

**TESTIMONY OF JAMES T. MCDERMOTT, JR.
EXECUTIVE DIRECTOR
PHILADELPHIA REGIONAL PORT AUTHORITY**

**SENATE TRANSPORTATION COMMITTEE HEARINGS
WEDNESDAY, AUGUST 18, 2010**

Good Morning. I want to thank Senator Rafferty and Senator Stout for this invitation to appear before the Senate Transportation Committee today. I should note that this is the first time the Philadelphia Regional Port Authority has been invited to appear before this Committee and I believe that the invitation is reflective of the growing awareness, within the Commonwealth, of the importance of Pennsylvania's international seaport.

You are also to be heartily commended for the seriousness with which you are pursuing the challenge of funding the Commonwealth's vital transportation infrastructure network. As you well know, Pennsylvania is not alone in facing this problem. But I can think of no more urgent task, facing Pennsylvania, than assuring that commerce, so dependent on highways, bridges, railroads and ports, not be interrupted or retarded because of inadequate modes of transportation.

On July 10, 1989, Governor Robert P. Casey signed into law legislation creating the PRPA, the first such statute of its type enacted in modern Pennsylvania history. Among the legislative findings contained in that legislation is the following statement: “The long-term economic health of this Commonwealth requires reliable access to water-borne transportation on the Delaware River in conjunction with other forms of transportation.” So you see, right from the beginning, the General Assembly and the Governor recognized that ports are an essential, indeed vital, part of Pennsylvania’s transportation network.

Pennsylvania is fortunate in that there are port facilities in the Pittsburgh region and in Erie, although I like to think is it particularly fortunate that it has an international seaport in Philadelphia. Seaports are gateways to domestic and international trade, connecting the United States to the World. The Port of Philadelphia is one of 360 commercial sea and river ports in the United States. Because of this port system, food grown by American farmers reaches tables in Japan, Russia and the Far East. American manufacturers sell their goods and services profitably to a global market. In total, US ports and waterways handle

more than 2 billion tons of domestic and import/export cargo annually. By 2020, the total volume of cargo shipped by water is expected to be double that of 2001. The Port of Philadelphia is an important and historic part of this national maritime network.

Since its creation in 1989, hundreds of millions of tons of import and export cargo have been handled on our facilities and terminals. The Port of Philadelphia is a major generator of employment. Well over 5,200 direct and indirect jobs can be attributed to port activity annually. It has provided over \$29 million in Pennsylvania tax revenues and including Federal taxes, over \$98 million in total tax revenue for the Commonwealth and has generated over \$735 million in business revenues annually. States fortunate enough to have, within their borders, a seaport have made investments to its physical plant and incorporated port activity in their efforts to attract international trade. Pennsylvania is no exception. We handle cargoes from around the world including South America, the Caribbean, northern Europe and Australia and New Zealand. We have been proud to accompany Governors and other Pennsylvania officials on trade missions, which resulted in increased

business for Pennsylvania and its seaport. The importance of Pennsylvania's participation in global maritime commerce cannot be overstated. I am very pleased to tell you that because of enlightened decisions made by the Rendell and earlier Administrations and support from the General Assembly, the Port of Philadelphia is on the threshold of a major and incredibly exciting new development in its history.

For the first time in 50 years, the Port of Philadelphia is in a position to expand its port facilities to accommodate the anticipated increase in global waterborne traffic. House Bill 666, sponsored by Representative William Keller, the stalwart port advocate, and other members of the House of Representatives, passed with tremendous contributions from Senators Farnese and Stack and was signed recently into law by Governor Rendell. This crucial legislation deeded to the PRPA over 200 acres of land that was once part of the former Philadelphia Naval Shipyard. This new property, located south of the Walt Whitman Bridge, is prime for the construction and development of a new container terminal we call Southport. The Commonwealth, acting through the Department of General Services, has recently issued a

Solicitation for Proposals to the international maritime and financial markets to develop Southport. Two consortiums of terminal operators, steamship lines and investment firms have been selected for final consideration. That process is on-going and we are expecting a final selection in November. The Southport Terminal Site is centrally located to efficiently serve the port needs of one of the most densely populated consumer markets in the United States. The Mid-Atlantic region's significant population, consumption and production growth has attracted considerable investment in industrial-use warehousing and distribution centers, with a large share dedicated to the handling of international goods destined for local retail stores. With an improvement underway in the Mid-Atlantic economy, and concurrent growth in retail sales and distribution supply, the region's international trade volume is expected to increase substantially in the next fifteen years. Southport's location and potential terminal footprint present a unique opportunity to establish a new facility in a dynamic market. The Southport Project is a key economic and employment generating initiative that the Commonwealth is firmly committed to developing to further boost the economic growth

of the region. To evidence this commitment and enhance the viability of the Project, the Commonwealth has undertaken a series of critical pre-development tasks including permitting, environmental mitigation and assessments and site preparation.

I mentioned that this development would be south of the Walt Whitman Bridge and this is important because cargo vessels are becoming larger. Not only will they require a deeper draft on the Delaware River, which again thanks to support from the Rendell Administration and the General Assembly, the federal project to deepen the Delaware River navigation channel is proceeding, they will also be taller than vessels in the past, which could mean that they could not pass under the Walt Whitman Bridge. Southport will mean that the Port of Philadelphia could handle between 900,000 and 1,000,000 containers on an annual basis. It will also expand the port's employment base and anchor future development of Philadelphia's working waterfront.

