

## NATIONAL FREIGHT TRANSPORTATION AGENDA

### OVERVIEW

In preparation for next year's Congressional reauthorization of SAFETEA-LU, the American Association of State Highway and Transportation Officials (AASHTO) has organized its members into various subject-matter legislative teams.

The two teams principally responsible for freight issues are the:

- Freight Policy Team, chaired by Commissioner David A. Cole, Maine DOT
- Freight Finance Team, chaired by Deputy Commissioner Greg Nadeau, Maine DOT.

The teams function within their larger respective bodies, which in turn develop a series of recommendations that will ultimately serve as AASHTO's reauthorization framework.

Each team is charged with the research, development, and assemblage of their particular issues for entry into the larger reauthorization framework. The freight teams, in particular, will engage various stakeholders both in the public and private sector to prepare a national freight agenda.

### NATIONAL FREIGHT TRANSPORTATION AGENDA HEARING

On February 27, 2008 during AASHTO's *Washington Briefing* events, Chairs Cole and Nadeau convened their respective teams for a hearing on developing a National Freight Transportation Agenda within AASHTO's policy and finance recommendations.

The chairs invited various industry stakeholders for a frank discussion on the state of freight in America. The witnesses included:

- Tim Lynch, *American Trucking Association (ATA)*
- Jennifer Macdonald, *Association of American Railroads (AAR)*
- Anne Kappel, *World Shipping Council*
- Sean O'Dell, *Transport Canada*
- Mort Downey, *Coalition for America's Gateways and Trade Corridors*
- Ezra Finkin, *The Waterfront Coalition*

### Panels

The witnesses were subdivided into two separate panels. The first panel focused upon the specific issues concerning the freight industry as they pertain to a broader modal context. The second panel focused upon issues impacting specific stakeholders

Copies of their testimonies may be found attached to this packet.

## NATIONAL FREIGHT TRANSPORTATION AGENDA

### Highlights

Each of the witnesses agreed that the estimated increase of freight traffic across the national transportation system was certain, and that action must be taken now to improve capacity for the long term benefit of the economy.

The opinions expressed varied on how to reach the common goal. In general the witnesses maintained that their respective industries were not opposed to proposals that would raise taxes or fees on industry.

However, each expressed concern as to whether or not new revenues and/or new trust funds would actually be used for making infrastructure improvements for the modes from which they were collected. The point of decreasing waste and inefficiency to provide better fiscal accountability was also raised.

An international perspective was also brought to the table by Transport Canada, currently overseeing the Canadian operations for the ongoing Detroit River Crossing joint project. Canada is utilizing both public and private financing methods as well as best practices for efficiency improvement in order to achieve their portion of the project.

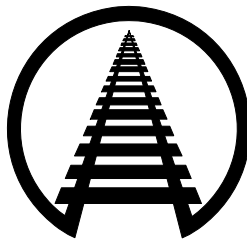
### Next Steps

The hearing will laid the ground work for future engagement between public and private sector stakeholders with an interest in improving freight mobility. Chairs Cole and Nadeau pledged to take the testimonies back to their respective committees to inform their future discussions.

For More Information, contact:

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**STATEMENT OF**  
**JENNIFER MACDONALD**  
**ASSISTANT VICE PRESIDENT – GOVERNMENT AFFAIRS**  
**ASSOCIATION OF AMERICAN RAILROADS**



**BEFORE THE**  
**AMERICAN ASSOCIATION OF STATE HIGHWAY**  
**AND TRANSPORTATION OFFICIALS**  
**NATIONAL FREIGHT TRANSPORTATION AGENDA**

**FEBRUARY 27, 2008**

**Association of American Railroads**  
**50 F Street NW**  
**Washington, DC 20001**  
**202-639-2100**

On behalf of the members of the Association of American Railroads (AAR), thank you for the opportunity to appear here today. AAR members account for the vast majority of railroad mileage, employees, and revenue in Canada, Mexico, and the United States.

### **Surface Transportation Reauthorization**

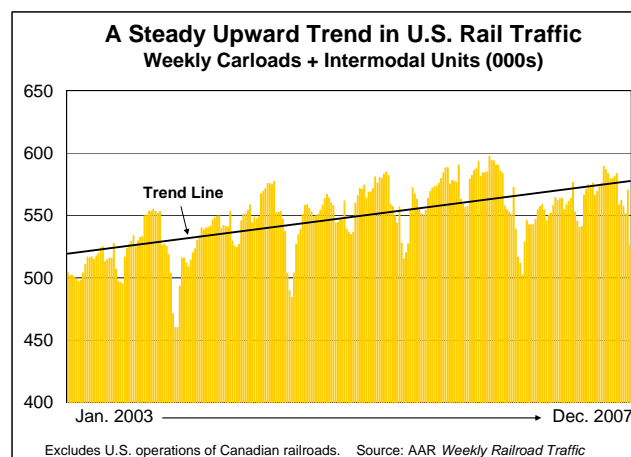
The AAR is currently formulating the railroad industry’s policy principles and recommendations for the reauthorization of SAFETEA-LU, so I cannot today tell you what our final recommendations will be. I can share with you, however, our interests in several areas:

- Expanding capacity in the freight railroad system;
- Improving safety, particularly at grade crossings; and
- Safeguarding the health of the industry.

### **The Case for Expanding Capacity in Freight Rail**

Freight railroads in the United States operate over an interconnected 140,000-mile network and account for some 40 percent of U.S. freight ton-miles. Freight railroads have historically paid for the overwhelming majority of their infrastructure and equipment investments themselves. From 1980 to 2007, U.S. freight railroads reinvested approximately \$420 billion — more than 40 cents out of every revenue dollar — on infrastructure and equipment, creating a rail network that is second to none worldwide. In recent years, U.S. freight railroads have typically spent \$18 billion to \$20 billion per year (after depreciation) to provide the high-quality assets needed for safe, efficient operation. This extraordinary level of spending demonstrates the diligence with which railroads approach capacity and service issues.

In recent years, railroads have been hauling more freight than ever before. This increase in traffic has reduced the amount of “spare” rail capacity, resulting in service and capacity constraints on some rail corridors and at some locations. Railroads differ in the degree to which



their capacity is constrained, but there is no question that there is much less room to spare on the U.S. rail network today than there was even a few years ago.

Demand for freight rail service is expected to grow sharply in the years ahead as our economy and population grow. According to the U.S. Department of Transportation, freight railroad demand will rise 88 percent by 2035. As their traffic grows, railroads will have to concentrate increasingly on building new capacity in addition to maintaining and replacing their existing capacity.

The magnitude of the looming rail capacity issue was borne out by a recent study by Cambridge Systematics, a prominent economic and transportation consulting firm. The purpose of the study, which focused on 52,000 miles of primary rail corridors, was to estimate the cost of the expansion in capacity necessary for U.S. freight railroads to handle the 88 percent traffic increase forecast by the DOT for 2035.

The study found that, if rail capacity needs are not properly addressed, by 2035 some 16,000 miles of primary rail corridors — nearly one-third of the 52,000 miles covered in the study — will be so congested that a comprehensive service breakdown environment would exist. (Today, less than 1 percent of rail miles are that congested.) Because our rail system is interconnected, this outcome would mean that the entire U.S. rail system would, in effect, be disabled.

The study estimates that an investment of \$148 billion (in 2007 dollars, including \$135 billion for Class I railroads and \$13 billion for short line and regional railroads) will be necessary for infrastructure expansion to keep pace with economic growth, meet the DOT's forecast demand, and maintain rail's current market share. That's in addition to the hundreds of billions of dollars necessary to maintain and replace existing rail infrastructure over the same period, and in addition to similar amounts required to maintain and replace locomotives, freight cars, and other equipment.

