South Bay Rapid
Bus-On-Shoulder Update

Borders Committee | January 25, 2019

Project Overview

• 26-mile route between Otay Mesa Port of Entry and Downtown San Diego
• 12 stations (6 in Chula Vista, 1 in Otay Mesa, and 5 in Downtown San Diego)
• $128M TransNet, $11M State Cap & Trade
• Connected vehicle technology guideway
• Bus-on-Shoulder operations
• Travel time – 60 minutes from Border to Downtown, 30 minutes from Chula Vista to Downtown
• Opening January 27, 2019
South Bay Rapid

Grand Opening Ceremony & Community Celebration
Saturday, January 26, 2019 | 11 a.m. – 2 p.m.

Heritage Rapid Station
1381 East Palomar Street
Chula Vista, CA 91913

Enjoy food, family-friendly activities, entertainment, and giveaways (while supplies last)!
Street parking is limited in the area. Please consider using transit: MTS Bus Route 702, riding a bike, or carpooling to the event. Additional parking will be available at Heritage Elementary School.

RSVP by January 18 at sbrapid.eventbrite.com

Full service begins January 27, 2019!
ENJOY FREE RIDES JANUARY 27 – FEBRUARY 2!

South Bay Rapid

Questions?
Accomplishments and Status

**SR 11 OTAY MESA EAST PORT OF ENTRY OVERVIEW**

- **SR 11/Interstate 805** 
  - Border Crossing 
  - Opened in 2016
- **SR 125 SB to SR 900 WB** 
  - Connector 
  - Construction 2020
- **SR 11 Segment 4** 
  - Southbound Connectors 
  - Opened in 2016
- **SR 11 Segment 2A** 
  - (Entrada Padre to Otay Mesa East POE) 
  - Construction 2019
- **SR 11 Segment 2C** 
  - (I-75 and Tolling) 
  - Construction 2021
- **SR 11 Segment 2D** 
  - (Loma Rica and Intersection) 
  - Construction 2020
- **SR 11 Segment 3** 
  - (Otay Mesa East POE and CYFE) 
  - Construction 2021

**Total Committed Funds:** $482 million

Trade Corridor Team Organization and Activities

**SANDAG & Caltrans Leadership**

**Trade Corridor**
- (SR 11/Otay Mesa East POE)

**Project Delivery Team**
- NEPA/CEQA
- FHWA/Caltrans

**US Federal & Mexico Coordination/Partnership**
- Roadway Engineering
- Project Report
- FHWA/Caltrans
- Port of Entry Architectural Program Development Study
- GSA/CBP
- Caltrans/SANDAG

**Financial Strategy Team**
- Traffic & Revenue
- SANDAG/Caltrans
- Legal Counsel
- SANDAG

**Intelligent Transportation Systems Team**
- Investment Banker
- Barclays
- Pre-Deployment Study SANDAG/Caltrans

**COMUNICATION & COORDINATION**
Financing Plan

Costs

Funding

U.S.

Mexico

Toll Bonding Capacity

U.S. Participation

Mexican Participation

Putting All the Pieces Together

Next Steps

Financing

Construction Begins

O&M + Staffing

Tolling/Revenue Sharing Agreement

ITS Concept of Operations
Consensus

Project scoping on both sides of the border
Next Steps – U.S. Side

- CBP/GSA Agreements
- Toll/Debt Split and Final Design with Mexico
- Develop Financial Strategy
- Investment Grade T&R
- Private Public Partnerships Opportunities
- Implement Financial Strategy
- Contract Procurement
- Design-Build Contract (20 month)

2019 2020 2021
The U.S.-Mexico-Canada Agreement
USMCA

Driving San Diego Business

NAFTA+ / TPP+

Modernized chapters from NAFTA and inclusion of chapters from TPP

✓ Preserves TN Visa
✓ Improves Customs Processing
✓ Stronger Intellectual Property Rules
✓ Access to Mexico’s Energy Market
✓ Enforceable Labor & Environment Regulations
✓ Support for Small and Medium Size Enterprises
✓ Bans duties on Digital Trade
✓ Prohibits Currency Manipulation
Auto Sector

Increases regional content in auto manufacturing from 62% to 75%

- Aimed at increasing production in North America

Controversial Issues Resolved

- Sunset Clause
  - Allows for termination in 16 years vs. 5 years
- Chapter 19
  - Dispute resolution protocol remains intact
- Dairy Industry
  - Expands U.S. access to the dairy market
- De Minimis
  - Duty free cap increased on U.S. exports
Why Support USMCA?

