



**REGULAR BOARD MEETING
HAWAII TOURISM AUTHORITY**

February 28, 2013

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

MINUTES OF REGULAR BOARD MEETING

- MEMBERS PRESENT:** Ron Williams (Chair), Patricia Ewing, Jack Corteway, Rick Fried, Victor Kimura, Mike Kobayashi, Craig Nakamura, David Rae
- MEMBERS NOT PRESENT:** Kelvin Bloom, Patrick Fitzgerald, Aaron Salā, Lorrie Stone
- HTA STAFF PRESENT:** Mike McCartney, Caroline Anderson, Lynn Bautista, Minh-Chau Chun, Jadie Goo, Chika Miyauchi, Doug Murdock, Daniel Nāho'opi'i, Roann Rakta, Angela Rodriguez, Marc Togashi
- GUESTS:** John Kaatz, Joseph Toy
- LEGAL COUNSEL:** Deputy Attorney General Gregg J. Kinkley

1. Call to Order and Opening Pule

Presiding Officer Ron Williams called the meeting to order at 9:33 a.m.

Mr. McCartney offered a Pule.

2. Approval of Minutes of the January 24, 2013 Board Meeting

Mr. Kimura made a motion to approve the minutes of the meeting held on November 29, 2012. Ms. Ewing seconded the motion, which was unanimously approved without objection.

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 addition to his written report that was previously distributed to the board, Mr. McCartney shared additional information on his and staff's activities since the last board meeting. He mentioned that several staff members were not in attendance at today's meeting – Mr. Uchiyama was traveling and meeting with various airlines; Ms. Rodriguez was at the Legislature; and Ms. Anderson, Mr. Story, and Ms. Wilson were meeting with the Hawai'i Community Foundation, who was chosen via an RFQ to assist the HTA with managing its Hawaiian Culture and Natural Resources Programs.

Mr. McCartney referenced Mr. Corteway's question at the last meeting about the auditor's report and shared that a summary will be passed out to the board on where we are in terms of that report. He said that he believes we have met all of the requirements regarding any pending items and that the biggest ones – the policies and the procedures and the setting of benchmarks – have been completed.

Mr. McCartney introduced Mr. George Szigeti, the new President and CEO of the Hawai'i Lodging & Tourism Association. He shared that he and Mr. Szigeti, along with Senator Brickwood Galuteria and Mr. Collin Kippen, the State's Homeless Coordinator, spent an evening with the Honolulu Police Department and the Waikiki Community Health Center and went around Waikiki, which he said proved to be an eye-opening experience. He said that, "rather than just sitting in a room and talking about what can or cannot be done," they went out into that community to get a firsthand look at what is going on, which is an important first step. He declared that there is a lot of work to do and that this is not "just a Waikiki problem; it is a problem for the entire State."

He also shared a brief summary on some recent sporting events that took place – most notably, the Pro Bowl. He shared that we were able to forge a new relationship with the Pro Bowl under the leadership of Dr. Edison Miyawaki, who is one of the owners of the Cincinnati Bengals and the chair of our Host Committee. He said that Dr. Miyawaki provided leadership that enabled us to do many things with the NFL that we have not done before. He also mentioned that Mr. Kimura was very involved, such as doing community clinics for at-risk youth. He said that our relationship with the NFL is getting better and we are working harder with each other to ensure that the opportunity for both sides is maximized. Mr. McCartney also mentioned that there were several other sporting events that took place, starting as far back as last October with the Pacific Links Golf Tournament and then subsequently, events such as the Vans Triple Crown of Surfing, the Maui Classic, the Sheraton Hawai'i Bowl, and the Diamond Head Classic. He pointed out that every week there was a sporting event, so we were on television every week, gaining exposure and helping to enhance our brand.

The last thing Mr. McCartney shared as part of his report was the most recent activities at the Legislature. He said that the new leadership in the Senate and the House are working hard to find a pathway amongst themselves and each other to work together. He said that there is good communication, they are gaining common understanding, and building trust. He shared that if you have that at the Legislature – communication, common understanding, and trust – good policy can happen. He said that this session is going to be characterized by balancing the budget and looking at costs and that the theme is trying to work with what we have. He said that we have been able to grow revenues and we hope that we can continue to share the message that we are part of the growth strategy and that an investment in us is helping to grow the economy.

