



HAWAII TOURISM AUTHORITY

Hawai'i Convention Center
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Neil Abercrombie
Governor

Mike McCartney
President and Chief Executive Officer

**REGULAR BOARD MEETING
HAWAII TOURISM AUTHORITY
Thursday, October 31, 2013
Hawai'i Convention Center
1801 Kalākaua Avenue, Honolulu, Hawai'i 96815**

MINUTES OF REGULAR BOARD MEETING

MEMBERS PRESENT: Ron Williams (Chair), Patricia Ewing (Vice Chair), Jack Corteway, Rick Fried, Patrick Fitzgerald, Victor Kimura, Michael Kobayashi, Craig Nakamura, Lorrie Stone

MEMBERS NOT PRESENT: Kelvin Bloom, David Rae, Aaron Salā

HTA STAFF PRESENT: Caroline Anderson, Mike McCartney, Doug Murdock, Roann Rakta, Angela Rodriques, Marc Togashi, David Uchiyama, Keli Wilson

LEGAL COUNSEL: Gregg Kinkley

Guests: William Aila, Daniel Quinn, Sam Lemmo, Russell Kumabe

1. Call to Order

Presiding Officer Ron Williams called the meeting to order at 9:36 a.m. Ms. Keli offered a pule.

2. Approval of Regular and Executive Minutes of Prior Board Meetings

Mr. Kimura made a motion that was seconded by Ms. Ewing to approve the minutes of the Regular Board meeting conducted on September 26, 2013. The motion was unanimously approved without any amendment or reservation by any of the Board members present.

3. Report of the Chief Executive Officer Relating to the Implementation of the State Tourism Strategic Plan Initiatives and Staffs' Current Assessment of the Major Market Areas

Mr. McCartney reported on his presentation to the Kailua Neighborhood Board and referred to a "Statement Attributable to Mike McCartney, President & CEO of the Hawaii Tourism Authority, Regarding Kailua, Oahu" in response to questions related to tourism capacity and the economic impact to Kailua by visitors. Mr. McCartney also referred to his letter dated October 10, 2013 to Charles Prentiss, Chair, Kailua Neighborhood Board, regarding the Hawai'i Visitors and Convention Bureau's restrictions on postings on the Go Hawaii website by illegal vacation rentals that are not properly licensed. A "Hawaii Tourism Basic Facts" sheet was also presented by Mr. McCartney as a resource that can be used when making public presentations. He noted that in regards to Access, Hawaii is the fourth largest port of entry for international air travel to the United States.

Mr. McCartney referred to the current concern related to the recent Waikiki beach sand erosion. Mr. McCartney expressed appreciation to HTA Board member, Vic Kimura, Sam Lemmo (Department of Land and Natural Resources ("DLNR") Office of Conservation and Coastal Lands), Mayor Kirk Caldwell and many others who have historical knowledge of past sand erosion at Waikiki Beach for their assistance in helping him to fully understand the issue and that "mother nature is the cause of the erosion." HTA will continue to work with the DLNR to monitor the situation and seek a long term "fix." He distributed seven photographs of the beach erosion area at Waikiki Beach.

Mr. McCartney further reported that he has been meeting with the various Counties on how best to allocate Transient Accommodations Tax ("TAT") revenues. He noted the Counties' need to provide for visitor safety and that HTA will be working to ensure that TAT revenues are spent efficiently. Mr. Kimura expressed a need to do a better job of communicating to the community that funds from HTA are available. He further noted the need for HTA to visit the "sites" of the community based projects that may be funded. Mr. McCartney stated that a contractor has been hired to develop metrics and evaluation of the community based projects.

Finally, Mr. McCartney referred to the following handouts previously distributed to the Board members for discussion and reference: "Key Hawai'i Tourism Indicators, October 17, 2013" and "HTA Key Performance Indicators Dashboard" dated September 13, 2013.

4. Review of Recent and Upcoming Permitted Interactions

In response to a request from Mr. Murdock, no Board member reported any recent or upcoming permitted interaction with another member.

5. Scheduling of Future Board and Investigative Committee Meetings

Mr. Williams noted that currently the next scheduled regular Board meeting is November 21, 2013. Due to potential scheduling conflicts by Board members during the holiday season, he inquired whether Board members would be receptive to scheduling the next Board meeting to early December and that meeting would also serve as the regular monthly meeting in December. There was a consensus to rescheduling the November 21 Board meeting. Staff will be contacting each Board member to determine the best possible date. It appeared from a consensus of the Board that December 5, 2013 was the best date for the next Board meeting. Mr. Williams requested Board members who are members of the various HTA investigative committees to retain the previously scheduled dates for Board meetings (November 21 and December 26) as possible dates for investigative committee meetings.

