REPORT TO THE TWENTY-FOURTH LEGISLATURE
OF
THE STATE OF HAWAII

REGULAR SESSION OF 2007

ON

Act 160-06, Part III, Section 8.1
Session Laws of Hawaii 2006

And

Act 160-06, Section 4(14), Section 13.1
Session Laws of Hawaii 2006

SUBJECT: HAWAII HARBORS TASK FORCE

State of Hawaii
Aloha Tower Development Corporation
DBEDT
And
Department of Transportation
November 2006

HAWAII HARBORS PROJECT

Introduction

Pursuant to Act 160-06, Part III, Section 8.1, Session Laws of Hawaii 2006, the Aloha Tower Development Corporation (ATDC) was requested to report to a plan on the best method to address the need for the two temporary project manager positions that were retained to work on the Hawaii Harbors Task Force.

Pursuant to Act 160-06, Section 4(14), Section 13.1, Session Laws of Hawaii 2006, the Department of Transportation, Harbors Division (DOT), was requested to report to address the measures of effectiveness and outcomes achieved by the Hawaii Harbors Task Force.

This report will provide the background and basis for the formation of the Hawaii Harbors Task Force, its goals, objectives, strategies and outcomes. Recommendations are also provided on how best to address the State's continued and pressing need to improve and expand Harbor infrastructure to meet economic statewide commerce demands.

Formation of the Hawaii Harbors Task Force

In April 2005, the Governor's Office initiated the formation of the Hawaii Harbors Task Force to respond on a priority basis to the pressing demands for infrastructure improvements in Honolulu Harbor. DOT studies have determined that the overall volume of cargo processed through Hawaii's commercial harbor system continues to increase on an annual basis and that the State must take expeditious action to implement improvement projects to redevelop existing facilities and provide expansion areas for harbor use. There is a looming shortage of port facilities in Honolulu Harbor. Reserve capacity has been depleted for foreign cargo this year and capacity for domestic cargo is expected to be depleted by the year 2011. (see **Appendix 1**)

The ATDC was tasked to work in partnership with the DOT and assigned the lead to expedite implementation efforts to develop selected harbor infrastructure projects in Honolulu Harbor. The ATDC was selected to partner with the DOT due to its compatible mission, statutorily established jurisdiction within Honolulu Harbor and experienced staff in the development of state-owned property.

The ATDC mission statement as contained in its enabling statute (Chapter 206J, Hawaii Revised Statutes) states as follows:

- Strengthen the international economic base of the community in trade activities;
- Enhance the beautification of the waterfront;
- <u>Improve modern maritime uses in concert with the Department of Transportation</u>; and (emphasis added)
- Provide for public access and use of the waterfront property.

The Hawaii Harbors Project is staffed with two full-time development managers who are funded by the ATDC.[1] The DOT-H supplements the team by providing a Secretary and Property Manager. The Chief Executive Officer of ATDC supervises the team and expends approximately 60% of her time to the project.

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[1] The salary costs for the development managers are offset against the ground rent owed to DOT-H for the Aloha Tower Marketplace pursuant to that certain Agreement Amending the Aloha Tower Project MOU and Aloha Tower Ground Lease with Reference to Compensation to the DOT for Expenses and Losses in Revenue dated June 30, 2005.

Calls for Action by the Maritime Industry and the Public

Clearly, the need to improve harbor infrastructure has gained significant momentum and attention, and in fact, the situation has been described as an emerging crisis by the Pacific Business News.[2]

Numerous articles regarding the State's aging harbor infrastructure have appeared in news articles, as well as press coverage regarding the initiatives of the Hawaii Harbors Project. These articles have been compiled for perusal in **Appendix 3**.

In 2005, an unprecedented event occurred with the formation of a coalition of highly competitive maritime companies and organizations in an effort to address the critical challenges affecting the harbor users on a daily basis. The Hawaii Harbors Users Group (HHUG) was established by key members of the maritime industry to collectively focus on the shortage of berth space and back lands for cargo processing, as well as the impacts associated with the growing cruise ship industry and the introduction of the Superferry. The HHUG mission statement and membership list are attached in **Appendix 4.**

The Economic Momentum Commission (EMC), formed in 2005, focused on the goal of developing an action plan to sustain the state's current economic momentum. The EMC promoted projects that could be achieved within a six-year period of time to address identified challenges. Improvement of the state's commercial harbor system surfaced as one of the Commission's top challenges for prioritized focus and attention.

Goals, Objectives and Strategies of the Hawaii Harbors Project

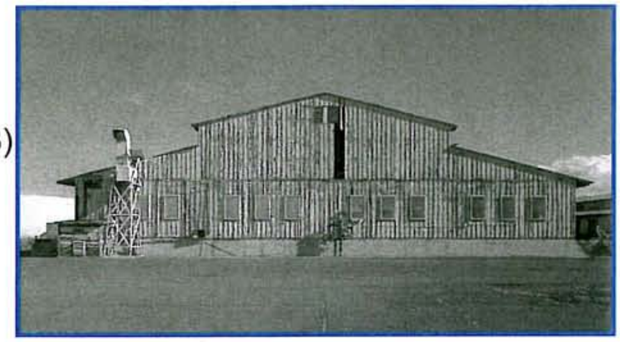
Given the widespread call for immediate action, the Hawaii Harbors Project, established the following goals, objectives and strategies:

- Expedite development projects that will provide short term relief by maximizing efficiencies at existing facilities;
- Acquire and quickly upgrade expansion areas; and
- Plan and execute major long-term redevelopment projects such as the former Kapalama Military Reservation.

[2] Pacific Business News, Opinion, July 21, 2006, (see Appendix 2)

Accomplishments of the Hawaii Harbors Project

The Hawaii Harbors Project began its partnership with DOT in April 2005 with the above-referenced goals, objectives and strategies in hand. The following has been accomplished to date:

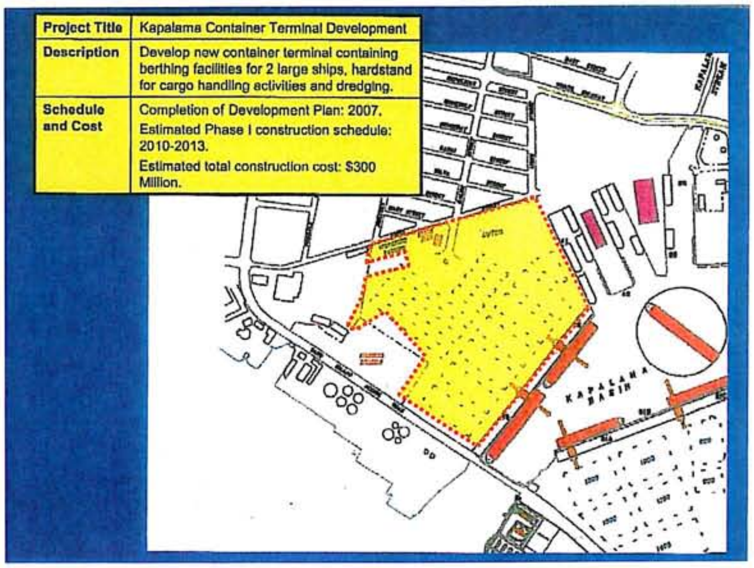


- In coordination with the DOT- Airports Division, a dilapidated warehouse in the Kapalama Military Reservation (Building 923) was demolished and one (1) acre of adjacent land was acquired from the Department of Land and Natural Resources (DLNR) to provide an expansion area of approximately 4 acres for cargo container yard operations. The area is now being utilized for cargo and new vehicle storage.
- An area of approximately 30 acres of land adjacent to the major cargo terminals on Sand Island was approved for acquisition by the DLNR for cargo container yard expansion. Governor Lingle signed the Executive Order vesting use rights to DOT-H in August 2006.

- An 8-year lease was negotiated and executed with Matson for a 9.6 acre portion of the Sand Island Expansion Area. Matson will be constructing site improvements in the first quarter of 2007.

- At Piers 1 and 2, Honolulu Harbor, $2.7 million in design and construction funds were released for the demolition of the CFS#2 warehouse shed, relocation of existing overhead lines that impede cargo operations and new lighting to provide a cargo yard expansion area of approximately 5.7 acres. Bids for construction were opened in October 2006 and construction is expected to commence January 2007.
- Relocation of LCL cargo processing at CFS#2 was necessary to expand the foreign cargo yard at Piers 1 and 2. A warehouse at Kapalama Military Reservation was cleared of month-to-month permittees and leased to Island Movers, Inc. who assumed the LCL ("less than container load") cargo processing for NYK Lines.

- A 5-year lease to Island Movers for its core facility at Kapalama Military Reservation was also negotiated and executed to ensure facilities for the LCL cargo processing.
- Facilitation of the arbitration proceedings for the re-opening of lease rent for Hawaii Stevedores, Inc. at Pier 35 was successfully completed.
- Property descriptions were drafted for the land parcels at Piers 1 and 2 that were included in Act 165, Session Laws of Hawaii 2006, for the return of these lands to DOT-Harbors and the Foreign Trade Zone No. 9 from the Kakaako Community Development District.
- Secured tenant reservations for all parcels at the Fishing Village, Pier 38.
- Initiated the development planning for the new Kapalama Container Terminal (redevelopment of the former Kapalama Military Reservation). A total of $1 million in planning funds was appropriated by the Legislature and released by the Governor to establish a development plan for a new cargo container terminal consisting of an area approximately 70 acres in size . Three major contracts were procured and executed. A description of the consultant contracts is attached in **Appendix 5**.

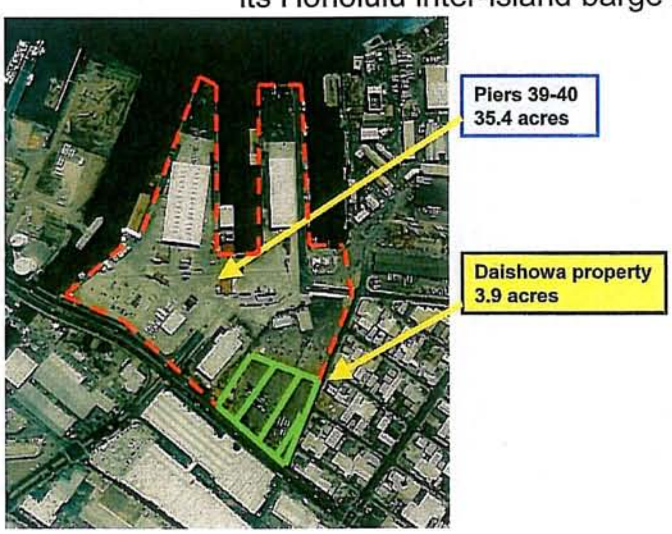


The work completed to date include:

- JWD Group has completed development options and is currently at work on financing scenarios for redevelopment;
- Belt Collins Hawaii, Ltd. is completing an assessment of the UH Marine Center facilities at the KMR harbor front for the relocation to new facilities. Cost estimates are also being prepared to identify the cost of the new facilities and relocation costs.

- Fung Associates is working with the State Historic Preservation Division, DLNR, to perform a historic architectural survey of KMR in preparation for demolition and redevelopment.

* Planning, design and construction were initiated in September 2006 to demolish a warehouse shed at Pier 40 and provide for expansion area on the former Daishowa property to permit Young Brothers to expand its Honolulu inter-island barge operations. These actions must be completed by April 30, 2007 to meet conditions specified in a Settlement Agreement between DOT and Young Brothers before the Public Utilities Commission regarding the continuation of LCL cargo service by Young Brothers.



Evaluation of the Hawaii Harbors Task Force Project

Act 160-06, Part III, Section 8.1, Session Laws of Hawaii 2006, included a specific proviso to prohibit the funding of two project manager positions for the Hawaii Harbors Project in the Biennium Budget for FY08-09. The action essentially results in the dissolution of the Hawaii Harbors Task Force and the partnership between DOT-H and ATDC.

The Hawaii Harbors Project has accomplished and contributed significantly to improving Honolulu Harbor infrastructure in the approximately eighteen (18) months it has been in existence, due to the following factors:

- The team is trained and experienced in development of property.
- The team is focused on project development as opposed to the DOT-H staff, which is focused on harbor operations, security, planning, maintenance and property management of existing properties.
- The team is able to expedite contracts and approvals due to its narrow focus even though funding for HHP projects is reviewed and approved by DOT-H at all stages of a project,

There is still so much to do to rehabilitate, redevelop and expand aging harbor infrastructure statewide. The nationally recognized consultant retained to provide recommendations on the redevelopment of the former Kapalama Military Reservation stated that based on its experience nationally, Hawaii's ports are fifty years behind the majority of the ports on the West Coast. The situation has been of concern for many years and is now reaching a critical situation as certain ports have reached capacity and other will do so within five years. Continued priority and resources must be committed immediately to avoid the predicted crisis in economic statewide commerce.

Options for the Future

- Establish a Port Authority
  - Pros
    - Broad powers given to administratively streamline operations, maintenance and development of the ports.
    - Most Authorities across the nation are not subject to State oversight, are autonomously administered, and are deemed to be more efficient and quickly responsive to changing demands.
  - Cons
    - The proposal has been discussed and debated for many years in the Legislature and does not appear to have strong industry support.
    - A major study was conducted in 1997 at the request of the Legislature to assess the merits of establishing a port authority. Although the study concluded that the advantages

    of creating a port authority outweigh the disadvantages, there was no further action taken by the DOT-H to implement the recommendations, which were to analyze and compare several alternative structures and recommend a single form for implementation.[3]
    - The establishment of a port authority will require a significant amount of manpower and resources to implement, including legislative and administrative approval of an acceptable organizational structure, funding, establishment of personnel, offices, positions and staffing, etc.

- Establish a Development Authority as an Attached Agency to the DOT

  - Pros
    - A development authority attached to DOT may improve responsiveness and effectiveness provided that broad powers are given to streamline administrative processing and proper staffing is retained.
  - Cons
    - The DOT, by nature of its size and centralization, has a bureaucratic process and may impede efforts to move expeditiously.
    - The commercial harbor system has a complex management framework comprised of many different partners. The DOT, on its own, has traditionally been unable to merge with conflicting authorities and bifurcated planning processes over waterfront resources.
    - The establishment of a new authority will require a significant amount of manpower and resources to implement, including legislative and administrative approval of an acceptable organizational structure, funding, establishment of personnel positions and staffing, etc.

