



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 HAWAII STEVEDORES, INC. (HSI) FOR CARGO OPERATIONS AT THE NEW KAPALAMA CONTAINER TERMINAL, PIERS 42 & 43, 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:

Hawaii Stevedores, Inc. ("Applicant"), a domestic profit corporation, whose business and mailing address is 1601 Sand Island Parkway, Honolulu, Hawaii 96819

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, administration office building, maintenance building, breakroom, marine operations building, 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 42 & 43, Honolulu Harbor, Oahu, identified by Tax Map Key Nos. (1) 1-2-25:002, 009, 011, 012, 016, 017, 030, 040, 042, 043, 044, 045, 046, 047, 048, 049, 050, 051, 052, 053, 054, 055, 056, 057, 058, 059, 060, 061, 062, 063, 064, 065, 066, 067, 068, 070, 071, 073, 074, 075, 076, 077, 078, 080, 082, 084, 085, 086, 088, 089, 091, 092, 094, 096, 097, 098, 100, 103, 104, 105, 110, 111, 112, 115, 117,

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118, 119, 120, 121 & (1) 1-2-32:002 (portion), comprising the site of the new Kapalama Container Terminal, as shown on the attached map labeled Exhibit "A".

AREA:

Several parcels of various sizes totaling approximately 3.1 acres, more or less, at the new Kapalama Container Terminal. See Exhibit "B" (Note: This exhibit is strictly for illustrative purposes only).

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:

Vacant. The new Kapalama Container Terminal is under construction at this location with a target completion date of 2023.

LAND TITLE STATUS:

Owned by State of Hawaii. Management and control of the property was transferred to the DOT by Executive Orders 1016, 3013, 3947, 4206, 4503 and 4454. The Board approved both the cancelation of Executive Order 4454 and the issuance of a subsequent executive order for a portion of the property to DOT for harbors and related purposes.

TRUST LAND STATUS:

This status is under review by the Department of Transportation.

CHAPTER 343 – ENVIRONMENTAL IMPACT STATEMENTS:

The Kapalama Container Terminal and Tenant Relocations Final Environmental Impact Statement (“FEIS”) was accepted by Governor Abercrombie on October 30, 2014, thereby fulfilling the requirements under Chapter 343. The proposed use under this lease is consistent with the proposed action of the FEIS. While the installation of gantry cranes is addressed in the FEIS, the Applicant shall be responsible for any further environmental review required to determine the impact of the height of the cranes.

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. This lease implements the HMP by facilitating the occupancy and operation of this new and much-needed cargo terminal.

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 provides stevedoring and marine terminal services including supplying ship and barge lines with personnel and equipment for the handling of marine cargo and the processing of related documents. 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 overseas cargo carrier would operate at KCT.

In this case, the Applicant is the second largest overseas cargo carrier and, in fulfilling the HMP, is expected to and anticipates operating at KCT. The Applicant is currently assigned to operate in four cargo yards in a combined area of 70 acres, and holds a lease (No. H-92-22) for five parcels and ten easements at Pier 51A for a term of 35 years that terminates in 2031. Upon successful negotiation and execution of the requested subject lease, the DOT and Applicant agree that Lease No. H-92-22 be terminated.

The requested area at KCT 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 to be done while KCT is concurrently under construction.

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

LEGEND

- 40' GROUNDED EMPTY CONTAINERS (150 FGS)
- 45' GROUNDED EMPTY CONTAINERS (224 GS)
- 45' GROUNDED DRY CONTAINERS (258 GS)
- 45' WHEELED CONTAINERS (1,606 SPACES)
- 40' WHEELED REEFER CONTAINERS (302 SPACES)
- CONCRETE BARRIER
- SECURITY FENCE
- ONE-WAY TRAFFIC FLOW
- HIGH MAST LIGHT POLE (80-FOOT)
- BUILDING
- LANDSCAPED AREA

