

**California/Baja California
Regional Innovative Financing Workshop
April 25, 2006
Summary**

Background

The U.S.-Mexico Joint Working Committee's 2005-2007 work plan identified the organization of regional Innovative Finance workshops as one of its tasks. These regional workshops were identified as a potential logical next step and are envisioned as a continuation of the August 2005 Innovative Finance Conference, which provided information to state and local government decision makers regarding the many public and private financing options available to accelerate critically-needed surface transportation projects. The first regional workshop was held April 25, 2006 in San Diego and discussed projects specific to the California/Baja California region including State Route 11/Otay Mesa East Port of Entry including the Port of Entry in Tijuana and its required roadway infrastructure and the San Diego/Tijuana Cross-border Passenger Terminal. The outcomes of this regional workshop will be presented at the May/June 2006 JWC meeting in Tucson, Arizona. Further regional workshops will be hosted and developed as the need arises, with the next workshop tentatively scheduled for late summer/early fall.

The California /Baja California regional workshop provided an opportunity for regional decision makers to receive financial technical assistance on the two projects mentioned above. Technical assistance was provided from both from a public viewpoint (FHWA/SCT) with information on federally organized financing vehicles, as well as a from private viewpoint (Law Firms/ Public Finance Firms/ Developers), with information on the public finance perspective, specifics on traffic toll and revenue studies and the engineering consulting firm perspective. Information was provided that will allow state and local government officials in both the United States and Mexico to develop the scope and operating characteristics of border zone projects in such a way that encourages the private sector to consider investing in the projects. The workshop was divided into two three modules: a background of the proposed project (State Route 11/Otay Mesa East Port of Entry including the Port of Entry in Tijuana and its required roadway infrastructure)/formal presentation module , and a brainstorming session module and a question /answer module on the San Diego/Tijuana Cross-border Passenger Terminal project..

Over thirty people attended the workshop with representation from the Federal Highway Administration (FHWA), the Secretariat of Communication and Transportation (SCT), Caltrans, SANDAG, the County of San Diego, Customs and Border Protection, General Services Administration and the Secretariat of

Foreign Relations (Mexico), among others. See Appendix A for entire list of participants.

Module 1 - Presentation of Information

The background/formal presentation module allowed project sponsors to give information about the State Route 11/Otay Mesa East Port of Entry including the Port of Entry in Tijuana and its required roadway infrastructure project and allowed financial specialists to give brief presentation on their topics of expertise. See Appendix B for the Workshop Agenda. The following section briefly describes the information received.

Pedro Orso- Delgado, Director Caltrans, District 11 and Gary Gallegos, SANDAG Executive Director:

SR 11/Otay Mesa East POE

Principle discussion point: Background on the workshop target project

Nancy Smith, Nossaman, Gunther, Knox and Elliot

Structure of Public Private Partnerships

Principle discussion point: Legislation Enabling Private Public Partnerships (PPPs). The presentation including how existing PPPs have been structured and pertinent legislative issues required to establish those partnerships.

Dave Gordon, Estrada Hinojosa & Company

Public Finance perspective: Needs of Financial Institutions

Principle discussion point: The presentation highlighted the key factors: economic viability, legal & public framework, credit factors and finance structure.

Chris Mukai, CitiGroup

Public Finance perspective: Needs of Financial Institutions

Principle discussion point: The presentation included the need for a financial feasibility study including key traffic and revenue factors, consideration of predevelopment costs/ right of way costs, consideration of construction costs, and studies conducted by independent engineers.

Tim Rohmer, Goldman Sachs

Public Finance perspective: Needs of Financial Institutions (*)

Principle discussion point: The presentation included a discussion on concessions and why they work. Key factors include capability to transfer risk and getting things done quickly, and identification of where resistance to the project might be anticipated..

Susanne Sale, US DOT Joint Program Office

Project Financing Structures

Principle discussion point: The presentation included a discussion on a variety of tools available including a detailed description of the TIFIA (Transportation Infrastructure Finance and Innovation Act of 1998) program

Juan Jose Erazo, SCT

Project Financing Structures

Principle discussion point: The presentation included a discussion on how project financing is structured for road development in Mexico

Rick Donnelly, PB Consult

Traffic & Toll Revenue Studies

Principle discussion point: The presentation included an overview of the importance of the California/ Baja California region to the world's supply chain for freight. Key factors to consider: primary revenues from freight, unstable energy costs, potential for flow and revenue disruption & when trends go awry.

Nestor Valdez, SCT

Traffic & Toll Revenue Studies

Principle discussion point: The presentation discussed how to show whether a project is viable.

