Economic Impact Study

Los Angeles County Economic Development Corporation

Ongoing Operations of the Cal Cartage Transloading Facility

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This report was prepared by the Economic and Policy Consulting Practice of the Los Angeles County Economic Development Corporation (LAEDC).

As the Southern California region's premier economic development organization, the mission of the LAEDC is to attract, retain and grow businesses and jobs in the regions of Los Angeles County.

The LAEDC Consulting Practice offers unbiased, fee-based custom economic and policy research for public agencies and private firms. The Consulting Practice focuses on economic impact studies, regional industry analyses, economic forecasts and issue studies, particularly in water, transportation, infrastructure and environmental policy. Projects are selected based on their relevance to the *L.A. County Strategic Plan for Economic Development* and the potential for the research to shape policy that supports the LAEDC mission.

Executive Summary

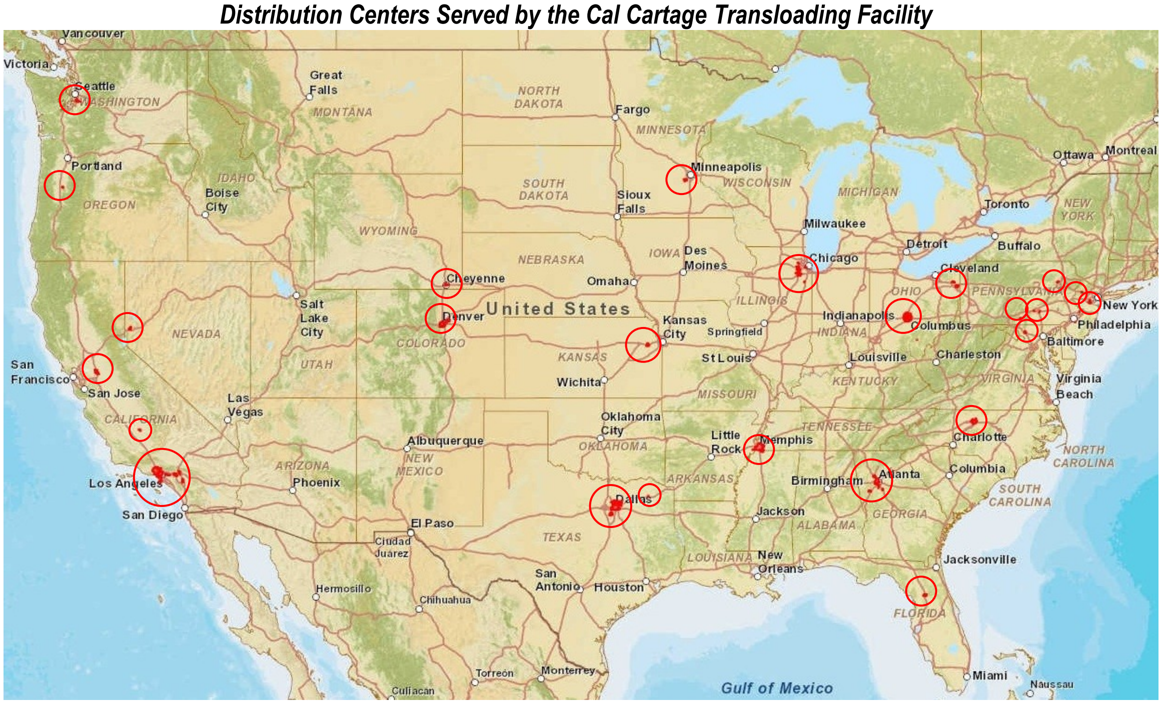
The Cal Cartage transloading facility may be closed or relocated outside of Southern California as soon as 2012, which would cost the region roughly 1,000 jobs.

