REGULAR BOARD MEETING
HAWAI’I TOURISM AUTHORITY
Thursday, February 16, 2017
Hawai’i Convention Center
1801 Kalākaua Avenue, Honolulu, Hawai’i 96815

MINUTES OF REGULAR BOARD MEETING

MEMBERS PRESENT: Rick Fried (Chair), Fred Atkins, Sean P. Dee, Gerald De Mello, Donna Domingo, George Kam, Ku’uipo Kumukahi, Craig Nakamura, David Rae, Lorrie Stone, Denise Hayashi Yamaguchi

MEMBER NOT PRESENT: Jack Corteway

HTA STAFF PRESENT: George Szigeti, Marc Togashi, Leslie Dance, Daniel Nahoopii, Charlene Chan, Jadie Goo, Kalani Kaanaana, Caroline Anderson, Jennifer Chun, Lawrence Liu, Ronald Rodriguez, Chika Miyauchi, Carole Hagihara, Denise Kahalekulu, Minh-Chau Chun, Maile Caravalho, Iris Takamoto

GUESTS: Representative Richard Onishi, Hailama Farden, Mark Haley, Brad Gessner, Ryan Golpeo, Katherine Paynter Putnam, Cindy van Rensburg, Frank Abbinanti, Kevin Nakata, Teri Orton

LEGAL COUNSEL: Gregg Kinkley

1. Call to Order and Pule

Presiding Officer Rick Fried called the meeting to order at 9:32 a.m. Mr. Fried acknowledged Mr. Kaanaana, who introduced Mr. Farden to offer a pule. Mr. Farden proceeded to present a pule in Hawaiian.

Mr. Farden also noted that February was recognized as the Hawaiian Language month and presented a PowerPoint presentation entitled “Mahina Oleho Hawai’i.” Mr. Farden discussed the historical timeline for the development of the Hawaiian language beginning in 400 A.D. He
emphasized the printing of a newspaper in the Hawaiian language and that Hawaiians were recognized as the first native people determined to be “literate” beginning in the 1890’s. He also discussed the efforts of the Hawai‘i Department of Education and the Kamehameha Schools to promote Hawaiian language education. In 1978, Hawai‘i was the only State to have two official languages. He concluded by stating that although the Hawaiian language has gone through a period known as “revitalization,” it is now known as “normalization.”

Mr. Fried reported that at the next Board meeting, Mr. Randy Baldemor would provide a report on Access. Ms. Cheryl Kakazu-Park from the Office of Information Practices will also make a presentation.

2. Approval of the Minutes of the January 26, 2017 Board Meeting

Mr. Nakamura made a motion to approve the minutes of the Board meeting held on January 26, 2017. Mr. Atkins seconded the motion, which was unanimously approved by all the Board members present.

3. Review of Recent and Upcoming Permitted Interactions

There were no report of any permitted interactions between board members since the last Board meeting.

4. Report of the CEO Relating to HTA’s Programs

Mr. Szigeti referred to the Report of the CEO in the board meeting information packet previously distributed to the Board members online. He offered the following additional comments: that the Fed Cup on Maui “was amazing” with “30 million to 40 million viewers;” that Mr. Kaanaana represented Hawai‘i at the Mele Mei in Los Angeles; that Mr. Baldemor is attending the Routes Americas 2016 forum to seek additional air access to Hawai‘i; that although the January visitor statistics will be “very good” and he is “cautiously optimistic” of the current trend, it will be “very challenging next year;” and, that “we need to stay aggressive against a competitive global market.”

Mr. Atkins expressed appreciation to HTA staff for making a presentation on Maui regarding the Community Enrichment Program. He also expressed a need to get the request for proposals “out earlier” and that we need to either “keep it in house or let the counties do it.”

5. Discussion Regarding a Legislative Update of the 2017 Legislative Session

Mr. Fried acknowledged Ms. Chan, who referred to a written report entitled “Summary of 2017 Legislative Session Bill Tracking Efforts, February 16, 2017” that was included in the board’s information packet. She reported that HTA had submitted testimony opposing SB 1252, relating to the University of Hawai‘i, and SB 1290 relating to the transient accommodations tax. She also
referred to the report and noted the various legislative measures for which HTA will provide comments, have been monitoring, and have offered testimony.

