

March 18, 2018

TO: MR. GUILLERMO VALENCIA, CHAIRMAN, GNSCCPA

FROM: Luis E. Ramírez Thomas, President, RAI-N

SUBJECT: February Activity Report

On behalf of Ramirez Advisors Inter-National, LLC (“RAI-N”) allow me to present our activity report to you and the Board of Directors of the Greater Nogales Santa Cruz County Port Authority (“GNSCCPA”). Before outlining the issues and efforts we have addressed on your behalf to date, we request and welcome your continued comments and suggestions as to how we can improve on our services and our communications and on our activities on your behalf. With your feedback, we will make every effort to improve our response to your needs and learn to better anticipate your directives.

Our activities on behalf of the GNSCCPA have focused on the following key areas:

1. **Donation Acceptance Program Update;**
2. **Axle Fee legislation;**
3. **Governor’s International State of the State;**
4. **GAO Report: *De-risking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews;***
5. **Representation of GNSCCPA with Key Entities.**

This report is not intended to be a full description of all our activities but rather provides highlights and information on the direction of our activities to keep Board of Directors informed and to ensure that our activities adhere to the vision and guidance imparted to RAI-N by the GNSCCPA and its leadership. Throughout this period, RAI-N has maintained active and frequent communications with Ms. Allison Moore, Mr. Guillermo Valencia and various other members of the Board of Directors in order to ensure that we have a fully coordinated approach to our efforts. RAI-N stands ready to address any issue, concern or suggestion that may arise from this report and from our on-going dialogue with the leadership and the Board of Directors.

1. DONATION ACCEPTANCE PROGRAM UPDATE

- Dialogue between the GNSCCPA Technical Team and Customs and Border Protection and the General Services Administration continue with bi-weekly conference calls.
 - The Technical team is working with a local company to secure a competing bid.
- **Reminder:** information provided is limited due to Non-Disclosure Agreement signed that prevents public disclosure of detailed information.

2. AXLE FEE LEGISLATION

- The Fresh Produce Association of the Americas has taken the lead in advancing legislation before the Arizona State Legislature that would allow the Arizona Department of Transportation (ADOT) to direct revenues collected from an axle fee on every truck that crosses the border at Nogales. ADOT has the authority to assess such a fee, but the legislation would restrict the use of the funds to infrastructure projects within 20 drivable miles of the port of entry where they were collected. Over 333,000 trucks crossing at Nogales (US Department of Transportation Data for 2017).
- This fee was agreed upon by the Fresh Produce and Maquila Industries and is supported by the US Customs Brokers at Nogales. The main condition for this fee was that in addition to the full build-out of the SR-189 project the projects on I-19 at Ruby Road and Rio Rico Interchanges, in addition to the frontage roads between these two interchanges, would have to be advanced and included into the ADOT 5-Year plan.
- Senator Kate Brophy McGee sponsored the bill and shepherded it through the Transportation and Infrastructure Committee in the Senate.
- On February 13, various representatives from Nogales attended a hearing of the Committee, with Jaime Chamberlain testifying and responding to multiple questions from Committee members.



Testifying before Committee: Jaime Chamberlain on behalf of Fresh Produce Association of the Americas, Floyd Roerich of ADOT and Tony Bradley of the Arizona Transportation Association.

- A copy of the testimony by Mr. Chamberlain can be found in Attachment #1.

- The Arizona Trucking Association (ATA) has come out in opposition to this legislation calling it a “toll”. This message has created fears that even cars would have to pay a “toll” in order to visit Nogales.
- Private meetings were hosted by Senator Brophy McGee and representatives of the ATA, including representatives of Knight/Swift Transportation, owner of the largest trucking company in Mexico.



Meeting between representatives of the FPAA, ADOT and ATA hosted by Senator Brophy McGee.

