



**REGULAR BOARD MEETING  
HAWAII TOURISM AUTHORITY**

**March 29, 2012**

**Hawai'i Convention Center, Parking Level, Executive Board Room A  
1801 Kalākaua Avenue, Honolulu, Hawai'i 96815**

**MINUTES OF REGULAR BOARD MEETING**

<b>MEMBERS PRESENT:</b>	Ron Williams (Chair), Douglas Chang, Kelvin Bloom, Patricia Ewing, Patrick Fitzgerald, Mike Kobayashi, Craig Nakamura, Aaron Salā, Leon Yoshida
<b>MEMBERS NOT PRESENT:</b>	Cha Thompson, Sharon Weiner
<b>HTA STAFF PRESENT:</b>	Mike McCartney, Momi Akimseu, Caroline Anderson, Lynn Bautista, Cy Feng, Jadie Goo, Grace Lee, Daniel Nāho'opi'i, Winfred Pong, Roann Rakta, Angela Rodriguez, Michael Story, Marc Togashi, David Uchiyama, Keli'i Wilson
<b>GUESTS:</b>	Kainoa Danes, Joe Davis, Anna Elento-Sneed, Nelson Lau, Kristi Lefforge, Noelle Liew, Kimberly Miyoshi, Ross Murakami, Douglas Murdock
<b>LEGAL COUNSEL:</b>	Deputy Attorney General Gregg J. Kinkley

**1. Call to Order**

Presiding Officer Ron Williams called the meeting to order at 9:33 a.m.

Mr. McCartney introduced Mr. Kainoa Danes from the O'ahu Visitors Bureau, who offered a Pule.

Mr. Bloom made a motion to amend the agenda to add two (2) agenda items – the first item being an action to approve HTA Financial Reports for February 2012 and the second being an action to approve revised HTA Targets for CY 2013. The motion was seconded and unanimously approved without objection. Mr. Williams passed out a revised agenda to the board.

## **2. Approval of Minutes (February 23, 2012)**

Mr. Chang made a motion to approve the minutes of the meeting conducted on February 23, 2012. Ms. Ewing seconded the motion.

Mr. Bloom referenced the last paragraph of item no. 4 on page 7, where Mr. Williams commented about hotel rates going up and asked what that meant from an inflationary standpoint. He stated that he received the report, but did not see anything in it about a 2012 prediction, as mentioned by Mr. Nāho'opi'i at the last meeting. Mr. Nāho'opi'i explained that he made the request to Hospitality Advisors to send out the report, which contains an analysis for actual costs to the hotel – their impact versus their rates. Mr. Williams said that he was also looking for information regarding past and present rates and how they compare from an inflationary perspective. Mr. Nāho'opi'i said that Hospitality Advisors had not released the report yet, but once it is released publicly, the board will be provided with it as well. Mr. Nāho'opi'i added that the report also contains the costs previous to the recession and then adjusted costs before inflation, compared to the current rate.

The motion to approve the minutes of February 23, 2012 was unanimously approved without objection.

## **3. Presentation By KPMG of External Financial Audits of HTA for FY 2010 and FY 2011 and of the Hawai'i Convention Center for FY 2010 and FY 2011**

Mr. Togashi introduced Mr. Nelson Lau and Ms. Kimberly Miyoshi of KPMG, who presented the results of their external financial audits for the Hawai'i Tourism Authority and the Hawai'i Convention Center for FY 2010 and FY 2011.

Mr. Lau began his presentation by going over the audit summary and financial statement highlights as they relate to the HTA and the Hawai'i Convention Center (HCC). He explained that in the case of the Convention Center, a management agreement exists between the HTA and SMG, so the audit is based upon the requirements of that contract. He said that as they went through and performed the audit, they not only compared and focused on the financial statements to be sure that they were free of any material misstatements, they also read and took a look at all of the related financial statement disclosures to be sure that the amounts, methods, and how they are disclosed are consistent with the financial statements and the underlying agreement. He reported that there were no significant changes in any of the accounting policies, so there was no concern over any comparability relative to those amounts. He stated that as far as the conduct of the audit and any matters that may have come up during the course of it, management was very supportive of the effort and there were no issues relative to disagreements or situations for which the auditors did not find a sufficient amount of audit evidence in order to support their opinion.

Mr. Lau shared that an overall comment regarding the rendering of the auditor's opinion on the Convention Center found that they were fairly stated in accordance with their agreement between HTA and SMG.

Mr. Bloom made a reference to the F&B comparison between 2009 and 2011 on page 8 of the report. He said that they are similar as opposed to 2010, but in looking at a significant increase in rental income from 2009 to 2011, he said that he is trying to understand the relationship between flat F&B revenues between 2009 and 2011 and rental income that has gone up by approximately \$1.3 million and what the correlation or non-correlation is between those figures.

