

The Department of Transportation's Purchase of the Camino Colombia Toll Road

June 2, 2006

Members of the Legislative Audit Committee:

The Department of Transportation (Department) purchased the 22-mile Camino Colombia Toll Road (also known as State Highway 255) for \$20 million in June 2004. The Camino Colombia Toll Road is located approximately 18 miles northwest of Laredo, Texas (see the attachment to this letter for a map).

When the Department purchased the Camino Colombia Toll Road, it did not intend to purchase it as an investment, and it did not plan to recoup the purchase cost. Since the Department purchased the toll road, maintenance and operation expenses have totaled \$1,296,594 and toll revenues have totaled \$712,249 (see the attachment to this letter for trends in revenues and expenditures between July 2004 and March 2006). The Department's district office in Laredo is operating the Camino Colombia Toll Road, and tolls are set at an amount to encourage traffic and recover operating costs. In 2005, the Camino Colombia Toll Road's traffic flow was 116,811 cars and 35,901 trucks (see the attachment to this letter for trends in traffic from November 2004 to March 2006).

History of the Camino Colombia Toll Road and the Department's Purchase

The attachment to this letter contains a detailed timeline of the events leading to the Department's purchase of the Camino Colombia Toll Road.

Camino Colombia, Incorporated, the original private owners of the land where the Camino Colombia Toll Road is located, obtained financing for the construction of the toll road from two national insurance companies. Camino Colombia, Incorporated completed construction and began operating the Camino Colombia Toll Road in 2000. Approximately three years later, Camino Colombia, Incorporated declared bankruptcy. The original lenders then formed Camino Texas Partnership, LP.

The Camino Colombia Toll Road was put up for sale at a public auction in January 2004. The Department and the Camino Texas Partnership, LP were the only bidders. The Department withdrew from the bidding because it believed Camino Texas Partnership, LP would continue bidding up the price in an effort to recoup its costs. The Camino Texas Partnership, LP then purchased the Camino Colombia Toll Road through the auction for \$12.1 million. In March 2004, the Camino Texas Partnership, LP offered to sell the Camino Colombia Toll Road to the Department for \$33 million, which was less than the \$90 million that the Department estimated was spent to construct the road. The Department then countered with an offer of \$20 million, which the Camino Texas Partnership, LP accepted.

The Department estimated that it would have cost approximately \$45 million (excluding right of way costs) to build the Camino Colombia Toll Road. This estimate is consistent with average national construction

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costs per lane mile of \$1 million to \$2 million. The Department performed inspections of the Camino Colombia Toll Road prior to the purchase and determined that it met or exceeded the Department's construction standards. The Department purchased the Camino Colombia Toll Road with state highway funds, which primarily come from motor fuel taxes. A portion of state highway funds not designated for other projects can be spent at the discretion of the Texas Transportation Commission. The Department is legally authorized to purchase roads by Texas Transportation Code, Section 203.051, and Department executive management recommended the purchase to the Texas Transportation Commission. The purchase was approved at the Texas Transportation Commission's April 29, 2004, meeting, and the Department made the purchase in June 2004.

The Camino Colombia Toll Road provides an additional route for vehicles to access Interstate Highway 35 and the Colombia Solidarity Bridge, a Mexican border bridge with fully operational US customs, agriculture, and immigration services. It also provides an alternative to the congested route to Mexico through Laredo via the World Trade Bridge. Currently, Laredo is the most active commercial Mexican border crossing in the country.

Future Use of the Camino Colombia Toll Road

The following is a list of potential developments the Department has suggested could affect the future value of the Camino Colombia Toll Road. It should be noted that these developments are speculative in nature:

- Increased congestion on Laredo's World Trade Bridge.
- Increased traffic at the industrial park located near the Camino Colombia Toll Road.
- The planned completion of roads and rail lines in Mexico. According to the Department, Nuevo Leon, Mexico has received \$18.5 million from the Mexican government to construct the Colombia Sabinas Highway. The Colombia Sabinas Highway will connect Monterrey, Mexico, a major industrial and foreign trade center, with the Colombia Solidarity Bridge. The Camino Colombia Toll Road connects with the Colombia Solidarity Bridge.
- The implementation of the Trans Texas Corridor. A planned toll road will follow Interstate Highway 35 to Laredo.
- The amendment of current federal and state laws or rules to agree with North American Free Trade Agreement (NAFTA) provisions. Specifically, if those laws and rules are amended, Mexican trucks could cross the border and, without transferring their loads to American trucks, use the Camino Colombia Toll Road to continue traveling north on Interstate Highway 35.
- An increase in hazardous materials traffic or the redesignation of alternative routes for hazardous materials. The Camino Colombia Toll Road is a designated route for shipping hazardous materials.

