A Program for Establishing Public-Private Partnerships

For

Infrastructure Financing and The Improvement of Harbor Drayage Trucks In the State of California

Endorsed by:

Association of American Railroads
National Retail Federation
Pacific Merchant Shipping Association
Retail Industry Leaders Association
Waterfront Coalition

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Executive Summary

The State of California shares in the economic benefits of the U.S. distribution economy. But international commerce also raises challenges: growth in the goods-movement industry requires infrastructure in California sufficient to handle the load; growth leads to road congestion that negatively affects the same consumers who derive the benefits; and goods-movement activities have impacts on the environment that must be managed. To ensure its competitiveness and economic vibrancy, the state must work with stakeholders to adequately address these concerns and impacts.

Infrastructure Development and Financing

Coordination within transportation corridors can only be achieved by eliminating the piecemeal action of local governments, port authorities, and regional planning organizations. Projects must be considered in light of their contribution to the goals of moving freight and vehicles through an entire transportation corridor. This systemic perspective, which only the state can provide, must be applied to the prioritization, coordination, and oversight of infrastructure projects.

We, therefore, urge the Governor and the Legislature to create four trade corridor authorities to administer and coordinate projects within the four corridors identified in the Goods Movement Action Plan of January 11, 2007. We charge these authorities with 1) identifying priority projects within the corridor, and 2) developing financing plans for each project that will include a mix of options and, where appropriate, involve Public Private Partnerships.

Six major projects within Southern California are high priorities for the goods movement industry and include such projects as the replacement of the Gerald Desmond Bridge, improvements to SR-47, and near-dock rail projects.

In putting together public-private partnerships to support and finance priority projects, and in determining what kind of private participation is appropriate for priority projects, we believe the following core principles should be followed:

1. The project has to provide specific benefits to specific private stakeholders. The primary benefits of the project should be improved operational efficiencies, specifically velocity, throughput capacity, and reliability of freight delivery.
2. The project must have an acceptable return on investment.
3. The project must be considered a capital project under generally accepted accounting principles.
4. The partnership must be voluntary, led by the state, a corridor authority or a local project sponsor. An honest partnership may be authorized by legislation, but it cannot be imposed by legislation.
5. The project must be well coordinated with other corridor projects and the authority must have the powers necessary to move forward with it.
6. The fees or contributions must be “fire-walled” and used exclusively for the project. Funds cannot be reallocated to general revenue for the state or other local governments.

7. There must be accountability and transparency in the use of project financing.
8. Private contributors should have some role in the governance or oversight of the project.
9. Private dollars should pay for private benefits, while public contributions should pay for public benefits.
10. Fees and contributions must be collected from the actual users of the infrastructure.

Improving the Harbor Drayage Trucking Fleet

The need for environmental mitigation, especially in the San Pedro Basin area, has been acknowledged by the trade community for years. Real progress has been made by vessels, terminal operators, railroads, and trucks in responding to the need to reduce air pollution. Despite this commitment, the public debate has focused on the need to replace and retrofit harbor drayage trucks. An upgraded harbor drayage fleet is, ultimately, in the industry's long-term interest. We hold this view, even though achieving an upgraded fleet will entail higher costs. This paper outlines a market-driven plan to improve harbor drayage trucks, as follows:

- **State Emission Standards:** The California Air Resources Board (CARB) has embarked on the dual process of developing diesel emission standards for all truck fleets statewide, as well as a specific standard for harbor drayage trucks. We support a state-wide standard only, and charge the state with moving forward with a single standard for California trucks as quickly as possible.
- **Early Market-Based Enforcement through Marine Terminals:** We urge the Marine Terminal Operators to use their existing discussion agreement, pursuant to oversight from the Federal Maritime Commission, for the purpose of privately collecting a mitigation fee from any harbor drayage truck not meeting the CARB standard as of a certain date prior to the state's implementation date for all trucks in California.
- **Providing assistance to owner-operators for new trucks:** The money collected as part of this fee (after administrative costs) would be put into a "fire-walled" fund for the purpose of providing assistance to owner-operator truckers in financing retrofit or replacement of trucks that will be used in harbor drayage. The money should be managed by a trusted private financial institution selected by the corridor authority for the purpose of providing low cost loans or lease-to-purchase arrangements for owner-operators.
- **Tax incentives for new trucks:** We also call upon the state government to consider tax incentives for owner-operators or trucking firms who purchase new trucks meeting the CARB standards.
- **Truck Registration Requirements:** We support state legislation that would require trucks registering in California to meet minimum age standards.