In regards to SB 1290, Mr. Togashi responded to Mr. Dee’s inquiry regarding the museum of Hawaiian music and dance and the Tourism Special Fund account for safety and security by stating that the current funding for the museum is “not coming out of the Tourism Special Fund” and funding for safety and security is currently in HTA’s budget.

6. Discussion and Action to Establish a Marketing Committee

Mr. Fried acknowledged Ms. Dance, who recommended the establishment of a Marketing Standing Committee for the purpose of reviewing, evaluating, vetting and recommending marketing initiatives, programs, or activities presented by Staff to the Board. Mr. Fried concurred with a request from Mr. Dee that Board members could also present ideas to the Committee, including matters having a broader marketing oversight such as budget forecasting and review, industry stakeholder integration, and marketing strategies.

Ms. Kumukahi made a motion to establish a Marketing Standing Committee for the purpose of reviewing, evaluating, vetting and recommending marketing initiatives, programs, activities, and other matters having broad marketing oversight such as budget forecasting and review, industry stakeholder integration, and marketing strategies presented by Staff and members of the Board. Ms. Yamaguchi seconded the motion.

Mr. DeMello inquired whether the Board could instead establish an “advisory” committee. Mr. Kinkley discussed the statutory limitations under the Sunshine Law for board members to meet as an investigative or advisory committee and the legal requirements for board members when meeting as a standing committee.

Upon request by Mr. Fried to call for a vote on the motion, the Board unanimously approved the motion establishing the Marketing Standing Committee.

Mr. Fried advised the Board of his recommendation to appoint the following Board members to the Marketing Standing Committee: Mr. Dee as the Committee Chair, Mr. Kam, Mr. Atkins, Ms. Stone, Mr. Nakamura, and Ms. Yamaguchi. Mr. DeMello made a motion to appoint the Board members as recommended by Mr. Fried to the Marketing Standing Committee. Mr. Rae seconded the motion, which was unanimously approved without objection.

7. Discussion and Action to Adopt a Process for the Board to Approve Non-Budgeted Expenditures in Excess of $250,000

Mr. Fried acknowledged Mr. Togashi, who referred to a Staff Report related to this agenda item that also attached a proposed resolution entitled “Board Resolution No. 17-02, Resolution Requiring Board Approval of Expenditures in Excess of $250,000.” Mr. Togashi reported that Staff would be requesting approval of Board Resolution No. 17-02, which was developed by Staff as a
means of enhancing public transparency of its expenditures by requiring the Board to review, evaluate and approve various proposed expenditures in excess of $250,000 at a public meeting. The only exception to this requirement would be for expenditures related to airlift. However, Staff would be required to immediately report to the Board regarding any contract related to airlift in excess of $250,000. Mr. Togashi explained that negotiations with airlines are “dynamic” and require flexibility and immediate determinations to finalize negotiations that happen in “real time.”

Mr. Nakamura made a motion to approve Board Resolution No. 17-02, entitled “Resolution Requiring Board Approval of Expenditures in Excess of $250,000.”

Mr. Atkins requested a specific example of the type of airline negotiations that would not require prior board approval. Mr. Togashi responded that examples of airline negotiations are “confidential.” Mr. Fried added that negotiations with Kula Lumpur Airlines for flights to Hawai‘i are an example of an airline negotiation. He also added that the Resolution would require Staff to “promptly” present the new airline contract to the Board.

Upon a request by Mr. Fried for a vote, the motion to approve Board Resolution No. 17-02 was unanimously approved by the Board.

