

**Resolution of the Board of Directors in Support of Increasing Federal
Funding for the Houston Ship Channel**

The Greater Houston Partnership supports increased federal funding for construction and operation of the Houston Ship Channel.

The Houston Ship Channel (HSC) is a national and regional asset, enabling the efficient flow of commerce, job creation and economic benefits that directly affect Americans' quality of life. The Ship Channel has been a reliable and cost-effective commercial thoroughfare for cargo of all kinds.

Due in part to the economic activity along the Houston Ship Channel, the Port of Houston is ranked first in foreign tonnage in the U.S. and is home to the nation's largest petrochemical complex. It also plays a critical role in America's energy security, serving as one of the country's main connections to the global energy market, a center for the manufacturing of energy products, and a hub of distribution to key markets.

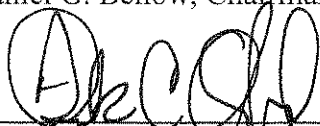
The Houston Ship Channel is vital to our economy, and maintaining its navigational depth is of utmost importance to the nation. National priorities have significantly reduced federal funding for domestic projects, but it is critical that budget constraints do not force us to compromise the nation's energy supply and energy security.

Without the needed funding, the Houston Ship Channel will face a crisis in the coming years. The inability to dredge and efficiently deal with dredge material will impact navigation and place restrictions on the economic activity of this channel. Funding the nation's premier energy waterway will result in lower prices for energy and consumer goods, with consequent benefits to the regional and national economies and improved national security.

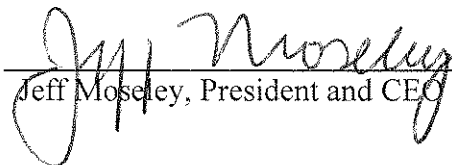
The Partnership commends the continued efforts of the regional congressional delegation in securing the necessary funding to maintain full capacity of Ship Channel commerce. The Greater Houston Partnership supports the local members of congress in their continued efforts to meet the needs of the channel through annual appropriations.



Daniel G. Bellow, Chairman



Patrick C. Oxford, Secretary



Jeff Moseley, President and CEO

MEMORANDUM

DATE: February 3, 2009

TO: Greater Houston Partnership Board of Directors

FROM: Jim Dannenbaum, Chairman
Transportation Infrastructure Policy Advisory Committee

SUBJECT: Resolution in Support of Increasing Federal Funding for the Houston Ship Channel

RECOMMENDATION

The Greater Houston Partnership supports increased federal funding for construction and operation of the Houston Ship Channel.

The Houston Ship Channel (HSC) is a national and regional asset, enabling the efficient flow of commerce, job creation and economic benefits that directly affect Americans' quality of life. The Ship Channel has been a reliable and cost-effective commercial thoroughfare for cargo of all kinds.

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BACKGROUND

For more than 90 years, the Houston Ship Channel complex has grown and flourished as a protected federal waterway. The industrial and economic activity made possible by this waterway includes the world's second largest petrochemical complex.

Through the efforts of the U.S. Army Corps of Engineers (Corps), the federal government is responsible for maintaining the Houston Ship Channel and its associated waterways – Bayport Channel, Barbours Cut Channel and Greens Bayou – with the assistance of the HSC's local sponsor, the Port of Houston Authority (PHA).

Maintaining these waterways requires substantial funding each year, but this investment pays great dividends to the federal treasury, the local, state and federal economies, as well as serving as a critical component of America's energy infrastructure.

Houston Ship Channel Statistics:

- The Port of Houston provides \$118 billion in annual economic benefit to the state of Texas, including more than 785,000 jobs.
- Customs revenue collected by the federal government from Port of Houston cargo exceeds \$442 million per year (2004).
- Approximately \$134.1 million in harbor maintenance tax is collected annually from the Houston Region (Ports of Houston, Texas City, Galveston, and Freeport – 2007 estimate).
- The Houston Ship Channel has 115 private and public Coast Guard- regulated facilities, including more than 160 deep-draft berths and a very large number of barge docks and industries that are supported by the deep draft channel.
- The U.S. Coast Guard estimates that a one-month closure of a major port like Houston would cost our national economy \$60 billion.
- The Port of Houston is ranked:
 - 1st in U.S. in foreign tonnage (12 consecutive years);
 - 1st in U.S. imports (17 consecutive years);
 - 2nd in total U.S. tonnage (17 consecutive years);
 - 2nd in U.S. exports;
 - 7th largest container port in the U.S.;
 - 1st in steel imports in the Gulf Coast; and,
 - 1st in containers in the Gulf Coast.
- The Port of Houston Authority received the President's "E-Star" Award for exporting excellence in 2008 (for five consecutive years of increasing exports).

