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Binational Funding Mechanism for Infrastructure Improvements Along the California-Mexico Border

Assembly Select Committee on California-Mexico Affairs

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ASSEMBLY SELECT COMMITTEE ON
CALIFORNIA-MEXICO AFFAIRS

TRANSCRIPT OF DECEMBER 7, 1989, INTERIM HEARING
ON
BINATIONAL FUNDING MECHANISM FOR INFRASTRUCTURE
IMPROVEMENTS ALONG THE CALIFORNIA-MEXICO BORDER



MEMBERS

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December 7, 1989

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Assembly California Legislature

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INTERIM HEARING

BINATIONAL FUNDING MECHANISM FOR INFRASTRUCTURE IMPROVEMENTS ALONG THE CALIFORNIA-MEXICO BORDER

December 7, 1989
9:00 a.m. - 4:00 p.m.

Institute of the Americas
U.C. San Diego Campus
10111 Torrey Pines Road, Second Floor
La Jolla, California

AGENDA

LAW LIBRARY

I. Chairman's Opening Statement

MAY 29 1992

II. Presentation of Testimony:

GOLDEN GATE UNIVERSITY

- 9:15 PROFESSOR LARRY HERZOG
Urban Studies & Planning Program
University of California, San Diego
- 9:30 PAUL GANSTER
Director, Institute of Regional Studies of the Californias
- 9:45 M.R. BOB YBARRA
Secretary of the U.S. Section
International Boundary & Water Commission
- 10:00 HONORABLE SUSAN GOLDING (Absent)
San Diego County Board of Supervisors
- 10:15 LIC. ENRIQUE BARRAZA ALLANDE (Canceled)
Director General of Border Affairs
Government of United Mexican States, Mexico City, D.F.

10:30 HONORABLE JEANNE VOGEL
Chair, Imperial County Board of Supervisors

10:45 KEVIN SCOTT
Vice President, Goldman Sachs & Co., San Francisco

11:00 ARG. VICTOR HERMUSILLO
Secretary of Public Contruction
State of Baja California, Mexico

11:15 RAUL MARTINEZ
International Law Office of frank Fernandez, Chula Vista

11:30 DAN PEGG
San Diego Economic Development Corporation

11:45 TONY RAMIREZ
National Maquiladora Industrial Association, Mexico
Vice President - Sales & Marketing, Made in Mexico, Inc.

12:00 L. WILLIAM HUCK
Stone & Youngberg, Investment Banker, San Diego

12:15 - 1:15 p.m. -- LUNCH

1:15 TIMOTHY SCHAEFFER (Canceled)
Chemical Bank, Los Angeles

1:30 FRANCISCO XAVIER RIVAS
Vice President, Parque Industrial, Mexicali, Baja California

1:45 FRANK MARQUEZ
Director, Governor's Office of California-Mexico Affairs

2:00 ELSA SAXOD
Director, Binational Affairs, City of San Diego

2:15 AUGIE BARENO
Director, Department of Transborder Affairs
County of San Diego

2:30 DOUG DAVIDSON
President, CABEZA Foundation

2:45 BERNICE LEYTON
Greater San Diego Chamber of Commerce

3:00 NAN VALERIO
 Senior Planner
 San Diego Association of Governments (SANDAG)

3:15 JOHN RIESS (Absent)
 Office of San Diego City Attorney

3:30 RACHEL HURST
 City of San Diego Property Department
 Economic Development Division

3:45 VICTOR LEGASPI
 Mayor, City of Calexico

III. Closing Remarks

IV. Adjournment

CHAIRMAN RICHARD POLANCO: The hour having arrived at 9:00 a.m., we'll try to stay very much on time. We have a tremendous opportunity before us. We have some witnesses from a cross section of this particular region. I'd like to introduce myself, I'm Assemblyman Richard Polanco. I represent the 55th Assembly District which is basically everything between Dodger Stadium and the Rose Bowl, for those of you who are familiar with the L.A. area. I would like to take this opportunity to welcome you and to thank you for taking time to be here with us today. The Select Committee was established in May of this year. It has the responsibility and the authority to investigate those issues relative to California-Mexico affairs. It may also introduce legislation that may be carried out so as to serve the public good. The Committee's goals are to promote better relationships between Mexico and California. It is to resolve the mutual problems and explore the opportunities which would mutually benefit California and Mexico. The Committee will address such issues as economic development, the educational cultural exchange, health, environmental and other issues that may be brought to the Committee's attention. The subject of our hearing today, however, is that of the establishment or potential establishment of a bi-national, funding mechanism for infrastructure improvements along the California-Mexico border. Throughout the day, we will discuss the issue of establishing such an authority which would

issue bonds, revenue bonds, to fund such infrastructure. This is not a new concept for those of you of this region. There have been similar concepts discussed by such groups in the past. For example, the Bi-Lateral Commission on the Future of U.S.-Mexican Relations. There has been some work done by Professor Herzog on the planning of the international border metropolis as well as the most recent second U.S.-Mexico-California Border Finance Summit that was conducted here recently in November. It has been said that a centralized decision-making, whether it be by state or federal, lack the sensitivity and the knowledge needed to resolve local problems. I am here to tell you today that I am here to listen, I am here to learn, and I am here because I believe we have an opportunity before us. I believe that together we can begin to look and explore at the possibility of developing a funding mechanism that will allow for the resolution of some of the problems that local planning groups, whether they be nonprofits or government, have identified. The problems that exist along the border immediately affect you, those who live and work in this region. However, as a state legislator and as a person in a position to effect policy, I believe that should the problems in this region persist, the economic impact it would have on the state as a whole will be enormous. We have witnessed the industrial boom at the border where thousands of jobs have been created on both sides of the border, where goods and services and

people flow across the border on a continuous basis. Where both San Diego and Tijuana have experienced substantial growth and with that growth, and economic prosperity has come with it some problems. Population and physical growth has out paced the infrastructure needs, such as improving and building roads, improving the telecommunications system, the water facilities, sewage and toxic waste treatment plants, housing, air and rail facilities, and other areas of concern. Recently the Board of Governors from the United States and Mexico estimated that approximately \$5.6 billion is needed for infrastructure improvements. The next question before us is how will we finance these improvements. The problems that we share with Mexico may originate on either side of the border, but it is clear that they are seldom limited to one side. Therefore, we find a common ground and we must begin to solve the problems that are before us. The proposal that is before you today is nothing more than a working document. I want you to be real clear on that. It is a preprint, it is a draft, it is nothing more than a working document that can hopefully provide us the opportunity for additional clarification, for input, for the purposes of developing and to see whether it is feasible to put together this type of bi-national funding mechanism. It is my intention with this proposal not to supersede local authorities or regional development plans. We are here to discuss the issues on focusing

on the mechanism which hopefully would fund infrastructure improvements along the border. The proposal certainly raises many questions, questions of constitutionality dealing with another country on the issue of sovereignty, financial considerations, legal to political implications. However, I strongly believe this concept has merit and warrants further discussion of its feasibility. Before we begin today, I would like to take this opportunity to introduce a colleague of mine, Bob Epple, who is a Member of the Select Committee on California-Mexico Affairs, the staff consultant, Leticia Alajandrez, and a representative from Senator Montoya's office on the Senate Select Committee on the Pacific Rim, Mr. David Pacheco, who is with us today. We have before us a list of individuals from both the private sector, the government sector, and the financial community, who will share with us recommendations as it pertains to this concept. May I ask that as you begin your testimony today, to please state your name, the agency you represent and the company or organization you are representing. Please speak clearly into the mike in light of the fact that we are providing written transcripts which will be made available to each and everyone of you upon request of this particular hearing. I'd like to ask Mr. Epple if you would like to make any comments. We will begin and I'm going to ask Professor Herzog, our first presenter, to step forward. Good morning. Good to see you.

MR. LARRY HERZOG: Thank you. My name is Professor Larry Herzog. I am an associate professor in the Department of Mexican-American Studies, San Diego State University. It's appropriate that I comment on the bill before us because 4-1/2 years ago in this very same room I chaired a conference entitled "Problems of Urban Growth in the California-Mexico Border Region." We invited planners, academics and members of government from both sides of the border, including at the time, the Mayor of San Diego. At this conference, one of the things I did was propose to elected officials from both sides of the border the idea of forming a joint United States-Mexico border planning agency similar to some of the border planning agencies in Western Europe to resolve common planning problems in the California border region, including sewage spills, flooding, air pollution, toxic waste dumping, traffic congestion, and crime. Incidentally, the results of this conference were edited and are available in a monogram published here in the Center of U.S.-Mexico Studies, which Assemblyman Polanco mentioned, the title is "Planning the International Border Metropolis." The most unanimous result of that conference was that elected officials from both sides of the border outright rejected the idea of granting decision-making powers to a formal, independent border authority for solving local planning problems. They did, however, also agree that it might be feasible to create some sort of

bi-national economic development and business development type agency that would focus on the shared opportunities for business and economic growth in the California-Mexico border region. So they were much more optimistic about a positive development agency, rather than one that would focus specifically on the problems of the region. So it's fitting, therefore, that we're here to discuss the proposed AB 12, California-Mexico Infrastructure Bonding Authority bill proposed by Assemblyman Richard Polanco. I have two sets of brief comments on the bill, one are some general comments, and then some concerns. In general, I think the bill is timely and appropriate in creating a dialogue on the emerging transfer into our economy of the border region, for several reasons, some of which are obvious that perhaps need to be reiterated. First of all is the question of urban growth. The United States-Mexico border, and specifically the California-Mexico border, is the most rapidly urbanizing international border region in the world and many problems occur when more and more people move to this kind of international bi-cultural environment. The second reason why we need this kind of discussion is the ecological implications of urban growth. Many environmental problems are emerging in the California-Mexico border region, many of which we're all familiar with. The pollution of the New River in the Calexico-Mexicali area, sewage spills and problems of sewage management along the Tijuana River,

the issue of toxic waste dumping which has become more important in the last few years, and questions of air pollution as larger cities grow along the international boundary. The third reason why this kind of discussion is appropriate today is because of transnational economic interdependence that is emerging along the United States-Mexico border. There are a number of sectors of the economy that are increasingly international or transnational and many of them, again, are familiar to us. The assembly plant, Maquilalora industry, is an international, bi-national economic cooperation effort. There are important labor markets that are transnational every day along the California-Mexico border, many Mexicans legally commute to work on the U.S. side of the border. Our retail sectors have discovered that they are in some cases interdependent. Tourism is very much an interdependent economic activity and finally, even agriculture is often an interdependent economic activity. The fourth reason is the reason mentioned specifically in the documentation on the bill itself, and that is the question of infrastructure. There's no question that despite a growing economy on both sides of the border, this region of the world or this region of the hemisphere is in dire need of infrastructure. I can suggest several specific infrastructure needs that could possibly be addressed by this bill. One is a third crossing for the Tijuana-San Diego region. It's been made clear by many planners and observers that the traffic flow between

Tijuana and San Diego metropolitan region that is approaching four million in population from both sides, needs a third form of ingress and egress between the two large urban centers. Second, there has been some discussion of increasing the reach of the trolley system in this bi-national, bi-urban region. That is, today we have a trolley that connects downtown San Diego with the border, but that really is somewhat limited in terms of moving people around the region. It's been observed by some planners in the region, both from Mexico and the United States, that it might be useful to extend the so-called Tijuana trolley into some of the population centers or the high density areas of Tijuana, including downtown Tijuana and the river zone. It has also been suggested that the trolley might ultimately be extended to the airport and to other high user, high density sub-areas or microregions in this large metropolitan area. Tijuana itself suffers a great deal from problems of transportation, although Tijuana and Baja, California in general, has a much higher average per capita of automobile ownership than the rest of Mexico. The city is spreading out tremendously and many people still depend on a very limited bus system and taxi system to get around the city. The same is true in Mexicali, so there's a great need for better roads and perhaps better mass transit in both of those urban areas. Finally, some of the larger highways on the Mexican side of the border continue to need improvement, especially the Mexicali-Tecate Tijuana

highway because of some of the topographic barriers between those two large urban areas. Some of the other infrastructure needs that we all know about are the joint sewage facilities, both for Tijuana, San Diego and Mexicali-Calexico, and also water systems, since that resource is so vital to this area. So it's clear this kind of discussion is greatly needed. I will, in the interest of not taking a great deal of time, only briefly outline some concerns I have and I will outline these in the context of what Assemblyman Polanco mentioned, which is that the document before us is only a beginning discussion so that none of my concerns suggest that the document can't be extended. I realize that this dialogue will continue to grow and those who actually become members of the commission that is being suggested will probably, as their first set of tasks, have some of these kinds of questions to address. The first concern I would have is I would generally label it the concern of planning. If you're going to create a funding authority, I believe from my experience as a consultant in Latin America with the Agency of International Development, that it's very important to have some kind of a master plan for both the types of projects and also the location of projects. I think a plan of action for the expenditures that might be made by this type of agency would, among other things, prevent the possibility of competition between some of the municipalities and other jurisdictions within the area of jurisdiction for this particular

bonding authority. In other words, many years ago in the late 70's, the San Diego region was looking at the possibility of getting some funding from the U.S. Department of Commerce, through the economic development administration, and I recall one of the crucial issues was a fight that took place between Imperial County and San Diego County over who would actually get the moneys from that particular allocation of funds from the federal government for specific kinds of economic development projects. So, one way to prevent or at least minimize inter-jurisdictional conflict, I would think, would be to have a plan of action created by some independent group, perhaps the members of the commission, and planners who would advise this particular bonding authority so that there would be some rules about how expenditures would be made and who would get what, how the pie would be divided up. The second concern I have in the text of the bill is that the bill doesn't address what I see as an inherent conflict between two goals of the bill which is economic development on the one hand and environmental management on the other hand. Any time you do regional economic development, you always have a problem of how much economic growth versus how much environmental management, those two things are often inherently contradictory. The more economic growth you have, the more environmental problems you have, so if you're going to have a bonding authority that's both going to support economic development and also help manage the

environment, then you have to figure out where you're going to make trade-offs between those two different types of activities. I'm not suggesting that they're not completely incompatible, but normally when you have more growth, you're also producing more pollution. An obvious example is both of the metropolitan areas along the large metropolitan areas on the Mexican side along the border of Tijuana and Mexicali already have severe sewage crises in the making. It's going to take a large chunk of that five to six billion dollar figure that Richard Polanco mentioned. It could actually be consumed just on dealing with sewage and water infrastructure problems. The second big area, probably the biggest area here, is maquiladora or assembly plants. Assembly plants pollute, they do create jobs, but they also pollute. By supporting more maquiladora expansion along the border, we may also be adding to the pollution problem. Research is being done right now to understand the extent of the pollution generated by these international assembly plants. It is somewhat ironic, in fact, that both of the rivers that flow into the United States from Mexico, the New River in Mexicali, and the Tijuana River [inaudible due to short-wave radio transmission]....states from Mexico, but ironically many of the biggest polluters on the Mexican side are U.S. companies who have located assembly plant activities in Mexico circumventing environmental regulations that they would have had to deal with on the U.S. side of the border

and therefore causing some additional pollution into the rivers that eventually flow back into the United States. So our own companies are sending us their pollution via Mexico. And finally, we're seeing that Baja California, has the potential to become one of the great tourism investment regions of the world, and I think one of the things that this particular type of bonding authority and planning process might need to do is to address what kind of tourism development is appropriate for the California-Mexico border area. There are many different scenarios one can envision in terms of tourism development and these scenarios include questions of architecture [inaudible due to short-wave radio transmission]....still remains a 55,000 square mile wilderness only developed in very small pockets, the northern border region and certain coastal areas. They still have an enormous ecological resource here which, if we think carefully about its future development, could be an important resource for both sides of the border. The third issue, and I'll finish quickly here, which I consider essential to this kind of bonding authority, and always comes up when you engage in these kinds of U.S.-Mexico projects, is that you can't forget that there's a basic economic asymmetry between the United States and Mexico. As I mentioned before, a lot of the five to six billion dollars in infrastructure needs could be absorbed straightforward by the two large Mexican cities along the border of Tijuana and Mexicali.

Both of those cities have enormous social infrastructure problems, in addition to sewage, problems of housing, roads, services, for many of the poor neighborhoods, and so forth. So I think the authority may have to address the extent to which the poverty of Mexico's northern border cities and the infrastructure needs of Mexico's northern border cities will play a role in investment decisions made by the bonding authority. The last concern I have is a concern that also often comes up in these kinds of activities, and that is the concern over administration of the project. One of my big questions in reading the bill that remains unanswered and was referred to again by Assemblyman Polanco is the question of how this authority will interface with local government and with national governments on both sides of the border. Will all the decisions made by the bonding authority need to be approved by the local jurisdictions on each side of the border. At this level will this approval process take place. Will it need federal approval and state approval as well as county and city municipal approval? And to what extent will these projects be filtered through the various regulatory systems that operate on each side of the border, for example, in California large development projects go through a fairly substantial environmental impact review process. That's done both at the state level and local level. To what extent are the bonding authorities' activities going to be funneled through these various

regulatory mechanisms. Despite all of the concerns that I raise, I believe that the Assemblyman's proposal is definitely on the right track and many of the details of the proposal, I assume, will be worked out as we move down the road toward the passing of this bill and further dialogue. Thank you.

CHAIRMAN POLANCO: Questions? I have a couple of questions. Professor, you make mention that, you identified specifically the trolley system and you identified a third border crossing, that's two projects that have pretty much been discussed. Are there sufficient research feasibility studies as to what it would cost, how far has the study on these two issues in particular taken place, to what extent?

MR. HERZOG: The specifics of those proposals, the information might be available, I don't know to what extent you're going to have testimony by Cal-Trans or the MTD, the Metropolitan Transit Development board, which is the agency that has jurisdiction over the trolley within the U.S., but to my knowledge there haven't been any formal studies of an international mechanism for creating this trolley extension.

CHAIRMAN POLANCO: So it's been conceptual talks . . .

MR. HERZOG: Conceptual at this point.

MR. CHRIS DOBKEN: Maybe I have a more concrete answer on that.

CHAIRMAN POLANCO: Yes, please identify yourself.

MR. DOBKEN: Chris Dobken. On the trolley I know a planning study has been made but it hasn't gotten that far. [inaudible] . . . the administrative office of the federal government will be studying this, and that study should be ready by next month.

CHAIRMAN POLANCO: Completed or the framework of what's to be studied?

MR. DOBKEN: That's hard to tell at this point, but actually there is a study that has been commissioned.

CHAIRMAN POLANCO: And that will include to your knowledge feasibility, financial feasibility . . .

MR. DOBKEN: Yes, and also the environmental issue.

CHAIRMAN POLANCO: If you choose to participate, here's what I'd like to do because I'd like to stay with the presenter. If you do wish to make input, please come up to the mike and make your statement, if you would, because we are not picking it up on the recording. Let me ask one more question, Professor. In terms of planning in this particular region, to your knowledge how long and what type of studies have been committed.

MR. HERZOG: For the Tijuana-San Diego or the California border area?

CHAIRMAN POLANCO: The border area.

MR. HERZOG: Well, one of the interesting things is that up until a few years ago, those of us that teach courses about the

Mexican border often like to put out planning maps of the Mexican border region and on the U.S. side they go blank at the border, and on the Mexican side they go blank north of the border, so up until very recently, there hasn't been a great deal of formal study within government agencies that included the other side of the border. The main agencies that are concerned with the international border region are, you know, the ones that you might expect. SANDAG, the San Diego Association of Governments, has increasingly tried to address the international border question in the San Diego region and they produced a couple documents which you might want to consider getting your hand on. There's a very good library with this kind of information at San Diego State University, the border region Institute. The Institute, what is it called, Paul? Paul Ganster is here. The Institute of regional Studies of the California, is that the right one. Paul Ganster, the Director of that Institute, would be someone that would know specifically more about all of the planning efforts. I should mention also that I'm probably the [word?] presses are publishing a book that I wrote called Where North Meets South City - Politics on the U.S. Border which mentions a lot of the issues and gives a context for the discussion that I just gave so I'm going to leave this with you and this will be coming out in January or February so you certainly have access to that and there's an order subscription form for ordering books, and so forth, so I thought

I'd leave that with you.

CHAIRMAN POLANCO: Thank you very much. Are there any question? I think it would be appropriate at this time for Mr. Ganster to continue the dialogue, the Director of the Institute of Regional Studies of the Californias, San Diego State University. Thank you, Professor. We appreciate your testimony.

MR. GANSTER: Thank you for the invitation of being here today. I was listening to the remarks by my colleague, Larry Herzog, I find that we were going to be talking about very similar things and to a large extent I agree with his comments so I won't repeat them now. I'd just like to make a few comments of a fairly general nature about the bill. First of all, I generally applaud Assemblyman Polanco's effort at drafting this bill and initiating these discussions. It's very clear to me that the more we move towards growth and development in the border region on both sides, the more we're going to have to begin to deal with bi-national issues in a bi-lateral or a bi-national sense. We simply can't deal with half of the problem and expect it to be dealt with. The complicating factor here in the border region is that although many of the spill-over effects we get concerned about in the border region, many of them relating very directly to infrastructure, are in theory a federal problem. We found the federal government relatively slow to move in to try to deal with these situations in a timely fashion so I think more and more at

the local level in California and the State level I think just as a matter of practicality we're going to have to take a more pro-active approach to these problems and the type of effort conceptualized and preprint AB 12 I think is a good first step along that road. The bill is also, I think, very important in that it recognizes that very clearly we have an infrastructure problem dealing with quality of human life in the border region now and that to continue to maintain quality with growth in the future, we're going to have to make major investments. In terms of specific infrastructure needs, let me just amplify a couple of things that Larry Herzog mentioned. I very much agree with them that we need to look at specific projects in great detail such as the extension of the Tijuana trolley and that clearly has to be part of the analysis of whether or not we need a third border crossing because we've got some serious problems in terms of where to locate a third border crossing. We simply can't expect to be able to bulldoze across the national estuary preserve in the Tijuana River Valley because that will generate significant opposition locally. There are large groups that have fought very hard for many years to first of all set that area aside as a reserve and secondly they've fought to maintain the quality of the ecosystems there which do contain many rare and endangered species and itself constitutes a very valuable resource for California and indeed the United States. Although we have made progress on

specific issues such as the Tijuana sewage, that progress to date has been mainly at a theoretical level. The two presidents announced October 3rd that an agreement had been reached to build a bi-national treatment plant to deal with the Tijuana sewage problem. Well that's very find, but right now we have about 12 or 13 million gallons per day of sewage coming down from Tijuana and its effecting that estuary, and by the time the proposed bi-national plant comes on line, it will be 1992 or there about I would guess. And by then this unique eco system may have suffered irreparable harm. So we have to realize that if sometimes we reach agreements that doesn't mean that we have a solution. In my written comments I have a series of particular projects that could go forward, but let me confine my remarks here to more general.

CHAIRMAN POLANCO: I think it would be appropriate if I can interject here to hear what those specific projects are. Then I would ask, although they're specific, how detailed they are in terms of where they are. Are they feasible?

