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Neil Abercrombie
Governor

Mike McCartney
President and Chief Executive Officer

REGULAR BOARD MEETING
HAWAIʻI TOURISM AUTHORITY
Thursday, August 15, Hawaiʻi Convention Center
1801 Kalākaua Avenue, Honolulu, Hawaiʻi 96815

MINUTES OF REGULAR BOARD MEETING

MEMBERS PRESENT: Ron Williams (Chair), Patricia Ewing (Vice Chair), Jack Corteway, Rick Fried, Victor Kimura, Michael Kobayashi, Aaron Salā, Lorrie Stone

MEMBERS NOT PRESENT: Kelvin Bloom, Patrick Fitzgerald, Craig Nakamura, David Rae

HTA STAFF PRESENT: Caroline Anderson, Lacianne Goshi, Jadie Goo, Doug Murdock, Daniel Nahoopii, Angela Rodriques, Mike Story, Marc Togashi, David Uchiyama, Kelii Wilson

LEGAL COUNSEL: Gregg Kinkley

1. Call to Order

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

2. Approval of Regular and Executive Minutes of Prior Board Meetings

A motion was made by Mr. Fried, and seconded by Ms. Ewing, to approve the minutes of the Regular Board meeting conducted on July 25, 2013. The motion was unanimously approved without any amendment or reservation.

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

Mr. Uchiyama referred to the CEO Report that was previously distributed electronically to Board members and hard copies were subsequently distributed at the meeting. The CEO Report included a narrative of actions conducted by the Staff to implement the HTA budget and marketing reports from the respective marketing contractors in each major market area. Mr. Uchiyama provided additional information related to the current situation at the Kona International Airport of not being authorized as a port of entry by the federal government.

Ms. Wilson reported on the Product Enrichment Program and that the Program was at the beginning of the request for proposals process. HTA is being assisted by the various counties and the Hawaii Community Foundation to implement the Program.

Mr. Story provided an update on the Pro Bowl game in 2014. He stated that the Pro Bowl Committee have been meeting to develop activities between the NFL and the community and to enhance attendance. In response to a question from Mr. Fried whether the NFL will do away with the Pro Bowl, Mr. Uchiyama stated the "new format" of the team captains selecting the players may help stimulate interest in the game.

Ms. Anderson provided an update of the Tourism Conference. She reported that approximately 725 attendees have been registered and this is the most ever registered. Mr. Uchiyama added that there will again be many interesting presentations, including a presentation on the "Meet Hawaii" program.

Mr. Corteway noted that the cruise industry is not currently a "big business" in Hawaii and asked whether we should be adding more resources to promote the cruise industry. Mr. Uchiyama responded that we should be adding more resources to the cruise industry because it will enhance Hawaii's market share and distribute more tourism dollars to the neighbor islands. Mr. Kimura added that the cruise industry provides a "floating inventory" for Hawaii. He suggested that staff provide a comparison of the inventory provided by the cruise industry versus the hotel industry.

Mr. Kimura also suggested that the Board should discuss the impact of the recent court rulings related to the imposition of taxes on the online travel companies (OTC).

4. Review of Recent and Upcoming Permitted Interactions

In response to a request from Mr. Murdock, no Board member reported any recent or upcoming permitted interaction with another member.

5. Election of Officers

Mr. Murdock reported that the HTA Bylaws requires the Chairperson and Vice Chairperson to serve one-year terms. Mr. Williams and Ms. Ewing were appointed as Chair and Vice Chairperson on August 22, 2012, respectively.

Ms. Stone made a motion to nominate and appoint Mr. Williams as the Chair of the HTA board for a term ending on June 30, 2014. Mr. Kimura seconded the motion, which was unanimously approved by all the board members present and without any reservations.

Mr. Kimura made a motion to nominate and appoint Ms. Ewing as Vice Chairperson of the HTA board for a term ending on June 30, 2014. Mr. Fried seconded the motion, which was unanimously approved.

