

Date of Hearing: January 9, 2018

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT, AND THE ECONOMY

Sharon Quirk-Silva, Chair

AB 1561 (Quirk-Silva) – As Amended January 3, 2018

SUBJECT: Economic development: infrastructure: logistic hubs

SUMMARY: Expands the mandatory elements of the state's international trade and investment strategy (ITI Strategy) to include the role of logistical hubs, including inland ports, and authorizes the California Infrastructure and Economic Development Bank (IBank) to finance inland port facilities, as defined. Specifically, **the bill:**

- 1) Makes legislative findings and declarations, including, but not limited to:
 - a) The state has a compelling interest in the development of a robust network of logistic hubs, connected by roads, rail, and air. The development and buildout of an intermodal network provides the state an economic advantage today and in the future;
 - b) New and upgraded port and foreign trade zone facilities, as well as rail and road infrastructure investments, are needed to enhance California's competitiveness for international and domestic cargoes, resulting in employment growth, significant economic development, increases in state and local tax revenues, and reduction in impacts to environmental quality from goods movement;
 - c) The state's ports of entry serve as a vital interface between California and the U.S. and the state's important trade partners in North and South America, the Pacific Rim countries, and other regions of the world. In 2016, California exported \$163.6 billion in products through its air, land, and seaports to over 220 foreign markets; and
 - d) Inland ports represent a relatively new concept within the US freight system, but their use is growing. Among other advantages, inland ports play a key role in enhancing the efficiency of logistic networks and serve as key nodes within expansive domestic international supply chains.
- 2) Expresses the intent of the Legislature to assist in the economic development of a statewide goods movement network that supports, leverages, enhances, and links resources, manufacturing, warehousing, distribution centers, inland ports with airports, seaports, and land ports of entry.
- 3) Expands the eligible financing activities of the IBank to include inland ports, which it defines as a logistical hub located on a site separate from land, air, and coastal ports of entry and that is designed to facilitate and process international and domestic trade, including, but not limited to, multimodal transportation assets and goods movement value-added facilities and services.
- 4) Streamlines the reporting requirements of the ITI Strategy and expands the required elements to include logistical hubs. Existing law only requires airports, rail and highways; leaving out inland ports and other multimodal facilities that are designed to support trade and foreign investment.

EXISTING LAW:

- 1) Establishes GO-Biz within the Governor's Office for the purpose of serving as the state's principal entity for issues relating to international trade and foreign investment, excluding agricultural issues. GO-Biz is led by a director, which is appointed by the Governor.

- 2) Establishes the IBank within the GO-Biz and authorizes it to undertake a variety of infrastructure related financial activities including, but not limited to, the administration of a revolving loan fund to finance port facilities, oversight of the Small Business Finance Center, and the issuance of tax-exempt and taxable revenue bonds.
- 3) Requires GO-Biz, as a condition of exercising international trade authority, to develop and implement a comprehensive ITI Strategy. All international trade and foreign investment activities and funding are required to be consistent with the ITI strategy.
- 4) Requires the GO-Biz to provide the Legislature with an ITI Strategy by February 2014 and update it at least once every five years 2019.
- 5) Requires the ITI Strategy to, at a minimum, include the following:
 - a) Policy, goals, objectives and recommendations;
 - b) Measurable outcomes and timelines for meeting the ITI Strategy goals, objectives, and actions;
 - 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 actions; and
 - f) Identification of an international trade and investment organizational structure.
- 6) Requires the ITI Strategy to be based on current and emerging market conditions and the needs of investors, businesses, and workers. The ITI Strategy is also required to include a process by which GO-Biz will use to evaluate on an ongoing basis, as appropriate, current workforce, infrastructure, research and development, and other needs of small and large firms, including, but not limited to, highways, airports, and rail that link businesses with the state's ports of entry and foreign and domestic markets.

FISCAL EFFECT: Unknown

POLICY FRAME: International trade and foreign investment are very important components of California's \$2.6 trillion economy supporting over 4 million California jobs. California's largest industry sector by employment is Trade, Transportation, and Utilities, which encompasses everything from major retail outlets, to import-export businesses, to transportation and warehousing.

Improving the linkages between the production and movement of goods is an important economic development priority for California. As the state's global markets evolve, new demands are being placed on the state logistical network. AB 1561 updates the state core planning and financing mechanism to meet these demands. Of particular interest is the use of inland ports which have the potential to substantially reduce the severity of conflicts between freight and other land uses, including idling trucks and congested areas around ports.

The analysis includes information on the California trade-related economy, key elements of the state ITI Strategy, the rise of inland ports, and related legislation. Suggested amendments are included in Comment 5.