MR. GANSTER: Okay. Let me just run over a check list of things I think need to, could be undertaken by this bill perhaps. Getting back to the estuary, I think its more and more people who are concerned about this issue are beginning to think that what we need to do is treat the entire Tijuana basin and develop plans for assessment of natural resources, assessment of human impacts, and also develop and implement plans to conserve

the entire basin. Its a concept that would be fairly unique because, in essence, it would create an urban biosphere reserve which probably is needed if we're going to protect the mouth of the system, which is the estuary which is heavily impacted and endangered. This, to date, as far as I know, this concept is merely discussion among a number of practitioners and scholars who are interested in the problem and some people with the estuary authority are seeking funding to try to develop a good concrete long term plan. The New River area, as Larry Herzog mentioned, is an area of significant impact in terms of pollution. Some people have characterized it as the most polluted river in the United States despite very important efforts on the part of Mexico in the last couple of years to improve the quality of waste water treatment in Mexicali and also to begin to reduce the amount of unauthorized dumping of industrial waste or raw sewage into the New River. An incident occurred there couple of years ago. I think its very important for us when we're talking about what to do about bi-national problems. A California Water Quality Board, I believe, commissioned a large feasibility and engineering study with a large engineering firm in southern California to devise solutions for the New River problem. And basically all they did was look at the type of certain standard and some innovative technology they could build on the U.S. side to deal with all of the problems, you know, once they hit the U.S. border. Absolutely

no thought was given in this whole process to working with Mexico to develop point source pollution control which we all know is far more cost effective. You know, you stop the stuff from getting in the water and you don't have to undergo incredible expense to get it out once its mixed in and polluted. And this whole case, you know, I think was surely typical and symptomatic of how the United States and Mexico interrelate on many border issues. We come up with a very expensive high tech unilateral solution and expect that that's going to solve the job, and clearly what we have to do, I think, is spend more time in consulting with our Mexican colleagues in developing solutions that are appropriate to both countries. And without that I don't think we can expect any plans we come up with to be fully implemented. As well, I think, by not fully considering what can be done on both sides of the border, how money can be judiciously spent in Mexico, money coming from the U.S. and perhaps even visa versa in trade offs. You know, we're cutting ourselves out of very cost effective options, so we need to get away from what Larry mentioned earlier, which I call the white map syndrome that will be on that line, nothing exists because its all whited out. Another aspect of specific projects that I think need to be implemented in terms of infrastructure along the border are water reclamation projects. We're simply running out of water in this area, and sewage is 90% or 95 or 99% pure water, so we need to find a way to begin to effectively use

this. The San Diego County Water Authority is well advanced on planning and initial stages of implementation for regional water reclamation projects. Tijuana, the Com'ision Nacional de Aguas, (inaudible).... and other entities are also thinking along these lines. They're not quite as far along in terms of implementation and planning, although there is an alternative technology inexpensive low tech waste water treatment facility just about to come on line in Tijuana. Other areas where I think we need to talk about a shared approached infrastructure that of hazardous waste which I think will probably be the major issue that the Maquiladora industry will have to face in the future in the border region because, simply, we know what's going into Mexico. We know what's coming out and experts on waste disposal in Mexico tell me that they feel that only about 10% of the waste generated by manufacturing in the border region is being disposed of according to world standards in terms of safe disposal or recycling for various wastes. And in a sense San Diego and Tijuana are receiving inputs from the entire world, yet we're kind of stuck with, perhaps, trying to dispose of it in this region. So, I think we need to take a fresh look at this. People in the Maquiladora industry are extremely concerned about it. Southern California has a problem with hazardous waste disposal. I think here's an area where a little judicious funding on the part of the state and cooperation with Mexico we could come up with some

reasonable infrastructure plans that would let us establish some facilities and administrative techniques that would deal with the problem so we don't have a significant block on growth and expansion of the industry and regional development. The shared transportation that Professor Herzog mentioned, I think, has to be a major item on the agenda in terms of infrastructure, border crossing infrastructure is an area where we have continual needs and in the past the U.S. government has tended to come through after a great deal of political pressure. I think we're in the situation again where we need expanded commercial crossing facilities because of the unprecedented growth of the Maquiladora Industry. The pedestrian and commuter crossing is something that's very much being debated now and I think we're going to see some progress on there. I'm not sure how much funding this sort of thing needs because there does seem to be money made available from federal sources and from other sources when needed. I'm not sure the bonding authority would necessarily have to deal with that, although it would be an ideal project because there would be ways to tie revenue generation to those bonds.

CHAIRMAN POLANCO: Let me ask a question. On that point, what has precluded that type of mechanism from taking place here for some of these projects that you have mentioned and that are in fact revenue generating.

MR. GANSTER: Well, I think perhaps lack of innovation.

Also in the past when we're talking about bi-national projects. Only recently has Mexico began to alter in a very significant way its legislation, and so now Mexico fully comprehends the possibility of privatization of infrastructure projects and they've actually let concessions, for example, on toll roads. I think the first will be constructed between Cuernavaca and Acapulco, and I think the improvements to the Tijuana- Mexicali highway are also viewed under this same process. So, I think only recently has this been an option on the Mexican side and Mexican government officials are now saying bring us projects that the private sector can do that can have a revenue base to repay investment costs and we'll listen to it. There seems to be a great deal of interest. So, I think maybe in a sense we're entering into window of opportunity here where perhaps we can work on the development of some of these needed projects, mobilized private capital, of course, under the aegis of both governments and again do it. I don't see why it couldn't be applied to, for example, standard commercial facility. We have had a little private participation in the past. At one point Trammel Crow was providing dock space for customs. In Texas various local entities and private concerns have provided physical facilities for customs use to increase the whole process. Other major infrastructure needs in the border region are those that its a little more difficult to link to specific revenue sources. For example,

housing has been identified again and again as a major problem in Mexico and a major problem for the Mexican Maquiladora industry, and apparently in one way or another its related to the very high turnover rates of employees in the industry which range up to about 12% per month. The theory is that people constantly in search of work near their housing or lack of adequate housing, change jobs to try to improve their situation. I think its pretty clear to those of us who live here in San Diego we have a housing problem too, not only affordable housing for employed people, but we also have a significant homeless problem, and in a sense I think you would have to include the problems of the migrant camps in North County as a problem of lack of adequate affordable housing. So, here's another area on both sides of the border where we see an infrastructure need, yet no clear source of revenue attached to that necessarily. Although there have been some experimentations in the Maquiladora Industry at constructing housing by Maquiladoras and then setting up some sort of a pay-off plan of employees. I don't know how far those have gone. Health and social services are also....

CHAIRMAN POLANCO: Excuse me. For purposes of clarification your last statement in reference to the housing issue. Is the corporate entity who is participating along the border providing assistance in the development of housing? Actual construction?

MR. GANSTER: Actual construction. But, again, its something I've only heard mentioned in conferences or maybe somebody here in the room who has all of the details on that. Its something that's looked upon by U.S. investors with some concern because you enter into all kinds of other problems once you have company housing.

STAFF: I think Professor Herzog had mentioned that in his research that there are some efforts they even build dormitory type housing by private corporations to at least temporarily house these people to deal with that turnover issue. I think Herzog is the one that spoke to that most directly.

MR. GANSTER: I know in the Chihuahua City area there's some efforts quite active right now to try to help resolve some of these housing problems. And at other areas along the U.S. side of the border we have severe problems. If you look at the colonies all along the Rio Grande south of El Paso you have a severe situation in terms of lack of safe and adequate housing, lack of public services, so I think generally along the U.S. Mexican border on both sides we have some very significant infrastructure problems. Social services, a need for primary health care and physical structure (inaudible) (interruption in the tape).... problem that we can pinpoint quite clearly the number of places both on the Mexican side and the U.S. side of the border. Finally in terms of specific projects let me mention the need for

recreation (inaudible).. (interruption in the tape).....

greenbelt areas and urban areas. And here again we have something that is identified as being very crucial to maintain quality of life yet (inaudible)...(interruption in the tape).... these sorts of things is very difficult to come by in Mexico and not so easy on this side of the border. And this is something that a joint bonding authority could also include in broad plans, perhaps to be paid back out of general revenues or something but yet would be a benefit to the region. Let me just raise a couple of general considerations that I think need to be included before a final version of this bill is put out. First of all, I think early and close coordination with all levels and all sectors in Mexico on this sort of thing is very necessary. We don't want to come up with a great plan and then discover that its totally inoperable because we had forgotten to include Mexico. In the Mexican situation now I think its particularly complex because we have for the first time in Mexico an opposition administration in the state of Baja California, and so we're not quite sure how the state of Baja California and the municipality of Tijuana are going to interact with the federal government which traditionally has been the source of most funding for infrastructure in Mexico. So a great big, an additional great big question mark for when we're talking about some sort of a border authority that will function on both sides of the border. Professor Herzog mentioned the

economic asymmetry. I'd like to underline that. One figure that we dug out not too long ago was that the gross regional product of San Diego is approximately \$43 billion dollars. That of Tijuana is \$1.5 billion dollars. So, I think that gives us a good sense of the economic asymmetry the ability to generate funding and also the ability to generate user fees for infrastructure. We're talking about vastly different levels, so I think what we need to do is to devise ways that both sides can participate on a parity basis in projects. For example, legislation that would permit Mexican crews to come into the United States to provide labor, provide construction, provide materials would enable Mexico to participate according to its resources and both sides would benefit. I realize there would be severe problems politically on the U.S. side or at least some major concerns politically in doing something like this, but I think we have to acknowledge that the border region is very special and needs special approaches. One other element I think that needs to be discussed with all of this is the possibility of using the Bonding Authority to generate funds which could purchase discounted Mexican debts which could be swapped for pesos and used for specific public service infrastructure projects. The Mexican government has been very reluctant recently to approve debt equity swaps, debt swaps of practically any sort, but if the money would normally have to be generated by the Mexican government, for example on a sewage

treatment plant on the Mexican side and if they could basically take that same amount of money and use that to retire a much larger amount of dollar debt, it might be interesting to Mexico. And so it would help Mexico's debt situation. It would help generate funding for border projects. But anyway the complexities in these things are enormous and I don't know that much about them, maybe that's why I think it might be a possibility but I'm sure you all have expertise and experts in this area. Well, let me just close by saying I think its a great idea. I think there are a lot of very specific concerns about making it operable and let me just make a plea that I think it would be useful to endorse the concept maybe in legislation relatively soon and then set up some sort of a mechanism that could include all of these bi-national elements in the planning process. We have a great deal of expertise in California, not only in terms of specific engineering skills we need to build the super treatment plant, but we have people that are very skilled and work all the time in terms of bi-national relations. Now the Governor's office of California Mexico Affairs has been very active in this area. We have city and county entities. We also have major university efforts going on everywhere all along the state from San Diego in the south to Stanford and Berkeley in the north, so I think if you could include all of these in an effort to devise not theoretical plans or really applied plans that can function in the border

environment I think will move a long ways to governing this region in the 21st century which I think is what this is all about anyway. Thank you.

CHAIRMAN POLANCO: Thank you very much. I think your closing comment in regards to the theoretical, planning, and research, and there's been a tremendous amount of that. I think we've reached a point now, at least I'm convinced that we need to begin the implementation phase. How we get there is to be further discussed and developed and I appreciate your testimony. Thank you very much. The next presenter, Mr. Ybarra, Secretary of the U.S. Section of International Boundary and Water Commission. He's here today to provide testimony as to how that particular entity was established, how it functions. Its been around for sometime from what I understand.

MR. M. R. BOB YBARRA: Yes. One hundred years. This year we're about ready to close our centennial anniversary.

CHAIRMAN POLANCO: Please begin Mr. Ybarra.

MR. YBARRA: Yes sir. I have prepared remarks I will turn to you as soon as I complete my testimony. I appreciate you're setting me up as early as you have in this case because I do have a plane to catch, I got to leave here about 10:30. (Inaudible due to not speaking into the microphone).....The paper I will simply expect (inaudible)..... some of the issues that are presented in the draft, or the preliminary draft of the

legislation, some of the comments that I heard from the Academic Secretary both universities here in San Diego certainly would encourage therefore to deviate somewhat from my prepared comments. Basically my comments, I simply wanted to let you know that our Commission has been around for 100 years. They started out as a simple organization in 1889 to settle only boundary river questions. River changed its course, lands were transferred from one side to the other. As a result we had disputes over sovereignty ownership. To settle these then the commission for the first almost 40 years dealt primarily with this type of activity. The important thing about it is that the commission then as it is today was still composed in the final structure. Its composed of two commissioners, one for United States, one for Mexico. They're headquartered at the border, at (inaudible)..... for Mexico and El Paso, Texas for United States. They are appointed by their respective Presidents of the two countries and of the original treaty of 1889 and more recent 1944 water treaty which defines the procedures and other responsibilities more detail. The commission has the responsibility of filling in and putting into force the various boundary and water treaties between the United States and Mexico. Let me just regress a little bit. The current commissioner for the United States is Dr. Narendra Gunaji. He had wanted to be here personally to address you. Apparently we have a conflict in schedule. For the Mexican side

you have an acting commissioner Arturo (inaudible)..... who many of the people here in the audience know. Again, our responsibilities have evolved such that today under these various boundaries and water treaties, the commission has six major responsibilities. The first is just continue on the old duties of 1889 and those of predecessor commissions in the 1850's of marking the international boundary, that is the land boundary between the Rio Grande and the Gulf of Mexico. We still have responsibilities of settling these questions over land sovereignty. The third responsibility has to do with the joint undertakings either political measures or technical solutions for international (inaudible)..... The fourth responsibility has to do with the allocation of the waters of the boundary rivers, the Colorado River for 24 miles, the Rio Grande for 1,254 miles. These responsibilities are quite complex. We both go over each of these details, but among those we do have the construction of international dams and reservoirs to allow each country to maximize the use of those waters. That basically is our responsibility. The final responsibility and the one perhaps that is more current and perhaps of greater interest to the committee today is that of dealing with the water quality issues. Basically and again deviating quite a bit from my testimony, the water quality issues are initially oppressed by the two governments in the 1944 water treaty. In further years, as early as 1938, this

commission was invested by the two governments to carry out a joint undertaking very similar to what we're talking about today, that is the construction of an international pipe line, septic tanks and others to take sewage from the city of Tijuana, small village then, and the United States city of San Ysidro or community. The pipe simply went through the course of the river and emptied out into the ocean. In the 1930's that was certainly an enlightened solution. It was adequate for the needs. Obviously it didn't work by 1950. In the 1950's I'm sure many of you here read in the newspapers about frog men that were suffering all sorts of problems in that area. As a result attitudes change both United States and Mexico. We at that time did not have the 1972 clear water act. We were not as conscious about the preservation of estuaries (inaudible)..... Nevertheless under the structure of the commission, the two governments did try to resolve the issue through perhaps international works, international means. It was not possible to that air that matter in diplomacy. On the other hand the government of Mexico chose instead to build their own treatment facilities and basically this was a policy that Mexico followed in the case of all of the border sanitation issues and we had several along the border, not just in California area. New river has been mentioned, of course Tijuana has been mentioned. But we also had issues and Nogales Arizona, Nogales Sonora, Narco Arizona, Narco Sonora, Douglas Our Pietra

and a serious one (inaudible).... Pecos, and (inaudible)..... Carmelitas. The intent then of the two governments was that each government would take care of themselves sanitation needs. This worked with some degree of success. We in the San Diego Tijuana area through this commission and with the cooperation of the city of San Diego understood their theory about the Mexico solution of handling their sewage wastes by means of pumping away from the border and into the ocean would have some problems and would be preparing some breakdowns, therefore, an arrangement was made with the city of San Diego in 1965 to use to construct a connection to the sewage treatment (inaudible)..... reimburse by Mexican. Obviously the terms of 1960 for reimbursable are not adequate for today's needs and that's another issue. The point is that you do have a federal mechanism and international mechanism and I often spun myself in a position as I am right now to attempt to turn out a map that this would have the white (inaudible)..... The commission has been dealing with I think in activities with international activities on both sides of the border. Our maps have always recognized Mexico. Our activities have always recognized the coordination by Mexico on boundary matters or matters that more recently the environment issues. We, therefore, want to kind of share with you how our commission is made up, how it functioned by treaty, where an organization lies and how we can use this organization for problem solving. We began with a

very simple ones of method of boundary, marking boundary. We dealt with the flood control issues simply by constructing levees on both sides of the boundary rivers, constructing levees or floodways across channels at transposed boundaries and also there was a smaller sanitation issue like the one in San Diego that I mentioned. The commission then, you might say, would represent a effort by United States and Mexico to institute their entire boundary water relationship with one border oriented international organization. I mentioned to you that's made up of concessions. Each section is entered by an engineer commissioner, specifically mandated by the 1944 water treaty.

CHAIRMAN POLANCO: Let me ask you a question Mr. Ybarra. How are you financed currently, the organization.

MR. YBARRA: Well, the financing is in accordance to the treaties. Each country finances their own operation, that is, each section is made up of a commissioner. He may have a staff as large as he wants to. We are required to have two principal engineers, a legal adviser and a secretary, a position that I hold. All of these are treaty positions. We enjoy diplomatic status. All of the personnel that we have either in headquarters office of (inaudible).... or at the various field locations are either engineering staff or technical staff, but they're all members of the commission in one way or the other. The Mexican section pays for their personnel at their offices at other

facilities for that matter, and the whole idea is to have a fifty fifty division. At the same time commenting on some of your area, things I've heard here, the treaty provides that the commission personnel not only have diplomatic status but also deal out to cross back and forth across the borders freely on investigations, construction, operation and maintenance without any customs, immigration or any restrictions. We find this necessary, otherwise we could not have built an international dam. We find this very important in the various stages that we're dealing with now. For example, in the New River we have just worked with Mexico the completion of a joint project to provide a small improvement. We have been talking about 1-1/2 to 1.2, 1.3 million dollars. Mexico paid half, we paid the other half, but all of our works are in Mexico and this carries out the understanding that the two governments have, through this commission and in coordination with Mexico, that you must correct the New River problem at the source. We are aware of the studies that were prepared for correcting the problem in the United States with works for in the United States New River. But at the same time we also advised the state of California and the other authorities that the best way to do this is to correct the problem at the source. We invited their recommendations to be given to the commission and would hope that in next year or so we will be dealing with that coordination with Mexico in an effort to perhaps

build up on the original joint funded project with something of a larger scale to provide a more lasting solution. The other things I like to mention about the commission is the procedure. Normally a problem surfaces, comes to the attention of the commission, usually at engineering level we have discussions between engineers of the two countries. Our own principal engineers, field engineers and perhaps technical advisers from either country to each section. These may be from the water resources division of one of the states and they may be from federal environmental protection agencies or (inaudible).....or others. Similarly we have again on the Mexican. Again each national section develops this coordination so therefore the commissioner in addition to being an engineer diplomat on the international sphere, he also has to be a domestic diplomat dealing with this very sensitive issue of hydropologies. The result then is that the engineers then prepare a joint report making recommendations to the commission. The commission then following the procedures outlined in the 1944 water treaty then make a further recommendation to the two governments by means of a commission minute (inaudible).... on that instrument provided. The commission minute is the decision of a commission, the formal decision. In fact, the two governments. First of all, they have 30 days to respond and to approve the minute. If they don't approve within the 30 days or do not respond, they automatically (inaudible). So, the two

governments have invested interest in this commission a great deal of that responsibility on the boundary-water relationship. Now, to expand on this further. Before a Commissioner joins the other commissioner in signing an agreement we will have all ready have had the coordination and the consultation with local community, whatever is necessary. The state and federal agencies have an expertise. So, we have already sounded out the problem, the measures that resulted the problem and basically reached informal understanding on how to do this. Where the Commission has been more successful is where we have developed joint international projects that people can see. People that have money. We have a dam in El Rio, Texas. We have another one near Laredo. We are reasonably embarking in Laredo on a jointly funded international sewage treatment plant in Mexico, funded 50 to 50 by the two governments. All under the general understanding that because both countries need to have or preserve rather the quality of the waters of the Rio Grande and therefore are willing to expend certain amount of moneys to meet their department expectations. Back on the -- once the minute is approved by the two governments, then the Commissioners, one for each country, has a responsibility to implement the terms of that agreement and see that it is carried out. Our experience is that each commissioners is in power either through their own budget or through the budget of other agencies whichever each government wants to arrange to carry

out those orders: financing treatment plant, financing international dams. The financing is thus done individually by each country but once the financing has been arranged then we can sign the agreement and we know that it will be carried out. The financing not only involves the obligation for the construction. It also involves the financing for the operation and maintenance of those works under the supervision of the commission and the supervision of the commission, the way we do these things is clearly outlined also in the 1944 Treaty and in many ways is specified in the Minute Agreements that were reached. The limited agreements, therefore, is to find the engineering solution, how to design a project, develop a project, often that is one agreement. Then, we might have a second agreement, perhaps for the construction of the works. That details the financing. How much will correspond to one country and how much to the other. We do this in a way that each country does work on each side, therefore, we don't have the exchange of funds for one section to the other. Then, we have the other limited agreements for the operation, for the maintenance which provides the rules so that these internationally funded works are properly operated in accordance to the agreements. These are my basic comments on what I intended to pass to you. I will at this time just give you a copy of my testimony and with it a copy of the (inaudible) Porter Act. I -- the intent of my testimony was simply to share with you the

experience that we have had in dealing with boundary and water issues and the experience of a 100-year organization. Of course, I haven't been with the Commission that long. I have been with the commission since 1975 and my order and experience goes back to 1968.

CHAIRMAN POLANCO: Let me ask a question. How much has actually been funded by your organization? Total dollar value? Aggregate?

MR. YBARRA: I will give you a number of about \$300 million. But that is very misleading because some of these projects go back to 1933; some 1956; some when the dollar was worth a lot more. It is easy to be within the million dollar range. The issues that I saw first of all -- there are some comments about the bill itself. We do not propose to dabble into California politics and tell you what is wrong with the legislation. We simply would prefer to defer those issues to the Department of State, which I understand has provided you a letter raising the various issues in connection with the U.S. Mexico relationship. I mention the Department of State because the United States Commissioner gets his foreign policy guidance from the Department of State. We are in fact a part of the Department of State. And the Mexican section obtains their foreign policy guidance from the Department of Foreign Relations of Mexico which they are a part of. One other matter that I mention that of

crossings and other matters. The commission because of its border location is often a group that entities (inaudible) state and from the federal level. Often they do the first instances when they develop a number of infrastructure projects. We've got to be sure that the line of site of our monuments along the border is preserved. We would certainly like to see a buffer zone between the boundary and any developments. Where you have boundary rivers, there are certain roads that we -- that are governed by a treaty that the commission must apply regarding the construction in the flood plain of certain rivers. We are also involved in intra-agency consultations with the Department of State and other agencies relating to bridges and border crossings. Obviously, we don't have any bridges involved here in California but they are, of course, in other states. In the matter of border crosses, we want to be sure that the border crossing does not, of course, encroach in Mexico and that there is adequate coordination with the other side. Much of this is done already in the context of a border and bridges crossing group that the U.S. and Mexico have developed over the last five years. This, although not established by treaty, is a mechanism that has worked quite adequately over the last years. It has allowed the coordination that is needed between the two countries in developing bridges and border crossings and the infrastructure that is tied to those roadways and so on. So, that mechanism is in place and is working

quite adequately. On the matter of bilateral mechanisms dealing with environmental issues other than the ones that we deal with, you, of course, may be aware that in 1983 an agreement was signed between the two Presidents that assigned certain responsibilities to the Environmental Protection Agency and the (inaudible) Report in Mexico. They do coordinate with us and we do work closely with them on the water quality issues, of course. But they're two other areas that correspond to that agreement and not to us in the matter of air pollution and in the matter of hazardous substances. Under that agreement, five annexes have been concluded: two of them were air pollution, one on the copper smelter problem in southern Arizona, and most recently one on air pollution studies in the El Paso area. Also, there are agreements regarding the accidental spills of hazardous substances. The transport of hazardous substances. All of these are mechanisms that already exist but again they are in a early stage and it will take several years for

CHAIRMAN POLANCO: Excuse me for interrupting, Mr. Ybarra, so, they're in existence. There has been participation in terms of some dialogue but the problem still remains.

MR. YBARRA: The problem first of all has to be identified in any case. We find this true in our issues. Then, you got to resolve what matters, what measures do you need to resolve those problems. Much of this has to be done. The study

stages is important for the states also.

CHAIRMAN POLANCO: No question. My concern is that based on a lot of what I have read, there seems to be a lot of study and there comes a time where I think in the public interests for public good we have got to get out of that stage and start thinking about how do we finance projects.

