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**BUDGET, FINANCE, AND CONVENTION CENTER STANDING COMMITTEE MEETING
HAWAII TOURISM AUTHORITY
Wednesday, September 27, 2023, at 9:30 a.m.**

Virtual Meeting

MINUTES OF THE BUDGET, FINANCE & CONVENTION CENTER STANDING COMMITTEE MEETING

MEMBERS PRESENT:	David Arakawa (Chair), Kimberly Agas (Vice-Chair), James McCully, Blaine Miyasato, Mike White
MEMBER NOT PRESENT:	James Tokioka (Ex Officio, DBEDT Director)
NON-VOTING MEMBER:	Dylan Ching
HTA STAFF PRESENT:	Daniel Nāho'opi'i, Isaac Choy, Talon Kishi
GUESTS:	Teri Orton, John Reyes
LEGAL COUNSEL:	John Cole

1. Call to Order and Opening Protocol

Chair Arakawa called the meeting to order at 9:30 a.m.

2. Roll Call to Announce Name of Participating Board Members and to Identify Who Else is Present with Board Member if Location is Nonpublic

Chair Arakawa did the roll call. All confirmed attendance and that they were alone.

3. Approval of Minutes of the May 23, 2023, Budget, Finance, and Convention Center Standing Committee Meeting

Mr. Choy said he would like to make a correction on the second paragraph of page 5, where it read, "He mentioned note 387," It should have read, "He mentioned \$387,000."

Chair Arakawa asked for, and made a motion to approve the May 23, 2023 minutes, and Ms. Agas seconded. Chair Arakawa did the roll call, and the motion passed unanimously.

4. Presentation, Discussion, and Action on the Hawai'i Tourism Authority's (HTA's) August 2023 Financial Report

Mr. Choy presented the Financial Report for August 2023. He began with the Balance Sheet as of August 31, showing the balances for each of the following funds:

Tourism Fund, Convention Center Fund, Convention Center Roof Repairs, Tourism Emergency Special Fund, and Federal Funds.

Mr. Choy reminded the meeting that the Tourism Fund was a liquid fund to be used for operations. Out of the \$60 million allocated by the Governor, \$9 million remained and was encumbered. \$64 million from last year's appropriation had not yet been posted, but this would be done as soon as the expenditure was carried out. Regarding the PMCM RFP, a protest had been received that morning from Cummings, and this would be handled immediately. The HCC roof repairs were proceeding on time and budget.

\$5 million remained from the TESH. Federal Funds were an EDA loan that was administered by Ms. Anderson.

Chair Arakawa asked Mr. Choy to remind the Committee what was meant when \$34 million of Convention Center Funds were described as "frozen." Mr. Choy replied that the government allocated two types of funds: General Funds and Special Funds. Special Funds were controlled by the legislature by giving an appropriation ceiling. Unfortunately, the ceiling for the HTA Special Funds had been specified in a bill that failed to pass. As a result, the funds had no ceiling, which was taken to imply a ceiling of zero, meaning that no expenditure could be made from that fund. This situation would be corrected.

Mr. Choy went on to explain that while the balance sheet could be imagined as the organization's engine, the income statement was an indicator of performance. During July and August, most of the expenditure had been carried out from the operating fund. \$11,000 had been spent for the evaluation of the Prince Lot event, the item labeled "Safety and Security" was \$35,000 for the VAST contract and \$804,000 for Branding and Marketing was expenses for the Korea and Japan contracts. Items labeled administrative costs referred to contracts to Anthology Group, IT services, and salaries and wages.

Mr. Miyasato asked if the financials presented actuals or budgeted. Mr. Choy reminded the Committee that the amounts shown in the Financial Report referred to actual expenses and income as opposed to the amounts that had been budgeted. The funds which were budgeted in respect of the vacant positions had been accrued as payable.

