



**Written Testimony of
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Before the

**Senate Transportation Sub-Committee on California Ports & Goods
Movement**

**At its
Informational hearing on SB 974
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The Waterfront Coalition is a group of concerned business interests representing shippers, transportation providers, and others in the transportation supply chain committed to educate policy makers and the public about the economic importance of U.S. ports and foreign trade, and to promote the most efficient and technologically advanced ports for the twenty-first century.

North America's seaports, and the transportation network that connects them to markets, represent a key link in the international supply chain. Billions of dollars of trade passes through the nation's international intermodal transportation system each and every year, and supports jobs throughout our nation and in California. Today, this international intermodal system faces key challenges that require the coordinated effort of all stakeholders to manage and address. International trade is growing, putting enormous pressure on infrastructure to manage and support that growth without degrading the natural environment.

The members of the Waterfront Coalition recognize that SB 974 is a response to these pressures. SB 974 would impose a \$60 tax on the cargo that moves through the ports of Los Angeles, Long Beach and Oakland in 40 foot containers. The revenue from this tax--which would total about of \$400 million each and every year--would be used to build infrastructure and to provide environmental mitigation.

Obviously we share the goals of finding a way to support new infrastructure. In addition, our members increasingly recognize that environmental mitigation must go hand-in-glove with infrastructure development. But we do not support SB 974. We have articulated the reasons for our opposition many times in the past: 1) the bill is an unconstitutional tax on interstate commerce and creates a precedent that we cannot support, 2) the bill violates several

international treaties, 3) the bill does not fully earmark revenues for specific freight projects, and 4) the bill does not apply fees to the actual users of the infrastructure.

Although we have long opposed this bill in its various forms, we have continued to suggest alternative methods for funding infrastructure development through true user fees and public-private partnerships. We have participated at all levels of government to seek such alternatives because we know that the enactment of SB 974 is sure to trigger litigation.

In March of this year, the Waterfront Coalition and four other groups representing a significant portion of the international intermodal supply chain offered a consensus, written alternative to broad-based container taxes. I would like to have this proposal inserted into the record of this hearing.

This alternative, which addresses infrastructure financing and the knotty problem of diesel truck emissions on the waterfront, represents the first time that shippers, terminals, ocean carriers, and railroads have spoken with a unified voice on these matters.

The proposal outlines a series of principles for developing public-private partnerships. It also provides a list of key consensus infrastructure projects that the trade believes are high priorities. The paper commits the private sector to making a financial contribution, in one way or another, to these projects.

In addition, the proposal outlines a method for replacing current harbor drayage trucks without spending one nickel of taxpayers' money. The plan calls for a state-wide standard on diesel emissions, with a privately administered mitigation fee that would drive change at the harbor very quickly.

Let me put some numbers on this proposal, to give you an idea of its scope.

Let's begin with truck standards. Like all businesses, shippers have to plan budgets for the future, and anything that will increase costs needs to be identified and included in the annual budgeting processes. We asked shippers to discuss our plan with their drayage companies and their ocean carriers and to share information about the expected impacts of the proposal. The estimates coming back from our members put the cost at an additional \$100 to \$150 per drayed container.

Let me say that no one I represent is particularly happy to see their transportation rates increase, but virtually every brand-name company I have spoken with recognizes that reducing air pollution at the ports is an essential part of good business practice. Many shippers participate in EPA programs to improve over-the-road trucks and reduce carbon emissions. Our members have initiated many environmental programs at their stores, factories, and warehouses. They are committed to this program, even though it will substantially increase trucking rates.

Some have criticized our proposal because it "beats up" on the trucking industry. Nothing could be farther from the truth. The California Trucking Association endorses this approach. Establishing a state-wide standard for diesel truck emissions is the fastest and cheapest way to address diesel particulate emissions. The only action we need to move forward with this proposal is commitment to enactment of a state standard on diesel trucks as quickly as possible.

We ask your support for such an initiative.

Let me turn, now to infrastructure.

It may seem counterintuitive, but to me the debate on infrastructure is as much about projects, priorities, and leadership, as it is about money. The California Goods Movement Plan has a very long shopping list of projects--so long that the state cannot realistically afford to pay

for them all. Every MPO in California has a list of freight projects they think are important, even if freight stakeholders do not. All three ports have their own ideas, too. Because the recent bond proposal provides support for freight projects, there is a scramble on from every corner of the state to define projects that need funding.

And so, there is no consensus on which projects are the right projects for the State of California. Until the State makes that decision, talking about private contributions to these projects is simply inappropriate.

To move this conversation forward, our proposal calls on the state to create corridor authorities with the ability to set priorities and sort out which projects are the most important projects to mitigate pollution and congestion, and to move people and commerce. We need state leadership to set priorities given the limited resources available. We expect the state will do this. But until the state steps up to the plate, none of us in the trade community can truly talk about where the private contributions to the system may come from or how those contributions will be made. We need to know what we are buying with our contributions. It's as simple as that.

To help the state sort out freight priorities, our paper sets forth several consensus high priority projects for the goods movement industry that we hope will become state priorities. By advancing these projects, we have, in effect, said we are willing to engage in public-private partnerships to help pay for these consensus projects, at the very least.

Let's look at the projects we support.