Mr. Joe Davis from HCC explained that there really is not a direct correlation between the number of attendees and rental revenues. He said that corporate business can occupy the ballroom only, and yet will yield in upwards of \$1 million in F&B, "so it really is a function of the profile of the group."

Mr. Lau continued with the presentation of the financial statements of the HTA. He stated that the financial statements are fairly stated for the years ended 2011 and 2010 and reported that no deficiencies were found in internal controls and no instances of non-compliance.

He stated that a significant amount of time was spent looking at the HTA's accrued post-employment costs. He explained that as people retire, there is an accrual that needs to be made associated with the benefits that recipients are afforded. He pointed out that it is a calculation that is done at the state level and unfortunately, that affects the timing of the audit. He said that until the statewide figures are complete, the audit cannot be completed. Mr. Lau stated again that the auditors had the full support of the management team and they did not encounter any points of disagreement.

Mr. Fitzgerald asked what the difference would be between the charges for services on the HTA balance sheet and the total revenues for the Convention Center, as they are not exact.

Mr. Lau replied that he thinks it has to do with a timing issue and the amount of remittances that come through from what is reflected on the Convention Center's books versus what is actually remitted back over to the HTA. He said that they dealt with the cash flow associated with what actually comes back and what is retained by the Convention Center itself.

Mr. Togashi added that HCC revenues that are picked up are on an accrual basis for HCC purposes, but for the purposes of the HTA's financial statements, it is based upon the funding mechanism, and the funding mechanism itself is on a cash basis, so that does result in a timing difference between what gets picked up on the HTA's financial statements versus what gets picked up on HCC's financial statements.

Mr. Chang referenced an item on the bottom of page 10 and requested more information on what the transfers represent and asked if the “Fiduciary Fund” that is mentioned is what is known to them as the Emergency Fund. Ms. Miyoshi confirmed that the reference to the “Fiduciary Fund” is the Emergency Fund.

Mr. Chang asked what the 2011 transfers represent. Mr. Togashi replied that the \$2.75 million transfer amount primarily represents transfers outside of the HTA. He explained that when internal transfers are made from the HTA to HCC, it gets netted, but that is not shown in the report. He explained further that the transfers in the report are the external transfers, outside of the HTA’s three (3) funds – the HTA Special Fund, the Convention Center Enterprise Special Fund (CCESF), and the Trust Fiduciary Account. He said that the \$2.75 million itself represents \$2 million that was transferred from the CCESF to the General Fund as a result of a law created by the Legislature and \$1 million was transferred to the Department of Land and Natural Resources, which was partially offset by approximately \$250,000 in funding that the received from the Office of Hawaiian Affairs for APEC.

Mr. Fitzgerald asked Mr. Togashi about the difference between the cash held by SMG and the cash and cash equivalents held by the Hawai’i Convention Center. Mr. Togashi replied that the cash held by SMG represents the Repair and Maintenance (R&M) funding that the HTA provides to SMG on an annual basis and that has accumulated over time. He said that as that amount accumulates and is not spent for one reason or another, that amount grows.

Ms. Ewing said that it is a liability to allow SMG to hold money that is listed as an asset on HTA’s Balance Sheet. She said that it seems that it should just “sit in one place” and be allocated out when it is needed. She asked if we want the contractor holding an asset that belongs to HTA.

Mr. Togashi said that the matter of who should hold the money has been a point of discussion in the past, but explained that the reason it is within SMG’s control is because in the event that the money needs to be disbursed immediately, it is within their control to do so. He said that some of the reasons why the R&M funding has gone up in the past is because there was a hold put on certain capital projects as the development of a master plan began and the recent transition by law to have the HCC undertake their capital projects through the Department of Accounting and General Services (DAGS) and as a result of that, the unspent cash balance increased. Mr. McCartney added that it is committed money to specific capital improvement projects.

Mr. Salā commented that he would like to “live with” the document for a while and asked if there would be an opportunity to ask questions at a later date. Mr. Williams replied that questions could go through Mr. Togashi, and Mr. Lau and Ms. Miyoshi would return to address any questions, if necessary.

Mr. Bloom commented that in discussion of both audits, the auditors referenced that a fair amount of time was spent reviewing the bad debt allowance. He asked about the outcome of those reviews, as he did not see it enumerated in either report summary.

Mr. Lau replied that it was found that those amounts were fairly stated. He said that they are always concerned for economic and collection reasons on whether or not any asset that was carried on the books are representative of what can be expected to be collected, so the focus is always on that because it is an area of significant judgment. He said that it is not clear cut unless the amounts are collected shortly after year-end and whether those amounts and the amounts that are carried on the balance sheets are collectible or not.

Mr. McCartney mentioned he is on other boards and when the auditor comes to present, the board has the opportunity to ask questions without the staff being present. He said that he thinks that it would be a good thing to do as a matter of practice going forward. He mentioned that perhaps the agenda would need to be amended.