MR. YBARRA: That is correct. Of course, money makes the thing go. But, on the other hand, also when you start developing new commissions, new organizations to deal with the certain problem you may simply be repeating what has already been done in the past and perhaps creating a new study group. There have been many, many efforts for consideration of U.S. Mexico Commissions that will solve all the problems of the border. We have had these appearances in the sixties, and go on and on and on.

CHAIRMAN POLANCO: Let me say that, I think that the Professor mentioned that there are two fold here. One, you have the need to continue planning and the intent of what we are intending to do is to get into creating a mechanism whereby on a bi-national basis you can begin to float revenue bonds that could address the particular needs that have been identified. So, I'm sensitive to your concern about recreating something that needs to be but I don't think that your agency or anyone before us today can identify -- maybe I am wrong -- I don't think I am wrong -- a

mechanism whereby on a bi-national basis you enter into an agreement. Such as was the case with New York and Canada to float bonds for purposes of infrastructure and/or other public related type of improvements.

MR. YBARRA: Yes. I believe some of the comments from the Department of State will address that issue, the difference here. You are assuming that between the United States and Canada are quite different from that in the

CHAIRMAN POLANCO: No question. The economies are different.

MR. YBARRA: The staff of Mexico has taken improvisation on other things would preclude a lot of these possibilities. What we have found in our case is that we do have a tradition of financing the needs of Mexico. That is we finance our side and they finance theirs. How they do it is up to them. In recent years they are using more state and local participation than in the past. We, with the State Department, weigh as much as we can when Mexico does solicit requests for international bank loans, the small bank and so on. But that's basically the traditional thing that works. What you are looking at here is something beyond that. It is an audible effort but like the State Department will tell you and we can tell you, there are a number of very, very serious issues that will make this ...

CHAIRMAN POLANCO: Well, let me ask you this question.

If the State Department is aware of what the problems are, why hasn't the State Department and/or the federal government come forward with the type of money that is necessary to make the improvements?

MR. YBARRA: Again, let's go back to ...

CHAIRMAN POLANCO: I've put you on the spot. So, I am going to take you off the spot. We have to move on and you have a 10:30 plane to catch, Mr. Ybarra.

MR. YBARRA: I am on my way.

CHAIRMAN POLANCO: If you could summarize for us or if you could make a closing remark, so that we could go on with the testimony. I do appreciate your testimony. You shared with us some very important aspects in terms of how you function, how you were created, the fact that there is government participation on both sides, that there's a financial participation with is very essential and necessary to remedy the problems that are along your area of domain and I do appreciate that very much.

MR. YBARRA: OK. In summary then, what we have in the IBWC is the international body in every respect between us and Mexico, to solve a number of serious boundary water issues. This has been going on for about a hundred years. Our participation is quite simple. We do have an international coordination. It is a structure that has been tested in time. It's continues to develop. Our financing structure is by each government financing

their own international parts rather of the international problem in traditional means. But even the traditional financing means have been involving and only that in recent years that we have been involved in more creating financing like the Laredo/Laredo project where the United States actually paid for part of the cost of a project in Mexico. Also, deferred rather to the state departments some of the comments on the perhaps, the legal implication and the conflict with the U.S. Mexico relationship. I have also raised a number of issues that could come up, based on our own experience I warn the committee that there have been experiences in the past to try to create commissions that are often further study commissions, like the ones that we are trying to prevent. We do have international mechanisms in a number of (inaudible) ecology, and also housing which I did not mention earlier, and of course the water and boundary issue. With that, I thank you very much, sir.

CHAIRMAN POLANCO: Thank you. Let me ask the Honorable Jeanne Vogel, Chair Person of the Imperial County Board of Supervisors, to come forward and testify.

HONORABLE JEANNE VOGEL: Good morning, Honorable Chairman Polanco, panel, staff and distinguished audience. My name is Jeanne Vogel. I am Chairman of the Imperial County Board of Supervisors. I am testifying this morning in that capacity. But, at this moment I would like to deviate from my written

testimony and thank the people that were able to put me ahead of my scheduled time. I do also have a 11:15 flight to Sacramento. I also would like to give you just a short insert of a personal profile. I do sit on the Executive Board of County Supervisors Association of California representing all suburban counties of California. I also sit as a subcommittee chairman of hazardous and solid waste for the Supervisors Association. I also am President of Southern California Region of Supervisors. I also sit as Vice Chairman of Southern California Hazardous Waste authority. So, with that small profile, I will continue with my written testimony. I wish to thank the Select Committee for the opportunity to present the concerns of Imperial County Board of Supervisors regarding AB 12 which would create the California and Mexico Infrastructure Bonding Authority. This particular legislation as proposed was discussed by Imperial County Board of Supervisors this past Tuesday, December the 5th. I am herein presenting the Board's official position. Let me state that I feel the need to develop the border region is a crucially important issue. However, this particular legislation cannot be supported as proposed because of the following findings: First. There has been no clear explanation presented that establishes a sound reason to create such an authority aside from a broad reference to federal, state and local agencies. While the proposed legislation does state that the reason to form this

authority is due to the fact that there exist no single authority with the power to issue revenue bonds and finance necessary projects that already exists. There already exist a wide variety of financing mechanism to address infrastructure needs.

CHAIRMAN POLANCO: Let me ask you a question here.

HONORABLE VOGEL: Yes.

CHAIRMAN POLANCO: What are the needs of the Imperial County area, as you have identified them along the border, with reference to the infrastructure?

HONORABLE VOGEL: I think, as my testimony continues, that ...

CHAIRMAN POLANCO: Do you want to identify it? I will not interrupt you. Go ahead.

HONORABLE VOGEL: ... if at the end of my testimony I have not addressed any questions that you have, I will address them then.

CHAIRMAN POLANCO: OK. That's fine.

HONORABLE VOGEL: The mechanisms include but are certainly not limited to special assessment districts, such as Mello-Roos, re-development agencies, county and city economic development agencies, State Department of Commerce and the State Department of Housing and Community Development, and as in Imperial County Facility Development Corporation. The creation of a new, independent bonding authority with rather extensive powers

appears unnecessary and perhaps redundant. It would have to be more prudent to coordinate the efforts of existing agencies within the region rather than create another independent authority.

Second. This legislation is targeting the Mexico-California border region for economic and environmental projects. Yet allows for no representation from either the County of Imperial or Mexicali which is a state capitol of the State of Baja Norte. The Maquiladora Industry is alive and vivid in Imperial and Mexicali Valleys and the exclusive representation from those areas cannot be supported. There are significant environmental problems affecting both the City of Mexicali and the County of Imperial that must be addressed specifically the New River which flows to the City of Mexicali and the County of Imperial and was described in a special feature on the popular TV show 60 Minutes as the most polluted river in America. This river flows for 40 miles through one of the most productive agricultural areas in the world. To have participation from both Mexicali and Imperial County in resolving this critical environmental problem is imperative.

Third. The legislation purports to create an authority for the purpose of issuing bonds for infrastructure development. However, the definition of "project" found in Section 67472 g includes and I must underline any development or improvement of any real or personal property, utility system or environment within the State of California and Baja. From this description it appears that

this authority could do almost anything it so desired and it is certainly not restricted to simply infrastructure projects along the border area. Either this definition should be changed to reflect the purpose of the authority or the name of the authority itself should be changed. In either case the definition is much too broad to be supported. Fourth. The powers of this authority which are delineated in Section 67473 are clearly too extensive to be supported. Specifically subsection K states that the authority is empowered and I put this in quotes "to do all acts and things necessary" and I underline this, "or convenient to carry out the powers expressively granted in this title." Such discretionary powers are not only potentially dangerous but subject to abuse. As an elected official who is consistently scrutinized to insure that I abide by standards that are allowed for extensive public input and participation, neither I nor the Imperial County Board of Supervisors can support the creation of a public entity with the power to do all acts convenient to carry out its granted powers. I find that specific provision as well as the other deleting powers contrary to sound public policy. Fifth. The underlining support for these projects is to be the revenues generated by them. It is unclear and in fact not even presented how revenues will be generated. Furthermore, Section 67465 F states that "bonds maybe issued without obtaining the consent of any department, division, commission, board, bureau of agency of

the State" and further states bonds maybe issued without any other proceedings or the happening of any other conditions. This provision unless revised to insure the public right to participate and comment on any proposed project cannot and must not be supported. Our County Counsel after review of this section further raised concerns that this section excluding the County from enforcing specific planning permitting requirements. Again, this is insupportable. In closing, the Imperial County Board of Supervisors is unanimously opposed to this particular piece of legislation for the reason I have just stated plus other concerns that I have not orally presented. The Board does recognize the need to develop the border region and the Board is especially concerned with the environmental projects in particular the New River. It is hoped that this legislation -- that legislation -- would be forthcoming that would address these concerns with more specific proposals and limitations than proposed in this legislation. It is a crucial importance to the Board of Supervisors of Imperial County that any legislation designed to address border issues include Imperial County participation and consideration of participation by Mexicali representation. This concludes my testimony but I would personally like to state that any concerns that have to do with California borders are of my concern as well as my Board. I personally offer any and all help I can give to address any of the border issues. I thank you again

for the opportunity to present our concerns.

CHAIRMAN POLANCO: Supervisor, let me share with you and thank you for those issues that you have raised with reference to the participation of the Imperial County and Mexicali area. We were aware of that -- the bill will be amended to include representation. I want you to know that. We have taken action on that particular issue. With question to your view, a broad authority specifically your fourth concern. Much of the language that's incorporated here is bonding language which means that if your city or county is floating bonds you have been participating and approving bonds with this standard language. If it raises a concern, I would be happy to incorporate and sit down and look and try to come up with something that's different. I want the public to know that that is standard language and I have Legislative Counsel present who could -- Legislative Counsel has done the research on this particular issue. Maybe, Bill, you might just want to add and verify that is so in regards to the language that we have incorporated in the bonding. Would you please? I don't want anyone here to think that what is taking place is we are creating and giving broader authority to an entity. That is not the case. Again, the case being that if you are a governmental agency entity that has the authority to float bonds you would have in fact voted to support this language and approving the creation of that particular floating of the bond. But, Bill, would you go

ahead and explain that.

MR. BILL HEIR: Yes. Bill Heir, Deputy, Legislative Counsel. The language with respect to the bonds is taken from various other bond law provisions, the Mello-Roos, the 1941 Revenue Bond Act and so forth. That is standard language.

CHAIRMAN POLANCO: Mr. Epple.

ASSEMBLYMAN BOB EPPLE: The language that's here actually doesn't deal with the projects themselves. It deals only with the sell and authorization of the sale of a bond. Is that correct? The projects would still go through all of the public hearings and all the other government cooperation that would be necessary to approve it.

MR. HEIR: That is correct.

HONORABLE VOGEL: I think that as you work on this that it is necessary that we clarify that. I did have my staff look at that. My Board looked at that. We have a concern. So, if we have a concern, then I am sure that there are other people that have that same concern. I do think that if you're to go forward, that that needs to be clarified. Again, thank you very much.

CHAIRMAN POLANCO: One question. Explain to me what your County is doing with the Facility Development Corporations? What is that project? Is that a project that the county has established onto itself to finance certain things?

HONORABLE VOGEL: Yes. I would like to at this moment

introduce my County Administrator, Mr. Rick Inman, who knows a little bit more about it than I do and I wouldn't want to make any mistakes.

CHAIRMAN POLANCO: Thank you.

MR. RICK INMAN: Yes.

Rick Inman, County Administrative Officer. That particular corporation was formed to assist us in our economic development efforts. We used that and have used that recently for the construction of a facility in Imperial County.

CHAIRMAN POLANCO: How was that financed?

MR. INMAN: We used certificates of participation.

CHAIRMAN POLANCO: OK. Does that authority have the authority to float revenue bonds?

MR. INMAN: It could. Yes.

CHAIRMAN POLANCO: So, there is a mechanism in Imperial County...

MR. INMAN: Yes.

CHAIRMAN POLANCO: ... to float revenue bonds? In terms of the problems that you are aware of, as the County Administrator along the border, what has precluded from really implementing in order to address some of those areas of concerns and what do you have in terms of your capital expenditure budget earmarked to address those particular issues?

MR. INMAN: That is a good question. The answer to the

first one is I don't know. I certainly think that's the charge that you are attempting to take on. In terms of our ability to set aside capital for moneys for capital expenditures understanding that we are a world community with very limited resources. We don't have anything set aside to address these kind of environmental infrastructure needs. Now, our County has passed just recently half cent sales tax to assist us with roads in terms of infrastructure addressing certain construction needs and I think transportation relative to the border is a critical question, a critical problem for us. Most of the issues assigned for the newer group which we think is the specific and unique problem for us in Imperial County. Most of the other things that have been talked about also exist in Imperial County, the problems of hazardous waste, air pollution and so forth.

CHAIRMAN POLANCO: And there is no real financing mechanism at the current time for the County to bring forth to remedy some of those problems?

MR. INMAN: Not to the extent that the accomplishment has to be done now.

CHAIRMAN POLANCO: What is your idea or what are your thoughts in regards to if we could come up with addressing the areas that the County has provided your, which I think are areas in fact can address? What are your thoughts in the development or the potential of a bi-national bonding authority? Do you think

it would work? If not, why not? If so, what are your suggestions in structuring that type?

MR. INMAN: I don't think at this point that I would be qualified to make a judgment as to if it would work or not. I think the concept of a bi-national approach to addressing the problems is apparent. I think that's the only way they are going to get results. I think the Board was responding first to the establishment of a unique authority that probably didn't understand the full extent of their powers. I don't. So, I think that is really what they were getting at in terms of what is really going to be the authority of the powers of the specific authority. What is it they are really trying to accomplish? I think those things can be ironed out. The concept of a bi-national approach to the problem is, I think, a good one.

CHAIRMAN POLANCO: I definitely want to work with you all because I think it is something that needs to be done. I mean we know that the dollars are just not out there especially for counties, such as the counties that you all represent, being rural and not having that income stream and yet having a tremendous impact of the problem. So, you know, I'm making a public commitment to you that I want to work with you. I want to address those areas of concerns because I think that to come time where we need to come up with a new alternative and if we could make this thing work, then it's for both the public good on both sides of

the border. Thank you very much for your testimony.

MR. INMAN: I would like to add one other remark. Our Board is working very closely with the municipality of. There is a good working relationship between the Chairman of our Board and the new presidente of the municipal. We are working very hard in our community. That's why we took such a strong stance on being a participant in this process.

CHAIRMAN POLANCO: I appreciate that very much. Thank you. I am going to ask Mr. Tony Ramirez who is the National Maquiladora Industrial Association of Mexico to come forward and give testimony, please.

MR. TONY RAMIREZ: I'm Tony Ramirez. I am here in representation for Alejandro Bustamante. He's the President of the National Maquiladora Association in Mexico. He has prepared a statement. Mr. Polanco, I would like to read it to you at this time. As President of the National Maquiladora Association in Mexico I would like to go on record as opposing the recently proposed bill to create the California and Mexico Infrastructure Bonding authority. While it is clear to all of us who live in our livelihoods along the border, the infrastructure is essential to our future. The mechanism you proposed would only make it more difficult to attract business and industry to our region. Currently Mexican government is working with U.S. and Japanese governments to address many of these problems in passion to

generate less debt with same results. There are many of us along the U.S. Mexico border who are thoroughly familiar with economic limitations and opportunities before us and are now diligently trying to seize every opportunity. Your proposed bill, we believe, would only make meeting those challenges more difficult and I would like to encourage you to consider withdrawing it and allow us to pursue solutions to generate less debt and create more employment opportunities on both sides of the border. Also, allow us to maintain more local control at the border where issues are more clearly understood. Thank you and sincerely. If you have any comments, I would like to make note of the comments and have Mr. Bustamante subsequently address these upon his return from meetings that he has currently

CHAIRMAN POLANCO: Yes, I have comments. I would like for Mr. Bustamante and his association to come forward with their proposals, their ideas on how they intend the association to remedy the problems that confront the border along the entire (inaudible).....

MR. RAMIREZ: As a member of the National Maquiladora Association, Mr. Bustamante and his board of directors in Mexico City, they represent 26 cities in Mexico, and represent in fact that the only recognized any by the Mexican government of the Maquiladora Association is working extremely closely in Mexico City and with local authorities on the Mexican side of the border

to reach and try and reach solutions and solve some of the problems that we in Mexico encounter on a daily basis.

CHAIRMAN POLANCO: I would also ask how is it that this proposal will, would as you stated in your testimony, create more debt. Create more debt to whom.

MR. RAMIREZ: I will relay those messages and I will try and get back, will get back to you early next week.

CHAIRMAN POLANCO: In fact I would appreciate having the opportunity, Mr. Ramirez, if you could communicate to Mr. Bustamante I would appreciate an opportunity and an audience to meet with him.

MR. RAMIREZ: We would be very happy to arrange that....

CHAIRMAN POLANCO:so that we could sit down and I think that we have a real unique opportunity and there may be some misunderstanding on my part, maybe some misunderstanding on his part. I may not be seeing something that you all are seeing and I just think that there's a real opportunity to iron out oppositions, and I would welcome that, and I would appreciate your doing that.

MR. RAMIREZ: We will do everything that we can and we will be sure, we will assure you that we will make a (inaudible).... to a meeting, and we will make it as soon as possible, and at that point Mr. Bustamante, I'm sure will be in a

position to more further clarify some of those statements that he has made and give you more input. And if there's anything else?

CHAIRMAN POLANCO: Muchas gracias. Thank you very much. Copy of your statement also, Mr. Ramirez. Let me ask Mr. Kevin Scott, the Vice President of Goldman Sachs & Co. to come forward. He's an investment banker, I believe. I shared the proposal with the investment banking community. He is here to present some testimony as it relates to that particular area of concern.

MR. KEVIN SCOTT: Good morning, Assemblyman and members of the panel. I'm Kevin Scott, vice-president with Goldman Sachs. We are a large investment banking firm. I am a specialist in municipal financing. I'm pleased to participate in today's hearing. The proposal to create the California Mexico Infrastructure Bonding Authority is an innovative and at the same time feasible approach for financing in this region. I'd like to address the financial aspects of the authority. First, some general observations on the concept, and second, specific comments on the text of the proposal. First, my general comments. The authority will facilitate the financing of needed improvement, improvement to infrastructure along the border. The mechanism of a regional bonding entity has been used successfully in many areas of this nation to fund projects which have an impact on more than a singular community within a region. A bi-national authority,

while somewhat unique, is a logical extinction of the regional bonding authority concept given that this region straddles the national border. One of the advantages of a governmental entity, such as the authority, is its ability to provide low cost tax exempt debt and to realize the economies of scale in financing by aggregating the financing for smaller projects that would otherwise be spread throughout the region. Our initial analysis is that the authority will be able to issue tax exempt debt for permissible purposes within the U.S. border. My camp bond counselor has advised me the projects outside the U.S. may or may not be permitted to use tax exempt financing unless they are owned by the United States. That, of course, presents potential problems on the other side of the border. However, because this concept is new and is one which tax law did not anticipate, we feel it makes a lot of sense to work with Congress to amend the tax law in a way which would allow tax exempt financing for the portions of projects that are across the border. Its appropriate that such amendment be made because it can be shown that the United States is the direct beneficiary of improvements to infrastructure which improve the environment and support economic development within the region. An authority such as the one being considered will also give projects on both sides of the border a clear channel to the financial markets of the United States. This will enhance the visibility of these projects and the market

ability of viable projects on both sides of the border.

(inaudible).... vision bonds of the authority would be repaid from revenues of the projects that are being financed. For instance, an airport would be funded from, perhaps, landing fees, lease revenues and other airport related revenues, a self sustaining financing. Water treatment plants could be funded from user fees. Roads could be funded from tolls. However, in addition there are going to be types of projects where a user fee won't be easy to implement. And in this case, sale lease back structures could be used to fund projects. For instance, a project could be constructed through, constructed and financed through the authority and through a series of selling the project and leasing it and subleasing it back to entities which have conventional taxing authority. Those communities could finance through the authority and provide a project on a regional basis but wouldn't work under judicial user fee situations. Funding for projects is anticipated to come from both the United States side of the border and in the Mexican side of the border. Its clear that U.S. revenues could be used to fund the U.S. portion of projects and that Mexican revenues could be used to fund the portions of the projects from within Mexico. It may or may not be appropriate in the financial markets to mix the funding of the projects. This is an area for further research. Nonetheless, either integrated or separated financing working through the authority can reach the

goal of funding bi-national projects. This would be simply a bond issue could be part A and part B, if need be, but working through the combined effort. At this time I'd like to turn to my specific comments regarding the text of the proposal. In Section 1, I think its important to add language that expresses the benefits of this entity and its activities to the State of California and thus enabling it in legislation is creating a California entity. Going to Article 67471(a), some I'm going to dive from the general here to the various specific and I'll try to not take too much of your time on these. At this point there are going, there is envision that there will be both American and Mexican members to the authority and a quorum is set at 4. It could make sense to raise that quorum level so neither side,....it's already been amended?.....

CHAIRMAN POLANCO: It's been amended to have representation that where Mexico will decide who their representatives are, it'll add another along with Imperial County representation from along so it puts it up and will take into account the whole question of the quorum.

MR. SCOTT: Right. The quorum implications I was addressing. In Article 67471(c) where we address salaries and operating expenses, there is the notion of where those expenses would be paid from. If the authority in its initial stages is a conduit, there may not be salaries paid to members. If it is a

self standing authority with broader powers it will probably have to seek a source of funding for salaries that wouldn't be recaptured in the cost of a bond issue. In Article 67472(c). The language was indicated that essentially what would be called capital life interest could only be funded for one year after bonds were issued. It would seem that you would want to leave that flex, that you would want to leave that flexibility for later decisions. Continuing on in that section on page 5, it says that reimbursements of preconstruction costs, I'm paraphrasing, there shall be reimbursed from bond proceeds. That "shall", it might make sense to change to "may". It could be that you may have grant funding or other sources for your projects. In 67472(b). This is on the definition of the bond. This may be an appropriate place for a clear indication that bonds means many types of financial instruments, including notes, commercial paper and certificate of participation other forms of financing. In 6743.1. It, this is a, in thinking about types of financing, this is an establishing authority. The authority would probably make sense to give it clear authority to lease, to lease back, to buy, to sell, to sublease. This would enable some of those creative financing to take place with entities on both sides of the border. In 67475.2. Both in your own, this may or may not be the appropriate place to put it, but both in your own authority to finance at the authority and or using state bond law, you probably

want to make it clear that you have the ability to use public sale, advertised sale, negotiated sale, so you don't find that you're limited in the future. In 67475.4. You may consider modifying or deleting the public notice provision or indicating the failure to, these are actually notices, to the California Debt Advisory Commission or indicating that such notice won't affect the validity of the bond. Again, because this is being established in law. Those provisions even required quick change in the years to come. It might be more appropriate to handle them in the actual bond document and the indenture down the road. My next comments are in that similar vein. 6745.6 again makes reference to the method of sales and...

CHAIRMAN POLANCO: We can incorporate your previous suggestion.

MR. SCOTT: Exactly. 67476.6(b) appears to prohibit the sale of refunding bonds which would be a low to high financing. That's where you start out with low interest rates and you refund into high interest rates. There seems to be, there is logic to that in one hand, but you don't want to raise interest costs. But there can be situations where the governing document indenture at some point many years from now need to be changed and an overall that could be in your cost advantage to be able to get rid of some restrictive covenant and you may again want to provide yourself with flexibility with this regard. In 6747.67, this is

page 19, I believe. It makes specific reference to call features. This again, it probably makes sense to be in the indenture. This specifically mentions that bond shall be callable at any interest date and I think if you do reference here, you'd like it to be at any time or as indicated in the bond document so, in the future you aren't restricted. And, finally, 67476.8, similar comments on notice provision that they might be handled under the indenture. Finally, I understand there may be some general comments about whether the authority should have independent bonding power or whether it should strictly use bond laws existing through the state. And my initial analysis is that it makes sense for the authority to have its, as the bill is laid out, to have its own bonding authority because there may be types of financing that require more flexibility than California State Bonding provisions allow. And at the same time you should be able to take advantage of as was indicated of state bonding provisions which may be entirely appropriate for many types of financing (inaudible)... In conclusion, we feel that the creation of the authority is a sound financing concept and as this proposal is refined in the month and weeks to come, we look forward to seeing an increasingly exciting and innovative proposal come to life.

