



REGULAR BOARD MEETING
HAWAII TOURISM AUTHORITY
Thursday, December 27, 2018
Hawai'i Convention Center
1801 Kalākaua Avenue, Honolulu, Hawai'i 96815

MINUTES OF REGULAR BOARD MEETING

MEMBERS PRESENT:

Rick Fried (Chair), Micah Alameda, David Arakawa, Fred Atkins, George Kam, Kyoko Kimura, Sherry Menor-McNamara, Craig Nakamura

MEMBER NOT PRESENT:

Sean Dee, Ku'uipo Kumukahi, Benjamin Rafter, Kelly Sanders

HTA STAFF PRESENT:

Chris Tatum, Keith Regan, Karen Hughes, Marc Togashi, Charlene Chan, Jadie Goo, Jennifer Chun, Kalani Ka'anā'anā, Carole Hagihara, Joseph Patoskie, Lawrence Liu, Minh-Chau Chun, Noriko Sloan, Ronald Rodriguez

GUESTS:

Representative Richard Onishi, Senator Glenn Wakai, Teri Orton, Mari Tait, John Monahan, Lee Conching, Priscilla Texeira, Patrick Dugan, Erin Khan, Nathan Kam, David Baronfeld

LEGAL COUNSEL:

Gregg Kinkley

1. Call to Order and Pule

Presiding Officer Rick Fried called the meeting to order at 9:36 a.m.

Kalani Ka'anā'anā offered two pules to open the meeting.

2. Approval of the Minutes of the November 29, 2018 Board Meeting

Chair Fried asked for a motion to approve the minutes of the November 29, 2018 Board Meeting. George Kam made the motion, and Craig Nakamura seconded the motion. Chair Fried then opened the item up for discussion. David Arakawa recommended several minor changes to the meeting minutes. The minutes, with Mr. Arakawa's recommended revisions, were unanimously approved.

3. Report of Permitted Interactions at an Informational Meeting or Presentation Not Organized by the Board Under HRS § 92-2.5(c)

Chair Fried asked the Board whether there were any permitted interactions to report. There were no reports of any permitted interactions between Board members since the last Board meeting.

4. Report Relating to Staff's Implementation of HTA's Programs During November 2018

Chair Fried recognized CEO Chris Tatum to provide his first report on the staff's implementation of Hawai'i Tourism Authority ("HTA")'s Programs during November 2018. Mr. Tatum introduced Karen Hughes as VP of Marketing and Keith Regan as Chief Administrative Officer, and expressed his enthusiasm for having them on the HTA staff. He noted that he started on Monday, December 24, 2018, and spent his first days familiarizing himself with HTA staff and the organization in order to assess its status. He has met with legislators, and stated that a legislative briefing is scheduled for January 8, 2019. He also plans to schedule meetings with each of the Board of the Directors.

Mr. Tatum stated that he is reviewing all HTA contracts and has paused all those that have not yet been executed so that he has an opportunity to review them personally, noting that since he will be signing them he wants to ensure that he knows what each contract contains and can adequately defend them. Mr. Tatum said that he also met with Kalani Ka'anā'anā and Caroline Anderson, who gave Mr. Tatum an overview of all of the Hawai'ian cultural, community enrichment, and natural resource activities that HTA supports, and the vetting process that those activities undergo.

Mr. Tatum said that he would like to develop a consistent, transparent process in regards to sporting events, and how opportunities are vetted to assess value for tourism and the community. Mr. Tatum also discussed the Hawai'i Convention Center ("HCC") and "city-wides." He stated he would like to reevaluate the selling process and work with the Board to make that more productive, noting that it must be a collaborative process. He stated that HTA needs to continue a comprehensive effort on selling Hawai'i Island, and continue to work with the island chapter on that issue.