Mr. Williams stated that he did not believe that an amendment to the agenda was necessary and that it was possible to go into executive session to do that. As advised by Mr. Kinkley, Mr. Williams stated that the purpose for going into executive session was to discuss personnel issues within the board that are confidential in nature.

Mr. Bloom made a motion to go into Executive Session at 10:09 a.m.  
The meeting was reconvened at 10:21 a.m.

Mr. Chang said that a previous audit made mention of an inordinate amount of journal entries that needed to be done to enable the auditors to reach their conclusion, but the auditors had also commented that it had gotten much better for this audit. He asked if there are there recommendations coming out of this audit that will be made to management on accounting as well as any controls that may or may not be in place to continue the improvement that they have seen.

Mr. Lau replied that activity will continue to be monitored, but at this point, the audit team was pleased with the improvement that had been made during the 2011 audit as it relates to the journal entries and did not feel it was warranted in order to repeat that observation.

## **5. Presentation of Visitor Data and Dashboards for February 2012**

Mr. Nāho'opi'i presented visitor data and dashboards for February 2012, which included revised dashboards that contained additional information on island distribution by various major market areas (MMA).

He reported that expenditures are up 11 percent Year to Date (YTD) for 2012, which brings us to \$2.44 billion for the first two (2) months. Total arrivals were up 6.7 percent, bringing us to just below 1.3 million visitors. He pointed out that it exceeds our statewide 2012

expenditures and arrivals targets; however, with regard to island distribution, we are slightly under in certain islands against the aggressive island targets that were set for this year.

Mr. Nāho'opi'i shared that for February 2012, expenditures were up 8.5 percent, which brings the total up to \$1 billion as of February. He explained that overall, higher daily spending contributed to this increase, along with more visitor arrivals, but he also pointed out that US West, US East, and Canada actually showed lower Per Person Per Day (PPPD) compared to the same time last February. He said that total arrivals in February were also up 5.6 percent, with one of the factors being the extra day in February. He said that when this happens, another statistic is used – the Average Daily Census - which is very similar to Occupancy Rate, which is the number of visitors on any given day.

Mr. Chang asked about the reference to Supplemental Business Expenditures. Mr. Nāho'opi'i explained that when the final report of Total Expenditures or Spending in the State of Hawai'i is done, supplemental business spending is included, which are things such as entertainment costs, shipping, rental costs that go into conventions, and meetings. He explained that from the economist's perspective, those are attributed specifically to tourism, but for our marketing purposes, those are not included because we do not estimate that, since it is mainly a matter of the MCI market. He said that our targets do not include the numbers for supplemental business.

Mr. Chang asked if these numbers are included when we report out. Mr. Nāho'opi'i replied that the numbers are added back in the final numbers at year-end, either in the annual research report or in the annual report to the Legislature. He added that the monthly highlights do not include the supplemental business numbers.

Mr. Nāho'opi'i explained the issue with the island distribution and how the numbers are lower than we want them to be, Maui and Kaua'i in particular, and Hawai'i Island is just below neutral. He said that one of the reasons has to do with less Japanese visitors. He explained that we had set a target that 17 percent of Japanese visitors should go to the island of Hawai'i but we are actually 3 percent down at 14 percent. He shared that for US West, we had wanted 38 percent and we are getting about 34 percent. We set a target of 53 percent for Canadian visitors, but right now, we are getting just under half at about 48 percent. He pointed out that these numbers are only for the first two (2) months. He said that we keep the same proportion for the whole year for targets, so things will catch up.

Mr. Fitzgerald commented that from a PR standpoint, it seems as if we are not being consistent. He said that "we are announcing this great thing and then all of a sudden when you look at every island, it's either flat or down." He said that he thinks we have to have some sort of statement that explains that difference.

Mr. Uchiyama replied that when we are reporting, we are referencing Year over Year (YOY) numbers. Mr. McCartney added that the targets are our goals and the YOY is how we are

doing. He agreed that we need to explain that to people so that there is no misunderstanding.

Mr. Nāho'opi'i reported that air seats were up 5.8 percent for February and up 4.4 percent for YTD. He pointed out that the only MMA where a decrease is still being seen is in the US East.

Mr. Bloom commented that a similar graph that showed just the U.S. versus International would look very different, compared to 2007. He said that the US would be down fairly significantly relative to 2007 and international would be up. Mr. Nāho'opi'i agreed.

Mr. Uchiyama asked if charters are included during the summer months. Mr. Nāho'opi'i replied that his report refers to just scheduled flights, but actual numbers include charter flights.

Mr. Nāho'opi'i shared that only the US East posted a loss in total visitor spending, while all the other MMAs posted gains. He explained that the loss in the US East was driven mainly by lower PPPD spending of 3 percent down. He also reported that for February, Moloka'i was the only island that posted any loss in total expenditures, while all the other islands had posted gains.

