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**The Miami Herald Streetwise column: Shadow tolls a financing option for big 595 upgrade**

August 6, 2007

Larry Lebowitz

Aug. 6--Twenty-first century motorists are going to need a whole new vocabulary to navigate the pay-as-you-go highways of the future. Add this one to the unofficial dictionary of public discourse: Shadow tolling.

The Florida Department of Transportation is strongly considering using shadow tolling as an incentive for private sector investors to help finance, design and build a vastly different version of Interstate 595 in Broward County, and then operate and maintain the road for the next 35 to 50 years.

The \$1.2 billion project would expand and improve the existing east-west corridor that currently supports close to 200,000 vehicles a day, and add three elevated, reversible, variably priced toll lanes from Interstate 75 and the Sawgrass Expressway in the west to U.S. 441 and Florida's Turnpike in the east.

From the average commuter's perspective, the highest profile change would be the addition of the 10-mile tier of variably priced toll lanes -- charging real tolls, not spectral ones. The express lanes, which would be open eastbound in the mornings and westbound at night, are designed to enhance "through" traffic only. This means all traffic entering or exiting between the end points will have to use the at-grade "free" lanes.

Toll prices would be posted on electronic message signs as drivers approach the elevated lanes and change every few minutes depending on how many cars are using the special lanes.

The idea is pure supply-and-demand economics: promise motorists a theoretical 55 mph trip on the elevated pay lanes regardless of how congested the "free" lanes are moving below. The more congested the roadway, the higher the toll.

It's the finance side of the project where the so-called shadow tolls come into play. Despite its spooky name, this method has been used to finance major infrastructure

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projects in the United Kingdom, Spain and Australia, but never in North America.

The state has about \$900 million that it can commit to the project over a 15-year stretch. The vendor is going to be asked to finance the balance of the \$300 million gap in construction costs, plus several million additional dollars a year for road and bridge repair, routine maintenance and to clear accidents and operate the toll lanes.

Under shadow tolling, the public -- not the private vendors -- would ultimately pocket the revenue generated from the lanes.

The vendors would be paid a flat rate -- called a shadow toll -- based on total traffic flowing through the corridor. I'm oversimplifying it, but basically several teams of qualified financiers and construction partners will all be trying to determine what's the lowest per-car rate they can afford -- and still turn a profit -- in return for fronting the state its money and managing the job.

The winning team will submit the lowest per-vehicle bid over the life of the project. Assume that I-595 supports somewhere between 185,000 and 200,000 vehicles on a typical day.

FDOT will be asking the competing teams to bid on the traffic. The more traffic that gets through the corridor, the more money the state will pay the vendor, up to a certain capped level.

This method could serve several public policy and political purposes, said Gerry O'Reilly, director of transportation systems development at the FDOT office serving Broward, Palm Beach County and the Treasure Coast.

First, the state recognizes the public-perception benefit of maintaining public control of public money generated on a public facility even if it's being managed by a private vendor. It will still be a state-maintained highway.

Second, the state creates a profit incentive for its private-sector partners that meshes with the state's public-policy goals: trying to reduce congestion and maximize roadway capacity.

If the private vendor were simply collecting the tolls and pocketing the profits, there would be little incentive to reduce congestion on the "free" lanes. Nor would the vendor have much incentive to keep toll rates low when higher profits could be had by developing a "Lexus Lane" pricing model that served only the wealthiest drivers while leaving the hoi polloi in bumper-to-bumper lunacy in the lanes below.

The state realizes that the Lexus Lane scenario is the equivalent of political suicide.

A formal decision for the I-595 financing plans will be announced by early September. The state is hoping to select a team of investors and contractors by late 2008. Construction would begin in 2009 and open by 2014.

Got a commuting question or an idea for a future column? Contact Larry Lebowitz at [streetwise@MiamiHerald.com](mailto:streetwise@MiamiHerald.com) or call him at 305-376-3410.



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