

AGENDA

WATER CARRIERS WORKING GROUP MEETING

AUGUST 19, 2021

1:00 – 2:30 PM

VIA ZOOM CONFERENCE MEETING

<https://us02web.zoom.us/j/91812121212>

Meeting ID: 91812121212

Passcode: 123456

- I. **Welcome**
- II. **Housekeeping**
 - Corrections to Group Memory from July 15, 2021 meeting solicited
- III. **Status Reports for Small Groups/Subcommittees**
 - Groups will share any updates to recommendations.
- IV. **Discussion of WCWG First Draft Report**
 - Comments and Questions on the First Draft Report
- V. **Suggestions for Meeting on September 16, 2021**
 - Comments and Questions on Second Draft Report
- VI. **Conclude**

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The public repository link is as follows:

<https://hawaiioint-my.sharepoint.com/:w/91812121212>

Password: 123456

## PUC Water Carriers Working Group Meeting

July 15, 2021, 1:00 – 1:45 p.m.

(Virtual Meeting via Zoom)

### Meeting Attendees (in alphabetical order)

P = Present; A= Absent

|   | Name                                 | Title                        | Company                                                                                      |
|---|--------------------------------------|------------------------------|----------------------------------------------------------------------------------------------|
| P | Jay Ana                              | President                    | Young Brothers, LLC                                                                          |
| A | Makale‘a Ane                         | Environmental Coordinator    | County of Maui, Office of the Mayor, Office of Climate Action, Sustainability and Resilience |
| A | Vic Angoco                           | SVP                          | Matson Navigation Company, Inc.                                                              |
| P | Jesse Andrade                        | ILWU Member/Unit 4209 Chair  | International Longshore and Warehouse Union, Local 142                                       |
| A | M. Andrade for Representative Aquino |                              | House District 38 / Chair, House Committee on Transportation                                 |
| A | Henry J.C. Aquino                    | Representative               | House District 38 / Chair, House Committee on Transportation                                 |
| A | Nelisa Asato for Vic Angoco          |                              | Matson Navigation Company, Inc.                                                              |
| A | Jayne Nantkes                        | Committee Clerk              | Office of Representative Aquino                                                              |
| P | Leodoloff (Leo) R. Asuncion          | Commissioner                 | Public Utilities Commission                                                                  |
| A | Jade Butay                           | Director                     | Department of Transportation                                                                 |
| A | Rick Blangiardi                      | Mayor                        | City and County of Honolulu                                                                  |
| A | Michael Caswell                      | SVP                          | Pasha Stevedoring & Terminals L.P.                                                           |
| A | Catherine Awakuni Colón              | Director                     | Department of Commerce and Consumer Affairs                                                  |
| P | Derek J. Chow                        | Deputy Director              | Department of Transportation, Harbors Division                                               |
| P | Stacy Crivello                       | Community Liaison            | Maui County Mayor’s Office                                                                   |
| A | Michael Dahilig                      | Managing Director            | Kauai County – Office of the Mayor                                                           |
| P | Christopher Edwards                  |                              | Young Brothers, LLC                                                                          |
| P | Mary Alice Evans                     | Director, Office of Planning | Department of Business, Economic Development & Tourism                                       |
| P | James P. Griffin                     | Chair                        | Public Utilities Commission                                                                  |

|   |                                |                                                     |                                                                                                      |
|---|--------------------------------|-----------------------------------------------------|------------------------------------------------------------------------------------------------------|
| A | Matthew Gonser                 | Chief Resiliency Officer/Director                   | City and County of Honolulu – Mayor’s Office of Climate Change, Sustainability and Resiliency (CCSR) |
| P | Randy Grune (for Mike Caswell) | PASHA Managing Director                             | Hawaii Stevedores, Inc.                                                                              |
| A | William “Baba” Haole IV        | Division Director of Hawaii Longshore Division      | International Longshore and Warehouse Union, Local 142                                               |
| P | Steven Hunt                    | Deputy Finance Director                             | Hawaii County                                                                                        |
| P | Lauren Imada                   |                                                     | Young Brothers LLC                                                                                   |
| P | Lorraine R. Inouye             | Senator                                             | Senate District 4 / Chair, Senate Committee on Water and Land, Majority Whip                         |
| A | Richard Kamoe                  | Vice Division Director of Hawaii Longshore Division | International Longshore and Warehouse Union, Local 142                                               |
| P | Gilbert S.C. Keith-Agaran      | Senator                                             | Senate District 5 / Senate President designee                                                        |
| A | Mitch Roth                     | Mayor                                               | County of Hawaii                                                                                     |
| P | Keith Kiyotoki                 | Manager of Sales and Marketing                      | Young Brothers LLC                                                                                   |
| P | Brad Knowlton                  | Committee Clerk for Senator Inouye                  | Senate District 4 / Chair, Senate Committee on Water and Land, Majority Whip                         |
| P | Chris Lee                      | Senator                                             | Senate District 25/Chair, Senate Committee on Transportation                                         |
| A | Jennifer Lim                   |                                                     | Young Brothers LLC                                                                                   |
| A | Dr. Matthew Loke               |                                                     | HDOA                                                                                                 |
| P | Chris Martin                   | Director of Operations                              | Young Brothers LLC                                                                                   |
| P | Reiko Matsuyama                | Budget Director                                     | Kauai County – Office of the Mayor                                                                   |
| A | Mike McCartney                 | Director                                            | Department of Business, Economic Development & Tourism                                               |
| P | Kris Nakagawa                  | Vice President of External and Legal Affairs        | Young Brothers LLC                                                                                   |
| P | Mark M. Nakashima              | Representative                                      | House District 1 / House Speaker designee                                                            |
| A | Dean Nishina                   | Executive Director / Consumer Advocate              | Department of Commerce & Consumer Affairs – Division of Consumer Advocacy                            |

|   |                                     |                                                              |                                                                           |
|---|-------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------|
| P | Lisa Hiraoka                        |                                                              | Department of Commerce & Consumer Affairs – Division of Consumer Advocacy |
| P | Dori Palcovich (for Mike McCartney) | Administrator for the Small Business Regulatory Review Board | Department of Business, Economic Development & Tourism                    |
| A | Jennifer M. Potter                  | Commissioner                                                 | Public Utilities Commission                                               |
| A | Fred Robins for Baba Haole          |                                                              | ILWU                                                                      |
| A | Stevette Santiago                   | Director of HR                                               | Young Brothers LLC                                                        |
| P | Phyllis Shimabukuro-Geiser          | Chairperson                                                  | Department of Agriculture                                                 |
| P | David Veltry                        |                                                              | Young Brothers LLC                                                        |
| P | Corey Robertson                     |                                                              | Young Brothers LLC                                                        |
| A | Michael P. Victorino                | Mayor                                                        | Maui County                                                               |
| A | Mike Victorino, Jr.                 |                                                              | ILWU                                                                      |
|   | Public Utilities Commission Staff   |                                                              |                                                                           |
| A | Jodi Endo Chai                      | Executive Officer                                            | Public Utilities Commission                                               |
| P | Michael Chapman                     | Economist                                                    | Public Utilities Commission                                               |
| A | Steven Iha                          | Consultant                                                   | Public Utilities Commission                                               |
| P | Layla Kilolu                        | Economist                                                    | Public Utilities Commission                                               |
| P | Carolyn Laborte                     | Chief Auditor                                                | Public Utilities Commission                                               |
| A | Naomi Landgraf                      | District Representative – Maui                               | Public Utilities Commission                                               |
| P | Andrew Okabe                        | Utility Analyst                                              | Public Utilities Commission                                               |
| P | Anand Samtani                       | Supervising Economist                                        | Public Utilities Commission                                               |
| P | Gina Yi                             | Acting Chief Engineer                                        | Public Utilities Commission                                               |
| P | Jackie Young                        | Auditor                                                      | Public Utilities Commission                                               |
| P | Debra Abe                           | Auditor                                                      | Public Utilities Commission                                               |
| A | Caroline Ishida                     | Chief Counsel                                                | Public Utilities Commission                                               |
| A | Dave Parsons                        | Chief, Policy and Research                                   | Public Utilities Commission                                               |
| P | Keira Kamiya                        | PUC Attorney                                                 | Public Utilities Commission                                               |
|   | Independent Facilitation            |                                                              |                                                                           |
| P | Donna R. Ching                      | Facilitator                                                  | Pacific Center for Collaboration                                          |

|   |                           |          |                                                                                          |
|---|---------------------------|----------|------------------------------------------------------------------------------------------|
| P | Jennifer Cornish<br>Creed | Recorder | Hawaii Alliance for Nonprofit<br>Organizations (Director of<br>Professional Development) |
|---|---------------------------|----------|------------------------------------------------------------------------------------------|

## Welcome

Leo welcomed attendees to the tenth meeting of the Water Carriers Working Group (WCWG) and thanked them for participating.

