

MULTIMODAL FREIGHT TRANSPORTATION SYSTEM IMPROVEMENT TASK FORCE

Minutes of the Third Meeting of the 2023 Interim

October 17, 2023

Call to Order and Roll Call

The third meeting of the Multimodal Freight Transportation System Improvement Task Force was held on October 17, 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: Senator Jason Howell Co-Chair; Representative Suzanne Miles Co-Chair; Senators Cassie Chambers Armstrong, Jimmy Higdon, Brandon J. Storm, and Johnnie Turner; Representatives Chris Freeland, Tom Smith, and Ashley Tackett Laferty.

Guests: Miguel A. Zamora II, Vice President, Louisville Riverport Authority; Dan Mann, Executive Director, Louisville Regional Airport Authority; Seth Cutter, Vice President of Public Affairs, Cincinnati/Northern Kentucky International Airport/CVG; William Downey, Chairman, Kentucky Railroad Association; Derek Sublette, Assistant Vice President, Government Relations, Norfolk Southern

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

Approval of the August 1, 2023 minutes

The minutes from the Task Force's August 1, 2023 meeting were approved.

Recognition and Moment of Silence for Judy Taylor.

Chair Miles recognized the passing of Ms. Judy Taylor. Ms. Taylor was a long-time lobbyist who blazed many trails for women in the legislative arena. A moment of silence was held in her honor.

Foreign-Trade Zone Issues Related to Riverports

Miguel A. Zamora II, Vice President, Louisville Riverport Authority briefed the task force on the Louisville Riverport Authority and foreign-trade zones issues related to riverports. The Louisville Riverport Authority was established by Kentucky Revised Statute (KRS) in 1965 as a quasi-governmental organization, and was established as Foreign-Trade Zone 29 by the Foreign-Trade Zones Board in 1977.

The Foreign-Trade Zone Act (FTZ) was passed in 1934 with the purpose to expedite and encourage international commerce. It was part of an effort to revitalize trade after the Smoot Hawley Tariff Act of 1930 and the Great Depression.

A foreign-trade zone is a secure area located in or adjacent to a U.S. Customs and Border Protection (CBP) port of entry, and is legally outside U.S. customs territory for customs duty purposes when active. The goods within the foreign-trade zones are part of international commerce. It is only when the goods leave the FTZ and enter the commerce of the U.S., that normal tariff and customs duty regulations apply.

The Foreign-Trade Zones Act created the Foreign-Trade Zones Board and the U.S. Customs and Border Protection which oversees the grantees such as Louisville's FTZ 29. The Foreign-Trade Zones Board is comprised of the Secretary of Commerce and the Secretary of Treasury. The board issues grants to establish, expand, operate, and maintain FTZs and regulations to establish and operate zones. The Foreign-Trade Zones staff prepare an annual report of FTZ activity for congress on the impact on the U.S. economy.

The CBP oversees and supervises each zone project which shall be adjacent to a CBP port of entry and either 60 miles or a one-hour drive from the port. For Kentucky those ports of entry include: Louisville, which serves central Kentucky and Southern Indiana; a port at Erlanger, which services northern Kentucky and southern Ohio; and the port of Henderson which services southern Indiana and western Kentucky. Two out-of-state ports of entry serving the Commonwealth is at Nashville, Tennessee which serves new zone project in Warren County, Kentucky, and Charleston, West Virginia adjacent to Ashland, Kentucky.

With a zone project, the goods arrive in the U.S. and move into a zone territory with no duties are paid. Duties are paid when the goods move into the U.S. commerce. If the goods are exported or moved to another FTZ for further processing, payment of customs duty is deferred. Duties could be eliminated if the goods were exported or placed into another zone.

Foreign-trade zones are used as an economic development tool to attract jobs and site selection advantages. The zones are a best practice requirement for participation in certain commodity exchanges.

Foreign-Trade Zone 29 in Louisville includes 20 operators at over 27 sites located throughout Kentucky, and has a 25 county alternate site framework service area. Between \$10 million and \$25 million in merchandise was received and \$750 million to \$1 billion in goods were exported in Kentucky's foreign trade zones. In 2022, there were between 26,000 and 27,000 people directly employed by Kentucky's foreign-trade zones.

Customs ability to respond to zone projects is becoming more challenging, because CBP requiring resources to be diverted to other places. It is not uncommon for inland ports of entry to have their officers reassigned to a border, for immigration and homeland security issues. It has impacted the ports abilities to support zone projects. More officers are needed at the Henderson and Nashville ports due to an increase in interested operations that would like to use the zone program.

The Foreign-Trade Zone Act exempts an operator from any and all local ad valorem taxes which is a challenge for Kentucky. Before the board will designate a zone project, the operator has to either get a letter of non-objection from each of the affected tax entities in the location, or has to agree to forego taking advantage of that tax exemption.

