



REGULAR BOARD MEETING
HAWAII TOURISM AUTHORITY
Thursday, December 19, 2013
Hawaii Convention Center, Executive Board Room
1801 Kalākaua Avenue, Honolulu, Hawaii 96815

MINUTES OF REGULAR BOARD MEETING

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| MEMBERS PRESENT: | Ron Williams (Chair), Patricia Ewing (Vice Chair), Patrick Fitzgerald, Rick Fried, Craig Nakamura, David Rae, Lorrie Stone |
| MEMBERS NOT PRESENT: | Kelvin Bloom, Jack Corteway, Victor Kimura, Michael Kobayashi, Aaron Salā |
| HTA STAFF PRESENT: | Caroline Anderson, Lynn Bautista, Grace Lee, Doug Murdock, Daniel Nahoopii, Marc Togashi, David Uchiyama, Vicky Wakai, Keli Wilson |
| LEGAL COUNSEL: | Gregg Kinkley |
| GUESTS: | Brad Gessner, Steve Joudi, Teri Orton, Representative Romy Cachola |

1. Call to Order

Presiding Officer Ron Williams called the meeting to order at 10:05 a.m. Ms. Keli recognized the many things we should be grateful for during the current holiday season and in that context she offered a pule.

10. Presentation and Discussion on State Auditor Report 2013

There were no objection to Mr. William's desire to discuss the State Auditor's Report at this time and out of the order of items listed on the agenda for today's Board meeting.

Mr. McCartney referred to the Legislative Auditor's Report No. 13-19, Audit of Major Contracts and Agreements of the Hawaii Tourism Authority ("Audit"). He offered his thoughts on the Audit from a "macro level." He stated that although he agrees with the Audit's findings related "to internal management issues," which he will use as a tool to "get better," he did not believe the Auditor's many inferences were "accurate" and that the Audit should not be used to define "who we are." He noted that the HTA went through difficult time periods when it needed to reassess the "time and energy" it was required to expend in response to immediate challenges. He referenced the years 2007 as "when things were going great" and 2008 as the beginning of very difficult and challenging economic conditions. When faced with these challenges, HTA needed to reorganize and reassess its priorities in a "new market."

Mr. McCartney stated that strategic decisions were made during the challenging economic time to "refocus our energy and address the down market." HTA reorganized itself internally and redrafted contracts to begin the process of staggering the termination dates of its various marketing contracts. There was a "conscious decision to address the market" by expending less time on internal affairs and more time on aligning its energy and time to develop and implement the HTA's Brand Sustainability Plan. Mr. McCartney expressed concern that the statutory process regarding the development of a tourism marketing plan, as provided in sections 201B-6 (a) and (b), Hawaii Revised Statutes, may not be consistent with actual practice. He identified the following "top three levels" of priorities for HTA: create jobs for Hawaii; ensure access to Hawaii; and, "to promote the Hawaii way of life."

Mr. Uchiyama expressed disagreements with various findings made in the Audit. In response to findings that various reports and the annual marketing plans were not available, Mr. Uchiyama stated that although the reports were not within a file folders, the reports and marketing plans were "on top of the file cabinets" containing the file folders and were available for inspection. He discussed the documentation related to the cooperative agreements. He noted that although these documents were not in a file folder, the documents were in three-ring binders on top of the file cabinets. Mr. Uchiyama further added that "everything is being cleaned up."

Mr. Murdock provided a PowerPoint presentation related to the Auditor's recommendation that the HTA Board of Directors should adopt and implement policies to ensure compliance with statutory requirements. Initially, he noted that the Auditor had reviewed HTA records as of 2012. However, the HTA Board had adopted 33 policies in 2012 and the HTA Staff had "signed" 44 procedures in 2013. He went online to the HTA's internal management website at <https://hta365sharepoint.com> and projected on the screen the various web pages with links to the "Board Policies" and "Staff Procedures." HTA will be reviewing its policies and procedures to determine whether any additional internal controls would need to be added as a result of the Auditor's recommendations.

