



REGULAR BOARD MEETING
HAWAII TOURISM AUTHORITY
Thursday, December 19, 2019
Hawaii Convention Center
1801 Kalākaua Avenue, Honolulu, Hawaii 96815

MINUTES OF REGULAR BOARD MEETING

MEMBERS PRESENT:

Rick Fried (Chair), David Arakawa, Fred Atkins, Daniel Chun, George Kam, Kyoko Kimura, Ku'uipo Kumukahi, Benjamin Rafter, Kelly Sanders, and Kimi Yuen

MEMBER NOT PRESENT:

Micah Alameda and Sherry Menor-McNamara

HTA STAFF PRESENT:

Chris Tatum, Keith Regan, Marc Togashi, Pattie Herman, Marisa Yamane, Jadie Goo, Jennifer Chun, Caroline Anderson, Carole Hagihara, Chris Sadayasu, Joseph Patoskie, Minami Aoki, Laci Goshi, Lawrence Liu, Anda Garell, Chael Kekona, Leslie Centeno, Ronald Rodriguez, Talon Kishi, Maile Carvalho, Cynthia Morita, Maka Casson-Fisher, and Minh Chau Chun

GUESTS:

Representative Richard Onishi, Senator Glenn Wakai, Eric Takahata, John Monahan, Mufi Hannemann, Erin Kahn, Nathan Kam, Teri Orton, Noelle Liew, Lee Conching, Christine Ulandez, Brandon Eskew, John DeFries, Donn Nakamura, Alexander Wong, Frank Haas, Jay Talwar, Allison Schaefer, Mitsue Varley, Dennis Suo, and John Knox

LEGAL COUNSEL:

Gregg Kinkley

1. Call to Order and Pule

HTA Board Chair Rick Fried called the meeting to order at 9:33 a.m. Kalani Ka'anā'anā introduced Maka Casson-Fisher, who gave a chant to open the meeting. Mr. Casson-Fisher shared the story of Princess Bernice Pauahi Bishop, who was born on this day many years ago.

This day was also Kalani Ka'anā'anā's birthday. Mr. Casson-Fisher encouraged the room to celebrate by singing happy birthday to Mr. Ka'anā'anā, who thanked everyone present for all of their support and introduced new HTA staff members Chael Kekona and Mr. Casson-Fisher, who started with the organization in December 2019.

2. Approval of Minutes of the November 21, 2019 Board Meeting

Chair Fried moved to approve the November Board meeting minutes. Benjamin Rafter seconded the motion, which was unanimously approved.

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 whether there were any permitted interactions to report. Fred Atkins noted that he requested a presentation for the Board since the Audit committee meeting could not be held. HTA's staff informed him that the auditors would present at the next Board meeting (today). Chair Fried then discussed an environmentally friendly housekeeping matter – HTA's use of recyclable containers and elimination of single use water bottles at the meeting.

4. Report Relating to Staff's Implementation of HTA's Programs During November 2019

Chair Fried next recognized and commended HTA's new direction under the leadership of CEO Chris Tatum and his staff. Chair Fried noted that HTA has been holding and supporting more events focused on residents. The organization is bringing events in-house and doing more resident-focused programming. He anticipates increased resident sentiment on Oahu at least, because of the vacation rental bill, which will likely make a difference and help increase visitor spend. Planning ahead to find accommodations will only become more important now. Chair Fried further mentioned that destinations around the world are increasingly charging for experiences. It may benefit our State to consider which sights may have a potential to increase visitor spend. Funds collected from those sights can be used to help keep them pristine, as in other countries. Mr. Atkins echoed those comments and commended Chair Fried for his leadership on the Board. Chair Fried then thanked Mr. Atkins for his comments and welcomed Sen. Glenn Wakai and Rep. Richard Onishi to the meeting.

