

Date of Hearing: March 5, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
Jose Medina, Chair
AJR 4 (Hueso and V. Manuel Pérez) – As Amended: February 27, 2013

SUBJECT: Border Infrastructure

SUMMARY: Memorializes the California Legislature's desire to have the federal government fund improvements at the San Ysidro, Otay Mesa, and Calexico Ports of Entry (POE). Specifically, this bill:

- 1) Makes, among other declarations, that:
 - a) The U.S, Canada, and Mexico signed the North American Free Trade Agreement (NAFTA) in 1993 to foster trade among the three countries and improve the region's global competitiveness. Since its enactment, trade between the U.S. and Mexico has quintupled, totaling \$500 billion in 2011;
 - b) Mexico continues to be California's number one export market with \$25.8 billion in goods being exported to Mexico in 2011 and accounting for 16% of all California exports;
 - c) Ninety-nine percent of trade between California and Mexico is transported by trucks. Border traffic congestion and delays along the San Diego and Imperial Counties cost the U.S. and Mexican economies an estimated \$8.63 billion in gross output and more than 73,900 jobs in 2007;
 - d) New land POEs and improvement projects are under federal jurisdiction and that border improvements are underway or planned for the POE facilities at San Ysidro–Puerta Mexico, Otay Mesa–Mesa de Otay, Calexico West;
 - e) The General Accountability Office and the Department of Homeland Security estimate that \$6 billion in border infrastructure is needed to fulfill their mission of preventing unlawful entry and smuggling while facilitating legitimate trade and tourism; and
 - f) Since February 2009, the federal government has not funded border infrastructure projects.
- 2) Resolves that the Assembly and the Senate of the State of California urge the federal government, including the Department of Homeland Security and the General Services Administration (GSA), to fund necessary improvements at the San Ysidro, Otay Mesa, and Calexico POE.

FISCAL EFFECT: None

COMMENTS:

- 1) Author's Comment: "Since the implementation of the North American Free Trade Agreement (NAFTA), 99% of trade between California and México is carried by trucks through regional land ports of entry. The San Diego Association of Governments (SANDAG) released a study which projects that the nearly two million trucks that crossed the California-Mexico border in 2007 will increase to nearly five million trucks in 2050. It also estimated that in 2007, border traffic congestion and delays in San Diego and Imperial Counties cost the U.S. and Mexican economies about \$8.63

billion in gross output and over 73,900 jobs. Recognizing the need for improvement, the GSA has already developed expansion projects for San Ysidro, Calexico, and Otay Mesa Land Ports of Entry. However, contingent federal funding has delayed project completion, resulting in backlogs and lost revenue potential.

AJR 4 recognizes the critical importance of our border crossings to the economy and urges the federal government, including the Department of Homeland Security and the GSA, to prioritize border infrastructure and fund the necessary improvement. Border improvements are needed to reduce wait times and increase the economic benefits of tourism, trade and commerce produced by secure and efficient cross-border travel."

- 2) Central Policy Question: This resolution seeks legislative support for federal advocacy on behalf of three POE projects along the California border with Mexico. While it is the federal government's responsibility to maintain the nation's borders, without intervention, there is a concern that badly needed upgrades will be delayed or illuminated due to broader federal budget discussions.

In making the case for full legislative support, the authors cite the importance of trade to the California economy, the inability for existing facilities to keep up with the demand resulting from NAFTA, and the documented security issues with the existing POE facilities. Each of these issues is discussed in greater detail below.

- 3) California's Trade Economy: California's \$1.9 trillion economy naturally functions as an independent economic power within the global economy. In fact, compared to other nations, California has one of the 10 largest economies in the world, due to it being a top-tier trade partner, a best-in-class investment location, a high quality producer of goods and services, and the home and key access point for a massive consumer-base. In 2011, California exported \$159 billion in products to over 220 foreign countries. While California has been significantly impacted by the recession, exports continued to increase in almost every quarter from 2010 through 2012.

