

**Business Transportation & Housing Agency
Acting Secretary Brian Kelly
California Maritime Leadership Symposium
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Sacramento Convention Center**

As Prepared

We are at a time of very interesting challenges for the transportation sector in California. We are also in a time of transition. Last year the Governor pushed and the legislature adopted the Governor's Reorganization Plan #2. That plan had a fundamental and profound effect on our agencies. Today our Agency has 12 departments, about 42,000 employees, and a large budget of about \$18 billion. But we are going through change, and I think its change for the better.

Starting in July of this year, we will be operating as the State Transportation Agency which will have a core focus on transportation policy in California. That means we will reduce the number of departments we have from 12 to 7, but we will not be reducing our employee count by very much; we are going from about 42,000 to about 40,000. We are

losing departments that are relative to housing, corporations, financial institutions, economic development, and some commissions and boards will be moving to other agencies.

What we will be left with is an agency with a core and keen focus on the State's transportation challenges. That means seven departments, most of which you all know—Caltrans, DMV, CHP, Board of Pilot Commissioners, Office of Traffic Safety—and we will be inheriting two under the Agency umbrella— the California Transportation Commission and the California High-speed Rail Authority. And, again, seven departments all focused on transportation policy.

The core function of the Agency in all that is to better coordinate agency response, agency policy coordination, and policy coordination with the Governor's office, just in the world of transportation. In a state like California, I think that's long overdue. We have a very large and complex transportation system. It's the largest and most complex in the country. And cabinet level focus on that policy and that policy coordination is, in my mind, a welcome change for the state.

So these challenges are before us and one of the first things the Governor has asked the new agency to take up—in fact, we will start the work a little sooner than the formal formation of the Agency—is developing a new investment plan for the State of California in the transportation sector.

We have many challenges before us. You are all aware of the freight and goods movement challenges we have. We have broader challenges across the board in transportation generally. There is maintenance and preservation of our existing transportation system, needed expansion, needed improvements in transit, roads and highways. The task is large and the challenge is great.

But we are going to use some of the needs assessments that have been done recently and try to craft a 10 or 20 year investment plan. That is a core challenge that we are taking up now.

One of the key policy challenges in all this is much of our transportation system and much of the foundation it was built on was constructed and put together prior to our challenges around climate change—those challenges are real. So we

have to put in place those policies and those investments that will help us achieve our air quality and climate objectives as well. So that's a new wrinkle, a relatively new wrinkle in our transportation system, but one that will be linked going forward as we develop a broad investment plan.

In 2006, the State of California passed a large infrastructure bond package that included Proposition 1B, which was a nearly \$20 billion general obligation bond investment in the transportation sector. That bond included the first major dedicated investment, from the State's perspective, in the world of goods movement and trade. That investment included both the Trade Corridor Improvement Fund program and the Goods Movement Emission Reduction program. Those were two examples where the state took a serious plunge into partnering with the private sector on developing policies and making an investment in our trade corridors and our goods movement facilities in the State of California.

2006 begun that effort. And as we look forward in the years ahead, we are going to work on how we can best continue that effort—and some of that I want to talk to you all about in greater detail today.

As you all know, we have the ninth largest economy in the world and the maritime industry is a huge part of our economic strength. It is with that understanding that we work to protect the maritime industry by preserving vital infrastructure and investing in new technology and innovation to see us far into the future.

More than 40 percent of the containerized cargo entering the U.S. arrived at California ports. Port activities employ more than half-a-million people in California and generate \$7 billion in state and local revenues each year. Governor Brown understands this, and that's why he is leading a trade and investment mission to China in April to strengthen California's global trade position and forge new relationships with our trade partners.

To improve our opportunities for global trade we need to continue pushing California's maritime and freight transportation systems to be more efficient while serving customers. At the most basic level, we also need to protect the investments we've already made by maintaining our existing infrastructure.

It's important to note that the core of state highway system was built in the years following World War II. I think the greatest compliment you can pay to those who built it is the level of demand we still have on that system. California has more cars and trucks traveling more miles every year on that system than any other system in the country, so there is a lot to preserve and maintain.

The first priority for our investment plan going forward will be the protection of that system. And nobody should miss that the sustainability of that system and the condition of that system has a huge impact, not just on car travel and how people get around, but certainly on goods movement as well.

We need to continue improving our ports and maritime industry to improve the efficiency of moving goods. This includes basic things like maintaining ship access and loading containers faster and safer. It also includes doing smart things that keep our air and water clean to protect California's natural resources.

I mentioned climate and impacts of climate change earlier. We need to pay attention to those. Rising global temperatures will have far reaching consequences on California's economy. Rising sea levels, hotter heat waves and more intense wildfires put our infrastructure at risk. So we can't just move more freight at lower cost. We also have to reduce greenhouse gas emissions and other emissions that impact climate in California.

The maritime industry has met similar challenges in the past by working together to protect our oceans from oil spills and prevent invasive species in ballast water from harming our ecosystems.