Mr. McCully asked whether the absence of a specific ceiling could be cleared by a resolution. Mr. Choy responded that the ceiling could be cleared only by the HTA Budget Bill or a separate piece of special legislation. The legislature must approve all money spent by state agencies. Even special funds must be appropriated either by the budget bill or by a separate bill, which would later be transferred to the budget bill.

Chair Arakawa asked what would happen to the former CEO's salary after September 15, when his resignation became effective. Mr. Choy replied that the salary would be frozen and remain in the tourism fund. The Board would decide whether the acting CEO would be eligible for this money. The CEO's salary had been budgeted, but the actual salary had been accrued up to September 15. The term "accrued" meant that expenses had been incurred but had not yet been disbursed. Mr. Choy reminded the Committee that the amounts shown in the budget were placeholders.

The Balance Sheet and Statement of Revenues and Expenditures were followed by Selected Management Disclosures. These notes were included because the Finance Report would be disseminated to members of the Board, key Senators, and members of the public, especially those who had asked questions in the past. This enabled the legislature to be fully informed about the financial situation of the HTA every month. The bank statement was also attached to prove that the declared funds were available.

The final two pages of the Finance Report concerned the HCC, and this had been prepared by the Convention Center staff. This report was also made available to members of the legislature every month.

Mr. Choy was still considering the expenses of the wildfire emergency and was concerned about the amount that had been incurred. The HCC might run short of funds in January since the third floor was still being used for accommodation by FEMA and DBEDT. Chair Arakawa asked whether reimbursement would take place. Mr. Choy replied in the affirmative but expressed his concern about the timing of reimbursement. The Finance Department was compiling an expenditure report for FEMA, which was due on October 10. The Chair proposed that in the future, the issue of FEMA reimbursement should be one of the selected management disclosures. Mr. Choy agreed and informed the Committee that a gap of two to three years between FEMA expenses being incurred and their reimbursement was not unusual.

Mr. McCully expressed his concern about the wide variances in the HCC income. Ms. Orton replied that income depended on the event type taking place. Corporate or Citywide events at which high food and beverage consumption caused a significant income increase.

Mr. Miyasato asked Mr. Choy to give further details about the reimbursement process. He stated that this was valid for every agency making use of the HCC, whether FEMA or DBEDT. The HCC, as an independent entity, would submit claims, after which an adjudication process

would occur followed by eventual payment. Since DBEDT was a state agency and FEMA a federal agency, the exact process would be different for each of them.

There were no amendments to the Financial Report, but Mr. Ching pointed out that his status was that of a non-voting member, so his vote should not be requested. Chair Arakawa reviewed the membership of the Committee and informed members that Dir. Tokioka had been excused from today's meeting, and Mr. McCully had obtained permission to be absent for part of the proceedings.

Chair Arakawa moved to accept the Financial Report without amendments. The motion was seconded by the Vice Chair and carried unanimously.

5. Discussion and Action on the FY25 Legislative Budget Request

The Fiscal Year 2025 Legislative Budget Request was from July 1, 2024 to June 30, 2025. Mr. Choy reminded the Committee that the state budget started every two years, and the 2025 fiscal year was supplemental, a request for the second year of the biennial budget. He reminded the Committee that for the first year, the budget allocation had been zero.

The information packet supplied to the Committee contained Form A, which government departments compiled to request funds and resources for future years. The case of the HTA was unusual because the budgets for 2024 and 2025 were zero, and they had to start from scratch. As an "Affiliated Agency," the HTA had to submit its budget requests to DBEDT.

Mr. Choy outlined the five-step process for submitting budget requests to the legislature.

Firstly, the HTA submitted Form A to DBEDT. At this point, the HTA would ask for everything they needed without regard to overall state policy. The budgeting scheme used was called "Program-based Budget," which was authorized by BED113 (tourism), and the HTA would ask for everything required to fulfill the program.

Having received the budget request from the HTA, DBEDT would then apply higher-level policy to follow the direction and priorities of the government. DBEDT might add or subtract to or from the budget based on policy considerations, whereas the HTA only considered departmental needs.

