

**Joint Senate Transportation & Housing Committee,
Subcommittee on Ports & Goods Movement,
Assembly Select Committee on Ports**

***Goods Movement Meltdown – What Should Be
the State’s Strategy?***

**Senators Tom Torlakson and Alan Lowenthal,
and Assemblymember Betty Karnette, Chairs**

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SENATOR TOM TORLAKSON: We’re going to get started in a few minutes as the Transportation Housing Committee and the Select Committee on Ports, the Senate and Assembly working together. So, again, we invite you to take your seats and we’ll look forward to getting started momentarily. Thank you all. We’re commenced as the Joint Hearing of the Senate’s Transportation Housing Committee, and the Assembly’s Ports Select Committee chaired by Senator and good friend and former seat mate in the Senate, Assemblywoman Betty Karnette at the moment, and by Alan Lowenthal, our Ports Subcommittee chair.

We want to welcome everyone. We’re here today to listen, to learn, to look at the strategies that we believe would be effective in dealing with the goods movement challenges in California which have been variously characterized as a crisis in one part of our transportation system that’s in general crisis as a meltdown or as a meltdown possibly to happen again in the near future or definitely to happen in the distant future, if we don’t plan better together.

I want to say on behalf of the Senate that our Pro tem, President of the Senate, Senator Don Perata, has set goods movement in ports strategic and infrastructure planning as a top priority. Moreover, due to the leadership of Senator Alan Lowenthal and the work that he has done in the ports arena already, the committee of the Senate in transportation has for the first time a

subcommittee specifically on ports and goods movement to strategically look at our seaports, our airports, our land distribution centers and the interconnectivity of all of it and the challenge of how to plan it better and make it all work better. We know how vital it is for the California economy to address the infrastructure needs and to forge partnerships to find ways to work together.

Approximately 40 percent of the nation's seaborne imports move through our California ports. Given this huge trade impact and a growing volume of goods movement, how do we more effectively keep goods moving and maintain the job growth of one of California's core economic components, international trade? We want to make sure that trade grows in a healthy way, in a way that has the least impact, and that creates the most jobs and benefits the quality of life for Californians.

We are pleased that so many have attended today's hearing. We believe it's essential to form public partnerships--the ports, the private sector, stakeholders, local, regional, state, and federal governments working together. If we approach this effort strategically, we have the opportunity not only to make historical investments in the infrastructure needed, but by combining state, local, and industry resources, I believe we also have a better chance of getting federal resources committed to the infrastructure investment California needs to make. We believe that if we invest in the infrastructure and form the right partnerships, we will have a better chance of convincing Congress and the federal administration to invest those dollars and reinvest in California recognizing the benefit that this movement of goods through our state has for the nation. And we have, as well, a goal that's been set out by Senator Lowenthal; by President Pro tem Perata and myself to develop a strategic master plan for goods movement. So, how does it all fit together, what are the phases and stages, and how can we work together to accomplish them?

Finally, Senator Perata has legislation that was unveiled yesterday that had an historically huge amount of money dedicated to ports and goods movement for everything from security to air quality to the basic infrastructure needs and that investment opportunity is in the form of a general obligation bond that would be scheduled for the ballot sometime in 2006. I believe that President Pro tem

Perata's legislation represents a huge opportunity, and awesome opportunity again for partnerships, matching monies, and implementation of plans that we can forge from these meetings going forward.

And with that, I'd like to turn it over to the co-chair of this meeting, our colleague, and thank you for hosting this in your chambers here on the Assembly side, Assemblywoman Betty Karnette, chair of the Select Committee on Ports.

ASSEMBLYMEMBER BETTY KARNETTE: Thank you, Senator Torlakson and Senator Lowenthal and Senator Soto for being here. And I want to thank all of you. It's really nice to see so many friends out there and Happy Maritime Week! We are really glad all of you are here. I really look forward to hearing from you, because it's rare that we get the opportunity to hear from people so knowledgeable all at the same time. I mean everybody we hear from will have a lot to say and Senator Torlakson said everything that I would want to say about the federal government and all of us working together.

But, I do think I need emphasize the fact that all of you are here and we are here all at once to get to know each other and know we don't have to agree on everything. We can make strategic decisions that make things happen. That's what I'm really looking for. I think that's why all of us are here. In goods movement there are many things that are important - the jobs, the congestion, we have to look at the congestion. You've heard it all before. We must look at the air quality, safety, and security. It is critical that we decide to act in a most strategic and efficient capacity. And we can talk around the subject and for a long time, but I don't want to talk around it. I want us to get started doing something. With term limits we only have a certain amount of time and I want something to happen before I'm gone from here. **(LAUGHTER)** Not from the earth.

SENATOR TORLAKSON: We're with you on that one. We want action. And Senator Lowenthal and then Senator Soto will speak.

SENATOR ALAN LOWENTHAL: I also want something to happen before you're gone.

SENATOR TORLAKSON: It's an action, action, action panel today. Build, build, build. Alright, thank you, Assemblywoman and Chair. Again, a leader here on these issues that most of you know very well for his work in the Long Beach

and L.A. area, but again the person who instigated the subcommittee that is the Port and Goods Movement Subcommittee of the Senate Transportation Committee, Alan Lowenthal.

SENATOR ALAN LOWENTHAL: Thank you, and thank you, Tom and Betty and Nell and thanks to everyone that's here. And my dear friend from the Port of Stockton, Assemblymember Greg Aghazarian.

You know, this would not have happened three, four years ago, five years ago, this amount of people, this amount of attention that was being paid by the State Legislature to our assets. As most of you know, I've really spent a lot of time working on just two of the issues of this major challenge. I understand that goods movement is the future for this state. This is really where the jobs are going to be. But, we must solve a lot of problems. We have to really work together to figure out how we're going to move our goods efficiently, effectively, to get rid of the congestion, this congestion in our ports, this congestion on our docks, and this congestion on our highways.

And so it's not any single source that we can point to in seeking to resolve congestion, air quality, and the quality of life of those living along our transportation corridors. It's a total system. I think we realize now that we must take a systems approach. We can't just fix and deal with one part of the problem. We really must look at the totality. We're only as strong as our weakest link, and so in part we must identify where those weaknesses are in this entire chain.

And the other issue that I've worked very much on is that as we move forward, we can solve the questions of pollution also. We can and must work together to solve those issues. We do have real serious problems. We didn't create them. The people here did not bring them up. You're not responsible for the creation of those problems. But, we're all living with these problems, and in building the kind of collaborative relationships between each other, between local government and state government, the private sector, the industry, and the federal government, we also must protect the well-being and the health of our communities that are tremendously impacted by the goods movement.

Impacted doesn't have to be a negative term. Impacted can be a very positive term in the sense that we can impact them by creating the kinds of jobs

that we want for the 21st century. So I'm really glad to be here to listen. The next four hours are going to be very, very informative. I hope to see everyone later on at the reception, so that we can kind of just chat in an informal way. Thank you all for coming and I'm very, very appreciative of your being here.

SENATOR TORLAKSON: Thank you, Senator. Senator Soto wanted to comment next.

SENATOR NELL SOTO: Thank you very much, Chairman Torlakson. I'm very happy to be here too. Lots of familiar faces out there I've worked with a long time.

I think that probably I'm the one that the goods movement affects the most, because I live in that corridor that everybody goes through to go east. So, it's something that I'm very concerned about.

Goods movement presents a conundrum of problems for the Inland Empire and yet, it's a good thing, I think. On the one hand, the economic benefits that are produced by the nation's largest port complex creates thousands of good jobs for the Inland Empire. I'm very concerned knowing that most of the cargo that goes east goes through my district. Therefore, I want to help in developing 21st Century solutions.

But, on April 4th, for example, there was a train derailment in San Bernardino. According to the *San Bernardino Sun*, the train was carrying 60 tons of liquid chlorine plus unknown amounts of propane. It is alleged that the tracks were simply worn out and it caused the train to jump the tracks, and that's why we had the accident. This is the goods movement meltdown in action. The basic maintenance needs are not being fulfilled, and I'm very concerned about that. Moreover, despite assurances by the Union Pacific that the residents were taken care of, it appears that that was not totally the case. We have reports of children with nosebleeds, possibly from the chemical leaks. The evacuation was mishandled. The Union Pacific says it was putting up all the residents in hotels and now in a recent news article, in fact, today, we find that people were sleeping in their cars and in the parks.

And this is a perfect example of market needs. The market is bringing us all its cargo from Asia for various reasons and this is good. But, there has to be some

way to reap the benefits of free trade, and to improve our situation without these risks. The freight boom is causing congestion on our freeways causing longer commutes and putting more pressure on families. We must find a way to ensure the safety of our neighborhoods under these circumstances.

I really believe that we should not adjourn this year until we have some type of solution in site. And I really mean that. I'm willing to stay here until we do have some type of solution that we can at least talk about and propose to everyone concerned. Thank you.

SENATOR TORLAKSON: Thank you, Senator Soto. Anyone else wish to comment? Again, welcome, Assemblyman Aghazarian.

ASSEMBLYMEMBER GREG AGHAZARIAN: Thank you very much to my distinguished Senate colleagues and my Assembly colleague. It's a very important issue that I'm glad we're addressing in a bipartisan, bi-cameral fashion. The concept of goods movement and the condition of our ports and the entire supply chain management of getting goods from Point A to Point B in through our doors is very vital not only now, but for the future of California. It's no coincidence that our neighbors to the north and the south and different states and countries are beginning to invest heavily in port structures and facilities. If we don't act, and if we don't act correctly, we stand to lose a vital engine to the California economy to other competitors. And that's to no one's best interest.

It's very important that we all work together to create an efficient way to maintain a reliable goods movement system, because when that system breaks down and we have backlogs, it doesn't just affect the unsightly flyover when you see ships out in the Long Beach Harbor, it affects scores of thousands of people who are relying on jobs to transport the finished goods at some point through this great state and country of ours. It is a matter that has implications to our economy. Breakdowns in supply chains are very inflationary in the long run and hurt our economy on so many levels.

So, this should not be a one time discussion we have. I'm very encouraged to see this room full of people dedicated to trying to work out the situation. But, I want to make sure that this type of meeting goes on and we find ways to break down the barriers and create opportunities to reassert ourselves as premier ports

in the world. And we all know of the wonderful ports in Oakland, Long Beach, and L.A., but let's not forget the fastest growing port in the world, the Port of Stockton. And I had to get that plug in, thank you very much.

SENATOR TORLAKSON: Very good.

ASSEMBLYMEMBER AGHAZARIAN: So, I'm very eager to get down to business and let's make this a very productive afternoon.

SENATOR TORLAKSON: Thank you, Assemblymember. We're going to begin with Gill Hicks, Chair of the California Marine and Intermodal Transportation System Advisory Council to give us an overview and to illustrate places where the meltdown has occurred or will occur. I want to welcome Senator Michael Machado.

MR. GIL HICKS: Thank you and good afternoon, Chairpersons Torlakson, Lowenthal, and Karnette, and members of the committee. It's a great pleasure to be here this afternoon and thank you for the opportunity. My PowerPoint is a summary of the written statement that I've provided to you.

I'm here on behalf of the California Marine and Intermodal Transportation System Advisory Council or (CALMITSAC). We came up with the most obnoxious acronym we could think of, but we're hoping to cure that one day. CALMITSAC has a number of affiliated organizations including the National Advisory Council which is also meeting in Sacramento this week. We have two regional affiliates, one in Southern California and one in Northern California. Our membership is broad and diverse representing a broad cross section of industry, government, and academia. You have the full list before you in written form.

Our past accomplishments have included the development of port security protocols and the development of vessel and marine terminal port security guidelines after 9/11. We also developed a report called "Infrastructure Needs Assessment" for all of the California ports. This was a bottoms up list of infrastructure needs in the year 2003.

AB 2043 last year has requested CALMITSAC to do a variety of things including compiling data on the growth and congestion of maritime ports. We're conducting a statewide contingency planning effort for the continued operation of the ports in the event of a major disruption. We're going to be submitting a report

to the Legislature in 2006 including recommendations on methods to better manage the growth of the ports and address the environmental impacts.

Why is this so important? Well, of course we do provide 40 percent of the U.S. water borne commerce in this state. In 2004 at the major customs districts, Los Angeles, San Francisco, and San Diego, \$400 billion in trade passed through those districts with a projected \$513 billion by 2006. L.A. and Long Beach Ports alone account for about two million jobs nationwide. But, the economic benefits that we see throughout this state are being challenged by valid concerns over congestion, pollution, capacity constraints, and funding limitations.

Back in 1984 the Ports of L.A. and Long Beach for example, handled 2.4 million 20 foot equivalent units of containerized cargo. That was the year that the Alameda Corridor concept was conceived. In year 2002 when the Alameda Corridor was open for business, cargo volumes had increased by a factor of four and a half times. The lesson learned there is that the world does not wait for your project to be done. And it takes a long time to get these major infrastructure projects in place. So we've got to start now on some of the new major projects that are in the works. Right now, L.A./Long Beach handles 13.1 million TEUs. Port of Oakland handles about two million.

What's driving a lot of this growth? Much of it is coming from China, the sixth largest trading nation in the world, and it will be second by the year 2010 after the U.S. With a population of 1.3 billion people, they have an almost inexhaustible supply of low cost labor. A factory worker there makes between 56 and 67 cents an hour. In just three years, from 2001 to 2004 the trade deficit with China doubled to \$162 billion. Wal-Mart bought \$18 billion in merchandise from China in 2004. Seventy percent of the products sold there come from China.

Another statistic not shown on the chart is that in 2004, the Port of Long Beach imported 53 percent of its loaded containers from China. It's a huge influx of containers. Managing their growth is going to be a major challenge and I don't believe that we can divert our way out of these problems by moving them to Mexico or to Canada or other ports along the west coast. There's just so much volume. We're going to have to deal with these problems at each port and not expect solutions by diversion. By 2020 the Port of L.A. and Long Beach expect 36 million

TEUs. The Port of Oakland handled six and a half to seven million TEUs. You've heard about the proposed port in Mexico at Punta Colonet about 80 miles south of Ensenada. Their projected for about 1 million TEUs, but that's less than one year's growth in L.A./Long Beach.

Without solving these problems, unfortunately we're going to have congestion ahead for the next 20 years. Some of the initiatives that we're working on in L.A./Long Beach to reduce truck traffic, for example, are listed here. The extended gate program called PierPASS, a so-called virtual container yard which is an internet matching service for empty containers reducing the amount of empty movements to and from the ports, increased use of on-dock yards, a new near-dock yard close to the harbor, as well as local shuttle trains. The Alameda Corridor Transportation Authority at the Port of Long Beach and the Port of Los Angeles have all been working together on these strategies to reduce truck traffic.

Projections for the impacts of those strategies are shown in this chart. In 2005 we estimate about 23,000 trips on the Long Beach freeway. If we do all of those strategies in the previous slide together and are very successful in implementing all of those, we can keep the truck traffic to a doubling by 2030. If we do not build those or introduce those strategies, shuttle trains, etcetera, the truck traffic will triple along with the cargo volumes.

I'm often asked, if you do all these things, does that mean you don't have to spend billions of dollars on the Long Beach freeway? Unfortunately the answer is that we have to focus on the truck lanes and those other infrastructure improvements even if we are successful at all those truck reduction strategies.

On the rail side there are key limitations and deficiencies that we have to realize. Intermodal rail yards are operated at near capacity. We expect about nine million lifts per year shortfall by 2020. The main lines east of L.A. need to be triple or quadruple tracked and of course, Senator Soto's indicated we have a lot of grade separations to fund. The Colton crossing which is a major interlock between BNSF and Union Pacific needs to be separated. If we don't do these projects, the benefits of the Alameda Corridor in the long run will not be fully realized.

Now, I believe strongly that we need to balance the economic and environmental goals. I heard at a Business, Transportation and Housing hearing a

few weeks ago that quality of life begins with a job. And I firmly believe that. A recent study by Dr. John Husing indicates that the average logistic sector wage is \$45,000 per year. This provides upward mobility for our blue collar workers. This is particularly important when we consider that 46 percent of the adult population in Southern California has never stepped foot inside a college classroom. We've got to provide a livelihood and an opportunity for upward mobility.

Still there is the concept of economic justice which is as valid as environmental justice. And there are physical and emotional health effects of unemployment, underemployment and poverty that absolutely have to be considered. We cannot ignore those and focus only on the environmental. So in other words, we need to pursue both the economic and environmental objectives concurrently and not one before the other.

There are important environmental enhancements being pursued in the ports area and they deserve recognition for that: Port of Oakland's Clean Air Program, the Port of Long Beach's Green Port policy, Port of Los Angeles's No Net Increase program which has a list of over 60 measures to reduce air pollution. Some of those measures do not fall within the purview of the ports. There are strategies on that list that only CARB, the U.S. EPA and the International Maritime Organization (IMO) have the authority to implement. And the IMO can create the so-called sulphur emission control area or SECA, but only if the U.S. Senate adopts MarPol Annex 6, the marine pollution treaty. So this Legislature, this governor, this administration can be very helpful in championing the cause for developing a sulphur emission control area for North America.

Labor availability and productivity have been a key concern. Of course, you saw the congestion that occurred last year in the harbor. PierPASS, the extended gates program will spread the volume over more time, but there is a potential truck driver shortage that is looming out there that's going to be very serious. The International Longshore & Warehouse Union (ILWU) and the Pacific Maritime Association (PMA) are adding labor and improving their projections of need. There will also be technological improvements, optical character recognition, radio frequency identification, and potentially a reduction of free time, as long as that's

done fairly across the board and there's accountability in the containers and how that free time is counted.

We're also working very hard on trying to increase the use of on dock rail utilization which will reduce truck traffic. We are going to be needing better communication among the terminals, railroads, the ILWU, and the steamship lines in order to maximize On Dock efficiency. Right now in L.A./Long Beach only about 18 percent of all the containers that go through the harbor are loaded at On Dock rail yards. We need to increase that to at least about 25 percent.