CHAIRMAN POLANCO: Mr. Scott, thank you very much for your testimony. You certainly have enlightened us as to some of the technical aspects of this particular industry or this

particular area of concern. Mr. Epple, do you have any questions you'd like to ask? Any one else? Thank you very much. We appreciate your testimony.

MR. SCOTT: Oh, I would like to add one more thing. Another type of testimony that may be helpful in future development would be the inclusion of someone from a leading bond law firm. Thank you.

CHAIRMAN POLANCO: Thank you. We have a representative, we have invited, we had invited Carlos Fernandez Ruiz who was not able to attend, but I believe there are representatives from Mexico who are present and I have been informed that they are here to listen basically and to observe, but I want to extend the invitation to let you know that you're welcome to give input. We'd love to hear from you if you have any testimony that you wish to provide. (inaudible).... just in fact what I'd like..... Senor Hermosilio? Muy bien.

MR. VICTOR HERMOSILIO: My name is Victor Hermosilio. I'm working with the new government of Mr. Ernesto Ruffo. I'm the head of the Public Works, a secretary in Baja state. The government sent me out as an observer because we know very briefly about this organization. I mean I was in yesterday and he told me to be here to listen to what the people have to say. We know that we need a lot of common support in the Baja state for all the problems that we have and the people before me told you a lot

about the problem, the sewage system, the new border crossing station, so and so, but let me explain you how the Mexican government works. Most of these pieces are related with the (inaudible)..... This is a border area and everything that is close to the border or to the shoreline has to be built before everything would be (inaudible)..... And the sewage systems, they are controlled by (inaudible)...., that's a (inaudible)..... agencies (inaudible)..... government is working in a bi-national sewer plant in the United States that we treat the water that come from Tijuana. The problems that we have with the New River that lot of people know about it, they are dealt with the Celan(?) That's the agency that controls the water of the Colorado and the Rio Grande water. I mean that's the federal agency too. And about crossing stations they are with the custom agents and that's the federal agency too. So, I think that most of the problems they are related under the big ones.... They're full of problems, they're big problems. We have a housing problem, I mean that's in the state problem and not only in Tijuana, I mean, that's in Mexicali and Ensenada because the growth of Tijuana, I mean, is the highest in the county but Mexicali is growing about 4% every year and I think that's the same way that we have in Ensenada. Of course the housing, it's a problem that we have right now. The problem with those (inaudible)..... that we need for housing is that they have to be

that they almost subsidize. They have to be with very low income people. Now the state is trying to get a program, only to give them land, low land. And later on, I mean in the couple of years to give them water and power. So to the U.S. standard of living, I mean, that's very low. And all of those problems they have to be subsidized. We work with the American bank through the Central Bank in Mexico. We get funds from them and those funds they are part from the state and part from the federal government and the (inaudible)..... So, I think that in order, I mean this committee to, it has to get deeper in the Mexican law and how we work in order to, let's say, to be in the correct path because we have state law, we have local law, I mean municipal law, but I mean our federal law. And that's important. Most of the issues we are discussing has to go with the federal law. I mean, you have to, (inaudible)..... in Mexico City. The other thing is that we in this state, I mean the Governor in Baja, when you're about (inaudible)..... let's say myself (inaudible)..... I cannot ask him how long the government has been involved with this project. But until now, I mean, we don't have (inaudible)..... speaking in on the government this project, so we haven't decided anything about it because in the statement here they say they are going to be representative of the Baja government. They know they are not representatives of the Baja government in this.....and they say that they are representatives or they have

representatives from Tijuana. Tijuana is a county. I mean that's a municipality. I mean as is Mexicali so I hear from people from Imperial Valley, but it has to do with the California Baja border, I mean it has to deal with the whole state and I think that's the appropriate approach because much of the people know the problems of Tijuana, but, you know, highways in Mexicali and in Mexicali (inaudible)..... and I think that in the near future maybe a lot of actions that's going to be in Baja it has to be related with Mexicali (inaudible)..... The water in Tijuana is a very expensive commodity because, I mean, we have to pump that from sea level to 3000 ft. up in the mountains and then to Tijuana. Right now Tijuana, the people of Tijuana, I mean, only 40% of the people of Tijuana are receiving portable water. That's a very, very big problem. The state government, they have to deal with the (inaudible)..... for 90 million dollars. That deal is going to finish next year to enlarge the water line to the city of Tijuana. Sometime that (inaudible)..... slows down because that money comes from the federal government and as you know Mexico, I mean we have been in very difficult financial situation. Because that's money that come from (inaudible)..... that's in the international (inaudible)....., you know. It's a very, very low rate in subsidize. So, that's a problem when you issue a bond to American people, I mean, I think that by all means they would try to get some of their money back. And I mean and this problem

that's a bi-national problem, well maybe I have to say that maybe they see some other way. We are a different kind. So, I'm not an economic expert, but what I'm able to tell you is that if they want to get a commercial rate, maybe it will be difficult. In our problem that we have if you want to sell those bonds to Mexican people, I don't know what type of a law you have to deal with because they are, some restrictions with the law. That's one of the problems we have now in Mexico too. And the rates in Mexico are very high. Even if we are controlling inflation and now inflation is between 20 and 19%, the rates are much more higher. They are about 35, at least. Am I right? So, you have 15 points. I mean you don't get that earning in the United States. One of those reasons is that Mexican government by all means is trying to have the Mexican people invest in our country even that its doing is very painful solution by paying such a high interest. Reason the government is doing something and I think they are (inaudible).... to getting back the state of the people in the Mexican government because, you know, I mean seven years ago they nationalized the banks and that created a lot of problems with Mexican economy. Now especially with this new President, I mean, he's trying to get the (inaudible)..... in Mexico into Mexican system, so I think that you have to get into this issue by all means because those are some problems that we have there and maybe this would be an obstacle to make this (inaudible)..... But

I think that if you want to have bi-national committee, by all means you have to be more involved with the state especially with the officials who have to deal with money. (Inaudible)..... in Baja. I mean they are way out of proportions if you compare those with the (inaudible).....

But I think that in order to have the proper answers I mean that we have to be fair for both sides. You have to get much deeper in Mexican law.

CHAIRMAN POLANCO: Chairman Hermosilio we appreciate your testimony. First and foremost let me make it real clear that we will...we've come to the table not with anything that is solid. This is a working document, it is a document that will have the input from the Mexican officials. We are not here to impose on the Mexican officials at all-to the contrary. We have planned a visit into Mexico to meet with the federal officials as the committee to further explore and to get educated and further sensitize as to the issues that you've pointed out. We are not once again here to impose anything upon Mexico. With reference to the representatives issues, those are issues that you will resolve assuming that you wish to participate, assuming that this is something that is going to bring some benefit. It is something that Mexico will decide and Mexico will dictate. I just believe that there is such a potential opportunity that for us to drop it would be a disservice. We need to explore it. It is different,

it is new, it is innovative and it's a real challenge to us. That I think when Mexico benefits that United States benefits. And vice versa. When we're able to come up with a structure of what we're attempting to do here. Muchas Gracias. I appreciate the opportunity to hear your testimony.

MR. HERMOSILIO: I think that the new state government is open to any people that they want to give an answer to the problems of Mexico and the United States or and I think that we need to do something I agree with you. We are two very different countries that (inaudible) We need to have more communication as to know much more about each other. In the L.A. newspaper, I see news from everywhere in the world but very little news about Mexico. And in one way or another we are able and I think that everything that happens in Mexico is able to effect in the United States (inaudible) and I think that we, all of us, we have to make an effort to get to know each other, I mean of all (inaudible) I mean there is a worry that something that you want to create I mean is able to succeed. That's what worries me and I think that's what worries the state government because a failure this relationship between the United States and Mexico is very sensitive. A failure would be something terrible especially for, we the Mexicans very very terrible. Because we have a very weak economy and by all means everything that we do it has to be done very very carefully. We have to much I mean we have to much to do

if something goes wrong because by all means our economy is much more weaker than the United States and we need to be very very very careful. Thank you.

CHAIRMAN POLANCO: Thank you Mr. Hermosilio. Let me ask did you have a question? Excuse me. (inaudible in Spanish) We're going to ask now Senior Francisco Rivas.

MR. RIVAS: I'll be brief. Can you hear me?

CHAIRMAN POLANCO: Yes.

MR. RIVAS: My name is Francisco Xavier Rivas from the City of Mexicali. I've been involved for 20 years for the last 20 years in developing the (inaudible) industry and the industrial park activity throughout Mexico. I was recently the chairman, the National Chairman of the Mexican Association of Industrial Parks which are mainly located along the border which is really the place where we're having tremendous amounts of growing and development. As the representative I'm here as the representative of the private sector of Mexicali. Whether we're against or for the bill we don't know. Actually we have many doubts. It's natural we didn't have the information of the bill until recently and we haven't been able to digest the whole information in it. As a resident of Mexicali I'd like to point out that first of all and I agree with the people from Imperial Valley we weren't included in your bill which is the number one red light that we have. The other is that we do need infrastructure in Mexicali for

instance we have a tremendous problem with the new border entry as this point. If it's a border entry designed for perhaps 1930 1940 we're in 1989 now so we have a lack of 15 years of modernization with the border entry. This is a very important issue especially in commercial industry because we're in the center of (inaudible) export industry as well as vegetables or export farming products. We have a shortage of housing around 50,000 a year for the next 6 years and that's certainly a tremendous concern that we have. The water district of our farming community has to be modernized and has to be reorganized. We are having tremendous problems, part of our water as you know is going to Tijuana and we're having... we have been able... we have to have a cut down in perennial crops as well as regular crops. In perennial it's 30% in water and also in regular crops 10%. So that's affecting the community as well as the image of the United States because of lack of information we feel that or is a concern of the community, of the farming community in Mexicali that we're not getting enough water from the New River which we've come back to the sea level department so that's a concern. It's an image concern as well as an operational concern. We need to develop a road to San Filipe a four road highway because San Filipe has potential for developing tourist, but the road is very poor as you know. Public transportation has to be modernized. The new mayor just announced a modernization of this but we're going to have to need funds to develop this public

transportation. Sewage treatment plant has to be expanded and we need to develop a new sewage treatment plant and by the way we don't have a New River what do you call it a new river it's not a river actually it's a drainage ditch and so far up to now we have indicated always been in the "60 minute program" news program referred as a river, it's not a river it's a ditch, it's a drain ditch. So it's not a river. In education we have several programs we're now developing through the private university there it's said the university a research development industrial park we're going to need some funds for that as well as we have to develop more infrastructure in education and especially in technical trade oriented school. That's basically some of the key infrastructure that we need now in Mexicali. We do want to recommend the following number one that a study be made in Baja California to see how this program is going to impact the users of the so called finance through this bonding authority or whatever. I agree with Mr. Hermosilio that perhaps there's a sensitive element here which is the cost of using the services financed by this bonding authority if that's going to be over or too expensive for the user. We don't know it all depends on the type of returns you're considering for the bonds this is very important. Number two what exactly is the position of our federal government in writing. We need to know because we have been in touch with Sedui, administer of Sedui, administer of Secofi and several and even the

administer of foreign relations in Mexico and we so far we haven't been able to get a response. A written response of whether they're endorsing this program or not this is very important.

CHAIRMAN POLANCO: We've been ...let me answer that one particular point. We've been in communication with Enrique Barazza out of Mexico he is aware again the government has not taken a position. And I welcome that because it's too early I think we still need to identify those areas of concern that are being raised here.

MR. RIVAS: Yes Mr. Polanco, we appreciate the efforts that your making Mr. Polanco, and your staff, and the people behind the bill because as Mr. Hermosilo was saying, and I endorse, that we really need to see more ways of getting infrastructure into Baja, California. That is not our concern and I appreciate that the thing is that whether the mechanism is here the adequate mechanism is here for this bill to be used in Mexico. My concern and the concern of the private sector in Mexicali again is number one, that we see the impact the economic impact to the user of this so called infrastructure financing, and the other is exactly the confirmation from our authorities in Mexico from three levels of authorities, from the city from the state and from the federal government. It's very important and so far and I'm sure you've talked to several people within the Mexican government but as you know in Mexico everything comes from top to bottom and this

is the way it should be. So at this point we recommend this and until we see these documentation and this supportive documents we won't be able to make a take a position.

Chairman Polanco: No, I understand. Let me reiterate -- this select committee will be going to and will meet in Mexico in the month of April. We will be there as a delegation. We are coordinating our efforts through the mayor's office to begin with in Mexico city. We've communicated with other parties concerned. We envision a visit there for about 3 or 4 days. We canceled a previous attempt because this was on the agenda. We felt that respectfully that this particular issue needed to be addressed further. We're coming now to a point where we're beginning to get the type of input I believe that is necessary. The technocrats in the terms of the investment testimony that we will hear that we've heard and we will continue to hear some more today and we will go as a delegation of the select committee. It's to the interest of California the interest of Baja California and to the interest of the United states to do whatever we possibly can and we're going there with a mission with our ears open to learn and to try to come up with a cooperative agreement that both sides of the border can live with. So you need to know that we will be there.

MR. RIVAS: The other thing I was going to tell you is that to compliment a little bit of the Mexican Association of (inaudible) we are doing a tremendous effort together with the

Mexican Association of Industrial Parks we have developed a nursery program which we are paying for. We're now lobbying with World Bank to finance housing through Sedui the housing authorities. We're committing ourselves to giving transportation to workers by buying buses and coming up with new ideas in transportation to our workers. In housing we're again working with World Bank and Sedui but we as developers are donating land and the housing authority which is (inaudible in Spanish) is supporting us through the Association of (inaudible in Spanish) and developing more housing for (inaudible in Spanish) and I'd like to make this clear that we somebody mentioned here like everything in infrastructure is referred to (inaudible in Spanish) that is not so because we have a farming community which is growing. The export community the old city and services and so it is not related only to Maquiledoras. That is a misconception. I mean Maquiladores do create a need but it is not the only need that we have. And finally we are coordinating programs with the federal government the new approach that Salinas administration is taking we feel is a correct one which is there consessioning the some of the roads and the customs entry's points of entry's etc. so we are doing coordination. Finally, again thank you for the opportunity. We hope you include Mexicali in your future plans as part of the bill and again we will wait until at least number one the study, the impact study on economics study on the user be done

and the second one is to get the confirmation from our authorities and then we'll see. Thank you.

CHAIRMAN POLANCO: We appreciate your testimony. Thank you very much. Let me as Mr. Bareno the Director of Department of Transborder Affairs.

MR. BARENO: Welcome to San Diego Assemblyman Polanco. I appreciate the fact that your undertaking such a challenging task that having said that let me share with you some of the concerns that we have with respect to this proposal. Let me give you a little bit of background. There are about 94 border experts in this room each of which have a different vision of what that border is and what it's needs are. And as I sat back and listened to Imperial County there needs are somewhat different than San Diego's but you see the point that there's a great deal of intensity. I think what you found is two things one that your proposal really addresses the point that somebody needs to do something with all the players but the fact that a member of the Legislature chose to do that makes it uneasy for us for those of us who have to deal with it on a daily basis. I think that's part of the unsaid concern that's being expressed.

CHAIRMAN POLANCO: Who should it be?

MR. BARENO: It should be us. It should be all of us, it should be none of us. I mean that's the point because you have so many agencies that intersect at the border. You have the

federal level, you have IBWC, you have Sedui, all of those each with separate and distinct authority bases more particularly those agreements in 1983 that clearly define what they're concerned with. But in a broader sense I think that the proposal about infrastructure of providing infrastructure I think that everybody in this room will agree with you that's it's a need very clearly. But is it water? Is it roads? Is it communication? And then how does that relate to the regulatory federal agencies on the Mexican side? In addition to that how does that relate to (inaudible in Spanish) vision for Baja California? Because I think we need to say that the genesis of this proposal really in the broadest sense is to protect the quality of life in California. I mean that's really our motivation having said that then how do we best deal with Baja California to really deal around those whole sets of issues. That's the problem and that's a common problem. It isn't unique just to what your undertaking because we talk about or the proposal talks about bi-national authority but predicated on laws of the state of California. Bi-national authority not struck by any treaty not by any agreement that are signed by the presidents and if you work in these areas you will find that clearly despite all our efforts locally these things are determined by Washington and Mexico City. The rate by which people respond to these problems is determined there and it's basically driven economically. You mentioned, you asked the CAO in Imperial County

why they hadn't done anything, they hadn't done anything because we as a national policy have not chosen to do the right kinds of things and so we're all a little bit all at fault but a little bit all lacking in energy. What I would suggest to you to consider is that you need to look at and pull together all these visions of the border, all the agencies that have statutory authority that come in to play there and we need to all talk about what we need to do but I think what your going to find is that local agencies are real concerned about rendering or even the notion of rendering some of their authority to develop along the border to an agency that they're not sure you know how far it extends and what authority it has. In addition to that I'm concerned as was articulated earlier I don't know because we've had this experience with some juveniles I'm not sure that the state of California or any agency related there can enter into any agreement or use a mechanism like bonding with another nation. We had some problems doing that. The Government Code didn't permit the county to do something; we had to come up with another means so I would suggest that you have somebody look at the what the government code would preclude.

CHAIRMAN POLANCO: We've done that and I asked for Legislative Counsel opinion before we even got going. They did some analysis and the opinion came out that yes it can in fact be done. They cited a project with the country of Canada and New

York for hydroelectric as a precedent and the legal opinion we could make it available to whomever wants it.

MR. BARENO: We'd certainly be interested because as I say we were not permitted to do that.

CHAIRMAN POLANCO: The issue that's always raised is that of treaties and constitutional questions and we have language there from Legislative Counsel to address the concerns that were identified. I believe of both by the concerns that we had heard about the constitutionality because I to going into it proposed a very basic question how is it that the state can do business with a foreign country? And when we began to research the problem or the issue it came back very favorably that in fact it can be done. And there's precedent for it. It was the Canada-Michigan a bridge authority basically further development of a hydroelectric system plant.

MR. BARENO: I think International Boundary and Water Commission operates bridges with the with Mexico already....

CHAIRMAN POLANCO: My point is you asked the question okay. Can the states do it I'm telling you yes it can.

MR. BARENO: Well as I say we would really be interested because the things we've seen doesn't permit it but that's good. In addition I think the most critical part that you need to consider is that in talking about this bonding agency or bonding authority with respect to the border you need to define it, is it

fifty yards either side? It must have a defined area boundary so that that becomes very clear and I think that's part of the problem. The other pieces that when you talk about the bonding capacity one of the questions that we have in the county is that your legislation contemplates that the counties in it and in order to sell these bonds are you saying then that your taking the viability and the counties ability to sell it's bonds as part of the authority's ability to sell bonds. Then the second part of that if your doing that then how does the credit rating of the Republic of Mexico come into play there? Those are you know those are real serious questions.

CHAIRMAN POLANCO: Absolutely.

MR. BARENO: And we certainly want to point that out to you. In addition I think that there are some serious operational things with respect to the agreements in 1983 LaPaz that you really need to look at because those agreements clearly spell out authority for Sedui and EPA to carry out specific plans of action that are clearly articulated between the two governments and those are monitored and I will guarantee you that if anything we undertake or is undertaken by this group is in conflict with that the state department will stop it. It won't happen and therefore I think what they were saying earlier a good effort again will go by so I think the state department aspect is critical. In addition I would just urge you strongly to contact the ambassador

of Mexico in Washington, Ambassador Petricioli to let them know what your intent is because if they don't know there going to Mexico City that may not do it either in terms of your trying to get support for it. What your going to hear from is I think is that later on that it's absolutely essential to broaden the membership of your group. I think the city of San Diego is a major player in this region as well as the county and...

CHAIRMAN POLANCO: First let me make it real clear this is not my group okay. Let's make that real clear. This is the working draft document and I'm here to get your input don't... it's not my property it's going to be our property if we end up making this thing a reality. Don't'....it's not a group that I'm putting together in any which shape or form.

MR. BARENO: The other piece that is perhaps goes unsaid but is a concern from some of the folks that I've talked to. I think the central purpose of this body has to be one of two things to resolve these problems or sell bonds. And I think there are different opinions out there and I think those two visions of it need to be

CHAIRMAN POLANCO: How do they differ?

MR. BARENO: Some folks out there have the feeling that this is really a way to sell bonds the other is hey let's get all of us together to do something about these problems.

CHAIRMAN POLANCO: But if you read the bill I mean you

don't put a bond out on this. You got a project and it's viable and it's feasible...

MR. BARENO: That goes to my next point. What are the projects? You know it's easy for me to sit here and say let's solve the Tijuana sewage problem but if the Republic of Mexico does not share my same vision then it's...

CHAIRMAN POLANCO: That is why the bill is written in the way that it is. It is not talking about a specific project because it may not be an agreement with Mexico priority may be different. I believe we come to the point where we get an agreement and we have projects what they are? That's in the future.

MR. BARENO: Well then that really changes the perspective but again I would urge you to really look at the experiences of all the agencies including the state agency including the governor's office who have gone through these things before and alert you to some of the pit falls that your likely to encounter, but again this is a tremendous concept very challenging and you know I need to compliment you for that but I again there are a number of realities out there that you need to contemplate.

CHAIRMAN POLANCO: I appreciate very much the testimony there is no question that this is not an easy task. I'm not taking it lightly. But I come to you because you all have been the people who work in this particular region and who are aware

and who have experienced what the problems are. There are not new, I'm not pretending to stand here before you and claim they are new. We know what they are. I think we need to come up with a mechanism to begin to assist in financing an alternative mechanism this is a concept that we can't let you put it under the table or set it aside, let's explore it to it's fullest extent. And if it turns out that's it's not feasible for whatever the reasons then we can walk away saying that an effort was really made. I don't believe that that's going to be the case. I think in this day and age if it's federal government that needs to be communicated with at both sides we ought to do it. We ought to go there. The problems are too severe and so great and the economy on both sides are you know at peril. Let me ask for the next witness Mr. Raul Martinez is he present? If not let me ask the representative from the San Diego Economic Development Corporation Mr. Dan Pegg to come forward.

MR. DAN PEGG: Assemblyman Polanco and members of the select committee we've written you a position paper on this and those of you that don't have copies we'd be happy to make them available. I'd like to summarize the point briefly. The bill addresses the problems that I think as earlier testimony has pointed out is clearly of a serious one and one that we're all concerned with as Mr. Hermosillo pointed out on the Baja side. But, it addresses the problem in a fashion that is somewhat ill

conceded as we pointed out when it was presented as SB 961. It creates an authority that is essentially unnecessary. All the communities along the, at least the U.S. side, can float bonds and all ready have an enabling mechanisms if there is a project that would be self-sustaining. The difficulty we have is that all the projects that we desperately need to have addressed now are not self-sustaining. They're going to be in need of subsidies or below-market rate funds which are the areas that we have tried to focus our attention. The (inaudible due to break in the tape).... projects that on paper made sense but in reality would push us over a competitive threshold were creating unemployment and financial difficulties on both sides of the border. The real solution lies in ...

CHAIRMAN POLANCO: ... Give me an example of that. That's a pretty broad statement.

MR. PEGG: The entire Otay Mesa right now has a Facilities Benefits District which provides user fees for sewer, roads and necessity infrastructure. To create another user fee on top of that could put us in a position which would create us or make us less than competitive with other communities along the State of Texas or elsewhere. Driving those companies ...

CHAIRMAN POLANCO: How do you fund a bond going after the same user fee in the same given area?

MR. PEGG: Well, let's say that you want a user fee for

airport.