- SB 1065 made it out of committee with a unanimous vote of 7-0 and was passed by the Senate on a vote of 20 to 10. The bill is now in the House of Representatives.
- A number of letters in support of the legislation were submitted to members of the Transportation and Infrastructure Committee.
 - A copy of the letter from Chairman Valencia is provided in Attachment #2
 - A copy of the letter from INDEX can be found in Attachment #3

3. GOVERNOR'S INTERNATIONAL STATE OF THE STATE

- On February 20, Governor Doug Ducey presented the State of the State international during a dinner hosted by the Phoenix Council on Foreign Relations.
- With over 700 people in attendance, the Governor highlighted a number of Arizona-Mexico Initiatives including those that are helping to create a more competitive corridor between Arizona and Mexico.
- The Governor was joined on stage by the Ambassador of Canada to the United States and the Under Secretary for the Americas of the Ministry of Foreign Affairs of Mexico.
- A number of representatives from Nogales/Santa Cruz County were in attendance.



Chairman Valencia and Mayor Doyle with various dignitaries during the event



Nogales Chamber of Commerce President Olivia Ainza Kramer during the event

4. *GAO REPORT: DE-RISKING ALONG THE SOUTHWEST BORDER HIGHLIGHTS NEED FOR REGULATORS TO ENHANCE RETROSPECTIVE REVIEWS*

- On February 26, 2018, The General Accountability Office (GAO) released its report on the Border Banking situation.
- After a detailed review of the study the following overview was provided to Chairman Valencia and the leadership of the Port Authority:
 - In general, I found that the study does not do a full analysis and therefore the assessment is quite limited.
 - While it does make reference to the comments by stakeholders, particularly those from Nogales and San Ysidro, the few recommendations do little to address the lack of banking services for the communities that have lost significant banking services: Nogales lost 3 of 9 branches for a 33.3% loss and San Ysidro lost 5 of 12 for a 41%. McAllen, the other community that was studied in detail, lost 4 of 63 branches or a 6% loss (see [page 35](#) of the report).
 - The study does little to address the financing needs of the produce industry and provides little or no guidance as to how cash-intensive business can continue to conduct legal business transactions. It is clear that banks are hiding under the umbrella of risk by simply blanketing all cash businesses or border banking as high risk. I wish the study would

- have delved deeper into the solutions and given more focus on the remedies rather than simply explaining the situation.
- **Page 25 of the report:** I think the real issues is summarized by a banker that is quoted as saying “For example, a representative of a Southwest border bank explained that they no longer offer accounts to money services businesses because they (the banks) want to be viewed from a good standpoint with their regulator. They added that banking for these types of customers is very high risk for the bank with very little reward.” Until this perception is changed, and with banks being private enterprises, there is little that can be done to have them look at border business in a different light.
 - This is reaffirmed in the report on **page 40** where it states that “However, regulators have taken limited steps aimed at addressing how banks’ regulatory concerns and BSA/AML compliance efforts may be influencing banks to engage in Derisking or close branches.” There is simply no incentive or understanding from the regulators for banks to offer their services on the border.
 - **Page 28 of the report** (see green highlighted section): indicates that the counties that have been hardest hit by the Derisking are Yuma, Santa Cruz and Cochise in Arizona, Imperial in California and Luna in New Mexico. We (Arizona) continue to have the biggest proportional impact of the entire border.
- A copy of the summary page is provided in Attachment#4. A copy of the complete report can be found at: <https://www.gao.gov/products/GAO-18-263>

5. REPRESENTATION OF THE GNSCCPA WITH KEY ENTITIES

- Continuing efforts to maintain an on-going dialogue with various agencies to ensure full coordination of efforts and maximizing the impact of our limited resources, including, but not limited to:
- ADOT;
 - AMC;
 - Arizona State Legislature;
 - DHS/CBP;
 - GSA;
 - Offices of Arizona Congressional Delegation;
 - Office of the Governor;
 - SIDUR;
 - State Department;
 - State of Sonora; and
 - Veridus.

- It is imperative to highlight the great success that has been achieved on these efforts by coordinating efforts with key stakeholders, including the FPAA, Santa Cruz County, the City of Nogales and others as each has well established relationships with most of these entities.

