

MULTIMODAL FREIGHT TRANSPORTATION SYSTEM IMPROVEMENT TASK FORCE

Minutes of the 1st Meeting of the 2023 Interim

July 18, 2023

Call to Order and Roll Call

The 1st meeting of the Multimodal Freight Transportation System Improvement Task Force was held on July 18, 2023, at 3:00 PM in Room 149 of the Capitol Annex. Representative Suzanne Miles, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Suzanne Miles, Co-Chair; Senator Jason Howell, Co-Chair; Senator Cassie Chambers Armstrong, Senator Jimmy Higdon, Senator Johnnie Turner, Representative John Blanton, Representative Chris Freeland, and Representative Tom Smith.

Guests: Jeremy Edgeworth, Freight, Rail and Waterways Coordinator, Division of Planning, Kentucky Transportation Cabinet (KYTC); Jeff Noel, Secretary, Cabinet for Economic Development (CED); Katie Smith, Deputy Secretary, Commissioner, Department for Financial Services, CED; and Matthew Wingate, General Counsel, CED

LRC Staff: Ashley Nash, John Snyder, Dana Fugazi, and Christina Williams.

Multimodal Freight Transportation System Improvement Study

Jeremy Edgeworth, Freight, Rail and Waterways Coordinator, Division of Planning, KYTC briefed the task force on the Multimodal Freight Transportation System Improvement Study, which began in 2020. In 2018, the governor challenged the state transportation community to find ways to better utilize Kentucky waterways. The Kentucky Association of Riverports drafted the framework for a new study to address the governor's challenge and approached the leadership of KYTC, which served as project manager for the study on behalf of the public riverports. The study entailed two rounds of site visits to Kentucky's public riverports, three virtual statewide summits, a series of technical memoranda, and a final report. The study assessed the waterborne commerce markets in Kentucky, the current state of Kentucky's riverports, and potential future directions for riverport investment in the Commonwealth. The study provides an understanding of today's waterborne commerce markets, the role public riverports play in future economic development, and the potential benefits of investing in Kentucky's public riverport infrastructure.

The KYTC did not undertake the study independently, in addition to KYTC's consultant team, a wide range of local, state, and federal partners advised on the study including the Kentucky Economic Development Cabinet (CED), Kentucky Department of Agriculture, Kentucky Association of Riverports, the US Department of Transportation (USDOT) Maritime Administration, USDOT Federal Highway Administration, US Army Corps of Engineers, and the Kentucky Transportation Center. It should be noted that despite the involvement of several state agencies, the report and recommendations do not represent an official position of the KYTC or the administration.

Kentucky has 1,662 miles of inland waterways, 1,020 of which are commercially navigable, ranking Kentucky fourth in the nation. Kentucky is surrounded on three sides by the commercially navigable rivers of the Mississippi, Ohio, and Big Sandy River, and also there are the Tennessee, Cumberland, Green, and Licking Rivers that are able to move freight. Kentucky's geographic location provides great advantages in being at the center of a vast inland waterways network and at the confluence of several critical inland waterway routes.

Kentucky waterways are supported by ten public riverports, seven active ports and three ports at differing stages of development. They range in size from smaller agricultural hubs providing fertilizer and gathering the grain of the local farmer, to large players in the world aluminum markets being listed on the London Metal Exchange. The riverports move heavy steel coils on and off the river for manufacturing and provide warehousing and distribution. These ports provide critical connections moving goods on and off the rivers. Kentucky's public riverports are supplemented by over 160 privately owned terminals that provide many of the same services as our public riverports moving goods on and off the rivers, but often are developed for a single commodity.

To help move freight on and off the waterways, Kentucky public ports and private terminals connect to a network of over 2,600 miles of rail throughout the state. Kentucky serves as an important hub connecting five Class I railroads in the western part of the state, while a network of Class II and Class III railroads fill in the gaps to efficiently move freight within the state. Kentucky's rail network provides access to the greater markets outside of Kentucky to places like Chicago, New Orleans, and the ports on the East Coast. The first and last mile connection of the state's freight network rests on the public road network. Kentucky has over 80,000 public road miles that provide those critical first and last mile connections. And while the state's public and private ports can reach into the large metropolises of the eastern portion of the United States' using this road network, often the impact of the public and private ports is more regional.