DBEDT would then transmit the modified budget to the Budget & Finance Department, ensuring that the available funds could cover the budget requests of all the departments. A meeting of all departments would be called at which budgets would be modified to conform to the available funds.

After approval by BNF, the state budget would be submitted to the Governor thirty days before the legislative session, on or about December 20. At this point, the budget would be policy-

oriented, and funds might be diverted from one department to another to conform to policy guidelines.

The Governor would then present the state budget to the legislature. After approval by the legislature, the HTA budget would be returned to the Board for final approval in May or June.

At the Chair's request, Mr. Choy verified that the budget being considered would come into effect on July 1, 2024, while in the short term, before July, \$60 million was available. This was a supplemental budget.

Chair Arakawa requested that subsequently, Mr. Choy present to the full Board a schematic showing the process by which the budget would be approved, and he promised to do so.

Form A began with a "lead sheet" showing the requested amount. This was followed by details of how the funds would be spent, divided into two sections: operating costs, mainly payroll, and other current expenses. The details of the payroll included both positions which were vacant at present and new positions which had been specified. The HTA was asking for \$66 million, but out of that sum, about \$55 million was for multi-year contracts, which were obligations for 2025 that had already been undertaken.

Mr. Choy was asked whether he anticipated salary changes and whether the legislature would accept the budget. He pointed out that as director of the taxation department, he was usually the highest-paid staff member. Other employees received a percentage of the director's salary depending on their administrative level. The salaries of some contract staff were defined as SRNA, "salary range not applicable," and these were determined by the Board. The position of the CEO was different from that of other positions because it was a contract position and did not include benefits such as ERS. Mr. Choy noted that the benefits of state employees accounted for 60% of their compensation. He believed all the HTA employees should be civil service members and subject to EUTF and ERS. That would enable the legislature and the public to assess whether salaries were appropriate.

It was pointed out that even though the HTA had not lost its independent nature, it had lost its exemption from procurement and lumpsum funding. The HTA was still an independent entity, and the Board must remember that the CEO was a contractor and not a civil servant. The CEO needed to be qualified to understand the tourist industry, and this skill set had to be adequately compensated. Determining the CEO's salary level was the decision of the HTA Board, but it had to be set against the general standards of the tourism industry.

Mr. Choy stated that the detailed chart showed salaries to be paid but also included provisions for incentives. Bonuses would be discussed at the next meeting and would be provided for the CEO, the CAO, the Chief Brand Officer, and the Public Information Officers. Bonuses were part of the contracting process. The Vice-Chair expressed the hope that in the interests of transparency, a line item would be included for the total amount available for bonuses and

which staff were eligible for bonuses. BNF paid for the 60% benefit package, while specially funded benefits were to be paid by the HTA.

Mr. White quoted information that bonuses were limited to 5% of salary after review at the end of the year. He felt that it was important for salary ranges to be carefully studied because the HTA was pulling people in from the private sector. In his opinion, the salaries being offered to the HTA staff were low in comparison with state departments such as the university. Given that tourism generated funds that paid salaries of other departments, they should not be seen to be skimping on salaries when they were trying to attract talent from the private sector.

In reply, Mr. Choy pointed out that the salaries of the HTA leaders were more than those of leaders of government agencies with thousands of employees. The HTA was one of the few state departments operating multi-year contracts, which were proving problematic because of the zero budget.

The proposed budget included an additional \$10 million designated as an Opportunity Fund, while \$2.5 million was likely to be carried over to 2025, implying that at least \$12 million would be new money above and beyond the multi-year contracts.

Mr. Miyasato pointed out that if the HTA were truly independent, it could request a lump sum from the legislature and only share details with the Board. This might happen in 2026, but for the 2025 budget, they had to present a detailed chart to the legislature. During the approval of the 2024 budget, the legislature had asked that funds to be used for destination management should be separated from funds used for marketing and branding. Mr. Choy stated that even if a lumpsum request was made, it was almost certain that the legislature would ask for a detailed breakdown, so it was beneficial to do so from the start.

