

Foreclosure on Wheels

Long Beach's Truck Program Puts Drivers at High Risk for Default



A report by:

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League of United Latin American Citizens
Los Angeles Alliance for a New Economy
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Executive Summary

According to state air regulators, pollution related to the movement of goods prematurely claims the lives of over 3,700 Californians each year, and diesel port trucks are a primary culprit. In an effort to reduce the public health risk and environmental impact of drayage trucks operating at the Ports of Los Angeles and Long Beach, the two ports have passed Clean Trucks Programs which would phase out the use of older, dirtier trucks and replace them with newer, cleaner trucks. The two plans differ in key respects, however. The most important difference between the two plans is that in Los Angeles, the large-scale investment in new equipment will be made by capitalized trucking companies who will employ the drivers. In Long Beach, by contrast, individual truck drivers (predominantly minorities, particularly low-income Latino immigrants) are being asked to make the investment in new trucks. These individual drivers will also bear the responsibility for the proper maintenance of the trucks, fuel and all other associated operational costs, and their status will remain “independent contractors.”

To finance the plan, Long Beach is working with Daimler Truck Finance in setting up a seven-year lease-to-own program. The nature of the financing plan, however, puts Long Beach drivers in a precarious financial position, and places them at high risk for default. In addition to failing to create a sustainable pathway to clean air, the Long Beach plan is structured such that it will wreak havoc on the financial lives of port drivers, their families and their communities.

Even in the best of times, the port trucking industry is characterized by a lack of capital, a lack of assets and low profit margins. Port drivers are low-income workers who historically have not been able to fund investments in technology and assets. The addition of a truck payment (the vast majority of drivers currently own their trucks) will make margins even thinner for drivers.

This report examines a number of additional, less well-known changes in the industry which will reduce the take-home pay of drivers and therefore impede their ability to successfully participate in the Long Beach plan. These challenges include:

- Skyrocketing diesel prices;
- A downturn in trade volume;
- Stymied growth at the Port of Long Beach;
- Inability to access the Port of Los Angeles; and
- Chronic labor unrest.

Even Daimler has projected that drivers at Long Beach are likely candidates for defaults on these payments, projecting that “over 40%” of drivers will have “high difficulty meeting the payments.” This report will examine why this particular financing plan will be so onerous for Long Beach drivers.

Instead of implementing the Long Beach lending plan as currently conceived, we urge Long Beach and Daimler to convert this loan program to one similar to that undertaken by the Port of Los Angeles (with whom Daimler is also partnering). In the LA program, trucking companies (rather than individual drivers) will receive financing to buy and maintain new, environmentally friendly trucks, as studies have demonstrated that such an approach will lead to improved long-term program success. It is an additional contention of this report that shifting the burden from low-income drivers to capitalized trucking companies is simply more humane.

Introduction

The twin Ports of Long Beach and Los Angeles are, together, the single largest fixed source of air pollution in Southern California.¹ While there are multiple sources for this pollution (including ships, trains, harbor craft and other equipment), none impact as many people as port trucks, which rumble through residential neighborhoods, near schools, parks, homes and places of worship. Diesel emissions from ports and goods movement sources are responsible for 3,700 premature deaths in California annually.² Port trucks are a significant contributor to these deaths, and the economic conditions of the port trucking industry – and of the low-income port truck drivers – are inextricably linked to the environmental and public health impact.³

The most recent study of Los Angeles and Long Beach port driver earnings was conducted in 2006, before the price of diesel soared to over \$5.00 a gallon. At the time, drivers' average annual net earnings were calculated to be \$29,000.⁴ Rapidly rising energy costs over the past two years have since pushed down drivers' take-home pay even further.

Now, low-income independent contractor truck drivers who call at the Port of Long Beach (hereafter Long Beach) will be required to make significant investments in new trucks. Through its Clean Trucks Program (hereafter CTP), a new policy that hopes to reduce emissions from diesel rigs, Long Beach will subsidize these drivers' purchase of new trucks through a lease-to-own program. Information distributed by Long Beach indicates their port drivers will pay between \$500 and \$1,000 per month for seven years; at the end of this period, they will have to make a balloon payment of \$7,000 to \$15,000.⁵ Currently, most "San Pedro Bay" port drivers (80%) have *no* truck payment;⁶ this additional fixed monthly cost, even absent the additional challenges outlined in this report, is itself a significant financial strain. Additionally, to qualify for the Long Beach subsidy, drivers will have to scrap their existing trucks; unlike in Los Angeles, no payment will be made to drivers in exchange for this asset.⁷

Given the nature of the independent contractor system, the individual drivers – already operating on razor-thin margins – will wind up bearing all of the risk and responsibility for this new expense, as they bear virtually all of the existing risk and responsibility for trucking operations in general. Port drivers bear all of the responsibility of fuel costs, insurance costs, registration, tires, repairs and maintenance. Port drivers bear the risk of tickets and fines for hauling the sometimes unsafe or overloaded containers provided to them.⁸ Meanwhile, port drivers are not paid a salary or an hourly wage; instead, they are paid piece-rate, and drivers bear the financial expense of port congestion and inefficiencies.