- NAFTA has facilitated a $2.5 billion supply chain in our region
- The U.S.-Mexico relationship is too important to sacrifice
- Provides certainty and predictability for business
- USMCA is a model for future trade agreements
Overview of Economic Development in Tijuana:

Tijuana´s Industrial Real Estate Market Statistics:

Adriana Eguia
January 24, 2019

Number of Maquilas vs Jobs (In Tijuana)

- 1976 Crisis 76% Depreciation
- December’s Error 1994, 48% Depreciation
- 1982 Oil Crisis 50% Depreciation
- 2000 Dotcom Crisis
- Start of TLCAN
- 2008 World Crisis, 6% Depreciation
- 2016 Trump effect
Vacancy (%) vs Average Lease Rate ($USD/SF/mo)

Industrial Market Watch

*Source: JLL 2018
How the Market is Distributed for Us

North (28%):
- Surface area: 7,996,798
- Number of buildings: 66
- Number of clients: 61

Bajio (49%):
- Surface area: 13,777,670
- Number of buildings: 80
- Number of clients: 78

Central (24%):
- Surface area: 7,123,121
- Number of buildings: 34
- Number of clients: 33

Overview of Economic Development in Tijuana:
Economic Border Zone

Adriana Eguia
January 24, 2019
### Excercise (Payroll + Income Tax) by Deloitte

<table>
<thead>
<tr>
<th></th>
<th>Company 1</th>
<th>Company 2</th>
<th>Company 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Payroll</td>
<td>64.00</td>
<td>40.00</td>
<td>28.00</td>
</tr>
<tr>
<td>Other Deductions</td>
<td>16.00</td>
<td>40.00</td>
<td>52.00</td>
</tr>
<tr>
<td>Taxable earnings</td>
<td>20.00</td>
<td>20.00</td>
<td>20.00</td>
</tr>
<tr>
<td>Income tax (50%)</td>
<td>6.00</td>
<td>6.00</td>
<td>6.00</td>
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</tbody>
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|                  |           |           |           |
| **Border Zone Proposal** |           |           |           |
| Income           | 100.00    | 100.00    | 100.00    |
| Payroll (+5%)    | 67.20     | 42.00     | 29.40     |
| Other Deductions | 16.00     | 40.00     | 52.00     |
| Taxable earnings | 16.80     | 18.00     | 18.60     |
| Income tax (50%) | 3.36      | 3.60      | 3.72      |

**Summary:**
- Added earnings from reduced income tax: reduction 2.64 2.80 2.56
- Decrease in profit sharing 0.32 0.20 0.14
- Increase in costs (payroll) 3.20 2.00 1.40

**Net effect**: 0.24 -1.00 -1.30

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### Inflation by Deloitte

**Inflation Tijuana vs. National Average**

- 2015: 3.73
- 2016: 5.86
- 2017: 7.37
- 2018: 6.83
- Tijuana, B.C
- Country
### Final Thoughts by Deloitte

<table>
<thead>
<tr>
<th>Favorable Factor</th>
<th>Challenges or matters yet to be defined</th>
</tr>
</thead>
<tbody>
<tr>
<td>For exporters, reduction of VAT balances to be returned.</td>
<td>Increase in minimum wage and increase in social security contributions (IMSS, PTU).</td>
</tr>
<tr>
<td>Reduction of income tax rate, promotion of foreign investment with internationally competitive tax rates.</td>
<td>Increase in wages puts competitive pressures on manufactured goods.</td>
</tr>
<tr>
<td>Reduction of VAT driving increased consumption and savings in local economy.</td>
<td>Inflation driven by inertia, general inflation, increased overhead, increased consumption.</td>
</tr>
<tr>
<td>Reduction of VAT supports purchasing power of the population.</td>
<td>Opportunity for the local entrepreneur to meets the needs with competitive prices.</td>
</tr>
<tr>
<td>Matching energy prices to those in US.</td>
<td>Energy prices still under pressure to increase.</td>
</tr>
</tbody>
</table>
THE U.S.-MEXICO-CANADA AGREEMENT, USMCA

POSITION: The San Diego Regional Chamber of Commerce Board of Directors voted unanimously to SUPPORT the USMCA.

STATUS: The three countries reached an agreement on September 30. This agreement will be signed by the three heads of state on November 30th. Draft legislation is then sent to Congress for consideration. TPA governs the process for approval in the U.S. while Mexico and Canada have their own ratification processes.