Mr. Tatum said that, from a marketing standpoint, there is a great opportunity to move forward in the Japanese market because ANA Airlines is adding more flights in May and wholesalers are making Hawai'i their focus in the coming year. He noted that the person who does the brand management for Japan has resigned to pursue other opportunities but Mr. Tatum and Ms. Hughes are looking to fill that position with someone who understands the Japanese market, can represent HTA well, and work with the hotels and wholesalers.

Mr. Tatum then discussed keeping the U.S.S. Arizona Memorial open during the federal government shutdown. Mr. Tatum emphasized that the U.S.S. Arizona Memorial is a memorial and that he felt that HTA had an obligation to support the people running the U.S.S. Arizona Memorial to keep it open for visitors, locals, and family members of those who perished there during World War II. Mr. Tatum said that he has reached out to several organizations and that they will be putting forward a proposal for HTA to fund the U.S.S. Arizona Memorial through January 6, 2019 for \$126,000. Mr. Tatum said that his intention is for this to be a public-private effort and he will go to the private sector to ask for their support to keep it open.

Mr. Tatum explained how he is looking at HTA moving forward. He stated that although funding comes from tourism, it is allocated by the State so it is important for HTA to have an active, collaborative relationship with the Legislature. He said that HTA is both a marketing and management organization with a responsibility for Hawai'i's iconic branding, community enrichment, and quality of life. Mr. Tatum stated that HTA needs to seek continuous feedback from stakeholders: the Legislature, the industry, and the community. Moreover, stakeholders should know that HTA listens to them, appreciates them, and responds to their feedback so they can share data on how things are trending. Finally, he said that he wants HTA to be completely transparent and for questions to be easily explained. In closing Mr. Tatum discussed his background in Hawai'i and emphasized the importance of remembering that the Hawai'i brand means something different for many people but that it means home for himself and the residents that live here.

Fred Atkins noted that Mr. Tatum's appointment as CEO was a unanimous decision of the HTA Board and added that Mr. Tatum's presentation affirmed his decision to support him. Chair Fried re-emphasized the importance of balancing the needs of visitors with residents. On the issue of the U.S.S. Arizona Memorial, Chair Fried that he and Mr. Tatum have been speaking to the Executive Park Ranger and a representative from the U.S.S. Arizona Memorial's non-profit Board. Chair Fried expressed concerns over the repair of a dock at the memorial and the shutdown pushing back further the repair completion date.

5. Presentation and Discussion of Current Market Insights and Conditions in Key Major Hawai'i Tourism Markets

Chair Fried acknowledged Jennifer Chun to provide an update on current market insights. Ms. Chun directed the Board to the November report in the Board Packet. She noted that HTA had issued a press release on visitor statistics that morning.

First, Ms. Chun pointed out that visitor spending was down slightly, approximately 0.3% from the same time last year, but arrivals were up 4.3%. Arrivals were up from U.S. West, U.S. East, and Canada, but were down from China and Korea, due in part to a significant loss in air seats from those markets. In the first 11 months of 2018, approximately \$1.89B in State tax revenue was generated, which is an increase of 8% from last year. The State collected \$157.5M in Transient Accommodations Tax (“TAT”), an increase of 16.5% compared to last year.

Ms. Chun stated that on December 21, 2018, HTA released the latest hotel statistics, which reflected flat RevPAR at 190, ADR up 3.4% to 251, and occupancy at 75.8%. The updated forecast for the year-end of 2018 is 9.95 million visitors (including air and cruise), and \$18.3B in expenditures. For 2019, DBEDT is forecasting \$19.1B in expenditures and 10.13 million visitors.

Mr. Arakawa noted that HTA has statistics about how the industry is doing and income revenue, but that it may also need a way to measure increases in costs like power, real property taxes, and labor. This information could provide a better measure of health for the industry by showing how thick or thin the margins are. Ms. Chun responded that STR, Inc. has an annual report on profit and loss but that there are issues with that report: 1) it only comes out once a year, and 2) it does not contain certain line items (income tax, depreciation, debt service, etc.) that represent a significant cost to hotels. Moreover, the current sample for the Hawai‘i report is not as robust as past years. Mr. Tatum added that the numbers also do not take into account renovations.