Similarly, the individual drivers will make (or fail to make) the lease payments. Trucking companies are not expected to provide any backstop, even if their financial situation permitted one.⁹ Nevertheless, the Port expects the financing entity – the recently-selected Daimler Truck Financial (hereafter Daimler) – to provide funding to *any* driver under the funding plan.¹⁰

Industry Background: On the Edge, Often in the Red

The port drayage market operates on extremely thin margins. As a number of recent studies have illustrated, the industry is both extremely competitive and thinly capitalized.¹¹ This means that even the smallest changes in economic inputs (e.g., fuel costs, maintenance costs, container volume) will have outsized implications for the stability of the industry.

Under the best of circumstances and during periods of stability, the trucking industry is “relatively unprofitable.”¹² In a study commissioned for the Ports of Los Angeles and Long Beach, economist Dr. John Husing surveyed a number of firms engaged in port drayage. Based on data from the U.S. Department of Transportation and the American Trucking Association, he concluded that the operating ratio for the drayage industry was 99.4%.¹³ Importantly, he provided a caveat: that this finding “represents a reasonable *upper estimate* of performance and profitability” (emphasis in original).¹⁴ Dr. Husing goes on to note that the low levels of industry equity, low returns on equity, and low returns on capital indicate that for any new debts or leases, “interest rates would likely be high, given the risk of lending to firms with low capitalization and profitability.”¹⁵ Due to the extreme fragmentation of the industry, the “intense” competition, and the use of independent contractor drivers, Dr. Husing concludes that the drayage industry suffers from “very weak” market power.¹⁶ This analysis suggests that increases in industry costs may not be offset by increased revenue because of the inability of independent owner-operators and licensed motor carriers (trucking companies) to raise rates.

All of this holds true even absent deteriorating conditions. As this report will highlight, the industry is currently experiencing several significant challenges which dramatically exacerbate the status quo ante, as discussed by Dr. Husing and others. In a recent *Journal of Commerce* column, one executive who frequently deals with the trucking industry believes that “the convergence of difficulties threatening the nation’s trucking industry” is a “looming problem [that] has the potential to cause the most strain” on the overall goods movement system. To describe a trucking meeting he attended he noted “there was nary an optimist in the bunch.”¹⁷

Market fragmentation makes drivers vulnerable to the sudden bankruptcies of the primarily small trucking firms for which they work. There are over 1,400 trucking companies that use the contiguous Ports of Los Angeles and Long Beach,¹⁸ contracting with about 16,800 drivers – or one company for every 12 drivers. A recent article in *Inbound Logistics* noted that trucking company bankruptcies are historically correlated to high fuel prices, and that “smaller carriers without the benefit of scale are finding it difficult to pass along fuel surcharges to shippers who are looking around corners for less expensive alternatives.”¹⁹

Long Beach's Clean Trucks Program Creates the Likelihood of a Stream of Sub-prime Defaults

With all of these factors taken together – along with the new risks this report outlines – we believe there is a risk of a loan crisis similar to the ongoing national sub-prime mortgage meltdown. As were many homeowners, these workers are currently being pushed into a long-term commitment to an asset which they may not be able to afford, in a rapidly-changing market, and under terms that are unclear to them.²⁰ The key questions for stakeholders are: “Are the expectations created by this program reasonable for drivers?” and “Who is left holding the bag?” If port drivers fall behind on their payments or – worse still – simply walk away from an investment that costs more than it is perceived to be worth, what happens to the asset, and what happens to the investments of the driver and the Port? The more basic question concerns whether or not these lease terms are even reasonable or manageable for this particular workforce of low-income, mostly-immigrant, mostly-Latino drivers. With an estimated 16,800 drivers operating in the San Pedro Bay Ports, and a program projected to cost upwards of \$2 billion, the answers to these questions are critical not just to drivers and policy makers, but to the broader community of stakeholders.

The comparison with the sub-prime/foreclosure crisis also rings true demographically. Irresponsible lending disproportionately hurts communities of color. Recent data have shown that lower-income individuals and people of color were disproportionately likely to take out high-risk, sub-prime home loans, and that defaults are increasingly common among these populations.²¹ Latinos, for instance, account for approximately 26% of sub-prime mortgages, although less than 15% of the U.S. population is Latino.²² In a recent report broadcast on *National Public Radio*, Eric Halperin of the Center for Responsible Lending was cited to the effect that almost 50% of the home mortgages made to Latinos in 2006 were sub-prime.²³ The same report noted that financial analysts estimate 30-40% of sub-prime loans were expected to end in foreclosure.²⁴ The port drayage driver workforce is overwhelmingly Latino (93%) and foreign-born (89%).²⁵

This same trend is starting to be seen in vehicle financing, leading some analysts to worry about “a foreclosure crisis on wheels:” delinquencies on sub-prime vehicle loans have almost doubled to 11.6%.²⁶ One lender noted that delinquencies are highest among larger vehicles that are directly used in the course of work.²⁷ Fitch Ratings recently analyzed the investment strength of U.S. vehicle asset-backed securities, finding a year-over-year surge of 60% in net losses, and an expectation that such losses will only increase. Further, Fitch cited lengthening loan terms (anything longer than 60 months) as a key factor, warning that lenders underwriting such loans will face a higher number of defaults.²⁸ The loan term for the Long Beach CTP is 84 months.