In response to the Auditor's findings, Mr. Murdock noted that the HTA had adopted Policy 100-20, entitled "Policy and Procedures Management Policy," that mandated all HTA policies "should be aligned with the HTA Strategic Plan, as revised, and the Authority's duties and responsibilities as provided by HRS chapter 201B and other applicable law." In response to the Auditor's finding that there was no alignment with the strategic plan, Mr. Murdock referred to HTA Policy 100-22, entitled "Internal Controls Policy," that mandates the Board Chair and the President & CEO to assure that the goals and objectives as outlined in the HTA Strategic Plan are achieved. He also added that HTA would be implementing internal management procedures for staff to measure and evaluate the contractor's contract performance; ensure efficient, effective and productive contract management and administration; resolve contract disputes; and, ensure the proper closure of contracts. Mr. Murdock further referred to the Board's "Expenditure Policy" 300-04 and commented that required procedures are already in place to ensure that all expenditures are properly approved, authorized and substantiated by documentation before being processed for payment. Additional staff procedures will be drafted to provide specific requirements for deliverables and final reports before payment. He noted that HTA will need to draft additional policies or procedures for quality assurance, planning, research analysis, annual report, Act 100 Report, and compliance with HRS section 201B-6 (a) and (b).

Mr. Murdock discussed the "HTA Plan for Addressing Recommendations from State Auditor Report 2013." The plan identified the following "ten things we will do to ensure we improve" that were aligned to a specific "standard" and "assessment," and referenced a specific Auditor recommendation and the HTA staff member responsible for implementation:

1. Internal Audit: Audit contract records for compliance for all contracts still active in FY 2014;
2. Quality Assurance: Establish a formal quality assurance process with resources;
3. Training: Increase training on procedures, program management and contract management for brand managers and administrative assistants;
4. Record-Keeping System: Establish complete contract files in electronic recordkeeping system;
5. Policy Review: Review all contract and planning policies and procedures to implement audit recommendations;
6. Annual Report: Reformat Annual Report to report on HTA progress against HTA Strategic Plan and Act 100 requirements;
7. Statute: Recommend appropriate changes to HTA HRS 201B-6 and any others as needed;
8. Research: Improve capabilities of research division, and assign specific duties for evaluating HTA's performance;
9. Committee: Review the charter and scope of the Strategic Planning Investigative Committee to ensure it will address Audit concerns; and,

10. Performance Based Acquisition: Increase rigor in procurement planning process, including revising contract documents to include a Contract Deliverables List and performance based criteria.

Mr. Uchiyama stated that we “want to make sure we are identifying targets that make sense.” He added that “we don’t want to waste time” and we should “address what we truly need to do” by not being “reactive to the Auditor.” We should “focus on our priorities.” Mr. Nakamura expressed his appreciation for the work being done by staff and that he was “upset with the Auditor’s references” to the VP of Brand Management and supports his “good work.” There was a discussion of the HTA being understaffed to not only do the marketing work but to also address the numerous recommendations of the Auditor. Mr. Murdock reminded the Board of the need to stay within the 5% statutory budget “cap” on administrative expenses.

Mr. McCartney stated that the staff has been working very hard and has expressed a desire to learn. The current Brand Managers are new hires from the visitor industry and “in the market” to bring business to Hawai’i. They are not “contract managers.”

Ms. Stone stated that staff is “doing a great job” but asked, “where do we go from this point?” Mr. McCartney responded that HTA will use the Audit as a tool and referenced the ten-point plan to ensure that we will improve. The CEO Report will now include a report on the status of HTA’s performance to implement the ten-point plan. Ms. Stone added that we do not need to spend time to “argue with the Auditor,” but we must recognize that HTA is not a private entity and we need to “co-exist with government.” Ms. Stone further commented “we have come so far removed from the 2002 Audit.” Although the Auditor’s current recommendations seemed to be “circular” from its 2002 Audit, we need to be “proactive and prepare for the next audit.” Mr. Rae added that we need to be more proactive than the ten-point plan and that we need to speak to the Legislature.

Ms. Ewing noted that the Auditor seems to give an impression that there is a lack of transparency. However, she disagrees there is a lack of transparency because the information is available and the Auditor either did not find it or did not understand it. Mr. McCartney responded that we need to do a better job with communication. Mr. Rae commented that the Auditor appears to be looking for malfeasance but could not find it.

Mr. Williams stated that the work of HTA has continually improved since the last Audit and that he was “very proud” of the work that has been done. We must take the Audit with “good will” and he expressed confidence that “we will move forward” to address our “priorities for Hawai’i.”