Air Perspectives and Concerns

Dan Mann, Executive Director, Louisville Regional Airport Authority, Louisville Muhammad Ali International Airport (SDF); and Seth Cutter, Vice President of Public Affairs, Cincinnati/Northern Kentucky International Airport (CVG) briefed the task force on their respective airports and the concerns regarding multimodal transportation. Three new airline carriers are now offering service at Louisville Muhammad Ali International Airport (SDF); Breeze, Spirit, and Sun Country airlines. Five routes have also been added at SDF including routes to Boston, San Francisco, Fort Myers, and Minneapolis.

The next airfield investment for SDF will cost approximately \$216.85 million, with \$156 million of that being a five-year capital improvement program; \$6.7 million dedicated to a northwest quad development and taxiway A connector; a taxiway L extension with two phases for a combined total of \$26.7 million; \$12.65 million for runway and taxiway pavement rehab; and lastly phase one of taxiway B reconstruction for \$14.8 million. There will also be a passenger facility improvement made costing approximately \$196.9 million. From 2024-2028, approximately \$173 million worth of

passenger facility improvements are being planned for, including a Transportation Security Administration (TSA) security checkpoint expansion of \$44 million; post security improvements and a SDF microgrid costing \$49 million; and exterior terminal enhancements of \$80 million.

Mr. Mann stated SDF's growth would not have happened without being partnered with United Parcel Service (UPS) as a cargo operator. UPS is now investing \$220 million in a new hangar at SDF.

The Louisville Renaissance Zone Corporation's Renaissance South Business Park includes 680 acres, 13 businesses, 6.7 million under roof square footage, and employs over 3,200 employees. The Kentucky Economic Development Finance Authority (KEDFA) stated it was the most successful TIF district they have had. The Renaissance South Business Park supports UPS's cargo operations and has produced many jobs.

The three major commercial airlines in Kentucky, SDF, CVG, and Bluegrass Airport (LEX), are self-sustaining, tax generating, and job creating airports, that collectively support more than 134,000 jobs with a combined economic impact of \$21.6 billion per year. Prior to 2020, just under 15 million passengers were served at the three major airports, with over \$480 million tax revenues produced by the airports annually.

In response to a question asked by Co-Chair Jason Howell, Mr. Mann stated Minor Lane Elementary School, in the center of the Renaissance South Business Park, was at that location when it was a residential area and has stayed. The Louisville Regional Airport Authority and SDF have developed a close relationship with the school and have provided materials including robots for their science lab, books, and a reading program.

In response to a question asked by Co-Chair Howell, Mr. Mann stated air service to places people want to travel to is imperative to business growth. Flights to Boston from SDF were vital from a medical supply standpoint, as that flight path was the largest unserved market at the time. Mr. Mann added the addition of the low-cost carriers is also vital because it forces competition with the mainline airlines, which results in lower airfares and better options to grow business. Also, the addition of remote workers has now shown an increased need for more air service to be offered to various locations.

In response to a question asked by Co-Chair Howell, Mr. Mann stated belly cargo at SDF and UPS work together and benefit each other instead of being in competition with one another.

Seth Cutter stated that CVG served 7.6 million passengers in 2022, and is the 7th largest cargo airport in North America, with over 16,000 employees on campus. There are now over 50 non-stop destinations offered at CVG, and approximately 12,000 to 15,000 passengers are going through TSA checkpoints daily. Mr. Cutter stated Breeze and Sun Country airlines have been added at CVG as well as flights to Alaska with service to Seattle, and British Airways has been added.

Between 2015 and 2022, cargo volume grew more than 146 percent. The DHL hub contributed to that growth having its second largest global super hub. Contributing to the cargo growth is the Amazon hub at CVG, which is a \$1.5 billion investment by Amazon. FEAM Aero added a maintenance hangar facility at an investment of \$19 million and is working on a new \$40 million three-bay hanger on CVG's campus. CVG has become the contract manager for the grantee of Foreign-Trade Zones 46 and 47, both Cincinnati's and Northern Kentucky's trade zone.

In response to a question asked by Chairman Suzanne Miles concerning how the airports are ranked nationally on the transportation of freight, Mr. Cutter stated the airport relies on the users who are transporting freight to self-report, and those numbers reported are based on cargo tonnage, which are then broken down by month and yearly averages. Based on a global trade group's rankings, Louisville is ranked fifth globally and CVG is fourteenth in freight tonnage.

In response to a question asked by Representative Tom Smith, regarding using smaller regional airports as part of the supply chain, Mr. Cutter stated that while it is unlikely that carriers would build additional large-scale operations, the future of advanced air mobility at general aviation airports means they will play an important role in the movement of goods and people.

Representative Ashley Tackett Laferty echoed Representative Smith's statements and added that several investments have been made in eastern Kentucky to roads and water recently, and workforce is available in eastern Kentucky as well, and encouraged the use of those regional facilities also. Chair Miles encouraged the use of Owensboro facilities as well.

