

## House and Senate Transportation Committee Joint Hearing

Austin, February 1, 2010

Honorable Chairs and Committee Members:

My name is Rafael Aldrete, and I am Center Director for the Texas Transportation Institute Office in El Paso. It is an honor for me to testify in this chamber today on the topic of Transportation Reinvestment Zones (TRZs).

I, along with other colleagues at TTI, have had the opportunity to be involved in research and implementation efforts around TRZs for the last two years. We were involved in the development and implementation of the City of El Paso TRZ No. 1. In that project we conducted a preliminary analysis of the value capture potential of the TRZ prior to its establishment in December 2008. We are currently involved in a research project sponsored by the Texas Department of Transportation (TxDOT) aimed at providing various mechanisms to augment the implementation of TRZs across the State. More specifically, the research will address:

- knowledge gaps and provide guidance with respect to current TRZ legislation among potential stakeholders;
- any issues arising from legislation; and
- cost effective, simple and standardized guidance for ascertaining the feasibility of TRZs.

The State of Texas has responded to the national transportation funding crisis by passing several bills allowing innovative and alternative options for project financing. Among these is Senate Bill 1266 (SB1266) passed in 2007 by the 80th Legislature, which provides the legal backdrop for the creation of TRZs. This legislation made Texas the first state in the nation to provide legislative authorization for the capture of the tax increment resulting from the increase in property values that is specifically related to transportation.

The TRZ funding mechanism has significant benefits for state and local agencies. TRZs offer a way of using and recycling transportation project public benefit revenue streams to fund specific projects within those zones. As such, it is a non-commercial form of Public-Private Partnership (PPP), a feature which distinguishes it from traditional forms of PPP. TRZs encourage inter-agency coordination of investment strategies with the objective of stimulating private investment.

However, and despite the relatively extensive experience with other forms of value capture in Texas (such as Tax Increment Reinvestment Zones), the use of TRZs as an effective innovative financing

mechanism by local governments in the State remains limited. This can be attributed in general to three main factors:

- Limited knowledge of the provisions of SB1266. The understanding of the Transportation Reinvestment Zone concept and how it differs from a Tax Increment Reinvestment Zone is very limited. Also, the awareness of the provisions set forth by SB 1266, and particularly its connection with the pass-through mechanism, is very limited. Official documents available offer limited guidance and leave many important areas undefined (e.g. how funds are to flow, and who bears financial performance risk).
- Limited experience with and technical guidance for the evaluation and implementation of TRZs. To date, only three local governments in the State (the cities of El Paso and Forney, and Hidalgo County), have started and completed the process of establishing a TRZ, and only the City of El Paso has moved forward with project implementation. There is a need to identify the differences in the ways these local entities have approached implementation of the legislation. There is also limited awareness of the challenges associated with the evaluation of the value capture potential of a TRZ, particularly those associated with data acquisition, aggregation, and analysis. The perception of the possible cost and complexity associated with a preliminary assessment may also be a factor that limits its adoption by local governments.
- Limited understanding of SB1266's possible application to transit and potential extensions. Because of its linkage with pass through finance, the direct implications of SB1266 to transit are not clear. For instance, the legislation opens the door for transit financing via surplus value capture, but the conditions in which this can be possible are not clear.

Our current research effort examining TRZ implementation will be concluded this year and will address these issues. I will be happy to take any questions that the committee may have at this point.