



**REGULAR BOARD MEETING  
HAWAII TOURISM AUTHORITY**

**April 26, 2012**

**Hawaii Convention Center, Parking Level, Executive Board Room A  
1801 Kalākaua Avenue, Honolulu, Hawaii 96815**

**MINUTES OF REGULAR BOARD MEETING**

- MEMBERS PRESENT:** Ron Williams (Chair), Patricia Ewing, Patrick Fitzgerald, Victor Kimura, Mike Kobayashi, Craig Nakamura, Aaron Salā, Leon Yoshida
- MEMBERS NOT PRESENT:** Kelvin Bloom, Douglas Chang, Cha Thompson, Sharon Weiner
- HTA STAFF PRESENT:** Mike McCartney, Momi Akimseu, Caroline Anderson, Lynn Bautista, Jadie Goo, Grace Lee, Daniel Nāho'opi'i, Winfred Pong, Roann Rakta, Angela Rodriguez, Michael Story, Marc Togashi, David Uchiyama, Keli'i Wilson
- GUESTS:** Joe Davis, Lopaka Kapanui, Jennifer Nakayama, Randy Tanaka
- LEGAL COUNSEL:** Deputy Attorney General Gregg J. Kinkley

**1. Call to Order**

Presiding Officer Ron Williams called the meeting to order at 9:32 a.m.

Ms. Wilson introduced Mr. Lopaka Kapanui, who offered a Pule.

Mr. Williams welcomed Mr. Victor Kimura to the HTA Board.

**2. Approval of Minutes (March 29, 2012)**

Ms. Ewing made a motion to approve the minutes of the meeting conducted on March 29, 2012. Mr. Kobayashi 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**

Mr. McCartney shared the most recent goings-on at the Legislature. He said that the first important objective that was achieved was the confirmation of seven (7) new members to the HTA Board, majority of whom will be commencing their terms on July 1. He welcomed Mr. Kimura, who fills the seat vacated by Mr. Vernon Char.

He went on to explain that one of the biggest challenges we faced during this session was making sure that we stayed on the path to keep our funding and protect the TAT money. He said that “the Legislature has been really good to us,” and mentioned that two (2) of our bills - SB 490, which adds an additional \$2 million to our cap to use for international travel, and SB 2114, which changes the funding of the Convention Center Enterprise Special Fund from a calendar year to a fiscal year, are both scheduled for hearings.

Mr. McCartney introduced the Brand Management Team, who presented updates to their respective program areas. Ms. Goo provided an update on the L.E.I. (Leadership, Exploration, and Inspiration) day event held at the Convention Center. She reported that the event was attended by over 300 high school students and that overwhelming support was received from the industry, that included 10 hotels that took in all of the students for site visits; hosted lunch for them; and shared with them advice, inspiration, and insights. She said that both Governor Abercrombie and Mayor Carlisle came and spoke to the students and Mr. Uchiyama shared his personal career story, which was very inspirational, and the message from everyone to the students was consistent throughout the day – that tourism is important and will always be important to Hawai‘i and what sets us apart from other destinations is our people, culture, and aloha spirit. She shared that part of the intent of this program is to challenge students to not only consider joining Hawai‘i’s workforce, which provides many viable career options, but also to improve upon what we have currently and to make it a better place for all of us to live, work, and visit. She said that it was a really successful event and at the end of the day, she had the opportunity to speak with many of the students and they all said that the experience was fun, educational, and inspirational.

Ms. Wilson provided an update on the Hawaiian Culture and Natural Resources community programs. She explained that we have been working together with the Council for Native Hawaiian Advancement (CNHA) to provide technical assistance to awardees, which will arm them with the tools to submit successful proposals in the future. She said that projects have been awarded under the Natural Resources and Hawaiian Culture programs and that we are also working on a small project with the Bank of Hawai‘i (BOH) and the Office of Hawaiian Affairs, which will result in the summer release of the Hawaiian language on BOH ATMs. She shared that the HTA will be providing the translations.

Ms. Ewing asked how new words were going to be created for the ATMs. Ms. Wilson replied that like all languages, the Hawaiian language continues to evolve, so there is a lexicon committee that creates new words, which can then be used in the newer technologies.