COMMENTS:

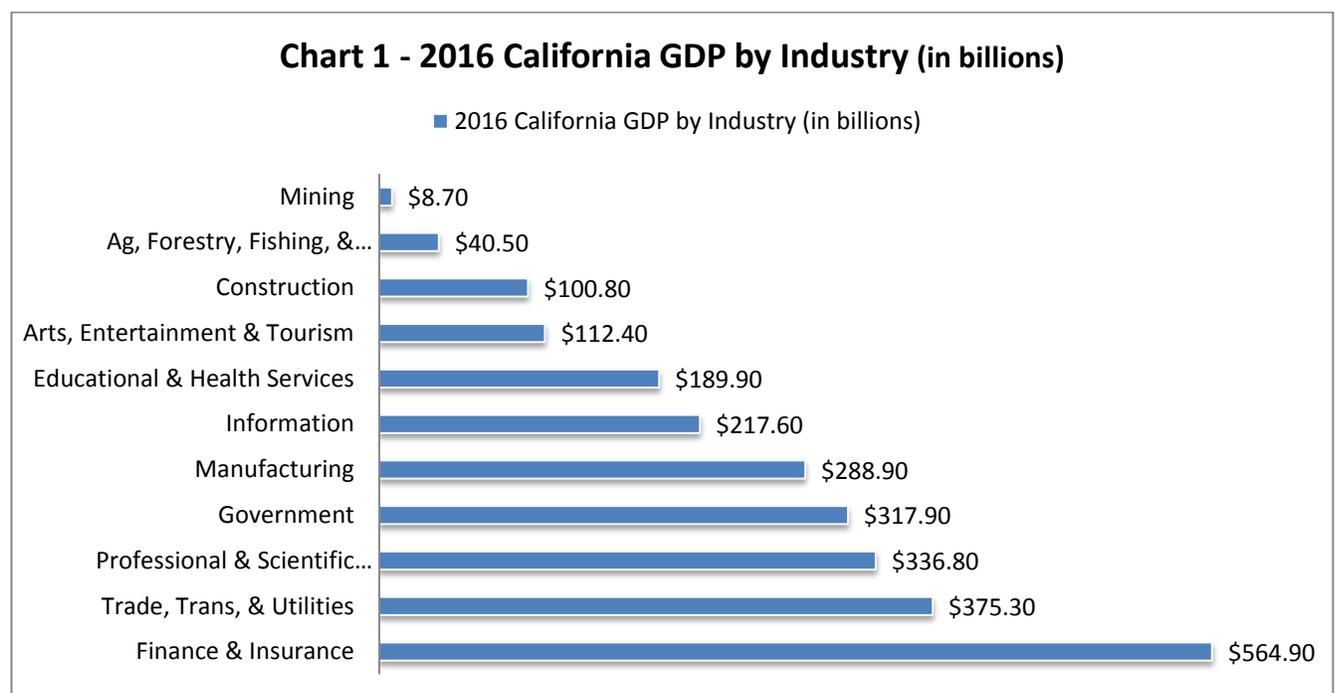
- 1) **Profile of California's Trade Dominated Economy:** California is home to over 39 million people, providing the state with one of the most diverse populations in the world, often comprising the single largest concentration of nationals outside their native country. In 2016, this diverse group of business owners and workers produced \$2.6 trillion in goods and services; \$163.6 billion of which were exported to over 220 countries around the world.

If California were a country, its 2016 GDP would place it 6th among nations, ranking as follows: United States (\$18.56 trillion); China (\$11.22 trillion); Japan (\$4.94 trillion); Germany (\$3.47 trillion); United Kingdom (\$2.62 trillion); California (\$2.60 trillion); France (\$2.46 trillion); India (\$2.26 trillion), and Italy (\$1.85 trillion). Russia ranks 13th with GDP of \$1.28 trillion.

Historically, a number of factors have contributed to California's significant position within the global marketplace, including its strategic west coast location, the size of its consumer base, the strength of its dominant industry sectors, its economically diverse regional economies, its skilled workforce, and its culture of innovation and entrepreneurship, particularly in the area of technology. California's 29 million working age individuals comprise the single largest workforce in the nation, are comparatively younger, and have an educational achievement level above the national average.