Given the tenuous state of this industry and its workforce, it is no wonder that even Daimler's Jeff Robinson told the Long Beach Harbor Commission that “over 40%” of Long Beach drivers will have “high difficulty meeting the payments” under the CTP.²⁹ (Days later, Daimler lowered this figure dramatically to “over 10%.”) Robinson's primary rationale for why Daimler might risk such exposure is that his company's strength is in “managing collections,” i.e., repossessing trucks.

If this is to be Daimler's approach as sanctioned by Long Beach, it would seem to indicate a failure of the CTP. Further, Daimler's brand image may be tarnished by association with a program perceived to be exploitative. Repossession of vehicles and homes are of particular concern in impoverished neighborhoods and to the advocacy groups who represent them. In the future, Daimler may find itself the subject of controversy as it faces potential protest from truck drivers and poor communities.

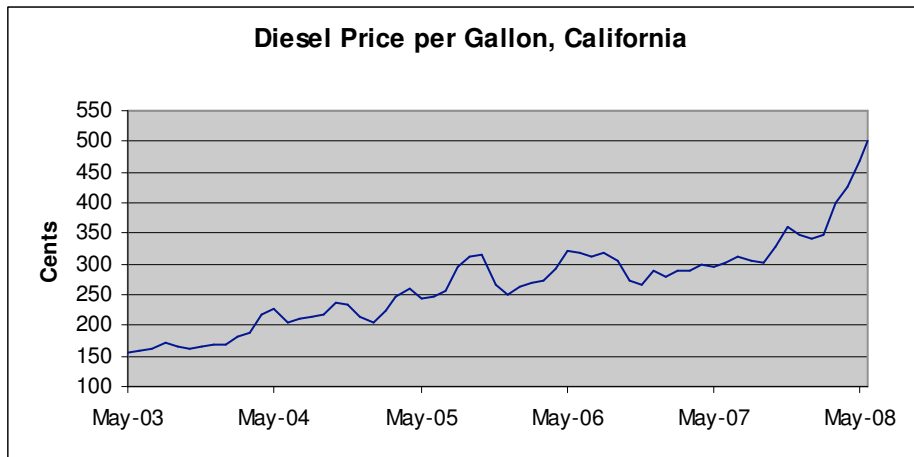
(It should be noted that the potential harm to drivers who fail to meet commitments under the Long Beach CTP would likely not be limited to repossession of their truck. If a driver has to redirect a relatively fixed income toward truck payments, it necessarily means less money for other living expenses. Further, a driver whose truck is repossessed will be deprived of his source of income for the future. In this way, the CTP not only puts drivers' trucks at risk, but also their homes, their credit ratings, and their overall stability and well-being. Beyond this, the impact would reverberate throughout the community in the form of reduced spending in the areas where drivers live.³⁰)

This report will examine several elements either of the CTP financing or of changes in the industry. These are the very factors which will cause so many drivers to have such "high difficulty meeting the payments," and they will be considered in turn.³¹

Driver Margins Impacted by Skyrocketing Diesel Prices

In recent months, the cost of diesel has hit new highs, with record prices recorded virtually every week. These prices will materially impact the ability of drivers to operate profitably and meet loan guarantees. While some trucking companies at the Port have attempted to add fuel surcharges, such surcharges have not been uniform. Even when a trucking company is paid a fuel surcharge by its customer, the full amount is rarely passed along to the individual driver.³² As noted earlier in this report, the small companies that dominate the trucking sector of the port economy are unable to pass along fuel charges to customers. Consequently, drivers, even lower on the supply chain, have even less market power and are simply at the mercy of higher costs.

One way to gauge the impact of soaring diesel prices is to examine the ability of drivers to pay. A recent academic study found that diesel is the single largest expense for drivers, who devote approximately one-third of their income solely to fuel.³³ This study was conducted in December 2006, when the average price of a gallon of diesel in California was \$2.906; as of June 2, 2008, the average price had risen 73% to \$5.027.³⁴ According to press accounts, some port drivers are already “being squeezed to the point of failure.”³⁵ One expert noted that prices are not projected to drop: “we’ll have current prices or a little higher for as far as the eye can see.”³⁶