Railroads will continue to spend huge amounts of their own funds to help ensure that adequate rail capacity exists, but they will be unable to pay for the socially-optimal amount of rail capacity entirely on their own. Class I railroads anticipate being able to generate (through higher earnings and productivity gains) some \$96 billion of the \$135 billion in new capacity identified by the Cambridge Systematics study. That leaves a \$39 billion funding shortfall, or around \$1.4 billion per year.

To help address this funding gap, railroads support S. 1125/H.R. 2116, the “Freight Rail Infrastructure Capacity Expansion Act of 2007.” This legislation calls for a 25 percent tax credit for investments in new track, intermodal facilities, yards, other freight rail infrastructure projects, and locomotives that expand rail capacity. All businesses that make capacity-enhancing investments, not just railroads, would be eligible for the credit.

### **Public-Private Partnerships with Rail**

Railroads also support more public-private partnerships for freight rail infrastructure projects. As the American Association of State Highway and Transportation Officials (AASHTO) noted in its Freight Rail Bottom Line Report, “Relatively small public investments in the nation’s freight railroads can be leveraged into relatively large benefits for the nation’s highway infrastructure, highway users, and freight shippers.”

A rail infrastructure investment tax credit and more pronounced use of public-private partnerships would produce public benefits that far exceed their costs. For example:

- Railroads are fuel efficient. On average, railroads move a ton of freight 423 miles per gallon of fuel. And because railroads are, on average, three or more times more fuel efficient than trucks, every ton-mile of freight that moves by rail instead of truck reduces greenhouse gas emissions by two-thirds or more.
- Railroads fight highway gridlock. A typical train takes several hundred trucks off our highways. Railroads thus help reduce highway congestion, the costs of maintaining existing roads, and the pressure to build costly new roads. According to the Texas Transportation Institute’s 2007 Urban Mobility Study, the annual cost of highway congestion in the United States is \$78 billion just in wasted travel time (4.2 billion hours) and wasted fuel (2.9 billion gallons).
- According to the EPA, a typical locomotive is far cleaner than a typical truck in terms of pollution per unit of freight moved.

### **Why Public-Private Partnerships Are Important**

Public-private partnerships for rail infrastructure improvement projects provide a means for transportation planners and providers effectively to meet vital transportation needs by combining the efficiency of the private sector with the equity of public participation. These partnerships are an acknowledgement that private entities should pay for private benefits and public entities should pay for public benefits.

Partnerships reflect the fact that cooperation between interested entities is far more likely to result in timely, meaningful solutions to transportation problems than a go-it-alone approach. Without a partnership, projects that promise substantial public benefits in addition to private benefits are likely to be delayed, or never started at all, because it would be too difficult for either side to justify the full investment needed to complete them. In contrast, if a public entity shows it is willing to devote public dollars to a project equivalent to the public benefits that will accrue, the private entity is much more likely to provide the private dollars (commensurate with private gains) necessary for the project to proceed.

### **Public-Private Partnerships With Railroads Work**

The immense public benefits of freight railroading — including lower pollution and energy consumption; reduced highway gridlock; and enhanced mobility, safety, and security — would accrue more quickly if more public-private partnerships for freight railroad infrastructure projects were implemented. Public officials around the country have recognized this point, and have worked together with freight railroads on win-win partnerships, just a few of which are described below:

- The best known existing public-private partnership involving freight railroads is the *Alameda Corridor*, a \$2 billion, 20-mile rail expressway connecting the Ports of Los Angeles and Long Beach with rail yards near downtown Los Angeles. The partnership involves two highly-competitive railroads; two ports; and local, state, and federal governments. The Corridor began operations in April 2002 and is already providing public benefits, including expanded port capacity; reduced noise and congestion delays on local streets and highways; improved safety; major reductions in pollution from highway vehicles and locomotives; and more efficient freight rail movements.
- Perhaps the most extensive rail-related public-private partnership envisioned today is the *Chicago Region Environmental and Transportation Efficiency Program* (CREATE), a \$1.5 billion project involving the State of Illinois, the City of Chicago, and major freight and passenger railroads serving the region. CREATE's goal is to modernize and improve transportation in the region by separating tracks and highways to speed vehicle travel and reduce congestion and delays for motorists; updating track connections and expanding rail routes to reduce transit times; and adding separate, passenger-only tracks in key locations to remove bottlenecks that have slowed passenger and freight movements in the region for decades. The \$330 million first stage of CREATE is underway.
- A multi-state partnership is underway to increase the flow of consumer goods on the *Heartland Corridor* between the East Coast and Chicago by, among other things, raising the height of nearly 30 rail tunnels to allow use of efficient double-

stack containers. The project is also expected to aid in economic development along the corridor.

- In November 2005, trains began using the 2.2-mile *Reno trench* that separates trains running through downtown Reno, Nevada from motor vehicle traffic. More than 30 trains a day are expected to travel through the 33-foot deep trench, which is the result of a partnership involving a major freight railroad and numerous government entities. Funding for the \$282 million project came mainly from the railroad, municipal bonds, and the DOT's Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program. The project boosted downtown redevelopment efforts and eliminated 11 highway-rail grade crossings.

Importantly, AASHTO has been an avid supporter of public-private partnerships with railroads. In a January 2003 report, AASHTO noted that “[R]ealizing the public benefits of a strong freight-rail system at a national level will require a new partnership among the railroads, the states, and the federal government. . . . Relatively small public investments in the nation’s freight railroads can be leveraged into relatively large benefits for the nation’s highway infrastructure, highway users, and freight shippers.”

### **Freight Fund Proposals**

The Surface Transportation Policy and Revenue Study Commission fully recognized the importance of freight mobility to the health of the nation’s economy. It encourages policymakers to recognize freight rail’s inherent cost effectiveness, fuel efficiency, and environmental sustainability when making transportation infrastructure capacity decisions. It concludes that freight rail capacity needs to be expanded systematically and determines that freight rail market share should be increased. Importantly, the Commission recognizes that private investment is the key driver of freight rail expansion and that a successful national transportation strategy would recognize and oppose regulatory efforts that would squeeze private spending on expansion capital. The Commission also supports a federal investment tax credit for railroad capacity growth.

One of the recommendations of the Commission is the creation of a new freight trust fund. The railroad industry is currently evaluating this proposal and has not yet adopted a formal position. Clearly the industry remains opposed to a *railroad* trust fund that would single out the railroads and require them to pay not only for the private benefits of a railroad project, but for the public benefits as well. In his recent testimony before the Senate Environment and Public Works Committee, Matt Rose — BNSF’s Chairman,

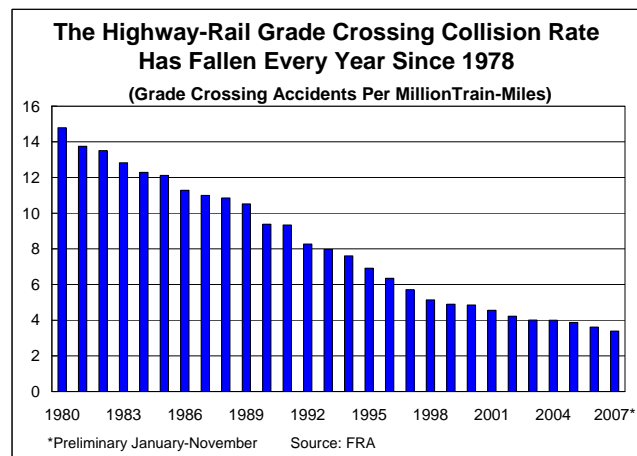
President, and CEO and member of the Commission — noted that the rail industry has long been opposed to that concept in part because there is little “trust” that the funds would flow to projects that meet the goals of an integrated goods-movement strategy, as opposed to the political earmarking process.

