



The California Trade Coalition

A Coalition Working to Keep California Competitive in a Global Economy

American Chemistry Council

APL Ltd.

Associated General
Contractors of California

California Association
of Port Authorities

California Business
Properties Association

California Business
Roundtable

California Chamber
of Commerce

California Manufacturers
& Technology Association

California Nevada Cement
Promotion Council

California Railroad Industry

California Retailers
Association

Consumer Electronics
Association

Grocery Manufacturers
of America

Industrial Environmental
Association

International Council
of Cruise Lines

International Council
of Shopping Centers

Matson Navigation Company

Maersk Inc.

Pacific Merchant
Shipping Association

Retail Industry Leaders
Association

Society of the
Plastics Industry

SSA Marine

Western Home
Furnishings Association

Western States
Petroleum Association

December 9, 2005

Hon. Sunne Wright McPeak
Secretary
Business, Transportation & Housing Agency
980 9th St., Suite 2450
Sacramento, CA 95814

Dr. Alan Lloyd
Secretary
Environmental Protection Agency
1001 I St.
Sacramento, CA 95814

Re: Transportation Infrastructure Investments

Dear Secretary Lloyd and Secretary McPeak:

Attached you will find a letter we have addressed to the "Big Five" regarding transportation infrastructure investments in the state, especially as they relate to the goods movement industry. We have been closely following the Goods Movement Action Plan's various Work Groups, and laud you and your staff's efforts.

Given the recent, increased attention to the potential use of bonds by the Governor and the Legislature as part of the state's infrastructure financing package, we felt it important to share our position and priorities, which you will find detailed in the following letter.

We would be happy to discuss details at your convenience. Please do not hesitate to contact Tim Schott at 916.444.7158, should you or your staff have any questions.

Sincerely,

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Hon. Arnold Schwarzenegger
Governor
State of California

Hon. Don Perata
President Pro Tempore
California State Senate

Hon. Dick Ackerman
Minority Leader
California State Senate

Hon. Fabian Nunez
Speaker
California State Assembly

Hon. Kevin McCarthy
Minority Leader
California State Assembly

RE: Transportation Infrastructure Investments

Dear Sirs:

The California Trade Coalition (CalTrade) is comprised of major trade-related businesses and organizations dedicated to keeping California competitive in the global economy. CalTrade represents the private sector industries and public sector infrastructure that serve as the gateway to our global economy, ultimately facilitating over \$360 billion in trade. Our state has 930,000 jobs, \$34 billion in wages and benefits, and \$3.6 billion in tax revenues relying on the health of our International Maritime Trade sector.

CalTrade applauds your collective efforts to retain these benefits, grow our infrastructure to facilitate even more international trade in the years to come, and at the same time grow in environmentally conscious ways by declaring now as the time for California to invest in the future. We share your concerns that the lack of state and federal investments in our transportation infrastructure will ultimately limit international trade, reduce job opportunities in the logistics industry, and hurt California's global economic competitiveness.

If we succeed, we can clean the environment and simultaneously facilitate \$1 trillion in trade by 2025 - and in the process boost our tax revenues and create over 1 million new, high-paying jobs for deserving Californians. If we fail we will lose many of these jobs to Mexico, Oregon, Washington, Canada, even ports in the gulf coast and eastern seaboard, and the growth fueling a cutting edge environmental agenda will slow

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CalTrade believes that we share with you the dual goals of growth and environmental impact reduction, and that these are achievable, and not mutually exclusive propositions. Given the dynamic economics and competitive business environment of international and interstate trade, the number of complex legal and regulatory restrictions and jurisdictions involved, and the diversity of environmental and public health challenges facing California, CalTrade believes that there is a right way and a wrong way to approach the facilitation of freight mobility in the State. The wrong way is any set of outcomes which creates cargo diversion or, because of questionable legal authority, spurs litigation from the international trade community.

