



**REGULAR BOARD MEETING  
HAWAII TOURISM AUTHORITY**

**January 24, 2013**

**Hawaii Convention Center, Parking Level, Executive Board Room A  
1801 Kalākaua Avenue, Honolulu, Hawaii 96815**

**MINUTES OF REGULAR BOARD MEETING**

**MEMBERS PRESENT:**

Ron Williams (Chair), Patricia Ewing, Kelvin Bloom, Jack Corteway, Patrick Fitzgerald, Rick Fried, Victor Kimura, Mike Kobayashi, Craig Nakamura, David Rae, Aaron Salā, Lorrie Stone

**HTA STAFF PRESENT:**

Mike McCartney, Caroline Anderson, Lynn Bautista, Grace Lee, Chika Miyauchi, Doug Murdock, Daniel Nāho'opi'i, Janna Nakagawa, Roann Rakta, Angela Rodriguez, Michael Story, Marc Togashi, David Uchiyama, Keli'i Wilson

**1. Call to Order and Opening Pule**

Presiding Officer Ron Williams called the meeting to order at 9:36 a.m.

Ms. Wilson offered a Pule.

**2. Approval of Minutes of the November 29, 2012 Board Meeting**

Mr. Kimura made a motion to approve the minutes of the meeting held on November 29, 2012. Ms. Ewing seconded the motion and pointed out that she attended the meeting, but was not listed as being present.

The motion to approve the minutes as revised by Ms. Ewing was unanimously approved without objection.

**3. Report of the Chief Executive Officer Relating to the Implementation of the State Tourism Strategic Plan Initiatives and/or Staffs' Current Assessments of the Major Market Areas**

Mr. McCartney distributed to the board and presented a PowerPoint on "Key Hawaii Tourism Indicators," that provided a current overview of where we are currently and the

direction in which we are headed. He also mentioned that this information fits in to what is being shared with the Legislature, the industry, and the community.

Mr. McCartney's presentation included information on how the visitor industry has weathered through various crises over the years. He said that HTA is here not only to set the plans going forward, but also to respond and react to crises. He mentioned the 2011 tsunami in Japan and said that during that time of crisis, the board came together to reprioritize money, we traveled to Japan, and we increased airlift to try and make up for what happened there. He stated that there is a 21% increase in visitor arrivals from Japan this year. He said that this is a significant part of our economy.

He brought up several significant things that happened in 2007: ATA and Aloha Airlines went bankrupt; two (2) cruise ships were lost; the financial collapse of Lehman Brothers; the H1N1 virus; and the price of oil reaching \$150.00/barrel, all within the span of 13 months. He stated that visitor expenditures dropped \$8 million per day, every day for a period of two (2) years. He reported that we are back up at \$39 million per day, so in the course of three (3) years, we are looking at a growth of \$12 million per day, which means that we are beginning to get back to where we were. He shared that in some of his discussions with people in the industry, what they want us to remember is that this is still a very challenging period and that everyone is still facing increased costs for their properties and in what they do – whether it is electricity, wages, and/or taxes. He said that the overall health of the industry is doing well; however, individual businesses are not over this cycle yet, but we are trying to get the message out about what we did – with our programs, with our efforts to increase lift and demands, and our focus on different multiple markets.

Mr. McCartney remarked that the State government's focus is on how much revenue it has. He said that in 2007 – our best year – there was \$1.2 billion in state tax revenue, but in the course of two (2) years, it dropped to \$290 million. He said that in three (3) years, we have \$606 million more in the state budget than was there in 2009. He pointed out that furloughs were in effect at that time and that its effect on the budget can be tracked.

He said that at our peak there were 172,000 jobs, and that number dropped to 133,000 in 2009. He reported that even though we are back up to 162,000 jobs, we are not yet at pace because it takes a lot longer to bring back jobs, but we are making progress.

In terms of visitor arrivals, Mr. McCartney shared that we lost 1.1 million visitors over a two (2)-year period, but we got it back and grew by 1.4 million visitors. He said that it took two (2) years to lose 1.1 million visitors and three (3) years to bring that number back up to 1.4 million, so this has taken a lot of hard work.

He stated that air seat capacity is so critical to the visitor industry and to Hawai'i as a whole. He said that what we are trying to emphasize to everyone in the community is that if we did not have visitors coming to Hawai'i, we would not have the ability to travel

ourselves; our kids would not be able to go to college; and we would not be able to take leisure trips or conduct business transactions. He said that we were at a high in 2006 and then it flattened out in 2007. He remarked that our focus on airlift enabled us to get 1.4 million seats back, but it took us three (3) years to get back what we lost in two (2) years. He said that this is a formula that we should keep in mind.

Mr. McCartney remarked that while some say we are at capacity, he does not think so. He shared that O'ahu is at 85%, Maui is in the mid-70s, Kaua'i in the low 70s, and Hawai'i Island is in the low 60s. He stated that there is excess capacity and distribution and it is on the neighbor islands, so when people say that there is no room for growth, there actually is and it is just a matter of how we distribute that. He said that our job is going to be making sure that happens.

He said that the distribution of the Transient Accommodations Tax (TAT) is interesting. He shared that the cap for the Tourism Special Fund is \$71 million, which includes the \$2 million we received from the Legislature; the Convention Center Special Fund receives \$35 million in a fiscal year, but is capped at \$33 million; and the Counties receive \$93 million. Mr. McCartney pointed out that from 2012, the State General Fund grew to \$153 million, while distribution amounts remained the same. He said that he does not think that taxes need to be raised and instead, what we need to do is invest what we do so that more tax revenue can be generated. He added that if we have greater investment opportunities to invest in markets, we can grow this number for everyone instead of just raising taxes. He said that this is the message we are trying to convey.

Mr. McCartney said that a significant part of our efforts go toward managing the brand. He said that Mr. Uchiyama, his team of Brand Managers, and our marketing partners and contractors work with the airlines, travel trade, and the community. He said that as a board and as a group, we changed our strategic plans; we looked at new contracts for our marketing contractors; and we put in programs that are really specific to support people, place, and culture, which is our Brand Sustainability Plan. He said that we are focused on multiple points of departure and arrival, on greater diversification to the neighbor islands and again, to diversification of markets. Mr. McCartney praised Mr. Uchiyama and his dedicated efforts, stating that he is one of the reasons why we are where we are today. He said that Mr. Uchiyama has gone and focused on the right people and the right airlines and is meeting with them to make sure they know about Hawai'i. He said that when they are educated about a flight, programs are put together for that market, demand is driven, and the flight comes over. He said that one (1) additional flight from Japan means \$153 million to our economy at 85% capacity. He pointed out that every time Mr. Uchiyama goes and finds another city and another flight, that is \$153 million in visitor spend, so that is what we are doing strategically. He said that all we are asking for is to be able to keep doing what we are doing so that we can continue to help Hawai'i.

Mr. McCartney said that there is a lot of talk about the Convention Center and what is happening to it. He presented some quick facts for the board's information: he said that

the 10-year average of attendees is almost 200,000, which means about 500,000 room nights. He shared that the 10-year average of the impact to our economy is \$526 million and that the return on investment (ROI) with our bond – which is a bond we pay to the Department of Budget and Finance (B&F) – is 14 to 1. Mr. McCartney pointed out that if we did not have the bond, the ROI would be 49.8 to 1. He said that it brings in about \$53 million in tax revenue so the ROI tax-over-tax is about 1.4 to 1 and it would be 5 to 1 if we did not have a bond. He said that this is a good investment for Hawai'i and that it also helps us diversify our leisure market and move into the meetings, business, and incentive market, which will also help toward diversifying our economy. He remarked that this is an important tool for us to have, "so don't let anyone say that it's not performing well." He said that it can do better, but it is good for all of us.

Mr. Williams commented that it is very important that we all understand the same information so that we all know we are coming from the same place. He said that it is very important for the board to be well-educated on these matters.

Mr. Fitzgerald asked Mr. McCartney what his response would be if the Legislature asked about the projection being up and the challenges that he and Mr. Uchiyama would face in trying to meet those numbers. Mr. McCartney replied that he would tell them that it is going to cost more to keep doing what we are doing and as we continue to diversify our markets and to open up new ones, there is greater cost for that. He also said that more attention would have to be paid to the product and we have to ensure that we invest in it as well, which means additional costs in order to ensure that we can market the neighbor islands and greater distribution. He said that in the out years, we want to see more resources coming to the HTA because it is an investment. He said that we can all live with what we have now, but in the out years, if the TAT is going to remain at 9.25%, what we would like to do is have a greater share of that, as we have had in the past. He pointed out that if we did not have the cap we have, we would have \$112 million today. He said that we are not saying that we need all of that, but rather, we can have some efficiencies with the Convention Center; we can look at and recalibrate the bond debt and use that money more efficiently in the market. He said that we may also need more money in the out years to take care of growing markets and to make sure that we have greater distribution in the neighbor islands.

