



REGULAR BOARD MEETING
HAWAII TOURISM AUTHORITY
Thursday, September 27, 2018 at 9:30 a.m.
Hawai'i Convention Center
1801 Kalākaua Avenue, Honolulu Hawai'i 96815

MINUTES OF REGULAR BOARD MEETING

MEMBERS PRESENT:

Rick Fried (Chair), Micah Alameda, Fred Atkins, David Arakawa, Sean P. Dee, George Kam, Kyoko Kimura, Sherry Menor-McNamara, Craig Nakamura, Kelly Sanders

MEMBERS NOT PRESENT:

Kumukahi Ku'uipo, Benjamin Rafter

HTA STAFF PRESENT:

George Szigeti, Marc Togashi, Charlene Chan, Kalani Ka'anā'anā, Jennifer Chun, Jadie Goo, Carole Hagihara, Caroline Anderson, Chris Sadayasu, Laci Goshi, Chika Miyauchi, Lawrence Liu, Minh-Chau Chun, Noriko Sloan, Adrian Hanner, Chael Kekona, Kehau Meyer, Laurie Tam, Maile Carvalho, Michele Shiwaki, Evita Cabrera, Vengie Talaro, Joseph Patoskie, Pua Sterling

GUESTS:

Mayor Kirk Caldwell, Gary Kurokawa, Mary Charles, Daniel Gluck, Representative Richard Onishi, Senator Glenn Wakai, Representative Mark Hashem, Teri Orton, Noelle Liew, Mari Tait, Lee Conching, Erin Kinoshita, Patrick Dugan, Nathan Kam, Pris Teixeira, Allison Schaefer, John Monahan

LEGAL COUNSEL:

Gregg Kinkley

1. Call to Order and Pule

Presiding Officer Rick Fried called the meeting to order at 9:30 a.m. Kalani Ka'anā'anā offered oli and shared that it was World Tourism Day.

2. Approval of the Minutes of the August 30, 2018 Board Meeting

Chair Fried asked for a motion to approve the minutes of the Board meeting held on August 30, 2018. David Arakawa requested that the August 30 Board Meeting Minutes be amended on page 12, paragraph 3 to say that Mr. Arakawa understood Mr. Kinkley's comment but did not feel that deferring the matter was the functional equivalent of voting because if there were an election there might be other candidates. Chair Fried asked for a vote on approving the minutes with Mr. Arakawa's requested amendments. George Kam made the motion, and Kelly Sanders seconded the motion, which was unanimously approved by all the Board members present.

3. Report of Permitted Interactions at an Informal Meeting or Presentation Not Organized by the Board under HRS section 92-2.5(c)

Chair Fried asked if there were any reports of permitted interactions. No Board members reported any permitted interactions.

4. Report of the CEO Relating to Staff's Implementation of HTA's Programs During August 2018

Chair Fried acknowledged George Szigeti, who gave his report on the HTA Staff's implementation of HTA's programs during August 2018. Mr. Szigeti thanked HTA Staff for their work, especially during Hurricane Olivia.

On September 15, Mr. Szigeti attended the one year anniversary of Japan Airlines' route between Kona and Tokyo, and stated that Japan Airlines was pleased with the support it has received from HTA. On September 14, Mr. Szigeti attended the 2018 AVP Hawai'i Invitational to give opening remarks. Mr. Szigeti said that it was an outstanding event, that coverage of the event aired on television, and that the owner of the AVP would like to continue to hold the event in Hawai'i. Mr. Szigeti also noted that the Los Angeles Clippers will be playing the Sydney Kings on Sunday, September 30, at the Stan Sheriff Center, which will have good exposure in the Australia market. He added that the Clippers have donated a computer lab and fitness room to William P. Jarrett Middle School in Palolo.

Mr. Szigeti reported the most up-to-date visitor statistics: In August, visitor spending is up 1.4% which is the lowest year over year increase since May 2016, visitor arrivals are up 3.2%, air seat capacity is up 6%. He stated that year-to-date, visitor spending is up 8.8%, arrivals are up 6.2% and air seat capacity tax revenue is up 8.8%.

5. Presentation by Honolulu Mayor Kirk Caldwell Regarding the 2019 U.S. Conference of Mayors in Honolulu, June 28 - July 1, 2019

Chair Fried acknowledged Kirk Caldwell, Mayor of Honolulu, to give a presentation on the

upcoming U.S. Conference of Mayors, to be held in Honolulu in 2019. Mayor Caldwell opened his presentation by showing a news clip about President John F. Kennedy's visit to Hawai'i in 1963.