Mr. Tatum stated that he is not a fan of HTA producing trending forward numbers because the hotels do not provide HTA with actual numbers. However, he said that he and Ms. Hughes are responsible for reaching out to the industry to get trends and support the industry’s efforts to address those trends.

Chair Fried said that he was surprised to see the increased TAT and state tax in light of challenges like the volcanic eruption on Hawai‘i Island and flooding in Kauai. Ms. Kimura asked for clarification that TAT was up 16.5%. Ms. Chun confirmed and noted that the increase reflects collections through September 2018, and the total overall increase in state tax revenue generated was 8%. Mr. Tatum recommended that when the statistics are published that they should include the caveat that the TAT rate increased. Ms. Chun noted that the TAT collection statistic is only shared with the Board, and it is not published in the visitor statistics.

Ms. Kimura asked for clarification on the period affected by the TAT rate increase. Ms. Chun stated that it affected only part of FY 2018 but will affect all of FY 2019. Mr. Togashi said that the TAT rate increase went into effect in January 2018. Mr. Tatum asked Ms. Chun if she could provide the Board and the Legislature with a calculation of what TAT collections would have been without the TAT rate increase. Ms. Chun responded that she would have that calculation at the next meeting. Mr. Togashi said that the increase in rate constitutes an approximate 10% increase in taxes collected. Ms. Kimura asked whether that meant the actual increase is 6%, and Ms. Chun stated that that is possible but she would have to check the numbers.

6. Presentation, Discussion, and Action on HTA’s Financial Reports for October and

November 2018

Chair Fried recognized Marc Togashi and Keith Regan to provide a presentation on HTA's financial reports. Mr. Togashi stated that the financial reports were included in their Board packets, including an executive summary of the report. He stated that the October financial statement and executive summary had been distributed at last month's meeting and that he would be asking for the Board's approval on those items, but would be reserving requesting approval for the November financial statement and executive summary until next month so the Board has an opportunity to review them.

Mr. Togashi said that there is not significant activity recorded on the books because it is still relatively early in the contract year. He stated that the process is that they go through a budget process with the Board, and the staff plans and executes on the programs that are reviewed by the Board. He added that since all of the contracts have been paused, that is also a factor in why there is not significant activity to report.

Mr. Fried clarified that Mr. Togashi was asking for a motion to approve the November financials. Mr. Nakamura made the motion and Mr. Kam seconded the motion. Mr. Fried opened the item up for discussion. Mr. Atkins asked whether, now that there was a full team in place, if it would be possible for HTA to provide the Board with financials such that the Board could vote on the most recent month instead of having to wait a month. Mr. Togashi responded that HTA will make that a goal and that it is working on providing the Board with timely information to the extent that it can. Mr. Tatum affirmed this.

Mr. Arakawa noted that at last month's Board meeting, HTA staff had said that they met with the Legislature regarding the budget. He asked for clarification on whether the budget referred to was last year or this year's budget. Mr. Togashi responded that they had met with the Legislature to discuss the current fiscal year budget.

The October financial documents were approved by the Board.

7. Update on Status of the 2018 Audit Action Plan

Chair Fried recognized Mr. Regan to provide an update on the 2018 Audit Action Plan. Mr. Regan said that he has reviewed the 21 items brought forward by the State auditor, noting that 15 items are still outstanding. He said that he has been working on getting an understanding on what resources are necessary to tackle some of the outstanding items, and that he plans to work with Mr. Togashi to go over an action plan to address some of the larger items, which are mainly on policies and procedures.

Mr. Tatum commented that he and Mr. Regan have met with DBEDT and see an opportunity to work closer with them by making sure that they are aligned with how they conduct business and engage resources, to ensure a transparent and timely process.

