



REGULAR BOARD MEETING
HAWAII TOURISM AUTHORITY
Thursday, January 30, 2014
Hawai'i Convention Center, Executive Board Room
1801 Kalākaua Avenue, Honolulu, Hawai'i 96815

MINUTES OF REGULAR BOARD MEETING

- MEMBERS PRESENT:** Ron Williams (Chair), Patricia Ewing (Vice Chair), Kelvin Bloom, Jack Corteway, Victor Kimura, Michael Kobayashi, Patrick Fitzgerald, Rick Fried, David Rae
- MEMBERS NOT PRESENT:** Craig Nakamura, Aaron Salā, Lorrie Stone
- HTA STAFF PRESENT:** Caroline Anderson, Jadie Goo, Grace Lee, Doug Murdock, Daniel Nahoopii, Mike Story, Marc Togashi, Vicky Wakai
- LEGAL COUNSEL:** Gregg Kinkley
- GUESTS:** Jessica Lani Rich

1. Call to Order

Presiding Officer Ron Williams called the meeting to order at 9:34 a.m. Mr. Nahoopii offered an oli to begin the meeting.

2. Approval of Minutes of Prior Board Meetings

Mr. Fitzgerald moved to approve the minutes of the regular board meeting conducted on December 19, 2013. Ms. Ewing seconded the motion, which was unanimously approved by all the board members present and without any revisions or reservations.

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

In the absence of Mr. Mike McCartney, Mr. Murdock presented the CEO Report as of January 30, 2014 that was included in a file folder previously distributed to the board members and containing documents related to various items on the agenda for the board meeting. He also referred to a copy of the HTA's 2013 Annual Report to the Hawai'i Legislature that was distributed to the Directors at the meeting.

Mr. Murdock introduced Ms. Jessica Lani Rich, President & Executive Director of the Visitor Aloha Society of Hawaii ("VASH"), who proceeded to provide a background of VASH and to summarize what VASH does for visitors. Initially, Ms. Rich expressed her appreciation for the significant funding provided to VASH by HTA. She presented a PowerPoint presentation, including two video news clips of visitors who were helped by VASH after being a victim of crime and injured during their Hawaii vacation. Ms. Rich stated that VASH's motto is "Service Above Self" and that its mission is to share aloha and help create a positive experience in Hawaii. VASH operates on a 24-hour basis. On average, VASH has assisted 1,700 to 2,600 visitors each year on Oahu and that approximately 2,664 visitors were assisted in 2012. In order to be qualified for services offered by VASH, a visitor must have a round trip ticket and a stay of less than 60 days.

Ms. Rich reported that the common incidents for which VASH would provide assistance were thefts on the beach, car break-ins, Craig list condo rental fraud, robberies, and medical emergencies. VASH would get involved through referrals from police, hospitals and hotel security. VASH would provide visitor assistance by offering counseling, prepaid calling cards, meals, clothing, store gift cards, ground transportation, and hotel rooms. VASH would also visit visitors at hospitals, especially cruise ship passengers. Ms. Rich noted that VASH does not pay medical bills. She concluded her presentation by sharing the experiences of Ashley Streich and Jean Pelchat, who were both grateful for the assistance provided by VASH. In a letter received by Ms. Rich, Ms. Pelchat stated that the "empathy, courtesy, efficiency and speed" provided by VASH "were qualities that we will never forget."

Mr. Fried acknowledged the assistance provided by VASH during a Jet Ski accident that turned around a bad experience into a good one. He noted it was "incredible" that VASH works 24 hours.

Mr. Murdock requested Mr. Togashi to provide an update on Transient Accommodations Tax ("TAT") collections. Mr. Togashi provided a PowerPoint presentation that included a chart showing the growth of TAT collections from \$230 million in FY 2008 to a projected \$372 million in FY 2014. The growth was due primarily to an increase in the tax rate. Mr. Togashi also presented a pie chart reflecting how TAT collections were allocated. He noted that \$23 million

of TAT collections allocated to HTA were used to pay back the bond debt service related to the construction of the Hawaii Convention Center.

Mr. Rae expressed his appreciation for the use of a “pie chart” that allows him to visually see very quickly how TAT collections were being allocated. He expressed a desire to similarly see how HTA budgeted funds were allocated by using a pie chart. Mr. Rae also requested clarification of the bond debt service for the convention center. Mr. Williams responded by offering to provide his “general understanding” by stating that originally a bond was used to finance the construction of the convention center and this original bond was subsequently incorporated into a larger state bond. HTA is now paying a portion of the larger state bond. It appears that HTA’s current payment is about equal to if not slightly over what it was initially paying. Mr. Togashi noted that the current larger state bond would mature in 2027.

In response to a question asked by Mr. Kimura regarding the amount HTA still needed to pay until 2027, Mr. Togashi stated HTA has paid approximately \$400 million to date and approximately \$370 million more to pay. Mr. Corteway stated it “would have been better to have just kept paying on the original bond.” Mr. Fried noted that if HTA did not have to pay the bond debt service, HTA would have more money to work with. He added that it would be nice to have a presentation about how to refinance the bond.

