



**REGULAR BOARD MEETING
HAWAII TOURISM AUTHORITY
Thursday, December 18, 2014
Hawaii Convention Center
1801 Kalakaua Avenue, Honolulu, Hawaii 96815**

MINUTES OF REGULAR BOARD MEETING

- MEMBERS PRESENT:** Aaron Salā (Chair), Fred Atkins, Jack Corteway, Sean Dee, Donna Domingo, Rick Fried, Craig Nakamura, David Rae, Lorrie Stone
- MEMBERS NOT PRESENT:** Denise Hayashi Yamaguchi
- HTA STAFF PRESENT:** Ron Williams, Caroline Anderson, Grace Lee, Angela Rodriguez, Michael Story, Daniel Nahoopii, Roann Rakta, Marc Togashi, David Uchiyama, Kelii Wilson
- Guest:** Pauline “Kuki” Kaiwi Navales, Nicholas “Kali” Navales, Nelson Lau, Kim Yoshi, Terri Orton

1. Call to Order and Pule

Presiding Officer Aaron Salā called the meeting to order at 9:40 a.m. Ms. Wilson introduced Kuki Navales and Nic Navales from the Kumuloa Foundation, which is a nonprofit charitable organization. Ms. Navales offered an Oli (chant) to begin the meeting. Ms. Kuki Navales and Mr. Nic Navales sang a song together on how we can share Kumuloa’s mission of perpetuating Hawaiian arts and culture.

2. Approval of Minutes of Prior Board Meetings

Mr. Atkins made a motion, which was seconded by Mr. Fried, to approve the minutes of the board meeting held on November 20, 2014. The motion was unanimously approved without any objection or revision.

3. Report of the CEO Relating to the Implementation of the State Tourism Strategic Plan Initiatives and/or Staffs' Current Assessments of the HTA's Programs

Mr. Williams presented the CEO Report, which was included in the board folder previously distributed to the Board members and containing documents related to the agenda items. (The CEO Report included a report on the status of Staff's efforts to implement the recommendations of the Legislative Auditor's recommendations and the major marketing contractors' November Marketing Report for the Board member's consideration and discussion.)

Presentation and Discussion On HTA's Audit. Upon request by Mr. Williams, the Board did not object to a presentation of KPMG's financial audit being provided at this time and not as part of a discussion under a subsequent agenda item. Mr. Togashi introduced Mr. Nelson Lau and Ms. Kim Yoshi, who are auditors from KPMG and hired as external auditors to provide an opinion on HTA's financial statements as of June 30, 2014. Mr. Lau distributed a copy of KPMG's "Hawaii Tourism Authority, Audit Results June 30, 2014," and discussed the "conduct of the Audit," "the financial statements that were audited," and the internal controls used by HTA. He stated that HTA's financial statements fairly presented the financial position for each major fund of the Hawaii Tourism Authority as of June 30, 2014. He also added that KPMG did not identify any deficiencies in internal control over financial reporting that would be considered a material weakness.

Mr. Lau continued his presentation with a discussion of year-end adjustments, which were not indicative of any deficiencies and are very common within an audit. He stated that he did not have any matter to report regarding any significant difficulties encountered during the audit or disagreement with management. After discussing the net position of total assets and liabilities, he stated that the primary reason for the positive net change in financial position from June 30, 2013 was "due to an increase in the maximum amount of funding of TAT revenues that may be deposited into the Tourism Special Fund from \$71 million to \$82 million."

Upon request by Mr. Williams, Mr. Uchiyama discussed the air seat capacity to Hawaii. He especially noted the increase of seat capacity in the China market, the additional non-stop flights from Minneapolis beginning October 25, 2009, and the potential "slot opening" from Haneda Airport for Hawaiian Airlines.

In response to a question from Mr. Fried regarding the opening of Kona Airport for international flights, Mr. Uchiyama stated that the "Congressional team is working hard" on "putting pressure" upon the U.S. "Border and Patrol," which has expressed a need for

additional staffing at the Kona Airport. Mr. Uchiyama noted that “Border and Patrol” has also been working on “pre-clearance out of Japan” and that it is moving together with the staffing requirements for Kona Airport. Since the Hawaii Department of Transportation has already submitted a proposal for staffing at Kona Airport, it was his hope that “Border and Patrol” would be able to open Kona Airport for international flights “by the end of the year.”