- Establish a Development Section within DOT-Harbors
  - Pros
    - The organizational framework is already established and the creation of new positions to form a development section would be faster than the creation of a new entity.
    - Funding sources for harbor improvements will be under one agency.
  - Cons
    - The DOT, by nature of its size and centralization, has a bureaucratic process and may impede efforts to move expeditiously.

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[3] Report to the Nineteenth Legislature of the State of Hawaii, Regular Session of 1997, Senate Concurrent Resolution 214, S.D.1, H.D.1, Requesting the Governor to Convene the Hawaii Maritime Industry Policy Advisory Task Force to Ascertain the Advantages and Disadvantages...Department of Transportation, State of Hawaii, December 9, 1996

        - The commercial harbor system has a complex management framework comprised of many different partners. The DOT, on its own, has traditionally been unable to merge with conflicting authorities and bifurcated planning processes over waterfront resources.
        - The DOT staffing positions are civil service. New position descriptions must be created and approved through DHRD.
        - New office space, equipment and retention of employees will require manpower and resources to establish.

- Continue the Hawaii Harbors Project Partnership Between ATDC and DOT
    - Pros
        - The partnership is already established under the pilot project and has proven successful in accomplishing its goals in a short period of time.
        - Experienced development-oriented personnel are currently on staff, although continued funding and additional staffing would be required depending on future project demands.
        - The ATDC has a compatible mission, is a lessee of the DOT-H, and therefore already in coordination with each other.
        - The recent return of Piers 1 and 2 from HCDA to DOT-H in the 2006 legislative session now results in a contiguous Honolulu Harbor, inclusive of ATDC. The involvement of ATDC will promote comprehensive planning and a unified approach in working with waterfront partners.
        - ATDC can continue work immediately on projects without loss of start-up time and costs.
        - ATDC brings to the partnership economic development resources and expertise from DBEDT that will result in better comprehensive planning since the commercial harbor system is a statewide concern affecting all facets of the economy.
        - The maritime industry has been supportive of the ATDC-DOT partnership under the pilot project.
    - Cons
        - The partnership would need to formalize its organizational structure in its respective enabling statutes through legislative and administrative approvals.

Recommendation

Hawaii's commercial harbor system has now reached a critical point. The overriding emphasis at this point is **time**. The urgency at which attention must be focused on improving and expanding harbor infrastructure must be the priority factor in choosing an option for the future. Formalization of the DOT-ATDC Partnership for the continuation of the Hawaii Harbors Project is the best option for the following reasons:

- The staffing and all other administrative actions such as office space and equipment are in place.
- The DOT and ATDC have worked successfully together for approximately 18 months and have overcome start-up and organizational issues.
- Several major development projects are in progress and the momentum and energy will be lost if the program is terminated.

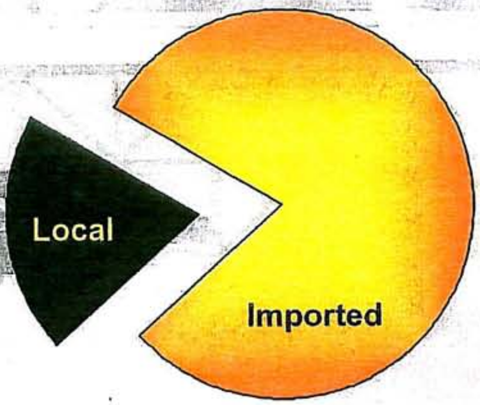
Formalization of the DOT-ATDC Partnership should include the following:

- Ability of the Legislature to direct funding to the most critical infrastructure projects to be prioritized for redevelopment.
    - The most critical port facing a capacity crisis is Kahului, Maui. If the Legislature deems it appropriate, authority should be provided to the Hawaii Harbors Project to expand its jurisdiction to develop projects outside of Honolulu Harbor.
    - Projects would be placed with the Hawaii Harbors Project for development purposes only, and maintenance, security and operations would continue to be under the jurisdiction of DOT-Harbors
- Continued funding of two ATDC development manager positions and two DOT-Harbors positions under the current team approach. Creation of additional positions and funding should also be provided if new projects beyond Honolulu Harbor are added for development.
- Provide authorization for special facility bond financing, including the ability to charge harbor users additional fees for specific harbor developments to support bond repayment.
- Provide authorization to direct net revenues from ATDC Project Area developments to a fund specifically restricted to development of commercial harbor infrastructure.
- Establish additional members to the ATDC Board of Directors from the maritime industry.
- Establish a sunset date for the Hawaii Harbors Project.

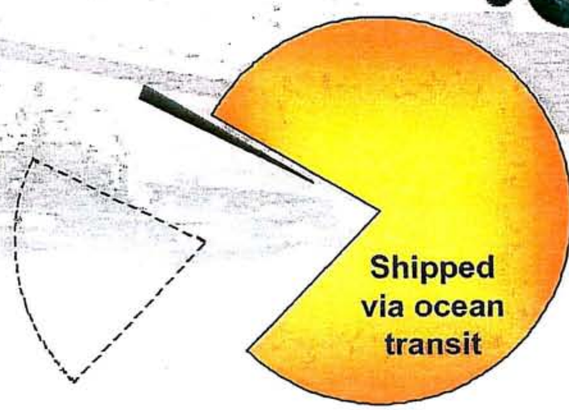
HAWAII HARBORS PROJECT

Appendix 1

IMPORTANCE OF HARBORS



A DBEDT study revealed that about 80% of all goods used in Hawaii are imported.

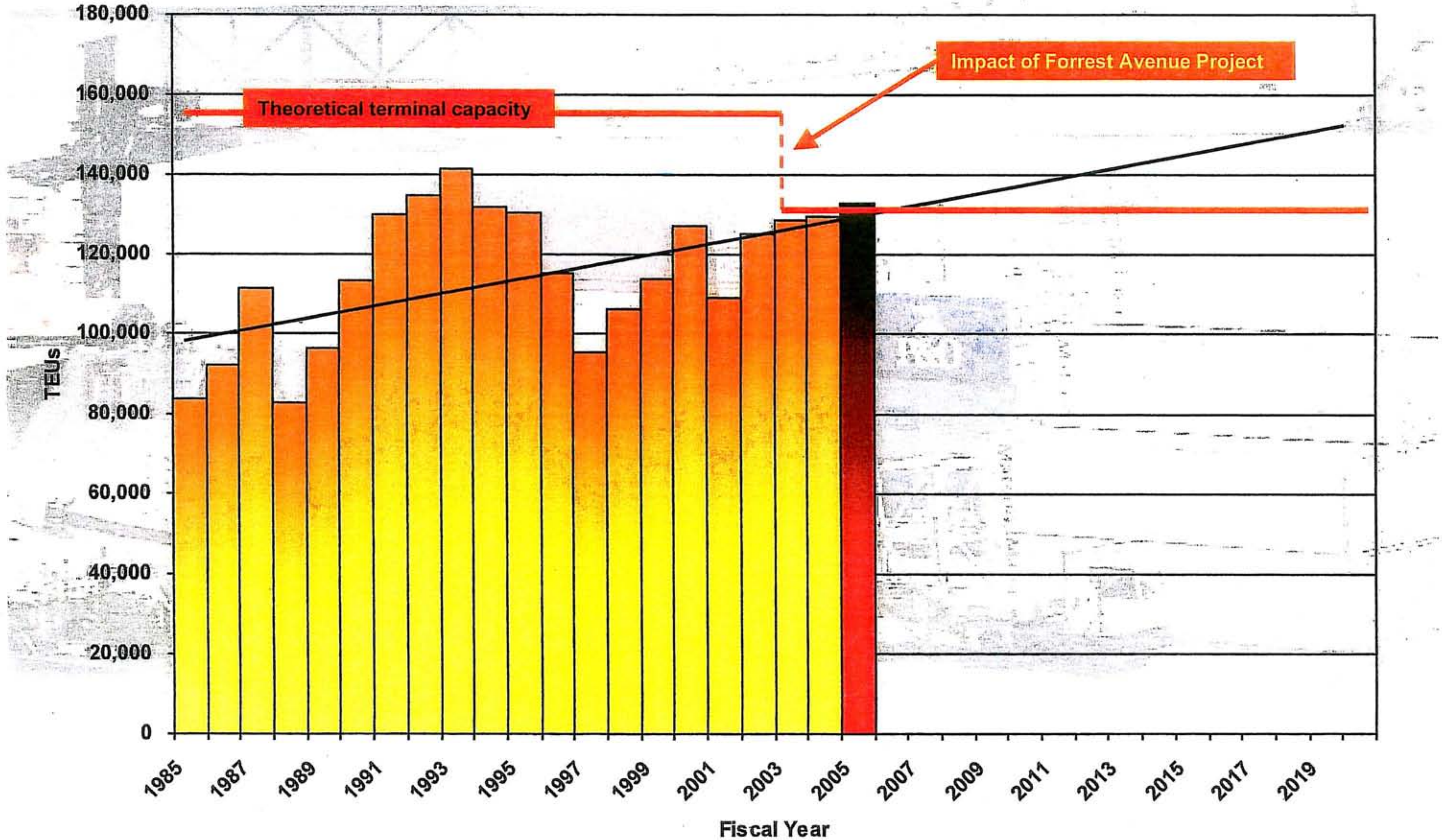


And of this amount, 98.6% of the goods are brought in through our commercial harbors system.

Source: *Size & Growth Potential of Hawaii's Maritime Industry*, Lee & Olive, 1994

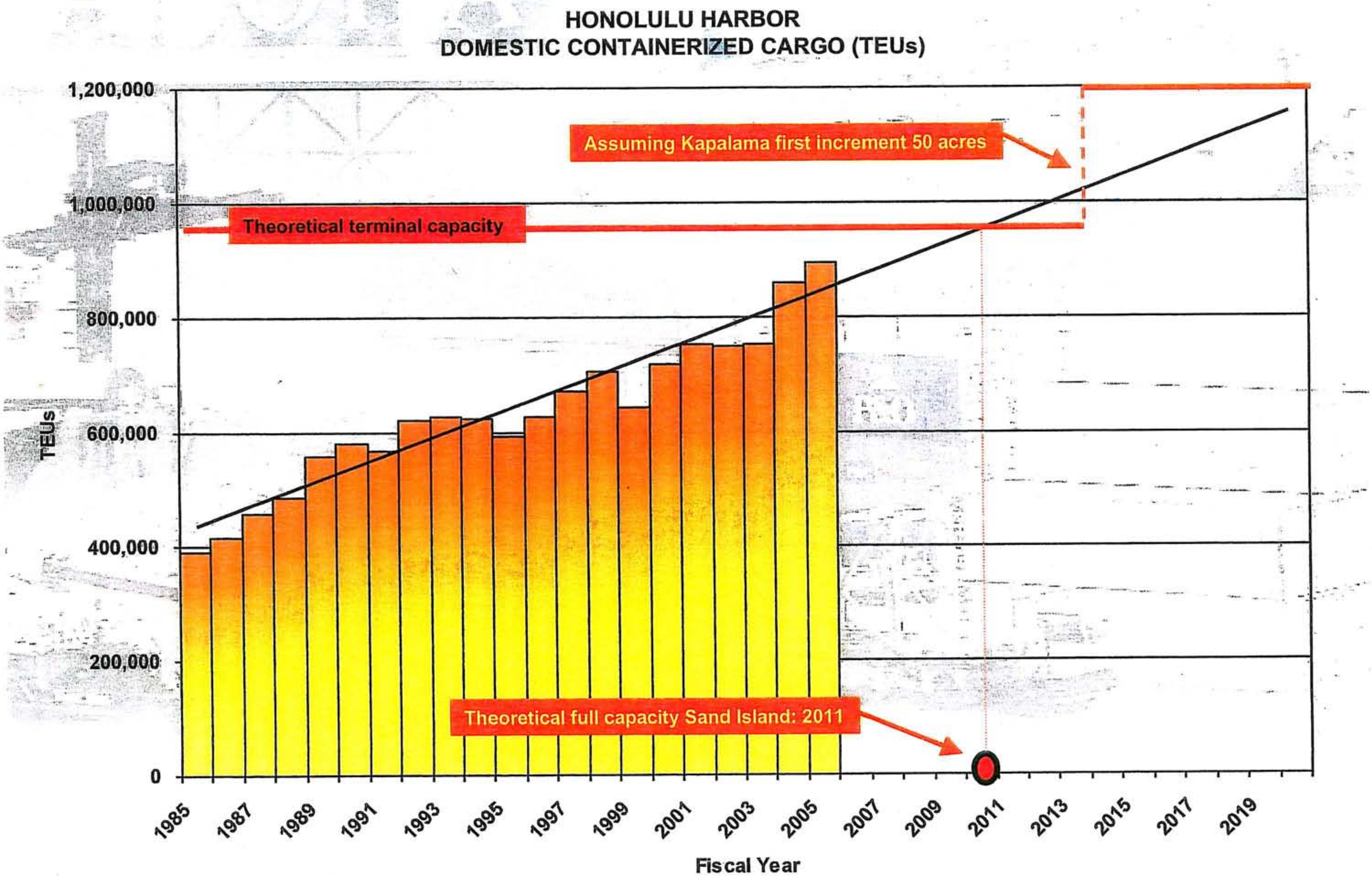
FOREIGN CARGO VOLUMES

HONOLULU HARBOR
FOREIGN CONTAINERIZED CARGO (TEUs)



