

HEARING BRIEFING MEMORANDUM

DATE: November 19, 2012

TO: Interested Parties

FROM: The Assembly Committee on Jobs, Economic Development and the Economy and Assembly Select Committee on California/Mexico Bi-National Affairs

RE: Joint Hearing on Border Infrastructure and Economic Development Opportunities

On Wednesday, November 28, 2012, a legislative oversight hearing is being held in Calexico, California, to explore the connection between border infrastructure improvements and economic development opportunities in the surrounding bi-national region.

Convening the hearing are the policy and research committees with jurisdiction for issues relating to international trade, capital formation, infrastructure development and bi-national relationships with Mexico: the Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) and the Assembly Select Committee on California/Mexico Bi-National Affairs (CMB-NA).

This hearing serves as a follow-up to ongoing policy initiatives of both committees on infrastructure challenges to trade, commerce and tourism development within the Mega-Region of Southern California and Northern Mexico. Outcomes from these prior activities have included the introduction of legislation including AB 1545 (V. Manuel Pérez) and AB 2113 (Hueso), which are discussed later in the memorandum.

Hearing testimony will be presented through two panels comprised of federal, state and international experts from the public and private sectors. The first panel will focus on the expansion of the Calexico Port of Entry (POE) and the second panel will broaden the infrastructure discussion to include financing within the Mega-Region, with an emphasis on enhancing sustainable development activities that can provide economic, social, and environmental benefits.

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Framing the Issue

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 to 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).

While historically the Imperial and Coachella Valleys may have been considered economically remote, today the economic corridor of the Coachella, Imperial and Mexicali Valleys (CIM Economic Corridor) offers an important transportation corridor into San Diego, Arizona and Mexico through increasingly developed and interlinked rail, highway and air and water ports. Today, this multimodal economic corridor represents a key business and investment opportunity.

Over time, the value of the CIM Economic Corridor should become increasingly significant as emerging economies around the world mature and business development becomes less centralized within a handful of urban centers in G-8 nations. Further, the Panama Canal expansion will require all west coast POEs to become more innovative and competitive in attracting and retaining port traffic. Having a more highly developed CIM Corridor would support an expanded transportation and business/manufacturing network that could play an important role in keeping and enhancing trade-dependent business activities.

California's Infrastructure Challenge Limits Job Creation

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, the quality and availability of infrastructure in other countries has been 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 Engineer's report, *California Infrastructure Report Card 2012*, which estimates an annual \$65 billion investment gap. The impact of this financing gap has limited California's ability to support expanded supply chains for manufacturing and product distribution and resulted in congested seaports, where cargo ships are often delayed for extended periods of time waiting to unload. At both international air and sea ports, truck access is a problem and major airport expansions are severely limited by urbanization, ground access, air quality impacts, and local opposition.

Another congestion challenge exists at the six land-based border POEs between California and Mexico. 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 West-Mexicali, Calexico East-Mexicali II, and Andrade-Los Algodones.

U.S. firms with significant business passing through the three Imperial Valley POEs report that their logistics-supply chain is highly time sensitive and these long wait times delay access to intermediary goods and ultimately lead to problems in the manufacturing chain. Long wait times 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.

Hearing Outline

In this hearing, the Committees will be examining the role of infrastructure development within the CIM Economic Corridor and how it impacts the region's economic recovery and growth in the post-recession economy. Among

other regional strategies, business and government leaders have prioritized actions that encourage the development of small and medium-size manufacturing facilities, revitalize the Salton Sea and surrounding communities, expand renewable energy production and improve access to domestic and foreign markets. Central to each of these efforts is the development, enhancement and connectivity of the physical infrastructure within the CIM Economic Corridor to the larger bi-national Mega-Region and beyond.

Following opening comments from the Chairmen and Members, the first panel will be introduced and moderated by CMB-NA Chairman Ben Hueso. It will focus on the expansion of the Calexico West POE and include a discussion of how border delays have proven to have direct impacts on productivity and economic development, not only on the border region but at a state and national level as well. Invited witnesses include:

- **Jon Ballard**, Senior Asset manager, General Services Administration
- **Mark Baza**, Executive Director, Imperial County Transportation Commission
- **Jeff Kinsell**, CEO and President Kinsell Newcomb & De Dios, Inc.

JEDE Chairman V. Manuel Pérez will moderate the second panel, which will discuss financing infrastructure improvements and logistical linkages that help businesses access customers within the CIM Economic Corridor and Mega-Region and other areas of the U.S. and Mexico. In the post-recession economy, the economic development capacity and competencies of regions will become increasingly important. For California's border communities, as well as communities in Mexico and South America, this means strategically linking cross border human, physical and financial resources. Invited witnesses include:

- **Laurie Weir**, California Public Employees Retirement System
- **José Eugenio Lagarde Amaya**, Industrial Development Commission of Mexicali
- **Alex Hinojosa**, North American Development Bank

Following presentations from the panelists and questions from Members, there will be a public comment period. Persons interested in providing testimony should sign up at the registration desk. Written comments may also be provided to the JEDE and CMB-NA offices. Contact information is provided at the close of the memorandum.