6. Presentation and Discussion on Visitor Statistics

Mr. Uchiyama presented a PowerPoint presentation entitled "Current Visitor Data, September 2013" dated October 31, 2013. In addition to a hard-copy of the presentation, he also referred to the "HTA Key Performance Indicators Dashboard" for consideration and discussion.

As an overview, he noted the following in 2013 year-to-date: visitors have contributed \$40 million per day to Hawai'i's economy and reflected an increase from an average \$39 million per day in 2012 year-to-date; expenditures was 4.1% higher at \$11 billion; arrivals was up 4.5% at 6,256,793 visitors; and, visitor days was up 2.7%. However, Mr. Uchiyama also noted the following for the month of September 2013: visitors spent \$1 billion that represented a 4% reduction; arrivals decreased by 1% to 594,181 visitors and reflected one less weekend, an early Labor Day weekend, and a decrease in air seat capacity out of U.S. West; and, daily expenditures decreased by 3.6% to \$199 per person.

Mr. Uchiyama continued his presentation with a discussion of HTA's key performance indicators by comparing HTA targets vs. September actuals. He noted that arrivals and spending was slightly below targets and identified as a major cause of that drop was in the Japan market where larger capacity aircraft anticipated to be used in that market was not used. However, the indicators on a year-over-year basis were "still pacing ahead." In regards to island distribution, Mr. Uchiyama stated that "all islands showed year-over-year arrivals growth but moderate performance against targets."

In regards to total air seats (scheduled and charter), Mr. Uchiyama noted a flatten trend as of September 2013. Although there was a decline in charter seats and a lack of air seats due to smaller capacity aircraft from U.S. West and the cancellation of flights from Washington, D.C., he noted that air seat capacity from Japan, Oceania and Asia “will continue to see growth.” Mr. Uchiyama reported that the average daily visitor census for September 2013 was down 1% in comparison to September 2012 and expressed the “need to work on improving census in the shoulder periods.” He noted that Hawai’i was able to improve its census during the past shoulder period in the months of April and May 2013.

In regards to visitor spending, Mr. Uchiyama reported that although visitor spending was down in September 2013 we were still ahead year-over-year. He noted that the Japan market had the largest reduction in daily expenditure due primarily to a drop in length of stay. He also noted that expenditures from the Canada market “surprisingly rose.” Mr. Uchiyama continued with a discussion of expenditure categories and stated that “expenditures for lodging and transportation continued to trend upwards while expenditures for shopping and entertainment continued to trend downwards.

In regards to occupancy, Mr. Uchiyama reported a “record year-over-year for August” and that the average daily rate “hit a record in August” at \$240.05. He stated that the “historical pattern remain the same” for hotel occupancy on each island and that Kaua’i was the only island to show growth in occupancy in August.

In regards to visitor arrivals from each market in September, Mr. Uchiyama reported that U.S. West was down 5.9% due primarily to a reduction in airlift; that U.S. East and Canada was flat; that Japan showed moderate growth; that China and Korea continued to show growth; that Europe is “starting to plateau in arrivals and need to work on daily spend;” and, that Oceania “has shown growth due to an increase in flights.”

Finally, Mr. Uchiyama provided a brief preliminary overview of October visitor data. He stated that Hawai’i is “pacing well in arrivals with growth in the Asia market” and that there were 28 charters from Japan reflecting an “incremental” increase from 15 charters on a normal basis. He stated the need to continue working on developing more interest on flights to Kona and that “it will be real interesting going into 2014.”

7. Presentation and Discussion of Second Quarter Contractor Evaluations

Mr. Uchiyama discussed the contractors' performance by referencing in each major market area the applicable key performance indicators, targets, and variances against the annual tourism marketing ("ATM") plan.

In regards to U.S. West, Mr. Uchiyama stated we are "missing our targets but not by much" and that "year-over-year was still good." He added we are "hitting on distribution to the neighbor islands." In regards to U.S. East, "O'ahu is the only target being hit." For the Canadian market, we are ahead of targets for arrivals. In regards to ATM plan variances, Mr. Uchiyama noted a "positive" factor by Hawai'i being presented on the NBC Today Show and the Google map tracking of Hawai'i's trails. He noted a "fall off" in air seats" but the Hawai'i Visitors and Convention Bureau is addressing that by working with wholesalers.

