Gary L. Groat, Director Project Development, Fluor

Mr. Groat has over 35 years experience in the planning of major transportation infrastructure projects throughout the United States. As a Director of Project Development, with the I&I Group of Fluor Enterprises, he is responsible for developing public-private transportation partnership deals including project identification, win strategy and teaming through design development.

Mr. Groat is a past president of ARTBA's Planning and Design Division and a former Vice President with Jacobs/Sverdrup and DeLeuw Cather. A graduate of three Universities: Illinois, Wisconsin and Edinburgh he is also a retired Colonel United States Army.

Pennsylvania House Transportation Committee
Public Hearing Testimony
Gary Groat, Fluor
Monday, July 28, 2008

Good Morning, Chairman Markosek and members of the Transportation Committee.

I am Gary Groat. I develop Public-Private Partnership (PPP) projects for Fluor Enterprises, one of the largest contractors in the United States and a leader in providing innovative transportation projects and private financing to many state departments of transportation.

Today, I would like to speak in support of the pending Public-Private Partnership legislation, specifically House Bill 555 and Senate Bill 1158, that will encourage private financing for some of Pennsylvania's many transportation needs. Such a program can help provide new roads, new transit facilities, and new travel choices for the traveling public without further burdening the state taxpayer. Other states have used such programs to help finance projects that existing state DOT and transit programs cannot afford.

I would like to highlight several projects from Virginia's PPP program, which is one of the most successful in the nation. Virginia Transportation Secretary Pierce Homer has called tolling and public-private partnerships two of the most powerful tools to achieve mobility and economic growth in America. He said, "The introduction of public-private partnerships has been a major force in helping Virginia deliver more projects on budget, in shorter timeframe, and with results that please the customers – those who drive on Virginia's roads." The public benefits from such partnerships in two ways: first are the direct benefits of the project itself, and second are the benefits resulting from a program that facilitates and encourages such projects.

The three projects I will describe were all developed by Fluor. They are the Pocahontas Parkway in Richmond, Virginia, and the Washington Capital Beltway HOT Lanes and the I-95/395 HOT Lanes projects, both in the Washington, D.C., area. These projects have several things in common:

- First, all started as unsolicited proposals and will create new capacity;
- Second, the new technical solution – HOT Lanes – offered for the Beltway and I-95/395 was not part of any Virginia Department of Transportation (VDOT) program;
- Third, they are primarily financed by private revenue; and
- Fourth, they have been favorably received by the public.

The Pocahontas Parkway. The first example is an off-the-shelf type project. The Pocahontas Parkway, which opened for traffic in 2002, had been studied by Virginia DOT since 1980 as an 8.8-mile link between Interstates 295 and 95. It included a major high-level bridge over the James River. The project was quickly shelved due to lack of construction money.

In 1995, the Virginia Public-Private Transportation Act became law. Fluor submitted the first unsolicited proposal under this new act to design, finance, and construct the Pocahontas Parkway as a toll road project. Fluor created an IRS 63-20 non-profit corporation to issue tax-exempt bonds for this $324 million project. The 63-20 was responsible for repaying the bonds. This approach transferred bond risk from the state to the private entity.

