# Coalition for America's Gateways and Trade Corridors



## TESTIMONY OF

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## REGARDING

Border Station Construction: Minimizing Costs and Leveraging Private Dollars

## BEFORE

House Committee on Transportation & Infrastructure
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Chairman Barletta, Ranking Member Carson, and members of the Subcommittee, thank you for holding this hearing today to discuss the growing importance of utilizing innovative financing strategies to implement critically-needed improvements along the United States border. Today's fiscal environment requires strategic investments in border infrastructure that maximize limited resources and incentivize leveraged partnerships. I appreciate the opportunity to testify today on the unique financing approaches we are exploring in San Diego to develop the infrastructure needed to safely and efficiently move people and goods across the U.S. – Mexico border.

Today I am representing both the San Diego Association of Governments (SANDAG) and the Coalition for America's Gateways and Trade Corridors (Coalition).

SANDAG serves as the forum for regional decision-making for the 18 cities and county government in San Diego, California. Situated along the United States – Mexico border, with a combined border population of 5.1 million[1], the San Diego – Baja California border region offers many distinct opportunities, particularly economic opportunities in terms of crossborder manufacturing, trade, commerce, and tourism. As the federally-designated Metropolitan Planning Organization for San Diego, SANDAG works closely with federal, state, local, and binational partners to address the comprehensive transportation needs of this dynamic region, including the implementation of border infrastructure projects.

In my capacity as Executive Director of SANDAG, I am proud to serve as a Board Member of the Coalition, a diverse coalition of more than 60 public and private organizations dedicated to increasing federal investment in America's multimodal freight infrastructure. The Coalition works to bring national attention to the needs of the U.S. multimodal system and educate members of Congress and the public on the need to develop consensus for federal investment policy that supports intermodal connectors, trade corridors, freight facilities and gateway access.

**Background**

The San Diego region currently has three land Ports of Entry (POEs): San Ysidro, Otay Mesa, and Tecate. The San Ysidro Land POE is known as the busiest international border crossing in the western hemisphere while the Otay Mesa POE is the main commercial gateway for international trade between California and Mexico. Land border crossings like these are facing rising commercial traffic and congestion throughout the country as a result of increased international trade
The North American Free Trade Agreement (NAFTA), which was signed 22 years ago, accelerated trade between the U.S., Mexico, and Canada. Today, Canada serves as the number one trading partner with the United States, with $1 million in goods and services crossing the U.S. northern border every minute.[2] Mexico is the third largest trading partner with the U.S. and ranks as the top export market for 25 states, including California.[3] In 1995, surface trade between the United States and Mexico was approximately $100 billion per year. By 2012, it had quadrupled to $400 billion per year. Over the last ten years, our exports have nearly doubled in value. In fact, over the last 30 years, international trade growth has increased at a faster rate than overall economic growth.[4] These trends have major implications for America's border crossings, as well as the overall freight transportation system.

A majority of goods move between the three countries on truck, but international freight rail volumes also have seen increases since NAFTA was signed. In 2014, more than two million loaded rail containers and eight million loaded truck containers crossed the U.S. northern and southern borders.[5] Meanwhile, shifting trade patterns also are putting further strain on land border points of entry. Reshoring (the practice of bringing outsourced personnel, services, and manufacturing back to the United States) and nearshoring (the practice of bringing these same services to a nearby

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[1] US Census Bureau American Community Survey (2013)
[2] The White House, United States – Canada Beyond the Border; A Shared Vision for Perimeter Security and Economic Competitiveness (2011)
[3] San Diego Association of Governments, 2007 Update: Economic Impacts of Wait Times in the San Diego Baja California Border Region (2007)
[4] United States Department of Transportation, National Freight Strategic Plan (2015)
[5] United States Department of Transportation, National Freight Strategic Plan (2015)

country, such as Canada and Mexico) is happening with increased frequency. Nearshoring and reshoring are positive trends for NAFTA trade and have major implications for the future of freight infrastructure investment.

The Mexican state of Baja (adjacent to San Diego County) recently published a State Development Plan that promotes the prioritization of industrial parks throughout the region that are close to the U.S. – Mexico border. This initiative likely will lead to an increased demand for commercial crossings through San Diego County. In addition, Canada is in the midst of its largest federal infrastructure investment program in the nation's history. The program is prioritizing gateways, making use of public-private partnerships, and focusing on projects that enhance economic growth. Without strategic investment in the personnel, information technology, and brick and mortar facilities that are needed to facilitate multinational trade, the ever-growing trade volumes between Mexico, Canada and the United States will continue to strain the limited capacity of our existing border crossings.