AT-A-GLANCE
USMCA is a new trade agreement between the U.S., Mexico and Canada which if approved, would replace the North American Free Trade Agreement, or NAFTA. While the two documents are largely similar, USMCA updates various chapters in NAFTA and includes additional chapters which were included in the Trans Pacific Partnership or TPP.

SUMMARY
Revised Chapters
- **Customs**: improves efficiencies, codifies recent enhancements such as Unified Cargo Processing, single-window, electronic submissions, and the creation of a private sector advisory council to CBP providing ongoing input and recommendations for future improvements.
- **Intellectual Property Rules**: sets the highest standards for strong intellectual property rules out of any agreement which include enhanced protections from the theft of trade secrets. Increases patent protection for biologics to 10 years and copyright protections to 70 years.
- **De Minimis**: increases cap for U.S. exports receiving duty free treatment in Mexico and Canada.
- **Rules of Origin**: increases regional content requirement for autos from 62% to 75%. Requires 70% of a vehicle’s steel and aluminum must originate in North America.
- **Energy**: removes NAFTA’s energy chapter which protected Mexico’s energy market from foreign investment and ownership. USMCA locks in Mexico’s recent energy reforms allowing private projects.
- **Government Procurement**: keeps the chapter in place for U.S.-Mexico and significantly reduces Canada’s opportunities to bid on U.S. contracts.

New Chapters
- **Labor**: creates new higher labor and production standards of the International Labor Organization, ILO.
  - 40-45% of automobile parts must be produced by workers earning $16+/hour.
  - Commits Mexico to passing legislation that recognizes the rights of workers to unionize.
- **Environment**: includes provisions concerning marine litter, pollution, forestry, overfishing, and other environmental concerns. Includes specific language restricting lower environmental standards in order to attract business.
- **Small and Medium Size Enterprises**: establishes resources to help SME’s become exporters, through incubators, accelerators, export assistance centers, exchange of market research and information sharing, includes language promoting women-owned, indigenous peoples, youth and minority-owned SMEs, improves SMEs access to capital and credit, and participation in government contracting opportunities as well as the establishment of the SME Dialogue.
E-commerce: provides new provisions to facilitate cross-border data transfers, as well as assisting SME’s to create web storefronts, bans custom duties on digital products.

Sunset Clause: calls for a review of the agreement in six years and requires a joint agreement to renew, otherwise agreement terminates after 16 years.

New Cause for Termination: Allows withdrawal from agreement if another party enters into a Free Trade Agreement or FTA with a non-market economy such as China.

Investor State Dispute Settlement: U.S.-Mex disputes restricted.

ANALYSIS

The Chamber, a long-time supporter of NAFTA, submitted formal comments to Mexico’s and the U.S. federal administration and their legislative representatives stressing the importance of maintaining the trilateral composition of the trade agreement. Other areas requiring improvement included customs processing, immigrant visas, infrastructure financing mechanisms, and addressing new industries in the global marketplace. Many of the Chamber’s recommendations were adopted, most important among them, preserving the trilateral trading block.

Under NAFTA, supply chains have become increasingly interlinked across our borders. Allowing tariff-free commerce between the United States, Canada, and Mexico, has facilitated this integration. In San Diego, this has resulted in a $2.5 million supply chain. Trade supports more than 110,000 jobs in San Diego. The impact extends beyond San Diego. More than 1 in 5 California jobs depend on trade.

By preserving the spirit of this trilateral relationship, USMCA will allow for continued growth in trade and restore predictability and certainty in North America’s private sector. USMCA’s currency provisions and regulatory language impacting IP, labor and the environment set a precedent for future trade agreements. For San Diego, the modernization of the customs chapter, the preservation of the TN visa, strong IP provisions, the additional chapters on energy and small businesses are critically important. In addition, the agreement’s environment enforcement provisions could be used to address the Tijuana River Valley pollution issue.

The agreement is not perfect. Changes in the regional content percentages will likely increase the cost of some goods. However, the likely consequence of not implementing USMCA, is termination of NAFTA. Without a replacement in place, a disruption of supply chains will occur resulting in production cost increases. In addition to the impact to business and consumers, the absence of a trade agreement with our two closest neighbors and trading partners, risks the collaboration we have fostered and depend on for border management, citing and managing ports of entry, and national security, as well as addressing shared environmental issues such as air and water, and workforce development.