Improving Future California Port Competitiveness

Senate Select Committee on Ports
Long Beach, CA May 8, 2015

Mike Jacob
Vice President & General Counsel
Oakland, CA

Our Policy Challenge:

Focusing State Efforts on Promoting Growth at Seaports

Why a "Growth-focused" Freight Policy?

- Port Infrastructure and Environmental Projects are not traditional transportation, highway or transit projects. Rather Ports partner with the private sector to make primary investments financed by revenue bonds which rely on projections of future growth.

Jobs, economic benefits, and tax revenues grow along with volumes

- Marine Terminal Operations at the Port of LA in 2007 yielded an average of $240.42 per container in State and Local tax revenues, $2,127.67 in personal income per container, and 0.23 jobs per container.
- Marine Terminal Operations at the Port of Oakland in 2010 yielded an average of $180.22 in State and Local Taxes per container, $1,716.56 in personal income per container, and 0.37 jobs per container.

The risk of not focusing on a growth result as the key metric for freight planning success – both in the transportation infrastructure and environmental infrastructure contexts - is that we will have status quo results: loss of market share, fewer jobs, missed tax revenues, and a lower capacity to finance next generation environmental improvements.

Policies That Promote Growth in Trade Volumes at Seaports Will:

- Support existing Port and Intermodal Facility Financing
- Support future Port Infrastructure funding
- Pay for Environmental Programs and Projects which are in excess of revenue bond financing baselines

AND

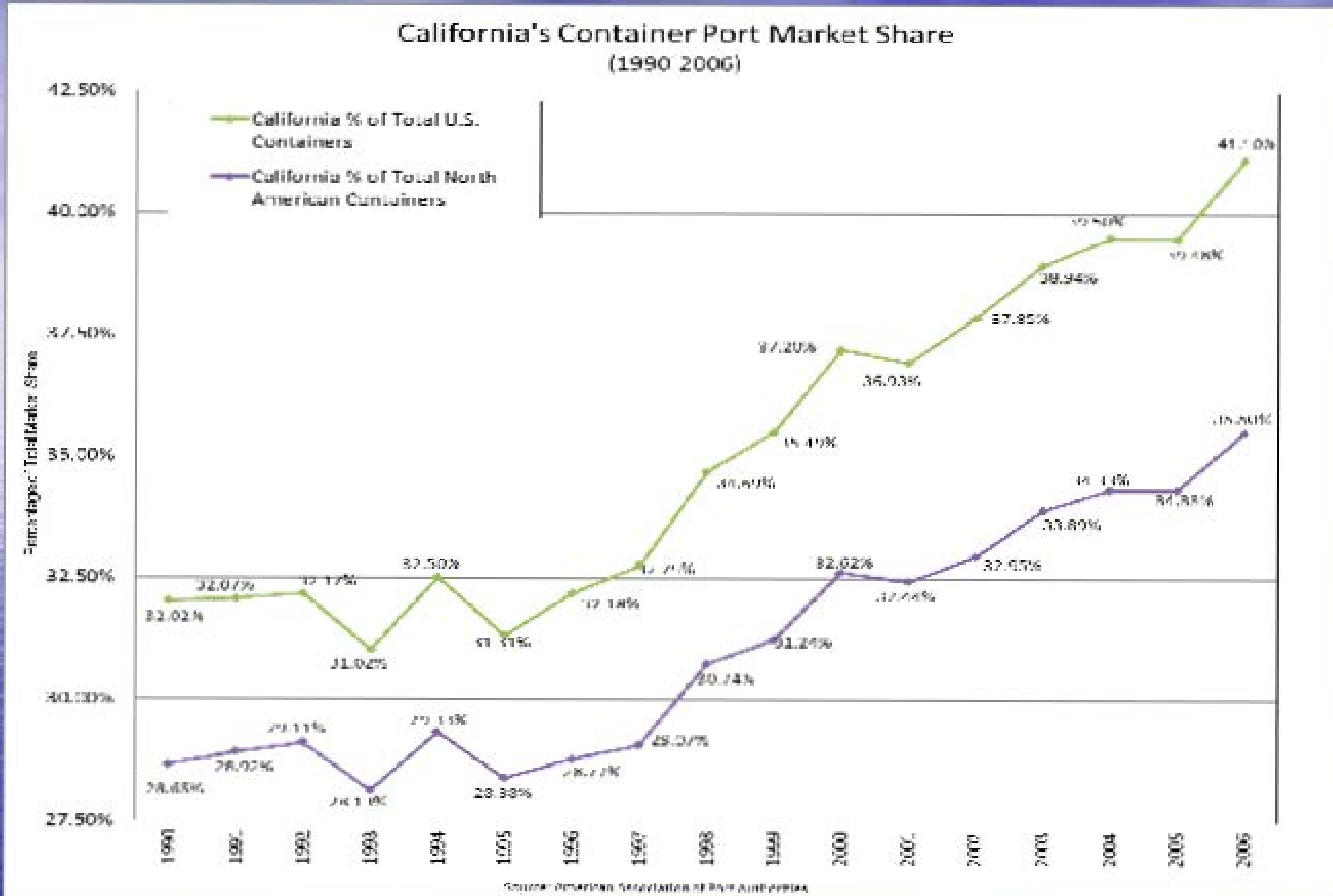
- Grow jobs, economic benefits, and tax revenues along with volumes

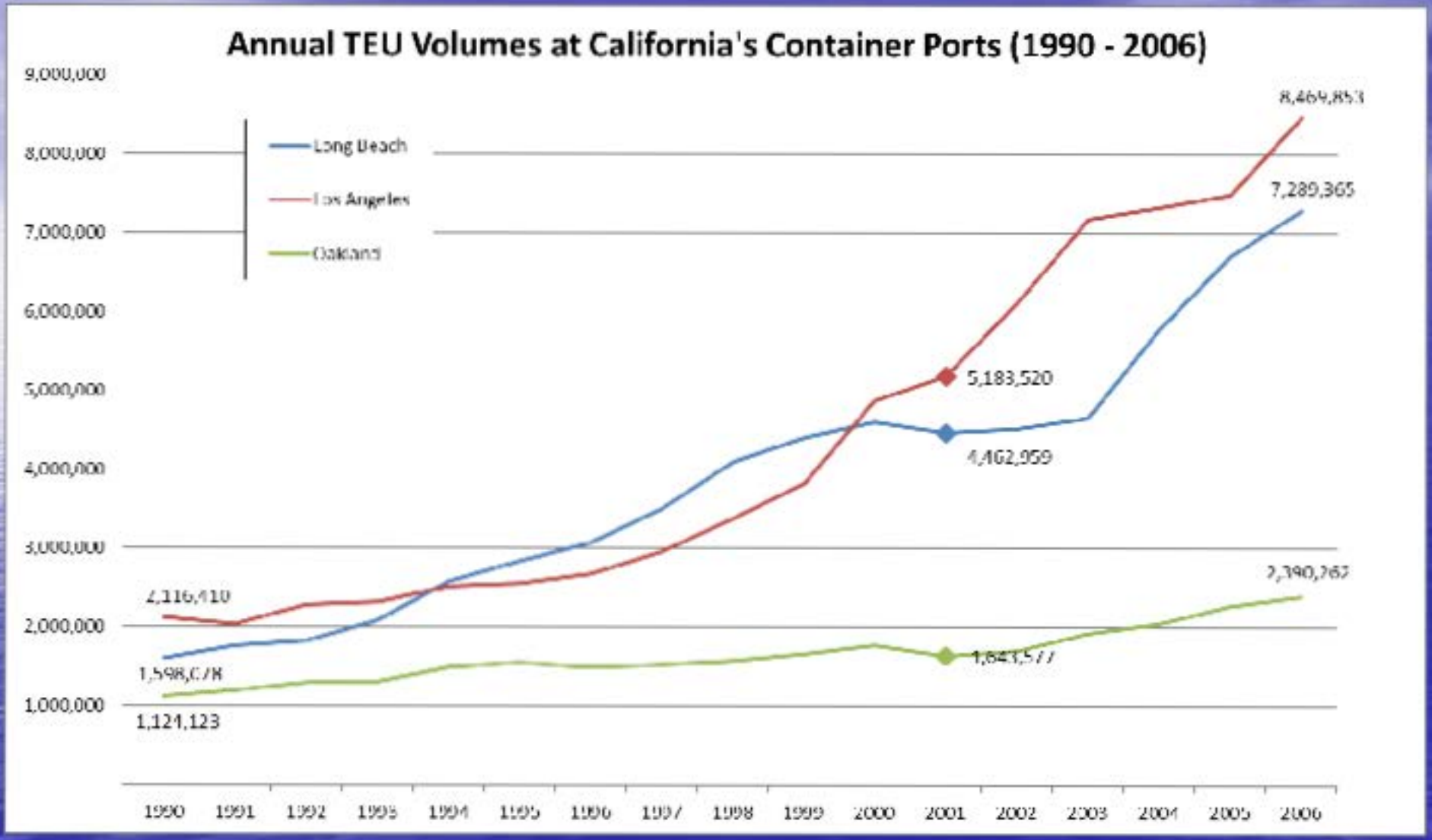
But relying on private financing model to achieve public goals is unrealistic and ultimately counter-productive

- Negative externalities and costs of trade are concentrated (environmental, infrastructure, financial), but benefits are distributed (jobs, economic growth, investment opportunities)
- Most financing does not completely account for additional costs of doing business that evolve over time, including environmental expenses, congestion relief, and tax rate differentials
- Alternatively, building too many costs into future projections discourages infrastructure investments and will under-produce investment and drive away cargo

Port Financing is Only Sustainable with Growing Volumes

- Publicly or privately financed, existing infrastructure ventures in California are overwhelmingly market-based and rely on volume growth for funding
- Regulatory or incentive-based, existing environmental programs in California are overwhelmingly imposed on private actors who in rely on volume growth for funding


California's Container Port Market Share
(1990 2006)
42.50%
40.00%
35.00%
32.50%
27.50%
California % of Total U.S. Containers
California % of Total North American Containers
41.10%
38.94%
37.85%
37.20%
36.03%
32.50%
32.07%
32.02%
31.02%
32.02%
33.80%
31.24%
30.74%
28.38%
1994
2004
2005
2006


Annual TEU Volumes at California's Container Ports (1990 - 2006)
9,000,000
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1,000,000
Long Beach
Los Angeles
Oakland
8,469,853
7,289,365
5,183,520
4,462,959
2,390,267
2,116,410
1,598,078
1,643,577
1,121,123
1990
1991
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Annual TEU Volumes at California's Container Ports (1990 - 2006) & State Projections of TEU Volumes (2006 - 2020)