We need a prioritized list of port security projects in California. Right now I think every port just competes with each other. There's no prioritized listing. We need a contingency plan for a major incident and CALMITSAC is working on that. There's also clearly a need for a better way to allocate port security grants. As was stated earlier, California handles 40 percent of U.S. water borne commerce, but it received only 5.9 million or 12 percent, less than 12 percent, actually, of the 49 million distributed nationally in round four. These deficiencies will clearly hurt the economy, the environment and national security. The congestion is rising. We haven't kept up with the growth. But, the communities are increasingly calling for slow growth or even no growth in our harbors. We've already seen that in L.A./Long Beach. Construction has been generally halted. And it's a real concern about providing that economic health as well as environmental health. There are health implications, as I said earlier, of underemployment and unemployment.

Funding, of course, is the major issue, one of the major issues. In my mind there are only three major categories of funding: existing grant and loan programs such as the transportation reauthorization effort in Washington, new ideas for revenue at the federal or state level such as tax credit bonds or customs carve outs for various things such as security, and third which is the model like the Alameda Corridor which was a project for region specific fee for a focused, fire-walled plan that everybody agreed to do. By firewall I'm obviously talking about the money cannot be used for other purposes or raided and taken away. We believe that shippers might be willing to pay for value as long as that value is clearly identified with specific metrics for specific projects. That remains to be seen, but I think

that's the best hope is to be able to identify those metrics and quantify the benefit to both the public and the private sector.

So clearly the time for action is now. We've got to focus on a few potential success stories and be willing to fund them. That will inevitably involve public/private partnerships, because there's not enough money to go around in terms of grants. We can't do everything for everyone. Collaboration is essential. And let's vow today to end all of the turf battles that we find in government and industry, and CALMITSAC is taking the spirit of collaboration into its preparation of our strategic plan. And I look very much forward to working with you on that. Thank you.

SENATOR TORLAKSON: Are there questions from our combined committee at this point? Comprehensive overview. Big challenge.

MR. HICKS: Yes, it is.

SENATOR SOTO: Gil, what about those containers? You didn't mention that in your presentation, all the empty ones.

MR. HICKS: Well, about 30 percent of the volume through our ports, L.A./Long Beach, at least, are empty containers. Most of them, of course, are going westbound, overseas. But, there is a strategy to try to minimize the movement of empties by trucks. And that is called the virtual container yard. We're negotiating with a couple of vendors to actually build this internet matching service. Right now a loaded imported container will go to an importer and then it'll be sent back by truck empty. An exporter will get a truck empty container dispatched from the harbor, and of course, it comes back loaded. So, why not match up the importer and the exporter and get some of those empties trucked across town rather than back and forth to the harbor. That'll minimize the number of empty container moves. So that's an important project. We hope to get that running this year.

SENATOR TORLAKSON: Senator Lowenthal.

SENATOR LOWENTHAL: Gil, I have a question. CALMITSAC, as you pointed out, is doing a strategic planning process and will be reporting back to the Legislature on that process. The Administration is also doing a planning process.

Are you working at all collaboratively and can you explain to us how that strategic planning process is coming along?

MR. HICKS: Yes, thankfully BT&H and CalEPA have done a very good job on their initial project plan. And there's a report out there on Phase I. We're going to use all of that information and benefit from that hard work that they've done. And it is a collaborative effort. We'll learn from them and vice versa. And there are other efforts going on down in the south. The Los Angeles Economic Development Corporation (LAEDC) has some planning going on. The Southern California Association of Governments (SCAG) is doing some planning on developing these metrics for various projects and how the private and public sector will value specifically or benefit from those projects. So, all of this is going to feed into our plan. And their work is going to be very helpful to us.

Our planning effort is still in the works. We've got a lot of work to do in the next six, seven months or so. We're developing outlines for the report. It is a voluntary organization and so every minute we spend is all done on a voluntary basis, which is a little bit of a constraining factor, quite honestly, in being able to get the work going. But, momentum is building and this hearing frankly is going to help build momentum for CALMITSAC to complete its work and work cooperatively and collaboratively with BT&H, CalEPA, SCAG, and all the other MPOs throughout the state.

I'm sending letters to all of the ports in California, including the small ports, to collect data on their acreage and throughput and their forecast and what environmental challenges they have, so that we can have a comprehensive look. Everything is going on in the various areas including the Port of Stockton and other areas like that. So, it's going to be important effort.

SENATOR LOWENTHAL: Thank you.

SENATOR TORLAKSON: That kind of coordination is essential and that kind of comprehensive planning is critical, so we thank you for that effort. I wanted to ask you just to recap it for the history—how long did it take to get the Alameda Corridor from idea to implementation? What did it cost and how do you compare that to the magnitude of what you see as the challenge ahead? The kind of projects, the kind of infrastructure, the kind of consensus that needs to be built

and what can we and the administration do as partners with you? The administration has clearly also signaled they want to focus on this. How can we help with our state agencies, with our planning process to assist in shortening the time frame for these other critical projects?

MR. HICKS: Well, the Alameda Corridor was conceived in 1984 by a planning study done at SCAG. And it was 18 years later that it opened for business.

SENATOR TORLAKSON: Do we have time to do 18-year planning cycles for these next projects ahead?

MR. HICKS: Well, with major projects like the Long Beach freeway, Alameda Corridor East, unfortunately there's a lot of hoops you gotta go through including environmental permitting and entitlements and of course the funding. It took a long time to get the funding together and the agreements. We negotiated agreements with three railroads which became two and all the corridor cities. A lot of work has happened on the 710, for example. There's a consensus on what the 710 project is going to look like. And that's a major achievement that the Gateway Cities Cog has done over the last several months. That's a good start. You've got to have consensus on these projects or else you have nothing. So, let's hope it doesn't take another 18 years. But, it is going to take awhile to raise four and a half billion dollars or so—

SENATOR TORLAKSON: Billion.

MR. HICKS: Billion, for the Long Beach freeway. That's just one project.

SENATOR TORLAKSON: How many projects like the Alameda Corridor do you see needed to truly address the challenge and the growth and volume?

MR. HICKS: Well, if you count the Gerald Desmond Bridge, the 710 freeway, Alameda Corridor East which is a whole series of projects, grade separations and track improvements, other major projects, SR 47 connector, there's billions of dollars in the works that we're going to need. But, recognizing we can't fund everything, we can't do everything for everyone, we've got to focus on a short list of projects. And I believe that's the philosophy being taken by the BT&H and CalEPA effort as well as SCAG and CALMITSAC. We've got to focus on the real high priority ones, develop a finance plan around a short list of projects

rather than trying to create the fund and then invent projects to go along with that. I think there's a lot of sentiment in the industry that there's no trust in trust funds.

SENATOR TORLAKSON: Firewalls and moats and barbed wire fences and triple security around the trust funds.

MR. HICKS: Right, yes. There you go. But, we need to build our projects and a finance plan that goes along with them.

SENATOR TORLAKSON: Thank you. And we'll invite you as well as all the others who testified to share with us how you think we can help. I mean, how can we be the better partners the best we can be in terms of assisting in the faster implementation and development of those revenue resources. Thank you very much.

MR. HICKS: Thank you.

SENATOR TORLAKSON: Senator Lowenthal will introduce the next panel and then after that, Senator Karnette will introduce the panel to follow, the third panel.

SENATOR LOWENTHAL: Thank you, Senator Torlakson. I'm also glad to welcome Senator Kehoe and Senator Runner. Our next panel is Getting Products to Market—Current and Emerging Realities. And we have three speakers, Rick Gabrielson, Senior Manager, Import Operations for the Target Corporation; Marie Robinson, Senior Vice President of Global Logistics for Toys R Us; and John Isbell, Senior Vice President, Global Logistics, Nike Corporation. So, each of you will be making a presentation and then we'll again open it up for discussion.

SENATOR LOWENTHAL: Marie Robinson is going to be first. Then John Isbell and then Rick Gabrielson.

MS. MARIE ROBINSON: I'm Marie Robinson, and while someday I hope to grow up to be a senior vice president, that's not my title. I'm actually a Regional Director for Toys R Us. As part of my job I have responsibility for managing the transportation and distribution operation from Chicago west for the United States. I have the privilege of living in Rancho Cucamonga, so I also understand the personal impact of the congestion that exists in Southern California. Toys R Us is an \$11 billion specialty retailer. We have 600 plus Toys R Us stores nationwide

and 220 Babys R Us stores nationwide. We have over 50 retail locations in Southern California alone and are approaching 100 retail locations in the State of California. We also operate 12 distribution centers and transportation offices nationwide of which I have responsibility for six. And of my six, three are in California. I have one in Stockton, I have one in Irwindale, and one in Rialto, California. We specialize in serving moms, dads, grandparents and most of all, children. We're the direct importers of 40,000 FEU containers a year, so we're a moderate sized direct importer on our own.

With that, I'll begin our presentation. The three of us actually worked collaboratively. We found that our message was very similar and we thought we could make better use of our time perhaps by doing so. I'm going to address today some significant problems and challenges that we recognize as shippers and share a little insight into those. First of all, we recognize inconsistency as shippers in moving in the base movement of product. American business today needs a reliable supply chain that is secure and capable of delivering an uninterrupted flow of export and import cargo. The congestion delays that shippers experienced in Long Beach/L.A. and on the rails in 2004 have us as shippers making contingency plans for 2005. Carriers are following the shippers' lead to diversify their port usage by realigning vessel streams to reduce the exposure in Long Beach and Los Angeles.

This inconsistency leads to increased costs for us to move product and it does that in several ways. We are forced to purchase goods earlier which leads to greater warehousing costs. That also reduces our inventory terms and hurts our overall company profitability. It gives us less flexibility to react to hot trends and hot items and to be able to move those goods quickly to satisfy consumer needs. And it leads to more air freight shipments and air freight's very expensive as opposed to our traditional modes of shipping goods.

As shippers we don't see right now, unfortunately, a clear direction or vision for the future. Despite a clear trend on the part of importers to diversify ports of entry, the fact remains that the ports of Long Beach and Los Angeles are going to remain the principle gateway for Asian imports. What we need from the federal and state government is a coordinated effort to develop a long-term plan to address

how we can increase the productivity, efficiency, and throughput of all American blue water ports, especially the ports of Southern California and the landside infrastructure.

We recognize that currently the infrastructure isn't sufficient to meet our needs. It's fair to say that few people foresaw the surge of imports that has clogged our ports, rail network, and highways. It's not a problem that we believe California alone can solve. Federal highway funding needs to be directed to addressing freight movement issues. American railroads need tax incentives to invest in infrastructure that is needed, but has a low return on investment. Shippers need to work together to better utilize the infrastructure that we do currently have in place.

I'd next like to talk to you about some emerging trends that we recognize in our industry that are impacting the current situation. There have been and we think there will continue to be shifts in global sourcing. China's emergence as a major WTO player has likely shifted the global source of goods indefinitely. Imports as we all know have grown by 10 percent overall per year for the past two years and will likely grow by another 10 to 12 percent in 2005.

We as shippers have begun, as a result of that, to diversify our port usage. All of these conditions have led us to aggressively divert freight whenever possible to all ports outside of Southern California. All water passage through the Panama Canal is now seen as more predictable than west coast shipping during peak times. Longer ship times are accepted now in exchange for dependability. As an example, in 2002 75 percent of all Toys R Us direct imports flowed in through Southern California. By 2004, this number had been intentionally reduced to 54 percent. Today, 90 percent of all Toys R Us east coast direct imports flow all water.

We also recognize that the ever increasing vessel size is going to increase congestion. The new mega ships which will be able to transport up to 10 or 12,000 TEUs will further crowd already overwhelmed rail and trucking bypasses as they create larger surges of inbound goods at port.

Another emerging trend in our industry is the construction of more transload operations near the ports. Available land in the Inland Empire, a good

labor pool, economics of moving product inland in 53 foot trailers instead of smaller containers and the ability for retailers to delay the final distribution of their products until after receipt from overseas has led to the surge in the growth of the transload centers. These centers are in addition to the regional distribution centers that are also located there to support the population of California. This increases even more the congestion and the contention for the infrastructure that's currently in place.

That concludes my portion of the presentation. I'm going to turn it over now to my colleague, John Isbell, from Nike.

MR. JOHN ISBELL: Thank you. Like Marie, in coming to California and coming here to present we both get promotions. Thank you. I'm the Director of Corporate Delivery Logistics at Nike. Nike and its subsidiaries import approximately 14,000 40-foot equivalent units of containers through the Ports of Long Beach and Los Angeles on an annual basis. About 3,000 of those forty foot equivalent units (FEUs) are trucked to Ontario for the Converse distribution facility and shipped from there. Another 2,000 FEUs are transloaded in facilities in Torrance and Chino. The balance or 9,000 FEUs are inland point intermodal railroad shipments moving through the Alameda Corridor to points in Texas and east of the Mississippi River.

So, my part of the talk is about what are we doing right now. And we are, as defined, the private industry. What's going on? What are we doing? We wanted to start with the railroad infrastructure. In 2004 there were about 90 to 110 container trains per day moving out of Southern California to points east. By 2010 that number's expected to double. Railroads are largely a private network and stakeholders are dependent upon the nation's class one railroads to ensure there's sufficient capacity to meet the growing demands of international trade. Railroads like all private companies make investments based upon internal rate of return. However, not all projects, all projected intermodal shipments necessary to handle the ever increasing demand would be made if internal rate of return is the sole criteria for making that investment.

The Waterfront Coalition is calling for federal and state tax incentives for railroads to invest in much needed intermodal infrastructure capacity. Railroads

today are working at their expense to double track the entire route from the West Coast to the Midwest interchange points in Chicago, St. Louis, Kansas City, Memphis, and New Orleans. Railroads as Gil talked about, are already working and have proposals to invest in near dock intermodal transfer facilities called (ITCFs) in Southern California that will take more trucks off the freeway but is waiting for the approval by the Los Angeles Board of Harbor Commissioners. Let's encourage the Commissioners to move forward on approving those new ITCFs.

Ports and terminal fees—shippers are currently paying for port infrastructure, security, and environmental improvements through their ocean carriers. Money for these projects are collected by the ports through dockside and wharfage fees assessed by the terminal operators—assessed to the terminal operators by the ports. Effective July first, Long Beach will increase its lease fee to terminal operators by five percent. In general, carriers have been negotiating rate increases in the Trans-Pacific trade to cover that increase as well as other costs associated with congestion. Shippers who temporarily use terminals for container storage will be paying a higher storage fee due to terminals recently announcing the reduction of free time from five days to four days and charging more for storage beyond the free time.

Gasoline taxes paid by harbor trades drivers and terminal operators is a major source of revenue for highway and off-dock infrastructure improvements. Ocean freight as previously mentioned, trans-Pacific ocean rates have been going up for shippers over the past couple of years and two of the main drivers for rate increases have been the carriers' congestion cost and infrastructure cost related to their problems of coming in and out of Southern California.

I want to spend a little time talking about PierPASS. It's probably one of the best programs of a collaborative nature between private industry and Sacramento, and it's as I said, a collaborative process led by and initiated by the Waterfront Coalition. PierPASS is a good example of all stakeholders coming together to help solve the congestion problems at the Long Beach/Los Angeles harbors. Under pressure from Sacramento, the fee-based program is designed to encourage shippers to ship 40 percent of the current truck container moves to non-peak hours. Fees will be collected on those containers that are moved off the terminals

during peak hours and not using the Alameda Rail Corridor. The fees will be used to compensate terminal operators for operating night gates. The fees will go away once critical mass is achieved and self sustains the cost of operating night gates. PierPASS is scheduled to start July first, and in fact, some shippers are currently working with the PierPASS organization and beta testing the system.

The shipping stakeholders asked Sacramento and the people of Southern California to be patient and give PierPASS time to reduce congestion and increase truck turn times at the terminals. We expect a lot of positive outcome from PierPASS that should make bills like Senate Bill 761 and 762 unnecessary. As we like to say, we didn't get into this problem overnight. And we're not going to solve it overnight.

As previously mentioned, terminals have reduced free time from five to four days to increase terminal productivity and organizations like the Waterfront Coalition are active in working with the federal and state legislatures to inform as well as to serve as business partners in finding solutions for the National Maritime Transportation System. Thank you.

SENATOR TORLAKSON: Thank you very much for your testimony, John Isbell, and we have now Rick Gabrielson.

MR. RICK GABRIELSON: Good afternoon. Thanks for allowing me to talk to you today. They said I'm the senior manager from port transportation for Target stores. Maybe as a little background, Target has 195 stores at present in California, 121 of them are full service facilities. We have four distribution centers, one located in Woodland, one in Fontana, one in Ontario, one in Shafter, and we just started construction on our fifth facility which is in Rialto. We have 48,000 employees based here in California and our community giving in 2003 represented \$10.5 million. And one of the programs I'm very proud of is our Take Charge of Education program which has generated \$21 million to California schools since 1997. From a volume perspective in 2005 our projected volume is 208,000 FEUs, 150,000 of that will come into the West Coast split between L.A./Long Beach and Seattle-Tacoma.

Now that you've heard John and Marie talk about the challenges or the problems we face and what steps the industry is taking to address the issues, I'd

like to spend a few minutes talking about what our recommendations are to help address goods movements in the state. We believe that shippers need to be engaged and involved in helping to solve the issues of port and road infrastructure at both the state and federal level. Shippers have the ability to provide the insight needed into the issues and challenges from a business perspective and have the clout to help drive change within the industry. As policy proposals are developed, I would encourage this body to find ways of reaching out to shippers for their insight and thoughts. And in doing so, we may find ways to solve our issues by collectively working together possibly without introducing legislation.

However, there are times when policy and legislation are needed to address the issues and remove obstacles. When this need occurs it should be a collaborative effort between the policy makers and the private sector. In doing so, shippers can lend some additional insights into the issues and impact proposed legislation may have on both business and jobs. Finding mutual understanding as policies are created will allow policy makers to have broader support from the shipping community and other key stakeholders as proposed legislation is introduced. If you haven't guessed it, we want to be involved.

The problems that we are facing in California should not and cannot be the sole responsibility of the state. The major ports of L.A./Long Beach and Oakland are a federal resource. And the activity that flows in and out of these ports affects our national economy and as a result, we clearly need federal support. MARAD and groups like the Marine Transportation System National Advisory Council (MTSNAC), of which I am a member, are empowered to make policy recommendations to the Secretary of Transportation. And I would urge this body to collectively work with these groups to develop a comprehensive plan of both short and long-range initiatives to address our growing congestion, air quality, and capacity issues within the marine transportation system.