Mayor Caldwell requested that HTA contribute \$500,000 towards hosting evening events for the visiting mayors. He stated that attendance to this event typically draws mayors from major cities like New York City, Los Angeles, and Chicago, as well as the large west coast cities. Mayor Caldwell stated that he is also inviting mayors from cities in Asia like Honolulu's sister cities in Japan and Korea. In addition to mayors, Mayor Caldwell stated that he is working on getting major speakers to come to the event including the Obamas and Bruno Mars. Mayor Caldwell stated that approximately 350 mayors are expected to attend, along with approximately 1,500 family members and support staff.

Mayor Caldwell stated that the U.S. Conference of Mayors focuses on issues particularly, in the city that is hosting. In addition to the Conference of Mayors, Mayor Caldwell stated that there will be a mayor's climate conference at the University of Hawai'i East-West Center, which draws thought leaders from throughout the world. He stated there will be focus on what Hawai'i is doing on issues like climate change.

Fred Atkins stated that he appreciated Mayor Caldwell's support of HTA, and that the Board should take a serious look at Mayor Caldwell's proposal. He stated that the matter will be brought before HTA's Marketing Committee meeting and that Mayor Caldwell may get a response by the end of October. Mr. Szigeti also thanked the Mayor and added that the Mayor meets with HTA staff quarterly, bringing all his directors so that they can answer HTA's questions.

Mr. Arakawa asked Mr. Caldwell to include in his presentation to the Marketing Committee information about inviting Neighbor Island and international mayors to the U.S. Conference of Mayors. Mayor Caldwell thanked HTA and left.

At 10:10 a.m., Chair Fried requested a motion to enter Executive Session, pursuant to Hawai'i Revised Statutes 92-5(a)(2). Mr. Kam moved for an Executive Session and Mr. Arakawa seconded the motion, which was approved by all Board members present.

The meeting was recessed for an Executive Session at 10:10 a.m.

The Board moved out of Executive Session at 10:44 a.m.

6. Presentation by the Hawai'i State Ethics Commission Regarding an Overview of the State Ethics Code for State Board Members

Chair Fried acknowledged Dan Gluck, the Executive Director of the Hawai'i State Ethics Commission, to deliver a presentation on the State Ethics Code as applicable to HTA. Mr. Gluck's presentation was accompanied by a PowerPoint presentation and handouts outlining his major points. Mr. Gluck focused on seven subject areas: 1) confidential information, 2) gifts

and gift disclosures, 3) fair treatment, 4) financial disclosure statements, 5) conflicts of interest, 6) state contracts, and 7) post-employment restrictions.

In regards to gifts, Mr. Gluck advised that, when considering whether to accept a gift, one must consider how much the gift is worth, the recipient's relationship to the donor, and whether the gift benefits the state. Mr. Gluck stated that small "gifts of aloha" may be permissible but the Hawai'i State Ethics Commission generally advises against accepting gifts from anyone that your official action affects. He added that gifts should be reported if their value exceeds more than \$200, the donor has interests that might be affected by the employee's official action, and the gift is not exempt from reporting.

Under the fair treatment law, Mr. Gluck stated that anyone working for the state is prohibited from getting additional or double compensation for conducting state work. For example, he advised that if an employee receives a prize or benefit while on a state business trip, the employee should either decline the prize or pass it on to the State. In addition, Mr. Gluck stated that it is prohibited for an employee to engage in a financial transaction with a subordinate or to use state resources for private business activities.

Mr. Atkins asked if, because he was a volunteer Board member and was not being paid, whether it is permissible to upgrade a flight for an HTA-related trip. Mr. Gluck responded that HTA volunteer Board members are treated by the same standard under the law as paid government employees, but that it is permissible to use personal funds to upgrade or extend a trip. Mr. Gluck added that Board members may also accept free airline upgrades because the upgrades are due to the Board member's frequent flyer status and not their position on the Board. Ms. Menor-McNamara asked whether the same was true of frequent flyer miles that accrue from state-related travel. Mr. Gluck responded that if one is able to use the miles for state business, they should be used for state business.

