



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

IN REPLY REFER TO:

Board of Land and Natural Resources  
State of Hawaii  
Honolulu, Hawaii

OAHU

**REQUEST FOR APPROVAL OF ISSUANCE OF A LEASE BY NEGOTIATION TO  
MATSON TERMINALS, INC. FOR CARGO OPERATIONS ON SAND ISLAND,  
PIERS 51-53, HONOLULU HARBOR, OAHU**

**LEGAL REFERENCE:**

Sections 171-6, 171-11, 171-13, 171-17, 171-35, 171-36, 171-55, and 171-59, Hawaii  
Revised Statutes, as amended

**APPLICANT:**

Matson Terminals, Inc. ("Applicant"), a domestic profit corporation, whose business and  
mailing address is 1411 Sand Island Parkway, Honolulu, Hawaii 96809

**CHARACTER OF USE:**

To allow Applicant and its permitted agents (assignees, contractors, sub-contractors, and  
agents) the right to enter upon and take possession of the demised premises to construct  
and install certain improvements, including a gantry crane rail system with cranes,  
buildings and structures for offices, maintenance, and marine operations, security and  
information technology systems, and parking areas for employees, stevedores, and  
customers, and to operate a cargo-handling terminal.

**LOCATION:**

Portion of government lands situated at Piers 51-53, Honolulu Harbor, Oahu, identified  
by Tax Map Key Nos. (1) 1-5-41:049, 111, 115, 126, 167, 170, 181, 185, 187, 200, 286,  
307, 313, 320, 323, 324 & (1) 1-5-41:321 (portion), comprising the Sand Island Cargo  
Yard, as shown on the attached map labeled Exhibit "A".

**AREA:**

Several parcels of various sizes totaling approximately seven acres, more or less, within the Sand Island Cargo Yard.

**CONSIDERATION:**

Annual fair market value for rent for the first ten (10) years of the term to be determined by a disinterested appraiser pursuant to §171-17, Hawaii Revised Statutes, within one year prior to the commencement date of the lease. There are rental re-openings at years 20, 30, and 40 of the term, and annual fair market value will be determined by a disinterested appraiser at each re-opening.

Pursuant to §171-6 (7), Hawaii Revised Statutes, the Department of Transportation (“DOT”) may “reduce or waive the lease rental at the beginning of the lease on any lease of public land to be used for any agricultural or pastoral use, or for resort, commercial, industrial, or other business use where the land being leased requires substantial improvements to be placed thereon; provided that such reduction or waiver shall not exceed two years for land to be used for any agricultural or pastoral use, or exceed one year for land to be used for resort, commercial, industrial, or other business use;” (emphasis added). DOT may reduce or waive the lease rental for up to one year pending review of the cost and scope of the improvements to be made by the Applicant.

**ZONING:**

State Land Use District: Urban  
City & County of Honolulu: Waterfront Industrial (I-3)

**TERM:**

Fifty (50) years

**COMMENCEMENT DATE:**

To be determined by the Director of Transportation.

**CURRENT USE STATUS:**

The portion of the Sand Island Cargo Yard at Piers 51B-53 is currently used by the Applicant. The portion of the yard at Pier 51A is currently used by Pasha Hawaii/Hawaii Stevedores, Inc.

**LAND TITLE STATUS:**

Owned by State of Hawaii. Management and control of the property was transferred to the DOT by Executive Orders 2462, 2844, 2931, 3401, and 3598.

**TRUST LAND STATUS:**

A portion of the subject property was acquired pursuant to Section 5(a) of The Admissions Act, and the remainder of the subject property was acquired pursuant to Public Law 88-233.

**CHAPTER 343 – ENVIRONMENTAL IMPACT STATEMENTS:**

As the character of use is the same as the current use, the DOT and the Applicant anticipate that actions under the requested lease will be subject to a declaration of exemption from Chapter 343, Hawaii Revised Statutes, to be issued by the Director of Transportation prior to execution of the requested lease. However, if there is any action to be undertaken by the Applicant that is not exempt, that Applicant shall be responsible for any further environmental review required.

**APPLICANT REQUIREMENTS:**

Applicant shall:

1. Use due care for public safety and agrees to defend, hold harmless, and indemnify the State, its officers, agents, and employees, or any person acting for and on its behalf, from and against all claims or demands for damage, including claims for property damage, personal injury, or death, arising on, about or in connections with the exercise of the rights and privileges herein granted, caused directly or approximately by any failure on the part of the Applicant in its use of the premises;
2. Relating to the negotiation of the lease and during the term of the lease, comply with all applicable laws, statutes, ordinances, rules and regulations, whether State, County, or Federal, which are now or hereafter may be in effect;
3. Ensure that its contractors obtain and maintain all required insurance policies during the term of the lease and name the DOT as additional insured;
4. Pay for appraiser services pursuant to §171-17, Hawaii Revised Statutes;
5. At its sole expense, provide survey maps and descriptions of the demised premises according to standards set by the State of Hawaii Department of Accounting and General Services;
6. Prior to the start of any construction, submit to the DOT Harbors Division for its review and approval all plans and drawings for proposed improvements to be constructed or installed on the demised premises;

7. Obtain all required permits to construct and occupy its improvements on the demised premises;
8. Apply for and secure all required approvals for installation of the gantry cranes, including those issued by the U.S. Federal Aviation Administration (FAA) for a determination of hazard or no hazard to air navigation.
9. At its sole expense, comply with all environmental laws, statutes, ordinances, rules and regulations that apply to the demised premises, which includes strict adherence to terms of the DOT Stormwater Management Plan and the DOT National Pollutant Discharge Elimination System ("NPDES") general permit (No. HI03KB482 for storm water and certain non-storm water discharges from small MS4s) or any subsequent NPDES permit, and securing required NPDES permits for the proposed operations and activities on the premises.