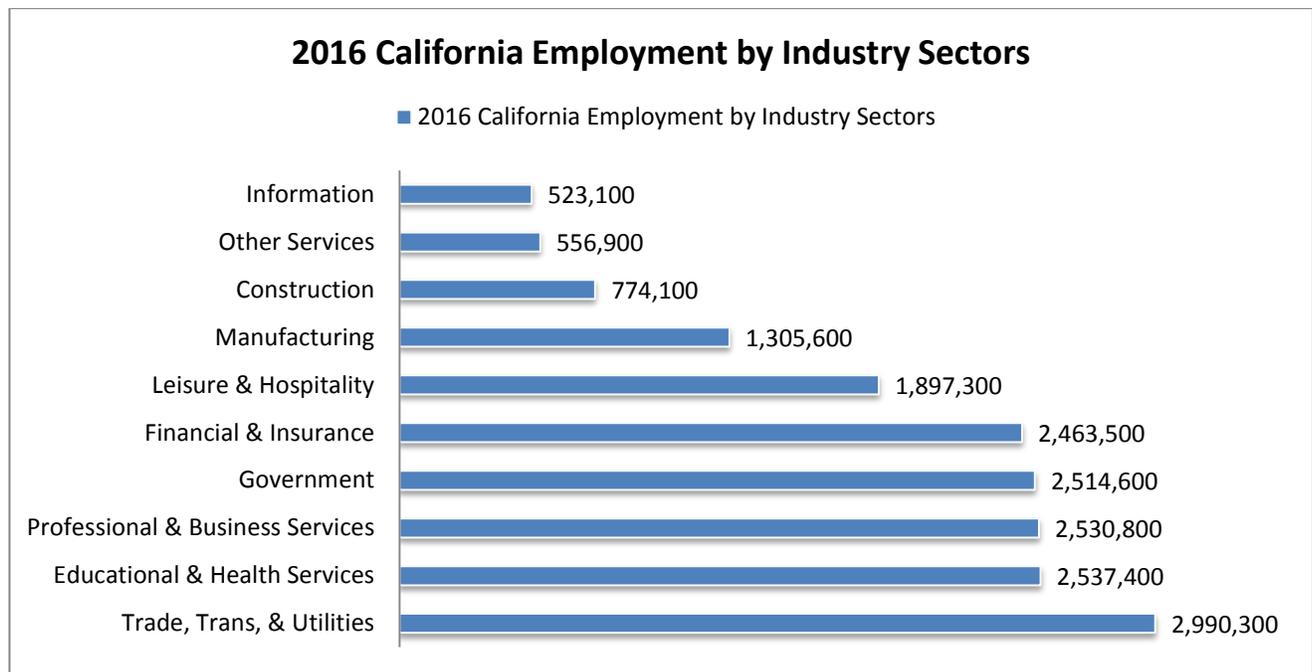
Many policy makers and economists describe California as having not a single economy, but having a highly integrated network of a dozen or so regional economies. While biotech has a comparative advantage in some regions, information technology drives growth in others. This economic diversity contributed to California's ability to aggressively move out of the recession, ranking number two in the nation by *Business Insider* for fastest growing economy in the nation in August 2014 and being named as having the fourth best overall economy in March 2015.

Chart 1 displays information from the U.S. Census Bureau on California's private industry sectors based on its contribution to the state's GDP. In 2016, the *finance and insurance sector* provided the



largest economic contribution to the state's overall GDP, \$565 billion of the \$2.6 trillion. Firms in this industry sector include entities that raise funds, pool risk, and facilitate financial transactions including trade and foreign investment.

Chart 2, developed using data provided by the California Employment Development Department, shows California's largest industry sectors based on employment. In 2016, the *trade, transportation, and utilities sector was largest*, employing nearly 3 million people (18.4% of California jobs). (5.0%).



Jobs in the trade, transportation and utility sector also support employment in other industry sectors including *manufacturing* (8.1%), *professional services* (15.6%), and *financial activities*. Many of the jobs associated with these major industry sectors are also associated with high wages. Manufacturing is considered the "gold standard" for jobs because of its high wages, inclusion of small businesses within its global supply chains, and having a high multiplier effect on related jobs. The Milken Institute estimates that for every job created in manufacturing, 2.5 jobs are created in other sectors. In some industry sectors, such as electronic computer manufacturing, the multiplier effect is 16:1.

Advances in transportation and communication technologies are encouraging the development of previously undeveloped markets and expanding multinational business opportunities for California firms. Today, four of California's top five exports include component parts, which leave the state to be assembled and/or partially assembled before returning.

These trade-related industry sectors comprise a majority of what EDD has designated as the state's "economic base" sectors, which include professional services, manufacturing, and transportation, among others. Employment in these economic base industries represents 37.3% of the state's total employment, and employment growth within these sectors grew at twice the pace of the overall state economy from 2010 to 2012.

