Southern California Leadership Council

Southern California Leadership Council's Federal Trade Infrastructure Initiative

- Global trade comprises a huge portion of the United States economy. A few key regions throughout the country are the entry and exit points for that trade and, as such, those regions bear most of the burden in terms of air pollution, traffic congestion and costs of wear and tear on their highway and rail systems.

- Huge increases in the volume of global trade in these regions have stretched existing transportation infrastructure systems to their absolute limits, as well as having set off a debate within each of these region's of the country as to the environmental impact versus the economic benefits of this trade. With little to no federal, state or local funds to pay for the billions of dollars of improvements needed to accommodate the movement of goods, it is merely a matter of time from when either the transportation infrastructure system will break down or outraged and frustrated citizens shut down the transport of these goods due to legitimate health, safety and quality of life concerns.

- Five regions throughout the country generate over two-thirds of the global trade revenues to the federal treasury in the form of customs fees (totaling roughly $25 billion today, projected to increase to $50 billion in the next ten years). Yet, these states/regions receive <u>no revenue</u> to maintain or improve the existing, aging and in some cases failing infrastructure that is so vital to the movement of these goods to market.

- In light of the Congressional Budget Office's April 4, 2006 report to Congress regarding the impending insolvency of the Highway Trust Fund, it is safe to say the traditional "transportation" funding sources are neither adequate nor stable enough to apply any meaningful amount to this problem.

- The only significant source of capital likely in the coming years is from the private sector. Billions in private capital could be invested in all types of infrastructure, but especially in trade infrastructure because it has the potential to deliver a greater return on investment than other types of projects.

- Public benefits described above justify public support. Legislation to encourage <u>private</u> investment in critical trade infrastructure that generates reliable economic returns is good policy. Tax subsidies (i.e., tax credits) for trade infrastructure is needed and works because:

    - Federal budget is not improving as it relates to discretionary resources. General fund and Trust fund appropriations are oversubscribed.
    - Tax subsidies are on the revenue side of the equation and provide an incentive for investment without increasing spending or borrowing.

- Tax subsidies promote private investment in targeted sectors only (e.g., trade infrastructure in the five key trade states/regions).
- Tax subsidies receive favorable budgetary treatment compared to grants (e.g., "scoring").
- Tax subsidies can be implemented quickly without additional bureaucracy – that means projects can move forward more quickly with private dollars and a federal tax incentive.