Mr. McCartney said that he thinks we have been able to stop the projected increase in the Transient Accommodations Tax (TAT) from 9.25 to 11 percent and that we have made it clear that in this delicate market, raising prices that way would not be very helpful in a very competitive world. He said that if the Legislature continues at 9.25 percent, what the HTA would like to see is additional resources given to us in order to continue the market. He said that it is conditional, but thinks that we are getting a good response on that and that people are receptive to it. He said that in the end, it may stay the same, in which case, we will continue to go forward. He remarked that we want people to be very, very conscious that raising taxes on visitors is a sensitive issue. He said that the market is delicate and we want to make sure that we do not out-position ourselves in the marketplace.

Mr. Williams shared that part of Mr. Uchiyama's current business trip includes attendance at a convention for cruise lines and looking at what we can do with the cruise industry. Mr. McCartney said that it is an important part of our growth strategy and shared that we have been working closely with the Department of Transportation (DOT) and the Department of Land and Natural Resources (DLNR) to better coordinate those services.

Mr. Corteway asked if this was not the time to get rid of the cap on the TAT. Mr. McCartney said that if the Legislature gets rid of the sunset clause, the TAT is scheduled to be reduced from 9.25 percent to 7.25 percent in 2015 and pointed out that under the old formula of 7.25 percent, we received 34.7 percent of that revenue. He explained that we get approximately \$10-\$12 million less revenue now with the current cap than we would have had under the original cap. He said that the reason we want it is not just because it is more money, but because we see a very competitive world coming our way and we envision having to spend additional resources just to keep our market shares in places like the West Coast, where we are going to have to compete against a very strong Mexico; or against the Caribbean, where all inclusive packages are offered; and all over Asia. He said that we are going to have to work very hard to keep what we have and that is going to take additional resources and additional money to grow new and developing markets such as China.

Mr. Corteway asked if we will ever have a full-time partner in China. Mr. McCartney replied that it is being evaluated and that the long-term strategy is to have someone focused on that market specifically instead of the current set-up, where we have a marketing contract for "Other Asia."

Mr. Kimura suggested a consideration with the Legislature, that if there is a release on the cap, there could be a new line item in the upcoming budget for Market Development that would allocate amounts to specific markets such as China and Korea and also funds for maintaining the Japan market because of the devaluing of the yen.

He also suggested that as we approach the cruise markets, it should be stressed that we need DLNR support because cruises represent a floating inventory, which can fill annual voids on a lack of hotel inventory. He said that currently, because of certain issues that we have in terms of development, this would provide additional inventory of rooms that are movable and provides increased capacity with no development.

4. Review of Recent and Upcoming Permitted Interactions by and for the Board of Directors

Mr. Murdock asked the board members if anyone had any permitted interactions to report since the last board meeting. Mr. Williams reported that there was more than one (1) board member in attendance at the Pro Bowl, but there were not any conversations related to the HTA.

Mr. Corteway shared that years ago, the Cystic Fibrosis organization used to put on a golf tournament just before the Pro Bowl and he was wondering if there was any way that could be revived, as it was very, very attractive and it raised money for them. Mr. Williams said that this can be placed in the minutes and then followed-up with Mr. Uchiyama to see what the possibilities are for having this event again.

Mr. Williams also reported that a reception for Alaska Airlines was attended by a few board members. He said that the event was very successful and they were able to sit with the CEO of Alaska Airlines, who expressed his happiness over what is going on in Hawai'i.

5. Presentation and Discussion Visitor Statistics

Mr. Nāho'opī'i presented a PowerPoint on visitor data for January 2013. He reported that visitors spent \$46 million per day as compared to last year, where the annual average was \$39 million per day. He said that January is typically a higher spending month, as there are more affluent visitors who come during the winter period and in the international market in particular. He said that there was a 5.7 percent increase year-over-year (YOY) to \$1.43 billion for the month of January, which he said is right at our target level of \$1.44 billion. He said that visitor expenditures increased on all islands and total arrivals reached 682,000 visitors, which is an increase of 5.9 percent. He said that our Average Daily Census (ADC) is about 226,000 visitors per day, which exceeds our targets in terms of arrivals by about 2

percent. He said that in terms of arrivals, we were up 6 percent, but in terms of ADC, we are actually up only 1.2 percent.

