# HB 1039, HD1



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

March 21, 2011

GLENN M. OKIMOTO INTERIM DIRECTOR

Deputy Directors
FORD N. FUCHIGAMI
JAN S. GOUVEIA
RANDY GRUNE
JADINE URASAKI

IN REPLY REFER TO:

#### TESTIMONY OF THE DEPARTMENT OF TRANSPORTATION

HOUSE BILL NO. 1039, H.D. 1, S.D.1 Proposed

#### COMMITTEE ON TRANSPORTATION AND INTERNATIONAL AFFAIRS

The Department of Transportation appreciates the intent of this Bill, but has concerns that the proposed Section 2A. may conflict with the existing Section 2 of Act 33 Special Session Laws of Hawaii 2009.

Section 2A provides discretion and authority to the Department of Transportation to provide additional relief while Act 33 provides the authority to the Governor and only to the Department if directed by the Governor.

If the Committee wishes to forward this bill for further consideration, the Department of Transportation recommends the proposed Section 2A be amended to be consistent with the language in Act 33.

Honorable J. Kalani English, Chair Committee on Transportation and International Affairs Hawaii State Senate

Hearing: March 21, 2011 at 1:15 pm.

Re: HB 1039, HD1 – Relating to Transportation

Chair English and Honorable Committee Members:

My name is Peter Fithian and I am the Legislative Chair of the Airports Concessionaires Committee which represents most of the concessions at Hawaii's public airports

I thank this Committee for recognizing the obvious economic crisis that is happening as a result of the recent tsunami and related events in Japan. I commend this Committee for recognizing the impact of this devastating-international event and for not waiting and taking swift action by considering the Proposed SD1.

Airport Concessionaires support this Proposed SD1 and in all fairness respectfully ask your support to extend for one year Act 33 of 2009 Special Legislative Session. Act 33 is now scheduled to expire on July 1, 2011.

In keeping with the provisions of Act 33, such an extension does not mandate or require the Department of Transportation to provide relief to airport concessions. It simply gives the Department the discretion and a wide range of powers and flexibility that it does not have to consider providing relief both financial and otherwise. Since the Airport Division is special funded with historically 50% to 75% of the revenues being provided by airport concessions, any relief provided to the handful of airport concessions that likely qualify for relief will not have any impact on the State's general fund.

As you know in 2009 the Legislature recognizing the severe-economic crisis following the downfall of Lehman Brothers agreed that a serious problem of unfairness existed with airport concession contracts in that all concessions did not have the same type of economic relief provisions including the 85% self-adjusting-guaranteed rent formula.

While over 20 concessions had such a 85% formula some concessions did not and were suffering dire economic hardship and likely bankruptcy or closure. In fact, prior to the Legislature passing Act 33 in 2009 one airport concession suffered severe economic hardship and was forced to close after 25 years in business. No concession should have to close due to such unfairness while others survive.

Such a closure and loss of an airport concession business was tragic to the concession and its long-time employees and clearly should not have happened.

Unfortunately the concession was one of a handful of concessions that did not have the 85% formula the Department had provided to over 20 other concessions.

It was due to the Legislature's swift action and over-ride of the Governor's veto in 2009 that served to correct this obvious unfairness that existed and avoided the closure of more airport concessions. The Legislature needs to take swift action again.

Following the passage of Act 33 and during the negotiations with the past Administration, the past Administration did not offer to correct the entire problem by providing the 85% formula to all concessions not having such a formula. If the past Administration had made such an offer as part of the its relief package obviously all of the concessions would have gladly accepted the 85% formula which would grant them the same relief provisions enjoyed by 20 or more other concessions.

As a result of the past Administration not providing the 85% formula to the concessions not having such a formula like over 20 other concessions, the problem persists for a handful of concessions.

It is predicted by HTA and/or others that in the coming months there will be a 30% of more drop off of tourists from Japan which total about \$1.2 million travelers a year to Hawaii. Japanese tourists are recognized to be big spenders compared to other tourists including at Hawaii's public airports. No one knows how long this drop off will persist and it could be for more than a year. Act 33 needs to be extended now to provide the new Administration with the flexibility to help to ensure that no concession has to again close due to such unfairness.