Mr. Dee asked whether there has been any discussion regarding whether Brand USA would be able to provide an “internal subsidy” to the U.S. Border and Patrol from funds collected by Brand USA through the VISA waiver program. Mr. Uchiyama responded that he was “not sure,” but it is “something worth looking into.”

Mr. Williams distributed for consideration by the Board a document entitled “Strategic Plan: 2015 Update.” This document will be discussed and presented for approval at the next Board meeting.

Mr. Fried asked “why TAT revenues went up but visitor arrivals were down.” Mr. Uchiyama responded that an increase in TAT revenues may be attributed to an increase in room rates. Mr. Togashi added that additional TAT revenues were allocated to HTA.

Mr. Salā expressed his appreciation to Mr. Williams as the newly appointed President & CEO and that “Ron has hit the ground running.”

4. Review of Recent and Upcoming Permitted Interactions

Mr. Rae reported that he and Mr. Salā attended a dinner at the Hawaii Convention Center for the ‘Elele (Ambassador) Program to honor the volunteers who have extended efforts to attract meetings and conventions to Hawaii. No official business was discussed.

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

Mr. Togashi provided a PowerPoint presentation of the HTA’s financial statements as of November 30, 2014. He reported that the HTA Special Fund maintains approximately \$64 million in cash and investments. This reflects a \$2.5 million increase from October 2014 due primarily from TAT revenue received. However, this increase was offset by approximately \$4.4 million in expenditure payments. He further noted that \$9.3 million from prior year encumbrances have not yet been spent; that a \$18 million reserve has been earmarked to fund FY 2015 budget expenditures and other liabilities, including payments to the “EUTF and ERS,” and for accrued vacation and Hawai’i Convention Center incentives; that within the FY 2015

budget of \$92.3 million, an amount of \$49.7 million has been contracted or committed; and, that the Tourism Special Fund has received \$6.8 million in TAT revenues in November and \$34.2 million year-to-date.

In regards to the Convention Center Enterprise Special Fund, Mr. Togashi stated that the Fund maintains \$25.9 million in cash and investments, which reflects a \$2.4 million increase from October due primarily from TAT revenues and net convention center revenues. The Fund also includes \$10.9 million in cash allocated to "DAGS"; \$2 million allocated for emergency; \$13.3 million in reserve to support repair and maintenance at the convention center (\$10.5 million); and, \$2.2 million for prior year encumbrances. He further reported that the Fund recorded \$2.75 million in TAT revenues in November and \$13.9 million year-to-date. The convention center FY 2015 operating loss has been budgeted for \$3.5 million and the year-to-date loss is \$477,000.

Mr. Togashi concluded by reporting that spending from both the Tourism Special Fund and Convention Center Enterprise Special Fund is "according to budget." Mr. Corteway asked whether Mr. Togashi "was comfortable with the size of the emergency fund" within the Tourism Special Fund. Mr. Togashi stated that he was comfortable, "but we could always use more, especially since the reserve has been earmarked." He noted that we need to "manage" the reserve.

Mr. Dee referred to a potential \$8 million reserve going into FY 2016 and asked whether it could be used for marketing purposes this year. Mr. Togashi responded that "we don't just spend money to spend" and that substantial funds may be needed for the repair and maintenance of the convention center and to fund the various projects within the convention center "master plan." In response to a question from Mr. Corteway whether the \$8 million reserve at the end of FY 2015 could be used to for repair and maintenance, Mr. Togashi noted that the funds have already been "earmarked" for other purposes.

Mr. Uchiyama stated that "there are issues on the government procurement process that has been imposed" upon the convention center and asked Ms. Orton to provide her input. Ms. Orton stated that there are water "leaks" at the convention center and other "challenges due to procurement requirements imposed upon HTA." She added that subcontracts need to be extended and requested "approval" by the Board to extend the subcontracts, including the approval of contract "templates" authorizing the extension of the current vendor contracts. Ms. Stone expressed concern with a "two year extension," especially when a "new RFP" may be issued. She added that the Board should be informed of the repair and maintenance projects and that she is "concerned" with the two-year approval of subcontracts. Mr. Uchiyama noted

his concern related to the procurement process. Mr. Williams stated that he would like to work with staff and report back to the Board on the procurement process for repair and maintenance at the convention center.