Source: U.S. Energy Information Administration

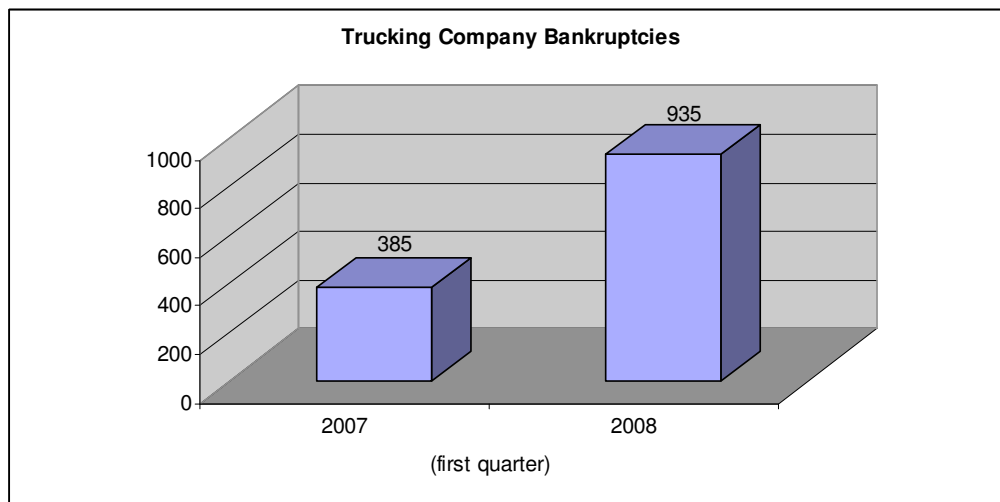
Even after taking into account significant projected increases in the fuel efficiency of new trucks, drivers' will experience increases in their fuel bills of between 33% and 61.5%.³⁷ This means that drivers will be spending 40% to 48.5% of their income solely on fuel. This higher expense alone will consume several thousands of dollars of drivers' take-home pay, sharply reducing their ability to meet loan payments.

	December 2006	October 2008
Gallon of diesel	\$2.91	\$5.027 (as of 6/2/08)
Monthly fuel costs	\$450	\$598 - \$727
Increase	--	33% - 61.5%
Percent of gross income spent on diesel	30%	40% - 48.5%
Net income	\$29,000	\$25,676 - \$27,224

Source: December 2006 data based on Gateway Cities and Monaco (2007). October 2008 data assumes new truck with a fuel efficiency increase, and diesel prices of June 2, 2008. Diesel prices from U.S. Energy Information Administration.

A second significant outcome of soaring diesel prices has been an increase in labor unrest among drivers. As one port driver noted in relation to diesel prices (and the refusal of some trucking companies to increase rates), "A lot of guys right now, they are ready to come unglued. They want to try to shut things down."³⁸ On April 1, independent drivers nationwide parked their trucks in protest. Last month, fuel protests at the Port of Oakland included destruction of trucks and threats of violence.³⁹ The implications of driver unrest (including a discussion of recent driver activity – and subsequent firings – at Long Beach) will be discussed in more detail below in the section *Persistent Labor Unrest Linked to Chronic Job Instability*.

A third product of increases in fuel prices is a related increase in the number of bankruptcies among trucking companies. One industry expert noted that 385 trucking companies had declared bankruptcy in the first quarter of 2007; the same quarter of 2008 saw 935 bankruptcy filings, a 143% increase year-over-year.⁴⁰

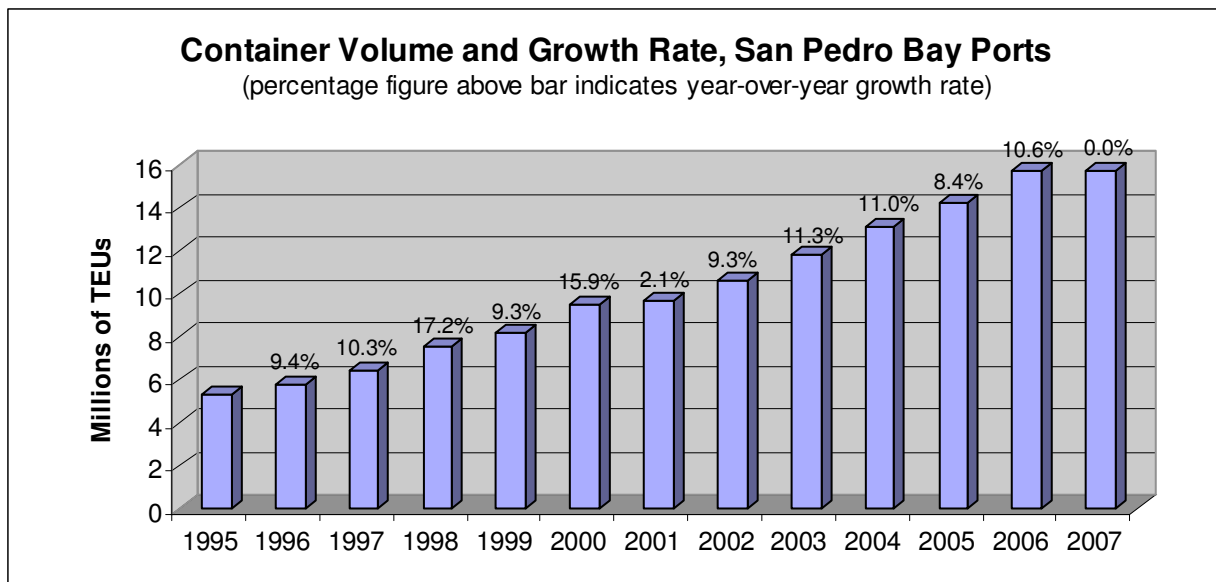


Source: Gross Transportation Consulting, as cited in *Journal of Commerce*.

