TESTIMONY OF
THE DEPARTMENT OF THE ATTORNEY GENERAL
THIRTY-FIRST LEGISLATURE, 2022

ON THE FOLLOWING MEASURE:
S.B. NO. 2756, RELATING TO WATER CARRIERS.

BEFORE THE:
SENATE COMMITTEE ON TRANSPORTATION

DATE: Thursday, February 10, 2022 **TIME:** 3:00 p.m.

LOCATION: State Capitol, Via Videoconference

TESTIFIER(S): Holly T. Shikada, Attorney General, or
Marjorie A. Lau, Deputy Attorney General

Chair Lee and Members of the Committee:

The Department of the Attorney General provides the following comments.

The purposes of the bill are two-fold. First, the bill creates a two-tier rate adjustment for water carriers consisting of automatic annual increases based upon the gross domestic product price index and a justified increase based on actual costs and performances as determined by the Public Utilities Commission. The second purpose of the bill is to establish a water carrier agricultural cargo shipping subsidy program with an annual rate increase in the amount to be administered by the State of Hawaii Department of Transportation (DOT).

Regarding the proposed two-tier rate adjustment, we note that there is no specification as to when the annual adjustment shall be made or whether it will be on a calendar basis or a fiscal year basis. It may also be appropriate to reference how the "gross domestic product price index" is determined and whether the intent is to use the index set by the U.S. Department of Commerce, Bureau of Economic Analysis.

Regarding the proposed subsidy program, the bill does not include a specific finding that the subsidies are for a public purpose. *See* Haw. Const. art. VII, sec. 4 ("No . . . appropriation of public money . . . made . . . except for a public purpose."). Section 1 of the bill refers to Senate Resolution No. 125, Senate Draft 1, adopted in the Regular Session of 2020, and the water carriers working group created pursuant to that resolution. Section 1 states that the implementation of subsidies recommended by the water carriers working group would "provide universal support to water carriers, cargo users, and consumers" but does not clearly provide how the use of public funds for the proposed subsidies constitutes a public purpose. While it is possible that the narrative at page 2, lines 7-19, could provide a public purpose, we recommend including a specific finding that the proposed subsidy program is for public purposes, which include alleviating costs associated with transportation and service across the State of Hawaii, primarily for small communities reliant on shipment of goods by barge, and providing universal support to water carriers, cargo users, and consumers.

Additionally, article VII, section 4, of the Hawaii Constitution provides that "[n]o grant of public money . . . shall be made except pursuant to standards provided by law." To comply with this constitutional requirement, we recommend that this bill be amended to statutorily include the standards and qualifications for making the subsidies, as previously enacted for other administrative grant programs in part II of chapter 9 and sections 10-17, 210D-11, and 383-128, HRS.

Thank you for the opportunity to testify.

TESTIMONY OF
JAMES P. GRIFFIN, Ph.D.
CHAIR, PUBLIC UTILITIES COMMISSION
STATE OF HAWAII

TO THE
SENATE COMMITTEE ON
TRANSPORTATION

February 10, 2022
3:00 p.m.

Chair Lee and Members of the Committee:

MEASURE: S.B. No. 2756
TITLE: RELATING TO WATER CARRIERS.

DESCRIPTION: Creates a two-tier rate adjustment for water carriers based on automatic annual increases or a justified increase based on actual costs and performance. Establishes a water carrier agricultural cargo shipping subsidy with an annual rate increase. Appropriates funds.

POSITION:

The Public Utilities Commission ("Commission") offers the following comments for consideration.

COMMENTS:

The Commissions appreciates the intent of this measure to enact recommendations of the Water Carriers Working Group ("WCWG") and improve the state's water carrier services.

Pursuant to Senate Resolution No. 125, S.D. 1 (2020), the Commission convened the WCWG to recommend mid-term and long-term solutions to balance the need for continuous interisland water carrier service throughout the state with the need for water carriers to maintain financial sustainability.

The 18-member WCWG, consisting of government agencies, water carriers, legislators, and other stakeholders, developed recommendations focused on annual rate adjustments, improving customer service, and establishing broad subsidies for trans-

Pacific and interisland cargo, among other issues. The Commission submitted the WCWG's report to the Legislature on December 27, 2021, detailing the WCWG's findings and recommendations.[1]

The Commission notes that this measure proposes to implement a two-tier rate adjustment mechanism for water carriers. In its report, the WCWG found that this type of mechanism would "reduce the administrative burden to the water carrier and provide a more contemporaneous means of pairing regulated cargo rates with inflation adjusted expenses."