He said that once again, the highest growth is from lodging at 6.8 percent; F&B is up 5.8 percent; and shopping at 4.1 percent. He said that all of the four (4) largest MMAs – US West, US East, Canada, and Japan – showed an increase in F&B, particularly restaurant purchases. He said that lodging increases were driven mainly by the Japan market, but some increases were also seen in the US West and Canada. He reported that it was mainly the Japanese market that pushed up overall spending, with an increase of 6.4 percent over last year. He said that in terms of any cutback or restriction in spending, there was a scale back of entertainment and recreation purchases overall, which includes tours. Mr. Nāho'opi'i pointed out that transportation was also an issue. He said that North America markets purchased less transportation, mainly cutting back on inter-island transportation, while paying more for gas and parking. Gas and parking were definitely up for the first two (2) months of this year. He also said that Japanese visitors actually spent more on inter-island airfare and ground transportation costs went up.

He reported that for Meetings and Conventions, the total number of visitors in 2012 booking for conventions was actually down 12.6 percent; corporate meetings was down 10.6 percent; and incentives were down 25.3 percent, compared to a year ago; however, because there was some increase in January, when January and February are added up, we are actually up 2.5 percent overall for the same time last year.

He shared that ADR has jumped up into the over \$200 range and that growth continues to be very strong. He said that in comparison to other markets, our occupancy rate is higher than our US competitive set in terms of growth and that some of the other destinations in

Asia are showing losses in occupancy, compared to the same time last year. He said that in our US competitive set, we are actually higher in ADR for January than any of our other competitors in the US market.

The meeting was recessed at 10:53 a.m.

The meeting was reconvened at 11:01 a.m.

#### **4. Report of the Chief Executive Officer Relating to the Implementation of the State Tourism Plan Initiatives**

Mr. McCartney distributed an updated task list to the board and said that it reflects all of the follow-up by staff from the last board meeting.

He provided a quick summary on what is going on at the Legislature and some of the issues that are confronting us during this session. He reported that there is a 17.5 percent increase in YOY revenues, but said that in terms of the budget and what needs to be done, there is a significant challenge in balancing it in years 2014, 2015, and 2016. He said that "We'll be good for 2013," the reason being that there are a number of initiatives and tax issues that are going to sunset, so some of the incentives that got taken away will come back, which results in changes to the budget. He said that "money is tight," even though there is a lot of revenue coming in because there are a lot of obligations that exist. He shared that one of the biggest obligations out there is the unfunded liabilities that exist for the Health Fund and the Hawai'i Employers Retirement System. He said that liability is about \$500 million a year that needs to be made up and the operating budget is about \$5 million, so that is \$500 million over 20 years. He explained that he wanted to share that perspective with the board because while there may be reports that revenues are growing, by 17.5 percent, there are a lot of obligations out there. Mr. McCartney shared that there is one important bill that was put in by us through Senator Kim and it was right at the time that the President announced the Visa Waiver Program. He explained that we put together a program to say that if we want to leverage our opportunity in Asia, where our potential is, we need some extra dollars to take advantage of international marketing – not just in Asia, but around the world. He shared that Mr. Uchiyama put together some numbers and Key Performance Indicators for the Legislature to show what it would yield if we were given an additional \$2 million. He pointed out that this is the first time we have provided them with numbers and targets; we said that this is what we could do in each country, much like we did with our recovery plan for Japan and so far, it has been taken very favorably and the bill is now before the House Finance Committee. He said that this is our number one priority and we are hoping that we get that additional \$2 million, which would change our cap from \$69 million to \$71 million, provided that we use that money for international marketing and to increase arrivals, expenditures, and tax revenue from those destinations. Mr. McCartney reported that there is another bill that we have, which is to change the receipt of funds for the Convention Center to a fiscal year. He said that currently, we receive \$33 million, but sometimes we are not able to realize that in a year, but if receipt of that money is changed to a fiscal year, we will be able to realize the full



\$33 million. He explained that there are months that are high - such as October, November, and December – and we do not collect any money because we have already reached our cap. He explained further that if we are able to receive those funds on a fiscal year basis, we will be able to realize our cap and provide an accurate balance to the Legislature with regard to where our money is. He also shared that a provision was added to the bill asking that if there is additional money that is realized during the conversion, the HTA may use it for repair and maintenance of the Convention Center.

Mr. McCartney also mentioned that there is a resolution being looked at that is in line with what we are doing, which is looking at new baseline figures for the Convention Center. He explained that when the Convention Center was built, there were assumptions made on the original Environmental Impact Statement and he believes that now, we should be looking at new numbers to see what the yield could be, as well as considering alternative uses or private/public partnerships for possible revenue opportunities.

Mr. Yoshida asked if the \$2 million was initially for the Visa program. Mr. McCartney replied that the program was the initial trigger that created the excitement about the possibility of it opening up in countries in addition to China, such as Taiwan, so it is actually for all international markets. Mr. McCartney offered to provide board members with a copy of the worksheet that was given to the Senate that identified all the major markets, such as Australia, China, and Japan where we want to use that money to increase visitor arrivals and expenditures. Mr. Yoshida clarified that it does not have to be for the visa waiver program. Mr. McCartney confirmed his understanding.