Kurt Krauss, PB Consult

Financial Plan Preparation

Principle discussion point: Presentation included the purpose of a financial plan and its components.

Francisco Calvario, SCT

Financial Plan Preparation

Principle discussion point: The presentations included key factors to consider when preparing a financial plan: Traffic forecasting, cost of the project, revenue projections, project stakeholders, & financial structures and how to overcome challenges.

C. Dan Reagan, PBS&J

Private Sector Perspective (*)

Principle discussion point: The discussion included reasons why public-private partnerships make sense. Additional flexibility is brought to a project with the involvement of the private sector as exhibited in increased ability to absorb risk, complete projects quicker and in a less costly manner.

All power point presentations will be made available upon request. Send request to Lisa.Dye@dot.gov. Presentations marked with an (*) were oral discussions only, and no power point file was used.

Module 2 - Brainstorming Session:

The second module consisted of a brainstorming session on the topics that were of importance to the California/Baja California region in facilitating the financing of the State Route 11/Otay Mesa East Port of Entry including the Port of Entry in Tijuana and its required roadway. The topics that were considered of highest priority were discussed first, an in more depth than the other topics, given the allowable time period for the module.

The following topics were identified as important to the regional stakeholders:

- Knowledge of the specific experiences for Border Infrastructure Toll Facilities
- Public vs. Private Tolling –Is a hybrid worthy?
- Can Customs and Border Protection (CBP) operate in a toll environment? Is it possible to fund CBP operations with tolls collected by the state?
- Binational Focus- Ensure Mexican side is complete and part of system; Establishing binational authority for POE/roadway infrastructure
- Definition of the Project- Commercial, passenger, etc.
- Financial Feasibility study providing information to California legislature – focusing tolling-enabling legislation
- Shadow tolling
- Traffic and Revenue Study as part of environmental cost
- Developing strategies preserving Right-of-way
- Technology role of expediting traffic at POE
- Integrating CBP operational impacts on traffic into traffic algorithms/ models used for the financial feasibility studies. Thus allowing private investors to have more accurate information.

All of the comments captured for the brain storming session can be found in Appendix C.

Follow-up Action Items:

After a lengthy discussion the above topics, the group decided that there were two major follow-on activities that will be essential for the State Route 11/Otay Mesa East Port of Entry including the Port of Entry in Tijuana and its required roadway infrastructure project to proceed. The financial feasibility study is essential for attracting private sector interest. Also, because of the binational component, research on the legality of forming a binational financing/ tolling entity that could finance the entire project on both sides of the border should be investigated. If the formation of such entity is not feasible than a dual system would need to be implemented to finance the POE and supporting transportation Infrastructure in each country.

- 1) Financial Feasibility: Develop a package that describes what is needed to develop a request for proposals for a Financial Feasibility Study addressing both the U.S. and Mexican components of this project.

Responsibility – Committee including Fred Werner, FHWA; Lisa Dye, FHWA; Pye Salazar, Caltrans.

Deadline - June 30, 2006

- 2) Binational Focus: Develop a white paper on the legality of establishing a binational authority for financing/ managing tolls for POE/roadway infrastructure. Possible avenues include going through a law school or law student.

Responsibility- Nancy Smith, Nossaman, Gunther, Knox and Elliot

Deadline - July 30, 2006.

Module 3 – Q & A Session on the San Diego/Tijuana Cross-border Passenger Terminal project

The session specifically targeted answering questions of the principle promoters of the cross-border terminal relating to their project and about financing. Several recommendations were relayed to them included, building community consensus, acquiring a good cost estimate for the project, developing a strategy for acquiring the right of way and familiarizing themselves with the process they will have to follow to acquire a presidential permit.

A power point presentation describing the project is available upon request from Sylvia Grijalva - Sylvia.Grijalva@dot.gov.

Appendix A

Sign-in Sheet from the April 25, 2006
 Innovative Financing Regional Workshop: San Diego Region
 Mtg. sponsored by the U.S.-Mexico JWC
 Mtg. hosted by Caltrans District 11 and SANDAG

Name	Company	Telephone	Email
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Harold Dandridge	Customs and Border Protection	619.652.9966 ext. 125	harold.dandridge@dhs.gov
Greg Hulsizer	South Bay Expressway	619.531.4244	ghulsizer@sbexpress.com
Nancy Smith	Nossaman, Gunther, Knox & Elliot	213.612.7837	nsmith@nossaman.com
Chris Mukai	Citigroup	213.486.8992	Christopher.mukai@citigroup.com
Elisa Arias	SANDAG	619.699.1936	ear@sandag.org
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Appendix B