6. Presentation, Discussion and Approval of Adjustment to Convention Center Budget

Mr. Togashi reported that the Office of the Lieutenant Governor desires to transfer $200,000 to the Tourism Special Fund for expenditures related to the planning and promotion of a Presidential Center at the convention center. He offered a recommendation to the Board for a motion to increase the Convention Center Enterprise Special Fund by $200,000 for the planning of a Presidential Center at the convention Center.

Ms. Ewing made a motion, which was seconded by Mr. Kobayashi, to accept and expend $200,000 deposited into the Convention Center Special Fund for the planning of the Presidential Center at the convention center.

Mr. Williams reported that a memorandum of understanding between the Lieutenant Governor's Office and HTA has been drafted to reflect the transfer of funds to the HTA. Mr. Murdock added that HTA would provide "oversight" of the funds being transferred and that a "Presidential Center Committee" would determine how the funds would be expended.

Ms. Ewing asked "why should the money come to the HTA"? She further inquired whether HTA would have input into directing the location of the Presidential Center and actively participating in the decisions of the Presidential Center Committee. Mr. Salā also inquired whether expenditure reports would be provided and noted that "if we become fiscally responsible, we become wholly responsible" for the expenditure of the funds.

Mr. Kimura also noted his questions related to the respective roles of the parties within the Presidential Center Committee, especially HTA's role in directing the use of the funds to pursue marketing opportunities. He suggested that consideration of the motion should be "tabled" until answers to the Board's questions have been addressed.

Ms. Stone stated that she had previously discussed the Presidential Center with the Chair of the Presidential Center Committee. She had questioned the "nexus" between the establishment of the Presidential Center and tourism. She expressed her understanding that the Presidential library may be located in Chicago and that the Presidential Center may be located in Hawaii. She concurred that the Chair of the Presidential Center Committee should attend the Board's next meeting and answer many of the questions being asked by the Board members.

Mr. Williams also concurred that the questions being asked by the Board needs to be addressed before it can determine whether to approve the motion. He also noted that the desire to defer any action on the motion at this time should not be interpreted as being against the Presidential Center. Mr. Kimura added that the Presidential Center is a "wonderful idea" but the Board would need to see the various representations in writing before it can decide the motion, especially since the Board would be responsible for the expenditure of funds.

Ms. Ewing made a motion, which was seconded by Mr. Kobayashi, to rescind the previous motion to accept and expend $200,000 deposited into the Convention Center Enterprise Special Fund for the planning of a Presidential Center at the convention center. The motion to rescind was unanimously approved without any reservations.

7. Approval of HTA's Financial Reports

Mr. Togashi referred to the written summary and financial statements for the month ending June 30, 2013 previously distributed to the Board.

The following financial statements covering the **HTA Special Fund** as of June 30, 2013 were distributed to the Board: Expenditure Statement-Prior Year Funds FY 2013 as of month ended 6/30/2013; Income Statement-Current Year Appropriation (Modified Cash Basis) FY 2013 as of month ended 6/30/2013; Budget Statement FY 2013 as of month ended 6/30/2013; Balance Sheet (Modified Cash Basis) FY 2013 as of month ended 6/30/2013; Schedule of Reserve Balance FY 2013 as of month ended 6/30/2013; and, Revenue-Actual vs. Forecast FY 2013, 34.2% or $71 million FY 2012/2013.

Mr. Togashi further distributed to the Board the following financial statements as of June 30, 2013, covering the **Convention Center Enterprise Special Fund:** Income Statement-Current Year Appropriation (Modified Cash Basis) FY 2013 as of month ended 6/30/2013; Budget Statement FY 2013 as of month ended 6/30/13; Balance Sheet (Modified Cash Basis) FY 2013 as of month ended 6/30/13; Revenue-Actual vs. Forecast FY 2013, 17.3% or $33 million; and, Rolling Forecast for the eight months ending 6/30/2013.