He reported that the total expenditures of people who came to Hawai'i was increased \$77 million from the same period last year and was driven mainly by an increase in visitor spending, as well as overall volume. He said that we are at pace for visitor days, but length of stay was a little bit shorter. Mr. Nāho'opi'i remarked that he would not call it a trend because it was only one (1) month. He said that airlift is at zero (0) because we are actually setting the benchmark right around this part and said that the 2013 outlook was just issued at the end of January, so that will be our benchmark for this year and any increases of scheduled service after the benchmark period of January 2013 would be a positive to our targets.

He said that we are right at our target for O'ahu in terms of arrivals and that every island showed YOY increases for arrivals as well. He said that visitor days are slightly slower and pointed out that an issue he noticed during his analysis is that there was more neighbor island-only visitation, such as visitors going directly to Maui, which actually resulted in a bit of a shorter stay in terms of those visitors coming to O'ahu, so even though the growth was up here, when there is shorter length of stay, along with a lot of international growth, the length of stay will start to shift slightly when there is a shift from domestic to international visitors. He reported that Kaua'i saw a 10.6 percent growth in arrivals, which was driven a lot by higher spending and visitors from the US East and Canada. He said that Hawai'i Island grew 7.2 percent and the US West grew 8 percent to that island. He shared that the US East had double digit growth of 11.7 percent to Hawai'i Island and Japan showed a growth of 6.7 percent there as well. He said that there was 6.5 percent growth on Maui for arrivals and that the US West was the strong leader at 9 percent over the same period last year. He also stated that we saw a 12 percent increase of Canadian visitors to Maui.

Mr. Nāho'opi'i reported that O'ahu saw a 4.3 percent growth in arrivals, but that visitor days were down 1.6 percent. He explained that one of the reasons is the shift of international visitors staying for shorter periods of time. He said that we also saw a decline of 5 percent from Canadian visitors. He added that another issue for O'ahu had to do with the shift in the Lunar New Year. He said that it was in February this year, so all of the Asian visitors who use that as their holiday and/or vacation period actually came in February, so the peak will be seen in this current month instead of January.

Mr. Williams asked if day trippers are included in these numbers. Mr. Nāho'opi'i replied that they are. Mr. Williams remarked on the 7 percent increase for Hawai'i Island and asked if the assumption could be made that they are staying there for one (1) day or are they coming in and flying out? Mr. Williams also said that it would be interesting to know just from the basis of occupancy on Hawai'i Island. Mr. Nāho'opi'i said that he would do an analysis of a day trip to the neighbor islands versus an overnight stay. Mr. Williams said that information would be interesting for all the islands and to see if we are actually

getting the international visitors or we are just getting them from an island tour perspective.

Mr. Nāho'opi'i shared that airlift was up 10.6 percent in January. He said that the US West grew 9.5 percent with Allegiant adding some extra services from Eugene, Fresno, Santa Maria, and Stockton and that the US East saw an increase of 31 percent due to the services out of both JFK and the Dulles, which started in the second half of 2012.

He reported that scheduled seats out of Japan grew 12 percent compared to the same time last year; however, a slight shift was seen for charters, which was a small amount for January. He explained that there were five (5) fewer flights in the Japanese market from the same period last year, so it fell more than half, but mainly because we have 12 percent of scheduled service.

He reported that air seats grew by 14 percent in Oceania, which was boosted by additional Sydney and Auckland service, as well as Hawaiian Airlines' launch of Brisbane service in late November and the start of JetStar service in Melbourne in December. He said that scheduled seats from Other Asia climbed 23 percent, as we saw some increase from Seoul as well as one (1) extra flight from Shanghai, and there was scheduled service from Taipei on China Airlines in January.

He shared that expenditures in January for US West visitors rose 15 percent and US East increased almost 2 percent, which brings us to a total of 10.6 percent overall. He said that arrivals from Japan have continued to increase over the last 18 months and grew another 4 percent in January while Canadian arrivals grew 1.8 percent as compared to the same period last year; however, we saw a slight dip in all other markets. He reiterated that one of the main causes was that the holiday travelers that we experienced back in January 2012 are being shifted to February 2013 due to the shift of the Lunar New Year holiday.