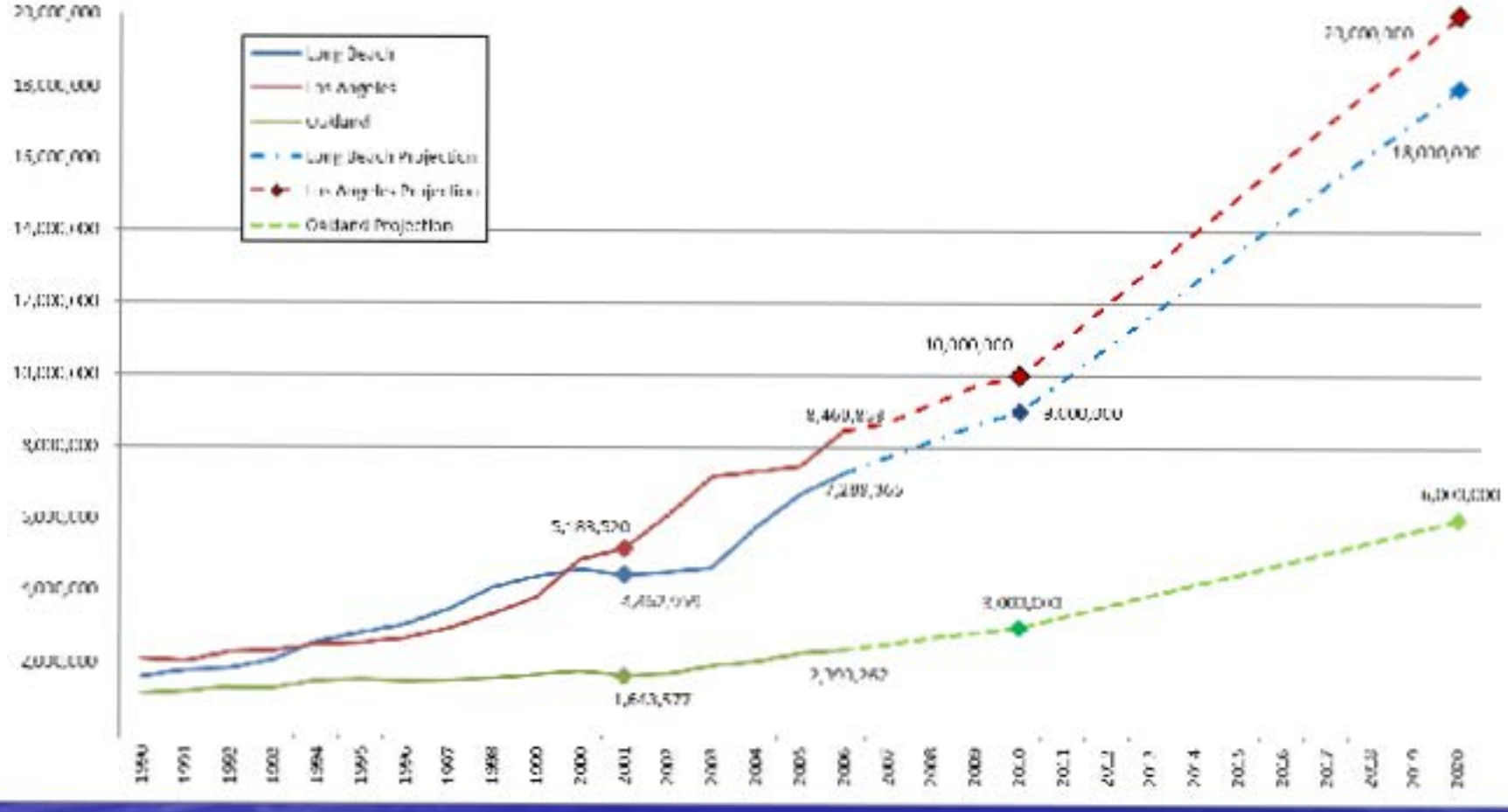


Figure A-1 Statewide Goods Movement Emissions

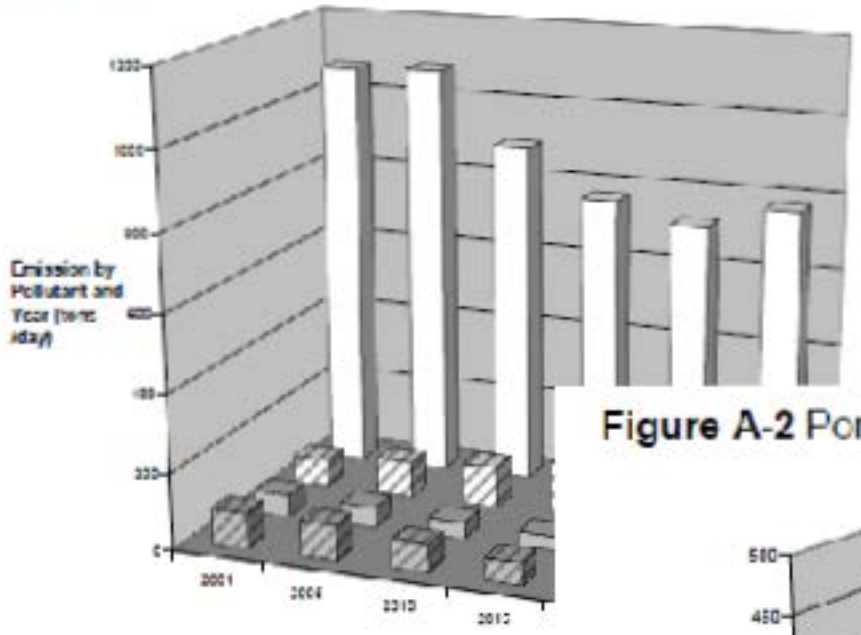
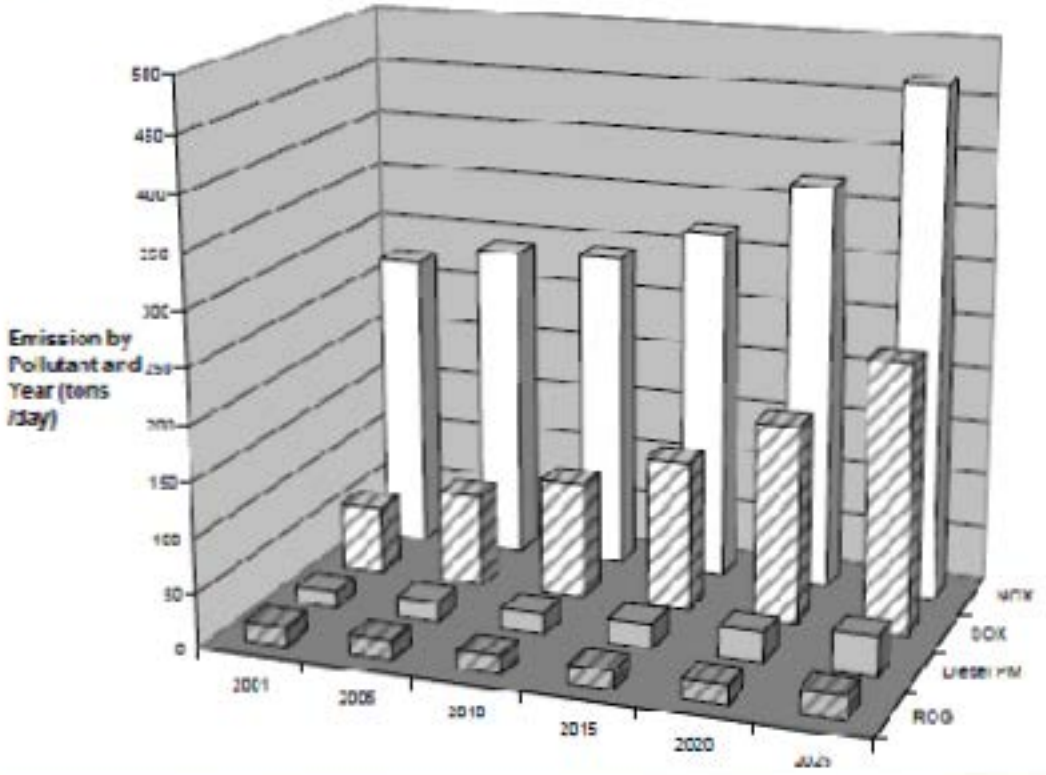


Figure A-2 Port and International Goods Movement Emissions

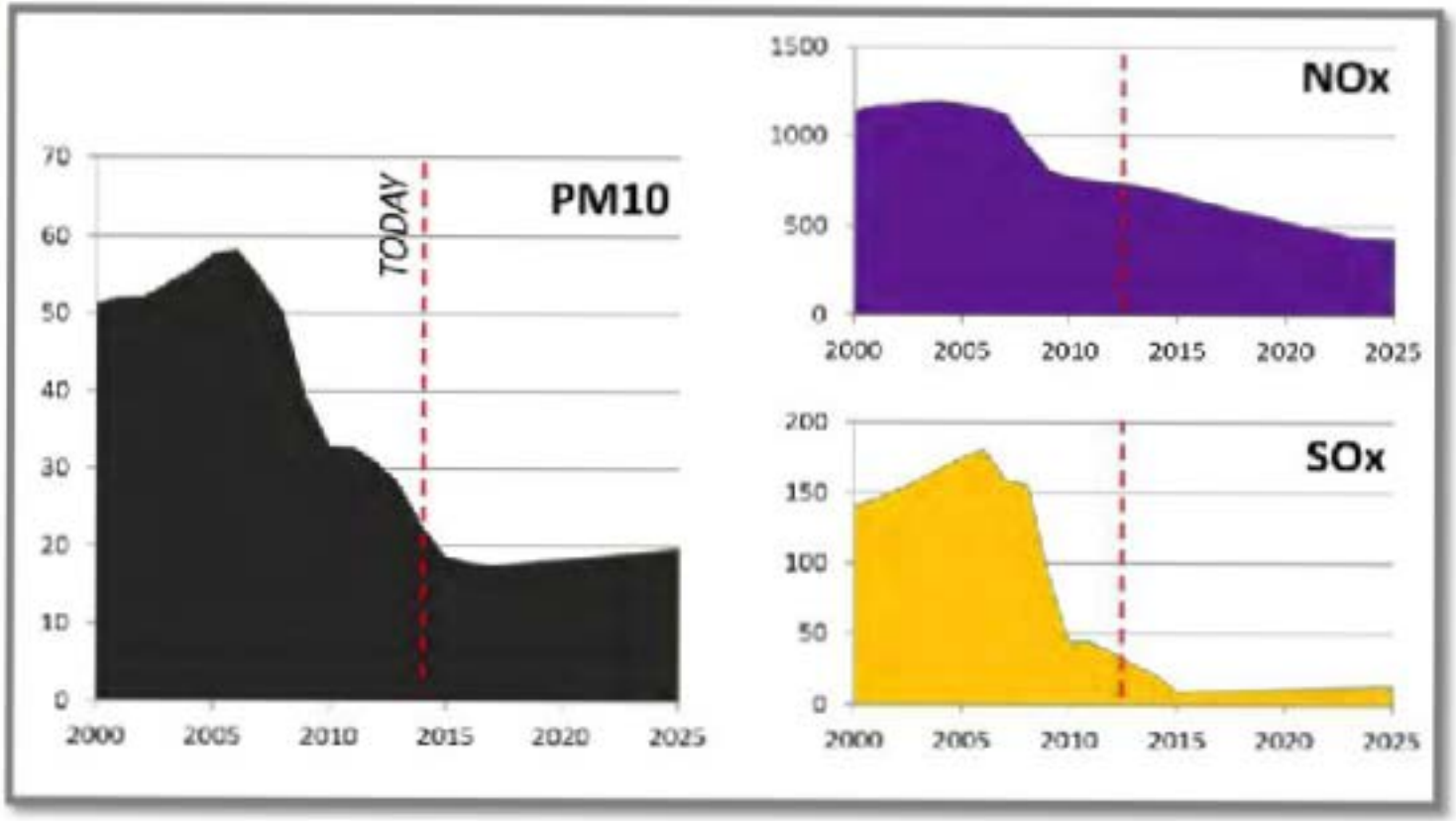


CARB Regulatory Cost Summary

Costs Related to CARB Regulations Imposed on Port-Related Operations Since the Passage of Prop. 1B in 2006 Are Approximately $5 billion

