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San Diego – An agreement has been reached to pay for the reconstruction and operation of the 70-mile Desert Line railway in southeastern San Diego County that connects Mexico maquiladoras to rail shipping in the United States. The landmark agreement between Pacific Imperial Railroad (PIR) and Baja California Railroad (Baja Rail) provides a huge economic boost to both sides of the border.

The San Diego Metropolitan Transit System (MTS), San Diego Regional Chamber of Commerce, Pacific Imperial Railroad (PIR) and Baja California Railroad (Baja Rail) announced the contract on Thursday after the MTS Board of Directors approved the contract terms.

The San Diego region and U.S.-Mexico binational economies lose a staggering \$6 billion annually due to long delays in getting trucks carrying freight – such as new automobiles – across the U.S. – Mexico land borders in San Diego, according to a study done by the San Diego Association of Governments. An operational Desert Line will ease congestion, reduce air pollution, promote commerce and create jobs.

“This is a historic win for the San Diego region,” said MTS Vice Chair Ron Roberts. “The Desert Line agreement achieves a significant commitment to binational economic improvements and cooperation rarely seen in San Diego. Additionally, 135,000 cars and 6,200 trucks idling at our land ports of entry each day negatively affect our air quality. An operational Desert Line will help reduce vehicle emissions at the border and help this region meet its emission reduction goal.” Jerry Sanders, President & CEO of the San Diego Regional Chamber of Commerce, has advocated for this partnership as a means to create jobs and to promote economic activity in the Cali-Baja region.

“The loss of productivity due to congestion at our ports of entry translates into more than 2,400 jobs or \$131 million in lost economic activity,” Sanders said. “The Desert Line will provide a vital route that takes trucks off our freeways, increases shipping capacity and gets goods to marketplaces far more efficiently.”

Work on the 60 miles of track between Tecate and Coyote Wells in Imperial County is expected to begin this summer. It will be overseen by Baja Rail, which is incorporated in the United States and in Mexico. Baja Rail is a well-respected operator of the rail lines in Mexico that connect to the Desert Line.

“This joint project has been anticipated for a long time,” said Fernando Beltran, President of Baja Rail. “It will help our maquiladoras continue to thrive. It will help our economy. And it will stimulate a new cooperative business relationship between our two countries.”

Work on the line will include repaired bridges and tunnels and improvements to track. Once completed, it will allow trains up to 30 cars to travel on the line from Mexico to Coyote Wells. There, cars will be assembled into 100-car trains for delivery to the Union Pacific Railroad in Plaster City. To accommodate this activity, a new intermodal facility will be built in Coyote Wells by PIR.

“We have worked very hard with our partners in Mexico to realize this dream,” said Arturo Alemany, Executive Board Member for Pacific Imperial Railroad. “This is a joint effort that will create a new cost-effective option for international businesses to ship products, such as

automobiles, from Mexico to the eastern United States.”

Details of the new Cali-Baja Joint Venture Sublease and Operating Agreement include:

- Baja Rail and PIR will pay for the cost to reconstruct and operate the Desert Line (estimated at \$60-70 million).
- Construction is set to begin in summer 2016.
- Baja Rail will oversee the railroad repair, maintenance and operational obligations for 60 miles of the Desert Line
- PIR will build an intermodal facility near Coyote Wells in Imperial County to load freight and provide space to build the necessary 100-car trains that can be delivered to the Union Pacific main line network.
- MTS will continue to earn a minimum annual guarantee of \$1 million annually related to the Desert Line lease.
- MTS will receive 7% of gross revenue if greater than \$1 million.
- Extending the deadline by 12 months for all milestones (initial repairs, test train operations, limited operations, full-scale repairs and operations).

MTS has owned the Desert Line since 1979 and approved a lease agreement with PIR in 2012. On June 22, 2015, PIR and Baja Rail signed a Memorandum of Understanding outlining both parties' intentions to reach a definitive agreement to create a binational railroad operation servicing the freight movement needs of Tijuana's manufacturing sector. This was a major turning point in negotiations that have been ongoing since January 2013. Since that time, the two railroads have been conducting due diligence, financial feasibility analyses and negotiating an agreement to work cooperatively to restart freight railroad operations between Mexico and the Desert Line.

On June 2, 2016, these binational negotiations culminated in a sublease agreement between PIR and Baja Rail. The parties agreed that Baja Rail will oversee and pay for the railroad repair, maintenance and operational obligations for the first 60 miles of the Desert Line.

As the owner of the rail line, MTS retains oversight authority to ensure it complies with all of the construction, safety, maintenance and operational requirements for local, state and federal laws. MTS has hired RailPros to act as its expert consultant on this project.



Ceremonial first payment from Baja Rail to Pacific Imperial Railroad as part of the new Cali-Baja Joint Venture Sublease and Operating Agreement – (from L to R) Arturo Alemany, Executive Board Member, Pacific Imperial Railroad; Ron Roberts, Vice Chair, Metropolitan Transit System; Fernando Beltran, President, Baja California Railroad; Jason Vorderstrasse, Chief, Political/Economic Section, U.S. Consulate General Tijuana; Paul Jablonski, Chief Executive Officer, Metropolitan Transit System; Jerry Sanders, President & CEO, San Diego Regional Chamber of Commerce

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