



For the Record

US Transportation Expert Discusses Toll Lane 'Revolution'

The USA is experiencing a mini-explosion in the transportation PPP sector which is getting a lot of international attention. Robert Poole, Director of Transportation Studies at the Reason Foundation in the USA, came to speak at a Council-sponsored event on June 10, 2005 about what is happening in the sector and what best practices may be brought to Canada.

The focus of Mr. Poole's comments was on "value-priced tolling" and HOT (High Occupancy Toll) Lanes, which have become a very popular model for new and expanded road systems in the US. He believes that this growing wave of value-priced tolling use is reflective of a paradigm shift currently going on in the US in how urban transportation is delivered. Policy makers and government officials have begun to recognize the value of direct payment at the point of use when it comes to roads. Mr. Poole calls this phenomenon a "tolling revolution" in transportation.

He outlined the two key factors that comprise the tolling revolution in the US: value-priced managed lanes and the Australian finance model. Traditionally, transportation projects in the US were funded from dedicated gas taxes, government-run toll roads with 100% debt financing backed by tax-exempt toll revenue bonds, and High Occupancy Vehicle (HOV) or carpool lanes funded by a combination of federal-state gas taxes and dedicated sales taxes.

About ten years ago in California, the government started using variable pricing to manage traffic flow on its highway system. The State concluded that pricing was the most powerful tool to deal with traffic demand that was not being met by existing

capacity. Mr Poole said that: "It allows you to maintain high quality, reliable, free-flowing traffic on the priced lanes under conditions that would normally mean absolute gridlock." This philosophy has now become widely accepted in other states. Minnesota, Colorado, Washington, Texas, D.C., Florida and Atlanta are all in the process of implementing or investigating value-priced managed lanes.

What Mr. Poole refers to as the "Australian finance model", utilizes none of the above sources of financing. Typically, it uses a combination of equity, bank debt and taxable toll revenue bonds (i.e. the ones a business would typically use). The difference with this model is that you are not stuck with 100% debt financing, and the inherent risks associated with it. A mixed financing model including "patient equity", with investors looking for long term investments, is easier to finance and more suitable to a public-private partnership (P3) model. While not limited strictly to Australia, Mr. Poole noted that this model has been used quite often in that country.

Mr. Poole cites five main reasons why the tolling revolution is happening in the US. First, there is a critical mass of information on how well these projects worked in California. Over a ten-year period they have shown strong support among transportation experts, politicians and the public. Mr. Poole explained that polling continually shows the public wants more of these projects. Although it took ten years for public support to come around in Minneapolis-St. Paul for a toll lane project, the data from California clearly showed that these lanes were not turning into "Lexus Lanes" where only the rich could afford to use them.

They in fact provided "congestion insurance" where 80% of users don't use the lanes every day, but just when they need to get somewhere fast. The ability to save on things like late day-care penalties, not missing a flight or getting to a meeting on time is quite popular with users. This kind of support eventually led Minneapolis-St. Paul to expand the network from I-394 to a whole series of roads.

The second main impetus for the tolling revolution is electronic toll collection. The ability to charge tolls at high speeds as well as change pricing in real time based on traffic flow is not even conceivable without electronic toll collection. The technology is now in the 60% plus range of toll users in the US.

Third, there is a growing public demand for congestion relief in large urban areas, where most of the US population lives. The Texas Transportation Institute's annual Urban Mobility Study has shown greater congestion problems every year. Los Angeles is always at the top of the list, but many other urban centres are getting worse. Mr. Poole notes that all of the money spent in the last 15 years on mass transit and carpool lanes has not made a dent in congestion. The latest US Census Bureau figures show that carpooling and transit are at a 20-year low as a fraction of all commute trips. Price-based lanes reflect the reality that people are going to drive their cars and that the traffic needs to be managed.