In regards to the Japan market, Mr. Uchiyama stated we are "missing aggressive targets." He had hoped to implement a target of two million arrivals by 2016. He noted the anticipated larger aircraft in the Japan market did not materialize. On a year-over-year basis, the Japan market "looks good." In regards to the Meetings, Conventions and Incentive ("MCI") market in Japan, the Contractor was able to create two new events that caused more arrivals. The Contractor also created an "island push" to promote travel to the neighbor islands that "went really well." In regards to the Contractor's budget, "everything is in line." All programs and projects are being executed based on the annual tourism marketing plan.

Mr. Kimura asked if the anticipated larger capacity air craft were "on line, would the arrivals be different?" Mr. Uchiyama responded that "the numbers would be better" but noted the "load factors were good on current aircraft." Mr. Uchiyama confirmed an understanding expressed by Mr. Williams that Japan airfares have dropped because of competition from Korean Airlines and there will be more low cost air carriers entering the Japan market. In response to an inquiry from Mr. Williams regarding the MCI market, Mr. Uchiyama stated the market was "doing well because our targets were conservative" and the targets may "need to change by going through a process that will not rely on a historical five-year trend." Instead, we will be looking at targets used by other competitive destinations.

In regards to Oceania, Mr. Uchiyama stated we are "hitting all targets on all islands except for Molokai" and that the new bookings targets for MCI "were exceeded."

In regards to the China market, Mr. Uchiyama stated that the "targets were exceeded" and the island distribution "was good." There was also a slight growth in the MCI market. The ATM plan objectives are all being met and that tour packages are being developed for the

“higher end” segment of the market. Mr. Uchiyama added that the China market “will explode” with new flights from Beijing and more flights from Shanghai.

In response to a question from Mr. Fitzgerald regarding visa processing, Mr. Uchiyama stated the waiting period is currently two weeks and faster than it was two years ago. Mr. Fried asked if there is any interest in flights from other cities in China. Mr. Uchiyama responded there are “discussions going on with air carriers.”

In regards to the Korea market, Mr. Uchiyama stated the contractor was “hitting targets but MCI was below target.”

Mr. Uchiyama initiated a discussion of the “Meet Hawai’i” program, which represents a joint effort by the Hawai’i Visitors and Convention Bureau and the Hawai’i Convention Center contractor (SMG). He noted we are “on pace” within the short term but behind pace in 2018. The second quarter goal was reached. Mr. Uchiyama noted that incentives for sales staff helped to improve performance and instituted evaluations that could lead to termination. Mr. Uchiyama again expressed the need to “re-set” goals because “the pace towards 2018 must be reached.”

Mr. Kimura discussed the concern of recognizing “who booked what” and who should get credit for a salesperson who participated in the booking. Mr. Uchiyama responded that “lead generation” is not as important as it was in the past under the current system. Instead, “actual booking is credited” and each booking is evaluated to determine the extent of involvement by each salesperson.

Mr. Corteway asked if Kona Airport “gets busy, can we handle it?” Mr. Uchiyama responded that Kona Airport is currently handling charter flights. Customs is still being conducted on O’ahu with the flights continuing to Kona. Mr. Uchiyama noted that the Airports Division at the Honolulu International Airport is proposing to train customs agents on O’ahu and flying the agents to Kona to meet the additional flights.

Mr. Williams reported he attended a meeting of the U.S. Travel Association where there was a discussion of government funding for business meetings and for state tourism authorities. He stated “it was a good meeting” and “Hawai’i should be a part of this organization.”

9. Presentation, Discussion and Approval of Joint HTA-DLNR Programs in Accordance with Act 161

(This agenda item was taken out of order.)

Mr. Aila appeared in his capacity as the Director of Land and Natural Resources and initiated a discussion of proposed expenditures funded by an estimated \$3 million in "excess" TAT revenues allocated from the general fund to DLNR under Act 161, Session Laws of Hawai'i 2013 ("Act 161"). Under Act 161, the expenditures required the approval of both the HTA Board and the Board of Land and Natural Resources ("BLNR"). Mr. Aila expressed appreciation for HTA's efforts to promote products that visitors come to Hawai'i to experience with its residents. He noted that funding for State Parks will continue to receive the same level of funding and funding for shoreline programs will be enhanced. Law enforcement at camping areas will also be enhanced in a manner consistent with HTA's strategic plan. Mr. Aila expressed the desire to not dedicate specific amounts of money to certain programs or projects and that he would prefer funding flexibility to address "what is happening on the ground."