Innovative Financing Regional Workshop: San Diego Region April 25, /April 2006 Caltrans, District 11

8:30	Welcoming Remarks	Lisa Dye and Frederick Werner - FHWA
8:45	Background Information on Regional Projects - SR 11/Otay Mesa East POE	Caltrans, SIDUE
9:15	How Public Private Partnerships are Structured - Discussion of Legislation Enabling Private Public Partnerships	Nancy Smith – Nossaman, Gunther, Knox and Elliot
9:30	What do Financial Institutions Need? - Public Finance Perspective - Public Finance Perspective	Dave Gordon - Estrada Hinojosa & Company Michael Gomez - Citigroup Kathleen Brown - Goldman Sachs Sondra Greene – Macquarie Securities
10:15	--BREAK--	
10:30	Discussion of possible project financing structures	Suzanne Sale, USDOT TIFIA Joint Program Office Juan Jose Erazo, SCT Mexico
11:00	How do we show a project is viable? - Discussion of Traffic and Toll Revenue Studies -	PB Consult, Rick Donnelly SCT Mexico, Nestor Valdez
11:20	- Discussion of financial plan preparation	PB Consult, Kurt Krauss SCT Mexico, Francisco Calvario
11:40	- Engineering consulting firm perspective	PBS&J, Dan Reagan
12:00	--LUNCH--	
1:15	Brainstorming Session for Project Financing <i>Alternatives for SR11/Otay Mesa EAST POE</i>	All
3:45	--BREAK--	
4:00	Recommended Follow-up Actions/Activities	Lisa Dye and Fred Werner
4:15	Background Information on the Cross Border Passenger Terminal	
4:30	Brainstorming Session for Project Financing Alternatives for Cross-Border Terminal	All
5:15	Recommended Follow-up Actions	Lisa Dye and Fred Werner
5:30	--ADJOURN--	

Notes from Brainstorming Session on the April 25, 2006
Innovative Financing Regional Workshop: San Diego Region
Brainstorming session for Project Financing Alternatives for SR 11/Otay Mesa
East POE

Mtg. sponsored by the U.S.-Mexico JWC

Mtg. hosted by Caltrans District 11 and SANDAG

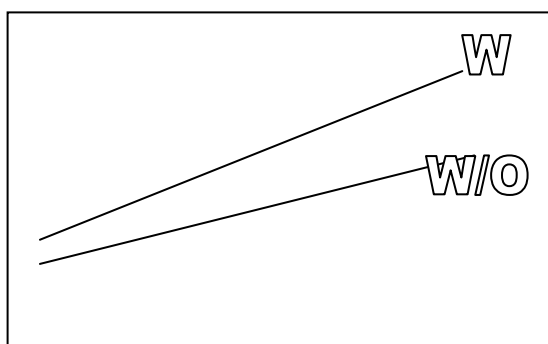
Topic Areas:

- Specific Experiences for Border Infrastructure (Toll Facilities)
- Public vs. Private Tolling – hybrid worthy (1)
- How CBP operates in a toll environment
- Binational Focus- ensure Mexican side is complete and part of system (Binational Entity) (2)
- What is the project? Commercial, passenger, etc.
- Ongoing coordination in binational project- Mexican schedule
- Financial Feasibility study to legislature – tolling-enabling legislation (3)
- Shadow tolling (4)
- Traffic and Revenue Study as part of environmental cost (3a)
- Developing strategies for funding Right-of-way (5)
- Technology role of expediting traffic at POE
- In Mexico the project is not solely transportation
- Acquire formulas so private investors can be applied to customs activities
- Establishing binational authority for POE/roadway infrastructure

(Item 1) Public vs. Private Tolling

- Private-share profits with state/public example E-420 in Denver Colorado
- Benefits of Public Tolling – try to apply things that work from the private side to public i.e.; tax-exempt
- Efficiencies of contracting
- Lack of will (political) of raising tolls – strategies to avoid this – take it out of the political decision making arena, build in toll rate to original legislation, build support for PPP concept via marketing, establish toll authorities which would be insulated from political pressure, develop a toll policy
- Examples in the U.S. and Mexico that have established toll indexing.
- Mexico has two components
 - Cost of construction/operation/maintenance related to traffic forecasting
 - Marketing study ‘what people are willing to pay’ establishes a maximum average rate depending on what the concessionaire requires to recover his costs. Inflation is indexed.

