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- Mayor Chuck Walton
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On April 11, 2006, a meeting was held to discuss a Freight and Logistics Strategy for the State of Arizona. Key considerations included:

- stimulating job growth/economic development;
- funding physical infrastructure; and
- positioning the state in national policy discussions and for federal funding

Organizationally, initial consensus leaned toward establishing small working groups by mode (air, rail, trucking, marine). A business development/marketing group was recommended to consider increasing service to communities. Technology and workforce development will need to be a component of each of the discussions. A review of state policies, statues and regulations that work against the development of freight and logistics industry was advised.

Working groups will be convened to flesh out the goals, vision and specific action items of the strategy.

### Background & Trade Flow Data.

In 2002 the *Statewide Economic Study* identified transportation and logistics as one of ten industry opportunities for Arizona and a means to generate economic growth outside the metropolitan cores.

As a first step, the Arizona Department of Commerce commissioned the *Transportation/Logistic Research Project: Trade Flow Study (2004)*. A sample of the major findings includes:

- 167.5 million tons (\$181.8 B) of domestic goods flow in, out and around the State.
- Arizona is a net importer of goods with 52.8 million tons of inbound flows compared to 28.9 million tons of outbound flows.
- Trucks are the dominate mode of transport followed by rail. Rail traffic consists predominately of inbound coal shipments from New Mexico. The average value of air shipments is 38 times higher than the commodities carried by trucks and rail.
- By tons, major commodity shipments are low value, bulk items such as clay, concrete, glass/stone, petroleum productions and nonmetallic minerals. By value, goods originating in warehouses and distribution centers (described as secondary flows) were dominant making up \$73.1 billion of the \$181.billion goods shipped.
- Ninety seven percent of the 217 million tons of through traffic (\$606 B) originate or terminate in California.
- Transportation costs have increased due to rising fuel costs, truck driver shortages, security requirements and technology implementation.

The study recommended the development of a detailed action plan to outline a transportation/logistics economic development initiative emphasizing modes of transportation, geographic areas, industries, financial plans and supporting infrastructure.

Further recommendations included the following:

- Capture value by adding assembly, logistics or distribution activities to the "through-trips" movement of unfinished goods
- Expand the growing distribution center industry by capitalizing on the State's

population and consumer markets and industry "big box" trends

- Align industrial recruitment with additional assembly, logistics, distribution and shipping activities due to strong niche markets and trucking firms

The Federal Highway Administration, 2002 Freight Transportation Profile for Arizona, provides the following data/projections: [http://ops.fhwa.dot.gov/freight/freight\\_analysis/state\\_info/arizona/profile\\_az.htm](http://ops.fhwa.dot.gov/freight/freight_analysis/state_info/arizona/profile_az.htm)

	Tons (millions)			Value (billions \$)		
	1998	2010	2020	1998	2010	2020
<b>State Total</b>	182	292	396	147	343	616
<b>By Mode</b>						
Air	<1	<1	2	27	75	139
Highway	151	249	341	110	249	445
Other [a]	<1	<1	<1	<1	<1	<1
Rail	0	0	0	0	0	0
Water	62	65	78	13	19	29
<b>By Destination/Market</b>						
Domestic	169	266	357	131	294	521
International	12	26	39	16	49	95

Note: Modal numbers may not add to totals due to rounding.

<sup>a</sup> The "Other" category includes international shipments that moved via pipeline or by an unspecified mode.

Commodity	Tons (millions)		Commodity	Value (billions \$)	
	1998	2020		1998	2020
Clay/Concrete/Glass/Stone	27	74	Transportation Equipment	20	55
Petroleum/Coal Products	26	50	Secondary Traffic	20	92
Nonmetallic Minerals	24	38	Machinery	12	75
Secondary Traffic	20	60	Food/Kindred Products	11	47
Farm Products	19	30	Chemicals/Allied Products	11	41

### **Obstacles & Opportunities for Industry and by Mode of Transportation**

Trucking companies do not own the freight they carry. Tasked with executing the instructions of their customers, they have little control over determining where the pickup or delivery points are located. However, several efforts could impact Arizona's competitiveness and job creation throughout the State for this industry. Examples include:

- Elevate attention for the freight and logistics industry, similar to high technology and biosciences
- Develop a skilled workforce, specifically drivers and mechanics, that will encourage business to gravitate to the state
- Reduce user fees and investing them toward legitimate infrastructure improvements that will yield the greatest return
- Stimulate domestic production to reduce transportation costs and balance Arizona's position as a net importer
- Implement a Container/Cargo Theft program to report and retrieve stolen equipment/products
- Widen 1-10 between Tucson and Phoenix which due to congestion and the lack of alternative routing is pricing the State out of the logistics market
- Review State policies, statues and regulations that adversely impact industry growth

Looking specifically at air service and infrastructure in the Phoenix region, Sky Harbor is distinguished as one of the 15 busiest ports for passenger traffic in the world. The US Airways merger with America West offers an extraordinary opportunity. For the first time an international carrier with a hub in the State exists. A significant increase in international service will become available in 2010 and beyond. This will also stimulate more wide body aircraft at the port.