Ms. Ewing asked if there has been any conversation yet about beginning the process of another statewide Tourism Strategic Plan (TSP), as the current one retires in 2015. Mr. McCartney said that no formal talks have taken place and said that as we go forward, collaboration needs to happen with the Administration, the House and Senate, and the industry and the community because that plan is going to need buy-in from multiple players.

Mr. McCartney asked Mr. Uchiyama to share a brief summary of his recent trip, where he and Ms. Rodriguez attended the Miami Cruise Conference. Mr. Uchiyama shared that they met with all of the cruise companies that have either serviced or ported in the islands and said that he thinks that huge opportunities exist. He said that there are a lot of similarities with what we first encountered with the airlines and some of the needs that they have. He shared that some very interesting things came up and “it’s a matter of communication between us and the cruise industry.” He also reported that he and Ms. Rodriguez attended meetings with all of the tour operators in North America and Canada and shared that everyone is doing fairly well. He said that concern is being expressed with regard to the increase in air fares. He said that he shared some information with them about things that are being developed in the area of airlift that will help stabilize airfares as we go into the year. He said that there is also concern over oil prices. He mentioned that he met one-on-one with Alaska Airlines and had a very good conversation with them. He said that the

airline has been very accommodating with regard to trying to align with the islands we feel need the additional support, so “nice increases are going to happen on the Big island and Kaua’i.”

He also shared some details regarding his meeting with representatives with the National Football League in New York. He “thinks we’re a long shot at this point for 2013,” but discussion on the game for 2014 is very active, so he expressed optimism over that. He reported that there is a lot of interest with the tour operators relative to what is happening at Waikī Beach with the beach restoration project. He shared that they felt that the communication effort and the specifics they were given were very helpful.

Mr. Uchiyama also provided some information on the debris from the Japan Tsunami hitting British Columbia and some objects floating that were of some concern. He said that we are keeping everyone updated on that because all of the markets are concerned about how that is going to affect Hawai’i and Hawai’i’s beaches.

Mr. Yoshida asked if there was any progress with the meeting between Japan Airlines (JAL) and go! Mokulele. Mr. Uchiyama replied that JAL sent two (2) crews to Hawai’i in February to evaluate go! Mokulele. He explained that go! Mokulele went through an entire revamping of their customer service, that included hiring Japanese-speaking staff and calling it “Premier Service,” which entails connecting with the customers at Customs and Immigration and getting them on a shuttle over to the commuter terminal. Mr. Uchiyama said that go! Mokulele has established interline agreements with Delta, China Airlines, and Alaska Airlines, and is in the final stages with JAL. He pointed out that because of that activity, Kintetsu has jumped on with go! Mokulele as well. He said that their seat capacity is ideal in relation to buses because it seats 50, so Kintetsu has chartered a flight. He said that JTB may be looking into doing that, which would allow them to do some customized things for the clients, which is different from what has been happening in interisland service.

Mr. Uchiyama also reported that discussions with Delta have been taking place to support us in a second port of entry into the State and having some kind of an alignment with the inter-island carriers so that routes have more value. He cited the Narita-Kona route as an example, saying that it could be sold as a Narita-Kona-Maui route. He said that he is very hopeful going forward. Mr. McCartney added that we are very focused on trying to keep Kona as a viable second port of entry for long-term growth and benefit for Hawai’i.

Mr. McCartney thanked Ms. Akimseu and Ms. Wilson for their efforts on the beach restoration project. He reported that weekly meetings are being conducted at the beach and that the project is being monitored. He shared that HTA also provided letters to all the hotels in impacted areas so that guests could be provided with an explanation of what is happening. He said that the letter expresses our appreciation for their patience and says that the beach is going to be better when this project is done. He mentioned that the letter was translated into multiple languages.

Mr. Chang mentioned of the CMI report that was submitted by the Hawai'i Visitors and Convention Bureau (HVCB) and cited page 2 of the February 2012 North America/MCI status report. He noted that in some cases, the 2012 targets are 10 percent lower than what we achieved in 2011. He said that he is wondering why our targets are set lower than what we achieved in 2011 in many of the metrics that we have related to this particular market.

Mr. Uchiyama replied that in going through the MCI assessment, all of the targets are being redone and established as recommended by the consultant from the Strategic Advisory Group (SAG). He said that a consolidated report for MCI, HVCB, and SMG in total is being worked on.

Mr. Chang asked about the basis of the KPIs with regard to performance in this new contract year. Mr. Uchiyama replied that those were established prior to actuals and they have not been revised because we are going through this new process to establish targets. He said that we have exceeded some of our targets, so the numbers needed to be bumped up.