Mr. Tatum reported that HTA was working with the World Surf League (WSL) in preparation for surfing's place in the upcoming Olympics. He thanked Sen. Wakai for bringing HTA and the WSL together and noted that it was important to position HTA well going forward. Mr. Tatum also noted that HTA was working with UH to co-sponsor a men's volleyball event. He also stated that he would be heading to Japan to speak with Shidler School of Business alums and provide updates. Mr. Tatum thanked the Board for all of their support, as well as Sen. Wakai and Rep. Onishi for supporting him at the Legislature, and commended the HTA team for their focus on accountability and transparency and investment in their work. Mr. Tatum highlighted a milestone for transparency – the Board did not have one executive session this year. The State and its residents should be able to see what the organization is doing. Mr. Tatum also publicly

thanked his wife for letting him go from retirement into this job. There may be some truth to her joking that he does not understand retirement. Chair Fried next jumped to items 7 and 8 on the agenda so the auditors could present their report, since the Audit committee meeting was not held.

After discussion of items 7 and 8 below, the meeting was recessed, and discussions resumed at item 5.

5. Presentation and Discussion of Current Market Insights and Conditions in Hawai'i and Key Major Hawai'i Tourism Markets, Including the United States, Japan, Canada, Oceania, Other Asia, Europe, and Cruise

Jennifer Chun presented on this item, as Mr. Tatum had asked her to provide information about lodging tax rates in other jurisdictions. The latest Marketing Insights report includes comparative tax rates with other US states. Not much information is available online regarding lodging tax rates from other jurisdictions, but some information is available on the Caribbean and Mexico. The lodging report in the packet shows that Hawai'i's occupancy rate for November was 78.8% and the year-to-date daily spend per visitor was about \$194.80, slightly down from a forecast of \$197.30. Chair Fried noted that Hawai'i has the highest lodging tax in the US based on gross rate. However, compared to other international destinations, such as the Caribbean, Hawai'i falls in the middle. A question was asked about how the data for the current report was obtained. Ms. Chun answered that the data was from publicly available information.

David Arakawa asked whether the report indicates that Alaska and California have 0% state tax rates on lodging. Ms. Chun answered that yes, those states did not have a state tax rate, but there were many local and county level taxes imposed. Mr. Rafter asked whether the data for specific municipalities was available. Ms. Chun responded that data for urban centers was included in the documents. Mr. Rafter then asked how Kaua'i fared in November. Ms. Chun responded that Kaua'i's occupancy rate in November was 72.2%, which was 0.2% down from the prior year. The average daily rate was \$250, which was 9% down.

Chair Fried asked whether anyone else had questions. Hearing none, he thanked Ms. Chun. Daniel Chun next discussed Alaska Airlines' in-flight magazine, which has a monthly readership of 4,000,000 people, and its upcoming Hawai'i editorial, which features the Kuleana Campaign. Chair Fried then turned to the financial reports for November.

6. Presentation, Discussion and Action on HTA's Financial Reports for November 2019

Keith Regan greeted the group and thanked them for the chance to present the November financial statements. He began with the first tab in the packet explaining that it presented a high level view of the budget and HTA's spending. The second tab was a detailed budget statement that shows how money is allocated and expended. Mr. Regan mentioned, for example, that HTA extended some new contracts in the area of Hawaiian culture this year.

Certain funds were shown as unencumbered, but as new contracts are extended, the encumbered numbers would increase. The budget change in November was a result of branding developments and extending new contracts in major markets – encumbered funds grew from \$15,000,000 to \$44,000,000 because of the new contracts. Mr. Regan went on to mention that there were no changes in the safety and security budget items. However, certain items calculated on a calendar year basis, but currently in process (such as county funding for ocean safety) would likely show up in the budget in February. Mr. Arakawa asked how the Board would learn about large contracts. Mr. Regan replied that the contracts are published at the end of the CEO report every month. The board approves categories lump sum. Mr. Arakawa suggested that it would be helpful to highlight major contracts in the future so the Board can focus on those.

Mr. Atkins then noted that the original budget for Hawaiian Culture Programs, for example, was \$7,800,000 – what does reallocation mean? Mr. Regan responded that meant using unallocated funds in subcategories. Mr. Atkins asked whether \$1,095,000 of unallocated funds would be used, and Mr. Atkins the figure was closer to \$95,000.