The Department is aware that vehicles on Farm-to-Market Road 3338 (FM 3338) can use the Camino Colombia Toll Road without paying a toll. The Department contracted with an engineering consulting firm to study the problem and make recommendations. The Department chose to delay any corrective action because the consulting firm's August 2005 report indicated that the cost of implementing a new tolling area to capture FM 3338 traffic exceeded the near-term additional revenue. The Department is also considering other future improvements to the tolling process, including electronic window passes and other improvements to the toll collection process. The Department has not indicated what option it may pursue or a date when changes may be made.

A transfer/docking station facility also was included in the Department's purchase of the Camino Colombia Toll Road. The Department is currently considering the lease or sale of this facility, which would allow it to recoup a portion of its initial purchase price.

The Department agrees with the observations in this report, and its responses are included in the attachment to this letter. We appreciate the Department's cooperation during this audit. If you have any questions, please contact John Young, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

Attachment

cc: Members of the Texas Transportation Commission
Mr. Ric F. Williamson, Chair
Ms. Esperanza "Hope" Andrade
Mr. Ted Houghton
Mr. John W. Johnson
Mr. Michael W. Behrens, P.E., Executive Director, Department of Transportation

**Summary of Objectives,
Scope, and Methodology**

The audit objectives were to:

- Determine whether the State will recoup its investment in the Camino Colombia Toll Road.
- Determine whether other projects are underway that would improve the usefulness and economic feasibility of the Camino Colombia Toll Road.

The scope covered the purchase of the Camino Colombia Toll Road and future changes that may increase the use of the road.

The methodology consisted of conducting interviews and reviewing supporting documentation.

This audit was conducted in accordance with generally accepted government auditing standards.

The following members of the State Auditor's staff performed the audit:

- Joe Curtis, CPA, CIA (Project Manager)
- John Swinton, MPAff, CGFM (Assistant Project Manager)
- Dennis Bushnell, CPA (Quality Control Reviewer)
- John Young, MPAff (Audit Manager)



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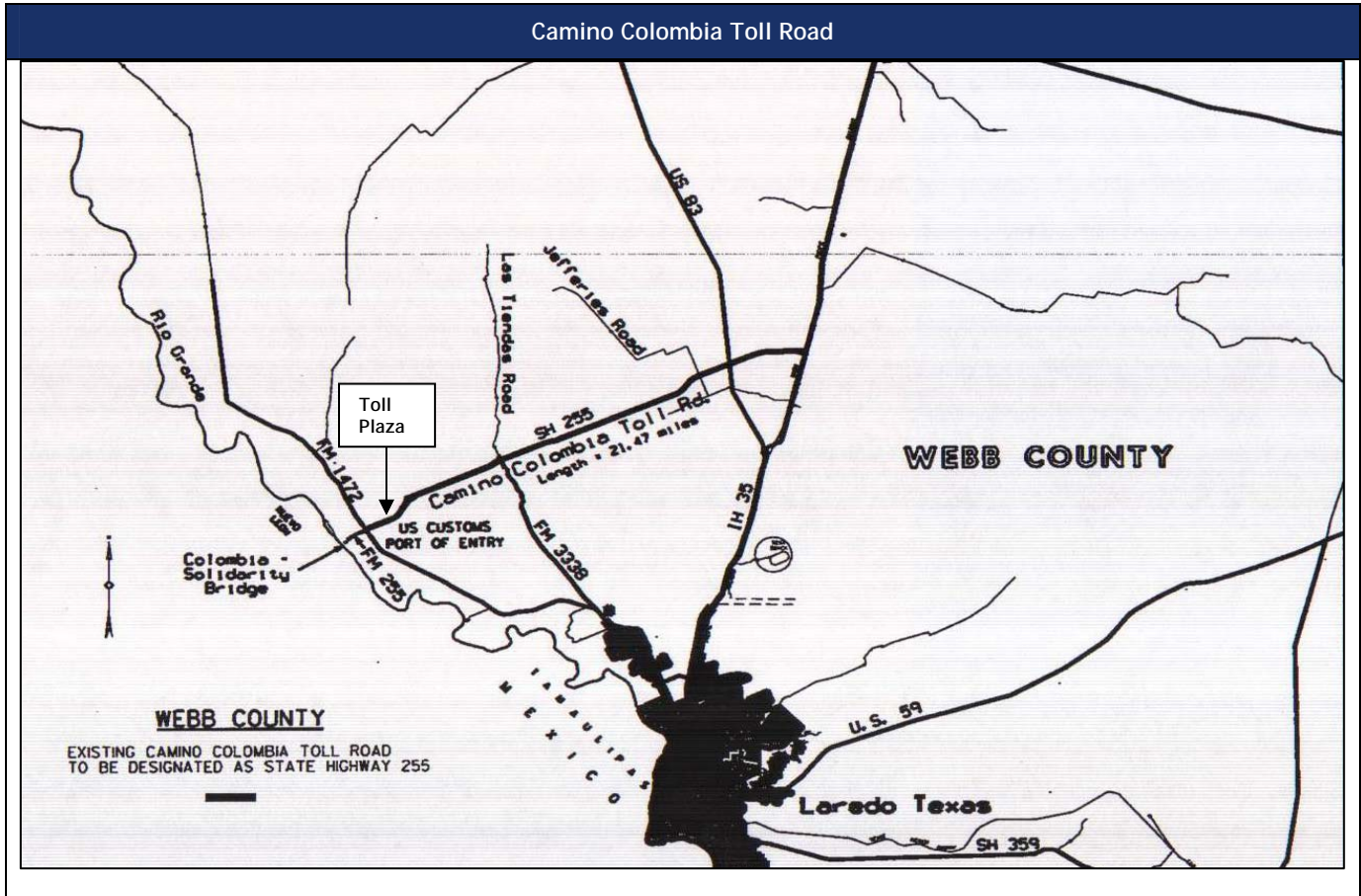
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Attachment