Such a drop off of will unfairly impact the handful of concessions that do not have the 85% formula while the 20 or more other concessions will benefit from such a formula. This again as recognized by the 2009 Legislature is simply not fair.

The Legislature objected to such unfairness in 2009 by passage of Act 33 and the over-ride of the Governor's veto. The past Administration has not corrected the unfairness problem and thus Act 33 needs to be extended so the Department continues to have the flexibility and power to provide relief to the handful of concessions who do not have the 85% formula like over 20 other concessions.

I have attached by way of background a summary of the past arguments that the Legislature considered in the passage of Act 33. These arguments are still valid. Please continue to recognize these arguments and the uniqueness and difficulties of airport concessions trying to run a business behind security checkpoints while having to pay guaranteed rents to the Department.

Thank you for allowing me to testify. I urge you to please pass Proposed SD1.

## PAST ARGUMENTS FOR ACT 33, 2009 SPECIAL LEGISLATIVE SESSION

<u>Background.</u> This legislature kindly came to our aid at least on two (2) occasions following the events of September 11, 2001. We again seek you assistance.

Airport Concessions are Unique Businesses. As you recognized in the past, airport concessions are unique businesses especially following the events of September 11, 2001 since you now need and a ticket and security clearance before you can eat or shop at airport concessions. Also, unlike other Hawaii businesses, airport concessions cannot offer Kamaiana discounts or 75% off sales like major shopping centers. Further airport concessions must remain open from the first flight to the last flight to service our traveling public regardless of the dwindling number of passengers. And yet during these times, Hawaii's DOT expects its guaranteed rents to be paid. Even further, airport concessions are not like airlines which can cut expenses by reducing their number of flights or increase their revenues by fuel surcharges and charging for extra luggage. Airport concessions are unique and difficult businesses to successfully operate.

DOT Grants Relief To Some But Not All Concessions; This Unfairness Must Be Corrected Given These Harsh Economic Times. While Hawaii's DOT following the events of September 11, 2001 has sough to provide relief in concession contracts and leases, such relief provisions unfortunately are not in all concession contracts and leases. Thus, while some concessions are presently enjoying relief other concessions are not. This is not fair during these harsh economic times.

85% Formula. One of these relief provisions allows the guaranteed rents a concession must pay the airport to rise and fall depending on the concession's level of success during the previous 12 months. This is what we call the "85% formula" that is done on an annual basis. Thus, if during a prior 12-month period your business did better then your guaranteed rents to be paid to the airport for the next 12-month period would likely increase. The formula also provides for the opposite in that if your business suffered in the prior 12-month period then your guaranteed rents for the next 12-month period would be reduced up to a maximum of 15%. It is also unfair that the DOT is interpreting Act 128 (2006 SLH) to mean that if a concession spent monies and made improvements to its concession it lost its right to such relief that was already a part of its concession contract. This is not a fair interpretation by the DOT. This should be immediately corrected by the DOT.

Economic Emergency Relief Formula. Recognizing that this 85% formula may not grant sufficient relief in that it was limited to a maximum of 15% and also a one time annual adjustment, the airports also started to include in their leases an "economic-emergency-relief formula". This formula allowed for an adjustment to be made immediately (and not annually) and the granting of relief of more than 15% when

necessary and thus not just limited to 15% pursuant to the 85% formula. Given the above-mentioned DOT's interpretation of Act 128, there is also serious concern that the DOT will likewise interpret that these provisions already existing in a concessionaire's contract are no longer applicable because it made improvements to its concession pursuant to Act 128. Again, DOT should immediately correct this unfair interpretation. DOT needs to be fair in interpreting and administering various relief provisions to concessions especially during dire economic times. Fundamental fairness should and must apply.

Unfairness; Relief To Some But Not Others During Extremely Harsh Times Not Fair. As stated, while some concessions are enjoying the benefits of both relief provisions, some concessions have only one of these provisions and some concessions may not have any of these provisions. Given the harsh economic times this bill seeks to correct this unfairness by providing that all concessions (and not just some) should be allowed to seek relief under both types of relief provisions and an optional economic relief provision that measures a concession's hardship from the start of concession based on its published gross receipts as long as the hardship is due to reasons beyond the control of the concessionaire.

