HAWAI'I TOURISM AUTHORITY

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Neil Abercrombie
Governor

Mike McCartney
President and Chief Executive Officer

**REGULAR BOARD MEETING**
**HAWAI'I TOURISM AUTHORITY**

**February 23, 2012**
**Hawai'i Convention Center, Parking Level, Executive Board Room A**
**1801 Kalākaua Avenue, Honolulu, Hawai'i 96815**

**MINUTES OF REGULAR BOARD MEETING**

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| **MEMBERS PRESENT**: | Ron Williams (Chair), Douglas Chang, Patricia Ewing, Patrick Fitzgerald, Craig Nakamura, Aaron Salā, Sharon Weiner, Leon Yoshida |
| **MEMBERS NOT PRESENT**: | Kelvin Bloom, Mike Kobayashi, Cha Thompson |
| **HTA STAFF PRESENT**: | Mike McCartney, Momi Akimseu, Caroline Anderson, Lynn Bautista, Minh-Chau Chun, Cy Feng, Jadie Goo, Grace Lee, Daniel Nāho'opi'i, Janna Nakagawa, Winfred Pong, Roann Rakta, Angela Rodriguez, Marc Togashi, David Uchiyama, Keli'i Wilson |
| **GUESTS**: | Muriel Anderson, Anna Elento-Sneed, Kristi Lefforge, Ross Murakami, Douglas Murdock |
| **LEGAL COUNSEL**: | Deputy Attorney General Gregg J. Kinkley |

**1. Call to Order**

Presiding Officer Ron Williams called the meeting to order at 9:31 a.m.

Mr. Salā offered a Pule.

Mr. McCartney recognized Ms. Muriel Anderson and acknowledged her nearly 40 years in the visitor industry and her 27 years in State service.

**2. Approval of Minutes (December 15, 2011)**

Ms. Ewing made a motion to approve the minutes of the meeting conducted on December 15, 2011. Mr. Fitzgerald seconded the motion.

Mr. Chang made reference to the task list that was discussed at the last meeting and asked if it was available. Mr. McCartney replied that he would present it during his CEO report to the board.

The motion was unanimously approved without objection.

## 3. Report of the Chief Executive Officer Relating to the Implementation of the State Tourism Strategic Plan Initiatives

Mr. McCartney distributed the task list to the board and explained that one would be created for every board meeting. He pointed out that the items on the first task list would be addressed during Mr. Nāho'opi'i's presentation.

Mr. McCartney also passed out the "HTA Organizational Road Map," which provided an update on the 12 areas on which staff is working, as well as market sheets for every major market area. He mentioned that the sheets contained some information relating to market share data and asked the board to keep that information confidential.

Mr. McCartney shared a letter from the Speaker of the House, Calvin Say and Senate President, Shan Tsutsui that expressed the Legislature's full support of the continued presence of the NFL Pro Bowl in Hawai'i. Mr. McCartney said that negotiations with the NFL continue and nothing has been decided to date.

Mr. McCartney provided an update on the current Legislative session and shared that there is a bill to increase the current cap of $69 million to $71 million. He also shared that there is a bill moving through the Legislature that changes the disbursement of the $33 million to the Hawai'i Convention Center from the current calendar year schedule to a fiscal year schedule. Mr. McCartney also reported that there is a bill to move the Hawai'i Film Office from the Department of Business, Economic Development, and Tourism (DBEDT) to the HTA. He said that both the HTA and DBEDT support this. He said that one priority regarding taking on the Hawai'i Film Office is ensuring that we have the additional resources to take on that responsibility. He explained that we are not going to supplant or use existing resources to cover that and that there would be new money to cover that program.

Mr. McCartney shared that efforts continue to try and prevent monies from being used from the TAT for priorities outside of tourism, as there have been a number of bills to try and use those monies for things beyond the scope of the Tourism Strategic Plan (TSP). He stated that we have opposed such bills and are monitoring them to see what happens with them. He said that this year is going to be a tough financial one, so everyone is still looking for resources. He said that the position we have taken is that we have done a good job of being efficient, effective, and productive, so the reasoning behind asking for more funding is because we need it and not because we are overspending.

Mr. McCartney also reported that we took a position against gaming in Waikīkī, explaining that it is not consistent with the TSP. He shared that he spoke with many of the people who were involved in putting together the plan and ultimately, it came down to adhering to the principle that when the HTA takes a position on any bill, it has to be in line with the TSP. The bill for gaming in Waikīkī did not align with that, so HTA's position was to oppose it.

He also mentioned that he had just recently returned from a short trip to Los Angeles with the Governor, Mr. Williams, DBEDT Director Richard Lim, and Ms. Goo to meet the new Vice President of China. He said that it was a productive trip that provided us with exposure to the new players in the highest levels of government in China.

Ms. Weiner referenced page 1 of the CEO Report and asked Mr. McCartney for an update on the situation with China Eastern. Mr. McCartney replied that China Eastern has added more wholesalers to their mix and they are going to continue for at least another year. He said that he and Ms. Goo have met with them and they have an office at the Airport and are talking about possible expansion.

**4. Presentation of Visitor Data and Dashboards for December 2011 and January 2012**

Mr. Nāho'opi'i distributed a revised copy of the year-end Dashboards for 2011, explaining that there was an error in the island distribution calculation, which was corrected in the revised copy. He explained that these dashboards reflect the entirety of 2011 and that it would be covered in his presentation. He also shared that the information for January 2012 would be released at the meeting and prior to the issuance of the official press release.

He presented a PowerPoint of Visitor Data and Dashboards for December 2011 and January 2012 that were previously distributed to the board. He reported that expenditures reached $12.6 billion at the end of 2011, which is the second highest level of visitor spending, with the highest being in 2007. He said that December 2011 was the highest one (1) month total spending in our historical records, which can be attributed to a combination of a strong holiday period with strong spending in the areas of lodging and shopping.