KEYNOTES

- 1 MAIN (DEEP SEA) CARGO WHARF (OTHERS)
- 2 CONTAINER SHIP
- 3 100' GAGE CONTAINER CRANE, TYP.
- 4 WHARF LOAD LANES
- 5 HATCH COVER LAYDOWN AREA
- 6 INTER-ISLAND BARGE WHARF (BY OTHERS)
- 7 INTERISLAND BARGE (342 x 307)
- 8 CARGO TRANSFER ZONE BETWEEN MAIN AND BARGE WHARF AREAS
- 9 NOT USED
- 10 NOT USED
- 11 POV ENTRY DRIVEWAY
- 12 COMFORT STATION & POSSIBLE MARINE OPERATIONS BUILDING (NIC)
- 13 POV PARKING - STEVEDORING LABOR
- 14 NOT USED
- 15 NOT USED
- 16 ADMINISTRATION BUILDING (NIC)
- 17 MAINTENANCE AND REPAIR BLDG (NIC)
- 18 POV PARKING FOR OFFICE & VISITOR (9X15')
- 19 NOT USED
- 20 ELECTRICAL GEAR
- 21 NOT USED
- 22 RESERVED FOR HECO SUBSTATION
- 23 5' LANDSCAPED BUFFER INSIDE FENCE
- 24 NOT USED
- 25 TRAILER PARKING WREEFER POWER
- 26 EMPTY CONTAINER STORAGE AREA
- 27 IN-YARD QUEUE FOR EMPTIES
- 28 NOT USED
- 29 45' TRAILER PARKING - LOADS, MT & CHASS.
- 30 TERMINAL ENTRY SIGNAGE
- 31 ENTRY DRIVEWAY (FORMERLY UH GATE)
- 32 SECURITY BOOTH - CONTAINER TRUCKS & CAR CARRIER ACCESS ONLY
- 33 ENTRY DRIVER SERVICE PARKING AND OPTIONAL SERVICE BUILDING
- 34 NOT USED
- 35 DOT WEIGH-SCALE AREA (NIC)
- 36 NOT USED
- 37 TWO-SHIP ARRANGEMENT

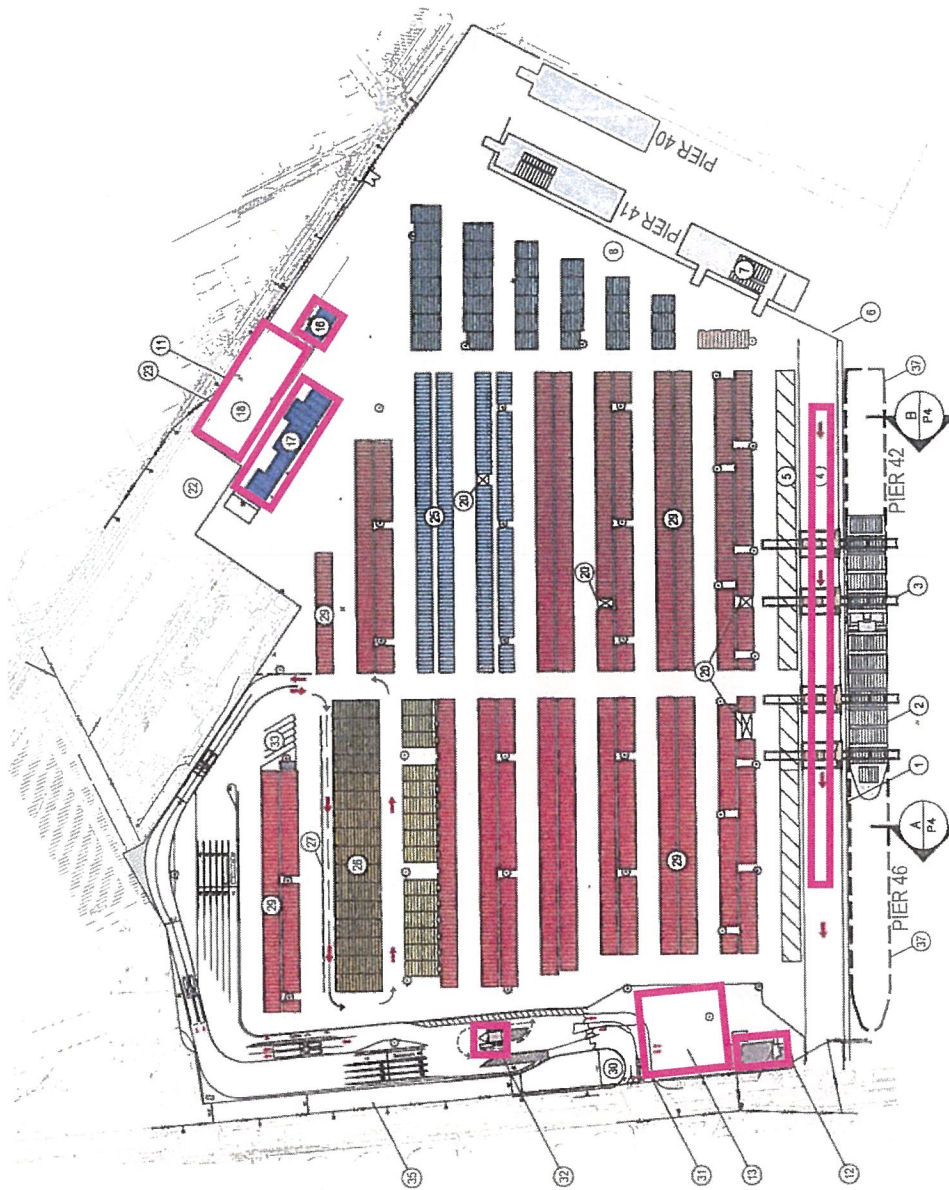


EXHIBIT B
Approximate Location and Areas of Demised Premises

Note: This exhibit is strictly for illustrative purposes only. Neither location or dimension of any proposed improvements have been proposed or approved.