Driver Income Impacted by Downturn in Trade Volume

Drivers are dependent on trade volume for their income. Because most drivers are paid by the load, when volume dips and work dries up, drivers' income suffers. In such cases, certain expenses (such as fuel) similarly dip. Truck payments, however, must be made regardless of the availability of work.

In most of the past dozen years, trade through the San Pedro Bay Ports has increased by double digits.⁴¹ The average annual growth rate for the years 1996-2006 was 10.4%. Even during the economic downturn of 2001, trade continued to increase, with a year-over-year gain of 2.1%.



Notes: Container volume in millions of twenty foot equivalent units (TEUs). Percent increase in volume from the previous year shown above that year's bar. Source: Ports of Los Angeles and Long Beach.

However, trade growth has now stopped entirely. In 2007, container volume was flat relative to 2006, "quite a comedown" (according to the L.A. County Economic Development Corporation) and a feat that would have been unthinkable even just one year ago.⁴² Since then, volume has continued to drop. "We're surprised that the numbers remain so weak" a Long Beach representative noted; "it was forecast earlier this year that the numbers would improve during the second half of the year, but there's no sign of relief right now."⁴³ Just as drivers are being asked to make a significant investment in and commitment to a major asset, the precariousness of their income is coming into focus. Moreover, over the past several years, West Coast ports have lost market share to their East Coast counterparts independent of current economic conditions.⁴⁴

Only a year ago, most analysts projected volume through the San Pedro Bay Ports would continue to increase at double digit rates. Overall volume was projected to nearly triple by 2030.⁴⁵ While volume in 2030 may well be 42.5 million TEUs, container volume growth in the near term clearly will not equal the growth rates of recent years. During the current economic downturn, then, one of the few things that drivers could rely on to ensure some stream of income – steady growth in container traffic – appears to be slipping away.

Driver Income Impacted by Stymied Growth at the Port of Long Beach

At the largest twin port complex in the U.S., there are some two dozen expansion projects in the works, each with its own Environmental Impact Report (EIR).⁴⁶ Expansion had been stalled at the two ports for a number of years, since a 2001 lawsuit against the Port of Los Angeles brought by the Natural Resources Defense Council, Coalition for Clean Air, Communities for a Better Environment, San Pedro and Peninsula Homeowners Association and San Pedro Peninsula Homeowners United. If EIRs are approved and expansion is able to move forward, the result will ultimately be more container volume moving through the Ports, more truck trips for drivers, and more reliable income. Absent expansion, customers may look for alternate ports for their traffic; this would have the opposite effect, and would decrease the likelihood of drivers being able to make lease payments.

In December 2007, the Port of Los Angeles (hereafter LA) approved the first major EIR at either Port in seven years, with a new container terminal (“TraPac”). Some sixteen community and environmental groups, again led by the Natural Resources Defense Council, appealed the project, and the process stalled. In April 2008, LA and the appellants announced an agreement, where LA would create a community mitigation fund and the appellants would remove their objections. All stakeholders – the LA officials, community and environmental groups, and industry watchers and analysts – expect that this groundbreaking agreement has finally cleared the way for expansion, having broken the logjam *at the Port of Los Angeles only*.⁴⁷

The framework established in the LA harbor does not apply to Long Beach, as the Port of Long Beach’s Robert Kanter explained: “When Los Angeles makes these agreements, it raises the bar for all of us. But it does not guarantee that the Port of Long Beach will do what Los Angeles did.”⁴⁸ Currently, there is a cloud of uncertainty over the issue of Long Beach expansion, and community and environmental groups are reviewing Long Beach’s EIRs.

Indeed, two groups – the Natural Resources Defense Council and the Coalition for a Safe Environment – have already threatened litigation against Long Beach.⁴⁹ It is noteworthy that the threat was not also made against the Port of Los Angeles. The result could be a scenario where LA is able to expand, with community and environmental support, while Long Beach’s long-delayed expansion is hampered by opposition from those same groups. In fact, one industry executive gave an account of expansion projects being held “hostage,” saying “I’ve never seen the port environment more vicious, more adversarial.”⁵⁰

Between December 2007 and February 2008, while the future of the TraPac EIR was in doubt, five shipping lines abandoned LA’s TraPac terminal, with an estimated loss of \$70 million to the terminal. Delays in the expansion process were cited as the main reason. It is possible that the same exodus could happen at Long Beach, shifting container traffic to LA (or other ports) in the face of continued community and environmental opposition to expansion. As one industry executive noted, “cargo owners are diversifying their port gateways for a number of reasons, one of which is the inability of Southern California ports to develop new projects to meet capacity demands.”⁵¹ The same press account noted that this “‘no-growth’ trend” may continue “indefinitely.”

In the meantime, the following Long Beach projects (for container improvements and expansions as well as infrastructure projects) remain in limbo:

Port of Long Beach Projects Awaiting Approval
Middle Harbor (Piers D, E and F) Container Terminal Expansion
Pier A East Container Terminal Improvement
Piers G and J Container Terminal Improvement
Pier J South Container Terminal Expansion
Pier S Container Terminal Expansion
Administration Building Replacement
Gerald Desmond Bridge Replacement

Source: Port of Long Beach.