CARB Regulation	Effective Date	Total Cost
Cargo Handling Equipment	2007	$71,000,000
Harbor Craft	2009	$140,000,000
Port Cold Ironing	2009	$1,800,000,000
Vessel Fuel Switching	2009	$1,500,000,000
Drayage Trucks	2010	$1,500,000,000
	TOTAL	***$5,011,000,000***

FIGURE 66. PROGRESS IN REDUCING FREIGHT EMISSIONS IN CALIFORNIA WITH EXISTING PROGRAMS (TONS/DAY)



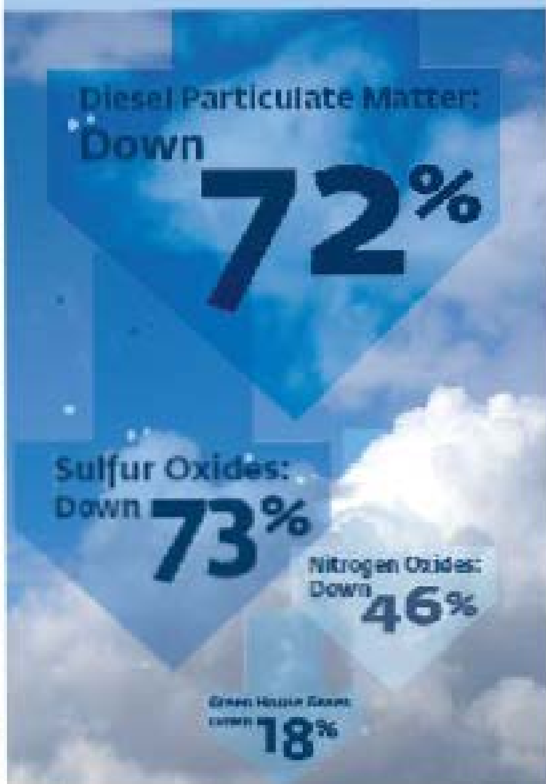
Source: ARB January 2014

Air Quality Improvements

Port of Long Beach

The Port of Long Beach is committed to reducing air quality impacts associated with goods movement. Each year the Port conducts an annual inventory of air emissions from port-related sources, using the latest data and methodologies, to track progress for improving air quality and reducing health risks to the surrounding communities, compared to 2005 levels.

In 2011, Port-related emissions of diesel particulate matter, sulfur oxides, nitrogen oxides, and greenhouse gases were reduced significantly, as shown below. Cargo volumes through the Port decreased about 7 percent during that time.



For more information please visit www.polb.com/emissions

AIR QUALITY REPORT CARD 2005 - 2011

THE PORT OF LOS ANGELES

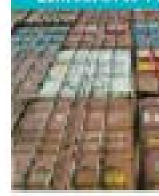
PRIMARY POLLUTANTS DEFINED

DPM = Diesel Particulate Matter
NOx = Oxides of Nitrogen
SOx = Oxides of Sulfur
$PM_{2.5}$ = Particulate Matter less than 2.5 microns in diameter
PM_{10} = Particulate Matter less than 10 microns in diameter
CO_2 = Carbon Dioxide (A Green House Gas contributor)

OVERALL EMISSIONS REDUCTIONS CY 2005-2011

Pollutant	CY 2005-2011	
	%	tons
DPM	71%	[illegible]
$PM_{2.5}$	69%	580
PM_{10}	71%	693
NOx	51%	[illegible]
SOx	76%	4,018

EMISSIONS PER 10,000 TEU HANDLED



Pollutant	CY 2005-2011	
	%	tons
DPM	72%	0.56
$PM_{2.5}$	71%	0.60
PM_{10}	72%	0.25
NOx	61%	11.84
SOx	77%	5.5

OCEAN-GOING VESSEL EMISSIONS REDUCTIONS

Pollutant	CY 2005-2011	
	%	tons
DPM	69%	[illegible]
$PM_{2.5}$	67%	[illegible]
PM_{10}	69%	[illegible]
NOx	50%	[illegible]
SOx	78%	[illegible]

HEAVY-DUTY VEHICLE/CLEAN TRUCK EMISSIONS REDUCTIONS

Pollutant	CY 2005-2011	
	%	tons
DPM	91%	223
$PM_{2.5}$	91%	[illegible]
PM_{10}	91%	222
NOx	70%	4,960
SOx	91%	58

MEETING OUR CLEAN AIR COMMITMENT

PORT OF OAKLAND

SEPTEMBER 2013

OUR COMMITMENT TO CLEAN AIR & HEALTHY COMMUNITIES

In 2009, the Port of Oakland committed to achieving an 85% reduction in seaport-related diesel health risk by 2020 from a 2005 baseline. In just three years we have already achieved a 70% reduction in diesel particulate matter emissions, even though we're handling 3% more cargo today than in 2005.

Based on our 2012 inventory, we are only 15% away from our 2020 goal, which we have a plan to achieve. This success is thanks to our Maritime Air Quality Improvement Plan (MAQIP) and many partners who have helped along the way.

DIESEL EMISSIONS ALREADY DOWN 70%

The Port of Oakland is meeting its commitment to cleaner air and healthier communities.

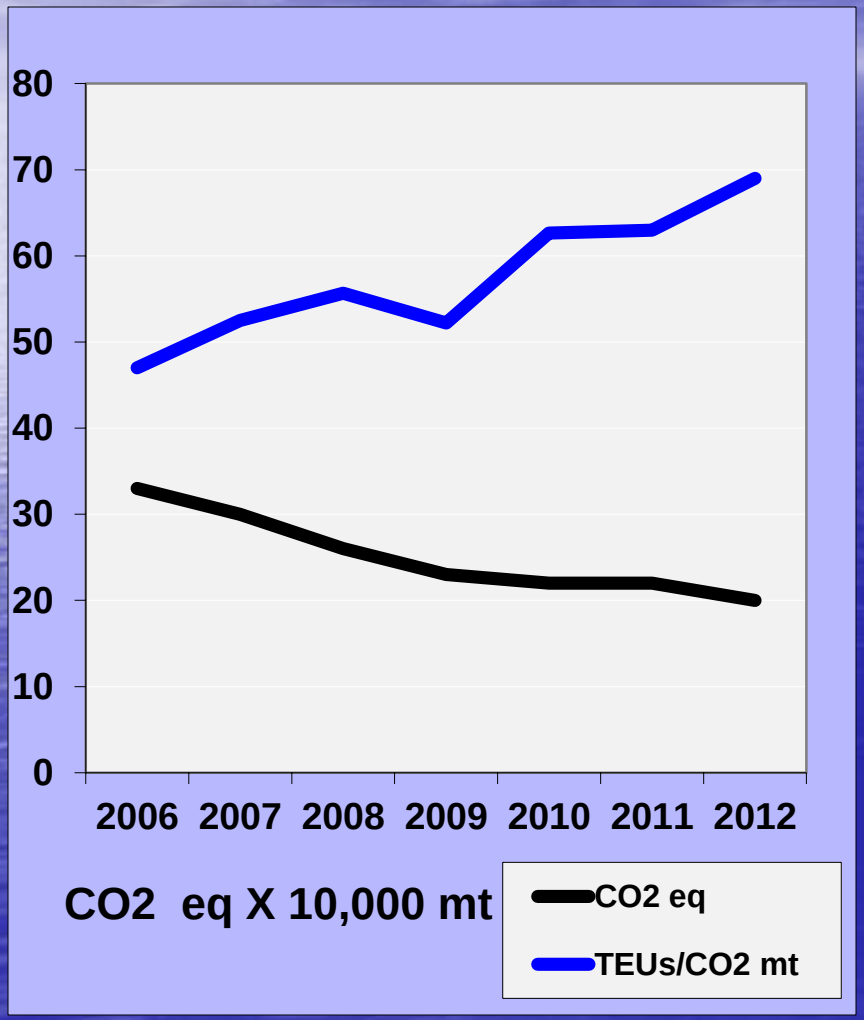
15% AWAY From our 2020 goal of: **85%**

The Port of Oakland oversees the 5th busiest container port in the U.S.; Oakland International Airport, the 2nd largest passenger airport and #1 air cargo airport in the San Francisco Bay Area; and 20 miles of waterfront, including Jack London Square and hundreds of acres of public parks and conservation areas. Port operations and those of its tenants and users generate more than 73,000 jobs in the region and are connected to nearly 827,000 jobs across the United States. Established in 1927, the Port is an independent department of the City of Oakland.