Source: Harbors Division

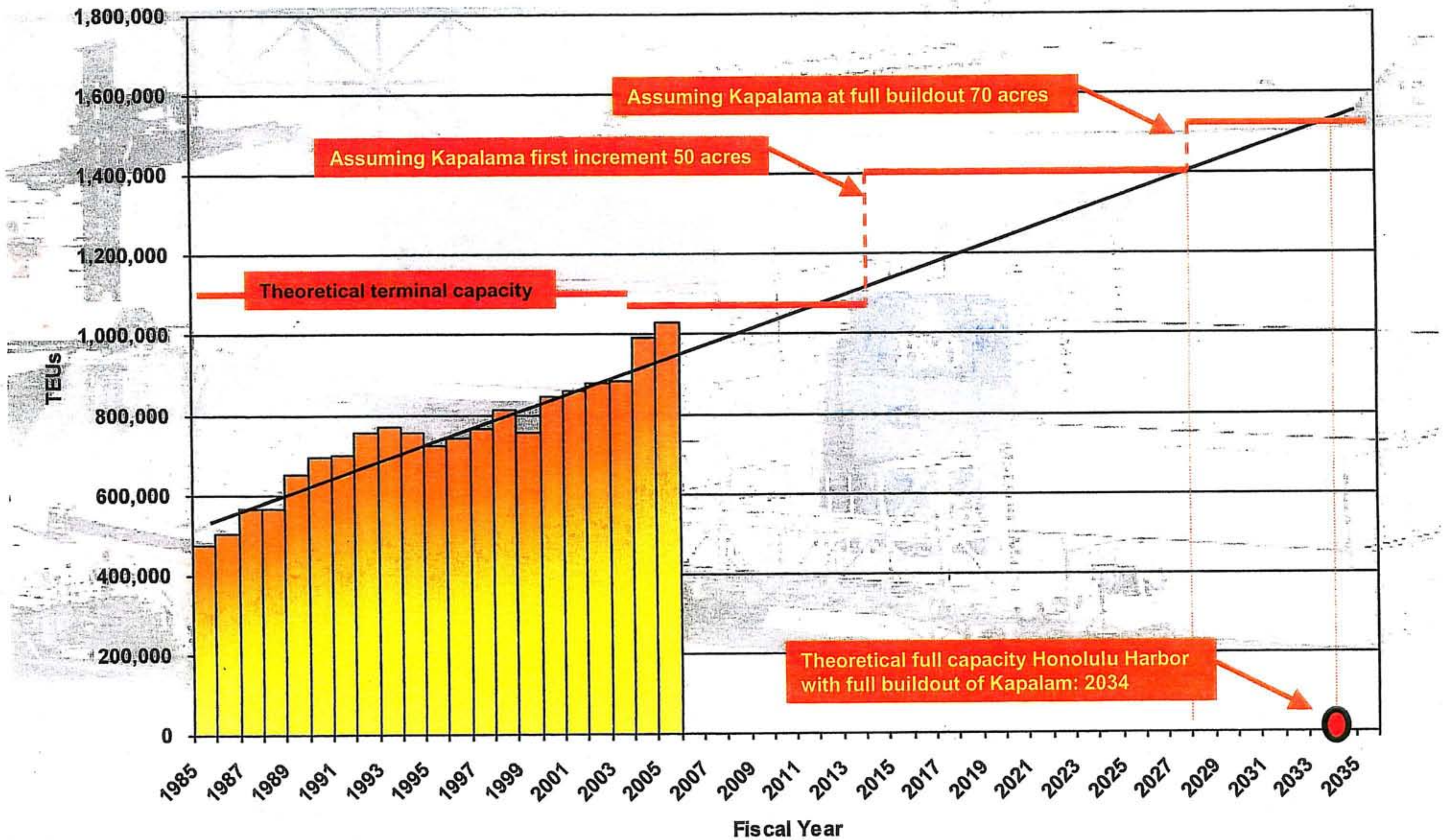
DOMESTIC CARGO VOLUMES



Source: Harbors Division

TOTAL CARGO VOLUMES

HONOLULU HARBOR
TOTAL CONTAINERIZED CARGO (TEUs)



Source: Harbors Division

HAWAII HARBORS PROJECT

Appendix 2

Ports deserve immediate attention

PACIFIC BUSINESS NEWS (HONOLULU) - JULY 21, 2006

In the children's parable, Chicken Little concludes that the sky is falling and sets out to tell the king.

In Hawaii, there is no parable: We've been warned for 20 years that we would run out of space to accommodate the mounting load of freight shipped into the state. That prediction has come from state long-range studies as well as from the shippers themselves.

But the warnings have been unheeded, not by any king, but from a succession of state administrations and legislatures.

Today, the "sky" of Hawaii ports is falling and a crisis is emerging that could lead not only to higher shipping costs but also to the flat-out inability to bring goods into the state that our strong economy is demanding.

The inadequacy of Hawaii's ports is a critical issue in a state that imports close to 90 percent of what we use. The good news is that a group of what usually would be considered competitors is offering workable solutions.

In the absence of a current state vision for what needs to be done with harbors, the Hawaii Harbor Users Group has spent close to $90,000 for studies first outlining the current situation in harbors across Hawaii and then offering options.

The group strikes us as different from other business organizations because they have come together in articulating the need for change and are offering ideas for an issue that is near the bottom of the legislative agenda.

Over the years, there has been an administrative and legislative philosophy that harbor issues need to be addressed only when the need is proved. That might have been understandable in the mid-1990s, a depressing economic period when the strong economic boom of today seemed implausible.

But that resulted in a course that government seems to often enjoy most, doing nothing unless there is a crisis.

At the same time, the state allowed the harbors division, a part of the Department of Transportation, to build a rigid bureaucracy that ignores the future. It's kept harbors from being fully utilized because of little problems like the lack of restrooms at the small-boat facility at Kawaihae on the Big Island, or a locked gate due to electrical issues at Hilo Harbor. Getting that gate opened could ease serious traffic issues at Hilo.

HHUG has proposed an ambitious agenda for starting to fix the harbors, as Janis Magin reports today on Page 1. Nearly two-thirds of the initial $500 million cost would go to Kapalama, a former military installation on Sand Island.

Expanding cargo operations to Kapalama is the only viable option to address the harbor overcrowding, HHUG says, and they seem confident, based on a consultant's report, that higher user fees and a private-public partnership similar to others across the country, can make it self-sufficient.

Expect HHUG to be pushing for an independent port authority, a model that's common on the Mainland and supposedly insulated from legislative interference.

That makes sense to us, but it could be a hard sell in a Legislature that loves control of its agencies. Consider the recent Kakaako development debacle in which the Hawaii Community Development Authority, supposedly an "independent" agency, found its plans overturned by the Legislature.

At the end of the Chicken Little parable, it was decided that there was no sense in going to the king with their problems of skies falling; better to just go home. That's not an option in Hawaii with harbor issues and we urge the harbor users to continue with their efforts. Before the skies do indeed fall.

HAWAII HARBORS PROJECT

Appendix 3

Delays increase as traffic doubles at Kalaeloa

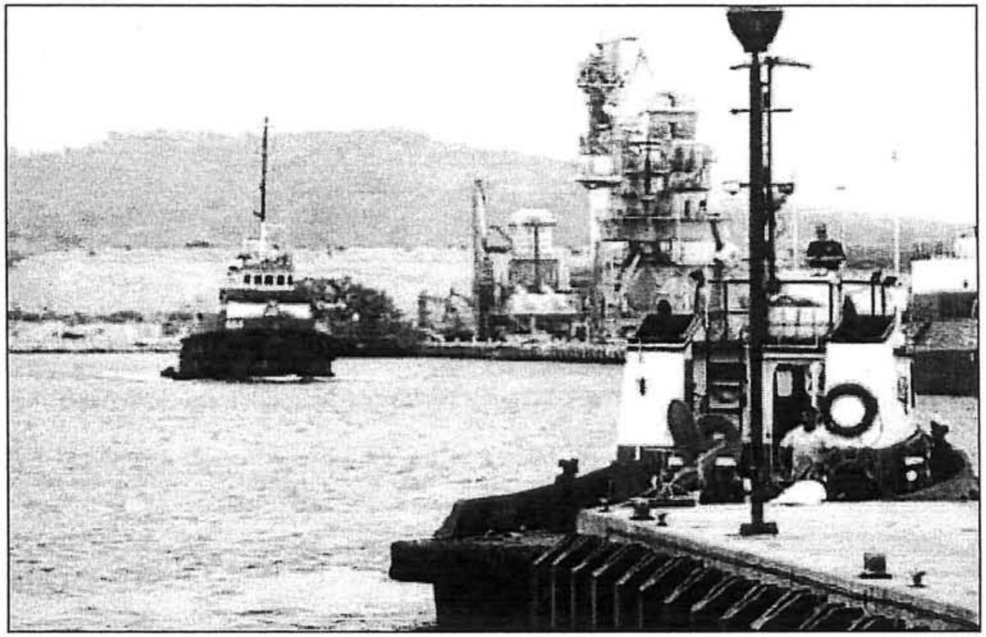
BY ERIC PHILLIPS
PACIFIC BUSINESS NEWS

The number of ships using Kalaeloa Barbers Point Harbor has doubled in the past eight months, leaving many ships and barges without a place to unload.

The increased traffic, much of which comes from vessels being diverted from Honolulu Harbor because of congestion there, is causing slower delivery times and, according to many of the affected companies, higher costs for Oahu's residents.

The state Department of Transportation's 1995 "Oahu Commercial Harbors 2020 Master Plan," calls for eventual expansion and deepening of the Barbers Point harbor. But Barry Fukunaga, head of the state Harbors Division, says it's not up to his division to decide when that will happen.

He says the state relies on the U.S. Army Corps of Engineers to fix its harbors, and that the corps works on its own timetable based on federal appropriations, of which 20 percent to 50 percent are matched by state funds. All he can do, he says, is make recommendations.



TINA YUEH PBN

More ships compete for berthing space at Kalaeloa Barbers Point Harbor in West Oahu, while plans to expand and deepen the harbor remain relatively low on the state's list of priorities. Shippers say delays in loading and unloading are costing them valuable time and money.

OTHER PRIORITIES

"The most immediate thing we have planned is to establish a fuel pier so that we can free up some berthing space," he said. "But we're not sure when that will happen. We're focusing more on the situation in Honolulu, then Kahului, then Hilo. It's congested all around, and you have to prioritize first for the areas that need it the most."

For Kalaeloa's harbor agent, Logan Williams, that means he'll have to keep logging extra hours in order to find a place for the never-ending barrage of ships.

"We have ships doing doughnuts for hours at the mouth of the harbor, burning fuel and time," he said. "And it's only getting worse."

Bill Thayer, president of Hawaii's oldest shipping agent company, Waldron Norton Lilly, says the problem is worse now than ever before. He calls the current situation "the harbors division 9/11," and himself and other shippers the "firemen" heading up the stairs of the World Trade Center.

"We had a coal ship that had almost unloaded all its cargo but had to leave its parking place and go float around for half a day because it expired its reservation," he said. "It cost us an extra $25,000 to unload the remaining coal, which was about the same amount as what's left inside your cereal bowl when you're done and taking it to the sink."

Mike McCormick is in charge of cargo management for Sause Bros., which the state relocated to Barbers Point from Honolulu two years ago to make room for cruise ships. He says his company's barges, which arrive in Hawaii two at a time every three weeks, were able to park next to each other six months ago but now have to be split up, costing Sause Bros. more to unload them.

"In Hawaii you work around the cruise ship industry because they have priority over everybody," he said. "Ships that would normally berth at Honolulu are getting kicked out to here [Barbers Point] because a cruise ship is berthed in their place, which means they're berthed in the spaces we'd normally use."

Major users of Kalaeloa Barbers Point Harbor

- **Tesoro**
- **Aloha Petroleum**
- **Gasco** (liquid propane gas)
- **AES Kalaeloa Ventures** (dry bulk cargo)
- **Hawaiian Cement**
- **Schnitzel Steel** (scrap metal)
- **Sause Bros.** (lumber, newsprint, construction material)
- **Ameron** (concrete)
- **Island Ready Mix** (concrete)
- **Marisco Ltd.** (ship repair)

SOURCE: DEPARTMENT OF TRANSPORTATION, HARBORS DIVISION

Kalaeloa Barbers Point Harbor

RUBEN DULDULAO PBN

SYSTEM DOESN'T WORK

Thayer says state officials have had plenty of notice from him and entities such as the Hawaii Harbors Users Group, which consists of companies such as Matson and Young Brothers. But he says the messages won't work because the state's system of relying on the federal government to fix things "constipates" progress.

"Something bad has to happen right now — like a massive power outage because we couldn't unload enough coal or fuel because of scheduling problems — for enough pressure to be applied for there to be an immediate solution," he said. "Every three years or so this gets brought up again and I get excited. Then I snap out of it and realize it's a broken record."

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Harbor users review new ways to pay for upgrades

PACIFIC BUSINESS NEWS (HONOLULU) - JULY 21, 2006
BY Janis L. Magin
PACIFIC BUSINESS NEWS


Tina Yuen, PBN

Harbor users don't pay enough to cover the costs of maintaining the state's aging port facilities, let alone building new ones, but a combination of increased fees and long-term land leases could help clear more space for ships and cargo.

A plan to develop three key projects at state harbors could be paid for through those and other funding sources, according to a new report commissioned by the Hawaii Harbor Users Group.

The report also suggests the possibility of creating an independent port authority that would manage the harbors.

Frustrated by years of neglect and stagnation, a coalition of unions, shippers, barge operators, cruise lines and the proposed interisland ferry, which all compete for business and the shrinking space along the crowded waterfront, joined to propose solutions to the gridlock.

The group released a report earlier this year that found the harbors are at a crisis point, unable to handle the crush of ships and containers. The report listed $638 million in harbor improvements needed to alleviate the space crunch and modernize aging facilities in a state where more than 85 percent of goods are imported by ship.

The report released today is designed to offer ideas on how to pay for the improvements.

The Lingle administration and key legislators have supported the work of the harbor users group, essentially telling it to put together a map of how to proceed with improvements. The group plans to make recommendations to the Legislature when it convenes in January.

The latest report focuses on three critical projects that would cost a total of $500 million -- developing a container terminal on the site of the former Kapalama Military Reservation, developing the west end of Maui's Kahului Harbor and building an additional pier at Kalaeloa/Barbers Point Harbor.

It suggests ways to pay for the upgrades and outlines how similar ports on the Mainland pay for their improvements.

The new report notes that Hawaii's tariff structure is lower than at other ports, and suggests raising fees as one method of paying for the critical improvements. The tariffs include wharfage fees, which are levied on cargo and passengers, and dockage fees, levied on ships. The last increase was in 1995.

"You should be able to price at least at market rates," said John Martin of Martin Associates, the Pennsylvania-based firm that wrote the report.

Harbor users have said they don't object to paying more -- even significantly more -- if they can be assured the money will go to harbor improvements and not get lost in the state's general fund. And they want the fees to be predictable, which is why most would favor long-term lease and tariff deals with the state.

Martin said most West Coast ports lease land to shippers under what is known as a minimum annual guarantee system, which generates the revenue to finance harbor projects.

Under that system, once a company meets a set amount, the tariffs for anything over that amount are taxed at a lower rate, giving carriers incentive to move more cargo and generate more revenue.

Gary North, chairman of the harbor users group and a senior vice president at Matson Navigation Co., said his company does not have a lease on the entire 188 acres of land it uses in Honolulu. The company leases only the land under the footprints of its cranes and its buildings.