Introduction

The U.S. economy has transformed itself in the last decade from a manufacturing economy to a distribution- and information-technology-based economy. National policy over the last twenty years has been aimed at fostering this change. The U.S. Government continues to pursue trade policies designed to foster U.S. exports, and open our borders to more imports.

We have no reason to believe these national policies, or the trade growth they have engendered, will suddenly change or be reversed. Imports from the Pacific Rim will continue to expand. As our trade policy removes tariff and non-tariff barriers to U.S. exports our outbound trade will also increase.

These polices benefit all Americans, but most particularly American consumers. Free trade policies provide exceptional value to American consumers in the form of lower prices and unparalleled choices in the marketplace.

The new distribution economy also produces a great many well-paying jobs—a substantial number of them in California. According to the California Marine and Intermodal Transportation System Advisory Council[1] one in seven jobs in the State of California is created by the international distribution chain that moves goods through the state's ports. Many additional jobs are created by the domestic distribution economy over and above these international-trade-related jobs.

The State of California shares in the benefits of this vibrant distribution economy. Because of its geography, the state stands as the primary U.S. gateway to trade with the Pacific, putting it in a unique position to derive benefits from international commerce.

But international commerce also raises challenges: growth in the goods-movement industry requires infrastructure in California sufficient to handle the load; growth leads to road congestion that negatively affects the same consumers who derive the benefits; and goods-movement activities have impacts on the environment that must be managed. To ensure its competitiveness and economic vibrancy, the state must work with stakeholders to adequately address these concerns and impacts.

But the state is constrained in its actions because trade flowing through its ports is, by definition, interstate and foreign commerce. Not only is this trade protected by international agreements ratified by the United States and governed by well-established principles of federal law, but it remains protected by some of the oldest and best understood provisions of the U.S. Constitution. The impacts of trade—both positive and negative—are felt in the State of California, but taxes and other limitations on interstate commerce will not serve as the panacea they are claimed to be. The risks of costly litigation, diversion, and constraints to growth are real.

There is a great need for the policymakers and leaders of California to work in a true partnership with the economic interests that use, and largely pay for, the port infrastructure now in place. Adversarial actions that attack interstate commerce are counterproductive to our shared goals and future partnerships.

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[1] Growth of California Ports: Opportunities and Challenges, A Report to the California State Legislature, January 2007

This paper, endorsed by a number of association stakeholders in international intermodal transportation, will outline a public-private partnership designed to avoid constitutional pitfalls and costly litigation. It is largely directed at the California State Government, which in our view must take responsibility for managing growth around its blue-water ports. In this document we will outline an approach for public-private partnerships to fund necessary infrastructure, as well as a program to improve the quality of the trucks engaged in harbor drayage.

Infrastructure Development and Financing

The people of California expressed their support for additional transportation infrastructure by approving a substantial new bond proposal in the November 2006 election. The Governor and Legislature have also embraced new principles for the delivery of infrastructure projects that include the concept of public-private partnerships (PPPs).

Public-private partnerships are not funding streams. They are a method of moving forward with infrastructure projects. Some projects may be suitable for private funds, others for alternate forms of public and private financing. Both private funding and private financing can be pursued in a PPP.

A PPP presupposes that a group of private stakeholders will be sufficiently interested in the economic benefits[2] delivered by an infrastructure project to make a financial contribution to its financing and construction. As such, the notion that a PPP could be "imposed" on private entities is antithetical to the definition of partnership.