Mr. Togashi displayed various slides provided in a PowerPoint presentation entitled "Financial Statement Summary, As of June 30, 2013." During his presentation he discussed the Investment Asset Allocation of the funds deposited in the HTA Special Fund, Convention Center Fund, Emergency Trust Fund, and the Repair & Maintenance (SMG) Mutual Fund. He noted that the monies within the various funds were invested in Government Security Mutual Funds, US Government Agencies securities, US Treasury Obligations, and Cash and Money Market. In response to a question from Mr. Kimura, Mr. Togashi stated that the rating of all the securities were AA+. He further stated that at this time, there is an "unrealized loss." However, the HTA desires to hold the securities until maturity. Mr. Togashi discussed the various maturities within the period between FY 2014 and FY 2018 for monies in the HTA Special Fund, Convention Center Fund, and Emergency Fund. He noted that the Repair & Maintenance (SMG) mutual fund maintains a weighted maturity of 1 to 4 years.

Mr. Togashi discussed the HTA Tourism Special Fund financial position at the fiscal year 2013 year end. He stated that there was $42.6 million in cash and investments, which includes $5 million in the Emergency Trust Fund. There was also $29.6 million in encumbrances at the fiscal year end that includes $935,000 in prior year encumbrances not yet spent. He continued by discussing the amounts allocated to various reserve accounts and that the "True Reserve (To Fund FY 2015 Budget)" was $1,683,325. He also highlighted that the $71.7 million budget for FY 2013 was funded by $71 million in TAT revenues and $700,000 from reserves; that HTA was $2.6 million under budget; and, that approximately $600,000 of encumbrances from prior years were returned to the reserve account.

In response to a question from Mr. Kimura, Mr. Togashi stated that the monies currently deposited in the convention center emergency fund would be maintained in a new account when the contract with SMG terminates. Mr. Williams stated that this would be a good time to "re-look" at the various issues related to how the monies in the emergency fund are being "held and spent." Mr. Kimura requested a report on the "transition of funds" from SMG to HTA and the new contractor.

At this time, Mr. Togashi initiated a discussion of the Convention Center Enterprise Special Fund financial position at fiscal year 2013 year-end. He stated that the Special Fund maintained $11.6 million in cash and investments; that $12.9 million was maintained by SMG or the Department of Accounting and General Services for specific repair and maintenance projects, which includes $10.9 million already encumbered for projects and $2 million for emergency repairs; that there were $930,000 of receivables from convention center operations; and, that various amounts within a reserve account have been earmarked.

Mr. Togashi highlighted the following activities within FY 2013: that the $34.4 million budget (net of revenues) was funded by $33 million in TAT revenues and $1.4 million from the HTA Tourism Special Fund; that $600,000 was received in refunds on prior year SMG operations and investment income; and, that the $3 million convention center operating loss was $1 million was less than budget. He concluded that annually, the convention center brings in $500 million in visitor spending and that for every $1 spent for the convention center, $14 is returned to the State. The convention center also brings in $50 million in tax revenue and that for every $1 spent for the convention center, $1.40 is returned. The $34.4 million FY 2013 budget includes $26 million in debt paid to the Department of Accounting and General Services and that if this debt is eliminated, the "real cost" for the convention center is $8 million to $12 million annually depending on the repair and maintenance activity for each year.

Mr. Kimura made a motion, which was seconded by Mr. Salā, to approve HTA financial statements for the period ending June 30, 2013. The motion was unanimously approved without reservations.

The meeting was recessed at 10:40 a.m.
The meeting was reconvened at 10:51 a.m.

8. Presentation, Discussion and Approval of HTA Targets

Ms. Ewing made a motion, seconded by Mr. Kimura, to go into executive session pursuant to HRS sections 92-4 and 201B-4(8) for the purpose of discussing information that must be kept confidential to protect Hawai'i's competitive advantage as a visitor destination. In response to an inquiry from Deputy Attorney General Gregg Kinkley whether competitive sensitive information would be discussed in executive session, Mr. Uchiyama stated that he has received sensitive and competitive information from "travel partners" within Hawai'i's travel industry and that this information is reflected in the recommendations of the 2014 targets that he would be presenting to the Board in executive session. All members present unanimously approved the motion.