Location of the Camino Colombia Toll Road



Source: Department of Transportation

Timeline of Events

Table 1 summarizes the events related to the Department of Transportation's (Department) purchase of the Camino Colombia Toll Road.

Table 1

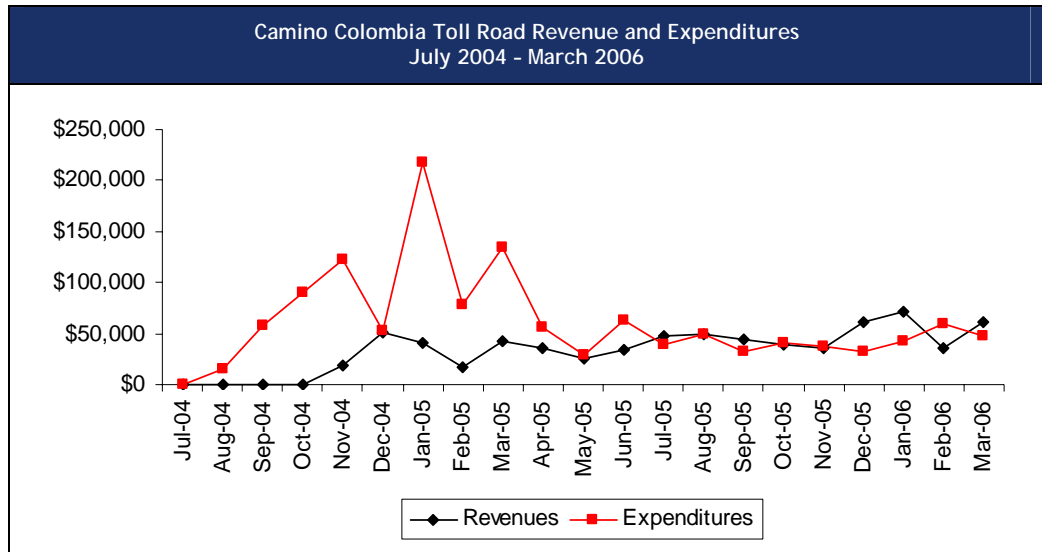
Summary of Events Leading to the Department's Purchase of the Camino Colombia Toll Road	
Month	Event
July 1991	The Colombia Solidarity International Bridge opens.
January 1997	On January 30, 1997, the Texas Transportation Commission passed Minute Order 107059 approving a private toll road to be financed, constructed, and maintained by Camino Colombia, Inc. in Webb County near Laredo, Texas.
April 2000	The World Trade Bridge and Loop 20 open in Laredo.
October 2000	The Camino Colombia Toll Road is completed and opens. The estimated cost of construction was \$90 million.
January 2004	The Camino Colombia Toll Road is foreclosed on and sold at public auction. The Department bid \$11.1 million. The Camino Texas Partnership, LP (which included the original investors in the road) purchases the road for \$12.1 million.
March 2004	The Camino Texas Partnership, LP offers to sell the Camino Colombia Toll Road to the Department for \$33 million.
April-May 2004	The Department offers \$20 million to the Camino Texas Partnership, LP in April. The Camino Texas Partnership, LP accepts that offer, and the Texas Transportation Commission approves the purchase in May.
June 2004	The Department purchases the Camino Colombia Toll Road for \$20 million.
September 2004	The Camino Colombia Toll Road opens to the public as State Highway 255.
November 2004	The Department resumes charging tolls on the Camino Colombia Toll Road.

