

Testimony to the Senate Committee on Transportation
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PA Department of Community and Economic Development
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Thank you Chairmen Rafferty and Stout and Committee Members for this opportunity to appear before the Senate Transportation Committee. I will be providing the Committee with information regarding the Department of Community and Economic Development's Office of PennPORTS of which I am the Executive Director. I am here to brief you on the Ports of Pennsylvania and transportation funding. If there are two messages that I want to convey today, they are that the ports are catalysts for economic activity in the supply chain and are integral to the Commonwealth's future.

The Office of PennPORTS is the Commonwealth's advocate for its ports, both public and privately-owned and operated. PennPORTS, in partnership with its constituent ports, promotes economic development and statewide commerce by facilitating port development and international trade; supporting improvement of supply chain logistics and intermodal transportation; and fostering global competitiveness nationally and internationally. PennPORTS is also the lead agency in establishing a border and maritime security strategy for the Commonwealth.

Pennsylvania ranks ninth in the country for the total volume that crosses our docks, over 100 million tons. Pennsylvania truly is a maritime state even though we only have 45 miles of coastline. Pennsylvania is unique in its type of ports — it has a deepwater port in Philadelphia along the Delaware River; the second largest inland port in the US in Pittsburgh; and a Great Lakes port in Erie. Each of these ports are located in separate US Coast Guard Districts.

In a 2000 study commissioned by PennPORTS, Martin & Associates concluded that approximately 300,000 jobs throughout the Commonwealth were dependent upon waterborne commerce and that the fiscal impact was approximately \$36 billion.

The ports of Pennsylvania are best known for handling breakbulk cargo (palletized cargo, cocoa, steel, fruit, etc), containerized cargo, liquid bulk (petroleum and chemicals), automobiles (Kia/Hyundai), project cargo, and bulk cargo (stone, salt, aggregates, concrete, etc). The Port of Philadelphia is also designated as a strategic military port, handling military equipment.

The Port of Philadelphia is publicly-owned by the Commonwealth and managed by the Philadelphia Regional Port Authority (PRPA). It is the only port on the East Coast serviced by three Class I railroads. It also has double stack - vertical and horizontal - clearance. PRPA and its tenants have been successful in working with ocean carriers to capture new service and to upgrade existing service by adding new routes. In the last year alone, PRPA has been successful in convincing the second largest ocean carrier in the world, Mediterranean Shipping Company (MSC), to call on the port at the Packer Avenue Marine Terminal. PRPA was also successful in attracting SeaStar Lines, and Rickmers Lines to the Port.

The Port of Pittsburgh is a port district of more than 200 miles of navigable river ways including the Allegheny, the Monongahela and the Ohio rivers. All 200 river terminal operators are privately-owned and operated. Approximately 75% of the cargo handled through the port district is coal moving from the mines to power plants. However, the USX operations and other

traditional manufacturers would not be located in southwest PA if not for the rivers.

The Port of Erie is perhaps the Commonwealth's most diversified port. It is predicated on shipping, manufacturing, commercial and recreational sectors. It is a third class County port, managed and operated by the Erie Western Pennsylvania Port Authority. Primary cargo shipped through the port includes aggregates, limestone, salt, bio-diesel fuel, and the occasional GE locomotive and other project cargo.

We are facing interesting times and from every challenge there is an opportunity. US population growth was targeted to grow from 1980 to 2005 by 31 percent, approximately 296 million. Today, the US population is 309.4 million. By 2050, US Census expects population to be 394 million. Just this fact alone will dramatically impact transportation and global competitiveness.

In a 2000 report to Congress on the Marine Transportation System published by the US Department of Transportation (US DOT), then Transportation Secretary Rodney Slater, stated that the volume of domestic and international marine trade is expected to triple by the year 2020. In that same time frame, the number of recreational users is expected to grow by over 65 percent to more than 130 million annually. Ferry passenger transport is experiencing rapid growth in response to land-transport congestion.

Ninety-five percent of US international trade moves via water. This fact alone will place an increasing burden on all ports as they struggle with sustainability and capacity issues to handle this deluge of trade. US DOT has forecasted between the years 2004 to 2020 the ports of NY/NJ will increase from presently handling 4.5 million TEUs (a measurement of a container — twenty foot equivalent unit) to 15.8 million TEUs.