The meeting was recessed at 10:58 a.m. to allow the Board to meet in executive session. The meeting was reconvened at 11:33 a.m. (Ms. Stone left the meeting at this time.)

The Board met in executive session to discuss competitive sensitive information related to the HTA targets for 2014.

Mr. Uchiyama presented a PowerPoint presentation entitled "Target Presentation," which included a "Major Market Outlook" for 2014 within each major market and its respective targets for expenditures, per person per day spending, arrivals, length of stay, and total visitor days.

In regards to the US West, Mr. Uchiyama stated that the 2014 targets reflect continued route and seat adjustments based on demand; growth of "LLC" in major gateways will be "on the radar;" and, length of stay was adjusted to reflect the current visitors' "travel budget." He added that this market has the best distribution to the neighbor islands. In regards to the US East, Mr. Uchiyama stated that the 2014 targets reflect a need to strengthen air lift loads out of Washington DC and JFK to bring back frequency; a need to focus on increased air capacity growth out of the Mid-West; a need to enlist the Hawaiʻi tourism industry's help in developing packages to maintain or grow length of stay; and, a greater effort needs to be placed on distributing the US East visitors to the neighbor islands.

In regards to the Canada market, Mr. Uchiyama stated that the 2014 targets reflect seasonal increases of WestJet Service from Alberta and Vancouver; and, length of stay was adjusted to keep within the current visitors' travel budget. He added that we need to monitor the currency exchange rate.

In regards to the Japan market, Mr. Uchiyama stated that the 2014 targets reflect that "Abenomics" is starting to take hold and build confidence in the economy; improvements in air service and comfort in-flight on flights to Hawaiʻi will enhance bookings and competition among airlines; and, the "777s" being added by JAL will enhance seat growth. He added there needs to be continued emphasis on the neighbor islands to help improve the visitor distribution.

In regards to the China market, Mr. Uchiyama stated that the 2014 targets reflect growth in increased air service frequency out of Shanghai and Beijing; and, new HTA representation through Travel Link Marketing will contribute to greater penetration in China. He added that we would need to promote more Chinese visitors travel to the neighbor islands and to grow the MCI segment.

In regards to the Korea market, Mr. Uchiyama stated that the 2014 targets reflect efforts to draw from secondary cities, such as Busan, Jeonju, Daejon and Daegu; continued focus on programs and promotions highlighting neighbor island visits; and, aircraft and flight frequency would be adjusted based on demand. He added that we need to improve MCI business and capitalize on this market during the fall shoulder season with seasonal rates.

In regards to the Oceania market, Mr. Uchiyama stated that the 2014 targets reflect concern with the currency exchange; and, competition on several routes with new generation aircraft. He added that the seasonal pattern of this market makes it an ideal market to embrace and increased seat inventory creates MCI opportunity.

In regards to the European market, Mr. Uchiyama stated that the 2014 targets reflect continued growth in outbound business; favorable exchange rate; improved positioning of "Our Hawaiian Islands" with wholesalers; and, that new generation aircraft are becoming available especially for charter flights.

In regards to the Taiwan market, Mr. Uchiyama stated that the 2014 targets reflect that the VISA waiver and new air service are a "formula for growth;" a new HTA marketing organization will promote more travel; and, China Airlines will be using Taiwan as a gateway in its route structure.

In regards to the Latin America market, Mr. Uchiyama stated that the 2014 targets reflect that the connection through North America will have improved routing to Hawaiʻi; a new web page for Latin America will be developed on the gohawaii.com; and, new generation aircraft and airlines serving Latin America.

In summary, Mr. Uchiyama recommended approval of the following 2014 targets arising from the respective targets for each major market:

- Arrivals: 8,753,755
- Length of Stay: 9.08 days
- Per Person Per Day Spend: $202.57
- Total Expenditures: $16,100.3 Billion

Mr. Kimura made a motion, which was seconded by Mr. Salā, to approve the 2014 targets recommended by Mr. Uchiyama. The motion was unanimously approved without reservations.