- 2) **Inland Ports:** Inland ports represent a relatively new concept within the US logistical network and freight movement system, but their use is growing as demonstrated through the development is new

facilities in Salt Lake City, UT; Dallas/Fort Worth, TX; and Cordele, GA. Well designed and strategically placed inland ports can play a key role in enhancing the efficiency of a state's logistic network and serve as key nodes within expansive domestic and international supply chains.

As globalization provides new economic opportunities for ports and technology centers across the globe, California's long-term economic success may be dependent on the state's ability to reimagine a state manufacturing and freight movement system that connects resources to production, and products to consumers, with economical options that are able to adapt to evolving market needs.

Developing inland ports as part of the state's logistical network complements existing business and goods movement resources, while also offering new options for relieving congestion at ports of entry, improving air quality, and reducing greenhouse gas emissions.

Further, inland ports can promote and disburse economic benefits throughout the state, including communities historically overlooked that have large underutilized tracts of land and/or other economic resources.

- 3) **The Current ITI Strategy:** Between 2003 and 2006, California had no trade and international marketing authority. After years of debate, the Legislature and the Governor began an unprecedented collaboration on the development of a new international trade and investment program. Agreements on the new program were codified in SB 1513 (Romero/Figueroa), Chapter 663, Statutes of 2006 and further refined in AB 2012 (John A. Pérez), Chapter 294, Statutes of 2012.

Under California's new trade and foreign investment framework, state activities are required to be directed through the development and implementation of the ITI Strategy. The ITI Strategy is prepared every five years based on current state and regional economic research and a public vetting with the Legislature to ensure the inclusion of jointly agreed upon goals and measurable objectives. The initial strategy was finalized in August 2008 and the current ITI Strategy was finalized in February 2014.

The overall policies governing the ITI Strategy are to create jobs, increase revenues for California enterprises, improve California's international competitiveness by expanding the export of California goods and services, and by increasing foreign direct investment into the state. Based on these guiding policy goals, the ITI Strategy sets forth a comprehensive set of recommendations around six strategic objectives:

- A. **Comprehensive Framework:** Develop a comprehensive, coordinated and cohesive strategy framework with a clear vision to expand trade and investment, which includes other relevant state agencies, with input from private and public sector stakeholders;
- B. **Marketing:** Implement more proactive outreach, awareness, education and engagement programs both within the state for California-based companies and through foreign partners and trade office(s);
- C. **China Trade Office:** Maximize China Trade Office resources and opportunities to expand exports and investment;
- D. **Infrastructure:** Develop an action plan to address key challenges facing our ports and related infrastructure to ensure their competitiveness;

- E. ***Federal-State Relationship***: Re-engage and strengthen working relationships with the Office of the U.S. Trade Representative and the state's Congressional delegation to advocate California interests related to international trade and investment; and
- F. ***Website***: Develop and implement a more user-friendly, comprehensive, interactive and useful website to assist California companies wanting to export and to attract foreign investment.

Under each of the program objectives, the ITI Strategy identifies a set of specific actions, including timelines, priority levels, and measurable outcomes. Among other actions under the Comprehensive Framework objective, the ITI Strategy calls for identification of foreign markets with the greatest potential for export expansion. Top trade partners identified include: Canada, Mexico, and China, and emerging markets such as Brazil and India. AB 923 would include an analysis of countries in Africa and the Caribbean, as potential emerging markets.

AB 1561 helps to develop the framework to advance strategic objective "D. Infrastructure".

- 4) **The Governor's Office of Business and Economic Development**: In California, the primary state agency responsible for state trade and foreign investment activity (excluding agriculture) is GO-Biz. Initially established in 2011, international trade responsibility was transferred from the Business, Transportation, and Housing Agency to GO-Biz in 2012. Among GO-Biz' assets are the Office of the Small Business Advocate, the Permit Assistance Unit, the Office Foreign Trade and Investment, and the Business Investment Services Unit. [AB 29 (John A. Pérez), Chapter 475, Statutes of 2011 and AB 2012 (John A. Pérez), Chapter 294, Statutes of 2012]

The Governor's Reorganization Plan transferred a number of additional economic development related entities under the purview of GO-Biz in 2012 including the California Travel and Tourism Commission, the California Infrastructure and Economic Development Bank (IBank), and the California Film Commission. In 2013, the Innovation Hub Program and the EB-5 investment visa program were codified under the administration of GO-Biz. Also in 2013, a Small Business Finance Center was established within the IBank and debt and credit enhancement programs administered through a network of 11 small business financial development corporations were transferred to GO-Biz under the auspices of the new Center. [AB 250 (Holden and V. Manuel Pérez), Chapter 530, Statutes of 2013, AB 1067 (Medina), Chapter 535, Statutes of 2013, and AB 1247 (Medina and Bocanegra), Chapter 537, Statutes of 2013]

In addition to developing the ITI Strategy, GO-Biz operates a number of key programs to facilitate business development, in general, and trade and foreign investment, specifically, including the State Trade and Export Promotion (STEP) Program, EB-5 investment visa activities, export finance support through the Small Business Finance Center, data reports and tracking of foreign trade trends, and the China Trade Office.