One way of accomplishing this comprehensive plan is to develop a Blue Ribbons Panel or commission made up of key stakeholders. While some of you may be thinking that we already have too many panels or groups addressing this issue within the state, we do need a group that is cross functional at the state and federal level that includes all stakeholders including shippers. The charter of this

group would be to develop a plan that encompasses those initiatives and projects that provide the infrastructure needed to meet the demands for the year 2020 and beyond. Many of the initiatives needed to make our ports fluid involve projects that are linked outside the state and as a result, must be cross functional at both the state and federal level. The panel must be driven by the Secretary of Transportation, Secretary Mineta, the Governor, and should include legislative leaders of this body. But, it should also involve shippers who can help provide insights about future business direction.

While there are many needed projects to be completed within the state, we would encourage the California Legislature to focus on a narrow list of projects that have significant impact on goods movement within the state. I would also add that many of these projects will require support and funding at the federal level. From a recommendation standpoint, first and foremost, we believe that 710 needs to be expanded. We would envision an expansion that would build 710 out to a total of 10 lanes with special consideration to designated truck lanes. We also believe we need to add a third set of rail tracks to the Cajon Pass. Steep grades, low speeds and increasing volume create a bottleneck for movement through the pass. Adding a third set of tracks would reduce the congestion to help handle the increased volumes.

We heard Gil talk a little bit earlier about the Colton grade separation. We, too, feel that's important and congestion at this rail crossing could significantly improve the flow coming in and out of our ports both eastbound and westbound. We also feel that the Gerald Desmond Bridge needs to be replaced as part of the Long Beach 710 Corridor Improvement Project, and that we need to expand State Route 47, the connector coming out of the ports so there's a better flow of goods moving in and out of the ports themselves. Provide funding for the Bay Area bridge replacement which supports both goods movement as well as passenger traffic. And remove the obstacles along the BNSF to open its near dock facilities as quickly as possible, doing so by 2007 versus 2008 or 2009. Doing so will take significant numbers of trucks off the 710 freeway every day, some estimates say a million a year. Not sure if that number is right, but we do know it's significant. This improves traffic flow, reduces congestion, most importantly, improves air

quality. Also to develop an incentive program to get our older trucks off the highways as a way to reduce emissions and again, improve air quality. On behalf of John and Marie, I'd like to thank you for inviting us today.

SENATOR LOWENTHAL: Thank you. That was just excellent. Are there questions from the panel? Assemblymember Karnette.

ASSEMBLYMEMBER KARNETTE: I have a question for Ms. Robinson. You talked about an all-water route. Would you tell me what that is?

MS. ROBINSON: Yes, ma'am. That means that, every opportunity we get we take passage through the Panama Canal.

ASSEMBLYMEMBER KARNETTE: I know, but you said 90 percent—

MS. ROBINSON: Of east coast direct imports are now flowing, we're bypassing California going through the Panama Canal and landing directly on the east coast.

ASSEMBLYMEMBER KARNETTE: Okay, but if you're going through the Panama Canal, some of those ships are too big.

MS. ROBINSON: No, these are all smaller containers loaded that way from Asia with routing through the Canal.

ASSEMBLYMEMBER KARNETTE: Okay, so it's not going through Suez and going all around that way.

MS. ROBINSON: No, we do see that in the future as another great alternative that is being explored. But, today our company's using the Panama route on smaller container ships.

ASSEMBLYMEMBER KARNETTE: Thank you.

SENATOR LOWENTHAL: I have a question for John Isbell, demoted from Vice President to Director. John, I agree that PierPASS was an example of the private sector stepping up and doing a wonderful and I think a really great job in opening up and extending our gate hours. After the private sector worked with the Legislature, the private sector said, hey, we want to do it. And the private sector then stood up. People then, because I had introduced that legislation, keep coming to me now and saying, aren't you disappointed, because it's not working yet? Maybe you could explain why it's taking the time to get started, because we, you know, we had hoped that PierPASS would be started earlier. Maybe you can

explain to folks what the scope of it is and what the issues are there, because we're all counting on PierPASS.

MR. ISBELL: Okay, I think the first thing was a need to get organized and allow the terminal operators to talk in a collective fashion, it has to get approved by the Federal Maritime Commission (FMC), so that the terminal operators could collectively talk and discuss this program, and implement this effort. So that took awhile. Then the organization, through the vetting process, had to determine which company could best represent and manage PierPass program. State and Local Solutions, Inc. (ACS), was selected. This company, which required extra time had to be brought in to make modifications to the system. I think the other thing was working with the ILWU and making sure they understood what was happening here and making sure that jurisdictional issues were being addressed according to the contract with the ILWU and all those things were taken care of.

There was a little bit of a delay, I felt, in terms of selecting the partner, but that selection process just normally takes time. I mean if we're doing it internally as a company, it's a three month process at the earliest. The systems connectivity piece is currently being addressed. One of the beta tests shippers are working through is the Electronic Data Interface (EDI) type of connections. With the volume of containers that a Target has or even a Nike has we have to be in an electronic data interchange mode with ACS and the PierPASS system. And that takes time to work between the private sector and ACS. For example, we've estimated about 270 hours of programming time is going to be needed on our part to connect. So, that process has to take time.

So, hopefully, all this is coming together. And maybe Rick can add to it, but our concern, as shippers, was that we wanted to make sure that everything was nailed down and that this system was tested. When we first heard about it in November, we were very encouraged. The pilot program had to make sure that when the switch turns on we don't end up having congestion problems at the trouble lane, because containers that they want to take off haven't been cleared having paid the PierPASS fee. So, that is my short explanation of it. Rick may be able to add to that.

MR. GABRIELSON: The only comments I would add to that is that effectively you had a number of Marine Terminal Operators (MTO), all in Southern California, all independent companies, who were able to come to an agreement in a relatively short amount of time. PierPass brought all those terminal operators together and developed one comprehensive system. So, if we step back away from that, we think that even if we had just our three companies needing to develop a common system incorporating our own unique business practices; that would be quite a feat. Here we have thirteen companies coming together to start a brand new company with new business practices. Getting buy-in from all those independent companies and doing so in a manner according to FMC standards and rules; and getting a system that's robust enough to handle all the transactions in a number of different modes, everything from credit card transactions up to an EDI transaction clearly takes time.

I am convinced the program will work. But, we have to make sure that when it rolls out it's done correctly. And that's why it may appear as though it's taking longer than desired, but at the same time, we didn't get into the issues overnight. And we're really better off making sure that we do it right, make sure the system works well and then we can begin to attack some of the other opportunities that we have.

SENATOR LOWENTHAL: Thank you. Senator Karnette, do you want to call the next panel?

ASSEMBLYMEMBER KARNETTE: I surely do. Our good friend, Sunne McPeak. Secretary McPeak, you're going to tell us all about the California's global gateway to the nation, and what the administration's plan is and how hard you work to make it happen.

MS. SUNNE WRIGHT-McPEAK: Thank you, Assemblymember/Senator Karnette, and members of this distinguished panel. Thank you for inviting the Administration to join this august group that you have. I've invited Undersecretary Barry Sedlik from Business, Transportation & Housing to join me.

We appreciate very much the opportunity to add to the discussion today. And we want to begin by thanking you for your leadership. I look at those of you on this panel as ones who have educated me personally on the importance of ports

and goods movement in California as it relates to the transportation system for the State of California. When Governor Schwarzenegger asked us to look at the entire transportation system for the state and look at the future of mobility for California, I was aware of all the lessons that you had given us and the information about goods movement and the analysis for that, as well. And so, goods movement, the entire system as you've all discussed today from ports to our borders have become the top of the list for improving mobility in California. The Governor and the Cabinet Secretary, Terry Tamminen, asked the entire Administration; the Cabinet, to come together to work across agencies in order to have as common a place to engage in this discussion for you and the stakeholders as possible.

Secretary Alan Lloyd from the California Environmental Protection Agency and I are co-chairing that cabinet work group. But, it also includes the Department of Food and Agriculture because, of course, a lot of products are shipped both in and out for our agricultural industry. It includes security, the California Highway Patrol, as a part of our agency, but also Homeland Security. California Transportation Department, of course, is part of BT&H, and then because our commitment is to improving the infrastructure and reducing the impacts on communities, public health and environmental impacts, we also are consulting the Health and Human Services Agency, Department of Health Services. So we've got the entire, I think, spectrum of the Administration agencies working together.

We have been in a mode of listening, gathering information from stakeholders and then promulgating an action plan. The first draft action plan was actually referenced by Chairman Hicks. We have a statement of our policy position to share with you and to have entered into the record. Many of you have seen this, but this is the first formal hearing in which we can officially submit it to you. And while we know the Legislature is always on one page and that you always have your act together, it's a challenge for the Administration sometimes to work out our positions, and so we very carefully tried to craft what we thought was a responsible approach to what is clearly an opportunity and a challenge for this state, and a fact which has also been stated, that goods movement is in every part of our life every day. It's an opportunity for future jobs. It is a challenge for

communities that surround the ports and the corridors of moving goods, and it certainly is essential as we view it to our economy moving forward.

So, I just want to underscore a few things in this policy statement. First, that we recognize that ports and goods movement is a high priority for the state and that we need an efficient, safe delivery of goods from our ports to our borders. And at the same time that the environmental impacts from goods movement must be reduced to ensure a protection of public health. We are absolutely committed to improving the infrastructure for goods movement. And when we say infrastructure, we do mean it's an entire system. It involves seaports and airports, by the way, rail facilities, dedicated truck lanes, logistics centers, and our border crossings.

We have identified essentially four corridors or systems networks facilities in our state that we're paying attention to. The Los Angeles and Long Beach Port, the 710 out through the Alameda Corridor through the Inland Empire, Senator Soto, to our border is obviously one of those. San Diego, including Ensenada as we look to our regional economy across the border, across the southern part of California and Baja into the rest of the United States is another corridor. The Port of Oakland through 580 and 880 up to the Port of Stockton is another vital corridor. Did I say the Port of Stockton? The Port of Sacramento and then the north/south spine that is principally for highway, Highway 99, there's also the multi-modal facility outside of Stockton that is rail, truck to rail, rail to truck, and then Highway 5 can potentially be also a reliever. So we're looking at the facilities improvements that are essential in those networks in those four areas.

Goods movement is a huge contribution to the state. Today it's \$200 billion to California's economy and from that the taxes that are paid locally and to the state are about \$16 billion. We see that there is the potential for this industry to double in the next 15 years. The potential for the industry to double and the volume to double, certainly the demand is there. But, the infrastructure is very constrained. And even as we have looked to improving the infrastructure in these four corridors, as we project the growth which is substantial, I mean, the increase in containers coming through is almost mind boggling. But, if we do improve the infrastructure to handle that, California's share of both exports and imports will

only remain static at about 11 percent, a little above 11 percent. Now, what I want to underscore there, is just to keep up with the share of the industry and the potential for volume means we really got to take action now. We are focused on this needing to be something we reach agreement on now in the immediate future. We, too, would say, until we could work out the consensus among the stakeholders and with you and I think, fortunately, that's possible.

We are looking, I might add, at 2005 we better be able to not have any ships sitting outside the San Pedro Bay. The PierPASS approach that you have championed and that the industry has come forward with promises to make sure we don't have that kind of congestion this year, but we will put in place the kind of strike force intensity that we normally do when we have this kind of a challenge. Then it's looking to getting agreement around the most important, the most cost effective, high return on investment improvements in the infrastructure, and I want to tell you that's not going to be cheap. Our first stage of action plan, our first phase that Barry Sedlik with EPA has written acknowledges we've got about \$4 billion of goods movement infrastructure improvements in the pipeline and that the full order of magnitude that we think we need to handle this doubling is going to be more than \$40 billion. Let me put that in perspective. China is going to do the same thing in probably a shorter period of time with an \$80 billion investment. And we will be challenged to do what I just said. I think we can, and we know that we have to be partners at the local level, regional level, the state, and the federal governments. I want to acknowledge the kind of commitment that Secretary Mineta, U.S. Department of Transportation, has made to working with us. You know, you will hear later today from Mr. Jamian, and John Jamian has, I think, to underscore that commitment from the federal government to the State of California.

Today we set sort of a time frame. I would like to have a business plan for those first phase improvements that are needed in California by the end of the year. That means let's put in place the business plan with the funding commitments that we put everything around the barbed-wire, the moat, the lock box, whatever it is to tie that up, because we will need it, the commitment on that revenue string to do the financing. Now I think that we have the prospect of a true

public/private partnership. In Southern California we know that is the improvements of the 710, all of the access out of and into the L.A. and Long Beach Ports, the Alameda Corridor East, the 125 grade separations that need to be done in Los Angeles, Orange, San Bernardino, and Riverside Counties in order to get from our coast to the border. Mentioning the coast, I also have the Resources Agency, because we're concerned about the oceans, the value of our oceans and our public land, so that's why the Resources Agency is involved.

In the corridor that is the Port of Oakland and Stockton and Sacramento, we are looking at those, the most strategic investments that are needed, the Metropolitan Transportation Commission has finished a very good plan. We're borrowing a lot from what has already been done, obviously, and then trying to get a game plan around the most important investments. And Highway 99 just absolutely is a priority for the state in so many ways.

I think that as you listen to the previous panel, listening to Rick Gabrielson and to Mr. Isbell and to Ms. Robinson, that you heard loudly, clearly how important for industry that we get our act together. I think it's very encouraging the testimony that you've already heard, because you would not have heard it a year ago. No private interest is going to come to the table as a partner or as an investor unless we can ensure them we can deliver. And the improvements that I'm thinking need to be done, we have to see accomplished by the end of the decade. I mean, we are prepared to bring forward a lot of financing in order to get the improvements today.

So to close, Senator, I wanted to sort of respond to your question about what can we do, what you can do to help, and it's sort of a mutual question. What can we do to help each other and all of them in the audience? All of the people you're going to hear have really been toiling in the vineyard and have plowed the ground already. They know what needs to be done. We are in the mode of prioritizing so that right now we can speak with one voice from California to our congressional delegation when federal reauthorization is happening. We underscore the fact and you will hear from the environmental community. I know Gail is testifying. I saw Jesse Marquez. Our commitment is absolutely real to reducing impacts on the communities, on public health, on the environment, but

that, the resources to do that depend on being able to generate them out of an industry that also can be successful in California. We will share with the federal government and our delegation, that we want to partner with U.S. Department of Transportation on routes of national significance. We know from all of these charts how much flows through California to the rest of the nation, and there's every reason why we should be partners.

We have a highest priority in our federal request for improvements to the Alameda Corridor East and the 710. There's an earmark already from Congressman Schiff on doing the studies for the 710. We probably need to do more than what's already been requested, but we hope that that request on improvements to the Alameda Corridor East can be successful.

The work that you are doing with Senator Runner on design build, the legislation that we are sponsoring on public/private partnerships, if we do not get those tools, those tools on project delivery and financing, out of the Legislature this year, we really can't deliver in the next five years these projects. And so we have to, I think, come together with a kind of focused intensity that says it's time California showed the rest of the nation that we mean business, that we can get something done, and to borrow from Mr. Isbell's company's slogan, just do it. That is how Nike brings, you know, the commitment of business, so it is a just do it kind of mentality.

We thank you again for inviting us here and for your leadership in educating all of us about what we need to do. Goods movement and improvement of that infrastructure also will be a great relief for the entire system if we can move truck traffic onto rail, give dedicated truck lanes for trucks and get the mixed flow traffic not to have to compete.

ASSEMBLYMEMBER KARNETTE: Are there questions from members?
Oh, Ms. Kehoe, Senator Kehoe.

SENATOR CHRISTINE KEHOE: Thank you, Madam Chair and Madam Secretary. I thank you for the overview and you made some important points. We're just a few days away from the Governor's revision. What in as far as your work goes, what will be his top priorities, his top three priorities for goods movement and how will they be reflected in the budget?

MS. McPEAK: The Governor will announce those. It's not my role. I am certainly providing the information he's requested. But to be sure, he has been briefed by Secretary Lloyd and Undersecretary Sedlik on the first phase action plan before we went out to do the second round of hearings. He directed us on goods movement. He has directed us to pay attention to the ports and to goods movement and infrastructure, and Governor Schwarzenegger also specifically addressed this issue when he met with the congressional delegation. He went to Washington to talk about our bases in trying to retain them, but transportation and goods movement was second on the list.

He today is looking at exactly, you know, how much money can be, I think, accommodated in May Revisé to address these issues and last year, as you well know, he identified all the first time money he could find for transportation. So, we're all trying to work together in terms of transportation improvement. And the Governor will make those announcements for the Administration.

SENATOR KEHOE: And then you also said, you intend for the action plan to be completed by the end of this year? Is that in its entirety or when you start talking about phases I lost the thread for a minute.

MS. McPEAK: Thank you, because I wasn't clear. Our time table on the action plan is to do two, a phase one and a phase two, with the whole thing completed by the end of this calendar year. And so the first phase which was in a draft form released at the, in the middle of March and there was a hearing, listening session, that Secretary Lloyd and I did on March 24th. We have gathered all of the comments. They came in a couple of weeks ago. Undersecretary Sedlik and EPA have been writing feverishly on a draft so that we could deliver that first to the Governor, and then be able to share it with you and the public. And our timetable, it's hopefully in the next few weeks, so that that document can be released, that CALMITSAC will have it.

That would cover, as we say, the why and the what. That is why should we be doing something? Why is it important to the economy? Why is it essential to improve the environment? And the what, is the inventory of what improvements need to be made for transportation, what improvements need to be made for the communities for reducing environmental and health impacts. Second phase will

be the how, when, and who. And I really want to talk about that. The how being how, what are the priorities, and how will we fund it? What is our proposal, the when, the timing of it and the staging which comes back to project delivery? And then having those pieces in place, we can have an intelligent and fruitful discussion about who. Who are the partners and what are the institutional arrangements that are going to be needed to carry this forward? And we have been very conservative in the sense of the state needs to play a role, but we want to support what is already happening locally and within the region and not overstep our boundaries.

We do know that we have to be partners. In one way or another the state and federal government have to be partners with the projects that we're talking about.