As the merits of this proposal are more fully evaluated and an examination made of the impact of various funding source scenarios, we hope to work with AASHTO and our freight stakeholder partners to develop a common position.

### **Improving Safety at Grade Crossings**

The U.S. railroad industry has an excellent — and improving — safety record, reflecting the extraordinary importance railroads place on the safety of their employees and the communities they serve. As a Federal Railroad Administration (FRA) official noted in testimony to Congress in February 2007, “The railroads have an outstanding record in moving all goods safely.” In fact, 2006 was the safest year overall for rail safety ever, and preliminary data suggest that 2007 data was even better.

That said, railroads are working hard to further improve rail safety, including grade crossing safety. From 1980 to 2006, the number of grade crossing collisions fell 72 percent, injuries fell 73 percent, and fatalities fell 56 percent. The rate of grade crossing collisions has fallen every year since 1978, a reduction that is even more impressive when one considers the huge increase in motor vehicle traffic over this period. These reductions in grade crossing incidents are the direct result of intensive efforts by railroads and others (especially Operation Lifesaver) to educate the public about the dangers of grade crossings; the closure or grade separation of thousands of crossings; and the “Section 130” program.



The Section 130 program was created by the Highway Safety Act of 1973. Under the program, funds are allocated to states each year for installing new active warning devices (such as lights and gates), upgrading existing devices, and replacing or improving

grade crossing surfaces. SAFETEA-LU increased Section 130 funding to \$220 million per year, up from around \$155 million. Since its inception, the Section 130 program has helped prevent tens of thousands of injuries and fatalities.

Railroads strongly favor a continuation of Section 130 as a budgetary set-aside. Without it, grade crossing needs would likely fare poorly in competition with more traditional highway needs such as capacity expansion and maintenance. In fact, the primary reason that a separate grade crossing safety improvement program was created in 1973 was that highway safety, and especially grade crossing safety, traditionally received a low priority for available highway funds.

### **Opposing Reregulation of Freight Railroads**

The partial deregulation of U.S. freight railroads via the Staggers Rail Act of 1980 sparked a rail industry transformation. It has led to hundreds of billions of dollars of reinvestment in rail infrastructure and equipment, markedly improved rail service, higher traffic levels, and far safer operations — in addition to average rail rates that are down by more than 50 percent.

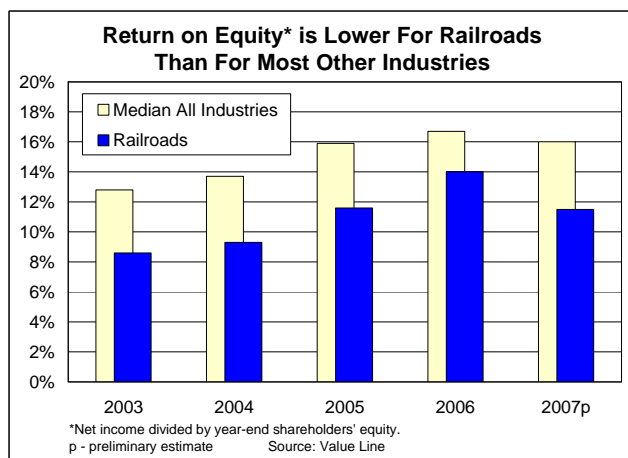
Despite these tremendous successes, some groups want Washington to take a far more intrusive role in rail operations and force railroads to cut their rates to many customers to below-market levels. Rail reregulation would be disastrous. It would prevent railroads from earning enough to maintain their existing systems, much less build the substantial new capacity needed to handle our growing freight transportation demand. Reregulation would mean less rail capacity when we need much more, and more freight moving on already-overcrowded highways.

The most recent proposal to reregulate railroads is S. 953/H.R. 2125, the so-called “Railroad Competition and Service Improvement Act of 2007” in the 110<sup>th</sup> Congress. Like similar bills offered from time to time since Staggers (all of which Congress has rejected), S. 953/H.R. 2125 includes a variety of provisions that would, in one way or another, force railroads to lower their rates to below-market levels for certain favored shippers at the expense of other shippers, rail employees, and the public at large. Billions of dollars in rail revenue could be lost each year.

This would take railroads away from the financial sustainability they need to pay for their needed investments. Artificially-lower rates brought about by reregulation would translate directly into lower rail earnings. This, in turn, would inevitably lead to lower spending on rail infrastructure and equipment; a deteriorating physical plant; and slower, less responsive, and less reliable rail service — outcomes that are incompatible with a growing, healthy economy.

Proponents of reregulation ignore the fact that rail investments in infrastructure and equipment, like most private investment decisions, are driven by expected returns. In order to expand infrastructure and service, railroads must — like every other business in a free market economy — obtain from their customers the resources necessary to support the growth their customers want and need

It is true that railroads’ financial health has improved over the past couple of years. But even in 2006, when railroads hauled more freight than ever before, their “record” earnings were still below most other industries. In other words, the best financial performance in decades for railroads was no better than ordinary when compared to other industries.



Improved rail earnings were a primary goal of rail deregulation in the first place. The effectiveness of deregulation in this regard should not lead anyone to conclude that it is no longer needed. That would be like a doctor telling a patient who had ingested poison that the antidote for the poison worked, so now the patient should have more poison.

As noted above, even without reregulation, railroads will be unable to pay for socially-optimal rail capacity entirely on their own. With reregulation, they would be able to fund far less. As the Congressional Budget Office recently noted, “As demand increases, the railroads’ ability to generate profits from which to finance new investments will be critical. Profits are key to increasing capacity because they provide both the incentives and the means to make new investments.”

America has a great freight rail network. It just needs more of it, and reregulation will not help achieve that.

### **Opposing Increases in Truck Size and Weight**

Truck size and weight (TS&W) limits on federal highways were frozen by Congress in 1991, largely in response to concerns about the safety of longer and heavier trucks. Under current law, trucks operating on most of the 46,000-mile U.S. Interstate Highway System can have a gross vehicle weight of no more than 80,000 pounds. (A few sections that allowed higher weights in 1991 were grandfathered.) Longer combination vehicles (LCVs — a tractor with two or more trailers having gross vehicle weight of more than 80,000 pounds) are limited to certain highways in 21 mostly western states that allowed such trucks before 1991.

Trucks are, and will continue to be, absolutely critical to freight transportation and our economy. But railroads believe that current TS&W restrictions are essential to protect the nation's highway infrastructure, avoid increased highway congestion, and prevent environmental degradation. Motor carriers already underpay their cost responsibility by billions of dollars per year. According to the U.S. Department of Transportation's Highway Cost Allocation Study, combination trucks weighing 80,000 to 100,000 pounds pay just 50 percent of the cost of the damage they cause to the highway system. Trucks weighing more than 100,000 pounds pay only 40 percent.

Likewise, the National Surface Transportation Policy and Revenue Commission noted in its January 2008 report that "heavy trucks pay less than their share of highway costs." The Commission notes that this violates a tenet of highway taxation, dating back to the creation of the Highway Trust Fund, that "different vehicle classes should be charged in proportion to their contribution to highway investment requirements."

This huge underpayment means that a substantial portion of the cost of building and maintaining the trucking industry's infrastructure is subsidized through fuel and other taxes paid by others. Liberalizing truck size and weight limits would significantly exacerbate this inequity as more freight moved on heavy trucks.