9. Adjournment

Mr. Kimura made a motion, which was seconded by Ms. Ewing, to adjourn the meeting. The meeting was adjourned at 11:43 a.m.

Recorded:

/s/Winfred Pong

Winfred Pong
Recorder

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Governor

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SPECIAL BOARD MEETING
HAWAIʻI TOURISM AUTHORITY
Wednesday, August 21, Hawaiʻi Convention Center
1801 Kalākaua Avenue, Honolulu, Hawaiʻi 96815

MINUTES OF SPECIAL BOARD MEETING

MEMBERS PRESENT:	Ron Williams (Chair), Kelvin Bloom, Patrick Fitzgerald, Jack Corteway, Rick Fried, Victor Kimura, Michael Kobayashi, David Rae, Aaron Salā
MEMBERS NOT PRESENT:	Patricia Ewing, Craig Nakamura, Lorrie Stone
HTA STAFF PRESENT:	Doug Murdock, Daniel Nahoopii, Mike Story, Marc Togashi, David Uchiyama
LEGAL COUNSEL:	Gregg Kinkley
GUESTS:	Will Berchelmann, Brad Difiore, Ford Fuchigami, Chris Kam, Roy Takata

1. Call to Order

Presiding Officer Ron Williams called the meeting to order at 5:00 p.m. Mr. Salā offered a pule.

2. Presentation and Discussion on Airlift Trends Affecting Hawaiʻi

Mr. Uchiyama introduced Brad Difiore and Will Berchelmann, who are representatives from Ailevon, an air service consulting firm providing services to the HTA. Mr. Difiore provided a PowerPoint presentation entitled "Hawaiʻi Air Service Overview, August 2013." During his oral presentation of air service to Hawaiʻi, he discussed the Domestic Markets; a U.S. Carrier Overview; the Inter-Island Market; the International Markets, including Canada, Japan, China, South Korea, Taiwan, and Oceania; the Changing Dynamics and Changing Opportunities; and, findings or opinions on Moving Forward.

In regards to his discussion of the Domestic Markets, Mr. Difiore stated that the “U.S. domestic market is mature” and noted there will be little growth in 2013 and into the future; that bankruptcies and consolidation have reduced the number of carriers and hubs; that carrier revenues have been strong because of higher fares and new ancillary revenues; that the growth in low cost carriers have stagnated; and, that rising energy costs have continued to impact profitability, especially on the long-haul flights.

Mr. Difiore displayed various charts depicting growth or changes on a quarterly basis. He noted there was a correlating growth in both the mainland and interisland traffic; and, that the rising yields for the various airlines have been due to increased mainland capacity. As of the first quarter in 2013, the airlines have achieved a yield of approximately 10 cents per passenger per mile. But as fares have begun to drop due to lower demand, carriers have now started to reduce its capacity, especially on flights to Kauaʻi, the Hawaiʻi Island, and Maui.

Mr. Difiore continued his presentation by providing a “U.S. Carrier Overview.” During a discussion of Hawaiian Airlines, he noted that although its “vested interest” in the Hawaiʻi market “is an enormous advantage,” it has grown very rapidly by entering a “very diverse set of markets,” such as the international markets that other airlines would not have entered. However, United Airlines remains the dominant mainland carrier despite softening fares and lower yields have resulted in reduced capacity in the Washington-Dulles market.

In regards to Delta Airlines, Mr. Difiore noted the weakening yen and “falling yields” have resulted in reduced capacity. However, the Delta Airlines is committed to a “significant Asia-Hawaiʻi presence” and that its domestic outlook is “stable.”

In regards to the potential merger of American Airlines and U.S. Airways, Mr. Difiore stated that “nobody knows what will happen” to the newly merged airlines. However, there will be very little impact to the Hawaiʻi market whether the merger happens or not.

In regards to Alaska Airlines, Mr. Difiore noted that its growth has begun to stabilized after six years of capacity additions. He expressed the belief that further growth opportunities “are much more limited.”