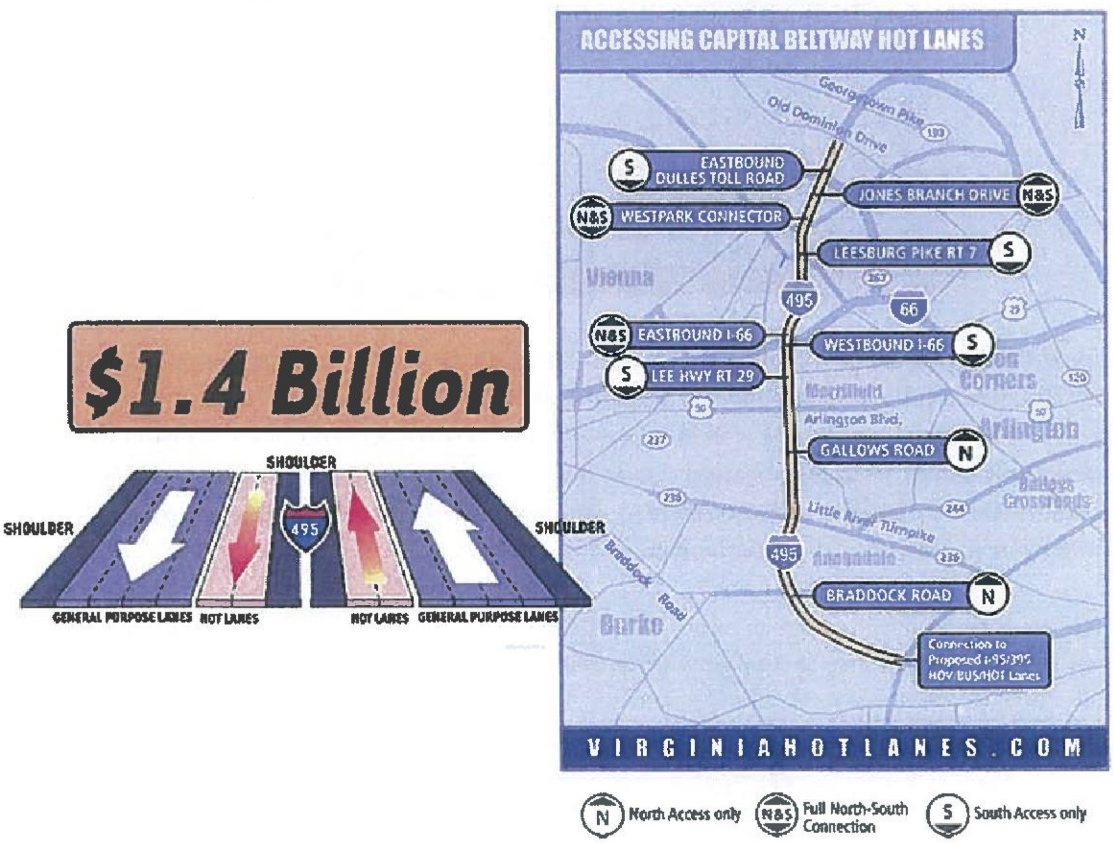
Constructing the parkway under a design-build contract with a guaranteed price and penalties for delays, Fluor returned $10 million of unused funds upon completion to VDOT. Following is a photograph of the 4,765-foot high-level James River Bridge, part of the Pocahontas Parkway project.

