

Date of Hearing: April 9, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

AB 1081 (Medina) – As Amended: April 3, 2013

SUBJECT: Economic development: goods-movement-related infrastructure

SUMMARY: Requires goods movement-related infrastructure to be included within the state five-year infrastructure plan and international trade and foreign investment strategy. Specifically, this bill:

- 1) Makes findings and declarations that California's:
 - a) Significance in the global marketplace is the result of many factors including its strategic west coast location which provides direct access to Asian markets;
 - b) Largest industry sector is trade, transportation, and utilities and the state leads the nation in export-related jobs; and
 - c) Infrastructure is aging and requires maintenance, as well as improvements and expansion.
- 2) Require the state's five-year infrastructure plan to include identification of goods movement related infrastructure including the need for new, rehabilitated, modernized, improved, or renovated infrastructure that has been identified by state and federal agencies and regional transportation agencies.
- 3) Requires the five-year infrastructure plan to additionally include recommendations for private sector financing of goods movement-related infrastructure including, but not limited to, public pension funds, private sector investors, and commercial and industrial users who would benefit from the enhanced logistical network.
- 4) Requires that the state international trade and investment strategy (ITI Strategy) include the identification of trade-related infrastructure enhancements to support the state's international trade policies, programs, and services.

EXISTING LAW:

- 1) Requires the Governor to submit annually a proposed five-year infrastructure plan which includes the identification of new, rehabilitated, modernized, improved, or renovated infrastructure, which is requested by state agencies including the estimated cost and funding options. Infrastructure needs include:
 - a) Those identified in the State Transportation Improvement Program;
 - b) Those necessary to accommodate kindergarten through 12th grade in public schools; and
 - c) Instructional and instructional support facilities for the University of California, California State University, and the California Community College System.
- 2) Requires the Governor's Office of Business and Economic Development (GO-Biz) to provide the Legislature with an ITI Strategy by February 2014, which contains:
 - a) Policy, goals and objectives;

- b) Measurable outcomes and timelines for meeting the goals and objectives;
- c) Identification of key stakeholder partnerships that will be used to implement the goals and objectives;
- d) Identification of impediments for achieving the goals and objectives;
- e) Identification of options for funding recommended action; and
- f) Identification of an international trade and investment organizational structure.

FISCAL EFFECT: Unknown

COMMENTS:

- 1) Author's Purpose: According to the author, "When transportation function is efficient, manufacturing and retail firms can carry less inventory because they can rely on goods being delivered when and where they are needed. But if the transportation system is congested and unreliable, a firm must carry more inventory to ensure production processes are uninterrupted and the availability of goods is maintained.

In order to improve our current transportation system we need to stop a piecemeal system and develop a plan that includes a national and international approach to how we move goods. It is crucial that we develop this into our plan now because the amount of freight will increase drastically in the next 20 years. In southern California, it is expected to triple.

In addition, the federal government wants to double the exports by 2014. The need to have an efficient system to export our products overseas will also provide opportunities for our small businesses. And we need to prepare for that increase. According to the Federal Highway Administration, the United States surface transportation network, which includes rail and highway, is reaching or has reached capacity in many areas. The congestion largely stems from the lack of capacity to meet traffic demand and lack of infrastructure. "

- 2) Framing the Policy Issue: This measure requires the consideration of goods movement within two key state planning documents including the state infrastructure plan and international trade strategy. Given the significance of global logistical networks to efficiently support expanded supply chains, California is potentially at an infrastructure disadvantage.

In proposing a heightened priority for planning and funding goods movement infrastructure, the author notes the changing global economy and the expanding investment opportunities with public pension funds, among others. Both of these issues are discussed in greater depth below.

- 3) California's Trade Economy: California's \$1.9 trillion economy naturally functions as an independent nation and is highly dependent on industry sectors that participate within the larger global economy. In fact, compared to other nations, California has one of the 10 largest economies in the world, due to it being a top-tier trade partner, a best-in-class investment location, a high quality producer of goods and services, and the home and key access point for a massive consumer-base. In 2012, California exported \$161 billion in products to over 220 foreign countries. While California has been significantly impacted by the recession, exports continued to increase in almost every quarter from 2010 through 2012. Below is a chart of California's top exports in 2012.

2012 Exports From California to the World		
Product	Value (\$ billions)	Percent
334 Computers & Electronic Prod.	44.5	27.6 %
333 Machinery (except electrical)	14.8	9.2 %
336 Transportation Equipment	16.1	10 %
325 Chemical Manufactures	12.7	7.9 %
339 Misc. Manufacture Commodities	13.8	8.6 %
111 Agricultural Products	11.9	7.4 %
All Others	47.2	29.3 %
Total	\$161	100 %

Source: Tradestates.com

It is estimated that one in five manufacturing jobs in California is related to trade. Goods movement supports employment, business profit, and state and local tax revenue. The logistics industry is responsible for hiring 73,000 workers. California businesses rely heavily on the state's ports and their related transportation systems to move manufactured goods. Firms rely on fast, flexible, and reliable shipping to link national and global supply chains and bring products to the retail market. Transportation breakdowns and congestion can idle entire global production networks.

Changes in U.S. and global trade patterns since the enactment of NAFTA and the continuing development of foreign markets place challenges on California's goods movement network. These challenges are only expected to become greater as the rate of innovation within manufacturing, transportation, the communication technologies gets faster and the ability of multiple geographic locations to successfully use these technologies expands. California's historic and singular dominance in high technology is diminishing as new and more collaborative business models are emerging. California could be competitive within this new global marketplace, but policies and planning will need to change in order to embrace the new economy.

