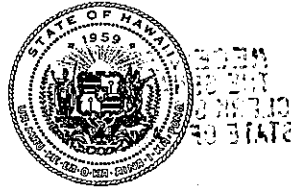


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IN REPLY REFER TO:
AIR-A
16.0074

October 10, 2016

DEPT. COMM. NO. 11

The Honorable Ronald D. Kouchi
Senate President
Twenty-Eighth State Legislature
State Capitol, Room 409
415 South Beretania Street
Honolulu, Hawaii 96813

Dear President Kouchi:

Reference is made to the enclosed report dated August 5, 2016, addressed to the 2016 Twenty-Eighth Session of the Legislature, State of Hawaii, pursuant to Section 261-7(e), Hawaii Revised Statutes (HRS), requiring the Department of Transportation to submit a report to the Legislature on the circumstances of the changes made to the rates and charges implemented pursuant to this section.

This report informs the Legislature of the procedures used to establish Rates and Charges by conducting Public Informational Hearings for Rates for Non-Signatory Commercial Air Carriers and Fixed Based Operators effective August 1, 2016 (Fiscal Year 2017).

In order to comply with the reporting requirements pursuant to HRS Section 261-7(e), this report is being submitted.

If you or your staff has any questions pertaining to this report, please contact Mr. Sidney A. Hayakawa, Administrative Services Officer, at 587-2153 or email at: sidney.a.hayakawa@hawaii.gov.

Sincerely,

Ford N. Fuchigami
FORD N. FUCHIGAMI
Director of Transportation

Enc.

DEPT. COMM. NO. 11

REPORT TO THE TWENTY-EIGHTH LEGISLATURE
STATE OF HAWAII
2016

PURSUANT TO SECTION 261-7(e), HAWAII REVISED STATUTES,
REQUIRING THE DEPARTMENT OF TRANSPORTATION
TO SUBMIT A REPORT TO THE LEGISLATURE
ON THE CIRCUMSTANCES AND RATES AND CHARGES IMPLEMENTED
PURSUANT TO THE SECTION

Prepared by

DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII

August 5, 2016

DEPARTMENT OF TRANSPORTATION
REPORT TO THE LEGISLATURE

BACKGROUND

Hawaii Revised Statutes (HRS) Section 261-7(e) provides a mechanism for the Department of Transportation (Department) to set airports rates and charges following the publication of the rates and charges and by conducting public informational hearings. When airports rates and charges are set in this manner, the Department is obligated to report the circumstances and resulting rates and charges to the Legislature.

Air operators using our airports in the Hawaii Airports System are subject to various rates and charges for use of the airports. Landing fees and passenger terminal rents are two types of rates and charges. Air operators can be categorized as:

- Signatory airlines: "signatory" to airline agreements that provides, among other things, methodologies for periodic calculation of rates and charges, or
- Non Signatory airlines that are not signatory to such agreements, which further include Non Signatory commercial air carrier and Non Signatory air operators. The Department is adjusting rates for the Non Signatory commercial air carriers, while maintaining the same rates for the Non Signatory air operators, which are typically tour operators, corporate aircraft and others.

The Department entered into an airport-airline lease agreement with the signatory airlines to provide those airlines with the nonexclusive right to use the airports system facilities, equipment, improvements, and services, in addition to occupying certain exclusive-use premises and facilities. These leases have been amended and extended several times, with the most recent amendment executed in October 2007. This most recent amendment, known as the First Amended Lease Extension Agreement, became effective January 1, 2008, and obligated the Department to set Non Signatory airline rates at 125% that of signatory airline rates.

On July 26, 2011, the Department received written confirmation from the Department of the Attorney General, Lands and Transportation Division, that HRS §261-7(e) could be used to set rates in accordance with the First Amended Lease Extension Agreement:

Under HRS §261-7: "The director shall develop rates, rentals, fees, and charges in accordance with a residual methodology so that the statewide system of airports shall be, and always remain, self-sustaining. The rates, rentals, fees, and charges shall be set at such levels as to produce revenues which, together with aviation fuel taxes, shall be at least sufficient to meet the expenditures of the statewide system of airports set forth in section 261-5(a), including expenditures for capital improvement projects approved by the legislature, and to comply with covenants and agreements with holders of the airport revenue bonds."

REPORT

The Department identified the Non Signatory air operators reporting activity in the Airports System. A distinction was determined to be appropriate between (1) those Non Signatory operators providing commercial scheduled cargo and passenger service (referred to hereinafter as "Non Signatory Commercial Air Carriers") and (2) other Non Signatory operators (referred to hereinafter as "Non Signatory Air Operators"). This distinction allowed rates and charges for those operators referenced as "Non Signatory airlines" in the airline agreement to be set separately from the balance of Non Signatory air operators, which include tour operators, corporate aircraft, and others.

The Department determined to only change the landing fees and terminal rents for the Non Signatory Commercial Air Carriers and to leave unchanged the rates and charges for Non Signatory Air Operators. Additionally, categories of exemptions from payment of landing fees and terminal rents were determined to be appropriate without modification.

Non Signatory Commercial Air Carrier rates were calculated as 125% of the schedule of signatory airline landing fees and terminal rents for Fiscal Year 2012, subject to minor adjustments for reporting and calculation purposes.

Non Signatory landing fees and terminal rentals were last adjusted on September 1, 2013. These rates were applicable to Non Signatory air operators which include both Non Signatory airlines and other Non Signatory air operators.

Letters of Notification dated June 19, 2015, were sent to the 28th Session State Legislature 2015 to The Honorable Ronald Kouchi-Senate President, The Honorable Joseph M. Souki-House Speaker, The Honorable Lorraine R. Inouye, Chair Senate Transportation and Energy Committee and The Honorable Henry J. C. Aquino, Chair House Transportation Committee.

Two (2) separate public notices (Honolulu International Airport and the Neighbor Island Airports) were posted on June 7, 2016, along with the rate schedule on the Airport's Division website: <http://hidot.hawaii.gov/airports/files/2012/10/Honolulu-Rates-and-Charges-for-Non-signatory-Commerical-Air-Carriers-Updated.pdf>

Public Informational Hearings were held for the proposed Non Signatory Landing Fees and Passenger Terminal Rental Rates and Charges on the following dates and locations:

- June 15, 2016, Airports Conference Center, Honolulu International Airport, no one from the public attended this hearing. Note the majority of Non Signatory airlines are located at and operate from the Honolulu International Airport
- June 16, 2016, Kona International Airport at Keahole, no one from the public attended this hearing
- June 17, 2016, Hilo International Airport, there was one (1) individual from Hawaiian Airlines attended this hearing but did not provide any testimony.
- June 20, 2016, Kahului Airport
- June 21, 2016, Lihue Airport

Certified Court Reporters on each island recorded, documented and transcribed the entire proceeding.

In accordance with HRS §261-7(e), and with the completion of the procedures required under this statute to adjust the rates and charges, on July 19, 2016, Director Ford N. Fuchigami approved the adjustment (increase) of rates for all Non Signatory Commercial Air Carriers and Fixed Based Operators using airports in the State of Hawaii, to be that of 125% of the recently published rates of July 1, 2016, for Signatory Air Carrier effective August 1, 2016 (FY-17).

As required by HRS §261-7(e), and this Report to the Legislature is being submitted reporting the rate adjustment for all Non Signatory Commercial Air Carriers and Fixed Based Operators, effective August 1, 2016 (FY-17) and the adjustment was posted on the DOTA website at: <http://hawaii.gov/dot/airports/doing-business>.

Should you have any questions, please call Sidney A. Hayakawa at 587-2153.