CHAIRMAN POLANCO: OK.

MR. PEGG: Or, some infrastructure requirement.

CHAIRMAN POLANCO: Who uses the airport? I am not an expert on it. I am just going to probe because I think that

MR. PEGG: Right now, all of San Diego would use the Brown Field if it were indeed expanded as it's being discussed. Because Lindbergh is becoming constrained. If they expand Brown Field and put a user fee -- now, that is being discussed and could indeed be done -- so it is probably a poor example but if this organization ...

CHAIRMAN POLANCO: What is a good example that could be done ...

MR. PEGG: I am saying that if it makes financial sense, it could indeed be done and a user fee on an airport does indeed make financial sense because it has such a broad base of participation. If the market is there to bring in the airlines, then they can afford to pay for the airport through the user fees. If you're going to attack or create other user fees for projects which are yet to be undefined and when we discussed this Cabeza bill, we asked for some sort of financial model to show us how it would work. But the point is most of the difficulty lies on the Mexican side of the border in terms of infrastructure and they can't -- they are having difficulty dealing with their discounted

debt problem right now. We're looking at solutions to provide lower cost financial mechanisms, whether it's a World Bank on the border, a border bank or right now, the reason that Mr. Bustamante is not here is because he's in Cancun talking with the officials including the President of Mexico and the Japanese who are providing \$3.4 billion in foreign aid for infrastructure at 3.6 percent interest. Now, I think you will be hard pressed to show a model based on this bill that will provide funds at that rate. That's what is necessary. We have already gone to Mexico City with the National Association of Industrial Parks, with the Mexican Banks and the Mexican Government and the Maquiladora Association to try and come up with some mechanism for housing. The fact is that under the current financial constraints of Mexico you just can't make a pencil even if you are kidding in significant discounts. If the industrial parks are willing to throw in money, if the Maquiladoras are willing to provide the funds, it still doesn't make financial sense. If you could come up with a project that makes financial sense, right now, along the border, I think that you will see a lot of people come to your side to help you get it funded and would be able to do so. But the projects that need the funding most desperately are those that can't meet that test of financial self-sustaining or would be a good test of being financial self-sustaining. So, what I would like to do is encourage you and your group to lend your energies

to finding those kinds of mechanisms that will create the low market rate funds for the kinds of projects: housing, transportation, infrastructure of that nature, water. So, that Baja can live up to its full potential and the United States, and specifically California, can benefit from that economic prosperity on the other side of the border.

CHAIRMAN POLANCO: Thank you. Let me just add that I think his -- your testimony with regards to the subsidy is an area that we should explore certainly. I think that your example of Cancun with the Japanese and another side coming is obviously not the better and obviously there are other attractions there. I am still of the opinion that I am not going to draw up this particular mission, if you will, until we're clear as to whether or not this funding mechanism, this alternative can in fact be utilized.

MR. PEGG: The meeting is in Cancun. The money is for infrastructure throughout Mexico as specifically focused along the border. So, ...

CHAIRMAN POLANCO: Well, I mean I would be interested in finding out the source. That is very good. Three percent ... Well, obviously. If the government is providing the two percent, they see something is being done. The government being Mexico? The government being Japan?

MR. PEGG: Japan.

CHAIRMAN POLANCO: Yes.

That's great. That's part of the treaty and the agreement that, was signed into law. I think that we should explore all avenues. I think that we ought to look at that and see that it can apply and where it can we ought to make every effort to try to make it apply. If it cannot, then we ought not to. But, we ought not to close the door because the problem is not going to go away and the impact upon the entire State of California if it continues is devastating. And, based on all the reports including yours that I have had the opportunity to review in terms of identifying the projects that are needed, there is no money out here. So, we've got to find a way, a mechanism to create that. That is what this Committee is attempting to do.

MR. PEGG: I agree with that purpose.

CHAIRMAN POLANCO: Next presenter.

Mr. William Huck, Investment Banker, here in San Diego with Stone and Youngberg.

MR. WILLIAM HUCK: Mr. Polanco. Thank you for the opportunity to come and address your group this morning. I don't have any prepared comment, so I'll beg your indulgence there. I have learned a lot this morning listening to the testimony of others. As Mr. Scott from Goldman Sachs, I am an investment banker, active in a smaller firm, one which works solely in California but throughout the State lending money for public

projects; some of which you discussed this morning. I am humbled by the testimony of those that have gone before me in terms of describing the need, the disparity, and the ability to pay and things like that. I would just like to confess that I am not an expert in any of those things nor am I an expert in international finance. I guess our firm and perhaps myself have some expertise in how these projects are financed in California. I would agree with the technical recommendations of Kevin Scott from Goldman in almost every case. Again, I think that we are primarily technicians as you have already pointed out. We don't have any particular perspective on which projects are the most valuable but we do have an idea on how capital can be brought to bear on those projects once the people involved have established the priority of need. In terms of the capital, we work in investment capitals as opposed to aid funds. So, as Mr. Hermosilio said that the people who we work with who are other clients are anxious to invest their money as long as it's repaid and is repaid with a suitable return. Right now the return on capital which is invested where the return is exempt from federal and state taxes is on the order of seven or eight percent. Not three percent. But, nevertheless that's a very effective cost of borrowing for many of the projects that we are involved in. As Mr. Scott mentioned, we sincerely ask you to look at the federal tax issues here as a means of lowering the cost of capital. The investors in municipal bonds like to have

them exempt from both federal and state taxes and that is an important component of their investment decision. I think the greatest service that your organization this bonding authority could bring, and I salute you for your vision on it, is extinct from many of our other clients in this state who have geographical boundaries creating an organization which may I underline may because again I am not an expert in this but may have the ability to look over the boundaries to paint lines on the other side of the boundary, if you will, or to imagine that they weren't there. Certainly the bridges or the toll roads or the sewer treatment plants that have been discussed this morning by others are financed all the time in California. Not without great expense and not without paying but nevertheless they are done. If your organization can do nothing more than erase those man-made boundaries in terms of zones of geography: air quality basin, water basins, things like that existed in a natural form, and insist in removing the man-made boundaries. That I think would be a terribly important contribution. I think that Mr. Pegg and the representatives of Imperial County have mentioned there do exist out there a very effective governmental agencies on this side of the border and I presume the other side of the border, but again that's beyond my area of expertise with whom I think you could act in partnership and act as an agent to coalesce their technical ability and staff ability and so forth. Right now to finance

these things. So, that I see terrific importance and value brought by a bonding authority like this in the same way that regional bonding authorities are now being grown throughout California to attack other regional infrastructure financing needs. I think -- again, the greatest importance here is acknowledging that there is a regional need here for facilities and if you could remove the barriers in meeting those needs by looking over or around or through the boundaries -- that's a pretty simplistic notion -- but that nevertheless I see the greatest value. Again, I think, from a technical point of view, Mr. Scott has covered most of the things I wanted to mention from a more fundamental point of view, again, getting back to the fact that this is investment capital and the lenders want to make sure that they're repaid with a return. In this country and in this state revenue bonds work very, very well because of a long record of statutory and court cases which show very clearly that public agencies in California can levy sewer rates; can levy taxes; can levy tolls. Do all those sorts of things and in the event of non-payment exercise certain remedies. The investors, the buyers of the bonds, who invest their money, look at that statutory to sell the bonds in the first place, but, as importantly, look at the down side situation in the event of non-payment. I think another value that could be created is exploring and perfecting in discovering what revenue, what avenues of remedies would be

available to bond owners in the event of non-payment on sewer fees, for instance, by an owner of a plant in Mexico. In your authority, work with the government on that side to effect the same kinds of remedies we have in this country. The ability to turn off one's water is a powerful remedy and that's one that has been perfected through the courts and the laws here for a long period of time and one in which lenders rely on. You can work on those kinds of remedies for bond owners. I think that you will find investors willing to lend money at market rates. Again, 7 and 1/2 percent at today's market for worthwhile projects. I guess one other thought that we have seen in terms of regional financing in California is the definition of a zone of benefit. And, the fact that a project may and you can look at corridor in Orange County and many other transportation corridors throughout the state these days where the zone of benefit is broader and wider than just a couple of miles. You may have people at the north end of the zones 60 miles away helping to pay for improvements on the south end of the zone. Here if the zone can stretch across the border, stretch the boundaries between Imperial County and San Diego County into Mexico, I think that kind of definition and that kind of vision would be a great value that your bonding authority could add. Again, I appreciate the opportunity to come and speak with you.

CHAIRMAN POLANCO: I thank you very much. You've raised

another area that we should look at and that is in addition to the bonding question the whole issue of a zone of a geographic area that really becomes one where there is really no boundary, if you will, in order to bring forth some zone benefit to the geographic area that may in fact be both California and Mexico should in fact be. That's a very interesting concept. I appreciate your testimony.

MR. HUCK: Thank you.

CHAIRMAN POLANCO: Is Mr. Raul Martinez here? He is not. OK. Next person. We're going to ask the Director of the Governor's Office of California Mexico Affairs, Mr. Frank Marquez, to come forward and give testimony.

MR. FRANK MARQUEZ: Mr. Chairman, Assemblyman Epple. I appreciate the opportunity to speak before you on the preprint of AB 12 today, and, again, Mr. Chairman, I commend you for your interest in seeking innovative methods out of infrastructure financing for the border region. I have not been privy to a lot of the comments and testimony before me today but I hope that some of the comments aren't duplicates in nature. I'm sure that you have heard about the phenomenal growth of the Maquiladora Industry particularly within the last few years along our entire border region particularly in Tijuana, Mexicali, and the tremendous growth in these plants which are now number approximately 1700 in Mexico. 700 to 800 approximately which are located in Baja

California which is almost 50 percent. As a consequence of this growth, we have had a major surcharge of the infrastructure to the point where I think it not only affects the continued development of the border region but also the future growth in trade and employment opportunities that exist between California and Mexico. I think that the basic concept of a bonding authority is supportable. However, as a number of people who have mentioned already there are a number of fundamental issues which I think must be addressed and taken into consideration in order for this type of mechanism to be effective. I think first and foremost by natural nature of the authority needs to be addressed. I think that it's already been commented on today that we need the input and comments by the respect of federal government agencies. You've already heard that the Mexican government is very centralized and I believe that the appropriate authorities need to be consulted. The Office of the President, Secretary Pedro Aspe de Hacienda, transportacion, a number of others and I applaud your foresight and vision in scheduling a hearing in Mexico but I think it should have been scheduled prior to this hearing because this type of bi-national entity, if it's going to be successful is going to need the support and continued participation of the Mexican government. That type of support or direction really isn't known at this time and I think the fact that you are scheduling a hearing in Mexico City is very good. However, I

think you did mention that you're coordinating it with the Mayor's Office and I would tend to point out that's probably not the appropriate authority to schedule this meeting with. It would either be or the Office of the President or Hacienda, if you are talking about financing. I would be more than happy. You and I have spoken on a number of occasions. I would be more than happy since you are also a Commissioner of the Commission on the Californias, which is also a bi-national organization, to consult with you and assist you in any plans. Our office, as you all know, coordinates all the liaison activities between the State of California and Mexico and over the last several years we've established a number of good contacts in the agencies to facilitate this process for you and additionally we have the State Office in Mexico City, which is principally a trade office. You were there for the opening. But we can facilitate some of the coordinating of witnesses and contacts with the Secretary Aspe to try to get much participation and comment for your bill. The concept is necessary. I believe, you know, as I stated the concept is supportable. It is very similar to the bill that was raised last year by Senator Maddy with some omissions in some sections and I think it -- one of the specific mechanisms or vehicles that was addressed in that bill was tolling and user fees, which I believe, depending on the geographic region or the necessity for development of the infrastructure project may have

some viability but again, as was mentioned by members of the private sector, may have some viability but again as was mentioned by members of the private sector I think you have to do a study or analysis as to whether or not the costs involved, you know, outweigh the benefits that will be generated by such a mechanism. I think also the type of instrument that will be issued. We are talking about a bond instrument. A debt instrument. I think the instrument would have to be an instrument of international acceptance because if, I don't know if it is going to be in the type of denomination. If it is going to be dollar denomination or it would have to be in a denomination, I think, that it's readily acceptable by the international investment community. As was mentioned by other members, the type of return that is anticipated from such an instrument is also important. I believe that on the California side of the border, if you could call it a border, we have sufficient mechanisms already that exists for the financing of infrastructure projects and I think what we really need to do is evaluate whether these types of mechanisms or the one that is envisioned here will be readily acceptable or affected in Mexico.

CHAIRMAN POLANCO: Let me ask you, Mr. Marquez, identify the specific mechanisms, if you would please.

MR. MARQUEZ: Excuse me.

CHAIRMAN POLANCO: Could you please identify the specific mechanisms that are available? If they are, how much ...

MR. MARQUEZ: Here.

CHAIRMAN POLANCO: Yes.

MR. MARQUEZ: You have user fees. You have assessment districts. You have revenue streams, revenue bonds that are already existing and I think those type of projects are empowered to local authorities and counties and other types of districts which have been operating quiet successfully. I don't know if the same type of ...

CHAIRMAN POLANCO: How long have they had this available to them?

MR. MARQUEZ: Well, I'm not the local planner or somebody that is really conversant in financial instruments on the California side but I think some of the comments that have been made is possibly the duplicity of instruments that exist already in California. I think -- I am not sure that if you have received the comment from the State Department on the constitutionality or the legal authority to proceed with such an authority and I believe that if we haven't received, or if you haven't received an opinion yet, that a possibility for a sample or an example of what you or how you may be able to structure this type of authority on is the examples that exist when there was construction of bridges and tunnels between the United States and Canada. I think that there are other authorities, the Bay Bridge Authority and a number of other major public works projects that have utilized this type

of mechanism and used that as a basis for a model to expand on for the bi-national nature that this have envisioned. But, I think that in that regard, if the authority is going to be successful, we really need a comment and a position from the federal government because there's a major and a very fundamental prohibition on involvement and the sovereign nature of forbidden zones, the 50 kilometer strip along the coastline and the 100 kilometer strip along the border, so I think we need to keep that particular provision in mind in evaluating the viability of this bonding authority. Additionally, I would just like to make a few comments on some of the activities that the Board of Governors have undertaken. You probably have already heard of some of the activities that the first finance summit in Texas had and the successfulness of that and also the finance summit that our, my office hosted here in California last month in November where we had participation from the banking and investment community to address infrastructure projects along the border region. Some of the comments and some of the examples that were mentioned there -- we were brought up-to-date that -- for example, that the Secretary de Hacienda announced that the (inaudible) Program would be utilized and for projects like toll roads and they would continue to develop new rules which will be announced in January of this next year. Additionally, other infrastructure projects, such as sewer plants, and projects of that nature, would be handled on a

case-by-case basis to determine the feasibility of allowing the mechanism of a debt

CHAIRMAN POLANCO: Let me ask you a question here, Mr. Marquez. There was concern that there was no specific project in the bill. You are saying now on a case-by-case basis -- in your opinion, should there be specific projects in the bill?

MR. MARQUEZ: A ...

CHAIRMAN POLANCO: Or should the authority, assuming that the authority was established, that the authority have the where with all to evaluate to see whether or not it meet all the criteria?

MR. MARQUEZ: I think the way the bill is written right now, it's pretty broad in scope. I think that if you focused it on a geographic region as was mentioned today, maybe the Border Region or geographically with a distance, I think that ...

CHAIRMAN POLANCO: What about ... Let's assume that that is something that the parties want in place. What about the specific projects?

MR. MARQUEZ: A....

CHAIRMAN POLANCO: Should that be in or out?

MR. MARQUEZ: I really don't have a definitive answer on that. I think that in some instances, it would be beneficial to focus in on some certain types of projects and in other instances it maybe duplicative because you have local authorities that are

already involved in those types of projects.

CHAIRMAN POLANCO: You keep saying but because the problem is not coming. But when it comes down to it, as I see the involvement necessary, putting the bucks up to do something. That's not taking place for whatever the reasons? We have an idea of what they are. So, you're not clear, again, of what or not whether we should be specific because there was some concern that was raised here during some of the earlier testimony, I think before you walked in that it was too broad and not just the geographic area was the issue but that is a good point that you made that it was too broad. There was no specific project and that the bill maybe should incorporate some specific projects. You know, I just wanted to get your input on that.

MR. MARQUEZ: I think probably the appropriate people for comment on this would be the local entities which have representatives here today and also comments from the representatives of the Mexican government both the federal, the local and the state on the type of projects. Additionally, the other mechanisms that the bankers and the individuals from the investment community mentioned at the financial forum were types of interim financing roles that they get played with debt and equity instruments transferring them back to Mexico maybe, you know, building them, having interim financing operating, recovering some of the return and then turning them over to the

appropriate governmental entity if it be the authority or the governmental entity in question. Another type of mechanism was the use of formula participation versus traditional financing, whereby the banks would links percentages of entity to the percentages of profits, such as that on the return on investment and could be based on projected profitability of certain revenue streams, either net operating cash flows or gross or net revenues or the other one would be exports or types of production flows from certain type of instrument or activity. They're probably other financial mechanisms that have been mentioned. People hear from individuals from the finance community talk for debt swaps and other types of mechanisms. But what I would just like to, you know, finally say in summary is that there are a number of organizations and sectors that are addressing this infrastructure problem and I think that in order for this authority or this type of agency that is created to be successful that you are going to be competing with a number of other types of instruments. That the same type of returns and unless there, you know, what is going to be the specific attractiveness of this particular instrument unless it is backed by possibly an economic development or a border development bank or something that will give it full faith and credit because obviously it's going to be quite difficult to secure the full faith and credit of either the United States or the Republic of Mexico to back this type of instrument. So, there

is going to be some type of creative instrument. That's all that I am saying. So, it is quite difficult. So, if you could bring these organizations and individuals some of which are represented here today to give comment on the type of instrument that would be most viable to fund these type of infrastructure projects. I'm only saying that, I think it's -- that we are going to have to be quite creative in doing that because there are going to be a number of other competing mechanisms and instruments already that are already known that are already accepted competing with those types of instruments unless there will be low market rates or some type of subsidy or incentive to attract the investment community that instrument. And the only other thing I'd just like to offer the services of my office and myself to coordinate any future meetings that you may wish. I have been working with your consultant and trying to provide you and the committee with as many contacts of individuals to receive notice of this document and the bill, but I think I commend you in your foresight in that it was a preprint of a bill and exploratory in nature and I think that although we try to give it as much diffusion as you tried, that I think the time was a little short to get as much comment as you could and I think with your next meeting in Mexico you will be a lot more successful.

CHAIRMAN POLANCO: Let me just make a couple of points with reference to your comment that the committee should have been

in Mexico first. With all due respect to, it was not, my intent was not to be disrespectful to Mexico at all. I think we need to get the house in order before you move in and make the visit elsewhere and we're still in the process of trying to get the house in order. So, I want to publicly state that it was not my intent to bypass Mexico and come up with this hearing. I think that the appropriate step, so if I offended anyone from Mexico, I publicly apologize that it was not the intent whatsoever. With reference to the user fee issue, I just read, I think it was last week, here in the United States is going to generate about \$5 to \$6 billion dollars in user fees in every area of business sector. I sense a resistance from the audience. I guess user fees is a vehicle that is used for income stream to make those revenue bonds, in this case, marketable if you will, and I get a I sense a real resistance from some of the presenters. I guess I need to know whether or not that resistance was expressed to the administration and I'm not to play politics just to be very up front because user fees for you name it. Five to six billion dollars' going to be generated in one year next year with user fees because its an income opportunity. So, I guess my point is I'm not clear as to what the resistance is and how sincere the resistance to the user fee is if you've knocked out on record to oppose, didn't do anything to oppose the user fees that are forthcoming in all the other areas of business.

MR. MARQUEZ: Assemblyman, just one comment with regard to your initial comment on the holding of the meeting in Mexico. My only comment was in the regard that in order to get as much participation and comment from Mexico, that I think maybe a preliminary meeting or a meeting of some type to try to get the comment because I think traditionally, you know, relations between the United States and Mexico in general haven't been at their highest level and I think individuals that have been involved in the area and you have a number of them here present, you know, can really provide that assistance to minimize some of these obstacles and generate that feeling of goodwill and cooperativeness that I think we're trying to generate, and I think in that regard that's the only reason I mention that, but also because the principal concept of this had already been initiated once and I think to get additional comments and to follow up on some of the comments that had been made before. But I think the fact that the contacts have already been made and the people have been informed is very good.

CHAIRMAN POLANCO: Let me just add to that. I would appreciate participating and being informed also, Mr. Marquez, in reference to your future summits that deal in the issue of finance. Obviously there was a lot of input that was given from the investment community and I would like in the future to be a part of that.

MR. MARQUEZ: Okay. We forwarded a copy of the memo of

the briefing memo to you and there will be a final document, I think, probably Mr. Ganster commented on that the University is preparing and as soon as that is available we will forward copies to you also. Also have a brief overview of some of the more technical nature of the bill from Orrick, Harrington & Sutcliffe which has been informing us and consulting with us. They're bond counselor for the State on the Department of Commerce and a number of others, and I'd like to provide a copy right now. I have more copies available also.

CHAIRMAN POLANCO: Great. Thank you very much. We'll enter that in your testimony into the record. Thank you very much, Mr. Marquez, for your testimony. Next presenter, Elsa Saxod, Director of the Bi-national Affairs, City of San Diego.

MS. ELSA SAXOD: Mr. Chairman, Mr. Epple, and Ladies and Gentlemen. It is a pleasure to be here today to provide testimony regarding the creation of a California Infrastructure Bonding Authority. As Director of the Mayor's office of Bi-national Affairs, I am responsible for overseeing San Diego's diverse relations with Mexico. It is gratifying to see the state begin to pay attention to the California Baja California border region. It is this deep concern for the border region that compels me to provide candid testimony about the content of this proposed legislation since an ill conceived bill could do more harm than the status quo. Let me preface my remarks by stating

that I appreciate the interest of the state legislature is beginning to show regarding the California border with Mexico witness this proposed legislation. However, this legislation proposing a bonding authority does not supply any new tool for economic development on the border that the City of San Diego does not already possess. We have serious reservations about the components of this bill which does not address could seriously jeopardize the success of the relationship between California and Mexico and in particular between San Diego and Tijuana. When we in the public sector seek to establish bi-national committees and programs with Mexico, we must be mindful of the need to conceive them within a bi-national forum which includes ongoing dialogues between both sides of the international border. If this communication is not present from the onset what can we solve if a unilateral program which will be of one party imposed upon the other. Keeping this in mind I would hope that discussions have already commenced with appropriate government representatives in Mexico regarding the proposed bonding authority in general its composition and the potential infrastructure projects these bonding would fund. From the testimony this morning, we now know that you will be going to Mexico and you will be having this dialogue, but we also feel that the dialogue should have begun before this hearing.....

CHAIRMAN POLANCO: Let me correct you. Communication

early, as early as you had all received it were made aware of the Mexican officials had received the information. For the record, our visit was not made as intended, but in terms of beginning the dialogue in the communication, let it be known that that was done at the same time the parties who we identified were contacted.

MS. SAXOD: And Mr. Chairman, to that, let me just say that my office was only contacted about three weeks ago, and again I think that that communication should have been a little before that. Although this bi-national dialogue, through this bi-national dialogue, many issues could have been addressed and resolved. For example, the degree to which Mexico could and would be willing to participate would have been determined. The composition of the authority as proposed may not be feasible from the Mexican perspective. It may be that the federal government in Mexico City must participate as well as state and local government representatives. This dialogue would also help to determine the types of border infrastructure projects that this authority would seek to fund.

CHAIRMAN POLANCO: Let me interrupt you on that point. Do you think that that is not feasible?

MS. SAXOD: What is not feasible, Mr. Chairman?

CHAIRMAN POLANCO: The composition and the input from the authorities of Mexico.