By contrast, in Oakland, Calif., the company leased 70 acres and paid a certain rate on wharfage fees until it hit its minimum annual guarantee.

"Once we got to that level of cargo, the rate dropped," North said.

The report also points out that most ports are managed by quasi-independent public agencies, some of which have the authority to levy taxes for port improvements. But it makes no recommendation on the question of whether Hawaii should consider creating one.

The harbor group plans to spend the next few months talking to lawmakers and state officials in preparation for the 2007 legislative session.

"Part of the messaging right now is the severity and immediacy of the problem," said Robert Kritzman, executive vice president of NCL America and managing director of the cruise line's Hawaii operations, which operate three U.S.-flagged ships in island waters.

Rather than attempt to tackle all of the problems at all of the state's six commercial harbors at one time, projects should be looked at individually, Martin said.

"It has to be much more project-specific," he said, with each individual project handled, and funded, in a different way.

The situation at Barbers Point is critical for moving fuel to the Neighbor Islands. All of the energy for Maui, Kauai, Molokai, Lanai and the Big Island comes from Oahu, and most of that is from Barbers Point.

Although the basin is fully dredged, only a portion of the large harbor is currently utilized and a tight schedule of barges means ships are kept waiting.

"There could be shortages of gasoline on the Neighbor Islands because we can't get into Barbers Point," said Bill Heddaeus, marine superintendent for Tesoro Hawaii Corp.

"It's not what we need," he said. "It's what the state of Hawaii needs."

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Harbor users push for state action

PACIFIC BUSINESS NEWS (HONOLULU) - JULY 5, 2006
BY Howard Dicus

The Hawaii Harbor Users Group says it feels that both the Hawaii Legislature and senior Lingle administration officials now understand the severity of the state's harbor crisis.

Matson Navigation Co., Horizon Lines and Young Brothers Ltd. all routinely process more than 7,000 containers per acre per year, double what is common on the Mainland. But the strong economy means still more shipping volume and they have run out of ways to do more on the same land.

"All of a sudden, there's no space," said Gary North, senior vice president of Matson. "Everybody wants the same piece of land. In defense of the state, how do you deal with five or six people who want all the same piece of property?"

In a briefing of Pacific Business News editorial personnel, executives of all three companies praised Barry Fukunaga, deputy director of the Hawaii Department of Transportation and the lead manager at D.O.T.'s Harbors Division.

"He totally gets it," one said.

As for the Legislature, it passed Senate Resolution 17, calling for D.O.T. and HHUG to collaborate on harbor congestion solutions, giving its support to the urgency Fukunaga is trying to impress on the Harbors Division bureaucracy.

The need for speed stems from the fact that Hawaii's expanding economy means expanding trans-Pacific and interisland cargo shipping, which docks and unloads in the same amount of space as before.

Early last year, major harbor users decided it might help the state move faster if they could agree on one specific plan for each harbor, so they used their own funds to commision a plan from Mercator Transport Group. While funded by the shippers, the plan was developed, at the shipper's specific request, after also meeting with the Harbors Division and the International Longshore & Warehouse Union.

"We wanted to give them a kind of blueprint," North explained, "and they don't have to come back and negotiate individually with each of us."

Some of the solutions are no-brainers. At Hilo harbor, cruise passengers walk along the same road that trucks use and trucks can wait 45 minutes behind a tour bus that has been stopped for individual I.D. checks. A second road has been completed for years but has not yet been put into use.

On the west side of the Big Island, small boats share Kawaihae Harbor with maritime shipping. A separate small boat harbor, completed years ago, has gone unused because restroom facilities haven't been completed.

At Nawiliwili Harbor, where cruise ships execute a tricky S-curve and where fuel barges cannot dock if a cruise ship already is moored, dredging the shallow southern end of the harbor could provide more room to maneuver.

Kahului is trickier. Cruise ships and cargo ships compete for the same scarce docking space and canoe enthusiasts and surfers worry about the traffic getting in the way of their own activities. It is the space shortfall here that obliged Young Brothers to file for permission to quit consolidating small shipments into containers, forcing customers to hire other firms to do it.

A Honolulu harbor tour, which included the Young Brothers freight consolidation facility at Pier 40, showed a long line of flatbed trucks waiting to drop off loads, some so small that they could have been delivered in vans. Eliminating this operation on the docks automatically increases the space YB has for its core operations.

The Hawaii Harbor Users Group plan for the Honolulu docks is a complex one. Matson, for example, would expand its Sand Island facility by taking over the Horizon Lines yard next-door, while Horizon would move across the water to Kapalama, displacing several tenants that have enjoyed low rents they will likely not be able to replicate in new locations.

Shipping line executives say it's important to act now because shipping volume is still growing.

Glenn Hong, president of Young Brothers, explains how fast traffic is increasing.

"We've committed to our employees that no one will be terminated when we get out of the freight consolidation business," Hong said. "We need them for the other work."

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Posted on: Sunday, May 7, 2006

COMMENTARY

Port improvements: Harbors saw progress, but need more: C+

By Ed Enos

This session there were approximately 90 bills and resolutions that would have specifically affected the maritime industry. Nearly half of these were carried over from last year's session.

"Ownership" of piers 1 and 2 was given back to the state Department of Transportation's Harbors Division, from the Hawai'i Community Development Authority (SB1002 and HB1880). A maritime entity of the state will now oversee the future use of one of Honolulu Harbor's most important piers, instead of an agency that is focused on developing residential, commercial and recreational uses of state lands.

Another significant step toward improving our state's harbors was the adoption of a Senate resolution, SCR33. This was a request for the Harbors Division to continue dialogue with the Hawai'i Harbors User Group (shipping and barge companies) in an effort to implement planned improvements and construction projects throughout all Hawai'i's primary commercial deepwater ports.

A resolution calling for the University of Hawai'i and the DOT to expedite negotiations on moving the UH Marine Center facility to another location (HCR 266) also was adopted. This is another progressive step in developing Kapalama Military Reservation into a new container terminal. The importance of creating a new facility to handle Hawai'i's growing cargo needs cannot be overstated.

Our current administration and legislators deserve a C+ for their efforts to work with a quiet but monumentally important sector of Hawai'i's economy, our ocean transportation industry.

In April, The Advertiser published an article written, in part, by Rod Haraga of the DOT. This article called for "spending $2.3 billion over the next 12 years to create a world-class airport system that addresses present and future needs of residents and visitors. Can we afford to do this? The answer is simple: We can't afford not to."

Hawai'i's aging and decrepit ports are long overdue for this kind of attention.

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Harbor plan nudges UH aside

Marine program one of many displaced

PACIFIC BUSINESS NEWS (HONOLULU) - MAY 5, 2006

BY Prabha Natarajan
PACIFIC BUSINESS NEWS


Tina Yuen, PBN

The state's plan to move the University of Hawaii marine center out of Snug Harbor has put research projects worth tens of millions of dollars in jeopardy.

The U-shaped piers 44 and 45 known collectively as Snug Harbor are home to UH's two marine research vessels. The area is to be converted into a container terminal, part of the state's redevelopment of the Kapalama Military Reservation.

The adjoining 16-acre lot that houses the UH's School of Ocean and Earth Science and Technology Marine Center and several research labs will go away to make room for containers. The center supports 860 employees and $70 million.

UH is but one of scores of tenants that will be displaced by the state effort to reshape Honolulu Harbor to make room for the growing number of passenger and cargo ships stopping at the port, as well as the dramatically expanding volume of containers and cars hauled through the Islands.

The project has been studied for nearly 20 years and some believe that bureaucratic foot-dragging could delay the start another five years. But it is clear that when the eviction of waterfront tenants begins, each move will potentially jostle or displace other tenants.

As an example, consider Pier 35. It's a possible site for the UH marine research facility.

But that would mean the state would have to find a place for existing tenants at Pier 35, which include Hawaii Stevedores Inc., Sea Engineering and oil spill response vessels.

The uncertainty of when and how the moves will happen worries David Karl, a UH professor of oceanography, who after 30 years in Hawaii said he is deciding whether to stay or move to California before he starts a $19 million research project on July 1.

The time involved in packing up a laboratory, moving the equipment and setting up at a new location are delays that aren't budgeted in the National Science Foundation grant he received in April to study the world's largest genome, which lies in the ocean.

In three years, the foundation will conduct a review to determine if the project is worth continued support. If it is, Karl would get another five-year grant for $20 million.

"I have to go full speed from the start," Karl said. "I have to have consistent access to the ocean. My entire operation is based on field work. That's why I am here in Hawaii and not at Princeton or Harvard."

The UH operation has few friends on the waterfront. Businesses say that because its research vessels are usually at sea, its pier space is underused. And the state Department of Transportation says UH -- which holds a 65-year, rent-free lease on Snug Harbor -- needs to give up a little, to make room for commercial users.

"With UH being in the heart of the storage area of cargo ships, we felt there was a way to better utilize the 17 acres," said Scott Ishikawa, spokesman for D.O.T., which expects Pier 35 to be adequate for the university's research ships and facilities.

Tenants at Pier 35 believe they are destined to move. Many of them are hesitant to publicly complain in the hope that their silence will earn them room somewhere else in the harbor.

"We are amenable to working with the state to find a resolution to relocating [the UH] facility and to make it possible to develop Kapalama container terminal," said Randy Grune, president of Hawaii Stevedores Inc.

Grune's company has been at Pier 35 since the 1960s. The company is now at the 15-year point on a 35-year lease of 70,000 square feet; the state would have to break the lease to make room for UH.

Sea Engineering, which occupies the adjoining parcel, was not at risk, initially. However, when UH said it wouldn't accept a two-acre parcel at Pier 35 initially put on the table, D.O.T. had to sweeten the deal by offering the adjoining lot, which includes Sea Engineering's 8,000 square feet.

Sea Engineering, a marine construction and survey diving company, already has its operations spread across four piers because of lack of space.

The 50-employee company has been on a month-to-month lease for 16 years and was promised a 35-year lease, but the harbor redevelopment plan put a stop to that. According to the current terms, the state's responsibilities end with giving the company a 30-day notice of nonrenewal of its monthly lease.

"I don't need a big space, but just enough to have my boats, shop and office together," said Pat Ross, one of the owners of Sea Engineering.

UH says it's willing to give up Snug Harbor to help other maritime users and relocate anywhere.

"Just don't put us out of business," said Brian Taylor, associate dean for research at UH's School of Ocean and Earth Science Technology. "All we are saying is, just find us a place where we can have room to run a large marine operation. Then we can work with you."

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Private companies compete for coveted Pier 41

PACIFIC BUSINESS NEWS (HONOLULU) - APRIL 14, 2006
BY Prabha Natarajan
PACIFIC BUSINESS NEWS

PBN file photo

Competition for Hawaii's harbor space is being played out in the state Legislature as a shipyard attempts to turn its month-to-month lease into a long-term commitment.

Pacific Shipyards International, which repairs commercial and military vessels, has been on Pier 41 on a month-to-month lease with the state for the past 22 years. It wants a 10-year lease so that it can fix leaky roofs, repair termite-ridden structures, and rewire World War II-era buildings with modern telecommunications.

"We don't want to put money into something that you could lose next month," said Mike Schmicker, spokesman for Pacific Shipyards.

Pacific Shipyards' request faces strong opposition from competitors for the Pier 41 space, as well as from the state Department of Transportation's Harbors Division. It also comes as the state remains uncertain about the future of Pier 41, which is part of Kapalama Military Reservation. The Harbors Division is working on a new harbor plan that would develop the reservation into a cargo container yard.

Young Brothers Ltd., the interisland barge operator, also is interested in Pier 41 for additional loading space. It is trying to ease the congestion created by a 37 percent increase in the number of barge trips in the past four years.

"It's very hard to maintain this level of activity," said Glenn Hong, president of Young Brothers. "It's very congested and we don't operate as efficiently as we would like to because of severe space constraints."

Young Brothers, which has the support of an ad hoc group called the Hawaii Harbor Users Group, announced a $186 million expansion plan last week that would include the use of Pier 41.

In legislative testimony, the state opposes Pacific Shipyards' request. The Harbors Division has testified against two legislative measures -- House Concurrent Resolution 79 and Senate Concurrent Resolution 96 -- that call for the state to sign the 10-year lease.

"The 10-year lease is premature and may create conflict on plans to develop expansion of Kapalama Military Reservation into a cargo-handling container yard for Honolulu harbor," the division said. "We have to undertake further planning before considering any lease commitment."

The Harbors Division noted that Pacific Shipyards operates a floating dock that could be relocated elsewhere.

Young Brothers is interested in Pier 41 because of its proximity to its current facilities.

"The planned expansion of Young Brothers' port facilities at Piers 39 and 40, including badly needed cargo-handling capacity, would be jeopardized by the continued presence of Pacific Shipyards' dry dock facility at Pier 41," the company testified.

Pacific Shipyards does have the support of harbor users and the workers' union that want a ship-repair facility in Honolulu, close to their waterfront operations. They include Smith Maritime, Atlantis Adventures, Commercial Marine Electronics and the International Brotherhood of Boilermakers-Iron Shipbuilders-Blacksmiths-Forgers & Helpers.

Pacific Shipyards' attempt to get a long-term lease is not new. The state Board of Land and Natural Resources, which owns the property, approved the signing of a 10-year lease two years ago.

Sen. Lorraine Inouye, D-Waimea-S. Hilo, chairwoman of the House Transportation and Government Operations Committee, said passing the resolution would create a conflict.

"Right now, the D.O.T. is reviewing land use and studying how to use the harbor land," she said. "And it seems that D.O.T. has in mind to accommodate them [Pacific Shipyards] in a different place."

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Harbor users step up, now it's state's turn

PACIFIC BUSINESS NEWS (HONOLULU) - MARCH 3, 2006

Exasperation is a powerful catalyst, especially when you're dealing with the state and with politicians.

A decade ago, businesses that use the state's harbors supported the state's efforts to develop a master plan for expanding, upgrading and repairing Hawaii's dilapidated piers, terminals and warehouses. The 2020 harbors plan was a fine, expensive report; trouble is, no one did anything with it.

Enough time passed that the report became outdated, creating yet another obstacle to actually getting the harbors fixed. Saying "Enough already!" --- a group of harbor users paid $80,000 for a fresh set of blueprints.