Source: Department of Transportation

Camino Colombia Toll Road Revenues and Expenditures

Figure 1 shows Camino Colombia Toll Road revenues and expenditures from July 2004 through March 2006.

Figure 1

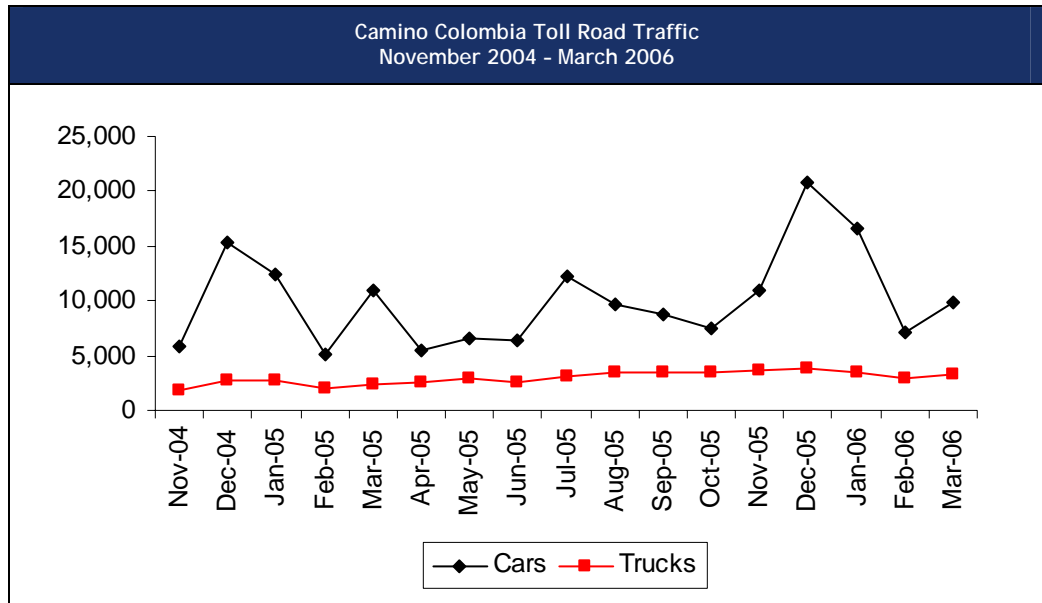


Source: Department of Transportation

Camino Colombia Toll Road Traffic

Figure 2 shows the number of cars and trucks on the Camino Colombia Toll Road from November 2004 through March 2006.

Figure 2



Source: Department of Transportation

Management's Responses

The Department provided the following responses.

TxDOT agrees with the factual information presented in the audit report, and noted that there are no findings/recommendations made for the agency.

The following four comments are provided for additional information to the reader which includes substantive content.

1. Page 2, heading "Future Use of the Camino Colombia Toll," add the following information after the last bullet:

The Webb County Rural Rail Transportation District is currently working with Mexico to build a railroad bridge across the international border at Colombia. In concert with the proposed international railroad bridge, the Rail District is interested in utilizing the right of way along the Camino Colombia Toll Road to provide a rail connection between the proposed bridge and the existing freight rail system north of Laredo. This connection could divert rail traffic out of the populated areas of Laredo and Nuevo Laredo. TxDOT could recoup some cost by leasing the right of way/rail facility to either the Rail District or the Rail Operator through the use of a public/private partnership agreement.

2. Page 3, first paragraph, add the following comment after the last sentence in the first paragraph:

The TxDOT-Laredo District is proceeding with a five-year plan to have electronic toll collection (ETC) at the Camino Colombia Toll Road. ETC will be positioned east of FM 3338 to maximize toll revenues.

3. Page 3, second paragraph, add the following comment:

Additionally, approximately 80 acres of surplus land, acquired in TxDOT's purchase, are currently being appraised for sale purposes.

