

YEARLY ACTIVITY PLAN (YAP) - FY '10

Division/Attached Agency:

Program Name:

Program ID:

I. PROGRAM PURPOSE AND PRIORITIES

Purpose of this program: Summarize the purpose of this program based on statutory guidelines and functional statement.

The Foreign-Trade Zone (FTZ) Division of the Department of Business, Economic Development & Tourism administers the federal grant, issued in 1965 to the State of Hawaii, for the Foreign-Trade Zone 9 (FTZ9). There are currently 14 sites on the islands of Oahu, Maui, and Hawaii that have received a foreign-trade zone designation of which three general-purpose zone and four special-purpose subzone sites are activated. As the grantee, the FTZ9 staff is responsible for ensuring that U.S. Customs and Foreign-Trade Zones Board regulations are followed by the operators of the subzones at these sites.

The FTZ Division's primary responsibility is to administer the FTZ program in Hawaii. More specifically, the FTZ Division provides advice and direction to potential users of the program and operates a general-purpose zone at Pier 2. Any company that imports and exports merchandise can take advantage of the benefits of the Foreign-Trade Zone program at this Pier 2 incubation-type, shared-use facility. The FTZ also provides important port services to the Department of Homeland Security's (DHS) U.S. Customs and Border Protection.

Program Changes. What changes in the purposes or functions of the program are anticipated or requested and why?

- Hiring freeze and elimination of vacant positions needs to be addressed immediately. Without adequate staff to support client demand; revenue will decline.
- Electricity costs have increased to approximately one third of total operating costs. As such, FTZ9 will be participating with the Department of Transportation for a request for proposals to seek interested companies in developing a 1.0 MW photovoltaic renewable energy system for the FTZ9 Pier 2 site.
- FTZ9 has seen strong demand for its small business incubator office space, and we have been at virtually full occupancy since our recent expansion several years ago. In view of that, FTZ9 is applying for federal funding for an Import-Export Step-Up Incubator project. The application for \$3 million, if approved, would allow the FTZ to increase its small business incubator office space by 50 percent.

Program Priorities. Given the existing and anticipated program purposes and responsibilities, what are the core priorities going forward and why?

- Oversee the implementation of the FTZ program on a statewide basis to make the advantages of the FTZ program available to as many qualifying firms as possible.

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- Operate the FTZ public warehouse facility at Pier 2; provide office, exhibit, warehouse, and industrial space to qualified individual businesses.
- Provide information to local, national, and international firms to explain the advantages of doing business in Hawaii under the auspices of the FTZ program.
- Partner with both private and public sector entities to encourage greater participation in the FTZ program and attract new economic activity to Hawaii.
- Continue operating the program in a self-sustaining manner without the use of general funds.
- Implement information technology to reduce the transaction costs of complying with federal FTZ regulations and DHS security issues.
- Plan for the expansion of services and facilities to meet the needs of businesses that qualify for FTZ utilization.
- Increase renewable energy consumption.
- Work in conjunction with U.S. Customs and Border Protection in streamlining the admittance process in easing barriers for Foreign-Trade Zone users while increasing utilization to maximize benefits to clients.
- Align with DBEDT's other Business Development Programs and its strategic plans to increase Hawaii exports and business development.
- Provide and promote the Export-Import Bank of the United States and its great potential to small and medium-size businesses with loan guarantees, financing and export credit insurance.
- Actively promote the FTZ program through various chambers of commerce and business associations and initiate and build relationships with key groups to utilize the FTZ for the "International Hub Program."
- Maintain relationships with the Foreign-Trades Zone Board and the National Association of Foreign-Trade Zones to obtain updated policies and regulations to ensure the most up-to-date information is available to FTZ9 customers.

II. PROGRAM GOALS

- Program Goals:** What are the specific long-term goals (up to 6 years) established to address the program's purpose and priorities?
- Increased growth of Hawaii's small- and medium-sized business exports.
 - Increase in new companies/investments to the Hawaii market.
 - Increase employment of Hawaii residents.
 - Increase in special fund revenues.
 - Increased participants in the FTZ9 program and Pier 2 general purpose zone.
 - Increase the office space available for the Import-Export Step-Up Incubator.
 - Achieve 100 percent renewable energy consumption at the Pier 2 site.
 - More activated users in JCIP, NELHA and Maui and Mililani Technology Parks.