As you deliberate over policies impacting the state transportation network, we would like to share the following principles of paramount importance to our coalition members:

- Transportation infrastructure improvement is an issue of statewide importance, of which “goods movement” is only one part. There must be a larger transportation plan that involves public and private solutions for all modes of transportation for individuals as well as all domestic cargo, international freight and energy infrastructure needs statewide before congestion relief and environmental impacts are reduced. To be successful such a plan cannot simply single out the international trade community.
- Land use policies should encourage regional planning principles that encourage greater freight capacity, increased mobility, and maintain and expand important infrastructure (such as cargo handling distribution centers, public transportation, mass transit, and petroleum facilities) without major environmental and congestion impacts, mindful of the fact that short-sighted decision making yields policies with unintended consequences for the environment, for business and for the state.
- Funding infrastructure improvement should not involve “container fees.” They are simply taxes and are illegal under international and federal law.
- Creating and expanding our Transportation Infrastructure statewide will help grow California’s domestic and international freight mobility in a manner which will create jobs, relieve congestion, reduce air quality impacts, protect public health and enhance public safety, and improve all Californians’ quality of life.

In the interest of promoting policies that move California forward, CalTrade offers the following policy parameters for infrastructure investment:

Infrastructure

CalTrade believes that goods movement at the ports has improved dramatically due to the successful implementation of Pier Pass, terminal expansions, technological advances and increased efficiencies. However, new transportation infrastructure projects can be developed to both facilitate enhanced freight mobility and reduce congestion on our roads and highways. Projects that will relieve highway congestion, improve rail corridor capacity and concurrently mitigate environmental impacts are our highest priority.

Projects supported by the California Trade Coalition include:

- Build and Improve Near-Dock Rail Facilities at the Ports of Los Angeles, Long Beach and Oakland.
- Relieve Localized Rail Bottleneck at the Colton Crossing.
- Construction and opening of new Corridor Improvements including Highway lanes, toll and HOT lanes, and creation of express truck only toll lanes on existing highways in critical transportation and trade corridors (I-710, I-15, I-580, I-205, I-5, SR 47, Gerald Desmond Bridge, Hwy 99, I-905, 7th Street grade separation).
- Relieve Regional Rail Network Constraints at the Donner Pass and in the Tehachapis.
- Increasing Regional Rail Capacity in Southern California.

Infrastructure policy initiatives supported by the California Trade Coalition include:

- Expanded Public-Private Partnerships (PPPs) and grant authorization for the State to enter into agreements beyond the provisions contained in SB 850 (2005), which will allow for both unsolicited as well as solicited proposals and give the state access to additional federal funds (see Bond discussion below).
- Increased Design Build, Design Build Operate, and Design Build Operate Maintain authority for CalTrans and local transportation agencies.
- CEQA Streamlining for projects with demonstrable regional health benefits and concurrent efficiency or capacity improvements.

Environment

CalTrade believes that we can truly “Grow Green” by adopting common-sense policies that establish realistic and achievable environmental goals within the context of improving the state’s transportation network. However, without a recognition of the market demand for goods, members of CalTrade are concerned that some environmental proposals may cause unintended consequences that create negative environmental impacts. For example, intermodal goods moving by rail to out of state locations may be viewed by some as an undue burden to California without value; however, if we do not expand our near-dock rail capacity many of these goods will be redirected to other US or foreign ports, with our share of the goods then trucked back into California – putting more trucks, and dirtier trucks, on California’s highways and further degrading the state’s air quality.

CalTrade cares about the environment and the communities that are impacted as demands for imported products increase. Our members are taking action to mitigate impacts to the environment while simultaneously increasing cargo velocity and have invested hundreds of millions of dollars replacing older machinery and retrofitting equipment in order to reduce emissions around our seaports and trade corridors. Some examples of the efforts currently underway at our seaports include:

Terminal Equipment Retrofit and Replacement Program – At LA and Long Beach, over 1,100 pieces of yard equipment – virtually all of those working at the ports - have been successfully retrofitted with post combustion technologies, such as Diesel Oxidation Catalysts (DOC), particulate filters and cleaner diesel technologies. In Oakland, the retrofit of all diesel cargo-handling equipment with soot traps and catalytic converters has been subsidized by the Port.

Clean Equipment Programs at the Ports of LA, LB and Oakland – Incentive programs are in place to encourage the use of Ultra Low Sulfur Diesel (ULSD), emulsified fuels and alternative fuels used in terminal yard equipment, switch locomotives and harbor craft.

Vessel Speed Reduction at the Ports of LA and LB – Voluntary vessel speed reductions when entering and leaving the San Pedro Bay Harbor have resulted in a decrease of over 450 tons of NOx emissions per year.

Truck Idling Reduction Strategies - Reduced congestion during peak hours through PierPass, when coupled with the deployment of new technology such as Optical Character Recognition (OCR), Radio Frequency ID (RFID) and Global Positioning System (GPS), will improve turn times through terminals.