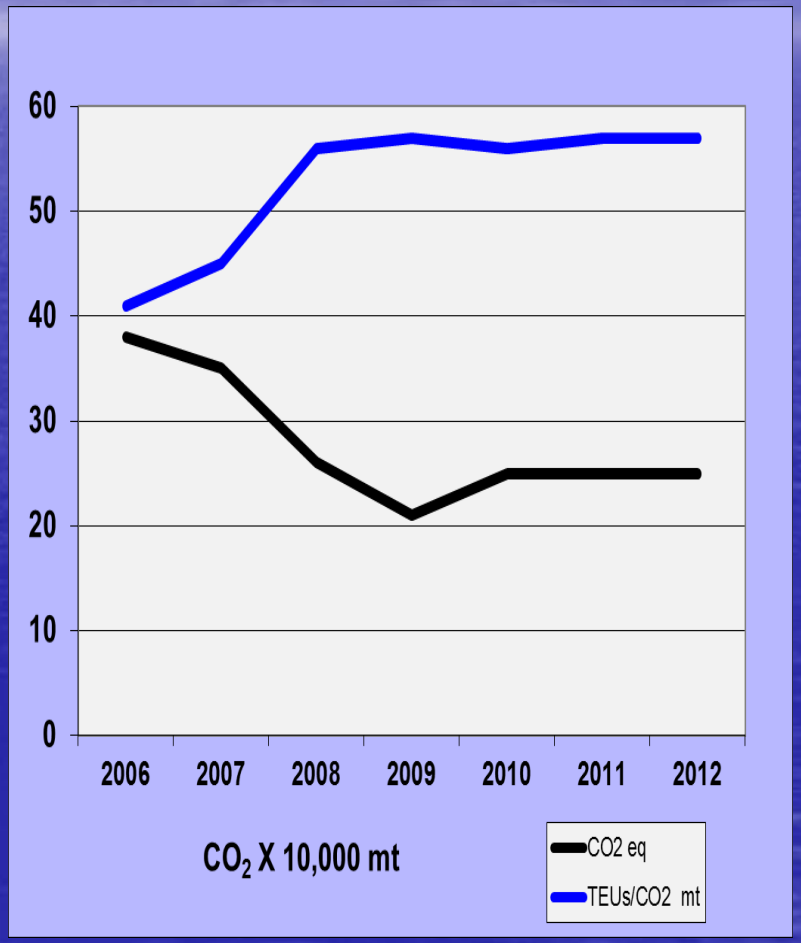
Visit us: www.portofoakland.com | Follow us:

San Pedro Bay GHG Emissions

Container Vessel GHGs

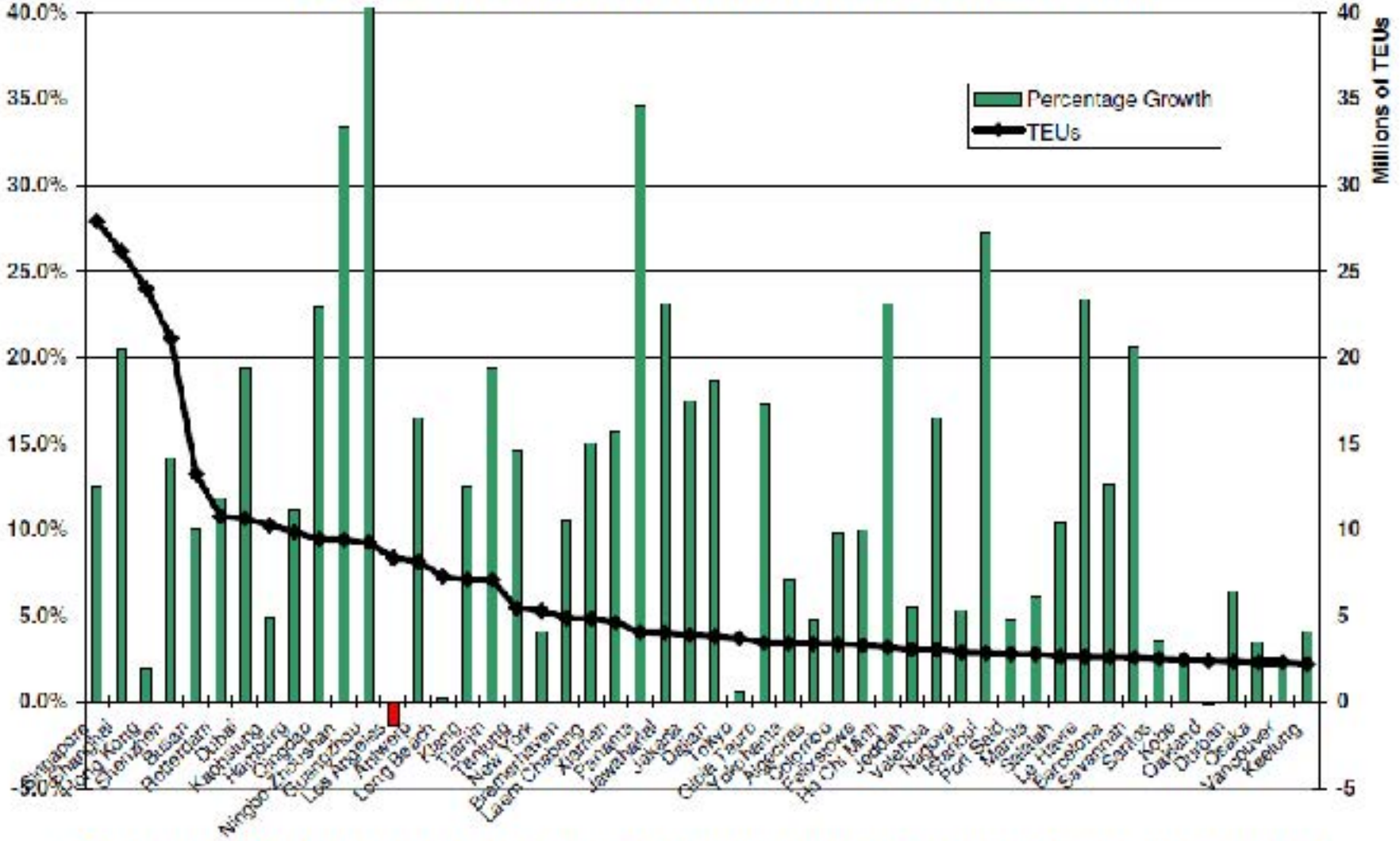


Cargo Handling Equipment GHGs



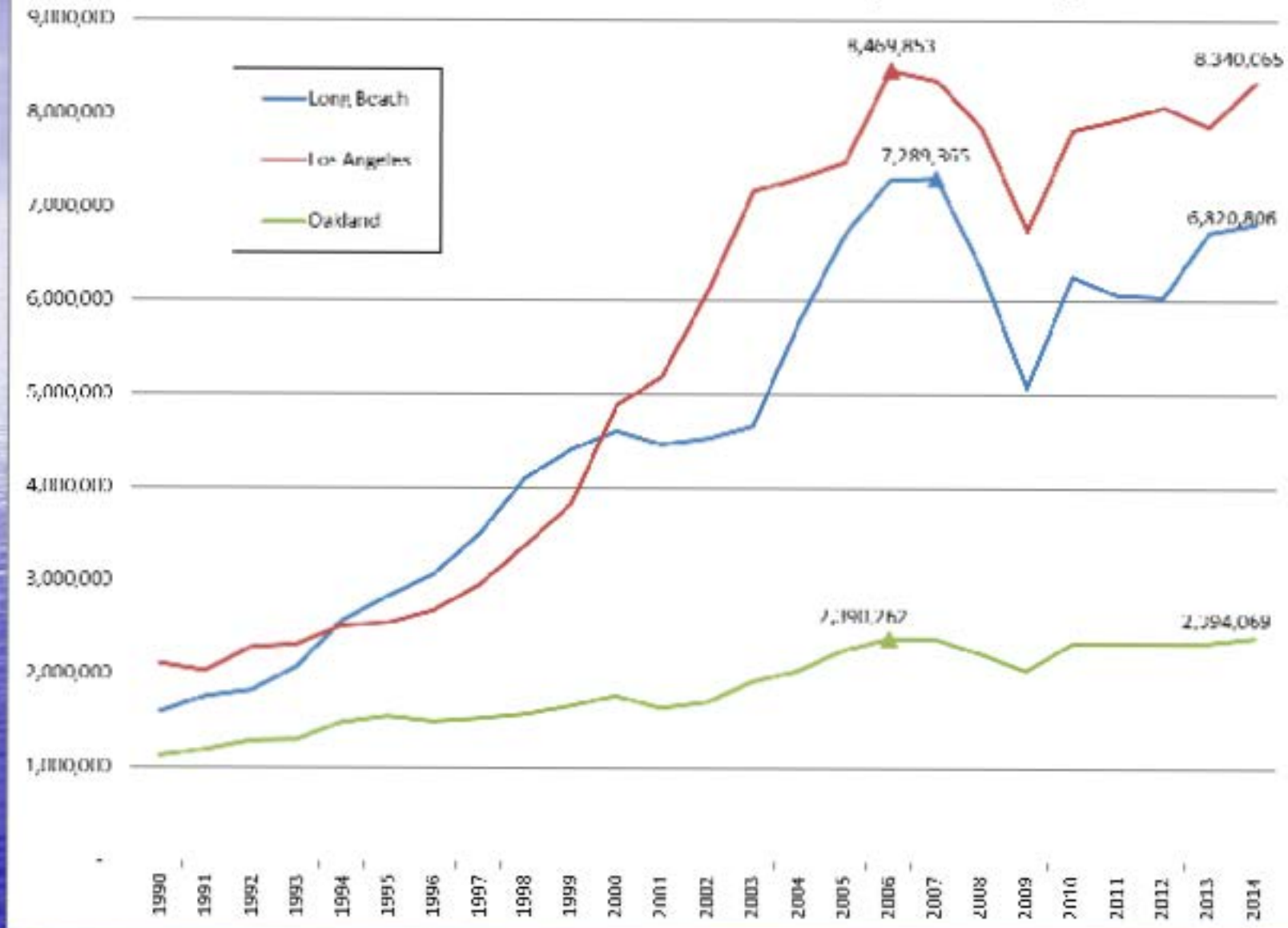
2007 Growth for the World's 50 Largest Ports by TEU Volume