Mr. Murdock reported on the various legislative measures HTA is monitoring during the 2014 legislative session. He discussed the purpose of the following senate bills: SB 2426 (marketing plan to be a single, comprehensive document), SB 2430 (allocation of \$3 million of TAT revenues to the DLNR Special Land and Development Fund), SB 2431 (repeal of the sunset date to allow an exemption for HTA from Budget & Finance supervision of HTA accounts), SB 2432 (HTA housekeeping amendments that will develop a brand management plan, allow HTA to withhold competitive sensitive information, require HTA to report in its annual report an evaluation of programs funded and recommendations), SB 2968 (income tax credit for hotel construction and renovation), and HB 332 (providing grant-making authority to HTA).

Mr. Murdock continued his presentation by discussing the “State Audit Report 13-9 Tracking” report (“Tracking Report”) that reflects HTA’s actions to address the findings and recommendations of the Legislative Auditor’s report. An electronic version of the Tracking Report can be viewed on-line through the HTA board website. He referred to a hard copy of the Tracking Report that was previously distributed to the board members and discussed the status of “standards” and actions that were due to be completed in January and February 2014.

Mr. Murdock also referred to a HTA Procurement Planning Worksheet, dated January 2014, that was electronically posted on HTA's internal website. A hard copy was distributed to board members for their review and discussion. Mr. Murdock discussed the following web pages that are part of the Procurement Planning Worksheet and requiring staff input on each web page: a Title page requiring a Statement of Need and Scope of work; a budget and commitment amount; a statement of the method of solicitation and proposal requirements; any market research; the history of scope of work; any justification for sole source contracts; the contract features or specifications; process for performance evaluation (in response to the Auditor's recommendations); the contract deliverables; and, any business clearance. He also noted that the website would include a "workflow" process, which records each work element being completed by the responsible staff employee and an email being sent to the next responsible staff employee to complete the next work element.

In response to an inquiry from Mr. Kimura regarding the conduct of a "productivity review" for HTA personnel, Mr. Murdock stated that HTA is in the process of conducting personnel evaluations using the state's annual review evaluation form that includes a discussion of an employee's efficiency and effectiveness.

4. Review of Recent and Upcoming Permitted Interactions

There was no report of any meetings by two or more board members.

The meeting was recessed at 10:30 a.m.

The meeting was reconvened at 10:37 a.m.

5. Presentations and Discussion on Visitor Statistics

Mr. Nahoopii had previously distributed for discussion the "Current Visitor Data" for November 2013 and December 2013. He proceeded with a discussion of the visitor data for December 2013 by presenting a PowerPoint presentation.

He began his presentation with an Overview of the December 2013 visitor data by stating the following for 2013 year-to-date: visitors contributing \$39.8 million per day to Hawai'i's economy, which was an increase from \$38.9 million per day in 2012; expenditures were 2% higher at \$14.5 billion, which was a new record; arrivals was up 2.6% to new record of 8,235,510 visitors; and, visitor days was up 1.2% with 206,564 visitors per day. In regards to the visitor data for the month of December 2013, he provided the following overview: visitor expenditures was down 6.3% to \$1.3 billion; arrivals was down 1.9% to 722,423 visitors; daily

spending was down 3% at \$189 per person; and, occupancy rate was down 2.9% at 71%. He concluded that “we were more busy this year than last year, but more busy earlier in the year than in the later part of the year,” especially during the last four months. It appears that the downward trend for visitor arrivals and expenditures may have started in July 2013. As a result, airlines flying from the U.S. West and U.S. East have reduced air seat capacity.

Mr. Nahoopii continued his PowerPoint presentation by displaying various charts that offered the following conclusions on the key performance indicators (arrivals, visitor spending, visitor days, daily spend, and airlift) (“KPI”) for December 2013 year-to-date: the KPIs showed growth year-over-year but was lower than the targets established by HTA, and that the drop in visitor spending may be “due to exchange rate and cost of fuel”; and, in regards to the island distribution for arrivals and visitor days, all islands except O’ahu were below target and may be due primarily because of the growth from international market visitors, whose stay for shorter periods and primarily on O’ahu.

He continued his presentation by displaying charts of the average daily census on Kaua’i, Maui and O’ahu and offered the following conclusions: Kaua’i’s peak daily census in 2013 was better than its previous highest peak in 2007; although Maui’s peak daily census in 2013 was barely over its previous highest peak in 2007, its “winter peak is doing well”; and, that although O’ahu’s peak daily census in 2013 started strong, it “slowed down from September” with the summer peak “flip flopped” when 2012 was better than 2013. In response to an inquiry from Mr. Kimura whether the average daily census “matched” air access, Mr. Nahoopii concurred that there was a “match.” In response to an inquiry from Mr. Fried, Mr. Nahoopii responded that the drop in census was “not yet” caused by the various hotel renovations. Mr. Nahoopii summarized his discussion of average daily census by displaying a chart of Total Average Daily Census for 2013 and noted that “visitors per day decreased 4% in December 2013” and that we “still have distinctive shoulder periods.”