MS. SAXOD: The bill states that it will be, I believe,

two representatives from the state of California, and two representatives from the state of Baja California. My point is only to say how can we through legislation without having talked to them having had the meeting, how is it that we can then say it should be two from the state or one from the city or so forth. I think that that should really be up to the other side of the border to decide who and from what level of government.

CHAIRMAN POLANCO: I agree. So that then assuming that Mexico decides and that's cleared up, is there a problem with that provision. Because that's really a nitpicking provision, quite frankly. Talk to me about why it can't work. Talk to me about the need that the city of San Diego has along the borderfront. Talk to me about the budgeted allocated dollars you have there. I mean, let's not nitpick it. We can nitpick it to death. But let's get to the real issue.

MS. SAXOD: I believe that is one of the issues and that's why I had brought it up. From the city of San Diego's perspective there are many crucial concerns. For example, the proposed membership of the authority excluding the city of San Diego, yet many of these infrastructure projects will fall within the city limits. This scenario would jeopardize San Diego's ability to determine and manage its own planning needs along the border. Also no provision exists within this bill for selection criteria for ethics or conflict of interest guidelines nor for

removal from office. There are concerns as to where the authority would bypass the planning authority of the city of San Diego. In addition to these concerns, there are a number of questions that must be addressed before we proceed with this legislation. What type of projects will be funded? Will these be bi-national or unilateral projects. How will they generate revenue? What will be the criteria utilized in projects in site selections? Whose law shall take precedence in legal disputes? How is the California Baja California border region to benefit from this program? The legislation as proposed we believe does not address these fundamental issues. Part of the problem may lie in the definitions we use. When we talk about infrastructure what does that include. Some of us include roads, bridges and public work projects as infrastructure. But others include housing, schools and libraries within the definition. I hope this definition will be clarified today and in subsequent discussions with Mexican authorities.

CHAIRMAN POLANCO: Let me stop on that point. What are the recommendations that the city of San Diego is making to that effect?

MS. SAXOD: We are not here to make recommendations at this point. We are here to give our input as we saw this bill being presented to us at this level. I am going to say this again as I have said to your staff, my office is very willing to work

with you as that dialogue begins with Mexico and we find out what their concerns and their infrastructure needs are, then we can talk about our concerns and our infrastructure. But at this point for us to say it should be this or that, I think would be a little bit premature, exactly.

CHAIRMAN POLANCO: So to the issue that I raised earlier being specific, the bill had been criticized as to being specific, maybe being specific is not good at this point in time since we haven't come up with.....

MS. SAXOD: No, that's not what I'm saying. I think what you need to say is to identify some of those at least in categories where you're going to be looking at not the specific project.

CHAIRMAN POLANCO: So, in general terms infrastructure that's defined

MS. SAXOD: Absolutely.

CHAIRMAN POLANCO: That means streets, curbs, gutters,.....

MS. SAXOD: Absolutely. I think we need to have some categories because I think if you don't have those categories, then you have, we're never going to get to the projects themselves because everybody is going to be trying to define what the infrastructure is and you're going to have entities fighting so that their projects be the ones that's going to be worked on.

CHAIRMAN POLANCO: I understand. Good point.

MS. SAXOD: Though our needs in the border region are many areas of immediate concern for San Diego and Tijuana are water, roads and housing because of the recent growth of the Maquiladora and other industries of Baja California, a steady flow of migrants from interior Mexico have flocked to the state border city seeking employment. This has seriously taxed state and local government's abilities to provide basic urban services. This strain on local infrastructure, if further exacerbated, could have a damaging impact on the Maquiladora industries ability to maintain an adequate labor supply since many workers will be forced to look elsewhere for employment, such as San Diego. This shift would further strain the city of San Diego's infrastructure, particularly in the areas of transportation, water, and housing. This industrialization of the border region has also heightened our concerns regarding environment to quality of the land on which we live, the water we drink, and the air we breathe. In summary we are convinced that we must seek regional solutions to regional problems. The proposed bonding authority if not properly designed, structured and administered will not be a solution. The city of San Diego has serious concerns that I have raised here today and at this time we cannot support the legislation as proposed. These concerns include authority membership, project selection, accountability, and bi-national cooperation. Let us

sit down together to address these and other concerns that are raised today so that we can approach this complex issue in a comprehensive fashion. With that in mind I offer my support in helping resolve these issues and I would be more than happy to provide further assistance to committee in anyway possible. I thank you for the opportunity to be here with you today and if there are any further questions, I would love to try to answer them.

CHAIRMAN POLANCO: Your points on the regionalization it keeps coming back from testimony that regionalization be something that we should begin to look at and the authority, the project selection, the criteria, the accountability, the bi-national participation, excellent points, and I appreciate your offer to work because I think we can work these things out. Again, its a preprint bill. It doesn't mean that it has a number in a sense that its in the process, its a working document and also I really appreciate the input given. These are very valid concerns and we're going to look at those. Thank you. We have been going on and its about 12:15 and I believe we have some presenters this afternoon. I'd like to break for lunch if that's okay and take an hour, an hour and fifteen minutes, and let's return at 1:30. Doug Davidson, is he present? Good. Would you please come forward and state your name and the organization you represent please. Then go ahead and begin.

MR. DOUGLAS DAVIDSON: My name is Douglas Davidson. I am President of CABEZA Foundation. I'm a lawyer and I practice in Irvine, California, and I appreciate the time to speak. Today, as you know (not speaking into the microphone) (inaudible)..... California and Baja California economic growth authority as proposed by Senate Bill 961 introduced by Senator Maddy. SB 961 of the authority which create a similar and purpose to the authority proposed in your Assembly Bill 12. But we would have preferred having SB 961 co-sponsored in the Assembly. We are grateful that AB 12 reflects a common appreciation of all border problems and a common approach to solving them. In some particulars, however, the two bills are grammatically different. I would like to discuss some of those differences in a few minutes, but first I would like to give CABEZA's analysis of the situation in our common border with Mexico. It's no great secret that from California to Texas and south to central America the Mexican economy is in shambles although some dramatic improvements have been made recently. Mexico citizens are under employed and in many cases live in horrible conditions, making immigration both legal and otherwise to the United States very attractive. And there's a ticking demographic time bomb in Mexico. There are 15 million Mexican school children under 12 years old and over one-half of Mexico's population under 13. To keep up with this youthful and motivated work force, Mexico needs to create one

million new jobs each year at least for the year 2000. How is this going to be accomplished? The Mexican government has indicated that Maquiladora Industries is one of the principal vehicle in solving this particular problem. As you know the Maquiladora program began in 1964. At the time United States was facing increasing competition in world markets and Mexico was trying to deal with extreme unemployment, a severe balance of payment deficit and need to update its industrial base. As a result the Mexican and United States governments joined together to establish the Maquiladora program. Under this program American manufacturing companies shipped component goods duty free across the border to Mexico for assembly or manufacture parts. These are then exported back to the United States. Instead of Custom duties, a small bond is paid on imported goods. When the manufactured products of these inbound assembly plants are returned to the United States, tariffs on the goods are based only on the value added to the product during Mexican assembly. These usually amount to no more than the cost of the Mexican labor. It is estimated that some 1100 plants are now operating providing more than 335,000 jobs for Mexican workers. The Maquiladora Industry has become the second largest dollar earning sector of the Mexican colony bringing in an estimated \$1.6 billion dollars annually. It has also been estimated that by the year 2000, more than one million people in Mexico will be employed in the

Maquiladora plants and the program will account for some \$10 billion dollars in value added revenue to Mexico. There are a number of factors which have accounted for the tremendous growth of the Maquiladora Industry. Foremost among these is the low cost of labor in Mexico. Workers are paid about fifty to ninety cents an hour. This low rate for labor allow the American companies to manufacture components in the United States and have the finished goods assembled in Mexico, thus enabling them to keep final competitive prices competitive with the far east. Mexico's proximity to the United States is another factor in the success of the Maquiladora program. Freight and transportation costs are much lower. The time required for shipment of materials to the assembly plants to deliver the finished products are considerably lower than when they're dealing with Asians in Japan. Both proximity makes U.S. supervision of operations much simpler, requiring considerable less travel time in most cases, and with companion twin plants located just across the border, operations with Mexican company can be closely coordinated by U.S. technical and supervisory staff can continue living in their homes in the United States and visiting the Mexican twin as needed. The Maquiladora Industry has become the center of Mexico's border economy. One study of the workers in Ciudad Juarez estimated that each worker supported seven other people and that fully one-third of all household in the city receive income from them.

Now one might reasonably ask what we as Americans and especially as Californians care about all this. Well, simple fact is that in a very real sense we no longer have a Mexican economy and U.S. economy we have a region economy. What happens in Mexico significantly affects the United states and California and what happens here has a tremendous impact there. For example, it is estimated that one in five jobs in El Paso is tied to the Maquiladora program. U.S. border towns have benefited in other ways as well. Approximately 40 to 60% of the wages earned on the Mexican side have been used to make purchases on the U.S. side. In 1986 study by the California Department of Commerce determined that San Diego County realized a significant benefits from the Maquiladora. For example the study found that San Diego based companies spent an estimated \$60 million dollars annually in the counties on repairs, equipments, supplies, taxes and other items related to their Tijuana facility. Another \$35 million dollars to be added to this for the indirect effects of the payroll for the 1250 workers employed in the Maquiladora support facilities on the U.S. side or the 250 San Diegans working in Baja plants. Strengthening the Maquiladora Industry cannot help but create new jobs and improve the border economy, that more people are employed, they have the opportunity to improve their quality of life. As the local economy grows the service (inaudible).... and the border grow. The more money a resident Tijuana have the more

likely he or she is to buy U.S. made appliances and other goods across the border in the United States. An interesting contrast is that a dollar generated by a Singaporean worker for the assembly of American made circuit boards returns twenty cents to the U.S. The Mexican assembly worker on the other hand who works for less than the Singapore counterpart returns fifty cents to the U.S. for the same assembly work. Unfortunately all this isn't good news. In many border cities the rapid growth of the Maquiladora Industry has placed a serious strain on local government's ability to produce basic city services. In Tijuana the water pump supplying homes and factories regularly shut down. If you listen to the radio and traffic report every morning the tie up at the border, both the border crossings are uptight and San Ysidiro. It can often take ten, fifteen to twenty tries to complete telephone call from the U.S. to any Mexican border. Power outages and brown outs are common and workers have even been forced to work by candlelight. Except for the Colorado River, most of the rivers across the border west of El Paso pick up sewage in Mexico depositing it in the United States. When the sewer line ruptured in 1984 and it is the five million gallons of sewage poured into the Tijuana river was transported to San Diego. The San Diego, the then San Diego Mayor explained this is a foreign invasion even if the problem of sewage are not soldiers. Mexico accepted responsibility of this spill but admitted that it

just didn't have the financial resources to clean up the sewage according to U.S. standards. A recently completed sewage treatment facility may cope with the problem for the few years. For as long as the problem such as these continue to exist, many U.S. manufacturers will shy away from the Maquiladora program and more sophisticated products will not be made in Mexico. If the lights go out on the assembly line, the company pays the price in reduced productivity. When a power fail in a semi conductor fabrication plant an entire batch of extremely valuable silicone chip is destroyed. Robert Pastore pointed out in a book entitled Limits of Friendship "When the local area of the border issues the sanitation, the air, the water pollution, public health which may be for law enforcement are international problems". Realizing the bilateral relationship between Mexico and the United States becoming increasingly important to both countries, the Ford Foundation funded the bilateral commission on the future of the United States and Mexican relation which is headquartered in part of these building. In a recently issued report the commission recommended that both governments should work to create more thermal mechanisms to energize channels and (inaudible)..... their mutual interests. Regarding improvement of conditions along the border, the commission recommended that a bi-national authority on border affairs should be established in keeping with the exercise of national sovereignty this organization should

assume regulatory responsibility for matters of common concern and undertake the management and carefully specified activities such as environment, customs, and (inaudible)..... border infrastructure problems. What have we done to solve these problems. In a typically American way we formed study groups, commissions and blue ribbon task force which has studied the problems to death. Also, piecemeal approaches have been tried but not solved to speak of, but to our knowledge no one prior to SB 961 and now AB 12 has come up with a comprehensive mechanism having to essentially solve a variety of problems. The CABEZA approach, the approach taken by SB 961 and to some degree by AB 12, is to adapt the recommendation of the bilateral commission and the border governor's resolution from February of 1989 so that private capital rather than tax revenues can be applied to these problems. This is the same approach that has resulted in the Golden Gate Bridge and the Bart, to name a couple of examples. In short CABEZA would identify projects, issue bonds to finance their construction, construct and operate the projects, and retire the bonds through revenue generated by the project. The CABEZA concept has been endorsed by (inaudible)..... a group of concerned Mexican American businessmen, scholars and public officials, as well as Professor Jorge Bustamonte, President of Colegio de la Frontera Norte in Tijuana. Of course no authority can solve all of the problems along the border. Some are going to

require entrepreneurs who are willing to risk their own capital on conditional business there. A good example of this might be housing. However, many problems along the border simply need a governmental or quasi governmental solution. As I mentioned earlier SB 961 and AB 12 take essentially the same approach, but different in their details as one of my friends points out, God is into detail, so let's talk about some of those details. First, the authority needs to have representation from a broad range of local and regional governments. As drafted neither measure include representation from Imperial County or the cities of San Diego, El Centro, Mexicali or Calexico, all of which need to have some opportunity to participate. I also note that purely technical matter that while AB 12 specifies seven members, only six of them are identified (inaudible)..... Next, the authority must have sufficient power to require the property bid needs for the various private projects that's going to undertake. This means that it must have the power of men who donate. There have been some suggestions in the past that the power as provided in SB 961 would allow the condemnation of public parks, schools and the like. Now this is other than a specious illegitimate concerns. The authority's power can be restricted appropriately, but it needs to have that power in order to be effective. Without the power in eminent domain the authority will be (inaudible)..... Timely the authority must have the power to

assess toll or other charges for the use of its facilities. Without this power the authority will be unable to sell revenue bonds necessary to fund the projects that is created in the bill. If you're going to address the infrastructure problems along the border in the fashion suggested by SB 961 and AB 12 you must do so in a realistic way. If you're not going to give the authority the power it needs to act by other similar successful authorities such as Bart and the Golden Gate Bridge authority, I'd suggest that you do nothing. To create yet another study body or an authority with no real power (inaudible).... waste your time and the time of those involved with it will further irritate the already (inaudible)..... have resisted in the past door neighbor with Mexico. Appreciate your time.

CHAIRMAN POLANCO: I believe I read a comment from the testimony that was provided from the San Diego Economic Development Corporation on the analysis of Mr. Maddy's bill which indicated that the power would be used, as you stated, would take public lands away. You make reference that the BART and the other authorities have used the power of eminent domain to acquire land. At this point in time, obviously that is a real sensitive issue to the power who govern both the county and the city along the border. How essential, and if you think that it is essential to incorporate that in this point in time of the process to have that element in the bill? Why is it so essential? Could you tell me

-- you could answer that first, then you could tell me if there is a specific project that, you know, all have in mind that would require that?

MR. DAVIDSON: To answer the last thing first, I can't identify a particular project but I could come up with a scenario where it would be significant. We have this problem in California from time to time when we build freeways to the exist that we are building them. If you're able to contractually acquire a piece of property that's within the path of what you are building, voluntarily that's fine but just to go out and buy it at fair market value presumably. But if you have one person the quasi-essential little old lady that is living in the house that she has lived in for 30 years has -- is preventing the completion of a significant public improvement, you need to have some mechanism for acquiring that property and if you don't have the power of eminent domain, I don't know how you do that.

CHAIRMAN POLANCO: What's the possibility of having the power of eminent domain remain with the local jurisdictions, since they are going to be a part of it and if it's in, why can't the local jurisdiction maintain that power of eminent domain, since it is a real important; since it is real hot issue?

MR. DAVIDSON: I understand that.

CHAIRMAN POLANCO: And, let the city or county proceed, with that authority that they already have vested.

MR. DAVIDSON: That would be okay, if in turn they would title to what they acquired to the authority.

CHAIRMAN POLANCO: You see, I believe that if they are a part of it and you're including them in the process of each phase of the process and they are committed to resolving that problem that is out there. I find it hard to see where the city would go or the county.

MR. DAVIDSON: I agree, I guess with a couple limitations. One, as I stated, that the property that they acquire by eminent domain didn't have to be conveyed to the authority, so that the authority has complete title to the property.

CHAIRMAN POLANCO: I understand.

MR. DAVIDSON: So, that we can encumber the property through the bond or the indebtedness or whatever. And, second, as you say, that the county or the city would be required as part of its participation to condemn a piece of property. I guess that I am willing to assume that either if they are out voted on a project and if there are nine members or seven members or whatever the majority elects to go ahead with the project and the city or county for its own reasons doesn't -- isn't in the majority, if they were not withstanding in the minority and were told to go out and condemn the property, I suppose that would be OK, as long as somebody on behalf of the authority has the power to condemn.

That the power of the authority.

CHAIRMAN POLANCO: Based on your experience in terms of what's happening out here with the lack of real implementation activity, what does -- does the foundation have any ideals whether or not we should include projects in the bills and be specific, or should we leave the bill in a broad sense so that when we start to dialogue with the Mexican officials and the other parties concerned, there's an opportunity there for that to develop.

MR. DAVIDSON: In my view, the authority ought to have what sort of generic powers, so that as problems come up and if it's a sewerage treatment plant or if it's a road, if it's water, if it's school, whatever, the authority the flexibility to kind of move in whatever direction the members of the commission think. Rather than go back with you gentlemen and the Government of Mexico and our government in Washington and get authorized another project.

CHAIRMAN POLANCO: So, you are saying in terms of generic, let's have a category per se, water problem, treatment plants...

MR. DAVIDSON: Or even broader than that. I mean if you have the power to address any kind of infrastructure problem on the board.

CHAIRMAN POLANCO: Earlier testimony was given that conflicting testimony -- some said that you have got to be

specific because it is too broad; and others say that you have to at least identify the categories, so that the authority has guidance as to at least where to be and not be given the opportunity to float bonds elsewhere in some other private developments that may not be in the public interest or for the benefit of the regions.

MR. DAVIDSON: I think that if you are going to do that the best that you must do would be to come up with a broad category; housing, water, sewage treatment, electricity, telephone, roads, school systems -- very broad categories. The concern I have with narrowly defined projects is that it's going to be enough of a cat fight getting this through if it ever gets through. To go and re-invent that wheel every time you come up with a new project sounds kind of ...

CHAIRMAN POLANCO: No. I understand. I think that the testimony that was given earlier is a need -- you're expressing it for a different reason. The need being the same; the need being have broad categories. Define this feeling, if you will, of where the authorities will be able to participate without having to go and to detailing any specific project with a specific criteria in the bill which may not be realistic which may preclude other projects that may not meet that criteria. Well, thank you very much. We appreciate ... If you do not mind, we would like a copy of your testimony. You could submit it to us at a later date.

Typos, we understand.

MR. DAVIDSON: Thank you very much.

CHAIRMAN POLANCO: Thank you for your time.

Let me ask the next presenter. Bernice Layton, President of the Greater San Diego Chamber of Commerce. Please come forward.

MS. BERNICE LAYTON: Good afternoon, Mr. Chairman and Committee members. My name is Bernice Layton. I'm Vice President for International Affairs of the Greater San Diego Chamber of Commerce. I'm sorry that Mr. Grissom could not be here with you this afternoon. On behalf of the Greater San Diego Chamber of Commerce, I want to thank you for this opportunity of commenting on the proposed California/Mexico Bonding Authority described in AB 12. The topic under discussion today is one that has concerned us for a very long time. Our Chamber has given a great deal of thought and effort to the infrastructure needs created by the world's busiest border crossing and the dynamic growth of the Maquiladora Industry and the businesses that support it. So have many other agencies and organizations, both public and private, at the federal, state and local levels. At this time there are regional bodies in San Diego, such as the San Diego Association of Governments; California state agencies, such as Cal-Trans and our Pollution Control Districts; federal authorities, such as the Customs Service and INS; and border-wide coalitions of U.S. and

Mexican interests, such as the border-trade alliance, in which the San Diego Economic Development Corporation plays a major role and all studying and working on these problems. In some cases, specific proposals are being implemented or under consideration. Earlier this year, a legislative proposal, SB 961, which you just discussed with some similarities to AB 12 was introduced by Senator Maddy. The Chamber strongly opposed the bill for a number of reasons that applied also to AB 12. First, there is the impact on local government. AB 12 is super-imposed and an additional layer of government on an already complex financial, multi-jurisdiction situation. Yet it provides no mechanisms for working out the problems which this would generate. Creation of a new agency was not sought by local government, nor does AB 12 require the bonding authority to interface with local agencies. It merely permits such interaction for joint power agreements. Thus, fragmentation of authority would be magnified, not reduced. The authority's governing body would not be accountable to local authorities. Only one appointment would have to be a county resident. The others need have no knowledge or understanding of a local area or its problems. The offices ...

CHAIRMAN POLANCO: Can I ask you questions as you go through each point?

MS. LAYTON: Sure.

CHAIRMAN POLANCO: Because I think I'll lose some of my

questions. Can you -- You make mention that the local authority for this bonding authority would not be accountable to any particular body.

MS. LAYTON: That is right.

CHAIRMAN POLANCO: ...or constituency. How does San Diego hold the current local authorities that are established today under law accountable?

MS. LAYTON: Well, the SANDAG represents cities, all of them, who are elected who are represented by elected officials.

CHAIRMAN POLANCO: Yeah. How do they hold the authority accountable?

ASSEMBLYMAN EPPLE: Special districts.

MS. LAYTON: Sir.

ASSEMBLYMAN EPPLE: Special district? How do you interface with them?

MS. LAYTON: Well, they can be a problem. This type of agency would just be another special district, in a sense.

CHAIRMAN POLANCO: Well, it's fine to come, and say, "Look, they're not held accountable." But if you are not holding accountable other people who are floating bonds or have authority to float bonds in other areas, then it's kind of ...

MS. LAYTON: Most bonds have to go on the ballot. They are not putting up with a lot of bonding authority. They don't come back to either a ballot or a hearings.

CHAIRMAN POLANCO: So, share with me, how would you propose then to hold an authority accountable?

MS. LAYTON: Well, to the extent that any government can be held accountable. We have far better chance locally where we do eye ball these people when they have to be confronted at hearings, open hearings, where you have a press that can venture and deal with them. San Diego is very jealous about this.

CHAIRMAN POLANCO: We ...

MS. LAYTON: I can assure you that nobody gets away scot-free.

CHAIRMAN POLANCO: That's fine and they shouldn't. I am glad that they don't. But, if you look at the bill, public scrutiny and public meetings are delineated quite clearly.

MS. LAYTON: I noticed ...

CHAIRMAN POLANCO: I beg your pardon.

MS. LAYTON: I noticed one. That was one hearing on issue of revenue bonds but there was no need to consult with anybody (inaudible) on any of these other issues. It wasn't mandatory.

CHAIRMAN POLANCO: So, the Chamber is saying that look at the mandatory input from the local authorities, from the local end of it, from the community or other interest groups. Let's assume that the authority is setup where you have representation from all of the interested parties. I mean you have an authority

there that has representation. How does that then deal with the issue of accountability? Does that satisfy the issue of accountability? Is that good enough? Is that not good enough? If not, why not?

MS. LAYTON: Well, that's just one of a number of objections we have to this whole thing. I don't think that in the case of what you're proposing near to be consulted on the South of Tahoe is a super-imposition of another agency on top other agencies.

CHAIRMAN POLANCO: Stick with my question.

MS. LAYTON: OK. I think that, you know, if we are going to get into the political science of accountability of the public, we can open up a Sacramento Legislature

CHAIRMAN POLANCO: That's fine. We are open. We do it. You read about it when we're not. So.... I am trying to get ... I mean, if it's mandatory that you are looking for where the public has an opportunity to review and there is a process, then, you know, you need to be real clear, so, that I am clear. Specifically, what exactly are you looking for? More public hearings? Less public hearings? More representation on the board? Just on that particular issue. Then, I want to get to the whole question about, the duplication, I guess, is what you're leading to with another layer of government, per se.