With these concepts in mind, the next steps are to: 1) create the authority to manage projects, 2) identify the priority projects that will provide economic benefits to private stakeholders, and 3) decide the appropriate funding streams for each priority project. These steps must be coordinated by the state.

Establish Corridor Authorities

Governor Schwarzenegger's Goods Movement Action Plan identifies four principal trade corridors within the state and makes the argument that the state has an overarching interest in managing these corridors in a coordinated way.[3] We agree.

Coordination within transportation corridors can only be achieved by eliminating the piecemeal action of local governments, port authorities, and regional planning organizations. Projects must be considered in light of their contribution to the goals of moving freight and vehicles through an entire transportation corridor. This systemic perspective, which only the state can provide, must be applied to the prioritization, coordination, and oversight of infrastructure projects.

We, therefore, urge the Governor and the Legislature to create four trade corridor authorities to administer and coordinate projects within the four corridors identified in the Goods Movement Action Plan of January 11, 2007.

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[2] The California Goods Movement Action Plan identifies three main economic benefits of interest to stakeholders: improved throughput capacity, reliability, and velocity. Section IV does an excellent job of defining these terms.

[3] Goods Movement Action Plan, State of California, January 2007, pp I-2.

We envision that these authorities would be led by the state and include other appropriate public and private freight stakeholders. The purpose of these authorities would be to coordinate projects identified in the Goods Movement Action Plan, ensure that bond proceeds are spent appropriately on projects that contribute to the corridor, and to be the lead agency when it is determined appropriate to use PPPs to finance and deliver priority projects.

Corridor authorities should also take a role in helping to define and support projects that may require no public support whatsoever, but would reduce truck trips, road congestion, or air emissions. For example, private railroads have promoted projects that will increase near-dock rail capacity funded entirely out of private dollars that will have a significant, positive impact on the transportation corridor. These projects should be identified and supported by corridor authorities, regardless of their funding arrangements.

Priority Projects

The Goods Movement Action Plan identifies many worthy projects throughout California's four major trade corridors. All of these infrastructure needs are pressing, but we are initially most interested in the projects listed below, all of which are located in the Los Angeles/Inland Empire region of the state. These projects either already have private dollars pledged to them (as in the case of near-dock rail), may have received funding commitments from various public sources (the Desmond Bridge), or would be likely candidates for the creation of PPPs because they clearly provide improvements to throughput, reliability, and velocity.

These priority projects are:

1. Replacement of the Gerald Desmond Bridge,
2. SR-47 Expressway improvements,
3. I-110/SR-47 Connectors Improvements,
4. I-710 improvements, potentially including truck-only lanes,
5. The Southern California International Gateway (SCIG), near-dock rail project. The funding for SCIG has already been identified. SCIG is now undergoing environmental review. This project could reduce nearly 30 million truck miles traveled per year on Southern California freeways, and
6. Future modernization and expansion of the existing ICTF near-dock rail facility located in Los Angeles.

Sources of Funding

Infrastructure projects are funded in a variety of ways. The corridor authority would have to review each project to determine the best method of financing it. It is not within the scope of this paper to select the appropriate mechanisms for each of the projects noted above. They will each require their own mix of funding and financing.

Funding and financing may come from a variety of sources:

1. **Revenue Streams:**

These would include <u>public sources</u> such as state and federal appropriations, existing taxes such as sales or gasoline taxes, and tax credits. In addition, revenue streams might include private sources, such as direct corporate contributions, and tolls of one kind or another that might be collected in a variety of ways, but which are directly related to the use of the infrastructure.

2. Capital Sources:

Projects are also financed by a mix of debt and equity financing. Public sources of equity financing include federal and state grants and contributions. Private sources of equity financing include direct corporate underwriting, as is the case with many rail projects.

Public sources of debt financing include federal and state loans. Private sources of debt financing include taxable debt and tax-exempt debt as well as innovative financing mechanisms such as state or federal tax credit bonds.