Alphaliner, a Paris-based container shipping research consultant, states that today, the idled container fleet is only two percent of capacity (it was over 13 percent in 2009), and in July, deliveries of new container ships totaled 200,000 TEUs, a record. IHS Global Insight forecasts that world trade by sea, land and air will grow by 8.1 percent in 2010 after it declined by 7.2 percent in 2009. IHS Global Insight forecasts that containerized traffic will grow by ten percent this year with the main east-west trade growing at an even faster rate of 10.6 percent. The global container trade is projected to grow by six percent in 2011. By contrast, world container trade grew by three percent in 2008 and declined by eight percent in 2009.

Throughout his term in office, Governor Rendell has been a vocal advocate for rebuilding the nation's infrastructure. To quote Governor Rendell, "Ignoring unmet infrastructure needs runs the risk of endangering public safety and allowing the United States to become a third-rate economic power." In order to address this pressing need, Pennsylvania has joined Building America's Future, a bi-partisan coalition dedicated to establishing a new federal funding program and a National Infrastructure Bank.

With new pipelines of federal funding flowing, ports are joining an increasingly fierce multimodal battle for dollars. The American Association of Port Authorities (AAPA) maintains that ports should get a 25 percent share of this federal funding. In the recently awarded 2009 TIGER (Transportation Investment Generating Economic Recovery) grants, ports received approximately eight percent of the \$1.5 billion stimulus funding.

In formal comments to US DOT funding plans, Kurt Nagle, President of AAPA, stated "Ensuring

well maintained seaports with adequate capacity and congestion-free port access is critical to America's ability to increase US exports and retain transportation market share for cargo originating or destined for the United States."

Steve Larson, chairperson and president of Caterpillar Logistic Services, IL testified before a congressional committee earlier this year about the need for infrastructure improvement and took note of the impact port problems have on trade:

"Lack of capacity at US ports and inadequate mode integration are hurting trade flows, and the focus on improving large container-handling facilities is not matched at smaller ports that Caterpillar and other exporters may use."

Ports face unique infrastructure needs, tying together multiple freight modes and often serving as the first and last facilities to handle international trade flows. There has been supportive talk from Washington, but ports do not have a dedicated stream of federal funds similar to what goes to: highways that benefit trucking, airports that aid air freight operations, and municipal transit systems such as the large new flow of Amtrak-focused passenger rail grants that will also help upgrade the rail freight network.

Our objective is to maximize Commonwealth owned assets, particularly the existing infrastructure of the ports. The Department of Community and Economic Development, through the Office of PennPORTS provides appropriations through the General Fund to the ports to help defray operating expenses.

PRPA receives annual capital budget grants for deferred maintenance for its antiquated facilities and as a result has put together an extensive capital budget policy manual. As part of that policy, PRPA commissioned a strategic facilities study to determine how best to spend these capital dollars on maintenance and what to prioritize.

In December 2006, the Governor's Executive Cabinet on Homeland Security approved a plan naming PennPORTS as the lead to develop a comprehensive statewide border and maritime security strategy. The Office of PennPORTS is working in conjunction with PEMA, specifically its Office of Homeland Security and other relevant state agencies, in developing this border and maritime strategy. Currently, the Area Maritime Security Committees of the United States Coast Guard in Sector Delaware Bay, Pittsburgh, and Erie have completed specific risk management plans addressing gaps and vulnerabilities to each port. Currently PennPORTS is reviewing all three risk management plans and anticipates developing a final statewide maritime strategy.

OPPORTUNITIES:

Individual projects include: (1) the Philadelphia Southport expansion project; (2) Main Channel Deepening project for the Delaware River; (3) Electrification for cranes and craneways at Packer Avenue Marine Terminal; (4) the Erie Inland Port project; (5) the extension of the rail to the dock for Donjon Shipbuilding and Repair in Erie; (6) the development of a new marine site at the Port of Erie; (7) the identification of funding to construct a wireless communication and information sharing network on the waterways of southwest PA; (8) the development and implementation of the Boeing network for the ARRA \$4.5 million project in port security stimulus funds awarded in 2009; (9) the completion of the Master Plan study for the Port of Erie; and (10) the location of inland ports in the Commonwealth that will expand service to PA ports through new distribution centers locating in the state.