Even though these projects don't represent the entire laundry list of possible projects, they do represent a good--and significant--start. More important, they represent a true consensus among the private sector about the most important projects.

First, we have endorsed two important near dock rail facilities in the Port of Los Angeles. These near dock rail facilities will speed cargo, reduce road congestion, reduce truck trips within the LA region and reduce air emissions. These projects will be wholly paid for by the private sector. They are the most important infrastructure projects on our list. We only need the support of the harbor commission in Los Angeles to move forward with these projects, and the only stumbling block seems to be reducing truck emissions within the local area. The contribution of the railroads to these projects is in the many millions of dollars.

The next set of priority projects includes several highway improvements within the borders of the ports of Los Angeles and Long Beach. They include the replacement of the Gerald Desmond Bridge, and improvements to State Road 47 and the I-110 Connectors Program. The ports have estimated the total cost of these projects at about \$1.5 billion, and the ports are already seeking a private contribution to these projects on the order of \$412.7 million. The ports have proposed a \$20 per FEU container fee to support the private contribution for these projects.

While the transportation community and the ports are at odds about how to collect this private contribution, we are not disputing the need for a private revenue stream to support these necessary projects. We have identified these projects as our top priority in many different forums and at many different levels of government.

So, one way or another, the private sector has committed to something on the order of \$412.7 million just for these projects. I would say that the trade is interested in seeing these projects funded through tolls. The ports want to assess a fee on the cargo owners, which we oppose. But the fight isn't about the fee, the dispute centers on the method of collection and the definition of users.

It's also important to note that the San Pedro ports are seeking private-sector support for additional projects that are not on our priority list and for which there is no consensus. They are seeking a total user fee of \$52 for several projects including some that lie outside their jurisdiction. We have not agreed to all of these projects or to the notion that the ports ought to be the coordinating authority for projects outside their boundaries. This is why we need Transportation Corridor Authorities at the state level. Just because we haven't identified these additional projects as priorities, does not mean we oppose them or would refuse to make a private contribution to their financing. It only means that there is no consensus on these projects. More work needs to be done to understand how these projects fit into California transportation corridors and who the true users of the infrastructure might be.

The final project on our list of priority infrastructure projects is Interstate 710. I can't put a dollar figure on this project, because the parameters have not yet been developed. Nevertheless, let me say that the trade has been on record supporting truck-only lanes on I-710 since 2005. We would assume that such lanes would include tolls to help pay the cost.

So let me sum up the known costs of the proposal we've put on the table: \$150 per container for replacing trucks. This comes in the form of higher dray rates. In addition, we would add approximately \$20 per container for the priority highway projects within the San Pedro Ports for which there is a consensus. This amount could be collected as tolls or user fees, the method of collection has not been agreed to. Finally there is some unknown amount for the rail projects that will be built into rail rates, and ultimately there will be a need for tolls or other user fees for truck lanes on I-710. That comes to \$180 per container at a minimum.

Ironically this is more than the amount anticipated by SB 974, and perilously close to the amount that some analysts have suggested would trigger trade diversion.

Even so, I want to make it clear that SB 974 is not the lesser of two evils. Because of the constitutionality questions raised by a broad container tax, SB 974 is hugely problematic for the trade. In addition, of course, SB 974 also does not direct the taxes toward projects clearly supported by the trade and there is a fear that once the government taxes trade in this fashion, the revenues will be used for all sorts of things that do not directly inure to the benefit of goods movement. In effect, we have no idea what we're buying with the \$60 fee imposed by SB 974. Finally, although the bill ties itself to environmental mitigation, it does not specifically address the main environmental impediment that we face at the ports--namely truck emissions and truck replacements. Indeed, there is every reason to believe that this fee will be imposed on top of other programs to replace trucks.

Let me end by presenting a little back of the envelop analysis on SB 974 and the proposals being advanced by the Ports of Long Beach and Los Angeles on truck replacement. According to drayage companies contacted by our members, the cost of the truck replacement program offered recently by the ports would be about \$250 a container--on a conservative estimate that's at least \$100 more per dray than what we have proposed. In addition the ports have proposed a \$52 a container fee for a range of projects that include our priority projects plus several others. Then there is the \$60 per container fee proposed in SB 974. Add these up and you're presented with a whopping \$362 per container. Even if SB 974 were not to be enacted, the proposal put forth by the ports, alone, would increase rates by more than \$300 a container, and this doesn't even count the PierPass fee which is charged only in the San Pedro ports, or the Alameda Corridor Fee imposed on containers moving by rail.

Rate increases of this magnitude will divert trade and make new investments in Canada and Mexico substantially more attractive. Nevertheless, let me say that the Waterfront

Coalition's members have always been interested in making sure that Los Angeles, Long Beach and Oakland remain viable and competitive. We need this infrastructure. We have committed to making a substantial investment in it. The time has come to start working together on alternatives that won't lead us to the courthouse, or induce us to move our business to Mexico, but which will move us forward on desperately needed consensus projects here in California.

We've put a substantial and expensive proposal on the table which has wide-spread support among the trade community. It calls for a substantial commitment from the trade on the order of \$180 per container in increased rates and fees. We hope legislators recognize this proposal as the sensible alternative that it is and begin working with us to: 1) create State Corridor Authorities that can set priorities and negotiate private contributions to priority projects, and 2) enact a state-wide standard on diesel truck emissions.