He reported that we are up 3.8 percent over 2010, which brings the number up to 7.28 million visitors for the year. He said that arrival numbers are slightly below our revised targets for May, but that they are actually right on the number that had been set as our goals at the beginning of January. He said that there was a lot of growth for the year, especially in spending, as well as the change in the type of visitors from the Other Asia and Oceania markets. He said that Other Asia shows an annual growth rate of 20.1 percent and Oceania shows a 32 percent growth rate. He also shared that expenditures increased 13.9 percent in January 2012, which beat out a very strong January last year and exceeds the targets that we set. Ms. Weiner asked if that was a record for January as well. Mr.

Nāho'opi'i replied that it should be because it is the highest and that it definitely exceeds the 2007 benchmark.

He pointed out that daily spending has increased 9.7 percent overall, which puts us right at what we said we would have in terms of the Per Person Per Day (PPPD) target. He said that it is also driven by new, higher spending markets.

Mr. Nāho'opi'i reported on island distribution and mentioned that one of the items on the task list was to switch the chart so distribution of total is reflected. He explained that the YTD column represents actual numbers for January to December of 2011, and that targets are where we want them to be. He pointed out that Hawai'i Island is having some difficulty maintaining their occupancy as compared to the other islands, due in part to the end of the Kona service to Japan, but noted that Kona direct service from the West Coast is filling in now.

Mr. Nāho'opi'i asked the board if this format makes more sense for them - where the percent column is just a subtraction between the YTD and Target columns. He pointed out that for those who are interested in a particular market, there is one (1) chart for every market, which illustrates the targets set for every market for each island. Mr. Chang asked Mr. Nāho'opi'i how he would interpret the information on the chart. Mr. Nāho'opi'i responded that even though arrivals were good, the distribution is slightly off from what we had wanted it to be. He explained that the method that is used to set the distribution target is based on both the potential number of visitor units that are available on each island and the actual available visitor units. Mr. Nāho'opi'i pointed out that this means that those islands, particularly Hawai'i Island, have a lower occupancy rate than O'ahu does because of the fact that we are not getting more visitors to those islands. Mr. Chang said that in looking at the chart, he sees that Maui, Kaua'i, and Hawai'i Island are all slightly down to target; two (2) are flat; and O'ahu is up one tenth of a percent. He asked if that meant that the one tenth of a percent makes up for the shortages for the other three (3) islands. Mr. Nāho'opi'i replied that being higher on one island is not necessarily good either and that the goal is to try and get to target. He shared that what is happening now is that it is dominating on O'ahu, so being positive on O'ahu is not always the best because that means visitors are not going somewhere else. He pointed out that increasing the number on the neighbor islands can be achieved in two (2) ways: one way is more direct island-only stays and the other is increasing multi-island visitation. He said that the January numbers show that multi-island visitation is actually up 11 percent, as visitors did a lot of traveling during January.

Mr. Uchiyama added that to achieve the optimum expenditure into the State, there needs to be a consciousness about the distribution to the islands to utilize the available rooms. Mr. Uchiyama also added that as we start to increase international business, we also need to be conscious of the bottleneck that is inevitably going to occur at Honolulu International Airport because travelers are all looking to come in at around the same time. Given that, he said that we are going to have to find an alternative. Mr. Uchiyama explained that it is possible for growth to continue without having the major impact that everyone is anticipating if we can structure the distribution and get Kona reopened to allow international visitors to come in through there and then sell that routing from the international market as a Kona-Maui routing. He said, "We need another gateway into the State."

Mr. Chang asked if there was similar information related to spending distribution. Mr. Uchiyama said that the spending would follow the market, so there is specific distribution of that market to the neighbor islands. Mr. Nāho'opi'i said that targets can be set, but also pointed out that there are other indicators of success such as visitor days, the overall spending for the entire trip, and the distribution by island for arrivals.

Mr. Nāho'opi'i continued his presentation with the January statistics. He reported that the daily spend increased 4.8 percent and airlift is up slightly, with an increase in charters. He explained that we had a very strong holiday period, with good growth from the Japan market, due in part to charters and special tours. He said that more affluent visitors usually come during the holiday period to take advantage of holiday special packages and that pent-up demand from people who did not travel last year, especially from the Japan market, contributes to the growth as well.

Mr. Nāho'opi'i said that air seats is another thing that staff worked on this past year. He reported that the end of 2011 ended just one (1) percent over 2010. He explained that there were some increases in certain periods; some decreases because we had some pulling out from the US East; some cancellations on the Continental Flight going to Orange County; and some scaling back again of planes from Japan. He said that all of those factors contributed to the numbers being down about 11.3 percent from the high. He added that many of the airline carriers switched to smaller planes with higher load factors, so that is why we are about the same in 2011 as we were in 2010, but we had better direct service from regional airports.

Mr. Uchiyama added that besides the down-gauging of equipment to provide for more efficiency, what needs to be kept in mind is that there were two (2) NCL ships here in 2007 and there was actual airlift that coincided with those two (2) ships, so the number is slightly inflated. He pointed out that it is a real accomplishment for the numbers to go up without the presence of those NCL ships.

Mr. Nāho'opi'i reported that the estimate for 2012 was finished and it is expected to exceed 2011 by an additional 7.7 percent, with air seats from Other Asia and Oceania really helping out. He shared that Other Asia is going to be 52 percent, which includes a lot of increase from Korea; there is daily increase for the Hawaiian Airlines service, as well as upgauging of Korean Airlines and the addition of a daily flight; and Oceania is up 21.6 percent and noted that this number factors out Air Australia that stopped operations in February. He said that we are looking at reaching 98 percent of our 2007 mark and given that it was estimated that two (2) percent of that was related to cruise, as Mr. Uchiyama mentioned, we should be right at that point. Mr. Uchiyama added that as long as oil prices do not climb up any further, because of how the carriers are yielding, there is potential for us to close the two (2) percent gap.

