

91 Express Lanes – How it Helped Change the US Toll Road Landscape

28 Oct 2011 | USA | Roads



The opening of the 91 Express Lanes in 1995 sparked a national policy debate. Policy makers in California as well as across the country argued that the 91 Express Lanes were “Lexus Lanes”. They also asked why drivers should be asked to pay for gas tax as well as tolls. Environmental groups voiced concerns about the potential impacts on emissions and transit. And, the credit markets were reluctant to provide long-term capital.

The debate seems to be over. As a result, phrases like “express lanes,” “HOT lanes” and “managed lanes” are in common use today and a growing number of similar tolled facilities are in operation, are under construction, or are being planned in the US and around the world.

The 91 Express Lanes has been visited by many state and local department of transportation officials and more than 20 foreign transportation entities. The I-15 Express Lanes in San Diego County and I-680 HOT lanes in Alameda County are also operational. And, Los Angeles, Riverside and Santa Clara counties in California are planning tolled congestion management facilities. In addition, Colorado, Virginia, Texas, Florida, Minnesota, Washington and Maryland have implemented congestion management pricing toll roads.

Background

The 91 Express Lanes was the first privately financed toll road in the U.S. since World War II, the world’s first toll road with 100 percent electronic toll collection and the first toll road based on congestion management pricing. In short, the 91 Express Lanes was a visionary project in the early 1990s that did not come without risks.

The scheme became a reality when the California Private Transportation Company (CPTC), comprised of Kiewit Construction, Cofiroute and Granite Construction invested more than USD135m of private funds 20 years ago to finance a toll road in the existing median of the Riverside Freeway (SR-91).

When the 91 Express Lanes opened in December 1995, it immediately improved traffic conditions on SR-91. And, after several years the 91 Express Lanes’ revenues covered both operating expenses and debt service.

"There is a broad range of opinion that believes OCTA’s purchase of the 91 Express Lanes has been an absolute success..."

The scheme's franchise agreement contained a non-compete clause giving CPTC the right to prohibit new capacity on SR-91, which proved controversial. However, CPTC and its lenders assumed a significant financial risk related to the uncertainty of a single-asset toll road based on congestion management pricing in a state which had historically resisted toll roads.

Following several years of operations the non-compete clause proved to be irrelevant to the capital markets. Due to their growing sophistication, the form of the 91 Express Lanes non-compete clause is no longer required. The reality is that CPTC proved to transportation officials and planners as well as to Wall Street that toll roads based on congestion management pricing are a viable complement to general-purpose lanes in congested corridors.

OCTA's Purchase

OCTA purchased the financially successful 91 Express Lanes in 2003 for USD207.5m. This was done primarily to remove the non-compete clause making it possible to improve the free lanes. At the time, the average daily traffic in the SR-91 corridor was approximately 200,000 vehicles, which is approaching nearly 300,000 average daily trips today.

Transparent Toll Policy

OCTA's toll policy, approved in 2003, is available on at www.91expresslanes.com. The toll policy provides customers with a transparent explanation of congestion management pricing. Based on the toll policy, OCTA tracks hourly demand and adjusts tolls, if necessary, the first day of each quarter. The non-peak hours tolls can be increased annually based on inflation.

The 91 Express Lanes has 24 toll hourly toll rates westbound and 24 hourly toll rates eastbound for each day of the week. As a result, the 91 Express Lanes has a total of 336 separate toll hourly toll rates. There are currently 29 different tolls eastbound and 14 different tolls westbound. Since 2003, aside from annual CPI increases, OCTA has raised tolls in just 18 eastbound peak toll periods.

The history of the eastbound toll increases and decreases is illustrative of the ability of the Toll Policy to adjust tolls to reflect demand. The increase in the highest hourly toll from USD4.50, when OCTA purchased the 91 Express Lanes, to the October 1, 2011 Friday 3 p.m. to 4 p.m. toll of USD9.75, is the result of demand eastbound during peak hours.

It is important to note that OCTA's toll policy automatically adjusts up and down based on demand. During the recent recession, OCTA lowered the tolls on several eastbound hourly toll periods. There is a strong correlation between employment demand and demand for the 91 Express Lanes. The Friday Eastbound 3 p.m. to 4 p.m. hourly toll adjustments reflect periods of increasing and decreasing demand.

Although no one enjoys paying a toll, the 91 Express Lanes customers realize the time savings and appreciate the fact that we are reinvesting net revenues to improve the SR-91 corridor. To date, OCTA has invested more than USD10m in net toll revenue to improve the general purpose free lanes on SR-91.

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P3 Approach to Operations

OCTA has successfully outsourced the daily operations of the 91 Express Lanes to Cofiroute USA. Cofiroute manages the 91 Express Lanes' call-centers, transponder accounts, safety requirements and back-office systems. OCTA has two full-time employees and one part-time employee dedicated to monitoring the Cofiroute contract.

It is also important to underscore that the 91 Express Lanes was the first toll road in the world to use 100 percent electronic toll collection. CPTC had to successfully develop and implement state-of-the-art technical software applications for toll collections. Today, electronic toll collection systems are used on tolled facilities around the world.

A Financial Success

OCTA's investment in the 91 Express Lanes has been both a policy and financial success. OCTA issued USD195m of tax-exempt non-recourse bonds to refinance the acquisition. Since 2003, OCTA has collected approximately USD155m of net revenues after debt service. Fitch Ratings, Moody's and S&P have each upgraded the bonds to A, A1, A respectively from the original credit ratings of A-, A2, A-.

OCTA's 2003 acquisition of the 91 Express Lanes debt was "deleveraged" through the use of internally borrowed funds. This allowed OCTA to structure the 2003 tax-exempt non-recourse refinancing with a conservative "level debt" approach. The "level debt" approach, despite the inherent volatility of congestion management pricing, has allowed OCTA to maintain a 2x debt service coverage ratio through the recent economic recession

OCTA used the supply and demand triggers in its toll policy during the economic recession to lower tolls during multiple hours. Although the lower tolls reduced revenue, the ability to lower the tolls allowed OCTA to retain a significant percentage of its peak hour toll period customers at the lower toll amount.

Tolling that Works

Although OCTA's toll policy is designed to increase mobility in the SR-91 corridor, OCTA has managed the 91 Express Lanes "like a business". OCTA realized that if it lowered tolls, the 91 Express Lanes would become congested during peak hours. Therefore, OCTA made a conscious decision to operate the 91 Express Lanes like a business to maintain mobility and increase throughput in peak hours.

The 91 Express Lanes increases mobility as well as lowers carbon emissions in the peak commute hours. The Cofiroute team continues to successfully manage the 91 Express Lanes for OCTA with the same customer focus that they followed under private ownership.