Mr. Fitzgerald asked if the Legislature sees and understands the issues that we have discussed, such as capacity at Honolulu Airport. Mr. Uchiyama replied that we are trying to get that message across; he said that we have put slides of information together to show the impact - especially with the international growth - and that more growth is going to be seen this year in the international market. Mr. McCartney said that we are the fourth largest port of entry for air travel for the United States, along with New York, Miami, and Los Angeles. He shared that we have grown by 24%, which is the fastest growth rate of any market in the U.S. He added that the U.S. is focusing on exports and tourism as an export, so we are one of the gateways for exports to help grow both Hawai'i and the U.S. economy. He shared that for every \$100,000.00 of visitor expenditure, the U.S. Chamber

of Commerce says that supports one (1) U.S. job. He said that letting people come and visit is an easy way the U.S. can get a trade balance that is positive and we are one of the gateways for that. He added that we need the facilities and Kona is very, very important for the future.

Mr. Fried commented that he'd read an article about remodeling and expansion efforts at the Honolulu International Airport. Mr. Uchiyama replied that remodeling and refurbishing have already commenced and that they have done a really good job. He said that in terms of being able to handle capacity in specific areas such as Customs and Immigration, we just do not have the growth facility or the manpower. He said that there is an opportunity for additional growth within Customs and Immigration because they have the booth in place, but they do not have the manpower. He added that even with the projected growth that he feels we are going to be able to accomplish, it is not going to be enough, so a second international port of entry is going to be really key. He pointed out that this would also help with the distribution to the neighbor islands. Mr. Uchiyama referenced Mr. Fitzgerald's earlier questions and said that a few of the legislators understand it, but not all of them might, so we are going to continue to send out that message.

Mr. Rae asked if there have there been concrete proposals to either raise the TAT or to eliminate the cap. Mr. McCartney said that he needs to take a look at where the bills are right now and said that if there is a proposal to raise the TAT, we will use that bill to discuss the rate and the cap.

#### **4. Review of Recent and Upcoming Permitted Interactions by and for the Board of Directors**

Before Mr. Murdock began his review of recent and upcoming permitted interactions by the board members, he asked if the approval of the minutes included the approval of the executive session minutes as well. Mr. Williams queried whether the executive session minutes needed to be approved in an executive session. Mr. Murdock replied that it is not necessary, unless there will be discussion about the executive session minutes. Mr. Williams said that only the minutes from the regular session were approved. Mr. Murdock remarked that the executive session minutes would be addressed at a later time.

Mr. Murdock stated that the next permitted interaction coming up is the Pro Bowl and that there were board members who would be attending the event. He advised the board members that if HTA business is discussed, it would need to be presented at the next board meeting.

Mr. Murdock asked if there had been any permitted interactions since the board meeting on November 29, 2012. Mr. Williams said that there was one in Kā'anapali to discuss the beach restoration efforts, which included himself, Mr. Nakamura, and Mr. McCartney. He reported that the project is in its early stages and there are some preliminary details being worked out. He added that more information would be brought to the board as it became available. Mr. Nakamura added that some work has already been done and that

consultants have been hired. He said that he and Mr. Williams met with them to go over their plans and look at the beach itself. He said that they want to do a major replenishment of the beach, much like what was done in Waikīkī.

## **5. Presentation and Discussion of 2012 Initiatives, Year-End Results and Way Ahead**

Mr. Uchiyama presented a PowerPoint on Top Accomplishments in 2012. He described the RFP process that we went through and the direction provided by the board, which ultimately led to a change in the mentality of our contractors and their understanding regarding their actual responsibilities to all of the islands.

He said that we have worked very hard in the Meetings, Conventions, and Incentive (MCI) area and thinks that with what is being seen in the Airlift numbers, all of our efforts are going to come to fruition. He said that what we need to keep in mind is that there has to be seat inventory to move large groups and incentives and that is the direction in which we are moving in a lot of the international markets such as Korea, Japan, North America, and Australia.

Mr. Uchiyama reported that the dialogue between the international contractors and the island chapters is much better, which is helping to facilitate initiatives that are specific to each of the islands. He said that in addition to that, the selection of a new marketing contractor in Japan has helped us move quite far ahead which is why we believe that the commitment to reach two (2) million arrivals from Japan by 2016 is within reach. He said that although our targets don't show it, there is potential.

He said that we are constantly working on establishing targets, raising awareness for the neighbor islands, and working with the carriers to get more direct business there. He shared that we are also focused on being able to distribute to the international market, whether by opening a second point of international entry with Kona or by working with an interisland carrier who going to help us distribute them to the neighbor islands. He said that it will be very interesting to see what is going on with both go! and Island Air as we go forward.

Mr. Uchiyama stated that we have had much greater direct interaction with the industry. He said that we are in contact with hotels and tour operators and we are getting much more market intelligence, which is helping us to make the decisions we are making.

He said that Access is really the key because in Access, we look at opportunities and open up new routes. He said that even with the opportunities that did not work out - such as the deal with Air Australia - where they operated for three (3) months, opened up Brisbane and Melbourne, and then shut down. He said that as a result of that, other airlines realized the opportunities that presented for them and now we currently have two (2) routes being served which is going to help us in growing the MCI market coming out of Australia.

Mr. Uchiyama shared that we continue to nurture the relationships with Alaska and Hawaiian Airlines, as well as with other carriers. He said that we have long-term relationships with some of these carriers such as Allegiant. He said that we have been courting them for over three (3) years and there are also some others, but that information is too early to discuss at this point. He said that we have been “dancing with Southwest Airlines for a while,” but their acquisition of TransAir threw a wrench into their plans. He said that there are some unforeseen hurdles they are going to have to get over before they can start looking at Hawai'i again, but he thinks that we will see a relationship develop. He remarked that our steps to organize the MCI model are really going to be important as we go forward.

Mr. Uchiyama reported that work is ongoing with regard to experiential development. He said that besides the growth to the neighbor islands, being able to grow shoulder season business is also going to be key for us in managing carrying capacity. He said that the Brand Team is working hard to build upon the strength of our cultural product, such as the pilot program for the Heritage Series. He said that we are looking at how we can better align some of the programs to create statewide events and mentioned that we are seeing the initial build-up through the Hawai'i Food and Wine Event, which is expanding to Maui this year. He also mentioned the re-signing of the Pro Bowl this year and that we are currently in discussions with them regarding entering into a longer-term contract.

He also talked about investment in sustainability – developing the travel industry management and hotel management curriculum at the high school level with the Department of Education (DOE) and then being able to get that DOE curriculum accepted by the community colleges for credit. He said that it helps to build an academic pathway for these kids, so that we can take kids from Hawai'i who understand the culture, have been brought up in it, and are actually able to execute the culture when they can go through UH-TIM and into the workplace. He said that we are currently working on vertical articulation between the community colleges and the UH-TIM school. He said that they are working very hard to try and accomplish that. Mr. Uchiyama shared that the job-shadowing program with ClimbHI had over 300 participants in its first year and for this year's program, the neighbor islands are being incorporated and the goal is to have 500 participants.

Mr. Uchiyama proceeded to present major accomplishments by market, beginning with North America. He said that in North America, we made an investment of \$629,000, but the total program ran about \$2 million and the end result was that we drove 159,000 arrivals at about \$4.00 cost per arrival.

He reported that the HTA's investment of \$3,000 into the China market brought us the Amway Group, which is going to be going out to Pearl Harbor. He said that 1,800 people are coming in with this group and total expenditures into the State are estimated at about \$11.6 million, so this is a very good return on investment of about \$1.64 per person.

He said that in Japan, a program was launched with Rakuten, which is an online agency there. He shared that booking travel online is something new for Japan. He said that the overall investment was about \$387,000, which resulted in 12,000 arrivals or cost per arrival of \$6.33.

Mr. Uchiyama reported that there is a similar situation in Korea – Busan is an area in which we are trying to develop demand because currently, all of the flights leave out of Incheon. He said that we would like to see new origination points out of Korea and Busan is the next target. He shared that the team went in with a program for the Honeymoon market and HTA invested \$16,000.00. He reported that to date, about 1,400 have already come in, which is an estimated impact of \$2.4 million and cost per arrival at \$11.40 per person. He added that this program is still going, so this information is going to be adjusted and cost per arrival is going to go down. He also mentioned that all of these programs have a neighbor island focus on them as well.