- The Cal Cartage transloading facility is a 70-acre complex in a highly desirable location on port-owned property adjacent to the Port of Los Angeles. The transloading facility is located on 55 acres leased from the Port of Los Angeles; an additional 15 acres used to park containers is leased from Southern California Edison.
- Cal Cartage's port lease will not be renewed because the property is slated to become a near-dock rail yard, an important component in the overall greening of port operations.
- Cal Cartage needs a new site (or sites) as close to the harbor as possible for its transloading operations. Proximity to the port is crucial to operating efficiency as it allows drivers to make multiple roundtrips during their shifts and provides for the immediate transloading of goods destined for locations throughout the country. This efficiency keeps freight costs competitive for a demanding customer base made up primarily of major retailers and eliminates more than 1 million truck miles annually that would be necessary if the same facility were located in Riverside or a similar inland area.
- If Cal Cartage cannot relocate its transloading facility relatively close to the port, the alternative may be a location in the Pacific Northwest or Savannah, GA (where Cal Cartage already has a facility). Losing the transloading facility would be a double blow for Los Angeles.
- First, if Cal Cartage leaves, it will cost the region roughly 1,000 jobs. The figure includes direct workers at the transloading facility; indirect employment in the goods movement industry, such as the truckers who haul freight to and from the facility and freight forwarders; and induced employment in the rest of the economy.
  - Employment at the facility fluctuates with international trade flows, and can reasonably be expected to grow over the next five years if the firm and its customers are able to continue moving freight through the San Pedro Bay ports.
  - The employment generated in Southern California by the Cal Cartage transloading facility will almost certainly be lost if the firm leaves. The freight does not necessarily need to be shipped via Southern California and there are few, if any, local firms with the same experience, capacity and capability.
- Second, the loss of Cal Cartage's operations would send the wrong signal to the rest of the goods movement industry. The firm has been an early adopter and active participant in the greening of port-related operations and the region can ill afford to create the perception that firms leading the efforts to green the freight industry do not have viable options to operate here.

Introduction

Perhaps as soon as 2012, Cal Cartage will have to relocate. The Cal Cartage transloading facility is a 70-acre complex in a highly desirable location on port-owned property close to the Port of Los Angeles. The complex includes three buildings comprising 600,000 square feet, plus yards for storing containers and parking trucks. Operated by the California Cartage Company, the facility is used to transload imported goods for shipment to retailers and distribution centers across the United States, represented by the circled red dots on the map below.

Distribution Centers Served by the Cal Cartage Transloading Facility



The transloading facility is located on 55 acres leased from the Port of Los Angeles; an additional 15 acres used to park containers is leased from Southern California Edison.

Cal Cartage's port lease will not be renewed because the property is slated to become a near-dock rail yard.

In this report, the Economic and Policy Consulting Practice of the Los Angeles County Economic Development Corporation (LAEDC) presents an analysis of the economic impact of the potential shutdown or relocation outside the region of the Cal Cartage transloading facility.

Part I of the report estimates the economic impact of the transloading facility, including direct, indirect and induced employment and business revenues. Part II discusses the importance of finding an alternative site (or sites) in close proximity to the Port of Los Angeles for the transloading facility.

Economic Impact of Ongoing Operations

The activity at the transloading facility is in large part dependent on the macroeconomic environment. The sharp global economic downturn and the accompanying decline in import traffic at the ports depressed activity at the facility. Using the most recent year to estimate the economic impact of the facility's transloading operations may therefore unfairly understate its impact.

To provide a broader picture of the impact of Cal Cartage operations, we consider the past five years. The exhibit below shows the annual direct economic impact of the transloading facility since 2006, along with the average over the same period. To make comparisons possible, all dollar values are presented in inflation-adjusted terms.

Exhibit 1
Direct Economic Impact of the Cal Cartage Container Transloading Facility

	2006	2007	2008	2009	2010[1]	5-Year Average
Revenue ($ millions)	$ 30.9	$ 36.4	$ 32.6	$ 23.0	$ 24.8	**$ 29.5**
Employment (jobs)	860	928	907	640	690	**822**
Labor income ($ millions)	$ 18.1	$ 21.3	$ 19.1	$ 13.5	$ 14.5	**$ 17.3**

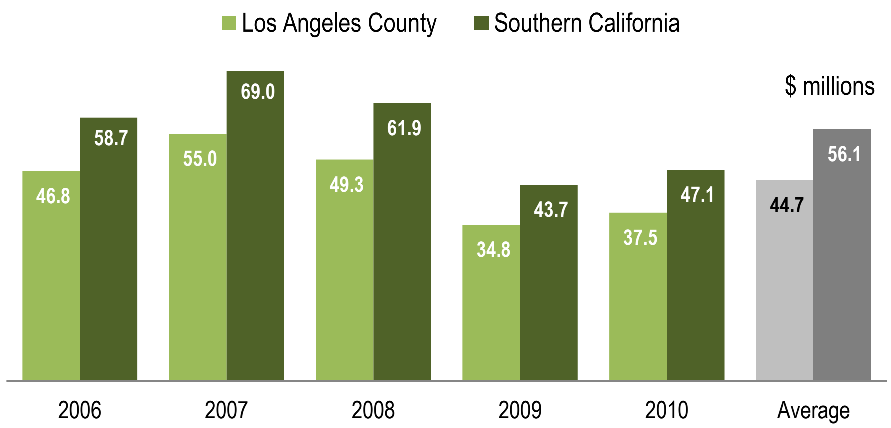
[1] 2010 revenues are estimated
2010 dollars
Source: California Cartage Company

