



**REGULAR BOARD MEETING  
HAWAII TOURISM AUTHORITY  
Thursday, October 2, 2014  
Hawaii Convention Center  
1801 Kalakaua Avenue, Honolulu, Hawaii 96815**

**MINUTES OF REGULAR BOARD MEETING**

<b>MEMBERS PRESENT:</b>	Aaron Salā (Chair), Jack Corteway, Sean Dee, Donna Domingo, Rick Fried, Denise Hayashi Yamaguchi, David Rae
<b>MEMBERS NOT PRESENT:</b>	Craig Nakamura, Lorrie Stone
<b>HTA STAFF PRESENT:</b>	Jennifer Chun, Doug Murdock, Roann Rakta, Marc Togashi, David Uchiyama
<b>DEPUTY ATTORNEY GENERAL:</b>	Gregg Kinkley
<b>GUEST:</b>	Kihei Nahele-a

**1. Call to Order**

Mr. Salā called the meeting to order at 9:51 a.m. He introduced Mr. Kihe Nahale-a of Kuleana Na Pua to open the meeting with a presentation of Project Kuleana. Mr. Nahele-a presented a video produced by Kuleana Na Pua and its efforts to promote the Native Hawaiian culture and traditions and a sense of community through its music. He also presented a video of Native Hawaiian practitioners who seek to better manage our resources through sustainability.

Mr. Sala introduced and welcomed the three new board members recently appointed to HTA. He offered a lei to Sean Dee, Donna Domingo and Denise Hayashi Yamaguchi.

**2. Approval of Minutes of Prior Board Meetings**

Mr. Fried moved to approve the minutes of the regular board meeting conducted on August 21, 2014. Mr. Rae seconded the motion, which was unanimously approved without any revision or comment.

### **3. Report of the Chief Executive Officer Relating to the Implementation of the State Tourism Strategic Plan Initiatives and/or Staffs' Current Assessments of the HTA's Programs**

Mr. McCartney introduced Ross Higashi, Deputy Director of the Airports Division for the Hawaii Department of Transportation. Mr. Higashi provided a PowerPoint presentation entitled "Capital Program Update" (October 2, 2014). During his presentation, he noted the Hawaii Airports system is self-supporting by generating its own revenues through funds received from airlines (50%) and concessions (50%). The funds are primarily used to pay for operating expenses (75%) and debt service (25%). He further noted that the Airports System is a key driver to Hawaii's economy by serving as a gateway for overseas tourists and the primary mean for interisland travel. The Airport System also provides approximately 20,000 daily jobs at the Honolulu International Airport and the need to maintain and improve its aviation facilities generates additional construction jobs. After the economic downturn during the period 2007-2009, the number of enplaned passengers serviced by the Hawaii Airports System reached 16.3 million in fiscal year 2014.

In regards to its Capital Program, the Hawaii Airports System will undergo major renovation and improvements throughout its various facilities, including the Honolulu International Airport ("HNL") Modernization Program, the Kahului consolidated rental car facility, various statewide energy saving projects, Phase I of the Kona Terminal Modernization Program, and many other airfield and terminal projects, such as improvements to the existing Kahului runway. Mr. Higashi discussed the various projects under the HNL Modernization Program. One of the projects would be to expand the arrival traffic lanes at the interisland terminal so that it can accommodate the increased passengers deplaning wide-body aircrafts. The expansion of the airport mauka concourse will be a primary component of the HNL Modernization Program.

Mr. Higashi also discussed the construction of a HNL Consolidated Rental Car Facility, which when constructed would reduce traffic at the airport because rental car vans would not be driving within the airport. Customers would be charged a fee of \$4.50 to pay for the rental car facility. He also discussed the construction of a consolidated rental car facility at the Kahului Airport that would include a tram running between the airport and the rental car facility.

Mr. Higashi emphasized the implementation of various statewide energy conservation measures, which would reduce electricity consumption by 49% or an average of \$18 million per year. The energy savings would be used to complete deferred maintenance projects throughout the Airport System.

Mr. Higashi continued with a discussion of the modernization programs at the Kona International Airport, including the construction of a second level that will provide for a Federal Inspection Service ("FIS") facility. At this time, the Airports Division is seeking approval from the U.S. Customs and Border Protection agency ("CBP") to open an interim facility before the permanent facility is completed. The operations of a FIS facility at the Kona Airport is dependent upon the Hawaii Department of Transportation ("DOT") presenting a request from airlines expressing interest; obtaining a 5-year exemption from the CBP to operate from the existing facility; and, building a permanent FIS station to CBP standards. The new facility would be funded by a combination of revenue bonds, passenger facility charges, and cash, including \$50 million of grant funds from the Federal Aviation Administration. Mr. Higashi expressed the belief that DOT would be issuing bonds to fund a majority of the capital improvement program projects.