ASSEMBLYMEMBER KARNETTE: I think we have another question, and I wanted to mention that Senator Romero was here and I didn't mention that. Senator Lowenthal.

SENATOR LOWENTHAL: You lay out an ambitious program and both what the panel before said, we didn't get here overnight. It's going to take us a ways to get out. The number of years you're talking about with the number of phases takes us at least to the end of the decade, probably longer. Are there steps that are going to be needed to sustain this over time that we need to be thinking about, because we're not talking about any one session of the group in the Legislature or the Administration, we're talking about moving California in a new direction and is this sustainable, is the question? Are there things that we need to do to ensure that we move in this—because we're not going to solve all the problems quickly.

MS. McPEAK: Thank you, Mr. Chairman, let me comment and then may I ask Barry Sedlik to also comment. Our response to the challenge has to be staged or we won't be successful. And so the second phase of the action plan would be much more of a business plan with the most critical improvements being laid out, it is our intent, by the end of this calendar year, so that we could actually put together an investment program. When I say that I mean to identify the funding streams, what's flowing locally, regionally, from the state, from the federal

government with also hopefully, a partnership with the various players in the private sector.

That would be those, the first priority on the business plan, I must say, is that network that is, flows from San Pedro Bay over to our eastern border, because that's where we've got the most congestion. It is also where we've got the most challenge for impacts. It's not the only one of the four. We will get to the Port of Stockton, I'm absolutely certain. There will be simultaneously very critical improvements that can be made in those other networks as we laid out.

We will need to make sure that there is improvement in not just the capacity of the infrastructure, but also reduction at the same time on impacts on public health and the environment. We will be working very closely, obviously, with the expertise in our California Environmental Protection Agency and U.S. EPA in figuring out exactly how that can be done and how it's financed. That is our approach. How far can we get, I think, will be just a matter of how much intensity we put into it, but I think if you just look at Alameda Corridor East, which is about a \$3 billion program that doesn't include the improvements on the 710 which need to be done. It doesn't include the rail improvements elsewhere that we might want to do. It does include the 125 grade separations. That's doable by the end of this decade, I mean, to put together that business plan and then to make those improvements, that's doable in the foreseeable future, along with the reduction of impacts on the communities. I will just ask Barry, who probably knows this a lot better to just comment.

MR. BARRY SIDLIK: Thank you, Secretary. One of the things that we learned in a relatively short time in doing this project, the Secretary laid out a time line for us to complete it in 90 days. It's taken us a little longer to do that, but what we recognize right at the outset was that we couldn't do this unless there was a lot of groundwork already done, and the regions have done just a tremendous job at looking at this issue much longer than has ever been looked at the state level. So institutionalizing that involvement to bring those players together is something that we have found is very important.

The other piece, frankly, is for the long term is gaining the confidence and trust that Gil Hicks was talking about of the end users. Trends are changing all

the time. The system that we have now was not even envisioned 10 or 15 years ago in terms of how containers are unpacked and the just-in-time types of services that exist that were not even conceived when the Alameda Corridor was being put together. So we need a plan for the long haul, we need to maintain that communication with all the players including those that are ultimately heavily involved in paying for it, because that will give us the biggest clue in terms of direction, in terms of the infrastructure, how we operate this system, and how we can keep the environmental impacts to as low a level as possible.

SENATOR SOTO: Thank you. I just wanted to make some comments and I really appreciate your elaboration on everything you're hopefully going to do. It's very encouraging and I think ambitious for us to start thinking this way and I think we must. We must remember that whatever happens to the economy depends, I believe, on what we do with transportation. And I don't think we can ever forget for one minute that the cargo coming in, the things that we are planning and hoping to do will have the greatest impact on our economy and therefore California moving forward and if we don't do it, then California will certainly not move forward and I'm really anxious to know what are you placing as a priority on where you're going to start fixing things first so we can start these. Therefore, concentrating on the goods movement in a way in which we think will improve the economy and in the near future, because we've got to start thinking about job generation. We stop thinking about everything that goes with the goods coming in, how are we going to disperse them so that it would help the economy. I wonder if you have a plan. Can you bring us something that we could see that would be something that is tangible? Do you think you can bring us anything like that within the near future so that we can develop a bit more hope? Those of us that feel so helpless in the situation and I'm sure you're familiar with what I have to contend with, what we're going through in the Inland Empire which happens to be the gateway to the goods movement to the East. So, I would just like to see some kind of a plan and what kind of a prioritization you feel are you going to put on some of these things that we know we have to do because it effects the economy of our state and particularly Southern California.

MS. McPEAK: Thank you, Senator. We have, we have two major plans. One is a part of another that we have been preparing and are providing to Governor Schwarzenegger. The first is looking at overall transportation needs in California. Just as you have said and recognized, the investments that we need to make in order to retain a quality of life and retain our employers and to be competitive globally is a pretty big number. And we have started with a set of performance standards for the system which the California Transportation Commission is reviewing and will provide an endorsement of or a refinement of so that we can know what we're planning to achieve. You know, it's more than just throwing money at transportation. Commissioner Kirk Lindsay who's a member of the California Transportation Commission will be testifying. He's past chairman of the CTC, currently chairs their Goods Movement Subcommittee and so you will hear from him.

So, the first thing is we have to be clear in California what we're trying to achieve and then accordingly calibrate our investments to that. The legislation that we're supporting and sponsoring this is a part of the Governor's Go California campaign, and he will be identifying a lot more components of that in the future.

In terms of goods movement which is the highest priority within that overall Go California transportation action plan, we have said it has the double bonus of supporting an industry, but also relieving the congestion in the rest of the system. And within that, the Alameda Corridor East completion which also has to have the 710 improvements and all of the modifications of operations at L.A. and Long Beach are at the top of that list for everything that we've discussed today. So, I look at the need to find several billion dollars. It's on the order of, you know, \$3 billion for completing Alameda Corridor East and there's a couple more billion probably in that when we start talking about the rest of the improvements and that's critical mass. What we need is that business plan that I'm referencing that we've got to try to come up with by the end of this year.

SENATOR TORLAKSON: We appreciate the excellent testimony and the energy, the focused intensity, the action-oriented thinking, so we look forward to working with you and moving through the Legislature some of the tools you indicated we need to accomplish the goals and timelines. And as we move forward

we look into the opportunity to interface our planning processes and as well to look at the suggestion that Rick Gabrielson mentioned a little bit earlier about, you know, the stakeholder working group that would involve the feds, as well. And so this is excellent progress. We want to thank you, Barry Sedlik and Secretary McPeak, very much. I'm going to turn it over to Senator Lowenthal to introduce the next speaker.

SENATOR LOWENTHAL: Now we're going to have a federal perspective. And we're very fortunate on our next panel which is "Federal Reauthorization: What's In It For California Goods Movement?", that we have John Jamian who is the acting Administrator of the Federal Maritime Administration. It's a pleasure to see John. And we're counting on you, John. As you can tell, we're counting on you.

MR. JOHN JAMIAN: Good afternoon. You know, the funny thing is that I was standing in the back and they told me there was an available seat, a green one, up here. I didn't know I had to speak, though.

SENATOR LOWENTHAL: Yes, that's called the hot seat.

MR. JAMIAN: The hot seat. Well, thank you very much. Good afternoon, ladies and gentlemen of the committee. My name is John Jamian. I'm the acting U.S. Maritime Administrator for the U.S. Department of Transportation. I'm pleased to be here with you today to discuss the vital issue of goods movement and our nation's maritime transportation system. We commonly call it our MTS. And I bring you all good greetings from President Bush and Secretary of Transportation Norman Y. Mineta, a native son of California.

The President appointed me to be MARAD's deputy administrator in May of 2003. Prior to coming to Washington, I served as a Michigan legislator and as the executive director of the Detroit Wayne County Port Authority. So I have more than a passing familiarity and appreciation for your work here in Sacramento.

I also want to take this moment to applaud you, Senator Lowenthal and also Senator Torlakson, and Assemblywoman Betty Karnette for their foresight and leadership in holding these hearings and the resources that the State of California has dedicated to the issues of freight movement and port development which are indeed very, very impressive for us. I know Senator Lowenthal and your staff have

done an especially good job; and Norman Fassler-Katz has proven to be an incredible resource to the U.S. Department of Transportation and really helping us in our attempts to improve the performance of the nation's MTS.

Well, today I wanted to discuss several initiatives that directly relate to the work that you are doing here and to the issue of goods movement and port congestion that are so vital to your state's and nation's economic well-being. First I would like to update you on the surface transportation reauthorization legislation currently moving through the U.S. Congress. In addition to calling for an additional \$284 billion, our federal commitment to the country's surface transportation system over six years, the Administration's proposal which we call the Safe, Accountable, Flexible, and Efficient Transportation Act of 2003, or more simplified SAFETEA, contains several key elements designed to specifically address our economy's critical freight and shipping sector. It includes dedicated funding for intermodal connectors, that vital last mile or first mile connecting of our nation's highways to ports and other intermodal facilities. It includes new financing tools that will help attract significant amounts of private sector capital, equity, and innovation to transportation infrastructure, as well as better leverage existing, better able to leverage existing public resources and the establishment of a freight coordinator in each of the 50 states to increase emphasis on freight and goods movement in regional and in local planning.

As you well know, a growing number of our American businesses are now integrating transportation into their just-in-time manufacturing and inventory processes in ways that we have never seen before. These businesses are increasingly dependent on the performance of underlying public and private infrastructure to remain successful. Our intermodal freight system is now a critical element of overall U.S. economic health. This is why the enactment of SAFETEA's freight gateway package by Congress is so important. The Administration recognized that fact over three years ago when we started putting out our SAFETEA proposal and we will be working hard to ensure that as many of our freight-related innovations as possible are incorporated into legislation that Congress finally adopts, and hopefully very soon.

Of particular importance to the committee, of course, is what we do beyond the surface reauthorization bill to tackle the longer term need for infrastructure improvement, an issue that becomes more pressing every day. This challenge is all about how we integrate our transportation system and where and when to apply our resources. Far from waiting for Congress to act on our SAFETEA proposals, over the last two years, the Department of Transportation has been assessing what other things we can do in the interim in putting these ideas into effect. We are calling this our Freight Action Agenda which is a plan to help guide our partners and stakeholders in near term efforts to improve goods movement throughout the nation's transportation system.

Our agenda includes initiatives to improve Department of Transportation projects which include finance expertise to develop better freight data, more analytical tools, improve intermodal research and technology, educate the next generation of freight professionals, and advance complicated, multi-modal freight projects that have broad economic impact. I should note that this decision to focus on a small set of nationally significant projects is not without some risk, because providing special attention to one project or one location can sometimes lead to criticism. It does, however, have its advantages for California. The Department has established what we call a gateway team to address network improvements at the Ports of Los Angeles and Long Beach. I do not have to tell anyone here on this committee about the importance of these two super ports which accommodate over 40 percent of our nation's container shipments, an immense contribution to our national economy. Their contribution is only expected to grow in the future as volumes increase at projected rate of 10 percent per year.

In order to accommodate this type of rapid growth, the Department of Transportation has established a Southern California gateway office to help address port growth at the Los Angeles and Long Beach complex. This new office is there to help port users, workers, and other transportation stakeholders at these facilities to work together to develop strategies for handling this anticipated growth in cargo. While this office is focused on the Los Angeles/Long Beach

region, we view this as an important effort to address our growing freight mobility issues nationwide.

The gateway office is staffed by an onsite federal ombudsman who reports directly to the office of the Secretary of Transportation and to myself as the Maritime Administrator, and serves a conduit to the Southern California port community. Therefore, once a regional consensus is formed around specific projects, the Los Angeles and Long Beach office can greatly facilitate the timely development and completion of those projects. We do need a consensus, however, on regional priorities. And I believe that's what the Secretary was talking about before I spoke.

I'm here in Sacramento this week not only to address this committee, but to meet with Secretary Mineta's Marine Transportation System National Advisory Council. This council was formed to heighten national awareness and facilitate development of a coordinated public/private approach to our nation's marine transportation system. Since its inception, the Council has helped us fully develop our role, develop the role of our coastal inland waterways, and addressing our nation's highway, rail and port congestion issues. This work has culminated in the development of a SEA-21 proposal to address the needs of our nation's maritime interest. The council's proposal is one of the most aggressive, far reaching, and coordinated efforts to upgrade our national transportation system in over 50 years.

Secretary Mineta's been very supportive of the Council's efforts and we are working with other relevant parts in the Administration to help bring as many of these creative ideas to life as possible. Improving the health and performance of the MTS is one of Secretary Mineta's top priorities this year and we will certainly keep you posted regarding our progress and our on-going work with other federal agencies.

Let me leave you with one last thought, that the challenges we face is ensuring that our intermodal transportation system is as seamless and efficient as possible. Unfortunately, because federal transportation programs have long been compartmentalized into modal stovepipes, it is difficult to ensure that the investments in our transportation network are made in a coherent manner.

Secretary Mineta has focused enormous time and effort throughout his career on addressing this problem and our work in this freight area and in putting together a SEA-21 initiative are good examples of that.

To be sure, railroads, motor carriers, and the maritime industry are all competitive businesses seeking system upgrades and expanded capacity which will help to contribute to their own competitive advantage. Moving forward, however, we simply cannot sustain the type of growth that we expect in the early years of the 21st century without a readjustment of our approach to transportation. We must commit ourselves to a cooperative effort that breaks down these stovepipes in an effort to achieve a common good. I truly believe that the initiatives and the proposals that I have described here today begin that readjustment process and we look forward to working with all of you along that way.

I thank you very much for the invitation to be here with you this afternoon. And I'm more than happy to answer a few questions before this committee. Thank you.

SENATOR LOWENTHAL: Thank you, John. Are there any questions, Senator Soto?

SENATOR SOTO: Just thought it might be a good idea to tell him that the most important thing that shippers can do is contact their senators and support their version of good movements. And perhaps your shippers can do that now so that they will know that we're anxious to get started.

MR. JAMIAN: Good. I hear you.

SENATOR LOWENTHAL: You know, we here, I mean, I'm not sure you can answer this question, but so what, you know. We said it was the hot seat. Should or could or might federal customs fees be invested in any of our port-related infrastructure and security concerns? I mean, we are collecting a great deal of custom fees and that money leaves California. It's U.S. money going back to Washington. How about having some of that come back?

MR. JAMIAN: Next question? **(LAUGHTER)**

SENATOR LOWENTHAL: Remember, there's now going to be, I believe in our latest, about \$6 billion collected this year, out here in just those two ports.

MR. JAMIAN: I will say that the Office of Management and Budget obviously has a lot to say about that in Washington. But, I also believe it's the consensus of this industry who has been advocating that they take some of this funding that's been collected from this industry and reapply it towards the infrastructure in building this industry up. And I think that it would be fair to say that many of us are hoping that we can work in that direction.

SENATOR LOWENTHAL: Thank you. I appreciate that answer, the candidness.

SENATOR SOTO: Can I say just a couple more things?

SENATOR LOWENTHAL: Yes.

SENATOR SOTO: Thank you. You know, the House version of the goods movement totals what, 27 billion, for programs? And the Senate version is not as generous. It's only about eight billion in one program. The TEA-21 bill will go to conference committee this summer, so we need a House version to pass the goods movement to see some federal gains. And I hope that that happens. We really need the shippers to help with the Senate leadership and start prompting them to do this. So, we will leave it up to you to do that.

MR. JAMIAN: Well, thank you, very much, Senator. We're very proud of the package as we submitted. The package called SAFETEA which is the, you know, counterpart to TEA-21. And let me just say that we are also very optimistic at this point in time that the industry, many of the industry people behind me will be working hard with their Congressional delegations to make sure that we can get this legislation passed and have those kind of components in there that are so vital to this industry and to support future projects like this for the infrastructure.

SENATOR SOTO: You know, it really boggles my mind to think how long ago it was that I, as a city council member, started to go to Washington to talk about TEA-21. It must have been 15 years ago. And we're still talking about it. I just can't believe the length of time that it's taken us to start doing anything. I wish somebody would hurry up. We're going to be in a quagmire that we can't move out of.

SENATOR TORLAKSON: It sounds today like we're all very action anxious and action oriented, so we want to move fast and move forward and we thank you very much.

MR. JAMIAN: Thank you, Senator. Thank you, members of the committee.

SENATOR TORLAKSON: I also want to mention, Assemblymember Karnette mentioned that we had our majority leader in the Senate, Gloria Romero, attend earlier. Wanted to also introduce our good colleague, our other great senator from the San Diego area who is here, Senator Denise Ducheny, who represents the border area where we have a lot of movement across the Baja border in and out of her district.

Our next panel is going to tackle the question, how do we maintain our competitive edge? And we're pleased to have Richard Steinke here, Jerry Bridges, John McLaurin, respectively representing the Port of Long Beach, the Port of Oakland, and John McLaurin is the president of the Pacific Merchant Shipping Association. Appreciate their being here. We also appreciated recently the opportunity Senator Lowenthal and I took to go down to take a tour of the Ports of Long Beach and Los Angeles, and to fly over the Alameda Corridor, look at the bottlenecks, look at the challenge points, and sit down and talk to the shippers and port managers in detail about the huge challenges that we're talking about.

MR. RICHARD STEINKE: First of all, I'd like to thank the members of this joint committee for allowing the port community, port directors, and representatives of the industry to share our thoughts on goods movements, its challenges for the state and our recommendations for the future. And not to be redundant, but I think a few quick facts are pertinent. We've already heard some of the facts that Mr. Hicks and others have mentioned, but 42 percent of all imported containers come through the San Pedro Bay ports of L.A. and Long Beach. The California container ports, L.A./Long Beach and Oakland are three of the four busiest ports in the United States. As consumers yearn for low costs and quality goods, China has become the factory of the world. And California's ports for all intents and purposes, have become America's ports. We have become the heart of the goods movement system that pumps the commerce through the rest of this nation. Quite frankly, our biggest challenge is managing the growth that is

fueled by consumers' voracious appetite for foreign goods. We are the nation's turnstiles for imports and exports.