In 2011, cross-border trade between California and Mexico, including imports and exports, was valued at more than \$190 billion, making Mexico the state's most important trade partner. Total California exports to Mexico were greater than \$26 billion in 2011 and included: Computer and Electronic Products (\$9.2 billion); Transportation Equipment (\$2 billion); Machinery, except Electrical (\$1.8 billion); Chemicals (\$1.3 billion); and Food Manufactures (\$1.3 billion).

- 4) Ongoing Legislative Focus on Border Infrastructure: The finance and development of infrastructure as an economic recovery tool was the subject of no less than seven policy and research committee hearings during the 2011-12 Session. Both the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) and the Assembly Select Committee on California/Mexico Bi-National Affairs (CMB-NA) focused on financing options and the impediments that the current border crossings had on the movement on goods, business development and employment. The authors of AJR 4 were the chairs of JEDE and the CMB-NA committees during the 2011-12 Session.

Three of the hearings were held in California border communities, which allowed Members to tour and hear updates on the projects referenced in AJR 4, as well as learn about the economic and security challenges posed by the current facilities. Outcomes from these hearings included legislation (described below) to encourage public/private partnerships, develop innovative bi-national financing products, and to leverage technology as a means to expedite border crossings.

- 5) Infrastructure: A Major Challenge to California's Competitiveness: World class infrastructure plays a key role in business attraction, as multinational companies consistently rank the quality of infrastructure among their top four criteria in making investment decisions. Research shows that as U.S. infrastructure has been in decline, infrastructure in other countries is rapidly increasing. The 2010-11 Global Competitiveness Report by the World Economic Forum places U.S. infrastructure 23rd in the world, a drop from its rank of 7th in 2000.

California's infrastructure is in a similar state, according to the American Society of Civil Engineers, *California Infrastructure Report Card 2012*, with an estimated \$65 billion a year investment gap. The impact of this underinvestment is compounded by the substantial new investments made in other states and nations, including the expansion of the Panama Canal. With the logistics sector employing over 73,000 workers and intricately related to the state's manufacturing sector, failing to remain competitive impacts many California jobs.

- 6) Goods Movement Infrastructure: Goods movement supports employment, business profit, and state and local tax revenue. California businesses rely heavily on the state's ports and their related transportation systems to move manufactured goods. Firms rely on fast, flexible, and reliable shipping to link national and global supply chains and bring products to the retail market. Transportation breakdowns and congestion can idle entire global production networks. As a result, the capacity and efficiency of land ports, seaports, and airports have become critical factors in global trade.

Changes in U.S. and global trade patterns since the enactment of NAFTA have placed increased challenges on California's goods movement system. For California's border region, the increased tourism, as well as the expanded supply chains for manufacturing and product distribution have resulted in significant delays at border crossings, decreased regional air quality, and border crossings that are difficult to secure.

U.S. firms with significant business passing through the Imperial and San Diego County POEs report that their logistics-supply chains are highly time sensitive. Long wait times at border crossings result in delays in receiving intermediary goods and ultimately lead to problems in the manufacturing chain. Long wait times (as high as three to four hours) between Mexico and the U.S. along the Imperial County – Baja California border accounted for an estimated output loss of \$1.4 billion and 11,600 lost jobs nationally in 2007. In California losses were estimated at \$436 million and 5,639 jobs for 2007. By 2011, the negative economic impact on California grew to \$620 million, according to the Southern California Association of Governments.

- 7) Port of Entry Enhancement: There are six land crossings referred to as Points of Entry (POEs) along the California and Mexico border. The San Diego County-Tijuana/Tecate region is home to the San Ysidro-Puerta México, the Otay Mesa-Mesa de Otay, and the Tecate-Tecate POEs while the Imperial County-Mexicali region hosts the Calexico-Mexicali, Calexico East-Mexicali II, and Andrade-Los Algodones POEs. This resolution seeks to obtain federal funding for three of these crossings: Calexico, Otay Mesa, and San Ysidro.
- San Ysidro is the largest POE in the Western Hemisphere, currently processing an average of 50,000 northbound vehicles and 25,000 southbound vehicles per day. The San Diego Association of Governments estimates an 87% increase in vehicle traffic by 2030. The San Ysidro POE is currently undergoing construction of Phase I of III and has a funding gap of \$285 million.