Mr. Gluck stated that there are three main rules regarding conflicts of interest: 1) disqualify yourself when there is a financial conflict, 2) do not create new conflicts, and 3) do not represent or assist anyone on a matter before your agency or on a matter that you worked on. He noted that an employee's financial interests include the interests of his or her spouse, dependent children, or civil partner. Mr. Gluck then moved on to the topic of post-employment restrictions, and stated that the general rule is that there is a one year "cooling off period," during which a former employee may not be paid to represent another person or business in matters that the former employee participated in. Mr. Gluck stated that the exception is that the state may contract with former employees.

Mr. Arakawa asked Mr. Gluck the ethical implications of HTA's decisions in regards to affecting specific clients in the tourism industry. Mr. Gluck responded that there is an exception to the conflict of interest law for persons hired because of their expertise and such person is allowed to take action affecting the industry as a whole but not if it narrowly affects their organization.

Chair Fried recessed the meeting at 11:26 a.m.

Meeting reconvened at 12:02 p.m.

7. Presentation and Discussion of Current Market Insights and Conditions in Key Major Hawai'i Tourism Markets

Chair Fried acknowledged Jennifer Chun to deliver a presentation and discussion of current market insights and conditions in key major Hawai'i tourism markets. Ms. Chun noted that in the second quarter, timeshare properties reported an average occupancy rate of 91.5%. Ms. Chun stated that through June 2018, the state collected \$554.9 million in Transient Accommodation Taxes, which represented an increase of 9.2%.

8. Presentation, Discussion and Action on HTA's Financial Reports for April-June 2018 and July and August 2018

Chair Fried acknowledged Marc Togashi to deliver a presentation, discussion, and action on HTA's Financial Reports for April 2018 through June 2018 and July 2018 through August 2018. Mr. Togashi directed the Board's attention to the Board packet which contained statements and executive summaries for April through June and July through August. He then asked for the Board's approval for both sets, because during the August Board meeting he had asked that approval of the April through June packet be deferred to the September Board meeting.

At 12:05 p.m., Craig Nakamura made a motion to approve the sets, and Mr. Arakawa seconded the motion. The motion was unanimously approved.

9. Update on the Status of the 2018 Audit Action Plan

Chair Fried acknowledged Mr. Szigeti to provide an update on the status of the 2018 Audit Action Plan. Mr. Szigeti stated the 2018 Audit Action Plan was sent to Board members and that during August, HTA was able to move the status of two items from 'in progress' to 'completed.' He stated that HTA Staff's focus, now that the budget has been passed, is to review HTA's internal policies and procedures. Mr. Szigeti stated that during September, the Hawai'i Convention Center Investigative Committee convened to discuss the agreement between AEG and Levy. The Committee confirmed that it had consulted with the Attorney General's office and were advised that no further action was required by statute regarding AEG's contract with Levy's services.

Mr. Szigeti stated that they are currently in the process of hiring another contract specialist in the contracts department to address the auditor's concern regarding the increased number of HTA contracts. He added that HTA staff will increase their focus on updating HTA's policies and procedures.

Mr. Dee noted that many of the items on the 2018 Audit Action Plan are assigned to the Chief Administrative Officer (CAO), and asked whether the timeline for the Audit Action Plan can be updated to give the CAO an opportunity to meet due dates. Mr. Togashi stated that the dates

on the Plan will be updated to reflect a new CAO. Mr. Togashi added that the staff continues to work on the objectives of the Audit Action Plan but that the timeline will need to be updated. Chair Fried asked for an update on which items will need a revised due date. Mr. Togashi responded the CAO's input will be needed to review updates to HTA's policies and procedures, and the Quality Assurance Action Plan. Chair Fried asked that a list of items requiring CAO input be included in next month's Board meeting packet.

Mr. Arakawa asked for clarification as to whether "Q3 2018" on page five of the Audit Action plan means the third quarter of the fiscal or calendar year. Mr. Togashi responded that it means the third quarter of the calendar year.

10. Presentation by AEG Regarding an Update of the Hawai'i Convention Center Recent Operational Activities and Sales Initiatives

Chair Fried acknowledged Teri Orton from AEG to deliver an update of the Hawai'i Convention Center's recent operational activities and sales initiatives. Ms. Orton stated that she would be presenting for the months of June and July.