He shared that he is planning to have the first draft of the report ready by the next WCWG meeting. The group will be able to review it and discuss it at that time. The goal is to make the final edits and get it back out to the group by the October time frame so that we can circulate it to the Legislature by November 2021.

## Housekeeping

Donna thanked all the small group members who did the work of putting their recommendations into the report template. That will make it easier for Leo to get the first draft done on time. All the small groups put really good effort into the work they did.

## Group Memory

Donna asked if there were any corrections to the group memory from the June 17 meeting beyond what have already been made. There were no corrections suggested.

## Status Reports for Small Groups/Subcommittees

The groups were invited to review any changes that had been made to their recommendations since the last meeting or highlight any information that was added to the report template. Donna invited participants to ask questions or share comments or suggestions after each group report out.

## Pier Space

Gina Yi, PUC, confirmed that the Pier Space group's recommendation is done.

## Cargo

Keith Kiyotoki, YB, shared the following update:

- We moved our report into the template.
- The only thing we added were the approximate costs – start up and implementation (\$400K) plus monthly maintenance fees (approximately \$10-15K, depending on future needs and changes).

## Q&A

- **Q = Question, A = Answer, C = Comment**

Q: Derek, can you say anything about how the broadband project might impact this recommendation?

A: I don't know the scope of that project yet.

Q: With regard to broadband, are you talking about the impacts on YB or the DOT infrastructure? If you're talking about the impacts on DOT infrastructure, that's not really germane to this working group. It will be confusing.

A: We are referring to money that the Legislature has designated as special funds from ARPA – which is not scoped yet. But to clarify, the \$400K cost is to implement the reservation system.

C: (Jay) How they connect is that the implementation of the reservation system will be dependent on the available infrastructure. In order to fully understand the costs of implementation, we'd need to know the status of the broadband infrastructure and what it will support. YB will be ancillary beneficiaries.

Q: Are we talking about hardware that needs to be in place to serve YB?

A: (Derek) We're talking about hardware that serves beyond YB and beyond Harbors to downtown Honolulu.

C: It's not only YB that will benefit. Matson and other carriers too. It would be great to make sure all of this is clear in the report.

Q: (Donna) Can you clarify these infrastructure issues in the report?

A: (Derek) Yes.

### **Subsidized Shipping**

Derek Chow, DOT, shared the following updates:

- When we last met, we didn't have the report in the template. We've now got it in the template.
- The first recommendation is that a working group be convened to further discuss these issues, beyond this group.
- The second recommendation is that DOT will lead the new WG in engaging the U.S. DOT in developing a program and language for the program.
- The third recommendation is for new working group, led by DOT, to engage the Hawaii Congressional delegation to introduce legislation into Congress for new U.S. DOT subsidy program.
- The last recommendation is for DOT to lead the working group in engaging the State Legislature as well as the County DOT's and County Councils to create legislation at State and County levels for state and county subsidies

Comments? Questions?

Q&A

- **Q = Question, A = Answer, C = Comment**

C: I have an issue with the dates. I'm wondering if since we already have this WG, should we really wait on the items you've described? Could this WG move these items up and include them as part of our scope. I've already spoken with Congressman Kahele and shared where we are with this WG. They can do legislation at any time of the year. Can we bring them on now – our Hawaii delegation?

C: You're talking about establishing a new working group right?

A: Correct.

C: Could we extend this WG? The Legislature would allow that. There's a lot of stuff here that we already should be working on, like communications with the delegation. Who knows what bills the delegation will proceed with. Things may move faster than we expect.

C: (Derek) I agree with you and am in communication with congressional staff – but I don't yet have language for a program to share with them. I would have to work with U.S. DOT and MARAD to develop the language. They usually pass it on to Legislative Support to check on the language.

C: There are already things in the Constitution. We already have rail and air legislation. Air essential services to certain Hawaii airports already exist. We should probably do a Zoom with our delegation this fall to give them some of our WG reports and have a discussion. If we can both move this along, we may be able to move faster.

Q: Can you assist with language to include in the recommendation related to this timeframe modification.

C: I think what's being recommended is a short-term solution. Something like "before the end of 2021, a Zoom meeting should be convened with our Congressional delegation and representatives from this WG." Your small group will take the lead and share the conclusion this WG came to relative to mid-term ideas so that as they think about potential legislation for the next session, they can incorporate this information.

C: Previously I mentioned the NCSL which has a task force group on transportation. There is a conference in November leading up to a final meeting in December. All states need to submit resolutions prior to that. Anything that gets passed has to be supported by all 50 states. I want to submit a resolution through NCSL, on behalf of Hawaii, urging support. If it comes out of NCSL, it increases the chance of Congressional support to our group.

C: Derek, this pushes up the conversation you need to have with the Legislative staff. Can you work with staff on this to create a draft proposal?

A: Yes. Are you recommending that I eliminate the report back to State Legislature in 2023 session and only have short-term milestones?

A: You do need to have something that is ongoing...we need to continue to make sure that our focus and goals will be carried over. We never know when or what Congress will do for us.

C: (Donna) Maybe we can send the updated version of your report out with the group memory – that way everyone can take a look at what you've committed to.

A: Submit draft language to delegation by November 2021 so that it can be introduced at the conference in November.

Q: With this draft, Lorraine would be able to advocate for it at the NCSL conference?

A: Yes – I have to come up with a resolution.

Q: And, all 50 states have to support it?

A: Yes, the majority have to support it. Once we pass it on – it will become part of the NCSL package.

C: (Phyllis) After Derek submitted the group's recommendation in the requested format, I had an email exchange with Senator Gabbard (the Ag. Chair) who met with Congressman Kahele last week. What I shared with Senator Gabbard, he passed on to Congressman Kahele. We asked the Congressional team to continue funding support for the USDA RTCP (Reimbursement Transportation Cost Payment) Program to assist neighbor island ranchers, farmers and growers. As well as maritime subsidy for water carriers in food insecure states such as Hawaii to offset interisland shipping costs that restrict the farmer and rancher's ability to ship locally produced food and livestock through Hawaii food supply chain.

C: (Donna) This sounds like it could save us time – if we use that format/language as a base to modify for this working group's purpose. It might allow us to move faster.

It was agreed that Derek and Phyllis will talk.

### **Sustainability and Profitability + Rates** (integrated)

Steve Hunt, Hawaii County, shared the following update:

- At the last meeting we didn't have our recommendations in the suggested format so we drafted that.
- We met Jun 21 and July 9 to go over the format and things left on the table.
- The main 2 recommendations (every 3 year rate case and two-tiered approach) both remained the same.



- We removed the requirement for rate case to be submit after labor contracts. Because of the two-tiers in the WICI approach, incremental costs related to labor could be argued through second submittal.
- We made some clarifications related to the fuel surcharges (will continue to be separate from the WICI adjustment and not counted against 5% ceiling). We also clarified that WICI does not account for any new capital investment by water carriers. They could in advance petition to Commission and get feedback prior.
- We reviewed, edited and added to the pros and cons section. New member from DOA representing ranchers and farmers added the last 2 cons – the negative impact WICI may have on the consumers', particularly farmers and ranchers, ability to afford services.
- WICI increases – especially automatic ones – could actually push the rate of return above the threshold for the year.
- Things left on the table:
  - Whether Harbors Division or a newly created Port Authority would be participating in rate case. Harbors might have a conflict as the landlord.
  - Will leave the concept of creating a Port Authority to the Legislature – that is beyond our scope.
- We discussed a failsafe if WICI is not approved – a Plan B. We created it but won't share it now. More on sustainability and profitability.