MS. LAYTON: Well, there are some issues. True. I

think that any local body that is meeting locally to discuss what it is doing to effect powers within delineated geographical areas is going to be dealt with not only by the public in general but everybody that has some stake in what's going to happen. That sees an impact. I can assure you that the Chamber would be speaking on issues relating to the business community. That the Economic Development Corporation would be here and through their memberships you would have a channels of communication that keep people aware of what's happening, on what the pros and cons are of given actions. Hearing processes are well established. People know what to expect of a governmental body locally where they have dealt with it, where they elect people. A final argument where you elect people you have a charter or some kind of fundamental governmental document that says exactly what your powers are, exactly how you can operate them, what the limits are. It is not even clear to me that there would be standard conflict of interest rules that would apply to this particular agency that's listed here.

CHAIRMAN POLANCO: OK. I think that's an excellent suggestion. In fact, prior to meeting here, we meet with Legislative Counsel. We will incorporate the whole question of conflict of interest. You see. What I am trying to get to is I see a real opportunity and a need. I see a need to bring a new source, a new stream of revenue. The problems are not going away.

The Chamber cannot solve them by themselves. The counties cannot solve them by themselves. The money is not there currently to solve the problem and I appreciate the input that is coming from the various groups that are within the region. I sit here. I mean, I sit here and you say, "Let's throw away this concept because there is no conflict of interest issue or the issue of conflict of interest is not being addressed adequately."

MS. LAYTON: I have four pages of reasons why we should seriously consider whether this is the right way to go.

CHAIRMAN POLANCO: That's what we are doing. So, long as you're clear, if I may call you by your first name?

MS. LAYTON: Sure.

CHAIRMAN POLANCO: Bernice, as long as you are clear, and everyone else is clear, that this is not a chiseled in stone. This is the way this is going to be document -- a pre-print means a draft. This will be a series. This is the first of a series of meetings with all the appropriate parties with the goal and a mission of how do we get to develop a new funding mechanism to address the problems that we have not been able to address because the issue is real clear as to what the solution has to be. Funding. There is no magic. It is no magic. So, I want, everyone to get to that. That is the mission. If underneath here, if there are areas of concern that need to be addressed, I want to focus on them. I really do. I want to focus on the

eminent domain question. That's is grave concern. I would like to focus very much on the whole issue of interfacing. That is a tremendous concern.

MS. LAYTON: You don't even have to locate this thing here and that was true of SB 961 too. Their Board can decide and they will put it in Yreka. That is some responsiveness of some people who are going to be affected and the thing to remind you about is yes there are some economic concerns here on the economic impact. But, by and large the most undesirable aspect of the inadequate infrastructure that we are now attempting to deal with at the border is on the local area. Why San Diego? Because we are the most heavily urbanized border community on the U.S. Mexico border. I don't think that just talking about that we have got to find money is going to solve the problem. How you choose the projects? How you tie them? How you coordinate them with what's going on? Some of the problems relate to processes, documentary processes, that are now being solved by U.S. and Mexico confronting one another, dealing with the proper agencies at the right level and a lot of it through the wonderful effort of this border alliances that have the conviction and say, "well, there are a lot of small steps you take before you can cover a large distance." Those are things to be considered. Not just where you are going to find some money and issue some bonds. Let's talk about all the various things that create problems. Let's look at

them one by one.

CHAIRMAN POLANCO: Good.

MS. LAYTON: ... Let's not create super newer ones if we don't need them. You know. Let's not invite them and let's not repeat them. Let's look at how these problems can be solved. I think they have to be solved where you are working at the local area. One of the problems we had faced is Sacramento now is finding out that we have problems because once you get north of the San Diego Orange County line a lot of people don't even know what's going on. They have no idea of what the dynamic growth along the border is. They have no idea of what the impact is. The farther away you go, and Sacramento is pretty dog-gone far away, the less people understand. Unless there is some assurance that you're going to have opportunities to confront the people who are the decision makers locally when you need to get your hands on their collars, then I think you are going to have serious problems. OK. I think you find yourself challenged every time you took another step. You don't even have to report to anybody, if it may be annually or once to the Governor -- not even the Legislature. How can you give away that power so cheaply?

CHAIRMAN POLANCO: What should be in the reporting document?

MS. LAYTON: Well, I think financially certainly. But I think that you should be detailing what it is that you plan to do

with the steps taken to do it. Who is involved with the decision making? Justification for the project? I don't think you should be doing anything like this without justifying what you are doing.

CHAIRMAN POLANCO: You don't think that the current language -- you don't think that the current language in the bill that is used today as law for floating other revenue bonds is sufficient to justify the project? And, if not, tell me why not specifically and what needs to be incorporated into it? Because it's pretty much boiler plate language, if you will, from all the other authorities that are currently in operation including the City of San Diego. It has the authority and refuses to do it, including the counties.

MS. LAYTON: That is a given. That is a given. That is what cities and counties are in power to do.

CHAIRMAN POLANCO: So, tell me what is missing in our bill? Because they have that same requirement.

MS. LAYTON: OK.

CHAIRMAN POLANCO: ... that is outlined in the bill.

MS. LAYTON: The bill just automatically gives the purpose to anything that can raise a toll or a fee. That is going to stave off your development only to those things that you can charge for. How are you going to charge people for taking a breath of clean air? Are you going to charge them less if the air is a little dirtier than you really want it to be, if it doesn't meet

your standards? Are you going to charge them more when you finally get a lot of this stuff out? In other words, you're only looking at things that you can sock a charge to.

CHAIRMAN POLANCO: Let me clarify that because that was clarified earlier today when we heard testimony from the Vice President of Goldman Sachs, who came in and indicated that our bill should include other means, other instruments, that can in fact can be used and we will incorporate that language into the bill so that it is not just user fees and or tolls. So, the bill was very narrow in that respect. The experts have clarified that we should expand it and we will do that.

MS. LAYTON: The bill also mentions granting (inaudible) authority to the bonding authority. You know, that authority already exists. It is already in use. You don't have to create a new authority to use assessment (inaudible).

CHAIRMAN POLANCO: Why has it not -- if that's so, why hasn't it been utilized to deal with some of the problems along the border front?

MS. LAYTON: It is my understanding that it is in use to bring infrastructure in the Otay Mesa area right now that is being used to create some road and bridge projects. I don't have the details on that. I don't know if there is anybody in the room that has information. That was information that was given earlier this year.

CHAIRMAN POLANCO: So, the Mello-Roos has developed a district. We will have to follow-up.

MS. LAYTON: (inaudible) development and the owner of the property.

CHAIRMAN POLANCO: And, it may not have to do with any of the problems that we're trying to remedy.

MS. LAYTON: No. But it deals with the some of them. Again, we are saying that these are more important than any others that anybody has in mind.

CHAIRMAN POLANCO: It's not so.

MS. LAYTON: OK.

CHAIRMAN POLANCO: It's not so. That is why we are here. That is why we are here.

MS. LAYTON: The bonding authority would rely on revenue bonds according to the way we read but the construction of these facilities is to be issued without a vote. Although there are many agencies that are specialized that don't have to, by and large, local governmental bodies would have to have the vote. While they traditionally are re-paid only by the income of the project, they are more costly issue because they are more risky and the type of project finance could therefore cost more than if it was paid for by some other way. This might require even higher user fees or charges of some type. That if you decide that this was really a big priority item and everybody says to go

with it, find some other means of financing,

CHAIRMAN POLANCO: Do you -- and you have to understand that if the thing don't pencil out, it's not going to be a revenue bond. I mean, you don't put something out there that is not going to return the investor, you know, the return. It's an easy argument or criticism to make but in the reality, it's a very strenuous requirement. It not only does it go through legal interpretation but the Treasurer of this State ends up having to approve and deals with the whole question of whether it's prudent or not. So, you know, I take your comment that we are going to have all of these projects that are not going to pencil themselves out. It is a real careful, specialized means of financing and that doesn't happen.

MS. LAYTON: Even with the best review and the best feasibility assessments, there are different gradings assigned to office and to bonding agencies.

CHAIRMAN POLANCO: True.

MS. LAYTON: And, you have to face up to that.

CHAIRMAN POLANCO: True.

MS. LAYTON: And, one event of issuing revenue bonds at whatever rating level the market will accept and that's a question, market acceptability. How hungry are you? Is there something that may pay you eight or nine percent, right?

CHAIRMAN POLANCO: True.

MS. LAYTON: It seems unwise to issue that kind of debt if it is riskier than others when it could compete with California's General Obligation Funding and revenue bonds tied to highly successful projects within the state, especially in a time when Gann Limits are forcing us to issue so many kinds of debts to pay for essential facilities throughout the state.

CHAIRMAN POLANCO: Well, I don't think that the bonds fall into place with the Gann Limit. I think that they are excluded. I am confused here.

MS. LAYTON: That is not the issue. That is not the issue.

CHAIRMAN POLANCO: Oh, did I misunderstand your statement? Or your question?

MS. LAYTON: Anything you wish is going to challenge the credit rating of everything that's out there already or everything that you have got to do down the pipe.

CHAIRMAN POLANCO: What is out there?

MS. LAYTON: Billions of dollars just voted for school construction, university construction....

CHAIRMAN POLANCO: Yes. But, this ...

MS. LAYTON: veteran's loans.

CHAIRMAN POLANCO: But those are authorities independent amongst themselves.

MS. LAYTON: There are big decisions here as the market

CHAIRMAN POLANCO: With the pledge. No. With the pledge of the government. So, you have got two distinct--yes, you have two distinct types of mechanisms that are taking place. Here you have, you know, one that has the pledge of the State of California or the school district and the other we are talking about private capital. See, I just find it so hard to understand why the problem that is there and with the Chamber would benefit the business community is going to benefit from much of this activity. Why, if I am reading right, why the Chamber is so apt to put this away? Don't deal with.

MS. LAYTON: Because it supersedes all the other agencies that could be working on this problem with some other grants of power, some other organization of the funding base and it would be doing it in a way where you are coordinating the plan. You are coordinating the setting of priorities.

CHAIRMAN POLANCO: Why couldn't this body be doing that? What precludes this particular authority from coordinating, planning ?

MS. LAYTON: ... traditional thinking about local government in California. We just don't work that well with region-wide administrative bodies and also our policy making bodies that answer to everybody but the local community.

CHAIRMAN POLANCO: So.....

MS. LAYTON: You may have Bay Area authority in San

Francisco but we don't have that kind of thing down here.

CHAIRMAN POLANCO: You have a Rapid Transit Authority? A Metropolitan Transportation System? That's an authority.

MS. LAYTON: And, there's one where the voters have supported it. The voters have said that we need this infrastructure. It was on the ballot. We have continued to vote and exercise the vote to increase whatever funding basis we need. There are people that go out and challenge these folks and say, "you know, you're exceeding Gann Limitations. Like our jails."

CHAIRMAN POLANCO: You see. That's because you are using public money.

MS. LAYTON: ... responsible in that that is not being taken into account.

CHAIRMAN POLANCO: That is because you are using public money. That is when you go for the vote of the people.

MS. LAYTON: Well, if you tax them, you are taxing people.

CHAIRMAN POLANCO: That is what I am saying.

MS. LAYTON: ... for the local sales tax.

CHAIRMAN POLANCO: That is what I am saying. You are using -- one funding mechanism is public dollar. We are talking about the private sector coming in and having the opportunity to remedying the problems that are there. Non tax dollar. We are talking about tax dollar.

EPPL: You mean because of the revenue.

CHAIRMAN POLANCO: Because of the private sector revenue bond. Yeah.

MS. LAYTON: You know. That is -- if you are really doing something big, you are going to affecting the market tradition. You are going to be affecting interest rate; you are going to be affecting

CHAIRMAN POLANCO: Was that affected negatively or positively?

MS. LAYTON: There is a real chance that these are top payers. That you are going to -- that they really can't pay off -- that you are going to negatively affect the market and in no case are you addressing the question of who is going to pay the cost of operating the facilities. You haven't identified whose job it is to operate them. You know, you have something smack on the border and Customs says, "You go build your shed." Is Customs going to provide the person? Is the facility going to have to pay for it and all of the employees' benefits and all of the other things that have to be done? All the lights? And still have money left over to satisfy the private sector that they are going to get their money out of the revenue bond which the bill now says is nobody's responsibility to pay off. We are going to issue funny money and if you really want it, fine. Here we are and it is going to help us build some things that are needed.

CHAIRMAN POLANCO: Yes. That is the risk that the investor is going to make or not make.

MS. LAYTON: It doesn't look good for California to say to a county do not enter....

CHAIRMAN POLANCO: I beg your pardon.

MS. LAYTON: I don't think that it looks so hot that California to say (inaudible).

CHAIRMAN POLANCO: We have bonding authorities, though. That is my point.

MS. LAYTON: Let me go on. We have also had a very good credit rating.

CHAIRMAN POLANCO: Continue. What are some of the other points?

MS. LAYTON: The whole question of lending fees and tolls at the International Border should be fair to examine. You know, whose responsibility is it? Would the usual custom fees be handled by the same personnel at the same place? You are going to start out by setting up different stopping points. Over here you pay your fee and over here you get your customs bill. Those are things that are being worked out now and in process and at other levels and through organizations like the Border Trade Alliance which has brought together customs officials from both sides of the border, economic people from both sides of the border, private and public corporation, to look at the processes at the border

that tie us up in a heavily congested area. I don't think those things are addressed by AB 12.

CHAIRMAN POLANCO: OK.

MS. LAYTON: In dealing out federal decisions and a lot of the things that could best be solved are really best solved with some kind of treaty making approach by the National Sovereign Governments. That is what National Sovereign Governments are about. They're suppose to be in charge of their international borders.

MS. LAYTON: You know, it seems to us that the only request has been in Sacramento but there is no grounds, ring of sentiment that to think that if we must need to solve these problems on any level like that is this type of a body.

CHAIRMAN POLANCO: Let me share with you. A lot of times when you are living in the forest, you don't see out but when you are outside the forest, you begin to see the impact, the enormous impact, the great peril that California as a State places in by not beginning to address those issues on the border. Address not in the sense of more studies but address them to the point where you develop a plan of implementation to correct it. What does that mean? It means new mechanisms for financing.

MS. LAYTON: It also means that California should be taking its case in the strongest possible way to Washington and not be pretending that we can act as a sovereign nation in facing

Baja California or Mexico to solve this problem.

CHAIRMAN POLANCO: I had mentioned earlier that we had done some legislative -- we instructed Legislative Counsel which is our legislative unit to research whether or not the concept whereby we could create a statute to empower the issuances of these types of bonds between California and Mexico, because I was concerned with the whole issue of sovereign. To my surprise, it has been done with Canada and the State of New York where the Niagara River as well was a problem. A hydro-electric plant is the end result of this type of activity. The bill will address the issue of sovereignty by incorporating information that will acknowledge any treaties that are signed between the two countries so that we won't violate them. I think that a strategy may be -- maybe -- to go as a body to eventually be in Washington to ask them as a delegation now because the problem is not going away and it's not new and you all who live in this region know better than I that, you know, that problem is there day in and day out and it's not getting any better. What we are trying to do is create that mechanism. So, your suggestion in reference to the treaty situation is a great suggestion and we ought to pursue it and look to see how we can influence that particular avenue.

MS. LAYTON: But, in addition, these are going to have to be facilities that are operating and still pay off bonds.

CHAIRMAN POLANCO: Absolutely.

MS. LAYTON: ... And we have to ask who would benefit sufficiently to warrant the fees to do all this. It's not appropriate to use this kind of public authority to create border facilities to serve a limited number of private interest in industrial or whatever or that these facilities be able to create the desirability of private development only to serve private interests. It's not enough to say, "Oh, look at the wonderful jobs that we are going to create." If you are doing this in a way that you can escape zoning, and you can escape the timing of projects, the design of projects, the way these projects tie into other essential local infrastructure that AB 12 does not address; social problems which are being addressed by the county, bi-national in effect, commissions and so on. There's a whole broad range of communication and working on problems that relate to Baja California to Tijuana, San Diego County and the City of San Diego. I don't think that just saying the best thing we can do is find ways of paying for this by coming up with project that this little body thinks best. We should have first call and that we'll do it by issuing this debt. Another point about your proposed financing is it really isn't suitable and probably even inappropriate to suggest that Mexico be officially involved in issuing this type of bond. I don't -- we don't know that it is acceptable to them, do we? I mean, have you had ...?

CHAIRMAN POLANCO: Let me.

MS. LAYTON: If I could just complete this one point? Our neighbors are working valiantly to regain economic balance and to repair a damaged credit image internationally issuing debt for which no one is responsible will not help restore Mexico's creditability. That is something that we have to consider because we must have a healthy dynamic Mexico. We must have a sound economy there and it is in our best interest to see that we're not shaking their economic boat by creating a vision of less reliable funding mechanisms along the border.

CHAIRMAN POLANCO: To answer your question. This Select Committee will be meeting with governmental officials of Mexico. Mexican officials have been contacted and have been provided with information that I believe many of you have also received.

MS. LAYTON: I think that in order to conclude, we really do believe that national governments have to be responsible for managing the international borders but especially so that their services and facilities are available on an equal basis for all those who must use them. That's really the consideration. And it's the one area in which we have continued to hear criticism of any thought of toll or fee crossing even gates for pedestrians and automobile people. They are saying all you have to do is be rich enough to buy your way across and you can get your day's business done. That's a criticism that we hear that you have to think about very carefully. Mexico is very proud of its

democratic traditions in terms of making the benefits of life available to as many as it can as well as our own concern here for control of our local problems. We think that in those considerations, AB 12 is a move in the wrong direction.

CHAIRMAN POLANCO: I'm really sadden and very disturbed to hear that that is so. Because here you have an opportunity. Nothing more than an opportunity. Not even a chiseled proposal. And, you as a Chamber of Commerce whose interests is to protect the economy would rather shut the door, close your eyes and let business go on as it has with no resolution to the pollution problems, no resolution to the infrastructure problems, no resolution to anything.

MS. LAYTON: It is not true that we don't care about resolution of those problems. We're saying that you address a limited number of problems in a limited way. That there has to be some other way to broaden their vision, to broaden access to the solutions. And, if anything has been clearly demonstrated to people in the last few years, it is that when you remove from the local community from responsiveness to the local citizen responsibility to the voter, when you remove the funding from those communities as we have with education and many other local services through Prop. 13, through the Gann Limits and so on, you lose control over your destiny. Your needs are addressed only when it is found only when the general rule doesn't apply and you

are constantly going hand in hand to a broad panel of individuals who don't know you, who don't care about you, whose political strength may lay in other areas than what's on your mind at that time.

CHAIRMAN POLANCO: That would hold true for anybody. That's fine. I understand that. But that holds true to your San Diego Chamber of Commerce. Give me a break. It holds true for the chamber that I represent, the districts that I represent. Come on. We have an opportunity. We have an obligation. We have an obligation to correct and this association is being very short sighted in shutting the door and saying, "Turn it off. We don't want to participate on the negotiations anymore." Without knowing whether or not Mexico is interested; without knowing whether or not it really can pencil itself out; without knowing that the problems that have not been dealt with are really going to be given the type of attention and not planning and planning and more planning but the type of plan of action to correct it. Very short sighted.

MS. LAYTON: One of the things that this reminds me of is those wonderful old movies where they say that we have got to have some money because we have got to have to get something done. Hey, kids, let's have a show and that's the way AB 12 is written. It's the show and you haven't figured up yet how much money you are going to have and how you are going to use it. You only know

that you need money. And, if the studies had been in place first, if the

CHAIRMAN POLANCO: Studies. Wait a minute. Wait a minute. Don't talk to me about studies. We have a lot of studies here.

MS. LAYTON: ... specific mechanisms.

CHAIRMAN POLANCO: What's the problem.

MS. LAYTON: ... on the specific mechanisms you are proposing in AB 12.

CHAIRMAN POLANCO: So. Why don't we do this? I'm interested in getting from your association because I ain't going to let you go. I'm not going to let you all go. You know, like you hold me accountable. I'm going to hold you accountable because we both serve the public to some degree. So, I'm going to ask from the Chamber to come up with those specific projects or those specific criteria and bring them to me. To come up with some proposed solutions because it is too easy to come here and walk away and only say that it is not going to work. I'm not going to allow that to take place with any of the presenters. I want to be a little different. I believe that you can in this day and age to come up with the funding mechanism to remedy these problems and it's not like at the candy store all we need is money. You're absolutely right when you talk about permit process, when you talk about a foreign government. A lot of work

needs to be done. I'm the first to acknowledge and I am not going to let you go. I am going to ask, you know, that you continue as the association to participate because I believe that when it is all said and done if anything if the only mission will be for the orchestrated strategy if the last thing that we are able to do is go to Congress and say, "Look it, as a delegation, as a community, as a region, we need your attention on this." It maybe where it becomes part of a treaty. It may not. It maybe where the government begins to subsidize for the next five or then years on a master plan to assist the floating of the bonds. Those are some of the options that are out there. Because the mechanisms are there but they are going in different directions. What we need to do is come and stay at the table. I believe that we can make a difference in staying at the table and really begin to look on how best to deal with this problem. I really do. I am going to ask you to submit your testimony to me.

MS. LAYTON: Yes.

CHAIRMAN POLANCO: We want to look at them point by point. You are going to hear from me.

MS. LAYTON: Good.

CHAIRMAN POLANCO: Thank you.

MS. LAYTON: Thanks for this opportunity.

CHAIRMAN POLANCO: Let me ask for the representative, Nan Valerio, from the San Diego ... Nan Valerio...

MS. NAN VALERO: My name is Nan Valero. I am regional planner for the San Diego Association of Governments. San Diego Association of Governments is known as SANDAG. It is the regional council of governments for the San Diego County area. It is a joint powers agency formed by all the cities in the county and the county government and the member agencies, that is those cities and counties pay dues to belong. The mayor or his designate or her designate, excuse me, serves as a member of our Board of Directors and so does a member of the Board of Supervisors of the county, a representative of the United States Navy, a representative of the State Department of Transportation. We have asked the long-range planning agency for the San Diego Region. We have been asked to make a presentation on the infrastructure in the border area of San Diego. I'm going to confine my remarks to the 10 or 12 miles along the US Mexico border eastward of the ocean and not discuss the other 50 miles or so from Otay Mesa eastward. First, I'll briefly describe the existing infrastructure. That is the water, sewer, roads and other utilities. I'll then talk a little about growth in the area and the limitations for that growth. I will discuss developments and activities that may impact the border area and I will answer your questions. Two things to say before I begin. First is that my Board of Directors last May took up a petition in opposition to SB 961. The second thing is that they have not reviewed AB 12 and

therefore I have no position or comment on the legislation.