Mr. Choy mentioned that it might have seemed strange that the proposed budget had been sent to DBEDT without involving the Board of the HTA. The reason for this was the short deadline for submission of the budget set by the Department of Finance. However, the Board could change the budget in testimony at the legislature in December, so there was enough time to review it and make modifications. Later in the meeting, a motion would propose the formation of a PIG which could examine the proposed budget in detail.

Mr. Choy had not changed the budget because of the wildfire emergency other than the additional \$10 million referred to earlier. Initially, they had asked for \$7 million because of the wildfire emergency expenses, but the final expense might be as much as \$50 million. When the proposed budget reached DBEDT, changes were unlikely, but at the level of BNF coordination, every department could be asked to take a percentage cut because of the general expenses due to the wildfire emergency. So, it was possible that the HTA could end up with drastic budget cuts because all departments might take cuts in their budgets due to the fire. It was hoped that

the \$10 million Opportunity Fund would redress some of the issues and provide funds for additional marketing.

Chair Arakawa proposed a motion to approve the FY2025 Budget request, which was seconded by the Vice Chair and moved unanimously.

6. Presentation, Discussion, and Action on the Hawai'i Convention Center's August 2023 Report and Update on the Hawai'i Convention Center's 6-Year CIP Plan

The Managing Director of the HCC, Ms. Orton presented the August 2023 update, comprising a detailed financial analysis, a list of recent and upcoming local and Citywide events, and a report on the six-year plan for repair, maintenance, and replacement projects.

She noted that the HCC had been used as an assistance center, operated in partnership with the HTA and the American Red Cross, to support evacuees from Maui due to the wildfire emergency. The HCC had provided temporary accommodation for nearly 300 evacuees until they could board flights, return home on their own, or find alternative lodging in Honolulu to complete their vacation.

The HCC had successfully hosted several significant local events, including the return of Comic Con Honolulu and the first-time Made in Hawai'i Festival. These brought in more than 58,000 attendees to the HCC, making up 87% of the 68,000 attendees hosted for August. The HCC welcomed the return of the first international Citywide event, which brought in 3,300 attendees and produced \$41.3 million in economic impact, \$4.8 million in tax generation for the state, and over \$800,000 in revenue for the HCC.

Ms. Orton presented a detailed financial analysis for August, showing a growth of almost \$2 million for August, mainly due to Citywide events that were hosted during that month. For the fiscal year ending in August, economic impact and tax generation stood at \$105 million and \$12 million, respectively. The gross revenue during August was more than \$4.9 million, \$1.3 million more than was budgeted, with a net income of \$946,000, \$1.5 million more than budgeted.

All this meant that the first two months of the new fiscal year had started better than was planned when the budget had been developed. Ms. Orton was grateful for Citywide events, which generated revenue and building contributions and supported local businesses. The data showed that the return on investment on every dollar spent resulted in almost \$26 returned to the state. Ms. Orton reiterated that Citywide events significantly impacted the economic health of the HCC.

It was vital to continue developing the Citywide market, and Mr. Reyes was actively engaged on this issue, knowing its impact on the HCC and jobs. From 2026 onwards, the HCC will face a challenge in firm event bookings. Citywide business impacted the bottom line of the HCC and reduced the need for subsidies from the state. It was important to allocate as many resources

as possible towards helping Mr. Reyes and his sales team. The budget had to provide for the right staff to attract long and short-term business. From 2026 onwards, short-term business was needed, and the HCC required staff who could encourage this type of business. The short-term sales position that had become vacant over a year required to be filled. Corporate businesses paid rent and bought beverages so that, with the right mix of corporate and offshore business, the budget of the HCC had a chance of breaking even.