He said that the HTA made a \$30,000.00 investment in a “My Hawai’i” program in Australia. He reported that this program has also done very well for us, bringing in 3,500 arrivals at \$8.34 cost per arrival. He also shared that we invested \$15,000.00 in the Vintage Rugby Carnival in New Zealand, which resulted in 1,000 arrivals and \$15.00 cost per arrival. He said that this segment of the business has a lot of potential, as rugby is growing and may also be added as an Olympic sport, so we may be in a really good position to capture this type of tournament in Hawai’i.

He reported that we invested \$30,000.00 into the Virgin Holidays JMA program in the Europe market, which is still ongoing. He said that to date, we are looking 2,600 arrivals with a cost per arrival of \$11.48.

Mr. Rae asked about the other people involved in making investments into these programs and if the cost per arrival is based on just the HTA’s investment or total investment.

Mr. Uchiyama replied that cost per arrival is based on just the HTA’s investments. He added that what we try to do in most of our co-op arrangements is look for a 3:1 ratio with the partners. He explained that the partners are allowed some flexibility and can go out and find other partners to meet the 3:1 ratio. He added that a lot of the time, it is their investment directly because they are trying to get to the market quickly.

Mr. McCartney stated that staff would like to present the year-end statistics at 10:30 a.m. to accommodate the media and requested that we move on to another agenda item for presentation and discussion until that time. Mr. Williams agreed and asked Mr. Uchiyama to proceed with his presentation regarding the incremental funding received from the Legislature that enabled us to secure an additional \$2 million for international marketing.



## **6. Presentation and Discussion of Use of Supplemental Funding for International Market Activities**

(This Agenda item was discussed out of order)

Mr. Uchiyama presented a PowerPoint on the \$2 million incremental funding allocation that we received from the Legislature. He shared that when looking at developing co-op programs, the criteria we consider is how quickly it can impact the market, its impact to the shoulder periods, and distribution to the neighbor islands.

He said that for the China market, we wanted to allocate \$550,000.00 and were looking for 20,000 in arrivals because we thought that these were some of the things that would be key at the time in terms of developing this market. He shared that we brought the top 20 product development people in from the major wholesalers and we had them go through and learn about each of the islands and subsequently, one-on-one meetings were scheduled with the travel partners. He said that our travel partners had an opportunity to sit one-on-one with the product development people so they would have a better picture of what was available. He shared that what has been happening is that they are going to the quickest resource they can find - which are the ground transportation companies - who call themselves Receptive Operators. He explained that these operators would guide them toward where they made their arrangements and their deals and where they had their margins because not only were they making money on the services, but on mark-up as well. He said that as part of the product development program, we wanted to try and break through that and get a more direct connection. He said that we are continuing to look at China Eastern. He said that we are not seeing them bring on the frequency as quickly as we would like and every time they say they are going to add a flight, they ask for more funding. He said that we are working with them and showing them that there are benefits for them to come here. He added that their load factors are good right now and they are making money. He also shared that other carriers are beginning to look at this market, so we are holding off on committing funds to them as of right now.

Mr. Uchiyama shared that we are also looking at cultivating a carrier out of Beijing, hopefully within 2013, but if that does not happen, we hope to be able to do an initial announcement of operation, at least. He said that we may get charters out of there first, but we are looking to balance off the market. He said that he thinks if we can get a carrier into Beijing, it may light a fire under China Eastern and they will start to move on the Shanghai service. He remarked that we also want to develop the MCI business as well.

He reported that we have charter flights coming in with Air China from Taiwan and we also have some money set aside for development of direct service from Taiwan. He said that Hawaiian has already made their announcement and shared that we are talking with another carrier as well, who we think will be announcing the start of direct service. He said that this other carrier creates a huge opportunity because we want to be able to get into Southeast Asia and we are looking for a better route structure, something that is more direct, rather than having Southeast Asia passengers go through either Narita or Incheon.

He remarked that ideally, we would like to have direct service from Hong Kong or Singapore, but for the time being, this other carrier might create a good route structure within Southeast Asia, feeding through Taiwan.

In terms of the Korea market, Mr. Uchiyama shared that with all of the sudden seat inventory that came into the market, we wanted to make sure that we were able to keep our load factors up so that we could keep all that service. He said that this reasoning was behind the request for \$400,000.00 for this market. He added that we also looked for 15,000 arrivals.

He said that we are putting \$50,000.00 toward the incentive market because the increased seat inventory creates an opportunity for the MCI business. He also shared that a Korean Guide Book was needed for Hawai'i and that in the past, we have been drawing funds from the neighbor islands to fund this project, but we feel that this should be separate and that the neighbor islands should keep their money.

Mr. Uchiyama said that the load factors in Korea are not as strong during the weekdays as they are on the weekends, so we felt that we needed to run something to build up the mid-week load factors out of that market. He shared that promotions are being implemented out of Busan to try and build it up so that there is consideration for direct service out of there and also, neighbor island promotion.

He reported that Korean Airlines will start charter service out of Narita from February 7<sup>th</sup> through April 1<sup>st</sup> and then regularly scheduled service from April 1<sup>st</sup>. He said that this is another carrier entering the Japan market, but the routing will be from Incheon-Narita-Honolulu, which is going to be interesting and will create some other opportunities.

He said that \$575,000.00 was allocated for the Japan market and we are looking for an impact on arrivals of 25,000. Mr. Uchiyama reported that the load factors with Delta and Hawaiian out of Fukuoka have not really taken off the way we would like, so we need to put some support toward that and with regard to Nagoya, he said that we wanted to make sure that we kept that market healthy, so money has been allocated there for overall co-op support, especially for the charter flights. He shared that for this year, there are 54 charters from Korean Air, three (3) charters from Omni, and 10 charters from Japan Airlines to date that they have been able to share with us, so the opportunity for growth in the charter segment is significant out of Japan. He said that when we look back at our peak in 1997, we had 2.2 million visitors, with 73 charters originating out of Japan, so we are getting into that ballpark.

Mr. Uchiyama reported that we have \$250,000.00 on hold to try to develop and also re-establish some service out of Japan to Kona. He said that we have allocated \$28,500.00 toward the Ekiden program, which is a running program that is going to be very strong and will develop over the years, and \$19,500.00 is allocated toward Hawai'i Fashion Week, an event that will bring Japanese designers here and affords other people the opportunity to

participate in what is Japan's Fashion Week because it is not always possible to do that in Japan.

For the Oceania market, he said that we are looking for an investment of \$225,000 with 10,000 arrivals. He said that we have had different programs – such as the My Hawai'i program for \$55,000 – that are specifically with tour operators in an effort to drive business out of the market.

Mr. Uchiyama said that Europe was allocated \$100,000. He shared that Europe has done a really good job and remarked that Ms. Anderson has worked really well with this contractor. He said that for a long period of time, we were fluctuating between 116,000 to 118,000 arrivals. He said that we looked at it historically and at one point, we were investing \$1.2 million into the market. He stated that even with decreased funding, they still were driving 116,000 to 118,000 arrivals and for this year, we have seen movement and the numbers have gone up considerably. He reported that we are going to end the year at 131,000 arrivals in a time where there is supposedly an economic crisis. He praised Ms. Anderson for her work in this market and with this contractor.

He said that ultimately, the impact of this incremental funding would have led to about 77,000 additional arrivals into the State, with an expenditure of about \$163 million. He also shared that additional expenditures filtering through the State would amount to \$274 million; impact to household income would be about \$78.4 million; jobs supported would bring us another 1,800 additional jobs; and there would be \$17.8 million in additional tax revenue.

Mr. Kimura suggested that to move China, Mr. Uchiyama should go back to when discussions were being held with China Southern. Mr. Uchiyama replied that we have talked with China Southern and Air China and he said that China Southern is interested, but it is a matter of aircraft availability. He said that Asia as a whole and China Southern in particular, has long-haul aircraft on order and they are going to receive those aircrafts in the latter half of 2013 and into 2014, so there is potential. Mr. Kimura added that it might move China Eastern as well.

Mr. Salā commented that it is very exciting to hear about what is happening in terms of growth and economic benefit. He said that in terms of capacity, he understands from a numbers standpoint that we are not at capacity and that there is room for growth. He hopes that as we are considering the amount of growth that will happen and as we surpass the 2007 numbers, there will also be a consideration for what the cultural impact will be – and not just on Hawaiian culture, but on local culture as well. He also hopes that the HTA receives credit for what we are doing in the community, as we are growing the industry, so the community knows that the HTA is participating in the growth of the community as well. He cited the Hawaiian language that is now on the Bank of Hawai'i ATMs – he said that the HTA played a big role in that process; however, the credit to the HTA and its role in that was not spotlighted in the media as much as it should have been.