Regarding the infrastructure in the border area regarding water. Otay Mesa water is supplied -- excuse me, just one thing, since I was unable to be here earlier, if anything is a duplication, just sort of wave at me and I'll go on -- water is supplied by the Otay Water District and it comes from two sources. One, of course, is imported from the Metropolitan Water District, via the County Water Authority and then there is the local water is supplied from Marina/Barrett Lakes, via Otye Lake. Other areas along the water and other areas along the border water is supplied by the City of San Diego Water Utilities Department. Again, from MWD and local resources. In addition, Otay Mesa is under consideration by the City as a site for water reclamation plant. I do not believe a decision has been made. There is one water line from the Otay Water District to Tijuana which will provide water on request. Tijuana water is supplied from several sources include the Colorado River via the El Coresa and Rodriguez Dam. The Rio Tijuana and Arroyo Alamar Wells into Tijuana they have a few other sources. The area is, however, we understand not well served by water. Flood Control. Flood control on the west side of the border is via the Army Corp of Engineers. The land is dedicated to the International Boundary and the Water Commission, the IBWC. There are some drainage problems on Otay Time Mesa and these are being studied by the City of San Diego under its community

planning activity. With regards to sewer. In the metropolitan area sewer service is provided by the City of San Diego. The City is under EPA directory to construct a secondary treatment plant. The Metro Trunk Sewer connects with Tijuana and has been previously used daily by that city. On Otay Mesa a private developer has constructed trunk line from Otay Mesa to Chula Vista. As a peak daily flow of 8,750,000 gallons a day and we understand that it is not at capacity at this time. Tijuana has a sewage treatment facility and pumping station near the border. It pumps sewage to a location five miles south of the border for treatment and discharge into the ocean. Unfortunately, there are spills from breaks in the line which dump up to a million gallons a day of unproven sewage into the Tijuana River which flows into the United States. We understand that Tijuana has several other sewage treatment facilities in other parts of the city. Roads. The border area is served by Interstate 5 with an average daily traffic volume of 130,000 vehicles and Interstate 805 with an average daily traffic volume of 120,000 vehicles. That was in 1988. These roads at time are at capacity. They are not projected by our Transportation and Planning Agency to reach even moderate levels of congestion but the moderate levels is a level of service E and F if you know in LA what that means by 2010. By that time their average daily traffic volumes will be 180,000 vehicles each. By 2010 I905 will have a daily volumes of 70,000

vehicles. State Route 125 which will by that time be constructed and will connect 905 to State 54 and on up to I8 at La Mesa that will have a daily volume of about 50,000 vehicles. As result of the passage of a local sales tax for transportation, \$2,250,000 will be raised locally over the next 20 years, actually now 19 years to go, for three types of programs. One is highway improvements, including portions of State 125. Public transit improvements, including trolley extensions and expansion of bus and paratransit services. And funds for local streets and roads, including improvements and maintenance. It is principally for this fund for streets and roads that will be used in part for roads in the border area. With regards to utilities. We have no reason to believe that services of gas, electricity and phone are inadequate at the border. The San Diego Gas and Electric Company has on occasion purchased power from Mexico. The SDGE plant substation on Otay Mesa may by now be in operation. We're not sure of that. Regarding growth in the area. As you know, San Diego County is one of the faster growing areas in the State. For the entire sub-regional area of the South Bay which goes from the Ocean to Otay Mesa and includes Otay Mesa as the area south of Chula Vista. I have in my written testimony that I will give you some statistics with regards to the projected increase in population. There will be a 69 1/2 percent increase in that area from 1986 to 2010. An increase of 64 percent in housing units, a

307 percent increase in employment but I would like to say that that starts with a base of only 12,600. Developed acreage will increase by 55.8 percent and I have other statistics here.

Limitations to Growth. There are several constraints on growth in the border region but these are applicable to all of southern California. The first is air quality. San Diego does not meet either federal or state standards for air quality. APCD and SAN as the Air Pollution Control District and SANDAG have begun work on the new air quality plan by which we hope the implementation of which we hope will bring the area into containment by 1997. The second constraint, of course, is what you have in LA too and that is of water. There is a problem of a guaranteed source of portable water. Conservation measures are now in effect for the entire region and if you have read this morning's paper you'll see that we maybe in the driest year since 1850. Future activities in packing the border and this is short to middle range impact -- the first is the developments at Brown Field. This is an airport that is just north of the border on Otay Mesa. It is a city-owned airport. It is a likely candidate and a multi-airport proposal to improve airport availability in the region. As you know, Lindburgh Field is quite crowded. A modified moratorium is being considered by the San Diego City Council on development in the Brown Field area. Pending completion of the airport study by SANDAG and we have had a massive airport study, a usage study

going, and it may be another year before that is completed. Second activity impacting the future of the border is a third border crossing. Congress has directed the General Services Administration and the U.S. Customs to study the feasibility of a third quarter entry at the Tijuana/San Diego border proposing that this port of entry be at Las Palmas/Tijuana and a facility to provide a convenient connection to the toll road to Encinitas. There are serious environmental constraints to an entry at this location because of the National Estuary Sanctuary which is one of only two on the entire west coast. That study will not be completed probably for a year. The third activity of importance is the construction of the Tijuana Sewage Treatment Facility and an agreement that was just signed in October between the Presidents of our country and Mexico regards the construction of a sewage treatment plant for Tijuana. It is, we understand that the construction plans to be completed by 1993, eliminating the health and environmental hazards caused by the untreated sewage. We know we will have a positive impact on the border. In conclusion, it is our staff opinion that the border area services are now available and that there are adequate water, sewage, and road facilities in the area. I will try to answer your questions. Thank you.

CHAIRMAN POLANCO: That's the conclusion of your association.

MS. VALERIO: That is our staff conclusion.

CHAIRMAN POLANCO: Your staff conclusion.

MS. VALERIO: This has not been reviewed by our Board of Directors.

CHAIRMAN POLANCO: And, would you please restate your conclusion, so that I don't misunderstand what was said?

MS. VALERIO: Our conclusion and I mean that to be a staff conclusion.

CHAIRMAN POLANCO: I understand.

MS. VALERIO: It is our opinion that in the border area services are now available. That there are adequate water, sewage and road facilities in the area.

CHAIRMAN POLANCO: It kind of goes contrary to a lot of the testimony that

MS. VALERIO: I regret I was unable to hear it. I cannot respond, of course, then to it.

CHAIRMAN POLANCO: Can you tell me if your body here can provide us with a total dollar amounts of what's gone into making -- or what has been used thus far to make or (inaudible) I guess the conclusion that, you know, the problem is really there is no problem along the border in terms of the streets and infrastructure.

MS. VALERIO: I don't know that we have that information available but I can ask and see if we do have it.

CHAIRMAN POLANCO: Thank you very much for your testimony.

MS. VALERIO: Thank you very much.

CHAIRMAN POLANCO: You will submitting it to us in writing.

MS. VALERIO: Yes. I will give it to you right now.

CHAIRMAN POLANCO: I appreciate it very much.

MS. VALERIO: Thank you.

CHAIRMAN POLANCO: Thank you.

Next presenter.

WOMAN'S VOICE: John Reiss.

CHAIRMAN POLANCO: Representative from the Office of the San Diego City Attorney's Office, Mr. John Riess. He is not here. The Project Administrator from the City of San Diego Property Development, Economic Development Division, Rachel Hurst.

MS. RACHEL HURST: Good afternoon, Chairman, and members of the Committee. My name is Rachel Hurst and I'm representing the Economic Development Division of the City of San Diego with offices at 1200 Third Avenue, Suite 1620, San Diego, 92101. I'm here today to address proposal pre-print bill 12 which would create the California and Mexico Infrastructure Bonding Authority for the purpose of providing infrastructure in the border area that would encourage private development and job creation. While we strongly support that purpose, we do not support the current

proposal. I would like to make you aware of our objections to the proposed legislation and to offer some suggestions and other means to achieve infrastructure financing and economic development objectives that will benefit the border region. As proposed the legislation is objectionable to us for several reasons, including it fails to identify what specific projects the authority would undertake ...

CHAIRMAN POLANCO: Let me ask you a question. Should that be part of the bill, I mean, we hear it?

MS. HURST: We would certainly appreciate knowing.

CHAIRMAN POLANCO: Specifically the project in the bill?

MS. HURST: Yes.

CHAIRMAN POLANCO: Do you know what problem that creates?

MS. HURST: Yes. But, I can imagine what problem it creates for us to not having any indication of what projects the authority might choose to undertake. We have absolutely no way to evaluate whether or not that is good. It is impossible.

CHAIRMAN POLANCO: You're saying don't move a bill until you have projects.

MS. HURST: We would at least like some identification of the projects.

CHAIRMAN POLANCO: Would the recommendation that was raised earlier to have categories? The issue of the categories,

projects in the area of -- and then you list them.

MS. HURST: Yes.

CHAIRMAN POLANCO: Is that what you are looking at? That type of guidance?

MS. HURST: I think that in reality we would like to hear specific projects in the categories.

CHAIRMAN POLANCO: I mean. How do you do that, if you have a bill, if you look at our process? We have got to run a bill. You're saying bring us the projects now. Put them into the bill.

MS. HURST: I think that if I can continue then maybe we could have a more general discussion on what our problem.

CHAIRMAN POLANCO: Okay. Good.

MS. HURST: That is one that ...

CHAIRMAN POLANCO: It just creates a problem.

MS. HURST: Of course, but on the other hand it creates a big problem for us.

CHAIRMAN POLANCO: And, a big problem for the Mexico officials because the projects you want incorporated into there may not be the projects that in our priority to this new body.

MS. HURST: OK. A second point. It does not provide representation for the City of San Diego. As proposed, the legislation makes no feasible provision for the funding of the administrative startup or the working capital costs to the

authority. It does not insure input or coordination on the projects that the authority would choose to undertake within the City of San Diego other affected jurisdictions. It makes no provision for operation or maintenance of the unidentified facilities to be built by the authority and to overall it does not provide for anything that could not be accomplished in California by existing local, regional and state bodies to currently available bonding and assessment mechanisms. There are, however, a number of other opportunities we see to provide needed public improvements, economic development opportunities and job creation in the City of San Diego that could benefit from your Committee's assistance, including creating mechanisms that will allow for the establishment of a border area enterprise zone, that would provide strong incentives for employers on Otay Mesa, to provide jobs for San Ysidro residents, the establishment of a redevelopment project area in the border area, including the vacant and blighted lands adjacent to the International Border that is severely impacted by illegal border crossing and border control activities. Four, as an alternative the creation of a local development authority with powers similar to a re-development agency that could finance public infrastructure in the border area. In summary of the law, we support the economic development goals of the proposed legislation. We would recommend that one or more of these alternative mechanisms be pursued to meet the special needs of the

border area. We would be pleased to work with you on any of those alternatives, suggestions, and appreciate the opportunity to appear before you today.

CHAIRMAN POLANCO: Well, I appreciate the recommendations. They are sound recommendations. We'll ask that you submit them as testimony and I am encouraged by not only the area that you have identified that we should begin to work on but that you come before us with some other concepts to toy around with.

MS. HURST: Great.

CHAIRMAN POLANCO: Let me ask Mr. Dobken.

MR. CHRIS DOBKEN: I'm a consultant based in Tijuana and I also live in Tijuana. I just have some short comments. A lot has been discussed so far today. The first one that I have is on what Architect Hermosillo talked about earlier. I am in full accord with what he is saying but I will expand in two points, somewhat more on that. The Mexican Constitution, Article 115, describes the powers of state and local governments distinct from those of the federal government. State and local governments cannot incur indebtedness abroad. However, like so many things in Mexico, there is an alternative legal mechanism that effectively, I think, will allow it. That is to set-up a trust through the National Development Bank. That will, in effect, set-up a Mexican authority very close to what you are proposing in the California.

So, that it would be sort of a twin authority that could be looked at pretty much as one body. This needs to be looked at a little closer within the Mexican legal context, as well as within the American legal context. But, I think that this would get you off the hook as far as having to deal with the Mexican federal government limitations of local government. Xavier Rivas mentioned on housing that the National Maquiladora Council has been negotiating with the World Bank to get financing. Apparently they have gotten \$75 million. But, that is for the Maquiladora Industry as a whole, not just in Baja California. \$75 million represents, based on the average cost of a low income house of around \$14,000, about 5,400 additional homes. I believe in Tijuana alone, the shortage is 30,000 homes; and in Mexico as a whole it is 6.2 million homes. These are Mexican government figures. Augie Bareno mentioned - I don't know whether he meant it or not - but he made quite a point about either have everybody in the region as a member of the Board or no members at all. I think that since we are talking here about a specialized investment bank, what it probably comes down to is that to have potential borrowers on your Board may even be a conflict of interest, but certainly doesn't serve a great deal of purpose. You may have to think through what kind of people you want on there. It may very well be that you want somebody appointed by the Governor who is expert in civil engineering or in finance in

order to have an astute Board. This is not necessarily on the basis of political appointment to get on the Board because, let's say, the conflict-of-interest issue comes into play; plus as a specialized financing unit, a lot of people may have problems in their own minds trying to think through what this is all about and so you need some very sophisticated people to do the right thing. About another figure that was thrown around. I believe, it was \$3 billion that the Japanese were going to bring to Mexico and I believe that most of that money will go to abate pollution in Mexico City and the rest will go to build up Nissan motors and the Port facilities in the Isthmus in the southern part of Mexico, because Japan is very interested to get oil going to Japan. Very little, if any, will wind up at border. So, that may very well not be a strong issue. I am just bringing this up, but it should be checked out as to its veracity. As far as the regional bonding authority is concerned that William Huck brought up, I think that is a very good concept. However, having followed from Tijuana the political scene of San Diego, I found that the word "regional" is not very well recognized within San Diego. I think Brian Bilbray, San Diego County Supervisor is about the only one who has been fighting for a regional concept but the rest of them have been pretty much fighting him. I think SANDAG is sort of shaking in its shoes because it is a regional organization and you have got all these people pouncing on them and they can't really do the job

that maybe they should be doing. Now, let me see, Frank Marquez brought up the restricted zone under the Mexican Constitution, prohibiting foreigners to directly own land there. First of all, since the Mexican Investment Regulations published last May, are far from complete, I am lobbying before the Mexican Foreign Investment Commission to expand the facilities for infrastructure in the restricted zone to include all types, such as toll roads and border crossings. At the present time the regulations only permit port facilities. But, secondly, an organization like yours, what you propose, could very well be classified under Mexican law as --" a neutral capital organization". That is a term they use under the investment law in Mexico. That means that you are neither Mexican capital nor foreign capital. As a result, you don't fall within the restrictions for foreign investment. As far as the border user-fees are concerned, which I believe, Bernice Layton brought up, I was reading in the paper yesterday that in Mexicali there is going to be a new border crossing. The United States has already allocated \$46 million to it. The Mexicans want to make it a concession to the private sector. So, you are going to get user fees even though you drive free through the American side. As soon as you get on the other side you will get hit with some sort of toll fee. So, the concept of having toll fees in Mexico really reflects the philosophy there: you cannot have a toll concession in Mexico unless one has parallel

free access as well. Once free access is established no matter how many potholes it may have, then you can have parallel toll access. This makes user fees possible in Mexico.

MALE VOICE: Do you have a location on that crossing in Mexicali?

MR. DOBKEN: No. I don't. There is a place, but I am not sure. We are talking about the industrial park. East of Mexicali. That is where the industrial park is. So, I just want to keep it short. It's getting late in the day. There are a few technical points I picked up listening today that might be of some use to the Committee. Incidentally, even though as I've already told you, I have sort of a competing proposal outstanding, it is very important, first, to have this public hearing to bring out the kind of things that were brought out today, and to bring it to light; and, second with this being a new concept, there have to be different ways of looking at it and if you have several mechanisms, I think they can work concurrently. Mexico, in order to start growing again at six percent per year, is short investment capital of \$12 billion a year. The foreign debt re-negotiation reduction runs around \$1.5 billion a year. So, there is another \$10 billion that has to come from somewhere, and it looks it's not going to come from internal savings. It's not necessarily going to come from return of flight capital from abroad. So, it has to come from mechanisms such as we are talking

about and foreign investment, and there is really not a great deal else. The projects that are attractive for foreign investment are in the northern border or coastal region. It's fairly difficult to get somebody on Wall Street interested to go somewhere down in Chiapas, but when they can visualize it when it's going to be at the border. So, there are actually very few projects that can be financed in dollar terms. It has to be pretty much in areas that are, in effect, what I call "dollar denominated", where there are foreign tourism dollars. This is the case of Baja California. Or, where there is a large export industry such as maquiladoras. It must be that type of industry. Also, they can only be those projects that are non-subsidized because you are financed from a private U.S. capital market. Unless you have government as a contracting party you can't expect government to come in, particularly not in Mexico. At the same token, there are no longer "deep pockets" in either Washington or in Sacramento. Following the earthquake in San Francisco, according to a Business Week article, the need for renewed infrastructure in California is \$90 billion. That is equal to the Mexican foreign debt. That is a big number. As far as the border is concerned, you are looking at new infrastructure. I don't think there is a great deal of enthusiasm in California State and Local Government until a big chunk of that \$90 billion is spent on renewing infrastructure before you start getting funds for the new infrastructure at the

border. Thank you.

CHAIRMAN POLANCO: Thank you. Mr. Raul Martinez is our last presenter. Unless there are individuals who would wish to make testimony. You are welcome right after he has completed.

MR. RAUL MARTINEZ: Good afternoon.

CHAIRMAN POLANCO: Good afternoon.

MR. MARTINEZ: It is a pleasure being with you. I am sorry that I am a little late. I apologize. A couple of things. I am in private practice. I am an attorney. We specialize in handling Maquiladoras, investments in Mexico. Our clients do business on both sides of the border. I am also the President of the South Bay Community on Consortium a non-profit organization that was recently organized approximately a year and half ago, especially to address blighted area such as San Ysidro and the Otay area. At the present we are looking at a site two miles from San Ysidro. So, these type of projects, these types of strategies, would in fact be welcome to an organization such as ours. Obviously the private sector has a different way of looking at it. We, as simply advocates for non-profit and community based organizations believe that perhaps there are some things that the State along with the county can do. I also sit in the City and County Reinvestment Task Force, which looks into strategies in terms of how we can implement economic development projects. San Ysidro, for example, recently appointed a San Ysidro Redevelopment

Agency to begin to deal with those tough situations. That border is in fact and that city on the border in fact needs assistance. After reviewing the proposal bill, I think that obviously as everything else, there are some things that can be made better. Obviously some of the gentlemen and the ladies that have been here before you have made some suggestions as to how it can be done. The comments that Mr. Dobken just made are very relevant in terms of the legal aspects of how this could be made to work. I think that one of the things, and I am sure you have heard it from other gentlemen from Mexico, there is a willingness to explore these possibilities. There is a new Governor in Baja which is very supportive and looking for avenues obviously to benefit his community but also to benefit the border area. We are obviously talking about impacting the border area in an economic sense in terms of providing economic opportunities. Specifically obviously job opportunities in creating an economic base for the area. Whether this comes into place or not that is going to eventually happen. But fortunately it may not happen as soon as some of the local folks or some of the local community would like. If this were in place and through the assistance of the Office of U.S. Mexico Affairs through the Governors and the assistance of the City of San Ysidro/San Diego Office perhaps, we can, you know, further some of these projects. That's is where you talk about identified projects. Unfortunately, what I have observed over the

last three or four years with the city and the county that there has been some good faith efforts in terms of reaching out to authorities in Mexico and to the local community appointing qualified people to sit on them. But there is a lack of identification or perhaps moneys to address some of these concerns of projects. If this is what the bill is intended for, and I think that's how I read it, then I would definitely support it and I think that there would be a lot of people in the community, especially community-based organizations that would be interested in this type of bill. So, with that I would like to end and lend our support for that bill and please feel free to contact us.

CHAIRMAN POLANCO: Mr. Martinez, we're going to be in touch. This is a series as I said before of public open forums and meetings. We are going to be meeting with all interested parties and hopefully we can come up with some type of vehicle that is accepted by the Mexican government. You know, accepted by California and it works. That's the mission. Thank you very much. I appreciate your testimony. Yes, sir.

HONORABLE VIC LEGASPI: Honorable Chairman and members of the table here, ladies and gentlemen. My name is Victor Legaspi and I happen to be the mayor of Calexico. I am an uninvited guest but if you will ...

CHAIRMAN POLANCO: Absolutely.

HONORABLE LEGASPI: ... I will speak my piece. You

know, as far as we it in Calexico, it is a good concept because on the economic base alone it's wonderful for us. But most of the pros and cons have been said so I'm not going to repeat, what has been said only that what effects Calexico. First of all, the funding of it. We have heard a lot of talk on funding. Now, that's my personal concern because what is going to happen if all failures in securing fundings happen. Maybe, perhaps, Mexico to not forth with their end of the bargain. I am not saying that they will but maybe in the future. Can the wording in this funding mechanism read in such a way that the American taxpayer will not get hurt by this?

CHAIRMAN POLANCO: Yes, in fact, Legislative Counsel, you correct me if I am wrong, there is no pledge by the State Government on these particular revenues to address this particular issue. Correct?

MALE VOICE: (Inaudible) ... between revenue bonds and general obligation bonds.

CHAIRMAN POLANCO: So, your number one concern there is that you raised is addressed.

HONORABLE LEGASPI: The next one is the environment and we have hear a lot about Rio River. You have probably heard it several times the worst polluted river in the United States. I want to correct those people. Newsweek says that it is the worst polluted river in the whole world. OK. Now, this Maquiladora

process is put forth at a rapid pace. We have to address that. Because obviously a new river is going to more polluted than it is now. Another thing is that most of the Maquiladora on the river side of Calexico maybe six or seven miles there is another river there, the Alamo River, that's very tempting for people maybe start polluting in that. I hope that in your final draft will be such wording that that won't take place. OK. Now, I attended a BTA meeting here not too long ago in Tucson, Arizona, and one of the main subjects over there or concerns was hazardous waste, a by-product of the Maquiladora systems. Mexicans don't want the hazardous waste. We have to take it. What are we going to do with it once it starts climbing higher and higher? That should be addressed. In Calexico we have a water plant capacity and sewage deficiency problems over there. Calexico believe it or not is bursting at the seams and we want grow. We are already claiming expansion for our own development area, homes, apartments, whatever. But, if this comes about, are you guys going to come over here and help us with the funding to have further expansion to accommodate this added water capacity need, the sewer and all of that?

CHAIRMAN POLANCO: Let me answer you this way. The authority is established to finance that of what would be of a public benefit. There has been talk earlier about a zone area or region, if you will, that becomes like the benefit. I don't have

a specific answer to your question in regards to that specific project and I don't have one because I think that the -- well, because the experts or the ones or that particular bodies would be a decision making body that is really going to set the means by which they will operate. So, to answer your question does the authority have the authority to float a bond to assist in the sewer and the public improvements of a private project like that? Let me ask Legislative Counsel, is there a problem where such an authority would be able to participate in that?

MR. HEIR: If you are using the funds in Mexico, there should be ...

CHAIRMAN POLANCO: Calxico would be ...?

HONORABLE LEGASPI: We are right on the border.

CHAIRMAN POLANCO: .. On the border.

HONORABLE LEGASPI: You can walk across Mexico.

CHAIRMAN POLANCO: OK. It is the California side. So, it's

MR. HEIR: As long as there's a public entity. That's the issue. These are public funds we're talking about since this is a subdivision of state government. So, therefore, you have got constitutional provision of making gifts (inaudible) of public funds. As long as there's a public purpose (inaudible).

CHAIRMAN POLANCO: You know. You just mentioned something about Calxico. You seem to not know too much where

Calexico is located.

HONORABLE LEGASPI: You know, we have an identify problem there. Maybe that's the reason why the river still exists for so many years. I'm quite sure that if the new river was going right through the middle of La Jolla, it wouldn't be there for 24 hours. So, please put us on your map and try to help us. Incidentally, our State legislator, Steve Peace, is working on this and maybe you could plod him a little bit.

MALE VOICE: He is a good representative.

HONORABLE LEGASPI: Also the accountability of this board, it worries me a little bit also. Maybe perhaps if you had elected officials serving on the board -- somebody that the people can say, "you are doing a good job. We'll pat you on the back and vote for you next time but if you are not, get out." Maybe the Mexican representation could be, maybe a Mexican government agency, they will probably be the people that you finally check it out with anyway. You should consider something like that. And, of course, we here in Imperial Valley have no representation but I think that since today you will include us some how.

CHAIRMAN POLANCO: That's correct.

HONORABLE LEGASPI: All right. Thank you for your time. That is all I have.

CHAIRMAN POLANCO: I thank you very much. That concludes our testimony. I want to thank all of you who attended

and you will, as soon as the transcript is available to those of you who testified, will be happy to accommodate you with such a transcript and we will be in touch with you in the near future. Thank you again.