Attachment #1

Copy of Chamberlain Testimony before Transportation Committee

**Testimony
Transportation and Technology Committee
Arizona State Senate**

**By:
Jaime Chamberlain, President
J-C Distributing**

Phoenix, Arizona
February 13, 2018

Chairman Worsley, Vice Chairman Pratt, and members of the Committee, my name is Jaime Chamberlain and I am here today to testify in support of the Strike Everything Amendment to Senate Bill 1065.

I am the President of J-C Distributing, a 47 year old family run Produce distribution company in Nogales, Az. We import and distribute Mexican fruits and vegetables to retail chain stores as well as to Foodservice and wholesalers throughout North America. I am Past Chairman of the Board of Directors of The Fresh Produce Association of the Americas as well as Co-Chairman of the Transportation, Infrastructure and Ports of Entry Committee of the Arizona-Mexico Commission, where I am also a member of the Board of Directors.

SB 1065 is recognition of a critical infrastructure NEED on our very congested State Route 189 or better known as Mariposa Rd. SB 1065 is our opportunity to solidify Nogales and Arizona as the Gateway for International Trade with Mexico. This is an OPPORTUNITY we cannot afford to pass up.

I want to thank the Arizona Department of Transportation, Director Halikowski and his team, as well as the Arizona Transportation Board for funding Phase 1 of the Modernization of SR-189. This \$70 million project is scheduled to start construction in 2019. This road handles over 350,000 northbound commercial trucks each year, moving between \$26 to \$30 billion worth of goods between Arizona and Mexico. As well as Millions of cars and passengers. All of this commerce benefits our State and our countries economy directly every day.

This project addresses many of the critical issues on this important road. But this phase of the project leaves out two key areas of need: first is southbound traffic and second is the grade separation so desperately needed at the intersection of Frank Reed Road. This intersection is the principle access point for Nogales High

School, creating an untenable situation where thousands of cars and thousands of trucks intermingle every day.

In terms of the opportunity we are committed to forging a strategic Public-Private Partnership with ADOT to fund Phase 2 of the SR-189 project.

By combining Phase 1 and 2 into a single project, ADOT stands to save tens of millions of dollars from speeding up Phase 2 and by taking advantage of the economies of scale that come from eliminating the redundancies, and “throw-away” costs that come from two separate projects. The combined project will bring a MODERN, EFFICIENT, and SAFE transportation system to Nogales, Arizona and the nation.

We are also working with ADOT to make much needed improvements to the Ruby Road and Rio Rico Drive interchanges on Interstate 19, along with the frontage roads between these two critical interchanges. We are very much aware that ADOT and the federal government have diminishing resources to meet current and future needs. This is why we are proposing this SB 1065 bill.

If Nogales were to sit back and wait for ADOT to secure the necessary funding for Phase 2 of Mariposa Road and the improvements on the interchanges on I-19, I am sure you would agree that we would probably be waiting for years, if not decades, to see these projects come to fruition. But trade and investments don't wait. Our principal competitors in Texas and California are finding ways to invest in their infrastructure in order to expand business opportunities.

I have had the opportunity to travel to Mexico with Governor Ducey on several occasions. He always promotes that Government must work at the speed of business. And that Arizona open to new business opportunities. The principle stakeholders in Nogales include the fresh produce industry, cross-border manufacturing sector, American Customs brokers, and Freight Forwarders, along with the City of Nogales and Santa Cruz County, have worked with ADOT to create a unique mechanism to jointly pay for Phase 2 of the Mariposa Road project, as well as the improvements to the interchanges on I-19. We are following our Governors lead on his call to make things happen and promote Arizona for all that it is and can become.

I want to stress that this a community, industry and sector commitment of our own. You will hear some opposition to this effort that is strictly based on principle, not opposition that is based on fact, need, opportunity or foresight. The opposition simply does not understand that it is the Nogales/Santa Cruz community that has come together to have a direct say in our future and we are willing to explore a new direction in infrastructure funding. We are focused on staying competitive with other ports of entry along the Southwest border. We are

also focused on growing our existing Industries, while attracting new ones to our Mega Region.

