

# **VALUE LANES**

**Q & A**

Pricing encompasses a variety of market-based approaches to respond to congestion problems. Pricing strategies include:

- Variable Tolls on Toll Roads
- HOT Lanes, i.e. High Occupancy Toll lanes
- FAIR Lanes, i.e. Fast and Intertwined Regular lanes
- Variable Tolls on Existing Free Roads
- Strategies not involving new road user charges

## **Background**

The Value Pricing Pilot Program (VPPP) was established under Transportation Equity Act for the 21<sup>st</sup> (TEA-21) to provide up to 15 states, local governments or other public entities with 80% Federal matching funds to establish, maintain, and monitor pricing projects. Pilot projects have proven to be successful in at least three areas:

**Mobility:** Revenues from pricing have been used to provide the traveling public with additional travel choices and to increase their mobility. Lane pricing has provided premium service for those willing to pay for it, and has provided for congestion-free movement of transit vehicles.

**Productivity:** Pricing has promoted more efficient use of highway capacity and delayed the need for new capacity, thereby saving tax dollars. Pricing has promoted economic productivity and international competitiveness by decreasing time wasted waiting in congestion and decreasing the uncertainty of delay times.

**Environment:** Pricing has reduced air pollution and fuel consumption.

Additionally, FHWA analysis shows that pricing can provide huge benefits to the U.S. economy. If implemented in conjunction with capacity expansion on severely congested freeway facilities in metropolitan areas, over \$50 billion in additional net benefits would be generated through travel time and vehicle operating cost savings and reductions in environmental costs.

## **Lessons Learned**

Projects implemented through the Value Pricing Pilot Program have taught us important lessons:

Pricing can work-it can reduce congestion and change travel behavior, and provide additional travel choices.

Pricing can provide much needed revenues for expansion of transportation services and delay the need for capacity expansion.

Pricing can be politically and publicly acceptable. A recently completed public opinion survey in San Diego found that both users and non-users of the dynamically priced I-15 HOT lanes strongly support the use of pricing. Support is high across all income groups.

## **Value Pricing Questions and Answers**

### **Value Pricing Basics**

**What is value pricing?** Value pricing involves adopting market principles routinely used in the private sector to bring transportation supply and demand into balance.

**Where does the revenue from the tolls go?** That's up to local decision makers. Typically, the revenue raised from tolls is used to finance transit improvements, highway expansion and/or other congestion-reduction initiatives in the affected area.

**Why do we need value pricing?** Because traffic congestion is a growing problem and value pricing is one proven way to alleviate it. Traffic congestion costs our economy billions of dollars in wasted time. It contributes to air pollution. It causes us to spend billions on freeway constructions. It deteriorates our quality of life.

**How does value pricing reduce congestion?** Congestion is ultimately a problem of too many people driving at the same time, during so-called "rush hour" periods. Value pricing rewards people who shift to non-rush hour travel, opt for alternative routes, combine trips, use transit or carpool. When even a relatively small number of travelers make such adjustments, congestion and congestion-related costs are cut.

**Isn't value pricing just a fancy name for a toll road?** Value pricing projects are different from traditional toll roads because traditional "flat" tolls are charged 24 hours a day, seven days a week. On the other hand, value priced tolls may be charged only during rush hours. On a value priced facility, motorists do not stop at toll plazas. Instead, tolls are electronically collected as drivers pass at regular freeway speed. A value priced facility also allows drivers to cut or eliminate their expense if they drive off peak.

### **How Value Pricing Works**

**How does the electronic toll collection work?** Typically, drivers simply put small tags, or transponders, in the windshield of the interior of their cars. Tolls are then collected as the tag is read at normal highway speeds by electronic scanners suspended from gantries above the highway.

**How do drivers manage their account?** In some places, credit or debit cards can be inserted into transponders, which allows tolls to be charged to the driver rather than the vehicle. In other places, consumers ensure adequate funding is available in their account by linking their accounts to their credit card accounts or through a quick call, trip to a kiosk or office, or visit to a website. Tags emit a signal warning consumers when their account is running low, or they are informed through messages beamed to them as they go by a toll collection point.

**What if someone from out-of-town travels onto the tolled area but doesn't have equipment for electronic toll collection?** This is handled in several ways. Of course, clear signage is used to show drivers which lane or route to use to avoid the toll. This avoids most of these kinds of problems. Some systems also allow drivers to pay via credit card by calling a toll-free line within 24 hours after-the-fact. Some project sponsors simply let drivers use the tolled lane at no charge the first few times. For instance, a letter is sent explaining that if the driver wants to continue to use the facility, he or she should get a tag or risk a fine, but the initial usage is being allowed at no cost. Through these kinds of steps, the changes of tourists, occasional visitors or inadvertent users being penalized are minimized.

**Are all value pricing projects alike?** There are many variations, but pricing projects tend to fall into five broad categories: Variable Tolls on Toll Roads, HOT Lanes, FAIR Lanes, Variable Tolls on Existing Free Roads, and other projects which do not involve tolls or new charges, such as Parking "Cash-Out" and conversion of fixed insurance premiums to mileage-based premium charges.

There are also differences in whether tolls are used during non-peak periods. Many projects only charge tolls during those times when roads are most congested. Some charge tolls at all times but charge lower rates during non-peak periods. Under both arrangements, users have a financial incentive to use the facility during non-peak periods.

