REGULAR BOARD MEETING
HAWAI'I TOURISM AUTHORITY
Thursday, May 30, 2013
Hawai'i Convention Center
1801 Kalākaua Avenue, Honolulu, Hawai'i 96815

MINUTES OF REGULAR BOARD MEETING

MEMBERS PRESENT: Ron Williams (Chair), Patricia Ewing, Kelvin Bloom, Jack Corteway, Patrick Fitzgerald, Rick Fried, Victor Kimura, Lorrie Stone, Craig Nakamura, Aaron Salā

MEMBERS NOT PRESENT: Michael Kobayashi, David Rae

HTA STAFF PRESENT: Mike McCartney, Lynn Bautista, Minh-Chau Chun, Jadie Goo, Brian Lynx, Doug Murdock, Angela Rodrigues, Mike Story, Marc Togashi, David Uchiyama, Kelii Wilson

GUEST: Corbett Kalama

LEGAL COUNSEL: (not present)

1. Call to Order

Presiding Officer Ron Williams called the meeting to order at 9:35 a.m. Mr. McCartney introduced Corbett Kalama, who provided his personal background while growing up within the Hawaiian culture. He expressed his appreciation to the HTA for its support of the community. Mr. Kalama offered an “aloha chant” using his ukulele to begin the meeting.

2. Approval of Regular and Executive Minutes of the April 25, 2013 Board Meeting

A motion was seconded to approve the minutes of the April 25, 2013 Board meeting and was unanimously approved without any amendment or reservation by any of the Board members present. Mr. Williams deferred consideration of the minutes for the executive session held on April 25, 2013.
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. Williams and Mr. McCartney discussed their respective observations and experiences during the blessing of the Hokulea voyaging canoe before it departs on a worldwide voyage partially funded by HTA. Mr. Williams noted that the Hokulea was a “gift” from Hawai‘i to the world and that it shows what Hawai‘i is all about.

Mr. McCartney discussed the visitor arrivals and expenditures data and noted that current levels remain “steady” and is built upon a “strong” foundation in 2012. Although the growth in 2013 may not be as “robust” in comparison to the previous year, the current level of arrivals and expenditures is at a “very good place” to continue supporting Hawai‘i’s economy.

Mr. McCartney continued with his report by discussing various “highlights” after the 2013 Legislative session. He stated that a copy of Legislative Highlights would be provided to the Board. He further added that he would be providing a list of the 25 most important projects that HTA would be working on “in the second, third, and fourth quarters.”

Mr. Fried asked if there was any new progress on additional international flights to Kona. Mr. McCartney responded that we are working on developing charters and meeting with the federal customs and border protection office to increase its airport staffing levels. Mr. Uchiyama discussed the potential additional direct flights that could be flying into the Kona International Airport but were blocked because the customs and border protection office would not allow a waiver of the required airport staffing. He hoped this issue would be resolved by winter when the charter flights using the new 787 planes are being scheduled. Hopefully, scheduled service would begin if the charter flights were successful.

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.

At this time, Mr. McCartney requested as part of his CEO Report for an opportunity to present a three-minute “rough cut” video that was produced with the intention of promoting Hawai‘i’s host culture and noting that “the stronger the host culture, the better the visitor will be.” The video will not be marketing collateral, but will be shared at
community meetings and "with friends." The video is an effort by HTA to promote tourism for Hawai‘i within our own community and not just in the various major markets. Mr. Sala discussed his notion of the visitor industry as being based on “reciprocation” and “sharing.” It is also based on an encounter between two cultures and there has been a mutual understanding of expectations.

5. Presentation and Discussion on Visitor Statistics

Ms. Chun provided a PowerPoint presentation of “Current Visitor Data” as of April 2013 dated May 30, 2013. She referred to a copy of the presentation that were included in the Board folder for this meeting and previously distributed to the Board members. Ms. Chun also referred for discussion the “HTA Key Performance Indicators Dashboard” that was also included in the Board folder previously distributed to Board members.