## Q&A

- **Q = Question, A = Answer, C = Comment**

Donna asked if there were any comments or questions about the revised and updated proposal. Hearing none, she asked if everyone was willing to push this recommendation forward on behalf of WG and support it. The group affirmed that they were willing. **It was agreed that this recommendation will more forward as is.**

## Discussion of WCWG Member Participation in Writing Draft of Report

As Leo had already mentioned the timeline for the first draft of the report, Donna asked if there was any other business that needed to be covered. The group affirmed there was not.

## Suggestions for Meeting on August 19, 2021

Donna noted that we have several recommendations now and the group is supportive of those recommendations. We've reached an agreement that everyone can live with and support. We will get the group memory back to you with an updated report from Derek and any other updates necessary. In fact, we'll re-attach all of the reports again. When we meet again in August we will look at a rough draft of the report.

Leo reminded the group that anything else can be added to the report the group feels is necessary when we take a look at the draft (e.g., Steve's Plan B – you can decide if you want to share it as part of the report. You can take a look at draft report and then decide at that point.)

(Donna) Leo – you mentioned in earlier meetings that the introduction for the report and some other components were already put together.

(Leo) Yes – the summary of our meetings, an explanation of what the Reso says, identifying the low-hanging fruit – the things that can possibly be jump-started faster.

### **Next Steps**

- The next meeting will be on August 19.

### **GROUP AGREEMENTS:**

(Listed in **blue** in the document)

- The group agreed that the recommendation from the Rates group would be moved forward as is.

### **ACTIONS:**

(There were no specific actions agreed to at this meeting.)

## **SR 125 Water Carriers Working Group – Subsidies Subgroup Recommendations June 2021**

### **Recommendation 1**

Recommend that the State legislature pass a resolution directing the Hawaii Department of Transportation to convene a working group(s) to create and recommend federal, state, and county subsidies for the transport of waterborne cargo and provide update on the status of creating these programs to the Hawaii State Legislature no later than 20 days ahead of the start of the 2023 legislative session.

Submit draft waterborne cargo subsidy program language to the Hawaii Congressional Delegation by November 2021. Work with Congressional staff in development of the program language.

Hawaii's communities are mostly dependent on the import of goods. Over 80% of goods consumed in Hawaii are imported. Of that imported, over 98% is transported as waterborne cargo.

Unlike communities in the continental US that have alternative means of transporting goods by truck and rail, Hawaii relies on transport by water carrier.

The cost of shipping is reflected in the cost of imported goods consumed in Hawaii. The shipping of goods to and within Hawaii can be as much as 7.5% (per a 2015 study) of the cost of the goods and generally higher than the cost of goods in the US mainland.

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Subgroup. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the state is required.

## **SR 125 Water Carriers Working Group – Subsidies Subgroup Recommendations June 2021**

### **Recommendation 2**

Recommend that the Hawaii Department of Transportation lead a committee to continue working and consulting with the US Department of Transportation (USDOT) in the establishment of a federal waterborne cargo subsidies program, including the drafting of legislative language.

#### **1. Justification/Compelling Reason**

Hawaii's communities are mostly dependent on the import of goods. Over 80% of goods consumed in Hawaii are imported. Of that imported, over 98% is transported as waterborne cargo.

The cost of shipping is reflected in the cost of imported goods consumed in Hawaii. Shipping of goods to Hawaii can be as much as 7.5% (per a 2015 study) of the cost of the goods.

Unlike communities in the continental US that have alternative means of transporting goods by truck and rail, Hawaii relies on transport by water carrier.

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Subgroup. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

The Subsidies Subgroup met with the Office of the Secretary of Transportation, USDOT, MARAD, FAA, and FHWA representatives to investigate whether federal subsidies for waterborne cargo are available, and if not, the steps to creating such a federal program.

The federal representatives acknowledged there are no federal subsidies specifically for waterborne cargo. There is a federal subsidy for aircraft transportation to disadvantaged areas such as the islands of Molokai and Lanai, and part of the Big Island. The USDOT Essential Air Services (EAS) Payment to Air Carrier program requires an air carrier to apply to the USDOT and win a bid for the program.

The federal representatives agreed to provide advice and assistance where possible in the creation of a federal program to provide broad and directed federal subsidies for waterborne cargo transportation to and within Hawaii. The program for waterborne cargo subsidies will require legislation in Congress before the USDOT makes it available.

Currently, there are federal subsidies for certain agricultural products. Agricultural subsidies programs include:

- Reimbursement Transportation Cost Payment (RTCP)  
[www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/rtcp\\_facts\\_sheet.pdf](http://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/rtcp_facts_sheet.pdf). See attachment.
- Micro-Grant Program for Small-Scale Agriculture link to the news release with information and a link to the grant portal: <https://hdoa.hawaii.gov/blog/main/small-scale-ag-grants/>
- [Fsa.usda.gov/state-offices/Hawaii/programs/index](http://Fsa.usda.gov/state-offices/Hawaii/programs/index)
  - Emergency Conservation Program (ECP)
  - Noninsured Crop Disaster Assistance Program (NAP)
  - Livestock Forage Program (LFP)
  - Livestock Indemnity Program (LIP)

- Emergency Assistance for Livestock, Honey Bees, & Farm-raised Fish (ELAP)
- Supplemental Assistance Revenue Payment (SURE)
- Tree Assistance Program (TAP)
- Conservation Reserve Program (CRP)
- Grassland Reserve Program (GRP)
- Environmental Quality Incentive Program (EQIP) administered through the USDA Natural Resources Conservation Service
- Third Coronavirus Food Assistance Program (CFAP 3) pending in March 2021.  
[www.farmers.gov/cfap](http://www.farmers.gov/cfap)

There is a federal subsidy for aircraft travel service to the islands of Molokai and Lanai, and small community of Kamuela on the island of Hawaii. The program is the:

- USDOT Essential Air Service program.

While there are agricultural specific and aircraft to remote destination subsidies, subsidies do not currently exist for general cargo transport to and within Hawaii. Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the state is required.

2. Mid-term or Long-Term
  - Given the need to compose legislative language in consultation with the federal agency and congressional offices, it is anticipated that the creation of a federal subsidy program will take a lot of effort and time. This is believed to be a long-term solution.
3. Pros/Cons
  - Pros
    - Reduces cost of goods for Hawaii consumers.
  - Cons
    - Reduced costs of goods for Hawaii cargo will be borne by the taxpayer.
4. Identify any preceding steps to undertake or outstanding items to address, if any
  - Consult with the USDOT in the preparation of federal program and to ensure implementation is feasible.
5. Impact to agencies/entities
  - The USDOT will have to administer this program, including determining eligibility and approval.
  - The Hawaii DOT will likely have to submit regular applications for these program grants that will also require documentation collected from the water carrier and cargo economic studies.
6. Costs (if any or readily estimated)
  - Costs of this waterborne cargo subsidy program will be determined at the implementation of such a program.

## **SR 125 Water Carriers Working Group – Subsidies Subgroup Recommendations June 2021**

### **Recommendation 3**

Recommend that the Hawaii Department of Transportation lead a committee to work and consult with the Hawaii Congressional Delegation to sponsor a bill to establish a federal waterborne cargo subsidies program within the USDOT.

#### **1. Justification/Compelling Reason**

Hawaii's communities are mostly dependent on the import of goods. Over 80% of goods consumed in Hawaii are imported. Of that imported, over 98% is transported as waterborne cargo.

The cost of shipping is reflected in the cost of imported goods consumed in Hawaii. Shipping of goods to Hawaii can be as much as 7.5% (per a 2015 study) of the cost of the goods.

Unlike communities in the continental US that have alternative means of transporting goods by truck and rail, Hawaii relies on transport by water carrier.

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Subgroup. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

The Subsidies Subgroup met with the Office of the Secretary of Transportation, USDOT, MARAD, FAA, and FHWA representatives to investigate whether federal subsidies for waterborne cargo are available, and if not, the steps to creating such a federal program.