I believe the ports of L.A. and Long Beach have always been forward thinking in anticipating port growth. Projects like the intermodal container transfer facility in the mid-1980s, the use of on-dock rail that was pioneered in the Port of Long Beach, and the Alameda Corridor are great examples of anticipating and setting the example for goods movement efficiency. However, with 17 million consumers in the Southern California area, diversion of large amounts of cargo away from ports to other seaports along the west coast or through all water service only results in large portions of that same cargo coming back to serve the local population.

Congestion on our local freeways is another significant challenge. So the ports along with the Alameda Corridor and other industry stakeholders have set in motion a number of initiatives to specifically reduce truck trips on the I-710 and other local freeways as a part of our truck trip reduction program. Many of them have been mentioned, but I will mention them briefly again. PierPASS is marine terminal operators led initiative along with the Waterfront Coalition that incentivizes truckers and shippers to pick up cargo in the evenings and weekends to spread truck trips throughout the day, versus the current eight to five business hours that are more common in the industry at this point. Shuttle trains—the Alameda Corridor has led an initiative to move more local cargo by train to the Inland Empire as opposed to the truck trips that are going up the I-710 and the 60 in Senator Soto's area.

Mr. Hicks also mentioned the virtual container yard, and this is the Port of Long Beach led initiative to match empty containers between importers and exporters eliminating the empty containers from coming back to the marine terminal for dispatching to a new customer. This eliminates the need for the terminal to be the control point and we can establish the control point through a computer system.

We also have to have better technology in the terminals and we're embarking on that. Implementation of new and more advanced technology like radio frequency identification and optical character readers in marine terminals

increases the velocity and will move cargo faster and more efficiently. The new Burlington Northern Santa Fe intermodal container transfer facility that the Port of Los Angeles is leading the way on will remove about a million truck trips where containers are currently routed to downtown Los Angeles for loading at BN's Hobart yard. A near-port rail yard will put containers on rail closer and effectively reduce congestion on the local freeways, especially the I-710.

These are but a few of the things being done to manage growth and relieve congestion. Though there are many innovative plans and programs in the pipeline, we will ultimately need to improve the I-710 freeway if we are really hoping to ease the traffic impacts on our residents in the L.A./Long Beach area. Fifteen percent of the nation's cargo travels up the 710.

Another challenge that the ports are committed to is making sure that this inevitable growth is mitigated through environmental stewardship. Both the ports in the San Pedro Bay are committed to cleaning the air through new programs. Though the ports' air quality programs' names may be different, the commitment is the same. At the Port of Long Beach the guiding principles of our green port policy are to protect the local community and environment from harmful port impacts, to employ the best available technology to minimize port impacts and explore advanced technology solutions, to promote sustainability and terminal design development and operations, to distinguish the port as a leader in environmental stewardship and regulatory compliance, and to engage and educate the community about port development and environmental programs.

It means a new way of doing business, a new ethic that will guide what we do and how we do it. Things like the ICTF and the Alameda Corridor have had tremendous air quality benefits and our new programs will focus on air quality programs focusing on ships, trains, and terminal yard equipment.

I applaud the committee for their acknowledgement and interest in this issue. The Port of Long Beach alone is responsible for 316,000 jobs in the Southern California region, \$5 billion in local state and general federal taxes, \$15 billion in annual trade-related wages. International trade is a huge economic success story for the state that can only be sustained if we improve the system and invest in the future through improvements in road and rail infrastructure

programs. California is a donor state when it comes to revenues into the general treasury of the federal government, versus what it gets back.

I would strongly encourage that we compel our California delegation in Washington, D.C. to advocate legislation that pledges a pro rata portion of the incremental increase in customs revenue fees back to the State of California into the goods movement system. These funds need not be restricted to the ports alone, but may be allocated to those vital goods movement linkages that make this prosperity possible for the region, the state, and the nation. Five billion dollars of customs fees are generated each year from water borne commerce through our ports. As America's ports, we need to have our fair share coming back to support our significant contribution to the nation's economic well-being. The federal government must look at the nation's ports in the broader context of a comprehensive maritime transportation and goods movement system and commit federal money to those intermodal systems that are essential to the economic well-being of this nation. There can be no mistake that California's ports are nationally significant resources that need federal support to ensure America's commerce moves reliably and efficiently both intrastate and interstate. That concludes my comments. Thank you.

SENATOR TORLAKSON: Thank you. Senator Ducheny.

SENATOR DENISE DUCHENY: Just two quick questions. Is there some sort of, perhaps a bill pending in Congress or an amendment to some, the SAFETEA bill maybe or something that could raise that issue of returning the money from whence it comes?

MR. STEINKE: Yes, Senator, there is, and it's a great question. Both Senator Collins and Congresswoman Harman have co-sponsored legislation that looks at the incremental increase in customs fees. Right now it is a carve-out specifically related to seaport security in the nation's ports, but our intent would be to broaden that for infrastructure purposes. But, it has been thought about. In fact, Congressman Ose a year ago sponsored some legislation which was very similar. It didn't move very far, but we're hopeful and the Port of Long Beach has specifically supported the legislation authored by Senator Collins and Congresswoman Harman.

SENATOR DUCHENY: In terms of us being able to all weigh in on something and try to push our delegation, I assume Congresswoman Harman has talked to them all?

MR. STEINKE: I think she has. And we're going to be going to Washington next week and one of the main purposes is exactly that, is to try to get our California delegation to rally around that proposed bill.

SENATOR DUCHENY: We should try to send a letter with you, seems to me.

ASSEMBLYMEMBER KARNETTE: I think there's a resolution.

SENATOR TORLAKSON: We'll look together and I think the focus is important.

SENATOR DUCHENY: But, we all should make sure that we do that in order to make sure that we're supporting you. A billion dollars would go a long way here. We could match it or something, and, you know, we're talking about bonds and we're talking about matching bonds for goods movement infrastructure and if we could know that there was federal money it would work to make some of these projects actually happen.

Let me just ask you one other question I just heard about today, but when you were talking about the different ways of dealing with some of these, I heard today that there's some possibility, there's a way of putting trucks on, barging them between San Diego and Long Beach in order to get folks off of I-5. Is that something similar to short haul ferries, basically?

MR. STEINKE: Both, coastwise or short sea shipping is what they call it, it's hard to say, but it has been tried and is in operation on the east coast on a limited basis. It is one of the recommendations that came out of MTSNAC in the last year. It has been tried in California, between San Diego and L.A./Long Beach in the past. Not with containers necessarily, but other dry bulk goods.

SENATOR DUCHENY: We're not a container facility, but we do, we can do trucks.

MR. STEINKE: Right, and it's a tough exercise, because the trucks have been proven to be cheaper than water-borne service in certain trades, so, you know, I think the jury is still out as to whether or not it's economically feasible.

SENATOR DUCHENY: I see, so different kinds of goods might work and other goods, maybe not?

MR. STEINKE: That's correct.

SENATOR DUCHENY: Okay. Just curious.

SENATOR TORLAKSON: Thank you for your testimony again, and I think what we'll do, Assemblywoman Karnette, as Chairwoman of your committee and our Transportation Committee, our staffs could look strategically at what's the best way we can weigh in on that federal legislation and what's the best test, what's the best way to ask how to match and leverage the opportunity and we can do letters immediately, and a Joint Resolution could be another way in directly working with our legislative Congressional delegation would be a third way. So, we'll do that. Thank you for the suggestions and the focus. Jerry Bridges.

MR. JERRY BRIDGES: Good afternoon, everyone.

SENATOR TORLAKSON: Good afternoon.

MR. BRIDGES: Thank you members of the committee for the opportunity to share with you the great need our state has for directing attention and financial resources to goods movement sectors. Goods movement as you've heard over and over this afternoon is big business for California. The Pacific Basin trade is the strongest and the fastest growing trade market in the world. But, as we all know, healthy growth and economic activity comes with a big price. Statewide, our container volume is growing five times faster than the capacity of our transportation infrastructure needed to carry this volume. In addressing three major questions to the port regarding maintaining the state's competitive edge, it's important to think of our ports, our state port as one system. The Port of Oakland must be considered as part of the solution of the state's good movement crises, as we can readily serve as a relief valve for inbound commerce.

The Port of Oakland has several suggestions on what the state can do to promote more cost efficient goods movements. First, the Legislature should urge the California Congressional delegation to support Oakland's request for federal dredging funds for the minus 50-foot project. This project is critical to the Port of Oakland's competitiveness, to keep us competitive as a first tier container port and as the state's key relief point for congestion problems in Southern California ports.

It's imperative for California logistics chain to make Oakland a first port of call for ocean carriers as Los Angeles and Long Beach already are. Oakland Harbor must be dredged to -50 feet deep to become a first port of call seaport.

Number two—the Legislature should request the Business, Transportation & Housing Agency to develop an interlinked, statewide goods movement program. As you heard Secretary McPeak talk about that earlier. This program should be designed to take full advantage of existing goods movement infrastructure such as the ports, the airports, highways, rail systems, and waterways. In my written comments I've identified several key projects that will help increase national regional and local access to the ports' intermodal facilities. The Port of Oakland, for example, is working to develop partnership with neighboring ports in Humboldt Bay, Stockton, and Sacramento to leverage their existing resources and create satellite opportunities for Oakland's import and export cargo trade.

Working together we can create an efficient system that benefit both the local communities in the state as a whole. The Legislature must commit to funding of a statewide goal around goods movement in a timely fashion. Timely fashion does not mean another five years when the state transportation improvement programs may be able to fund new projects. It means now. These new commitments will depend on new funding sources such as SB 1024, so I would urge support of that legislation. The Legislature should collaborate with the Governor to convince railroads of the need to increase their freight capacity serving the state's ports. This dialogue should include discussions regarding increasing capacity of both their intermodal facilities and on their main lines throughout the state. This is essential in order to maintain California's high level of international commerce that will result in much needed revenues to the state.

On the subject of rail infrastructure, I would like to bring to your attention some priority rail access improvement that we need in order to keep pace with California's growing international rail volume. Construction of access improvements to the Port of Oakland—have you noticed a trend here? We're talking a lot about the Port of Oakland.

SENATOR TORLAKSON: We would expect that.

MR. BRIDGES: Construction of an access improvement to the Port of Oakland's joint intermodal terminal and the Union Pacific rail facility is critical. This project will build new connections between the U.P.'s main rail line and the Port of Oakland's joint intermodal terminal. Currently there's limited capacity to move trains into and out of the port. This project will move more trains with fewer delays. This would also include some improvement to Amtrak passenger service.

We need to invest in short haul rail projects. The Port of Oakland is embarking on at least two important shuttle trains systems. These are designed to divert container trips from truck to rail, lessening congestion on our roadways and reducing harmful air emissions. These shuttle trains would operate between the Port and the Central Valley.

Construct an outer harbor intermodal terminal--this project will be constructed on the former Oakland Army Base, and it would expand intermodal rail terminals at the port. This new facility will increase rail capacity at Oakland from approximately 640,000 containers per year to 1.7 million containers. Also, we would encourage improvements to the central corridor line. This project would improve access both to and from the west coast by double tracking and raising clearances and snow sheds and tunnels on the line connecting Northern California to northern Nevada and points east.

Many of the projects I have identified today are extremely cost efficient and provide tremendous return for relatively modest investments when combined with the nearly \$1 billion that the Port of Oakland is spending to increase capacity. Additional state funds and general support for the Port of Oakland can make a tremendous difference in solving goods movement meltdown. This concludes my comments.

SENATOR TORLAKSON: Thank you, Mr. Bridges. John McLaurin, good afternoon.

MR. JOHN McLaurin: Good afternoon, Senator and members. I appreciate the opportunity to be here today. By way of background, our association represents a broad cross section of entities that do business at the ports in California and the State of Washington. From a containerized operation, our

members are responsible for handling more than 90 percent of the cargo that move through west coast ports.

PMSA and the maritime industry is very appreciative of the attention that is being paid to the goods movement industry in California and to the critical role that the industry plays in the state's economic well being. For many years our industry, in anticipation of increased cargo volumes from Pacific Rim trading partners, has made enormous investments in people, equipment, waterfront infrastructure and technology to improve efficiencies and capacity at California ports. Because of our investment in technology, marine terminals today are moving more cargo per acre of terminal space than just a few years ago. One need only to consider that we've added very little to the total acreage devoted to marine terminals in California, but continue to handle increases in cargo volumes that have grown by double digits in recent years.

You posed a question to this panel, how can California maintain its competitive edge? My answer is California is and will continue to be a huge market for imported goods. Those goods will find their way to market one way or another. Because we are a huge market, and because we have in the past invested in our seaports, our transportation infrastructure, and our private sector cargo handling facilities, we have become a truly world class gateway for international trade. However, the international trade community is very forward looking. Investment timelines are very long. Decisions about where to invest today will determine the future of goods movement far into the future. We as Californians need to ensure the decisions we make and the policies we establish recognize the long term and global nature of the international supply chain.

California risks losing its competitive edge if it begins to send signals to the global trade community that it is no longer welcome, imposes constraints on goods movement in ways that prevent the private sector from fully realizing returns on the investment it has made in California, or fails to maintain and improve its public sector transportation infrastructure in a reasonable manner. Our industry recognizes it must work diligently and quickly to address the air quality issues and traffic congestion that result from port activities.

We are also committed to working with state and local governments to address those issues in ways that are appropriate and meaningful to the communities around the ports. We firmly believe California can retain its competitive advantage in the global marketplace and its enviable quality of life if companies, government agencies, community organizations, and committed individuals are prepared to work together in a collaborative fashion. We'd be happy to answer any questions.

SENATOR TORLAKSON: Thank you very much for your testimony, as well, Mr. McLaurin, and underscoring again the need for partnerships and working together. I think we want to thank you for your presence, for your thinking, and we'll pursue the suggestions. Senator Karnette actually has the joint resolution that's moving forward in the legislative process.

ASSEMBLYMEMBER KARNETTE: In fact, I just sent a staffer back to print it out at Senator Ducheny's suggestion, and you'll have it before you leave.

SENATOR TORLAKSON: Great.

MR. McLAURIN: Thank you very much, Senator.

ASSEMBLYMEMBER KARNETTE: That's what we call action action.

SENATOR TORLAKSON: That is an action action. Let's move forward together. Senator Karnette, could you introduce the next panel.

ASSEMBLYMEMBER KARNETTE: I surely will. Peter Peyton, Jesse Marquez, and Rusty Selix, are three people that I know and see often. Would you come up and give us good testimony, but don't make it too long, because when people start getting tired, they don't listen anymore. So make it dynamic and short. I know these are dynamic people. It will be dynamic, I can guarantee it. Peter Peyton, are you going to be first? You're the Secretary of the International Longshoremens and Warehousemen's Union Local 63 from good ol' San Pedro.

MR. PETER PEYTON: Hello, everybody. My name is Peter Peyton and I want to start by pointing out that it can be looked at negatively or positively that five years ago we put on a town hall meeting that talked about seven problems, seven solutions. And you can look at it negatively by saying it's taken five years, or you can say positively, we got here. And it's taken some time, but finally we're

looking at some of the issues that face us and face the marine transportation system.

The ILWU recognized a problem five years ago and came forward and pointed out that we felt there'd be a meltdown by 2006 in the ports of L.A. and Long Beach. Well, we were wrong by two years. And a lot of the things that we pointed to were the things that came true last year, but I think it's important to understand that we're just starting down a road and now that we recognize it, there's monies that need to be spent for long-term improvements, the real question is going to be, what do we do in the short term to get us to the long-term solutions. And part of that, when we look at what's going on right now and we recognize that in the United States, you basically would have to build a port the size of Oakland every year to keep up with the cargo movement coming in. And even with diversions as was said in a Chamber of Commerce meeting, everywhere else is a teacup and L.A./Long Beach is the bucket. And it's just a matter of time before everything's going to be coming back through even with the diversions.

So the question is in the time when it comes back, what have we done to look at what needs to take place in the short term within the sectors to take responsibility within those sectors to maximize the movement of cargos? And I think it can be done, but it's only going to be done through these types of communications where all sectors work together to understand that they all have a part in what it's going to take to roll this thing through to get to those long term fixes.

Now, you know, we've done a lot of studies and the union's come forward and we've talked about looking at and trying to divide up what are the issues. We've talked about capacity measurements, we've talked about velocity measurements, we've talked about creating reliability, because those are the three things that we need to truly move cargo. But, what that's going to take is every sector recognizing that they have a responsibility and are we there yet? No. And if we go back to what we put together five years ago and said what were we talking about? We were talking about environmental impacts. We were talking about freeway congestion which brought a lot of people out of their houses to start screaming about ports over parking of containers. All of the things we talked

about now still have to be addressed, because those are still the issues that are going to get us through the short term.

We also sit on MTSNAC and I chair the education committee for MTSNAC. There is a good piece that's just come out on the entire supply chain, but again, it's going to take identifying the short term and picking off what it is we can do to get through this year than what it is we can do to get through the next year. Every part of this process needs to be answering the long term problems that Jesse has and that other people have brought up here today. And I think we can do it, but it's going to take a partnership. The union for the first time ever met with the Chamber of Commerce. That has never happened. We sat with them. We came to a consensus that we agreed that this was a major issue and we went to The Hill and said this has got to be dealt with. So, now we're here at the state level and I think it's going to take federal and state and stakeholders within the supply chain to get there, but I do think it's possible and I think this proceeding is a very positive move in that direction. Thank you.

ASSEMBLYMEMBER KARNETTE: Thank you. Jesse, now, you want to add on to that?

MR. JESSE MARQUEZ: Yes, my name is Jesse Marquez. I'm Executive Director of the Coalition for a Safe Environment. And we're one of the babies of the environmental world of community organizations. We are only four years old and now have members in 12 cities. And that's been because of the unique advocacy that we do. Ninety percent of our membership is families. They're mothers, they're fathers, they're grandmothers, and they are children that have been impacted because of the fact they've lived by ports and the transportation quarters. And as a result of that, our membership has grown, because we take a very proactive stance.

The good news is that, you know, in taking Gale Ruderman-Feuer's place is that I'm not an attorney, so you won't have to hear that aspect of it. The bad news is that I'm a damn good guardian angel for the public. And so I do have a little prepared statement for you and so I'll go forward in reading that. I'll be speaking basically from an environmental justice community perspective and that's where I come from, because I live in Wilmington.