Mr. Kimura asked where we are with regard to our bond debt service. He said that it was highlighted earlier and remarked that the \$26 million is charged to the HTA and that we should have probably paid off our bond debt by now. Mr. McCartney said that we are getting clarification from the Department of Budget and Finance (B&F) on that and it is a very complicated issue. He explained that when the bonds were initially issued at \$350 million, they were part of an entire issuance of about \$800 million. He said that what he has come to learn is that when a bond is issued, it is done in \$5,000 increments, so for an \$800 million issuance, there are 40,000 pieces of paper that have to be tracked and then they get refinanced and redone, "so the bond that was done in 1997 has been refinanced all over the place." He said that we do not know the exact debt amount; it is not what we owe on paper to B&F and he thinks that everyone acknowledges that, so we are working on trying to get through that number. He said that the amount of money we are paying to B&F is at a 6% interest rate and no one has bonds at that rate now. He said that it is \$26 million a year, so we are working with B&F to adjust those rates and there is hope that if we make adjustments to that, we can use that money for more marketing programs and perhaps even for initiatives at the Convention Center, such as the Hawaiian Museum for Culture and Dance. He said that we are in the process of verifying the exact amount.

As a matter of clarification, Mr. McCartney explained that the \$26 million that we pay goes to the General Fund, so it ends up being a line item in the budget as Non-Tax Revenue and it gets reallocated. He said that it can get spent on Education, it can get spent for paying up other bonds, or anything else in the state, so it is actually TAT money going back into the General Fund pot as non-tax revenue and being used for other programs. He said that it is not a 1:1 distribution. Mr. Kimura said that it was recategorized in our closing statements for the fiscal year and it clearly delineates that the \$26 million is a bond debt service and in looking at the external auditor's report, it has passed the external auditor's review of correctly categorizing that on the Chart of Accounts. He said that he hopes Mr. McCartney can inform the Legislature and the Governor that this \$26 million and the high interest rate are assessed to us annually; however, we do not have any control over these monies and this skews our numbers for the HTA, as if we are receiving high appropriations for the TAT annually.

**5. Presentation and Discussion of 2012 Initiatives, Year-End Results and Way Ahead**  
(This Agenda item was discussed out of order)

Mr. Nāho'opi'i presented a PowerPoint on visitor data for December 2012. He said that added all up, 2012 was an "awesome" year. He said that we had increases in visitor expenditure and arrivals for every month this year, which resulted in visitor spending of \$14.333 billion, exclusive of supplemental business expenditures. He also shared that arrivals ended up at 7.99 million visitors, but pointed out that this is preliminary, as we are still waiting on final figures from the Federal government. He said that we met our arrivals target at 1.4% and we beat our spending target by nearly 3% over what we had set in visitor spending.

He said that it is a record in terms of visitor arrivals; the previous record was in 2006 at 7.628 million visitors. He reported that for the month of December, we had a big boost because expenditures are up 15%, boosted mainly by an increase in daily spending, which was up 9.4%, and arrivals were up another 6% for December. To put it in perspective, he said that for arrivals, we beat our numbers for 2006 and 2007 and for spending - in current dollars - 2012 is significantly above our peak period of 2007. He said that as the economists put it, when you adjust for inflation - in this case we use Honolulu CPI - the peak is still 2005 if the various costs that have increased in Hawai'i are taken into consideration. He said that 2005 was our peak in terms of visitor spending and we are currently down about 3.3% over that amount.

Mr. Nāho'opi'i mentioned that one of our goals is to ensure that distribution amongst the islands is equitable to the amount of accommodations available on those islands. He pointed out that O'ahu was far ahead in terms of where all the visitors went to in this past year. He said that there were increases from all of the international markets with the first stop mainly being O'ahu. He said that O'ahu was up 2.9% over our targets, yet the other islands, in terms of arrivals, were below our target, even though they had growth. He shared that there was growth on every island in terms of number of visitors compared to 2011; however, we had set those aggressive targets to meet the amount of rooms available on each island. He said that Length of Stay is taken into consideration when looking at visitor days, so if visitors stayed overnight or longer, the count would be higher. He explained that when that is taken into consideration, Maui met our target, so there were a lot of longer-staying visitors on Maui as opposed to day-trippers, etc. and that ended up exceeding our target. He said that both O'ahu and Maui actually met our targets.

He reported that there was an 11% increase in air seat capacity for December and 8.5% year-to-date (YTD). He said that we saw a 9% increase from the U.S. West, particularly from the Bay Area and seats in the U.S. East were up 30% because of the two (2) direct flights from JFK and Dulles that were added in June. He shared that Japan increased 12.7% from last December and Oceania jumped up 25% with additional seats from Sydney and Auckland. He also mentioned the start of service from Melbourne and Brisbane that began on the last day of November. He said that there was a big spike in expenditures for Other Asia and we jumped ahead of our goals for December. He shared that the U.S. West showed a 12.2% increase in visitor expenditures; US East was up 9.9%; Japan jumped ahead at 22% over last year; and Canada - another 10%. He pointed out that our international markets increased 51% over last year, which was an additional \$2.6 billion just from the Asia markets alone. He said that all of the islands showed increases in visitor expenditures with O'ahu showing about a 10% increase in daily spending and about a 16% increase in overall spending. He explained that a lot of what is driving the increase in expenditures is the daily spending. He said that we were above 2011 levels in daily spending throughout the whole year and that for every month this year, it has been above the same time last year. He said that there has been growth for every month.

In terms of category growth, Mr. Nāho'opi'i reported that it is another year of Lodging increases, as there was a 12% increase over the same period last year. He said that all markets showed spending increases in accommodations and lodging, particularly the Japan market where we saw a 13% increase, which works out to be \$105.00 per person per day (PPPD). He said that there was increased growth in transportation, mainly from the U.S. West and U.S. East. He added that there was a big increase for rental cars because what visitors are spending for rental cars has gone up. He also pointed out that there is an increase in interisland airfare for visitors from the U.S. East and Japan. He said that for the U.S. East, we saw a 5% increase and Japanese visitors are seeing a 4.5-5% increase in interisland airfare. He said that shopping has increased on the U.S. market for both U.S. East and U.S. West; however, our Japan market has shown a 6% decrease in terms of overall shopping this past year.

Mr. Nāho'opi'i reported that visitor arrivals were up 6.3% in December, which exceeded the goal we had set. He said that we also saw increases on all islands and that Hawai'i Island is finally showing some very large increases in arrivals. He added that O'ahu is the other island where we had a lot of growth, with an increase of 8.5%. He said that for the past three (3) months, we have seen large growth rates with December coming in at 9.4%. He said that the U.S. West and Japan led with about 9-10% growth.

Mr. Nāho'opi'i stated that the U.S. West and Japan not only showed growth throughout the whole year, but exceeded our December targets as well. He said that the U.S. East was slightly slower, but still, the total arrivals grew 3.6% for the month of December. He remarked that a lot of the growth for the U.S. West came out of the Bay and inland California areas, especially with new service added from Allegiant, Alaska, and Hawaiian Airlines. He reported that the Bay Area market was up 15% from last year; a 9.1% growth was seen from the Sacramento area; and we saw a 26% jump in Fresno – which is one of the smaller markets, but still within the top 20%. He said that we saw growth in the U.S. East, mainly from our mid-Atlantic coastal region; there was 12% growth from the New York/New Jersey area; and the Philadelphia area was up 9.7%.

He said that with regard to our international markets, there are consistent visitors out of China. He said that we set aggressive targets for the Korea market, but we exceeded last year, so we are still seeing visitor arrivals increasing, especially with the added lift. He reported that Oceania has exceeded our targets, especially in the second half of the year. He commented that Oceania is a good fit in terms of our mix because their peak seasons are in the fall which is actually part of our shoulder period. He shared that we raised the targets for Europe in the second half of the year and they ended up exceeding them.

In terms of statewide occupancy, Mr. Nāho'opi'i reported that we have had growth for most of the year and that we are definitely higher than we were at this time last year. He pointed out the difference in occupancy between the islands and how distinctive it was with O'ahu at the top and all the other islands trailing, with Hawai'i Island at the very end. Mr. Nāho'opi'i pointed out that in 2007 – which was one of our busiest time periods -

statewide occupancy was 75%. He said that O'ahu and Maui were at 77%; Kaua'i was at 76%, and Hawai'i Island was at 68% and explained that at that time, the distribution was much more equitable in terms of occupancy. He explained that there are two (2) parts to this:

1) the number of arrivals to the islands needs to be distributed higher; and 2) between 2007 and 2012, there was a lot of build out, especially on Maui and there were also some adjustments on Hawai'i Island. He said that back then, it was spread out on more islands and there was slightly more direct service from Aloha and Hawaiian to Maui and Kona at that time. He pointed out that there were routes - maybe not that many seats - but at least they had the routes available.