It is also important to consider the impact the Houston Ship Channel on the nation's energy supply and petrochemical markets. Houston is considered the energy capital of the world, thanks to the energy infrastructure located directly on the Houston Ship Channel. This

waterway is critical for energy markets throughout the nation because it transports raw materials to manufacturing facilities in Houston that, in turn produce and distribute refined energy products.

Energy and Petrochemical Statistics

- The Port of Houston is ranked as largest importer and exporter of petroleum and petroleum products in the United States.
- The Port is also home to the second largest petrochemical complex in the world.
- Currently, the country's largest refinery, with a refining capacity of 567,000 barrels a day, is located on the channel.
- This refinery and the other refineries in and around the Port of Houston make Houston the largest refinery center in the United States.
- Facilities along the HSC comprise 56% of the nation's oil pipeline capacity and 73% of the nation's natural gas pipeline capacity.
- Houston Ship Channel industries account for nearly 40% of the nation's petrochemical manufacturing capacity, including:
 - 37% of U.S. polyethylene production
 - 37% of U.S. polyvinyl chloride production; and
 - 53% of U.S. polypropylene production.

In recent years the federal government affirmed the Houston Ship Channel is an essential waterway by authorizing \$700 million in a widening and deepening project so that this essential waterway could accommodate modern tankers and shipping vessels, and better serve America's energy and economic needs. However, without sufficient operations and maintenance resources, this investment is jeopardized and the Channel will diminish in capacity, restricting the flow of energy to the nation and shrinking the economy.

Between the federal government and the PHA, nearly \$480 million (of the \$700 million authorized) has been spent in recent years to widen and deepen the 45-foot segment of the Houston Ship Channel. This project was studied and ultimately authorized by Congress because it provides a tremendous benefit to the national economy. Without the necessary funding to maintain the wider and deeper Houston Ship Channel, the nation and the State of Texas risk losing their investments in this economic asset.

The federal government, through the U.S. Army Corps of Engineers and in partnership with the Port of Houston Authority, is responsible for maintaining the Houston Ship Channel. Local members of Congress and other advocates for the waterway have worked tirelessly in a bipartisan fashion through the federal appropriations process to provide the fiscal resources necessary to keep Channel commerce flowing at full capacity. But international events and competing federal priorities have led to decreasing appropriations.

The maintenance of the Houston Ship Channel is reaching a critical point. Expanded funding is needed very soon to reverse this trend and keep adequate dredge material

placement capacity available. Failure to accomplish this will result in diminished capacity and decreased economic activity.

The implication of this trend translates to significant challenges to the industry users of the Houston Ship Channel, including:

- Depth restrictions limit the drafts of ships navigating our channels and significantly reduce the amount of cargo carried per trip, slowing its movement, and increasing the cost of both imports and exports.
- Passing restrictions in the Houston Ship Channel result in longer and more costly transit times, also affecting the import and export trade essential to the region.
- Added ship transits, to accommodate restricted channels, exacerbate air quality and other environmental impacts.
- Within twelve months, dredge material placement capacity will no longer be available in many reaches of the channel, significantly increasing the cost to transport material to other sites, adversely impacting their planned use, and raising future costs of maintaining the navigation system, and thus further reducing our ability to fully maintain the channel to its authorized depth without additional funding.
- The current practice of using up the existing capacity of dredge material placement sites farther and farther away from the reach of channel to be dredged will result in much higher costs to the users along the channel for the maintenance dredging of their access channels and berthing facilities.
- Beyond regular maintenance, significant shoaling and debris following a hurricane or major storm (like Hurricanes Ike in 2008 and Rita and Katrina in 2005) place tremendous strain on the system.

Each year, the U.S. Army Corps of Engineers identifies projects necessary to the continued operation of the Houston Ship along with the expected costs of each project. This amount is often referred to as the Corps' "capability" or the amount needed to adequately complete or maintain a project. These "capability" numbers are submitted to the Office of Management and Budget (OMB). OMB is responsible for taking this information, along with similar budget submissions from each federal agency, and preparing the President's proposed budget for the following year. The President's own priorities shape his budget proposal as well.

Congress takes the President's proposed budget into consideration in its deliberations, but is, of course, ultimately responsible for adopting the appropriation bills that allocate money to federal agencies, along with direction on how to spend it. HSC funding is drawn from the Construction General (CG) and the Operations and Maintenance (O&M) accounts within that year's Energy and Water Appropriations bill.