Mr. Salā asked how we measure the success of the funding that we provide for the Kūkulu Ola and Natural Resources programs. Ms. Wilson responded that there are some mechanisms in place for evaluating the awards, the awardees, and the program as a whole. She explained that we look at their ability to leverage funding; their ability to meet the goals in their work plan and in their proposal; and their ability to grow to perpetuate the culture and to have a positive effect on the natural resources and to create a sense of place to draw visitors to Hawai'i. Mr. Salā said that it would be interesting if some of the entities could be invited during the funding process to present to the board on what they are doing; what they are trying to do; what they want to do; and how we can continue to help them. Ms. Wilson said that we can definitely bring in some of the awardees and perhaps even some members of our Natural Resources Advisory Council and the Hawaiian Culture Advisory Group. Mr. McCartney said that staff will work with the members of the board on how to best schedule these things, taking into consideration the other priorities with which we are faced and need to handle.

Ms. Lee shared an update on the Korea market. She reported that the market is doing very well and that currently, there is a high-level FAM in town. She explained that they will be spending two-and-a-half days on Hawai'i Island before returning to O'ahu. She said that Hawaiian Airlines is a sponsor of this FAM and that Mr. George Applegate of the Big Island Visitors Bureau has organized a nice dinner, where the mayor and other industry people will be in attendance. She said that these FAM groups are very successful for the Korea market, which then results in these groups booking incentive groups. She cited an example from a past MICE FAM where a large insurance company from Korea participated and then booked an incentive group that brought in over 600 people.

Ms. Ewing asked if these groups are comprised of wholesalers or retailers. Ms. Lee replied that they are the presidents and CEOs of different tour groups and travel agencies. She said that the next time another group is in town, she will advise the board members and they can attend the meeting, if they are available.

Mr. Story provided an update on the inaugural Lotte Championship event that just concluded. He reported that the event went over very well, as indicated by preliminary evaluations. He said that we believe the chairman was very happy with having the event here in Hawai'i so we are looking to continue to work with them to support the event. He reported that the event received a lot of good coverage in Korea, but we are still waiting on the final numbers. He said that with regard to golf, specifically – we are coming into September with the new Champions Tour event, which is a full-field event and will be played in Kapolei. He mentioned that we are working with Pacific Links International to support that event in a lot of different ways. He also shared that coming into May, the

Waikīkī Paddle Festival is happening, which is a celebration of paddle sports that are very traditional and intrinsic to Hawai'i. He reported that we are also focusing on the shoulder periods, which includes bringing in some rugby events. He said that rugby has always been very popular in the islands, but it is really coming to the forefront now because the US National Team qualified for the 2013 World Championships in London and with that, we are working with the American National Rugby League that controls the national team to play some friendly events as a lead-up to the World Championships in London. He said that the first game is going to be in May against the Tongan national team and we are also planning a game in June against the Japanese national team. He shared that we are going to be bringing up some pro teams to not only train here prior to their season kicking off, but to also play a game against the national team. He added that this is a good opportunity because it taps communities that we have not tapped before such as Samoa, Tonga, and Fiji where there are world-class rugby players. He mentioned that the one drawback is the lack of adequate facilities, and we are working hard to try and get the right facilities so we can go ahead and host these games at an elite level here in Hawai'i. Mr. McCartney asked Mr. Story to explain some of the business-to-business things we are doing with Lotté. Mr. Story explained that Lotte is a very big conglomerate, whether they are dealing with things such as chemicals, oil, shopping, or cosmetics. He said that they have a massive presence in Korea and they are looking to expand globally and we are a part of that plan, so through that, we had some great media assets. He shared that we were able to get some great destination videos throughout 2,000 stores in Korea and that we are going to expand on that next year.

Ms. Akimseu provided an update about the Waikīkī Beach Restoration project. She explained that the sand hauling operations have concluded and they are beginning to break down all the barriers and level off the beach. She said that the beach has been extended and we are working on a release with the Department of Land and Natural Resources that will show photos of the restored beach. She shared that we have had communications out to the industry because of adjustments to the project timetable, but now people will be able to enjoy the extended beach, just in time for Golden Week.

Ms. Rodriguez announced the kick-off of the Second Annual Mele Mei Festival. She said that the first major concert event is taking place at the Hilton Hawaiian Village with the theme, "The Na Hoku Hanohano All Stars." She explained that there are 21 events during the month of May that all fall under the Mele Mei umbrella and nine (9) of those events are the special hotel concert events that we put together with Hilton, Halekūlani, The Modern, the Moana Surfrider, and the Royal Hawaiian. She said that the overall hope is that the success of the event in 2012 will provide for the opportunity to expand to the neighbor islands.

Mr. McCartney passed out an updated task list to the board and asked Mr. Pong to address the first item on the list regarding rollover monies not requiring board approval. Mr. Pong explained that as a result of a request from Mr. Williams and Mr. McCartney to find more efficiency in our processes, we looked at two (2) provisions in our old marketing contracts.