**What kind of value pricing projects are the most common?** Variable tolls on existing toll roads and HOT lane projects are probably the two most common types of value pricing projects in use. High Occupancy Toll (HOT) lanes are in use on State Road 91 in Orange County, CA, the Katy Freeway and US 290 in Houston, and Interstate 15 in San Diego. Variable toll projects have also been successfully used on facilities that already charge tolls. For example, on bridges in Lee County, FL and on bridges and tunnels leading into Manhattan, lower tolls are charged during non-peak periods.

**How much is the charge?** It depends on supply and demand on each individual facility. Prices are adjusted until optimal traffic flow is achieved. The express lane fees for an 8-mile section in San Diego in spring 2002 typically range from \$1.00 to \$4.00. But again, prices will vary from project-to-project due to supply and demand, as well as other regional factors.

**Is the charge always the same?** Some projects do use a pre-set schedule of tolls. This has the advantage of being predictable and simple. Another option is called "dynamic pricing," where tolls are continually adjusted according to traffic conditions to maintain a high but free-flowing level of traffic. Under this system, prices increase when the tolled lane(s) get relatively full and decrease when the tolled lane(s) get less full. The current price is displayed on electronic displays prior to the beginning of the tolled section. This system is more complex and less predictable, but it is flexible enough to consistently maintain the optimal traffic flow.

## Other Frequent Questions

**Can value pricing solve all of the financing, environmental and congestion issues we face?** No. Value pricing isn't a cure-all. But when combined with other policies, it is one effective tool to manage traffic, finance projects and encourage transit and car-pooling.

**Instead of value pricing, why not just build more highway capacity?** Improving highway capacity is often one part of the answer to congestion problems, but it is not a silver bullet. First, budget and environmental constraints often make highway expansion projects difficult to implement. Moreover, when highways are expanded and the new capacity is provided at no additional costs, they tend to quickly clog because of a phenomenon known as "triple convergence." That is, there is a convergence of users who adjust to new freeway capacity by changing (1) routes; (2) modes (e.g. bus to car) and (3) the time of day they travel. This may continue until the expanded roads reach capacity again. Value pricing can be a tool to help finance road improvement projects, but it also provides financial incentives to limit triple convergence, induced demand and urban sprawl.

**Instead of value pricing, why not just build more transit?** Improving transit service is often part of the answer to local congestion problems, it is not a panacea. Major transit improvements often aren't made because financing is increasingly scarce in most parts of the country. In addition, if drivers don't have a financial incentive to use transit options, transit may be underused. When this happens, the potential environmental and traffic management benefits of transit go unrealized. Value pricing is a unique transit-enhancing tool, in that it can provide badly needed transit financing, as well as key incentives to boost transit use.

**Isn't this just like a tax?** Like taxes, value pricing raises revenue. But value pricing has differences from traditional taxes that are appealing to many taxpayers. Current taxes pay for the basic level of transportation service. Under value pricing, taxes would still support basic service. But citizens who want premium transportation service would have the option of paying more.

First, unlike most taxes, citizens have some degree of choice over whether they pay this expense. That is, some can avoid or limit the cost when they find ways to combine trips, drive at other times, use non-tolled lanes, travel on other routes, or use transit or carpools. With many traditional taxes, they have no ability to avoid or reduce payment.

Second, tolls are usually tied directly to the benefit. For instance, when drivers choose to pay tolls on I-15 in San Diego, they know what they are buying: (a) the ability to bypass the most congested lanes and (b) congestion-reducing transit improvements directly on I-15. When citizens pay general taxes, they often are more confused about the direct benefit they are purchasing.

Finally, because value pricing reduces congestion, the demand for new taxes to fund expensive congestion-reducing initiatives is diminished.

**The tag-reading equipment can't distinguish carpools from single occupancy vehicles, so how do you keep people from cheating?** Operating projects have established enforcement procedures to control illegal use of the facility. Enforcement is accomplished through a variety of visual techniques. Visible and regular police presence near tolling points deters motorists from fraudulent use of the facility.

**Won't the electronic technology invade our privacy?** All of the operating projects in the United States and more than 250 other toll facilities across the country use electronic toll collection (ETC). Tolling agencies have devised a method to protect the public's privacy by linking the transponder and the driver's personal information with a generic, internal account number that does not reveal the driver's identity and that is not disclosed to other organizations.

**Is value pricing a realistic solution to reduce congestion?** Value pricing has worked in California, Texas, New York, Florida, Norway, Singapore, Australia, Canada and many other places. Survey results from operating facilities prove that value pricing effectively manages traffic, encourages transit use, is accepted by consumers, funds transit and freeway improvements, and gives drivers more options.

**Are tolls unfair to low-income drivers who can't afford them? Aren't we just creating exclusive "Lexus Lanes"?** Results from surveys conducted for projects in operation show that drivers of all income levels use priced express lanes. Along with Lexuses, thousands of Yugos and other economy cars use toll facilities. Although many low-income users don't choose to use the tolled facility every day, they support having the option. For instance, a low-income parent racing to avoid the financial penalty associated with being late for pick-up at a day care, or for work, is often pleased to have the option of paying a few bucks to bypass gridlock in the regular lanes. In fact, the highest level of support for San Diego's four-year express lanes comes from the lowest income users (80 percent support). Moreover, low-income bus riders disproportionately benefit from toll-financed transit improvements. Finally, the current system of paying for roads makes relatively heavy use of regressive taxes, such as the gas tax. As such, it places a larger burden on lower income people. A well-designed value pricing plan can be less burdensome to low-income citizens than current transportation financing systems.