



REGULAR BOARD MEETING
HAWAII TOURISM AUTHORITY
Thursday, January 31, 2019
Hawai'i Convention Center
1801 Kalākaua Avenue, Honolulu, Hawai'i 96815

MINUTES OF REGULAR BOARD MEETING

MEMBERS PRESENT:

Rick Fried (Chair), Micah Alameda, David Arakawa, Fred Atkins, George Kam, Kyoko Kimura, Sherry Menor-McNamara, Craig Nakamura, Sean Dee, Ku'uipo Kumukahi, Benjamin Rafter, Kelly Sanders

HTA STAFF PRESENT:

Chris Tatum, Keith Regan, Karen Hughes, Marc Togashi, Charlene Chan, Jadie Goo, Jennifer Chun, Kalani Ka'anā'anā, Caroline Anderson, Carole Hagihara, Joseph Patoskie, Lawrence Liu, Minh-Chau Chun, Noriko Sloan, Ronald Rodriguez, Laci Goshi, Chris Sadayasu

GUESTS:

Representative Richard Onishi, Mufi Hannemann, John Monahan, Jay Talwar, Darlene Morikawa, Teri Orton, Mari Tait, Noelle Liew, Patrick Dugan, Erin Khan, Nathan Kam, Malia Sanders, John DeFries, Uncle Joe Recca, Allison Schaefer, Chris Kam, Allan Ellis, Pat Loui, Jessica Lani Rich, David Baronfeld, Eric Takahata

LEGAL COUNSEL:

Gregg Kinkley

1. Call to Order and Pule

Presiding Officer Rick Fried called the meeting to order at 9:36 a.m.

Kalani Ka'anā'anā introduced Uncle Joe Reca of Waikīkī, who offered a pule to open the meeting. Following the pule, Reca shared a story about his childhood growing up in Waikīkī.

2. Approval of the Minutes of the December 27, 2018 Board Meeting

Chair Fried asked for a motion to approve the minutes of the December 27, 2018 Board Meeting. George Kam made the motion, and Craig Nakamura seconded the motion. Chair Fried then opened the item up for discussion and, hearing none, the motion was put to a vote which was approved unanimously.

3. Report of Permitted Interactions at an Informational Meeting or Presentation Not Organized by the Board Under HRS § 92-2.5(c)

Chair Fried asked the Board whether there were any permitted interactions to report. There were no reports of any permitted interactions since the last Board meeting.

Chair Fried then introduced Representative Richard Onishi, John DeFries of the Native Hawaiian Hospitality Association, and Mufi Hannemann of the Hawai'i Lodging & Tourism Association.

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

Chair Fried recognized CEO Chris Tatum to provide his a report on the staff's implementation of Hawai'i Tourism Authority (HTA)'s Programs during December 2018. Mr. Tatum began by explaining that he has been doing a listening tour with the legislators and the community.

He said that one thing that he has heard repeated is that there is a desire to encourage more locals to come into Waikīkī. He acknowledged that there are reasons that locals do not want to come down to Waikīkī, but that one thing HTA is working on a program to manage tourism in Hawai'i and promote the things that are going on in Waikīkī to residents. He discussed plans to potentially expand the 'Sunset on the Beach' event to include halaus, and having regular Royal Hawaiian Band performance events.

Mr. Tatum explained recent organizational changes at HTA. The Board was provided with a new organization chart that reflected the changes, a "flattening" of the organizational structure. Mr. Tatum said that Karen Hughes is overseeing sales and branding, Keith Regan is overseeing accounting and contracts, Mr. Ka'anā'anā is leading efforts in Hawaiian culture and natural resources, and Caroline Anderson is involved with community enrichment programs. Mr. Ka'anā'anā and Ms. Anderson now report directly to Mr. Tatum. Mr. Tatum added that there is

also a new budget format that has been sent out to Board members.

Mr. Tatum said that he has met with Teri Orton and the Hawai'i Convention Center (HCC) team, that they went over the HCC budget in detail, and feedback was provided. The current law requires that the company managing HCC is also required to manage the sales of HCC, and a bill has been introduced to separate those two functions so HCC is run by the HCC team, and the sales organizations in the markets sell the "city-wides." He stated that this would be easier for the customer and that it would allow for leveraging of the marketing and branding of those contractors. Mr. Tatum noted that if the bill passes, there will probably be an RFP because there would be a change in the dynamics of HCC since HCC would just be operating HCC, and sales would go to the new contract.

Mr. Tatum said that he has been re-evaluating all of the contracts, but that in the tourism industry there is a need to be dynamic and flexible. He expressed overall concern over the current pace of the industry, particularly on Hawai'i Island, and a desire to implement new programs, like social media or a spokesperson, to generate excitement about Hawai'i.