The cost for each passenger enplaned ("CPE") paid by airlines to Hawaii in comparison with other large hub airports was depicted on a chart. It indicated that the CPE for Honolulu International Airport was \$8.50 and the CPE for Washington Dulles exceeded \$25. However, the Hawai'i CPE is expected to increase to \$12 after implementation of the various modernization programs but would still be below many CPEs at many other peer airports.

In response to questions from Mr. Fried, Mr. Higashi responded that the consolidated rental facility at HNL is projected to be completed in 2016. DOT will be seeking an exemption from CBP to utilize Kona Airport next year as an international airport. He was "optimistic" and "hopeful" of getting the exemption. He also expressed the belief that visitors will use the rail system to go to Waikiki.

Mr. Uchiyama added there was no documentation that "de-certified" Kona airport as an international airport. Mr. McCartney noted the federal government expressed the concern that the Kona airport only had a "tent" as its international processing facility. Mr. Higashi added that DOT is looking at a permanent facility that may serve a dual purpose. Moreover, CBP is not willing to use federal funds to staff the processing facility at Kona airport but will pay for staff overtime. Mr. Uchiyama noted Japan Airlines used Kona airport as its "port of destination" in the past. If Kona airport were made available as an international port of entry, Japan Airlines would promote the airport as a "new product for arrivals and distribution to other islands."

Mr. Higashi discussed the "Automatic Passport Transportation System," which will be used to screen and process international visitors faster and save labor. However, visitors would still need to be "interviewed" by CBP. Mr. McCartney added that the wait time at HNL is still better in comparison to other airports.

In response to questions from Mr. Corteway, Mr. Higashi stated it would take approximately six years to complete the entire modernization program. The Maui

airport runway would be “extended through another runway so that planes will not fly over Spreckelsville.” The current plan is to just improve the current runway. Mr. Rae stated that although the airport cannot be expanded, we could provide “marketing support to air carriers.” Mr. Uchiyama concurred and added we also support the tour operators to fill air seats. Mr. Rae stated it is “money well spent.”

Mr. McCartney presented a PowerPoint presentation entitled “HTA Board Meeting Critical Path Agenda (October 2, 2014).” He discussed the following “Three Levels of Tourism”: Level 1-“Jobs and Money” that contributes to Hawai‘i’s economy through jobs, visitor expenditures supporting businesses, and tax revenues; Level 2-“Global Access” through an airport that is the 4<sup>th</sup> busiest in the world by providing visitors access to Hawai‘i and residents access to the world; and, Level 3-“Purpose” through the management of Hawai‘i’s brand that seeks to promote Hawai‘i and its Aloha spirit. Mr. McCartney discussed 2013 visitor data by noting the arrivals from various markets and the type of visitor accommodations.

Mr. McCartney continued his presentation by discussing the following “critical path” for HTA: “living our culture”; implementing the Tourism Strategic Plan; enhancing the Hawai‘i Convention Center; acquiring the “Turtle Bay Resort” easement; conducting an internal audit of HTA and improve its systems; enhancing Hawai‘i’s marketing momentum; and, promoting communication between HTA staff and the Board to develop a common understanding by utilizing a process for the Board to share with staff what it wants staff to “start” doing, “stop” doing, and “keep” doing. In regards to “living our culture,” Mr. McCartney noted the Hawai‘i State Constitution specifies Hawaiian and English are the official languages of Hawai‘i. He proposed that in the future, the minutes of the HTA Board meeting would be written in both the English and Hawaiian language.

He concluded his presentation by discussing “what are other destinations doing to compete with the Hawaiian Islands.” He noted how other competing destinations have been copying the multi-colored brush stroke “Hawai‘i” logo and the efforts by Mexico and the Caribbean to utilize the same marketing initiatives previously utilized by Hawai‘i. The “next steps” for Hawai‘i as a visitor destination requires that we need to invest in the destination by keeping Hawai‘i clean, safe, friendly, and provide quality service and experiences. What we “need to do in the next 5 years will affect the next 50,” such as the need to increase room inventory, diversify, refresh our product, make Kona airport an international airport, and seek authorization for pre-clearance and visa waiver for travel to Hawai‘i. He emphasized the need to recognize the following quote from Auntie Pilahi Pahi: “The world will turn to Hawai‘i as they search for world peace because Hawai‘i has the key...and that key is Aloha.”

Mr. Murdock discussed the staff initiatives to implement the Auditor’s recommendations. A “more capable accounting system” has been implemented to

better track the budget. The Board will have online access to HTA visitor data, resources, and budget. The annual report will be reformatted to be more compliant with what the Auditor wanted HTA to do. Additional “formal training” would be provided to staff.

