REGULAR BOARD MEETING
HAWAI’I TOURISM AUTHORITY
Thursday, July 25, 2013 Hawai’i Convention Center
1801 Kalākaua Avenue, Honolulu, Hawai’i 96815

MINUTES OF REGULAR BOARD MEETING

MEMBERS PRESENT: Ron Williams (Chair), Patricia Ewing, Patrick Fitzgerald, Rick Fried, Michael Kobayashi, Craig Nakamura, David Rae, Aaron Salā, Lorrie Stone

MEMBERS NOT PRESENT: Kelvin Bloom, Jack Corteway, Victor Kimura

HTA STAFF PRESENT: Mike McCartney, Caroline Anderson, Lacianne Goshi, Jadie Goo, Grace Lee, Brian Lynx, Daniel Nahoopii, Roann Rakta, Angela Rodrigues, Mike Story, Marc Togashi, David Uchiyama, Kelii Wilson, Winfred Pong (Recorder)

GUEST: Kihei Nahalea

LEGAL COUNSEL: Gregg Kinkley

1. Call to Order

Presiding Officer Ron Williams called the meeting to order at 9:48 a.m.

Mr. McCartney introduced Mr. Kihei Nahalea, who provided an oli. He spoke of his personal experiences to educate children about old Hawaii, especially in the field of Hawaiian music. His experiences provided him an opportunity to assist in the development of the “Kuleana Project.” He also showed a DVD consisting of a compilation of Hawaiian music artists singing “Kaulana Na Pua,” which was a protest song written by Ellen Prendergast after the provisional government in Hawaii issued a mandate to government officials to sign a loyalty oath.
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 and executive session conducted on June 27, 2013. The motion was unanimously approved without any amendment or reservation by any of the Board members present.

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. McCartney referred to the CEO Report that was previously distributed to the Board in a folder containing documents related to the agenda items for this Board meeting. The CEO Report included a narrative of actions conducted by Staff to implement the HTA budget and marketing reports from the respective marketing contractors in each major market area. He provided additional information related to the Tourism Conference on August 22-23, 2013.

Mr. McCartney distributed a document entitled “Cost of a Hawaii Vacation” and provided information covering the period 2012 and 2013 (to date) related to the cost of airfares and hotel room cost. He noted that the rising travel costs of a Hawaii vacation have outpaced growth in personal income over the past two years. There was a discussion of a possible “threshold” amount a visitor may want to spend on a Hawaii vacation. Staff is continuing to monitor and track this information.

Mr. McCartney subsequently provided a PowerPoint presentation entitled “Hawaii’s Competitive Advantage.” He discussed the market share of outbound travelers for various visitor destinations during the first quarter of 2013. Hawaii is behind Europe, Mexico and Caribbean, respectively. He discussed the various competitive factors related to Mexico and key U.S. city destinations and how other competitive destinations have adopted marketing logos that are very similar to the multi-colored brush stroke “Hawaii” logo. He added that Mexico has also implemented marketing campaigns very similar to those Hawaii has implemented in the past, such as the market saturation campaign in various U.S. cities. Mr. McCartney offered that as a result of competing destinations appearing to follow Hawai‘i’s lead in visitor destination marketing programs, it supports the rationale for HTA’s current exemption from the Hawai‘i Sunshine Law by authorizing HTA to discuss only competitive sensitive information in executive session until the need for confidentiality no long exists.
Mr. McCartney played a video developed by Mexico of a couple’s critical assessment of their Hawaii vacation. Mr. Rae asked why Hawaii would not similarly develop similar ads against other destinations being critical of Hawaii. Mr. Sala noted that the culture of Hawaii needs to be promoted and we are on the “right track” with the current marketing initiatives. Mr. Fried asked if the visitors to Mexico are spending more in Mexico than the visitors to Hawaii. Mr. Uchiyama responded that visitor spending in Mexico is greater because its market share is expanding. Mr. Williams added that the cruise ship industry in Mexico is another variable that makes the Hawaii destination different and less competitive.

Mr. McCartney presented a PowerPoint presentation entitled “Hawaii Convention Center, The New Era.” He discussed the historical costs and revenues arising from the operation of the convention center and the bond debt payments to the Department of Budget & Finance. He noted there is currently no specific bond issued specifically for the convention center. HTA is currently paying B & F on a “note” with 6% interest. The money collected by B & F is deemed to be “non-tax revenues” and deposited into the state’s general fund.

There was a discussion on the current competitive factors impacting the convention center arising from the recent construction of convention centers by other destinations and municipalities. Mr. McCartney presented a “3-step Plan” in response to the competition. The first step was to “Increase Revenue” through the generation of more room nights and events from the CMI segment under a marketing organizational structure called “Meet Hawaii.” The second step was to obtain a “New Leadership” for the operation and management of the convention center. He announced AEG Facilities as the new contractor for the operation and management of the convention center. The contract will run for five years from January 1, 2014 through December 31, 2018. The third step would be to develop new and enhanced uses for the convention center to increase use and revenues while reducing TAT revenue requirements. An “HCC Special Investigatory Committee” will be developing recommendations for new and enhanced uses and will be presenting them to the Board for approval in early 2014.