Legislation related to Panel Presentations

Below is a summary of the legislation from the 2011-12 Legislative Session relating to infrastructure development along the border and accessing global markets for California goods and services.

AB 1545 (V. Manuel Pérez) 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. This measure was the result of testimony taken at the November 2011 JEDE hearing in Calexico. Status: Held in the Assembly Committee on Appropriations, 2012.

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 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 Appropriations Committee, 2012.

ABX1-14 (Skinner) Energy Upgrade Financing: This bill expands the purpose of the California Alternative Energy and Advanced Transportation Financing Authority's Property Assessed Clean Energy program to permit the Authority to offer financial assistance to financial institutions for privately-issued loans for real property projects including energy and water efficiency improvements and renewable distributed generation. Status: Signed by the Governor, Extraordinary Session One Chapter 9, Statutes of 2011.

SB 555 (Hancock) Renewable Energy Facilities: This bill authorizes Mello-Roos Community Facilities Districts to finance renewable energy, energy efficiency, and water efficiency improvements on private property. Status: Signed by the Governor, Chapter 493, Statutes of 2011.

SB 822 (Evans) Five-Year Infrastructure Plan: Existing law requires the Governor, in conjunction with the Governor's Budget, to submit annually to the Legislature a proposed 5-year infrastructure plan containing specified information concerning infrastructure needed by state agencies, public schools, and public postsecondary educational institutions and a proposal for funding the needed infrastructure. This bill makes technical, nonsubstantive changes to this provision. Status: Held in the Assembly Committee on Budget, 2012.

SB 907 (Evans) 20-Year Infrastructure Master Plan: This bill would have established an 11-member Master Plan for Infrastructure Financing and Development Commission. The Commission was required to submit to the Governor and Legislature, by December 1, 2013, a long-term plan and strategy for the state's infrastructure needs and a prioritized plan to meet those needs. The Commission was also required to submit periodic progress reports. Status: Held in the Assembly Committee on Jobs, Economic Development and the Economy, 2012.

SJR-13 (Vargas) Cross-Border Transmission Lines: This resolution calls upon the United States Department of Energy to reject an application for a cross-border Presidential permit authorizing Energía Sierra Juárez U.S. Transmission LLC to construct, operate, and maintain electric transmission facilities at the U.S.-Mexico border. Status: Chaptered by the Secretary of State, Res. Chapter 96, Statutes of 2011.

Reports related to Panel Presentations

California-Baja Border Master Plan. Commissioned by the U.S./Mexico Joint Working Committee to the California Department of Transportation (CalTrans) and the Secretariat of Infrastructure and Urban Development of Baja California. Prepared by the San Diego Association of Governments (SANDAG) (September 2008).

Cross-border travel at the six land POEs in the California/Baja region has grown over the years and growth is expected to continue because of increasing population and economic activity. Improving the current infrastructure is critical to relieving congestion and facilitating cross-border movement of people and trade. Executives from 24 U.S. and Mexico agencies participated in the creation of this Master Plan which prioritizes POE and related transportation projects including the Calexico-Mexicali POE.

Summary of Recommendations: (1) Consider the California-Baja California Border Master Plan a framework to prioritize infrastructure projects and facilitate planning and funding of related transportation projects; and, (2) Update the master plan every three to four years; update should be led by Caltrans and Secretaria de Desarrollo Urbano del Estado de Baja California (SIDUE).

CalPERS Infrastructure Investment Outreach Review: Laying the Groundwork for Collaboration. Prepared for the California Public Employees Retirement Systems (October 2012) <http://ajed.assembly.ca.gov/hearings>

In September 2011, the California Public Employees' Retirement System (CalPERS) authorized up to \$800 million for investment in California infrastructure. The primary purpose of the three-year initiative is to make investments in essential infrastructure assets that meet CalPERS risk-return objectives, while also potentially benefiting local economic development and essential community services. In preparing for the deployment of the capital, CalPERS has researched the investment space and engaged state and local governments and other pension systems on current infrastructure needs and financing options. Key takeaways from their outreach efforts include:

1. There is a vast unmet need for investment in California infrastructure, including projects in transportation, water, and energy sectors.
2. Due to its large-size economy, positive demographic trends, high-quality public agencies, and recent supportive legislation, California is considered to be an attractive destination for infrastructure investment.
3. There are numerous challenges to pension system investment in California infrastructure, including the availability of lower-cost, tax-exempt financing, a lack of projects which are suitable for public pension funds and other institutional investors, the absence of necessary statutory authorities in some cases, and complex regulatory processes.
4. CalPERS may be an attractive partner for California public agencies.
5. Modifications to policy and legislation regarding project procurement and approvals may enhance funding and investment opportunities.