So now we have a plan. By the end of the year, the harbor users will have shelled out another 80 large ones for a second report, this one to itemize how much all of these fixes will cost and suggest ways to pay for them.

The idea is to have the plans ready to lay on the governor and the Legislature the first day of the 2007 session --- here's what we need to do, here's what it will cost, here's how we'll pay for it.

We're not engineers or harbor pilots, but from what we've seen of the blueprint released last week, none of it is fluff. It correctly divides the projects into categories that range from immediate fixes to long-term expansion.

But the problem with the use of phrases like "long term" is that they enable decisions, especially expensive ones, to be postponed. It would be a huge mistake for state officials to defer action on the long-term projects like the transformation of the Kapalama Military Reservation into a state-of-the-art container terminal, and the long-discussed development of the west end of the harbor in Kahului.

These projects are among the most expensive, with a price tag of at least $500 million.

The Hawaii Harbor Users Group is commended for its leadership, its persistence and its understanding that if anything is ever going to be done to fix the harbors, business will have to carry the ball. They have acknowledged they will have to pay higher fees and they're willing to do it, as long as they see some improvements that enable them to work more efficiently.

The governor, decision makers at the state Department of Transportation and members of the Legislature should review the harbor users' report, know it inside and out, and be ready to move ahead on the whole package early next year.

State, harbor users join forces to find $600M to fund repairs

PACIFIC BUSINESS NEWS (HONOLULU) - FEBRUARY 24, 2006
BY Prabha Natarajan
PACIFIC BUSINESS NEWS


PBN file photo

State officials and the primary users of Hawaii's harbors are working together to find more than $600 million, the estimated cost of solving a statewide shortage of space.

The money likely will come from both public and private funds and result in higher rates and tariffs.

A report released this week by the Hawaii Harbor Users Group, a nonprofit group of maritime companies including Matson Navigation and NCL America, put a $638 million price tag on harbor improvements. The group already had shared the report with the state Department of Transportation last November.

State officials say they want the maritime companies to find alternative ways to pay for the improvements, either through public-private partnerships or lease arrangements.

"We collectively want to explore the possibilities of how to underwrite the cost," said Barry Fukunaga, deputy director of D.O.T.'s harbors division. "We want to see if there are other business models out there as opposed to our traditional method of the state funding it all and relying on user fees to pay for it. It would save us money and let us do it in a way that would achieve these ends more quickly."

The harbor users' group has commissioned a follow-up study to determine how to pay for the improvements outlined in its report. Its findings are due this summer.

Meanwhile, the state will undertake a similar review of financial options in developing Kapalama Military Reservation into a container terminal, Fukunaga said.

Later this year, the two sides will negotiate a model that will be the basis for a legislative package in 2007. That package likely will include higher tariffs and rates -- the last rate increase was in 1995.

"I mentioned to harbor users that we would raise fees, and they didn't mind it as long as they know it goes for harbor repairs," said Rep. Joe Souki, D-Wailuku-Waihee, chairman of the House Transportation Committee. "But they don't want to raise fees until 2007."

The harbor users' report will provide the framework for improvements and the D.O.T. will implement the plans, Fukunaga said.

The report found that state harbors can no longer handle all the container cargo entering Hawaii and estimated that the volume of cargo will increase 27 percent by 2010. It noted that Maui has the most critical problems, which could cause major disruptions in the next couple of years.

"Harbor users are already facing shortages of available berth space," said Gary North, chairman of the group and senior vice president of Matson. "The study confirmed that the growth of cargo traffic and transportation services will use up all the reserve capacity of Hawaii's harbor facilities. If harbor improvements aren't addressed, port users will no longer be able to efficiently service the Hawaii market."

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Vol. 11, Issue 53 - Wednesday, February 22, 2006

Harbor users urge $600M upgrade

A coalition complains that maritime companies are running out of space

By Allison Schaefers
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A group of the state's largest maritime companies yesterday urged spending more than $600 million to improve Hawaii harbors and ports, and predicted that the state's largest facility soon will run out of space.

The report, commissioned by the Hawaii Harbor User Group, warned that Honolulu Harbor -- the major shipment point for most container traffic in and out of the state -- will run out of space for international cargo this year and for domestic cargo by 2010.

Matson and Horizon Lines are already out of space at Sand Island, said Gary North, senior vice president of **Matson Navigation Company Inc.** and chairman of the nonprofit group.

"We're stacking things higher and that means that it takes longer to process cargo," he said.

The report recommended increasing rates for cargo wharfage and passenger arrivals, pursuing mixed-use development to spread costs and obtaining private equity. Port user rates have not increased since 1987, the report said.

Hawaii's economy is creating crowded conditions for the maritime industry and users of Hawaii ports are increasingly confronted with limits on berth and terminal resources, the report stated.

There is also a looming shortage of port facilities due to the growth of intrastate and interstate cargo business, the expanding cruise ship industry and the planned introduction of an interisland ferry service, it said.

The nonprofit harbor group was created in late 2004 by Matson, **Horizon Lines LLC**, **Norwegian Cruise Line**, **Young Brothers/Hawaiian Tug & Barge**, **Sause Bros. Inc.**, **Aloha Cargo Transport**, **McCabe, Hamilton & Renny Co.**, **Hawaii Stevedores Inc.**, **Hawaii Superferry Inc.**, **Tesoro Hawaii Corp.**, the **Gas Co.** and **Ameron Hawaii**.

"We had all been dealing with the DOT Harbors Division independently about various issues and we weren't having a whole lot of success," North said. "The DOT had difficulty getting focused on whom they should take care of, and this was becoming more of a problem as the harbor started to shrink."

Waterfront plans for Honolulu Harbor must ensure significant cargo ship and container space now or it will hurt Hawaii's emerging export-based businesses, said state Sen. Gordon Trimble (R, Downtown-Waikiki), a longtime advocate for easing pier pressure.

Export volume at Honolulu Harbor -- which caters to **Nippon Yusen Kaisha** (NYK Line) and the **Philippines, Micronesia and Orient Navigation Co.** (PM&O Line) -- has increased about 25 percent annually for the past three years and is expected to continue at that pace, said John David Bryant, the operations manager for Hawaii Stevedores.

The number of Hawaii cruise visitors jumped 31.2 percent from 2004 to 2005, according to the state Department of Business Economic Development & Tourism. Last year, more than 315,914 passengers boarded 54 out-of-state cruise ships including the foreign-flagged Norwegian Wind. In addition, there were two U.S. flagged ships homeported in Hawaii: the Pride of Aloha and the Pride of America, which began interisland cruises in July.

To accommodate this growth, the group recommends three high-priority projects should be completed in the next five years, saying $300 million should be spent on the Kapalama Terminal development in Honolulu; $150 million should be spent on the West Harbor development in Kahului, Maui; and $50 million should be spent on the Pier 8 construction in Kalaeloa.

More than $110 million in medium-priority projects also were recommended in the report. Honolulu projects include rerouting Sand Island Access Road, improving Pier 40 and completing the Pier 19 Ferry Terminal. Projects were also recommended for Kalaeloa, Kahului, Hilo, Kawaihae, Nawiliwili, Lanai and Port Allen.

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HonoluluAdvertiser.com

Posted on: Wednesday, February 22, 2006

Cost of port improvements: $600 million

By Lynda Arakawa
Advertiser Staff Writer

More than $600 million in harbor and port improvements are needed to handle the state's growing cargo and transportation needs, according to a report released yesterday by a maritime transportation industry group.

Robert Kritzman, executive vice president of NCL America Inc., left, and Gary North, senior vice president of Matson Navigation Company Inc., are part of the Hawaii Harbor Users Group, which released a study addressing the needs of Hawai'i's ports and harbors.

BRUCE ASATO | The Honolulu Advertiser

The report, commissioned by a group including Matson Navigation Co. and Norwegian Cruise Line, points to a looming shortage of port facilities in the state caused by the growing cruise industry, the introduction of interisland ferry service and the continued growth in cargo traffic. The organization, the Hawaii Harbor Users Group, retained Bellevue, Wash.-based Mercator Transport Group to prepare the report.

"Harbor users are already facing shortages of available berth space," said Hawaii Harbor Users Group chairman Gary North, who is also senior vice president at Matson. "The study confirmed that the growth of cargo traffic and transportation services will use up all the reserve capacity of Hawai'i's harbor facilities. If harbor improvements are not addressed, port users will no longer be able to efficiently service the Hawai'i market, which will result in increased costs and potential shortages of goods to Hawai'i residents."

Container traffic volume is expected to grow by up to 27 percent by 2010, and 93 percent by 2020, the report said. The report also said Maui's harbor capacity needs are the most critical, with major disruptions possible within the next few years.

The report is meant to help guide the state in addressing harbor needs, and the group has been working closely with the state Department of Transportation, North said. The Hawaii Harbor Users Group, formed last year, includes a dozen key harbor users, including NCL, Matson, Horizon Lines and Young Brothers/Hawaiian Tug & Barge.

"Considering the fact that more than 90 percent of all goods and materials enter Hawai'i via our harbor system, it is imperative that the state address these critical harbor needs," North said. The group is also commissioning a study exploring ways to fund the improvements and expects to release it this summer.

Transportation department spokesman Scott Ishikawa said: "We do appreciate the comments and efforts made by the harbor users, and we look forward to collaborating with them on many of these ideas to improve the harbor infrastructure."

The report projected about $125 million in harbor improvements will be needed in the next four years, including Pier 40 improvements in Honolulu and an interisland terminal expansion in Kahului. Necessary improvements in five years and beyond total another $500 million, including $300 million to redevelop the former Kapalama Military Reservation for expanded commercial cargo operations.

Ishikawa said the department is fast-tracking the Kapalama development plan and hopes to begin construction by 2010. He said the department is also seeking $10 million to purchase property at Kahului Harbor from landowner Alexander & Baldwin.

Short-term projects include eliminating part of the shed at Pier 1 in Honolulu to free up about six acres for harbor use, as well as finalizing a new lease with Matson to provide an additional seven acres on the Sand Island property, Ishikawa said.

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Harbor users present $600 million plan

PACIFIC BUSINESS NEWS (HONOLULU) - FEBRUARY 21, 2006

The Hawaii Harbor Users Group, representing maritime companies, released a $600 million plan to overcome the state's lack of dock and pier space.

The group hired a consultant to make recommendations on harbor usage, future requirements and changes to meet the demand for harbor space.

The group will made its plans public on Tuesday at a meeting at Matson Terminal, and released its report titled "Port facilities & development priorities."

Harbor users -- including Matson Navigation, Horizon Lines, NCL America and Young Brothers -- will push for these recommendations to be implemented by the Hawaii Department of Transportation and the Legislature.

According to state estimates, Hawaii harbors already are out of space for international maritime cargo and will be out of space in a year for domestic cargo. The report adds that the situation on Maui is the most critical and could create major disruptions in the next couple of years, if it isn't rectified soon.

"Harbor users are already facing shortages of available berth space," said Gary North, chairman of the group. "The study confirmed that the growth of cargo traffic and transportation services will use up all the reserve capacity of Hawaii's harbor facilities. If harbor improvements aren't addressed, port users will no longer be able to efficiently service the Hawaii market."

He said the users have teamed up to present a road map to the state on what they need. The Hawaii D.O.T. was presented with the report.

The maritime group has commissioned a follow up to this report, to determine the sources of funding for its $600 million plan. The report is expected to be released this summer.

Port authority idea to get fresh look

PACIFIC BUSINESS NEWS (HONOLULU) - JANUARY 20, 2006
BY Prabha Natarajan
PACIFIC BUSINESS NEWS

Creating a Hawaii port authority to oversee harbors and airports, an idea that gets discussed frequently but never goes anywhere, is expected to resurface this legislative session.

But this year, the proposal has some new momentum behind it.

Various proponents have sought to create a private or quasi-governmental authority in Hawaii to run the harbors and airports, similar to agencies in other states. By focusing on one mission, advocates say port authorities can move faster on transportation projects by reducing bureaucratic and political interference.

Industry groups and Rep. Joe Souki of Maui, chairman of the House Transportation Committee, have opposed the creation of a port authority, and such proposals have died in various legislative committees.

Now Souki says he will introduce legislation creating a port authority.

He told PBN he changed his mind because of delays in improvements to harbors and airports. The point of the measure is to come up with a way to deal with the lack of space at harbors and decades-long complaints about airport operations, he said.

"Having the government run these agencies for all these years hasn't worked," said Souki, D-Wailuku-Waihee. "If that's the case, I want to take some of the politics out of it."

His measure would strip power from the Legislature and the administration to control state harbors and airports. He also expects to seek increases for fees paid by shipping companies and airlines.

It's unclear at this point if Gov. Linda Lingle will support the creation of a port authority, a measure that would have a significant impact on businesses. Officials of the state Department of Transportation declined comment, saying they weren't ready to discuss their priorities for the legislative session.

At a meeting with harbor users, Souki mentioned the port authority concept. The reaction was mixed.

"Some smiled, some didn't have smiles," Souki said.

Matson Navigation executive Gary North, who was there when Souki presented his idea, said he was among those who didn't smile.

"Matson doesn't have a position on it yet," North said.

Souki doesn't expect the proposal's opponents to be easily won.

"It's not a done deal yet," Souki said. "I've had some discussions on it. We'll take it one step at a time."

Souki's measure could find support among some lawmakers. In the past session, Sen. Willie Espero, D-Ewa Beach-Waipahu and chairman of the Senate Transportation Committee, proposed a similar measure with the support of several other lawmakers.

Other key transportation debates at the Legislature this year are likely to focus on commuting, speeding and the use of cell phones behind the wheel.

Also, both Lingle and legislators will reintroduce the measure that would hand over the control of piers 1 and 2 at Honolulu Harbor to the Department of Transportation from the Hawaii Community Development Authority. The measure was passed last year, but Lingle vetoed it on a technicality -- the wrong address for the piers was given.

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Posted on: Sunday, January 1, 2006

What the people want

The 2006 Hawai'i Legislature will open Jan. 18 facing huge problems as well as the presence of a huge state tax surplus.

The Advertiser recently asked current and former members of our community editorial board for their thoughts on what the Legislature should focus on this election year. (Watch for more comments from board members over the coming days).

HELP THOSE WITHOUT

As the Legislature gets ready for the 2006 session there is for the first time in a long time some extra money. As legislators ponder how to divide up the treasury my plea to them is don't forget ...

The uninsured ... At last count Hawai'i had approximately 120,000 individuals who were uninsured for medical care. This is a shameful situation for a state that boasts one of the most progressive systems of healthcare with the Prepaid Health Care Act.