The lack of wide body aircraft is a challenge. The vast majority of the cargo service of FEDEX, UPS and DHL is flown to domestic locations on narrow body airplanes (737, 757) which have much less cargo capacity. In the coming weeks, Sky Harbor anticipates a formal alliance with Williams Gateway to focus on freight. Sky Harbor has approximately 300,000 square feet of new or recently renovated cargo space; however there are no plans to expand freight capacity in the future. Due to litigation and other process requirements it takes nearly 20 years to build a new runway.

International freight is an extremely lucrative and viable opportunity for the State. International cargo is typically two and a half times the weight of domestic shipments and because of the distances traveled, this equates to more money charged per pound. Los Angeles is dominating this market.

Arizona's air exports are destined for Asia (50%); Europe (30%); Latin America (10%); and Canada (10%). Increasing tourism activity could have a profound effect on the capability of the State to handle both domestic and international air freight. Air freight services in the region contract with airlines around the world to utilize excess belly space.

The demand for rail service has grown exponentially. Unlike federal investments in the highway system, railroads by in large expend their own resources on infrastructure improvements. Thus, the railroads evaluate new service request in terms of what projects will yield the greatest rate of return. Arizona is a critical destination market for Union Pacific (UP). They generate four to five times the revenue from destination goods as they do from commodities moving outbound from the State. UP has approximately 1200 employees and major yards in Tucson and Downtown Phoenix. UP's expansion plans include a new yard in the Buckeye area and a \$5 million dollar investment to add tracks in Casa Grande. Burlington Northern Santa Fe (BNSF) is making similar infrastructure investments in the State, notably expanding coal supplies to the utility companies.

Motorola established one its four global super sites in Nogales, Sonora. As part of a bi-regional approach to economic development, the company has been heavily engaged in stimulating supplier relocation in the area and advocating for infrastructure improvements at the Nogales Ports of Entry (Federal Redesign Funding; FAST Lanes and SENTRI Lanes). One of the biggest impediments has been the inflexibility of U.S. and Mexican Customs to grant requests for expanded hours of operation. Comparatively, requests at the Laredo ports are granted nearly 4 out of 5 times. In contrast, in Arizona permission is the exception not the rule. Antidotal information suggests a prioritization for produce relative to other commodities. Responses from U.S. Customs in the past indicate a willingness to expand hours as long as the request is based on an increase in workload and not a compensation for operational inefficiencies. The Director for Field Operations in the Tucson Sector has been a key participant in the implementation of several innovations at the Mariposa Port of Entry; however limited personnel and resources can impact their ability to expand operations. One alternative could be to explore with US CBP the ability to pay for expanded services during these critical situations.

### Updates on Community Initiatives

Beginning in 2005, Flagstaff initiated an effort to develop the transportation infrastructure and service capabilities of Camp Navajo, a former logistics military installation during WWII. In November, approval from the Department of Defense permitted the community to host an industry forum in January drawing over 120 developers from around the country. The RFP to design/construct an intermodal facility closed on March 31. The winning proposal is anticipated by the end of April 2006. The Army Corp of Engineers is administering the reinvestment program and is considering other areas around the State for logistic type development.

**Seattle's Logistics and International Trade Cluster**  
[http://prosperitypartnership.org/clusters/logistics/log\\_initiatives093005.pdf](http://prosperitypartnership.org/clusters/logistics/log_initiatives093005.pdf)

**Trucking Industry Workforce Shortages**  
<http://www.insidetruckingonline.com/>

**The U.S. Truck Driver Shortage: Analysis and Forecasts:**  
<http://www.truckline.com/NR/rdonlyres/E2E789CF-F308-463F-8831-0F7E283A0218/0/ATADriverShortageStudy05.pdf>

**" Create Advanced Logistics Jobs in Columbus"**  
[http://www.columbus.org/content/Advanced\\_Logistics\\_Stageholder\\_Report\\_2005\\_Columbus.pdf](http://www.columbus.org/content/Advanced_Logistics_Stageholder_Report_2005_Columbus.pdf)