Environmental initiatives supported by the California Trade Coalition include:

- Fully funding the Carl Moyer program from all sources, port programs already provide more than \$20 million a year for retrofitting diesel engines.
- Lobbying Congress to adopt MARPOL Annex VI and establish a North American Sulfur Emission Control Area.
- Enacting voluntary and incentive-based measures to reduce Oceangoing Vessel and Railroad emissions.
- Implement a market-based, integrated emissions trading program to attain the ozone and fine particulate air quality standards in the most cost-effective manner.
- Expanding availability of clean diesel and bio-diesel blends for on road and off-road equipment, trucks and vessels.
- Leveraging Federal funding to clean-up short haul and drayage trucking fleets including aggressively lobbying for appropriations out of the existing \$1 billion authorized in HR 6, the Federal Energy Bill.

Funding

We must all acknowledge that infrastructure improvements are needed to relieve a variety of problems most of which are not related to goods movement. Because of previous funding shortages, there is no single, simple solution to the infrastructure problems that confront California. Likewise, a suite of funding initiatives to pay for these infrastructure and environmental projects and programs will be necessary.

Funding sources supported by the California Trade Coalition include:

- Most of the truck traffic on the state's highways does not involve the ports; therefore, truck tolls for new, dedicated express truck lanes would spread the cost of new infrastructure to all of the users.
- Leveraging private equity positions in public infrastructure through the development of public-private partnerships that accommodate the imposition of true user fees on the actual users of the infrastructure financed.
- A statewide general obligation bond of reasonable amount for Transportation Infrastructure Improvements, with adequate safeguards to assure that the funds be used solely for their original, intended use. If a revenue stream is necessary to make the general obligation bond financing feasible, or if a tax credit or revenue bond is pursued, a comprehensive approach, sensitive to a multitude of business issues will be necessary; at a minimum, we would oppose the inclusion of container fees as a revenue stream.

Any imposition of any fee on containers in interstate and foreign trade, and not imposed on the users of the infrastructure sought to be developed, is a tax that violates federal law, international law, and the US Constitution. It will be thoroughly and successfully litigated by members of the international trade community and hold up any progress on capitalizing any bonded indebtedness tied to a "container fee" as a revenue stream.

- More attention should be directed to using the bond proceeds to leverage funds from non-state sources. For example, the newly enacted federal SAFETEA-LU transportation bill contains a provision authorizing \$15.0 billion in Private Activity Bonds ("PABs") (see Section 11-1143). The state bond proceeds could be used to access/leverage this new federal transportation-funding source. Without such authorization, California will be unable to access the SAFETEA-LU provisions containing the \$15 billion program for PABs for highways and surface freight transfer facilities. Section 1143 of Title XI of the Act creates a new category of exempt facilities for which private activity bonds may be issued -- "qualified highway or surface freight transfer facilities." This new category includes any surface transportation project receiving Title 23 funds and facilities for the transfer of freight from truck to rail or rail to truck (including any temporary storage facilities directly related to such transfers). According to CalTrans: "With a national limit of \$15 billion and no ceiling on the amount of PABs issued per state under these provisions, states with the statutory authority to enter into [Public Private Partnerships (PPPs)] may find these tax-exempt financings very attractive and quickly utilize the available limit under this provision. If we do not create the statutory authority for California to allow for PPPs, we may find ourselves on the outside looking in."
- CalTrade believes that a more concerted effort needs to be undertaken to seek a greater share of trade-related monies flowing to the federal treasury to return back to the state of California. For example, every year California's ports generate more than \$6 billion in Customs Revenue to the federal general fund and see little to none of that money returned for infrastructure improvements or environmental mitigation. In addition, millions of dollars in Harbor Maintenance Fees, collected in theory to fund harbor and port infrastructure, paid in California do not come back to fund our maritime infrastructure projects.

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Thank you for your consideration of CalTrade's position on these important issues. We recognize the difficulty of developing a long-term transportation plan for the state and want to further express our sincere desire to be a part of the solution. We would be more than happy to have you or a representative address our coalition directly in order to speak more to these policy positions and principles. Again, your commitment to the betterment of California's transportation infrastructure is laudable and we stand ready to assist you with our collective expertise.

Sincerely,

The California Trade Coalition

cc: Sunne Wright McPeak, Secretary, Business, Transportation, and Housing Agency
Alan Lloyd, Secretary, California Environmental Protection Agency