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

IN REPLY REFER TO:

February 23, 2012

S.B. 2337, S.D.1
RELATING TO TRANSPORTATION

SENATE COMMITTEE ON WAYS & MEANS

The Department of Transportation supports this bill. Concessions at Hawaii airports are a major revenue generator. Additional concession locations in the airport will enhance the travelers' experience by providing a wider array of merchandise and food choices. Individual concessions are responsible for building out their spaces and providing the fixtures and merchandise to operate the concession. Extending the existing concession term provides the concessions with the opportunity to amortize the cost of the improvements and ensures that development of the new concession spaces will take place as expeditiously as possible.

Thank you for the opportunity to provide testimony.





SB 2337, SD1
RELATING TO TRANSPORTATION
Senate Committee on Ways and Means

February 23, 2012

9:00 a.m.

Room 211

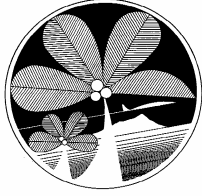
The Office of Hawaiian Affairs (OHA) **OPPOSES** SB 2337, SD1, which would grant the Department of Transportation (DOT) authority to reopen and extend concession lease terms in exchange for revenue-enhancing improvements paid for by the concessionaire. SB 2337, SD1 would further exempt DOT from all laws in conflict with the bill, including those laws regulating the issuance of concession leases at Hawai'i's airports, until July 1, 2014. Because the state has fiduciary duties to exercise reasonable care and act prudently in leasing public trust land, OHA opposes this bill.

The Admission Act section 5(f) created the public land trust pursuant to which certain land and the proceeds or income from the disposition of that land are to be held by the State of Hawai'i for five public purposes, including the betterment of the conditions of native Hawaiians. The majority of the state's airports are situated on public trust land.

Accordingly, the state, as trustee, including the DOT, must uphold its fiduciary responsibilities when leasing our public trust lands. These duties include, among other things, acting in the best interest of the beneficiaries, taking reasonable care, acting as a prudent person would in similar circumstances, and performing due diligence prior to taking action. Laws regulating the leasing of land for concessions provide a framework to ensure that the state carries out its duties while allowing for thoughtful use of public lands. While circumventing these laws may be the quickest means to lease land, it is not the prudent inquiry demanded by the state's fiduciary position.

For this reason, OHA urges the committee to HOLD SB 2337, SD1. Mahalo for the opportunity to testify on this important measure.

AIRLINES COMMITTEE OF HAWAII



Honolulu International Airport
300 Rodgers Blvd., #62
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February 23, 2012

Honorable David Ige, Chair
Honorable Michelle Kidani, Vice Chair
Senate Committee on Ways and Means
Hawaii State Capitol, Honolulu, HI 96813

**Re: SB2337 SD1 – Relating to Transportation – Comments
Hawaii State Capitol, Room 211 – 9:00 a.m.**

Aloha Chair Ige, Vice Chair Kidani, and Members of the Committee:

The Airlines Committee of Hawaii* (ACH), which is made up of 20 signatory air carriers that underwrite the State Airport System appreciates the opportunity to alert the committee to unintended consequences that may arise with this bill.

As you discuss the merits of this bill, please consider that any offset of lease costs may be passed along to the ACH who, as signatory carriers, would have to make up revenue shortfalls experienced by the state airport system. We appreciate the impetus to provide rent relief stems from the fallout of the economy, and natural and manmade disasters. But, the ACH also experienced the brunt of that impact.

Air carriers have adapted their business models to meet customer demand and rising costs. Constantly, we are faced with balancing our operations against a highly volatile oil market. Oil prices that once represented less than 10 percent of our operational costs now are now about 20 percent – nearly as high as personnel costs.

Because any offset of lease costs may be passed along to signatory air carriers, this bill has the potential to make it increasingly difficult for airlines to operate and ultimately hurt the consumer. Offsetting rising expenses by raising prices is difficult because it chokes demand – if tickets are too expensive, travelers will make alternate plans.