Clearly some projects such as major rail improvements are likely to be funded through direct corporate contributions, as opposed to tolls or cargo fees.[4]

Road and bridge projects might lend themselves to user fees, which would generally take the form of tolls of one kind or another applied to the actual users of the infrastructure. Tolls can be collected in a variety of ways that will not contribute to congestion or idling trucks. In addition, we recognize the controversy over tolls, but we believe that tolls are an important part of the mix of funding solutions and must be considered. Of course it is critical that market mechanisms be put in place to ensure that tolls on trucks are included in freight rates.

Principles for Private Funding and Financing

As noted above, it is premature in this document to outline the specific funding and financing sources for the priority projects enumerated above. Some of these projects have not yet entered the design phase. Some are well defined and all that is necessary is the creation of an authority to begin the process of putting together the various sources of public and private financing.

In putting together public-private partnerships, and in determining what kind of private participation is appropriate, we believe the following core principles should be followed:

1. The project has to provide specific benefits to specific private stakeholders. The primary benefits of the project should be improved operational efficiencies, specifically velocity, throughput capacity, and reliability of freight delivery.
2. The project must have an acceptable return on investment.
3. The project must be considered a capital project under generally accepted accounting principles.
4. The partnership must be voluntary, led by the state, a corridor authority or a local project sponsor. An honest partnership may be authorized by legislation, but it cannot be imposed by legislation.

[4] Although the Alameda Corridor uses a cargo toll, the railroads have largely preferred to make direct corporate contributions to projects. The Alameda Corridor is unique among major rail projects in that it charges a rail toll.

5. The project must be well coordinated with other corridor projects and the authority must have the powers necessary to move forward with it.
6. The fees or contributions must be “fire-walled” and used exclusively for the project. Funds cannot be reallocated to general revenue for the state or other local governments.
7. There must be accountability and transparency in the use of project financing.
8. Private contributors should have some role in the governance or oversight of the project.
9. Private dollars should pay for private benefits, while public contributions should pay for public benefits.
10. Fees and contributions must be collected from the actual users of the infrastructure.

How These Principles Might Affect Funding Streams

Given the ongoing controversy about container taxes and tolls, we believe it might be useful to consider how well such revenue proposals meet the principles enumerated above, recognizing that these options for funding infrastructure may not be suitable or appropriate for every project.

Container taxes: Virtually all of the broad-based container tax proposals recently offered in California, including those by the Legislature, fail to meet one or more of the principles noted above. In particular, most container tax proposals have not been tied to specific projects, do not preserve the concept of “user pays,” and are not voluntary. In addition, these proposals run afoul of the constitutional ban on taxation of interstate commerce and international treaty obligations.

Tolls: While tolls remain a clearly legal source of revenue and an alternative to litigating the constitutionality of container taxes, policymakers and advocates have shied away from this traditional method of assessing user fees on roads and bridges.

There are many arguments against the use of tolls: First, local authorities in Southern California have no tolling authority. Second, the imposition of tolls on automobiles and local, domestic trucking, even though they are users of the infrastructure, is less politically attractive than simply placing a fee on an anonymous container. Third, many are concerned that tolls would put hardship on owner-operator truckers. And finally, many worry about traffic diversion.

While these are important concerns, we do not believe that any of them merits summarily taking tolls off the table, especially since tolls would meet the principles above.

This is not to say that any toll would automatically meet the standards. For instance, tolls are only fair if they are universally applied to all users of the infrastructure in question. This point is one of the central principles noted above. Therefore, neither truck-only tolls to fund improvements to the entirety of the I-710, nor the imposition of a toll on containers that travel by rail to fund the Desmond Bridge replacement would be acceptable under the “user pays” principle.

In addition, much has been made about how tolls would hurt truck owner-operators. We are sympathetic to the concerns of truckers on the issue of tolls. However, we believe market forces and the cooperation of freight industry stakeholders will ensure that tolls on trucks will be passed along in the form of higher trucking rates or surcharges.

We see rates continuing to climb for a variety of reasons. The shortage of quality truckers is already driving up rates. The distribution economy depends on harbor drayage trucking so customers will pay higher rates to cover toll expense verses the option of not having harbor drayage truckers available.