Mr. Atkins asked where would the funds come from to pay for the convention center operating loss in FY 2015. Mr. Togashi responded that the \$26 million of TAT revenues in the Convention Center Enterprise Special Fund would be used to fund the operating loss.

Mr. Togashi referred to the HTA financial statements for July, September and October 2014 that were discussed at the last Board meeting and requested approval at this time. Mr. Corteway made a motion to approve the HTA financial statements for July, September, October and November 2014. Mr. Dee seconded the motion, which was unanimously approved by all the Board members present.

Mr. Dee made a motion to approve the KPMG "Hawaii Tourism Authority, Audit Results June 30, 2014." Mr. Atkins seconded the motion, which was unanimously approved by all the Board members present.

Mr. Salā expressed his appreciation for the "good work" done by Mr. Togashi and that he need not "apologize" for not being prepared when responding to questions from the Board, whose members represent a "diverse group."

The meeting was recessed at 10:43 a.m.

The meeting was reconvened at 10:57 a.m.

6. Appointment of Board Members to Committees

Mr. Salā reported that the current members of the "Tourism Strategic Plan Investigative Committee" and the "Convention Center Capital Improvement and the Management & Marketing Procurement Investigative Committee" would be reappointed to the respective committees. He further reported the appointment of Mr. Corteway (chair), Mr. Nakamura (vice-chair), and Mr. Atkins to the Audit Standing Committee. Mr. Corteway made a motion to approve the appointment of Board members as reported by Mr. Salā to the respective committees. Mr. Fried seconded the motion, which was unanimously approved by all the Board members present.

7. Presentation and Discussion on Visitor Statistics

Mr. Nahoopii provided a PowerPoint presentation of visitor data for October 2014. (A copy of the presentation was included in a “Board folder” containing documents related to the various agenda items and were previously distributed to Board members. The HTA Key Performance Indicators dashboards were also included in the folder for consideration by the Board.) Initially, he provided an “overview” of visitor data to date by reporting that visitors contributed \$12.2 billion to Hawaii’s economy and \$40.2 million statewide per day; that visitor expenditures was up (+2.2%) from same time as last year even though arrivals was flat (+.7%); that for the month of October, total expenditures were up (+3.3%) at \$1.1 billion and arrivals grew (+3.0%) due to increases from U.S. West (+9.1%) and U.S. East (+7.7%); and, that length of stay continues to shorter in the core markets. In regards to key performance indicators measured against targets, Mr. Nahoopii reported that we are “on pace” with targets. However, the key performance indicators for each island indicate that Hawaii Island is “having difficulties” reaching targets for arrivals and visitor days.

In regards to visitor expenditures, Mr. Nahoopii reported that expenditures in October were ahead of targets. He noted that the growth in domestic spending was offset by declines in spending by the international market. However, year-over-year growth in expenditures since July 2014 has maintained spending at a “steady level.” Within the categories of total personal daily spending, he reported an increase in spending within the categories for “lodging” (+3.2%) and “entertainment/attractions” (+5.1%). The increase in lodging was due mainly to the growth in room rates and “utilization of rooms.” He also reported that expenditures for entertainment “finally increased.”

In regards to air seats, Mr. Nahoopii reported that air seats “were up in October” (+5.4%). He noted that despite a reduction in seat inventory during the 4th quarter of 2013, domestic seats from the U.S. West have now “returned” with an increase of 11.2%. In response to a question from Mr. Corteway whether there is “enough marketing money for Chicago and Mid-East” flights, Mr. Uchiyama responded affirmatively.

Mr. Nahoopii noted that the increase in arrivals for October was led by arrivals from U.S. West. This was due to more air seats and flights from the domestic market. He also added that although cruise ship passenger arrivals increased, the international passengers “has dropped because of scheduling and smaller ships being used.” Mr. Uchiyama stated that “we are working on a statewide scheduling” of ships at Hawaii ports. Mr. Atkins shared his recent conversations with officials from Disney and reported that Disney is “very positive” with Hawai’i.