- Revenue curve is the same as when privates sector (see chart)
- Look for some alternative revenue streams i.e. right-of-way leveraging, developing impact fees
- County gets differential revenues of debt service paid



(Item 2) Binational Focus ‘complete project on both sides of the border – POE/Roadway infrastructure’

- Road and POE infrastructure need to be completed simultaneously
- That is the advantage of PPP (develops a viable system)
- Less concern about private sector participation for SR 11 (focus on GM/trucks)
- Existing arrangements in TX for CBP Operations/Resources?
 - Toll Bridges: private entities
 - Counties operate toll bridges
 - TSA/Airport Examples
- Operation is above what investor’s role is (shutdowns/risk)
- Challenge: narrow focus of project – better to have more sources of income
- In MX, projects are analyzed as binational projects: Diplomatic Aspect: diplomatic notes with technical backing. SRE response will result from feasibility studies.
- Afterwards, calendar/timetable for implementation of POE/Roads
- Road connection strategy: Federal Government (SCT) support with investment fund. Otay II road connections qualify as a main corridor.
- Baja California studies support project also
- Willingness to pay study – Toll system in MX under evaluation
- Minimum public funding to make project financially viable
- Q on container fees: Manufacturing Association/Distribution to help finance project. Are seaports in MX being considered for this approach
- SCT – Yes, in Manzanillo/ Lázaro Cardenas (API and private investors). Large scale projects that required combined financing.

Federal projects with concession. If not, donation of project to federal government.

- Is there structure in CA for a legal entity to partner with another one in MX?
 - TX has the regional mobility authority
 - CA: unknown, but a joint-powers authority can cross state borders. Binational Organizations can get Funding via SAFETEA-LU
- Is concept worth pursuing? First in CA? Yes, it is worth exploring how to set it up
- Law firms on both sides of the border (Baja California and Federal law research)
- TX Bridges – NB tolls and SB tolls
- Should U.S. studies/MX studies be separated to avoid complications?
- Regional Mobility Authorities don't include counterparts in Mexico (Hidalgo/Cameron County)
- TX finances bridges only, not POEs
- Bridges and connecting roads contemplated in TX.

(Item 3) Financial Feasibility Tolling-enabling legislation

- What is the project? Study can have many options (trucks, passenger vehicles etc.) Traffic/Revenue projections. Is there consensus in the U.S. or binationally?
- Need data to support functionality
- Is there a long term study of demand? Yes- SANDAG RTP POE projections.
- Conduct financial feasibility based on what's known?
- Prima facie agreement. Land owners pressure on both sides of the border.
- U.S. – No money programmed for SR 11 and POE
- GSA feasibility study to address functionality
- Will private sector be interested?
- Develop reasonable range of options: Extreme cases for analysis
- Private/Public approach
- Need basic idea of traffic/revenues to feed into financial model
- Work concurrently (traffic/revenue studies and financial feasibility)
- RFP for financial advisory services (e.g. Transport Canada has an RFP in process – obtain copy from Alicia Nolan)
- Evaluate treaties/ federal laws – fees may trigger congressional action.
- Shippers manufacturers agreements
- AZ FAST lane in Nogales, Sonora truckers agreed to self-impose a fee to fund and build project.

(Item 3A) Tolling and Revenue Studies

- Cover this sooner rather than later concurrent with financial feasibility study

(Item 4) Shadow Tolling

- Pass through toll encourages local entities to build infrastructure
- Not new money – allocation mechanism
- Push down planning from the State to Local Level
- In MX – free highway –concession or 15-30 yr so that they can maintain and build extension and widen. SCT establishes a payment (toll) to the concessionaire for every vehicle that uses the facility.
- Availability payment (example- Miami port tunnel)

(Item 5) Developing Strategies for funding Right-of-way (preserving ROW)

- High level interest with concessionaire as a package similar to SR 125
- Need to work with County of San Diego (Land Authority) 4 or 5 land owners in areas.
- No general statements to be made about dealing with land owners

(Item 6) Toll-General

- CBP does not operate in toll environment
- GSA comment: Is it legal and is CBP amenable to going along? Traffic and Revenue Studies are basic for this project
- Include CBP operating costs and rent in toll
- Providing CBP operating/rent to guarantee level of service

FOLLOW-UP ACTIONS

- 3) Financial Feasibility Study: Establish committee (including Sylvia Grijalva, Fred Werner, Lisa Dye and Pye Salazar) to develop a package that describes how you would get a financial Feasibility Study RFP. Financial plan deadline – June 30
- 4) Binational Focus: Develop a white paper via law school or law student, with help from Nancy Smith. Deadline July 30.