The best year in terms of revenue for the transloading facility was 2007, with revenues reaching almost $36.4 million (in inflation-adjusted 2010 dollars). The deep recession that began in late 2007 dealt a severe blow to the company and the goods movement industry overall. The firm saw revenues at the transloading facility decline in real terms by 10 percent from 2007 to 2008 and an additional 30 percent from 2008 to 2009, reaching its nadir of the five-year period. Some improvement has been realized in 2010. Over the five-year period, average annual revenues were $29.5 million per year.

Employment at the transloading facility, like revenues, has fluctuated with international trade flows, ranging from 640 to 928 people, with average employment of 822 workers. The employment figure includes seasonal workers brought on during the peak period from July through September, but does not include the truckers who move containers to and from the transloading facility. K&R Trucking, a Cal Cartage affiliate, employs 150 owner-operators. K&R Trucking is the only firm used to haul containers from the port terminals to the transloading facility, a business line that accounts for 40 percent of its operations. Another group of truckers, contracted by the beneficial cargo owners, haul the containers outbound from the transloading facility.

The economic impact of this activity is shown in the following exhibits. The first exhibit shows the total impact, including direct, indirect and induced effects, on output in Los Angeles County and in the five-county Southern California region for each year, along with the average of the five-year period. Again, the output values are shown in inflation-adjusted dollars.

Exhibit 2
Total Revenue Impact of Cal Cartage

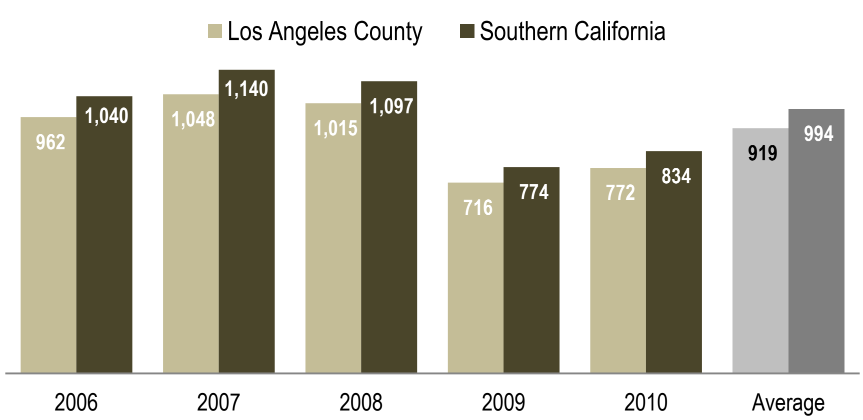


2010 dollars
Source: Estimates by LAEDC

Over the five-year period, the average annual output impact was $44.7 million in Los Angeles County and $56.1 million in the five-county Southern California region. The largest impacts were in 2007, and the smallest in 2009.

Exhibit 3 shows the total impact, including direct, indirect and induced effects, on employment in Los Angeles County and in Southern California.

Exhibit 3
Total Employment Impact of Cal Cartage



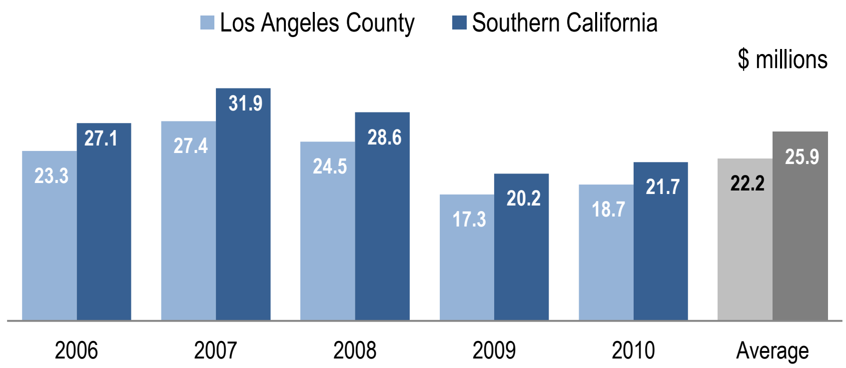
Source: Estimates by LAEDC

Over the five-year period, the average annual employment impact was 919 jobs in Los Angeles County, and 994 jobs in the five-county Southern California region. The largest impacts were in 2007, and the smallest in 2009.