While every Kentucky community may not be adjacent to a river or have a riverport, all of Kentucky benefits from the efficiency of waterborne transportation. One 15 barge tow and towboat which is commonly seen working the inland waterway network, moves the freight equivalent of six locomotives and 216 railcars or 1,050 semis and tractor trailers. Looking specifically at the freight moved by waterways in Kentucky in 2018, 89 million tons of freight, valued at \$18 billion, moved on Kentucky's inland waterways, the equivalent of 3.5 million trucks annually added to our roadway network without the contribution of the waterways. About 79 percent of Kentucky's waterborne trade (by tonnage) is exchanged with trading partners outside of the Commonwealth.

Kentucky waterways and public and private ports support more than just the river borne commerce. The jet fuel that powers the US hubs for DHL, UPS, and Amazon Prime Air are all delivered by barge. Manufactured at the Marathon Catlettsburg Refinery, the jet fuel is transported down the Ohio River to Cincinnati. Pipelines then deliver the fuel to the Cincinnati Airport which is the US hub for DHL and the new hub for Amazon Prime Air. The jet fuel then travels further down the Ohio River to Louisville where pipelines deliver the jet fuel to the Louisville Airport which is the worldwide air hub for UPS.

The riverports represent an opportunity to affordably move a significant tonnage of inexpensive freight across a wide range of commodities. While the market for waterborne coal is declining in Kentucky, other commodities are growing with newly locating businesses in Kentucky

representing potential future markets for public riverports. Approximately 19 percent of Kentucky's freight tonnage moves by water, but this only makes up three percent of the value. This is largely due to the nature of the commodities moved. Waterways tend to move heavier, yet less valuable cargo due to the lower cost to move goods by water. The top inland waterways commodities by weight were coal, lignite, and coal coke (sand, gravel, shells, clay, salt & slag) and petroleum products. By value, the top inland waterways commodities were basic chemicals used in consumer products including appliances, toys, cosmetics, gasoline, and coal. Kentucky is bordered by states that share access to the same inland waterway systems. These states compete with Kentucky for customers, tenants, federal funding, and often their port facilities are just minutes across the river from Kentucky facilities. These states provide financial assistance to their public ports to maintain and upgrade their facilities and infrastructure to retain long standing tenants or attract new users. Overall, Kentucky's long standing waterborne commerce markets in coal, fossil fuels and minerals have declined at a rate faster than the nation as a whole. Moreover, these waterborne commerce markets are projected in the future to shift even more away from these long-standing commodities. The changes highlight the importance of modernizing Kentucky's public riverports to compete for new, more diverse markets.

Plastics, rubber and chemicals, as well as food and livestock are growing markets for waterborne commerce in Kentucky. While these markets are smaller than today's mineral and fossil fuel markets, they are rapidly growing and the public riverports are already working to keep up with this growth. From 2018 to 2045, it is projected that waterborne trade will increase by 23 percent, food and kindred products by 144 percent, and agriculture and livestock products by 81 percent.

One critical component of the study was the assessment of the public port infrastructure and identifying needs. The study identified that in 2020, Kentucky's riverports had a \$12.3 million dollar backlog in unmet needs to simply get the existing infrastructure into a state of good repair and continue business as normal. The ports also identified additional modernization and expansion needs to successfully compete for business and serve new markets in the long-term. To upgrade Kentucky's ports that were constructed in the 1960s and 1970s to modern operational efficiency would require an additional \$51.6 million and to upgrade the public riverports to attract new markets and expand capacity would require an additional \$158 million. All told, the 2020 total investment need was \$222 million and with current inflation, these figures would be much higher. The study recommended a one-time injection of funds to allow the ports to address their most pressing preservation needs followed by a dedicated stream of funding to address on-going preservation but also the ability to use state funds to match available federal funds to modernize and expand. Several of the state's public ports have been successful at receiving federal grant funds to preserve their existing infrastructure, but often the local match is a hinderance to applicants.