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Biennium Objectives: What specific objectives and evaluation criteria (metrics, indicators) are planned:

Year one of the current biennium:

- Maintain current revenues, especially from leasing and parking arrangements as well as the Pier 2 warehouse operations. Also, restructure all office and domestic warehouse space leasing arrangements by adjusting electricity, refuse, water charges and per-square-foot price. The target is to avoid a decline in revenues during the economic downturn.
- Continue to reinvent FTZ9 as a "hub for international business" and market the FTZ9 program statewide by partnering with the District Export Council to sponsor seminars for small businesses involved in importing and exporting, developing new marketing materials, and expanding the FTZ9 Annual Report to recognize the 43rd anniversary of the program.
- Initiate new marketing/training events for importers and exporters. The targets are to attract 25 new clients; complete 15 events with at least 500 attendees; coordinate events with 20 other Federal, State, County and private sector organizations; prepare 10 promotional flyers; and achieve a circulation of at least 50,000.
- Upgrade FTZ9 Pier 2 facilities. Complete at least three projects to include the following priority projects: design renovation of Business and Operations Offices, conversion to plastic pallets, complete Harbor View conference room. In addition, initiate efforts to reduce energy consumption by working closely with DBEDT Energy Branch's "Lead by Example" energy conservation program and the DOT to secure alternative energy for the Pier 2 facility.

Year two of the current biennium.

- Maintain revenues as well as reduce expenditures by delaying maintenance projects. No reduction during recession.
- Maintain total merchandise handled at FY 2009 levels (\$6 billion). No reduction during recession.
- Maintain employment in FTZ sites at FY 2009 levels (1,800 employees). No reduction during recession.
- Maintain exports at FY 2009 levels (\$450 million). No reduction during recession.
- Maintain capital improvements in FTZ sites at FY 2009 levels (\$25 million). No reduction during recession.
- Continue to market FTZ9 as a "Hub for International Business" (add 25 new clients).
- Apply for federal funds to increase office incubator space (\$3,000,000).
- Release RFP to secure firm to install and operate 1.0 MW PV system at Pier 2 site.

Program Challenges: Briefly summarize what opportunities, constraints, etc., the program faces in addressing the biennium goals.

- Staff shortages in the warehouse is becoming problematic. There are five warehouse workers and one general laborer. With the retirement of one warehouse worker and one general laborer in the past year, we now have a vacancy rate of 50 percent. We only have three staff to do the work which requires six workers. With the hiring freeze we are unable to fill these positions. The elimination of one of these positions in the past several months has exacerbated the problem. Given that FTZ9 is a self-sufficient operation that depends on a high quality of service, this situation will have a negative impact on revenues.
- The FTZ9 energy costs at its Pier 2 facility continue to rise.

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- The Small Business Office Space Incubator is at full occupancy.
- The Pier 2 facility is over 50 years old and has not had any major repairs to the roof which is approximately 5 acres. Repairing leaks in the roof will lead to better utilization of the warehouse facility and is vital to ensuring that there is no water damage to merchandise. Past requests for CIP funds have been denied. In addition, the draining of special funds to operate general funded programs is requiring FTZ to delay its maintenance projects.
- There is no loading dock at the Pier 2 facility and leads to lower utilization of the facility from a cargo loading/unloading perspective. Funds have been requested in the past but denied.

III. PROGRAM ACCOMPLISHMENTS

FY 2009 Goals and Accomplishments: Please list the specific goals that were established for FY 2009 and indicate the extent to which those goals were accomplished.

- FTZ target of averting a decline in revenues was avoided and an increase of 1.2% was achieved.
- The number of first-time Foreign-Trade Zone users was 27.
- Twenty-five training and marketing events were held throughout the year.
- Partnered with 23 other Federal, State, County and private sector economic development organizations.
- Over 750 attendees for these events.
- 10 separate flyers/promotional materials were produced to promote these events.
- Achieved a circulation of approximately 70,000 for this promotional material.
- The renovation of the FTZ Business and Operations Center was completed.
- The purchase of plastic pallets was completed.
- The completion of the Harbor View Conference Room was achieved.
- An RFP for renewable energy projects at Pier 2 was released. No viable proposal was submitted due to strong demand for technology and film tax credits.

FY 2009 Evaluation: What opportunities, constraints, unexpected events, etc. were encountered, how were they addressed, and what impact did they have on accomplishment of goals in FY 2009.

The slow economy provided less opportunities and stumbling blocks for importers and exporters. FTZ9 was able to maintain previous year revenue despite the economic slowdown. A significant part of the FTZ revenue is from the operations at the cargo terminal at Pier 2. The U.S. economic slowdown has had a significant impact on global trade, and many estimates indicate that worldwide shipping container traffic has decrease by approximately one-third. Likewise, the demand for services at our Pier 2 site has declined. Additional marketing efforts such as community presentations, training programs and seminars have been helpful in maintaining current operations and stable revenue.

In addition, it is important to note that two of the key measures of performance for the program are the amount of merchandise which moves though the 14 FTZ sites in Hawaii and the amount exported to other countries. Approximately \$12 billion of merchandise moved through FTZ sites in 2008 and almost \$1 billion was exported in the form of jet fuel to other countries. These high figures reflect the importance of petroleum to Hawaii's international trade and FTZ sites. This year we have seen a

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significant drop in the price of petroleum and lower demand for jet fuel due to the softness of our visitor industry. While official data for 2009 is not yet available, we anticipate that these key measures of the FTZ program will decline by approximately 50 percent.