Ms. Chun noted the following overview of visitor data year to date: visitors contributed $42 million per day; there was a 6.3% increase in total visitor expenditures to $5 billion as compared to the target of $5.4 billion; and, arrivals were up 6.1% and is consistent with the target. She further noted the following for April 2013: there was a 1.8% increase in visitor expenditures to $1.1 billion; total arrivals 666,959 visitors and representing a 3.1% growth; that on a average day there were 193,853 visitors representing a 1.4% increase as compared to April 2012; and, daily spending was $191 per person which was unchanged from April 2012. Ms. Chun emphasized that the April 2013 visitor data was affected by a shift in the Easter vacation schedule. This year spring break was in the last week of March while the spring break last year was in the first week of April.

Ms. Chun discussed in further detail the year to date actual results as compared to projected for the key performance indicators related to arrivals, visitor spending, visitor days, daily spend, and airlift. She noted that actual arrivals were on pace to reach target and that daily expenditures decreased total expenditures because visitors had a shorter length of stay, especially by international visitors. Ms. Chun discussed airlift capacity to Hawai‘i and noted that total air seats for April 2013 increased 9.5% and that airlift from Oceania had increased significantly.

In regards to visitor arrivals, Ms. Chun noted that actual arrivals for April 2013 was below target but reflected a 3.2% growth year to date. The shoulder periods appear to be April-May and September-October. In regards to visitor expenditures, she noted that actual expenditures for April 2013 was also below target but reflected a consistent monthly growth as compared to 2012. Ms. Chun added that a weaker yen; fewer visitor
expenditures on "luxury packages;" and, a decline in shopping affected expenditures by Japan visitors. The highest growth in expenditures was for lodging (11.3%) and transportation (3%).

In regards to occupancy, Ms. Chun noted that for March 2013 the statewide occupancy was 79.1% and the average daily rate ("ADR") was an "all time high" of $236. As a result of the high ADR, there was an increase in condominium usage of 6.5%. She concluded her presentation by providing the January to April visitor data comparing actual to target for each major market area. She added that there was a significant increase in visitors from the meetings, conventions and incentive market ("MCI") due to four events being conducted at the HCC.

Mr. Kimura expressed the need for the new budget for fiscal year 2014 to address the "target issues." He asked that we should maintain a reference to the original targets in the visitor data presented to the Board to ensure accountability. He added that information should also be provided to explain why a target was adjusted and whether there was a reallocation of funds to increase or support "traffic" in a market. Mr. Uchiyama responded that "at times targets may be adjusted because of conditions in the market" and not in response to the reallocation of funds.

Mr. Corteway stated that "targets should never be revised." Instead, comments should be provided on why the targets were or were not achieved. Mr. Uchiyama responded that the use of revised targets is "common to the industry" to "get optimum productivity out of the marketing partners." Mr. Corteway initiated a discussion on a distinction between using the targets to manage the contractual requirements with a contractor as compared to using targets when being discussed with the Board on a monthly basis. He stated that the Board would be interested in looking at "variances in the original budget." Mr. Williams tabled further discussion on this matter until the Board discusses the agenda item regarding the HTA 2014 fiscal year budget at this meeting.

6. Presentation and Discussion on Airlift

Mr. Uchiyama provided a PowerPoint presentation of the current airline access capacity between Hawai‘i and its major markets. He initially noted the level of airlift access in 2006 "was a very good year" and that this level was "eclipsed in 2012 going into 2013." During his presentation, he noted that 500,000 air seats in 2006 and 2007 were "connected" to the support of NCL cruise ships in the Hawai‘i market at that time. In regards to domestic air seats, Mr. Uchiyama stated that he "was initially concerned" with the seat capacity on
flights originating in Oakland, San Jose and San Diego at the beginning of the year. He is now seeing in the second quarter a “slight deterioration” out of Oakland and San Jose while San Diego flights are “holding their own.” He expressed “concern” as the year progresses and will continue monitoring the flights from the East coast, especially the infrequency of flights from JFK and once a week service from Washington, D.C.

