

Testimony of William J. Rase III

Submitted to

The Committee on Ways & Means

Subcommittee on Oversight and Investigations

For the Hearing on

Harbor Maintenance Funding and Maritime Tax Issues

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Mr. Chairman and Members of the Committee,

My name is William J. Rase III. I am Executive Director of the Lake Charles Harbor and Terminal District. The District is the state-designated local sponsor for the Corps' Calcasieu River and Pass Project, a 68 mile waterway serving the Port of Lake Charles which is the 11th largest port in the United States. In 2009, the latest year for which data is available, the Port of Lake Charles handled some 52 million tons of cargo carried on 892 ocean-going vessels. Proper maintenance of the Calcasieu Ship Channel is an important national issue in a multitude of areas, including energy security, economic security, economic recovery and growth, export growth and jobs. Dollars spent on channel maintenance provides the Federal Government with an excellent return on its investment.

Based on studies done by the District, in 2006 the Port of Lake Charles generated over 31,000 jobs and contributed \$765 million directly to the federal treasury; \$624.7 million in federal income tax collections, \$128.6 million in Customs collections and \$12.6 million in Harbor Maintenance Tax collections. Despite these significant contributions to the national economy, the dredging budget of the Calcasieu Project has historically been grossly underfunded. To continue these funds into the federal treasury, the federal government must increase its investment in the Calcasieu Ship Channel. From FY 99 to FY 11, the Corps O&M budget for the Calcasieu Ship Channel averaged \$14.56 million per year, or about 51% of the amount needed to properly maintain the channel. To properly maintain the channel in the future, between \$40 million and \$60 million per year will be needed. This includes funds to perform maintenance that has been

ignored over the past decade because of inadequate funding and to compensate for the increased cost of dredging during that time. The situation in Lake Charles is symptomatic of the lack of adequate maintenance dredging funds at public ports nationwide.

The Port of Lake Charles is one of six strategic energy ports along America's Energy Coast, which is the Gulf of Mexico. These ports can handle 7.5 million barrels of oil per day, or 60% of the country's total petroleum refining capacity. In 2008, three storms disrupted the Gulf Coast energy ports. Only the refineries in Lake Charles and Corpus Christi were able to operate near capacity throughout the storm season. Closing refineries has severe economic consequences. For example, when the Gulf Coast refineries began to shut down for Hurricane Ike, the price of gasoline, diesel and jet fuel increased sharply adding \$200 million per day to the country's energy bill. Fortunately, hurricanes are relatively short lived and, barring a direct hit, refineries usually return to normal operations within a short time.

Just like hurricanes, the lack of dredging can interrupt port operations, but the impact will not be days or weeks. Shoaling can disrupt a port for months or longer. In FY 12 the Calcasieu Ship Channel, home of the 4th largest refinery in the United States, needed \$61.6 million to properly maintain the channel. The President's FY 12 dredging budget for Calcasieu was only \$15.5 million and Congress appropriated only \$15.1 million. Project draft for the channel is 40 feet. This year the Corps only has funds to dredge the critical channel reaches to 37 feet for the full project width of 400 feet. To get a 40 foot operating draft at the current funding level channel users will have to make due with a 200 foot wide channel. This will stress channel operations to the limit causing one-way traffic in many cases and increasing vessel delays. There is no doubt in the minds of the Calcasieu channel users that the operating draft on the waterway will be reduced below 40 feet, and it will be reduced soon. With a bit more loss in width, the operating draft of vessels will be reduced. Crude tankers will arrive with less cargo. More ships will be needed to satisfy the country's energy needs and the cost of the additional ships will be passed on to U.S. consumers in higher fuel prices.

The Corps of Engineers determined the cost of losing draft on the vessels carrying import cargo (crude oil and LNG) into the Calcasieu Ship Channel in their 2010 Dredge Material Management Plan for the waterway. The loss of one foot of draft adds \$6.3 million per year to nation's energy

cost.¹ These losses increase exponentially. The loss of 5 feet of draft adds \$36.6 million per year to the national energy bill and the loss of 10 feet adds \$92.7 million per year. These annual cost increases do not include the cost added to the price of American exports because of reduced vessel operating draft, with the added cost making U.S. products more expensive and less competitive on world markets.

Ports have a significant impact on the local and national economy. The Port of Lake Charles generates over 31,000 jobs, \$2.3 billion in personal income, and \$4.6 billion in business revenue. As mentioned above, it also contributes \$765 million directly into the federal treasury. In order to efficiently provide these benefits in FY 13, the Calcasieu Ship channel must be fully funded at \$64 million.

Nationally, the public port industry generates 13.3 million jobs, \$649 billion in personal income and over \$3.15 trillion in cargo related spending. Deep-draft ports move 99.4% of U.S. overseas trade by volume. The federal initiative to double the country's foreign trade will be supported by these deep-draft ports. The larger ship that will transit the new Panama Canal will call at these ports. Deep-draft ports are critical to the nation's Maritime Highway initiative, which will reduce congestion on U.S. highways and shrink pollution from trucks and railroads. In doing all of this, deep-draft ports will play a decisive role in the country's economic recovery. Yet nationwide, the federal channels at these deep-draft ports suffer from the same chronic underfunding as the Calcasieu Ship Channel.

The port industry cannot fulfill its potential as a national economic engine if the navigation infrastructure for these ports is not maintained. If deep-draft vessels are delayed, if they cannot load to the depths authorized by Congress, then imported cargo is more costly for U.S. consumers and U.S. exports become uncompetitive on world markets.

The irony here is that the funds to dredge and maintain deep-draft ports at congressionally authorized depths and widths are already collected and available. The Harbor Maintenance Tax was implemented to provide funding to maintain the nation's navigation infrastructure. This tax

¹ Inflation adjusted from 2004 to 2010.

has been collected for over two decades but never fully used for its intended purpose. The Harbor Maintenance Trust Fund has a surplus of some \$6 billion dollars. And the surplus grows annually because Congress does not allocate all of the Harbor Maintenance Tax revenue for its authorized and intended purpose of dredging the nation's ports. H.R. 104 is a step toward solving this problem. H.R. 104 requires that all of the Harbor Maintenance Tax collections be used for navigation dredging. It does so without earmarks and without adding new taxes. If Congress passes H.R. 104 and adds to the Corps maintenance budget the incremental collections that have gone to build up the surplus, over the next ten years \$5 billion will be spent on dredging the nation's harbors.

The key is to **add** the unspent portion of the tax collections to the Corps' Navigation Operations and Maintenance Budget. To illustrate, the Corps' average Navigation O&M budget over the past 5 years has been about \$1.335 billion and the unspent portion of the tax collected is about \$500 million per year. **Adding** the unspent portion of the tax means that the Corps' Navigation O&M budget should average \$1.835 billion over the next 10 years. By doing so, the deferred maintenance of the nation's deep-draft maritime infrastructure should be caught up and the U.S. port industry will allow the country to "Realize America's Maritime Promise."

If we fail to properly maintain our navigation channels, the cost of trading with the United States will increase, the cost of energy and the ability of our farmers and manufacturers to compete in the global marketplace will decrease, and the economy of the United States will suffer. On behalf of the Port of Lake Charles, and the many users of the Calcasieu River Channel, I urge the Congress to pass H.R. 104 and fully fund harbor dredging with funds already collected for that purpose.

Thank you for the opportunity to submit this testimony.