In regards to Allegiant Airlines, Mr. Difiore discussed the Airline’s new business model of flying from smaller markets to Hawaiʻi and that it relies on “hunches” on where to fly from.

He stated that the Hawaiʻi market represents a “huge experiment” for Allegiant Airlines and it has recognized that it has “fallen down.” However, Allegiant Airlines is good for Hawaiʻi because it provides lower fares to Hawaiʻi and it will focus more on the Los Angeles market. Mr. Difiore recommended patience with Allegiant as it works towards increasing capacity.

Mr. Difiore discussed Southwest Airlines, Virgin America, and JetBlue Airways as potential new entrants into the Hawaiʻi market. In regards to Southwest Airlines, he noted a concern that if it enters the Hawaiʻi market, there may not be enough “visitor plant” to accommodate the additional passengers the Airlines would be bringing to Hawaiʻi. At this time, both Virgin America and JetBlue Airways do not large aircrafts that can fly to Hawaiʻi.

In response to an inquiry from Mr. McCartney, Mr. Difiore stated that “double aisle aircraft are old,” “are not profitable,” and “will not be used in the future.”

In response to an inquiry from Mr. Bloom regarding the various airlines’ “load factor,” Mr. Difiore stated that load factor is “not valued as a metric” as compared to an airline’s “yield.”

Mr. Difiore continued with his PowerPoint presentation by discussing the Inter-Island market. After identifying Hawaiian Airlines, Island Air, go!, and Mokulele as the current carriers serving the inter-island market, he noted that direct service to the mainland had contributed to inter-island travel weakness over the past years. Mr. Difiore stated that there has been a current slight upward trend in the inter-island capacity and as a result “fares have moderated a bit.” He also added that the previous “surge” in capacity to Maui “has stabilized” recently.

Mr. Difiore continued his presentation with a discussion of the air capacity from the international markets. He stated that the growth in international capacity “has been remarkable” and that Honolulu is now the 11th largest U.S. gateway in terms of seats. He further stated that the Canadian market has “absorbed the capacity well.”

In regards to the Japan market, Mr. Difiore noted that as the air capacity from the Japan market has increased, the yields for the various airlines have plummeted. Generally, an increase in capacity may result in a drop in a carrier’s yield. Among the seven airlines currently serving the Japan market, three airlines are “low end” carriers and they have created pricing concerns for the “larger airlines.” As a result, we may begin to see a reduction in capacity. Mr. Difiore also noted the following factors have a negative impact on yield for the Japan carriers: devaluation of the yen; additional air service being provided by Hawaiian Airlines; the entrance of Korean Air; and, JAL “aircraft upguage.” He also added that although the “Japan-Hawaiʻi market is a huge leisure market currently dominated by legacy-type airlines,” the lower fare carriers may enter the market.

In regards to the China market, Mr. Difiore stated that the market is beginning to “to takeoff.” He noted the increased flights by China Eastern and that Hawaiian Airlines begins service to Beijing in April 2014. He also expressed the belief that the China carriers compete primarily on “pride” and not market based. As a result, the yields for the China carriers have shown long-term growth.

In regards to the South Korean market, Mr. Difiore expressed the belief that the market “needs to mature.” Currently, revenue growth have not kept up with capacity. Capacity glut and attractive schedules have made Seoul a primary transit point for the China-Hawaiʻi market. He noted that there has been a drop in yield for the airlines as capacity increased.

In regards to the Taiwan market, Mr. Difiore stated that changes in the market “will be dramatic.” He expects Taiwan traffic to grow significantly with additional service by China Airlines and Hawaiian from Taipei.

Mr. Difiore discussed the Oceania market by noting major changes in the Australian market, such as additional flights being offered by Hawaiian Airlines and Jetstar. Although there is a large capacity in the market, the carriers have adjusted and yields have not significantly dropped. However, a recent weakness in yield is a concern. Similarly, since October 2012, the New Zealand market has experienced an increase in capacity but a drop in yield. Hawaiian Airlines and Air New Zealand will be directly competing in the market.