Moreover, because many parts of the interstate highway system were built to standards not conducive to longer and heavier truck configurations, their widespread use would require tens of billions of dollars of new spending to strengthen and/or replace

bridges and pavement, and possibly to widen vehicle lanes and shoulders. Already, based on the FHWA's Conditions and Performance report for 2006, nearly 158,000 highway bridges (27 percent of the total) are structurally deficient or functionally obsolete, and 15 percent of vehicle-miles traveled are on pavements with ride quality rated less than "acceptable." The already-enormous financial burden of repairing highway infrastructure would increase sharply if TS&W limits were raised.

Finally, increased TS&W would reduce truck operating costs, leading to lower truck rates and a considerable diversion of traffic from railroads to highways. A 1999 U.S. DOT study found that, depending on the scenario, increased truck sizes and weights would result in a decline in rail revenue of between \$2.9 billion and \$6.7 billion; a decline in railroad return on equity of 32–46 percent; a decline in rail car-miles of 4–20 percent; and a decline in the contribution to railroad fixed costs of between \$2.1 billion and \$3.1 billion.

As the contribution to railroads' fixed costs declined, less funding would be available for current and future rail investments, and fewer such investments would be made — leading directly to reduced capacity, degraded service, and, eventually, further disinvestment. Remaining rail customers would face higher rates, reduced service, or both.

An expansion of TS&W limits would make it even more difficult for railroads to fund the rail capacity our nation needs.

### **Supporting Passenger Railroads**

Our nation's privately-owned freight railroads are successful partners with passenger railroads all across the country. More than 95 percent of the miles over which Amtrak operates are owned by freight railroads, and hundreds of millions of commuter trips each year occur on commuter rail systems that operate at least partially over tracks or right-of-way owned by freight railroads.

Going forward, capacity will likely be the most important factor shaping the relationship between freight and passenger rail. As noted earlier, U.S. freight railroads are moving more freight than ever before, creating capacity constraints on important rail corridors and points throughout the U.S. rail network. And since demand for freight rail is projected to rise sharply in the years ahead, serious capacity issues will remain with us.

Freight railroads are vital to our economy, lowering shipping costs by billions of dollars each year; providing our farmers, manufacturers, and miners a tremendous

competitive advantage in the global economy; and producing huge public benefits. But if passenger railroads impaired freight railroads and forced freight onto the highways, highway gridlock would get worse; fuel consumption, pollution, and greenhouse gas emissions would rise; and our mobility would deteriorate — outcomes that are completely contrary to the goals of expanding passenger rail in the first place.

Freight railroads want passenger railroading to succeed in this country. Passenger rail progress, though, must be complementary to — not in conflict with — freight rail development. That means that we have to work together to address these challenges.

## **Conclusion**

In the years ahead, a rapid increase in our nation's traffic will stretch already constrained transportation infrastructure, including railroads. Meeting this challenge is a critical and difficult task. If not done effectively, it will weigh heavily on our nation's productivity and quality of life.

Enhanced freight rail transportation must be part of the solution. While railroads have made tremendous strides in improving their ability to serve their customers efficiently and reliably, the challenges of operating a rail system capable of meeting future needs is daunting and will require the benefit of effective public policy. Freight railroads look forward to working with this organization, others in Congress, and other appropriate parties to help ensure that the U.S. freight rail network remains the best in the world and continues to effectively meet our country's freight transportation needs.



WORLD SHIPPING COUNCIL  
PARTNERS IN TRADE

Statement of

Anne M. Kappel

Vice President of the

World Shipping Council

Regarding

National Freight Transportation Agenda

Before the

American Association of State Highway Transportation  
Officials (AASHTO) Freight Transportation Policy Team

February 27, 2008

Mr. Chairman and Members of AASHTO, thank you for the opportunity to speak with you today. My name is Anne Kappel and I represent the World Shipping Council, a non-profit trade association representing international ocean carriers, established to address public policy issues of interest and importance to the international liner shipping industry. The Council's members include the full spectrum of ocean common carriers, from large global operators to trade-specific niche carriers, offering container, roll-on roll-off, car carrier and other international transportation services. They carry roughly 93% of the United States' imports and exports transported by the international liner shipping industry, or more than \$500 billion worth of American foreign commerce per year.<sup>1</sup>

I serve as Chairperson of the Intermodal Committee of the Marine Transportation System National Advisory Council (MTSNAC), which is chartered to advise the Secretary of Transportation on issues affecting the marine transportation system as well as serve on the Board of Directors of the Containerization and Intermodal Institute, whose primary mission is to provide and promote education about container shipping and intermodal transportation. Additionally, I am pleased

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<sup>1</sup> More information about the World Shipping Council can be at [www.worldshipping.org](http://www.worldshipping.org).

to participate in the Freight Stakeholder's Coalition, which is comprised of all sectors of the supply chain as well as state and local government interests, including AASHTO.

Clearly our members have an interest in efficient goods movement within the United States and we congratulate AASHTO for bringing together various stakeholders to share views on this topic. We have not formulated specific policy positions on the questions you raise but we are pleased to offer a few thoughts.

I would like to first briefly comment on the idea of a "U.S. freight transportation system." Use of this term implies that a "freight system" operates independently of other transportation systems but as we all know - today that is just not the case. And, particularly for highways, it is not likely to be the situation for many decades - if ever. So, although we certainly have a very real interest in improving freight transportation, we struggle with solutions that seem to presuppose that we have a "freight transportation system" in place upon which we can focus our efforts. This is by no means intended to mitigate the importance of goods movement to our economy; nor will it deter our efforts to increase awareness of that importance. It is however meaningful when we begin to discuss solutions to the infrastructure problems facing this country.

You first asked why it is important to increase investment in the U.S. transportation system. The short answer is that all independent analyses that we have seen indicate that more money is needed for two primary reasons: 1) to make up for the shortfall of years of under-investing and 2) to expand capacity. At the same time, those analyses consistently point to inefficiencies and waste, which erode the impact of monies that have been made available. In business, when investment is needed to sustain the business and no new revenue source exists for that investment, the business is held accountable to find the needed funds through cost reduction and efficiency improvement. We must hold government (s) accountable to do the same thing.

The need to have these types of improvements directly impacts the answer to your second question, "What investments are most needed?" For example: Successfully expanding capacity in many cases does not require more roads - it requires better, more consistent use of the ones that exist. This is the primary rationale behind the concept of HOT lanes and other variable pricing tools. In fact, PIER PASS is a *private sector* initiative to use variable pricing to even the flow of truck traffic moving on the roads in and out of the ports of Los Angeles and Long Beach. It has been very successful and serves as a potential model for other locations with similar problems.

We hear from many experts, particularly in recent testimony before Congress, that variable pricing programs of various kinds are an important tool and should be used to expand the capacity of the existing system. We also hear that there are many limitations on where these tools can be used effectively to increase

capacity. Debate resulting from the Policy Commission report has led to calls for the Department of Transportation to quantify the dollar impact of recommended cost reductions and process improvements to the existing programs; as well as provide a more detailed analysis of where and how variable pricing programs could improve existing capacity. We believe these two inputs are necessary to meaningfully answer the "what investments are most needed" question.

In the meantime, the liner shipping industry has invested over \$200 billion to create an efficient global network that connects U.S. businesses and consumers with the rest of the world. The industry will continue to invest in ships, port terminal development and other landside infrastructure, and will do so at levels necessary to accommodate projected growth. At the same time, it is important to recognize that the international trade moving through seaports represents only about a third of the total truckload volume of international trade that must be accommodated in the U.S. transportation system. In fact, international shipments by all modes represent just 10% of the volume (by weight) of all freight shipments.

Despite the enormous investment required to service a relatively small percentage of all goods moving in the U.S., our industry has only asked that the U.S. government assist our investment efforts by removing regulatory impediments and expediting the approval processes.

