

GOODS MOVEMENT ACTION PLAN

Innovative Finance & Alternative Funding Work Group

Meeting Notes
November 1, 2005

The Innovative Finance & Alternative Funding Work Group conducted its first meeting, on November 1, 2005 in Sacramento, California. The meeting was well attended with approximately 65 guests representing Ports, Trucking Industry, Finance Industry, State Agencies, and other vital Goods Movement stakeholders. An overview of the Goods Movement Action Plan was given by Barry Sedlik, Undersecretary, Business, Transportation and Housing Agency. He addressed the condensed timeline, explaining that the Governor wants a plan in place by the beginning of 2006. BTH and CalEPA began working on the Goods Movement Action Plan in January 2005, with meetings scheduled throughout the year in different parts of the state. He reiterated that the timeline would not be extended because this was a report of suggestions only and that as projects move forward the appropriate review will be applied to each project.

Next Stan Hazelroth, Executive Director, I-Bank, gave an overview of the draft finance report, "Financing Tools for Transportation," that had been compiled by the I-Bank with the assistance of representatives of the public finance field. The draft report is to be presented as a menu of financing options to be considered once projects have been identified. Mr. Hazelroth stressed that the most important issue is to identify a revenue stream to finance projects. The draft report "Financing Tools for Transportation" will be available on the Goods Movement website: <http://www.arb.ca.gov/gmp/gmp.htm>.

The co-chairs of the work group, Rick Gabrielson and Jack Broadbent facilitated the discussion of goods movement and the role of the work group in the state's Goods Movement Action Plan. The framing questions were used to start the discussion with the audience.

The notes of the discussion are organized by topic.

Project financing was the major topic of the afternoon; the diversity of the stakeholders represented in the meeting provided many insightful and helpful comments. They are highlighted below:

- When determining the appropriate financing mechanism it should be noted that each project is different and unique and a financing package that worked for one project will not necessarily work for another.
- Private finance of environmental mitigation through swapping of pollution credits. Paper to be submitted to the Integrating Group, Rick Zbur, Latham & Watkins.
- Funding for projects has to be protected; meaning that any revenue generated by the project should be invested into the project or other goods movement projects.

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- Diesel Emissions Reduction Plan: CARB has suggested that the goods transportation industry will finance this reduction plan by itself by complying with its regulations with the purchase of new, cleaner vehicles.
- It was noted that there is no incentive to trade out older trucks and foreign vessels are not easy for the state to regulate. It was noted that the recently signed Federal Energy Bill has \$1 billion over 5 years starting in 2007 to target reduction of diesel emissions, which would be available for the purchase of cleaner vehicles; however it was pointed out that California will not be able to access this source of funding because in order to receive federal funds, a Diesel Emission Reduction Plan cannot be in effect. CARB's regulations are tentatively scheduled to go into effect 1/07.
- Timing of funding and predictability of funding sources in as important as project viability and readiness.
- Any finance plan must be aware of intermodalism, federal pre-emption, the maritime clause, commerce clause, and foreign affairs exclusion.
- There is approximately \$6 billion in customs revenue deposited into the Federal Treasury from the movement of goods through California's ports. This revenue does not come back to the state. It was clarified that this revenue is not paid by the state but business that move its goods through the state's ports.
- Utilize the federal government for gap funding. Meaning that a project would already be identified with costs and all funding sources identified. At this time the federal government could be lobbied to fund the gap in the financing. Example is the Virginia Heartland Rail Road project which was included in SAFETEA-LU.
- A concern was raised that the federal government has the financial strain caused by Hurricane Katrina and will not be available to the state, meaning the state has to help itself. To counter this sentiment, the Goods Movement effort has national interest and benefit.
- Infrastructure projects and blueprint should be decided first then the finance team should be put in place to develop funding plans.
- In addition to new projects, cleaning up the existing system needs to be financed.
- Goods movement involves a global marketplace and global investors. Look toward using a diversified approach, involving federal, state, and local governments, as well as private and international partnerships.

Financing of goods movement project was not the only issue addressed during the meeting. The selection and prioritizing of projects to be included in the Goods Movement Action Plan prompted many comments. They are highlighted below:

- A score card approach should be used to prioritize the projects identified in the action plan. This would help to eliminate the emotions (both for and against) that accompany most projects.

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- It was emphasized that projects that are identified in the Action Plan need to enhance the entire goods movement system.
- Partnerships should not benefit nor adversely impact one industry, group, or region. There should be an equitable balance of projects between northern and southern California.
- A Kennedy School-like economic analysis, or economic consulting firm should be utilized; first to develop a project evaluation framework, and then to staff the analytics of the private costs and benefits and the social costs and benefits of each project. The internal rate of return of each project, net of private and federal investment, would demonstrate theoretically the best projects. Then you would analyze the winners and losers politically, and the completion viability of each project, in order to come up with an economically and politically informed approach to ranking and selecting projects.

Other comments made during the discussion are important as the group considers its recommendations to the Integrating Work Group. They are as follows:

- Need to identify the outcomes that are desired by the state for the community, environmental mitigation, and through put when finalizing the state's Goods Movement Plan.
- Public health issues need to addressed.
- In addition to planning for new projects, the existing infrastructure should be maximized to its fullest potential.
- The role of the Goods Movement Action Plan is to be the driving force of a blueprint for future projects.

The next meeting of the Innovative Finance & Alternative Funding Work Group is tentatively scheduled for November 14, 2005.

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