The federal representatives acknowledged there are no federal subsidies specifically for waterborne cargo. There is a federal subsidy for aircraft transportation to disadvantaged areas such as the islands of Molokai and Lanai, and part of the Big Island. The USDOT Essential Air Services (EAS) Payment to Air Carrier program requires an air carrier to apply to the USDOT and win a bid for the program.

The federal representatives agreed to provide advice and assistance where possible in the creation of a federal program to provide broad and directed federal subsidies for waterborne cargo transportation to and within Hawaii. The program for waterborne cargo subsidies will require legislation in Congress before the USDOT makes it available.

While there are agricultural specific and aircraft to remote destination subsidies, subsidies do not currently exist for general cargo transport to and within Hawaii. Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the state is required.

#### **2. Mid-term or Long-Term**

- Given the need to compose legislative language in consultation with the federal agency and congressional offices, it is anticipated that the creation of a federal subsidy program will take a lot of effort and time. This is believed to be a long-term solution.

#### **3. Pros/Cons**

- Pros
  - Reduces cost of goods for Hawaii consumers.

- Cons
  - Reduced costs of goods for Hawaii cargo will be borne by the taxpayer.
- 4. Identify any preceding steps to undertake or outstanding items to address, if any
  - Consult with the USDOT in the preparation of federal program and to ensure implementation is feasible.
- 5. Impact to agencies/entities
  - The USDOT will have to administer this program, including determining eligibility and approval.
  - The Hawaii DOT will likely have to submit regular applications for these program grants that will also require documentation collected from the water carrier and cargo economic studies.
- 6. Costs (if any or readily estimated)
  - Costs of this waterborne cargo subsidy program will be determined at the implementation of such a program.

## **SR 125 Water Carriers Working Group – Subsidies Subgroup Recommendations June 2021**

### **Recommendation 4**

Recommend that the Hawaii Department of Transportation lead a committee to work and consult with the Hawaii Senate and House transportation committees, county departments of transportation and county councils in the establishment of local waterborne cargo subsidies program, including the drafting of legislative language.

#### **1. Justification/Compelling Reason**

Hawaii's communities are mostly dependent on the import of goods. Over 80% of goods consumed in Hawaii are imported. Of that imported, over 98% is transported as waterborne cargo.

The cost of shipping is reflected in the cost of imported goods consumed in Hawaii. Shipping of goods to Hawaii can be as much as 7.5% (per a 2015 study) of the cost of the goods.

Unlike communities in the continental US that have alternative means of transporting goods by truck and rail, Hawaii relies on transport by water carrier.

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Subgroup. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

The Subsidies Subgroup met with the Office of the Secretary of Transportation, USDOT, MARAD, FAA, and FHWA representatives to investigate whether federal subsidies for waterborne cargo are available, and if not, the steps to creating such a federal program.

The federal representatives acknowledged there are no federal subsidies specifically for waterborne cargo. There is a federal subsidy for aircraft transportation to disadvantaged areas such as the islands of Molokai and Lanai, and part of the Big Island. The USDOT Essential Air Services (EAS) Payment to Air Carrier program requires an air carrier to apply to the USDOT and win a bid for the program.

Aside from a federal subsidies program, the state and county should establish a waterborne cargo subsidies program as state and county communities will directly benefit. A state and county waterborne cargo subsidies will require legislation by the State Legislature and County Councils.

While the State and counties are in poor financial situations because of the COVID 19 pandemic, the Subsidies Subgroup still recommends State and county subsidies be investigated and developed that may be implemented in the future.

While there are agricultural specific and aircraft to remote destination subsidies, subsidies do not currently exist for general cargo transport to and within Hawaii. Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the state is required.

#### **2. Mid-term or Long-Term**

- Given the need to compose legislative language in consultation with the state and county agencies, that must be enacted into law by the State Legislature and County



Councils, it is anticipated that the creation of a state and county subsidy program will take a lot of effort and time. This is believed to be a long-term solution.

3. Pros/Cons

- Pros
  - Reduces cost of goods for Hawaii consumers.
- Cons
  - Reduced costs of goods for Hawaii cargo will be borne by the state and county taxpayers.
- 4. Identify any preceding steps to undertake or outstanding items to address, if any
  - Consult with the State DOT, DBEDT, DB&F, and county transportation, economic and budget agencies, in the preparation of the state and county programs and to ensure implementation is feasible.
- 5. Impact to agencies/entities
  - The State and county transportation, economic, and budget agencies will have to administer this program, including determining eligibility and approval.
  - The Hawaii DOT will likely have to submit regular applications for these program grants that will also require documentation collected from the water carrier and cargo economic studies.
- 6. Costs (if any or readily estimated)
  - Costs of this waterborne cargo subsidy program will be determined at the implementation of such a program.



**REPORT TO THE HAWAII STATE LEGISLATURE  
IN RESPONSE TO  
SENATE RESOLUTION NO. 125 (2020)**

**DRAFT – AUGUST 16, 2021**

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**WATER CARRIERS WORKING GROUP**



Logo  
Name

## WATER CARRIERS WORKING GROUP

|                                                                                                           |                                                                                                                                             |
|-----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Sen. Ronald Kouchi, Senate President</b><br><b>Sen. Gilbert Keith-Agaran, Designee</b>                 | <b>Rep. Scott Saiki, Speaker of the House</b><br><b>Rep. Mark Nakashima, Designee</b>                                                       |
| <b>Sen. Lorraine Inouye, Chair, Senate Committee on Water and Land</b>                                    | <b>Sen. Chris Lee, Chair, Senate Committee on Transportation</b>                                                                            |
| <b>Rep. Henry Aquino, Chair, House Committee on Transportation</b>                                        | <b>Rick Blangiardi, Mayor, City and County of Honolulu</b><br><b>Matthew Gonser, Designee</b>                                               |
| <b>Derek Kawakami, Mayor, County of Kauai</b><br><b>Reiko Matsuyama/Michael Dahilig, Designees</b>        | <b>Michael Victorino, Mayor, County of Maui</b><br><b>Makale`a Ane, Designee</b>                                                            |
| <b>Mitch Roth, Mayor, County of Hawaii</b><br><b>Stephen Hunt, Designee</b>                               | <b>Leo Asuncion, Commissioner, Public Utilities Commission</b>                                                                              |
| <b>Dean Nishina, Executive Director, Office of the Consumer Advocate</b><br><b>Lisa Hiraoka, Designee</b> | <b>Mike McCartney, Director, Dept. of Business, Economic Development &amp; Tourism</b><br><b>Dori Palcovich/Mary Alice Evans, Designees</b> |
| <b>Jade Butay, Director, Dept. of Transportation</b><br><b>Derek Chow, Designee</b>                       | <b>Jay Ana, President, Young Brothers, Ltd.</b><br><b>Kris Nakagawa, Designee</b>                                                           |
| <b>Vic Ancogo, Vice President Matson Navigation Co., Inc.</b>                                             | <b>Michael Caswell, Senior VP Pasha Hawaii</b><br><b>Randy Grune, Designee</b>                                                              |
| <b>Donna Domingo, President, ILWU Local 142</b><br><b>William "Baba" Haole, Designee</b>                  |                                                                                                                                             |

# Executive Summary

[To Be Inserted]

To get started right away, just tap any placeholder text (such as this) and start typing to replace it with your own.

Want to insert a picture from your files or add a shape, text box, or table? You got it! On the Insert tab of the ribbon, just tap the option you need.

