

# PASS THROUGH FINANCING

## Description

A project developer (public or private) agrees to build and operate a facility in exchange for “toll payments” from a public agency. These payments are most often made on a per vehicle basis but are not collected from the road user. Funding for shadow tolls can come from multiple sources such as the Highway Fund, tax increment financing, or other local dedicated taxes or fees.



## How Will This Help?

**Less upfront costs for the public agency** – Pass through financing allows another partner to pay the initial costs of implementation and be reimbursed in per vehicle payments from the public partner.

**Fuel tax revenues are eroded by increased fuel efficiency** – Fuel tax revenues will likely decrease over time. The expected growth in future population means more people traveling on the roadways and consuming more fuel. However, today’s more fuel efficient cars and trucks pay lower fuel tax per mile than when the tax rates were last set twenty years ago. As vehicles become more fuel efficient and alternative fuel vehicles become more common, the number of gallons needed to go the same distance will decrease. While benefits such as a smaller carbon footprint and the ability to travel further per gallon are gained, the resulting decrease in fuel consumption means less gas and diesel tax revenue raised to tackle the rising transportation needs. Utilizing creative financing strategies will help slow the effects of decreasing fuel tax revenues.

**Many sources for repayment** – This financing approach allows payments to be made from multiple revenue streams. There is no single revenue dedicated to the expense.

**Reduced toll collection costs** – Shadow tolling eliminates the need for toll collection facilities.

## What’s the Down-Side?

- **No new revenue** – This is a method for shifting roadway construction costs to a later year, not a method for increasing revenue for transportation. TxDOT would still be responsible for providing revenue to make the toll payment.
- **Speed of repayment can vary** – The state reimburses the other party as travelers use the facility. The speed of this repayment can vary from project to project depending upon the number of travelers using the facility. Repayment is quicker with higher use.
- **Relatively inefficient financing method** – Little evidence suggests that shadow tolling is cheaper than traditional state funding. Direct government financing is generally considered more efficient because governments can borrow at much lower rates and are not burdened with providing shareholder profits.

**Who: State and/or Local**  
**Cost to Collect: Low**  
**Sustainability: N/A**  
**Reliability: N/A**  
**Implementation: Easy**

## Implementation Issues

- Low cost to implement.
- Legislative action is required to implement this funding change.
- Voters/users would need to be educated regarding the costs and benefits.
- A public or private entity wishing to pursue a pass-through financing agreement must first submit a proposal to TxDOT. TxDOT will review the proposal and submit their recommendation to the Texas Transportation Commission. The Commission looks at the proposal's financial benefit to the state, local support, payment schedule, developer's experience, and several other factors when approving pass-through proposals.



### Examples of Pass Through Financing in Texas:

**El Paso:** TxDOT will reimburse a private contractor a fixed dollar amount per vehicle that drives on SPUR 601, a 7.4-mile roadway upgrade between US 54 and Loop 375.

**Weatherford:** TxDOT will reimburse the city of Weatherford through an agreed upon per-vehicle fee to design, build, and inspect nine separate highway segments, totaling 7.5 miles.