STEP is a federal initiative authorized through the Small Business Jobs Act of 2010. The program is regionally administered through a partnership between GO-Biz and the California Community Colleges through a network of Centers for International Trade and Development (CITDs). The primary purpose of the program is to create jobs by increasing the number of, and the volume of, small businesses exporting.

The California Trade and Investment Office in Shanghai is the first trade office opened under the

AB 2012 program authority. The Trade Office is self-funded through private contributions and operates under a cooperative agreement between GO-Biz and the Bay Area Council, a San Francisco-headquartered nonprofit business organization. Opened in October 2012, the purpose of the Trade Office is to provide California companies increased access to Chinese business contacts, Chinese investors with access to California projects, and spur new investment and trade growth between California and China. In order to expand the Offices' outreach, GO-Biz entered into a memorandum of understanding with additional California-China trade partners including the California Asian Pacific Chamber of Commerce; World Trade Center Los Angeles; and the City of Sacramento.

- 5) **Proposed Amendments:** Below is a list of technical amendments staff understands the author will be present for Committee approval at the hearing.
- a) Clarify the process GO-Biz will use to evaluate, on an ongoing basis, the current international trade and foreign investment needs of businesses.
 - b) Make a technical change to a previously required section of the strategy, which called for the inclusion of an organizational chart that includes the state entities involved in implementing the trade strategy.
- 6) **Related Legislation:** Below is a list of bills from the current and prior sessions.
- a) **AB 886 (Allen and Ian Calderon) Importer-Exporter Tax Credit:** This bill would have authorized a five-year \$500 million tax credit program for importers and exporters that increase cargo through in-state airports and seaports, hire additional staff, or incur capital costs at a California cargo facility. Status: Held on the Suspense File of the Assembly Committee on Appropriations, 2013.
 - b) **AB 923 (Ridley-Thomas) Emerging Markets Analysis:** This bill requires the Governor's Office of Business and Economic Development to include an analysis of dominant and emerging foreign markets within the already mandated state international trade and investment strategy. Status: Held on the Suspense File of the Senate Appropriations Committee, 2017.
 - c) **AB 962 (Allen) Project Evaluation Financing:** This bill establishes a process by which a harbor agency can monetize the future financial value of installing and operating a port using technology and processes that result in zero and near zero emissions. This valuation would be used to establish the amount of a state appropriation that would be used by the harbor agency to pay for part or all of those proposed improvements. Status: Pending in the Assembly Committee on Jobs, Economic Development, and the Economy.
 - d) **SB 63 (Hall) Seaport Infrastructure Districts:** This bill authorizes cities and counties to establish Seaport Infrastructure Financing Districts and allows these districts to finance certain port or harbor facilities, as specified. Status: Signed by the Governor, Chapter 793, Statutes of 2015.
 - e) **SB 628 (Beall) Enhanced Infrastructure Financing Districts:** This bill authorizes local officials to create Enhanced Infrastructure Financing Districts (EIFDs), which augment the tax increment financing powers that are available to local government under the IFD statutes. City or county officials can create an EIFD, which is governed by a public finance authority, to finance public capital facilities or other specified projects of communitywide significance that provide significant

benefits to the district or the surrounding community. Status: Signed by the Governor, Chapter 785, Statutes of 2014.

- f) ***SB 308 (Seymour) Infrastructure Financing Districts***: This bill authorizes cities and counties to create infrastructure financing districts (IFDs) and issue bonds to pay for community scale public works: highways, transit, water systems, sewer projects, flood control, child care facilities, libraries, parks, and solid waste facilities. To repay the bonds, IFDs can divert property tax increment revenues, which are revenues generated from increases in property values within the IFD above property values in the base-year when the IFD was formed. However, IFDs can't divert property tax increment revenues from schools. Signed by the Governor, Chapter 1575, Statutes of 1990.

REGISTERED SUPPORT / OPPOSITION:

Support

None on File

Opposition

None on File

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