- The Calexico POE serves over 16,000 privately owned vehicles on an average day. The U.S. GSA has stated that the existing facilities are undersized relative to existing traffic loads and that the facility is obsolete in terms of inspection officer safety and border security. This GSA designed project will require the reconfiguration, as well as the expansion of the POE. The project has an unfunded construction cost of \$318 million.
- Otay Mesa is the busiest commercial POE in California handling more than 1.4 million trucks and \$31 billion worth of goods in 2009, according to the Otay Mesa Chamber of Commerce. U.S. Customs and Border Protection estimate that commercial truck traffic will double by 2025. The Otay Mesa POE improvements include the reconfiguration and modernization of the existing facilities and the development of a new East Otay Mesa POE, which will be developed under a public/private venture. The unfunded public portion of the existing Otay Mesa POE is \$161 million, according to the terms of the resolution.

In January, Assemblymember Hueso, one of the authors of the resolution, sent a letter to President Barack Obama regarding the need to complete the POE projects and the introduction of AJR 4.

- 8) The Sequestration: The U.S. government continues to struggle in meeting budget targets and reduce the federal deficit. While a last-minute agreement delayed some cuts scheduled to automatically take effect in January, the February deadline passed without a subsequent deal, triggering \$85 billion in across-the-board budget reductions. Both defense and nondefense programs are subject to the sequester. Many of the large nondefense programs, including Social Security, Medicaid, unemployment compensation, and veterans' benefits are exempted from those cuts, and the reduction in Medicare is limited to 2%.

In moving forward, it is likely that the federal Administration and Congress will be reworking budgets of some impacted programs in order to better align existing resources with national priorities. While federal money may be tight, to the extent that AJR 4 seeks federal funding for existing projects recommended by GSA to support economic growth and protect the security of the nation, there may be funding opportunities as part of broader budget discussions.

- 9) Related legislation: Below is a list of bills related to California and Mexico border infrastructure.
- a) *AB 1545 (V. Manuel Perez) Bi-National Infrastructure and Economic Development Bank*: This bill would have expanded the role of the California Infrastructure and Economic Development Bank (I-Bank) to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Held in the Senate Committee on Appropriations, 2012.
 - b) *AB 2113 (Hueso) Enhanced Driver License*: This bill would have authorized issuance of an enhanced driver license for the purpose of expediting border entry. The license would be designed with as a standard driver license with transmission technology to denote identity and citizenship for persons entering the U.S. at land and sea POEs. This measure is the result of testimony taken at several CMB-NA hearings held in 2011 and 2012. Status: Held in Assembly Committee on Appropriations, 2012.
 - c) *SJR 13 (Vargas) Public Utilities and Cross Border Transmission*: This resolution calls on the Secretary of the U.S. Department of Energy to reject Sepmpra Energy's application to construct the Energia Sierra Juárez cross-border transmission line between Mexico and California in order to preserve jobs in California, promote energy independence and uphold California's labor and environmental laws. Status: Approved, Resolution Chapter 96, Statutes of 2011.

- d) *SJR 16 (Vargas) Calexico West POE*: This resolution declares the Legislature's support for a public-private partnership to renovate and expand the Calexico West POE and urges Congress to enact guiding legislation to authorize private-public partnerships, such as the one proposed for the expansion of the Calexico West POE. Status: Approved, Resolution Chapter 124, Statutes of 2012.

REGISTERED SUPPORT / OPPOSITION:

Support

American Federation of State, County and Municipal Employees
Imperial County Transportation Commission
Otay Mesa Chamber of Commerce

Opposition

None on file

Analysis Prepared by: Toni Symonds / J., E.D. & E. / (916) 319-2090