November 17, 2009

Senator Mark DeSaulnier, Chair
Senate Committee on Labor and Industrial Relations
1020 N Street, Room 545
Sacramento, CA 95814

Dear Senator DeSaulnier and members of the Committee

CalPortland started operations in 1891 with a single cement plant in Colton, California that is still operating, although it has had several modernizations over the years.

We supply construction materials such as cement, readymix concrete, sand & gravel and asphalt, all of which are vital components of nearly every structure that gets built from highways and hospitals to homes and factories, from schools and sewer lines to office buildings, shopping centers and airports. Concrete forms the base for cell towers, electrical transmission lines, power plants and wind turbines. It is the most commonly used man made material in the world.

This is not a glamour or high tech business, but we are proud of what we do. We are a leader on many fronts. For the past 5 years, we have been designated by the EPA and DOE as an Energy Star Partner of the Year and Sustaining Partner. That is a distinction that only a handful of companies in the US can claim. We have also been awarded California's Flex Your Power Award.

Today, our corporate footprint stretches throughout the 7 western states and two provinces of Canada from Alaska to Arizona. Nearly 1000 of our 2200 employees live and work at one of the 33 facilities located in California. We are an integral part of the building this great state having including such notable structures as Hoover dam, the Los Angeles Coliseum, Disneyland, Our Lady of Angles Cathedral and the Getty Museum.

The current recession hit our industry extremely hard. Shipments of cement have declined nearly 60% from their pre-recession levels. Prices have also declined significantly. That has necessitated the layoff of nearly 1,000 people by CalPortland since the start of the recession. This month alone we will lay off nearly 125 more people most of whom work in California as we severely curtail production at one of our main facilities.

The majority of our work force are represented by unions including the United Steel Workers, the Operating Engineers, the Machinists Union and the Teamsters. Wages paid to California employees exceed $60 million annually. And our employees in turn pay State income tax on that income. Our average employee earns between $45,000 and 75,000 per year in wages plus additional benefits including retirement and medical benefits. These are excellent family wage jobs. These are jobs that employees have recommended to their friends, neighbors and children for more than 118 years.

Visit one of our plants and you will find numerous second and third generations of employees along with brothers and sisters or husbands and wives working for CPC. Many have worked for us for 30 years or more

It is estimated that we indirectly support an additional 3500 jobs in California because we also buy goods and services locally. And they all pay taxes to support our State and their communities.

Like our employees, CalPortland also pays taxes and fees – income tax, property taxes, State Disability, Unemployment taxes, Air permit fees, business license fees, sales tax on goods sold and materials purchased for consumption. For the past four years, the combination of all those taxes and fees averaged more than $20 million per year.

Our goal is to continue to do business and build California for the next 120 years as we have the past. This is becoming increasingly more difficult due to the myriad of regulations and agencies that oversee every aspect of our business. There are 67 separate federal, state and local agencies that regulate our business.

It is very challenging to operate our business under the economic conditions that plague our country. **It is becoming nearly impossible** to expand our business except through acquisitions of competitors which does not add jobs or broaden the economic base.

Let me please give you some examples of these difficulties encountered operating our business.

The new emission requirements for off-road and on-road diesel engine vehicles is expected to cost our company more than $3 million per year for each of the next three years and a total estimated amount of over $20 million over the next ten years. These are dollars above amounts that we would normally spend for replacement or maintenance of these pieces of equipment. For instance, we project that next year alone, we will need to spend $1.8 million for new filters to add to existing pieces of equipment to keep operating them and be in compliance with the new standards.

But in addition to these costs, there are severe challenges with operating these new filters. The passive filters automatically shut the equipment down when they reach capacity. That is not usually at the end of a shift, but rather after about a shift and **a half**. That means they shut down mid-shift and that cannot be scheduled. The active filters are more manageable, but also more expensive. They require the equipment to be plugged into 240V power outlets at the end of the shift to recharge the systems. This is expensive in terms of installation of the power supply as well as buying the power.

Both of these filters weigh about 500 pounds which adds weight, reduces fuel economy, increases costs and requires that we add additional delivery equipment to meet our customer demands since the legal carrying capacity of the trucks are reduced. This means reduced fuel economy, lower productivity as well as increased traffic and congestion.

We will have to replace many of these on-road trucks, which cost nearly $200,000 each, before their useful life is expired purely to meet the ever increasing emissions standards. And we don't even know if the equipment manufacturers will have developed the engine technology required to meet these stringent standards by the time required.