Ms. Orton stated that the Convention Center held 11 events in the month of August, several of which were repeat international groups including Daito, which generated more than \$16 million in visitor spending and \$1.6 million in state tax revenue. Ms. Orton noted that revenue for August was less than what had been budgeted, resulting in a net loss. She explained that the August financials were impacted by Hurricane Lane, which prompted the cancellation of three events. Ms. Orton stated that one of the events, the Amazing Comic Con which brings in 15,000-20,000 delegates, has been rescheduled for 2019.

Turning to the reforecast, Ms. Orton stated that the numbers are now closer to what was originally budgeted. She added that a portion of the loss was based on food and beverage forecasts that were on the books from previous years but that did not actually spend as much as the Convention Center had forecast, like the American Dental Association, which moved its closing event to the Hilton Hawaiian Village.

Shifting to food and beverage, Ms. Orton pointed out that the revenue in the reforecast is \$1.7 million, which severely impacts cash flow. Last year closed at 50% cash flow but this year will be closer to 35% cash flow, in part because last year there was more corporate business which on average spends more on food and beverage. Ms. Orton stated that, taking into account the Convention Center's revenue and the state and tax revenue generated, there is an approximate return of \$18.17 to the state for every dollar spent by the Convention Center.

Ms. Orton discussed the Okinawan Festival, which was held at the Convention Center for the first time in August. She stated that she received a positive response from the organizers and that they are seriously considering continuing to hold the event at the Convention Center next year.

Ms. Orton stated that the sales team converted 4,785 room nights in August, bringing the year-to-date total through August 2018 to 73,597. She stated that there are multiple groups currently on the books that they are trying to convert, but that most associations do not sign contracts until December.

Chair Fried asked about the outlook for next year, and Ms. Orton responded that 2019 and 2020 look good but that for 2021 and onward, the Convention Center is trying to incentivize associations to book here. Chair Fried asked whether she anticipated that 2019 and 2020 will be better than 2018, and Ms. Orton responded that that is what she anticipated based on what is on the books going into the next year. Ms. Orton discussed finding the “sweet spot” in terms of what size organizations to target, based on room inventory and competitive rates. Chair Fried asked whether large groups that planned more than five years out eliminated some of the problems related to reserving hotel rooms. Ms. Orton responded that there was still a challenge in finding rooms for large groups like American Dental Association. Chair Fried asked whether rate was also a problem and Ms. Orton responded that it was.

Mr. Arakawa asked what the attendance was for the Okinawan Festival. Ms. Orton stated that there was not yet a firm number, but that attendees stayed longer than in previous years when it had been held at Kapiolani Park. Mr. Arakawa requested that Ms. Orton provide the number of attendees and the number of meals prepared at the next Board meeting. Noelle Liew stated that the unofficial number of attendees was approximately 50,000. Ms. Orton added that other local festivals have expressed interest in moving to the Convention Center.

Kyoko Kimura asked whether the Convention Center was getting leads from other international marketers, for example with Daito. Ms. Orton stated that the Daito lead came directly from JTB but they work with both HTJ and JTB.

11. Update on the Search for HTA’s President and CEO, HTA Chief Administrative Officer and HTA VP of Marketing and Product Development

Chair Fried noted that HTA’s CEO selection had been introduced to the Board during Executive Session. He stated that the CEO selection had expressed his/her thoughts on his/her involvement in the selection for the other two positions, CAO and VP of Marketing and Product Development. Mr. Dee stated that there were meetings scheduled that day to fill those two positions, and interviews would be held the following week.

12. Report of the Convention Center Planning Investigative Committee, with the Committee’s Advisory to the Board on Repair and Maintenance Projects at the Hawai’i Convention Center, and the Long-Term Strategic Vision for the Hawai’i Convention Center

Chair Fried acknowledged Mr. Nakamura for discussion of the Convention Center Planning and Investigative Committee and repair and maintenance projects. Mr. Nakamura passed out a high level summary spreadsheet of the projects. Chair Fried asked how the costs for the projects were estimated. Ms. Orton stated that the summary listed projects in order of their