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such as to add a hyperlink or insert a comment”***

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# Table of Contents [Including Figures/Tables, if used, and Appendices]

## Executive Summary

## Table of Contents [Including Figures/Tables, if used, and Appendices]

### Introduction

- a. Background – SR 125, S.D. 1 (2020) [summarize; attach SR 125 in Appendices]
- b. WCWG members [name primary and delegated members of the WCWG] / Other Participants
- c. Meetings of the WCWG [Summarize meetings held by the WCWG; refer to public webpage for details, group memory, presentations, handouts, etc.]
- d. Process followed by the WCWG [speak about how meetings were held/facilitated; Force Field Analysis; etc.; include graphics in this section and/or include in Appendices]

### Recommendations

#### Topic Areas [description of topic areas; also note sub-committees were formed]

Cargo Services  
Pier Space  
Rates  
Subsidies  
Sustainability and Profitability

#### Summary of Recommendations from Sub-Committees [include section on process WCWG followed to arrive at recommendations being forwarded to Gov/Legislature]

#### Near-Term Recommendations [include in this section any near-term recommendations proposed (preferably non-policy/non-statutory) and identify entities responsible/committed to implement said near-term recommendations]

#### WCWG Recommendations being forwarded to Governor and Legislature [in accordance with SR 125, S.D. 1 (2020)]

##### Recommendation 1

Justification/Compelling Reason

Mid-term or Long-Term

Pros/Cons

Identify any preceding steps to undertake or outstanding items to address if any

Impact to agencies/entities

Costs (if any or readily estimated)

### **Recommendation 2**

Justification/Compelling Reason

Mid-term or Long-Term

Pros/Cons

Identify any preceding steps to undertake or outstanding items to address if any

Impact to agencies/entities

Costs (if any or readily estimated)

### **Recommendation 3, etc.**

Etc.

...

## **Conclusions**

**References [could either include any references used here (endnotes) or alternatively cite references used, if any, in respective sections above (footnotes)]**

## **Appendices**

e. SR 125, S.D. 1 (2020)

f. Etc.

# Introduction

## Background

**Senate Resolution 125, S.D. 1 (2020)** [summarize; attach SR 125 in Appendices]

Senate Resolution 125, S.D. 1 ("SR 125") was adopted by the Hawaii State Senate on July 8, 2020. The resolution requested the Department of Transportation to provide funding to water carriers for the purpose of providing financial assistance to maintain routes and lines of services within the State and to convene a working group to recommend mid- and long-term solutions to ensure continuous water carrier service throughout the State with the need for water carriers to maintain financial sustainability.

Pursuant to SR 125, the Public Utilities Commission, in collaboration with the Department of Commerce and Consumer Affairs' Division of Consumer Advocacy and any interisland water carriers operating in the State, was requested to convene the working group on or before August 1, 2020, to carry out the task of recommending mid-term and long-term solutions to ensure water carrier service via a final report of its findings and recommendations, including any proposed legislation, to the Legislature and the Governor no later than twenty days prior to the convening of the Regular Session of 2022.

The members of the Water Carriers Working Group (WCWG), along with their designees, are listed on the inside cover.

## Meetings of the Water Carriers Working Group

The WCWG met a total of eleven times over the past year, and at the outset met to receive background information, discuss issues, and organized themselves to effectively and efficiently develop near-, mid-, and long-term recommendations.

All meetings of the WCWG were facilitated, with meetings held in 2020 primarily as an opportunity for the working group to gather background information on water carriers, Hawaii's harbor system, regulatory oversight of water carriers, identify potential issues and topic areas, establish small

### WCWG MEETING DATES

July 31, 2020  
 September 17, 2020  
 October 15, 2020  
 November 19, 2020  
 December 17, 2020  
 January 21, 2021  
 March 18, 2021  
 May 20, 2021  
 June 17, 2021  
 July 15, 2021  
 August 19, 2021

groups/subcommittees for each topic area, and to have initial discussion on the development of recommendations.

Meetings held in 2021 focused on discussions within and among small groups/subcommittees, development of recommendations, identification of key areas of recommendations, finalization of recommendations, and drafting of report to the Legislature and Governor.

All meeting material (agendas, handouts, presentations) as well as group memory of each meeting can be found at [\[Insert Link to Website\]](#)

## Process Followed by Working Group

The WCWG followed the process outlined below to identify issues and develop recommendations:



### Identify Gaps/Critical Areas

At the initial meetings of the WCWG, members were asked to identify desired needs and elements that a water carrier should exhibit. The following list summarizes the working group's thoughts and discussion on this exercise:

#### ***Desired Needs***

##### Affordability

- Affordable pricing
- Competitive pricing
- Economic Viability



- Streamlined rate making process
- Fair and equitable evaluation of annualized increase
- Reasonable and affordable rates

#### Reliability

- Reliable, unwavering freight service schedule with known capacities
- No interruption of service except for weather
- Uninterrupted schedule
- Reliable and efficient transportation of goods between islands that meet or exceed customer expectations
- Consistent sailing schedules, gate hours and operations

#### Meet Client Needs

- Provide freight service needs of the Neighbor Islands
- Continue to service freight of all kinds
- Options—want other options to be considered for services that will allow competitive pricing for comparable services
- Extend and organize gate hours

#### Service

- Customer service and outreach
- Service
- Quality customer service
- Operational Excellence
  - Staging and overall efficiency
  - Higher costs = expectation of better delivery of services or carrier to provide something "new" that is not the case today
  - Empowered with flexibility to nimbly respond to changing conditions

#### Unique Items

- Safety (esp. in re: animals)
- Independent auditor to review YB finances
- Provide State funding for those commodities that are granted discounts
- Current regulatory framework reviewed and updated and restore regulatory parity w/unregulated service providers
- Adequate support (e.g., grants, subsidies) to incentivize water carrier(s) to provide the breadth of desired services when some are not compensatory

## ***Desired Elements***

### Meeting Client Needs (many of these are examples)

- Demonstrate constant improvement in service and a desire to meet the needs of its customers throughout the process from initiation of shipping, tracking and retrieval of cargo
- Expediency of the processes by which customers can drop off and pick up freight and cargo at the docks
- Ability to check availability of shipping dates and make reservations online, with available customer service for follow-ups
- A new and/or improved tracking system for tracking goods through the shipping process
- Allow for transport of trucks and smaller vehicles between islands. Not require always moving entire barge
- Continuance of less than container loads
- Offer affordable shipping rates with minimal rate increases. Rates that reflect the cost that producers take on by owning and maintaining their own shipping containers

### Flexibility and Efficiency

- Regulatory and operational flexibility
- New vessels that are more economical/adaptable to flexible load configurations and needs
- Barge schedule flexibility based on cargo availability for all regulated and non-regulated cargoes with supporting metrics
- Maximizes the inbound and outbound container space utilization

### Financial Viability

- Regular/Annual and equitable rate adjustments to keep pace with annual cost increases, enabling a financially healthy carrier
- Financial segregation and treatment of regulated/non-regulated cargoes for mixed barge movements, with open opportunity/support of additional water carriers to decrease dependency on a single carrier. This could include utilization/support of other water carriers' current routings to Neighbor Islands

### Safety

- Delivery of agricultural products and livestock in a safe, timely manner and ensuring they arrive in good, healthy condition

### Unique Items

- Improve infrastructure and consistent availability of properly maintained equipment
- Regulatory parity

With needs and desired elements identified, the working group members were asked to identify gaps that needed to be addressed in order for the working group to complete its tasks moving forward. The gaps identified included information needed from Young Brothers, Ltd., clarification on Stop In Transit (SIT), stakeholder input, operational information from all water carriers, information from DOT-Harbors on ports and baseyard facilities, and exploration on additional financial resources (i.e., government grants).

Critical areas were also noted by the WCWG – Financial Viability, Regulatory, and Operations (including Safety and Customer Service) – that were key to development of recommendations.

## Identify Topic Areas

Subsequently, working group members were asked to categorize the above needs and desires in order to identify topic areas under which further discussion between small groups/subcommittees participants would take place, all towards the development of recommendations.