Mr. Chang asked if it is achievable to focus less on the traditional metrics and move toward expenditure targets in this market and the Convention Center, which is what the focus is in our other markets. He acknowledged that Conversion is obviously still a critical one, but to focus on a higher spending, higher yielding business customer and strictly on room nights as well.

Mr. Chang asked Mr. Nāho'opi'i if he had data that details the different spending on incentives, conventions, and meetings. Mr. Nāho'opi'i replied that he has a break out of generalized spending at the state level for each of those segments.

**7. Presentation and/or Approval of Various Revised HTA Internal Management Policies**  
(This Agenda item was discussed out of order)

Mr. Bloom made a motion to approve the seven (7) revised Internal Management Policies that required further clarification from the board meeting conducted on February 23, 2012. Ms. Ewing seconded the motion.

Mr. Pong provided the board with an explanation of the changes made to each policy.

Policy no. 100-01, Board Structure and Mandate Policy. Mr. Pong said that the board wanted to add a provision that would allow the board to exclude from being members of the board, contractors with whom HTA would contract. He said that upon further consideration, it was determined that the proposed request was legal because only the state legislature and the governor can appoint members to the board and if the law authorizes contractors to be sitting on our board, then the board itself cannot say no

because of our policy. He advised that concerns could be expressed at the time when those names are being negotiated and they can be addressed through conflict of interest concerns. Given that, Mr. Pong reported that revision was not included in the current version of Policy no. 100-01.

Policy no. 100-06 incorporated the attendance policy that is already provided by statute and a direct reference to what the statute says is included that would require a board member who has failed to attend three (3) consecutive board meetings that have been duly noticed and because that board member did not attend, the board failed to obtain quorum to transact business, then that board member's term shall be immediately terminated or expire upon the determination of three (3) unexcused consecutive board meetings. Mr. Pong said that a question was raised as to what would constitute a valid excuse and offered that a valid excuse would apply a reasonableness standard of fairness under the circumstances and that would be a discretionary matter that would be reviewed by the Board Chair, which is also within the statute – that the Chair would make that determination. He said that we also offer a provision that a concern of an attendance problem that would occur that would then necessitate the Chair to discuss the matter with the absent board member when the director has two (2) unexcused absences or misses three (3) consecutive meetings for any reason or misses one third of the total number of board meetings in a one (1)-year period. He cautioned that the board itself does not have the authority to terminate a board member's term on its own, except for what is currently provided by law under 92-15.5, so this policy had to be “wrapped up” to what is authorized by law and with the understanding that the board itself, unlike private practice, can remove a board member only by operation of law.

Policy no. 100-03, Code of Conduct Policy. Mr. Pong explained that originally, Policy no. 100-03 was entitled, “Fiduciary Duties and Ethics in Public Contracting Policy,” but there was some confusion in the heading of it and that it attempted to encompass too many things. He said that the original version reflected the understanding that the Fiduciary Duties and Ethics in Public Contracting Policy was already adopted by the board in a previous board meeting and the original policy attempted to incorporate those previously adopted policies into Policy no. 100-03. He said that in lieu of that, the reference was taken out to the previously approved Fiduciary Duties and Ethics in Public Contracting Policy and made an understanding that those policies would be incorporated or adopted as a procedure for HTA to apply and not as a general policy matter. He explained that in Item no. 6, there was some confusion with the previous reference to, “all persons covered under this policy,” so that phrase was taken out and replaced with, “no director or employee shall take any official action directly affecting a business and be a private undertaking in which they were engaged as legal counsel or consultant.”

Policy no. 100-21: Fraud Response Policy. Mr. Pong said that in the original policy, the board asked the question within the policy that referenced the provision “Ethics in Public Contracting” and again, originally, there was an effort to incorporate into these policies that the board had previously approved as the Ethics in Public Contracting policy. He said

that those references have been deleted, so as not to confuse the broad parameters of the Fraud Response Policy that is currently reflected in Policy no. 100-21.

Policy no. 300-07. Mr. Pong explained that there was a question about why property value between \$1,000 and \$5,000 was not tagged. He said that the current version of the policy as noted on paragraph no. 3 does attempt to cover that, so that any assets which exceed \$1,000 are to be tagged and tracked on the Fixed Assets Register.

Policy no. 400-01. Mr. Pong pointed out that there was a reference to the Code of Conduct and Fiduciary Duty policy previously adopted by the board, which has now been taken out. He said that in its place now in paragraph no. 2, which is just a reference to Policy No. 100-03, "Code of Conduct" policy.