The rules under which we will operate in an AB-32 world have not yet been developed, but we are already feeling the costs. The recent fee structure that CARB proposed will cost CalPortland between $400,000 and $500,000 per year. Then add to that the likely costs that will be associated with the cap and trade program, and it increases our focus on looking at expanding our production in Nevada or Arizona rather than California. The costs associated with complying with AB-32 including the fees adopted already penalize California manufacturers even on exports we make and give imports a free ride.

CARB estimated that it will cost $202 million total to upgrade all the cement plants in the State to meet the new low CO_2 emission levels they are seeking. Peer reviews of that study from such notable organizations as the Pew Center strongly disagree with that number. We estimate that the upgrades needed at our Colton plant alone will exceed $250 million.

But there is a serious Catch 22 to all of that. The equipment that we would need to install to reach the low desired emissions levels would also allow us to increase production which by the way would be needed to achieve any semblance of a return on the $250 million investment. However, because we are in the SCAQMD, getting a permit would require that we reduce $CO_{2,}$ lower NO_x and particulate emissions per ton of production without increasing those emissions in total. That is not possible. That means we will not be able to upgrade that plant. And depending on the final rules, we may well have to shut down. And GHG emissions will increase anyway as imports will fill the gap that is left.

In March of this year, the South Coast Air Quality Management District adopted an amendment to Rule 1157 for fugitive dust applicable only for cement plants within the District. By the way, there is only 1 cement plant still operating within the District – our Colton plant. The competitor whose plant caused the rule to be adopted has subsequently ceased operations. The impacts of that rule were negotiated with the District but still required us to add equipment at a capital cost of more than $600,000 and an annual operating cost increase of over $100,000.

A cement plant cannot be picked up and moved, but the next new plant probably won't be built in California meaning more good, high paying manufacturing jobs will be lost to Nevada or China or somewhere.

You also asked us to come here today and provide suggestions as to how the state and federal governments could do more to help private employers retain and create jobs.

I have 3 suggestions.

First delay the implementation of AB-32 until the recession is over California again has a strong and vibrant economy. Although there may be debate on the long-term economic impacts of this legislation, there is little doubt as to the current adverse effect of the immediate costs and uncertainty related to its implementation. Delayed implementation will not create jobs immediately, but it will help stop further erosion and loss.

Second, Invest in California's infrastructure while putting people back to work. The segment of the economy that has been hardest hit by the current recession is the construction industry with unemployment running significantly above the general unemployment rate.

Under Governor Pat Brown and President Eisenhower, both California and nation developed the interstate highway system. It was a national treasure that spurred growth and development by enhancing transportation and the movement of goods as well as people. During those years, the State of

California allocated nearly 20% of its budget to development of infrastructure for roads and water. Today we allocate less than 3% and it is declining while our roads deteriorate.

There is more money wasted in traffic jams in California every year than is used to maintain and develop our roads and highways. Transportation issues are non-partisan. Jobs are non-partisan. Let's invest in California and put people back to work.

My final and most important recommendation is for the legislature to direct the regulatory agencies to assist business in the implementation of rules that are promulgated pursuant to legislation or regulation. For instance rules are being written to implement AB-32. Let's make it easier for companies to comply with the rules that will be adopted to implement AB-32.

11/16/09 2:14 PM
Deleted: companyies

Cement plants burn coal as their primary fuel, but there are alternative fuels that can be safely substituted and which have a lower carbon footprint – such as tires, plastics, municipal waste, animal meal, construction debris and many others. European and Asian countries are way ahead of us in this regard with plants commonly at least 50% alternative fuels and some even 100%. The average plant in Germany uses double the U. S. average of alternative fuels. The use of these alternative fuels also reduces waste streams going to landfills which have declining capacity and is in total alignment with the "zero waste" agenda advanced by many in the environmental community.

The financial and public relations cost of permitting the use of such fuels generally makes it prohibitive as neighbors and groups with other agendas that do not understand either the science nor the environmental benefits fight the use of these alternatives. Our Colton plant when operating at full capacity burns 3 million tires per year. This reduces NOx (smog) as well as the amount of coal that we must burn. This is a win-win. Yet when we proposed to burn tires at our Mojave plant, protesters chained themselves across the entry road prohibiting the importation of the tires. The result - we gave up.

There are many other examples that I could give you, but this illustrates my point. A more rational and expedited permitting process needs to be developed to assist in the implementation of many of the rules adopted.

Sincerely,

James A. Repman
President/CEO