If Long Beach is unable to reach an agreement with community and environmental groups on terms similar to the LA agreement, delays around these expansion projects may well continue, sending container volume to other ports, and ultimately reducing driver income. Impacted drivers will have an increasingly difficult time meeting lease payments on trucks for which there is reduced demand.

Loss of Half the Market Limits Driver Earning Potential

Earlier this year, the two contiguous ports chose to pass different clean truck programs.⁵² For the purposes of this discussion, the critical difference between the two plans – one that could vastly affect the incomes of the drivers – is that LA is mandating that licensed motor carriers who become concessionaires at the Port use only employee drivers, rather than independent contractors. This change will take place over a five year period, beginning January 1, 2009. Long Beach, however, will permit either employees or independent contractors of its concessionaires to drive trucks at its port.

The two Ports are a unified market, with LA the larger of the two. The practical significance of this distinction is that while LA drivers will be able to do business at the Port of Long Beach, Long Beach drivers will *not* necessarily be able to access the Port of LA. This loss of half of the market may be just the beginning, however. A recent lawsuit filed by the American Trucking Association against the Ports of Long Beach and Los Angeles explains:

The Long Beach Concession Plan, on its face, permits a concession holder to use employee-drivers or independent owner-operators as subcontractors.

In reality, however, permission for an independent owner-operator to service the Port of Long Beach is meaningless when shackled by a prohibition against serving the Port of Los Angeles. It generally is commercially impractical, if not infeasible, for a motor carrier to provide drayage services only on the Port of Long Beach and not also to the Port of Los Angeles. For example, agreements among shippers may route cargo initially destined for the Port of Long Beach to the Port of Los Angeles, and may require emptied containers from cargo initially drayed from the Port of Long Beach to be returned to a terminal on the Port of Los Angeles. Further, under “Vessel Sharing Agreements” entered into among ocean common carriers, a contract for the trans-Pacific movement of cargo containers between a shipper and an ocean carrier with a terminal facilities [*sic*] at one San Pedro Port may actually be fulfilled by moving the container on the ship of another ocean carrier that docks at the other Port. As a result, a Concession Plan that prohibits subcontracting independent owner-operators to provide drayage services at the Port of Los Angeles also precludes any practical ability of motor carriers relying on the services of independent owner operators to serve the Port of Long Beach, and, therefore, to enter into short or long term drayage contracts with shipping companies, ocean carriers, or cargo owners.⁵³

In short: the best-case scenario for independent contractor drivers receiving truck loans may have them taking on significantly increased costs even as the size of their potential market shrinks by 55%. If the Trucking Association’s projections are realized, drivers may lose significantly more.

Persistent Labor Unrest Linked to Chronic Job Instability

The recent (post-deregulation) history of port drivers is a history of labor unrest. One recent analysis uncovered 100 incidents of labor unrest among over 22,000 port drivers throughout the United States and Canada over the past twenty years.⁵⁴ Over half of these incidents (a disproportionately high number) took place in the Ports of Los Angeles and Long Beach, and another three strikes took place at major trucking companies doing business in Long Beach in May. It appears to be the case that port drivers in Southern California are especially willing to park their trucks and engage in “wildcat” strikes.

A minority of these job actions brought an entire port to a complete halt. Long Beach was, however, fully shut down for two weeks in the summer of 1988, a week in November 1993, throughout the entire spring and summer of 1996, and for a day in each of 2004 and 2006. Industry executives have long understood the frequency and cyclical nature of driver walkouts. In the wake of the 1996 strike, one executive lamented that “we learned nothing from this. The cycle will repeat itself. In another year or two, the drivers will go out again.”⁵⁵

Outside of these port-wide actions, there have been scores of other, smaller actions at individual trucking companies. We estimate that over 15,000 current and former port drivers in the San Pedro Bay Ports have participated in these protests. *Over the past twenty years, there is a strike or job action among San Pedro Bay port drivers on average once every four months.*

Given the increasing price of diesel (as discussed above), along with other changes in the industry, including the Long Beach CTP, it appears that the frequency of these incidents of labor unrest is increasing. Drivers at RPM Trucking, New Bridge Logistics and ContainerFreight EIT all parked their trucks and struck this past May alone. These separate, uncoordinated actions each lasted approximately one week. Two of the three resulted in driver termination.

Several things happen during these job actions:⁵⁶

- *Drivers lose pay.* These actions may be sparked by any number of things: fuel price increases, long wait times, low pay, a lack of benefits, unsafe equipment – often related to port drivers’ independent contractor status. Whatever the cause, drivers make extreme sacrifices to engage in these protests. During a job action, these workers receive no pay, and afterwards many have lost their jobs. These contingencies harm the regularity of income needed to meet ongoing lease payments.
- *Authorities are dispatched.* Thirty percent of the incidents reviewed resulted in calls to authorities to quell a disturbance. In some of these cases, police arrested participants.
- *Violence is a factor.* In at least 17% of incidents, there have been allegations of violence or attempted violence. Incidents have included reports of fistfights, stabbings, vehicular attacks, gunfire and even bombings.
- *Property damage against trucks.* Fourteen percent of incidents were marked by some destruction of property. By far, the most common property damage was to trucks. Most frequent were shattered windshields, slashed tires and punctured radiators.