Policy no. 400-50. Mr. Pong stated that the board had asked a question about the HTA's budget being prepared on a fiscal or calendar year and inquired whether board approval of the fiscal year budget in June is too early. Mr. Pong clarified that the current version reflects that in item no. 1, the board will seek to have an operating budget for each fiscal year, which is July through June and no.2, the Authority's management shall use its best efforts to begin the discussion, or to submit a proposed operating budget to the board for the subsequent fiscal year by June of the current fiscal year. He explained that the thought there is to provide staff with an opportunity to present to the board, at the very least, its operating budget beginning July 1 of that fiscal year, which would be the General Administrative Expense and Personnel budget, as well as SMG's budget, which is also approved on a fiscal year. Mr. Pong said that there is also an understanding that staff can still come back and present a budget for Brand Management for the board's approval perhaps in July or August.

The motion was unanimously approved without objection.

**6. Action to Approve HTA's Financial Reports for January 2012**  
**Amended Agenda Item: Action to Approve HTA's Financial Reports for February 2012**  
(This Agenda item was discussed out of order)

Mr. Togashi presented the HTA's financial reports for January and February 2012. Mr. Togashi mentioned that at the recommendation of several board members, Mr. Williams, and Mr. McCartney, he prepared an executive summary of the financial statements. He said that his presentation today would primarily cover the executive summary.

He reported that total payments disbursed in the month of January were approximately \$775,000.00 from prior year funds and \$6.2 million out of current year funds. He said that we received \$49 million in TAT revenues through January, which is \$2.4 million greater than this time last year. He pointed out that we originally anticipated receiving the full amount of \$69 million by May of this year, but considering the strong economic and market conditions, we are anticipating receiving it by April, instead.

He reported that the CCESF is operating at a \$3.3 million loss through January out of a projected \$4.7 million loss. He mentioned that at the last meeting, he reported that the \$4.7 million operating loss for the fiscal year would increase due to various circumstances, the primary one being unforeseen electricity bill increases by \$100,000. He explained that a request was made for SMG to revisit the budget, so they were able to do so and pared that down to an estimated \$4.7 million loss, which is in line with the original budget amount.

He said that with regard to TAT Revenue for the Convention Center, we have received \$15.6 million YTD through January and that this is approximately \$1 million less than at this point in time last year, due primarily to the timing of when we hit that \$33 million cap.

Mr. Togashi reported that through February, there were \$4.7 million in prior year encumbrances that had not yet been spent, as compared with \$31 million at the beginning of the year. He said that total payments made during that month were \$400,000 from prior year funds, bringing us up to \$26 million YTD and approximately \$7.4 million funded by FY 2012 funds for the month, bringing us to \$22.4 million for the fiscal year. He said that for FY 2012, we have a \$75 million budget, of which \$71.6 million has been contracted or committed; there is approximately \$41.8 million in liquid assets and \$5 million in Trust in this Special Fund at the end of February; and a reserve of \$2.3 million that is unchanged from the prior month.

He said that we received approximately \$57.6 million out of the \$69 million forecast and that this amount is about \$3.5 million greater than at this point in time last year.

He shared that the operating loss for the CCESF through February is \$3.9 million out of the projected \$4.7 million for the year. He said that at the end of February, the fund has \$14.8 million in liquid assets that will be used primarily to fund upcoming bond payments that we'll be making at the end of the fiscal year.

He reported that we also have \$13.4 million in cash, which is either earmarked or for transfer to SMG, with SMG, or with DAGS that will go to funding the R&M projects. He pointed out that this is the amount that was discussed previously when the external auditors were here. He recalled a question with regard to the distinction between that and the amount that SMG is carrying on their books. He explained that of that \$13.4 million, \$2 million is reserved for emergencies and the remaining \$11.4 million is earmarked and encumbered toward R&M projects.

He said that the fund has \$8 million in reserve, earmarked for future operations as of the end of February and through February, we have received approximately \$20 million in TAT YTD, which is \$300,000 less than this point in time last year.

Mr. Chang said that the summary helps a lot and asked what the funding looks like for reserves and capital improvements as we look into future years for the Convention Center. He also asked if there was a 10 or 20-year plan in place.

Mr. Togashi replied that speaking to next year, the operating budget is currently being evaluated. He said that the loss is being projected to be a little bit more than this year's \$4.7 million and that we are looking at approximately \$5.8 million, instead. He said that SMG was asked to take a look at that, to see if there were ways in which it could be pared down. He shared that at the last meeting, Mr. Pong asked about what would be lost in terms of operations if the budget was pared down to x amount of dollars. Mr. Togashi said that the \$5.8 million projected loss for next year is primarily a result of tough economic times.

With regard to R&M funding, Mr. Togashi explained that because of the significant loss we are undertaking, there is not going to be much to fund R&M just out of that \$33 million. He explained that the way the \$33 million is apportioned, \$26.5 million of that is going out to bond and another \$6 million for loss, which brings us up to \$32 million, and then perhaps \$1 million for General and Administrative expenses and things such as insurance. He said that given all of those factors, there is not much room for R&M. He pointed out that other means are being considered to fund R&M. He said that Mr. McCartney alluded earlier to the possibility of excess funds as a result of the proposed change of TAT funding from a calendar year basis to a fiscal year basis. As a result of those funds, Mr. Togashi said that we will be able to put it to good use toward capital improvement projects, so if we are fortunate enough to receive the benefit of those funds, that will be our primary funding mechanism.