8. Presentation by AEG Regarding an Update of Hawai'i Convention Center Recent

Operational Activities and Sales Initiatives

Chair Fried recognized Teri Orton to give a presentation on Hawai'i Convention Center ("HCC") operational activities and sales initiatives. Ms. Orton stated that the financial results for November were stronger than expected, with 27 licensed events in-house, 10 more than had been planned for in the budget. HCC grossed revenue of \$1.3M and a net loss of \$103,000.

The 2018 year end reforecast projects a net loss of \$2.2M. Ms. Orton highlighted a few reasons why the forecast is different than what had been budgeted. There were cancellations including an international group, Allied materials, and a basketball tournament. Some organizations did not cancel but rescheduled for a later year. The makeup of the events this year was also different than last year. During the last year, there were more corporate events than this year and corporate events typically spend more on food and beverage.

Mr. Tatum asked why the American Dental Association ("ADA") moved an event to the Hilton. Ms. Orton responded that the Hilton had put a minimum food and beverage spend in their contract and the ADA likely moved the event to the Hilton to meet the minimum spend. Mr. Tatum asked whether there was any cancellation fee imposed on the ADA by HCC for moving the event. Ms. Orton replied that HCC normally does not charge a cancellation fee because that money is still being spent in the state. Mr. Tatum asked whether there was a decrease in attendance due to the hotel strike. Ms. Orton responded that there was not a drop in attendees, but there was a drop in exhibitors consistent with a general trend at dental association conferences across the nation.

Mr. Tatum asked whether the ADA had been provided incentives to book at HCC and whether any penalties were imposed on the ADA for moving an event to the Hilton. Ms. Orton responded that there was approximately \$1.5M in MMF funds that were provided to the ADA, inclusive of rent, and destination support. However, there were no penalties imposed or incentives rescinded for moving an event to the Hilton. Mr. Tatum said that although he supports city-wides with incentives when they use HCC, he is not a fan of supporting them when they do not use HCC because if hotels want to go after that business then they should go after it. He said that he would like to go through HCC's processes for when events fall through the way they did with the ADA.

Ms. Orton continued her presentation with an update on food and beverage. For November, HCC posted \$873,000 with a net income of \$329,700. That represents a 38% flow through. She said the expectation is to end the year at \$8.8M in revenue. Ms. Orton updated the Board on HCC's return on investment ("ROI") to the State: for every dollar spent by HCC, approximately \$19.61 was returned back to the State.

Ms. Orton recognized Lee Conching to provide an update on sales and marketing initiatives. Mr. Conching stated that they closed approximately 90,000 room nights in December, and there are 28,000 more outstanding that they are trying to close by the end of 2018. He said that they anticipate ending above 200,000 room nights and close to their 232,000 goal. One of the major signings was the International Federation of Employee Benefits Plan, who signed for

2030 and 2035.

Mr. Conching said that in January, the team will attend a PCMA event, a meeting planners' event in Pittsburgh. That event will bring together from 4,000 to 5,000 meeting planners. In February, HCC will host its third Client Advisory Board meeting. The 2.5-day meeting is typically attended by about 12 Client Advisory Board members. HCC will also meet with general managers to update them with what is going on at HCC and provide feedback from clients. Client Advisory Board members are invited to the general managers meeting.

Ms. Hughes noted to Mr. Conching that the tentatives looked problematic, and she asked whether there was anything stacked up or if it was a realistic representation. Mr. Conching responded there were some items that still needed to be put on the list of tentatives, but that items are usually not added until they look 50% or more likely.

Ms. Hughes asked at what point the ADA cancelled the event that was moved to the Hilton. Ms. Orton responded that ADA cancelled about two months out.