Ms. Kimura asked if the PGA contract was for a lump sum or per event. Mr. Regan answered that it was a lump sum for three tournaments. Ms. Kimura noted that the PGA contract was getting expensive. Marc Togashi noted that a new tournament, the Sony Junior Pro Challenge, had been added to the programming and was responsible for the increase of funds. Ms. Kimura observed that sponsorship for junior golf should not be in the marketing budget because it is a community event. Mr. Tatum explained that junior golf events help with how Hawai'i is perceived as a market and a destination. Community components exist in every sporting event that HTA sponsors and are embedded in the contracts. HTA staff added that the PGA events would be expanded outside of the Sony Open, with events being hosted in Kapolei and other locations. Also, the junior golf contract included about \$10,000 of funds that went to charitable initiatives for young golfers. Mr. Arakawa noted that the NBA and NFL events had community components. He also appreciated the clarification that a portion went to charity. Mufi Hanneman added that the golf programs were taking the same template as the football and basketball events in reaching out to community and schools not previously included in the Sony Open, such as in Kapolei and around the island.

Mr. Regan moved onto the next tab in the financial statements packet, which was an overview of the financial statements. The Tourism Special Fund (TSF) monies look like they may be increasing, but part of that increase may be because invoices have not been received yet. He added that the TSF includes roughly \$5,000,000 of emergency funds that can only be used if authorized by the Governor. HTA is proud of spending down encumbrances from prior fiscal years and is continuing to work on closing out outstanding contracts and moneys. The organization currently has reserves of about \$22,000,000. A little short of 60% of the organization's funds are being spent on branding. Mr. Regan ended his remarks by commending the team for their efforts. Chair Fried requested a motion to accept the budget. Mr. Kam made a motion, which Mr. Atkins seconded. The motion was unanimously approved, with Chair Fried noting that it was impressive that a third of the budget was going to

community events, which showed the shift in HTA's focus.

7. Board Discussion and Action on the Presentation of the Report of the Audit Standing Committee on the Financial Audit for Fiscal Year 2019.

Mr. Arakawa then introduced the auditors from Acuity LLP ("Acuity") to present the audit results and noted that after the presentation, the Board will be asked to vote on acceptance of the audit. Donn Nakamura and Eric Tsukamoto distributed copies of draft financial statements and mentioned to the group that it was their firm's first year performing the audit for HTA. Mr. Tsukamoto focused on the Condensed Statements of Activities section. He noted that HTA's current assets increased approximately \$393,000, part of which was due to an increase in accounts receivable. HTA's capital assets had a decrease of approximately \$7,249,000, due to a current year depreciation expense. The organization's investments increased by about \$2,695,000, which represent unspent funds held by the Department of Accounting and General Services for emergency capital improvements and repair of maintenance purchases for the Convention Center, among other funds. HTA's current liabilities decreased by about \$223,625,000 due to the Department of Budget and Finance's cancellation of the Convention Center's interest and debt in July 2018. Mr. Arakawa thanked Sen. Wakai and Rep. Onishi for their efforts in passing that legislation.

Mr. Tsukamoto then discussed HTA's noncurrent liabilities – net pension liability increased by about \$120,000. For reference, the entire State's pension liability increased by about \$122,000,000, so the whole State government is being affected, but just HTA. In summary, Mr. Tsukamoto stated that no new accounting policies were found in connection with the audit. The most sensitive estimates affecting HTA's financial statements include the length of the useful lives of assets used to depreciate capital assets. The auditors experienced no disagreements with management or difficulties with performing audit and thanked Marc Togashi and his team for providing their assistance.

Chair Fried asked the auditors to explain more about the increase in the pension liability. Mr. Nakamura answered that the Employee Retirement System (ERS) pension plan includes the State and counties, and HTA is part of the State system. The State is allocated portion of liability under the ERS pension plan, and HTA is allocated a portion of that liability by the State. Mr. Nakamura explained that HTA's pension liability is affected by HTA's payroll, but the amount of liability is based on the formula determined by the State.

Mr. Atkins asked if the Board could have a little more time to review the next year's audit. He observed that the audit report was confusing, as he understands that HTA has 2 budgets, one for operations and one for the Convention Center. The audit report, however, has consolidated statements then fund financial statements, which seem to be explained differently from HTA's budget composition. Mr. Nakamura explained that State procedures necessitate presentation this way, as State accounting policies require consolidation of statements, and audit fund financial statements are not included in fund financial statements, which have more of a short-term focus. Mr. Atkins thanked Mr. Togashi for speaking with him about the audit. Mr.