Kentucky faces a critical choice of whether to invest in modernizing the public riverports and their capacity to handle a new and increasingly diverse market, or see waterborne commerce play less of a role in Kentucky's economy. Kentucky is also able to choose the degree to which its business attraction and economic development strategies will play a role in building markets for highly efficient waterborne transportation. But Investing in the state's public riverports will create benefits to Kentucky's economy far exceeding the costs. Kentucky's ports, inland waterways, and inland waterway dependent industries currently support nearly 110,000 jobs. This equates to \$5.9 billion in personal income, \$12 billion in Gross State Product, and \$30.7 billion in total output. This gives rise to more than \$1.2 billion in state and local tax revenue.

Ohio's Maritime Assistance Grant Program was just increased by their legislature from \$12 million to over \$20 million annually. Missouri annually allocates \$12 million from their state funds for public riverports, but they recently infused an additional \$30 million in Fiscal Year (FY) 2023 from their allocation of federal American Rescue Plan Act (ARPA) funds. Illinois annual grant program for their public port's totals \$150 million, with \$40 million alone dedicated to build a new port in Cairo, Illinois, very close to Paducah's Riverport.

The final riverport study and all supporting materials have been posted on the KYTC website at <https://transportation.ky.gov/MultimodalFreight/Pages/Kentucky-Riverports,-Highway-and-Rail-Freight-Study.aspx>. Kentuckians For Better Transportation and Kentucky Association of Riverports are working on specific funding request amounts.

Mr. Edgeworth updated the task force on the state's federally required freight plan, which was officially approved by the Federal Highway Administration on May 3, 2023. The freight plan covers all modes including road, rail, river, air, and even pipeline freight. The plan includes an inventory of Multimodal Freight networks including highways, waterways, rail, pipelines, and air cargo. The freight plan also looked at goals and performance measures, current conditions, key industries and supply chains, freight trends and challenges, freight system needs, policy and strategic recommendations and most importantly, a freight investment plan.

Mr. Edgeworth added the update to the Kentucky Statewide Rail Plan is just beginning. Last completed in 2015, the state's update will bring Kentucky's rail plan into compliance with the Federal Railroad Administration's updated guidelines for a state rail plan. This update mainly focuses on an inventory of the rail system in the state, passenger and freight rail facilities, rail tonnages, available funding, and rail safety and security. The KYTC has partnered with Kentucky's railroads to expand the scope of the Rail Plan update to include a more in-depth look at rail infrastructure needs, rail bottlenecks and connectivity, rail bridge conditions, tie conditions, rail industry forecast and growth opportunities, rail line preservation needs, etc. This expanded and updated rail plan would help the state railroads as they seek federal grant opportunities to improve their infrastructure by having their needs reflected in the state's rail plan.

In response to a question asked by Co-Chair Howell, Mr. Edgeworth stated the freight plan does evaluate air cargo and air cargo volumes, however, it does not look at suggestions for improving or increasing air cargo. The Department of Aviation handles that separately. In response to a follow-up question asked by Co-Chair Howell concerning other surrounding state investments, Mr. Edgeworth stated he believes Missouri's investment has been long-standing, but the injection of ARCA funds was a new addition to their funding levels. Ohio's investment amount has increased in the last five or six years, as they have increased from an investment of \$10 million to \$20 million. Mr. Edgeworth stated Illinois has always had a significant amount of funding for their ports. Currently, Illinois has \$150 million invested and they have allocated \$40 million for a new port in Cairo, Illinois. In response to a request made by Co-Chair Howell, Mr. Edgeworth stated he will investigate how much these states have invested in the past and if these funding levels are one-time dollars or ongoing investments.

In response to a question asked by Co-Chair Howell, Mr. Edgeworth stated all of Kentucky's riverports are economic engines, but he does not have information concerning the economic impact other state's investments have had on their riverports.

In response to a question asked by Representative Blanton, Mr. Edgeworth stated he does not have information regarding the relationship of investment and economic outcomes for other states, in comparison with Kentucky's investment and economic outcomes. He stated he assumes the other states are producing more products and likely bringing in different tenants due to the ability to have newer infrastructure at their ports.

In response to a question asked by Representative Smith, Mr. Edgeworth stated they did not study bringing customs offices to Kentucky, but several of Kentucky's public ports are foreign trade zones or they operate as sub zones.