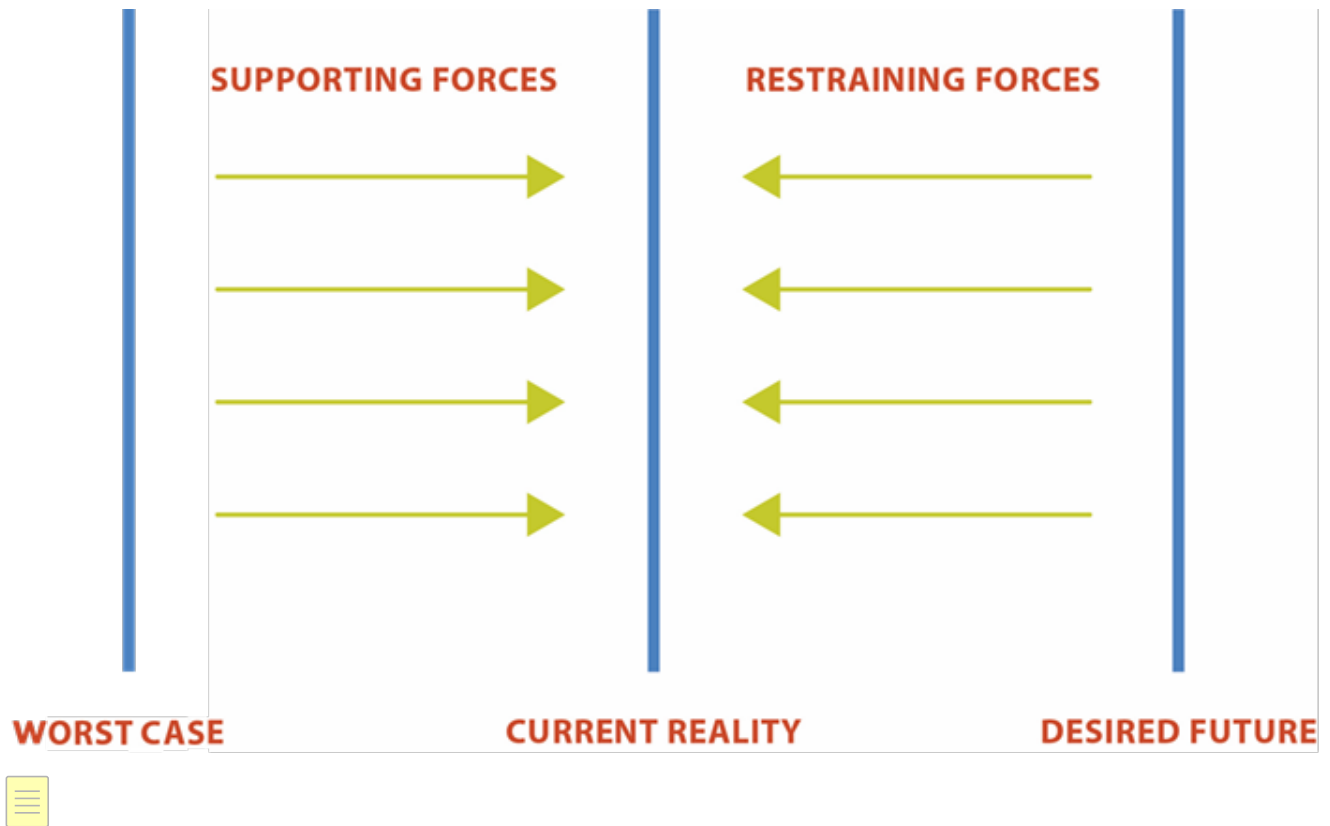
The topic areas identified by the WCWG are as follows:

- Cargo Services
- Pier Space
- Rates
- Subsidies
- Sustainability and Profitability

## Force Field Analysis

Force Field Analysis (FFA) is a tool that can quickly help an organization (or in this case the Water Carriers Working Group) collectively identify a desired future while highlighting many of the elements it needs to address to achieve that future. During this analysis, appropriate problems and challenges are only identified in the context of achieving the desired future. FFA provides a cursory analysis and does not take the place of an in-depth strategic planning effort.

The FFA template is provided below. It was used to help the WCWG focus on identifying the different elements during its analysis.



The framing question used in performing the analysis is: **What would it look like if we were able to successfully ensure effective, efficient, and continuous water carrier service throughout the state of Hawaii?**

**Desired Future:** Initially, the WCWG brainstormed the key elements of its desired future, i.e., an effective, efficient, and continuous water carrier service throughout the State.

Almost always, groups work in a vacuum not understanding what they are ultimately trying to collectively accomplish. The WCWG needed to collectively develop clarity about the desired future they were trying to achieve in order to help each WCWG member understand how their work contributes to achieving that future. When people see their work in the context of what they are trying to collectively achieve, they can identify opportunities to move the group closer to that future. Also, synergy is more possible as members work together to create more efficacy than a single person could create working alone.

**Current Reality:** Next, the WCWG brainstormed its current reality. Using a phrase or short sentence, it needed to describe what the situation looks like currently.

**Worst Case Scenario:** The WCWG then brainstormed the worst-case scenario. Using a phrase or short sentence, it needs to describe what the situation will look like if achievement of the desired future completely fails.

**Supporting Forces:** The next step involved WCWG members identifying things they are doing to move the situation closer to the desired future. Also, this is the time when members can think outside the box about things they can do or opportunities they can take (often with external partners not in the WCWG) to move them closer to their desired future.

**Restraining Forces:** Finally, the group generates (i.e., brainstorms) a list of things that prevent them from moving their current reality toward their desired future. These are sometimes viewed as problems, challenges, or constraints.

**Planning Strategically:** Subsequently, the WCWG moved to the planning stage of the analysis, which involve:

- **Desired Future:** From the brainstormed list of the desired future, reduce redundancy (i.e., items that are so similar that they overlap) by clustering like items. Then, select the two or three clusters that really resonate with the group. These are the elements that represent the important core of the group's desired future.
- **Supporting Forces:** From the brainstormed list of the supporting forces, reduce redundancy (i.e., items that are so similar that they overlap) by clustering like items. Then, select the one or two clusters that they are already doing that need to be enhanced or strengthened because they can significantly close the gap between the current reality and the desired future. Use the same process to identify the one or two opportunities (with external partners) they need to take that will enhance their ability to achieve their desired future.
- **Restraining Forces:** From the brainstormed list of the restraining forces, reduce redundancy (i.e., items that are so similar that they overlap) by clustering like items. Then, select the one or two clusters to address (e.g., solve) from this list that significantly prevent their organization from achieving its desired future. As a result, problems and challenges are not viewed in a vacuum, but instead are viewed in the context of enabling the group to achieve its desired future.

[Insert summary of 6 Desired Futures as discussed by WCWG – See summary PPT from 1/21/21 WCWG meeting.]

# Recommendations

## Summary of Recommendations from Small Groups/Sub-Committees

[include section on process WCWG followed to arrive at recommendations being forwarded to Gov/Legislature]

[include summary of small group reports that did not have recommendations]

## Near-Term Recommendations

[include in this section any near-term recommendations proposed (preferably non-policy/non-statutory) and identify entities responsible/committed to implement said near-term recommendations]

## WCWG Recommendations Forwarded to Legislature and Governor

### **Rates / Sustainability & Profitability Small Groups**

#### **Recommendation: Two-Tiered Interim Annual Rate Adjustment**

##### **Summary of Recommendation**

The committee recommends a two-tiered interim annual rate adjustment for regulated cargo rates along with the requirement for the water carrier to submit a general rate case every three years. The two-tiered annual adjustment factor, which the committee named the Water-carrier Inflationary Cost Index (WICI), will have an automatic rate adjustment component that is tied to the annual percent change in the Gross Domestic Product Price Index (GDPPI) as the first tier and an expense justified second tier that must be applied for by the water carrier and approved by the Hawai'i Public Utilities Commission (HPUC). The automatic annual adjustment factor shall be applied to the regulated cargo rates regardless of whether the factor is a positive or negative percentage change. The second-tier adjustment will require additional justification from the water carrier to recapture costs as well as their submission of performance measures showing there has been no material decline in levels of operation, safety, or customer service. The total annual WICI adjustment factor shall not exceed 5%

per year. Fuel surcharges will continue to be separate and apart from the WICI adjustment and will not be counted against the 5% annual adjustment ceiling. Similarly, should the water carrier, for any reason, find it necessary to seek a temporary/emergency rate adjustment, that application process to the HPUC shall remain separate from the 3-year general rate case submission requirement. WICI does not account for water carrier's new capital investment.