$324 Million Initial Financing
$611 Million Refinancing

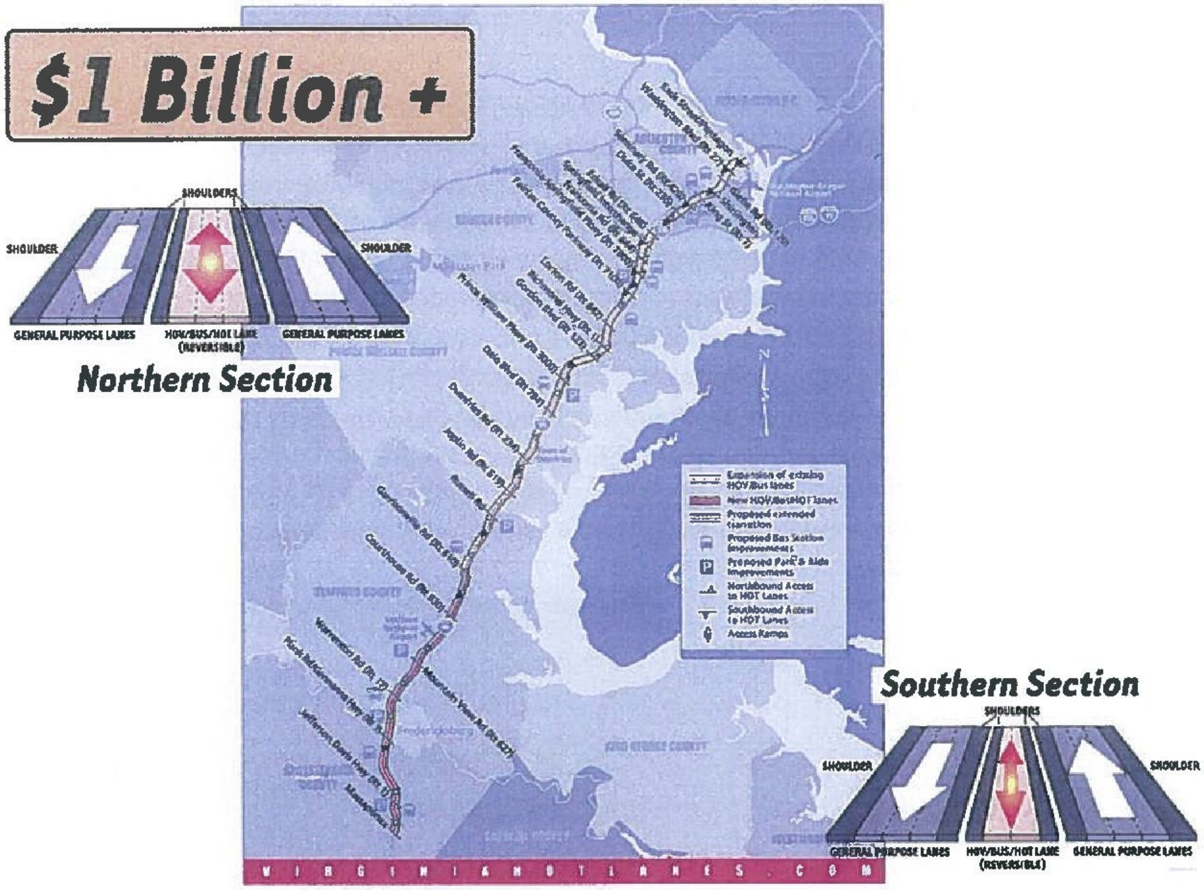
In 2007, after the toll road had been operating five years, Virginia refinanced the Pocahontas Parkway project in a $611 million concession deal. The evolution of this project – from starting out as a $324 million privately financed project to subsequent refinancing for $611 million – illustrates the flexibility of such a program and the substantial additional revenue Virginia gained. One could call Pocahontas Parkway the gift that keeps on giving. More detailed information on this project can be found on the Federal Highway Administration's Web site at www.ppptoolkit.fhwa.dot.gov/illus_describe.aspx.

The next two examples are not off-the-shelf type projects but the result of innovative technical solutions proposed by Fluor. Both are being developed in cooperation with the Virginia DOT and our partner Transurban.

Capital Beltway HOT Lanes. In 2002, Fluor submitted its unsolicited Capital Beltway proposal that suggested a new solution for one of Virginia's most congested roads – the use of High Occupancy Toll or HOT lanes. Here the private sector provided not only new money but also a new idea to solve an old problem – congestion. The project will add four new HOT lanes, two in each direction, along 14 miles of I-495 that circles Washington, D.C. At a guaranteed cost of $1.4 billion, this road widening will create a multi-modal facility that encourages greater bus transit and carpool use by offering reliable travel times as a result of the congestion-priced tolling. In December 2007, Virginia and Fluor-Transurban reached final agreement for the financing, design, construction, operation and maintenance of this new roadway. Last week on July 22nd, VDOT broke ground for the new lanes that must open before the spring of 2013. I say must, because under our PPP contract we must pay liquidated damages of $240,000 for every day we are late in delivering a completed project. The following plan shows the location of the project and its lane configuration.



I-95/395 HOV/Bus/HOT Lanes. The second HOT lane project is the reversible I-95/395 HOV/Bus/HOT lanes. Currently under development, the project will add a third lane to the existing 28-mile HOV lanes and extend the HOV lanes 28 miles farther south, creating a 56-mile system. The following exhibit illustrates the I-95/395 plan.