While Congress makes the legislative decisions on how the government will be funded, the President's budget is often the baseline for the appropriations process. Each year, the President's budget has reduced HSC funding recommendations and fallen increasingly short

of the Corps' "capability" for this essential project. This poses a major challenge for safe and efficient Houston Ship Channel operations.

Shrinking budget recommendations create difficult obstacles for the members of congress representing the Port of Houston region to overcome in advocating for adequate HSC funds. The Houston congressional delegation has been successful in negotiating appropriated funds upward from the President's budget, but that budget number has been so low that even the increased funds provided by Congress have been inadequate to meet the needs of the Ship Channel.

The chart below reflects this process over fiscal years 2004-2009. For each year, it sets out the amount the Corps identified as the essential needs for the Houston Ship Channel, the funding level recommended in the President's budget, the amount actually appropriated by Congress, and the percentage of the appropriated amount, as compared to the Corps' "capability."

Construction General (CG) – (000s)

<i>Year</i>	<i>Corps Capability</i>	<i>President's Budget</i>	<i>Appropriated</i>	<i>Percent of Capability</i>
FY 2004	\$35,500	\$18,726	\$35,500	100%
FY 2005	\$29,000	\$18,000	\$22,000	76%
FY 2006	\$47,000	\$24,800	\$26,000	55%
FY 2007	\$71,280	\$43,076	\$43,076	60%
FY 2008	\$39,400	\$16,300	\$15,734	40%
FY 2009*	\$17,500	\$0	NA	NA

Operations and Maintenance (O&M) – (000s)

<i>Year</i>	<i>Corps Capability</i>	<i>President's Budget</i>	<i>Appropriated</i>	<i>Percent of Capability</i>
FY 2004	\$16,289	\$14,198	\$13,539	83%
FY 2005	\$31,476	\$16,223	\$16,000	51%
FY 2006	\$23,380	\$6,136	\$17,936	77%
FY 2007	\$19,860	\$13,225	\$13,000	65%
FY 2008	\$35,055	\$14,442	\$16,945	48%
FY 2009*	\$66,700	\$20,743	NA	NA

* Congress has not yet passed the FY 2009 Energy and Water Appropriations bill.

In the FY09 combined Corps budget request for Houston of \$84,200,000, dredging projects account for \$42,536,000 and levee projects account for \$34,539,000 (reflecting carry-over needs from previous years). If the final appropriation is near the President's budget level of

approximately \$20,000,000, neither dredging needs, nor additional capacity work, will be fully funded and little work will be done due to the spending rules the Congress has placed on the Corps.

Two projects that are currently causing significant restrictions are set to receive funding in FY09. However, a third segment of channel waiting to be dredged in FY09, stretching from Morgan's Point upstream to the Exxon Baytown Refinery, would remain unfunded under the current budget estimates coming from Congress. Withholding funding from this segment of channel would reduce the usable channel that is transited by nearly all deep-draft petroleum tankers moving to or from Houston. Continued depth restrictions in this channel reach will mandate light loading of these vessels, increasing the transportation costs of petroleum products and unnecessarily harming the regional and national economy.

FISCAL IMPACT

The economic activity along the Houston Ship Channel has made the Port of Houston the largest in the nation in foreign waterborne tonnage and second in total tonnage. It is home to the second largest petrochemical complex in the world. It is responsible for \$118 billion in annual economic benefit to Texas and generates 785,000 jobs. It is also a critical component of America's energy security, serving as one of the country's main connections to the global energy market, a center for the manufacturing of energy products, and a hub of distribution to key markets. The U.S. Coast Guard estimates that it would cost our national economy \$60 billion if a major port like Houston had to close for just one month.

The Houston Ship Channel urgently needs \$110 million in FY 2010 and \$138 million in FY2011 to return the Houston Ship Channel to its authorized depth and prevent disastrous costs of transporting dredge material to distant placement sites.

IMPLEMENTATION

The dedicated advocates in our local Congressional delegation have done their best to secure federal funds for the Houston Ship Channel in the context of a tightening domestic budget. The Partnership will aid the delegation in conveying the magnitude of the Houston Ship Channel's contribution to the nation's economy.

The Partnership will also educate stakeholders and encourage the business community to communicate the benefits of investing in the Ship Channel to lawmakers at all levels of government.

RESOURCES REQUIRED

This recommendation can be implemented with available Greater Houston Partnership staff and within the current operating budget.