Mr. Nāho'opi'i said that January expenditures exceeded 2007 and explained that an increase in Per Person Per Day (PPPD) spending contributed to the increase. He said that PPPD spending in 2011 and 2012 are very similar, with lodging showing the highest growth and shopping and food and beverage rounding out the areas where there was a spending increase. Ms. Ewing asked if the Entertainment category included activities. Mr. Nāho'opi'i said yes and added that it also includes tours and attractions.

Mr. Nāho'opi'i reported that all four (4) islands showed strong positive growth in the 4th quarter with regard to island distribution. He said that even though Kaua'i is lower in distribution than targeted, they have seen growth most of the year, so they are improving. He said that O'ahu has maintained a steady pace throughout.

Ms. Weiner referenced a "September bump" that was seen in the data for arrivals by island and asked if data was available on the demographics of our market in terms of age because she said that the September bump is usually people with no kids. She said that it would be interesting to see with the demography of our market with the aging. Mr. Nāho'opi'i replied that that information is available. Mr. Nāho'opi'i also explained that there is a bump in September for two (2) other reasons: one is Australia coming into their peak season and Japan's Silver Week.

He said that ADRs continue to grow and the rate actually increased in December to over $200.00, as compared to the average for the whole year of $189.62. He explained that RevPar shows a 12.6 percent increase, so while lodging is doing well, there is room for more recovery. Mr. Chang cautioned that even though a lot of positive growth is being seen, "it is still not great news out there for what's going on within the lodging segment."

Mr. Nāho'opi'i said that occupancy rates in Hawai'i took a summer dip, while other markets remained consistent in terms of maintaining their occupancy. He said that other locations such as Las Vegas actually decreased, but our other main competitors – Mexico and Florida – showed an increase for most of the year.

Ms. Weiner asked about spending by market. Mr. Nāho'opi'i provided some information on the four (4) major markets: for US West, overall PPPD spending was up 4.8 percent and he explained that the growth for that market was due mainly to a 7 percent lodging increase. Mr. Chang asked if that information was for January 2012. Mr. Nāho'opi'i replied that he was reporting on total year 2011. He shared that the US East PPPD spend is up 7.4 percent and the breakdown for the growth happened in two (2) main categories: lodging at 7 percent and food and beverage was up 4.5 percent. He said the overall PPPD for Japanese visitors was up 11 percent, with the growth stemming from a 19 percent increase in lodging, an 11.6 percent increase in shopping, and a 6.4 percent increase in food and beverage.

Ms. Weiner commented that something went down and asked if it was the offset of food and beverage against lodging. Mr. Nāho'opi'i confirmed that her understanding is correct.

He also mentioned that Canadians reported a 5 percent increase in PPPD; lodging went up 7.5 percent, and shopping was up 4 percent. Mr. Nāho'opi'i said that the data for the other markets were still being calculated and then checked with Mr. Feng and asked him if the calculations had been completed. Mr. Feng replied that they have been, so Mr. Nāho'opi'i stated that he would send that information to the board after the meeting, as well as posting it online.

Mr. Williams commented that we have seen the hotel rates go up, but asked what that means from an inflationary standpoint. Mr. Nāho'opi'i replied that he is not familiar with those calculations, but shared that he posted a presentation online from Mr. Joe Toy of Hospitality Advisors that includes those calculations. He explained that Mr. Toy's presentation shows an adjusted rate, historical trend, and a prediction for 2012. Mr. Nāho'opi'i offered to send the report out to the board or they could choose to read it online on the HTA website under the "Research and Reports" section. He offered to summarize the presentation and send it out to everyone.

The meeting was recessed at 10:44 a.m.
The meeting was reconvened at 10:53 a.m.

**7. Presentation and/or Approval of the HTA Internal Management Policies**
(This Agenda item was discussed out of order)

Mr. Pong introduced Mr. Ross Murakami and Ms. Kristi Lefforge from KMH, who gave a PowerPoint presentation on the HTA's Internal Management Policies that were previously distributed to the board.

Ms. Lefforge presented the board members with an overview of the process of developing the policies and the framework for the entire project. She explained that a diagnostic review was done first, that included analyses of the financial reporting, accounting, and contract management areas. She reported that the result of that review was a recommendation to adopt a comprehensive and formal set of policies and procedures for the HTA. She shared that out of the diagnostic review, the KMH policy framework was utilized as a starting point for six (6) major areas for the policies. She said that KMH worked with HTA management to develop the policies, with the intent of having the procedures flow out of them.

Ms. Lefforge pointed out to the board that while there is a reference to Human Resources within their presentation, the drafting of policies and procedures for Human Resources are

not within their scope of work. Mr. McCartney mentioned that staff would be working with the Department of Human Resources Development to develop policies and procedures related to Human Resources.
Ms. Lefforge explained that once KMH drafts a procedure for a particular area, they perform a "walk through" with staff to ensure that the steps have been documented appropriately and subsequent to that, they are reviewed by management. Ms. Lefforge advised the board that the target completion date for the procedures is April 30, 2012.

Mr. Murakami told the board that once this project is completed, there will be "two (2) bodies of work." He explained that the first one would be the policies, which is really the purview of the board, as the board approves the policies and then delegates authority to management to implement them and that is where the procedures come into play. He said that the procedures do not need to be approved by the board, as they really are management's procedures and at such a level of detail that it is not necessary for the board to get involved.

Ms. Weiner made a motion to approve the HTA Internal Management Policies. Mr. Yoshida seconded the motion.

Mr. Chang referenced Policy no. 400-50, Operating Budget Policy. He said that it talks about an approval of a budget by June and he commented that that has not been the practice of the board and staff and he said he is not sure that the board wants to adopt a policy that says that budget approval will occur in June for an expenditure year that does not start until January.

Mr. Pong acknowledged Mr. Chang's concern and explained that the phrase, "discussion and/or approval by June" was inserted to address the board's concern over that particular issue. He said that there was a thought that "discussion and/or approval" of the budget could commence in June. He said that he does not have a vision that a budget would be approved by June, but there are some scenarios where some level of approval would be necessary for HTA Administration and for SMG, to some context. He explained that the phrase was to allow for some flexibility in having a presentation of information and a discussion of the budget by June.