In order pay for all the additional improvements I mentioned, the City and the County are willing to commit a portion of their revenues from overweight permit fees. ADOT has committed their portion of the overweight permit fees. The fresh produce and cross-border manufacturing industries have agreed to pay a \$1/axle fee on every truck crossing Northbound into Arizona. And ADOT, with the support of all stakeholders in Nogales, has applied for a \$25 million TIGER Grant to help pay for the remaining balance on the project.

The combined industry, local government and ADOT funding is designed to pay for these projects and help put Nogales and Arizona on sound footing to compete with California, New Mexico and Texas. Our conditions on these financial commitments are that they are used strictly for the mentioned projects and that they are sunset once the projects are paid for.

SB 1065 does not create new authorities for ADOT it simply completes the mechanism by which ADOT can enter into these agreements with us in Nogales and allow us to move forward with the urgently needed projects that are of critical interest to Arizona.

Mr. Chairman and members of the committee. I believe that this structure is exactly the type of project that you and many in this esteemed body have been advocating for many years. It is a partnership between industry, local government, and the state. It is a true Public Private Partnership. One that secures our ECONOMIC viability for decades. One that ensures the EFFICIENT movement of goods and people thru Arizona's most important Trade Corridor. And one that provides our community's citizens and our commercial drivers the level of SAFETY they deserve while driving in and around Nogales.

I thank you for your leadership on this effort and for granting me this time to address you. I would be happy to address any questions you may have.

Attachment #2

Coy of letter from Chairman Valencia in support of SB-1065



February 12, 2018

The Honorable Bob Worsley
Chairman, Transportation and Technology Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

RE: Support for SB-1065

Dear Chairman Worsley,

On behalf of the Greater Nogales Santa Cruz County Port Authority, I am writing to express our support for SB-1065, a bill that will allow the Arizona Department of Transportation (ADOT) to increase the per-axel fee assessed at the border for commercial conveyances entering from Mexico. This bill also formalizes the commitment that those revenues must be spent on transportation infrastructure in the community where they were generated.

Nogales is Arizona's principle gateway for trade and tourism with Mexico. In 2016, Nogales was the gateway for over 335,000 trucks representing close to \$30 billion in trade with Mexico, carrying more than 6.2 billion pounds of fresh produce destined for US and global markets. Nogales is the gateway to over 83% of Arizona's truck traffic with Mexico, 40% of cars and 44% of all people each year. I want to stress that this is only for north-bound traffic, yet our road infrastructure and our ports of entry handle both inbound and outbound traffic, meaning that Nogales, for instance, is the gateway for close to 700,000 trucks each year. Having a state of the art, safe, effective and efficient transportation system is essential not just for Nogales but also for Arizona and the nations as well.

Phase 1 of the modernization of SR-189 is expected to commence in 2019. This \$70 million phase of the project will address many of the issues on SR-189, with emphasis on a flyover that will connect SR-189 with I-19 and allow for a smoother and safer flow of northbound traffic. But the other critical issues, including the southbound transition from I-19 to SR-189 and the grade separation at the intersection that is the main point of access to Nogales High School are left as Phase 2 of the project. But Phase 2 is not programmed at this time and ADOT has indicated that they do not have

P.O. Box 4518
Rio Rico, AZ 85648

www.nogalesport.org

Page 2 of 3

The Honorable Bob Worsley
Committee on Transportation and Technology
February 12, 2018

or anticipate securing the funds for Phase 2 for several years, if not a decade or more. And that is where Nogales and Santa Cruz are stepping in.

In order to pay for Phase 2 and build it as part of a single project in 2019, the City of Nogales and Santa Cruz County are committing a portion of their overweight permit revenues, and ADOT is committing its revenue from the Overweight permits collected at Nogales. Additionally, the fresh produce industry and the cross-border manufacturing sector have agreed to pay a \$1 per-axle fee that would be restricted in its use and duration to pay for Phase 2 of the project. And ADOT, with broad grassroots support, has applied for a \$25 million TIGER grant from the US Department of Transportation in order to complete the financing package for this project. These commitments would be sunset after the projects are completed.