Arakawa commented that maybe next year's report can be simplified, but in a way that still complies with state-required accounting standards. He asked whether the auditors have audited other governments. Mr. Nakamura stated that Acuity has experience auditing State and county level departments. Mr. Togashi added that Acuity was referred by the State Office of the Auditor and does not report to HTA's management.

Mr. Arakawa asked whether the auditors found any fraud, waste or abuse by HTA in their report. Mr. Nakamura responded that part of the audit includes looking for fraud and waste, and included interviews with staff. The audit, however, is focused on financial statements, though it does try to understand the organization's controls and review how the controls are operating. Mr. Togashi noted that HTA has procedures in place to protect against abuse and fraud with levels of internal review. Mr. Arakawa requested as a caveat, which should not affect adoption of the audit, that the report be allowed to be disclosed to parties authorized by law, such as legislators. Gregg Kinkley clarified that disclosures authorized by law covers that, and Mr. Nakamura added that the audit report is available to the State Auditor, who reports to the legislators, and that any disclaimers on the audit are to keep others from misinterpreting the report and protect Acuity. Chair Fried made a motion to accept the audit of HTA for FY2019 and financial report prepared by Acuity. Mr. Nakamura seconded the motion, which was unanimously adopted.

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

Mr. Regan informed the Board that HTA sent the Attorney General's office a letter on December 13 requesting advice and guidance from AG Connors on administrative costs, which was the remaining line item open from HTA's 2018 audit. HTA researched the item and looks forward to hearing from AG Connors when she has time.

The Board meeting recessed at 10:47 a.m.

The Board meeting reconvened at 11:04 a.m.

9. Update Relating to the 2020 Legislative Session and Relevant Bills Relevant to HTA.

Mr. Regan next discussed the 2020 legislative session noting that HTA will continue to monitor and meet with legislators to maintain communication and prepare for the upcoming session. The 2020 legislative session begins on January 15. Prior to Opening Day, budget briefings will be held. The Senate Ways and Means briefing will be on January 13, during which the HTA team will attend and present. The HTA team will keep the Board apprised as the session progresses. No specific pieces of legislation are being introduced now, as HTA was happy with last session's results. Mr. Tatum added that HTA would be aligned with Sen. Wakai and Rep. Onishi to support legislation that helps tourism. HTA would be following legislative developments with its internal legislative team this year. Mr. Arakawa thanked the legislators present for including HTA on task forces and working groups. He added that if the tourism industry feels that another party is in a better position to address an issue for which HTA is on a

task force or working group, hopefully HTA can utilize alliances and partnerships to see who can help best.

10. Report of the Strategic Plan Investigative Committee and Presentation of the HTA 5-year Strategic Plan 2020-2025

Kimi Yuen thanked the group for the opportunity chair the committee developing HTA's 5-year Strategic Plan for 2020-2025. The committee and staff have worked hard to review and prepare the strategic plan, a draft of which is circulating. Ms. Yuen also thanked the entire committee and staff for all of their input. Chair Fried noted that there is time for substantive questions because the Board will vote on the plan next month. Mr. Atkins added that Chair Fried could not have picked a better person to lead the committee. The goal of the strategic plan is to see where the state is heading from the last five years.

Ms. Yuen led the group, received staff input and provided strong substantive feedback. Input was received from consultants and board members. Mr. Tatum was also present for almost every committee meeting. The plan needs to be a living plan Ms. Yuen noted, and it can really change the direction for Hawai'i. Mr. Ka'anā'anā and Ms. Kumukahi both put their heart and mind into making sure the Hawaiian culture is well represented in the plan. Ms. Kumukahi encouraged the group to take to heart that everyone is a caretaker and steward of Hawai'i's resources.

Ms. Yuen and Ms. Kumukahi highlighted the strategic plan's four pillars, which are like the 4 corner posts of the house – if one breaks, the whole house falls. The four pillars are Natural Resources, Hawaiian Culture, Community, and Brand Management and Marketing. Mr. Arakawa congratulated Ms. Yuen and the team for doing a great job with the strategic plan. He suggested including, for interested stakeholders, a section highlighting prior goals and updates on how those have changed. In addition, including what partnerships are needed from other state and county departments and organizations to get the State to its goals may be helpful to show where others can assist in various areas. Mr. Atkins added that distributing a copy of the prior strategic plan to Board members would be helpful. He also thanked Mr. Hanneman for his support in building partnerships, for example, with the NFL's Rams.