Mr. Tatum then discussed the upcoming sports events scheduled to take place in Hawai'i. He thanked Sean Dee for his work on the L.A. Rams contract, and noted that the first thing that he was asked about on a recent Hawai'i News Now morning show appearance was the Rams' pre-season football game. In addition to marketing and the game itself, there is a community-involvement component both in Hawai'i and in Los Angeles.

The L.A. Clippers are coming to Hawai'i in October. The opponents in the aforementioned games have not been confirmed, but once the opponents are finalized, then dates can be finalized. He added that HTA no longer employs a sports marketing consultant, but that he is consulting with Mr. Hannemann and John Monahan, of Hawai'i Visitors and Convention Bureau (HVCB), and that he will engage advisors as other opportunities arise. Moving forward he stressed the importance of community engagement and to relate the fact that these types of events are coming to Hawai'i because of tourism. He added that the Pacific Rim Cup soccer event is scheduled for the end of February.

Mr. Tatum said that he has met with the Department of Land and Natural Resources (DLNR), and that there is a memorandum of understanding on many activities. DLNR will be providing a scope on a pilot "ambassador" program at the trails and parks that have the biggest impact on visitors. He noted that many visitors want to respect the land but that there is a need for education. HTA is working with HVCB and contractors to develop an education program on the value of the land to the Hawaiian people, potentially with video on the airlines and in hotels. HTA is also working with HLTA and the University of Hawai'i on workforce and leadership development so that the future leaders of the industry are people who have grown up in Hawai'i. The effort includes setting money aside for a scholarship program that contains a mentorship/internship component with HTA.

Mr. Tatum closed by touching on his frustration with illegal vacation rentals, noting that he

believes the number is growing because statistics show an increase in visitors, but not in hotel rooms. He stated that the legislature and the council are on board with trying to control vacation rentals, and it should be the community, not companies, controlling vacation rentals.

Chair Fried announced that, because of Representative Onishi's schedule, Item 9 would be heard out of order so that Representative Onishi could provide feedback before he had to return to the Capitol.

5. Presentation, Discussion and Action on HTA's Policy Positions for the 2019 Legislative Session on Bills Anticipated to be Brought Forward Relating to Tourism

Chair Fried introduced Keith Regan to present HTA's 2019 legislative policy positions. Mr. Regan explained that there are four primary positions that HTA is recommending the Board to support. The first position is supporting community infrastructure needs to ensure there is safe, secure, and well-maintained infrastructure in the counties to support the industry. Mr. Atkins asked whether there were currently any bills in the legislature that fit under this category. Mr. Regan responded that there are, in total, approximately 91 Senate bills and 74 House bills that HTA is actively tracking, at least three of which are focused on infrastructure.

The second position Mr. Regan discussed is the elimination of transient vacation rentals. He stated that this issue is of great concern for HTA and the industry. There are several bills before the legislature addressing this issue and HTA is tracking seven bills that pertain to transient vacation rentals.

The third position is support of an airport corporation. There are at least five bills before the legislature on this issue. Mr. Regan said that one such bill is SB666, which passed the Senate Transportation Committee the day before the Board meeting. Chair Fried noted that the independence and nimbleness of an airport corporation makes sense, and added that he believes that most legislators are on board with HTA's position.

The fourth position is opposition to tax increases that would increase the cost of a Hawai'i vacation. HTA is monitoring at least 17 bills related to this issue. Many of these bills have not been scheduled for hearing but HTA is monitoring them.

Mr. Arakawa said that HB1584, relating to a carbon tax, was heard that morning and the airline industry was mentioned specifically. He also noted that there was a bill introduced which required all the counties to meet their affordable housing goals, or the law would take away their Transient Accommodation Tax allocation. He noted a third bill of concern, that would give the Land Use Commission more power to take action against resorts that are approved but are not fully developed.

Chair Fried said that, as the HTA Board Chair, he serves on the Climate Commission, and there is a plan for the executive director of the Climate Commission to provide a presentation to the Board next month. Mr. Arakawa responded that the bill states that the recommendation to tax

the tourism industry was made by the Climate Commission and that industries that will be affected by the carbon tax, like agriculture, tourism, and the military, should have a seat at the Climate Commission. Chair Fried noted that representatives from those industries currently sit on the Climate Commission.