Mr. Chang said that he is aware of that particular wording and said that as long as the board is comfortable and that there is an understanding that we currently are not looking to necessarily approve a budget by June.

Mr. Williams asked the board members if they are comfortable with the language as it has been presented. Ms. Ewing asked if "by June" would be deleted in item no. 2. Mr. Pong replied that he did not realize that there was the June reference in item no. 2 and had only made a revision to item no. 3. Mr. Pong said that he would make the same revision to delete the June reference in item no. 2 as well. Mr. Chang asked if the section for item no.

2 would be revised to include the phrase, "and/or approval by June." Mr. Pong said that it would be.

Mr. Chang asked about the intent of this policy. Mr. Pong replied that the intent of this policy is to begin to institutionalize our budget processing; to give a framework of what information the board needs to assess or evaluate, such as expenditures from previous fiscal years, in order to develop information upon which it can identify new strategic directions for the next fiscal year, so that by or around June, there should be some level of matured discussion of what the budget should look like going into June and July and whatever market conditions might dictate, a budget can be approved.

Mr. Chang added that he agreed with Mr. Pong's intent and said that the only "and/or" change being made is with regard to the actual approval process and only wanted to be sure that a policy is not created that is not actually the intent or the practice of the board.

Mr. Pong stated that he is proposing to revise it to suggest that it should be a "discussion and/or approval by June," so we could begin the discussion of a budget by June, but we do not have to approve the budget by June. Mr. Chang asked if that also meant that a budget had to be presented by June. Mr. Pong said no and that we could just begin discussion of the budget by June.

Mr. McCartney suggested that Mr. Pong explain the budget cycle that they had discussed to try and put some context into what he is trying to do. Mr. Pong said that the process would be an assessment of our current budget – how we are doing; how we have spent the funds so far; and if there are any questions to date to begin to give the board some information upon which it can develop some strategic directions and priorities in the next few months. He said that he envisioned, perhaps in March or April, the board could provide input of new strategic directions and budget priorities it would like to see when staff begins to put together its proposed budget for board consideration, either in May or June or when staff feels that it has reached a level of maturity that it could be presented to the board for discussion and approval. He said that there are certain elements of the budget that the board needs to approve, such as HTA's Administrative budget, which needs to be approved in July so that staff can pay for things such as paper and payroll. He also pointed out that the Convention Center budget is based on a fiscal year, so its budget needs to be approved around that time also, to allow for operation and management of the Convention Center. Mr. Pong reiterated that the reference to June should be with some understanding that a discussion of our budget could commence by June and the discussion could be something very elementary as just telling the staff what strategic direction to take for the upcoming year's budget.

Mr. Williams said that he thinks there are two (2) issues – one from a fiscal year and one from a calendar year. He said that there needs to be an understanding of this policy to ensure that we do not handcuff ourselves or put ourselves in a position where it can be perceived that we are trying to predict the future. He suggested that a better course of

action may be to take the policy off the table and revisions can be made based on "talking story and trying to match the fiscal and the calendar years to see the best way this would be applied." He asked if the members were comfortable with that suggestion.
Mr. Chang asked if the policy would be taken off the table for consideration in the current motion and if so, should the motion be revised to reflect that this policy would be excluded from the motion. Ms. Weiner wondered if the motion should be withdrawn, but Mr. Williams asked that discussion continue about the rest of the document prior to doing that. Mr. Kinkley shared that any discussion relevant to the original motion should be continued.

Ms. Weiner referenced policy # 100-01, Board Structure and Mandate Policy, Section 4.d. She pointed out that the Hawai'i Visitors and Convention Bureau (HVCB), who is a contractor, is singled out and remarked that the policy should apply to all contractors without singling out any of the contracting organizations or subcontractors. Mr. McCartney asked if that was structured to be consistent with the law. Mr. Pong confirmed his understanding to be correct, but clarified that what Ms. Weiner is suggesting that it should be expanded to include other contractors and not be limited to just what is in the law. Mr. Williams agreed.

Ms. Weiner added that the policy also does not allow for any investigative committees, but said that she was not sure whether or not that needed to be included. She stated that the other thing that is a "tricky" thing to bring up is attendance by board members. She asked if there should be some mandatory policy on attendance because there have been past problems, stating that it is difficult to obtain quorum when one of the directors of the board does not attend.

Mr. Williams stated that we have it in the by-laws. Mr. Pong responded that by statute, if a board member does not attend meetings with the intent of preventing quorum to be reached, that board member can be removed.

Mr. McCartney said that he thinks Ms. Weiner is talking about HTA having its own standing policy regarding attendance, even though it is captured in the statute. Ms. Weiner says that she thinks we need to have that, even though it has never been a problem with the current board. She mentioned that there have been problems in the past, so it would be a good thing to have in place.

Mr. Chang asked if we can go "more than the statute," as long as we don't go "less than the statute." Mr. Pong answered affirmatively.

Mr. Pong asked for input with regard to a draft policy about board attendance. Mr. Williams asked if we can follow the guidelines in the by-laws. Mr. Pong responded that the by-laws do not contain a provision regarding mandatory attendance or the number of attendants. He said that the statute reads that if a board member fails to attend two (2) consecutive meetings, causing quorum to not be achieved, that board member can be removed. He said that what Ms. Weiner is addressing is a little higher level of mandating that it could be something as simple as saying that if a board member fails to attend more than 75 percent of the meetings, then they are no longer a member of the board. Mr. Pong says that the HTA does not have the legal authority to do that.

Ms. Ewing asked if the statute has that provision. Mr. Pong confirmed that the statute provides for that. She asked about the replacement process if a board member is removed and if we would have to wait a year until the legislature convenes again. Mr. Pong said that in that scenario, it is likely the Governor would appoint someone in the interim.