<u>Prevents Duplicate Relief.</u> This bill contains provisions that allows the Director of Transportation to prevent duplicate benefits to a concessionaire under both formulas or other similar governmental relief.

Precludes Relief Prior to November 1, 2006. Although some concessions may have suffered financial losses prior to November 1, 2006 since they failed to have both formulas, this Act seeks to limit and recognize relief for losses incurring on and after November 1, 2006, a 12-month period of time prior to the reported commencement of the recession as of November 1, 2007. Thus, although a concession may have been in business and suffered losses many years prior to November 1, 2006 it cannot seek relief prior to November 1, 2006.

Past Relief to Airlines. Although the concessions have historically provided 50% to 75% of airport operating revenues and thus kept airline contributions to the airport system very low compared to other airports for over 30 years, a past Administration provided relief to the airlines by granting them \$76 million waiver in landing fees over a 2 year period. During this 2 year period the airlines benefited from the \$76 million and also reduced the seat capacity to Hawaii. Thus, the airlines apparently did not use the \$76 million to help Hawaii. Concessions in spite of their significant contributions of 50% to 75% have yet to receive similar benefits like the airlines. Still further, unlike the airlines the relief to concessions will benefit Hawaii by keeping businesses open and staffed by Hawaii employees. In view of this, the airlines should not be objecting to relief to concessionaires as they have done so in the past.



Making the Traveler's Day Better™

Honolulu International Airport

Honorable J. Kalani English, Chair Committee on Transportation and International Affairs Hawaii State Senate State Capitol Building Honolulu, HI 96813

Hearing: March 21, 2011 at 1:15 pm.

Re: HB 1039, HD1 - Relating to Transportation

Chair English and Honorable Committee Members:

My name is Alan Yamamoto and Lam the District General Manager for the Hawaiian Islands with HMSHost.

I support Proposed SD1 to this bill and also support any comments that may be made by the Airports Concessionaires Committee in support of SD1.

The Legislature in 2009 recognized that a serious problem with airport concession contracts existed in that they did not all have the same type of economic relief provisions including the 85% self-adjusting-guaranteed rent formula.

In response to this unfairness, the Legislature in 2009 passed Act 33 to give the Governor and the Department of Transportation the "discretion and flexibility" to grant various forms of relief to concessionaires to correct the problem.

While qualified concessionaires negotiated separately with the Department, the past Administration did not provide the 85% self-adjusting-guaranteed rent relief formula or similar relief to all concessions. The Department did not offer it to all concessions. As a result and given the recent Japan crisis, various concessions will again suffer severe economic hardship due to the continuing unfairness of some concessions having relief provisions that other concessions do not have.

The purpose of this bill is simply to extend Act 33 an additional 12 months beyond July 1, 2011 to give the new Administration the power, flexibility and discretion it needs to work with the concessions affected by the Japan crisis and who do not have this 85% self-adjusting guaranteed rent relief formula ( or similar provision) like other concessions.

I support the goal of fair treatment of all concessions in times of economic crisis and hardship. A concession should not be forced to go out of business or suffer severe economic burdens simply because it does not have the economic relief provisions the Department provided to other concessions.

> **HMSHost Corporation** Hawaiian Islands

Alan Yamamoto

District General Manager

#### TIARE ENTERPRISES, INC.

March 21, 2011

Honorable J. Kalani English, Chair Committee on Transportation and International Affairs Hawaii State Senate State Capitol Building Honolulu, Hawaii 96813 Hearing:

Hearing: March 21, 2011 at 1:15 P.M.

RE: HB 1039, HD1 - Relating to Transportation

Chair English and Honorable Committee Members:

My name is Robert Fithian and I am the President of Tiare Enterprises, Inc.

I support Proposed SD1 to this bill and also support any comments that may be made by the Airports Concessionaires Committee in support of SD1.

