



STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION  
869 PUNCHBOWL STREET  
HONOLULU, HAWAII 96813-5097

IN REPLY REFER TO:

March 1, 2011

TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

HOUSE BILL NO. 993

COMMITTEE ON FINANCE

While the department supports the intent of House Bill No. 993, it is premature to promulgate statutes to establish the Hawaii Marine Highway System at this time.

The bill refers to the Alaska Marine Highway System (AMHS), which is a ferry service operated by the State of Alaska to provide for the efficient transportation of people, goods and vehicles. The AMHS has been in operations since 1963 and is part of the U.S. National Highway System which, is a network of primary highways and ferry routes designated by the FHWA, USDOT. As part of the National Highway System, the AMHS is eligible to receive federal funding for capital improvements. A review of the AMHS's financial statements for the past three years indicate that its operations are heavily subsidized by the Alaska General Fund. For example, in FY 2010, revenues from ticket sales and other fees were approximately \$47.0 million and expenses were approximately \$140.2 million, with the General Fund providing approximately \$97.1 million to support the AMHS.

The State of Washington also operates the Washington State Ferries. This system is facing financial uncertainties. Up to the year 2000, the operations of the ferries were funded in part from the motor vehicle excise tax. Since its elimination, the Washington State Ferries has been struggling to fund its operating and capital needs. Beginning with the 2011-13 Biennium, a shortfall of more than \$900 million is projected over ten years for ferry operations and capital funding.

The proposed bill sets a deadline for DOT to submit a long range comprehensive plan to develop and improve the Hawaii marine highway system by next January, 2012, and requires the department to construct and maintain ferry terminal facilities, adopt rules to govern the use of ferry terminal facilities and establish a marine highway system fund.

We believe these actions are premature and that a comprehensive feasibility study is needed to gather information on the legal and regulatory issues relating to establishing a Hawaii Marine Highway System. The study should also include discussions with USDOT on federal designation of the Hawaii Marine Highway System and the potential ramifications of diverting federal funds for highway programs to the marine highway.

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 993

March 1, 2011

RELATING TO THE HAWAII MARINE HIGHWAY SYSTEM

House Bill No. 993 establishes the Hawaii Marine Highway System under the Department of Transportation to construct, purchase, or lease ferry terminal facilities at various harbors statewide. The Department of Transportation shall develop a long-range plan to develop the system and adopt rules to govern the use of the ferry terminal facilities. House Bill No. 993 also establishes the Hawaii Marine Highway System Fund into which all gross revenues, legislative appropriations, and gifts or grants from any public or private source shall be deposited into the Hawaii Marine Highway System. Funds deposited shall be used only for the operation and maintenance of the Hawaii Marine Highway System.

As a matter of general policy, the Department of Budget and Finance does not support the creation of any special or revolving fund which does not meet the requirements of Sections 37-52.3 or 37-52.4 of the Hawaii Revised Statutes. Special or revolving funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. In regards to House Bill No. 993, it is difficult to determine whether there is a clear nexus between the benefits sought and the charges made upon the users or beneficiaries of the program and whether the fund will be self-sustaining.

HB993

Hawaii Inter-Island Ferry  
White Paper

**A fast interisland ferry will reduce the cost living of outer island residents by 3.2%.**

Distribution managers work with a concept called "inventory whiplash". Inventory whiplash causes the cost of managing inventories to greatly increase. Speed of resupply is critical in managing inventories economically.

Say a liquor store can not be resupplied in less than 8 days. In order to avoid being out of stock this distant store must keep a larger inventory on hand than his counterpart that can be restocked in two days. This larger inventory carries a larger inventory interest costs than the person with only a two day insight. If the manager of the far away liquor store can reduce his restocking time by six days he will save 1.6% of his total annual interest expense. This saving may be passed on to the outer island consumer.

Additionally, with less required on hand inventory, less space is needed to store the smaller inventory. The manager could reduce his inventory by 75% (6 days divided by 8 days) saving rent costs of 1.6 % on average.

Further, merchandise handling expense (stockman hours expense) would be reduced by 1%.

Finally, an educated "guesstimate" of a 1% reduction in opportunity cost due to lower out of stock conditions should be taken into consideration.

**A fast interisland ferry would provide for a more sustainable Hawaii.**

Currently some of the best agricultural lands in the world lie fallow. Virtually all crops may be grown in Hawaii. Indeed, during the 1849 gold rush wheat was grown on Mauna Kea to feed the 49ers in California. These fallow old cane lands have irrigation systems in place. What is missing is fast transport from the outer island fields to the Honolulu market. Hawaii's produce will be fresher with the reduced transit time and competitive.

Also, today many crops are grown now on a'ava, coffee, papaya and mac nuts. If we were to lease lava lands at \$100 per acre with a state 50 year lease and easy access to markets; Hawaii' ag. would thrive once again.

Going further, Hawaii's arable lands, taken in aggregate, are nearly as large as California's Imperial Valley. Hawaii could become a net exporter of canned foods as they do in California.

Finally, by different accounts, Hawaii has four to ten days of food available. In an increasingly uncertain world, whether it is earthquakes or terrorists, Hawaii must be able to feed itself in the event of an interruption of shipping from California. It is a matter of individual safety and security.

Respectfully Submitted,  
Jim Haley

Jim Haley is a retired logistics manager for the Sears Pearlridge store in Aiea, Hawaii. He also managed a small Sears store in Kailua-Kona, Hawaii. Additionally, Jim is a retired Coast Guard Commander whose specialty was Port Operations.