However, immediate implementation of such a mechanism would conflict with the findings of the financial and management audit of Young Brothers ("YB"), initiated by the Commission and submitted on September 9, 2021.[2,3] The auditor recommends that "YB will not request an inflation adjustment for any year prior to 2023, and any such proposals will be subject to the Company having demonstrated measurable improvements in cost containment."[4] The audit also emphasizes that YB's 5-year strategic plan should be "supported by a financial model that demonstrates financial sustainability without further major price increases above inflation."[5]

Additionally, the Department of Commerce and Consumer Affairs' Division of Consumer Advocacy ("Consumer Advocate") has expressed concerns with "the efforts [in the WCWG] to create an automatic annual inflation adjuster between rate cases for YB[,]" stating that those efforts should not proceed "until after there are commitments and actual implementation measure to address costs."[6]

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[1] *Report to the Hawaii State Legislature in Response to Senate Resolution No. 125, S.D. 1 (2020),* transmitted on December 27, 2021, https://puc.hawaii.gov/water-carriers/hwcwg/.

[2] Order No. 37280, filed in Docket No. 2019-0117 on August 17, 2020, at 74.

[3] *Financial and Management Audit of Young Brothers, LLC as per Order No. 37280*, filed in Docket No. 2019-0117 on September 9, 2021.

[4] Audit at 12.

[5] Audit at 35.

[6] Division of Consumer Advocacy's Comments on Management Audit, filed in Docket No. 2019-0117 on October 15, 2021, at 18-19.

In Order No. 38085, in which the Commission addressed the audit's recommendations, the Commission stated the following:

> The Commission recognizes that this matter has been discussed in detail by the WCWG, and that, as a result, there may be bills introduced at the Legislature during the upcoming session that address the possibility of an inflation adjustment mechanism for YB. At this time, the Commission, consistent with the Audit Report's Recommendation, directs YB not to request an inflation adjustment for any year prior to 2023. However, if legislation is passed in the upcoming session that creates such an inflation adjustment mechanism and prescribes its timing and applicability, the Commission will review the impacts of that Legislation on this directive.[7]

As such, the Commission shares the concerns of the auditor and the Consumer Advocate and believes it may be premature to implement such a mechanism before YB has demonstrated measurable improvements in cost containment and attained financial sustainability without the need for major cost increases.

For this reason, the Commission respectfully recommends that establishment of a two-tier rate adjustment mechanism be left to the discretion of the Commission, rather than mandated by statute. The Commission believes that performance metrics are critical in fostering efficient utility services and protecting ratepayers, and notes that mandating a specific ratemaking mechanism by statute could compromise the Commission's ability to hold utilities accountable to measurable improvements through ratemaking incentives.

This measure would also establish a water carrier agriculture cargo shipping subsidy program. The Commission takes no position on this part of the measure, but notes that similar subsidy options were discussed in the WCWG report.

Thank you for the opportunity to testify on this measure.

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[7] Order No. 38085, filed in Docket No. 2019-0117 on November 24, 2021, at 38.

DAVID Y. IGE
GOVERNOR

JOSH GREEN
LT. GOVERNOR

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CATHERINE P. AWAKUNI COLÓN
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Testimony of the Department of Commerce and Consumer Affairs

Before the
Senate Committee on Transportation
Thursday, February 10, 2022
3:00 p.m.
Videoconference

On the following measure:
S.B. 2756, RELATING TO WATER CARRIERS

Chair Lee and Members of the Committee:

My name is Dean Nishina, and I am the Executive Director of the Department of Commerce and Consumer Affairs' (Department) Division of Consumer Advocacy. The Department offers its comments on this bill.

The purpose of this bill is to 1) establish a two-tier rate adjustment for water carriers, 2) establish broad-based interstate and interisland water carrier agriculture cargo shipping subsidies; and 3) appropriate funding to the Department of Transportation, Harbors Division, to fund and implement an interstate water carrier agriculture subsidies program.

The Department appreciates the intent of this bill to support the water carrier industry as it plays a crucial role in sustaining each island's economy and community as well as the intent to support Hawaii's agricultural industry by making shipping more affordable for those customers. The Department recognizes that any disruptions in intrastate water carrier services present significant hardships to businesses, the agriculture and livestock communities, families, and the communities at large, especially for the neighbor island communities.