In regards to total air seats, Mr. Nahoopii stated that total air seats in 2013 were up 5.4% and that air seats in 2014 are forecasted to be up 1.8%. He added that the “2014 forecast would follow the same trend as 2013.” Mr. Bloom observed that domestic air seats were up in the beginning of the year and less at the end of the year. Mr. Nahoopii added that growth will come from the international market and the growth in domestic air seats will be “flat.”

In regards to visitor arrivals in 2013, Mr. Nahoopii stated that “arrivals started to decline in September” and noted there was a 1.9% decline in December. In regards to total monthly visitor expenditures in 2013, Mr. Nahoopii stated that “visitor expenditures start out strong in the first half of the year but weak in the second half” and below the monthly targets.

Mr. Nahoopii continued his presentation with a discussion of year-to-date total personal daily spending by noting that the highest growth in spending was for lodging (+10%) and transportation (+4.2%) while shopping severely declined (-20.4%) in all markets and not just in Japan. He noted the following observations for spending in the various markets: attraction spending dropped in the U.S. West market; spending dropped across the board in the U.S. East market; and, spending for accommodations dropped in the Japan market due primarily to the exchange rate. He noted that recreation spending was up for all markets, especially at the beginning of the year.

In response to an inquiry from Mr. Fried whether the drop in spending for shopping was due to rising lodging cost, Mr. Nahoopii stated that the shorter length of stay by visitors have contributed to a reduction in total visitor expenditures. He added that the "length of stay is a good indicator for visitor expenditure," and that if "length drop" it could be a reflection of the total cost of the visit.

In regards to hotel occupancy, Mr. Nahoopii stated that in 2013 "statewide occupancy was down for the past seven months" and to expect "December to also be negative." Only Kaua'i will end the year with a positive occupancy rate. He expects statewide occupancy to be approximately 76% in 2013. Mr. Nahoopii presented a chart of average daily hotel room rates from January 2011 to December 2013 and noted that the room rates in December 2013 was a "record high." He further stated that "all classes of hotel type increased hotel rates" and that the occupancy rate in the "mid scale and economy" hotels dropped. He added that this may "reflect why the length of stay is shorter." In response to an inquiry from Mr. Corteway whether the rising cost of airfare impacted occupancy, Mr. Nahoopii presented a chart entitled "Cost of a Hawai'i Vacation" that compared the growth in the cost of a Hawai'i vacation versus personal income. He concluded that the "raising travel costs of a Hawai'i vacation have outpaced growth in U.S. personal income for the past two years."

Mr. Nahoopii concluded his presentation with a discussion of visitor arrivals in 2013 from each major market and noted the following: that the U.S. markets were only slightly ahead of 2012; that Canada and Japan had better growth; and, that the developing markets ended 2013 with strong growth. He expressed the belief that with more direct service from China, there would be more travel to Hawai'i and about 85% would be "first timers." Similarly, with new air service from Oceania, about 56% would be "first timers."

Mr. Fitzgerald inquired if staff would be able to assist in presenting further discussion on whether the trend in arrivals from U.S. East and West that reflected a drop in the last half of

2013 will be continued into the first half of 2014. If so, what strategies do the HTA or the Hawai'i Visitors and Convention Bureau have in place to address that downward trend? He also asked for further discussion on whether the hotels are doing better because of an increase in rates while occupancy has dropped. Are the "offsets" good or bad? Finally, he asked whether total visitors expenditures in 2013 are "skewed" because the first half was good and whether that would be a trend.

In response to an inquiry from Mr. Kimura regarding the manner in which information is obtained for visitor expenditures on food and beverage, Mr. Nahoopii stated that the information is primarily obtained through "surveys." Mr. Kimura expressed the belief that Japan visitors are spending money but at "novelty places" and not at "brand name or high end places." A new trend for Japan visitors may be to spend for food and beverage at different places, such as at Starbucks or Subway. Many of them want a new experience. He suggested that we should look at how we get our sample and information because the Japan visitors are not spending at hotels.

In regards to "hotel classification," Mr. Williams expressed an interest in knowing the type of "hotel usage" in each market. After noting that there was a 12% increase in condo usage and a 3% increase in time-share, Mr. Nahoopii stated that he would be providing further information on this matter.

6. Approval of HTA's Financial Reports

Mr. Togashi referred to the financial statements for the HTA Special Fund and the Convention Center Enterprise Special Fund as of November 30, 2013 that were previously distributed to the Board. He stated there were "no anomalies" to report.

Mr. Kimura made a motion, which was seconded by Ms. Ewing, to approve the financial statements as of November 30, 2013. The motion was unanimously approved.

9. Adjournment. The meeting was adjourned by consensus at 11:23 a.m.

Recorded:



Winfred Pong
Recorder