Steadily growing traffic volumes, constrained infrastructure, and limited staff capacity at existing land Ports of Entry cause significant delays at the border, and have led to economic impacts. To illustrate, a 2007 study conducted by SANDAG found that border traffic congestion and delays between San Diego County and the Baja Peninsula cost the U.S. and Mexican economies an estimated $7.2 billion in gross output and more than 62,000 jobs. That is a monetary loss equivalent to 18 Super Bowls and an annual job loss equivalent to four companies the size of Google[6].

**Otay Mesa East Land Port of Entry**

With this in mind, SANDAG, in cooperation with the California Department of Transportation (Caltrans), U.S. Customs and Border Protection (CBP), the U.S. General Services Administration (GSA), counterpart agencies in Mexico, and other project stakeholders, is working on developing a new Port of Entry approximately two miles east of the existing Otay Mesa border crossing that will provide a third major border crossing along the San Diego - Tijuana border. Recognizing the limited federal resources available to implement a new border crossing, it was determined that a new approach to financing border infrastructure improvements was needed.

Following the deliberative approach described below, SANDAG identified the use of a variable tolling system at the border as a plausible source of funding for implementation of the project. Future toll revenues collected by SANDAG on the road network leading to and from the Port of Entry could be used to underwrite bond sales for initial construction of the Port of Entry. Upon completion, the facility could then be transferred to the federal government via the recently available Section 559 gift agreement tool.

In order to facilitate this new financing model, state legislation was passed in 2008[7] that authorizes SANDAG to issue bonds for the acquisition, construction, and completion of transportation facilities and to impose tolls and user fees for the use of the State Route 11/Otay Mesa East corridor. Under this strategy, SANDAG will be able to maximize public investment in the Port of Entry by utilizing publicly-generated tolling revenues to leverage other state and federal funding. Further, this innovative public-public partnership helps to minimize costs by facilitating developmental and implementation efficiencies through early and ongoing collaboration between the various governmental stakeholders.

As a result, construction of the Otay Mesa East Land Port of Entry and its associated transportation network, State Route (SR) 11, will help to improve the region's border crossing capacity by providing fast, predictable, and secure crossings via tolled roads that serve both personal and commercial vehicles. The goal is to operate the new Port of Entry with a 20-minute border wait time.

The vision for this 21st century border crossing will decrease dependency on federal dollars by focusing on:

[6] San Diego Association of Governments, 2007 Update: Economic Impacts of Wait Times in the San Diego Baja California Border Region (2007)
[7] California Senate Bill 1486 (2008)

- Partnership approaches to planning designing, financing, and building the project which mesh together the needs and skills of the federal partners along with the needs and skills of the regional transportation agencies
- A variable tolling system that serves as both a revenue collection tool and a transportation demand management tool
- A border wait time detection system that provides advanced traveler information
- A system-wide approach to managing traffic congestion at the major Ports of Entry along the San Diego-Baja California border
- Approach roads on both sides of the border that integrate seamlessly with regional highway systems

The total cost for facilities on both sides of the border is estimated to be around $900 million. This estimate is based in part on a baseline POE configuration with 20 northbound inspection lanes – 10 for passenger vehicles and 10 for commercial trucks. The ultimate northbound and southbound lane configuration will be determined by an innovation analysis study.

**Financing the Otay Mesa East Land Port of Entry**

The unique nature of the Otay Mesa East Land POE project required SANDAG to engage a wide range of professional services experts, including construction management firms, investment banks, federal transportation partners, and tolling experts, during the early project development phase to collect information about similar projects and identify potential financing opportunities and obstacles in project development and delivery. In addition, a review of project delivery strategies utilized by other agencies in California, Arizona, and Texas was conducted and a preliminary Investment Grade Traffic and Revenue Study was launched to gauge financial feasibility.

This deliberative process resulted in the following findings that have been used to help shape the project's financial strategy and approach.

**Finding #1**: SANDAG anticipates being able to cover most capital costs with toll-generated funds; however, ongoing coordination with U.S. Customs and Border Protection is needed to ensure an appropriate level of staffing and operating costs will be made available. Preliminarily estimates indicate operation costs will be nearly $100 million for the first 5 years of operation.