Starting at the Pentagon, the project extends as far south as Spotsylvania County, practically halfway to Richmond. It is designed as a multi-modal facility. The deal will include a $390 million financial contribution to fund new buses, bus routes, and other improvements to encourage greater public transportation use in the corridor. Traffic will be managed by use of congestion-priced tolls like the Beltway project. Drivers will be able to choose to pay a toll or ride for free as a carpool or take the enhanced bus service.

This project is estimated to cost in excess of $1 billion. As with the Beltway project, two methods of privately financing this project have been offered.

More details on both HOT lane projects can be found at www.virginiahotlanes.com.

Direct Public Benefits. The direct public benefits of the two HOT lane projects I've just described are:

- All motorists will benefit from reduced congestion even if they do not use the HOT lanes because traffic diverting to the HOT lanes will allow the regular lanes to flow more freely. HOT users will have something they lack today in road travel – a choice between premium service or regular lanes, a choice they enjoy in all other modes.

- Public transportation users will enjoy local and express bus service that can operate with reliable schedules on both interstates and provide free-flowing access to major regional employment centers.

- The community will benefit from improved mobility that can be sustained into the future by use of congestion-priced tolling. The improved mobility will support the region's continued economic prosperity by assuring commuters they can arrive on time, provide for reliable just-in-time delivery of goods, and allow a more rapid response for emergency vehicles and police in assisting the public.

Public Policy Benefits. Overall public policy benefits are many. More than a dozen states have similar programs. The three projects I have described illustrate what the private sector can bring to the partnership: new ideas, new money, faster delivery, and increased public support, specifically:

- **New Ideas** – PPP programs help mobilize the private sector to find new and innovative solutions to a variety of transportation challenges in partnership with the State. As a result of the Fluor suggestions, Northern Virginia will soon have a 70-mile HOT lane network that will provide an alternative to sitting in traffic congestion. This idea has generated strong interest in expanding this network throughout the Washington, D.C., region.

- **New Money** – Properly managed, such programs will encourage the private sector to find innovative ways to privately finance new projects and leverage dwindling federal and state resources. The three examples I have described represent $3 billion in new highway and transit improvements paid for primarily by private tolls and corporate investment, adding little or no additional burden on the taxpayer.

- **Faster Delivery** – Using design-build for project delivery reduces project cost, eliminates cost overruns and change orders, speeds up delivery, and increases sensitivity to the built and natural environments.

- **Build Public Support** – Federal law restricts a DOT's ability to promote new road development during the study phase. All too often, excellent highway plans are killed by highly organized opposition groups during that planning phase. The private sector is not limited by such laws and can become a forceful advocate for a project and help counter such opposition – a unique advantage of the PPP approach.

The creative use of PPP programs as a new tool to fight the growing congestion problem can provide major benefits to the public and the Commonwealth of Pennsylvania. Not all P3 deals, however, make sense.

What Makes a Good P3 Deal? For a P3 project like the Virginia Beltway HOT lanes to be successful, it must:

- **Provide significant direct user benefits at the lowest cost** – To quote Virginia Secretary of Transportation Homer, "the Capital Beltway HOT lane deal has delivered three-fourths of the benefits for one-third of the original cost." When significant user benefits are provided, the method of finance chosen becomes less important to the public

- **Enhance the mobility of the entire network** – Any P3 concept cannot be considered in isolation; the project must be an integral part of and contribute to improving the entire transportation network.

- **Increase accountability through shared risk, cost control, and asset management** – While risk must be shared in any P3 deal, the private sector must offer a significant financial benefit to the state

- **Deliver better customer service and user value** – While Virginia chose the concession over the tax-exempt plan of finance for the Beltway project, the fact is this long-term lease has not become a controversial public issue because of the significant new transportation benefits and user value provided