In regards to international air seats, Mr. Uchiyama discussed the current growth in air seats exceeding the previous peak years of 2006 and 2007. He added that the growth in the Japanese market continues with the addition of new origination points such as Sendai and new carriers such as Korean Air starting up its Narita/Honolulu service.

Mr. Uchiyama discussed the current airfares for flights in July 2013 between San Francisco and Honolulu as a “measuring stick.” He noted that in July the San Francisco flight would cost more than $1,000 but would drop to a little more than $500 in September and October during the shoulder season. In March 2013, airfares for flights from the West coast were in the $300 range. He expressed the view that this represents a “changing landscape.” He stated that airfare for flights from Washington, D.C. showed great fluctuations and “never really getting off the ground” despite “promotional fares in the market.”

Mr. Uchiyama continued his presentation with a discussion of international air seats during the second quarter and stated we will continue to see “tremendous growth.” However, he noted that the Fukuoka market remains a “big concern” by being “over served” by two carriers. In Korea, he stated that with four flights a day by three carriers there may be a “reduction in frequencies out of a couple of the carriers” and especially for midweek travel out of Inchon. For Shanghai, it is showing more growth with three flights but should be five flights a week. For Auckland, Hawaiian Airlines entry into the market has made competition “interesting to watch.” In summary, Mr. Uchiyama stated that we were very optimistic at the beginning of the year. However, with the reduction in “load factor” and the over saturation in seat inventory in certain markets, Mr. Uchiyama expressed the belief that airlines would be “making adjustments for the balance of the year.” Consequently, the current 2013 forecasts for total scheduled seats to Hawai‘i are being adjusted to reduce the level of yearly increase that was originally forecasted to 4.5%.

In response to a question from Mr. Fried, Mr. Uchiyama initiated a discussion on the various aircraft that would or could be flying to Hawai‘i, including whether the Honolulu International Airport runway and jet way could carry the daily load of the Air Bus 380.
Mr. Fitzgerald noted that when passengers missed a connecting flight to a neighbor island, they had a difficult time re-booking another flight. He asked whether Hawaiian Airlines would increase its interisland flights. Mr. Uchiyama responded that various major carriers have inquired about alternative interisland carriers such as Go! and Island Air. However, the service offered by these alternative interisland carriers remains a concern. In response to an additional question from Mr. Fitzgerald regarding how HTA could enhance air seats to Kona, Mr. Uchiyama discussed the various marketing initiatives currently being implemented by the marketing partners and by the Kona International Airport.

7. Approval of HTA’s Financial Reports

In response to a question asked at the last Board meeting held on April 25, 2013 whether the targets were adjusted when the FY 2013 HTA budget was revised to reallocate funds within the Business Destination Management and Signature Events category, Mr. Togashi reported that there were no changes to the targets.

Mr. Togashi began his presentation of the HTA financial statements for the month ending March 31, 2013 by referring to the written summary and financial statements contained in the Board folder for this meeting that was previously distributed to the Board members.

The following financial statements covering the HTA Special Fund as of March 31, 2013 were distributed to the Board and discussed by Mr. Togashi: Expenditure Statement-Prior Year Funds FY 2013 as of month ended 3/31/2013; Income Statement-Current Year Appropriation (Modified Cash Basis) FY 2013 as of month ended 3/31/2013; Budget Statement FY 2013 as of month ended 3/31/2013; Balance Sheet (Modified Cash Basis) FY 2013 as of month ended 3/31/2013; Schedule of Reserve Balance FY 2013 as of month ended 3/31/2013; and, Revenue-Actual vs. Forecast FY 2013, 34.2% or $71 million FY 2012/2013. He noted that as of May 31, 2013, $71.7 million was budgeted and of that amount approximately $64.7 million was either contracted or committed. He also added that the $71 million “cap” or limitation on HTA’s receipt of TAT revenues deposited into the Tourism Special Fund in FY 2013 was reached in March 2013.