**California Cargo Theft Interdiction Program**  
<http://www.chp.ca.gov/html/ctip.html>

**Ultra Low Sulfur Diesel Regulations**  
[http://www.arizonatrucking.com/Files\\_Public/ULSD%20Regs.pdf](http://www.arizonatrucking.com/Files_Public/ULSD%20Regs.pdf)

**Williams Gateway and Sky Harbor Alliance**  
<http://www.azcentral.com/arizonarepublic/news/articles/0418williams0418.html>

**AASHTO Freight and Multimodal Literature**  
[http://freight.transportation.org/freight\\_lit.html](http://freight.transportation.org/freight_lit.html)

**Go21: Growth Options for the 21<sup>st</sup> Century**  
<http://go21.org/>

Casa Grande through its economic development foundation has concentrated on attracting business investment. A challenging trend is the ability of private sector investors to acquire land for \$2 a square foot and then sell/develop it for \$10, reducing the community's attractiveness. Similarly the inability to increase rail service has negatively impacted business recruitment efforts. To mediate these limitations, Casa Grande is forming a public private partnership to keep prices down and to acquire several hundred acres for an industrial park, processing yard.

Kingman is advancing a vision for the Kingman IFPC. The concept envisions the community becoming an industrial and commercial magnet through the proactive use of resources and technologies to significantly improve more efficient freight and traveler movement. With transportation infrastructure (industrial park, I 40/SR 93, BNSF Transload Facility) and potential markets identified, Burlington Northern Santa Fe Railway initiated a meeting with the City to discuss the intermodal freight operations and expansion in the area. Recommendations included site visits to model operations, which are being planned. In agreement, the City, the Railroad and other key stakeholders will begin to meet on a regularly to pursue areas of mutual interest and opportunity.

Nogales and Santa Cruz County formed a Port Authority (NSCCPA) to elevate the region's priorities at both the state and the federal level. The NSCCPA successfully secured the inclusion of \$9.8 million for the redesign of the Mariposa Port of Entry in the President's 2007 budget. The community is closely monitoring the process to ensure it remains in the budget, which is expected to be adopted officially in September 2006. When the reconstruction is completed in 2010, the port will be a state of the art facility. Other infrastructure/technology improvements include the FAST Lanes and Sonora's equivalent connectivity. A ribbon cutting ceremony for the FAST Lanes with the Governors of Arizona and Sonora is being organized for August 15, 2006. In April the SENTRI Lanes opened for passenger vehicles. Customs officials are reporting a three week processing timeframe due to growing interest in enrollment. Recognizing the challenges in relocating the rail, an inter-governmental agreement between the city and ADOT was completed to examine the feasibility of several overpasses in the downtown area.

The Greater Yuma Port Authority, representing the Cities of Yuma and San Luis, the County and the Cocopah Nation, has worked in partnership with the Nogales Region to secure the resource for the redesign of the Mariposa Port and the construction of a new commercial port, San Luis II. The President's 07 budget includes 42 million for design and construction. Additional high priority projects include the state inspection station for the new port, the Area Service Highway which will connect the port to I-8 and the relocation of the cattle crossing.

The Puerto Nuevo Office, no longer a City of Tucson Initiative, has come under the auspices of the Pima Association of Governments, to apply a more regional approach. A planning process is underway with a consulting firm from California. An eleven member taskforce representing different sectors and the Mexican States of Sonora and Sinaloa was formed. A technical advisory group will be assembled to advance the findings identified during the planning process. Preliminary outreach has been extended to Santa Cruz, Cochise and Pinal Counties because success is believed to be contingent upon a multi-county approach. The office is establishing strategic alliances with the Ports of Guaymas and Mazatlan to identify niche market opportunities. A month ago, the office secured a promissory right to allow passenger train service out of Tucson into Mexico. Approved at the higher levels, next steps now include middle management discussions and outreach to Customs.

### **National and State Freight Initiatives: Models of Strategic Vision, Policy and Objectives**

A national freight policy is being developed. Several states and some cities have crafted a freight strategy. The objectives from the national policy discussion may be a good starting point for Arizona's plan. The Minnesota plan may yield some insight into our outcomes from a policy recommendation standpoint. Missing from the two models provided is an explicit intention to increase the competitiveness of local communities through infrastructure improvements. Suggested additions to the National Policy Objectives include:

- "Identifying and addressing local community opportunities presented by freight transportation"
- "Identify statewide economic development opportunities in the freight and logistics industries"
- "Identify and mitigate federal, state, and local policies and procedures that impede the growth and development of freight transportation"

It will be important to include community and governmental representatives in the various working group discussions by mode of transportation.

An additional observation indicated two levels of discussions:

- Transportation and logistics industry issues, which could be considered by mode and by sphere (local, regional, state and federal).