Mr. McCartney suggested coming up with a recommendation at the next meeting for this particular matter. Mr. Chang agreed that the best thing would be to "parking lot" this policy to give staff the opportunity to do some research and come up with a recommendation.

Mr. Nakamura made reference to Policy # 100-03, Fiduciary Duties and Ethics in Public Contracting, item no. 5. He commented that it "seemed pretty broad" and expressed uncertainty as to its intent. He commented that it would seem to affect all the members of the board.

Mr. Pong stated that item no. 5 was in the context of the Ethics and Fiduciary Duties that the board had passed previously and suggested that some clarification could be added to read that it affects "persons coming before the board." He explained that it affects the board's fiduciary duties of persons coming before the board and if a board member has a substantial financial interest in a company that is coming before the board for approval, that board member should not be making a decision affecting the company. Mr. Nakamura said that while he understands that, item no. 5 is a little broader than that.

Mr. Pong offered that it could be clarified further and stated that this section was a "cut and paste" from the Fiduciary Duties previously approved by the board.

Mr. Nakamura commented that the title of this particular policy appears to be related to public contracting and said that the policy purpose is a little different from that because it relates to how the board members and management employees conduct themselves. He stated that he is a little confused about that, but in any event, "it's not a big deal."
He pointed out that item no. 2 seems to be related more to Human Resources, but stated that he does not have a problem with it being in this section as well.

He commented that item 1.a. may contain a typographical error – "Avoid the intent and appearance of unethical behavior or practices." He said that he is unsure if the word "intent" is used appropriately. Mr. McCartney replied that it can be reviewed also.
Mr. Nakamura also stated some other technical questions and concerns that he had. He cited Policy # 100-21, Fraud Response Policy, and the reference to "Ethics in Public Contracting: Section 4.0 – Evaluating, Reporting, and Resolving Alleged Violations." He

asked if that is a book or some other policy. Mr. Pong replied that this is a reference to a section in a policy that had been previously passed by the board, but offered that it could be clarified further.

Mr. Chang commented that it appears as if we have multiple sets of policies. He asked if the policy that was previously adopted by the board, the one that is specifically referenced, is going to be a policy that is part of the framework of these policies also or is it a separate framework of policies.

Mr. Pong responded that the intent of the policies previously approved by the board would have been adopted as procedures to implement its overall policies. He cited the procurement procedures previously adopted by the board, and explained that those are going to be the procedures that will implement the procurement policy that was adopted.

Mr. Chang then asked about the policy to which Mr. Nakamura referred. Mr. Pong responded that the Ethics in Public Contracting policy would be the various procedures to implement Policy # 100-03. He said that within those procedures the board previously adopted are action items about what to do in the event of an ethical violation. He said that these policies would set up the broad framework upon which those procedures the board had previously adopted would come into play. Going back to Mr. Nakamura's reference to Policy # 100-21, item no. 1, he said that he can probably clarify it a little better to say that it is in reference to procedures previously approved by the board.

Mr. Nakamura also asked if the same thing applied to Policy #300-07, Fixed Assets Control, item no. 2, which contains a reference to 300-03, Accounts Payable and Cash Disbursements Policy and item no. 3, which makes reference to 300-08 Fixed Assets Capitalization and Depreciation Policy. Mr. Pong explained that the reference to 300-03 is a previous policy within the same document. Mr. Nakamura suggested that different terms should be used to differentiate between the two (2) documents, as using "policy" to describe both documents is confusing. Mr. Pong agreed and said that an effort would be made to provide a clearer distinction between the previous procedures that the board had approved.

Mr. Nakamura cited Policy 400-01, Procurement Policy, item no. 2, which makes reference to the "Authority's Code of Conduct and Fiduciary Duty policy" and asked what that was. Mr. Pong responded that it refers to another policy that the board had previously approved. Mr. Chang asked if that was a policy or a procedure because it is referred to as a policy in item no. 2. Mr. Pong replied that it was a procedure. He said that it could have been a function of when a revision was made to Policy 100-03 and that if he recalls correctly, the previous title of that policy was "Code of Conduct," but noted that it was something that needed to be clarified as well.

Mr. Chang questioned item no. 3 of Policy # 300-07, Fixed Assets Control Policy. He said that there is mention that any asset in excess of $5,000.00 will be "tagged and tracked in an internal fixed assets register" and item no. 4 talks about what would be considered "theft-sensitive" purchases between $250 and $1,000.00 to be tagged and tracked in the internal fixed assets register. He pointed out that there seems to be a gap between anything over $1,000.00 and under $5,000.00. He said that he does not know if that omission was intentional or due to inadvertent oversight. He recommends that item no. 4 be revised to read, "between $250.00 to $5,000.00," which would cover the entire gamut.

Mr. Togashi recommended that item no. 4 be kept consistent with the policies listed in the Hawai'i Revised Statutes, as this is a universal, statewide policy that we would want to be consistent with DAGS policy for accounting records purposes. He said that if we added another component to address the gap that Mr. Chang noted, it may result in inconsistent accounting practices and reporting of HTA's fixed assets with the rest of the State. Mr. Chang reiterated his earlier question about HTA not being able to be "less than," but we can be "more than." Mr. Togashi said that staff would look further into the matter.

Mr. Murakami added that they noticed the gap also, but agreed with Mr. Togashi and explained that the HTA rolls up into the State, so whatever fixed assets the HTA owns, when the State puts its consolidated financial statement together, those assets are reflected in the State's assets. He said that if the policy is changed to include items between $1,000.00 and $5,000.00, then there will be certain assets that will have been capitalized at the HTA level that would not appear in anyone else's books.

Mr. Nakamura asked Mr. Pong to go through the document in its entirety and make the changes that have been discussed. He then mentioned the "Crisis Manual" reference in item no. 6 for Policy # 500-01 and asked whether that was also a procedure. Mr. Pong responded that the HTA has a Crisis Manual and that it responds primarily to a scenario about how the HTA operates to address an emergency situation such as a tsunami.