In response to a question asked by Senator Chambers-Armstrong, Mr. Edgeworth stated when tenants are considering riverport locations, they now have increased demands. Some of those demands might include increased water supply, or internet connectivity demands. He added that the Eddyville Riverport just completed a project to help bring better internet so the riverport can attract tenants. Mr. Edgeworth stated tenants may be put off by riverports that were built in the 1960's and 1970's and require an upgrade in the facility before locating there. Some ports were designed for coal or other commodities, and new and different commodities are being shipped. Some commodities such as liquid fertilizers require tank farms. If the riverports do not have those, they are likely to lose that tenant unless those were built to be able to move those commodities.

In response to a question asked by Co-Chair Howell, Mr. Edgeworth stated several of the private ports are set up more for single commodities shipments, such as coal or grain, for a specific company.

Return on Investment Issues in regard to the Improvement Study

Jeff Noel, Secretary, CED; Katie Smith, Deputy Secretary, Commissioner, Department for Financial Services, CED; and Matthew Wingate, General Counsel, CED, briefed the task force on the CED's role and involvement in multimodal forms of transportation and in the Improvement Study. Secretary Noel indicated companies look for six key factors when they decide where to expand or relocate: supply chain issues, workforce availability, risk management analysis, site reliance, the overall cost of the environment, and incentives available. He stated multimodal transportation plays a role in each one of these factors in terms of the decision a company will make. Each of the multimodal transportation modes have interdependencies upon each other, as well as interdependencies on other market factors. Because of this, price advantages can come with these diverse supply chains. Cost environment is oftentimes driven by companies being reliant upon a certain mode of transportation, or they use alternative modes to leverage the best price point in terms of their contracts. Secretary Noel highlighted the advantages of Kentucky's geographical location given great interstate, rail, and riverport access.

Multimodal transportation is critically important for Kentucky's core industries of agriculture, automotive, metals, plastics, and aerospace. The goods that industries are shipping, as well as the forms of transportation used for shipping, are changing, and Kentucky must adapt to these changes to ensure that the Commonwealth is competitive and prosperous in the future. Secretary Noel commended the General Assembly on the enactment of 2023 Regular Session House Bill 9 which helped development in many areas, including multimodal transportation.

Current trends are insisting a call for multiple modes of transportation to more efficiently move

goods to the consumer. Companies have varying needs based on whether they are shipping high-value or high-volume products. All of these interdependencies are driving decisions companies must make concerning multimodal transportation. Additionally, these varied forms of transportation help foster other industries related to shipping such as warehousing and production. A good strategy can bring in more suppliers to Kentucky. Kentucky needs a plan to avoid uncertainty as uncertainty can drive away potential businesses. This issue can be resolved with the collection and utilization of data and information.

Secretary Noel highlighted the newly established Kentucky Product Development Initiative (KPDI), which provides pilot project funding. Through this program, Pratt Paper, which provides 341 jobs, is now located in Henderson. The \$400 million investment and accessibility to multimodal forms of transportation were critical in attracting this type of employer. Worthington Steel is another example of a business that wanted optionality to different forms of transportation and did not want to rely solely on one form. Worthington refused to locate a facility without access to multiple forms of transportation due to moving high value large products.

Secretary Noel stated there is an abundance of distribution and logistics centers dispersed throughout the state. Those facilities should be evaluated to see which, if any, have access to more forms of transportation. Once the Brent Spence Bridge is completed, it will expand the efficiency of Kentucky's transportation moving forward. He stressed the need for further study in the economic development area to better attract more business.

The CED is currently constructing a strategic roadmap for entrepreneurialism, expanding innovation, and growing new and existing industry leaders and is ready to collaborate with multiple organizations across the Commonwealth to guide Kentucky forward. This strategic plan will directly relate to the types of companies the Cabinet wants to attract to take advantage of Kentucky's natural advantages through water, rail, and other forms of transport. The focus is on protecting the core industries as these industries are what drive the state. There is also a goal of strategically extending the core industries as supply chain and geo-political issues cause disruption, as well as moving beyond the core industries.

Secretary Noel highlighted the impact of the automotive sector on the state's economy, and the critical role the supply chain plays in that industry. Similarly, the more than 530 internationally owned facilities, from 33 nations, employing more than 114,000 workers are heavily dependent on a robust multimodal transportation system.