He explained that one of the provisions required any unspent calendar year funds be rolled over into the subsequent calendar year, and the other contract provision states that the Board of Directors shall approve any increase in funding for a calendar year. He said that in an effort to address better efficiencies in some of the processes, we looked at our statutory authority and worked with Mr. Kinkley to implement another statutory provision that authorizes the President and CEO, under his delegated authority, to execute and implement contracts that the staff and the board had already approved. He also cited another statutory provision that says that the board can delegate to the staff the authority to execute, monitor, and implement contracts. He explained that these two (2) statutory provisions allow Mr. McCartney to rely upon his delegated authority to approve the rollovers that are authorized under a contract. He said that the sense was that the statute would supersede or have a greater impact on how a contract would be interpreted.

Speaking specifically to the marketing contracts, Mr. Pong reasoned that the contract is between the HTA and a marketing contractor, so the relationship between the board and Mr. McCartney as HTA is an internal matter that does not have a direct relationship with HTA and the contractor, so at minimum, we would be advising the contractor that the rollover has been approved by delegated authority to Mr. McCartney. He said that by relying on this statutory authority, it would not be necessary to come to the board to approve rollovers; however, staff would be reporting to the board whenever those rollovers occur, including the amount that has been rolled over and how it is going to be used. He clarified that having said this, this might be the last time, if ever, that this situation would arise because the new contracts are fixed-price contracts. He shared that we may have one more under the contract with the Hawai'i Visitors and Convention Bureau (HVCB) for Leisure services, which ends on December 31, 2012, so if there are any unspent funds at the end of CY 2012, this process would be applied.

Mr. Williams said that this is just for the board's information, but it is important for everyone to understand it. He added that most of the funds that are to be rolled over are, in most cases, committed funds, but the commitment was not fulfilled within that period of time.

#### **4. Presentation of Visitor Data and Dashboards for March 2012**

Mr. Nāho'opi'i presented Visitor Data and Dashboards for March 2012. He reported that expenditures were up 13.7 percent in the first quarter to \$3.6 billion and arrivals reached just under 2 million visitors. He said that even with the slightly inflated number of visitors because of the leap day in February, growth is still around 8 percent. He shared that the Average Daily Census was used to look at traffic in the State and that has exceeded our targets by about 5.6 percent. He said that each island showed progressive growth year-over-year (YOY); however, it is not exactly at the level of the targets we had set for the targets for this year.

He said that March specifically, was a very good month, as it beat the expenditure and arrivals trend over last year, mainly because of the Japanese. He also shared that the numbers are actually higher right now than they were in the 2007-2008 period, which was our "top peak" period. He said that expenditures rose almost 20 percent, mainly through higher daily spending overall, but were driven mainly from the new international markets. He stated that total arrivals for March rose 13 percent and that includes visitors from Japan and double digit increases from our developing markets of Oceania, China, and Japan. HE added that with the Japanese returning and improvements in the market itself, we also saw an increase in group and package travelers.

He reported that we are 5.6 percent over our Arrival targets and about 7 percent over our Visitor Spending targets that had been set for 2012 last September. He reported that Daily Spending is flat for the first three (3) months and that Airlift is slightly ahead of where we want to be.

Mr. Nāho'opi'i mentioned that he has been receiving many questions regarding island targets. He explained that island targets are based on the amount of visitor units available on each island, with Property Type and Length of Stay also being factors. He shared that there were questions as to the reason(s) why the dashboards show that even though our year-to-year is up high, we are lower than target. He explained that the targets are based on visitor arrivals and so the distribution can be shown to be down slightly because of multiple island visitation. He explained further that if there was heavier multiple island visitation, there would be more people on each island in terms of counts for the month. Given that there have been so many questions, Mr. Nāho'opi'i offered to make two (2) charts for the board: one for Visitors and another for Visitor Days. He remarked that statistically, they are equivalent.

Ms. Ewing said that a common pattern is that there are several people who can stay in a single family residence and asked Mr. Nāho'opi'i how that scenario is handled. Mr. Nāho'opi'i replied that our study took into account the average party size per type of unit use, so while that kind of information is available, what we do not have is if they actually used more than one unit in that party. He said that in a scenario where there were several people, the assumption is that only one (1) unit was used because we do not ask how many units were used during the time they spent here. Mr. Uchiyama said that would start to be seen between the two (2) charts Mr. Nāho'opi'i offered to create, where the number of arrivals would appear to be up while the utilization of islands is down.