Environmental justice communities are often asked why do we oppose port growth and doesn't the port create badly needed jobs in the community and help our economy? Our answer is very simple. If we, the community, had been an active partner with the ports and the future planning of them, we would not be opposing them today. And yes, we do need the jobs. What has really happened over the past years is that ports were planned strictly for business with no considerations for the impacts on local communities. Billions of dollars have been spent on ports' infrastructure and growth and almost nothing in the redevelopment of the bordering poor communities and the goods movement transportation corridor communities.

The Ports of Los Angeles, Long Beach, and Oakland are unique, because residents live across the street or just a few blocks away and the goods movement transportation corridors are not located in isolated industrial zones, but in fact pass through hundreds of cities passing millions of residential homes. It is our communities that have to breathe the diesel fuel exhaust from ships, from trucks, from trains, and yard equipment every day. It is our communities and children that are suffering from an asthma crisis and numerous other health problems. It is our families and our friends who are dying every day. This is our reality.

Yes, it is true that our population growth has caused an increase in imports, but it's also true that Wal-Mart, Costco, Disneyland, and numerous other companies have dumped U.S. manufacturers causing hundreds of thousands of U.S. workers to lose their job in order to make a higher profit. When red, white, and blue, all-American Disneyland stopped purchasing U.S. made Mickey Mouse baseball caps in order to purchase cheaper Communist China-made baseball caps, they did not drop their retail price. The price remained the same.

Wal-Mart last year made over one billion in net profit in 2004. The Port of Los Angeles makes between 400 and 600 million every year in net profit. Now, granted, they do allocate projects and so it's spent every year, but the truth is that they still make a profit there. Conoco Oil refinery made 8.1 billion in net profit in 2004 and 4.7 billion in 2003. So, what you're hearing is that a lot of us that are community-based organizations are doing research into the financial numbers and

what we're looking at is that is everyone contributing their fair share, because, oftentimes the public is burdened.

One comment was made by the retail industry earlier that they supported increasing the I-710 freeway to 10 lanes to include trucks. Well, it just so happens that there's not a single community that borders the port or the I-710 freeway that supports trucks being on the Long Beach freeway. And every environmental group is against that. But, however, we did support something. A little over 10 years ago when the Alameda Corridor project was proposed, we supported it. We didn't care if it cost \$1.5 billion or \$2.1 billion, we supported it because the communities saw that 10 years from now, 20 years from now it was going to be needed. But, we did ask for two things. We did ask that the Alameda Corridor have four truck lanes built. We also asked that the trains be electric. And lo and behold, it did not happen. So now we're being asked to add that to the Long Beach freeway or any freeway. Well, our answer today is that we don't support that. But, we do support expanding the Alameda Corridor and the Alameda Corridor East to include those truck lanes. That we do support.

In addition to that, we don't believe having transportation above ground is the answer. We do believe and we've seen several proposals that transportation should be underground. Now, yes, it's more expensive, we realize that. But, if you build one mile at a time, five miles at a time, eventually in 15, 20 years that infrastructure underground will be done. And we won't have to bother with the trains and the trucks above ground, because they're underground and that's compatible. We accept that. Now if the cost it's going to cost twice as much, or three times as much, then fine. That's something we can agree with. That's something that we can negotiate with. But, it's something that we do recommend.

What will it take to move forward? Well, sometimes to move forward requires to first assess where we are and to evaluate whether or not we want to move forward at the speed that we are being proposed to at this point in time. We are told that ports in the goods movement industry is an economic engine, creates one out of seven jobs, generates over 200 billion annually in revenues for California. Yet, we the public, we have never seen a report that's a comprehensive, cost benefit analysis. We want to see that, because we know we've lost hundreds

of U.S. manufacturing companies. We have lost thousands of jobs. Those cost us something. We have read the Union of Concerned Scientists report and it states the cost to public health care due to air pollution in California is 22.5 billion. So you subtract 22.5 billion from 200 billion, we just lost something there. So we really need to look at that.

But do we have solutions? Yes. Do we have recommendations? Yes. The first one is that we do want to see a comprehensive cost benefit analysis done. We need to do that. That is not being done. We believe that you need to establish a \$500 million environmental mitigation fund, because we see that the amount of environmental damage that's been done over the years still has to be addressed. It is not going to go away. We also see that an annual 500 million public health mitigation fund be established, because we have been impacted. Fifty percent of all children and residents of Wilmington have asthma or some respiratory problem. And the public is subsidizing that cost, so it's not going to go away. It'll just have worse impacts on our economy in the future, so we must begin to plan for it now. We need to budget for it now.

We also support the fact that there needs to be public and goods movement transportation funds. What is our estimate? We estimate that should be 500 million a year. That's what we think it's going to take to support that.

ASSEMBLYMEMBER KARNETTE: Is that similar to what other, what the industry has said? Is that figure close?

MR. MARQUEZ: No one has really pinpointed. They said that there's like 45 billion or 42 billion that needs to be allocated towards future projects. We're saying let's establish a budget. And this is the budget that we think is reasonable that can be achieved. But if everyone does its fair share, if the public has to pay, in fact, at the Haggin-Smit conference just to give you an example, they discussed the cost of fuel. So, we said, okay, well what happens if all the ships do go to low sulphur, diesel fuel. What does that cost? And I gave them an 8,600 TEU ship as an example and if it came from China and it was a round trip of eight days and the cost of fuels, etcetera, it came out to \$62 per container. Now you divide that cost between the Nike shoes, the slippers and whatever the merchandise in there, it comes out to pennies per item.

So we the public see that, that's acceptable. You can ask anyone out there, are you willing to pay three cents, four cents, five cents more retail in order to clean up the air? The answer's going to be yes. We support that. But, then we want to see the big retailers chip in part of that, also.

ASSEMBLYMEMBER KARNETTE: I think that actually your testimony's very revealing. You really are representing the community and we really appreciate it.

MR. MARQUEZ: Now, we did put other recommendations here. We'll not read you the whole list. But, it is in writing for you. I have extra copies

ASSEMBLYMEMBER KARNETTE: You have them there. Good. We want them. Thank you, Jesse. Okay, alright Rusty.

MR. RUSTY SELIX: We represent local government and regional government agencies. We sit in the middle of all these different viewpoints and try to balance all these competing interests, but I think the first thing I want to say is that I think we all collectively want to appreciate your giving this issue the attention it is long deserved and that I know all of you up there have been giving it a lot of attention. And I think a hearing of this nature in the Legislature is a first as far as I can tell. And I think we greatly appreciate that.

I was asked to answer three questions. What are the most significant problems? What are your recommendations for improvement in goods movement? And government structure for projects across one jurisdiction. So I'm not going to read all my testimony, but I'll just highlight a few things as, you know, I'm not used to giving written testimony before you all.

The number one problem is clearly the growth itself. The growth itself as obviously other speakers have identified, an economic opportunity for the state, but it is also a financial, an environmental, and economic burden. The number one reason that we are not able to locate businesses in the state is traffic congestion. Clearly the traffic that is caused by goods movement and the traffic that is caused by growing people movement compete with one another and it is only a matter of when and not if they will crowd each other out of various freeway segments and we will not be able to move either in any reasonable level of efficiency.

Clearly we need to add capacity in some matter, but it's not just that. We also need to expand the use of other modes, rail, air, and others, and we also need to get more out of our infrastructure. IT approaches to freight as well as people movement such as Trucker 511, Freight ITS, incident detection removal, things of that nature, which other speakers know much more about, are things that we need to look more into. And it's not just the freeways. The local street and road impact is enormous and it's not just the trucks, the growth in the size and frequency of rail creates enormous delays as people are waiting to, at grade crossings, grade separation funding is way behind. We obviously need to do more in that area, as well. The frequency which communities are complaining about the environmental and safety impacts, not just groups like Mr. Marquez's, but frankly in every community. We see the growth in restrictive zoning ordinances and time of use and other types of things in local communities, and that's only going to grow if we don't begin to address the problem. For our member regional agencies, environmental justice has been made an explicit federal requirement of our regional transportation plans. That we have to address that issue and make findings that as we approve projects, we're complying with environmental justice policies.

The funding problem I think you all know about we don't need to comment on it, except for a couple of things. One is we clearly have no money at all to deal with the problem at all in transportation. We don't even have enough money to take care of what we currently have. You know all of that. But I think what has been commented on by others and is really a factor that provides the potential source of funding is the delay in terms of the staff hours and equipment cost to the goods movement industry at some point there's got to be something that they're willing to invest in to reduce some of that delay, because the amount that they have to pay due to the delay and some kind of innovative financing perhaps can come to deal with that.

It is equally important that we all know and you all have made the effort and the Governor needs to make it as well--we are not getting our fair share of federal funds. We are subsidizing the nation. The amount of goods movement coming to the rest of the nation through the ports of California is something that is not yet

appreciated in the federal transportation funding stream. This, as you all know, is the year in which we hope to get reauthorization. This is the main argument California's been using to try to get an additional share and whatever anyone in this room and elsewhere can do to convey and particularly some of these international corporations that use California, they need to convey to their representatives in other parts of the country that California needs funding to do these projects to help move goods to other parts of the country.

The planning process itself needs to be improved. The federal planning funds that our agencies receive are inadequate to adequately address this issue. There are pending proposals in Congress to increase that from one percent to one and a half percent. That might be a tool to significantly improve our ability to coordinate all of this. So improving this, the additional funding that's necessary is the obvious first step, and you know, I can say it as many times as I want. It's not going to change anything that you don't already know. Clearly, public/private partnerships usually using some form of toll revenues for dedicated truck facilities or other ways to reduce the travel times has got to be at the top of our list of what to do.

You ask about how to govern such projects. And I think the answer that I would have is whatever it takes to get the project funded. It is very, very hard to get these types of innovative financing projects funded. So let's not be stuck in any kind of turf battles that get in the way. If we've got a project that can be financed, let's fund it and create the governance that'll make sure that funding goes through. Ideally it's an existing agency or group of agencies that form a JPA without legislation to do it, so that that way the coordination with the rest of transportation is built in. If for whatever reason we create a single purpose agency, clearly we need to make sure that the planning is done in coordination with the rest of the system so that we don't create some perverse fiscal incentives. But, the bottom line is we shouldn't, none of our members are prepared to stand in the way. If you've got something that requires an innovative structure and some group of financial backers says, you know, we need special legislation to create an entity and we don't want to use any of the existing entities, we're saying we're for that if that's what it takes to make the project go. That's it, Madam Chair.

ASSEMBLYMEMBER KARNETTE: Thank you very much. That was good. Alright. Senator Torlakson.

SENATOR TORLAKSON: Thank you to every one of the panel members. Appreciate your willingness to work and focus in this area. I did have one question for you, Mr. Selix. And that was related to CalCog's position. First of all you identified the overall transportation crisis and how bad it is and how little money there is to deal with any part of it. How does CalCog rate the goods movement part or subset of the overall transportation crisis? Is this one of your top priorities to address?

MR. SELIX: First of all it is the fastest growing segment and the fastest cause of all the congestion that we're facing, and so I think that there are goods movement projects that are among the highest priorities of all of member agencies. We had, the testimony I gave you today is actually the first statement we've ever been forced to give that actually asks us to state that. We do support it being our top priority in terms of federal funding and I think that it is the underlying cause of all of our recommendations that cut across both goods and people movement, but I don't think we're in a position to say goods movement is more important than people movement. The statement, you know, for all elected officials that you all appreciate is freight doesn't vote. The people that complain may vote more. We have to be sensitive to all sides and basically we need a good flowing transportation system for all.

SENATOR TORLAKSON: And have you looked at the bond proposal in terms of funding mechanisms, I'm sure you did. If you own a home or property for long term big investments on something solid like a house or like infrastructure, bonds are quite often used. A big chunk of the bond will go back directly to all your city/county members and regional agencies and then another big chunk of it would be going to the ports and goods movements.

MR. SELIX: Right. I think our members have supported every transportation financing proposal that is presented to you whether it was bonds or gas taxes or tolls or public/private partnerships or whatever it is, a local sales tax, a state sales tax is clearly, we are not spending anywhere near what we used to

and what we need to and, you know, frankly, it's a matter of what can get through the political thicket. And whatever can get through the political thicket we're for.

SENATOR TORLAKSON: Thank you. Again, to Mr. Marquez and Mr. Peyton, thank you for your teamwork and focus working together. I like the idea of the cost/benefit analysis as part of our strategic plan. We really need to look at the point you've made in terms of the total equation. There's a new device that's being used that helps us get at that, risks and cost/benefit analysis. There's something called a health environmental assessment that's being done in many projects in the State of California. Many communities are embracing that as one more way to get information that's comprehensive in terms of the cost/benefit analysis, so I think that should be and will be as key part of the overall strategic plan.

I wanted to mention, by the way, if you look at the bond issue that Senator Perata has proposed as a major investment plan in safety and mobility for California and dealing with the clean air issues, about 50 percent of it is for ports and goods movement. Of the new money, two and a half billion of it is repaying Proposition 42 money that the General Fund owes to Transportation, but of the new money, 50 percent of it is for ports and goods movement which again reflects the high priority that's being given to this.

Our last panel and we appreciate their patience in working through the long day with us--Juan Acosta to help us in the Burlington Northern Santa Fe Railway Company representation; Scott Moore, assistant vice president/general manager of the Public Partnership Union Pacific Railroad; Kirk Lindsay, president of Bright Transportation System and a commissioner for our California Transportation Commission; and John Geesman, member of the California Energy Commission. We're also pleased to have Diane Eidam here who has been with us all day. She is the executive director of the California Transportation Commission and we appreciate the concern you've expressed as a commission and the focus you've given to these important matters. Welcome to all of you, and who would like to start?

ASSEMBLYMEMBER KARNETTE: Could I make a comment here about something else?

SENATOR TORLAKSON: Go right ahead.

ASSEMBLYMEMBER KARNETTE: I had said earlier that I would distribute AJR 21. Well, the amendments haven't been processed yet, but the AJR passed out of Assembly Trans unanimously, so that is a good indication that we're headed in the right direction. But, I wanted you to know I thought I could get it to you today, but I can't. I'll get it to you, though.

SENATOR TORLAKSON: Well, thank you. It's on the web, I'm sure, on your web page and available and we'll keep track and thank you for your leadership on that. Who would like to start? Juan Acosta?

MR. JUAN ACOSTA: I'll volunteer. Juan Acosta, on behalf of the, Burlington Northern Santa Fe Railway. Just to give you a little bit of context here, and I'll try to be brief and quick, total U.S. intermodal volume in 2004 was up 10.4 percent for rail over 2003. Of this, roughly 11 million intermodal units carried on rail, my company carried four and a half million. So we consider the intermodal business to be something of a franchise, but a footnote here is we're focused on intermodal traffic in the hearing, port traffic related, goods movement traffic, however, there is a whole universe of goods movement travels by rail in California is lumber, plastics, other industrial products that are used for consumption by California manufacturers. And that's something worth talking about in a different context, but something to keep in mind as we go through all this.

But, getting back to the issue that's sort of dominated today, capacity. And there are two ways of looking at capacity. One is terms of investments—what you're going to spend. Our company spends about \$2 billion on infrastructure improvements and maintenance. It is a substantial commitment to our franchise and a substantial commitment to goods movement and to our customers.

SENATOR TORLAKSON: How much of that is in California, do you know roughly?

MR. ACOSTA: I don't know, Senator. I can get you that number. Both facilities and track, I'll provide that number to the committee. Now there's another way of looking at goods capacity and it's simply the question of doing better, better utilization of your current assets, better coordination, better cooperation between parties at all ends of or all components of the goods movement spectrum. And I

want to just quickly outline several areas of capacity improvements both with respect to infrastructure as well as operational enhancements. So first the operational enhancements—we already talked about PierPASS program. It's a significant improvement in efficiency and one that we support and welcome. We think developing better trade and transportation forecasting essentially utilizing data from several sources whether it's carriers, terminal operators, railroads and communicate that data, share that data, to do a better job of forecasting growth and demands on infrastructure and facilities.

Third, implementing a port-wide terminal appointment system for truckers. That's been a subject of legislation here. Senator Lowenthal's certainly familiar with that subject. Fourth, increasing the use of on-dock rail. And to distinguish between near-dock rail facilities and on-dock rail, and that's something that is widely available. Better utilization of on-dock rail in large part, in our view, is again a better utilization of existing assets and that's sort of better coordination, better information sharing between different segments of the goods movement system. And encourage ocean carriers to load containers on ship by ultimate destination. That makes loading or unloading, rather, at the destinations in California faster, reduces dwell times on the dock. It moves containers faster off the docks in our view.

We'd encourage methods to reduce, as I said, marine terminal dwell times for containers. There are a number of operating issues there. Free time is something that is a bit of an esoteric issue, but it's essentially the time that you allow a container to sit on the dock without incurring additional charges. And that again would move containers through the system faster and make better use of current facilities.

In terms of infrastructure enhancements, with the Alameda Corridor recent grade separation projects are a priority for us. We support the \$900 million that is in the House version of the SAFETEA-LU Reauthorization. As a footnote, \$900 million of federal money here in California at a minimum would require the railroads to contribute \$45 million towards grade separation, because federal law requires us to contribute five percent of the project costs. If there's state money involved in the project, that's a 10 percent contribution from the railroads. So

anywhere between 45 million and 90 million contribution from the railroads will come to the Alameda Corridor East by way of this funding.

Secondly, port infrastructure to improve rail operations—the ports in L.A./Long Beach and Oakland have identified the need for additional on-dock facilities, centralized traffic control, additional storage track, longer arrival and departure track. Those are all infrastructure needs that I think would help us accommodate expected increases in volume at the ports. We mentioned new intermodal facilities. Several of the witnesses have talked about a near-dock facility. We call it the Southern California International Gateway at the Port of Los Angeles. By building this facility we would essentially take a million truck trips off the 710 each year. We'd also increase capacity for ocean carriers. You'd be able to actually increase the capacity for folks in the trucking industry to turn drays quicker, to have more turns per day, because the distance between the proposed facility and the ports is two or three miles versus 17, almost 20 miles up the 710 to Commerce where our Hobart yard is located. It would also provide better utilization on the Alameda Corridor, increase train traffic and volumes through the Alameda Corridor through the trench. And would, of course, decrease the dwell times of equipment, both rail equipment and containers at the ports.