- Non-transportation issues such as workforce development, business development, distribution of job centers, marketing, security and processing.

As part of this delineation, the business community would identify its short and long term needs and inform the public agencies. After identification there could be public and private sector partnership on project planning and development and ultimately project funding.

#### **National Freight Policy Framework**

<http://www.ops.fhwa.dot.gov/freight/>

##### **Vision**

- The United States freight transportation system will ensure the efficient, reliable, safe and secure movement of goods and support the nation's economic growth while improving environmental quality

##### **Objectives**

- Improve the operations of the existing freight transportation system
- Add physical capacity to the freight transportation system in places where investment makes economic sense
- Use pricing to better align freight system costs and benefits and encourage the deployment of technologies
- Reduce/remove statutory, regulatory, and institutional barriers to improve freight transportation performance
- Proactively identify and address emerging transportation needs
- Maximize the safety and security of the freight transportation system
- Mitigate and better manage the environmental, health and community impacts of freight transportation

##### **State level Freight Coordinators:**

<http://www.tfhrc.gov/pubrds/06jan/06.htm>

#### **Minnesota Statewide Freight Plan**

<http://www.dot.state.mn.us/ofrw/statewidePlan.html>

##### **Vision**

- Provide an integrated system of freight transportation in Minnesota—highway, rail, water, air cargo, and intermodal terminals—that offer safe, reliable and competitive access to the statewide, national and international markets

##### **Policy Directions**

- Improve the condition, connectivity, and capacity of statewide freight infrastructure
- Improve the condition, connectivity, and capacity of national and international freight infrastructure serving Minnesota
- Enhance the operational performance and safety of statewide freight systems
- Enhance integration of freight into regional and state transportation planning and investment decisions
- Strengthen partnerships to address significant freight issues
- Streamline and improve the effectiveness of motor carrier regulatory activities

##### **Florida's Freight Stakeholder Taskforce:**

<http://www.dot.state.fl.us/planning/SIS/implementationguide/default.htm>

##### **Seattle's Regional Freight Mobility Roundtable and Strategic Plan:**

[http://www.ci.seattle.wa.us/transportation/docs/2005FreightPlan\\_Final2.pdf](http://www.ci.seattle.wa.us/transportation/docs/2005FreightPlan_Final2.pdf)

### **Funding (State Long Range Planning, SAFETEA LU, 09 Federal Reauthorization and PPP)**

As recognized by Minnesota, freight needs to be integrated into regional and state transportation planning and investment decisions. Participant experience with strategy development in Southern California found that business will partner with government in transportation planning and funding, if the projects yield benefits or increase economic profitability.

A key challenge will not necessarily be the identification of needs but rather the resources to address them. Experts estimate that by 2025 the U.S. will be importing nearly 80 percent of what it consumed, foreshadowing the tremendous strains anticipated on the nation's and the state's infrastructure.

An Arizona Plan needs to identify resources for further research/data collection as well as a mechanism for long term projects, e.g., public private partnerships and bonding.

Enabling legislation may be required to permit public private partnerships. The Port Authorities formed in the Border Region do not possess bonding capabilities.

As noted above, the border communities and cities have successfully organized themselves to secure federal funding and position key projects in the State's long term planning process. Assisting their effort to deliver a cohesive message is a state sponsored initiative, the Border Infrastructure Project, which catalogs information in a single location for policy decision makers.

**Move AZ:** [www.moveaz.org](http://www.moveaz.org)

##### **Talking Freight Seminars**

<http://www.fhwa.dot.gov/freightplanning/talking.htm>

##### **Freight Provisions in SAFETEA LU**

<http://www.ops.fhwa.dot.gov/freight/policy.htm>

[http://www.ops.fhwa.dot.gov/freight/policy/safetea\\_lu.htm](http://www.ops.fhwa.dot.gov/freight/policy/safetea_lu.htm)

[http://www.ops.fhwa.dot.gov/freight/policy/presentations/freight\\_safetealu.ppt](http://www.ops.fhwa.dot.gov/freight/policy/presentations/freight_safetealu.ppt)

##### **TIFIA (Potential Federal Funding Source):**

<http://tifia.fhwa.dot.gov/>

##### **Public Private Partnerships:**

[www.ncppp.org](http://www.ncppp.org) [www.ncppp.org](http://www.ncppp.org)

##### **USDOT PPP & Report to Congress on PPP**

<http://www.fhwa.dot.gov/ppp/>

<http://www.fhwa.dot.gov/reports/pppdec2004/>

##### **State of Arizona Border Infrastructure Project**

<http://www.bip.arizona.edu/>