To allow 10 percent of our population to go without health insurance is a scandal especially when it is estimated that half of them are gainfully employed in one or more part time jobs.

Affordable housing ... The middle class has found itself priced out of the housing market. While there is much discussion about what is affordable and who is included in the group not much is being said about those who don't even qualify for "affordable" housing.

State and county governments have found it convenient to talk to developers about providing "affordable units" with each new development. But there are many in the community who rely on government-sponsored housing. Government must always be the provider of last resort.

The homeless ... Homelessness is a tragedy of the last quarter of the 20th century. The acceptance of a permanent underclass is not an option for a state that prides itself in finding a place for everyone regardless of a person's station in life.

Don't even think of a tax refund. There are too many poor people living under the safety net who need much but have little.

— The Rev. Frank A. Chong is a Honolulu social worker.

SAVE WAIMEA

I am in Zhongshan. This southern region is the most highly developed manufacturing center in China. Prosperity bursts at the seams. Rows of apartments are being built. Miles of huge factories line the freeways to the provincial capital of Guandong.

This prosperity carries a price of heavy, smelly air and cement-gray streams. The air and land are not managed well here. Nature suffers.

Because of the contrast, I can understand that Hawai'i's prosperity depends on the beauty and management of the 'aina. Hawai'i remains endowed with relatively clean air and sparkling waters — for now.

Waimea Valley is one of the last two remaining ahupua'a on O'ahu, connecting the sea to the mountain. This valley can be a symbol of quality management of the 'aina in Hawai'i.

The 2006 Hawai'i Legislature can renew its vow to honor this heritage and incalculable resource by supporting the purchase of this pristine and symbolic home of Hawai'i.

This an opportunity in history to do what is pono and wise.

1. Allocate a percentage of the New Legacy Land Act to finance ongoing operations under The Audubon Society.

2. Use part of the state's surplus to help pay for the acquisition of the valley.

3. Encourage OHA to acquire the valley and to finance cultural and archaeological activities.

U'a mau ke ea o ka 'aina i ka pono: The life of the land is perpetuated in righteousness. These words are on the Hawaiian royal crown and at the Legislature's mauka entrance.

— Mitsue Cook is a business consultant, educator and writer.

SUSTAINABLE GROWTH

How in the world is this possible? This was my first reaction to the news of Hawai'i's 2005 budget surplus.

Given that public schools ranked last in the nation, the state of our pothole-afflicted roads, a non-existent curbside recycling system, and our unsophisticated, primordial bus system, how hard can it be to find incentives to put this money towards public welfare?

The single most important thing I believe the Legislature should accomplish for Hawai'i's people is to attain healthy, long-term, economic growth, primarily through an adjustment in public school funding arrangements.

Economic growth, increased work and investment will be advanced by happily productive citizens with confidence in their children's schools, smooth roads, and quick, clean, efficient transportation and recycling systems, more so than by slipping a few bucks back into taxpayers' pockets.

The government is fully capable of, yet far from, addressing each of these necessities. It should give priority in the spending of the surplus to policies and services not yet addressed by private programs. It should allocate its resources toward spending in education (teachers' salaries, etc.) and infrastructure.

This is a more socio-economically viable alternative than some minimal tax relief.

Hawai'i's future well-being may not withstand the folly of unwisely throwing away this opportunity to jump-start improvements in public education, transportation, infrastructure, etc.

Granted, this is easy to say, yet, exactly how will the funds be distributed most efficiently, and more importantly how will these policies be maintained?

On second thought, maybe it is easier to just give everyone their dollar back. ...

— Janette McGrain is a student at the University of Hawai'i. navigate wisely

I teach social studies at La Pietra, Hawai'i School for Girls, and I speak for the students who just took my "Economics Through the Lens of Hawaiian History" course.

These young and intelligent women want me to write that they are very, very concerned about Hawai'i's rising population (currently about 9 percent per year), our overcrowded and congested living spaces, and our dwindling natural resources, especially water.

They fear, more or less, that we are rushing into decisions that should come only after much more deliberation and public input (for example, the proposed condominium pods that are part of A&B's and HCDA's Kaka'ako Waterfront plan), and not moving fast enough when it comes to addressing quality of life issues like transportation, open space preservation and professional development of our work force (especially for women).

To our 2006 state Legislature, my La Pietra students would like to say: Please, using substantial and substantive public input, develop a long-term vision for an economically and socially diverse Hawai'i that helps our state become a model for sustainability. Sustainability is defined as the development of societies in such a way as to not harm future generations.

The logic of sustainability makes sense to my students, and they want our policymakers to follow its precepts. They want their representatives to look far over the horizon (much in the way Hokule'a navigators "look" over the horizon when they are sailing to far off islands) and envision a Hawai'i where they can raise their kids.

They want their representatives to act like navigators. Please, they say, sail our voyaging canoe with a clear purpose and a vision for the future.

— Josh Reppun is a high school teacher.

FIX THE HARBORS

This year the Legislature should begin a long-term financing plan for the development of Kapalama Military Reservation into the next major ocean cargo container terminal at Ho-nolulu Harbor, a pivotal centerpiece of harbor improvement that is long overdue.

Hawai'i's economy continues to grow at a brisk pace.

All islands are seeing growth and development in commercial properties, residential construction, and large scale federal projects. Our tourism industries located in Waikiki, Po'ipu Beach resorts, Kona coast hotels, and Lahaina to Kihei on Maui, all rely on the smooth flow of goods through Honolulu Harbor.

It cannot be overstated that cargo operations have already attained maximum utilization of existing space.

Politically, paying for this project is a bipartisan issue that impacts all of Hawai'i's people. Goods flow to outer-island ports through Honolulu Harbor, so Neighbor Island representatives should be even more vocal.

Taxpayers are well aware of the typically prolonged project timelines, involving endless months of planning, design, approvals and permitting, followed by years of construction.

Maritime capital improvement projects involving dredging demand exhaustive pollution control measures that further extend the time and costs of construction. This is not a glamorous project that will be easy to "sell" to either politicians or taxpayers. But we need to ensure that our harbors are being improved, just as readily as our highways and airports.

Honolulu Harbor has suffered from political neglect for years. Delaying the Kapalama development today will guarantee a negative impact on our economy tomorrow.

— Edward Enos of Kailua is a Honolulu harbor pilot.

INVOLVE THE PEOPLE

If I were to select one thing for the Legislature to focus on in 2006, it would be to create a framework where more folks become part of the decision-making process.

Frequently, I hear a great deal of wisdom from citizens with potential to seek alternatives to seemingly "complex" matters.

We need a more open process that begins to tap the aspirations and common sense of each of us. We need to move away from the notion that only the "experts," only the "centers of influence," only the people who have "wealth and assets" and only the "professionals and the agencies" are capable of creating alternatives.

In a management context, decisions need to be made at the lowest level possible. In a community context, the people need to have the freedom to tap each other's collective creativity and evolve new ways of becoming more interdependent.

A couple of examples.

1) Since 1989 Porto Alegre, Brazil, a city with a larger population than the state of Hawai'i, has had its city budget formulated by citizens (850 at last report) representing every aspect of the city geographically, economically and infrastructurally.

Porto Alegre was in deep financial difficulties in 1989, but now its experiences and approach are being replicated in more than 70 other cities in South America.

2) Willets, Calif., citizens have established the Willets Economic Localization Project whose goal "is to discover creative methods to sustain and empower the local community while moving away from global, imported resources — in essence to localize our economy." (See www.willetseconomiclocalization.org.)

— Peter Bower is a former YMCA executive and business consultant.

SUPPORT OUR WORKERS

Over the past few years, the Legislature has directed an increased amount of money to early learning, K-12 and higher education.

Most would agree that even the increased amounts are still not enough, but at least the support for learning at all ages is appreciated. A significant population, though, remains educationally under-served. This is the population of adult learners who need education for entry-level workplace skills.

Thousands of Hawai'i's residents do not follow the traditional path to participation in a highly-skilled work force. Any of several reasons limit such participation:

- Dropping out of high school before graduation.
- Earning a high school diploma with a less-than-complete mastery of basic skills.
- Coming to Hawai'i from a non-English speaking background.
- Coming to Hawai'i from a country without formal education.
- Living with a disability which affects the learning process.

Thanks to the availability of federal money, many of these individuals can enroll for free in the DOE's Community Schools for Adults to improve basic reading, writing and math skills.

But improvement in these basic skills, while necessary for success in the workplace, is not sufficient. Additional education is needed to be "workplace ready." In fact, the expectations which employers have for new employees increasingly are identical to the expectations which college admissions officers have for incoming freshmen.

So additional classes, whether at community colleges or elsewhere, are needed.

The challenge to many of these adults is one of time. If they are raising a family while working, they may feel unable to take more than one class at a time. Yet most financial aid applies only to students who are enrolled at least half-time (two classes per semester). The Legislature could address this problem by setting aside some of the budget surplus as scholarships for adults who successfully complete the GED or competency-based diploma and who want to go on to take just one college class per semester for two semesters. By the time they have completed two college classes, these students will find ways to support further education.

For an investment of just a few thousand dollars now, the Legislature could potentially see returns in the form of lowered unemployment, lowered enrollment in public assistance, and greater civic engagement.

— Kathy Jaycox is an educator and consultant.

FIX THE BURDEN

1. Remove the present excise tax and replace with simple sales tax of 3 percent only at retail.

2. Reduce the state income tax by 50 percent across the board. Past and current federal experience proves that reducing taxes raises gross tax revenue income and reduces unemployment.

3. Put a term limit on members of the state Legislature, both House and Senate. Maximum four years for House, six years for Senate. Then watch the indictments go down in number and action go up in amount and value.

4. Demand a minimum of 10 percent reduction in government employment, across the board in all departments. Everyone knows there is a surplus of government employees but nobody has the guts to fix the problem.

5. When these actions are taken, arrange similar follow-ups in each category for three years later.

If this is done, the results will be spectacularly amazing and beneficial. Make a mention in my obituary.

— Cliff Coleman is a retired business executive.

NO REBATE WANTED

Ua mau ke ea o ka 'aina i ka pono. The life of the land is perpetuated in righteousness.

Our state motto visions the Native Hawaiian social structure in the ahupua'a in which the people share tasks and help each other to advance the health and nurturing of their community.

Our leaders in the Legislature and administration can move our state toward the vision of the ahupua'a by trusting that the people are righteous — they truly care for each other.

People in Hawai'i sustain the life of the land by their generous giving through nonprofits to those disadvantaged in health and education. Educators, in public and private schools, suffer inadequate compensation.

Firefighters and police officers risk their lives to protect the lives of others.

Our leaders should not fear the people's disapproval if the budget surplus is used to improve life for all in the ahupua'a. The needs are many.

Too many of our people lack and cannot afford acceptable shelter. The drug epidemic robs people of productive life. Our children are deprived of a nurturing learning environment because of the fragility of school facilities and inadequacy of program resources.

Too many state parks, habitats for healthy living, are neglected and therefore avoided. The Hawai'i Community Development Authority could use more financial resources to implement a financially feasible Kaka'ako Makai plan which realizes the decades-long vision — prior to the plan amendment in early 2005 to include a residential component — of creating a vibrant gathering place connected to the sea for all of O'ahu's people.

Our leaders should not rebate the budget surplus. They will gain the people's respect for investing the budget surplus to improve life for all of us in the state ahupua'a.

My New Year's pule is for the bulk of the surplus to be invested in public school infrastructure and programs.

— Ivan Lui-Kwan is a Honolulu attorney and accountant.

WE NEED HOUSING

The 2006 Legislature faces difficult choices between many pressing needs. School repairs, waste treatment plant upgrades and transportation infrastructure improvements all deserve overdue funding.

But the most important problem for this year's session to address is affordable housing.

The affordable housing crisis dwarfs other issues because the lack of affordable housing in the broadest sense of that phrase now threatens the fabric of our community. Hawai'i's chronic homelessness, shortage of rental housing, and skyrocketing costs of home ownership are coalescing into a perfect storm.

The homeless have moved into our parks and beaches. The working poor must take two and three jobs to pay their rent. College grads reluctantly leave for the Mainland.

The soaring value of real property imposes exorbitant taxes on those with fixed incomes. It is no overstatement to say our quality of life is at risk.

As daunting as problems created by the affordable housing crisis are, solutions do exist. More community-based mental health and drug treatment programs will help reduce homelessness. A revolving fund for low-cost construction loans to private developers can increase the number of affordable rentals.

State refunds would take the sting out of high property taxes.

Providing sufficient affordable housing will not be easy or inexpensive. But to preserve the social contract between government and its citizens the Legislature must do so. Everyone needs a roof over their head.

— Lundsford Phillips is a Honolulu attorney.

HOUSING HOUSING

The most important issue before the 2006 Legislature is housing. To be effective in our community, young people need to set roots. They need to have their own home, rented or owned.

Older folks need to know they are safe and secure in a place they can afford, and the homeless need to be brought in and off the streets.

These three categories are often Hawai'i's three housing have-nots.

As always, the state budget will be limited in spite of the expanding surplus. From experience we know that half the budget will go to pay for schools and universities which produce some of these needy housing have-nots.

This Legislature must find a solution that can be implemented now. One proven option is for the state to seek professional guidance and some money from the private sector. State tax incentives may be the quid pro quo.

For example, the excellent public/private partnership between the Hawai'i Tourism Authority and the tourism industry's stakeholders has made Hawai'i the destination of choice in all of Hawai'i's core markets.

I believe, as most do, that '06, '07 and '08 are going to be huge growth years in Hawai'i, particularly in tourism. This growth will expand the resident population, creating even greater housing needs and even more housing have-nots.

Experience teaches us that growth in segments of the economy like agriculture, construction and the military produce many housing have-nots.

The state is on a roll with "long-term lease" housing opportunities for the longtime waiting Hawaiian population.

Where to build new housing is also a major issue. East O'ahu is out because of record setting prices and the area is saturated to the tipping point. Central O'ahu is the logical choice. However, traffic is a big issue.

The needs of the homeless must be solved in a manner that meets their needs but does not attract homeless folks from other states.

The communities that will accommodate this growth must be heard.

— Bob Hampton is owner of a Waikiki beach services firm.

HELP THE POOR, HOMELESS

Of all the subjects we discussed during our time with the community editorial board, one thing not touched on much was homelessness and poverty.