This brings me to your last question, "How should the revenue for freight transportation investment be generated?" At this point, we can endorse the premise of the U.S. Chamber that "no option should be off the table." But this is only because we believe it appropriate to explore all options before finalizing a plan. We strongly endorse the Policy Commission's recommendation that no change to the existing revenue funding mechanisms be made unless substantive change is made to the programs and processes for spending that revenue. And our business experience has taught us that the program and process changes need to be identified and the value of them quantified, before one should determine the revenue needs.

Further, we should seek quantification of where and how existing capacity can be expanded. Quantification of these items should give us a clearer picture of the revenue shortfall than the broader analyses that have been done to date. Lastly, if new "user-pays" programs are contemplated, we believe it is important to ensure that all users are contributing equitably. That may mean implementing multiple programs, which can add to the administrative cost burden, which in turn requires us to carefully weigh the cost of such implementation versus an alternative plan that would simply increase current fees – like tolls, gas tax, tire tax, and others.

Thank you for the opportunity to offer some perspectives on this important debate.

## Executive Summary

The Canadian, U.S., Ontario and Michigan governments<sup>1</sup> are conducting a Planning Needs and Feasibility Study to provide a long-term strategy that will ensure the safe and efficient movement of people, goods and services between Southeast Michigan and Southwest Ontario. The study will assess the existing transportation network, including border crossings, and will identify transportation alternatives, including new crossings, to meet the medium- and long-term needs in the region of Southeast Michigan and Southwest Ontario.

The context under which this study will be carried out, the justification for the project and the issues and opportunities to be addressed by the study will be documented in the **Transportation Problems and Opportunities Report** of which this Strategic and Geographic Area Overview Working Paper is the first product. It is the purpose of this document to establish the existing conditions that will permit an evaluation of need.

The Broad Geographic Area of the study extends from approximately London, Ontario on the east to near Battle Creek, Michigan on the west. The area includes the St. Clair River on the north and the Detroit River on the south. The major federal/provincial highways are Highways 401 and 402 in Ontario and I-69, I-94, I-75, and I-96 in Michigan. The border crossings include the Blue Water Bridge (BWB) between Sarnia, Ontario and Port Huron, Michigan, the Ambassador Bridge (AB) and the Detroit-Windsor Tunnel (DWT) between Windsor, Ontario and Detroit, Michigan, as well as rail tunnels and ferries across the St. Clair and Detroit Rivers.

Notable findings of the data reviewed to date include:

- Eighty-seven percent of the value of total Canadian worldwide exports is to the U.S., and forty-one percent of this trade, as measured by value, crosses the Ambassador Bridge or the Blue Water Bridge. The majority of this trade is automotive related.
- The Detroit River crossings handle two to three times as much freight traffic by value and almost twice as much by tonnage as does the Blue Water Bridge.
- The vehicular crossings in Southwest Ontario / Southeast Michigan are the busiest of all Canada – U.S. border crossings and the Ambassador Bridge carries more commercial vehicles than any other U. S. border crossing. Each of the vehicular crossings is tolled and there are Customs and Immigrations inspection stations on both sides of the border.
- Table 2.1 shows the facilities available to handle tolls and inspections at the two bridges and the tunnel.
- The events of September 11, 2001 changed the context of U.S. / Canada border security. With the twin and competing pressures of elevating the level of security and ensuring the free flow of people and trade, the two nations began creating a new template for border management. On December 12, 2001 the

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<sup>1</sup> Transport Canada (TC), Ontario Ministry of Transportation (MTO), U. S. Federal Highway Administration (FHWA), Michigan Department of Transportation (MDOT).

two nations issued "The Canada-U.S. Smart Border Declaration: Building A Smart Border For The 21st Century On The Foundation Of A North American Zone Of Confidence." (Appendix B)

**TABLE 2.1 ROADWAY CROSSING FACILITIES**

Crossing	Traffic Lanes (to US / to CAN)	Toll Booths (to US / to CAN)	Inspection Lanes for Trucks (to US / to CAN)	Inspection Lanes for Autos (to US / to CAN)
Ambassador Bridge	2 / 2	13 / 18	7 / 10	12 / 10
Detroit-Windsor Tunnel	1 / 1	6 / 5	3 / 3	10 / 9
Blue Water Bridge	3 / 3	6 / 5	5 / 7	8 / 12

Source: Southeast Michigan / Southwest Ontario Binational Transportation Planning Project, November 2001.

- In February, 2002 the announcement was made that the U. S. Customs service would hire 285 additional officers for five Northern state border crossings. It is estimated that 78 of these new officers will be deployed to Detroit and 16 to Port Huron by the end of 2002.
- Reports from border crossing operators and users indicate that the major near-term challenge to reducing travel time across the borders is the need for security checks and the number of staff and facilities assigned to this function.
- International trade carried by trucks is projected to increase at an average annual rate of four to five percent.
- From 1995 to 2001, cross-border truck crossings and railcar crossings averaged 5.2 percent and 6.6 percent annual growth, respectively. The proportion of trucks to total vehicle crossings at these ports is increasing steadily and now represents approximately 20 percent of total traffic.
- The choice between using the BWB route and the AB-DWT route is based on a number of factors including: a trip-end in the vicinity of one of the crossings, access to the southbound I-75 corridor in the U.S.
- There is more than one mode of travel between Ontario and Michigan and a variety of factors ranging from direct cost, to delays, to Customs issues will play a part in determining if a particular movement uses road, rail, or water.
- On each of the border crossings, the roadway capacity of the facility itself will not become a factor until issues of tollbooths, Customs inspection stations and local access/egress are at a level that will permit free flow on the facility. Even under such "free flow" conditions, roadway capacity on the Blue Water Bridge is unlikely to become a limiting factor with three lanes of traffic available in each direction.

- The six-lane BWB has adequate capacity provided by a recently opened three-lane “twin” bridge. The DWT has just two-lanes that reach capacity at peak hours and the four-lane AB is projected to reach capacity sometime between 2011 and 2021.
- There are important access and capacity issues on the approaches and/or plazas of each of the border crossings. The DWT begins and ends in the central business districts of Detroit and Windsor and faces daily congestion issues in each city. A new plaza is in design for the U.S.-side of the AB but Huron Church Road, the Windsor approach to the bridge, is facing significant congestion problems when delay occurs at the border crossing. Redesign of the BWB’s U.S. plaza is underway.

## Next Steps

The context under which this study will be carried out, the justification for the project and the issues and opportunities to be addressed by the study will be documented in the **Transportation Problems and Opportunities Report**. This Transportation Problems and Opportunities Report is a compilation of five technical tasks:

- Strategic and Geographic Area Working Paper;
  - Will set the context of the study in terms of identifying jurisdictions involved and their respective legislation and policies, which provide the framework for this study.
- Travel Demand Analysis Process Working Paper;
  - Determines the appropriate methodology to be used for travel demand forecasting that will reveal patterns and volumes of the movement of people and goods.
- Existing and Future Travel Demand Working Paper;
  - The description, analysis and assessment of existing and future scenarios for road and rail networks to develop a quantitative and qualitative understanding of travel demand.
- Analysis Area Working Paper;
  - The rationale for the identification of, use of, and boundaries of, a Focused Analysis Area within which feasible alternatives will address the transportation problems of the region.
- Environmental Overview,
  - Inventory existing conditions within the Focused Analysis Area to assist in the generation and evaluation of alternatives.

The **Transportation Problems and Opportunities Report** will serve as the basis for the identification, development and assessment of transportation alternatives. Subsequent tasks will lead to the identification of a long-term transportation strategy to address the transportation problems of the region.