Mr. Nāho'opi'i stated that Lodging is at \$93.00 per person per day (PPPD) as compared to \$84.00 PPPD back in 2012, which is an increase of 11 percent. He said that Lodging increased in all of our major markets with the US East actually showing a 19 percent increase in their spending, bringing them up to about \$95.00 PPPD. In the US West, he said that we saw an increase of 14 percent in their Lodging spending at \$76.00 PPPD. He also shared that spending for the Japanese was up 7 percent; he said they are spending \$136.00 PPPD on Lodging alone, and Canadians are at the same point they were last year at 1.1 percent.

He said that there was a small increase of 1.4 percent in Food and Beverage (F&B); however, the largest growth was in the restaurant business, so restaurants saw most of the growth at 5.5 percent. He said that shopping went from 27.4 percent to 26 percent, which is a decrease of 5.3 percent. He added that there was a 12 percent decrease in shopping for Japanese visitors, mainly in the higher-end spending categories, but there was an increase in their Hawai'i food products types of purchases. He said we will continue to

investigate that, as he is unsure if that is an overall trend that has been happening over the past couple of months or not. Mr. Williams asked Mr. Nāho'opi'i to clarify what is meant by "restaurants." Mr. Nāho'opi'i replied that it means spending at restaurants, such as buying their food at restaurants. He added that a 2.5 percent increase was seen in Dinner Shows and Cruises for January.

Mr. Kimura said that in past board meetings the request has been made to look at foreign currency exchange to US dollars and asked if Mr. Nāho'opi'i saw any correlation between the weakening of the yen and less Japanese spending. Mr. Nāho'opi'i said that is one of the issues that he would like to continue to track. He said that the weakening of the yen was more toward the beginning of this year and the typical pattern that has been seen is that there is a slight lag of one (1) or two (2) months in terms of the effects because people do things such as pre-purchase their yen, so he said that he wants to look at the data for February before we see if there is a trend in shopping. Mr. Kimura asked if tracking could be done for the Office Lady category in the Japanese market as well. He said that he sees more Gucci bags and shopping bags come through the hotel, but if the clientele are more of the silver age group, there are more ABC bags, instead, which he said is the nature of the different levels of clientele. Mr. Nāho'opi'i pointed out that in looking at the detailed spending for the month of January, there was a 12 percent decrease in shopping, but F&B went up 9 percent, with a 15 percent increase in groceries and snacks, which would be where the ABC and convenience store numbers were increased. Mr. Kimura asked that this be monitored because he is unable to figure out whether or not this is due to the currency.

Mr. McCartney asked Mr. Nāho'opi'i if demographic data is available. Mr. Nāho'opi'i replied that it would be in our fact sheets, so he said he could present one (1) market every meeting and we could go through the information. Mr. Williams asked if the numbers were inclusive of taxes. Mr. Nāho'opi'i confirmed that taxes were included.

Mr. Corteway asked if there is any inflation factor that is of any importance. Mr. Nāho'opi'i replied that currently, it is about 2.4 percent and said that particularly, the F&B and Transportation sectors would have that effect, so taking that into consideration, we would still have decent spending.

Mr. McCartney shared with the board that Mr. Nāho'opi'i is working on overall taxes for the visitor. He said that we are going to begin doing an ongoing analysis of the tax burden on the visitor in these different sectors, so that we can monitor it as a destination. He said that we thought it was important information and that any Authority should know what the taxes are per visitor and how it compares with other places. He says that we are going to be analyzing this not just by spending, but what the impact is from taxes – from the airlift, the landing fees, to car rentals, down to every tax that a visitor pays. He said that the best that he can figure as of right now, it is \$220.00 for February per person in tax revenue. He said that each visitor who is getting off the plane is contributing that much tax

revenue, but we want to get it down to a specific number and know where our destination is at compared to other destinations – not just in hotel room tax, but in all taxes.

Mr. Kimura said that we had a lot of bad weather in January, so that factor needs to be mapped over in terms of how people spent their money. As an example, he said that if there is really bad weather, visitors are not going to go out and have fun in the sun; they would have to stay in-house, so that will inflate F&B and shopping. He asked that it be looked at from this matrix.