Mr. Uchiyama discussed Hawai‘i’s efforts to enhance marketing momentum. Various RFP’s were issued for marketing in major market areas. New programs were implemented such as a Statewide Harbor Scheduling System that would seek to prevent two cruise ships to be in one port at the same time and adversely impacting the harbor and visitor infrastructure. An international social media contractor was hired and current technology will be utilized to promote Hawai‘i in the international market.

A Hawaiian Music Month will be promoted around May Day. An additional emphasis was placed on educating and training the workforce. A “rebuilt curriculum” for high school students has been developed with the Department of Education to obtain college credits. Efforts are continuing to expand inbound air service and origination points. We are “evolving our offerings” by promoting more activities, festivals and “products” for visitors to attend. New sports related events would also be promoted, such as rugby and youth volleyball. An “in-flight pre-arrival video” will also be developed.

In regards to airlift, Mr. Uchiyama noted that at the beginning of the year, he anticipated domestic seats to drop and international seats to increase. However, the current trend is for air seats to “move” into the domestic market. He anticipates more aircraft acquisition for the international market, which will continue to grow. Due to the growth in the international market, the airports have been burdened and therefore, opening Kona airport as an international airport is important. He noted that when numerous international flights are arriving at the same time, many visitors would miss connecting flights scheduled before 12 noon to the neighbor islands. The concern is that the international visitors would not be able to find available seats after 12 noon, if any, to the neighbor islands.

In regards to the meetings, conventions and incentive market (“MCI”), Mr. Uchiyama displayed a chart depicting the visitor arrivals over the past 10 years. He noted that when large meetings are conducted in Hawai‘i, it caused a significant “peak in visitor arrivals” for that year. Because these large meetings are booked on a cyclical basis, it portrays a “false sense of demand” that hotels would rely upon to increase its rates in the subsequent year. This has resulted in a “cyclical pattern for our industry” that “shows as we build business, we increase price and then the market drops, and when the market drops, we then drop price.” We need to break this cycle. The new MCI strategy is to combine the marketing efforts for the meetings market and the convention market.

Mr. Uchiyama proceeded to provide a “major market outlook” of the various markets by noting that we initially rely upon the 2013 historical data and then analyzes 2014 data to plan for 2015. The U.S. West is a good market but may have seasonal fluctuations to reduce seats. In the U.S. East market, Delta Airlines is moving into JFK and expanding seats but we need more flights from Chicago and Minneapolis. The Canadian market is stable due to new airlines entering the market.

In regards to the international market, Mr. Uchiyama stated we are “repurposing our creative work” done by the Hawai’i Visitors and Convention Bureau (“HVCB”) “so that the international contractors can use the work too.” We “must reposition” our marketing in Japan because the market has drop due to the consumption tax, yen to dollar exchange rate, and the reduction in air seats. However, low cost carriers are entering the market because of the good load factor. In the Korean market, Korean Airlines has increased flights from one flight to two flights a day and there are now four carriers serving the market. In regards to the China market, there are “more carriers entering the market than demand.” Therefore, we need to create demand. We are working on educating the China travel agents and tour operators “so that we can get conversion.” The Oceania market continues to grow with new flights and additional service. We are “able to now grow” the European market after a cut in funding. We are now providing more funding into the European market “with new aircraft and airlines interested in Honolulu International Airport.” It was noted that Alaska Airlines could be considering a 13-hour direct flight between Hawai’i and Oslo by flying over the polar cap. There is a hope China Airlines would be maintaining “frequency” in flights between Taiwan and Hawai’i. In regards to Latin America, Mr. Uchiyama did not fully recognize the impact of the World Cup on travel to Hawai’i. In summary, Mr. Uchiyama presented the 2015 key performance indicators previously approved by the Board.

The meeting was recessed at 12:06 p.m.

The meeting was reconvened at 12:15 p.m.

#### **4. Review of Recent and Upcoming Permitted Interactions**

Mr. Murdock discussed the legal requirements under the Sunshine Law regarding the prohibition of Board members to discuss Board business outside a duly noticed Board meeting. Board members are required to report any such discussion at the next duly noticed Board meeting.

Mr. Salā and Mr. Fried reported that they attended the Food & Wine Festival. It was reported that Mr. Corteway, Mr. Fried and Mr. Salā discussed the Audit and the need to get to know other Board members and socialize. They also discussed the tourism market.

Mr. Salā expressed a desire to have a “dynamic conversation by the Board” of what to “keep, stay and stop.” He asked the Board members to express their desire of “what they

want to do” or “what they would want to see.” Mr. Fried stated he would like to address the “homeless” problem because it affects tourists, especially the Japan market. Mr. McCartney will be providing Mr. Fried with notice of the next meeting of the Committee on Homelessness so that Mr. Fried may attend. Mr. Fried also expressed the need to “focus on what markets we need to spend money on.”