Given the likely increasing frequency of driver actions, it is reasonable to ask how this might impact both drivers’ ability to meet loan terms, and the condition of the trucks themselves.

Conclusion

Financing an industry characterized by low margins and a lack of both capital and assets provides unique challenges, even in the best of times. Now is far from the best of times. On top of the well-known structural challenges, there are several risks to this financing scheme that are less well-known; we have examined them in detail in this report. We believe that these risks will seriously impede drivers' ability to successfully participate in the Long Beach CTP. Further, we believe that the continued financial predation on drivers, not just by licensed motor carriers, but now also by multinational financial entities such as Daimler, will reverberate negatively throughout the community.

There are, however, alternatives to the pitfalls posed by Long Beach. An example of a program that avoids these problems can be seen at the adjacent Port of Los Angeles. At the LA Port, a similar Clean Trucks Program stands a much better chance of long-term economic and environmental success. It is also significantly less likely than the Port of Long Beach plan to exact a toll on families and communities. At the Port of LA, capitalized trucking companies (rather than individual low-income truck drivers) will purchase and maintain the trucks. Studies have shown that when the risk and responsibility is shifted to companies, there is greater chance for long-term success.⁵⁷

Long Beach should follow the LA example of solid fiscal sense and a more compassionate approach. A more fiscally sound – and humane – truck replacement program should be brought forth before the defaults begin. It is not only the financial health of drivers that hangs in the balance, but their physical health as well – and all of ours who breathe the air in Southern California.

Endnotes

- ¹ South Coast Air Quality Management District, 2007 Air Quality Management Plan.
- ² California Air Resources Board, "Methodology for Estimating Premature Deaths Associated with Long-Term Exposures to Fine Airborne Particulate Matter in California," May 22, 2008. Note that this figure of 3,700 does not include premature deaths from other pollutants associated with the industry, such as ozone, responsible for an additional 240 deaths annually.
- ³ See, e.g., "The Road to Shared Prosperity: The regional economic benefits of the San Pedro Bay Ports' Clean Trucks Program," report by LAANE, August 2007.
- ⁴ "A Survey of Drayage Drivers Serving the San Pedro Bay Ports," CGR Management Consultants LLC, prepared for the Gateway Cities Council of Governments, March 26, 2007 ("Gateway Cities").
- ⁵ Port of Long Beach, Clean Trucks Program Fact Sheets, February 25, 2008 and July 23, 2008.
- ⁶ Gateway Cities, 15.
- ⁷ "Clean Truck Funding Program," memo from POLB Finance Director Steve Rubin, February 13, 2008. By contrast, the Port of Los Angeles will pay drivers \$5,000 upon scrapping of an older truck.
- ⁸ See, e.g., "Study of Drayage at the Ports of Los Angeles and Long Beach," Kristen Monaco and Lisa Grobar, Department of Economics, California State University Long Beach, April 2005 ("Monaco 2005").
- ⁹ It is worth noting that while the CTP at the Port of Los Angeles requires a determination of financial health for trucking company applicants, the POLB plan has no such requirement. Any trucking company already operating at the Port on June 1, 2008 will be grandfathered in without regard to fiscal strength. ("Long Beach to launch Clean Trucks Program in July," *Journal of Commerce Online*, June 4, 2008.)
- ¹⁰ "Request for qualifications to serve as financing entity," Port of Long Beach, March 7, 2008.
- ¹¹ "Economic Analysis of the San Pedro Bay Clean Air Action Plan Proposed Clean Truck Program," John Husing, Thomas Brightbill and Peter Crosby, September 7, 2007 ("Husing"); "Incentivizing Truck Retrofitting in Port Drayage: A Study of Drivers at the Ports of Los Angeles and Long Beach," Kristen Monaco, Department of Economics, California State University Long Beach, January 2007 ("Monaco 2007"); Monaco 2005; Gateway Cities.
- ¹² Husing, 22.
- ¹³ Operating ratio is generally defined as a company's operating expenses divided by its operating revenue. The closer the ratio is to 100%, the less profitable a company.
- ¹⁴ Husing, 22-23.
- ¹⁵ Husing, 23.
- ¹⁶ Husing, 24.
- ¹⁷ "Keep on truckin'," *Journal of Commerce*, June 9, 2008.
- ¹⁸ Letter from Michael Campbell, CEO of the California Trucking Association, to the Ports of Los Angeles and Long Beach, June 1, 2007.
- ¹⁹ "Trucking industry steering toward summer daze," *Inbound Logistics*, June 2008.
- ²⁰ There are, however, two key differences between financing a house and financing a heavy-duty truck. One difference is that home purchases are, essentially, discretionary. Drivers at POLB are being told that in order to continue operating at the Port, these purchases are mandatory. This may lead drivers to embrace riskier terms than they otherwise might, out of a sense of resignation. The second key difference is that in general, homes are appreciating assets, while trucks are depreciating assets. This fact may lead drivers to more readily park their trucks and abandon their commitments.
- ²¹ See, e.g., "Race, ethnicity and sub-prime home loan pricing," *Journal of Economics and Business*, January 2008; United for a Fair Economy, *State of the Dream 2008*, January 2008; Acorn Fair Housing, *Foreclosure Exposure*, September 2007; California Reinvestment Coalition, et. al., *Paying More for the American Dream*, March 2008.
- ²² DataPlace, based on data from the Home Mortgage Disclosure Act for 2004; U.S. Census Bureau.
- ²³ "Latinos hard hit by mortgage crisis," All Things Considered, *NPR*, June 20, 2008.
- ²⁴ "Latinos hard hit by mortgage crisis," All Things Considered, *NPR*, June 20, 2008.
- ²⁵ Monaco 2005.
- ²⁶ "Entering the repossession lane," *Boston Globe*, March 7, 2008.
- ²⁷ "Repossessions on the rise, Inland auto lenders say," *Press Enterprise*, March 29, 2008.
- ²⁸ "Prime US auto asset-backed securities losses up 60% year-on-year basis," *Thompson Financial*, February 1, 2008.
- ²⁹ Comments by Jeff Robinson of Daimler Truck Financial to POLB Board of Harbor Commissioners, June 30, 2008.