Mr. Nāho'opi'i reported on our smaller markets, sharing that the shift in the Lunar New Year resulted in lower numbers of Chinese visitors and a moderate growth in Korean visitors, where we would have expected a little bit more because of the additional air lift. He said that strong growth was seen in the Oceania market, exceeding our YOY target at 26 percent and exceeding targets over 18 percent. He said that the Europe market also saw some growth, at 9 percent YOY and 10 percent over the set target.

With regard to Occupancy, Mr. Nāho'opi'i shared that the fall season had a steady occupancy rate in 2012, which is an improvement, especially in trying to maintain our shoulder period, as dips are normally seen in the winter and fall. He said that Statewide occupancy now is at 7.5 percent, which is an increase of 2.3 percent overall. He pointed out that a distinctive gap still remains between O'ahu and the neighbor islands in terms of overall occupancy and that in the past, it has been much closer. He said the O'ahu occupancy rates are in the 80s versus the other neighbor islands, which are in a much lower sector.

He reported that the Average Daily Rate (ADR) was up \$236.00 in January, compared to the average of \$204.00 back in 2012. He pointed out that there is growth, and while it is not as constant, we are still seeing positive growth in all months and it is just a matter of some months being stronger than others.

Mr. Kimura asked if there could be some information on overlay capacity by market on the number of seats tied in with how visitor arrivals were impacted from segments that are being tracked. He said that he thinks that it is essential – at least from the board's standpoint – that a direct correlation is seen and that the whole focus of the HTA is towards enticing and maintaining seat capacities to Hawai'i. Mr. Kimura also requested that someone from the DOT come and make a presentation to the board regarding the capacities of each airport. He said that he sees that a lot of our guests seem dissatisfied with their experience at the airport. He said that when people arrive, they should be feeling the sense of Aloha and enjoying the experience of being in Hawai'i, not rushed through "like a herd of cattle." He asked whether we are reaching or have surpassed a saturation point regarding the experience of arrivals and departures at our airports. He said that it is something that is food for thought, but it would be helpful if someone from the DOT could give us an update.

Mr. McCartney said that that was a good idea and Mr. Williams agreed and said that it may be a good experience for us to go there, instead. Mr. McCartney suggested that maybe before our next board meeting, or as part of it, we could convene it at the airport and see the morning international arrival experience. Mr. Kimura said that it would be really helpful to be able to see the process beyond what everyone can see outside of the international gate. He likened this to what Mr. McCartney and Mr. Szigeti experienced with the issue of the homeless in Waikiki. He said that we need to go through the process and see it with our own eyes and then ask ourselves if we are complementing what we are doing or if there is something that we have to go and fix.

Mr. Williams said that he thinks that would be a great experience, not only to see the international side, but to see the transition from international to interisland. He said that Mr. Fuchigami would be more than happy to let us see that. Mr. Williams added that the airport experience between 11:00 a.m. to 3:00 p.m. "is very adventurous" and that during that time frame, "there is a line to get to the line," which makes for an experience that is not very welcoming. Mr. McCartney said that we would look into the possibility of holding the board meeting in one of the airport conference rooms.

Mr. Kimura said that we have to take a look at both arrivals and departures – how visitors feel when they get here and how they feel when they depart. He said we don't want it to be where they enjoyed their visit, but their airport experience is a bad one. He said that it really is a matter of how we get them to return.

Mr. McCartney shared that the DOT's Visitor Information Program, headed by Mr. Wes Yonamine, is very important and the people who man the information booths are helpful, but more bodies are needed. He also shared that we really do not have the luxury of building a new airport somewhere down the interstate because we do not have that land, so Hawai'i is really challenged in the sense that we have to renovate a facility and live in it at the same time, which is the biggest challenge. He said that a visit to the airport would be great and that the focus of the board meeting could be to go over the modernization plan for the airport as well as to get an update from our airline consultant on airlift.

Mr. McCartney said that some information would be compiled regarding seat capacity from different MMAs and arrivals. Mr. Nāho'opi'i added that he would do a more detailed report by airports, but said that if anyone would like information on current capacity by market, it is located on the dashboards. He said that we will send the 2013 Outlook, which has a breakdown of our forecast for the year each month by departure cities.