The bill proposes two new sections to § 271G. The first section proposal is based on the recommendations contained in the Water Carriers Working Group Report submitted to the Legislature on December 27, 2021 as required by 2020 Senate Resolution No. 125, S.D.1 ("SR125") to develop mid-term and long-term solutions to support the financial viability of the water carrier service throughout the state. The Department appreciates the efforts of the Water Carrier Working Group to develop possible mid-term and long-term solutions to support the intrastate water carrier industry and in particular, Young Brothers, LLC ("Young Brothers"). The second section proposal will establish an agriculture cargo shipping subsidy that will be administered by the Department of Transportation – harbors division and will be general funded.

The Department is in strong support of this measure's proposals to establish the proposed interstate and interisland water carrier agriculture cargo shipping subsidies and the appropriation of funding to the Department of Transportation, Harbors Division, to implement the subsidies program. Young Brothers, Ltd. (YB) currently implements an agricultural discount in its tariff where a YB customer can receive a discount of 30% to 35% when shipping island agriculture products between islands.[1] The proposed agriculture cargo shipping subsidy will accomplish two important objectives: 1) it will make shipping agricultural goods more affordable, which is needed especially after the recent significant rate increase that was required to address YB's financial issues; and 2) it is general funded and will not require other customers to subsidize the program and will mitigate further increases to other customers.

However, the Department believes that this measure's proposal to establish a two-tier rate adjustment for water carriers should not be adopted as it may result in unintended consequences where unreasonable increases in rates may occur causing businesses and individuals to find that they can no longer afford the services of the water carrier.

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[1] YB's Island Agriculture Product Discount: http://htbyb.com/wp-content/uploads/Local-Tariff-No.-5-A-Effective-09.01.2020.pdf#page=70

It is important to note the circumstances leading up to the adoption of SR125 in July 2020. In its request for an emergency rate increase, Young Brothers explained that it had experienced increasing operating costs and declining cargo volumes which resulted in net operating losses of $11,380,000 in 2018 and $10,186,000 in 2019.[2] Then, with the onset of the COVID-19 pandemic and the shutdown of Hawaii's visitor industry, Young Brothers experienced a decline in its regulated cargo volume of over 30% as well as a decline in its unregulated cargo volume by over 10% which significantly added to Young Brothers' net operating losses. At the same time, Young Brothers' parent company stopped providing financial support to Young Brothers as of June 2020. In an effort to sustain its operations with the limited cash resources, Young Brothers reduced its sailing schedule and even cancelled certain routes. To address its mounting operating losses and avoid bankruptcy, Young Brothers then requested that the Public Utilities Commission ("Commission") grant an emergency rate increase of 46% across all commodities.

After its review of the emergency rate increase was complete, including an evidentiary hearing, the Commission determined that "Young Brothers' financial issues, including rising operating expenses and declining cargo volumes and revenues, began well before the current economic downturn"[3] caused by COVID-19. However, to avoid the possibility of Young Brothers discontinuing regulated water carrier service throughout Hawaii, the Commission approved the 46% increase under several conditions, one of which was that Young Brothers would be subject to a financial and management audit by an independent party to review Young Brothers' financial and management practices given the persistent operating losses that predated COVID-19.

Pursuant to the Commission's Order, the independent auditor filed its financial and management audit report ("Audit Report") on September 9, 2021, which can be viewed using the following link. The independent auditor made the following observations that highlight the concern that this bill's proposed two-tier adjustment may

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[2] May 29, 2020 letter from Young Brothers to the Commission filed in Docket No. 2020-0084.
[3] Commission Order No. 37280 at 2 filed in Docket No. 2019-0117 on August 17, 2020.

be unwarranted and may lead to unreasonably high rates for Young Brothers' customers.