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IV. ALIGNMENT

Briefly describe how the program's biennium goals are expected to impact DBEDT's nine strategic objectives.	
1.	Hawaii Five Point Economic Plan (tourism marketing/outreach, CIP acceleration, lower fees/taxes, investment attraction/retention, & maximizing Federal dollars). The objective of the program is strongly aligned with this objective through the growth of exports.
2.	Hawai'i Clean Energy Initiative. The program is strongly aligned with this objective and is currently seeking a 1.0MW photovoltaic system.
3.	Hawai'i Innovation Initiative (technology development, infrastructure for innovation, STEM education, skilled workforce, emerging industries). Very little alignment.
4.	Global Links. The FTZ program is probably the closest aligned with this goal. The facilitation of manufacturing and storage and distribution businesses is a key goal of the FTZ program, and allowing easier trade with businesses in other countries is critical. In addition, the Hub for International Trade at Pier 2 provides many services to assist businesses in operating in a global climate.
5.	Economic research and data analysis. Not a priority for the FTZ program.
6.	Hawai'i Open for Business. The Hub for International Trade at Pier 2 provides assistance to businesses operating in Hawaii.
7.	Workforce Housing. Not a priority for the FTZ program.
8.	Planning and Land Use. Not a priority for the FTZ program.
9.	World Class Infrastructure. Not a priority for the FTZ program.

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YAP SUMMARY FORM

PROGRAM: Hawaii Foreign-Trade Zone (BED107/BA)

PROGRAM PURPOSE	The FTZ Division's primary responsibility is to administer the FTZ program in Hawaii.
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PROGRAM PRIORITIES	LONG-TERM GOALS (up to six years)	BIENNIUM OBJECTIVES	ACCOMPLISHMENTS FY 2009	
			GOALS SET	ACCOMPLISHMENTS
<ul style="list-style-type: none"> ▪ Oversee the implementation of the FTZ program on a statewide basis ▪ Operate the FTZ public warehouse facility at Pier 2; provide office, exhibit, warehouse, and industrial space to qualified individual businesses ▪ Provide information to local, national, and international firms ▪ Continue operating the program in a self-sustaining manner without the use of general funds 	<ul style="list-style-type: none"> ▪ Increased growth of Hawaii small- and medium-size business exports ▪ Increase in new companies/investments to the Hawaii market ▪ Increase employment of Hawaii residents ▪ Increase in special fund revenues ▪ Increased participants in the FTZ9 program and Pier 2 site ▪ Achieve 100% renewable energy consumption ▪ More activated users in JCIP, NELHA and Mililani that can qualify under FTZ program policies 	<p>YEAR 1:</p> <ul style="list-style-type: none"> ▪ Maintain stable revenues for FTZ9 Pier 2 site ▪ Market Pier 2 site as Hub for International Trade and add new clients ▪ Upgrade Pier 2 facilities <p>YEAR 2:</p> <ul style="list-style-type: none"> ▪ Maintain revenues for FTZ9 Pier 2 site ▪ Market Pier 2 site as Hub for International Trade ▪ Apply for federal funds for additional incubator facilities ▪ Release RFP for PV system at Pier 2 	<ul style="list-style-type: none"> ▪ Maintain stable revenue (no decline) ▪ Total merchandise in and out (\$6Bn) ▪ Capital improvement (\$25M) ▪ New FTZ clients/users (25) ▪ Training/mktg events (15) ▪ Partners on events (20) ▪ Attendees at trng/mktg events (500) ▪ Flyers (10) ▪ Circulation (50,000) ▪ Renovate Ops/Business Center ▪ Convert to plastic pallets ▪ Initiate alternative energy projects 	<ul style="list-style-type: none"> ▪ Increased by 1.2% ▪ No Data ▪ No Data ▪ 27 ▪ 27 ▪ 23 ▪ 750 ▪ 10 ▪ 70,000 ▪ Completed ▪ Completed ▪ Completed

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SUPPLEMENTARY INFORMATION

1. Please elaborate on the Challenges the program faces over the current biennium.

Weak economy will continue to challenge program to grow revenues and new clients. Draining of funds from FTZ special fund to support general funded programs will require program to delay maintenance of its Pier 2 facility. Inability of program to hire new employees could adversely impact client services.

2. Please elaborate on optional program changes, strategies, leveraging with other efforts, and assistance from other programs that could help this program accomplish its biennium goals.

FTZ9 has issued a request for proposals to seek interested companies in developing a 1.3 MW photovoltaic renewable energy system for the FTZ9 Pier 2 site to reduce electrical costs.

3. Describe effort to explore additional sources of funding including Federal stimulus grants.

FTZ9 plans to apply for federal funds to expand its Pier 2 facility.

4. Summarize your anticipated 2010 supplemental legislative requests and their relationship to the program's biennium or long term goals.

None.