8. Presentation and Discussion of Alternative Accommodations Research Studies

Mr. Fried acknowledged Mr. Nahoopii, who presented a PowerPoint presentation entitled “Alternative Accommodations in Hawai‘i.” Initially, Mr. Nahoopii referred to the following studies his report relied upon: “Hawai‘i Home and Vacation Rental Market: Impact and Outlook” dated December 2016; “The Impact of Vacation Rental Units in Hawai‘i, 2016” by SMS Research & Marketing Services, Inc.; “2016 Visitor Plant Inventory, dated January 2017, by Kloninger & Sims Consulting; and, “Airbnb & Hawai‘i Housing, dated January 2017, by Ricky Cassidy.”

He stated that a definition of “alternative accommodations” is difficult and that it is “based upon consumer demand.” Based upon information that is “self-reported,” alternative accommodations consisting of bed & breakfast, rental housing, and private/shared room had accounted for 10% of all the various types of accommodations used by visitors. In addition to the alternative accommodations, the other types of accommodations include hotel, condo, timeshare, cruise ship, camp sites, hostels, friends and family. The hotels’ market share “only dropped 6 points from 2000.” Mr. Dee responded that “only a 6-point drop” is a “massive drop” for hotels.

Mr. Rae noted that occupancy may have gone up but the number of visitors may have gone down. In response to a question from Mr. Atkins, Mr. Nahoopii stated approximately 8,000 visitors self-reported that they booked through Airbnb and may be included in a category for “friends & family” accommodations.

In regards to visitor plant inventory for 2016, the following units were available to visitors: hotels (55%), condo/hotel (14%), timeshare (14%), vacation rentals (15%), other (2%). Mr. Nahoopii
noted that condo hotel units are always fluctuating because condos are “pooling out” when it may be easier to market the units online and directly to visitors.

Mr. Nahoopii presented another slide depicting the large discrepancy between the number of reported vacation rentals (12,189) and the estimated vacation rentals that are advertised (estimated at 20,000). Mr. Rae noted the possibility that many owners providing visitor accommodations are not paying the transient accommodations tax.

Mr. Nahoopii reported on the following findings: that home and vacation rentals is “well established,” especially when no new accommodations are being built; that when compared to hotel rates, there are price savings for staying in vacation rentals; that approximately 15% of the visitors staying at a vacation rental stated they would not travel if a vacation rental was not available because they liked staying at a vacation rental; that visitors would consider alternative accommodations if the average daily rate for hotels were above $239, especially on O‘ahu; and, that 38% of the visitors said they would repeat using an alternative accommodation.

In regards to the impact of vacation rentals on housing for Hawai‘i residents, Mr. Nahoopii reported only a very small percentage of residential units are made available to visitors and did not “greatly affect” the housing stock. His study also found that even with advertising there was a 42% occupancy rate at alternative accommodations. Homeowners providing alternative accommodations were motivated to rent their homes for the following reasons: to subsidize overall housing costs (60%); to meet and interact with unique people (21%); and, to rent between long-term leases (14%). The collected data was not conclusive enough to prove that rental rates assessed by alternative accommodations caused hotel room rates to increase. However, the rental rates are higher in resort areas. There was no correlation between hotel occupancy and rental rates. In response to a question from Mr. Fried, Mr. Nahoopii stated that data is also available on an island-by-island basis.

In regards to the impact of vacation rentals on the hotel industry, Mr. Nahoopii reported that less than 2% of visitors had booked an alternative accommodation because the hotels were sold out. Generally, visitors “just making a choice” to stay at alternative accommodations. He further added that the “home rental model” is “slowing down” because most homeowners do not want to rent out their homes again, especially new homeowners, because of the “hassles” and may rent out “infrequently.” Only about 12% of the homeowners are expected to offer their homes as a visitor accommodation in the future as compared to the current 9%. He also reported that the economic impact caused by visitors not coming to Hawai‘i because of the lack of alternative accommodations would be “far greater” than the non-realized hotel tax impact. Mr. Nahoopii presented a finding that hotels would lose approximately $138 million in revenues by visitors staying in alternative accommodations, while the State would lose $1.87 billion in visitor spending if no alternative accommodations were available.