Background:

More than any other state, Hawaii is dependent on air transportation. Airways are our interisland highways. Airlift is essential to our state's tourism-dependent economy.

The Hawaii state airport system is unlike anywhere in the world, where 15 airports on six islands operate as one monopoly. Airlines must accept rates and charges on a system-wide basis. As a result, signatory air carriers help support and stabilize the airports system and help to under-write capital revitalization costs.

The airports system is a self-sustaining operation under Federal Aviation Administration mandate. Revenues from airlines, concessionaires and others, as well as federal grants, must cover all developmental and operational costs of all airports.

Potential Impact:

As signatory airlines, the ACH entered into a partnership with the State Department of Transportation – Airports Division (DOT-A) to guarantee the financial viability of the airports system for each fiscal year. To that end, carriers pledge to pay whatever amount is required to ensure the payment of all expenses. This residual agreement dictates that any rent abatement to allow airport concessionaires to “breakeven” at the expense of DOT-A will be passed on to the airlines.

Simply put, every dollar of rent abatement provided to concessionaires will increase airline costs by a dollar.

The ACH and the State partnered to develop Phase I of a \$1.3 billion program to modernize and improve airports throughout the state. The economic stimulus of these construction projects is significant and especially needed to boost jobs and expand the capacity of each of the airports throughout Hawaii. Passage of this bill may materially impact the DOT-A’s capital improvement program by necessitating deferral or cancellation of a significant number of projects at every airport.

Recommendation:

Like airport concessionaires, the airline industry is also struggling financially. In fact, neither the concessionaries nor the airlines are unique in their struggles. We are among a number of corporations and businesses that face financial hardships due to a number of pressures. This is a reality that we all must navigate through to stay afloat.

Thus, there is no additional cushion for the ACH to subsidize other airport tenants while maintaining its support to an operations and capital improvement program in Hawaii. Therefore, we respectfully ask your consideration of the potential impacts this bill may have upon the airport system.

As always, we are grateful for the opportunity to provide input on this matter.

Sincerely,

Blaine Miyasato
ACH Co-chair

Matthew Shelby
ACH Co-chair

**ACH members are Air Canada, Air New Zealand, Air Pacific, Alaska Airlines, All Nippon Airways, American Airlines, China Airlines, Continental Airlines, Delta Air Lines, Federal Express, go! Mokulele, Hawaiian Airlines, Japan Airlines, Korean Air, Philippine Airlines, Qantas Airways, United Airlines, United Parcel Service, US Airways, and Westjet.*



Island Shoppers, Inc.

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Honorable David Ige, Chair
Committee on Ways and Means
Hawaii State Senate
9:00 a.m.

Hearing: February 23, 2012; Room 211 at

Re: SB 2337, SD1– Relating to Transportation

Chair Ige and Honorable Senate Committee Members:

My name is John Matias, and I am the President of Island Shoppers, Inc.

My company supports this bill and the position of the Airports
Concessionaires Committee.

This bill seeks to recognize and provide flexibility and discretion to
Hawaii's Airports Division (DOT) to meet the hardship and problems that will be
faced by concession operators at our public airports due to fast-tracking of major
construction improvements.

While we understand and commend the major goal of fast-tracking up to
80,000 or more square feet of additional concession space at Honolulu International
Airport and likely other airports (significant goal) to meet the unmet needs and demands
of our travelers, we respectfully ask that you recognize and understand the hardship and
problems that will result to airport concession operators.

In addition to barricades, different passenger routes and temporary
relocation of space, concession operators will be asked to improve and/or quickly open
new space as and when it becomes available. This will be costly and may not be feasible
pending length on the contract. As an example, a concession typically has only a 5 year
contract. If it has only a remaining term of 2 years left on its contract, how can it be
expected to fixture, a/c, light, provide equipment and otherwise improve new and
additional space? This is obviously not possible and likely something concessions will
have to refuse leaving new space vacant.