I know many of you see the state's latest environmental rules and greenhouse gas reduction targets and wonder how the maritime industry will respond and prevail. But by working together I think we will. History teaches us that challenges in this industry can and have been overcome.

A couple of examples: after the Civil War, the British shipbuilding industry also faced enormous pressure and challenge. Manufacturers had so depleted the forests that they were forced to seek other shipbuilding materials to remain competitive. So out of necessity the British started using iron to build ships. But soon they expanded those operations after discovering the new materials actually work better in many ways. American shipbuilders followed this lead and the center of American shipbuilding shifted to Pittsburgh and its world-renowned iron and steel factories.

Similarly, during the Gold Rush, the San Francisco Bay became so overcrowded with moored vessels that ships could not reach the wharves to unload cargo. Ships were constantly going adrift and even colliding with one another. So the shipping companies banded together and worked with local government to find a solution. The Legislative

Assembly District appointed a harbormaster in 1849 with the power to control the position of vessels and promote free and open passage for all ships. The town council also passed a law so the harbormaster could issue fines to anyone who refused to comply with his orders. By 1852, the bay was clearing and commerce was moving.

The point here, of course, is that the maritime industry has undergone major transformations in the past and emerged stronger and better than before. That's exactly what happened in the 1950s when Malcolm McLean introduced the container system and revolutionized the entire maritime industry. Events from the past should give us the confidence that this industry will not only survive, but again transform itself to meet the challenges of this time and this era.

Innovation has been the key to keeping the maritime industry growing. What is the next innovation that will transform the industry? In truth, we probably don't know yet. It probably hasn't come here yet. Things like cold ironing and new fuel sources will pale in comparison to the remarkable innovation in the coming years.

Last year, the Governor signed legislation to allow the Department of Motor Vehicles to establish regulations for allowing self-driving, or driverless cars, to travel California's highways in the future. That technology could lead to major innovations in our transportation system. We also have a high-speed rail system that is months away from breaking ground, creating thousands of new jobs in the Central Valley. The implications of this project on moving cargo in California is probably not fully appreciated or not fully realized at this time, and I'm very interested to see the prospects of that.

Our ports are also tackling problems through innovation. The Ports of Long Beach and Los Angeles have a Clean Air Action plan to reduce pollution and allow ports to grow. And both Ports joined together for a program that gave financial rewards to ocean carriers that used cleaner technology. This year, San Diego's NASSCO shipyard just sold two container ships powered 100 percent by liquid natural gas.

The point is that the conversations we are having today are about solving real problems and real challenges we have in the transportation sector. California can have clean air and water and a prosperous economy. Together we can achieve

that goal. We tackled the problems of oil spills and invasive species together, and that is how we'll tackle the problem of global climate change. I urge you to engage in these issues in the days ahead and help improve the maritime industry and protect the environment. The need for cooperation cannot be overstated.

It was cooperation that led to the development of the Goods Movement Action Plan that was jointly issued by the Business, Transportation and Housing Agency and CalEPA in 2007. That plan helped identify 70 projects included in Proposition 1B and the Trade Corridor Improvement Fund. In addition, there are many other local grant programs and public-private partnerships, totaling \$7 billion in freight projects where Prop 1B was the catalyst investment for those projects.

Prop 1B also funded ARB's \$1 billion Goods Movement Emission Reduction Program. That program has made available \$590 million in grants to replace or update nearly 300 diesel trucks. Those innovations removed over 2,000 tons of particulate matter and 60,000 tons of nitrogen oxides from the air last year. In 2009, ARB funded \$59 million in

grants to install shorepower equipment at 25 berths at the Port of Long Beach, LA and Hueneme.

According to the ARB, shared investments in cleaner technologies have already reduced the level of diesel soot from port operations. From 2005 to 2007, diesel soot emissions have been reduced by fifty percent.

MAP21 launched another important conversation in California about how to make freight systems operate better. We are forming a freight advisory committee and writing a freight plan that will guide California as we invest in infrastructure and protect the environment. We'll have a better freight plan if everyone contributes and I encourage you to do so.

We are also working with the ARB on its Sustainable Freight Strategy. ARB will host a symposium in April to focus on technology to make California's freight system more efficient. It will also host a series of public meetings. The goal is to help the state meet its emissions reduction targets and maintain international competitiveness.

California is also analyzing state and federal data to identify highway routes and freight facilities that should be part of the 30,000-mile federal network and that should, we hope, be included in the next federal transportation bill.

Finally, I want to say again that we are on-target to reorganize the Business, Transportation & Housing Agency. Starting July 1, we will streamline our operation to focus solely on transportation. The new Transportation Agency, as I mentioned, will have seven departments all with a focus on transportation policy in the state. The work the Agency will have to do with our sister agencies, like CARB, will only be successful if we have participation from all of you and from all the other stakeholders that are affected by transportation policy.

So with that, I'd be happy to take any of your questions.