Mr. Atkins asked how the 232,000 room night goal was formulated, and whether that goal was based on prior years. Ms. Orton described the process. First, they look for anything that is marked in the system as tentative with a 25% chance or greater to turn tentative or to select Hawai'i. Those tentatives are pulled out and they sit with each seller to get feedback on what the chance is of that group turning definite in the next year. Once they go through that list, they work with HTA on a stretch holdover. The 232,000 goal came from a few years back when the previous management pushed them to a goal that they could not really stand by with any data. Historically, they took the last four years that AEG was managing HCC and the four years prior when SMG was managing HCC to compare apples to apples. The sales team had not broken 200,000 room nights at that point and previous management had implemented 232,000 as a stretch goal. Year after year they have been going off of that number, but Ms. Orton said that, with the arrival of Ms. Hughes, she believes that that number should be revisited to produce something more realistic. She noted that this year they may break 200,000 so they need to look at what is on the books, get a feel for what could turn definite, and put a stretch goal on top of that.

Mr. Atkins asked what the actual numbers were for 2017. Ms. Orton responded that she did not have that data off hand but she would follow up and send him that information along with the historical data sheet. Chair Fried asked for clarification that the profit for food and beverage was in the 30s and 40s. Ms. Orton confirmed. Chair Fried said that any hotel would be thrilled to have that kind of flow through. Mr. Tatum asked what the flow through takes into account and she responded that it includes food costs and labor. Mr. Tatum noted that that number was impressive. Ms. Orton said that last year the number was even higher at about 50% because the more groups that are brought in the more HCC can leverage labor.

Chair Fried asked for an update on how HCC was doing with the recently acquired sport courts. Ms. Orton said that the courts were doing well, and nine tournaments are contracted next year. HCC is at a point that they are being selective on what they book so that they are not

cannibalizing registration. She discussed the success of the recent futsal tournament which drew teams from the Mainland, Asia, and Oceania.

Mr. Atkins asked whether HCC was getting good revenue from its kiosks during the sporting events. Ms. Orton replied affirmatively. She added that HCC asks the groups not bring outside refreshments and HCC lowers its prices during these events to drive up volume. They are also getting a better idea of what sells better depending on the type of sporting event. Mr. Tatum asked whether Ms. Orton does an analysis of these events to determine if they are worthwhile. Ms. Orton replied that she does.

Chair Fried asked Mr. Nakamura, head of the HCC Investigative Committee, to provide an update on HCC repairs. Mr. Nakamura said that his group is meeting with HCC staff and going over pending and major projects. One of the major projects is the roof repair. HCC has retained a consultant named Julian Anderson who was one of the original consultants when HCC was built. He is updating some of the prior studies that were done and will provide a report soon. He has recommended that the original waterproofing contractor be retained.

Mr. Arakawa asked whether, in hiring the consultant for the roof repair and the waterproofing consultant, there was an RFP for someone who might point out the mistakes of the original contractors. He clarified that he was asking whether they were looking for people who could point out the mistakes that were originally done or whether they were paying people who did the job that HCC is having problems with. Mr. Nakamura responded that he understood the concern and was not sure the extent that Julian Anderson was involved in the original construction. Ms. Orton said that Julian Anderson was not a part of the company that did the waterproofing but he was onboard with the design and construction team when HCC was being built so he has records and reports that another company might not have. He has also done several tests on the rooftop since then, so because he has the historical data, knowledge and reports that could be utilized throughout the process, they felt it was best to bring him back. His recommendation is to update a report that was conducted in 2012 and update costs to get a better idea of the current damage and the costs associated. A new report is anticipated in time for the January Board meeting.

Mr. Arakawa commented that HCC should consider in the future, when it does major structural renovations, to keep historical data, reports, and plans, so HCC does not have to keep the same contractors. Secondly, the report should include the areas where there were mistakes so that it does not happen again. Ms. Orton responded that the 2012 report was detailed in pointing out issues and Julian Anderson assessed whether there was additional damage since the 2012 report. He found some areas continued to leak so his recommendation was to bring that company back to update their report to current status, so estimates will be based on current damage to the building.