### **Justification/Compelling Reason**

General rates cases tend to be time consuming to both the water carrier and the HPUC. As a result, regulated cargo rates do not typically get adjusted annually and are sometimes subject to relatively large rate increases when the cases are completed. Having the WICI interim rate adjustment combined with a regular cadence for general rate case submissions will reduce the administrative burden to the water carrier and provide a more contemporaneous means of pairing regulated cargo rates with inflation adjusted expenses. One of our committee's primary objectives was to ensure the profitability and sustainability of the water carrier. We believe implementing these recommendations will be a significant step forward with respect to achieving the profitability and sustainability of the water carrier.

### **Mid-term or Long-Term**

Our committee sees these recommendations as a potential solution for not only the short-term, but also for the mid-term and long-term as well. General rate cases tend to be a good mechanism for setting (or resetting) regulated cargo base rates; however, the process is a bit cumbersome and does not work well in responding to inflationary changes in a timely manner.

### **Pros/Cons**

#### **Pros:**

- First-tier provides an automatic adjustment, that if sufficient to annual expense changes, can be implemented without substantial efforts to the water carrier.
- Second-tier allows the water carrier to also address expenses that are real, such as labor and fringe costs, but may (or may not) follow changes in annual inflation-based indices such as the GDPPI.
- It's a timelier response to operational expense changes as compared with the less periodic general rate cases
- Mitigates the likelihood of sometimes large increases to rates
- Most importantly, it provides an opportunity for water carrier to become financially sustainable and potentially profitable

#### **Cons:**

- Recommendations may be perceived as a disincentive for management to actively control costs if those increases can be recaptured through the WICI adjustment factor

- Recommendations may be perceived as a disincentive for management to seek volume growth
- Public may feel that rate increases have become “rubber stamped” by HPUC
- Labor is typically not something that is subject to an annual index for public utilities
- WICI increases may impact consumers, particularly farmers and ranchers, ability to afford services
- WICI increases may result in above authorized rate of return between general rate cases

#### **Identify any preceding steps to undertake or outstanding items to address if any**

The two aforementioned recommendations could be implemented by amendments to Hawai'i Revised Statutes, Legislative Resolutions, Hawai'i Administrative Rules, or by Commission order. The committee considers implementation by Commission order to be the most expedient method of effectuating our recommendations.

#### **Impact to agencies/entities**

Impacts to those agencies and entities involved are unknown at this time

#### **Costs (if any or readily estimated)**

Unknown

### **Cargo Services Small Group**

#### **Recommendation: Improvement of Current Reservation System**

##### **Summary of Recommendation**

The committee recommends improving the current reservation system to accommodate all cargo types (e.g., straightload equipment, automobiles, and roll-on roll-off equipment, and less than container load cargo). The committee arrived at this recommendation through various meetings and felt that implementation would enhance the overall customer experience when shipping with Young Brothers, as well best serve the community by continuing the present line of services (e.g., straightload equipment, automobiles, and roll-on roll-off equipment, and less than container load cargo). The committee also felt that this recommendation would improve the water carrier's ability to forecast cargo volume and also provide cargo visibility for its customers.



## Justification/Compelling Reason

Improving the current reservation system to accommodate all cargo types will enhance shipping efficiencies and improve cargo movement and transparency for consumers. The improved reservation system should be implemented in phases and flexible and will improve cargo visibility to both the consumer and the carrier.

## Mid-term or Long-Term

Mid to Long-term

## Pros/Cons

### Pros:

Operational efficiencies with implemented new and/or updated policies will assist with the accuracy of booking reservations, ultimately resulting in a committed customer base as well as seeing an overall improvement in cargo tracking and the scheduling of gate hours and service offerings. Reservations for all cargo will provide company with cargo data to analyze and improve upon the inefficiencies where customers currently show up half days.

Overall improvement of the customer service experience, providing known availability for both shipping and transporting. Tracking will be a benefit so customers can schedule when to drop-off and pickup. This is expected to assist in real time tracking and availability to help save and schedule time. Allow for planning and scheduling in terms of the amount of time customers must wait in port. Incentivization of customers for scheduling reservations as it would provide them with a shorter waiting line for drop-offs and a resulting commitment from them.

### Cons:

Cost will be initially high to develop and implement. Long term costs to maintain and have continuous improvement as the business and industry changes. Customers, especially one-time customers will need time to adjust.

Identify any preceding steps to undertake or outstanding items to address if any  
Provide a customer survey that will assist the company in understanding customer needs, implement a pilot program for three to six months, and gather accurate data and feedback with minimum impact to labor costs in order to compile comprehensive and accurate information to assist in determining the best possible actions to take.

Implementation will need to occur in phases to reduce the impact on customers and allow for changes and improvement throughout the project.

**Impact to agencies/entities**

None

**Costs (if any or readily estimated)**

The initial cost to improve the current reservation system to include bookings for all lines of service along with a customer service portal would cost approximately \$400K in the initial startup and implementation. Monthly maintenance fees and any enhancements to improve the customer experience would be approximately \$10K to 15K.

**Subsidies Small Group****Recommendation: Federal/State/County Subsidies Working Group**

Recommend that the State Legislature pass a resolution directing the Hawaii Department of Transportation to convene a working group(s) to create and recommend federal, state, and county subsidies for the transport of waterborne cargo and provide update on the status of creating these programs to the Hawaii State Legislature no later than 20 days ahead of the start of the 2023 legislative session.

Submit draft waterborne cargo subsidy program language to the Hawaii Congressional Delegation by November 2021. Work with Congressional staff in development of the program language.

Hawaii's communities are mostly dependent on the import of goods. Over 80% of goods consumed in Hawaii are imported. Of that imported, over 98% is transported as waterborne cargo.

Unlike communities in the continental US that have alternative means of transporting goods by truck and rail, Hawaii relies on transport by water carrier.

The cost of shipping is reflected in the cost of imported goods consumed in Hawaii. The shipping of goods to and within Hawaii can be as much as 7.5% (per a 2015 study) of the cost of the goods and generally higher than the cost of goods in the US mainland.

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Subgroup. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the state is required.

## **Recommendation: Federal Waterborne Cargo Subsidies Program**

Recommend that the Hawaii Department of Transportation lead a committee to continue working and consulting with the US Department of Transportation (USDOT) in the establishment of a federal waterborne cargo subsidies program, including the drafting of legislative language.

### **Justification/Compelling Reason**

Hawaii's communities are mostly dependent on the import of goods. Over 80% of goods consumed in Hawaii are imported. Of that imported, over 98% is transported as waterborne cargo.

The cost of shipping is reflected in the cost of imported goods consumed in Hawaii. Shipping of goods to Hawaii can be as much as 7.5% (per a 2015 study) of the cost of the goods.

Unlike communities in the continental US that have alternative means of transporting goods by truck and rail, Hawaii relies on transport by water carrier.

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Subgroup. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

The Subsidies Subgroup met with the Office of the Secretary of Transportation, USDOT, MARAD, FAA, and FHWA representatives to investigate whether federal subsidies for waterborne cargo are available, and if not, the steps to creating such a federal program.

The federal representatives acknowledged there are no federal subsidies specifically for waterborne cargo. There is a federal subsidy for aircraft transportation to disadvantaged areas such as the islands of Molokai and Lanai, and part of the Big Island. The USDOT Essential Air Services (EAS) Payment to Air Carrier program requires an air carrier to apply to the USDOT and win a bid for the program.

The federal representatives agreed to provide advice and assistance where possible in the creation of a federal program to provide broad and directed federal subsidies for waterborne cargo transportation to and within Hawaii. The program for waterborne cargo subsidies will require legislation in Congress before the USDOT makes it available.