Mr. McCartney said that staff would go through the document to ensure that there was uniformity with the identification of policies and procedures. For the board's reference, Mr. Pong listed the policies that would be withdrawn and revised for the board's consideration at the next meeting: Policies # 100-01, 100-03, 100-21, 300-07, 400-01, and 400-50.

Ms. Weiner suggested modifying her original motion to approve the Management Policies as presented with the recommended edits, with a revised version to be presented to the board at a subsequent meeting. Mr. Fitzgerald asked why we could not just withdraw the motion, rather than amending it.

Ms. Weiner withdrew her original motion and presented a new motion. Ms. Weiner made a motion to approve the board policies as presented with the exception of those policies for which the board recommended edits, which will be received before the next board meeting. Ms. Ewing seconded the motion, which was unanimously approved without objection.

## 6. Presentation of External Financial Audits Conducted by KPMG of HTA for FY 2010 and 2011 and of the Hawai'i Convention Center for FY 2010 and FY 2011

(This Agenda item was discussed out of order)

Mr. Togashi presented KPMG's financial audits of the HTA and the Hawai'i Convention Center (HCC) for FY 2010 and 2011, which were previously distributed to the board. He shared that he has asked KPMG to attend the next board meeting, at which time they will formally present the financial statements, as well as provide the board with the opportunity to voice any questions or concerns over anything in the financial statements.

Mr. Togashi pointed out to the board that KPMG's audits concluded that our financial statements are adequate. He shared that as part of their FY 2010 audit of the HTA, a management letter was issued that communicated some concerns over the HTA's internal controls and since then, there has been some remediation. He said that as a result, as part of their FY 2011 audit, KPMG elected to not issue a management letter for FY 2011.

Mr. Chang said that in previous years, there has been this exception with the HCC with regard to the bond debt that has shown up repeatedly in the reports. He asked if that matter has been resolved.

Mr. McCartney responded that discussions are ongoing with the Department of Budget and Finance (B&F) and some discussions have also taken place with legislators. He said that there may be a preference by the Legislature that it is a policy decision that they would like to make, rather than the HTA doing it unilaterally with B&F, so possible legislation is being explored that may change the bond debt, but he said that it is still up for discussion.

Mr. Chang asked if that meant it would still be noted in the KPMG audit reports. Mr. McCartney said that we have an agreement and we have already signed off on accepting that we owe money for those first two (2) years. He said that it is also noted in the financials even though the HTA disputed it and says that it does not agree in a letter signed by him and Mr. Williams.

Mr. Togashi added that it is still our liability and it is reflected in the FY 2011 financial statement and as part of that, the HTA still maintains that it does not agree and it is noted in the "Management and Discussion Analysis" section of the report.

## 5. Action to Approve HTA's Financial Reports for November and December 2011

(This Agenda item was discussed out of order)

Mr. Togashi presented the HTA's financial reports for the months of November and December 2011. Before he began his presentation, Mr. Togashi pointed out that during the period of November through December, there was a lot of contract and commitment activity and that this is related to a conscious effort from the staff to reflect known commitments as early as possible. He said that the process to improve is a continuous one and as we become more sophisticated and implement our information systems, we hope to further that process to be able to reflect at least soft commitments at an earlier time.

Mr. Togashi also acknowledged that while many of the board's suggestions on how to improve the financial statements have been taken into account and implemented, an ongoing concern is the timing of the financial statements. He pointed out that approval is being requested for the November and December 2011 statements in late February and shared that the generation of the financial statements and their review is a process, which means that there will continue to be a slight lag in time. He added that in an effort to address some of the board's concerns, for the next board meeting, he wanted to provide them with an up-to-date, or "as up-to-date as possible" budget statement that will reflect more current information.

Mr. Togashi began with the expenditure statement for November 2011 and reported that at the end of FY 2011, $21.6 million of prior year expenditures have been recognized, leaving approximately $9 million in prior year encumbrances that have not yet been expended. He reported that some of the large expenditures in November included $1.2 million for North America Leisure; $563,000.00 for the Japan Leisure market; and $168,000.00 for MCI.

He said that significant activity that occurred during this month included receiving $6.2 million in TAT revenues; $387,000 in Access Airline Development programs; and incurring $974,000.00 of costs for North America saturation programs.

Mr. Togashi reported an amount of $7.9 million in uncommitted funds as of November 2011. He said that we are operating within our total budget for the fiscal year and some significant commitments that occurred included $270,000.00 of Community Outreach and Public Relations costs; $1.3 million for Airline Access; approximately $2 million for Other Asia and $1.1 million for Oceania; $2.2 million for MCI; $3.5 million for Convention Center marketing; and $400,000.00 in Tourism Research for Visitor Characteristics and Expenditures. Mr. Togashi pointed out that a third column labeled, "Reallocations" has been added to this budget statement which allows the board to gain an understanding of the budget reallocations that have been made during the fiscal year, subsequent to the original approval of the FY 2012 budget.

Mr. Togashi said that the balance sheet for HTA reflects $40 million in liquid assets and $5 million in Emergency Trust. He said that there is approximately $10 million in reserves, and included in the $10 million is $8.3 million of unencumbered reserve, where approximately $6 million has been earmarked toward the FY 2012 budget.

He reported that the revenue forecast illustrates that we are capped at receiving $69 million in TAT revenue and that we anticipate receiving that amount in full by May 2012. He said that we have received $35 million through November.
Mr. Togashi went on to present the November 2011 financials for the Convention Center Enterprise Special Fund (CCESF). He said that the income statement reflects that Convention Center operations through the month of November operated at a $1.1 million operating loss and that this loss is in line with the monthly budget projections made at the beginning of the fiscal year. He pointed out that a $4.8 million operating loss for the Center is expected for FY 2012, as opposed to $4.7 million. Mr. Togashi explained that this additional $100,000.00 loss is due to higher than expected costs for APEC and slightly higher utility costs due to the increase in oil. Mr. Togashi mentioned that because this is a November statement and APEC occurred during this time period, he wanted to inform the board that the Convention Center had operated at an $860,000.00 operating profit specifically as a result of APEC.