Mr. Kimura asked if this is being done on a same-store basis. Mr. Uchiyama said that it is and explained that consideration is given to the type of property and utilization. Mr. Nāho'opi'i added that condo usage is going to get a longer length of stay. Mr. Kimura said that with regard to inventory, it has to be matched with same-store base because you are basing it on visitor days of occupancy and not so much on arrivals, so the inventory deflates or increases itself where a lesser target is shown because it was set on a certain set inventory.

Mr. Nāho'opi'i replied that the current inventory is just done annually and that it is not adjusted within the year, so the targets were based on the most recent set done in 2011. Mr. Kimura said that it would be helpful if another column was added to indicate +/- same-store base on assumptions made. As a matter of clarification, Mr. Nāho'opi'i asked if that was meant to indicate whether the inventory went up or down. Mr. Kimura confirmed his understanding to be correct.

Mr. Fitzgerald said that from a hotel perspective, you know what your inventory is, but you don't have an idea what your condo inventory is because you don't know if a condo owner is renting it out that particular week, month or year, so he is not aware of any methodology that can track that well. He said that his concern is that we are getting the message out appropriately to anyone who is looking at this data. Mr. McCartney remarked that we need a footnote for each one of these to make sure that when someone picks it up, they can "get it." He asked Ms. Rakta to note that on the task list. Mr. Nāho'opi'i commented that it is difficult because there are so many different audiences, but said that we would work a little harder on putting a little more clarity into it.

Mr. Williams asked if we are having success with regard to access to the neighbor islands that helps the distribution. Mr. Uchiyama replied that we are seeing success and explained that "it is simple because we have been able to move direct flights out to the neighbor islands." He said that in terms of the international market where things are still funneling through O'ahu, we still need to work on how we get that distribution to the neighbor islands, which entails working with the tour operators to get them to consider neighbor island packages and being able to give them that access. He shared that discussions have been conducted regarding some of the hurdles in the inter-island flight market and being able to confirm space to get to the neighbor islands and that we are working on trying to resolve those issues.

Mr. Nāho'opi'i continued his presentation and reported that with regard to Access, there was an increase of 5 percent for total seats in March. He said that Līhu'e showed the largest increase at 31 percent, while Kona saw a 12 percent increase in terms of new seats into that market. He added that the 5 percent also included about 19 charter flights that were mainly from Japan, as well as service from Korean Airlines coming out of Narita. He said that there were extra planes for Korean Airlines flying out of Seoul and one or two extra flights added in for Australia and Canada.

He reported that the US West increased 4 percent in terms of scheduled air seats, with additional lift out of Phoenix and Sacramento; however, it offset some of the decrease in service from San Francisco, Portland, and Orange County, as well as Denver. He said the US East is still restricted service because of the decrease from Chicago and Houston, but there is the hope that we will have additional East Coast availability in June. He reported that in the Japan market, there was an 8.5 percent increase in service from Osaka-Haneda, and the Fukuoka flight started late last year by Delta provided an additional

4,000 seats, and there was also the addition of the Hawaiian Airlines Fukuoka flight. He said that in terms of the first quarter itself, the airport with the largest increase was Līhu‘e Airport at about 26 percent up and Kahului saw about 7 percent increase.

He reported that the US East MMA posted a 2 percent decline, but overall, March was actually up 18.9 percent, with a total of \$1.17 billion just for that month. He said that this is above where we were in 2007, so we have been very strong in terms of expenditures in the first three (3) months of the year.

He said that total visitor expenditures Statewide were up on all islands except for Moloka‘i and that daily overall spending was up once again. He pointed out that March is usually a lower period in terms of spending because March is driven mainly by US East and US West visitors who are spending lower. He relayed that the growth in daily spending for the first three (3) months was in Food and Beverage (F&B), followed by Shopping, and then Lodging. He said that restaurant purchases were the largest subcategory that drove the 7.6 percent increase in F&B. In terms of Shopping, it was the Japanese market that increased 4.7 percent in shopping purchases, but there was an increase of about 12 percent in the US market. He said that Lodging saw increases in the first two (2) months, but for the month of March, there was a flattening out of lodging spending for Japanese and Canadian visitors. He pointed out that it is the trend that March usually dips down in the area of spending on Lodging. He said that a loss was also seen in the Entertainment and Recreation component and there were restricted purchases in Attractions in Japan and the US. Mr. Salā asked what constitutes an “Attraction.” Mr. Nāho‘opī‘i replied that things such as museums, aquariums, activities, and sports fall into that category.

Mr. Nāho‘opī‘i reported that growth was seen in all of the markets, particularly in March in the US West, which was up 13 percent, mainly from the Pacific Region and within the states. He explained that some of it had to do with the shifting of spring break time periods, but he cautioned that if the March numbers were up, the numbers may be slightly down for April for US West because of the shift in that time period.