The state will need to create corridor authorities in Southern California and elsewhere that have the authority to collect tolls. These user fees would meet the principles enumerated above and are universally recognized as a legal method for raising infrastructure development revenues. Most important, a fee ascribed directly to the use of the infrastructure will always fall fairly on all users.

Table I, below, shows how the PPP principles laid out above come into play in different ways for different kinds of projects. The Alameda Corridor is an example of a PPP, where the imposition of a user fee or toll is on a per container basis. The Southern California International Gateway (SCIG) project is a PPP where a project sponsor self-funds the entirety of the project improvements. The prospective of a Gerald Desmond Bridge toll is an example of how a traditional funding mechanism for bridge improvements would fit the general principles for PPPs previously enumerated.

Table I

	Alameda Corridor (Existing Fee)	**SCIG (Private RR Funds)**	**Desmond Bridge (Toll)**
Clearly identified private benefits	YES. The Alameda corridor provides velocity and throughput. It also reduces congestion.	YES. Creating a new near-dock rail yard would improve velocity and throughput, and provide much-needed capacity.	YES. The bridge is a bottleneck for trucking and cars accessing Terminal Island. Replacing the bridge would increase freight velocity. It would also reduce congestion.
Acceptable ROI	MAYBE. Railroads say the Corridor does not have a positive ROI.	YES	YES Based on identified revenue streams, a toll could provide an acceptable ROI.
Capital Project	YES	YES	YES
Voluntary	YES. The users of the corridor pay a fee.	YES. This is a private project.	YES. Only the users of the Bridge would pay a fee.
Coordinated	YES. The Alameda Corridor Transportation Authority manages the project	YES. It will be privately built with approval from the Port Authority of Los Angeles.	YES. Under our proposal we would support a corridor authority to perform this function.

	Alameda Corridor (Existing Fee)	SCIG (Private RR Funds)	Desmond Bridge (Toll)
"Fire-walled"	YES. The money is used for the corridor and no other purpose	YES.	YES. Revenues are required to remain within the authority.
Transparency	YES	NO. It's a private project.	YES. With the authority undertaking the project, there would accountability as it is public financing and open to public scrutiny.
Private Governance	NO	YES.	UNKNOWN. We would propose that there be a role for private interests in the corridor authority commensurate with investment levels.
Private $ for private benefit	YES. Private stakeholders are paying for a private benefit. More than half of the funding for the corridor came from private sources. There is some public money, and the public benefits from less congestion.	YES. No public money is involved in this project. The benefit is private and the money is private.	YES $300 million in federal money has already been earmarked for the project as the project yields substantial public safety and congestion relief benefits. The private contribution has not yet been identified, but will reflect the benefits to the private sector of increased throughput and velocity.
User Pays?	YES. The fee is applied ONLY to containers moving on the corridor. The fee is collect by railroads and passed on to shippers.	YES, achieved through transportation rates. The new facility is a cost of doing business	YES. Under a toll every passenger vehicle and every truck that used the bridge would pay a toll for the privilege of that use.
Funding Form	Container Toll	Privately Paid For	Traditional Toll on vehicles

Improving the Harbor Drayage Trucking Fleet

The need for environmental mitigation, especially in the San Pedro Basin area, has been acknowledged by the trade community for years. In light of this acknowledgement, real progress has been made by vessels, terminal operators, railroads, and trucks in responding to the need to reduce air pollution. These efforts focus on reducing emissions directly from sources of air pollution such as locomotives, yard equipment, vessels, and trucks.

In addition, the port authorities continue to pursue aggressive air emissions plans and are negotiating terminal leases that will, over time, further reduce emissions from yard equipment, locomotives, and vessels. Many millions of private dollars have been and will continue to be spent to meet new standards and new lease requirements. These private efforts have reduced air emissions substantially. We are confident that the ocean carrier, railroad, marine terminal operator (MTO), and harbor drayage communities will continue to make improvements in this area, and will continue to invest in technology to reduce air pollution.