- Young Brothers is now very profitable as a result of the 46% emergency rate increase and questioned whether the 46% emergency rate increase is still necessary.[4] It should be noted that when the 46% emergency rate increase was requested, Young Brothers stated that the requested increase was needed to financially break even[5] and Young Brothers is now earning significantly in excess of its allowed rate of return.[6]
- In 2015, Young Brothers agreed to a collective bargaining agreement that increased union labor costs by 10% <u>annually</u> from 2016 to 2020. Since Young Brothers had not been profitable since 2016, the labor increases coupled with the sudden decrease in cargo volumes due to COVID-19 resulted in a cashflow crisis for Young Brothers. Further adding to the cashflow crisis was the termination of all financial support from Young Brothers' parent company as of June 2020.[7]
- The steady cadence of rate increases from 2005 to 2012 probably led Young Brothers' leadership to focus more on revenues than managing costs based on its belief that costs would automatically be passed through to customers in the next rate case.[8]
- Instead of taking lasting actions to contain costs, Young Brothers has taken actions to reverse several cost containment activities that were implemented during the height of Young Brothers financial crisis.[9] Thus, even though the increase was supposed to provide sufficient funds for Young Brothers to only break even, Young Brothers is earning above the authorized rate of return even with cost containment measures no longer being pursued (in other

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4 Audit Report at 13.
5 Young Brothers' response to CA-IR-1 at 2, filed in Docket No. 2020-0084.
6 Young Brothers' allowed intrastate rate of return is 9.56%. Young Brothers' November 2021 filed with the Commission shows that it had earned 12.13%, far in excess of the 9.56% allowed rate of return.
7 Audit Report at 16.
8 Audit Report at 36.
9 Audit Report at 53.

words, if cost containment efforts were still in place, the profit would be even higher).

Importantly, the independent auditor recommended that the Commission and the legislature not allow any automatic increase for inflation until Young Brothers has demonstrated a clear commitment and is actively making changes to contain costs. An automatic inflation increase could result in the company "double dipping" on benefits at the expense of the regulated customers.[10]

Furthermore, the Department has also heard from many businesses and individuals, especially from the neighbor island farmers and ranchers who have submitted public comments to the Department and/or the Commission's document management system stating that the high cost of intrastate shipping has become unbearable and unsustainable to the point where some businesses are struggling to survive.[11] It should be further noted that, if the measure passes without minor modifications, the intent of assisting agricultural customers through the subsidy program could be largely eroded or completely eliminated by the proposed annual automatic increases in Young Brothers' rates.

Young Brothers financial crisis was the result of a convergence of certain events that include: 1) the impact of the COVID pandemic on Young Brothers' sales volume; 2) Young Brothers' costs significantly and continuously increasing over a period of time; and 3) Young Brothers' parent cutting off financing. While well-intended, the proposed two-tiered automatic rate increase process attempts to solve a problem by requiring customers to provide a bandage at significant costs to consumers. The Department urges the legislature to seriously consider the findings and recommendations of the independent auditor as these are consistent with the Department's observations and recommendations filed in its testimony in several of Young Brothers' rate case proceedings. The Department acknowledges that, if adopted, the automatic rate increase process would almost guarantee profitability and would likely result in excess

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10 Audit Report at 191.
11 See public comments filed in Docket No. 2019-0117 and 2020-0084.

profitability at customers' expense. The Department offers that such a result would no be in the public interest.

Lastly, the language on page 4, lines 6 and 7 of the bill should be corrected to read as follows, "demonstrating that there has been no decline in the water carrier's operations, safety, or customer services." This correction is consistent with the language in the Water Carrier Working Group's Report.

Thank you for the opportunity to testify on this bill.

DAVID Y. IGE
GOVERNOR

CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAI'I EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON TRANSPORTATION
ON
SENATE BILL NO. 2756

February 10, 2022
3:00 p.m.
Via Videoconference

RELATING TO WATER CARRIERS

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill No. 2756 creates a two-tier rate adjustment for water carriers based on automatic annual increases or a justified increase based on actual costs and performance and establishes a water carrier agricultural cargo shipping subsidy with an annual rate increase. The bill also appropriates an unspecified amount of general funds in FY 23 for the Department of Transportation for an interstate water carrier agriculture subsidies program to support broad-based interstate and interisland water carrier agriculture cargo shipping.

B&F notes that, with respect to the general fund appropriation in this bill, the federal Coronavirus Response and Relief Supplemental Appropriations Act requires that states receiving Elementary and Secondary School Emergency Relief (ESSER) II funds and Governor's Emergency Education Relief II funds must maintain state support for:

- Elementary and secondary education in FY 22 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and

- Higher education in FY 22 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

Further, the federal American Rescue Plan (ARP) Act requires that states receiving ARP ESSER funds must maintain state support for:

- Elementary and secondary education in FY 22 and FY 23 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 and FY 23 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

The U.S. Department of Education has issued rules governing how these maintenance of effort (MOE) requirements are to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai‘i complies with these ESSER MOE requirements.