We urge you to pass this bill that gives the DOT the authority to solve such problems by providing the DOT with the flexibility and discretion to amend concession contracts including extending the term of a concession contract if the operator pays for improvements relating to such new space. An extension in all fairness will allow a concession more time to amortize (pay for) such improvement costs.

Thank you for allowing us to testify. Please support this bill.



AIRPORT CONCESSIONAIRES COMMITTEE

Honorable David Ige, Chair
Committee on Ways and Means
Hawaii State Senate

Hearing: February 23, 2012; Room 211 at 9:00 a.m.

RE: SB 2337, SD1 --- Relating to Transportation

Chair Ige and Honorable Senate Committee Members:

My name is Peter Fithian and I am the Legislative Chair for the Airports Concessionaires' Committee. The Committee represents that major concessions at Hawaii's public airports. Airport concessions historically have contributed over 50% of the operating revenues to support public airports in Hawaii.

The Committee supports the bill.

This bill does not mandate or require the DOT to do anything . It requires no additional expenditures by the DOT. It simply gives the DOT the sole discretion and flexibility to be fair to concessions who pay for unplanned for improvements requested by the DOT.

While the Committee commends the historic and bold vision of the DOT-Airports Division to fast-track and add 80,000 or more square feet of concession space at Hawaii's public airports, particularly at HIA, the Committee is fearful as to the costly impact such fast-tracking will have on airport concessions.

Such fast-tracking will result in barricades, noise, dust, changes in passenger routes past the front of concessions and likely temporary relocation of concessions. In addition, concessions will be asked to make various improvements as part of or related to such construction including putting in fixtures, lighting, a/c, flooring, equipment and other improvements to newly added space.

Such requested improvements will be very costly to concessions who had not planned or anticipated paying for such expenses. Concessions will likely be forced to refuse to cooperate with such improvements since they will not be able to amortize (pay off) the costs of such improvements. Most airport concessions only have an agreement of 5 years or less. What is a concession to do if it only has 2 years remaining on its contract and thus can't afford to make such tenant and other improvements?

Thus, bill seeks to help solve the problem by give the DOT the sole discretion and flexibility to amend concession agreements to provide relief to concessions in exchange for improvements paid for

by concessions. Among other things, the bill gives the DOT the discretion to extend the term of a concession lease so the concession in all fairness would have additional years to amortize (pay off) the costs of unplanned improvements requested by the DOT or necessitated by such projects.

Please understand the Committee is not opposed to such improvements and fast-tracking. The Committee recognizes and understands the DOT is responding to a recent study that calls for and justifies the need for such improvements and the fact that the additional revenues to DOT Airports from such added space will pay for such DOT projects.

In closing, while the Committee understands the need for such improvements and the fact that the current and future needs of travelers are not being met due to the lack of concession activities and offerings, we respectfully ask that you support this bill so the DOT will have discretion and flexibility to work with concessions who are adversely impacted by paying unanticipated costs.

Thank you for allowing us to testify. Please support this bill. Airport concessions seek to work cooperatively with the DOT in its historic and bold plans to quickly add substantial concession space so they open as completed and help meet the demands of Hawaii's travelers.



Greeters of Hawaii

Honorable David Ige, Chair
Committee on Ways and Means
Hawaii State Senate

Hearing: February 23, 2012; Room 211 at 9:00 a.m.

Re: SB 2337, SD1– Relating to Transportation

Chair Ige and Honorable Senate Committee Members:

My name is Peter S. Fithian and I am the President
with Greeters of Hawaii, Ltd.

My company supports this bill and the position of the Airports Concessionaires
Committee.

This bill seeks to recognize and provide flexibility and discretion to Hawaii's
Airports Division (DOT) to meet the hardship and problems that will be faced by concession
operators at our public airports due to fast-tracking of major construction improvements.