Shippers and cargo owners using the intermodal container freight system do not generally own or operate trucks, terminal equipment, ocean vessels or locomotives, so they do not have the opportunity to directly effect change. Shippers and cargo owners do, however, pay for environmental mitigation through higher shipping rates, and, in some cases, through special surcharges or fees. Many shippers have also instituted vendor quality standards that include environmental mitigation.

Despite the existing commitment of the industry to reducing environmental impacts of commerce, the public debate has focused on the need to replace and retrofit harbor drayage trucks.

A few statistics about this fleet are merited. According to the California Air Resources Board (CARB) there are approximately 12,000 harbor drayage trucks in the state, representing less than 5% of the over 250,000 heavy-duty trucks registered in California. More accurately, given CARB’s recent estimates that 600,000 to 700,000 trucks are working on California’s highways on any one given day, including out-of-state registrants, the harbor drayage fleet is less than 2% of total trucks operating in the State of California. In addition, although many have charged that this fleet is old and dirty, CARB has also estimated that the average age of trucks used in harbor drayage is 12.9 years, while the average age of trucks throughout the state is 12.2.

These facts underscore that only a statewide or national solution will make a significant contribution to improved air quality throughout the state. To that end, while the state should maintain its focus on improving all truck emissions, it is our intention to use market forces to make substantial and immediate contributions to improved air quality at and near the ports. An upgraded harbor drayage fleet is, ultimately, in the industry’s long-term interest. We hold this view, even though achieving an upgraded fleet will entail higher costs.

The basics of our proposal to improve the harbor drayage fleet are outlined below. Many details of this approach will have to be hammered out with the Federal Maritime Commission and the State of California. But the approach, which combines government standards and market inducements, would, we believe, significantly improve the harbor drayage trucking fleet over a relatively short period of time. It would also increase trucking rates. Like many changes, it would have some short-term disruptions, but we are confident that the market would adjust relatively quickly to these changes.

State Emission Standards For Trucks

The California Air Resources Board (CARB) has embarked on the dual process of developing diesel emission standards for all truck fleets statewide, as well as a specific standard for harbor drayage trucks. We support a state-wide standard only, and charge the state with moving forward with a single standard for California trucks as quickly as possible. We would expect this standard to specify accepted levels of emissions by type as well as an effective date for the standard. Because of the urgency, we recommend a short, but reasonable phase-in period. We also anticipate that trucks retrofitted with emissions reduction technology would meet the new standard.

Early Market-Based Enforcement through the MTOs

We urge the Marine Terminal Operators to use their existing discussion agreement, pursuant to oversight from the Federal Maritime Commission, for the purpose of collecting a mitigation fee from any harbor drayage truck not meeting the CARB standard as of a certain date prior to the state's implementation date for all trucks in California.

This fee would be assessed on the trucking company and applied every time the non-standardized truck enters the terminal gate. The fee would be set at a level that would induce harbor drayage truckers to upgrade their trucks faster by either replacing or retrofitting them with emissions-reducing-technology such as hydrogen conversion units or diesel particulate filters (DPF). To drive compliance as fast as possible, the fee should be progressive so that after a period of time it becomes too expensive for harbor drayage truckers not to comply. The fee would phase-out entirely at that point when the statewide standard becomes mandatory on all trucks. Consideration needs to be given to managing the process for both in-state and out-of state registered trucks that have a need to enter the ports to do business. We would expect the state and the private sector to undertake an analysis to determine what level of fee would be necessary to create an inducement to retrofit or replace a truck.

Where Would the Money Collected as Mitigation Fees Go?

The money collected as part of this fee (after administrative costs) would be put into a "fire-walled" fund for the purpose of providing assistance to owner-operator truckers in financing retrofit or replacement of trucks that will be used in harbor drayage. The money should be managed by a trusted private financial institution selected by the corridor authority for the purpose of providing low cost loans or lease-to-purchase arrangements for owner-operators. Since the funds will be used to support modernization of the harbor drayage fleet, the trucking community would be asked for their views on how best to manage these funds so they provide the greatest help possible for owner-operators who want to upgrade trucks used in harbor drayage.