Mr. Kimura asked how much money is DLNR getting from the government to protect natural resources and "how much money do you need?" Mr. Aila responded that DLNR currently receives funding representing 1% of the entire state budget, which includes one-third from the general fund, one-third from special funds, and one-third from federal funds, and that he "could use 100% more." He is currently addressing reductions in funding for "evasive species and for humpback whales." In regards to moneys in the special funds, DLNR has implemented programs to increase revenues going into the funds, such as increased parking fees and concession revenues. However, whenever special fund revenues have increased the Legislature would correspondingly reduce its general fund appropriation.

Mr. Quinn, Administrator of DLNR's Division of State Parks, continued DLNR's presentation by providing a background of previous funding from HTA and discussed the need for regular maintenance of state parks to avoid the need for major renovations and for continued funding for DLNR's resource management program that have experienced substantial funding reductions over the past 20 years. He distributed numerous documents bound in a file folder and presented at the meeting for the Board's consideration, including a "submittal" approved by the BLNR approving the expenditure of TAT revenues and various spreadsheets detailing specific projects and activities that would be funded in Fiscal Years 2014 to 2018. He identified the various DLNR Divisions and the funding they would receive as follows: Office of Conservation and Coastal Lands (\$600,000), Division of Conservation and Resource Enforcement (\$300,000), State Parks (\$1,995,000), Division of Forestry and Wildlife (\$105,000).

Mr. Williams stated his desire that the current discussion of DLNR's proposal should focus on "how to do it better" for the future and that a vote on the proposal would be at the December Board meeting. Ms. Kelii discussed HTA's current process for funding natural resources and state parks through plans submitted by DLNR to HTA. Specific projects identified for funding were previously identified in a study conducted by HTA of state parks requiring major improvements or renovations. Mr. Kimura asked Ms. Kelii that based on her meetings with DLNR "did you ask how much is needed to do it the right way and not just how to spend the \$3 million." He added that "we should be asking the question that 'if you had your druthers, what do you need within the next five years?'" Ms. Kelii responded that she did not asked these questions. She further noted that DLNR may not have the "capacity" or "resources" to spend more than \$3 million. Mr. Quinn discussed the need for immediate funding to fix current projects. Mr. Kumabe stated that the funding priority is based on the need to be more "dynamic."

Mr. Williams suggested that the Board should defer action. Instead, we should discuss the current program as the beginning of a "model" that we can use to move forward to get things done and work with other agencies. Ms. Stone stated that Act 161 is "brand new" and the process going forward should not be a "hit or miss." Instead, we should have an overall process that needs to be approved and not just a process to approve individual projects. Ms. Stone expressed a need to review a "process" that the Board can use to approve funding. Mr. Fitzgerald noted that HTA is being held accountable under Act 161 and that the Board does not have the ability to evaluate funding for individual projects. He expressed the need to know DLNR's priorities, especially when there is no assurance that the \$3 million funding will continue into the future. Mr. McCartney suggested that a memorandum of understanding ("MOU") be drafted to "spell out our relationship" with DLNR that would be approved by both the HTA Board and the BLNR. The HTA brand sustainability plan should also be incorporated into the MOU.

Mr. Kimura requested that staff provide the Board with (1) a summary of the current forms being used to evaluate funding for the various projects or activities; (2) the identification of priorities that were presented by DLNR and discussed with HTA staff and how these priorities were evaluated or assessed by HTA staff; and, (3) a draft MOU that would be approved by the HTA Board and the BLNR. Mr. McCartney added that we need to know how the money will be spent, what are the priorities, and how will each project or activity be evaluated.

The meeting was recessed at 11:20 a.m.

The meeting was reconvened at 12:00 p.m.

8. Approval of HTA's Financial Reports

Mr. Togashi referred to the written summary and financial statements for the months ending August 31, 2013 and September 30, 2013 that were previously distributed to the Board. He stated there were "no anomalies to the financial statements." Mr. Togashi noted that due to a recent change, HTA currently receives TAT revenues on a pro-rated equal installment basis. For instance, based on HTA's total FY 2014 appropriation of \$82 million, HTA will receive one-twelfth of its total appropriation on a monthly basis or \$6,833,333.37 each month. Based on this current method of TAT distribution, HTA has received \$4.3 million less in September as compared to last year. In response to a question from Mr. Fitzgerald whether this new method for distributing TAT revenues will impact HTA's management of its funds, Mr. Togashi stated there would be no significant effect because HTA executes many of contracts at the end of the calendar year.