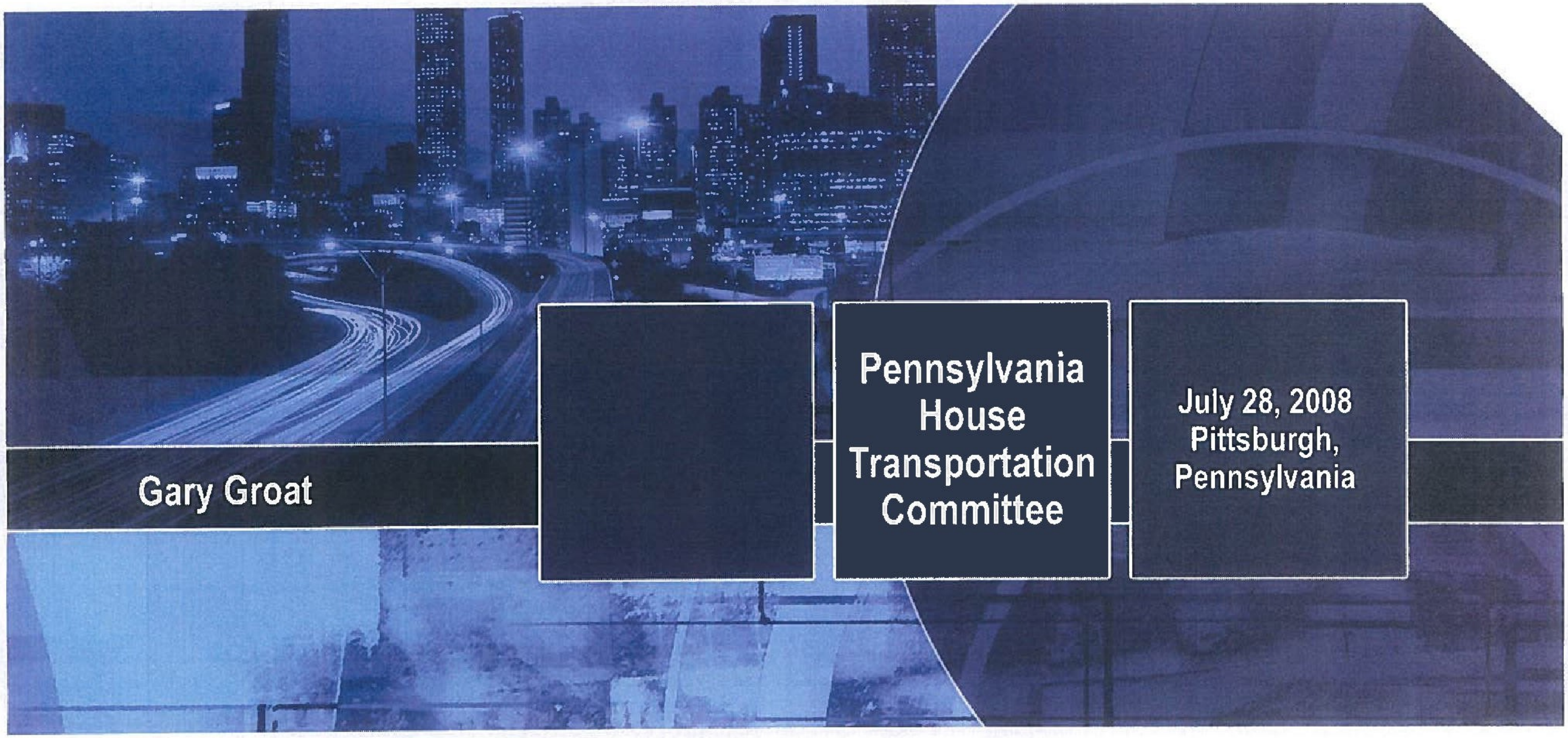
- **Retain flexibility for changing conditions** – The Capital Beltway involved five years of negotiation during which both economic conditions and project scope fluctuated requiring constant refining of the deal so it could be finalized and executed. The process must allow for such protracted negotiations.

- **Help government be more efficient and reduce the need for public funds** – The Beltway project will be Virginia's largest road construction project in decades with more than $1 billion in privately financed new construction, all at a guaranteed fixed price that will not be exceeded and with a guaranteed schedule that will award $240,000 liquidated damages for every day we are late in opening the HOT lanes for public use.