Tax Incentives For New Truck Purchases

We also call upon the state government to consider tax incentives for owner-operators or trucking firms who purchase new trucks meeting the CARB standards. In addition, several of the groups ascribing to this position paper have been working with the federal EPA on developing federal legislation that would encourage the purchase of cleaner burning trucks nationwide.

California Truck Registration Legislation

We support state legislation that would require trucks registering in California to meet minimum age standards. Such standards would move the older fleet off the roads more quickly. The California Trucking Association is also considering a program that would help truckers move the oldest trucks off the road first. We endorse this concept.

Market Forces

Many policymakers and leaders in California seem to believe that establishing new standards for trucks will not work. Often, critics of this approach have suggested that we cannot possibly impose new truck standards simultaneously with the Transportation Worker Identification Card (TWIC) mandated by the Marine Transportation and Security Act of 2002. The argument is that these two things, taken together, would so disrupt the market that harbor drayage trucking would cease to exist, leaving no one to pick up freight.

This unfounded fear has been the driving force behind proposals to assess unconstitutional taxes on interstate commerce to fund expensive programs to put every harbor drayman into a new or retrofitted truck. Some have even gone so far as to suggest that the best solution would be to put governmental agencies into the business of running private harbor drayage truck fleets—a move that is not likely to improve efficiency, and which would also raise new liability issues for the government.

We have some difficulty understanding why policymakers and leaders believe government central planning, or government-run harbor drayage truck fleets would be any more efficient than a market driven adjustment to new standards. This is especially true given the fact that our proposal would seek private enforcement and incentives to meet the standards set by these same policymakers and leaders.

Equally important, the implementation of the TWIC program should not be used as an excuse for abandoning market-based principles and mechanisms. TWIC is an important and necessary standard to improve the security of ports and containers. This benefit of TWIC should not be underestimated. The market will adjust to the TWIC program, and it will adjust to new environmental standards on harbor drayage trucks. The market is capable of adjusting to both changes simultaneously.

Because the ability to move freight through Southern California is critical to the U.S. economy, the private sector will find harbor drayage truckers who can meet the new standards. Those truckers will have better equipment, they will ultimately be TWIC certified, and they will undoubtedly charge higher rates for their services than is now charged for harbor drayage trucking.

The financial burden will automatically be passed along to the beneficial cargo owners who will need to pay higher harbor trucking rates in order avoid disruptions to the supply chain. It is also in the cargo owners' best interests to minimize any disruption in the flow of containers off the terminals that may result from new standards that affect harbor drayage trucking. There is, therefore, no reason to assume that new standards aimed at improving the quality of either harbor drayage trucks or trucks statewide would suddenly result in chaos.

When the federal government imposed hours of service regulations on trucks, the private sector adjusted. When the PierPass traffic mitigation fee was launched, the much-anticipated exodus of truckers never materialized. When the federal government imposed gas-mileage standards on Detroit, the auto industry quickly learned how to comply and car prices didn't go through the ceiling.

The state has a responsibility to set standards on the exhaust emissions of trucks operating in California if it believes these vehicles are causing public health problems. Any other position is untenable.

We urge the state to take responsibility for this urgent matter, and end the fruitless debate with respect to massive truck buyout programs that will only end up wasting hundreds of millions of taxpayer and private industry dollars and lead to years of litigation.

Conclusion

We believe the State Government in California has taken several positive steps with respect to infrastructure financing and improving the harbor drayage truck fleet. We support those efforts and we call on the Governor and the State Legislature to take the following additional actions: 1) establish corridor authorities to pursue the delivery of priority projects through a variety of financing options, 2) create tolling authorities where necessary, 3) adopt a state-wide diesel emission standard for trucks, and 4) establish a state-wide truck registration program to move older trucks off California's highways.

We stand ready to work with the state to accomplish these important goals.