**Finding #2**: To enable this new model, engaging the services of a financial advisor, investment banker, and legal counsel early in the process is crucial to a successful toll-based financing strategy. The financial advisor is compensated when the transaction is completed; whereas the investment banker is compensated at the time the toll financing is completed.

**Finding #3**: Other innovative financing tools will need to be explored to help SANDAG leverage the expected tolling revenues. These may include: introducing value-added services near the border, seeking federal credit assistance through the Transportation Infrastructure Finance and Innovation Act (TIFIA) program under the U.S. Department of Transportation, or engaging other assistance from entities like the North American Development Bank.

**Investment Grade Traffic and Revenue Study**

In June 2014, SANDAG completed an Investment Grade Traffic and Revenue (T&R) Study[8] for the Otay Mesa East Land Port of Entry project. The purpose of the study was to estimate the potential traffic (passenger and commercial vehicles) forecasted to use the Port of Entry and associated toll revenues that would be generated over a 40-year period of operations. While the T&R Study focused on the toll revenue generating capacity of the project, a study to estimate the potential capital and operations costs for a third border crossing is under way.

[8] http://www.sandag.org/uploads/projectid/projectid_56_19522.pdf

The roadway systems supporting the new border crossing are being designed to enable a smoother flow through the Port of Entry so that the traveler's experience is both managed and predictable. Demand management, necessary to provide this level of service, will be instituted through varying toll rates to control demand and the length of the passenger or commercial vehicle line. Once opened, the new POE is projected to attract approximately 20 percent of the overall passenger vehicle traffic crossing the border and approximately 75 percent of the overall commercial vehicle traffic crossing the border. Over time, as the demand to cross the border increases, toll rates will be adjusted to manage the rising demand.

Based on demand estimates and the likely behavioral responses of drivers to the increased capacity and higher level of service, the study estimates that the new Port of Entry could generate toll revenues of $4.2 billion (in constant 2012 dollars) over a 40-year period of operation. About 75 percent of the revenue would come from passenger vehicle tolls and the remaining 25 percent would come from commercial vehicle tolls. Nearly 90 percent of the toll revenue collected at the proposed POE would come from northbound vehicles; the remaining 10 percent would be collected from southbound vehicles.

***Concept of Operations***

In 2014, a Concept of Operations (ConOps) was completed and circulated to stakeholders for review and comment. The following six key objectives shaped the development of the ConOps:

1) Achieve sufficient revenue in order to provide funds to cover debt service as well as toll and other key operations
2) Minimize capital and operations costs, particularly for the initial deployment
3) Enhance safety, security, and efficiency by applying lessons learned by project stakeholders for other border crossings
4) Provide an enhanced customer experience that supports perceptions of reliability, efficiency, and progressive processing of border-crossing traffic
5) Develop a cooperative binational model for a new type of border crossing within a regional binational framework that supports ongoing operations of the new border crossing
6) Reduce greenhouse gas emissions through reduced border region wait times and more efficient movement of cross-border traffic

In addition, the following themes were incorporated throughout the ConOps document to help maintain a focus on leveraging resources and cost-savings:

- Leverage existing and planned Intelligent Transportation System (ITS) resources on both sides of the border to avoid "reinventing the wheel" for the needs of this project.

- Focus on operational requirements and efficiency rather than on a specific vendor or technology solution. This will allow the project to utilize cost-effective technologies and avoid functionality gaps. Maintaining this approach over the 40-year horizon of the program will support technology advancements that improve the efficiency and safety of the border crossing.

**Leveraging Local, State and Federal Resources**

To date, more than $125 million in state funding has been invested in the Otay Mesa East Land Port of Entry project to leverage $286 million in federal funding. SANDAG continues to seek additional funding through discretionary programs at both the state and federal levels that will further leverage these past investments. In particular, SANDAG worked with the California Department of Transportation to submit applications this year under both the TIGER and FASTLANE grant programs for components of the Port of Entry project. In addition, SANDAG has committed $25 million in *TransNet* (local sales tax revenues) as another leveraging source in the project.

The Otay Mesa East Project also was accepted into the U.S. Department of Transportation Build America Transportation Investment Center (BATIC) in 2015 which was created to drive efficiencies and further financing optionality for projects in a shorter timeframe. Finally, the project's inclusion as a high priority under the High Level Economic Dialogue between the United States and Mexico has helped to advance its development, leading to planning and cost efficiencies.