Mr. Nāho'opi'i distributed two (2) handouts to the board, based on requests for information at the last board meeting. He said that the first request was based on the question of the mix of visitors on each island during our last peak in 2006-2007, compared to where we were in 2012. He said that back in 2006, US visitors on O'ahu was at 30 percent and international visitors at 40 percent, as compared to 2012, where US visitors on O'ahu increased to 53 percent and international visitors increased to 47 percent of overall

persons on the island. He said that data shows how 2006-2007 was dominated by domestic or US visitors, particularly on the neighbor islands, and added that there would be some slight fluctuations because this also includes cruise, so the growth on some of the neighbor islands could be attributed in part to cruise passengers, particularly in 2007. Mr. Williams commented that Maui went up eight (8) points, and asked if cruise passengers could be a part of that count. Mr. Nāho'opi'i explained that if they ported or landed and got off, that would be counted as one (1) day.

Mr. Nāho'opi'i stated that based on his last presentation, there was a question regarding how we ended the year compared to our targets we had at the beginning of the year, which was actually September 2011. He said that even though he reported a 2.9 percent increase in terms of our expenditures over target, we actually exceeded it by 7.6 percent if we had stuck with our earlier targets. He said that in certain markets, we could do more, so we increased our goals in the second half of the year; however, in some markets we had to decrease, such as the target set for the China market. He stated that we ended the year at 1.5 percent over our revised target, but if we had kept to our original target, we would have been below 7.5 percent. He said that we thought we would get more flights or another airline that would have direct service out of China, but by mid-year, we realized that wasn't going to happen for the year, so the decision was made to lower the goals for the China market.

Mr. Kimura asked what comprises Other Asia. Mr. Nāho'opi'i replied that Other Asia consists of Taiwan, Singapore, and Hong Kong. He said that when Mr. Uchiyama presents his Spring Marketing Update next week, Taiwan will be added as a target, so we have been working on more numbers to estimate where Taiwan should be for 2013. He said that we have service starting up soon, as well as the visa waiver because they have become a waiver country.

Mr. Kimura asked how the tracking is done if someone flies on China Air – which is based in Taipei – to come to Hawai'i. Mr. Nāho'opi'i replied that given the methods used to track arrivals, it would be based on where they live, so it would be the point of origin. He said that currently for China Air, even though it is a Taipei-Narita-Hawai'i flight, it is counted as a Narita to Hawai'i flight in our capacity reports. He said those reports show that there is no service out of Taipei, but in terms of when we look at arrivals and our analyses, we actually note who is on the flight and that analysis is used. Mr. Williams asked if it is easy to track the one (1)-day visitors to the neighbor islands. Mr. Nāho'opi'i replied that we have a report for day trippers. Mr. Williams remarked that it seems the distributions to the neighbor islands have been moving really well and said that it would be interesting to know how much of that is influenced by the people who stay for only one (1) day. Mr. Nāho'opi'i said that the existing reports on the neighbor islands can be expanded to include one (1) day only data.

Ms. Ewing commented that we have always revised our targets, but thinks that we should revisit that “because you can make your numbers look any way you want if you keep changing the target.” She said that perhaps it makes sense from an operational standpoint and she understands that there’s a need to do that to strategically manage your plan, but it seems counterproductive in terms of goal setting.

Mr. McCartney replied that the staff’s plan was to come to the board with suggested revised targets based on what is happening in the year. He explained that we plug those in as part of an annual process and as we go through the first half of the year, those targets get adjusted – not only because we are trying to do it ourselves and report to the Legislature, but it is also for our marketing contractors and our wanting to hold them tighter to what is actually happening in the markets.

Ms. Ewing said that she understands that adjustments are made as you go through the process and get more information, but wants to ensure that we are not rationalizing non-performance.

Mr. Fried said that he thinks we need to report against the original targets and Ms. Ewing concurred. He said, “a) if we’re better, it shows that and b) it doesn’t rationalize non-performance.” He added that it is important to adjust, especially if it is upward.

Mr. McCartney said that it would not be a problem to report that information and on a more formal basis, he agrees and said that it can be explained why the targets were adjusted.