# Coalition for America's Gateways and Trade Corridors

Written Submission of  
Mortimer Downey, Chairman  
Coalition for America's Gateways and Trade Corridors  
American Association of State Highway and Transportation  
Officials  
Hearing on National Freight Transportation Agenda  
Wednesday, February 27, 2008

The rapid and cost efficient movement of goods throughout the U.S. supply chain, particularly through our trade gateways and corridors, is vital to securing America's economic future and maintaining our competitiveness in world markets. Trade, as a percentage of the U.S. GDP, has been steadily increasing during the past quarter century, rising from 13% in the 1990s. Today, it is 30% and it is expected to grow to 35% in 2020 and 60% by 2035. Explosive growth in recent years, improvements in manufacturing processes and new technology are continuing this trend and placing an ever-greater strain on the capacity of our goods movement transportation network.

Import and export freight movements, whether by rail, truck, ship or air, are a crucial link in the \$7 trillion commodity flow fueling the U.S. economy today. The chokepoints that are developing at the nation's major gateways and trade corridors do not just result in congestion and increased impacts on the environment; they also serve as trade barriers. Manufacturers and agricultural producers across the nation depend on this infrastructure to get their products to international markets. American businesses and families rely on the goods movement system to bring products to their shelves and homes.

Despite these compelling figures, we do not have consensus around a national freight plan or program to document, anticipate or provide for our

*National Association of  
Regional Councils*

*National Corn Growers  
Association*

*National Railroad  
Construction and  
Maintenance  
Association, Inc.*

*OnTrac*

*Orange County  
Transportation Authority*

*Parsons*

*Parsons Brinckerhoff*

*Port Authority of New  
York/New Jersey*

*Port of Cleveland*

*Port of Long Beach*

*Port of Los Angeles*

*Port of Oakland*

*Port of Pittsburgh*

*Port of Seattle*

*Port of Stockton*

*Port of Tacoma*

*RAILCET*

*River of Trade Corridor  
Coalition*

*Riverside (Calif.) County  
Transportation  
Commission*

*San Bernardino  
Associated  
Governments*

*San Gabriel Valley  
Economic Partnership*

*Seattle Department of  
Transportation*

*Southern California  
Association of  
Governments*

*Spokane Regional  
Transportation Council*

*Tennessee Department  
of Transportation*

*Washington State  
Department of  
Transportation*

*Wilbur Smith Associates*

*ACS State and Local  
Solutions*

*Alameda Corridor-East  
Construction Authority*

*American Standard  
Companies*

*City of Chicago*

*Delaware River Maritime  
Enterprise Council*

*Delaware Valley Regional  
Planning Commission*

*DMJM-Harris*

*FAST Corridor  
Partnership (Seattle-  
Tacoma-Everett)*

*Florida East Coast  
Railway*

*Florida Ports Council*

*Florida Trade and  
Transport Council*

*Gateway Cities Council of  
Governments*

*Hatch Mott MacDonald*

*HELP, Inc.*

*HERZOG*

*HNTB*

*Illinois State Department  
of Transportation*

*Jacobs Carter Burgess*

*Los Angeles County  
Metropolitan  
Transportation Authority*

*Los Angeles Economic  
Development Corporation*

*Majestic Realty Co.*

*Memphis Chamber of  
Commerce*

*Mi-Jack Products, Inc.*

*Mississippi State  
Department of  
Transportation*

*Moffatt & Nichol  
Engineers*

*National Association of  
Industrial & Office  
Properties*

the first half of the twentieth century is still being relied on today, with some facilities utilized well beyond design capacity while others are no longer as useful in today's economic patterns. State DOTs and regional transportation planning authorities are scrambling to meet the maintenance demands of our existing system, while the declining federal funding source – the motor fuels tax – is expected to be unable to cover currently authorized spending as early as 2009.

Critical to any solution is the establishment of a dedicated federal fund, such as a Freight Trust Fund (FTF) or similar *dedicated* account, whose revenues are predictable, sustained, firewalled from other uses, and committed to infrastructure that enhances the movement of goods. In the next section of this statement, I would like to identify the principles that should drive decisions about the FTF, some thoughts as to how funds might best be used, and some suggestions about the potential sources of revenues.

The FTF should be comprised of existing and new revenue sources. Besides traditional revenue sources from the federal HTF, additional monies must come from beneficiaries of freight infrastructure improvement and be based on the following principles:

- The price of goods should support and internalize some portion of the cost of expanding related infrastructure, such that growth in demand for moving goods delivers proportional funding for related infrastructure improvement.
- All potential funding mechanisms and sources should be considered and fees assessed on user benefit.
- FTF revenue sources should be predictable, dedicated and sustained.
- The FTF should be financed from a wide variety of user fees, so that no one user group is disproportionately affected with the recognition that the consumer is the ultimate beneficiary.
- Funds should be available to support projects of various size and scope, but with special priority for projects of national significance.
- Funds should be available to support multi-jurisdictional and multi-state projects.
- While the current federal gasoline tax should continue to be dedicated to the traditional core programs, a small percentage of any future increase in the gas tax should be

dedicated to the FTF, reflecting the real benefit to the driving public from freight projects that relieve highway congestion.

- Fund distribution should be based on objective, merit-based criteria, with higher-cost projects subject to more stringent evaluation than lower-cost efforts.
- Long-term funding should be made available in a manner similar to Full Funding Grant Agreements to ensure that once a project is approved, funds will flow through to completion.

In practice, the FTF should be established either as a separate entity or as a dedicated, firewalled freight account within the HTF to collect fees, retain unexpended balances and liquidate annual appropriations, in order to give assurance to those who pay into the fund that it will be fully used for the designated purposes.

Overall, FTF funds for support of major freight investments should be distributed in a manner consistent with the process and procedures detailed by the Congress in SAFETEA-LU for Projects of National and Regional Significance (PNRS). Assuming Congress keeps the PNRS program in the next reauthorization and does not earmark the funds, the PNRS criteria would serve as a formula for discretionary allocation.

Finally, with respect to sources of funding, FTF contributions should come from a variety of independent new sources to supplement existing revenues in a way that will fairly share the burden of cost for system development and maintenance among users/beneficiaries commensurate with their use of facilities. All users of the freight transportation system should be required to contribute to the FTF. Revenue streams should also be as diverse as practicable to ensure FTF income is resistant to economic cycles and will grow to keep pace with demand for infrastructure and inflation. At least four types of revenue sources should be considered to provide the equitable, diverse and stable revenue stream necessary:

- **Motor fuel user fees** – gasoline, diesel, alternatives including gasohol, biofuels, and railroad fuels;
- **Direct vehicle fees**, such as new registration, use and sales;

- **Indirect use fees**, such as dedicated national sales taxes and proxies based on cargo weight or value such as bill of lading, cargo facility charges or freight consumption fees; ports that don't need harbor maintenance could be allowed to redirect harbor maintenance tax receipts collected at their ports to the FTF; customs fees are generated by trade and applying a portion of these monies to support the infrastructure necessary to conduct that trade is a logical and fair use; and,
- **Longer term fees** established to offset reductions in fuel taxes as consumption moves away from gasoline and diesel, including carbon emission fees, weight distance taxes of all surface-based vehicles and other vehicle mileage taxes.

While the FTF would provide a dedicated source for freight project funding, participation in this program should not preclude projects from seeking funding from existing sources, reflecting the multiple benefits they can provide.

Looking beyond the financing mechanisms immediately available, additional sources made possible by the phasing in of new technologies into America's transportation fleet may offer long-term solutions. Chief among these are ton-based fees and ton-mile taxes which have the added benefit of improved cost allocation.

These new revenue sources could effectively measure "freight consumption" in small increments and be incorporated in the consumer price of goods reducing public opposition while concurrently removing modal biases and state-by-state equity issues.