While we understand and commend the major goal of fast-tracking up to 80,000
or more square feet of additional concession space at Honolulu International Airport and likely
other airports (significant goal) to meet the unmet needs and demands of our travelers, we
respectfully ask that you recognize and understand the problems that will result to airport
concession operators.

In addition to barricades, different passenger routes and temporary relocation of
space, concession operators will be asked to improve and/or quickly open new space as and
when it becomes available. This will be costly and pose problems. As an example, a
concession typically has only a 5 year contract. If it has only a remaining term of 2 years left on
its contract, how can it be expected to fixture, a/c, light, provide equipment and otherwise
improve new and additional space?

We urge you to pass this bill that gives the DOT the authority to solve such
problems by providing the DOT with the flexibility and discretion to amend concession
contracts including extending the term of a concession contract if the operator pays for
improvements relating to such new space. An extension in all fairness will allow a concession
more time to amortize (pay for) such improvement costs.

Thank you for allowing us to testify. Please support this bill.



Honorable David Ige, Chair
Committee on Ways and Means
Hawaii State Senate
211 at 9:00 a.m.

Hearing: February 23, 2012; Room

Re: SB 2337, SD1– Relating to Transportation

Chair Ige and Honorable Senate Committee Members:

My name is Roberta B. Fithian and I am the President
with Tiare Enterprises Inc.

My company supports this bill and the position of the Airports
Concessionaires Committee.

This bill seeks to recognize and provide flexibility and discretion to Hawaii's
Airports Division (DOT) to meet the hardship and problems that will be faced by
concession operators at our public airports due to fast-tracking of major
construction improvements.

While we understand and commend the major goal of fast-
tracking up to 80,000 or more square feet of additional concession space at
Honolulu International Airport and likely other airports (significant goal) to meet
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We urge you to pass this bill that gives the DOT the authority to
solve such problems by providing the DOT with the flexibility and discretion to
amend concession contracts including extending the term of a concession
contract if the operator pays for improvements relating to such new space. An
extension in all fairness will allow a concession more time to amortize (pay for)
such improvement costs.

Thank you for allowing us to testify. Please support this bill.

P.O. Box 29638

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Honorable David Ige, Chair
Committee on Ways and Means
Hawaii State Senate

Hearing: February 23, 2012; Room 211 at 9:00 a.m.

Re: SB 2337, SD1- Relating to Transportation

Chair Ige and Honorable Senate Committee Members:

My name is Alan Yamamoto and I am the Senior Director of Operations for the Hawaiian Islands with HMSHost.

My company supports this bill and the position of the Airports Concessionaires Committee.

This bill seeks to recognize and provide flexibility and discretion to Hawaii's Airports Division (DOT) to meet the hardship and problems that will be faced by concession operators at our public airports due to fast-tracking of major construction improvements.

While we understand and commend the major goal of fast-tracking up to 80,000 or more square feet of additional concession space at Honolulu International Airport and likely other airports (significant goal) to meet the unmet needs and demands of our travelers, we respectfully ask that you recognize and understand the hardship and problems that will result to airport concession operators.

In addition to barricades, different passenger routes and temporary relocation of space, concession operators will be asked to improve and/or quickly open new space as and when it becomes available. This will be costly and pose many problems. As an example, a concession typically has only a 5 year contract. If it has only a remaining term of 2 years left on its contract, how can it be expected to fixture, a/c, light, provide equipment and otherwise improve new and additional space? This is obviously not fair and likely something concessions will have to refuse leaving new space vacant.


We urge you to pass this bill that gives the DOT the authority to solve such problems by providing the DOT with the flexibility and discretion to amend concession contracts including extending the term of a concession contract if the operator pays for

improvements relating to such new space. An extension in all fairness will allow a concession more time to amortize (pay for) such improvement costs.

Thank you for allowing us to testify. Please support this bill.

HMSHost Corporation
Hawaiian Islands

By



Alan Yamamoto
Senior Director of Operations
Hawaii