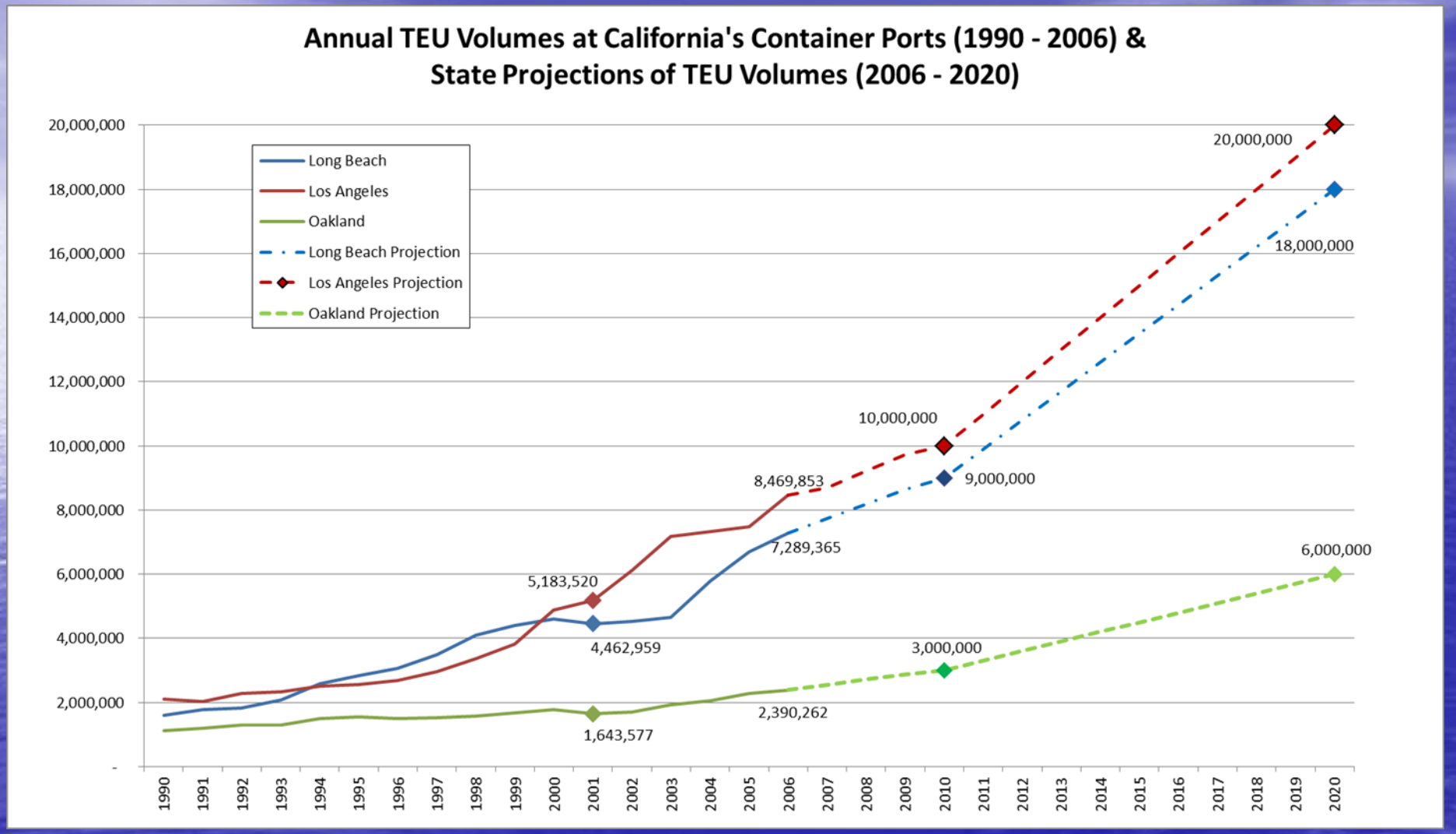
Source: "GS Top 100 Container Ports 2008"
(http://www.cargosystems.net/freightpubs/cs/top100.htm;jsessionid=B1FB2518FD67C0DF6A30B39830BF0E52)



Out of the Top 50 World Ports, Only the Ports of Los Angeles and Oakland had Negative Growth Before the Recession Hit

California Container Port Volumes (1990 - 2014)

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State Projections of TEU Volumes (2006 - 2020)
Long Beach
Los Angeles
Oakland
Long Beach Projection
Los Angeles Projection
Oakland Projection
20,000,000
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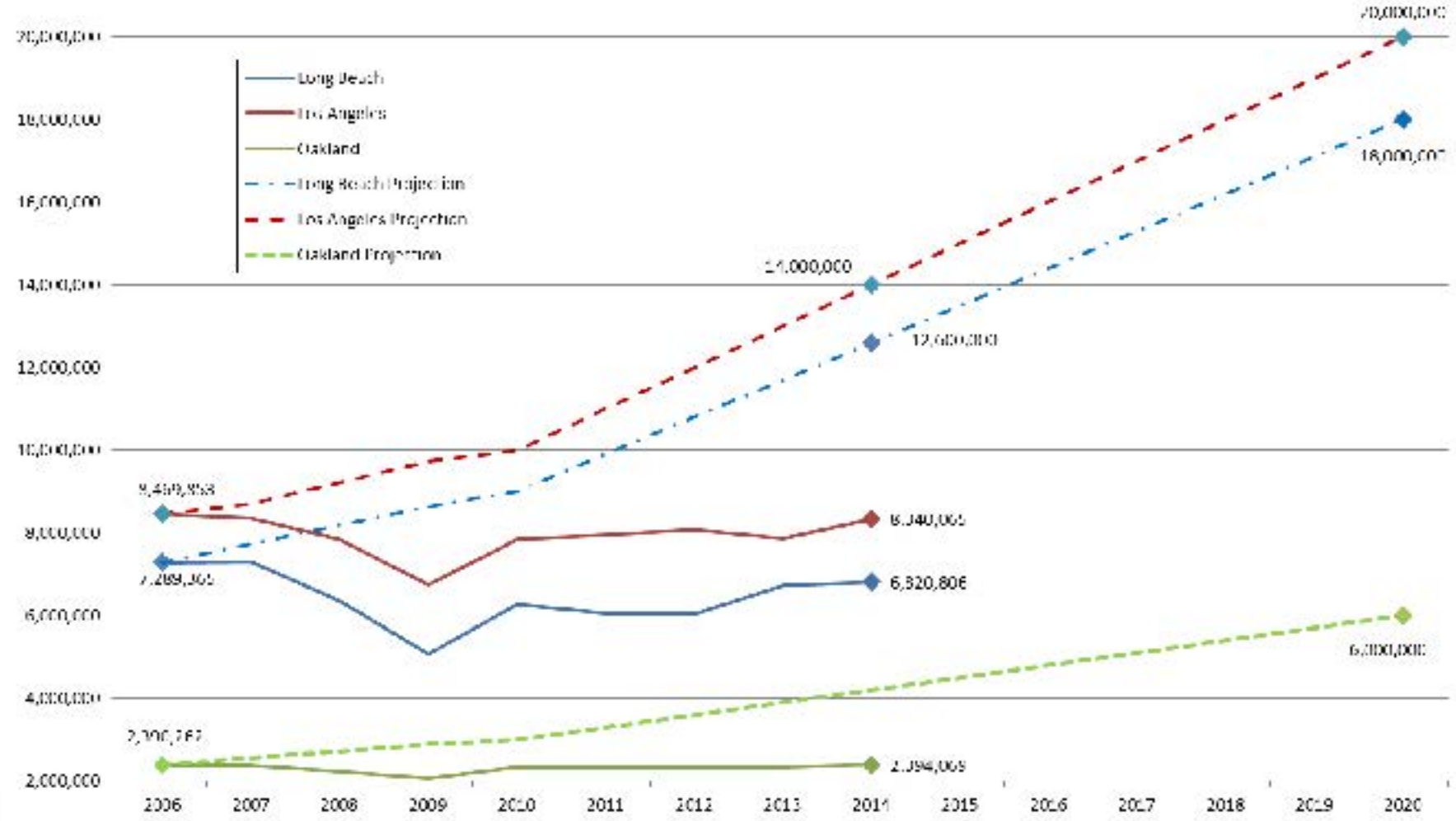
9,000,000
8,469,853
7,289,365
6,000,000
5,183,520
4,462,959
3,000,000
2,390,262
1,643,577

Annual TEU Volumes at California's Container Ports (2006 - 2014) vs. State Projections of TEU Volumes (2006 - 2020)



Sources - State projections: CARB Emission Reduction Plan, 2006, pg. 14 [illegible] Port TEUs: Ports of LA, LB & Oakland

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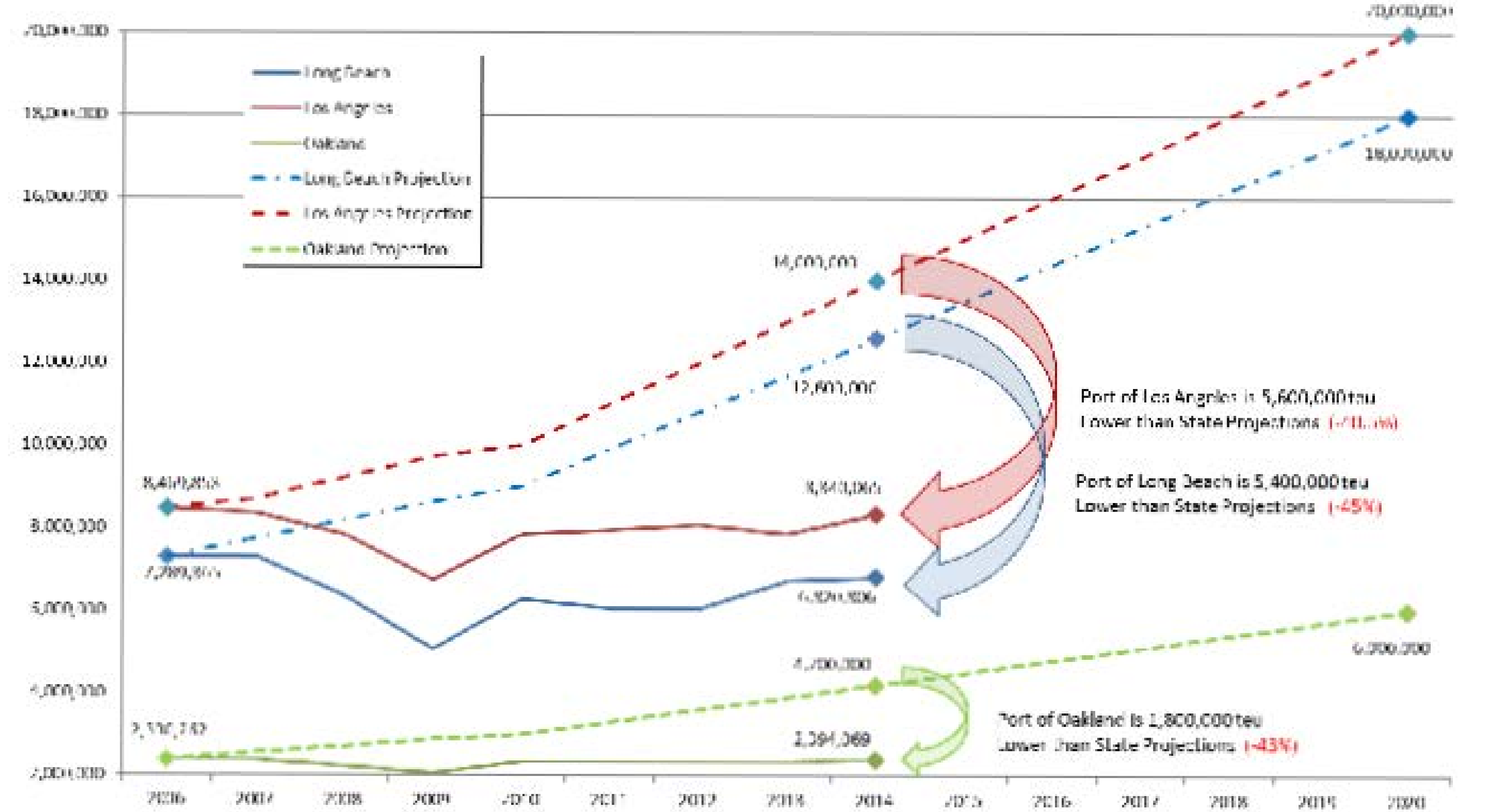