Mr. Kimura requested staff to provide the average collection cycle in days of the convention center receivables.

Mr. Kimura made a motion that was seconded by Mr. Fitzgerald to approve the financial statements as of August 31, 2013 and September 30, 2013. The motion was unanimously approved all the Board members present without reservations.

10. Presentation, Discussion and Approval of HTA Policy Positions for 2014 Legislative Session

Mr. McCartney referred to a draft "Board Resolution 14-01, Resolution Regarding Authority to Present Policy Positions" ("Resolution") that he intends to reply upon as approved positions of the Board when presenting public policy positions on behalf of the HTA during calendar year 2014. Generally, he will rely upon positions consistent with HRS chapter 201B, the Hawai'i State Planning Act related to "visitor industry" codified as HRS section 226-8, the State of Hawai'i Tourism Strategic Plan, the HTA Strategic Plan for 2014-2015, the HTA Brand Sustainability Plan, and any other action approved by the Board.

The Resolution authorizes policy positions that are consistent with previous HTA positions but includes the following additional positions: "encourage the allocation of additional Transient Accommodation Tax from the general fund to continuously enhance and improve the tourism product;" support "incentives or other tax credits for upgrading, improving and expanding the visitor plant;" that taxes levied on visitors "should go no higher than current levels;" that HTA "supports the modernization of airports and harbors;" that HTA "support

visa waiver, global entry, customs/immigration pre-clearance, TSA expediting and work visa for highly skilled positions to conduct business travel;" and, support revisions to HRS chapter 201B to update "current terminology and best practices" and to provide "flexible personnel policy for HTA and opposes conversion of HTA positions from exempt to civil service positions." Mr. McCartney recognized that individual Board members might have "personal positions" on a matter that may be different from the proposed HTA policy positions. He emphasized that approval of the HTA resolution should not be a reflection of the "personal positions" maintained by an individual Board member.

Mr. Kimura made a motion that was seconded by Ms. Ewing to approve the "Board Resolution 14-01, Resolution Regarding Authority to Present Policy Positions" during calendar year 2014. The motion was unanimously approved without reservations.

11. Report, Discussion and Approval of Annual CEO Evaluation and Contract Review by Administrative Standing Committee

Mr. Kimura made a motion that was seconded by Mr. Corteway to go into executive session for the purpose of evaluating an officer and employee of the HTA when matters affecting the privacy of an individual will be discussed. All the Board members present without any reservations unanimously approved the motion.

The meeting was recessed at 12:19 p.m. to conduct the executive session.

The meeting was reconvened at 1:12 p.m.

Upon consideration of the annual CEO evaluation and contract review by the Administrative Standing Committee, Ms. Stone made a motion that was seconded by Mr. Kimura to adjust the compensation of the CEO by (a) approving an incentive payment of \$44,625.00, based on 85% of \$52,500.00, covering the period from January 1, 2012 to June 30, 2013; (b) adjusting the salary to \$270,000.00 per annum without incentive payment effective July 1, 2013; and (c) extending the HTA President and CEO's contract to June 30, 2017. All members present unanimously approved the motion.

Mr. Murdock recommended that the Board should consider an amendment to increase the HTA FY 2014 budget and the line items related to general administrative services by \$55,000.00 to reflect the salary adjustment for the CEO. Upon discussion with Deputy Attorney General Kinkley regarding the legal requirements to amend the agenda for this Board meeting, Mr. Fitzgerald made a motion that was seconded by Mr. Kimura to amend the agenda for this Board meeting by adding the following agenda item: "Discussion and Approval of an Amendment to

the FY 2014 Budgets Related to General and Administrative Services.” All the Board members present without reservations unanimously approved the motion.

▪ **Discussion and Approval of an Amendment to the FY 2014 Budgets Related to General and Administrative Services**

Mr. Murdock discussed the need to amend the FY 2014 budgets related to general and administrative services because of the Board’s adjustment to the CEO compensation. Mr. Fitzgerald made a motion that was seconded by Ms. Stone to amend the FY 2014 budgets by increasing budget items for general and administrative services by \$55,000.00. All the Board members present without reservations unanimously approved the motion.

9. Adjournment

The meeting was adjourned by consensus at 1:23 p.m.

Recorded:

/s/Winfred Pong

Winfred Pong

Recorder