Ms. Stone asked how HTA would be able to change the future use of the convention center when HTA and AEG will be executing a contract to operate and manage the convention center under its current use. Mr. McCartney responded that a provision would be included in the contract with AEG authorizing HTA to implement plans for new and enhanced utilization of the convention center.
4. **Review of Recent and Upcoming Permitted Interactions**

Mr. Salā stated that on July 12, 2013, he met with Ms. Ewing in Kaua‘i to obtain information regarding tourism capacity issues. There were no discussion or commitment to vote on any matter pending decision-making by the Board.

5. **Approval of HTA’s Financial Reports**

Mr. Togashi summarized the HTA financial statements for the month ending May 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 May 30, 2013 were distributed to the Board and discussed by Mr. Togashi: Expenditure Statement-Prior Year Funds FY 2013 as of month ended 5/31/2013; Income Statement-Current Year Appropriation (Modified Cash Basis) FY 2013 as of month ended 5/31/2013; Budget Statement FY 2013 as of month ended 5/31/2013; Balance Sheet (Modified Cash Basis) FY 2013 as of month ended 5/31/2013; Schedule of Reserve Balance FY 2013 as of month ended 5/31/2013; and, Revenue-Actual vs. Forecast FY 2013, 34.2% or $71 million FY 2012/2013.

He stated that as of May 31, 2013, there was approximately $6 million less in cash because of the monthly expenditures in May and there were no TAT revenues deposited into the HTA Special Fund after reaching the “cap” for the 2013 fiscal year. He also noted that $71.7 million was budgeted and of that amount approximately $68.7 million was either contracted or committed.

Mr. Togashi further discussed the following financial statements previously distributed to the Board covering the **Convention Center Enterprise Special Fund** as of May 30, 2013: Income Statement-Current Year Appropriation (Modified Cash Basis) FY 2013 as of month ended 5/31/2013; Budget Statement FY 2013 as of month ended 5/31/2013; Balance Sheet (Modified Cash Basis) FY 2013 as of month ended 5/31/2013; Revenue-Actual vs. Forecast FY 2013, 17.3% or $33 million; and, Rolling Forecast for the eight months ending 5/31/2013.

Mr. Togashi noted that as of May 30, 2013, the amount of cash in the special fund decreased to approximately $11.2 million primarily due to the payment of $13.7 million
in expenditures related to the payment of interest on the debt obligation and to fund operations for the convention center. The Convention Center Enterprise Special Fund also received a deposit of approximately $1.4 million from the HTA Tourism Special Fund for convention sales and marketing and from receivables arising from convention center operations. He further noted that approximately $12.9 million is being maintained by SMG for repair and maintenance projects and of this amount approximately $10.9 million has been encumbered or budgeted for specific projects. The current operating loss of approximately $2.5 million was approximately $800,000 less than budgeted. SMG is spending according to budget.

In response to a request for confirmation by Mr. Williams, Mr. Togashi confirmed that plans have been developed for the expenditure of the entire $12.9 million currently being maintained by SMG for repair and maintenance projects at the convention center. Mr. Togashi further discussed how the SMG operating losses have decreased each year.

Mr. Fitzgerald made a motion to approve the HTA financial statements as of May 31, 2013. Mr. Kobayashi seconded the motion, which was unanimously approved without reservation by any of the Board members present.

The meeting was recessed at 10:47 a.m.
The meeting was reconvened at 10:57 a.m.

6. Presentation and Discussion on Visitor Statistics

Mr. Nahoopii initially noted the distribution for the Board’s consideration of the “HTA Key Performance Indicators Dashboard” dated June 2013. He also distributed a copy of a press release (HTA Release 13-23) dated July 25, 2013 and with the following headline: “Total Visitor Spending Rose 7 Percent While Arrivals Increased 5.5 Percent in June 2013.”

Mr. Nahoopii proceeded to provide a summary of a PowerPoint presentation entitled “Current Visitor Data, June 2013” (dated July 25, 2013). He provided a brief overview of visitor data to date by highlighting the following: for the first half of the year, total visitor expenditures rose 6.9% to $7.4 billion and arrivals were up 5.6% to 4.1 million visitors; that in June 2013, approximately $1.3 billion were spent by visitors; and, that an average of 220,717 visitors were in Hawai‘i each day, which represented a 4.5% increase in comparison to June 2012.
Mr. Nahoopii discussed the “Key Performance Indicators, Actual vs. Targets.” He noted that arrivals were below target and that a lower than expected daily spend and shorter length of stay resulted in lower total expenditures. He indicated that although the current to-date performance in 2013 compares favorably to 2012, we are still behind the “high” targets established by the HTA at the beginning of 2013.