In addition, we are working with ADOT on using this same structure to pay for the improvements to the Ruby Road and Rio Rico Drive interchanges on I-19, along with the frontage road between these two critical interchanges.

But I want to make it clear that this is our structure. That in typical Nogales fashion, we are taking the bull by the horns and not waiting for someone to fix our problems. This is not a toll road and the opposition that you are experiencing on this bill is based on principle but fails to recognize the needs of our community, the realities of industry and business decisions, and the growing competition we are facing every day. Texas, New Mexico and California are coming after our business. These competitor states are finding ways to pay for 100% of their border infrastructure needs. We need to be proactive and aggressive so that we can attract new investment and encourage expansions by local and regional industries and sectors.

The initiative before your committee is the culmination of months of extensive local and state dialogue to find a solution for our infrastructure needs. It is a mechanism that has the commitment of all sectors of industry and local government, in a unique partnership with ADOT. We are a small community with a big impact to Arizona and our nation and it is our hope that those that are in opposition today, will come and see the urgent need and support our efforts to create a safe, reliable and modern transportation infrastructure system for all. We hope that you and your fellow Committee members will approve this measure and support its passage by the Legislature.

The Board of Directors of the Greater Nogales Santa Cruz County Port Authority is comprised by the City of Nogales, Santa Cruz County, the Fresh Produce Association of the Americas, Nogales US Customs House Brokers, INDEX (the Maquila Association of

Page 3 of 3

The Honorable Bob Worsley
Committee on Transportation and Technology
February 12, 2018

Sonora), Nogales Community Development, and Nogales-Santa Cruz County Economic Development Foundation.

I thank you for the consideration you and your Committee gives to this legislation.

Respectfully,

A handwritten signature in blue ink, appearing to read "Guillermo Valencia".

Guillermo Valencia
Chairman

CC: The Honorable Frank Pratt, Arizona State Senate
The Honorable Jamescita Peshlakai, Arizona State Senate
The Honorable Lisa Otondo, Arizona State Senate
The Honorable Juan Mendez, Arizona State Senate
The Honorable Sine Kerr, Arizona State Senate
The Honorable Kate Brophy McGee, Arizona State Senate
John Halikowski, Director, Arizona Department of Transportation

Attachment #3

Copy of Letter from INDEX To Arizona Legislature

February 23, 2018

The Honorable Kate Brophy McGee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

RE: Support for SB-1065

Dear Senator Brophy McGee,

On behalf of INDEX Sonora, the Maquila association of Nogales, Sonora, I write to express our support for SB-1065 that would allow the Arizona Department of Transportation (ADOT) to assess an axle fee on every truck that crosses from Mexico into Arizona. We do want to make sure that these funds are restricted in their use for projects that will (1) promote the safety and efficiency of the transportation at Nogales and Santa Cruz County (2) sunset once the projects have been paid off.

Our membership is comprised of large and small manufacturers operating in Nogales, Sonora and the surrounding areas. Our companies employ close to 40,000 people in Nogales and over 60,000 in Sonora. It is estimated that our cross-border business represents more than \$25 billion worth of goods between the US and Mexico. We estimate that close to 40% of all the truck crossings at Nogales, approximately 135,000 truck crossings, are directly attributable to our industry each year and we expect that number to grow on an annual basis.

Almost all our companies operate on a Just-In-Time manufacturing and supply chain model that demands a predictable and reliable transportation and logistics platforms to ensure that we can meet our commitments. While we are greatly encouraged by the modernization of the Mariposa port of entry and the deployment of innovative inspections programs, we remain concerned that SR-189, the principal connector to Interstate 19, will continue to back up and reach levels of congestion that will hinder our growth, impact our productivity and create a growing number of safety concerns for the traveling public and the trucking industry.

The ongoing, multi-year dialogue with ADOT and the community at large on the modernization of SR-189 is of great importance to our industry. We applaud ADOT on securing the necessary funding for Phase 1 of the project but understand that ADOT lacks the necessary resources to pay for the full build out. That is why, as an industry, we are prepared to pay our fair share of the project and accept that our carriers will increase their fees by \$1 per axle on each commercial conveyance they use for the movement of our merchandise.