2. Approval of Minutes of Prior Board Meetings

Mr. Fried made a motion, which was seconded by Mr. Fitzpatrick, to approve the minutes of the Regular Board Meeting held on October 31, 2013. The motion was unanimously approved without any amendment or objection.

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 in the Board folder previously distributed to the Board and containing documents related the agenda items for this meeting. The Board members did not have any questions or comments for Mr. McCartney regarding the CEO Report.

4. Review of Recent and Upcoming Permitted Interactions

In response to a request from Mr. Murdock, Mr. Williams reported that he and Mr. Nakamura attended a meeting with the Department of Land and Natural Resources regarding the use the Kanaha Beach Park on Maui by different users.

5. Presentation and Discussion on Hawai'i Convention Center Transition

Mr. Uchiyama introduced Brad Gessner, VP of Convention Centers AEG Facilities, who provided a PowerPoint presentation entitled, "AEG: Transition Update to the HTA." At this time, he introduced Teri Orton as the next General Manager of the Hawai'i Convention Center. Mr. Gessner stated that AEG broke its corporate model of hiring from a worldwide pool and instead focused on hiring locally. He noted that Ms. Orton was born, raised and worked in Hawai'i. Ms. Orton expressed appreciation for the opportunity to move the HCC forward and working with AEG and HTA to bring more conventions to Hawai'i.

Mr. Gessner continued with his PowerPoint presentation by discussing a timeline of steps it has taken to begin taking control of the HCC on January 1, 2014. He stated that AEG had reviewed current staff services and contracts with vendors; completed the new hire paper work to transfer SMG staff; partnered with Levy to provide food and beverage services at HCC; transferred the liquor license from SMG to AEG; integrated with the "Meet Hawai'i" marketing initiatives; audited the safety and security initiatives at HCC; taken steps to improve efforts for reducing electricity; assessed risk management; provided new hire training; and, initiated the network configuration for integrating the HCC with AEG's infrastructure. Mr. Gessner stated that the existing conditions at HCC "are good but could be better."

Mr. Joudi, Director of Global Support Services at AEG, discussed a proposed opening ceremony on January 2, 2014. He noted that a lot of work was being done and appreciated the work by HTA staff in assisting on the transition. Mr. Joudi and Mr. Gessner discussed the following next steps: attend the AEG Annual Meeting to network with convention center operators worldwide; develop a sales and marketing data base; introduce HCC to AEG global partnership team to hold events at HCC; implement a sustainability program to identify operational savings; develop and implement a security and safety audit program; and, implement a training program unique to the HCC.

Ms. Stone stated that the ownership and management of intellectual property “needs to be addressed.” Mr. Gessner responded that “software may be proprietary, but the information belongs to HTA.” Mr. McCartney stated that “the intellectual property is the State of Hawai’i’s property.”

8. Report of the Audit Standing Committee and Discussion and Approval of Audit

Mr. Togashi presented for consideration by the Board an Audit performed by KPMG of HTA as of June 30, 2013. Mr. Fitzgerald noted that the Audit Standing Committee has reviewed the Audit and met with the Auditors from KPMG. He stated that the Audit was a “clean report” and no issues were identified. He noted that during the Committee’s separate meeting with the Auditors and without Mr. Togashi being present, the Auditor noted “that staff was doing a good job.”

Mr. Fitzgerald made a motion, which was seconded by Ms. Ewing, to accept the Audit of HTA as of June 30, 2013. All the Board members present without any reservation and objection unanimously approved the motion.

At this time, Mr. McCartney recognized the presence of Representative Romy Cachola, who expressed a desire to work with the HTA on the Legislative Audit.

6. Presentation and Discussion on Third Quarter Marketing Contractor Performance

Mr. Uchiyama introduced Ms. Vicky Wakai as a new member of the HTA staff to work on the Japan market. He proceeded to discuss the status of the various marketing contractors’ performance on achieving its visitor targets in each major market area (MMA) by referring to any variance by a contractor to its marketing plan. In regards to the North America MMA, Mr. Uchiyama noted that additional funding was provided for new promotions and that travel and entertainment expenses had significantly increased. This increase was being discussed with the Hawai’i Visitors and Convention Bureau (HVCB).