At the state and local levels, federal policies should provide transportation planners with the largest toolbox of financing options possible to enable them to move freight projects forward as quickly and efficiently as possible. This is vital to support the development of local projects and connectors, in addition to the necessity of raising funds to match federal FTF monies.

Among the tools federal policy should enable are tolling of new facilities, innovative financing, private investment and public-private partnerships. Creative solutions are needed to increase capital sources. In addition, general fund allocations are an important tool at the state and local

levels and federal FTF funding should be structured to incentivize and reward state and local investment.

Sustainable goods movement lies at the center of our quality of life, not only for the availability of consumer products, but because of transportation's impact on land use, energy consumption and environmental quality. Improvements to freight infrastructure can result in reduced congestion, better air quality and less time and fuel wasted.

The anticipated acceleration of trade, combined with domestic growth, has created millions of new job opportunities and a higher standard of living for Americans. But these benefits will last only if we are able to keep it all moving.

**Remarks by EZRA FINKIN**

**Representing THE WATERFRONT COALITION**

**Before**

**THE AMERICAN ASSOCIATION OF STATE  
HIGHWAY AND TRANSPORTATION OFFICIALS**

**Washington, DC  
February 26, 2008**

I would like to thank you for extending an invitation to brief your group concerning the views of the Waterfront Coalition of the future of federal funding for freight. We certainly appreciate the attention to the urgent needs of freight mobility.

By way of background, the Waterfront Coalition represents cargo owners moving freight through America's blue water ports. We are importers and exporters, retailers, product suppliers, agricultural producers, and manufacturers. The Coalition also includes transportation providers that carry this freight. Our members rely on the nation's freight transportation infrastructure to ensure that products reach store shelves and factory floors here in the U.S. and producers fill orders in overseas markets. We have an interest in making sure that this transportation network operates efficient and remains well maintained. The Coalition was formed largely to promote business practices changes to streamline supply chains to make the most of existing infrastructure. However, business practices alone cannot solve the current freight congestion crisis. Clearly, the nation's freight transportation infrastructure must be expanded to meet current and future capacity.

First, I would like to use the recently published Surface Transportation Policy and Revenue Commission Report as a jumping off point to discuss freight finance. The recommendation for the establishment of an independent Commission to select "must complete" projects is a sound policy and one that cargo owners will probably support. Such a proposal would objectively channel limited funding toward those projects that have the greatest benefit in terms of reducing costly cargo delays. For this reason the Waterfront Coalition endorsed the Department of Transportation's proposed rule on the "Projects of National and Regional Significance".

The Commission Report also calls for the establishment of a federal freight fee alongside traditional sources of funding to help pay for these projects. The Waterfront Coalition is not opposed to user fees provided they meet certain criteria - primarily that all users, not some users, pay. Fee revenue must be firewalled and revenue cannot be used to pay for initiatives outside the scope of moving freight. While the Commission report mentioned the concept of a federal freight fee, the report fell well short of a concrete recommendation. The Waterfront Coalition cannot endorse the concept of a federal freight fee without knowing all details of such a user fee.

I would like to briefly mention several freight user fee proposals and briefly discuss our concerns with these financing mechanisms.

*Fees on Shipping Containers:* Such a fee could only be applied to import and export cargo giving domestic freight and other cargoes (such as bulk commodities, automobiles and other project cargoes) a "free ride" on any infrastructure paid through such a fee. Also, the collection of the fee at the federal level could prove problematic since the federal government does not count shipping containers. Finally, fees on export cargo could be challenged in federal court while import fees could violate multilateral trade obligations.

*Customs Revenue Earmarks:* Once again, this fee unfairly falls only on importers that pay tariffs. Exporters, domestic freight and many other importers would receive a “free ride” on any infrastructure funded by tariff revenue. There remain a large number of importers that do not pay any Customs duties. Given new free trade agreements and trade preference programs, a growing number of importers do not pay tariffs. Also, roughly half of the roughly 20 billion dollars collected each year from trade tariffs is collected from low value apparel, footwear and other textiles for which there is very little domestic production. Already, legislation has been introduced to drastically reduce or eliminate these tariffs which would deprive funding for federal freight projects.

*Declared Value:* Legislation recently introduced would see a fee based on the value of imports and exports to pay for freight transportation. Once again, domestic freight is given a free ride. Secondly, the value of cargo transported should not remain an indicator of the use of transportation infrastructure. A shipper moving a multi-million dollar pallet of microchips does not use roads, highways and bridges more or less intensely than a shipper moving a container of low value garments.

As I mentioned earlier, the Waterfront Coalition is not opposed to the concept of a freight user fee provided that the fee structure meets certain criteria. Our group drafted a white paper in 2007 concerning the appropriate use of private sources of finance to fund goods movement infrastructure in California. Many, if not all, of these principle could be applicable at the federal level. I have included that document at the end of my testimony. Such a fee must equitable capture all users not just a few. Efforts should be made to first identify high priority international freight projects that include total project costs. Freight user fees could then be tailored to help pay for these specific projects but only when true project costs are known. Revenue must be firewalled and cannot be used to pay for projects beyond the scope of moving freight.

More importantly, any federal freight user fee proposal should also preempt any state, local and municipal efforts to collect similar fees. Without this authority, nothing prevents cities and states from imposing fees each and every time freight moves across boundaries. Federal preemption already exists in aviation and the same authority should be given to the federal government when it comes to moving freight by road and rail.

Finally, I must mention that our group has not formally endorsed federal freight fees. However, we will be meeting sometime in the spring of 2008 to discuss what form, if any, such a fee might take.

I appreciate the opportunity to provide these remarks and I look forward to your questions.

**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**

**March 26, 2007**

## **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 policies 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<sup>1</sup> 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.

This paper, endorsed by a number of association stakeholders in international intermodal transportation, will outline a public-private partnership designed to avoid constitutional

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<sup>1</sup> Growth of California Ports: Opportunities and Challenges, A Report to the California State Legislature, January 2007

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<sup>2</sup> 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.<sup>3</sup> 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.

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

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<sup>2</sup> 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.

<sup>3</sup> Goods Movement Action Plan, State of California, January 2007, pp I-2.

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 public sources 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.<sup>4</sup>

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.
5. The project must be well coordinated with other corridor projects and the authority must have the powers necessary to move forward with it.

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<sup>4</sup> 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.

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**

	<b>Alameda Corridor (Existing Fee)</b>	<b>SCIG (Private RR Funds)</b>	<b>Desmond Bridge (Toll)</b>
<b>Clearly identified private benefits</b>	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.
<b>Acceptable ROI</b>	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.
<b>Capital Project</b>	YES	YES	YES
<b>Voluntary</b>	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.
<b>Coordinated</b>	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.
<b>“Fire-walled”</b>	YES. The money is used for the corridor and no other purpose	YES.	YES. Revenues are required to remain within the authority.

	<b>Alameda Corridor (Existing Fee)</b>	<b>SCIG (Private RR Funds)</b>	<b>Desmond Bridge (Toll)</b>
<b>Transparency</b>	YES	NO. It's a private project.	YES. With the authority undertaking the project, there would be accountability as it is public financing and open to public scrutiny.
<b>Private Governance</b>	NO	YES.	UNKNOWN. We would propose that there be a role for private interests in the corridor authority commensurate with investment levels.
<b>Private \$ for private benefit</b>	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.
<b>User Pays?</b>	YES. The fee is applied ONLY to containers moving on the corridor. The fee is collected 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.
<b>Funding Form</b>	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.