The employment figures include the direct workers at the transloading facility; indirect employment in the goods movement industry, such as the truckers who haul freight to and from the facility, plus freight forwarders and customs agents; and induced employment in the rest of the economy.

Finally, the exhibit below shows the total impact on labor income in Los Angeles County and in Southern California. The values are shown in inflation-adjusted dollars.

Exhibit 4
Total Labor Income Impact of Cal Cartage



2010 dollars
Source: Estimates by LAEDC

Over the five-year period, the average annual labor income impact was $22.2 million in Los Angeles County, and $25.9 million in the five-county Southern California region. The largest impacts were in 2007, and the smallest in 2009.

Industry Sector Impacts

The economic impact will spill across industries in both Los Angeles County and the Southern California region through indirect and induced effects. The economic impacts by industry sector due to ongoing operations appear in Exhibit 5 on the next page.

In addition to the impacts in the transportation and warehousing sector, other impacts will occur in the retail trade and health care and social assistance sectors.

Exhibit 5
Average Annual Economic Impact of Ongoing Operations of the Cal Cartage Container Transloading Facility by Industry Sector

Industry	Los Angeles County		Southern California	
	Output ($ million)	Jobs	Output ($ million)	Jobs
Agriculture	$ 0.0	0	$ 0.1	1
Mining	0.1	0	0.1	0
Utilities	0.2	0	0.5	1
Construction	0.1	1	0.3	2
Manufacturing	1.5	3	2.8	5
Wholesale trade	0.6	3	1.1	6
Retail trade	1.2	14	2.0	23
Transportation and warehousing	30.4	830	31.1	836
Information	0.9	2	1.5	3
Finance and insurance	1.5	5	2.7	11
Real estate and rental	2.7	6	4.8	14
Professional, scientific and technical services	0.9	6	1.7	10
Management of companies	0.2	1	0.4	2
Administrative and waste management	0.6	9	1.2	18
Educational services	0.2	4	0.3	5
Health care and social assistance	1.5	15	2.3	22
Arts, entertainment and recreation	0.2	2	0.5	4
Accommodation and food services	0.6	5	1.0	14
Other services	0.7	9	1.0	14
Government and non-NAICS	0.4	2	0.6	3
Total *	**$ 44.7**	**919**	**$ 56.1**	**994**

* May not sum due to rounding
Source: Estimates by LAEDC

The values in the exhibit should be interpreted as illustrative of the industry effects rather than precise given model and data limitations. A description of these industries is provided in the Appendix.

Fiscal Impact

On average during the five-year period, ongoing operations at the transloading facility generated state and local tax revenues in excess of $2.0 million, if we consider only the economic impact region of Los Angeles County. If we expand the impact area to the five-county Southern California region, the state and local taxes generated on average would reach $2.8 million annually. These data are shown in Exhibit 6.

Exhibit 6
Average Annual Fiscal Impact of Ongoing Operations of the Cal Cartage Container Transloading Facility ($ million)

	Los Angeles County	Southern California
Sales taxes	$ 0.4	$ 0.7
Property taxes	0.3	0.5
Income taxes (including profits taxes)	0.8	1.1
Fees, fines	0.2	0.3
Social insurance	0.1	0.1
Other taxes	0.1	0.1
Total *	**$ 2.0**	**$ 2.8**

* May not sum due to rounding
2010 dollars
Source: Estimates by LAEDC

These figures do not include the rent Cal Cartage pays to the Port of Los Angeles for its lease.

Discussion

Cal Cartage needs a new site (or sites) near the harbor for its transloading operations. The site needs to be no further from the ports than the City of Vernon in order to be viable. Losing the transloading facility to another region would be a double blow for Los Angeles: it would cost the region jobs and send the wrong signal to the rest of the goods movement industry.