Economic Recovery in the Border Region: Leveraging Trade to Chart a New Path Forward. Prepared by JEDE for legislative oversight hearing. (November 2011) <http://ajed.assembly.ca.gov/hearings>

In the last three years, California workers and businesses have faced some of the harshest economic conditions since the Great Depression. Communities in proximity to the border with Mexico, including those in the Imperial and Coachella Valleys, were especially hard hit, experiencing unemployment levels above 30%. On November 10, 2011, JEDE held a hearing in Calexico, California, to hear from community and civic leaders, as well as economic development professionals and the public, about their ideas and priorities for using bi-national solutions and trade and foreign investment to kick start these rural regional economies. This report provides background and examples of best practices on rural development and the role international trade and foreign investment play within the California economy.

Among other recommendations, the report proposed: (1) establishing a California bi-national financing authority; (2) calling for an update of the 2008 California-Baja Border Master Plan; and (3) engaging tribal governments on possible collaborative actions that could be taken to enhance the economic competitiveness of the CIM Corridor.

Sector Strategy to Support Competitive Global and Regional Integration. Prepared for the Inter-American Development Bank (March 2011) <http://ajed.assembly.ca.gov/hearings>

The Inter-American Development Bank (IDB) has established in 1959 for the purpose of reducing poverty and inequality in Latin America and the Caribbean (LAC). Today, the institution is a leading source of development finance within the region. In March 2011, the IDB issued a new strategy to guide implementation of existing mandate to support the economic integration of LAC communities. The strategy lays a framework for moving

beyond regional integration within LAC to include global integration and shifts the focus of the IDB from advocacy and technical cooperation to financing. The strategy states that "integration is not an end in itself, but a strategic platform to maximize the benefits of globalization and harness functional cooperation for growth and development." Supporting collaborative market integration efforts will allow LAC businesses to overcome disadvantages of their smaller size markets, breakdown cross-border barriers to trade, and thereby become more attractive to foreign investors. Transportation costs and the time it takes to clear borders have been identified as significant impediments to trade integration.

Among other recommendations, the strategy proposes to facilitate rules convergence and the free circulation of goods through greater cooperation to promote cross-border investments; promote coordination of logistics and trade facilities that increase transport connectivity; encourage development and harmonization of investment rules; and support adequate funding for priority projects, such as those that can remove cross-border bottlenecks. Another key recommendation is to elevate the political profile of infrastructure integration activities through high-level engagement with other stakeholders.

Key Policy Questions

Rapid globalization in the past two decades has permanently changed the economic development paradigm for rural communities in close proximity to the California/Mexico border, such as those in the CIM Economic Corridor. Their unique location provides both opportunities for accessing international capital and commerce, as well as challenges, such as financing infrastructure suitable to participation within the global movement of goods. Among other issues, the Members may want to consider the policy questions below.

- How can the state support local and regional efforts to catalyze private investments in underserved and emerging areas along the CIM Economic Corridor?
- Where are there opportunities to enhance the global competitiveness and economic integration within the CIM Economic Corridor, the Mega-Region?
- What actions can the state take to facilitate cross-border commerce and reduce de facto barriers to cross-border investment?
- Does the state have an appropriate game plan to attract private capital to meet the state's significant infrastructure needs?

Possible Follow-up Actions

During the course of the hearing a variety of suggestions will be identified that can strengthen existing networks and contribute to the resolution of key economic challenges within the CIM Economic Corridor, the state and the Mega-Region. Below is a list of recommendations to help focus the discussion and inspire create thinking about practical infrastructure development solutions.

1. Re-introduce AB 1545 (VM Pérez) which would authorize the creation of a bi-national economic development authority for the mega-region and related areas. Membership may include representation by Imperial County, the Coachella Valley, San Diego County, Baja California, the North American Development Bank and the Inter-American Development Bank.

2. Engage with the California Governor's Office of Business and Economic Development, the Conference of Border Governors and the Border Legislative Conference on how to work more effectively in achieving key competitiveness objectives. As a first step find out more about the following initiatives:
 - Development of Secure Manufacturing Zones.
 - Development of a coordinated network of “inland ports” along the main logistics corridors.
3. Re-introduce AB 2113 (Hueso) which would authorize the issuance of an enhanced driver license to expedite POE access. The license would be designed as a standard driver license with transmission technology to denote identity and citizenship for persons entering the U.S. at land and sea POEs.
4. Call on President Barack Obama to designate a point person to facilitate the permitting process among federal agencies for POEs and other issues related to goods movement.
5. Advocate with President Obama and the U.S. Congress for additional capitalization of the North American Development Bank, as well as for more flexibility under the definition of eligible geographic area by incorporating areas within clearly defined economic corridors.
6. Introduce legislation to require the state Goods Movement Plan to be reflected in the state's international trade and foreign investment strategy, as well as being integrated in the state's short and long-term infrastructure and economic development plans.
7. Engage the IDB in a high level policy dialogue on the development of sustainable trade and investment integration corridors, Item 4.20 of the Sector Strategy on Competitive Global and Regional Integration.