³⁰ See, e.g., “The Road to Shared Prosperity.”

³¹ One factor not included in this report is the manner in which significantly higher maintenance and repair costs for newer trucks will further impact drivers. Long Beach has touted a so-called “prepaid maintenance plan” for drivers, yet initial indications are that the plan is far from comprehensive. Despite repeated requests, Long Beach has failed to provide detailed information on the coverage of their maintenance plan. A future report will analyze the impact of the Long Beach maintenance plan on driver earnings.

³² “[Drayage] trucking companies vary greatly in how much of the surcharges they pass on to contract drivers.” “Puget sound area freight companies spar over diesel,” *Puget Sound Business Journal*, June 2, 2008.

³³ Monaco 2007.

³⁴ U.S. Energy Information Administration.

³⁵ “Puget sound area freight companies spar over diesel,” *Puget Sound Business Journal*, June 2, 2008.

³⁶ “Diesel costs hit the road,” *Orange County Register*, May 4, 2008.

³⁷ After adding the fuel efficiency increase of a new truck, and subtracting the fuel efficiency penalty of aftermarket retrofit devices, new trucks yield a net fuel efficiency increase of 7% to 30%. Presentation by Jon Leonard, Principal at Tiax, at the Faster Freight Cleaner Air conference, February 27, 2007.

³⁸ “Puget Sound area freight companies spar over diesel,” *Puget Sound Business Journal*, June 2, 2008.

³⁹ “Fuel’s short fuse: dray trucker protest in California clogs freight pipeline, raises concern over peak disruption,” *Traffic World*, May 19, 2008.

⁴⁰ “Slowing import growth eases port trucker shortage,” *Journal of Commerce Online*, June 5, 2008.

⁴¹ Data from Ports of Los Angeles and Long Beach.

⁴² Los Angeles County Economic Development Corporation, *International Trade Trends and Impacts*, May 2008.

⁴³ “Traffic at ports decreases in June,” *Daily Breeze*, August 1, 2008.

⁴⁴ “Head east,” *Journal of Commerce*, June 10, 2008.

⁴⁵ Husing, 11.

⁴⁶ “Clearing the air,” *Journal of Commerce*, December 17, 2007.

⁴⁷ “Los Angeles breaks the logjam,” *Journal of Commerce*, April 14, 2008. See also “Port hoping for green year,” *Long Beach Press Telegram*, March 3, 2008; and “Toxic environment: legal threats cloud the air in Southern California,” *Pacific Shipper*, February 18, 2008.

⁴⁸ “Los Angeles breaks the logjam,” *Journal of Commerce*, April 14, 2008.

⁴⁹ “Groups threaten to sue Long Beach,” *Journal of Commerce*, February 8, 2008.

⁵⁰ “Politics threatening Southern California port projects,” *Journal of Commerce*, January 22, 2008.

⁵¹ “Port hoping for green year,” *Long Beach Press Telegram*, March 3, 2008

⁵² POLB plan approved by the Long Beach Board of Harbor Commissioners on February 19, 2008. POLA plan approved by the Los Angeles Board of Harbor Commissioners on March 20, 2008.

⁵³ *American Trucking Associations, Inc. v. The City of Los Angeles, et. al.*, filed in the United States District Court, Central District of California, June 28, 2008.

⁵⁴ “Truck driver militancy at the ports of North America, 1987-2007,” report prepared by Change to Win and Los Angeles Alliance for a New Economy, August 2007.

⁵⁵ “Truckers back to work in LA but underlying issues unresolved,” *Journal of Commerce*, May 21, 1996.

⁵⁶ “Truck driver militancy at the ports of North America, 1987-2007.”

⁵⁷ “San Pedro Bay Ports Clean Truck Program: CTP options analysis,” Boston Consulting Group, March 2008.