Railroad Perspectives and Concerns

William Downey, Chairman, Kentucky Railroad Association; and Derek Sublette, Assistant Vice President, Government Relations, Norfolk Southern discussed railroad perspectives and concerns in regard to multimodal transportation. Mr. Downey stated the rail network in Kentucky is comprised of both class one and short line railroads. The primary class one carriers being Norfolk Southern and CSX, and short line and regional railroads being RJ Corman in Paducah and Louisville.

Mr. Downey discussed Kentucky Freight Rail and Safety Improvement Program (KFRSIP), which is a way to invest in preservation and maintenance of railroads, expansion, industrial access, and economic development and the development of the Kentucky Federal Freight Fund which is a program to assist communities, authorities, railroads, and riverports seeking federal grant opportunities for rail infrastructure projects.

Mr. Downey stated one way rail is truly multimodal is that even though rail competes with the trucking industry, it also partners with it. Transloading is the process of transferring the load of products from one mode of transportation to another, specifically between trucks and railcars. There are multiple transloading facilities across Kentucky. Mr. Downey stated a new transload yard in Frankfort is being developed that will allow for freight to stay on rail to Frankfort and only trucked the last few miles to its destination.

Mr. Sublette stated rail intermodal is growing and added that some of railway's biggest customers are in the trucking industry. Since the transition from hauling coal to the use of different kinds of fuel, the railroad industry has had to reinvent itself and one of the ways that this has been accomplished is through the growth of the intermodal network. Norfolk Southern is proud of its intermodal network and have two intermodal facilities in Kentucky, in Georgetown and in Louisville.

Mr. Downey gave information on Kentucky carload data. Over 366,000 carloads originated in Kentucky in 2021, which equates to over a million trucks that are being moved via Kentucky's railroads and are not traveling on Kentucky highways creating wear and tear, and emissions into the environment. Mr. Downey stated there is roughly

a three to one ratio between trucks to the amount of freight that rail can haul per carload.

The annual investment in Kentucky railroads is over \$160 million in rail infrastructure, which includes maintenance and rehabilitation, and capital expenditures. Investments in Paducah and Louisville railways were \$29 million for projects from the Federal Rail Administration through the United States Department of Transportation, and Tennken Railroad was awarded \$7.37 million in Consolidated Rail Infrastructure and Safety Improvements (CRISI) grant funds to revitalize infrastructure in Tennessee and Kentucky. However, the majority of those funds are being spent in Tennessee due to Kentucky not participating in federal match of 30% for the grant.

Kentucky is able to take advantage of the Kentucky Rail Crossing Improvement Program (KRCI), \$1.6 million annually, which is limited to grade crossing repairs and improvements. Approximately \$350,000 of those funds went towards the needs assessment study that is currently underway.

Several states were highlighted (Ohio, Tennessee, Indiana, Virginia, North Carolina and Pennsylvania) that are leaders in the type of funding programs that make significant investment into the freight rail networks. Mr. Sublette highlighted some funding programs taking place in Indiana as well as programs in Tennessee, Pennsylvania, and North Carolina.

In conclusion, Mr. Downey reiterated the importance of the development of the KFRSIP and Kentucky Federal Freight Fund programs and stated it would be a missed opportunity if freight dollars were not obtained after the passage of the federal infrastructure law. Kentucky would need to match some of the funds in order to be awarded those grants to support multimodal transportation networks in Kentucky.

In response to a question asked by Representative Tackett Laferty concerning railroad spurs, Mr. Sublette stated Norfolk Southern has an industrial development department and a marketing department and if a smaller company would like to ship a small amount of rail cars per week, they would need to get in touch with those departments and a conversation could possibly be facilitated on how to get a rail spur if rail service is possible. Norfolk Southern is knowledgeable about their customer base so there are preexisting relationships with larger customers already put in place. Rail operators are brought into the conversation with the Cabinet for Economic

Development or local economic developers when they are looking to attract a new industry if rail is required. It is sometimes desirable for a company to have rail as an option as it helps make things more competitive from a freight movement standpoint. Both local and state entities collaborate on attracting new business and if existing or new businesses need rail but are not directly related to a rail spur, transloading is available to help make it cost effective for the end-user.

Representative Smith stated he believes the future of eastern Kentucky is in rail, and any areas that are laying dormant that can be used would be beneficial to the rail industry and the state.

Chairman Miles requested information be provided to show how rail is structured differently from other modes of transport. Mr. Sublette stated railways do not fall under state workers compensation laws, they have railroad retirement, and are privately owned. Mr. Downey added that railroads are federally regulated through the Federal Rail Administration for safety and compliance, and on the commerce side they are regulated through the Surface Transportation Board (STB) which is formerly the Interstate Commerce Commission. The STB regulates all economic activity at the federal level.

Adjournment

With no further business to come before the task force, Chairman Miles adjourned the meeting at 4:40 P.M.