**Federal Role**

The newly-created FASTLANE grant program could be an important resource for projects like the Otay Mesa East Land Port of Entry. That being said, the Coalition for America's Gateways and Trade has long-advocated for a minimum of $2 billion annually in dedicated, sustainable, and flexible funding for multimodal freight projects, including port of entry projects. The FAST Act is a down payment on our infrastructure needs, but much more is needed in order to keep pace with growing trade trends and maintain and improve aging and insufficient infrastructure. A failure to invest hinders the efficient movement of goods and people, resulting in increased transportation costs and reduced air quality. A concentrated effort to improve border facilities, personal, and information technology will improve goods movement and ultimately, U.S. economic competitiveness.

Border congestion is more than a hindrance to economic growth and productivity – it also is a threat to public health and safety. Congestion from any mode of transport diminishes air quality and in so many instances, local communities are bearing the environmental and social burden of nationally-significant freight movement, but they are unable to foot the bill on large-scale infrastructure projects that would alleviate negative impacts. The benefits of freight movement accrue nationally, and as such, there is a federal responsibility to be a partner in making improvements, and in many instances, there is an opportunity for private sector contributions. State and local governments cannot shoulder the burden alone, nor can this lift be expected entirely by the private sector.

Without a campaign of strategic investment to expand capacity and increase efficiency, U.S. productivity and global competitiveness will suffer, costs will increase and investment will lag. Cross border mobility – on all modes – requires added capacity and improved efficiency to keep pace with growing demands. As Congress considers steps to meet these needs, we respectfully ask the follow steps be considered:

- **Develop a national strategy that guides long term planning**: A national "vision" and investment strategy that shapes and guides the nation's freight infrastructure system with active coordination among states, regions, localities – and indeed, our neighbors to the North and South – is needed. The Department of Transportation's National Freight Strategic Plan currently lacks sufficient attention to growing international trade patterns, such as trade with Canada and Mexico; these relationships are expected to continue their upward trajectory. A new office focused on multimodal freight should be established within U.S. Department of Transportation's Office of the Secretary to administer the new freight mobility program with a particular focus on projects of national significance that aid in the movement of commerce. Project planning horizons for freight needs extend over multiple decades, therefore planning and financing approaches must be facilitated to support these long-term projects that enable economic growth, both domestically and internationally.

- **Dedicated, sustainable, and flexible funding**: Federal funding should incentivize and reward state and local investment and leverage the widest array of public and private financing. In addition to current programming, a minimum annual investment of $2 billion dedicated to multimodal freight infrastructure, and distributed through a competitive grant program is needed. Such a program is necessary for funding large-scale infrastructure projects, which are frequently multimodal and cross jurisdictional and international borders. While economically significant, such projects are difficult to fund through traditional distribution methods such as formula programs.

- **A set of merit-based criteria for funding allocation**: A goods movement funding program, such as the FASTLANE grant program, should select projects through merit-based criteria that identify and prioritize projects with a demonstrable contribution to national freight efficiency. Long-term funding must be made available to ensure that, once a project is approved, funds will flow through to project completion. Funds would be available to support multi-jurisdictional and multi-state projects, regardless of mode, selected on the basis of objective measures designed to maximize and enhance system performance, while advancing related policy objectives such as environmental improvement.

- **A partnership with the private sector:** Private participation in the nation's freight infrastructure is vital to system expansion. Federal funding should leverage private participation and provide transportation planners with the largest toolbox of financing options possible to move freight projects forward quickly and efficiently. The establishment of an advisory council made up of freight industry members and system users could assist and partner with USDOT in order to foster such partnering with the private sector.

**Next Steps**

The San Diego region is firmly committed to improving safe, secure and efficient border crossings. We further believe that economic competitiveness and efficiency can both be achieved at the new Otay Mesa East Land Port of Entry. SANDAG, in coordination with our federal, state, and local partners, continues to work with representatives from Mexico on options to maximize toll revenues as well as additional opportunities to align project schedules on both sides of the border to enable cost-savings. The goal is to have the facility open to traffic by 2018-19 at which time SANDAG would begin to administer and operate the toll road.

Again, I would like to thank you for the opportunity to speak before your Subcommittee today. We appreciate your interest in exploring innovative ways to finance critically-needed infrastructure improvements along the border.