Mr. Hannemann discussed three points. First, he asked that the Board members from O'ahu implore their county council representatives to do something about transient vacation rentals because it would help if the counties were progressive in this area, and noted that Honolulu county is lagging behind Maui, Hawai'i, and Kaua'i counties on this issue. Second, he said that in regards to an airport corporation, there is also a bill to create a harbor corporation and he has heard that there is talk of getting both passed at the same time. However, he said that the focus should be on getting the airport bill out first and then focusing on the harbor bill. The third point was related to keeping the cost of a Hawai'i vacation down. He stated that there is a "resort fee tax" bill that has been introduced and that it proposes putting a tax on resort fees and all amenities associated with staying at a resort.

Representative Onishi explained some of the details of the legislative process, noting that it was still early in the legislative session. He said that it was important for HTA and the industry to let legislators know which bills they support or oppose, and why, because it has an impact on whether the bill will be scheduled for hearing.

Mr. Arakawa added that a bill relating to Real Estate Investment Trusts (REIT) had been introduced, and that many of Hawai'i's real estate and resort projects were accomplished with REITs so it may be a topic for future discussion.

Mr. Regan then discussed other bills of concern to HTA, but that do not relate directly to HTA's position statements. First, were bills that would separate HCC sales and management, HB422 and SB992. Second, were bills allowing for more flexibility for the Center for Hawaiian Music and Dance. The current statute requires that it be funded and constructed at HCC, but since that has been a challenge, HB420 and SB803 are two bills that would provide additional flexibility to consider other locations that would be more appropriate. Airport corporation bills and budget bills are also of concern.

Kyoko Kimura stated that there is also relevant county-related legislation that has been introduced, for example, a bill that would allow Maui County to raise the General Excise Tax (GET). She asked whether HTA could also monitor those types of bills. She also asked Mr. Hannemann for more information about the resort fee tax. Mr. Hannemann said that a similar bill had passed the Legislature last year but that the Governor vetoed it because it would tax amenities.

Chair Fried asked for a motion to approve the positions presented by Mr. Regan. George Kam made a motion and Benjamin Rafter seconded the motion. The motion was unanimously approved. Mr. Dee asked whether there was a plan to present these legislative positions to broader stakeholders. Mr. Tatum responded that he met with Mr. Hannemann to make sure

that they are aligned as an industry, and Sheri Menor-McNamara to make sure they are aligned with the Chamber of Commerce. Mr. Dee clarified that he was asking whether there was a plan to communicate the positions to the public. Mr. Tatum said that they could do that.

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

Chair Fried recognized Jennifer Chun to provide a presentation on current market insights and conditions. Ms. Chun stated that 2018 ended with \$17.82 billion in visitor spending, an increase in 6.8% compared to 2017. Arrivals increase to 9.9 million, which translates to about \$2 billion in tax revenue. The tax data in the Board packet were adjusted to reflect the increase in tax collection without the rate increase attributed to rail. The 2018 Visitor Plant Inventory Report was published the previous week and total inventory was 80,751 units. December RevPAR was \$222 and ADR was \$278. Occupancy was flat at 79.8%. Ms. Chun pointed out that the December Hawai'i Hotel Performance Report included information about room supply and room demand to provide a more well-rounded picture.

Chair Fried noted that even though occupancy was flat, Hawai'i's RevPAR is the second in the U.S. Ms. Chun confirmed that Hawai'i is second to New York City, followed by San Francisco. Mr. Dee asked how there could be flat occupancy but more visitors. Ms. Chun responded that one possibility is larger party size, meaning that more people staying one room.

Ms. Hughes said that this statistic was a good sign and that it was the first time that she had seen it since she has been in Hawai'i, where occupancy is flat while ADR is going up. She noted that revenue management systems are very sophisticated at hotels, so they are able to better manage rates.

7. Presentation of the Resident Sentiment Survey Results

Ms. Chun introduced the President of Omnitrak, Chris Kam, to present on the 2018 Resident Sentiment Survey. The survey is conducted annually to assess how residents view tourism. The survey is conducted to track how resident sentiment is changing over time, to identify the perceived positive and negative impacts of the tourism industry, and to identify new issues and concerns on the horizon. The results of the presentation were divided into two parts: the impact of tourism and general perception of visitors.

There were three takeaways from the survey: 1) residents still generally view tourism in a positive light, 2) expectations of what the visitor industry should provide has changed, and 3) residents would like a greater voice in tourism development and would like to see Native Hawai'i an culture preserved and presented authentically. Mr. Kam went on to discuss the results of the survey, which are also found in the Board packet.

The key resident sentiment indicators suggest that the favorability of residents' attitudes towards the industry has weakened, the perceived impact on the state overall has remained

steady, the perceived impact of tourism on the family has taken a downturn, and there is a decrease in agreement with the statement that tourism has brought more benefits than problems.