Thank you for your consideration of our comments.

February 10, 2022

The Honorable Senator Chris Lee, Chair
The Honorable Senator Lorraine R. Inouye, Vice Chair
Senate Committee on Transportation

RE: Senate Bill 2756 – RELATING TO WATER CARRIERS
Hearing date: February 10, 2022, 3:00 p.m.

Aloha Chair Lee, Vice Chair Inouye, and Members of the Senate Committee on Transportation:

Thank you for allowing me to submit testimony on behalf of Young Brothers, LLC ("YB") in **SUPPORT** of Senate Bill 2756 – Relating to Water Carriers.

This measure would create an annual rate adjustment mechanism for regulated water carriers that 1) will automatically adjust each year to reflect nationwide inflation or deflation levels; and 2) allows regulated water carriers to request, on an annual basis, an expense justified rate increase for approval by the commission. This measure would also establish a water carrier agriculture cargo shipping subsidy that would be administered by the department of transportation harbors division.

As noted in the preamble of this measure, the recommendation to establish the "water carrier inflationary cost index" ("WICI") proposed in Section 2 of this measure was developed by the Water Carrier Working Group ("WCWG") that was formed in response to S.R. 125, S.D. 1 (2020). YB is sincerely appreciative of the time and effort spent by the members of the WCWG to collaboratively develop recommendations to address issues impacting YB in its role as Hawaii's only regulated intrastate water carrier. As stated on page 16 of the Report to the Hawaii State Legislature in Response to Senate Resolution No. 125, S.D.1 (2020), transmitted on December 1, 2021 ("WCWG Report"):

> "General rate cases tend to be time consuming to both the water carrier and the HPUC. As a result, regulated cargo rates do not typically get adjusted annually and are sometimes subject to relatively large rate increases when the cases are completed. Having the WICI interim rate adjustment combined with a regular cadence for general case submissions will reduce the administrative burden to the water carrier and provide a more contemporaneous means of pairing regulated cargo rates with inflation adjusted expenses."

YB generally agrees with this statement and adds that implementing an annual inflation adjustment, as proposed in Section 2 of this measure, is consistent with YB's strategy to establish its own financial integrity and independence from its parent company. This mechanism is designed to offset the impact of external inflationary pressures that are not within YB's control, but can, over time, undermine YB's financial position. Nevertheless, YB notes that Section 2 of this measure may be unnecessary at this time, as the Commission already has the authority to establish a mechanism of this nature. Furthermore, YB's near-term focus is on implementing internal cost-containment initiatives that are within YB's control and YB has previously indicated to the Commission that it has no plan to seek an inflation adjustment for any year prior to 2023.

Accordingly, consistent with this timing, should the legislature choose to move forward with this measure, YB suggests revising lines 12-14 of page 3 of this measure, as follows, to accommodate the necessary regulatory proceedings to establish such a mechanism:

> "**§271G- Water carrier inflationary cost index.** **Before January 1, 2024, the public utilities commission shall establish a** water carrier inflationary cost index by which water carrier rates shall be annually adjusted as follows [. . .]"

Furthermore, YB notes that the WCWG Report, at page 16, recommends that:

> "The [WICI] second-tier adjustment will require additional justification from the water carrier to recapture costs as well as their submission of performance measures showing there has been **no material decline in levels of operation, safety, or customer service.**" (Emphasis added).

Conversely, the related existing language in S.B. 2756, at page 4, lines 6-7, requires the demonstration of "**a decline in operations, safety, or customer services**" for the Commission to grant approval of the second-tier adjustment. Accordingly, for consistency with the intent of the WCWG recommendation and to avoid confusion, YB believes that lines 3-7 of page 4 of this measure should be amended to read as follows:

> "(2) Tier two: The water carrier shall request an expense justified rate increase for approval by the commission. The commission shall grant approval based on justification from the water carrier to recapture actual costs and proof of performance measures demonstrating **no material** decline in operations, safety, or customer service **levels**."

With respect to the proposed water carrier agriculture cargo shipping subsidy described on line 12 of page 4 through line 11 of page 5 of this measure - YB is generally supportive of external subsidies that can reduce the cost of shipping goods for its customers in ways that are consistent with State policy decisions. YB believes that such policy driven subsidies should be funded from external sources (e.g., federal funds or the State General Fund) rather than through cross-subsidization between YB's customers, which can lead to distorted non-cost-based rates for all customers.