After Hurricane Katrina much of the country was aghast at the level of poverty in New Orleans and the rest of the country. Here in Hawai'i we are not immune from this plight.

In September 2004 the state released a 10-year plan to end chronic homelessness. Homelessness affects all areas of our life aside from the obvious visual displeasure to the upper-class.

It affects education because children in homeless families move in and out of districts, those kids fall through the gaps, they do not get a good education and their poverty is perpetuated.

It affects mass transit because in order to help people become productive they have to be able to get to and from work.

If affects housing because those on lower income are more in need of housing than the wealthy (Kaka'ako).

It affects the economy in many ways — crime, drug use, prostitution, gambling, etc — desperate acts by desperate folks.

We are weaving the fabric of our reality and so must work toward a more stable and compassionate community. All citizens should be more knowledgeable about homelessness and thus develop the political will to support positive change. This next Legislature should address the homeless issue especially as it relates to poverty or low income.

— Zaff Bobilin is a home-school mother and part-time makeup artist.

COMPETE GLOBALLY

Education likely tops most lists of issues the 2006 Legislature needs to tackle.

But rather than debating which schools get what slice of the pie, our political leaders should recognize that students are the priority.

Lawmakers need to abandon business-as-usual tactics that result in an outdated education system that protects and rewards bureaucrats, provides lucrative contracts to insiders, and does little to inspire the quality teachers to remain in the classroom.

Our students under the current system are not the priority. We need to focus on creating the next generation of global business leaders and entrepreneurs.

The U.S. is the world leader in creative high-tech engineering and computer software development. China, India and other emerging Pacific Rim nations will be the markets of the future.

Our students are in a unique position to take advantage of what Hawai'i has: a central location, diversity, strong ties to Asia, and technology companies with long-term contracts to strengthen our defense and provide high-skilled employment.

To provide the skills our children need to compete in a global economy, our schools should:

- Make programs that teach Asian languages a priority.

- Establish mandatory cultural exchange programs with Pacific Rim countries.

- Combine these cultural and language skills with high-tech engineering, math, science environmental and business skills — the tools of the new global economy.

Such a change will require the efforts of the administration and state Legislature, our congressional delegation, educators, and union and civic leaders.

And, yes, it will take money. We should tap into federal programs and funding sources.

Hawai'i is fortunate to have a disproportionate share of political power through the seniority of Sens. Daniel Inouye and Dan Akaka. Through their influence, Hawai'i's technology companies have received substantial defense contracts.

These companies need the human capital that Hawai'i can produce. Our delegates could steer federal dollars here to establish Hawai'i as the base for the emerging global economy centered in the Pacific Rim.

If we do nothing, others will grab that position and their success will lead them to vacation in Hawai'i.

Hawai'i has a window of opportunity that we need to take advantage of now. The future of Hawai'i is at stake.

—David Ushio is president of Pacific Technologies, a company heading the development of the Mobile Modular Communications Command (M2C2).

HOMELESSNESS NO. 1

Our No. 1 problem is homeless people in our state.

Legislators should set aside funding for building a Center for Homeless Citizens, initially consisting of dormitory-like living quarters with cafeteria facility plus a job training center.

Any able-bodied homeless citizen, free of communicable disease and criminal record shall qualify for admission.

They could first be offered job opportunities in the center, with adequate assessment of job skill level. If they qualify, they should be offered job opportunities in the public sector, such as park and roadway maintenance and eventually see job offers extended to the private sector.

The facility shall be funded by the state, county, city, food stamps, Medicaid and private charitable organizations.

The goal is to promote the well-being of the homeless person, leading to the stage where they are able to support their own lives and become a contributing citizen of our community.

— B.S.Chen is a retired executive of a medical services firm.

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Posted on: Sunday, December 4, 2005

Harbor expanding to Kapalama

By Mike Leidemann
Advertiser Transportation Writer

State officials are taking the first steps on what could be a $300 million project to redevelop the former Kapalama Military Reservation, a 55-acre piece of land crucial to alleviating overcrowding at Honolulu Harbor, which is expected to run out of cargo space within five years.

Transportation Department officials in October sought proposals to plan the conversion of the state-owned area, now occupied by a mix of nearly 100 small businesses, rambling warehouses, and a University of Hawai'i marine research center, all operating on short-term leases.

Ultimately, state officials plan to move all the existing tenants and use the land for expanded commercial cargo operations in the harbor, which receives 98 percent of all consumer goods coming into Hawai'i.

"Developing Kapalama is one of the most pressing needs we have," said Tim Guard, president of McCabe, Hamilton & Renney, a stevedoring company. "It can't be stressed enough. There's an urgency to get that facility up and running."

State officials hope to begin construction on Kapalama by 2010 but say many obstacles lie ahead, not least of which is funding the huge project.

"We've had plans for harbor improvements for years, so it's significant that we're finally getting to work on the implementation of them now," said Barry Fukunaga, deputy DOT director for harbors.

With almost $1 million from the state Legislature, the DOT this year sought contractors to inventory existing conditions in the Kapalama area, survey it for significant historical features, and help start the planning and redevelopment process, said Sandy Pfund, head of the Hawai'i Harbors Project, which is partnering with the state on the redevelopment plans.

State officials hope to pick contractors for each phase of the work by early next year, she said.

"Right now, we're gathering all the information we need to determine the best way to undertake the improvements," Fukunaga said.

Any expansion of Honolulu Harbor is complicated by the large number of competing interests in the area. However, a 1997 harbors master plan for Hawai'i says cargo operations should be given priority over all other users.

"While the the economic value of commercial fishing, ocean mining, passenger cruises, excursions and ferries, etc. cannot be denied, commercial harbor planning must first address Hawai'i's life-sustaining cargo operations," the report concluded.

With the amount of cargo arriving in the state growing at a rate of 3 to 4 percent a year, the existing cargo operations of Matson Navigation and Horizon Lines are running near capacity. Both companies have made substantial investments in recent years to increase efficiency within their own limited container yards on Sand Island, Guard said.

"If they weren't so efficient in the ways they already handle cargo containers, we'd already be in a lot of trouble," he said.

Developing the Kapalama area will increase existing space for container cargo operations by almost 50 percent, at least temporarily alleviating the need to develop another expensive harbor somewhere in the state, officials said.

In addition to moving existing tenants, state officials say, they are planning to expand pier space in the area, dredge nearby harbor space, and create the infrastructure necessary to support major container cargo operations.

Early plans call for developing about 2,000 linear feet of berthing space, enough for two modern container ships, and almost 70 acres of yard area in a rectangular configuration, Fukunaga said. The area is directly across the Kapalama Basin from an existing container yard for Horizon Lines, which could move its entire operation into the new facility, allowing Matson to expand into space vacated by Horizon.

The Kapalama area, acquired by the state from the military in 1994, is considered the ideal location for a container terminal because of its relatively underused space and its close proximity to the Young Brothers interisland shipping terminal, allowing for cargo to be efficiently transhipped to Neighbor Islands.

While existing Kapalama tenants are worried about losing their inexpensive, close-to-town sites, Fukunaga said all of them have known for years that relocation would come eventually.

"Part of the challenge is finding new space for all of the 98 tenants. We've told them what's happening and try to keep them informed. They know nothing is going to happen to them overnight," he said.

Fukunaga said state officials want to explore the possibility of creating a public-private partnership that could help offset the development costs of the Kapalama project.

"If we have to rely on the old, traditional ways of funding everything through the Legislature, we'd be stuck," he said. "The idea of a partnership with private business can help us accelerate the process and get more achievable results a lot sooner."

Reach Mike Leidemann at mleidemann@honoluluadvertiser.com.

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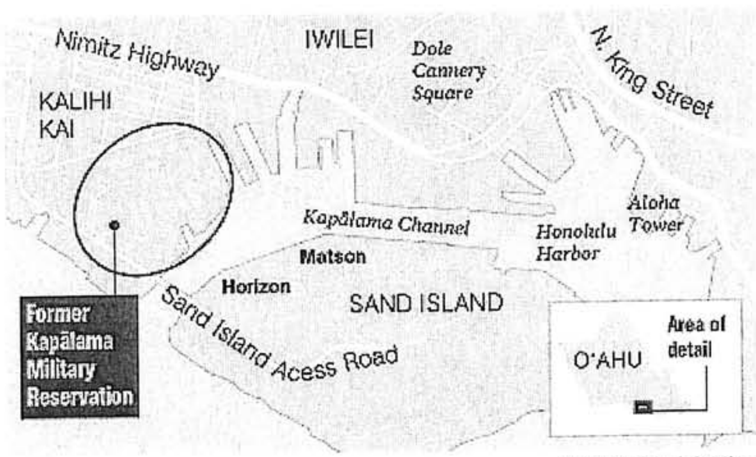

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State seeks contractors to plan Kapalama redevelopment

PACIFIC BUSINESS NEWS (HONOLULU) - NOVEMBER 25, 2005
BY Prabha Natarajan
PACIFIC BUSINESS NEWS

The state will hire three contractors early next year to map out remediation and reconstruction plans for Kapalama Military Reservation as a harbor facility.

Its goal is to have plans and cost estimates in place in time for the 2007 legislative session.

"We want to keep moving forward," said Barry Fukunaga, deputy director of state Department of Transportation's harbors division. "It's a major project and it's important that we continue to progress and not lose momentum."

The former military base is bordered by Sand Island Access Road and Auiki Street in Kalihi Kai.

Hawaii's harbor users -- from cargo- to passenger-service operators -- complain that they are running out of space at the docks. Studies have determined that the state is almost out of space for international cargo and will run out of room for domestic cargo by 2011.

The 70-acre Kapalama Military Reservation, a former military base, presents a partial solution to the space problem. But first, the state must relocate approximately 100 tenants, remediate its junk yards, tear down dilapidated buildings dating back to World War II and dredge a deeper harbor.

To get started, the D.O.T. will choose three design contractors at a total cost of about $1 million.

- The major contract is for an engineering planning consultant to develop the site. The state says it is looking for a company with previous port and maritime experience and has received seven proposals from a mix of local and national companies.
- The second project will document Kapalama's history. State law requires the D.O.T. to assess, document and analyze the cost of the historic preservation of the base. Six local companies have submitted letters of interest.
- The third contract is for general engineering design. This company will chart plans for all aspects of engineering. Eleven local companies have expressed interest.

Fukunaga said the state will begin negotiations with the companies in the next few weeks. He expects to have signed contracts by early next year and begin work next spring.

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Kapalama key to easing harbor crush

PACIFIC BUSINESS NEWS (HONOLULU) - AUGUST 5, 2005
BY Prabha Natarajan
PACIFIC BUSINESS NEWS

The solution to the space crunch at Honolulu Harbor is obvious: bulldoze the old Kapalama Military Reservation and its crumbling warren of termite-tattered warehouses.

First, about 100 businesses need to be moved.

Then, the toxic crud that's been steeping in the soil for 60 years has to be dug out.

And then there's the corner of the harbor that needs to be deepened and the longer pier that has to be built.

All at a cost of at least $500 million.

The magnitude, complexity and price tag of the Kapalama project is so staggering that that it has overwhelmed state officials for more than a decade.

Even as the latest generation of harbor experts takes the first tentative steps forward, it still will be at least five years before anyone sticks a ceremonial shovel into the ground.

That will not be soon enough to prevent gridlock in Hawaii's busiest port.

"We would have preferred to have started all this a lot sooner but we are where we are and we are trying to accelerate it," said Barry Fukunaga, deputy director of the state Department of Transportation.

"Right now, we are taking the first steps of a journey of a thousand miles."

By next year, it is estimated there will be no room for foreign cargo on the docks. By 2011, domestic cargo will have no place to go.

Already, maritime users point to the piles of containers four and five high and trucks lined up bumper to bumper on the roads leading to the harbor.

"Any length of time beyond a couple of years takes us into a crucial situation," said Tim Guard, president of stevedoring company McCabe Hamilton & Renny.

Gov. Linda Lingle has said making more room at the harbor is a priority of her administration. She's asked a core team of five people, including Fukunaga, to work on the project.

Tenants at will

This session, the state Legislature approved $1 million for the planning and design of a container terminal at Kapalama. Also this year, the state plans to update its 2020 Harbors Master Plan and complete an evaluation of the life span of the buildings at Kapalama.

Meanwhile, harbor users have created a consortium of sorts and commissioned their own study to come up with a plan of action.

Most of the buildings at the 70-acre Kapalama site were built in 1942 and used by the U.S. Army from World War II through the Vietnam era for a variety of purposes, from storing munitions to repairing equipment to processing the bodies of dead soldiers.

The state acquired the land and buildings in 1992 and began leasing space to businesses.

The 98 tenants on Kapalama, which is managed by CB Richard Ellis, are on month-to-month leases. Revenue from rent totals $4.12 million annually.

"We want to keep occupancy there for as long as reasonable and not displace them prematurely, as long as the buildings are habitable," Fukunaga said.

That's good news for the tenants, most of whom have been lulled into complacency due to the state's lack of movement to redevelop Kapalama. They also don't want to give up what's probably the cheapest commercial space in town -- 50 cents per square foot of warehouse space and 25 cents per square foot of yard space.

The average rate in Honolulu is $1 per square foot for warehouse space.

International Express Inc., which picks up and delivers containers that come in on ships, has been on a month-to-month lease since 1994. Executives of the business, with $5 million in annual revenue, are searching for other sites.

"The longer the state takes, the better off we are," said David Hinchey, controller for International Express. "We are hoping the project will be delayed and we can stay longer."

Kapolei too far away

Most of the tenants in Kapalama are businesses that ship and move cargo from the ships that pull into neighboring piers. The tenants need plenty of warehouse space to separate and distribute the goods and yard space to store containers and fleets of trucks.

Finding 60,000 square feet of space in today's hot real-estate market is impossible for many of the companies located at Kapalama.

Thrifty Auto Carriers, which transports vehicles to dealerships and has about $1 million in annual revenue, considered moving to Kapolei and either buying or leasing land at Campbell Industrial Park.

"We have the added cost of fuel, running back and forth from Kapolei to the harbor and dealers in town, and the cost of the land ... . We just couldn't afford it," said Ron Kirley, vice president of Thrifty.

"To do business at Kapolei is a burden, and it's not as favorable to be there as it is here," said Raquel Pacheco, manager of Akana Trucking, which moves heavy equipment brought in on Matson and Horizon ships.

The tenants hope they will be part of the redevelopment plan and it's likely some will be able to stay.