Mr. Nahoopii concluded by stating that alternative accommodations “is not going away” and should be relied upon for planning purposes.
Mr. Dee referred to the “Airbnb & Hawai‘i Housing” study prepared by Rick Cassiday and expressed a need to address what accommodations are in the visitor plant inventory and what is being advertised as a visitor accommodation. We need to make sure what are legal accommodations and paying their fair share of taxes. Ms. Stone added that we should not “make any conclusion” based upon the studies being used and we need to do more work to get more accurate data. She inquired whether HTA or the Hawai‘i Department of Taxation (DoTAX) is doing a study on tax collections. Mr. Nahoopii responded that HTA has offered to help DoTAX with the study and has not yet received any response.

Mr. Nakamura requested visitor accommodations data on an island-by-island basis and the estimated amount of visitor accommodations categorized into type of accommodations.

Mr. Atkins asked if DoTAX knew the number of alternative accommodations, should DoTAX know the volume of tax not collected from illegal accommodations? Mr. Nahoopii responded that DoTAX would not know because tax payments do not identify the source of the accommodations.

Mr. Fried acknowledged Representative Onishi, who stated that the Legislature is currently considering legislative measures related to Airbnb and alternative accommodations that would require reporting by homeowners. He concurred that the laws currently do not require homeowners to identify each unit being used as a visitor accommodation unit. He also referred to a measure to give $1 million to the counties to enforce county zoning laws and noted higher tax rates for alternative accommodations.

Mr. Szigeti expressed a need for providing information regarding alternative accommodation to the tourism stakeholders so they can make decisions. Mr. Atkins asked whether HTA is taking a position on Airbnb at the Legislature. Mr. Szigeti responded that HTA is monitoring legislative measures and not taking a position.

The meeting was recessed at 11:02 a.m.
The meeting was reconvened at 11:16 a.m.

9. Presentation and Discussion of Market Insights and Current Market Conditions

Mr. Fried acknowledged Mr. Nahoopii, who presented a PowerPoint presentation entitled “Market Insights-December 2016.” He reported that for the 12 months of 2016, Hawai‘i’s tourism industry economy experienced $15.6 billion in visitor spending and was $635 million more than last year. The tourism industry generated $1.82 billion in state tax revenues. However, visitor expenditures adjusted for inflation reflected little growth since 2012 due to the high cost of living in Hawai‘i. Mr. Nahoopii provided a report on HTA’s key performance indicators for each major market for the 12-month period ending 2016.

In response to a question from Mr. Atkins regarding a drop in visitors arrivals, Mr. Nahoopii responded that airlines will not have large airlift capacity because there was already a large
increase in 2016. Fuel surcharge may also increase. It is also projected that growth in the meetings, conventions and incentive market in 2017 will not be large.

10. Presentation, Discussion and Approval of HTA’s Financial Reports

Mr. Fried acknowledged Mr. Togashi, who referred to the financial statements for the periods ending November 30, 2016 and December 31, 2016. The financial statements were previously distributed to the Board members as part of the information packet distributed online. Mr. Togashi noted that the financial statements for the period ending November 30, 2016 were also distributed to the Board at the last board meeting.

Mr. Nakamura made a motion to approve the financial statements for the periods ending November 30, 2016 and December 31, 2016. Ms. Stone seconded the motion, which was unanimously approved without objections.

11. Presentation by AEG Regarding an Update of Hawai‘i Convention Center Recent Activities

Mr. Fried acknowledged Ms. Orton and Mr. Gessner, Senior Vice President and General Manager for the Los Angeles Convention Center and AEG Facilities. Mr. Gessner compared the success of the Hawai‘i Convention Center with other convention centers. He noted that “less than 3% of convention centers operate in the black such as the Hawai‘i Convention Center” and that the Atlanta Convention Center receives a $12 million subsidy. He also noted a 49% “flow through” for food and beverage as compared to 29% for the LA Convention Center.

Mr. Gessner discussed the LA Clippers exhibition games and fan fest during September 25 to October 3, 2017. The development of the event began with AEG’s relationship with the Clipper’s owner and coach. The event will be marketed to the Clippers season ticket holders. AEG will be finalizing the license agreement with the University of Hawai‘i for the Clippers to use the Stan Sheriff Stadium.