The MCI team had a Brand Management Plan, hoping that funding would be provided to fill the vacant short-term seller position. From 2026 onwards, there were less than ten firm Citywide bookings per year, and they were already outside the booking window for future years such as 2026 and 2027. The HTA Board should be aware of the importance of giving Mr. Reyes and his team the necessary resources. Failure to fill openings at the HCC impacted employment, given that recruiting experienced and talented staff was already difficult. This skilled position could not ebb and flow as business rose and fell.

Chair Arakawa asked whether funding for Meetings, Conventions, and Incentives had been added to the previous year's budget. Mr. Reyes responded that \$800,000 had been added, of which a portion was to fund a fourth seller post. Before COVID there had been five short-term sellers, but Citywide planners rescheduled business events during the pandemic.

Mr. Reyes was in weekly communication with Ms. Orton, and he was aware that everyone had undergone budget cuts. MCI was operating at \$1.5 million less than previously. The existing three sellers worked hard to generate opportunities, but a fourth short-term seller was needed. \$800,000 had been discussed but was not disbursed for various reasons. MCI would operate with a \$4.5 million budget, which had remained the same for several years. Before this, the budget had been \$6 million, with five short-term sellers and \$1 million designated for the marketing flexibility fund (MFF). MFF referred to an incentive in the Citywide market to close business through a process of approval by various team members related to ratios of taxable income for the state. They were competing for business with other destinations.

Ms. Agas expressed her concern about the vacant position of short-term seller. She noted that the person recruited must have experience and relationships in the corporate world to obtain business from meeting planners. Mr. Reyes and his team were doing their best, but a seasoned seller with contacts to bring meeting planners to Hawai'i was required. She pointed out that even if the post were filled right away, the impact of a new person would not be felt for several years.

Chair Arakawa reminded the Committee that the Branding Standing Committee was to meet that afternoon and would be submitting information to the full Board meeting the following day. The HTA had been trying to fill the short-term seller position for months. He felt that amending the contract for the post might be a positive step and proposed working with Mr. Reyes and Mr. Monahan to make more progress.

Chair Arakawa proposed a motion to approve the report of the August update on the HCC. The motion was seconded by Ms. Agas and moved unanimously.

7. Presentation and Discussion Regarding an Update of the Meetings, Conventions and Incentives Market Activity and Pace Report, and Hawai'i Convention Center Activity and Local Sales

This report was presented by Mr. Reyes, Senior Vice President and Chief Sales Officer for MCI. Mr. Reyes began by giving details of the objectives of the Mālama Maui campaign. \$600,000 had been allocated as follows: \$200,000 for business retention and development and \$400,000 for strategic partners. These funds would be spent between now and the end of December 2023.

The aim of retaining business was to relocate events to another part of Maui or another part of Hawai'i. An example was the Maui Invitational, which had been transferred to O'ahu with the potential of more invitationals but intended to bring this event back to Maui in subsequent years. Mr. Reyes also mentioned a meeting on the point of being transferred to San Francisco with the unintended consequence of additional transport costs. He thanked the HTA for making \$200,000 available as an incentive to retain this event in Hawai'i.

One of the MCI strategic partners was SITE, the Society of Incentive Travel Executives. Given that incentives represented 38% of the business, MCI was working directly with SITE as well as other major third-party planners.

Mr. Reyes presented data about Citywide room nights, which showed that August 2023 was at 168% of August 2022. He also gave updates on sales production, referring to a new volume of events and room nights for any future year, and consumption, referring to "On the books" (OTB) booked events and room nights in the year they occur. He presented a table showing the HCC booking trends up to 2030. He emphasized that recruiting an additional seller would expedite the booking process.

During August, eight Citywide events had been booked for future years. The team was still working on events for 2026 while being conscious that the standard booking window was seven years. The number of events on the books at present stood at 89% of the target. The team focused on 2028, and Mr. Monahan, Ms. Orton, and Mr. Ka'anā'anā were considering the number, type, and composition of events, bearing in mind that corporate events were the most lucrative.

Ms. Agas congratulated Mr. Reyes and his team on their work.