Mr. Rae asked how the visitor industry works with the community and other industries, such as the military. How can the HTA “facilitate the visitor industry and community to connect together?” Ms. Hayashi Yamaguchi stated that it is “good” we are promoting Hawaiian culture but we “need to do more.” As we enter the “smaller communities,” we need to do it in a “smart way” that recognizes “its impact on the local people.”

Mr. Corteway expressed the need to shift the HTA business model into a “corporate model” utilizing established policies and procedures used by a corporation, such as a succession plan. He noted that “80% of the Auditor’s report” reflect the lack of records and expressed the need for an internal auditor and that the external auditor should report directly to the Board. Mr. McCartney responded that the external auditor would be meeting with the Board. Ms. Domingo expressed the need for “accountability.” As a union representative, she would get information from workers who questioned where the Transient Accommodations Tax (“TAT”) revenues were going. The neighbor islands are also not benefiting from the TAT, especially the neighbor island youth. She emphasized it is the Aloha Spirit of Hawai’i’s people that support the industry. Mr. McCartney acknowledged the “great work of the union workers to grow the visitor industry.”

Mr. Dee also recognized the “value” of the visitor industry employees. We must “build to win” by growing and protecting the Hawai’i brand. HTA should lead the tourism industry and promote an understanding of “how the tourism tax is used.” We must also address the “barriers” for travel to Hawai’i. Mr. McCartney expressed the need for “collaboration.”

Mr. Salā noted that an evaluation of a program is provided to the Board “after the fact.” We also need to “empower” the events into larger events.

## **5. Presentation and Discussion on Visitor Statistics**

It was noted that the dashboards of key performance indicators were included in the Board folder containing documents related to the agenda items for this meeting.

Ms. Chun provided a PowerPoint presentation entitled “Current Visitor Data, August 2014.” She displayed charts depicting the following: visitor spending was up 2% year-over-year and all indicators are on pace with revised targets; although arrivals to O’ahu exceeded targets, arrivals to other islands are short of target; visitor days to Maui and Kauai are meeting targets; total expenditures remain the same as last year; increased daily spending compensated for a decrease in visitor days; seasonally adjusted expenditures are trending up; year to date personal daily spending have increased for lodging (+4%), food and

beverage (+2.1%), and attractions/entertainment (+5.2%); total air seats are trending up; average daily census are down 2.8% due to fewer arrivals and shorter length of stay especially in the international market; although monthly occupancy increased, the year-to-date average was still flat; and, hotel room rates are still climbing but the growth is slower.

In response to a request from Mr. Fried, Mr. McCartney stated that staff would make a presentation on the load factor and profitability of a specific air route. Mr. Uchiyama offered to make a presentation on the neighbor island routes. Mr. Fried also asked whether we could determine the amount of money a visitor would spend on airfare.

**8. Presentation, Discussion and Approval of HTA's Financial Reports** (This agenda item was taken out of order.)

Mr. Togashi acknowledged staff's support to implement the new electronic financial system. He discussed the purpose and funding amounts for the Tourism Special Fund and the Convention Center Enterprise Special Fund, including the respective current balances and major expenditures. He also provided a similar discussion of the Emergency Special Fund and the Turtle Bay Special Fund. Mr. McCartney added that the Tourism Special Fund could be used if authorized by the Board and Governor. Mr. Togashi noted that HTA maintains a reserve account for future expenditures totaling approximately \$10 million that could be used in FY 2015, including \$2.8 million for international marketing and additional funds for projected "health fund liability," accrued vacation, and outstanding product development contracts.

Mr. Togashi discussed the funding and major expenditures for the Convention Center Enterprise Special Fund and its current cash reserves for repair and maintenance and market flexibility fund commitments. In response to a question from Mr. Corteway, Mr. Togashi stated that the HTA is not forecasting a loss arising from convention center operations.

**7. Presentation and Discussion on Evaluation of Marketing Contractors** (This agenda item was taken out of order.)

Mr. Uchiyama referred to a document entitled "Second Quarter Contractor Review" that was included in the Board folder for consideration and discussion by the Board. He stated that every marketing contractor is "in alignment" with the marketing plan and budget. If a contractor was not in alignment, an explanation is provided in bold on the document.

**6. Appointment of Board Members to Committees**

Mr. Salā expressed the desire for Board members to initially have an opportunity to discuss issues they would like HTA to address. He would be reaching out to members through staff about Committee assignments.

**9. Adjournment**

Mr. Rae made a motion to adjourn that was seconded by Mr. Corteway. The motion was unanimously approved. The meeting was adjourned at 1:10 p.m.

Respectfully Submitted:

A rectangular box containing a handwritten signature in black ink. The signature is stylized and appears to read 'W. Pong'.

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Winfred Pong  
Recorder