



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

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IN REPLY REFER TO:

Board of Land and  
Natural Resources  
State of Hawaii  
Honolulu, Hawaii

AMENDMENT NO. 5 TO CONCESSION AGREEMENT NO. DOT-A-07-0001  
IN-BOND (DUTY FREE) CONCESSION  
DFS GROUP, L.P.  
HONOLULU INTERNATIONAL AIRPORT  
TAX MAP KEY: (1) 1-1-03: PORTION OF 1

OAHU

The Department of Transportation (DOT) proposes to amend the existing In-Bond (Duty Free) Concession Agreement No. DOT-A-07-0001 at Honolulu International Airport under the provisions of Act 46, Session Laws of Hawaii 2012. The following contains a brief description and summary of some of the major terms and conditions that the DOT anticipates incorporating into the amendment.

PURPOSE:

To amend the existing In-Bond (Duty Free) Concession Agreement at Honolulu International Airport to extend the term of the concession, require the concessionaire to make improvements and establish the concession fee for the extension period.

APPLICANT:

DFS GROUP, L.P., whose post office address is P.O. Box 29500, Honolulu, Hawaii 96820.

LEGAL REFERENCE:

Chapter 102, Hawaii Revised Statutes, as amended.

LOCATION AND TAX MAP KEY:

Honolulu International Airport, Island of Oahu, 1<sup>st</sup> Division, 1-1-03: Portion of 1.

ZONING:

State Land Use District: Urban  
City and County of Honolulu: I-2 (Industrial)

LAND TITLE STATUS:

Section 5 (a) and 5 (b) lands of the Hawaii Admission Act: Non-Ceded  
DHHL 30% entitlement lands: Yes \_\_\_ No X

CONCESSION TERM:

The In-Bond (Duty Free) Concession Agreement No. DOT-A-07-0001 began on June 1, 2007 and continues through May 31, 2017. The proposed amendment would extend the concession term through May 31, 2027.

IMPROVEMENTS:

Applicant will construct, install and pay for approximately \$6 million in new concession improvements in the Central Waiting Lobby Building, and has agreed to make additional concession improvements as part of the DOT's projects to reconfigure and revitalize the concession areas within the footprint of the Diamond Head and Ewa concourses at Honolulu International Airport.

CONCESSION FEE:

The existing concession fee is the greater of minimum annual guaranteed fee of \$32.3 million or a percentage of gross receipts. The existing percentage of gross receipts has a tiered schedule in which the percentage fee increases when gross receipts exceed certain thresholds.

This schedule has an unintended consequence of making it less attractive to the concessionaire to make sales above the level that activates the tiered schedule, as the return to the concessionaire on each sale declines. It also makes planning for successive years difficult as the concessionaire is unable to reasonably predict its revenue for any given year.

The proposed amendment would simplify the concession fee calculation by changing the current base percentage schedule from the tiered concept to a fixed percentage of 18% of off-airport sales and 30% of on-airport sales. The current base percentage range is 18.5% of off-airport sales and 22.5% of on-airport sales.

Under the existing Concession Agreement the minimum annual guaranteed fee (MAG) is calculated every year as 85% of what was paid and payable in the prior concession year. As part of the extension, the Applicant has agreed to fix the MAG for the first five years of the 10 year extensions as follows, Years 1 and 2: \$45 million, Years 3-5: \$50 million. For years six thru 10 of the extension, the MAG would be adjusted each year to 85% of what was paid and payable in the prior concession year.

CHAPTER 343, HRS – ENVIRONMENTAL ASSESSMENT:

Pursuant to Section 11-200-8(a), Environmental Impact Statement Rules of the Department of Health, State of Hawaii, this disposition is exempt from requirements regarding preparation of an environmental assessment, negative declaration, or environmental impact statement as required by Chapter 343, Hawaii Revised Statutes, as amended, relating to Environmental Impact Statements, because the proposed action falls within Exemption Class #1, Comprehensive Exemption List for the State of Hawaii, Department of Transportation dated November 14, 2000 as approved by the Environmental Quality Council. Exemption Class #1 covers operations, repairs, or maintenance of existing structures, facilities, equipment, or topographical features involving negligible or no expansion or change of use beyond that previously existing.

REMARKS:

Under the Act 46, Session Laws of Hawaii 2012, "...the department of transportation is allowed to upon mutual agreement with a concession and in exchange for revenue-enhancing improvements that are made or paid for by the concession deemed acceptable by the department of transportation, may extend, modify, alter, or amend the terms of concession contracts, leases and permits."

The DOT has reviewed the request and determined that not only will the proposed concession improvements within the airport terminal allow the applicant to better serve the traveling public, the airports will benefit from the higher minimum annual guaranteed concession fee, as well as the increase in the percentage fee for on-airport sales.