In regards to the Japan MMA, Mr. Uchiyama expressed concern over the currency exchange rate, the increase in Japan taxes, and the raising cost of fuel. He had requested the contractor to provide a contingency plan if these concerns come to fruition. In regards to the Oceania MMA, Mr. Uchiyama noted that the Meeting, Convention and Incentive (MCI) segment is below target. In regards to the Korea market, Mr. Uchiyama stated that the targets in the year were not being met but that the year over year targets “look good.” He added that all “plan requirements are being met, but need to improve the MCI segment.” In regards to the China market, Mr. Uchiyama noted that the Chinese visitors are coming to O’ahu and not to the neighbor islands. He further noted that two additional flights would be flying between Hawai’i and China. In regards to the Europe market, Mr. Uchiyama discussed the need to promote more use of the online training program. Mr. Uchiyama discussed the Taiwan market and stated that the market is “well above previous year’s numbers.” Finally, Mr. Uchiyama discussed the “Meet Hawai’i” market and noted that staff is “cleansing” the list of “Tentatives” and “Current Tentatives,” which appear to be high. However, he stated that “overall we are doing well.”

Mr. Fitzgerald asked whether there were any “opportunities in 2014?” Mr. Uchiyama responded that although he was concerned with travel from the West coast, competition from Mexico, and the consumption tax and currency concerns in Japan, he believes there are “a lot of opportunities in Asia and that the MCI market has a lot of air seat capacity.” In response to a question whether there were tactical concerns with HVCB, Mr. Uchiyama stated that HVCB will be conducting more saturation programs and working with wholesalers.

7. Presentation and Discussion on Visitor Statistics

Mr. Nahoopii provided a PowerPoint presentation of “Current Visitor Data, October 2013, Updated,” and dated December 19, 2013. Initially, he provided an Overview of visitor data and highlighted a current trend reflecting a “slowdown” in hotel occupancy. In October 2013, occupancy rate was at 72.7% and reflected the sixth month of negative growth. Occupancy rate was 77.1% in 2013 year-to-date. Mr. Nahoopii noted that arrivals and spending were below targets due to weaker than anticipated performance in all markets except Europe. However, he expressed the belief that the various targets were set very high and especially for Japan.

Mr. Nahoopii continued his presentation by stating that all islands reflected year-over-year arrivals growth but “restrained performance against targets” because O’ahu is gaining from stays by international visitors. Expenditures are dropping because Japan visitors are not spending and North America visitors are spending less. Total air seats for October are up by 1.3% and will increase 5.5%

by the end of 2013. The larger markets have shown adjustments in air seats because of lower demand.

In regards to the average daily census, Mr. Nahoopii noted that there was a .9% decrease in October 2013 and that we are still having difficulty in filling the shoulder periods. In regards to expenditure categories, he noted the highest growth in expenditures was for lodging (+10.5%) while the expenditures for shopping (-21%) continued to fall. He expressed the belief that when the domestic market is paying higher lodging rates, other expenditure categories have dropped. It was noted that in October 2013, the average daily rate increased by 9.7% to \$209. Mr. Nahoopii concluded by discussing the actual visitor arrivals against targets in each market.

Mr. Uchiyama discussed the visitor data for top U.S. cities. He noted that only New York showed positive growth while San Francisco and San Jose had the steepest decline.

9. Approval of HTA's Financial Reports

Initially, Mr. Togashi reported that in response to a previous question asked by Mr. Kimura, the account receivable schedule for the HCC is eight to nine days. He subsequently presented the Financial Statements as of October 31, 2013 for the HTA Special Fund and the Convention Center Enterprise Special Fund. Mr. Togashi stated that there were "no anomalies to report."

Ms. Stone made a motion, which was seconded by Ms. Ewing, to approve the financial statements as of October 31, 2013. All the Board members present approved the motion without any reservation or objection.

At this time, Mr. McCartney distributed a 2014 calendar indicating the various dates for future Board meetings. With a few exceptions, the last Thursday of each month was being proposed as tentative dates for Board meetings in 2014.

11. Adjournment

Upon a motion made by Mr. Fitzgerald and seconded by Ms. Stone to adjourn the meeting that was unanimously approved, Mr. Williams adjourned the meeting at 12:20 p.m.

Recorded:

/s/Winfred Pong
Winfred Pong