Seaports are very capital intensive businesses. In order to remain competitive, we must have modern and efficient equipment such as the huge container cranes you see at our Packer Avenue Marine Terminal,

as well as specialized warehousing facilities such as the temperature-controlled facilities you will find at our Tioga Marine Terminal or the massive warehouses capable of sustaining millions of tons of imported forest products that you will see at our Forest Products Distribution Center and the capacity to handle, as we will in 2011, 100,000 imported vehicles as you will see at our Pier 98 Annex complex. Each of these required investments from the Commonwealth. Each of these investments, in turn, has created economic activity, which benefits the Commonwealth. We are grateful for the \$350 million of Commonwealth capital funding the PRPA has received since 1989.

As you can imagine, each of these projects entail a great deal of planning and implementation to succeed, all of which requires an enormous amount of activity and work by the professionals of the PRPA. I am very proud of our staff at the PRPA. We have a superb mixture of maritime professionals, civil engineers and port marketers who enable the PRPA to remain competitive and succeed. I should point out that even though the nation is in the midst of an economic turndown, our port professionals still, against the odds, manage to succeed. In this

year alone, they have attracted 3 new steamship lines to the Port of Philadelphia and expanded the cargo opportunities at the Forest Products Distribution Center. This activity will result in 200 new vessel calls to our facilities in the next 12 months. The maritime industry is very competitive. One of the new lines of business that we have attracted formerly called at the Port of Baltimore. I am enclosing a story from the Baltimore Sun lamenting the loss of this business for its port, but from our standpoint, it's a celebration of new business at Pennsylvania's port.

While I mentioned the significant investment of capital dollars to port activity, I must also speak to you about the need for operating support for our activities as well. Recognizing the need for strong public support to guarantee a thriving successful port, the Board of the PRPA recently commissioned the Economy League of Greater Philadelphia to prepare a report outlining options to ensure adequate funding for port commerce. Currently, our agency receives state appropriations each year. The amount of funding is unpredictable and diminishes our ability to plan and operate efficiently. A review of PRPA's operating appropriations since 2002 demonstrates my point.

Operating Appropriations (FY 2002 – FY 2011)

<i>2002/03</i>	\$4,750,000	<i>2003/04</i>	\$4,750,000
<i>2004/05</i>	\$4,750,000	<i>2005/06</i>	\$6,000,000
<i>2006/07</i>	\$6,500,000	<i>2007/08</i>	\$6,501,000
<i>2008/09</i>	\$5,648,000	<i>2009/10</i>	\$2,602,000
<i>2010/11</i>		<i>\$2,503,000</i>	

As a result, we have been searching for options for reducing our dependency on these unpredictable annual appropriations. To do this, the Economy League looked at the operations and funding strategies of other public port authorities, as well as how Pennsylvania has addressed the needs of other state agencies. I am pleased to submit that report for the Committee's consideration and welcome any suggestions you may have to augment or improve on that report. We recognize the constitutional limits placed on the motor license fund and we recognize also that there is tremendous need for all modes of transportation including mass transit. However, we believe that a strong seaport is such a critical element for Pennsylvania's future growth that predictable

operating funding should be established so that it can optimize its opportunities in a fiercely competitive global arena.

The Committee's staff, during its recent visit to the Port of Philadelphia, asked if we thought that the PRPA should receive its appropriation through the Department of Transportation rather than the Department of Community and Economic Development. We asked the Economy League to examine this option and with your permission I am going to insert here their findings.

Receiving funding through the Pennsylvania Department of Transportation might be a more natural fit than DCED and give PRPA access to different and perhaps dedicated funding sources. This option does not in and of itself change PRPA's funding situation. Rather, it funds the authority through what is arguably a more logical department. Put simply, ports are about transportation. This is not to say that PRPA is out of place in DCED. As we have noted, PRPA has a strong economic development focus. A reading of the mission statement of each department illustrates that ports fit well within both departments:

- Department of Community and Economic Development – The mission of DCED is to foster opportunities for businesses and communities to succeed and thrive in a global economy, thereby enabling Pennsylvanians to achieve a superior quality of life.
- Department of Transportation – The mission of DOT is to provide; through the active involvement of customers, employees, and partners; services and a safe intermodal transportation system that attracts businesses and residents and stimulates Pennsylvania’s economy.

Moving to PennDOT raises a number of issues that require careful consideration. The move would place the ports in a department that has more reliable funding and is less affected by year-to-year budget shortfalls than DCED is. However, ports would face significant competition for funding within the DOT, perhaps more so than in DCED.

I mention this one option because I know that the Committee has expressed an interest in it. I want to reiterate my offer to work with you

and my good colleague, Herb Packer of PennPORTS, to make sure that whatever decision is made it is a considered one.

I hope I have conveyed to you the importance of the Port of Philadelphia to Pennsylvania's future. I also hope that this will not be my last appearance before this Committee. The evidence of other states and other seaports clearly shows that success is not only possible but assured when the state's port authority works closely with its elected leaders. We believe that the PRPA, created by an act of the legislature over 20 years ago, is a great vehicle for this state to expand trade, tax revenues and jobs for the future. We only need to work together.

Thank you.