4. Additional comment: Amadeo Saenz, Jr., PE, Assistant Executive Director for Engineering Operations, attended a meeting in Monterrey Nuevo Leon that was sponsored by CODEFRONT. A translated version of the invitation letter is attached. The purpose of the meeting was to discuss projects in the state of Nuevo Leon and how they would connect to the Trans Texas Corridor. The main topic of the meeting was a presentation of a plan from the Mexican state on the construction of a rail connection and international bridge adjacent to the Colombia Bridge. They have been in communications with the Webb County Rail District concerning this project. At the meeting, we were also provided a status report from Mexico SCT for the development of the highway that would connect Monterrey to Sabinas to the Colombia Bridge.

Mexico has a three-year schedule to build this facility. This project will construct a new non-tolled access to the Colombia Bridge.

The letter the Department references in its responses is presented below. The Department provided an English language translation of this letter, which is presented on the following page.



Abril 24 de 2006
CDF/DG065/2006

Mr. Amadeo Saenz
Assistant Executive Director for
Engineering Operations
Texas Department of Transportation
Presente.-

La Corporación para el Desarrollo de la Zona Fronteriza de Nuevo León, Codefront, es un organismo público descentralizado que sustituyó a Fidenor enfocando sus objetivos al área de Colombia, Nuevo León, para apoyar y fortalecer la logística de comercio internacional por esa zona.

El suscrito, Director General de Codefront, está apoyado por un consejo ciudadano presidido por el Hon. Ex-Gobernador de Nuevo León, Jorge Treviño Martínez, y constituido por importantes empresarios, transportistas, agentes aduanales y académicos interesados en el desarrollo mencionado.

Por este conducto le extiendo una cordial invitación para que nos acompañe como invitado de honor a un desayuno de trabajo con los 11 participantes del Consejo Ciudadano de Codefront, así como con funcionarios de primer nivel de este organismo. El desayuno se llevará a cabo el día 9 de mayo a las 8:30 a.m. en el Salón Educación del Club Industrial de Monterrey, ubicado en la Avenida Parteaguas #698, Col. Loma Larga en San Pedro, Garza García, Nuevo León.

El tema principal de la reunión será el proyecto ferroviario Colombia-Webb, así como sus comentarios sobre el aspecto ferroviario del Trans-Texas Corridor en materia de trenes de carga, pasajeros y "high-speed passenger rail". Por lo anterior, considero importante que nos acompañe y participe en dicha reunión el Presidente del Distrito Ferroviario del Condado de Webb, Carlos R. Villarreal, a quien extenderemos también la invitación.

Su valiosa participación enriquecerá los proyectos estratégicos de infraestructura logística del estado de Nuevo León y su conexión con Texas, por lo que apreciamos enormemente su aceptación a nuestra invitación.

Atentamente,


Arturo García Espinosa
Director General



Loma Redonda 2721, Col. Lomas de San Francisco, Monterrey, N.L., Tel. (81) 8333-8904, Fax (81) 8333-8964, E-mail info@codefront.gob.mx

The Department provided the following English language translation of the letter on the previous page.

Translation of letter to Amadeo Saenz from Codefront

4/24/06

The Corporation for the Development of the Border zone of Nuevo Leon, Codefront, is a public decentralized organization that has substituted for Fidenor focusing its objectives on the area of Colombia, Nuevo Leon, in order to support and strengthen the logistics of international commerce in that zone.

The undersigned, General Director of Codefront, is supported by a citizen consulting group headed up by the former Governor of Nuevo Leon, Jorge Treviño Martinez. The group also is constituted of important business people, transportation professionals, customs agents and academics, all of whom are interested in the abovementioned development.

Via this letter, I would like to extend to you a cordial invitation to be our guest of honor at a working breakfast with the 11 participants of the Citizen group of Codefront, as well as the leaders of this organization. The breakfast will take place on May 9 at 8:30 a.m. in the Salon Education del Club Industrial de Monterrey, located on Avenida Parteaguas #698, Colonia Loma Larga in San Pedro, Garza Garcia, Nuevo Leon.

The main topic of the meeting will be the rail project Colombia-Webb, as well as your comments on the rail aspect of the TTC related to rail for cargo, passengers and high-speed rail. Hence, I consider it important for you to be with us, and that the President of the Rail District of Webb County, Carlos Villareal also be included. We will extend the invitation to him.

Your valuable participation will enrich the strategic infrastructure projects of the state of Nuevo Leon and its connection with Texas and thus we would very much appreciate your acceptance of our invitation.

Sincerely,

Antonio Garcia Espinosa
Director