He said that the CCESF budget statement indicates that we are authorized to spend up to $54 million during the fiscal year and subject to availability of funds and that we are spending in accordance with the budget, with the exception of the anticipated $100,000.00 additional operating loss.

Mr. Chang asked where the $4.8 million operating loss is reflected. Mr. Togashi replied that at the end of the year, when the amount of revenues from Operations taken from the income statement is compared to the amount of expenditures from Operations, the comparison of those items will reflect the projected $4.7 million loss.

Mr. Chang said that the revenue from Operations at $4.3 million and the expenditures from Operations at $5.5 million reflect a deficit of $1.2 million at the end of November. He asked if that meant that a $3.5 million deficit would be seen at the end of December. Mr. Togashi replied that a significant catch-up would be seen in December, which will be a lot closer to the $4.7 million loss. He explained that it is not quite the $4.7 million loss by December, but it will progressively closer throughout the year as costs are incurred and revenues are earned. Mr. Chang said that since they operate on a fiscal year and not a calendar year, the $4.7 to $4.8 million operating loss is through June 30th of this fiscal year. Mr. Togashi confirmed that his understanding is correct.

Mr. Togashi went on to present the December Financials for HTA and reported that at the end of December, $24.9 million of prior year funded expenditures was paid out. He said that $5.8 million of prior year encumbrances have not been expended through the month of December and noted that some significant expenditure items included $943,000 for North America Leisure; $256,000 for Other Asia; $780,000 for Business Marketing; and approximately $381,000 towards the HTA Recovery Strategy.

He said that significant activity during the month included receiving $6 million in TAT revenues; paying out $250,000 related to CPEP programs; and $228,000 related to HTA Administrative Services.

Mr. Togashi said that the HTA budget statement reflects $5.6 million in uncommitted funds and we are operating within our total budget. He said that significant commitments included $2 million for Airline Access; $100,000 for Festivals and Events within the Signature Events category; and $250,000 for HTA Administrative services.

He reported that the December 2011 balance sheet reflects that we have $42 million in liquid assets and $5 million held in trust and that we continue to maintain $9.9 million in reserves.

He pointed out that the revenue forecast through December illustrates that we have received $41 million in revenues and that through the month of December, we have received $2.6 million more in TAT revenues as compared to last year.

Mr. Chang referenced the earlier statement made during Mr. Nāho'opi'i's presentation that December was the highest revenue expenditure month on record and said that the TAT does not reflect that by a considerable amount, so he asked how that was reconciled. Mr. McCartney and Mr. Feng explained that there is a lag in the process, which is compounded by other issues being worked on by the Department of Taxation. He asked about the amount of TAT that was collected in December. Mr. Togashi offered to provide him with that figure.

Mr. Togashi presented the income statement for the CCESF which illustrates a $2.9 million Convention Center loss. He said that a significant cost that was incurred during the month of December was $1 million funding of Sales and Marketing to SMG.

He reported that the CCESF budget statement reflects that spending is going according to budget and that the balance sheet reflects $12.3 in liquid assets. Mr. Fitzgerald commented that it does not appear as if there are any changes to the CCESF budget statements between November and December. Mr. Togashi explained that there was a timing issue regarding the recordation of the November and December figures. He said that in consideration of the timing issue about when to record the November activity into the financial statements, and because both the November and December financial statements were going to be presented at this meeting, it was decided that there was not any need to reopen the books. He said that some of the November activity is reflected in December, but from a year-to-date perspective, the records are current as of December.

Mr. Chang asked what level of dialogue exists between the HTA and SMG when a situation such as the additional $100,000.00 loss occurs. Mr. Togashi said that the first question that is asked is "Why?" and then it is determined if the response is a reasonable one. He admitted that it is very difficult to be able to forecast what oil prices will be and the effect it will have on the utility bills, as those numbers are changing every day. He assured the board that we ask the questions and do our due diligence and after that, if we feel it is warranted, other ways are considered to fund the additional costs.

Mr. McCartney added that under the current contract, the board authorized the staff to set performance targets based on the loss – the higher the loss, the less their guarantee. He said that now the guarantee is tighter and based upon performance.

Mr. Williams asked if the amount of their incentive payment would be less the amount of the loss.

Mr. Togashi replied that yes, this additional loss will decrease their ability to meet their incentive plan, but pointed out that the decrease in the incentive payment has not yet been reflected because they will not know for certain until year-end whether or not they have met their targets.

Ms. Weiner made a motion to approve the financial statements for November and December 2011. Mr. Chang seconded the motion, which was unanimously approved without objection.

Ms. Weiner made a motion to go into Executive Session at 12:19 p.m.
The meeting was reconvened at 1:15 p.m.

**12. Discussion and/or Action to Approve the Competitive Procurement Process to be Utilized for Integrated Leisure Tourism Marketing Services in the North America/Canada Major Market Area**

(This Agenda item was discussed out of order)

Ms. Weiner made a motion to delegate to the board chair, the responsibility for identifying and recruiting two (2) board members to serve on the evaluation committee for the procurement of the Leisure Tourism Marketing Management Services contract for the North America and Canada major marketing area and also moved to delegate to staff the responsibility for selecting the third person for this evaluation committee from the community-at-large. Mr. Nakamura seconded the motion which was unanimously approved without objection.

**11. Discussion and/or Action to Amend the HTA FY 12 Budget to Allocate Additional Funds for Access**

(This Agenda item was discussed out of order)

Ms. Weiner made a motion to allocate additional funds for Access from other budget categories as presented by the staff in the amount of $185,000.00. Mr. Fitzgerald seconded the motion, which was unanimously approved without objection.