Mr. Nāho'opi'i shared that distribution in 2007 was very heavy on the U.S. West and some on the U.S. East, but now, a lot of our growth is coming from the international markets. He explained that these are developing markets, so as is typical, visitors start their vacation on O'ahu. He pointed out that the international direct service is into O'ahu only, so to travel and transfer over to another island takes additional effort.

Mr. Bloom asked about airlift data for our peak period of 2007. Mr. Nāho'opi'i replied that our peak was actually in 2006 at 10.4 million and currently, we are at 10.1 million. He said that we are still below, but said that at that time, there were dedicated flights just to fill the cruise ships we had at time. Mr. Bloom asked Mr. Nāho'opi'i if he recalled how much was cruise-ship dedicated at that time. Mr. Nāho'opi'i replied that about 500,000 was estimated. He said that the load factor was not great, which caused part of the crash. He added that the airlines could not make a profit off the amount of service that they were adding in and we had very low load factors that led to the downfall.

Mr. Rae asked if most of the cases where targets have been exceeded were targets that were revised upwards mid-year. Mr. Nāho'opi'i replied that they were, with the exception of China. Mr. Rae said that it would be good to see how we did against the original targets, even if it was just through an email.

Mr. Fried commented that he has heard from some people in the travel business that ships are back, starting shortly. He asked if there was going to be a big increase in the number of vessels or availability. Mr. Uchiyama replied that the increase will not be seen in number of vessels, but that the number of trips through the island is going to increase slightly. He said that this is one area upon which we have the opportunity to improve – very similar to what we have done with airlift. He said that he thinks there could be potential growth in that segment.

Mr. Uchiyama said that the one thing he would like to bring to everyone's attention is the work that has been done in the shoulder periods. He said that in looking at year-over-year during April through May – which is historically a shoulder period - the Brand Sustainability Team has focused on building experiences and driving business into these periods and we

are starting to see some success. He said that this is also an opportunity for growth with minimal impact.

Mr. Fitzgerald remarked that it would be interesting to see the data on international versus domestic arrivals for 2007 and 2012 and the distribution by airport because it may show a significant increase in international arrivals, specifically into O‘ahu, which will also speak to the targets that we have. He added that with the bankruptcy of Aloha Airlines, there are obviously not as many interisland flights. Mr. Williams said that cruise ships in 2007 affected some of the occupancy and some of the flight arrivals, as well. He said the cruise ships had a heavy influence that year and they were also coming out of Maui.

Mr. Kimura said that it would also be helpful to go back and go on same-store base regarding inventory which may also address what Mr. Bloom and Mr. Fitzgerald are talking about. He said that same-store base would be the number of rooms available to accommodate for the growth between 2007 and 2012, so we would be able to see how effectively Hawai‘i has been marketed. He said that he would look at the cruise business as a floating inventory. He explained that the objective is that it increases the available inventory in the State during a period of time, and while the cruise ship is going around the State, it doesn’t impact exaggerated peaks and valleys in the hard inventory on land, whereby people go offshore and enjoy, disposable income is spent, and in essence, it can add value to certain islands where there is have a floating inventory, rather than a fixed inventory. He said that perhaps it can be looked at from that frame of mind. Mr. Kimura also asked if the expenditures were inclusive of taxes or exclusive of taxes.

Mr. Nāho‘opi‘i said that the Lodging numbers include the taxes that the person is billed and that they are asked to include their checkout amount. Mr. Kimura said that he thinks that it is important that the information is compartmentalized historically, before the inception of TAT and then the increase of TAT. He commented that it may be skewing our numbers by selected categories and any impacts on GET by Legislative process, if that’s possible.

Mr. Bloom said that Mr. Kimura makes a good point, because it is his understanding based on a previously held discussion is that all the expenditure numbers were exclusive of taxes so that it was an apples to apples comparison. He said that if it is inclusive of taxes, just over the last few years, the TAT has gone up by 15-20% and it ends up being an apples to oranges comparison.

Mr. Kimura said that in looking at food and beverage, visitors are not being assessed the TAT, so if it is inclusive of tax on the total dollar amount, that is real growth. He said that in the case of Lodging as an example, the hotels had to find creative ways without increasing the Average Daily Rate (ADR) and a lot of them have adopted resort charges to offset the operating costs of things such as pools and slides. He said that if we were to go back to the Hospitality Advisors study, it says that in real dollar terms, we are not there yet with regard to ADR when you look at 2008 versus where we are today. He added that at the same



time, capital expenditures by hotels and operators continue to be plowed back in to upgrade the product.

Mr. Bloom pointed out that Mr. Kimura's comment regarding food and beverage may not be exactly precise because on O'ahu there was over a 10% increase in the GET tax, so if those expenditures are inclusive of GET, O'ahu alone is skewed by over 10% as a result of the half-point surcharge.

Mr. Nāho'opī'i said that in comparing it back to 2006-2007, the increase is seen, but between 2011-2012, the same tax rate structure existed, so there is growth over the year.

The meeting was recessed at 11:15 a.m.

The meeting was reconvened at 11:28 a.m.

**8. Presentation and Discussion of Mid-Year Budget Reallocations for Marketing Initiatives in Support of Airlift and Other Programs**

(This Agenda item was discussed out of order)

Mr. Uchiyama presented a PowerPoint on seat inventory in the domestic market, particularly on the West Coast and specifically in Oakland San Diego, and San Jose. He said that the build-up of seat inventory can be seen YOY in these three (3) markets.

He said that in looking at seat inventory on the East Coast, we see a loss of seat inventory out of Chicago and growth in New York, with no change anywhere else. He pointed out that Oakland and San Jose stand out in the 1<sup>st</sup> quarter, as well as Portland. He remarked that there is not much YOY growth out of San Diego because of the timing of the increase last year.

He reported that we have been monitoring faring coming out of the 2<sup>nd</sup> quarter of last year. He said that our information lags slightly, but we are starting to see reduced airfares in the Oakland, San Diego, and San Jose markets where there has been a substantial increase in seat inventory and increased airfares in markets such as Chicago, where there has been a reduction in seat inventory. Mr. Uchiyama shared that we have been tracking load factors on two (2) East Coast flights. He said that while New York is not so bad, Dulles is a bit of a concern. He said that these are load factors that are inclusive of the promotional fares that were taking place in the market, so we feel that we need to do something in both the New York and Chicago markets. He said that we are teaming up with United Airlines and Dulles on the Washington DC markets and we are going to be launching something to try and help support that flight, but in New York and Chicago in particular because the increase in airfare is quite significant. He said that we feel we need to create more demand so more seat inventory comes into the market.

He said that we are seeing a similar situation of increased seat inventory in Japan, which is due primarily to the upgauge in an aircraft. Japan Airlines (JAL) went from a 767 to a 777,

which adds quite a bit of seats. He also shared that we have already initiated plans with both Delta and Hawaiian to build up the Fukuoka route.

He reported that Canada is holding its own and Oceania is showing decent growth YOY, but there is a bit of concern for Korea because we want to make sure that we are able to maintain all of the seat inventory that we have gotten into the market.

Mr. Uchiyama remarked that increases in these markets are quite substantial and he is mentioning this because we have begun to track airfares out of the major markets going forward. He said that we looked at the Spring Break period and have started to look at the summer, as well as departures on Saturday - which is prime departure time - and we can see where the airfares are headed. He explained that when hotel room rates and airfares increase, the total package price for the destination increases and a portion of the market share is lost. He said that in order for the carriers to recapture load factors, they are going to lower their rates, and in a market where they have reduced their seat inventory and the demand may be greater than the seat inventory, rates are going to go up. He said that neither situation is good for us and that we need to find a balance between these scenarios so that we can keep the hotel room rates and airline rates healthy. He stated that we have to intervene here and try to balance these major components of the overall packaging.

Mr. Uchiyama mentioned international flights and the impact they have on Customs and Immigration. He explained that there are already 12 existing flights that come into Honolulu Airport during the window of 9:05am to 10:00am and if there are any delays within that window, that creates a significant bottleneck in Customs and Immigration and now there are other factors that we have to take into consideration as well. He said that China Airlines coming in with four (4) charter flights; China Eastern is up to three (3) times a week in frequency and we are hoping to get them up to four (4); Hawaiian Airlines is going to start service out of Taipei; and we are probably going to have another carrier coming out of Taipei. He added that Korean Airlines will begin charters on a daily basis in February and that he has also spoken with them about starting daily service in March. He pointed out that there are 10 charters from JAL that are coming through the year and he also sees us getting additional origination points out of Japan that have not even been taken into consideration yet, so this is a problem.