Another reason for the tolling revolution is funding shortfalls. As a follower of privatization and P3 use around the world, Mr. Poole believes that the single biggest motivating factor for P3-type activity is funding crunches in government. Most of

the big states in the last five years have had funding crises. The realization that there is significant new funding available from value-priced tolling is beginning to sink in. Six states have changed legislation in the last two years alone to accommodate these types of initiatives. California recently passed legislation to allow all levels of government to pursue toll lanes without any restrictions.

The final contributing factor to the tolling revolution has occurred in the past six months, with a small set of very important transactions that highlighted the benefits of the Australian funding model. The SR125 in San Diego is a \$650 million private toll road that provides a missing link in the city's freeway system. It is supported completely by toll revenues and funded by bank debt, equity and a long-term subordinated federal government loan that provides bridge funding for innovative P3 projects. The 99-year lease of the Chicago Skyway was announced last winter, and Mr. Poole believes it really opened people's eyes to the availability of global capital. Paying \$1.8 billion for an existing toll road meant other governments (Delaware, New Jersey, New York and Indiana) began looking at their road assets as a new source of funding. In Texas, the Department of Transportation recently accepted a bid from Cintra-Zachary for a \$7.2 billion, 300-plus-mile toll road as the first phase of a Trans-Texas Corridor that will include rail, freight, car, dedicated truck lanes and utility easements. The concession includes \$6 billion in construction costs and a \$1.2 billion fee paid to the State during construction in exchange for the right to

toll for 50 years.

What are the implications of this revolution? All of the activity is currently coming from the states - the federal government has become more of a "cheerleader" and federal funding is less of a factor. User groups like the American Automobile Association, which was initially opposed to toll roads, have started to accept the fact that given funding restrictions it may be "toll lanes or no lanes". The Trucking Association is realizing the benefits of truck only lanes that could accept heavier payloads and result in faster delivery times. There is also a significant amount of money available for P3 transportation projects. In Georgia, Texas and Virginia alone, Mr. Poole estimates that there are \$22 billion worth of projects pending under P3 legislation. In Orange County on the Highway 91 express lanes at the height of rush hour, people will be paying \$0.70 per mile in tolls.

Mr. Poole had several recommendations based on these trends. He believes that traditional toll booths should be phased out. Public support will increase with the added convenience of not having to stop for booths. Mr. Poole also stresses that governments must remove the barriers to global capital investments or risk losing out to other jurisdictions in an increasingly competitive market. He sees a huge potential in North America to enhance existing highways with entire networks of value-priced toll lanes. They would provide not only congestion insurance, but also a reliable network for large scale bus service. "This concept of a priced network is not only a solution for drivers stuck in traffic, it is also

an enabler for much better transit service that can be very cost effective," Mr. Poole notes. The drivers paying tolls could fund a large portion of the infrastructure costs upon which public transit can piggyback. He also sees huge potential for special truck toll lanes. In the US, truck freight is growing much faster than both rail freight and personal vehicle travel.

When asked about adding toll lanes to a road like Highway 401 in Toronto, Mr. Poole said that retrofits have not been tried on conventional highways in the US, but studies in California showed that there would be a significant reduction in congestion. However, he noted that politically, it would be very unpopular to start tolling a highway that the public already perceives to be free. Converting existing HOV Lanes to HOT Lanes, which is what they are doing in the US, is much more publicly acceptable. With regard to enforcing HOT Lanes, Mr. Poole acknowledged that the system is still catching up. Free carpooling on the lanes introduces significant enforcement challenges, and he believes that eventually, regulations will prohibit those without transponders or those not registered with an employee-sponsored carpool.

Mr. Poole sees the trends and pressures occurring in the US as very applicable to Canada as well. "It's a very exciting time to be in the business", he exclaimed, "given the incredible growth in these types of arrangements.

For more information:

To obtain a copy of the Reason Public Policy Institute's publication "Should States Sell Their Toll Roads?" go to the RPPPI website at: www.rppi.org (click on "Highways" under "Transportation"). A full transcript of Mr. Poole's remarks is available to members from The Council offices.



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