# Coastwise Coalition

Statement of Paul H. Bea Jr., Chairman  
Coastwise Coalition  
On the National Freight Transportation Agenda of  
The American Association of State Highway and Transportation Officials  
February 27, 2008

I appreciate the opportunity to submit this statement on the developing significance of America's marine highways to the national transportation system and freight mobility. The Coastwise Coalition is an effort by a variety of associations, port authorities, businesses, maritime unions, and others to advance policies to enable the development of marine highways in the United States.

We advocate the use of marine transportation in the domestic movement of freight as well as passengers. Marine transportation can help the national transportation system meet the future mobility needs of this country. It can do it in an environmental and energy wise way, by employing new "lanes" of marine highways along the East, Gulf, Great Lakes and Pacific coasts and on the inland waterway system. As Congress recognized in the transportation provisions of the Energy Independence and Security Act (Public Law 110-140) the marine mode is the most fuel efficient.

In addition, the lesser landside impacts and the ability of vessels to transport hazardous cargo safely off-shore can be important factors in determining how the marine mode can be an essential part of the total surface system. Indeed, as a matter of policy the coastal and inland waterways—the marine highways—should be regarded, along with roads and rails, as part of the *surface* transportation system. This is not a veiled attempt at trying to qualify for Highway Trust Fund resources but recognition that goods movement more and more will entail the use of available options to get from point A to point B. A bridge or tunnel is built to span shore points. A marine highway can be a freight or passenger ferry that crosses a river or harbor. It can serve as new coastal lanes for long haul trucking. Today modal differences are distinctions of less significant than they once were and that distinction is diminishing further. Just as trucking now makes good use of intermodal rail services that it once spurned trucking will come to make use of intermodal marine services where it provides competitive service, much as it does in some parts of Europe.

As you well know many areas of the Interstate Highway System, particularly in coastal regions, are nearing the limits of capacity as are parts of the intermodal rail system. Additional transportation capacity for the next decades will be achieved through a combination of modes. Just as no single mode can bear that growing burden of traffic no mode should be excluded from the policy maker's efforts to plan for the expansion of capacity in our domestic transportation system.

It is notable that the I-95 Corridor Coalition is devoting resources to exploring the potential for marine highways to serve interstate travel on the east coast. Those commissioners of transportation are to be commended for taking the initiative. Much the same can be said of the Richmond MPO two hours south of Washington. It has approved CMAQ support for a new container barge service on the James River between Virginia's capital and the Hampton Roads international gateway. The objective is simple: to reduce the burden of import and export containers moving on that highly congested corridor.

There are other examples, to be sure. The Port Authority of New York & New Jersey's Port Inland Distribution Network initiative is an attempt to shift some volume of international containers to the rail and water modes. Doing so could result in environmental and other public benefits. It could stretch the capacity of that densely packed interstate transportation system in the northeast.

The Commonwealth of Massachusetts and Port Canaveral, Florida are party to a Memorandum of Agreement. They want to instigate a new long haul trailer service that would move some portion of domestic freight to the open coastal waters. New container service is scheduled to start between Brownsville, Texas and Tampa, Florida. That new company will join the CG Railway, an existing rail barge service between Mexico and Mobile, in providing efficient service and efficient new capacity not otherwise available between those markets. Lastly, a trucking company in California has proposed a very large project that would rationalize the routes of trucks on land in combination with coastal service in that state. While it faces some greater difficulty, that project has in common with the others a private and/or public sector desire to address transportation system capacity needs with intermodal marine transportation.

In the roughly eight years of the Coastwise Coalition's existence attention to the marine highway potential has grown. However such plans and operations as those mentioned above are out ahead of Federal policy, which with the exception of an infrequent CMAQ grant, offers little support or encouragement. As we anticipate congressional consideration of the surface transportation authorization bill, the question is whether Congress will take substantive steps to give transportation agencies resources to plan the timely development of marine highway capacity where it makes sense as part of the total surface system.

As I referenced earlier, last year Congress did take a step in the right direction. Section 1121 of the Energy Independence and Security Act of 2007 directs the Department of Transportation to establish a "short sea transportation" program and designate SST routes as extensions of the surface transportation system. The new law directs USDOT to work with states, regions and other entities to develop strategies to encourage SST development. The Department is expected to issue a rulemaking soon on how it will implement this program, albeit with no new funding. It is a modest first step that deserves to be supplemented with thoughtful surface transportation policy by the next Congress. House Transportation & Infrastructure Committee chairman Jim Oberstar and subcommittee chairman Elijah Cummings are to be applauded for having the foresight to advance the use of marine transportation where it can be put to work.

I urge AASHTO to ask Congress for tools in the next surface transportation bill that will assist the states and regions in exploring how marine highway development can contribute new system capacity and solve emerging problems.

Even before the next congress convenes, there is an opportunity for another forward policy step. The Senate Finance Committee has approved an exemption from the Harbor Maintenance Tax as it applies to domestic cargo on the Great Lakes and cargo moving from Canada to the U.S. in the Lakes and St. Lawrence System. That measure is a provision in S. 2345, which contains the aviation and other transportation tax provisions. Members of the Coastwise Coalition have urged the Administration, which endorsed the limited exemption, and Congress to broaden that exemption to include all domestic intermodal cargo moves. The active support of AASHTO could help achieve enactment of the exemption.

An exemption is a low cost way to support the development of new marine highway service capacity to the national transportation system. The Congressional Budget Office estimated de minimis (sub \$500,000) revenue effect in the instance of the Great Lakes exemption. A nationwide exemption is not expected to result in a revenue loss much more than that since there are few container shipping operations in the coastwise service.

Former Federal Highway Administrator and Deputy Commander of the US Transportation Command Ken Wykle is no stranger to the fine points of surface transportation policy nor to the potential of marine transportation. In his May 2007 speech on National Maritime Day, he noted how “Europe is effectively using high speed ferries and other vessels to move freight and avoid congested highways.” He said “it is time for a revolution in water transportation...to develop new water freight corridors.” “This revolution requires a public/private partnership arrangement. Private industry provides the technology and capital for construction of innovative commercial vessels in return for innovative government financing methods.” Later in his talk he noted that the water mode reduces fuel consumptions per ton mile and “provides an intermodal option to trucking companies helping them retain drivers by shortening their line haul and permitting them to be home with families at night.”

The former Federal highway leader suggested that government executives, “with congressional involvement, must take the lead, establish a government/industry group and figure out how to leverage government financial capability/credit worthiness and the power of the commercial industry.”

As many have suggested, this next surface transportation authorization bill necessarily will be a significant departure from the current and previous policies and programs. As you prepare AASHTO’s recommendations for Congress please consider how in some significant ways domestic freight transportation can be enhanced by greater integration of the marine mode with the land modes. This next generation of transportation policy should be open to and encourage such integration wherever the result could be more capacity and efficiency for goods and passenger mobility.

Is there reason for a Federal role in fostering marine highway development? Yes, much as there is a federally created interstate highway system, a long term domestic energy imperative, a global environmental interest, and a steady, upward graph line projecting coastal populations, vehicular traffic, and freight volumes. Some things we can’t leave just to the market place. That said, given the nature of marine transportation we can assume that the private sector will be a major player in marine highway development. As such, government can look for ways to partner with vessel operators, investors and others on the business side, much as Ken Wykle suggests.

Much has been made by advocates of marine highway development of the significant—even aggressive—policy changes that the European Union adopted to shift freight from congested roadways to open waterways. While many specifics in the EU initiative may not translate well to the American regulatory approach—or to our geography—Europe did something we would be wise to emulate. The EU looked to make use of an underutilized transportation resource and declared a new policy direction.

I urge AASHTO to lend its support for a new direction in U.S. policy that in turn will help states develop the system capacity they will need. A policy that would be appropriate for this country and our market place.

Thank you for this opportunity to share our views.