In closing I would like to quote U.S. Department of Transportation Secretary Mary E. Peters who recently commented on the Texas Transportation Institute's 2007 Urban Mobility Report. She said, "The daily frustration of drivers on our roadways is ample evidence that our current transportation model is broken, and that bold thinking and leadership are needed. We're never going to solve congestion with higher federal gas taxes or additional earmarks; instead, we need fresh approaches like new technology, congestion pricing and greater private-sector investment to get America moving again."

Mr. Chairman, thank you for the opportunity to present to the Committee today. If there are any questions, I'd be happy to respond.

Public Hearing Testimony *in support of* Pending P3 Legislation



FLUOR®

What the Virginia P3 Projects Have in Common

- All started as unsolicited proposals and will create new capacity
- Two offered new traffic solutions – HOT lanes
- Primarily financed by private revenue
- The public response was favorable

FLUOR®

Pocahontas Parkway (Route 895)

$324 Million Initial Financing
$611 Million Refinancing

FLUOR®

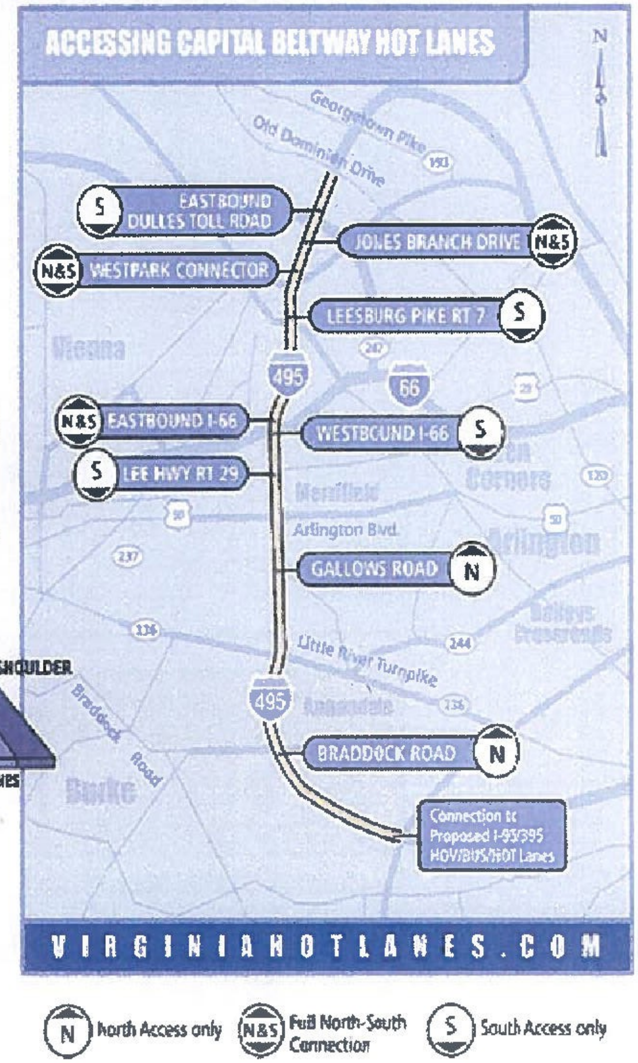
Capital Beltway HOT Lanes Project

Guaranteed Price and Schedule

Ground Broken July 22, 2008

Opens before Spring 2013

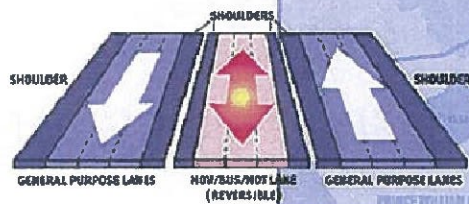
$1.4 Billion



FLUOR®

I-95/395 HOV/Bus/HOT Lanes Project

$1 Billion +



Northern Section

Southern Section

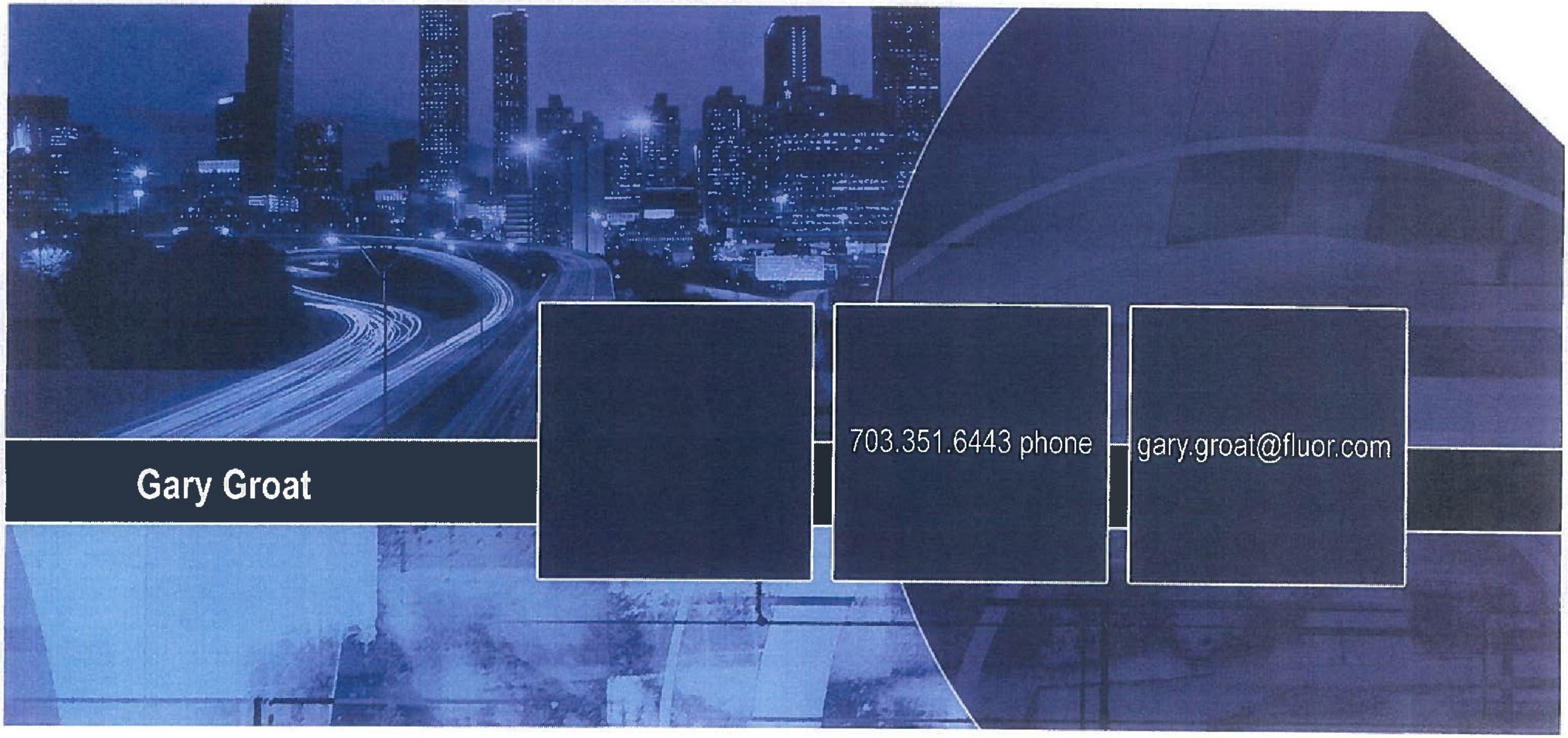
FLUOR®

What Makes a Good P3 Deal?

- Provides significant direct user benefits at the lowest cost
- Enhances mobility of the entire network
- Increases accountability through shared risk, cost control, asset management
- Delivers better customer service and user value
- Retains flexibility for changing conditions
- Helps government be more efficient and reduces need for public funds

FLUOR®

Public Hearing Testimony *in support of* Pending P3 Legislation



FLUOR®