Mr. Uchiyama reiterated his concern over New York and Chicago; he said that we want to keep that direct flight from New York. He added that the Newark route is doing fairly well, but said that we do not want to wait to find out if we have too much seat inventory for that market or whether or not it has had any impact yet, so we want to make sure that we support these two (2) flights. He said that we can build more demand for Chicago - if we can build more demand, we can get more seat inventory, and we can manage the airfare a little better. He said that he would like to suggest movement of some funding to support this and also, moving funding into Air Access so that we are in a position to support what may be starting to occur in the Oakland, San Jose, and San Diego markets. He said that he would like us to be in a position where we can react to that.

Mr. Uchiyama asked the board's approval to move \$500,000.00 out of the Greetings program and into Access because the Greetings program is actually funded through June of 2013, so that money is not being used. He assured the board that the 2014 Greetings program will be funded on July 1<sup>st</sup>. He also asked the board to approve \$500,000.00 from Signature Events into Market Development. He said that this money would be used specifically to support efforts in Chicago and New York.

Mr. Bloom made a motion to approve mid-year budget reallocations for marketing initiatives in support of Airlift and other programs. Mr. Rae asked what is being done in Washington. Mr. Uchiyama replied that we have already engaged in a program with United Airlines that is being executed by the Hawai'i Visitors and Convention Bureau (HVCB). He explained that it is a \$200,000+ program to support that and HVCB is also aligned with the tour operators to support the flight as well.

Ms. Stone asked what "supporting Access" entails. Mr. Uchiyama replied that our Access funds are used to either support the airlines or the tour operators and ultimately, to support the load factors on the flight. Ms. Stone asked if that support included things such as advertising, calls, hiring of PR, lawyers, and accountants. Mr. Uchiyama replied that it is an integrated program when we get into it. Ms. Stone said that she needs to know what "supporting Access" means because the impression is that we are just writing them a check. Mr. Uchiyama said that whenever we enter into any type of co-op program, we work on a 3:1 ratio and we have them fill out an application. He said that they have to provide details on how they are allocating the funds into media segments, public relations, and promotions. He mentioned that the form also asks for details on any previous program activity and what the incremental gain is going to be so that we can see what the per person head cost is going to be for the additional marketing. Ms. Stone remarked that she is just worried that it seems to be very intense on Access and realizes that if people cannot fly here, they cannot spend their dollars, but she said that we need to be able to respond to that, especially because we have that incremental funding. Mr. Uchiyama said that the incremental funding is really focused on all the international markets and that we have not allocated any additional funding to North America. He said that the initial \$500,000.00 would focus on Chicago and New York and the other \$500,000.00 that he would like to move into Access is due in part to the three (3) markets he previously mentioned on the West Coast that are cause for concern. He said that he just wants to have the funds available if we need to do something to beef up Oakland, San Jose, and San Diego. He said that we did not receive any incremental funding for North America.

Mr. Bloom reiterated some of the data that Mr. Uchiyama went through to put this in perspective: From 2006-2007, we lost over 500,000 seats from the U.S. East, which is a significant market of ours; Atlanta is down 100,000, Chicago is down 200,000, we used to have 100,000 seats in Minneapolis, but that is totally non-existent now. He said that without the continued support, we are just going to see that market deteriorate, which is our most lucrative market as compared to the U.S. West from a per dollar per person per day standpoint. He stated that he is definitely in favor of trying to save the U.S. East lift.

Mr. Fried asked Mr. Uchiyama to explain the in-kind requirement and how it relates to the required 3:1 match for the co-op programs. Mr. Uchiyama said that for the 3:1 ratio, we ask them to match us dollar-for-dollar at minimum and then we ask for another two-thirds in in-kind value, which could be in the form of them putting their tickets – or if it's a wholesaler, their total package – into the mix to create a sweepstakes promotion, which would register as value. He said that we also look at what they are doing on their side from a public relations standpoint in carrying the message specific to Hawai'i. He said that they also have sales forces in a lot of cases and they will go out and promote our specific program through their sales force to the retail travel agents and that is also a value. He said that there is website value and in most of these programs, it is very integrated so that is why all of that detail is required on the application form.

Mr. Kimura asked if there are any other programs that are being affected by this reallocation. Mr. Uchiyama said that no other programs are affected. He explained that that we are seven (7) months into the fiscal year and he and the Brand Management Team have gone through all of the budget line items; we looked at actual spend; we looked at programs where we are anticipating to spend and we protect all that money, and then we look at what is available. He said that is how we discovered that the Greetings program is actually funded through June of this year and then the new fiscal year will cover the new program, so that freed up \$500,000.00. He said that we then looked within the Signature Events section; we looked at everything we are doing and found \$500,000.00. He said that there are small pockets of money that we are monitoring throughout the budget, but these are two (2) areas where we felt we could effectively move the funding and have an impact on the market. He said that as much as we are comfortable with what we did in 2012, he said that he wants to stay ahead of the ball game.

Mr. Kimura said that we have a contractor who markets Hawai'i in North America and commented that they must have seen the same thing, based on Mr. Uchiyama's direction. He said that we are moving \$1 million for a reason, but asked about the contractor's obligation to market Hawai'i to North America. He also asked how the approval and movement of the \$1 million to improve the outbound of those three (3) cities relates to the contractor who is supposedly marketing Hawai'i to North America.

Mr. Uchiyama said that in the past, we have given HVCB supplemental funding, but this last year, their budget was reduced down to \$21 million. He explained that in the past, we have given them \$27-\$30 million in supplemental funding for saturation programs, so their funding has been decreased significantly. He said that when we asked for incremental funding, we looked specifically for the international markets, so we have not given them anything incremental like we have in the past. He said that they have been working with a reduced budget; they are marketing and they have had success. He pointed out that their numbers in 2012 have shown that they were able to manage efficiently and still produce.

Mr. Kimura asked Mr. Uchiyama to explain where the \$1 million is going and how it is going to be used, rather than having the board vote first. He said that this does not denote a lack of trust, but \$1 million is a substantial amount of money and he said that we must have fiduciary accountability.

Mr. Uchiyama said that he has spoken with the NBC Group about the possibility of a month-long program, typically in Chicago and New York. He said that the NBC Group own their stations in Chicago and New York and have the ability to give us a little more than what their affiliate stations would have been able to give us. He said that the first piece of the program is what has been brought up by the board several times – to be able to go into the primetime newscast and show the weather in Hawai'i during their weather segment, which he was able to get them to agree to do. He said that the second component of the program is a host that is known to all of the markets – she is based out of Los Angeles and she has done some pieces for Aulani. He said that there are some other pieces in their daypart so Hawai'i would be connected with some of their major shows. He added that all of these networks are now taking their old shows and putting them on another channel such as Cozi-TV, of which Magnum P.I. happens to be a part, so there is an alignment with Magnum P.I. and Hawai'i Week in that area. He said that this would have to be vetted by the HVCB and it will be shared with them. He explained that the Chicago and New York stations would go through their area-specific broadcasts and have images of Hawai'i. He said that being able to show what the weather is like here is very powerful and is something that the board has been pursuing for a while.

He said that the “Wake up to Hawai'i!” campaign is an idea that involves creating vignettes. He said that this campaign is flexible in terms of how Hawai'i is positioned and presented within the Wake Up Hawai'i section. He pointed out that this presents another possibility for campaigns or sweepstakes where we would offer a prize for every island, so during the course of a month, there would be a prize winner each week, both in Chicago and New York. He explained that this idea of bringing in a third party partner into the mix is their recommendation and it would have to be massaged a bit further with the HVCB.

Mr. Uchiyama showed a vignette featuring Ms. Jessica Vilchis, an NBC station personality, who would come out to Hawai'i and do segments based on what we tell her we want to focus on. He said that the primetime section is aligning with some of their shows that have the greatest audience (e.g., The Office, Smash) and New York has their own magazine-type show in the morning where we would be able to go and promote Hawai'i. He said that with regard to timing, the alignment would be good in promoting Mele Mei and Hawaiian music. He said the “out of home” component would be the taxis in both of those cities that would run footage of Hawai'i within the vehicles and would lead into the late-night section and their late-night lineup. He said that there would be Hawai'i messaging and COZI-TV with Magnum P.I.

Mr. Kimura asked about the booking window if this is promoted during February through March in these markets. Mr. Uchiyama said that right now, we are seeing about a 60-day booking window, all the way up to 91 days. Mr. Kimura asked if the intent is to impact April through May. Mr. Uchiyama said that in part, yes, that is the plan. Mr. Kimura commented that if the neighbor islands are pushed as well, this is a great idea. Mr. Uchiyama responded that pushing the neighbor islands is a part of this plan.

Mr. Corteway said that he agrees with Mr. Kimura that \$1 million is a lot of money, but pointed out that it is \$1 million that we have already budgeted. He said that he believes that the staff ought to have the option to reallocate funds that have already been budgeted to areas that have come to their attention that need some additional support. He said that as Mr. McCartney spoke about what happened in 2007 and how long it takes to get things back on track, it is critical that we are able to respond as quickly as we can and it is imperative that staff be able to move funds to various areas that need attention quickly. He stated that he would support moving the \$1 million to wherever it is needed.