Sean Dee asked how much Mr. Kam believed resident sentiment in Hawai'i Island and Kaua'i was influenced by the volcano and flooding, respectively. Mr. Kam responded that, whenever there is a downturn in visitor arrival and spending, there is an increase in appreciation for visitors. In this case, there was not an uptick in Kaua'i and Hawai'i Island was flat. The survey was taken between August and October 2018.

Chair Fried pointed out that positive and negative sentiments were both up, and the number of respondents that felt no effect dropped significantly. Mr. Dee asked whether there were benchmarks with which HTA can compare to other destinations. Mr. Kam responded that other cities do not publish that information. Ms. Chun said that Hawai'i is the only place that consistently conducts a survey and publishes its results.

Ms. Kumukahi said that she was glad to see that Hawaiian culture was a driver of resident sentiment but noted that she knew of hotels in Waikiki that did not want to carry Hawaiian culture. She asked how hotels could be brought onboard with HTA's mission in this regard. Mr. Tatum said that, from his experience in the industry, the hotels that are not engaging in Hawaiian culture are making a mistake and that is HTA's role to share the vision for what visitors should be experiencing. He said that he would work with Mr. Ka'anā'anā to take an inventory of which hotels are engaging and which are not. Mr. Hannemann said that HLTA is making a conscious effort to get all its hotels to participate and has incorporated a Hawaiian culture presentation at its regular meetings. HLTA also has an award for that hotel which is perpetuating and preserving the Hawaiian culture. Mr. Ka'anā'anā added that this is the very reason that the Native Hawaiian Hospitality Association was founded with the express purpose of advancing this work.

8. Presentation, Discussion, and Action on HTA's Financial Reports for November and December 2018

Chair Fried recognized Mr. Regan and Marc Togashi to provide a presentation on HTA's financial reports. Mr. Regan began the presentation by explaining the new format of the budget, which was included in the Board packet. The budget contains the same information, but presented in a new way with different categories to provide a better understanding of how funds are being allocated. Chair Fried note that when he first went through it, it seemed like some items already had most of their annual budget spent. Mr. Regan explained that in some cases, money is "encumbered" rather than expended, so that money that is earmarked for a certain purpose is not spent.

Mr. Dee asked whether the amount of budget used was a blend of actual and expected expenditures. Mr. Regan confirmed that it was. Mr. Arakawa noted that the new budget format reflected the way the Legislature looks at the budget. Mr. Regan added that this makes

it easier when HTA goes to the Legislature for budget issues.

Mr. Togashi discussed the December budget statement. He said that the new format provides a single-paged snapshot of HTA's financials. In December, HTA recorded \$21.4 million in contract activity, and a balance of approximately \$31.2 million. The financials in the packet includes the budget statement, financial statements, and executive summary for November and December 2018. At the end of December 2018 there were \$87.6 million in cash and investments including \$5 million in emergency funds which is required by statute. This represents a decrease of \$3.5 million from November, due to recording \$6.6 million in TAT revenues which was offset by \$10.1 million in expenditures. He stated that there is a total of \$22.5 million in Board allocations that are outside of the budget. That is comprised of several things, including emergency funds, reserves in the case of an economic downturn, and other earmarks. In the HCC financials, there is \$31.6 million maintained in cash, which is an increase of \$2.3 million from last year. Both HTA and HCC are on track with their spending their budgets.

Mr. Atkins asked whether any of the reserve was used for Hawai'i Island. Mr. Togashi responded that there is approximately \$3 million currently in the fund and some of that has been put into the budget to bolster Hawai'i Island. Mr. Tatum said that there is a plan to put together an additional campaign or branding exercise to impact Hawai'i Island, and a presentation is planned for the next Board meeting. Ms. Kimura asked about the \$5 million in the emergency fund. Mr. Togashi responded that, in order to use those funds, the Governor would first need to declare a tourism emergency.

Mr. Togashi requested a motion for the Board to approve the November and December 2018 financial documents. Mr. Kam made a motion and Ms. Kumukahi seconded the motion. The motion was unanimously approved.

9. Update on Status of the 2018 Audit Action Plan

Chair Fried recognized Mr. Regan to provide an update on the 2018 Audit Action Plan. Mr. Regan said that he has met with staff to go over different segments of the audit findings in order to clear those findings. They are reviewing the policies and procedures and will be presenting their recommendations to the Board. As part of that process, Mr. Regan found a need to update the bylaws so the bylaws were reviewed and proposed revisions have been drafted and forwarded to the Attorney General for review. He plans to present the updated bylaws to the Board at the next meeting.