Mr. Togashi further discussed the following financial statements previously distributed to the Board as of March 31, 2013, covering the Convention Center Enterprise Special Fund: Income Statement-Current Year Appropriation (Modified Cash Basis) FY 2013 as of month ended 3/31/2013; Budget Statement FY 2013 as of month ended 3/31/2013; Balance Sheet (Modified Cash Basis) FY 2013 as of month ended 3/31/13; Revenue-Actual vs. Forecast FY 2013, 17.3% or $33 million; and, Rolling Forecast for the eight months ending 3/31/2013.
Mr. Togashi noted that as of March 31, 2013, the convention center operating loss was approximately $400,000 less than budgeted. SMG is spending according to budget. He also added that the $33 million “cap” or limitation on HTA’s receipt of TAT revenues deposited into the Convention Center Enterprise Special Fund was reached in March 2013.

Mr. Togashi referred to a written Summary of Investments issued by the Bank of Hawai‘i for the period March 1-31, 2013. The Summary was included in the Board folder previously distributed to the Board members. He initiated a discussion of the various investments held by HTA through the Bank of Hawai‘i. In regards to the HTA Special Fund, approximately $35 million is currently invested in U.S. Treasury Obligations and U.S. Government Agencies securities. In regards to the Convention Center Enterprise Special Fund, approximately $2.4 million is invested in U.S. Government Agencies securities. In regards to the HTA Tourism Emergency Trust Fund, approximately $5 million is invested in U.S. Treasury Obligations and U.S. Government Agency securities. Mr. Togashi discussed the $10.7 million maintained by SMG for the repair and maintenance of the convention center that is also being invested.

Mr. Togashi reported that the various investments comply with the HTA Investment Policy dated March 29, 2012. (A copy of the HTA Investment Policy was included in the Board folder for this meeting and previously distributed to the Board members.) Finally, he discussed the various “investment yields” for each special fund. He stated that the “investment yields” were low for securities that are not short term but “go out” five years.

8. Presentation and Discussion on Administrative Committee

Mr. Murdock referred to a staff report in the Board folder for this meeting and was previously distributed to the Board. Pursuant to the HTA By-Laws, the Administrative Standing Committee customarily consists of the Chair, Vice-Chair and previous Chair. Due to the recent appointment of Ms. Ewing as the Vice-Chair, staff recommended that Ms. Ewing be appointed to the Administrative Standing Committee.

Mr. Bloom made a motion to approve the appointment of Ms. Ewing as a member of the Administrative Standing Committee. The motion was seconded by Mr. Kimura and was unanimously approved without any reservation by any of the Board members present.

The meeting was recessed at 11:18 a.m.
The meeting was reconvened at 11:38 a.m.

9. Presentation and Discussion of HTA Plans and the Fiscal Year 2014 Budget
Mr. Bloom made a motion to go into executive session pursuant to HRS section 92-4 for the purpose of discussing information that must be kept confidential to protect Hawai‘i’s competitive advantage as a visitor destination. Mr. Kimura seconded the motion, which was unanimously approved without any reservation by any of the Board members present.

The meeting was recessed at 11:43 a.m. to allow the Board to meet in executive session. The meeting was reconvened at 2:19 p.m.

The Board met in executive session to discuss competitive sensitive information related to the HTA Strategic Plan: 2013-2014; the Brand Sustainability & Execution Plan; the HTA Tourism Special Fund FY 2014 Budget; and, the Convention Center Enterprise Special Fund FY 2014 Budget.

10. Adjournment

The meeting was adjourned by consensus at 2:20 p.m.

Recorded (via audio tape recording):

[Signature]
Winfred Pong
Recorder