Secretary Noel provided four examples of when multimodal transportation is beneficial: long-distance shipping due to the cost savings that intermodal offers; high freight volume shippers, due to the capacity advantage and freight efficiency; non-urgent shipments, since Intermodal transit times are typically slower straight truck transportation; and shipping high-value freight, due to Intermodal transportation providing increased safety advantages by reducing the chances of theft, accidents, or damage.

Secretary Noel provided facts and figures to illustrate how Kentucky fares with robust road infrastructure, air cargo, internet access, highways, rail and riverports. Specific to rail users and foreign import clients, railroads have intermodal terminals in Kentucky and the surrounding region that connect to most of the major seaports in the US. Kentucky's waterways link to the Great Lakes, Canada, Mexico and South American markets. There are three global air-cargo

hubs UPS, DHL and Amazon, with Kentucky ranking 2nd nationally in air cargo by landed weight, six commercial airports, and over 50 regional airports. There are over 20 interstates and parkways throughout the state, and 2,895 miles of railroad, including 2,579 miles of freight rail. Kentucky has 1,020 miles of commercially navigable waterways, and ten riverports. The Olmsted Lock (West of Paducah) is the nation's busiest lock with 73 million tons of cargo passing through annually. There has also been several major investments in bridge and highway improvements in the Commonwealth. Kentucky was the first state in the U.S. to build an open-access fiber optic cable network in every county. The state has among the lowest industrial electric rates in the nation (U.S. Energy Information Administration.) Kentucky is ranked 5th nationally in manufacturing gross domestic product (GDP) as a share of total GDP (US Bureau for Economic Analysis). Twelve and a half percent of Kentucky's workforce is in the manufacturing sector, compared to 8.1 percent nationally. There are 616 distribution and logistics-related facilities employing 91,800 people in Kentucky.

Secretary Noel reiterated Kentucky has core Industries that move large items, and the planning for multi-modal investments should occur off of the foundation of success in Kentucky's job growth. Kentucky is a national leader in foreign direct investment, which relies upon logistics. Transportation advantages are the great equalizer for business locations when needed. Multi-modal transport options are a key business driver, and an attraction for the retention of talent.

In a response to a question asked by Co-Chair Howell concerning the relevance of river, rail, and roads in new business development, Secretary Noel stated it is not easy to broadly quantify the relevance. He stated an analysis could be broken down for the individual modes and that information could be provided from less of a holistic approach, and more of an individual basis. He added interdependencies of the supply chain is a major aspect of the relevance. Another aspect would involve evaluating data as a procurement officer or thinking for a company in terms of logistics. He stated there has to be a way of calculating these interdependencies.

In response to a question asked by Co-Chair Howell, Secretary Noel stated companies still need to see that full serviceability is available to them with multimodal transportation and port improvements. He added it is important to not only understand Kentucky's private riverports but to understand shared riverport opportunities with adjacent states on the same waterway. He added there are several companies that would not be in Kentucky if it were not for river, rail, and road transport availability. In response to a follow-up question asked by Co-Chair Howell, Secretary Noel stated it is the intention for the plan to study integration of Kentucky's various modes of transportation to identify where the state is weak or particularly strong in any area. He added good information should come of KYTC's and CED's studies. The third leg that this study will be focused on is questioning what kinds of companies and targeted industries Kentucky can attract if the state acquires more knowledge and continues to grow.

In response to a question asked by Co-Chair Howell, Secretary Noel stated optionality is the best way in which we can show to a company, regardless of which mode they chose, or even if they want to utilize multimodal transport, that optionality means better efficiency, better pricing, and not being obligated to one or two service providers only. Those multimodal forms of transportation are what gives Kentucky an efficiency play in space to help support existing as well as new companies.

In response to a question asked by Representative Smith concerning looking at the big picture in utilizing federal funding for infrastructure buildout or improvement, Secretary Noel stated he

believes it is important to look at the big picture, because if not, something may be missed. However, he stated data is what drives determining what is reasonable and feasible, and then after that is identified, application for grant funds can begin. He added he believes going after the funding before identifying a plan could be a mistake. He added he believes having those big visions become a reality involves collaborative input from businesses to understand feasibility. He added the vision should not be stifled; however, it should be tempered around what is learned and then efforts should be shaped around that. He reiterated time and resources are short, therefore prioritization is a critical factor.

Adjournment

With no further questions to come before the task force, Chair Miles adjourned the meeting at 4:15 P.M.