Mr. Fitzgerald said that he likes that staff is being proactive about looking at where there may be some sensitivity to some particular markets. He remarked that we have worked really hard over the last several years to get into Dulles and New York and that to lose those direct flights would be a sign of weakness for us, so we should try to support it as much as possible. He said that he also would not discount the effect that Hurricane Sandy had on the New York market and we may be seeing some weakness just because of that. He said that the timing of this is strong, so at least for this particular aspect of the funding, he supports it. He said that he thinks it makes a lot of sense.

Ms. Ewing said that those gateways are also crucial for the MCI market and that has already been identified for our 2014-2016 goal, initiatives, and targets, so it makes sense to get in early and create a really high level of awareness in the general population. She asked if the creative was done by HVCB. Mr. Uchiyama said that he worked directly with NBC, as he was not sure if he was going to get approval from the board. He said that HVCB does not even know about this. Ms. Ewing asked if consideration has ever been given for having this just be an in-house HTA project because she assumes that Mr. Uchiyama was going to the contractor for implementation. Mr. Uchiyama said that one of the things with which HVCB supplied him is their current media plan because he wanted to see how this would fit in from a continuity standpoint so that he could turn it over to them and they could tweak where they saw fit, but overall, it would make sense. He said that he thinks the collaboration with HVCB is important.

Mr. Corteway asked why staff has to come back to ask for the board's approval. He said that we have agreed to a budget, the funds have been allocated to various areas, and no one knows better than the staff about where they should go. He said that he certainly would want staff to tell the board what has changed, but he does not see the value of them having to ask the board to transfer \$1 million somewhere.

Mr. Williams said that the current procedures do not give the staff the authority to move funds like that; however, that is something that could be considered in the future.

Mr. Corteway said that if we have a \$60-\$70 million budget and it goes to all different places, maybe it is better that we have a certain amount of money that is set aside for emergencies or contingencies.

Mr. Rae expressed his agreement with Mr. Corteway, stating that the Executive Director should have the power to deal within the budget, but aside from that, he said that he is confused as to roles and asked if HVCB should have "gotten there" on this already. He commented that shouldn't the people we are paying for marketing have said, "Oops, this is an issue and we should do something about it"?

Mr. Uchiyama said that we have taken the lead in the Airlift area. He explained that after Aloha and ATA went bankrupt, we saw that as a really delicate area and we needed to get a handle on it. He said that we contracted the consultant and we have been monitoring the airfare and the load factors and so that is the reason it came to our attention because that has been our role in the relationship.

Mr. Corteway asked why we have a contractor. Ms. Stone said that she is supportive of this, but her question is regarding the rationale. She said that she hears what Mr. Uchiyama is saying to Ms. Ewing about HVCB then getting involved and maybe implementing some of this, but said that she does not see the rationale for moving the funds right now. She said that she thinks Mr. Uchiyama's foresight is incredible, but that this should be on an ongoing basis - not just for emergencies, not just for 'in case there's a tsunami,' but in the case where we recognize that we are an island state and that Access is critical - maybe our no. 1 priority - so instead of just trying to move money when we see fluctuations, have staff allot some of those funds because it is critical that this is done. She said that her question goes to process and what the rationale was in just picking this because we are not in balance. She said that she knows things are in flux based on economies and disasters, but said that the board should be given the information ahead of time and there should actually be a category that would support fluctuations in Access. In other words, she said, we are not just marketing for Access, we are not just branding, but we are actually doing this shoulder to support Access and have a category within our strategic plan to allow us to move forward. She said that if they as a board accept that this is a critical component of tourism, then there should be a specific category.

Mr. Bloom commented that these are all legitimate questions that should be asked and they are all borne out of the discussion initiated by Mr. Uchiyama, but said that he is calling for the question. He stated that this matter should be voted on because "we're kind of going all over the map."

The motion was unanimously approved without objection.

Mr. McCartney assured the board that the staff will work on the budget going forward to make sure that the discussion that just took place is taken into account as we propose the next budget.

**7. Presentation and Discussion of the Hawai'i Convention Center and Meeting, Conventions and Incentives (MCI) Programs**

(This Agenda item was discussed out of order)

Mr. Murdock stated that the presentation and discussion of the Hawai'i Convention Center and MCI programs was handled by Mr. McCartney as part of his CEO report in Agenda item no. 3.

**9. Presentation and Discussion of HTA Benchmarks**

Mr. Nāho'opi'i presented a PowerPoint on HTA benchmarks, which included a familiarization on the process. He explained that what we are talking about today are the benchmarks and planned performance indicators of our 2013-2014 Strategic Plan.

He said that we also report annually to the Legislature and to the Auditor through our Annual Report, that includes information on State tax revenue, visitor expenditures, and TAT; however, he wanted to point out that the Resident Sentiment Survey and the Visitor Satisfaction Survey are Experience Measures of Success with which we are familiar. He pointed out that there are six (6) objectives within this report:

- Achieve or exceed visitor spending targets;
- Achieve or exceed PPPD spending targets;
- Achieve or exceed the air seat targets and its distribution to all islands;
- Improve and optimize the cruise ship industry – there is a section on the cruise ship industry on our monthly reports and monthly press releases;
- Improve the quality of the Hawai'i experience; and
- Contribute to the good quality of life for Hawai'i's residents

Mr. Nāho'opi'i said that the last two (2) are specific objectives that are stated in the most recent strategic plan. He said that he wanted to inform the board that when we get to the point of reporting all of the various measures and indicators, we are going to be including more indicators, so they will be receiving more dashboards and a report that includes these two (2) sections. He explained that he is going to present are some of the things that we could think about that we are going to include in the report.

He said that two (2) indicators are being used for Experience Indicators of those visiting here: we are using percent Excellent Rating for Most Recent Trip to Hawai'i, which is reported here and online, and the other is percent Very Likely to Recommend Hawai'i. He said that if they have a good experience, they are more likely to recommend Hawai'i to their friends and family.



Mr. Nāho'opi'i mentioned that the other new indicator being added is Consumer Sentiment expressed in online and social media. He said that we currently do an online sentiment study where we actually have a company that monitors what people are saying about us. He explained that people give it a rating not only based on a statement, but within that statement as well, they talk about Hawai'i and travel to Hawai'i and that rated as well. He said that if they give a very positive or negative rating about Hawai'i, they get a plus or minus, as well as the type of value of the content (e.g., if it is someone writing a news article or an online blog, that has a little more weight than someone who is just doing a tweet, which has less impact). He said that we do this in both the U.S. and the international markets and also in the Asia markets, within their language as well. He said that we are monitoring what people are saying about Hawai'i and their Hawai'i experience, as well as complaints, especially in the international market.

He said that in terms of the Quality of Life indicators, we will now include State Unemployment, so we can see the percent of civilian labor force because tourism is the number one employer and by looking at the overall State unemployment rate, we will be able to get a general gauge of the quality of life and the economic conditions. He said that we will also start to look at the GET by County to see how sales in each County are increasing.

In terms of educational attainment, Mr. Nāho'opi'i said that we are going to be including Bachelor's degrees. He explained that it is a Quality of Life indicator that comes from the Center on the Family. He said that Aloha United Way commissioned these studies, so we are working on getting the information from them.

Mr. Nāho'opi'i shared that in terms of an environmental indicator, the University of Hawai'i recommended taking a look at drinking water quality as an indicator of tourism impact on environmental conditions, as well as acres of parks and historic sites that are preserved.

He said that housing cost burden and commute time – especially on the neighbor islands – will be part of our monitoring process under Housing and Transportation indicators. He also stated that we are monitoring property and violent crimes rates under the Public Safety indicator.

He said that the last indicator – Social Participation – is a very broad statistic that the Center on the Family uses about how much people interact with other groups and how much they are contributing in terms of volunteering activities to other organizations. He mentioned that as another part of the Social Participation indicator, we already report that tourism has brought more benefit than problems to this island and that tourism has been mostly good for you and your families.

Mr. Nāho'opi'i said that in terms of Performance Indicators, we currently look at cost per arrival from each market. He said that Mr. Uchiyama had pointed out that we look at the total cost per the number of arrivals as well as the dollar spent. He said that we look at

expenditures from each market as well and how much each visitor contributes to the State of Hawai'i. He said that we also look at total visitor spending versus the marketing cost and the taxes collected versus the marketing costs.