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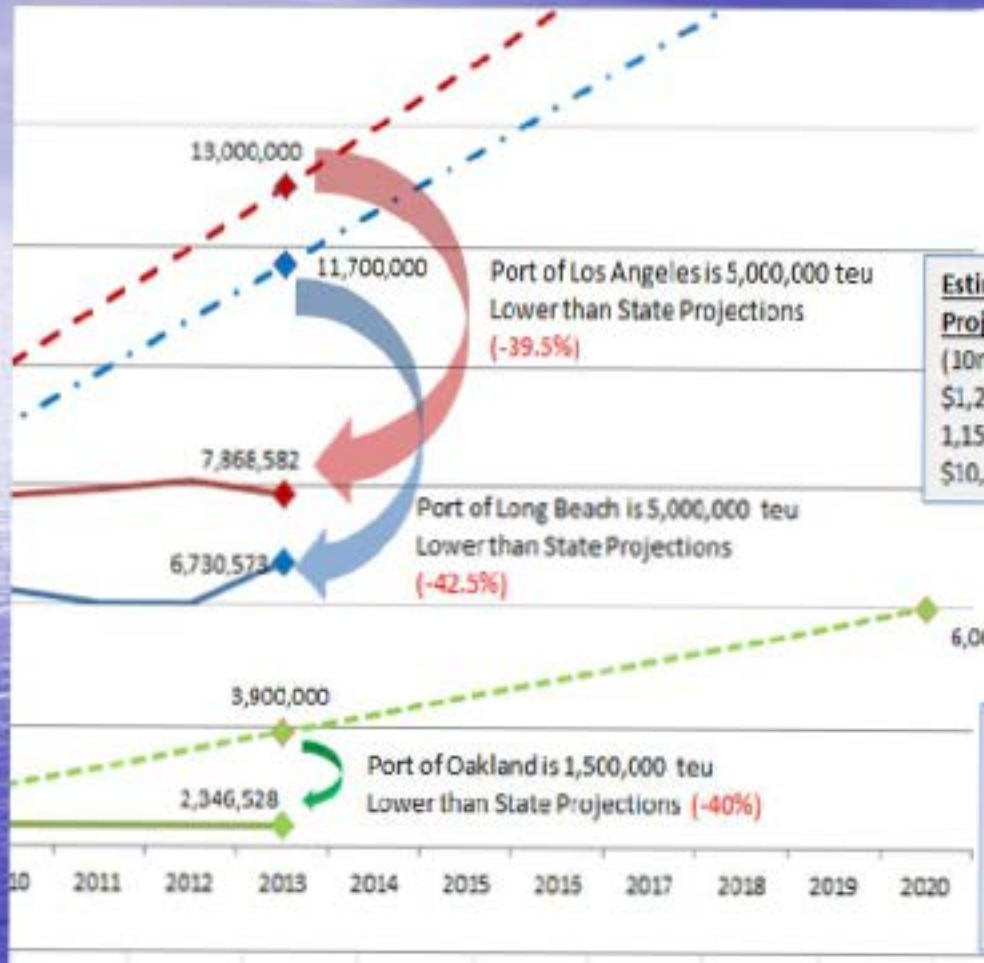


LA/LB Estimated Economic Benefits per Container

$240.42 per container in State and Local tax revenues

0.23 jobs per container.

$2,127.67 in personal income per container

Estimated Costs of Not Reaching Container Volume Projections through 2013 at POLA/POLB

(10m teu ≈ 5m containers)

$1,200,000,000 in lost State and Local Tax Revenues

1,150,000 jobs not created

$10,600,000,000 in personal income not created

Oakland Estimated Economic Benefits per Container

$180.22 per container in State and Local tax revenues

0.37 jobs per container.

$1,716.56 in personal income per container

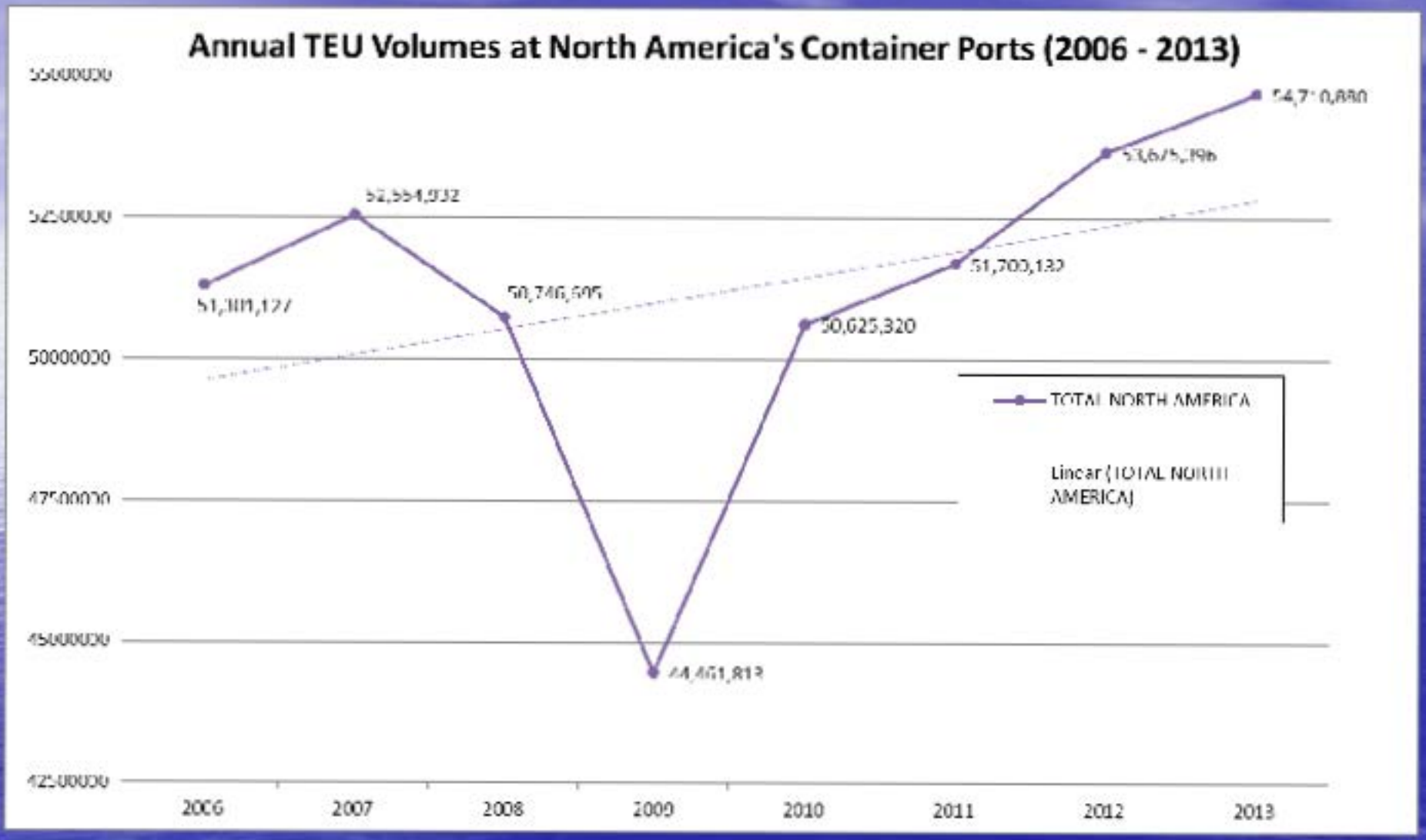
Estimated Costs of Not Reaching Container Volume Projections through 2013 at Oakland

(1.5m teu ≈ 750,000 containers)

$135,000,000 in lost State and Local Tax Revenues

275,000 jobs not created

$1,300,000,000 in personal income not created


Annual TEU Volumes at North America's Container Ports (2006 - 2013)
50000000
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42500000
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2006
2007
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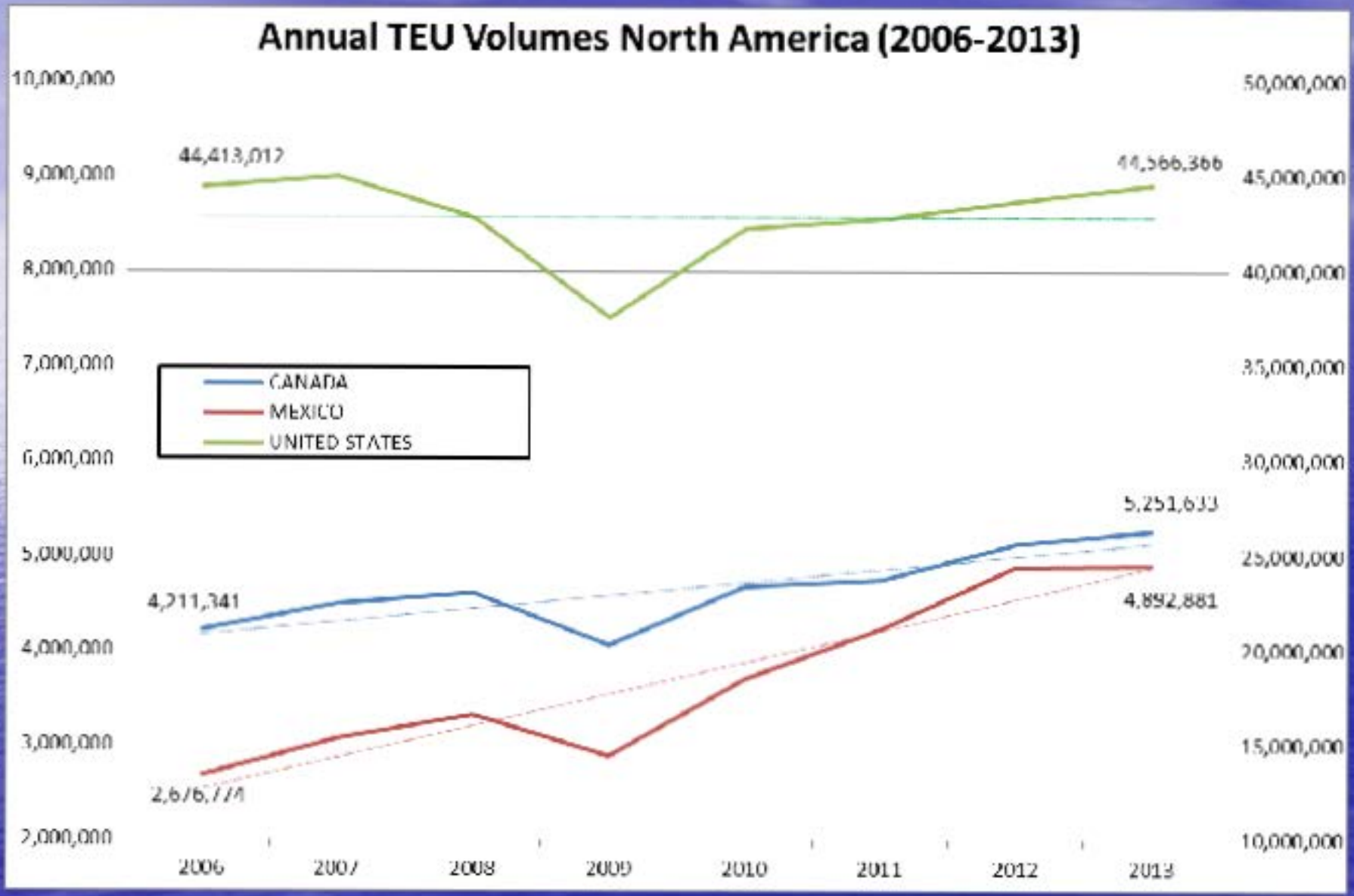
2011
2012
2013
TOTAL NORTH AMERICA
Linear (TOTAL NORTH AMERICA)