I thank you for your leadership on this issue and look forward to a prompt resolution so that we can see the projects at Nogales/Santa Cruz County move forward with the urgency that they deserve.

Respectfully,



Wendee Molina
President of the Nogales AMS and INDEX Nogales

Attachment #4
Copy of GAO Report Summary Page



Highlights of [GAO-18-263](#), a report to congressional requesters

Why GAO Did This Study

Some Southwest border residents and businesses have reported difficulties accessing banking services in the region. GAO was asked to review if Southwest border residents and businesses were losing access to banking services because of derisking and branch closures.

This report (1) describes the types of heightened BSA/AML compliance risks that Southwest border banks may face and the BSA/AML compliance challenges they may experience; (2) determines the extent to which banks have terminated accounts and closed branches in the region and the reasons for any terminations and closures; and (3) evaluates how regulators have assessed and responded to concerns about derisking in the region and elsewhere, and how effective their efforts have been; among other objectives. GAO surveyed a nationally representative sample of 406 banks, which included the 115 banks that operate in the Southwest border region; analyzed Suspicious Activity Report filings; developed an econometric model on the drivers of branch closures; and interviewed banks that operate in the region.

What GAO Recommends

GAO recommends that FinCEN and the federal banking regulators conduct a retrospective review of BSA regulations and their implementation for banks. The review should focus on how banks' regulatory concerns may be influencing their willingness to provide services. The federal banking regulators agreed to the recommendation. FinCEN did not provide written comments.

View [GAO-18-263](#). For more information, contact Lawrence Evans, Jr. at (202) 512-8678 or evansl@gao.gov.

February 2018

BANK SECRECY ACT

Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews

What GAO Found

"Derisking" is the practice of banks limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering. The Southwest border region is a high-risk area for money laundering activity, in part, because of a high volume of cash and cross-border transactions, according to bank representatives and others. These types of transactions may create challenges for Southwest border banks in complying with Bank Secrecy Act/anti-money laundering (BSA/AML) requirements because they can lead to more intensive account monitoring and investigation of suspicious activity. GAO found that, in 2016, bank branches in the Southwest border region filed 2-1/2 times as many reports identifying potential money laundering or other suspicious activity (Suspicious Activity Reports), on average, as bank branches in other high-risk counties outside the region (see figure).

Average Number of Suspicious Activity Reports Filed, 2016.

Region	Average number of suspicious activity reports filed, per billion dollars in deposits
Southwest border counties	273
High-risk counties outside the Southwest border region	110

Source: GAO analysis of Federal Deposit Insurance Corporation and Financial Crimes Enforcement Network data. | GAO-18-263

According to GAO's survey, an estimated 80 percent (+/- 11 percent margin of error) of Southwest border banks terminated accounts for BSA/AML risk reasons. Further, according to the survey, an estimated 80 percent (+/- 11) limited or did not offer accounts to customers that are considered high risk for money laundering because the customers drew heightened regulatory oversight—behavior that could indicate derisking. Counties in the Southwest border region have been losing bank branches since 2012, similar to national and regional trends. Nationally, GAO's econometric analysis generally found that counties that were urban, younger, had higher income or had higher money laundering-related risk were more likely to lose branches. Money laundering-related risks were likely to have been relatively more important drivers of branch closures in the Southwest border region.

Regulators have not fully assessed the BSA/AML factors influencing banks to derisk. Executive orders and legislation task the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) and the federal banking regulators with reviewing existing regulations through retrospective reviews to determine whether they should be retained or amended, among other things. FinCEN and federal banking regulators have conducted retrospective reviews of parts of BSA/AML regulations. The reviews, however, have not evaluated how banks' BSA/AML regulatory concerns may influence them to derisk or close branches. GAO's findings indicate that banks do consider BSA/AML regulatory concerns in providing services. Without assessing the full range of BSA/AML factors that may be influencing banks to derisk or close branches, FinCEN, the federal banking regulators, and Congress do not have the information needed to determine if BSA/AML regulations and their implementation can be made more effective or less burdensome.

United States Government Accountability Office