Ms. Orton introduced Mr. Haley, President of Smart City Networks, as the new internet service provider at the convention center. Mr. Haley discussed Smart City Networks experience serving numerous other convention centers and the relationships it has maintained with meeting planners and exhibitors. Smart City has participated in approximately 3,000 events per year. Based upon its relationships obtained through its participation at these events, Mr. Haley expressed the belief that it would be easy for Smart City to maintain these relationships when the same events arrive at the Hawai‘i Convention Center. Smart City’s goal for the Hawai‘i Convention Center is to make it self-sufficient; replace switching gear and network; provide more access points; provide free wireless service; provide more solutions to exhibitors; and, hire two new employees dedicated to Hawai‘i.

Ms. Orton introduced Ms. Van Rensburg, Division President for Levy Convention Centers, which will be the new food and beverage subcontractor for the Hawai‘i Convention Center. She stated that Levy Convention Center is a “design creative team” and understands “users at the Hawai‘i
Convention Center” to create authentic experiences. The “core values” are to be “passionate,” “innovative,” “experiential,” and “nice.”

Ms. Van Rensburg introduced Mr. Abbinanti, Regional Chef for Levy Convention Center. Mr. Abbinanti discussed the various culinary experiences that can be offered by Levy Convention Center. He introduced Ms. Putnam, Regional Director of Operation for Levy Convention Center. She discussed various “coffee experiences,” such as in-house roasting; a pop up mobile coffee truck; and, a “flexible modular service,” which may include a “nitro/draft brew.” For example, she noted that since every event or “show” is different, there would be a different cart created to address the uniqueness of the event. The menus would feature signature items designed to represent the local community. A “teaching kitchen” could also be offered to connect attendees with the community.

Mr. Abbinanti discussed efforts to promote “sustainability” used at other convention centers and will be similarly promoted at the Hawai‘i Convention Center. He intends to “immerse” attendees with the local cuisine to enhance their experience. He introduced Mr. Golpeo, General Manager for Levy Convention Center, and Chef Kevin Nakata, Executive Chef at Levy Convention Center. Both will be located at the Hawai‘i Convention Center. Mr. Nakata discussed his plantation family experience he will rely upon while at the convention center. He will focus on the Hawaiian local cuisine so visitors will know they have experienced Hawai‘i and will “stick in people’s mind.”

Ms. Orton hoped that the current contractor will “enhance rebate” to the convention center. Mr. Szigeti stated that the “culinary side is very important.” He noted a possible economy of scale that Levy can bring to Hawai‘i because of its relationship with other convention centers. It also has a relationship with the Compass Group to purchase goods and enhance Levy’s buying power.

Ms. Orton provided a financial update for the convention center as of January 2017. She reported the net loss for January was $240,700 and the year-end budgeted net loss to be $1,709,800. However, she expressed the hope there will be a profit at year-end due to “pick ups” at the end of the year. The percentage flow through for food and beverage in January was 42% as compared to the budgeted 41%. In regards to the return on investment, Ms. Orton reported that for every dollar spent by the convention center, $25.26 was returned to the State.

In regards to sales and marketing updates, Ms. Orton reported that a “AAU Volleyball Tournament” will be held at the convention center this weekend. She reported on working with AAU for tournament dates in 2018. She also discussed various new hires for its “sales team” and local sales and events managers.

In regards to a facility and CIP update, she initially displayed various slides depicting three-dimensional graphic pictures of the convention center and complimentary WiFi signs. She discussed the Sporting Court and equipment systems that were delivered in December 2016. The system was subsequently installed with the punch list completed in February 2017. She also discussed the gutter trough and roof repairs currently being performed by contractors procured
through the Department of Accounting and General Services. The current construction schedule indicates that work will be “spanning” from April 2017 to November 2018.

13. Adjournment
Ms. Stone made a motion to adjourn the meeting. Mr. Nakamura seconded the motion, which unanimously approved by all the Board members present.

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

Respectfully submitted,

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Winfred Pong
Recorder