'A long time to wait'

Harbor users, meanwhile, are worried that the plans will take so long.

"Our view is that 2011 is a long time to wait to start the project," said Gary North, senior vice president of Matson's Pacific operations. "It will take a few years to complete the project and it will be 2013-14 before the terminal is ready. We are all jammed up right now."

The state opened a 30-acre parcel near Sand Island for both Matson and Horizon to use as an automobile terminal. It also will free up a five-acre lot at Kapalama for container storage.

"Our intent is to not sit and wait until we are done with all the planning," Fukunaga said. "We plan to come up with short-term solutions that will alleviate the situation as we go along."

Until Kapalama is ready, maritime companies say they will simply have to scrounge additional space. Matson already has spent more than $32 million to improve efficiency and rearrange operations at its terminal.

"The state has to move aggressively to get the nonmaritime users out of harbors," Guard said. "The Roberts Hawaii buses have no business being there. Harbor lands were set aside with a specific purpose. And anything that impedes the flow of commerce has no room."

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Harbor short on cargo space

By Gordon Y.K. Pang
Advertiser Capitol Bureau

With the economy booming, major shipping companies say they are running out of cargo space at Honolulu Harbor and want the state to expedite plans to convert the Kapalama Military Reserve off Sand Island Road into a cargo terminal.

State officials say they're trying to speed up the Kapalama project to get it done by 2011, two years earlier than originally planned.

Matson, which recently spent $31 million to improve its container stacking, is warning that cargo room at Honolulu Harbor is growing tight.

Richard Ambo • The Honolulu Advertiser

The state's two largest domestic cargo carriers say they are taking steps to address the cargo issue on their own.

Horizon Lines, the state's second-largest domestic cargo carrier, operates about 38.5 acres at the harbor — and is busting at the seams.

In the spring, it negotiated with the state Department of Land and Natural Resources to use an additional 10 acres across Sand Island Road on a temporary basis, according to Brian Taylor, the company's vice president and general manager for its Hawai'i and Guam division.

"We're obviously handling a substantially greater volume of cargo through this facility with a very limited amount of acreage," Taylor said. Under the state's own formula, he said, Horizon should already be using 60 acres of land.

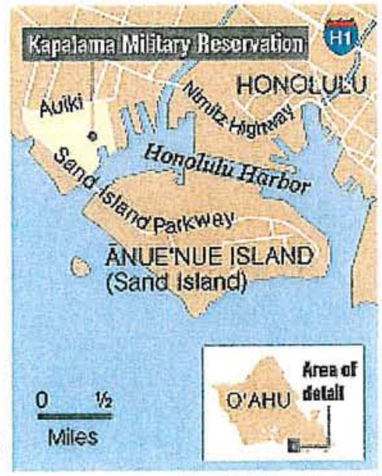
The situation is not much better for Matson Navigation Co., the state's largest ocean transportation firm, which uses about 100 acres at the harbor.

Matson changed the way it stacks its cargo containers in 2001, a $31 million alteration that allowed the company to increase storage capacity by 10 percent, according to Gary North, Matson's senior vice president for the Pacific.

"In the short-term, through the next five years, I think we're all right," North said.

"The concern is we can't afford to give up the existing containers facilities. Our concern is if the state allows these other, non-maritime things to creep onto the piers and we lose Pier 1, then I think in the short term we're going to have a problem."

Taylor and North are among those in the maritime industry who believe the ultimate solution lies with development of a new cargo facility at the former Kapalama Military Reserve, a 70-acre site under control of the state that would increase terminal capacity around the harbor by 50 percent.



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"That's the ultimate solution," said Kraig Kennedy, who heads the maritime committee for the Chamber of Commerce of Hawai'i that has been working on the issue with industry and state leaders. "There isn't anyplace else."

"You've only got so much property on this island," said Kennedy, who also is executive vice president of McCabe, Hamilton & Renny Co. Ltd., a stevedoring company. "And if you take a look at how much of that property can be appropriately used as a deep-water port, you really reduce yourself out to an even lesser amount of available. So Ho-nolulu Harbor is it. And the last piece of big property available to expand the terminal would be Kapalama."

Sause Brothers, another cargo carrier, has moved its operations to Kalaeloa and the state Department of Transportation is trying to get others to follow. But maritime industry representatives, as well as DOT officials, say that harbor is only 35 feet deep and soil would need to be excavated to a depth of 42 feet to accommodate larger cargo craft.

The Harbors Division of the Department of Transportation is conducting a hazardous materials assessment of the site.

State transportation director Rod Haraga said he expects the terminal's development to cost no less than $200 million. Remediation costs will be high, and development there will require firming up the property's foundation to accommodate heavy loads.

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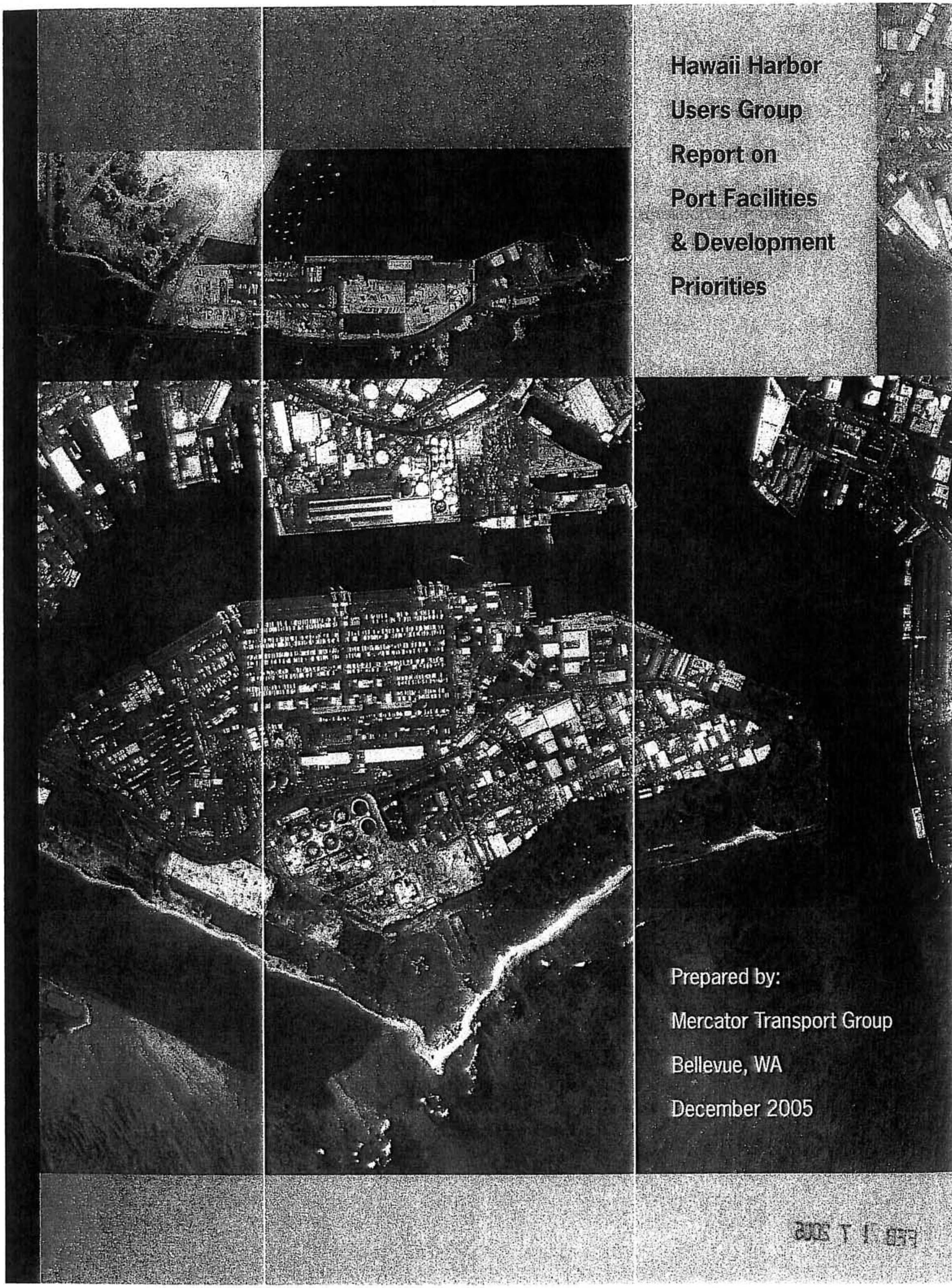
HAWAII HARBORS PROJECT

Appendix 4



Hawaii Harbor Users Group Report on Port Facilities & Development Priorities

Prepared by:

Mercator Transport Group

Bellevue, WA

December 2005

Forward

The Hawaii Harbor Users Group (HHUG) is a non-profit maritime transportation industry group comprised of the key harbor users:

Matson Navigation Company
Horizon Lines, LLC
Young Brothers/Hawaiian Tug & Barge
Norwegian Cruise Line
Sause Bros., Inc.
Aloha Cargo Transport (ACT)
McCabe Hamilton & Renny Co., Ltd.
Hawaii Stevedores, Inc.
Hawaii Superferry, Inc.
Tesoro Hawaii Corporation
The Gas Company
Ameron Hawaii

The purpose of HHUG is two-fold:

1. Establish a marine transportation industry group to develop a set of priorities for future port development.

2. Help the state Department of Transportation to obtain mandates, approvals and financing to implement projects to meet the transportation needs of the community.

The Mercator Transport Group has been engaged by HHUG to assist the group in defining the collective needs and priorities of harbor users and in developing a plan for promoting development that satisfies those needs.

HHUG Background:

- Users of Hawaiian ports are increasingly confronted with limitations on the availability of berth and terminal resources throughout the Hawaiian port system.

- Harbor users understand well the critical role ports play in the economic life of the islands, and witness each day the great extent to which the port facilities influence the State's commercial well-being.

- There is a looming shortage of port facilities on many of the islands, brought about by the continued growth in intra and interstate cargoes, the cruise ship business, and the introduction of the inter-island ferry service.

Source: Hawaii Harbor Users Group Report on Port Facilities & Development Prioritie
Prepared by: Mercator Transport Group, December 2005

- Any reserve capacity will soon be gone. It is projected that Honolulu will run out of space for international cargo this year and for domestic cargo in 2010.

We hope this report will provide government, community, and business leaders with new insights into the crisis confronting Hawaii's harbors, and assist in making informed decisions regarding infrastructure and facility requirements for Hawaii's harbor system.

Gary North
Senior Vice President
Matson Navigation Company, Inc.

Brian Taylor
Senior Vice President
Horizon-Lines, LLC

Glenn Hong
President
Young Brothers, Ltd./Hawaiian Tug and Barge

Robert Kritzman
Executive Vice President and Managing Director of Hawaii Operations
NCL America, Inc.

Douglas Won
Vice President
Sause Bros., Inc.

Richard Maxwell
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Robert T. Guard
President and General Manager
McCabe, Hamilton & Renny Co., Ltd.

Randy Grune
President and CEO
Hawaii Stevedores, Inc.

Terry White
Executive Vice President, Operations
Hawaii Superferry, Inc.

Captain William Heddaeus
Marine Superintendent
Tesoro Hawaii Corporation

Steve Golden
Director External Affairs and Planning
The Gas Company

Eric Yoshizawa
Vice President of Operations – Maui
Ameron Hawaii

Appendix 5

KMR CONSULTANT BIOS

The Hawaii Harbors Project has retained the following professional consulting firms to plan the new KAPALAMA CONTAINER TERMINAL SITE:

JWD Group, a division of DMJM Harris

A team led by the JWD Group (JWD) will include Metcalf and Eddy, Pacific, Inc. (M&E) and Martin and Associates (MA) to prepare the Master Site Plan and Financial Feasibility Analysis for the new Kapalama Container Terminal.

JWD has been planning container terminals for nearly its entire 41-year history, from Matson's remodeling of Sand Island in 2000, to major projects around the world in Hong Kong, Rotterdam, Dubai, and major United States ports. Its experience provides cutting edge technology of container handling and operations, using computer simulation models. The Ports of Oakland, Los Angeles, and Long Beach have adopted JWD capacity models as their standard. JWD is versed in issues resulting from the development of new port terminals such as environmental impacts and community concerns.

MA brings a highly regarded approach to the development of market driven and strategic facility development plans for ports, an approach that is not based on generic macro-economic forecasting models, but instead, on detailed operating and marketing plans developed from in-depth interviews with port tenants, ocean carriers, terminal operators and shippers/consignees. Martin Associates has directed and participated in numerous port master planning and facilities investment studies, all of which have been implemented including the Port of Jacksonville Strategic Plan, Port of Palm Beach Master Plan, Port of Seattle Harbor Development Strategy, Oakland Strategic Marketing Plan, Maryland Port Administration's Capital Development Plan, Port of San Francisco Strategic Market-Driven Development Plan and the Gulf Port Master Plan, all within years 2000-2005.

M&E performs civil and environmental engineering, environmental planning, hazardous waste remediation, construction management, and surveying services for government and private sector clients since its founding in 1959 in Honolulu. M&E has demonstrated its ability to successfully manage complex, multidiscipline projects to support engineering and architectural design in Hawaii and throughout the Pacific Region.

Belt Collins Hawaii, Ltd.

Belt Collins Hawaii, Ltd. (Belt Collins) has been retained to provide general engineering services to the Hawaii Harbors Project including, but not limited to, providing relocation plans, engineering and technical services for the relocation of the University of Hawaii Marine Center and other current tenants. Other activities include site surveys and mapping for the development of the Kapalama Site.

With a large multi-disciplinary staff of 100, Belt Collins has the capacity to accomplish assignments in the required timeframes. As the prime consultant for this effort, Belt Collins will be responsible for providing the Hawaii Harbors Project Team with civil engineering, planning and permitting, mapping, environmental studies, and community outreach assistance.

Fung Associates

Fung Associates (FA) has been retained to provide historic preservation documentation services for the former Kapalama Military Reservation Project.

FA is a Hawaii based business established in 1998 with a combined experience of over 100 years in architectural, engineering and planning services. The firm has extensive experience with providing quality professional services for historic property survey and documentation for the Army, Navy, Air Force and Marines.

Significant relevant military projects include historic architectural studies and building inventories for the U.S. Marine Corps Air Station at Kaneohe Bay, Schofield Barracks, Fort Shafter, Wheeler Airfield and the Proposed Oahu Veterans Center Site.