The Legislature in 2009 recognized that a serious problem with airport concession contracts existed in that they did not all have the same type of economic relief provisions including the 85% self-adjusting-guaranteed rent formula.

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Honorable J. Kalani English, Chair Committee on Transportation and International Affairs Hawaii State Senate State Capitol Building Honolulu, HI 96813

Hearing: March 21, 2011 at 1:15 pm.

Re: HB 1039, HD1 - Relating to Transportation

Chair English and Honorable Committee Members:

My name is Aleta Lindsay and I am the Vice President with International Currency Exchange (ICE).

I support Proposed SD1 to this bill and also support any comments that may be made by the Airports Concessionaires Committee in support of SD1.

The Legislature in 2009 recognized that a serious problem with airport concession contracts existed in that they did not all have the same type of economic relief provisions including the 85% self-adjusting-guaranteed rent formula.

In response to this unfairness, the Legislature in 2009 passed Act 33 to give the Governor and the Department of Transportation the "discretion and flexibility" to grant various forms of relief to concessionaires to correct the problem.

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# **Greeters of Hawaii, Ltd.**

P.O. Box 29638 Honolulu, Hawaii 96820 Phone: (808) 836-0161

March 21, 2011

Honorable J. Kalani English, Chair
Committee on Transportation and International Affairs
Hawaii State Senate
State Capitol Building
Honolulu, Hawaii 96813
Hearing: March 21, 2011 at 1:15 P.M.

RE: HB 1039, HD1 – Relating to Transportation

Chair English and Honorable Committee Members:

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

I support Proposed SD1 to this bill and also support any comments that may be made by the Airports Concessionaires Committee in support of SD1.

The Legislature in 2009 recognized that a serious problem with airport concession contracts existed in that they did not all have the same type of economic relief provisions including the 85% self-adjusting-guaranteed rent formula.

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I support the goal of fair treatment of all concessions in time of economic crisis and hardship. A concession should not be forced to go out of business or suffer severe economic burdens simply because it does not have the economic relief provisions the Department provided to other concessions.

DFS Hawaii Division

330 Royal Hawaiian Ave.

Honolulu, HI 96815

Honorable J. Kalani English, Chair Committee on Transportation and International Affairs Hawaii State Senate State Capitol Building Honolulu, HI 96813

Regarding Hearing: March 21 at 1:15 pm. Re: HB 1039, SD 1

Chair English and Honorable Committee Members:

I am Sharon Weiner, Vice President, DFS Group.

Faced with the almost inevitable prospect of serious declines in tourism from Japan for at least the next several months, we are deeply concerned about the effect on our duty free stores both at the Honolulu International Airport and in Waikiki. With the HTA predicting arrival declines of about 30% or more, and with most of our business dependent on Japanese spending, the effect will be profound.

DFS supports this bill, with its intent, as in ACT 33, of providing a mechanism for negotiating relief for those concessionaires who do not have the annual-self-adjusting guaranteed rent formula in their leases..

# H.B. 1039, Proposed S.D. 1 Relating to Transportation Hearing: Monday, March 21, 2011 at 1:18 p.m. Room 224

Chair English and Members of the Committee on Transportation and International Affairs:

I am Paul Kopel, General Manager/Vice President—Hawaii, testifying on behalf of EAN Holdings, LLC, operating Enterprise Rent-A-Car, Alamo Rent-A-Car and National Car Rental in Hawaii (collectively referred to as "Enterprise").

Enterprise **supports** H.B. 1039, Proposed S.D. 1, which provides further rent relief to airport concessions that do not have a self-adjusting rent formula. The proposed S.D. 1 would extend the sunset of Act 33, First Special Session Laws of Hawaii 2009.

Enterprise wishes to express its appreciation for this effort to assist those industries affected by the impacts of the Japan tragedy. We are studying our situation to determine how the expected fall off in visitor arrivals will affect Enterprise. It may well be that Enterprise will need the relief provided by the proposed S.D. 1, and we wish to express our support for its passage. Whether or not it affects Enterprise, it is very likely that there will be concessionaires who will need relief.

Thank you for the opportunity to testify on this matter.