**REMARKS:**

The Kapalama Container Terminal ("KCT"), now under construction, is the cornerstone of the ongoing Harbors Modernization Plan ("HMP"), as described below. A separate lease implements the HMP by facilitating the occupancy and operation of this new and much-needed cargo terminal, and this requested lease facilitates the Applicant's expanded use of the Sand Island Cargo Yard.

***Disposition by negotiation***

Upon approval by the Board, the DOT will proceed to negotiate terms of the lease with the Applicant, pursuant to §171-59(b), Hawaii Revised Statutes, as this disposition of public lands is for a maritime operation, it encourages competition among maritime and maritime-related operations, and it is for a term of fewer than 70 years.

The Applicant conducts stevedoring and ocean terminal services. As such, DOT recognizes the Applicant's proposed use of the demised premises is indeed a maritime operation.

Further, DOT affirms that this lease encourages competition within or among maritime operations. Imperfect competition is inherent in Hawaii's ocean cargo transport industry because of the limited number of firms in the local market, the high barrier to entry for other firms, and the market's high dependence on imported goods. However, these few firms aggressively compete for market share by seeking to provide customers the best quality or expedited service for the lowest price. The underlying objective of the HMP and the justification for the investment in the development of the KCT is the reduction of congestion in Honolulu Harbor leading to maximized operational efficiencies to be realized by cargo terminal operators. The increased efficiency, and thereby the opportunity for lower prices for consumers, is the source of the increased competition.

***Background; Harbors Modernization Plan & the Kapalama Container Terminal***

The HMP was developed over the last decade through collaboration among the Hawaii State Legislature, the DOT, and the Hawaii Harbors Users Group (“HHUG”). The HMP is a statewide initiative designed to ensure that the State’s harbor system addresses critically needed infrastructure improvements to support continued economic growth, promote operational efficiencies of harbor users, and to accommodate Hawaii’s projected growth in cargo volume.

The HMP is founded on the premise that an efficient and financially healthy harbors system is vital to the State’s economy, and the commercial harbors have not kept pace with economic growth as the capacity of the existing Sand Island cargo terminals have been maximized for years. The DOT estimates that in 2013, the Sand Island terminals operated 24% above capacity. The construction of an 84-acre cargo yard and 1,800 linear feet of berthing space at the KCT at Piers 41, 42, and 43 in Honolulu Harbor is identified in the plan as the solution to expand the cargo space in the harbor by nearly 50% and alleviate the current congestion. Construction of the terminal began in January 2018 and is expected to be completed by 2020; the construction of the wharf is expected to begin in 2019 with a target completion date of 2023.

***Current and future assigned operating areas***

Pursuant to Chapters 19-41, 19-42, and 19-44, Hawaii Administrative Rules, the DOT harbor masters assign operating areas to terminal operators based on cargo volume, need, and safety considerations without a formal disposition. However, dispositions are issued for the portions of these assigned operating areas that underlie offices, maintenance facilities, cranes and crane rails, and parking.

The HMP contemplates that upon completion of KCT, the largest overseas cargo carrier would consolidate its operations on Sand Island at Piers 51-53, and the second largest would operate at KCT.

In this case, the Applicant is the largest overseas cargo carrier and, in fulfilling the HMP, is expected to and anticipates consolidating its operations at the Sand Island Cargo Yard. The Applicant is currently assigned to operate in four cargo areas in a combined area of 108 acres at Piers 33 and 51B through 53 in Honolulu Harbor, and an annex yard across Sand Island Parkway from Pier 51. The Applicant also currently holds a lease (No. H-79-5) for various parcels and easements at Piers 51B through 53 which terminates later this year; the DOT is in the process of extending the term of this lease so the Applicant may continue to occupy the premises demised by Lease No. H-79-5 until such time the subject requested lease is executed. Upon successful negotiation and execution of the requested subject lease, the DOT and Applicant agree that Lease No. H-79-5 be terminated.

The requested area in the consolidated Sand Island Cargo Yard is approximately 20% larger than the Applicant’s current areas combined. The DOT and the Applicant seek approval by the Board now to proceed with this lease by negotiation structured on the terms and conditions set forth in this submittal so the Applicant may undertake the

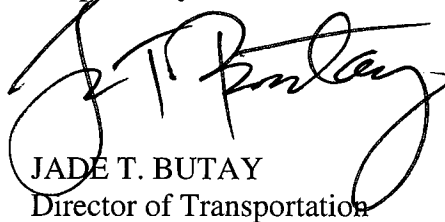
planning, architectural, and engineering work and commit to capital investments now in order for the construction and installation of its improvements on the demised premises.