Southport - The largest of these opportunities is the planned Southport expansion project, a new highly automated terminal operation at the Philadelphia Navy Yard. Initial projections call for up to another 1.3 million of TEU capacity resulting in the creation of thousands of new jobs. The Commonwealth sought proposals from interested parties to design, operate and maintain this major new terminal in South Philadelphia. The two shortlisted teams that will continue in the solicitation process in developing this public-private partnership represent some of the largest maritime companies in the world.

Distribution Center/Inland Port strategy - An old axiom states that ocean carriers follow distribution and that is true. The Ports of Virginia and Savannah have discovered this to their benefit. We are in the process of developing a distribution strategy that enhances not only the ports, but our military bases as well. Both Maersk and CGA CGM shipping lines will call on the Port of Savannah despite draft-depth concerns because of the proximity to international distribution centers. The Commonwealth is blessed with a large number of distribution facilities throughout the state. This advantage provides us the opportunity to attract more volume through the ports, which will lead to the creation of more jobs at both the port and the inland centers and ensuring the Commonwealth's global competitiveness.

Border and Port security strategy - We have a direction and a strategy... Having a branded secure port enhances development. It is our objective to encompass all our ports and secure our border in coordination with the federal government's local Area Maritime Security Committees of the United States Coast Guard, PEMA and the key stakeholders.

Private-Public partnerships - Taking a look at forecasts, we are starting to see some positive signs of private investment in the ports. Not only are ocean carriers spending significant dollars to own and operate their own facilities, but Wall Street has taken a huge interest also. For example, despite the economy, Deutsche Bank agreed to purchase one of the largest terminals in the Port of NY/NJ, Maher Terminals, and a Canadian school teachers' pension fund purchased the Howland Hook terminal.

Developing private-public partnerships are key to the future of our ports and developing a business case to convince investors that there will be a substantial "return on their investment" is critical to the development of an effective overall marketing strategy.

An Integrated Transportation System - Rail and highways are integral to our success as a port. The Port of Philadelphia has a competitive advantage over other North Atlantic ports because it doesn't have the congestion that others face thanks to its three Class-I railroads. We must ensure that all modes of transportation are adequately funded to ensure the Commonwealth's global competitiveness to move freight in a timely and efficient manner.

CHALLENGES:

Funding for Ports and the Maritime Industry:

1. **Undercapitalization of federal funding** for locks and dams in southwestern PA and other essential port infrastructure. Capital to preserve existing facilities in ports is unavailable because infrastructure does not necessarily generate new revenue streams and return on investment.
2. **Unfunded mandates**, particularly port security. The US Coast Guard maintained that it

would take approximately \$5.4B over ten years in federal investment to secure our nation's ports.

Antiquated infrastructure - The piers in Philadelphia are approximately 80-100 years old, and several have collapsed into the Delaware River causing operational and safety issues. The locks and dams in Pittsburgh are well past their life expectancy. There is a danger of a lock or dam failing and it could result in the closure of the Port of Pittsburgh.

Intermodal Connectors – Often neglected by the public sector, intermodal connectors are not matched to port needs. Connectors must be addressed directly in the national strategy and provide specific funding mechanisms. The Commonwealth must be more innovative in developing national corridors of priority, such as marine highway corridors.

Delaware River Main Channel Deepening - The most pressing challenge to the long-term viability of the Port of Philadelphia is the main channel deepening of the Delaware River. Without the main channel of the river dredged from its existing 40' to 45', the Port of Philadelphia will lose significant service that has taken years to build. Philadelphia has the shallowest water on the US East Coast, and as a result, we have lost service and business.

This is the most pressing issue for the sustainability of the Port of Philadelphia. Without dredging, the Port of Philadelphia will lose a considerable amount of its cargo volume. The economic impact to the region and the Commonwealth, as well as its designation as a strategic port, will be substantial.

Conclusion:

The ports of the Commonwealth are economic engines that stimulate and sustain the state and regional economies. We encourage the federal government to establish a national freight policy that includes dedicated federal funding to support the ports in order to achieve their missions as key components in the supply chain and as economic generators. Otherwise our growth cannot and will not be sustained.

Funding can and should include private-public partnerships; working with the federal government so that Pennsylvania receives its fair share in transportation funding (all modes); encouraging the feds to create a national freight policy and dedicated funding; and establishing market-driven fees at the ports (wharfage, docking fees, leases, e.g.).