New freight rail capacity—several of the witnesses have mentioned Colton Grade Crossing. I think that's a critical infrastructure project for both railroads. The Cajon Pass--adding a third track there would reduce significant bottlenecks and congestion on the rail system in the L.A. Basin. Improved Oakland access—the Port of Oakland is certainly very interested in that and they've made that clear today. And then rail crossovers or additional capacity in the Tehachapis. Constructing infrastructure to allow trains to pass one another as they go north and south through the Tehachapis would significantly reduce another bottleneck in our rail system here in California. Thank you.

SENATOR TORLAKSON: Do you have a rough estimate at this time of what the Colton Crossing project might cost?

MR. ACOSTA: I do, but it would be very rough, Senator, and I think both rails have had this discussion. We've actually participated in discussions with the five county MTA regional transportation authorities in Southern California, and if I

recall and I may be wrong and I'll correct my statement to the committee later if need be, but it's somewhere in the region of about a half a billion dollars. I'm corrected. Mr. Moore has a better number.

MR. SCOTT MOORE: The \$90 million is what's been estimated on the SCAG study, but it depends on how you do it.

SENATOR TORLAKSON: Seven hundred?

MR. MOORE: Seventy to 90 million.

SENATOR TORLAKSON: Seventy to 90 million.

MR. MOORE: Yes.

SENATOR TORLAKSON: Okay. Good. And Mr. Acosta, just one other part of your testimony and we appreciate the detail and identification of these eight major rail improvement projects and grade separations and so forth. Are they in any priority order? Or do you have a sense of priority and if you don't, what do you suggest, and this is a question to the other panelists, how we go about prioritizing?

MR. ACOSTA: Well, I think just generically speaking, line capacity is most critical, line capacity projects are most critical to reducing rail congestion and moving more freight through the state and improving also sort of the air quality component of freight rail. Our own personal sort of perspective on this, of course, would include the near-dock facility that's been discussed a number of times, the Southern California International Gateway is a way to remove freight from the 710 to take container traffic off the 710 and improve throughput at the freight surface level at the ports.

SENATOR TORLAKSON: And so these aren't today in any prioritization order. It was just a way of getting them all out and I appreciate that. And that's one of our challenges as we look at the bond issue that might have two billion, two and a half billion. You know, one of the criteria for prioritization will be who can match, but it should also be strategic in terms of where do you get the most good for the bang and the buck and, you know, increase in the throughput as well as benefits to the economy. So thank you for this. Appreciate it. Mr. Moore, are you wanting to go next?

MR. SCOTT MOORE: Thank you, yes, thank you very much. I applaud all of the members for being here as well as the folks behind me in the audience. It's been an educational day and I commend all of you for calling this and sitting through and learning something.

As mentioned, I'm Scott Moore, general manager for Public Partnerships for Union Pacific out of our headquarters in Omaha, Nebraska, and I have systemwide responsibilities for our major partnership activity. And I'd like to begin by taking just a little slight issue with the title of the panel of experiencing daily frustrations of outdated infrastructure. That's one of those things that implies, at least I know it's infrastructure, but implies technology and rail technology is a yesteryear's technology. And I am here today to firmly tell you that we think rail and investments in rail infrastructure is a 21st century solution to 21st century problems facing the transportation of California and our nation. And in some ways it's kind of back to the future in many ways.

SENATOR TORLAKSON: I appreciate that semantic interpretation and emphasis, really, and read it slightly differently, that we're just behind. We haven't invested and it's outdated in that respect, not that rail is outdated.

MR. MOORE: Understand from a rail perspective why we look at it that way.

SENATOR TORLAKSON: Great.

MR. MOORE: But, you know, I want to explain a few reasons why I say rail technology is important. It's always interesting to do that next to my friend from the trucking industry, because a lot of what we talk today is about impacting truck movements whether it be in the L.A. Basin or across California. But, the fact of the matter is from a public policy perspective one intermodal train can mean 280 trucks off your freeways. And that, you know, isn't just some fairytale down in Disneyland. That's actually happening and impacting things, because earlier this year Union Pacific announced some operational changes that we would fill up our existing ICTF that Juan has talked about regarding the Port of Los Angeles. But, we announced some operational changes to fill ours to capacity which will have an impact of about 500,000 truck movements in the basins by the time we get that completed this year. So that is real and happening now.

By the same token, Union Pacific has also announced plans to expand and are working with the ports to expand that same facility. We'll have an impact when that expansion, if it can be completed, millions of trucks annually. It will have an impact on trucks that are going up the Harbor Freeway and the 710. We also think that's important and for the same reasons Juan mentioned, that can also be friendly with our friends the truckers, as well. We think that's very important.

Also, the shuttle train concept, the operation of shuttling things from an on-dock facility out to the Inland Empire is done for all those same reasons. So the fact of the matter is that's what we talk about being a 21st century solution to your problem. There's also other ways. Rail's a cost effective way to move freight. We can move freight more fuel efficiently given increasing gasoline and fuel prices. We can move freight more environmentally friendly on the bulk and although oftentimes rail accidents are sensational and get a lot of coverage, the numbers don't lie. The fact is we can move freight safer in this day and age. And all those things have to be taken into consideration.

As mentioned, I oversee our public/private partnerships. At Union Pacific we have some five very basic principles how those partnerships have to be approached from our standpoint and our public partners. Very simply, five things—one, they have to be voluntary. In our opinion the public needs to pay for the public benefits that are derived with public dollars. The private entity should pay for the private benefits that can be derived with our own private dollars. We need to cooperate with the rail experts on planning, and we don't think public dollars ought to be used to upset the competitive relationship of the industry.

And so by implementing successful partnerships, projects that otherwise might not ever see the light of day or ever be completed, can be accomplished. And what I mean by this, now you've heard several speakers today talk about the need for a proper rate of return for the private rail industry to invest in the rail projects. And that is true. Union Pacific also invests over \$2 billion annual in capital. Since the merger here in California, we've invested \$1.5 billion across the state in track and terminal improvements, about 600 million of that in the L.A. Basin.

Now as all of you know, a billion is a big number. There is never enough billions to go around. You still have to prioritize things and how we prioritize things is through a return on investment. If certain projects don't meet that objective, they will not be funded. When you consider that, what would make sense from a private investment, and couple that with, when there's a project that does have public benefit, and there are public dollars that can go towards that, you can make that rate of return make sense, accelerate the investment and have a project come to funding and completion that otherwise may have waited in line several years in the private perspective or may never have happened from a public perspective. And so that is why those things are important. That's why we think the State of California and I commend all of you for what you're doing. And it really comes down to this. You know, two years ago, 2003 AASHTO, the American Association of State Highway and Transportation Officials, completed a rail study which basically said in the next 20 years, I'm using round numbers, but the next 20 years, about, for rail, just to maintain its existing share of the domestic freight movements in our country would have to invest about \$200 billion. But, the fact is, railroads left to their own devices and what we're going to do is probably only going to invest 150 billion in those next 20 years. So, there's a \$50 billion gap where it would be arguable as prudent to public policy for public dollars to be invested if we can find a way to make the partnership work that respects the private railroad, but very importantly, respects what is prudent public policy and prudent for the public. And we think you're well on the way here in California by holding hearings like this to understand it. And at UP, we're here to commend you.

SENATOR TORLAKSON: Thank you for your participation and the emphasis, again, on partnerships. Kirk, are you next?

MR. KIRK LINDSAY: Now, once again I get to follow the railroads. They're killin' me, man. **(LAUGHTER)** Anyway, I'm honored to be here today, and thank you all for having me to represent the trucking industry from one perspective and the California Transportation Commission from another. I'm going to try to go quick today, because I know we're running behind time. But, I want to give you a little bit of perspective from me. The only place that I haven't worked is, I've never

worked for the railroads. But, I actually ran the Port of Pusan in Korea as the terminal manager, if you will, the officer in charge, when I was an officer in the Army. I was a superintendent for a stevedoring company, so I was on the waterfront from that perspective, and for the last 32 years, owned a trucking company. And so, you know, my life experiences have spanned that gap relatively well in the trucking company, you know, past president of the California Trucking Association, and thanks to y'all been on the California Transportation Commission now in my second term.

So I kinda think I get it. What I want to be sure you all get is that you're broke. **(LAUGHTER)** You know, and I think it's really, really important. I mean everybody here today said we need money to do things. And believe me, you don't have any money, right? We're talking zero. We have a system predicated on user fees, tax fees. We did some other things that dealt with some sales tax that's not constitutionally protected, and we have now dwindled our resource. Four or five years ago a study, SR8, said you need \$16 billion a year invested infrastructure just to stay up, right. I don't have any idea in the world if that's a good number. Say it's double inflated. You need eight? That doesn't make any difference. If we get it all, we get four and a half. What we're getting today is nothing, so eight is a real big number compared to zero, you know, 16 if that's the real number is a real big number compared to four and a half. So, there is a huge shortfall in dollars per se.

What does it mean? I mean, we may complain about it, okay, but what are we really talking about? Transportation improvements—we have allocated zero in two years, from June of '03 'til today. The Transportation Congestion Relief Program (TCRP) funds, two and a half years, December of 2002, zero. And if you continue to spend funding in transportation this year you will see one half of all the projects that are on the table that have been approved come off the table. And so I think it's really critical for everybody to understand in whatever community you live, if you've got four really important projects, two of them are going away. And god help who's going to pick the two. I don't have a clue, because I know where I'm sitting that every project is absolutely critical to every community.

Okay, enough about money. What's it mean to goods movement? We've heard it already today, so I'm going to go very, very quickly. Goods movement is about congestion and it doesn't make any difference if it's rails, if it's trucks, or who in the world it is, we create congestion which increases costs and it creates cost increases for we the consumer, for the manufacturer, for the trucking company, it doesn't make any difference. The end of the day the roll of toilet paper went up a penny and a half or five cents or whatever it is, it's going back to, the consumer's going to pay that bill.

Increased fuel consumption and resources are certainly challenging. The pollution effort is, you know, god help us on that one. And maybe the biggest one of all is reliability. And I want to say reliability because my contention is going to suggest to you that to some extent we're missing the mark. The mark is about our economy. Without a transportation system you do not have an economy. It doesn't matter about where people live. It doesn't matter about anything. If you don't have an economy, we're not here. That economy, and I would challenge you, we're missing the perspective in total as we focus on ports. And I love ports and I know it's a huge problem and certainly myself and the Commission is there to do everything in the world to help solve that. But, it represents about 18 percent of goods movement in California. Goods movement is about gasoline to the local gas station. It's groceries to the local grocery stores. It's the agricultural commodities from the field to the processors in the valley. It is not only about what I term sexy international trade. It is about the whole economy of California.

The challenge for me with the port and that international trade is the money. The world is asking us Californians to foot the bill. You know, we go to San Diego County and we build a \$200 million road because of NAFTA to get off the border back into the United States. Not any question we need it, federally mandated that it be there, but there's no federal dollars. You know, we're paying for it. That \$200 million might have fixed 99 through Lodi. By the same token on the international side, if I live in Chicago and I've got a nice TV set that came out of Japan and it went through the Port of Long Beach, we're paying huge dollars to give me a nice cheap TV set in Chicago. Is that in the best interest of California? I'm not so sure. I'm not so sure the lady in Chicago shouldn't help pay the bill. It

is not California's responsibility to feed America in its transportation needs and all of those costs. So there's a huge challenge of how do we protect Californians and our own infrastructure, how do we get federal dollars, how do we get international dollars whatever those might be.

Lastly, and I want to talk about trucking companies briefly, because, again, I think we lose sight of what we're talking about to some extent. We talk about ports and international freight and that is the Hunts, the Snyders, the large trucking companies that traverse America. And you are not focusing at all about domicile California carriers. Folks like me that live here and die here and move in my case, if you eat tomatoes and if you eat ketchup, I've been there. You don't eat them without me. And you are killing us, because we spend all the focus on international stuff.

We don't deal with a nationwide diesel fuel price and we say, no, we can have California only special super duper fuel which is okay, but I can't compete. We're going to have super duper workers' comp and I can't compete. And as I can't compete, and you drive the locally domicile carrier out of business, which you are, I give you agriculture that's what I do. Thirty years ago there were 135 of us, today there is 33. They're going away, which is okay. I mean, on one side that's okay. I'm about ready to retire, so it's okay for me, but the bottom line is you are going to have your economy ride on the backs of trucks that don't live and die here. And I will assure you that Hunts comes to California to make money. And when they can make more money in Ohio, they're not going to be in California. They're going to be in Ohio. And if you have an economy that's relying upon their just-in-time deliverer and they're in Ohio, you don't have an economy. And I think it's something you really need to look at is how in god's green earth do you protect California domicile trucks, because they are ultimately your life blood. Hunt's doesn't haul tomatoes from the west side to the cannery. And if I'm not there, they will be, but they're going to get there when they want. And so you may not have tomato ketchup, because they may come late. But, I think it's something you really need to focus on.

Bottom line, end of the day, what's it all about? Feds got to pay their fair share. International freight's has got to pay its fair share. You must protect

funding streams of money within the transportation system in California. I think you must protect domicile carriers that live here, and I would challenge you that if you all are not willing to invest in California transportation system, that the feds aren't, the private sector's not, the international markets aren't, if you can't invest in your own stuff, how can you expect anybody else to invest in your stuff? This doesn't make good sense to me.

SENATOR TORLAKSON: Thank you, Mr. Lindsay, and appreciate your testimony. Part of it I've used in my talks, but I have been around the state and have had a lot of budget town halls. And part of it sounds just like my presentation at my town halls. I don't use the part about the tomatoes and the ketchup. I'm not in the same business you are, but as I listen to Californians all across the state, they're outraged at the lack of investment in transportation. And it is a travesty that we have diverted so much funding away from transportation. It does need to come back. It's a severe neglect of our infrastructure as you rightly pointed out that's critical for the economy for the jobs that support all of our families. So I know you and the CTC is looking at that and I would hope you would consider supporting the Senator Perata bond as one method. In terms of dedicating some general funds, we must restore the \$2.5 billion of the Prop. 42 money that's been hijacked into the general fund, get that back into the ground, and into the roads and the other strategies we've heard today—there's a number of those strategies and I think you make a good point about the person with the TV set in Chicago and to what degree are we subsidizing that to the expense of our own businesses, to the expense of our own population and how do we balance that. And I think there are methods working together with the private industry that we can find to bring in private dollars and international dollars and linking those together, go after the federal dollars we deserve back too. So, thank you for your testimony.

Mr. Geesman's been very patient. He will be our last witness for the day. Last but not least, with lots of energy.

MR. JOHN GEESMAN: I'll try and be quick. I want to thank you for inviting me and to congratulate you for a terrific afternoon of hearings. You've

elicited a lot of statements of cooperation and collaboration that create some pretty good opportunities to follow up in this area.

I want to ring a fairly cautionary note, though, as it relates to the Southern California ports, specifically the Port of Los Angeles and the Port of Long Beach. And that is, reconciling the very necessary improvements that are needed in the goods movement area with a growing need for petroleum infrastructure in those ports. My commission's staff later this spring will publish a series of reports. We'll have a new transportation fuels demand forecast. We'll have an assessment of petroleum infrastructure needs going forward. We'll have an assessment of the environmental impacts of those infrastructure improvements. They tend to center around the Port of Los Angeles and the Port of Long Beach and it's a real estate related conflict. There is not very much real estate in either port and it's finite real estate. These petroleum facilities are not the most desirable tenants. They are polluting facilities. They take a lot of land. They're unpopular with the local communities, and they don't generate as much revenue by a long shot to the ports as container facilities do. But, they are a necessary underpinning to a growing population and a growing economy. They've been diminished in recent years. There is a tremendous amount of pressure to move petroleum facilities out of the Southern California port, and that's simply physically impossible in many instances because of the proximity of the refineries.

Another major factor underway is the change in what we're importing in those petroleum facilities or petroleum-related facilities. Not only are we now importing crude oil which we've done historically for a long time, but increasingly we're bringing in refined product. And that creates a need for a new storage system, new pipeline facilities, despite what has been heralded as one of the most aggressive, demand reduction policies in the United States, and I speak of the Pavley standards aimed at CO₂. The Commission staff expects the growth in demand for gasoline and diesel and jet fuel to continue inexorably in the future. And that means that we're going to have an increasing need for maritime terminals, storage facilities and pipelines in the Port of Los Angeles and the Port of Long Beach. Not the same conflict in the Bay Area. Their refineries all have off-loading facilities for themselves, so there's not the level of trade off with the Port of

Oakland that exists in Los Angeles and Long Beach. But, as you move forward in this area and consider the strategic plan that has been mentioned several times today, I would implore you to carefully consider the problem faced by the diminishing availability of real estate in Port of Los Angeles, Port of Long Beach for petroleum import facilities.

SENATOR TORLAKSON: Thank you, Commissioner. Appreciate that and it's an interesting dynamic. I don't think most people in the front end would look at what you just described as a huge challenge, but the interrelationship between fuel costs and running the trucks and running our cars and I believe we have a crisis. We're moving into in energy that's potentially equally in magnitude to the crisis we face when we had a shortage of electrons and we started having brownouts and uncertain supplies for our electron-based energy. And I think that crisis in energy is our gasoline and diesel energy costs. And the fact that we are so limited because we have set high standards and we support those high standards for cleaner air and cleaner environment, we are limited to the capacity we have today and we need to, I think, preserve every bit of that capacity to move, store, and generate the clean fuels that California's truckers need, the clean fuels we all need. And if we don't, it's going to cost us, I believe, billions more over the decade ahead in fuel costs, not only to the truckers and passed onto consumers, but directly to everybody who pumps gas to fill their car, we're going to see the price of gas well over \$3 a gallon and going up from there if we do not address this capacity issue that you've identified.

So we look forward to working with you on that and we know it's a challenge for the ports, because you have financial decisions in terms of do you swap out, you know, some additional container capacity and push out the petroleum generating or petroleum supplying port facilities. And I think we have a real challenge there to make sure we balance as we move forward.