Honolulu International Airport 300 Rodgers Boulevard #3 Honolulu, Hawaii 96819 Tel: 808.834.1136

Fax: 808.834.1137

Honorable J. Kalani English, Chair Committee on Transportation and International Affairs Hawaii State Senate State Capitol Building Honolulu, HI 96813

Hearing: March 21, 2011 at 1:15 pm.

Re: HB 1039, HD1 – Relating to Transportation

Chair English and Honorable Committee Members:

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

support Proposed SD1 to this bill and also support any comments that may be made by the Airports Concessionaires Committee in support of SD1.

The Legislature in 2009 recognized that a serious problem with airport concession contracts existed in that they did not all have the same type of economic relief provisions including the 85% self-adjusting-guaranteed rent formula.

In response to this unfairness, the Legislature in 2009 passed Act 33 to give the Governor and the Department of Transportation the "discretion and flexibility" to grant various forms of relief to concessionaires to correct the problem.

While qualified concessionaires negotiated separately with the Department, the past Administration did not provide the 85% self-adjusting-guaranteed rent relief formula or similar relief to all concessions. The Department did not offer it to all concessions. As a result and given the recent Japan crisis, various concessions will again suffer severe economic hardship due to the continuing unfairness of some concessions having relief provisions that other concessions do not have.

The purpose of this bill is simply to extend Act 33 an additional 12 months beyond July 1, 2011 to give the new Administration the power, flexibility and discretion it needs to work with the concessions affected by the Japan crisis and

who do not have this 85% self-adjusting guaranteed rent relief formula (or similar provision) like other concessions.

I support the goal of fair treatment of all concessions in times of economic crisis and hardship. A concession should not be forced to go out of business or suffer severe economic burdens simply because it does not have the economic relief provisions the Department provided to other concessions.

Sincerely,

John Matias Island Shoppers, Inc.

#### AIRLINES COMMITTEE OF HAWAII



Honolulu International Airport 300 Rodgers Blvd., #62 Honolulu, Hawaii 96819-1832 Phone (808) 838-0011 Fax (808) 838-0231

March 21, 2011

The Honorable J. Kalani English, Chair The Honorable Will Espero, Vice Chair Senate Committee on Transportation and International Affairs

Re: HB 1039 HD2, Proposed SD1, RELATING TO TRANSPORATION -

COMMENT

TIA - March 21, 2011, 1:18 PM - Conference Room 224

Aloha Chair English, Vice Chair Espero, and Members of the Committee:

The Airlines Committee of Hawaii\* (ACH), which is made up of 21 signatory air carriers that underwrite the Hawaii State Airport System, has concerns about HB 1039, HD1, Proposed SD1, Relating to Transportation, because of its potential impact on airline costs.

We understand that the impetus to provide rent relief stems from the fallout we anticipate will come as result of the devastating disasters in Japan. As signatory carriers, we too will feel the brunt of that impact.

We also are faced with balancing our operations against a highly volatile oil market. Yesterday the price of crude was between \$101 and \$110/barrel. Oil prices which once represented less than 10 percent of our operational costs now are more than double that and nearly as high as our personnel costs depending on the cost of oil.

As a result, we too have concerns with the drop in travel from Japan or other areas and with the volatility of the cost of oil. As you discuss the merits of this bill, please consider that any offset of lease costs may be passed along to air carriers. So, 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 the airports system.

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 (DOT) 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 the Airports Division will be passed on to the airlines.

Simply put, every dollar of rent abatement provided to concessionaires will increase airline costs by a dollar. Thus, conferring the DOT with the discretion and authority to provide concessionaires with additional rent relief will adversely impact all airlines.

Most importantly, any diversion from the current arrangement with concessionaires would be a violation of the public-private agreement between the State and the ACH.

The ACH and the State have partnered together 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 is likely to 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.

# For these reasons, we urge you not to pass the Proposed SD1.

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

Sincerely,

Lori Peters ACH Co-chair Blaine Miyasato ACH Co-chair

\*ACH members are Air Canada, Air New Zealand, Air Pacific, Alaska Airlines, All Nippon Airways, American Airlines, China Airlines, Continental Airlines, Continental Micronesia, 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.