priority. She noted that the first project in the spreadsheet is the Kalakaua kitchen sewer line, which was an emergency repair and has been completed. Ms. Orton directed the Board to the second item which is the legal retainer, because the existing amount has been exhausted and the Convention Center wishes to add an additional \$35,000 to pull from when needed. Ms. Orton stated that the third priority is hiring a CIP project manager and construction project manager. She explained that a construction project manager, Cummings Construction, has already been hired, and the cost estimates on the summary are from the bids submitted. She added that the estimates are based on the RFP which did not include a lot of detail, so the costs may go up or down as the projects begin. Ms. Orton explained that total project costs for each of the projects listed in the summary could be calculated by adding the anticipated total project cost to the project budget. Ms. Orton stated that the fourth highest priority project is the Fourth Floor Stairwell Rehabilitation project, explaining that when it rains, the Convention Center's roof directs water towards that stairwell. She further explained that the overall roof repair project, which is anticipated to cost \$27 million, does not include the \$3.6 million to fix the stairwell. Ms. Orton recommended that the overall roof repair and the fourth floor stairwell project should be done simultaneously to avoid redundant work being done.

Chair Fried asked whether the \$26 million bottom line number was about half of what was needed including the roof repair. Ms. Orton replied that it was.

Ms. Orton then stated that the next priority is the boiler replacement project. Mr. Nakamura stated that if there were further questions, they can be handled on the committee level. Ms. Orton noted that she can send a more detailed cash flow and time line. She stated that Mr. Togashi has informed her next year funding from HTA will be approximately \$5 million. Mr. Togashi added that the projects will be funded from funds currently available and those anticipated over the next few years.

Ms. Orton stated that they would also like to start on non-construction projects, for example updating the sound systems, furniture, and china. Mr. Togashi stated that they are in the midst of an \$8 million project addressing the gutter trough and meeting rooftop area. Chair Fried asked whether that project is on the spreadsheet and Marc replied that it is not and those funds are in the process of being spent. Chair Fried asked when that project would be completed. Mari Tait stated the gutter project is near completion in the next few months, and a roof repair project was completed but that, due to a change order, is now expected to be completed in the fall of 2019. Chair Fried noted that these repairs are a quarter of the original cost of the Convention Center, and asked how everything would get done with the money currently available. Mr. Togashi stated that was something that would have to be addressed with the committee. He added that there is a reserve fund for Convention Center repair and maintenance, and they will be discussing that with the committee.

Mr. Szigeti noted that the fourth floor stairwell issue is dangerous and may be creating a structural issue. He asked whether the estimated construction costs for the roof is based on the overall rising costs of construction and Ms. Orton replied that it was. Ms. Orton recommended asking for more funding for rooftop repair from the legislature. Mr. Kinkley

asked whether the problem with the roof pitch was a design flaw. Ms. Orton responded that it was, and that they have looked into whether it was covered by a warranty but that it too late. Mr. Arakawa asked whether Watanabe Ng was advising on the warranty issue. Ms. Orton responded that DAGS was originally advising on that issue.

Mr. Arakawa asked what was included in the anticipated total project cost for item number 3, the CIP program manager and construction project manager. Ms. Orton responded that it included project management fees, but not the design or construction. Mr. Arakawa then asked the same question in regards to item 5, the boiler replacement. Ms. Tait responded that the \$850,000 includes design, materials, construction and installation. She stated that this project was previously proposed and approved by HTA, but at the most recent state inspection they did not pass the boiler inspection so they are asking for re-approval to replace both boilers and both holding tanks.

Ms. Orton stated that the AV contractor is providing approximately \$50,000-\$60,000 to go towards some of the repairs to the house sound system. Ms. Kimura asked whether all the items on the spreadsheet have already been approved. Ms. Orton responded that some of the items have been approved and some are awaiting approval. Ms. Kimura asked why some of the items were not already approved and Ms. Orton responded that they had been asked to hold on some of the items to see if they were going to use the funding for larger projects like the rooftop and to see what direction HTA wanted to take. Marc stated that they had to look at the priority of some of the other projects.

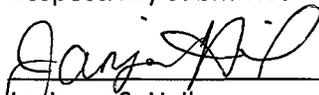
Mr. Nakamura stated that AEG's contract is ending at the end of this year, but given the situation they would recommend that the Board approve extension of the contract for one year. He stated that the recommendation will be on the Board agenda next month for approval.

13. Adjournment

Chair Fried asked for a motion to adjourn. Mr. Kam made the motion, and Micah Alameda seconded the motion, which approved by all the Board members present.

The meeting was adjourned at 12:54 p.m.

Respectfully submitted



Janjeera S. Hail
Recorder