Mr. Nahoopii discussed a chart depicting the “Island Distribution KPI, Actual vs. Targets.” He highlighted again that although there were favorable year-over-year results, we are behind the 2013 targets established at the beginning of the year. He noted that except for O‘ahu and Maui, the length of stay on the other islands have decreased and resulting in only a modest growth in visitor days.

A chart entitled “Total Seats (Scheduled + Charter)” was discussed by Mr. Nahoopii, who noted that total air seats for June 2013 increased by 8.3% due primarily to new service from Oceania and Other Asia traveling to O‘ahu. He subsequently presented and discussed data as of June 2013 from charts entitled “Monthly Visitor Arrivals (Air + Ship)”; “Total Average Daily Census”; and, “Monthly Visitor Expenditures (Air + Ship).” He similarly highlighted that although the June 2013 performances within the respective visitor indicators are below targets, the year-over-year performances remains favorable.

Mr. Nahoopii continued by discussing data on a chart entitled “2013 YTD Total Personal Daily Spending (Arrivals by Air).” He noted that expenditures related to lodging increased by 13% and that shopping expenditures decreased by 19% due primarily to a weaker yen and a shift to food and beverage expenditures by the Japan visitors.

Mr. Uchiyama initiated a discussion on the “visitor spending threshold” and how visitors, especially Japan visitors, are currently spending their money within that threshold. Mr. Williams stated visitors still have a “block of money to spend” and that it is interesting to see how they are currently spending their money. Mr. Uchiyama responded that visitors have been reducing their length of stay and/or “buying down” on the type of room.

Ms. Stone asked that if we are at “our threshold,” are we trying to market beyond our threshold or just staying within our threshold. Mr. Uchiyama responded that visitor expenditures remain our priority even after “adjusting” from a drop in visitor arrivals due to the “economic downturn.” He discussed the need to enhance business from the meetings, convention and incentive segment, especially during the period from 2016 to 2018 when the leisure segment may be adversely impacted by higher travel costs and reduced air service.
In response to a question from Ms. Stone regarding the “policy issues” the Board needs to address regarding the “threshold”, Mr. Uchiyama responded that although we need to find the higher spending visitor market that will improve visitor expenditures, we still must be mindful of the need to maintain the volume of visitor arrivals to protect air service to Hawai‘i. He further noted the need to selectively pursue the higher spending visitors from China and South East Asia. Finally, he emphasized the need to develop more tourism product experiences for our visitors that also benefit our community.

Mr. Fitzgerald expressed his anticipation that the average daily rate for hotel rooms will increase in the future because of the recent sale of various hotels. In response to a discussion of new ownership of Hawai‘i hotels, Mr. McCartney suggested the need for a discussion of career development within the tourism industry at the next Board meeting.

In response to an inquiry from Mr. Fried whether there have been further discussions on the homeless population in Waikiki, Mr. McCartney discussed his frequent meetings with the Mayor and county officials, hotel managers, state officials, and non-profit entities. He expressed his pleasure with the hard work, dedication and commitment within a working group and that the problem needs to be addressed on a statewide basis and not just in Waikiki. Much of the work being done by the working group is not being reported in the media.

In response to an inquiry from Mr. Williams, Mr. Uchiyama expressed his belief that the 2013 targets can still be achieved. However, he expressed concern whether the 2014 targets previously approved by the Board can be achieved and may have to be adjusted.

Mr. Uchiyama inquired whether Staff may adjust the 2014 targets based on a percentage increase over the actual and projected numerical data for 2013. Staff will utilize the same percentage increase from 2013 to 2014 as reflected in the numerical targets for 2013 and 2014 previously approve by the Board. Mr. Williams expressed the need for the Board to approve any adjustment to the 2014 targets since the numerical targets and percentage increases for 2013 and 2014 were previously approved by the Board as a “whole package.” Ms. Stone added that subject to the legal opinion by the Deputy Attorney General, any approval by the Board at this time may not be authorized under the agenda filed for this meeting.

In response to a request by Mr. Uchiyama for the Board to consider whether to adjust the 2014 targets before the Tourism Conference on August 22 and 23, Mr. Williams
expressed a desire to schedule the next Board meeting prior to the Tourism Conference. In preparation for the next Board meeting, Mr. Uchiyama hoped to provide the Board with actual 2012 data, the 2013 targets, the actual and projected 2013 data, various trend data, and the projected 2014 targets.

7. Adjournment

A motion made by Mr. Salā and seconded by Mr. Fitzgerald to adjourn was unanimously approved. The meeting was adjourned at 12:02 p.m.

Recorded:

/s/Winfred Pong
Winfred Pong
Recorder