The Need for Proximity

If the Cal Cartage transloading facility is to make way for a new rail yard and still remain in business in Southern California, it will need another location (or two or three smaller locations) as close to the ports as possible. The transloading facility sends cargo to distribution centers and retailers around the country, but needs to be near the port for reasons having to do with operational efficiency.

Proximity to the port allows drivers to make multiple roundtrips during their shifts and provides for immediate transloading of goods. This is critical because transloading facilities are not warehouses, which store goods until they are needed. In contrast, a transloading facility is essentially a long, rectangular building with loading doors on the two longest sides. Containers are backed up to both sides of the building and cargo is moved directly from the inbound containers on one side of the building to the outbound containers on the other. To keep this operation going at maximum efficiency, the personnel moving the contents of the containers need a steady supply of inbound containers. The farther the operation is located from the port, the fewer roundtrips drivers can complete during a shift and the more expensive it becomes to maintain the steady flow of inbound cargo. Increasing costs would erode any competitive advantage over similar operations located near other North American ports.

Being close to the ports also eliminates more than 1 million truck miles annually that would be necessary if the same facility were located in the Inland Empire. The transloading facility sorts and repackages goods that arrive in 40-foot shipping containers for outbound shipment in 53-foot domestic intermodal containers. This process reduces the number of containers destined for locations around the country by 30 percent (since 7 domestic intermodal containers replace 10 inbound shipping containers). With an annual throughput of approximately 60,000 inbound containers, the transloading facility reduces the number of outbound containers by 18,000.

Employment Risk

Unless Cal Cartage can find a replacement site relatively close to the San Pedro Bay ports, the region will lose roughly 1,000 jobs (as shown in Exhibit 3). Since employment at the facility fluctuates with international trade flows, and can reasonably be expected to grow over the next five years if the firm and its customers continue to move freight through Los Angeles, the loss could be even greater.

To remain cost-effective in Southern California, the transloading facility needs proximity to the ports, as described above. The alternative may be a location in Washington State, near the Port of Seattle or the Port of Tacoma, or in Georgia near the Port of Savannah, where Cal Cartage already has a facility.

The employment generated in Southern California by the Cal Cartage transloading facility will almost certainly be lost if the firm leaves. First, the freight does not necessarily need to be shipped via Southern California. Most of the transloaded freight is sent to distribution centers across the country and thus will be shipped using the route that offers the best combination of speed, cost-savings and operational efficiency. Second, few, if any, firms in the region can match Cal Cartage's track record or transloading capacity. Third, Cal Cartage is well positioned to retain its customers since it has developed a freight management system that is often more sophisticated than those used by its multibillion dollar retail clients.

Unwelcome Signals

The Cal Cartage lease is not being renewed because the site is slated to become a near-dock rail yard, an important component in the overall greening of port operations. Yet, the loss of Cal Cartage would send the wrong signal to the rest of the goods movement industry and could set back efforts to green international trade-related activity.

Cal Cartage has embraced the ports' emissions reduction goals and been recognized by state and local government officials for its role in the greening of goods movement operations in the port area. The company's most important green action to date has been its facilitation of the ports' Clean Truck program. Cal Cartage helped truck owner-operators struggling to finance the purchase of cleaner burning trucks required by port-imposed mandates. Working with City National Bank, Cal Cartage was instrumental in crafting a creative financing deal covering new LNG trucks. The deal took advantage of the firm's credit rating (which was much stronger than those of the individual owner-operators), the bank's ability to make use of federal tax credits (which were of limited use to the owner-operators or Cal Cartage), and grants from the California Air Resources Board. The grants, tax credits and lower borrowing costs reduced the monthly lease payments on new LNG trucks from $1,100 to $600. This made possible an upgrade to cleaner equipment that would have been otherwise unaffordable for owner-operators of trucks working in port drayage.

Summary

Keeping the transloading facility near the San Pedro Bay ports would keep the Cal Cartage-related jobs in the area and would help signal that the ports and the region are committed to green growth.

Appendix

Methodology

The total estimated economic impact includes direct, indirect and induced effects. **Direct activity** includes the materials purchased and the employees hired by California Cartage during ongoing operations. **Indirect effects** are those which stem from the employment and business revenues motivated by the purchases made by Cal Cartage. For example, indirect jobs are sustained by the suppliers of the office supplies and insurance purchased by the firm. **Induced effects** are those generated by the spending of employees whose wages are sustained by both direct and indirect spending.