Mr. Difiore continued his PowerPoint presentation by discussing the changing dynamics and opportunities in air service. He discussed the following “Hawaiʻi Air Service Cycle”: rising lodging costs due to increase demand; less budget for air; lower demand/fares; airlines reduce capacity (“current danger zone”); fewer visitors; higher vacancy; lower room rates; more budget dollars available for air travel; increased demand/fares; airlines add capacity; and, a return to rising lodging costs.

He also discussed the following “risks” arising from increased demand caused by “hot growth in emerging markets coupled with the U.S. economic recovery: lodging inventory will not keeping pace with demand, especially in Waikiki; the casual North America visitor may be priced out; the yen devaluation may put long-term pressure on the traditional Japan market; the emerging markets in Korea, China, and Taiwan are young and unproven; competition from other markets in the Pacific are getting better; it has been difficult to transfer demand for travel to the neighbor islands, especially by the international travelers; various airport infrastructure issues and an inferior customs and immigration experience; and, economic growth in Australia is slowing.

(Mr. Kimura left the meeting.)

Mr. Difiore continued his presentation with a discussion of other dynamics and opportunities related to smaller and more efficient aircraft entering the market. He also noted that opportunities are focused on the Pacific Rim where the "biggest bang-for-the-buck" is greatest in markets that are "reachable nonstop."

Mr. Difiore concluded his PowerPoint presentation with a discussion of "Moving Forward." He stated that competition for air service is "global" and that many destination airports are either privately run or government sponsored. Air service development at the destination airports is now an expectation. However, the U.S. government mandates that all airlines must be treated equally and, consequently, airports cannot provide financial support for one airline and not others. Airports are now providing "fee waivers" and incentives, such as minimum revenue guarantees, marketing contributions, and ground handling. Foreign airports have been more aggressive. Generally, there is a need to reduce the costs an airline incurs at the Hawaiʻi airports.

Mr. Difiore summarized his presentation with the following: Hawaiian Airlines is digesting its rapid growth; mainland market growth has slowed but there are opportunities for new entrants over the next few years; rapid international growth and increased competition has led to more seats and falling yields; and, the most significant growth potential lies in the Asia/Pacific markets reachable by nonstop flights.

(Mr. Fried left the meeting.)

In response to a question from Mr. Fitzgerald, Mr. Difiore stated that international visitors are willing to spend for airfare.

In response to a question from Mr. Takata (Airports Division, Department of Transportation), Mr. Difiore stated that baggage fees are not included in the calculation of yields because it is a separate ancillary fee and not included in the fare.

Mr. Fuchigami (Airports Division, Department of Transportation) discussed a "competition plan" that indicates the Hawaiʻi airports have the capacity to handle all flights. However, on numerous occasions, the flights would all arrive at the same time. He continued by discussing issues with the federal government, such as the Kona International Airport being decommissioned as a port of entry. In regards to the Maui airport, we need an international certificate and an extended runway.

Mr. Williams asked “how patient will airlines be before they reduce capacity?” Mr. Difiore responded that airlines could reduce capacity very fast whenever yields drop but noted that Hawaiian Airlines would have a more difficult time to reduce capacity.

Mr. Williams asked why Hawaiian Airlines would not be a “more significant player in the inter-island market to keep other carriers out. “ Mr. Difiore responded that Hawaiian Airlines has maintained the “natural inter-island travel market” by managing its inventory so that they do not lose money. He noted “there is no market that is as short as the inter-island market.” Although inter-island fares have increased over the years, Hawaiian Airlines has shown “restraint” in a “noncompetitive market” as compared to other markets.

3. Presentation, Discussion and Approval of Adjustment to Convention Center Budget

(This agenda item was not discussed.)

4. Adjournment

Due to a potential lack of quorum, Mr. Kobayashi made a motion, which was seconded by Mr. Fitzgerald, to adjourn the meeting. The motion was unanimously approved and the meeting was adjourned at 6:50 p.m.

Recorded:

/s/Winfred Pong

Winfred Pong
Recorder