Chair Arakawa proposed a motion to approve the presentation. The motion was seconded by Ms. Agas and moved unanimously.

8. Presentation, Discussion, and Action on HTA Budget Issues, Comments, and Suggestions Raised by Legislators, Board Members, Staff, Stakeholders, etc.

Chair Arakawa explained that this item was for discussion rather than action and concerned a reference by Rep. Sean Quinlan, the Chair of the House Tourism Committee, to an email containing questions about the mission of the HTA. Mr. Nāho‘opi‘i was to arrange for this email to be retransmitted to the entire Board as soon as possible.

9. Presentation, Discussion, and Action on the Formation of a HTA Budget, Finance, and Convention Center Permitted Interaction Group (PIG)

Chair Arakawa pointed out that it was difficult to find time and resources to work on modifications to budget proposals, and the “Sunshine Law” prohibited informal consultations. He noted that the legislature had asked about the involvement of the HTA Board in budget proposals, so it was vital for transparency that the Board be seen to be fully informed and involved. He recalled that during the previous year's budget process, the legislature had refused to carry out lump sum appropriation and insisted on a detailed line-by-line analysis. There was reason to believe the process would be the same this year, and the Board needed to be fully prepared to justify every expense item.

Mr. Choy promised to give clarifications about the budget to individual Committee members by email if necessary. Given that the next budget session would be in December, he believed the HTA could prepare effectively. He supported the formation of the PIG to provide the Board with the requisite transparency.

Asked how the PIG would be related to a budget that had already been proposed to DBEDT, Mr. Choy stated that the PIG would go into the details. For instance, Form A listed various contracts, but some contracts had multiple purposes: a single contract could contain aspects of branding, destination management, and marketing. Regarding a possible perception that the PIG was carrying out the function of the present Committee, Mr. Choy cited the ability of the PIG to go into greater detail about individual budget items.

The Chair stated that the purpose of the PIG was not to hide anything because, eventually, every conclusion would become public. Only the discussion process would be private. The intention was to be able to make quick decisions in response to possible concerns of legislators and the policies and decisions of the Board. He reiterated that the PIG could not make decisions that the Board had not already approved. In a perfect world, the PIG would do the research, come to decisions, and present these decisions to the Board. The Board would trust the work of the PIG and implement its conclusions.

Mr. McCully reminded the Committee that serial one-on-one conversations contravened the Sunshine Law, and Mr. Cole confirmed this. The PIG would be the tool needed for transparency to the public and legislature.

Mr. White pointed out that approval could not be carried out in the first Board meeting. He asked about the range of decisions that could be made in the PIG without needing to be referred to the Board for a decision. He agreed that a detailed examination of the budget was needed because it would be required by the legislature.

Mr. Choy believed the PIG would be the forum for thrashing out numbers. The budget would become public when Mr. Nāhoʻopiʻi would appear before the Finance and Tourism Committees, and at this point, the public would realize that the HTA was prepared. The CEO had always given budget input, but this year, he would benefit from the calculations and analysis done by the PIG.

Chair Arakawa proposed the motion to recommend the creation of a PIG to the full Board. The motion was seconded by Ms. Agas and moved unanimously, apart from reservations by Mr. White, who hoped to have more information from Mr. Cole.

10. Discussion and Action on the Recommendation to Assign Board Members to the HTA Budget, Finance, and Convention Center Permitted Action Group (PIG)

Mr. Choy recommended that the PIG have the same members as the present Committee. Mr. Ching noted that he would not be available because of existing commitments. Dir. Tokioka would be excluded because, as director of DBEDT, he would subsequently review the budget.

Chair Arakawa moved that the PIG should consist of Mr. Arakawa, Ms. Agas, Mr. McCully, Mr. Miyasato, and Mr. White, with an additional member to be elected by the full Board. The motion was seconded by Ms. Agas and passed unanimously.

11. Adjournment

Chair Arakawa adjourned the meeting at 11:32 a.m.

Respectfully submitted,



Sheillane Reyes
Recorder