



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

DRAFT – AUGUST 16, 2021

WATER CARRIERS WORKING GROUP



Logo
Name

WATER CARRIERS WORKING GROUP

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

Executive Summary

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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.

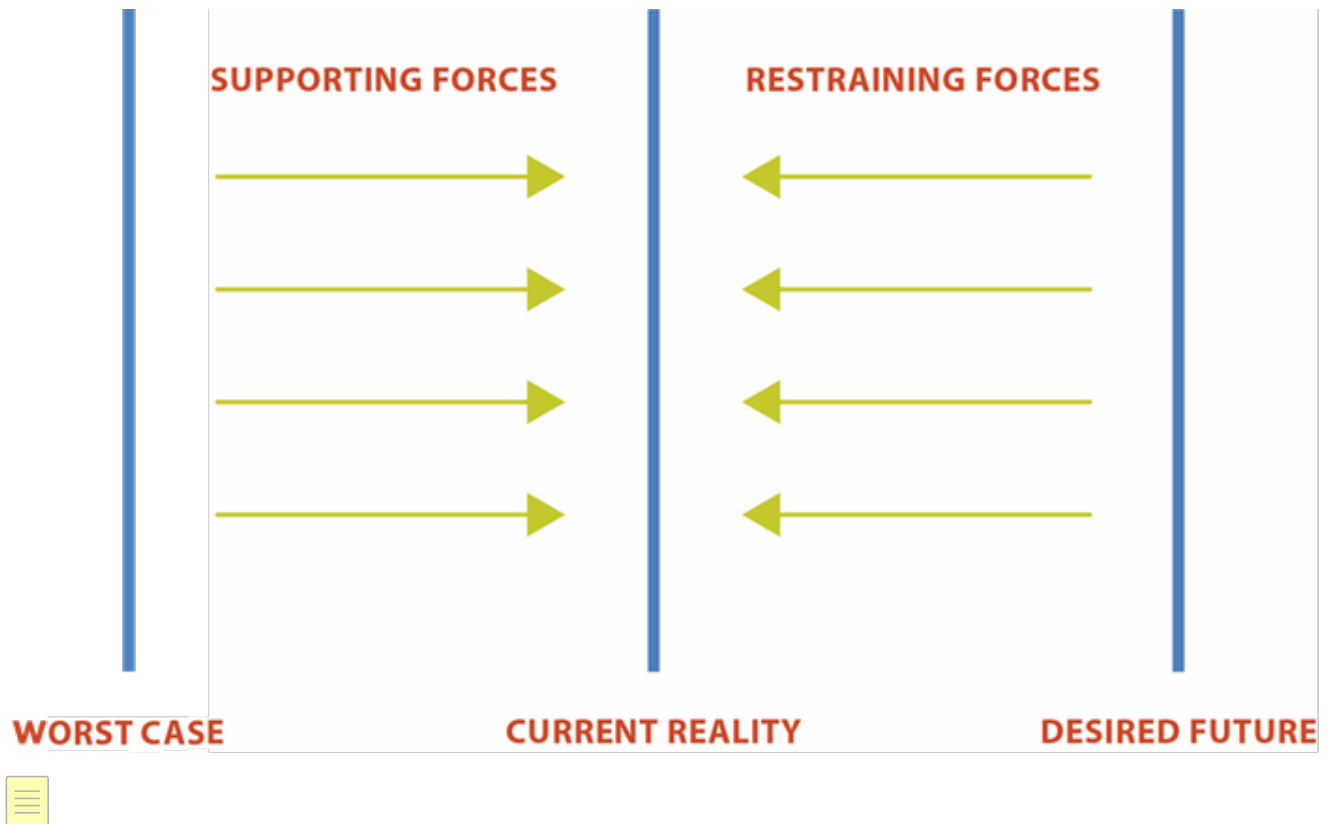
The topic areas identified by the WCWG are as follows:

- 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. 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
 - 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

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.

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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

SR 125, S.D. 1 (2020)

Etc.

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