Mr. Kimura said that if he looked at the 2012 actuals to targets, he would question how consistent we were in where we placed money, time, and effort. He said that he thinks that is one area that would give comfort to Ms. Ewing’s question and also, if the goals are going to be revised, staff should present them to the board and explain that the goals have been adjusted after reassessing the areas in which money, time, and effort have been invested and determining the specific markets in which greater opportunities are seen.

Mr. Williams commented that Mr. Uchiyama does a really good job of reallocating the money from an area where something is not as good to an area where the money would be put to better use. As an example, he cited the reallocation of monies to the East Coast for the continuance of the DC and New York flights, to ensure that we are keeping those flights and that they are healthy. Mr. Kimura said that he had an issue at the last board meeting about why the Hawai’i Visitors and Convention Bureau (HVCB) did not pick up on that. He said that we moved \$500,000.00 from Market Development and then we took another \$500,000.00 from another line item and put it together to run this blitz campaign. He asked if the goals for the HVCB were then adjusted accordingly to show that we have a higher expectation of them because the money came out of the HTA side and not out of the HVCB’s allocated funding. He said that we need accountability because \$1 million was taken from other opportunities that we could have been developing for the future of Hawai’i, so, “a) why didn’t they see it and b) why are we supplementing when the HVCB

should have called this to our attention and then our targets should have been adjusted accordingly?”

Mr. Corteway says this discussion goes back to the comment he made at the last meeting regarding having a contingency plan that was part of the budget which could be used by the staff when they feel there is a necessity. He said if that was in place, all staff would have to do is report back to the board when they have done it. Mr. Corteway reiterated that staff should not have to come back to the board to ask for permission to do it. Mr. McCartney said that we had something similar to that when we had a higher cap.

Mr. Corteway said that he has a real problem with the issue of changing forecasts. He said that he does not think a forecast should ever be changed; “you comment on why you achieve it or you don’t.” He said that he can understand that when you have the vendor out there and something has happened, their goals and objectives need to be changed and maybe because of that, it has to be done overall. He asked if he was interpreting that correctly.

Mr. Williams said that the model is a little different from a business model because we are marketing the State to different markets. He said that we need to make sure that we always hold those markets accountable and get the best out of all the monies we are spending. Mr. Corteway remarked that it becomes a question of how we want to report it and that if we start changing them all the time, there will be an even bigger deluge of statistics than we currently have. Mr. Williams said that perhaps there is a different perspective of how we report that, so it will be revisited and then we can come back and have a discussion about it.

Mr. Kimura said that he did not want to belabor the point, but stated that he thinks we should be looking for consistency – “you do a road map, you have a budget, you’re spending money to the road map.” He said the second part is that if you are going to adjust the road map, the money spent should also be adjusted accordingly.

The meeting was recessed at 11:14 a.m.

The meeting was reconvened at 11:30 a.m.

6. Approval of HTA’s Financial Reports

Mr. Togashi presented the financial reports for the HTA Special Fund and the Convention Center Enterprise Special Fund (CCESF) for the month of December 2012. He reported that there was \$49 million in cash and investments for the HTA Special Fund, which includes \$5 million in Emergency Trust Fund and represents an increase of \$3.2 million from the previous month. He said that the increase is due primarily to receiving November receivables and is partially offset by spending \$4.3 million in December expenditures.

He said that the fund had \$4.3 million in unencumbered reserve, which is earmarked primarily to fund our budgets for the next two (2) fiscal years. He stated that the fund has \$325,000.00 in reserve for accrued vacation and \$5.1 million in prior year encumbrances that we have not yet spent down, but anticipate spending over the course of this fiscal year.

He reported that through December, we have contracted or committed \$61 million out of the \$71.7 million budget that was approved for FY 13. He shared that we have recorded \$6.4 million in the month of December, which brings our total to \$46 million year-to-date (YTD) and we anticipate receiving our full \$71 million of forecasted TAT revenues by the month of March. He said that the \$46 million we have received to date is \$900,000.00 greater than what we had forecast as part of our monthly FY 13 forecast and is \$4.8 million greater than what we had received at this point in time last year.

Mr. Togashi said that the CCESF had \$25.8 million in cash and investments at the end of December, which represents an increase of \$3.7 million from the previous month and was due primarily to having received November TAT receivables and receivables related to Convention Center operations and was partially offset by having spent \$1 million in December expenditures primarily to fund operations of the Convention Center.