**RECOMMENDATION:**

That the Board:


1. Authorize the issuance of a lease by negotiation to the Applicant for the subject area for the purposes cited above, subject to the terms and conditions outlined above and incorporated herein by reference, and such terms and conditions as may be prescribed by the Director of Transportation, or by the Board as deemed necessary; and
2. Authorize the issuance of a construction right-of-entry to the Applicant at a time and for a term to be determined by the Director of Transportation to allow for the tenant improvements and the capital improvement projects as described herein to be completed.

Respectfully submitted,

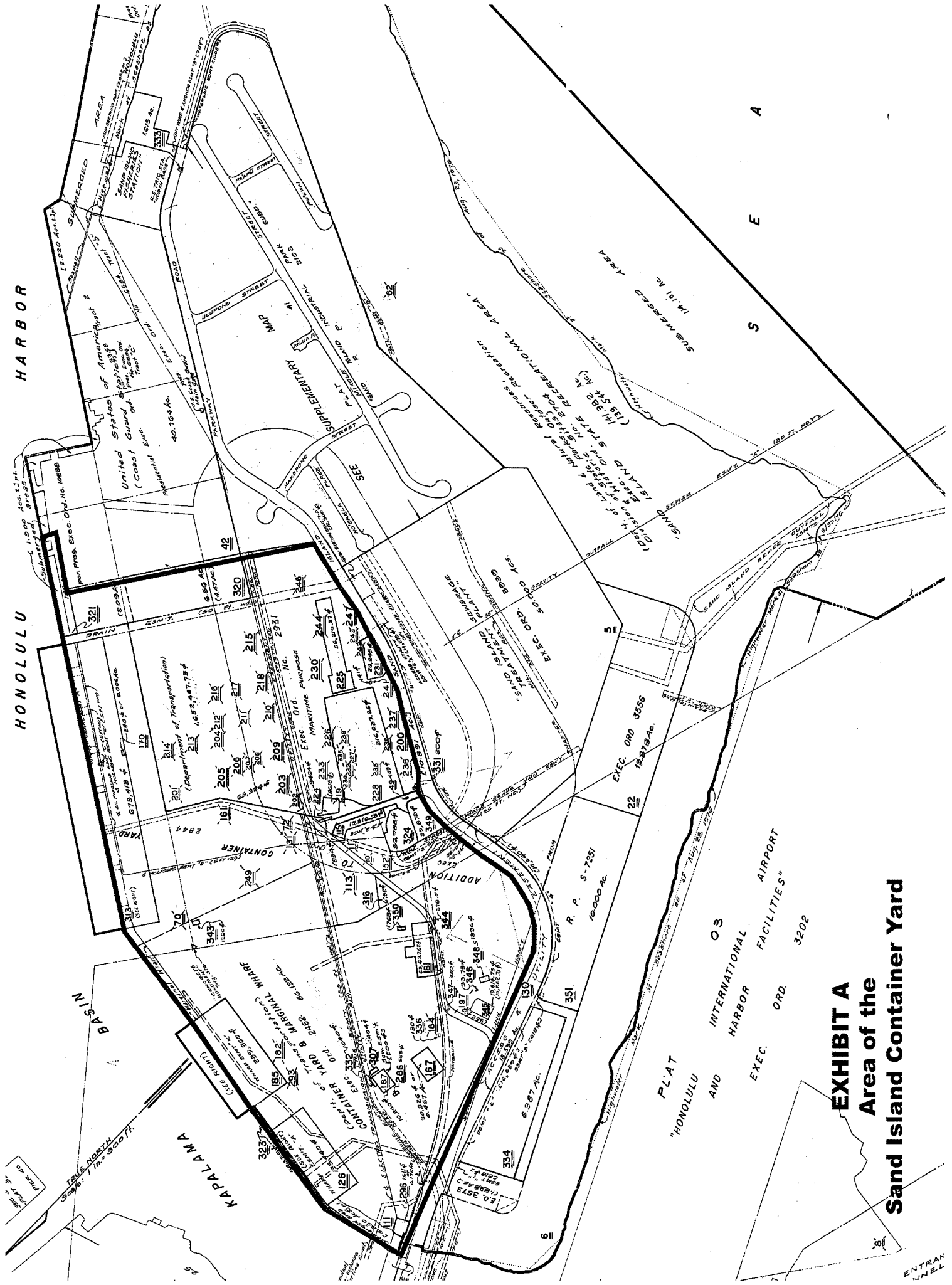


JADE T. BUTAY  
Director of Transportation

APPROVED FOR SUBMITTAL:



SUZANNE CASE  
Chairperson and Member  
Board of Land and Natural Resources



HARBOR

HONOLULU

S E A

**EXHIBIT A**  
**Area of the**  
**Sand Island Container Yard**

PLAT  
 "HONOLULU  
 AND  
 INTERNATIONAL  
 HARBOR  
 EXEC. ORD.  
 FACILITIES"  
 AIRPORT  
 3202

ENTRANCE