RECOMMENDATION:

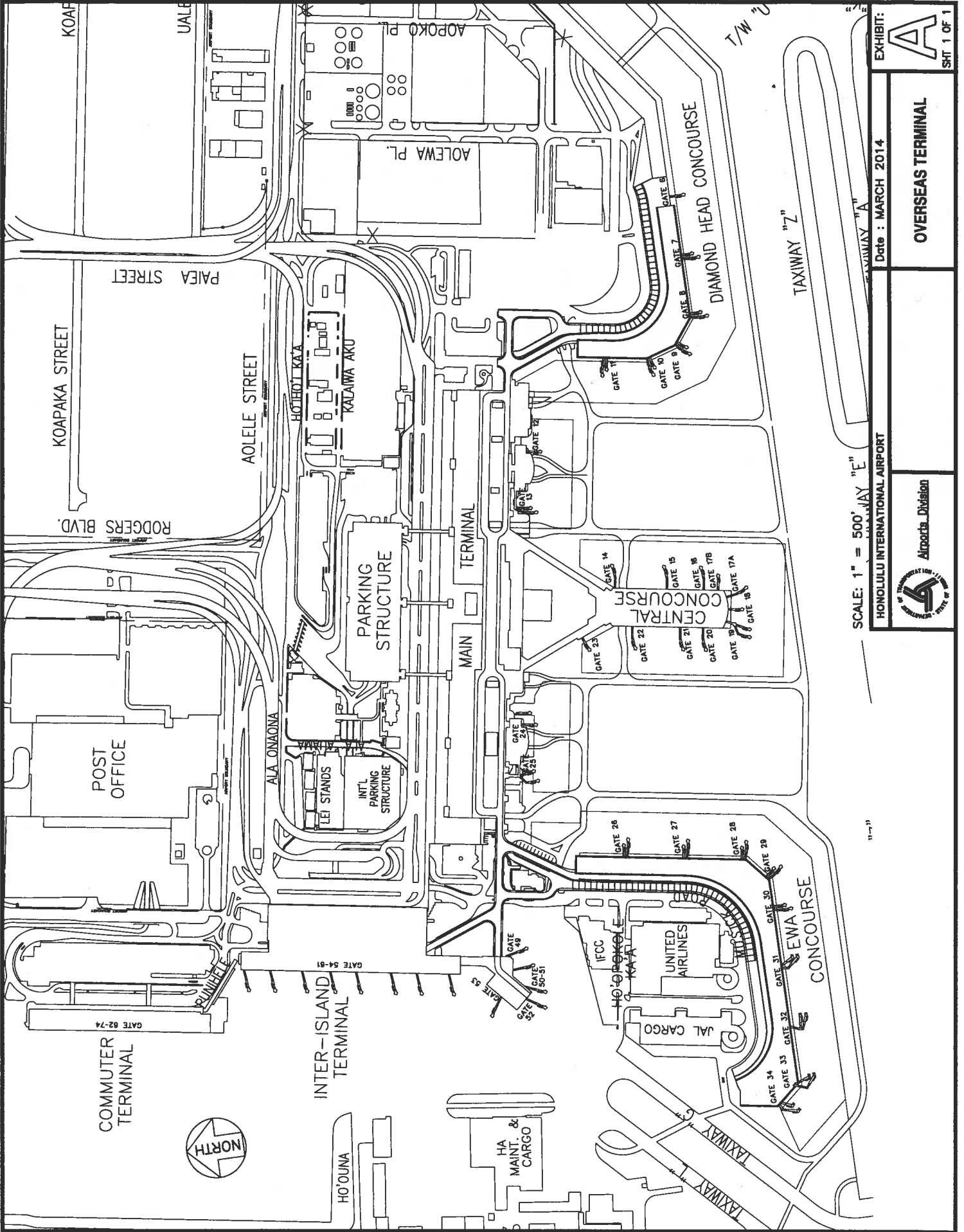
That the Board authorizes the Department of Transportation to amend the existing Concession Agreement No. DOT-A-07-0001 subject to: 1) terms and conditions herein outlined, which are by reference incorporated herein; 2) such other terms and conditions as may be prescribed by the Director of Transportation to best serve the interest of the State; and 3) review and approval by the Department of the Attorney General.

Respectfully submitted,

  
GLENN M. OKIMOTO, Ph.D.  
Director of Transportation

APPROVED FOR SUBMITTAL:

  
WILLIAM J. AILA, JR.  
Chairperson and Member



SCALE: 1" = 500' 1" = 500' "E" "Z" "A"

HONOLULU INTERNATIONAL AIRPORT

	Airports Division
Date : MARCH 2014	
<b>OVERSEAS TERMINAL</b>	
<b>A</b> SHT 1 OF 1	

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