Mr. Nāho'opī'i stated that there is one last indicator that goes into the overall look of how we are doing this and that is Native Hawaiian Cultural Investment and Progress Indicators. He said that one of our strategic initiatives that is also part of the Tourism Strategic Plan is to make sure that we contribute, enhance, and do not impact the native Hawaiian culture. He explained that we are looking at measuring our own performance in terms of how much are we doing toward developing new host culture-based events and programs. He said that we could monitor those types of programs and events as a historic benchmark and look forward to see how much it has grown over the year and the increased use and incorporation of the Native Hawaiian language, both in our tourism materials as well as within the industry. He said that we are working on how to measure that and how to collect data for it.

He said that this report will be attached to the CEO report. He clarified that it will be more like a report card and will be updated as data becomes available. He said that we want to ensure that this is a tool the board members can use to monitor the overall progress of the HTA as well as the health of the tourism industry here.

Mr. Fitzgerald asked if the monitoring of the websites is done across all platforms – such as Facebook – and individual hotels that fall within Facebook. Mr. Nāho'opī'i replied that we monitor both corporate and Facebook. He added that in the Asia market, we put them into specific groups, so we have identified the websites of the wholesalers and the operators and we actually monitor them separately.

Mr. Fitzgerald remarked that if there is a concern, it is that we are measuring the right indicators that are truly linked to tourism. He cited commute time as an example – he asked if we understand that to be truly linked to visitor arrivals or if that is something that could be independent of that? He remarked that if we are measuring this all of a sudden and this goes up substantially in the next two (2) years and does not really have anything to do with tourism, then it looks like tourism is causing a problem here relative to the residents. He stated that he had similar concerns regarding water quality issues – he said that he understands that the thought process is that there are more arrivals and more tourists so we are drinking and using more water, therefore there is an impact on the aquifer. He said that he's just trying to make sure the correlation is appropriate and when we go back and look at two (2) years from now and there is something that is askew, instead of having to go back and explain it, he said that he wants to make sure we are picking the right ones now before we get started, so that there is truly a link to what we do here. He said that he wants to understand the process that was used as we establish those indicators.

Mr. Nāho'opī'i said that some of these are more indicators in terms of the health of Hawai'i, rather than tourism directly. He cited traffic as an example: He said that traffic might be an indicator that we need to then look further at how tourism may be impacting that effect. He said that there may not be a direct correlation at that point, but it helps to inform us when we are doing the planning going forward. He added that some of them are not causes of tourism in effect, but they impact the overall Hawai'i, and so we have to know our role going forward. He said that if we know that traffic is going up, then we have to be conscious that we do not add to that in the planning going forward.

Mr. Murdock commented that those are not measures of success but rather, indicators for the plan. Mr. Nāho'opī'i added that some of these are just plan indicators. Mr. McCartney said that we have to make sure that we are not saying there is a correlation and that we are just looking at that as an indicator of the overall health of Hawai'i, which is part of the market. He said that we have to make that distinction and we have to make sure that we are explicit that it is not implied. Mr. Fitzgerald suggested that we could say that we are monitoring these indicators as an impact to Hawai'i life – the quality of life here in Hawai'i, even though it may not, in any way, be influenced by tourism. He said that he is okay with that, but to make sure that statement is put up front.

Mr. Corteway referenced Mr. McCartney's letter to the board from last August regarding the audit – he said that there were five (5) issues that were still outstanding that needed to be worked on, this being one of them. He asked that Mr. McCartney present a report at the next meeting on the status of the other four (4) items that we have not heard about.

## **10. Action to Approve HTA's Financial Reports**

Prior to presenting the HTA's financial reports for the months of October and November, Mr. Togashi referenced the final issued audit reports for both the Hawai'i Tourism Authority and the Hawai'i Convention Center for the fiscal year ended June 30, 2012 that were distributed to the board. He remarked that at the last board meeting, the board had accepted the results of the audit, so the results in these reports are that final product.

He said that he would be presenting two (2) sets of financial statements for the months of October and November. He reported that for the month of October, the HTA Special Fund had approximately \$43.8 million in cash and investments, which is an increase of approximately \$3.5 million from the previous month. He said that increase was due to receiving TAT receivables from September and was partially offset by having incurred approximately \$4.6 million in October expenditures. He said that the fund has \$4.3 million in unencumbered reserve that is earmarked primarily to fund the future fiscal year budgets for FY 14 and FY 15. He added that the fund also has \$13 million in prior year encumbrances that we anticipate spending down by the end of this fiscal year. For TAT revenue in October, Mr. Togashi reported that we recorded \$7.1 million, bringing our total to \$32 million YTD.

He stated that the Convention Center Enterprise Special Fund (CCESF) has \$19.6 million in cash and investments, which is an increase of approximately \$3.5 million from the previous month and due primarily to having received September TAT revenues and receivables related to Convention Center Operations. He said that this was partially offset by incurring \$1.1 million in operating expenditures for the Convention Center as well as paying for insurance premiums of the Convention Center itself. He said that the fund has \$12.9 million in cash with SMG or with DAGS, specifically to be used for repair and maintenance projects. He said that many of these projects are in the design and pre-bid phase. He pointed out that construction on the lobby waterfall feature is nearing its closeout phase. He also noted for the board that with the assistance of SMG, we recently began to invest this \$12.9 million to be able to achieve a higher yield on our investment, rather than to just have our cash sitting idle. He said that we certainly hope to begin seeing the benefits of that shortly. He added that the fund has \$10.5 million in its reserve, earmarked specifically to fund future repair and maintenance projects that go beyond the \$12.9 million that is residing with SMG and DAGS. He said that we also have \$400,000 in reserve, which is intended to fund any unexpected future Convention Center shortfalls, as necessary.

He reported that through October, the Convention Center has operated at a loss of \$850,000 YTD and for the year, we still anticipate an operating loss of approximately \$4 million, which would be in line with the budget that was approved at the beginning of the year. He said that with regard to TAT, we recorded \$3.6 million in October, totaling \$16.2 million for the year.

Mr. Togashi then moved to present the November financial statements. He said that as of the end of November, the HTA Special Fund had \$45.7 million in cash and investments. He said that this is an increase of \$1.9 million from the previous month, due primarily to receiving October TAT receivables and being partially offset by incurring \$5.3 million in November expenditures. He said that the fund continues to have \$4.3 million in unencumbered reserve that is earmarked for FY 14 and FY 15 budgets and we also have \$8.6 million in prior year encumbrances that we intend to spend down by the end of this fiscal year. He reported that for FY 13, we are operating within a budget of \$71.7 million and through November 2012, \$45 million has been contracted. He stated that we recorded \$7.5 million in TAT revenues in November, totaling approximately \$40 million for the year. He said that we are capped at \$71 million, which we now anticipate receiving by March. He reported that the \$40 million that we have received YTD in TAT revenues is \$1.2 million greater than the FY 13 monthly forecast that we had forecasted at the beginning of the year and it is approximately \$4.4 million greater than what we had recorded at this point in time last year.

Mr. Togashi said that the CCESF has \$22.1 million in cash and investments, which represents a \$2.5 million increase from the previous month. He said that this increase is the result of receiving October TAT revenues receivables as well as receivables related to the Convention Center's operations and is partially offset by \$2 million in November expenditures primarily to fund the Convention Center operations. He said that the fund

also has \$12.9 million, which is consistent with October and is with SMG and DAGS to fund near-term repair and maintenance projects. He said that additionally, the fund has \$10.5 million in reserve at the end of November earmarked to fund repair and maintenance projects, which include building painting, potential purchases of large equipment, and other repair and maintenance items. He said that we also have \$400,000.00 in reserve that is intended to be able to fund any unexpected Convention Center shortfalls.

He stated that through November, the Convention Center operated at a loss of \$1.3 million YTD, which is shown in detail on the Convention Center financial statements that SMG has provided on page 11 and that been reconciled to our financial statements.

Mr. Togashi shared that we continue to anticipate a loss of approximately \$4 million for the year, which in line with the budget. He said that we also anticipate the fluctuating cost of electricity to remain a primary concern; however, we do anticipate making up for these being over budget on electricity with other cost-saving measures, as well as through increased food and beverage service.

He said that as for TAT revenue, we recorded \$3.8 million in November, totaling \$20 million for the year. He said that we anticipate reaching our cap of \$33 million also in March and this \$20 million that has been recorded so far is on par with our monthly forecast and is \$8.5 million greater than what we had recorded at this point in time last year.

Mr. Corteway asked if there are any significant variances in any of the accounts. Mr. Togashi replied that we are spending in accordance with the budget, but said that as Mr. Uchiyama pointed out, there are some pockets of money that we are continuously monitoring and we will reassess as far as reallocation opportunities.

Mr. Fitzgerald made a motion to approve the HTA financial reports for the months of October and November 2012. Mr. Bloom seconded the motion, which was unanimously approved without objection.

## 11. Adjournment

The meeting was adjourned at 12:43 p.m.

Recorded:

  
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