I want to thank each of the panelists. Let's thank the panelists who are all here. Thank you for your excellent work today. **(APPLAUSE)** Thank you. We'll see if there's any public comment, and then we want to thank this wonderful staff that is here. The staff—I want to just do that right now. The staff did an outstanding job, probably put in 150-200 hours preparing for this hearing and

making everybody come together today. Let's hear it for the staff. **(APPLAUSE)** Thank you. We have comments from Betty. Senator Karnette has a comment. Senator Soto has a comment. And then we're going to see what public comment we have left.

ASSEMBLYMEMBER KARNETTE: I just want to announce that there's an events list for the Maritime Month events that have been provided and they're back there on the back table.

SENATOR TORLAKSON: We'll be producing a summary report so that anybody interested in that, certainly all the witnesses will get it, but anybody who signed up for that, email us, whatever, we'll make sure you get a copy of that. Good. Senator Soto and then Senator Lowenthal will speak.

SENATOR SOTO: I just want to make a little comment here. Yesterday we had a press conference. I think it's imperative that everyone leave here today with a commitment to themselves and everybody that they work with and try to help that bond measure pass. After listening to everything today, and knowing the dire situation in which we find ourselves after imposing it, shooting ourselves in the foot all these years, that we have to be committed to Senator Perata's bond and make sure that however we can, we promote that the bond getting passed, because I don't see any other way of doing this and it, being here today and listening to all this about how really, I thought about it and I've been frustrated about it, but not as much as I am now.

So I think that all of us feel the same way and we all feel the same pressure, but I think we should leave here today absolutely committed to see that Senator Perata's bond issue and the measure passes so that we can at least as we said yesterday, go back to start where we should have started years ago. And, so, I'm just hoping that everybody feels the same way as I do, just as frustrated about the situation and that we feel absolutely helpless about what we can do now. And perhaps coming up with some hope after listening today that we have something that we can fall back on and that would be Senator Perata's bond so that we can look to the future with some kind of hope that the situation will be made a little improved at least to the point where we leave a better legacy than we got stuck with.

I appreciate everybody being here. Thank you all. Believe me, we could have left. Some of us could have left. But, seeing everybody hanging here and waiting and to see what was said until the last, I think people have to be commended for that and thank you everyone, so much, for waiting and sticking it out with us.

SENATOR TORLAKSON: Thank you, Senator Soto. Again, appreciate that this has been an enlightening hearing, extremely informative and builds the momentum towards the goals you just described. Senator Lowenthal.

SENATOR LOWENTHAL: You know, maybe in part a little knowledge is a dangerous thing. I mean, a little overwhelming when you get everything, when we see the enormity of what we're facing and where we're going is an enormous challenge, but if not us, who? And that's really what the message is saying to us. We've got to start right here in California creating systems that work, that promote well-being, that move us into the 21st century. I think the other message that came to me is you can't keep going out and asking other people to do what's got to be done without doing some of that "it" yourself. And I think that's what we're hearing and that's what we're going to do. We're going to be partners in it. We are going to ask others to help us. But, we have to demonstrate that we're willing to step up to the challenge too, and I think that's what all of us are saying. We're willing to commit to that challenge to move our state in this direction and commit resources in this direction.

SENATOR TORLAKSON: Public comment. Please come to the podium those who wish to comment, please line up behind Ms. Inman who is coming up first.

MS. FRAN INMAN: Hi. Fran Inman, Senior Vice President, Majestic Realty, also Vice Chair of the L.A. Chamber Transportation Committee, and on the advisory board of Mobility 21. And I'll be brief because I realize I'm standing between you and a drink.

Anyway, I want to thank the committee for tackling a different, a difficult issue and I'd like to suggest that we've only just begun the work that we need to do. I won't preach to the choir, but wanted to make sure that you know that you

do have the broader business community at the table on this issue. We are keenly aware that we are running on empty. We would like to encourage all the players along the process to get rid of the silo mentality. I mean, we've heard repeatedly today that we're broke, so business as usual is not going to work.

We need to spend wisely. We agree that the private sector needs to participate, but with that, you know, we're going to ask all of the partners to really look at best practices and I think that's fair if we're going to partner with anyone that we all challenge ourselves to say what's the best practice system wide, not maybe just in our silo mentality what's the best practice system wide. And then we just encourage all of you for bipartisan leadership. We're all wearing the same jerseys on this, so we're here to work with you and sit through more three hour hearings, but having personally been in D.C. three times this year trying to lobby for the reauthorization, I can't tell you how difficult it is to overcome the ABC mentality if we don't have our own house in order. So I think we really need to focus on that. So, we're looking for some level five leadership as Jim Collins would say from Good To Great. Thank you.

SENATOR TORLAKSON: Thank you, Fran. Thank you, Majestic Realty. Next please. Again, state your name for the record and if you could give a business card to our sergeants and staff so that they have a record of who you are and welcome.

MR. DAVID HALL: Great, thank you. Members of the committee, I'm David Hall. I'm the port director for the Port of Humboldt Bay and which is a division of the Humboldt Bay Harbor Recreation and Conservation District. Thank you for holding this joint hearing and allowing me the opportunity to speak to you on how we believe the Port of Humboldt Bay can play a role in the solution to the state's good movement challenges and help maintain California's competitive edge.

As many of you know, the Port of Humboldt Bay is located on California's north coast, approximately 200 miles north of San Francisco, about 90 miles south of the California/Oregon border. The Port of Humboldt Bay as such is the only deep water port along a 400-mile stretch of coast stretching from San Francisco, California, to Coos Bay, Oregon. Due to our region's long history of maritime shipping, a great deal of shipping infrastructure, programs, and expertise

are in place. However, due to a decline in natural resource production, much of this existing infrastructure is presently underutilized. The underutilized assets that the Port of Humboldt Bay has include a 38-foot deep shipping channel, nine docks all within one hour's sail of the Pacific Ocean, over a thousand acres of underutilized properly zoned coastal dependent industrial property, pilots, stevedore, Longshore, customs, coast guard, Homeland Security personnel are all available and at the Port, foreign trade zone and enterprise zone incentives are available, and the existing upland transportation leaks are in place.

This infrastructure is available to assist in improving the state's goods movement ability attracting new maritime business to the state creating California jobs and tax base. As a recent example of how these assets may be put to use in an existing public/private partnership that is developing between the Port of Humboldt Bay, the Port of Oakland, and Evergreen Pulp which is a paper pulp mill on Humboldt Bay. This project was referenced briefly by Jerry Bridges a little while ago. This partnership is forming to develop a short sea shipping alternative to trucking paper pulp from Humboldt Bay to the Port of Oakland that would establish a container barge service between those two ports. The establishment of this service will lessen road congestion, air pollution and will assist California's business, a California business to remain competitive in worldwide market.

With these underutilized assets at the Port of Humboldt Bay we respectfully request that any and all statewide goods movement strategies include the utilization of the Port of Humboldt Bay and that maritime and other port related infrastructure improvements be funded as a high priority. Thank you.

SENATOR TORLAKSON: Thank you very much, Humboldt Bay, and look forward to exploring the potential and possibilities you've outlined. Thank you. Next.

MR. MATT VANDER SLUIS: Hello. My name is Matt Vander Sluis representing the Planning and Conservation League.

SENATOR TORLAKSON: Great.

MR. VANDER SLUIS: I just wanted to make a few points here. It was mentioned earlier that the Federal Transportation Plan requires that environmental justice concerns be addressed, but looking at the California Marine

and Intermodal Transportation System Advisory Council, CALMITSAC, there are a lot of members in that group, but I don't see environmental groups or environmental justice groups represented on that panel. And I think that it would really increase the credibility of the information that you present if those groups are represented on the panel. And I think if you have that broader spectrum of people who are able to address these issues, they'll be able to bring up a lot of concerns such as things like having diesel trucks use low, ultra low sulphur diesel, looking at alternative fuels and looking at community impacts, looking at community mitigation. That if all the groups are at the table, that really adds credibility to the information that's being presented out of that council. Thank you.

SENATOR TORLAKSON: Thank you, Planning and Conservation League. Next, please.

MR. RON SILVA: My name is Ron Silva. I'm from Westar Transport. I think me and Kirk are the only two truckers here. I'm here to briefly tell you about short sea shipping. I've been working on a model for a little over a year. I have seen several various representatives including BT&H, Barry Sedlik. He now has this information. They're passing out some of it right now.

SENATOR TORLAKSON: Great.

MR. SILVA: Short sea shipping needs to be spotlighted as probably the priority project to fix the congestion pollution and safety problems in the State of California. I say that because I've done enough work on it. The model that I'm looking at just on the domestic side alone, you build a port in Northern California. We need another roll on, roll off port in Southern California, possibly Seal Beach or possibly Camp Pendleton. You take these big ships. They're 950 feet long. They hold 700 trailers each. You don't send the drivers on there. You send just the trailers. They go down the coast at night. You still get next day delivery, but you take 700 trucks off the road. My model is for six vessels. When we build it those six vessels will remove 42 hundred trucks a day off I-5 and 99. This technology is off the shelf. It is being used in other parts of the country in niche markets. What we have to do is get short sea shipping down here, make it faster

and cheaper which means you got to beat the cost out of it. Some of those truckers are used to doing it.

While you need private ports and I'll use Northern California as a model, while you need a private port, and Pittsburgh, by the way, is a northern port. I talked to the city. They would welcome it. It's a perfect location. What we need to do is now use these barges. These barges are 800 feet long. They hold 300-400 trailers. You load them up at the port. It comes off the ship onto the barge. Now take it to the next location. If that product is going south, it would go into that Pittsburgh port, go on a ship and go with the domestic trailers down the coast. That takes 400 trucks coming out of the gate at the Port of Oakland.

Now you go a little further. Now you want to take congestion off the 580, the 280. Barge them on to Stockton. If those loads are going around the Stockton area, barge them to Stockton and then redistribute them. If they're going to Sacramento, go to Sacramento, then redistribute them. What you do, you take all those line trucks that are running north and south and you turn them into local type truck operations. In my model, we will convert those trucks over to LNG. That's part of, that's why I want to deal with the state. This can't be a commercial only. The ship lines aren't going to come in and do this, because there's no money in it. I can tell you at best it's a marginal model. But, I wanted to introduce you guys to it. I hope to have the opportunity to meet everybody.

SENATOR TORLAKSON: Great. Thank you, Mr. Silva and Short Sea Shipping. Appreciate your work. We'll look it over. Yes, sir.

MR. STUART FARNSWORTH: Good evening. My name is Stuart Farnsworth. I represent the Port of San Diego here this evening, and I wanted to echo the comments of the Port of Humboldt Bay in just encouraging this joint committee not to forget the other ports. We've heard a lot about Oakland and Los Angeles and Long Beach. There are other ports that provide congestion relief and real goods movement that will help this state economy continue to grow.

I wanted to mention one key fact that perhaps has been overlooked in the press and other. Recently in March, Matson Services has built a U.S. flagship, a U.S. crude vessel that now travels between the Port of San Diego and Hawaii. That

service is a weekly, a two-week service, there and back, and so 26 calls between the ports.

SENATOR TORLAKSON: What do they carry?

MR. FARNSWORTH: They carry autos and military goods from the families that are stationed there and other products. It's called the Pacific Hawaiian Transportation Line.

And so with that, I also wanted to echo the issue of short sea shipping. The model the gentleman just highlighted is being tested. We anticipate that actually to start this summer in the Port of San Diego, so I wanted to mention that as well.

SENATOR TORLAKSON: Great. Thank you, Port of San Diego. Next, please.

MR RAY ORTIZ: Yes, I'm Ray Ortiz with the International Longshore and Warehouse Union, and I'd really like to thank the senators and assemblypeople for putting this together. It's nice that ILWU isn't on the hot seat. We went through that last year, and I think the message has come across that it's the congestion. I was with Senator Lowenthal a few weeks ago in Oakland. I'm in the community. I'm from Southern California. I work at the headquarters for ILWU. But, I've been in the industry over 36 years and have seen what the pollution has done. And like I said, I look at it every day when I'm down south on my lemon and orange trees, see the grit. But that's how I make my dollar. You know, and if we don't do something, major issues will come forward that the people who vote for you are going to come forward and they're going to dictate how the industry is going to be run. An education process must get out to the people of California to understand. I really liked what the individual for the trucking industry was saying, you know, and he made a lot of sense that we're footing the bill for everything.

But, once again, I'd like to thank you and I think this was a great forum. I think we understand the things we have to do. Now we have to put them in place. And I wish Senator Soto was here. You know, 15 years ago when we were building the Ports of L.A. and Long Beach and you have beautiful ports down there, as the other ports in California, but we didn't keep up with the infrastructure. And for San Diego, we just recently went up to Sacramento to the port yesterday and they're wondering what's going to happen to the port. Are we turning it into

condos? It's a valuable port. San Diego, too. They need some help down there, but I think if we all pull together, we can make it. Thank you.

SENATOR TORLAKSON: Thank you, International Longshoremen's Union. Appreciate it, very much. Hi.

MS. MARY McCORMICK: Good evening. My name is Mary McCormick. I'm the president and CEO of a company called MBI Media, which is a communications company that specializes in transportation. But, the reason I'm here this evening is that I'm the first vice president of the Harbor Association of Industry and Commerce, and I will be the president of that association next year.

I wanted to thank you all very much for the opportunity to come and see and speak with you and participate. But, the reason for my coming to see and speak to you right now is to let you know that we are dedicated to making sure that we have a dialogue early on earlier than this year. We want to make sure that we have an opportunity to spend time with you to speak about issues that are of concern to you and to open ourselves up as a conduit so that many entities can flow through us in a variety of ways so that we can get information out both from you and to you in a way that's equitable for everyone.

SENATOR TORLAKSON: Thank you for the work you do and the leadership you have in those organizations.

MS. McCORMICK: You're welcome.

SENATOR TORLAKSON: Thanks. Yes, sir.

MR. JOHN COCKLE: Good evening. I'm John Cackle. I'm the president of the California Short Line Railroad Association. And I just wanted to echo some of the thoughts that were expressed here earlier. In the California Short Line Railroad Association we have 27 members. We move over 200,000 rail cars per year with only 600 employees. And we're out in the little towns up in McCloud, Mt. Shasta, San Diego, out in Terona, California, out in the desert, as well as my own railroad, the Richmond Pacific, we're in the Richmond, in the Bay Area. So we feel that we're a vital part of the goods movement infrastructure and I just want to convey that we are excited to be getting involved in the process. We're committed to trying to help and work through and see what we can do to contribute as well. And in the spirit of partnerships and such that were expressed

today, I find it interesting that the gentleman from Bright Trucking, he was inspiring when he was talking about the small carriers getting lost in the shuffle and getting priced out of the market. We feel that the California short lines are kind of in the same boat. We feel that we should be looked upon in kind of the same vein for protection. So it's kind of interesting to be agreeable with a trucker like that. I kind of like that. Anyway, I thank you for the time and we'll be here to help.

SENATOR TORLAKSON: Thank you for being here and short line railroad. I appreciate your representation.

MS. MARIANNE VENIERIS: Hello, good evening.

SENATOR TORLAKSON: Good evening.

MS. VENIERIS: My name is Marianne Venieris. I'm the executive director for the Center for International Trade and Transportation at Cal State Long Beach, and I'm also the deputy director of the METTRANS Transportation Center which is a National University Transportation Center. And I'm just here to say that that I would like to express that there is a role for the university in this industry not only for education and work force development which is essential, but also as a neutral entity for all the stakeholders to come together. We have been bringing key stakeholders together within the Center for International Trade and Transportation for over eight years. People have been meeting every month to address the issues, share information, bring about solutions, and as a result of that, we have been able to put together research programs and outreach activities that had tremendous educational impact on the stakeholders of the industry.

I also believe that all the folks that are involved in goods movement not only those working it, but also the public sector, need to understand how complex the industry is and I believe we as an educational institution can provide a service to train people and explain how complex it is and therefore be able to make much better decisions.

SENATOR TORLAKSON: Thank you, very much.

SENATOR LOWENTHAL: And thank you, Marianne, for all the leadership. I don't know if my other colleagues, I know Senator, Assemblymember Karnette knows, but you have provided great, great leadership for, in the Southern

California area and the Center has been, as you say, has been a place where people have come together to learn, to discuss these issues, and also the media presentations that you've developed on what's taking place have been wonderful, high class, quality, that really do provide educational benefit. And we will call upon you.

MS. VENIERIS: I appreciate that, Senator. Thank you very much.

SENATOR TORLAKSON: Thank you. Last but not least, our last public comment.

MR. MOSS BITTNER: Good evening. I'm Moss Bittner. I'm with a group called the Humboldt Bay Rail Infrastructure Task Force. We're a citizens' group, but we do work with the Humboldt Bay Harbor District and the North Coast Railroad Authority which owns a line that connects Humboldt Bay to the National Rail System in Schelville. This rail, it's operated by the State of California, but it's not funded by the State of California. And that prevents Humboldt Bay as a deep water port from being a useful part of our goods movement system. Money has been promised by the state. It was \$42 million in '98, \$60 million. Only 18 million was delivered. The \$42 million, if it were delivered according to the engineers, would be sufficient to bring the rail back on line. Maybe that figure's a little out of date, but sometimes especially in a budget crunch like the state is in right now, it's the small investments that are going to make the real impact. It's going to show shippers around the world that California is committed even during a time of budgetary constraints, that we're committed to making things work and we're committed to following through on our commitments to parts of the network.

When we look at \$3 billion projects out of L.A., we've got to recognize that it's 46 percent of the freight coming in California that goes through those ports. What about the other 54 percent? And finally we have to be concerned about the redundancy in the system and the ability of the system to take shocks. That may be threats of terrorism or it may just be earthquakes, and frankly, we're in California, we have to be prepared for mudslides in Southern California that reduce capacity there. We have this other capacity that it's just a few million dollars away from being a useful part of our goods movement. And I hope you

seriously consider including that, including Humboldt Bay and the North Coast Railroad Authority in discussions of where to move forward. Thank you.

SENATOR TORLAKSON: Thank you. We've been working with Senator Chesbro on that very issue, and as budget chair, he's bird dogging that one closely with us. Once again, I want to thank everyone. Again, commend the staff for the diligent work putting this together and all the public for your patience and your intelligent input to help us. Thank you very much. Meeting's adjourned.

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