Mr. Arakawa asked about the general nature of the bylaws revisions. Mr. Regan responded that there is inclusion of succession planning, specifying and clarifying the chain of command in the case of an absence. Mr. Arakawa asked if these changes were recommended by the audit, and Mr. Regan responded that they are housekeeping changes not recommended by the audit.

10. Presentation by AEG Regarding an Update of Hawai'i Convention Center Recent Operational

Activities and Sales Initiatives

Chair Fried recognized Teri Orton to provide an update on HCC. Ms. Orton said that HCC hosted 18 events in December, three more than were originally budgeted for. HCC posted gross revenue of \$860,000, which was \$40,000 more than was budgeted for, for a total net loss of \$729,000, \$81,000 better than what had been planned. For the year, HCC ended with gross revenue of \$13.9 million, \$1 million less than what was planned. There was a net loss of \$2.1 million which was \$210,000 more than planned. Occupancy for the year was 29%. The report also includes HCC's sales and marketing budget. The net loss for 2018 was \$6.2 million, \$2 million of which was incentive payouts and \$1.7 million was payroll. The bottom line for 2018, inclusive of sales and marketing, was a loss of \$8.3 million compared to 2017 which was a loss of \$4.4 million. There were many drivers contributing to the difference including events being rescheduled or cancelled, a different mix of business, and food and beverage that was moved to other properties.

For food and beverage sales, HCC closed out 2018 with a net income of \$4.1 million, which was about \$2 million less than last year, attributable to the same aforementioned factors. The 2018 ROI was \$22.29 returned to the state for every dollar spent. Ms. Orton said that she is preparing a high level audited sales update to present at the next Board meeting. She also noted that the General Managers' Forum and the Customer Advisory Board Meetings are scheduled in February.

Ms. Orton provided an update on HCC's capital improvement projects. An RFP is out for the boiler replacement project, and it is due on February 13, 2019. In regards to the roof repair project, there are contractors on site updating the 2012 assessment. Ms. Orton said that a report may be ready to present to the Board by the next Board meeting.

Mr. Atkins said that at previous meetings the HCC team had noted that some sales were waiting until the end of the year to close, and he asked whether those last-minute sales had in fact closed. Ms. Orton confirmed that a majority of what needed to close closed and that incentives were a contributing factor. Mr. Atkins asked whether there were procedures and policies in place to ensure that incentives are returned in the event that a group does not meet their food and beverage obligations. Ms. Orton responded that there is a policy, included in the term sheets.

Mr. Tatum said, generally, that convention centers are unique compared to hotels because their analysis does not include what is generated in taxes for the whole city. He said that most convention centers do not make money, but there is more to it to than that because they drive business for hotels and the rest of the city.

Mr. Atkins asked what constitutes a "city-wide." Ms. Orton responded that it was either two hotels or more, or more than 1,000 delegates. Mr. Tatum said that HTA is re-evaluating the criteria for "city-wides" and incentives. In that regard, Ms. Hughes said that she has done a survey of other convention centers and how they view city-wides and fund incentives.

Mr. Dee said that HCC had housed an exhibit on Hawaiian music for about 9 months, and that exhibit will be curated at the Grammy museum in Los Angeles which receives about 100,000 visitors. Mr. Dee thanked AEG and HTA for their efforts on that project.

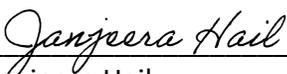
Ms. Kimura asked whether it is possible to generate a report of pre- and post- room nights at neighbor islands. Ms. Orton said that that is not tracked and she is not sure if there is a way to track that. Mr. Arakawa asked if there could be a way to measure it by making it a part of the template to provide a form to organization, or encourage the groups that book with HCC to obtain that type of information. Ms. Chun said that the current survey asks whether a visitor is coming for a meeting or conference but does not say whether it is for an HCC meeting or conference, so there is currently no way to track that information. She added that she could work with Ms. Orton's team to develop a questionnaire. Mr. Arakawa asked what about the nature of the end-of-year signing bonuses. Ms. Orton said that the incentives are offered to groups that have put Hawai'i on its shortlist. Signing bonuses and incentives from \$5,000 to \$25,000 are offered, depending on the size of the group. Mr. Arakawa asked whether a HCC has hired a new chef, and Ms. Orton responded that they have not yet hired a new chef but interviews are ongoing.

11. Adjournment

Chair Fried asked for a motion to adjourn the Board meeting. Mr. Kam made the motion and Ms. Kumukahi seconded the motion, which was approved by all Board members present.

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

Respectfully submitted



Janjeera Hail
Recorder