Thank you for your service to the State of Hawaii, and for the opportunity to testify in support of this measure.

Sincerely,

Kris Nakagawa
Vice President, External and Legal Affairs

Aloha Chair Lee, Vice Chair Inouye, and Members of the Committee:

Maui County Farm Bureau has serious concerns associated with SB2756, related to interisland water carrier rates.

Increases in transportation costs by the water carrier have consistently resulted in the loss of agricultural enterprises on Maui. Oahu vendors take the position of requiring ag producers to pay the increase without any increase in product prices. As a result, viability of our farmers is severely impacted. Changes in shipping schedules have also affected our ranchers and there have been concerns relating to animal welfare.

We agree with comments provided by Hawaii Farm Bureau and look forward to working with you to address our concerns.

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February 10, 2022

HEARING BEFORE THE
SENATE COMMITTEE ON TRANSPORTATION

TESTIMONY ON HB SB 2756
RELATING TO WATER CARRIERS

Via Videoconference
3:00 PM

Aloha Chair Lee, Vice-Chair Inouye, and Members of the Committee:

I am Brian Miyamoto, Executive Director of the Hawaii Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,800 farm family members statewide and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic, and educational interests of our diverse agricultural community.

The Hawaii Farm Bureau provides the following comments relating to SB 2756, relating to rates charged for interisland cargo transportation. There are many unanswered questions, making it difficult to take a position on this important matter.

We appreciate the consideration of agriculture by the introducers of SB 2756. Our understanding is that the proposed agricultural subsidy represents the current Island Fresh Discount provided by Young Brothers. The details associated with this subsidy have raised concern by the industry.

- YB currently provides differing tariff rates for the shipment of various supplies and materials used by agricultural producers. How will this new proposal affect these tariff rates?
- YB currently provides specific conditions relating to the management of live animals. How will the cost be managed? Harbor improvements are needed. Will these improvements be done in a timely manner to assist in containing the total cost of shipping?
- Shipping schedules change and regular service directly between islands have been drastically reduced. Many schedules follow a spoke and hub system causing difficulty for direct shipment of perishable commodities. Will economics further erode the timeliness of service?
- How will products qualifying for subsidy be determined?

- How will the subsidy be implemented? Will it be provided directly at the time of shipment, making the payment between the carrier and the State or will individual producers be required to apply for reimbursements?
- Is there any assurance that the agricultural subsidy rulemaking process is completed by the time the rate increases are implemented?

These are some of the concerns of the agricultural industry and we look forward to working with you to address these concerns. We understand that change is inevitable but we need to ensure that neighbor island agricultural viability is protected.

Thank you for this opportunity to provide our opinion on this matter.

Hawaii Cattlemen's Council, Inc.

COMMITTEE ON TRANSPORTATION
Senator Chris Lee, Chair
Senator Lorraine R. Inouye, Vice Chair

SB2756
RELATING TO WATER CARRIERS

Friday, February 10, 2022, 3:00 PM
VIA VIDEOCONFERENCE

Chair Lee, Vice Chair Inouye, and Members of the Committee,

The Hawaii Cattlemen's Council (HCC) is the Statewide umbrella organization comprised of the five county level Cattlemen's Associations. Our member ranchers represent over 60,000 head of beef cows; more than 75% of all the beef cows in the State. Ranchers are the stewards of over 750 thousand acres of land in Hawaii, or 20% of the State's total land mass. We represent the interests of Hawaii's cattle producers.

The Hawaii Cattlemen's Council **offers comment on SB2756** to create a two-tier rate adjustment for water carriers based on automatic annual increases or a justified increase based on actual costs and performance and establish a water carrier agricultural cargo shipping subsidy with an annual rate increase.

We appreciate that agriculture is being considered in this bill, as there is a real need to support agricultural entities in the necessary task of shipping goods and livestock. We ask for clarification on how this bill will affect the current Young Brothers tariff, which provides different rates for agricultural producers. The Island Fresh Discount is a huge help to agricultural producers. Especially during this time when the emergency rate is still in place, discounts for agriculture are immensely important for these operations to be able to afford the price of shipping. While shipping prices have increased by a huge 47% across the board, livestock shippers are still experiencing difficulty in getting decent customer service.

As agricultural operations already work on slim margins, these rate increases have a lasting effect on their businesses.

We appreciate the opportunity to testify on this measure.

Nicole Galase
Hawaii Cattlemen's Council
Managing Director

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