Annual TEU Volumes North America (2006-2013)
10,000,000
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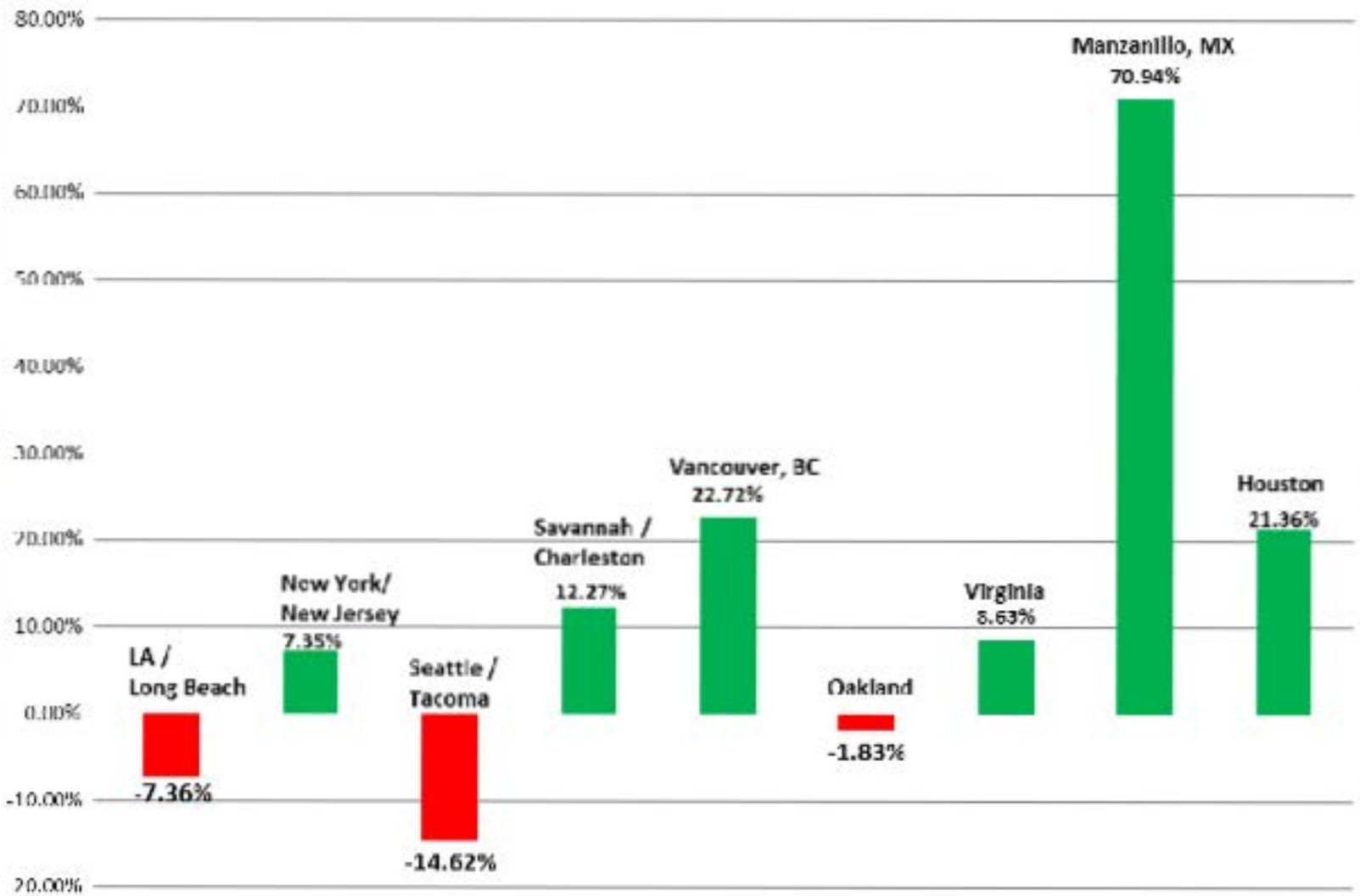
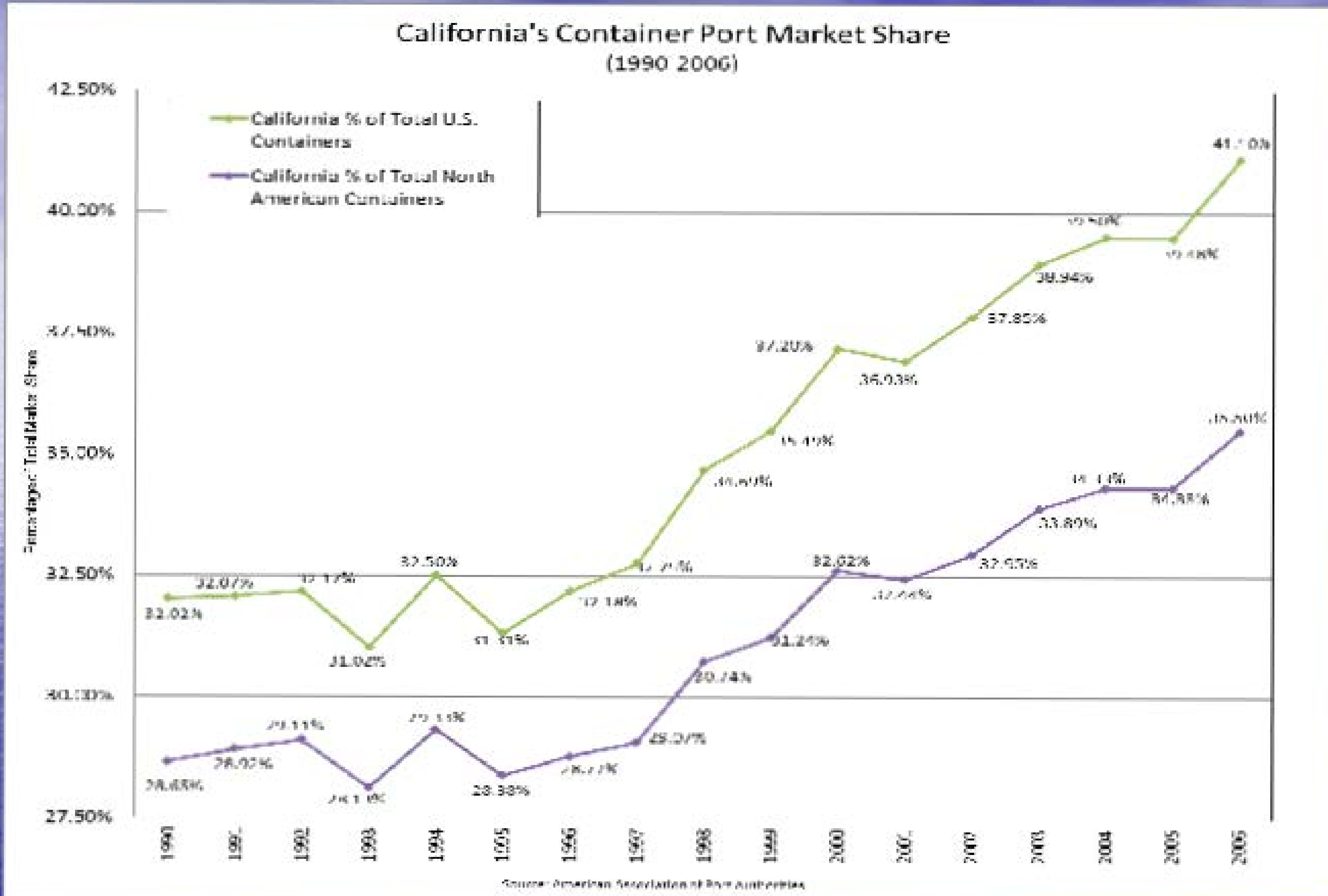
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
44,413,017
44,566,366
CANADA
MEXICO
UNITED STATES
5,251,633
4,211,341
4,892,881
2,676,771
2006
2007
2008
2009
2010
2011
2012
2013

Growth at Largest North American Port Complexes (2006-2013)

All container ports & complexes in North America with Volumes of >2m TEUs or greater in 2013, from largest (LA/LB) to Smallest (Houston)