Ms. Yuen further discussed that the strategic plan also encompassed tourism management, including addressing climate change, sea level rise, and technology as part of strategic goals. The idea was to have specific goals, objectives, and milestones to measure achievements. The committee also incorporated opportunities to collaborate with other government agencies and coordinate with current programs such as the Aloha Plus Challenge.

Rep. Onishi reminded the group to keep in mind that the strategic plan is HTA's document. The Legislature looks to HTA as a leader for how to do tourism in Hawai'i. He cautioned against singling out other stakeholders because that can lead to finger-pointing if things are not accomplished. Mr. Atkins mentioned that Kaua'i is preparing its own plan to tourism plan, so he is optimistic about collaboration opportunities. Mr. Arakawa hoped that it would be clear in

the strategic plan to other departments where they can help. Ms. Yuen completed the discussion saying that the final version of the strategic plan will be updated with graphics and the vote to approve the plan will be at next month's Board meeting.

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

Teri Orton presented the final item on the agenda saying that it has been a good year for the Convention Center. While budget expectations were not met in November, December included a large last minute booking, which helped increase numbers. In November, the Convention Center had gross revenues of approximately \$1,000,000, while net losses were approximately \$433,600. The Convention Center is expected to finish 2019 better than expected, as its re-forecasted annual losses will be lower than originally anticipated. Gross revenues are expected to be about \$16,500,000 this year, which will be about \$1,500,000 over the \$15,900,000 budget. Food and beverage revenue is projected to be \$766,400. The last minute corporate booking by Goulder helped boost revenue, and the company was very happy with its experience at the Convention Center. They hope to come back next year.

Return on investment (ROI) in 2019 was \$13.60. The Convention Center's mix of business every year changes, and ROI is affected by that, as well as what is returned to the State in taxes.

Ms. Orton also discussed the Convention Center's capital improvement projects. She thanked Keith and Ronald for sitting through many presentations during the planning process. Several projects are slated for 2020 including replacing boilers, repairing the Ala Wai waterfall, roof repairs, and replacing facility equipment, among others. The projects will be coordinated around bookings to avoid disturbing guests. Requests for proposals for other projects were issued in 2019, and the proposals are expected back in early 2020.

As for Convention Center sales, Ms. Orton shared that 2,496 room nights were closed in November, bringing the year-to-date total of room nights closed to 64,616. Ms. Orton also informed the Board that HVCB was transitioning to handle marketing of the Convention Center in January 2020. HVCB's offices would still be housed in the Convention Center. Mr. Tatum added that HVCB was looking to get a leader and build a team in that office. HVCB has several marketing outlook and initiatives are scheduled for January.

The next topic Ms. Orton discussed was a staffing change. The Convention Center's executive chef, Hans, will be going to the Halekulani hotel, and recruitment for his replacement was under way. In the interim after Hans's departure, Vince, the executive sous chef, will run the kitchen.

As for advertising coverage, the Winter Wishes holiday festival took off in November. The Convention Center's skating rink is open and has been quite popular, often with long lines for skate rentals. The theme this weekend is '80s skate night.

Mr. Arakawa asked the basis for calculating ROI. Ms. Orton responded that ROI depended on the mix of corporate events. Mr. Arakawa then asked whether ROI included other taxes, and Ms. Orton explained that ROI only included transient accommodations tax. Mr. Arakawa also asked whether the four pillars from HTA's strategic plan should be included in the Convention Center report because the Convention Center's value is not purely ROI. Highlighting the other initiatives that are being done for community or Hawaiian culture can be helpful. Mr. Tatum added that if the Convention Center has space, no reason exists not to hold State and other events at cost there. He acknowledged that doing this would affect the Convention Center's overall ROI, but the Convention Center would make sure to cover its costs. After all, it is a State building, so it would be good to utilize it.

12. Adjournment

Chair Fried requested a motion to adjourn the meeting. Mr. Kam made a motion and Ms. Kumukahi seconded the motion, which was unanimously approved by the Board. The meeting was adjourned at 11:52 a.m.

Respectfully submitted

Nathan C. Yang

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Recorder