultimately go down because you have more transaction points
 - Folks don't realize that it all depends on how many gantries you have on the road
- There's a cost per lane mile.
 - EXAMPLE: A segment of 130 will have two gantries 35 miles apart but their transaction revenue is phenomenal
- Benchmark for yourself and manage your own numbers
 - Use persons using the road as a benchmark
 - The number of accounts is generally more important
- Most of the time you spend more time on the phone with violators than customers
- "Right sizing" within the Legislature is a struggle
- You can't compare facilities
 - WSDOT's numbers are very high compared to FTE, but that doesn't mean they are higher than they should be. You have to base your numbers on your metrics and go off of that
 - Have to take into perspective what your ultimate goal is

Traffic analysis:

- Come up with an accurate way to track your traffic
- What do you really believe?
 - The toll system or the traffic counters?
 - And how do you verify the differences?
 - FTE – "We take finance people out there and will count traffic personally along with pulling transactions. They are live samples. We found that a certain counter was not working very well, and that counter is no longer anywhere in FL."
- WSDOT is looking at invoicing customers, billing for open road tolling, vehicle license suspension. etc.
 - Needs to know from the point of a transaction, which it was, where it was and more
- WSDOT is looking for the "what are we going to have to have" when a vendor comes in
 - what they will need to meet our needs without having to do change orders and pay more for months of works
 - MDX: "Do you want your system integrator to fulfill your GAAP requirements? If that is your expectation you will probably be disappointed down the road, because even though they are configurable, they are not GAAP. Very few are even thinking in those terms. I am afraid that a lot of the service providers have great systems engineers, but they do not have CPA's on their staff for programming. Some are considering

getting consultants to bring in that expertise, but I think that they have a long way to go. But you are going to have to take the position of demanding this is what I have to have. And putting your foot down to make sure that they change their system to meet your needs.”

- FTE: “We have had experience with a very similar thing. We required the developer to hire an accounting firm to oversee that what was produced was GAAP. That was a mistake because they worked for the developer, and got a very small budget. It turned back to FDOT staff to ensure that that was there. Then there was the issue of who is the decision maker. Is it your systems guy or your finance guy? In many cases the operational team will vote for something else other than the report that the finance team needs. “
- Covington: What’s the industry when it comes to taking an action for an event through accounting? I am advocating that it’s not just the entities that do tolling today, but maybe those that work in other fields that still do CS that will bring in a system that supports GAAP.
- MDX: The issue that comes about is do you have enough vendors out there, who are the writers of accounting software, that want to put the effort in to make software for the tolling industry...I think the answer is no. The vendors that you’re talking about, the accounting vendors, have no idea what “tolling” is all about...which is what the systems integrators we have today are doing.
- TX: Our suggestion is have two systems. One that manages the lanes and one that does accounting.
- FTE: Right, you build two systems, one pulls accounting queries, and one pulls operations queries.
- Remember to say what it is you actually want.
 - MDX: Many agencies sit back and ask the system integrators, “what do you have?” but do not tell them exactly what they want or need. You need to put together the process flow. Say this is how I want the reports to look and what they will say. The agency’s accounting team needs to sit down and work through that before hand. In our RFP we didn’t spell it out complete enough, and we are dealing with that now.
 - WSDOT: “Our expectation is that the system will have a level of working to where if a tax code needs to be changed, we can go in and do that without having to be “nickel and dimed.”

END