Source: American Association of Port Authorities, http://aapa.files.cms-plus.com/CONTAINER%20TRAFFIC%20NORTH%20AMERICA%201980%20-%202013.xlsx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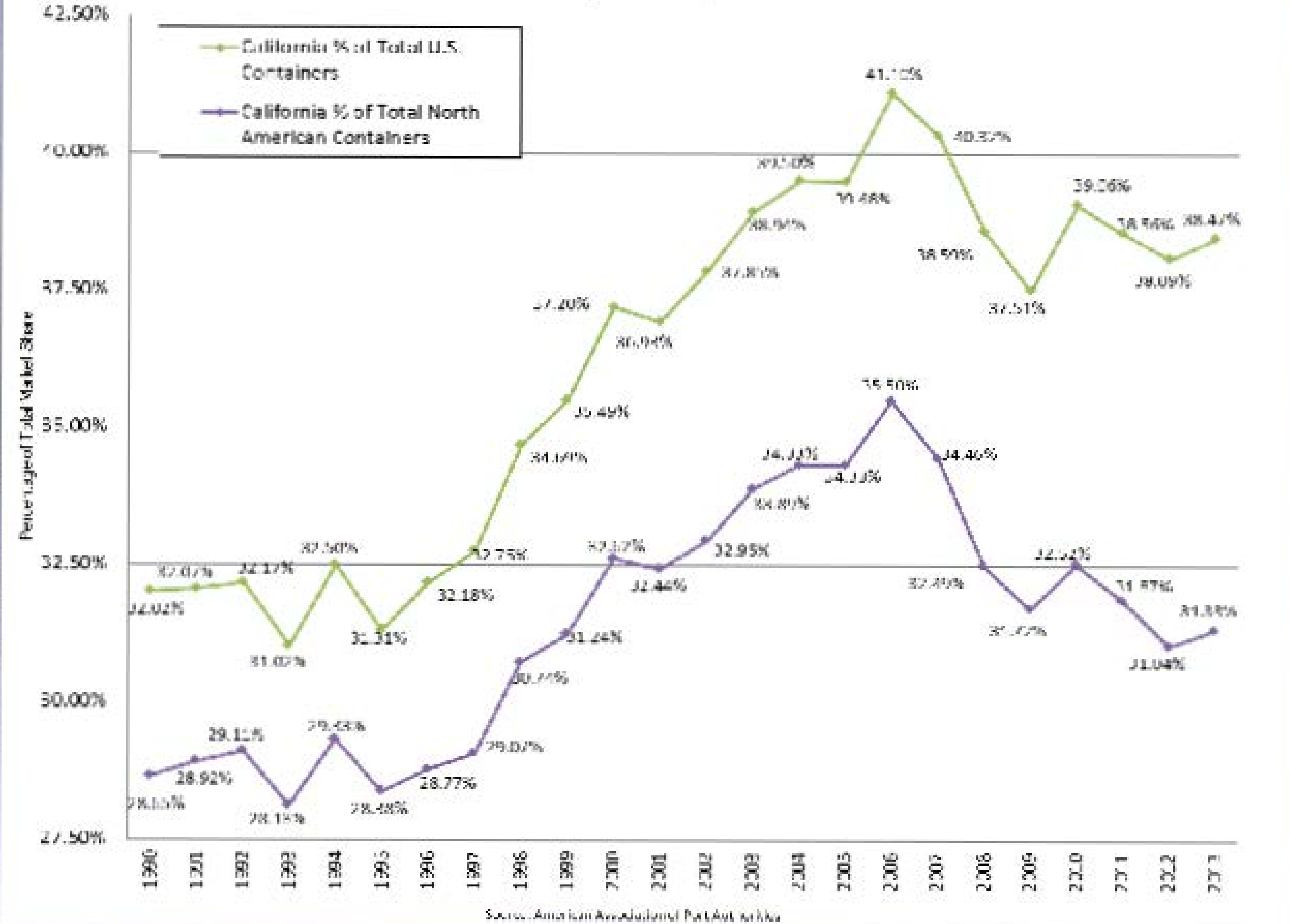
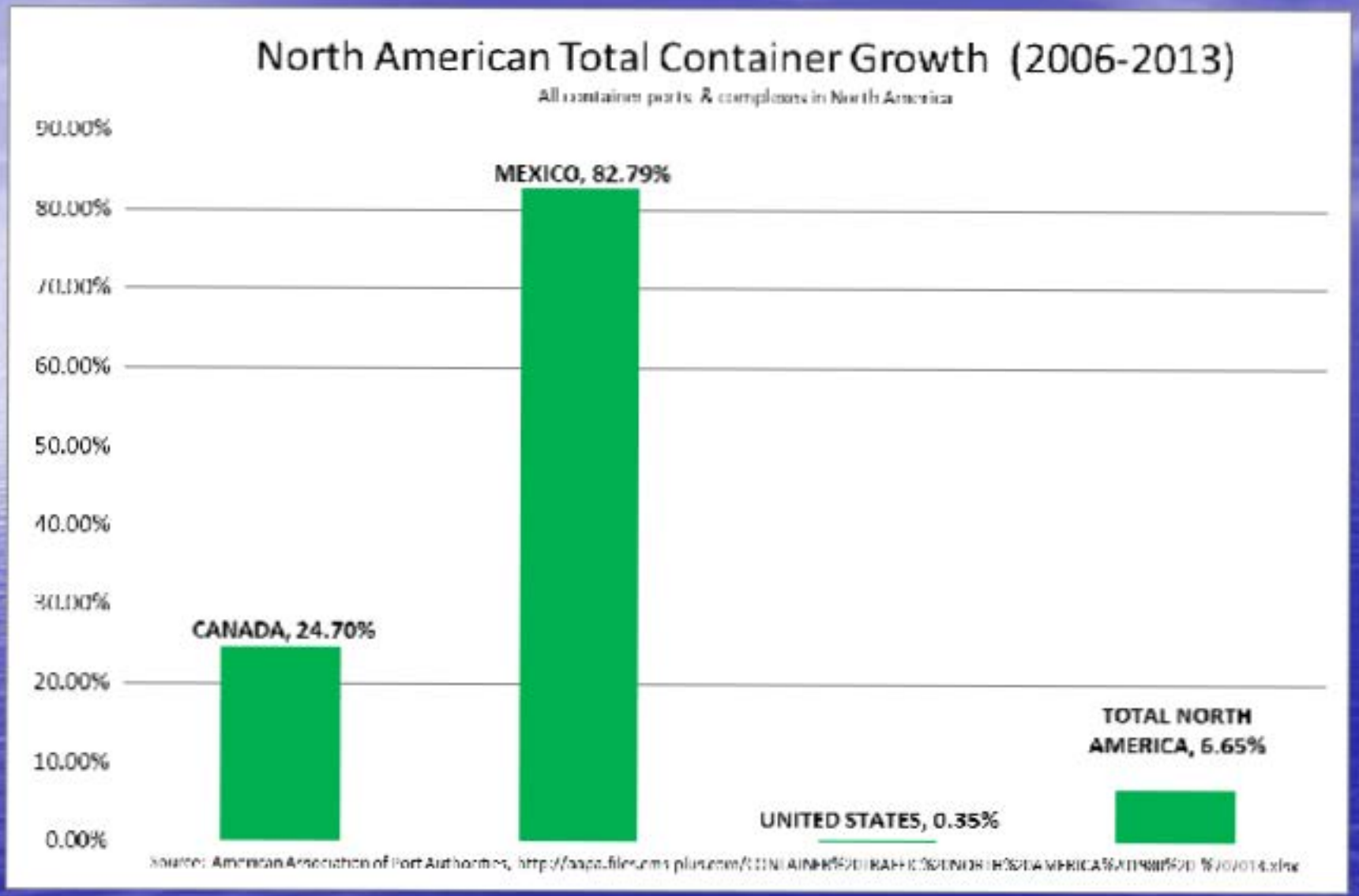
1997
1998
2004
2005
2006

California's Container Port Market Share

(1990-2013)



North American Total Container Growth (2006-2013)



California's "Cost per Box" Bad Math
A Recipe for Stopping Future Growth:

↑ Base Supply Chain Costs + California Only Costs

↓ Decreasing/Stagnant Container Volumes

- Increase concentration of "California Only Costs"
- And Container Volumes Decrease,
- Result: "Costs per Box" Continuously Go Up and Volumes Go Down, Resulting in fewer Economic benefits, Jobs and Tax Revenues.

Focus on Growth and offset costs to create a Virtuous Cycle and Win-Win Outcomes:

↓ Base Supply Chain Costs + Limited Calif. Costs

↑ Container Volumes Growing Faster

- Grow cargo volumes faster than imposition of new Costs;
- Maintain competitive position;
- Result: Sustainable Financing of Environmental AND Infrastructure Improvements with Job, Tax, Economic Impact and Air Quality Benefits

How do we change our Math?
Current Legislative Initiatives

- SB 63 (Hall) – Seaport Enhanced Infrastructure Financing Districts

Will not only provide new tax increment financing for seaports which can capture value from improvements outside of a traditional revenue bond model, but also specifically amends the existing definition of "port and harbor infrastructure" to include all environmental projects

- AB 678 (O'Donnell) – Energy Efficient Ports

Will direct CARB and the Energy Commission to create a seaport energy and zero-emissions program to determine when projects would be eligible for Greenhouse Gas Reduction Fund subsidies. Projects to include:

-- Solar and Renewable Generation Projects
-- LED and Energy Conservation Projects
-- Zero-emissions implementation Projects
-- Cold-Ironing Infrastructure Investments

How do we change our Math?
Additional Opportunities

- INCENTIVES: Facilitate private sector investment in trade infrastructure and trade volumes through the creation of incentives that encourage the accelerated development of infrastructure despite current lower cargo volume.
- Possible Approaches:
  - California Competes Set-Aside
  - New Cargo & Infrastructure Tax Credits
  - Further Re-investment of GGRF

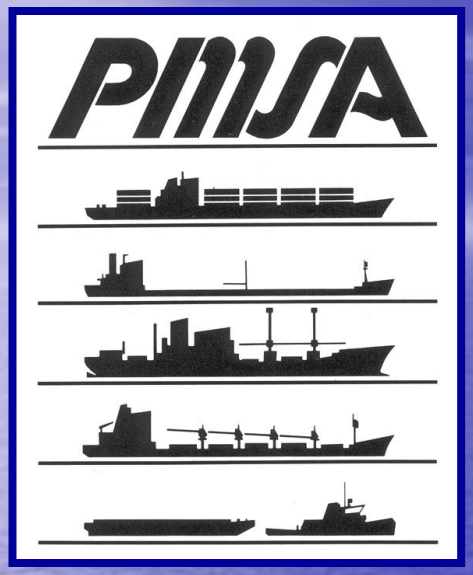
How do we change our Math?
Additional Opportunities

- Sustainable Freight Strategy: A successful Sustainable Freight Strategy will align the financing of environmental investments with growing cargo volumes, jobs & tax revenues.

The California Trade Coalition

A Coalition Working to Keep California Competitive in a Global Economy

California's policies must support efforts to enhance logistics industry growth, competitiveness, job creation, and their resulting tax revenue increases; while seeking to create a sustainable freight system. These enhanced revenues and trade volumes are necessary if we are to successfully fund and finance additional investments in freight infrastructure, operational efficiencies, and cleaner technologies. Likewise, goods movement system improvements which further implement new transportation technology infrastructure and make other air quality improvements and greenhouse gas emissions reductions should be incentivized and directly funded by the state to further improve both our economy and our environment.



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Long Beach, CA
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