Currently, there are federal subsidies for certain agricultural products. Agricultural subsidies programs include:

- Reimbursement Transportation Cost Payment (RTCP) [www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/rtcp\\_facts\\_sheet.pdf](http://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/rtcp_facts_sheet.pdf). See attachment.
- Micro-Grant Program for Small-Scale Agriculture link to the news release with information and a link to the grant portal: <https://hdoa.hawaii.gov/blog/main/small-scale-ag-grants/>
- [Fsa.usda.gov/state-offices/Hawaii/programs/index](http://Fsa.usda.gov/state-offices/Hawaii/programs/index)
  - Emergency Conservation Program (ECP)
  - Noninsured Crop Disaster Assistance Program (NAP)
  - Livestock Forage Program (LFP)
  - Livestock Indemnity Program (LIP)
  - Emergency Assistance for Livestock, Honey Bees, & Farm-raised Fish (ELAP)
  - Supplemental Assistance Revenue Payment (SURE)
  - Tree Assistance Program (TAP)
  - Conservation Reserve Program (CRP)
  - Grassland Reserve Program (GRP)
  - Environmental Quality Incentive Program (EQIP) administered through the USDA Natural Resources Conservation Service
- Third Coronavirus Food Assistance Program (CFAP 3) pending in March 2021. [www.farmers.gov/cfap](http://www.farmers.gov/cfap)

There is a federal subsidy for aircraft travel service to the islands of Molokai and Lanai, and small community of Kamuela on the island of Hawaii. The program is the:

- USDOT Essential Air Service program.

While there are agricultural specific and aircraft to remote destination subsidies, subsidies do not currently exist for general cargo transport to and within Hawaii. Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the state is required.

### **Mid-term or Long-Term**

Given the need to compose legislative language in consultation with the federal agency and congressional offices, it is anticipated that the creation of a federal subsidy program will take a lot of effort and time. This is believed to be a long-term solution.

### **Pros/Cons**

#### **Pros:**

- Reduces cost of goods for Hawaii consumers.

#### **Cons:**

- Reduced costs of goods for Hawaii cargo will be borne by the taxpayer.

### **Identify any preceding steps to undertake or outstanding items to address if any**

Consult with the USDOT in the preparation of federal program and to ensure implementation is feasible.

### **Impact to agencies/entities**

The USDOT will have to administer this program, including determining eligibility and approval. The Hawaii DOT will likely have to submit regular applications for these program grants that will also require documentation collected from the water carrier and cargo economic studies.

### **Costs (if any or readily estimated)**

Costs of this waterborne cargo subsidy program will be determined at the implementation of such a program.

### **Recommendation: Congressional Delegation Bill Sponsorship**

Recommend that the Hawaii Department of Transportation lead a committee to work and consult with the Hawaii Congressional Delegation to sponsor a bill to establish a federal waterborne cargo subsidies program within the USDOT.

### **Justification/Compelling Reason**

Hawaii's communities are mostly dependent on the import of goods. Over 80% of goods consumed in Hawaii are imported. Of that imported, over 98% is transported as waterborne cargo.

The cost of shipping is reflected in the cost of imported goods consumed in Hawaii. Shipping of goods to Hawaii can be as much as 7.5% (per a 2015 study) of the cost of the goods.

Unlike communities in the continental US that have alternative means of transporting goods by truck and rail, Hawaii relies on transport by water carrier.

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Subgroup. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

The Subsidies Subgroup met with the Office of the Secretary of Transportation, USDOT, MARAD, FAA, and FHWA representatives to investigate whether federal subsidies for waterborne cargo are available, and if not, the steps to creating such a federal program.

The federal representatives acknowledged there are no federal subsidies specifically for waterborne cargo. There is a federal subsidy for aircraft transportation to disadvantaged areas such as the islands of Molokai and Lanai, and part of the Big Island. The USDOT Essential Air Services (EAS) Payment to Air Carrier program requires an air carrier to apply to the USDOT and win a bid for the program.

The federal representatives agreed to provide advice and assistance where possible in the creation of a federal program to provide broad and directed federal subsidies for waterborne cargo transportation to and within Hawaii. The program for waterborne cargo subsidies will require legislation in Congress before the USDOT makes it available.

While there are agricultural specific and aircraft to remote destination subsidies, subsidies do not currently exist for general cargo transport to and within Hawaii. Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the state is required.

### **Mid-term or Long-Term**

Given the need to compose legislative language in consultation with the federal agency and congressional offices, it is anticipated that the creation of a federal subsidy program will take a lot of effort and time. This is believed to be a long-term solution.

### **Pros/Cons**

#### **Pros:**

- Reduces cost of goods for Hawaii consumers.

#### **Cons:**

- Reduced costs of goods for Hawaii cargo will be borne by the taxpayer.

### **Identify any preceding steps to undertake or outstanding items to address if any**

Consult with the USDOT in the preparation of federal program and to ensure implementation is feasible.

### **Impact to agencies/entities**

The USDOT will have to administer this program, including determining eligibility and approval.

The Hawaii DOT will likely have to submit regular applications for these program grants that will also require documentation collected from the water carrier and cargo economic studies.

**Costs (if any or readily estimated)**

Costs of this waterborne cargo subsidy program will be determined at the implementation of such a program.

**Recommendation: Local Waterborne Cargo Subsidies Program**

Recommend that the Hawaii Department of Transportation lead a committee to work and consult with the Hawaii Senate and House transportation committees, county departments of transportation and county councils in the establishment of local waterborne cargo subsidies program, including the drafting of legislative language.

**Justification/Compelling Reason**

Hawaii's communities are mostly dependent on the import of goods. Over 80% of goods consumed in Hawaii are imported. Of that imported, over 98% is transported as waterborne cargo.

The cost of shipping is reflected in the cost of imported goods consumed in Hawaii. Shipping of goods to Hawaii can be as much as 7.5% (per a 2015 study) of the cost of the goods.

Unlike communities in the continental US that have alternative means of transporting goods by truck and rail, Hawaii relies on transport by water carrier.

To reduce the cost of imported goods, a broad subsidy for trans-Pacific and interisland cargo is being sought by the Subsidies Subgroup. Sources of the subsidies may be from existing or newly created federal, state, and county government programs.

The Subsidies Subgroup met with the Office of the Secretary of Transportation, USDOT, MARAD, FAA, and FHWA representatives to investigate whether federal subsidies for waterborne cargo are available, and if not, the steps to creating such a federal program.

The federal representatives acknowledged there are no federal subsidies specifically for waterborne cargo. There is a federal subsidy for aircraft transportation to disadvantaged areas such as the islands of Molokai and Lanai, and part of the Big Island. The USDOT Essential Air Services (EAS) Payment to Air Carrier program requires an air carrier to apply to the USDOT and win a bid for the program.

Aside from a federal subsidies program, the state and county should establish a waterborne cargo subsidies program as state and county communities will directly benefit. A state and county waterborne cargo subsidies will require legislation by the State Legislature and County Councils.

While the State and counties are in poor financial situations because of the COVID 19 pandemic, the Subsidies Subgroup still recommends State and county subsidies be investigated and developed that may be implemented in the future.

While there are agricultural specific and aircraft to remote destination subsidies, subsidies do not currently exist for general cargo transport to and within Hawaii. Due to Hawaii's dependency on the import of goods, maritime support to ensure food security in the state is required.

### **Mid-term or Long-Term**

Given the need to compose legislative language in consultation with the state and county agencies, that must be enacted into law by the State Legislature and County Councils, it is anticipated that the creation of a state and county subsidy program will take a lot of effort and time. This is believed to be a long-term solution.

### **Pros/Cons**

#### **Pros:**

- Reduces cost of goods for Hawaii consumers.

#### **Cons:**

- Reduced costs of goods for Hawaii cargo will be borne by the state and county taxpayers.

### **Identify any preceding steps to undertake or outstanding items to address if any**

- Consult with the State DOT, DBEDT, DB&F, and county transportation, economic and budget agencies, in the preparation of the state and county programs and to ensure implementation is feasible.

### **Impact to agencies/entities**

- The State and county transportation, economic, and budget agencies will have to administer this program, including determining eligibility and approval.
- The Hawaii DOT will likely have to submit regular applications for these program grants that will also require documentation collected from the water carrier and cargo economic studies.

### **Costs (if any or readily estimated)**

- Costs of this waterborne cargo subsidy program will be determined at the implementation of such a program.



# Conclusions

## References

[could either include any references used here (endnotes) or alternatively cite references used, if any, in respective sections above (footnotes)]

# Appendices

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Etc.

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