Mr. Williams asked Mr. Uchiyama if he had any additional information to present. Mr. Uchiyama said that Agenda item no. 8, Presentation of an Interim Program Assessment of HTA FY 12 Budget, was addressed in the motion for Agenda item no. 11.

Mr. Chang commented that Agenda item no. 8 was not discussed. Mr. Uchiyama replied that Agenda item no. 8 related to how the Brand Team is managing the FY 12 budget and referenced the budget summary sheet that he distributed to the board in executive session.

**8. Presentation of an Interim Program Assessment of HTA FY 12 Budget**
(This Agenda item was discussed out of order)

Mr. Uchiyama presented a budget for the Brand Team for FY 2012 and explained that any project and contract-related paperwork that has been initiated, falls into the "commitment" column. He said that the "contract" column lists everything that has already been executed and that variances are listed on the last column. He said that in total, the current summary shows that $1.166 million remains uncommitted.

Mr. Chang stated that the board has been asking for this document for a long time and that Mr. Togashi has been a little hesitant about providing such a document for a variety of fiscal reasons, so the Brand Team has stepped in and said, "Here's our version of it." Mr. Chang asked Mr. Togashi if he supports this document in his capacity as the HTA's Fiscal Manager. Mr. Togashi replied that yes, he supports this document.

Mr. Chang said that in reviewing the financial statements, it appears as if the same terms are being used to mean different things, which he believes "can get us into trouble." He said that what Mr. Uchiyama has reported is not how the financial reports define a contract payment and a commitment. Given that, he said that there needs to be further convergence to make sure that there is a consistency in the vernacular that is being used. Mr. Togashi agreed and explained that in large part, it is due to timing and the time that it takes to get the paperwork initiated and through the pipeline.

Mr. Uchiyama explained that the Brand Team and the Fiscal Office have the same understanding of the meaning of "commitment," but the Brand Team initiates the paperwork and when that happens, it gets noted in the "commitment" column, but the paperwork also has to go through a process where it goes to contracting; then the AG's office; and then it needs to be signed off by everyone before it gets submitted to the Fiscal Office, so there is a lag.

Mr. Chang made reference to the last line item on the summary sheet, "Contract Management and Accounting Software" for $120,000.00 listed in the commitment column. He asked if he was correct in his interpretation that we may not be spending that money this year. Mr. Togashi said that it reflects our intent of spending it this year, but we have not yet contracted it. Mr. Chang said that we really do not have $1.166 million that is unencumbered, then.

Ms. Weiner asked what the difference is between a contract and a commitment. Mr. Uchiyama explained that the contract column means that the paperwork has gone through the full process, all parties have signed, full documentation has gone to the Fiscal Office, and money is getting issued out. He explained further that the commitment column means that the paperwork has been initiated, but that it is still making its way through the entire contracting process.

Ms. Ewing said that there could be a line item in the summary sheet labeled, "Timing Differences." She said that everyone understands that commitments get moved over to the contract column, but believes that it really is just the timing.

Mr. Togashi explained that the Brand Team's budget summary is the more current version, so he does not think that timing differences would be indicated on that document, but rather, on the financial statements. He explained that the staff is in the process of trying to identify a financial and contract management system that will allow us to seamlessly record soft commitments. Mr. McCartney added that for the record, there is no State agency that has gotten this far. Mr. Uchiyama recognized Ms. Lee and all of her efforts at keeping the budget summary current. Mr. Uchiyama added that the Brand Team has already been advised that they should begin plotting out the FY 2013 budget, but that is still in its initial stages.

Mr. Williams commented that Agenda item no. 9, Discussion and/or Action to Approve the Roll Over of Unspent CY 2011 Funds for the North America/Canada Leisure Major Market by the Hawai'i Visitors and Convention Bureau to CY 2012 and Agenda item no. 10, Discussion and/or Action to Approve the Roll Over of Unspent CY 2011 Funds for the Europe Major Market Area by AVIAREPS Tourism to CY 2012, would be deferred because it is believed that these items do not require attention at the board level. Mr. Williams explained that it would be investigated and if it turns out that these items require board attention, they would be put back on a future meeting agenda for discussion and/or approval.

Mr. Chang said that action would be a change from all previous years, so if that is what is going to be done, he would like to see it reflected as a policy change to be consistent with how the board has operated in all the previous years, where any time there has been any roll over of funds, it has always come to the board for deliberation and approval. He said that he has no problem changing it, but wants to ensure that it is a documented policy change and it is entered into the policies so that there are no questions a few years from now about how we did it one way and then how and why we changed it along the way.

Mr. Williams agreed that this is a change from previous years, but commented that we always ask the same questions about roll overs, so we just want to get back to a definition of "roll over" to make sure that we don't have any questions. He said once that is done, it will be brought back to the board's attention if it is determined that a policy change needs to happen.

Mr. Uchiyama explained that out of the $700,000 roll over covered under Agenda item no. 9, $570,000 is actually contracted, but it is a timing issue regarding when the invoice is coming and when payment will be issued. He explained further that $130,000.00 is "freed up" money in the Leisure contract, but the HVCB was asked to reallocate that money for the Philadelphia Flower Show, so it is really all accounted for. Ms. Ewing commented that if that is the case, then it is not really a roll over. Mr. Williams commented that based on a calendar year, it is the HVCB's roll over, but based on a fiscal year, it has nothing to do with the HTA's roll over.

Mr. Uchiyama also explained that Agenda item no. 10 is a true roll over of $11,000.00 and that we want that money to be used toward a FAM trip for the product managers out of Europe to help us further develop product.

Mr. Chang said that Mr. Williams made a good point and added that he recalls that we never did these sorts of things until June because they were always fiscal year roll overs, not calendar year roll overs.

Mr. Williams told Mr. Uchiyama that he believes that he will have the ability to do what he needs to do, but would like to defer Agenda item nos. 9 and 10 and will report back to the board based on what was just discussed.

**13. Adjournment**

The meeting was adjourned at 1:30 p.m.

Recorded:

Eryn Brautigam