We used information supplied by Cal Cartage for initial spending, and estimated the direct, indirect and induced effects using models developed with data and software from the Minnesota IMPLAN Group. Our estimates for labor income and output are expressed in current (2010) dollars.

The estimated economic impacts are based on spending within Los Angeles County. Job creation estimates are measured on a job count basis for both wage-and-salary workers and proprietors regardless of the number of hours worked.

Description of Industry Sectors

The industry sectors used in this report are established by the North American Industry Classification System (NAICS). NAICS divides the economy into twenty sectors, and groups industries within these sectors according to production criteria. Listed below is a short description of each sector as taken from the sourcebook, *North American Industry Classification System,* published by the U.S. Office of Management and Budget (2007).

Agriculture, Forestry, Fishing and Hunting: Activities of this sector are growing crops, raising animals, harvesting timber, and harvesting fish and other animals from farms, ranches, or the animals' natural habitats.

Mining: Activities of this sector are extracting naturally-occurring mineral solids, such as coal and ore; liquid minerals, such as crude petroleum; and gases, such as natural gas; and beneficiating (e.g., crushing, screening, washing and flotation) and other preparation at the mine site, or as part of mining activity.

Utilities: Activities of this sector are generating, transmitting, and/or distributing electricity, gas, steam, and water and removing sewage through a permanent infrastructure of lines, mains, and pipes.

Construction: Activities of this sector are erecting buildings and other structures (including additions); heavy construction other than buildings; and alterations, reconstruction, installation, and maintenance and repairs.

Manufacturing: Activities of this sector are the mechanical, physical, or chemical transformation of material, substances, or components into new products.

Wholesale Trade: Activities of this sector are selling or arranging for the purchase or sale of goods for resale; capital or durable non-consumer goods; and raw and intermediate materials and supplies used in production, and providing services incidental to the sale of the merchandise.

Retail Trade: Activities of this sector are retailing merchandise generally in small quantities to the general public and providing services incidental to the sale of the merchandise.

Transportation and Warehousing: Activities of this sector are providing transportation of passengers and cargo, warehousing and storing goods, scenic and sightseeing transportation, and supporting these activities.

Information: Activities of this sector are distributing information and cultural products, providing the means to transmit or distribute these products as data or communications, and processing data.

Finance and Insurance: Activities of this sector involve the creation, liquidation, or change of ownership of financial assets (financial transactions) and/or facilitating financial transactions.

Real Estate and Rental and Leasing: Activities of this sector are renting, leasing, or otherwise allowing the use of tangible or intangible assets (except copyrighted works), and providing related services.

Professional, Scientific, and Technical Services: Activities of this sector are performing professional, scientific, and technical services for the operations of other organizations.

Management of Companies and Enterprises: Activities of this sector are the holding of securities of companies and enterprises, for the purpose of owning controlling interest or influencing their management decision, or administering, overseeing, and managing other establishments of the same company or enterprise and normally undertaking the strategic or organizational planning and decision-making of the company or enterprise.

Administrative and Support and Waste Management and Remediation Services: Activities of this sector are performing routine support activities for the day-to-day operations of other organizations, such as: office administration, hiring and placing of personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, and waste disposal services.

Educational Services: Activities of this sector are providing instruction and training in a wide variety of subjects. Educational services are usually delivered by teachers or instructors that explain, tell, demonstrate, supervise, and direct learning. Instruction is imparted in diverse settings, such as educational institutions, the workplace, or the home through correspondence, television, or other means.

Health Care and Social Assistance: Activities of this sector are operating or providing health care and social assistance for individuals.

Arts, Entertainment and Recreation: Activities of this sector are operating facilities or providing services to meet varied cultural, entertainment, and recreational interests of their patrons, such as: (1) producing, promoting, or participating in live performances, events, or exhibits intended for public viewing; (2) preserving and exhibiting objects and sites of historical, cultural, or educational interest; and (3) operating facilities or providing services that enable patrons to participate in recreational activities or pursue amusement, hobby, and leisure-time interests.

Accommodation and Food Services: Activities of this sector are providing customers with lodging and/or preparing meals, snacks, and beverages for immediate consumption.

Other Services (except Public Administration): Activities of this sector are providing services not specifically provided for elsewhere in the classification system. Establishments in this sector are primarily engaged in activities, such as equipment and machinery repairing, promoting or administering religious activities, grantmaking, advocacy, and providing dry-cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services.

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