WRITTEN TESTIMONY OF GERRY PATE BEFORE THE LEGISLATIVE STUDY COMMITTEE ON PRIVATE PARTICIPATION IN TOLL PROJECTS
APRIL 29, 2008

MR. CHAIRMAN AND MEMBERS:

First and foremost, I would like to thank you for the work you do and for allowing me to be here today to discuss public sector participation in Transportation projects. I represent the private sector as the managing partner of Pate Transportation Partners, a firm that is on the leading edge of private/public partnerships with local governments to deliver much needed transportation projects outside the traditional methods of delivery. These partnerships between local governments and the private sector work well. That success is due in large part to the legislature's authorization of tools to empower local governments, such as the Pass-Through Financing Program and Transportation Reinvestment Zones (TRZ). These alternative methods allow locals to enter into private/public partnerships with the private sector to finance and build projects which ultimately remain publicly-owned assets of the state.

While the focus of the hearing today is to discuss Comprehensive Development Agreements (CDAs), I am here to tell you this is not the only alternative method of delivery that brings the private sector to the table to build roads in Texas. In fact, because of the nature of most projects, the CDA model will work only on a handful of projects in this state.

As you know, the typical CDA has the private sector participating in projects by bearing the upfront costs and maintaining control over that project for a predetermined period of time. The key to this model is a sustainable revenue source derived from the projects profitable enough to attract public sector investment, most often in the form of tolls. Many projects in this state are only partially toll viable or have no toll viability and therefore are not concession worthy. Fortunately for Texas, and particularly local governments, many of these projects still may be available for private sector participation and financing.

As I testified last week in front of Senate Transportation Committee, there are other tools available for the private sector to finance projects in Texas, and I would suggest these models are more valuable to the state because of the local control and local empowerment they provide. Control over transportation projects is being shifted to the local level, and local governments are now given the responsibility for project implementation - the task of actually building roads. As a result, these roads are being built more quickly, cost effectively, and with more focus on addressing the needs of local communities than ever before. This is appropriate because local communities need to be the ones to determine what solution is right for their community.

Projects utilizing public/private partnerships authorized under the Pass-Through program and Transportation Revenue Zones (TRZ) allow local governments to take control of their destinies on these projects and determine what the best available method of financing would be, whether it be their own sources of revenue or turning to the private sector to finance and/or deliver the project. The choice has to be left to the locals – to determine which project meets their needs and which delivery and funding mechanism best suits their project. The traditional TXDOT method of delivery no longer works, and on most projects, a single solution is not enough. Local governments will need to utilize all available revenue streams to fund their transportation needs in this day and age.

Let me give you an example of what I am talking about. You are going to be hearing also today from Dennis Burleson, the chairman of the Hidalgo County RMA. He will be discussing the Hidalgo County Loop project, a critically needed bypass designed to move NAFTA-related truck traffic north from the international border away from neighborhood streets to the county line. It was announced by TXDOT a week or so ago in a meeting with the regional MPO that that the TOTAL of Category 2 funding (added capacity) available for projects in the MPO has been reduced from $88 million dollars to $3 million for the next 10 years. Included in that $85 million cut was $27 million allocated for the Hidalgo County Loop project, the total cost of which is projected at $600 million.

In order to build this project, the locals in Hidalgo County are going to have to use every available resource, including turning to the private sector to finance this project. Now this project in Hidalgo County is not completely toll viable. In fact, it is probably only about 30 percent toll viable. Therefore, it does not make financial sense for a concessionaire to come in and utilize the CDA model on this particular project.

To make this project a reality, the Hidalgo County RMA has to be innovative. First, it worked with the County's legislative delegation to secure the passage of HB 3437, which allows the County to add a $10 surcharge to its vehicle registration fee and dedicate that revenue stream to the RMA. This revenue is providing funding for preconstruction cost. Then, the RMA turned to the private sector to deliver this road. Utilizing Transportation Reinvestment Zones, traditional tolls and a Pass-Through Finance agreement as revenue streams, the private sector is going to build the $600 million Loop Project. Hidalgo County Roadbuilders, a consortium of private sector companies, have entered into a Project Development Agreement with the RMA and are guaranteeing the cost to build this road and financing the project costs until the project meets public finance standards. This approach will not only finance the delivery of this vitally needed project, but will ultimately result in creating an additional $2 billion dollars in revenue for the RMA to use to build future projects in Hidalgo County.

Local leaders have demonstrated that they are willing to support reform in how transportation projects are funded and delivered in this state. They are willing to assume part of the responsibility for financing transportation needs. They have also shown the ability to enter into private/public partnerships and use innovative methods to deliver much needed road projects for their communities. The value these local efforts provide must be recognized, and locally delivered projects should be prioritized and included in any long-term transportation policies and funding strategies the legislature develops as it reviews the transportation delivery process in Texas. In my opinion, it would be a mistake to ignore the opportunity to empower local governments to utilize public/private partnerships that will result in more roads being built to meet the tremendous needs all across Texas. More directly, the opportunities for local empowerment exist if the funding necessary to sustain them is available.