He shared that as of December 31st, the fund had \$12.9 million in cash held at SMG or with DAGS and that those funds are to be used to fund near-term repair and maintenance projects. He said that this balance is consistent with the balance reported for November 2012 and includes \$2 million in emergency funds. He said that of the \$12.9 million that is with SMG or DAGS, \$10.8 million is encumbered or budgeted towards specific repair and maintenance projects. He pointed out that the fund also has \$10.5 million in reserve, which is earmarked specifically by law to fund long-term future repair and maintenance projects. He said that the fund also has \$400,000.00 in unencumbered reserve, which is intended to be available to fund any unexpected future Convention Center shortfalls. He said that we anticipate to grow to approximately \$800,000.00 by the end of the year, after considering that we had received \$370,000.00 that was returned to the fund from FY 12 operating funds from SMG in the month of December.

He said the Convention Center is operating at a \$1.7 million loss YTD and that we anticipate that number to be on par with the budget of \$4 million for the year. He pointed out that some details to note from the attached Convention Center financial statements include being over budget by approximately \$260,000.00 for electricity costs on the year and that we also anticipate having \$170,000.00 less in rental income than we had budgeted, but that is offset primarily with having an anticipated \$150,000.00 more F&B income than we had initially budgeted and being \$200,000.00 under budget for payroll costs.

He said that we are spending in accordance with the budget and with regard to TAT revenues, we had recorded \$3.2 million in the month of December, bringing our total up to \$23 million recorded YTD. He shared that we anticipate reaching our full cap of \$33 million in March for TAT revenues. He said that the \$23 million we have received YTD is \$11.7 million greater than what we had received at this point in time last year and that amount is largely due to a change in the law that impacted the timing of the fund receiving its revenues.

Mr. Kimura asked if we have any unfunded liabilities. Mr. Togashi said that the liability that is not reflected on these internal financial statements is our OPEB (Other Post-Employment Benefits) liability. He said that amount had been recorded on our internal financial statements in prior years, and going into this past budget session for FY 13, we released the earmark in consideration of the fact that we were operating on a smaller budget, which resulted in a smaller cap. He said that it has been suggested that we look into re-establishing that reserve.

Mr. Kimura suggested that any unfunded liability be set aside based on what the actuarial would determine the annual set-aside should be. He said that it does not need to be transferred, but instead, could be set up in an account within the HTA and at such time it is needed, Mr. Togashi or Mr. Murdock could then make a determination. He said his comment is related to what is currently going on with the State's Employee Retirement System (ERS) and that it would be prudent on the HTA's part to be able to say, at the very least, that we have set aside appropriately and we are following the actuarial tables.

Mr. Williams asked how the monies were held last time, before they were put back in. Mr. Togashi replied that the money resides in the \$4.3 million in unencumbered reserves and that this piece would have to be carved out specifically on our financial statements. He pointed out that the OPEB liability does not include the medical and other non-retirement obligations, so any obligations having to do with the ERS are not included in the OPEB liability. He said that we do not know what our retirement obligation is and that assessment was never done, nor is it required under GASBI.

Mr. Kimura stated that he has always believed that we have an obligation to the people who work for us, to make sure that they have comfort in knowing that what we are doing is the right thing. He said that sooner, rather than later - whether it is pension or other medical - it is going to come out and he thinks that it would be prudent that we set aside based on actuarial, what the tables would be, even on the usage of medical because he thinks it is the right thing to do as the employer. Mr. McCartney said that he agrees with what Mr. Kimura is saying and we can list it, but added that he does not think we can have the cash reserved. He said that given what we have, what our allocation is, and what we have to do in the market, he does not think we can do that. Mr. Kimura said that even if it is our liability at this juncture, it should be reflected accordingly.

Mr. Kimura made a motion to approve the HTA Financial Reports for the month of December 2012. Ms. Ewing seconded the motion, which was unanimously approved without objection.

The meeting was recessed to go into executive session at 11:48 a.m.
The meeting was reconvened at 12:50 p.m.

8. Adjournment

The meeting was adjourned at 12:52 p.m.

Recorded:



A handwritten signature in blue ink, appearing to read "Jim Coan", is written over a solid horizontal line.