Mr. Nahoopii continued his presentation by showing a chart depicting a trend line of monthly “seasonally adjusted arrivals” since January 2011. He reported that the trend line indicate “that we have entered another swell in growth starting from May 2014.” In regards to the total average daily census, he reported that the October daily census was “up 3.8%” but offset by shorter length of stay. The census reflects that we still have “a seasonal pattern” despite our goal of increasing daily census during the shoulder periods. He projects an increase in arrivals for November and December. Mr. Fried inquired as to the number of Japan visitors that came to the Honolulu Marathon. Mr. Uchiyama responded that the number of Japan visitors as being about “the same as last year” and that he expects the number to drop next year because of a drop in the valuation of the yen.

Mr. Nahoopii discussed the visitor arrivals from the various major markets by reporting that the growth in the U.S. West was due primarily to the growth in seats and an increase in arrivals for meetings, conventions and incentives; that the Japan visitors are spending less and have a shorter length of stay; that the Canadian visitors are “still following a slow period pattern;” that China continues to “exceed targets;” that although we expected the number of Korean visitor arrivals to drop because of “a tradition to not marry and honeymoon during this period,” the “drop exceeded our expectations;” that Oceania is “where we expected;” that we expect arrivals from Europe “to be up;” that Latin America arrivals exceeded the October targets; and, Taiwan arrivals still fell short of a target, which was revised downward after Hawaiian Airlines left the market.

In regards to hotel occupancy, Mr. Nahoopii reported that although occupancy was up 2.5% in October, the year-to-date average was “flat.” He also reported that although current hotel room rates were higher than 2013, the rate of “growth” was “moderate” and “has stabilized from the beginning of the year.”

Finally, Mr. Nahoopii reported that the following “studies will be coming out:” time-share study of four quarters will show how time-share units are being utilized; a resident sentiment study analyzing resident sentiment of tourism and awareness of HTA and its role; and, a supplemental study of the tourism industry “basic plant.” In response to a question from Mr. Williams, Mr. Nahoopii responded that the time-share study would discuss whether the time-share visitors are first or repeat visitors. Mr. Atkins asked whether the time-share study would reflect that time-share visitors now “use points.” Mr. Nahoopii responded that the study includes “exchanges.” Ms. Stone added that owners are now using marketing organizations to sell units.

Mr. Dee expressed his congratulations “on a good month,” especially in U.S. West, and “kudos to HVCB.” Mr. Uchiyama noted that the increases in arrivals were due to “redeployment of

flights,” and that he was “concern with fuel price increases in the future.” We need “to be cautious on maintaining demand,” especially in the West Coast where there is “a lot of capacity today” and there may be a “fall out” in the future.

8. Presentation, Discussion and Approval of Board Meeting Policy

There was no objection to Mr. Salā’s request to defer this agenda item.

9. Presentation, Discussion and Approval of Hiring Plan

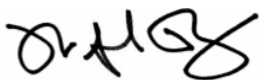
Mr. Salā reported that the Administrative Standing Committee met to discuss the hiring of a President & CEO. There was a “dynamic discussion” among the Committee members and the “need to keep discussions open.” He acknowledged Ms. Stone as a member to the Committee. She reported that the Administrative Standing Committee, consisting of Mr. Salā, Mr. Nakamura, and herself as Committee members, met on December 11 and that there was a “good discussion on the process.” She reported that the Administrative Standing Committee appointed the following members to the Search Investigative Committee: Mr. Salā, Mr. Nakamura, Ms. Stone, Mr. Fried, Mr. Barry Taniguchi (community member), Ms. Linda Wong (community member), and Mike McCartney (ex officio). Ms. Stone added that the Search Investigative Committee will be meeting “next week to discuss process.” They will discuss whether to use a “search firm” and whether there will be a “time-line.”

10. Adjournment

Mr. Williams clarified that staff would be working on efforts to seek assistance from Brand USA to reopen Kona Airport as an international port of entry and to update the Board on the procurement process for the Hawai’i Convention Center.

The meeting was adjourned by consensus at 11:35 a.m.

Recorded:



Winfred Pong
Recorder