Mr. Togashi revealed that there is a 25-year master plan in place that is currently being developed. He said that it has gone through draft after draft, and is fine-tuned as things come up. He shared that we are currently in the process of reprioritizing that listing. He said that we have a one (1)-year plan in place; we do have an immediate priority needs plan in place; and beyond that, we have a 25-year plan in place that will be constantly evolving.

Mr. Williams asked about the jump in liquid assets from \$12 million in January to \$14.8 million in February. Mr. Togashi responded that the jump is due primarily to TAT revenue that's coming in. Mr. Williams asked if it was a timing issue. Mr. Togashi answered affirmatively.

Ms. Ewing made a motion to approve the financial reports for January and February 2012. Mr. Fitzgerald seconded the motion, which was unanimously approved without objection.

### **Amended Agenda Item: Action to Approve Revised Targets for 2012-2013**

Mr. Uchiyama presented revised targets for 2013, which were put together because of the RFP process. He pointed out the original 2013 targets, which were established and approved by the board on January 26, 2011 and the revised 2013 targets that were established in March of this year. He said that just from the expenditure standpoint, the original 2013 targets estimated that our expenditures would come in at \$13, 244,000,000. He explained that as we are already going to exceed that in 2012, there is a need to bump up the numbers. He said that these revised targets would be put into the RFP for North America/Canada, pending approval by the board.

Mr. Fitzgerald made a motion to approve the revised targets for 2013. Ms. Ewing seconded the motion, which was unanimously approved without objection.

### **8. Discussion Regarding the FY 2013 Budget Planning Process**

Mr. Pong said that Agenda item no. 8 serves as a placeholder for the board to engage in a discussion on how we are going to be developing the process for putting together our FY 2013 budget.

Mr. Pong said that he would provide the board with an action plan that the board adopted for the FY 2012 budget, which can be used as a reference for future discussion to demonstrate how the staff was expending its plans for FY 2012. He suggested that the board could review it and come back at subsequent board meetings to ask any questions, provide comments, or request any status report on any program that might be of interest as to its future and continued funding on its current level.

Mr. Pong explained that in February, staff took a first stab at providing some information for the development of a FY 2013 budget by having an interim program assessment of our FY 2012 budget, sharing with the board where the monies have been committed to date and how much money we have left over. He said at this board meeting, staff is beginning to request from the board, any thoughts as to how we should be proceeding so that we can begin to implement those goals or desires as we move forward, as well as to share the action plan for this current fiscal year.

He said that in April and May, what staff is proposing is to gather more facts on its current and proposed programs and that staff would be using this time to develop its budget, as well as to address any proposed budget policy priorities that the board members may want to present or discuss at this early stage.

He shared that approximately in June, staff will be presenting an FY 2013 Administrative budget of General and Administrative expenses. Also in June, he said that staff will be presenting the Convention Center budget for FY 2013. He said that during that month, Brand Management is going to continue its research to establish priorities to begin the



development of its budget, so that it can be in a position to better present a budget for approval.

He explained that for the month of July, Brand Management would continue to do its market research to determine where best to allocate funds. He also pointed out that around that time, we should also be awarding the contracts for North America Leisure and taking a look at the fixed-price contracts for our international contractors. He said that they are on a fixed-price basis for two (2) years, but there is a scenario where we can negotiate with them as we look at the market, to see where we may want to prioritize funding. He said that staff will probably have a better idea of how much money should be allocated to the various markets around July, all with the hope that in August, staff will be able to present to the board an FY 2013 budget that would cover the Brand Management expenditures with the operational side already having been previously approved in June.

Mr. Williams commented to Mr. Uchiyama that he recalled that we tried to hold out as long as possible last year regarding the brand management budget to ensure that we had real world data that was as up-to-date as possible.

Mr. Uchiyama replied that staff has just begun to map out the budget allocations, but in the approval process, there were certain line items such as the budgets for Administrative staff, the Convention Center, and Access that needed to be approved earlier. He explained further that in the RFP and the new international marketing contracts, some of the market allocations have already been agreed upon for 2012 and 2013, but as we have done in the past, there is a supplemental budget for those markets.

Mr. Williams asked if Mr. Uchiyama is comfortable with the "high level" timeline proposed by Mr. Pong. Mr. Uchiyama agreed and said that he thinks we will be able to put something on the table soon for everyone to start to work through.

The meeting was recessed to go into executive session at 12:17 p.m.  
The meeting was reconvened at 1:22 p.m.

#### 10. **Adjournment**

The meeting was adjourned at 1:23 p.m.

Recorded:



A handwritten signature in blue ink, reading "Mr. Bantist", is written above a horizontal line.