- 4) Infrastructure: A major challenge to California's competitiveness World class infrastructure plays a key role in business attraction, as multinational companies consistently rank the quality of infrastructure among their top four criteria in making investment decisions. Research shows that as U.S. infrastructure has been in decline, infrastructure in other countries is rapidly increasing. The 2010-11 Global Competitiveness Report by the World Economic Forum places U.S. infrastructure 23rd in the world, a drop from its rank of 7th in 2000.

California's infrastructure is in a similar state, according to the American Society of Civil Engineers, California Infrastructure Report Card 2012, with an estimated \$65 billion a year investment gap. The impact of this lack of investment is compounded by the substantial new investments made in other states and nations, including the expansion of the Panama Canal.

Institutional investors have responded to the U.S.'s infrastructure shortfall and the lack of sufficient public finance opportunities by adopting new investment mandates to privately finance public infrastructure. Kearsarge Global Advisors reported that as of 2010 over \$190 billion of global equity capital had been committed for infrastructure investment – up from \$60 billion in 2007. As an example, CalPERS currently has over \$525 million invested in a combination of physical infrastructure investments, infrastructure-targeted private equity funds, and credit enhancement for infrastructure bonds. This is addition to the \$800 million available for project finance including transportation, energy, natural resources, utilities, water, communications and other social support services.

Successfully attracting private capital for priority public infrastructure projects can, however, be challenging. AB 1081 would provide greater certainty and strategic direction to the deployment of state infrastructure expenditures within the broader context of public and private sector infrastructure investments.

- 5) State Planning and Funding: California's community and economic development policy has historically been driven by a number of statutory mandates including the Environmental Goals and Policy Report (EGPR,) Five-Year Infrastructure Plan (Infrastructure Plan), the International Trade and Investment Strategy (ITI Strategy), and the Economic Development Strategic Plan.

Collectively, these four policy mandates form the foundation for the state's short-, middle-, and long-term economic success. The EGPR sets the overall long-term framework in which individual departments and agencies develop more detailed plans, including elements of the state transportation and state housing plans. The Infrastructure Plan allows the state to keep track of its infrastructure needs and set a rational infrastructure development agenda that supports the long-term economic and population growth assessments outlined in the EGPR. The ITI Strategy sets measureable economic objectives relative to the state's position within the global economy. Finally, the development of the state Economic Development Strategic Plan is built on the information and policies provided in the EGPR, the Infrastructure Plan, and the ITI Strategy.

Currently the EGPR and Infrastructure Plan are out of date. The requirement for an Economic Development Strategic Plan was removed in a 2010 budget action. Governor Brown has, however, committed to preparing a Strategic Growth Plan in 2013, which could serve as a partial Infrastructure Plan. Speaker John A. Pérez introduced AB 53, which would reinstate the Economic Development Strategy.

AB 1081 builds upon these existing policy and funding documents by ensuring that goods movement needs are considered and that appropriate funding options are explored.

- 6) Related Legislation: Below is a list of related legislation
- a) AB 311 (V. Manuel Perez) Bi-National Infrastructure and Economic Development Bank: This bill expands the role of the I-Bank to include facilitating infrastructure and economic development financing activities within the California and Mexico border region. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on April 9, 2013.
 - b) AB 886 (Allen) Export and Import Credit: This bill establishes a capped and allocated tax credit for importers and exporters that increase cargo through California air and sea ports, hire additional staff, or incur capital costs at a California cargo facility. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on April 9, 2013.
 - c) AB 1137 (V. Manuel Pérez) Small Business Assistance and Attracting Private Investment: This bill would have facilitated local economic development and job creation by assisting small businesses to access new export markets for their goods and services, updating the law relating to free trade zones, and authorizing the use of new federal funds under the Small Business Jobs Act of 2010. Status: Held in Senate Committee on Appropriations in 2012.

- d) AB 1272 (Medina) Infrastructure Consortiums: This bill authorizes the California Infrastructure and Economic Development Bank (I-Bank) to formally participate in regional, national and international organizations related to infrastructure financing. Status: Scheduled to be heard in the Assembly Committee on Jobs, Economic Development and the Economy on April 9, 2013.
 - e) AB 1409 (Jobs, Economic Development and the Economy Committee) International Trade and Investment Strategy: This bill, as it passed JEDE, would have required that the next update by Business, Transportation and Housing Agency, of the international trade and investment strategy to include policy goals, objectives and recommendations from the state Goods Movement Action Plan. The measure was amended in the Senate related another subject matter. Status: Held in Senate Rules Committee in 2012.
 - f) SB 822 (Evans) Five-Year Infrastructure Plan: Existing law would have required the Governor, in conjunction with the Governor's Budget, to submit annually to the Legislature a proposed 5-year infrastructure plan containing specified information concerning infrastructure needed by state agencies, public schools, and public postsecondary educational institutions and a proposal for funding the needed infrastructure. This bill makes technical, nonsubstantive changes to this provision. Status: Held in the Assembly Committee on Budget in 2012.
 - g) SB 907 (Evans) 20-Year Infrastructure Master Plan: This bill would have established an 11-member Master Plan for Infrastructure Financing and Development Commission. The Commission is required to submit to the Governor and Legislature, by December 1, 2013, a long-term plan and strategy for the state's infrastructure needs and a prioritized plan to meet those needs. The Commission would have been required to submit periodic progress reports. Status: Held in the Assembly Committee on Jobs, Economic Development and the Economy in 2012.
- 7) Double Referral: This measure has been assigned to two policy committees for review by the Assembly Rules Committee. Should AB 1081 pass the JEDE Committee, it will be referred to the Assembly Committee on Transportation for further consideration.

REGISTERED SUPPORT / OPPOSITION:

Support

None received

Opposition

None received

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