Mr. Atkins asked whether the 2012 report noted more structural concerns, design flaws, or wear and tear. Ms. Orton said that it was a mix of all of those.

9. Report of the Audit Standing Committee on the Financial Audit for Fiscal Year 2018

Chair Fried recognized Mr. Nakamura to report on the financial audit for FY 2018. Mr. Nakamura asked Mr. Togashi to provide a summary of the report and related documents. Mr. Togashi reported that the Audit Standing Committee met with the auditors, who provided their report and walked committee members through it. He said that the audit is a clean opinion, there was nothing significant or material to report to the committee, and the committee accepted the results of the report.

Mr. Nakamura reiterated Mr. Togashi's summary. Mr. Atkins asked Mr. Togashi to explain the Audit Standing Committee's discussion on one of the line items on the budget, "other post-employment benefits." Mr. Togashi explained that this item is the liability on the balance sheet for HTA's portion of the State's post-retirement costs, including medical insurance, dental, life insurance, and other things that come with the benefits of being a state employee. This year, GASB 75, a new accounting pronouncement, was implemented at the beginning of FY 2018 and it required HTA to recognize the full amount of its other pension liabilities. The measurement is computed by an actuarial study and the liability generated is provided to the State. The State then apportions certain amounts to certain departments. As the result of that implementation, HTA's liability increased.

Mr. Tatum asked if this was an annual assessment and analysis. Mr. Togashi responded that there is an annual assessment, and it is a rolling balance. Mr. Tatum asked if it is based on the number of employees. Mr. Togashi said that it is based on a number of factors including the number of employees, mortality rates, and salaries. Mr. Tatum asked if the liabilities of all the departments went up and Mr. Togashi responded that he was not sure.

Mr. Arakawa asked Mr. Togashi to explain how HTA handles setting aside this amount. Mr. Togashi said that HTA has been allocating funds on its balance sheet to be able to say that it is earmarking funds specifically to address this liability in the event that it gets called. It has earmarked funds out of its reserve, of approximately \$8.5M, for two types of liabilities: the pension and post-retirement liabilities. HTA has, in an effort to be prudent and conservative, earmarked funds specifically for this.

Mr. Atkins asked for confirmation that this amount comes from HTA's limited budget. Mr. Togashi responded that HTA does not take money outside of HTA's annual budget but it has been setting aside money at the end of every year. To the extent that HTA does not spend all of its funds, some of it is set aside for this purpose. In addition, as part of the amount paid annually as part of its fringe rate, the fringe rate also incorporates an amount that go towards being contributed to paying down the liability. Mr. Atkins asked whether there was a specific item on the fringe that goes to taking care of pension. Mr. Togashi said that they have seen a creep up of the fringe rate which has gone up from 20% to about 50%, to address the increase in employment cost and increases in this type of liability.

Mr. Regan provided his perspective as a former county employee, saying that this is not

something that would typically hit a paycheck as an employee. It is something that the department or agency would be responsible for, to set aside funds. Generally, the State is not asking for 100% of the obligation to be paid at any given time. Each agency is asked to set aside money every year to pay towards their obligation and it is prudent of HTA to set aside the money to be paid. In regards to the paychecks, employees would not see that creep up.

Mr. Atkins reiterated that the money is still coming out of HTA's budget, and if HTA is being prudent they need to set that aside. He asked whether HTA should consider this as it goes into the budget process. Mr. Regan said that if HTA can understand what its payment will need to be on an annual basis, it should be setting that payment aside. Mr. Arakawa said that as the obligation increases, next year's budget should take it into account.

10. Adjournment

Chair Fried thanked John Monahan for attending the Board meeting. He asked for a motion to adjourn the Board meeting. Mr. Kam made the motion and Ms. Menor-McNamara seconded the motion, which was approved by all Board members present.

The meeting was adjourned at 11:13 a.m.

Respectfully submitted



Janjeera Hall
Recorder