Mr. Nāho‘opī‘i shared that all islands have been strong so far for 2012 and all are showing positive growth in terms of island distribution. O‘ahu saw 14 percent growth, Kaua‘i is at 15 percent, Maui is 6.7 percent, and Hawai‘i Islands showed a 12.9 percent growth. He said that there is distribution through all the islands, but Maui is a little slower in terms of growth, although they did recover quicker earlier last year and the year before. He explained that the growth we are seeing out of Kaua‘i is because they were the slowest to recover out of the recession period.

He reported that the Meetings market in March showed double-digit declines for overall meetings; however, even though March was down 14 percent, the first quarter was actually down only 3 percent, mainly because we had a very strong January in terms of some of the conventions, which helped to boost the overall quarter numbers. Conventions were down 19 percent in March; Corporate Meetings were down 17 percent; and



Incentives were down 4 percent. He said that in general, we have not seen any major shifts in accommodation usage over the past couple of months.

He said that Statewide occupancy is very strong at 83 percent, but March was up just slightly. He remarked that it is not as strong as it was at the beginning of last year, but it still shows some growth. He pointed out that the occupancy rate stayed positive through most of the fall, as compared to other markets. He said that we were actually stronger for part of the winter going into the first couple of months, but now the other destinations have caught up with us, so we are all similar in terms of the current occupancy rate in February. He said that while the occupancy rate for our Japanese competitive set is down, it is still better than most of the destinations. He said that the other destinations are having a difficult time in maintaining their occupancy, but we have been very steady in terms of our occupancy growth.

Mr. Nāho'opi'i pointed out that he included some Satisfaction ratings into his presentation to provide the board with some context with regard to where we are in terms of fulfilling our visitors experience and the brand experience. He said that overall we have been very consistent in that we have always scored very high in terms of our satisfaction rating for our visitors in our major markets. He said that more than 50 percent in any given quarter indicates that visitors experienced an excellent vacation. Mr. Williams asked if this was a measurement of excellence only. Mr. Nāho'opi'i replied that the full ratings are available, but the benchmark is to look at the "Excellent" ratings. He said that he also looks at the negative side, but there are hardly any negatives. He said that the other important measure that is used is "Very Likely to Recommend." He said that comparisons against other markets should not be made, but rather, comparisons against past years, instead. As an example, he said that Japanese visitors are less likely to give a very high rating, so the comparison should be against past years and the performance and growth, so even though the Japanese ratings are low, that is consistent - which is a good thing - as opposed to the ratings going negative for a long period of time. He said that all of the markets have shown a very steady pace in terms of their ratings of, "Very Likely to Recommend Hawai'i to their Friends and Relatives" and usually the "Recommendation" rating is a good indicator of their satisfaction with their vacation and things such as the availability of activities. He said that a very high rating has been very consistent over the last five (5) years.

Mr. Williams asked for clarification on the charts that Mr. Nāho'opi'i was going to do. Mr. Nāho'opi'i replied that he would redo Slide no. 4, "Island Distribution KPI," per a request from Mr. Kimura. Mr. Williams asked Mr. Kimura to clarify his request. Mr. Kimura replied that if a year-on-year comparison is going to be made, inventory and same-store base has to be looked at and considered and that he is seeking clarity on what was included and excluded at the time the targets were determined.

Mr. Nāho'opi'i said that he can put in the adjustment factor. He explained that the historical data is based on the current distribution. He said that we have the actual inventory and the targets going forward are based on any known developments, so there is a slight adjustment, but he will check the two in terms of the inventory during the time period. He explained that inventory analysis is usually done just once a year based on our May date, but a record exists of any major outages and decreases. He added that forward going, we also have major construction lists, so we know when major additions are coming. Mr. Nāho'opi'i said that he will check to see if there will be any significant change to the targets.

Mr. Nāho'opi'i said that the other change to be made for Slide no. 4 is to make two (2) types of charts – one for Visitor Days and one for Arrivals for the island targets. Mr. Williams asked if these tables are available on the website. Mr. Nāho'opi'i replied that the actual target tables are not on the website at this time.

Mr. Uchiyama commented that he wanted to “bring us back to the original intent of looking at the distribution” and that was so that we could direct and/or monitor the contractors on their efforts in the market and their plans to get people to the neighbor islands to achieve better disbursement within the State. He said that was the initial intent and that is why it originally started with the arrivals and how we distribute them. Mr. Williams said that it was purely arrivals and it wasn't taking into account capacity. Mr. Uchiyama replied that where we can send people is based on how many rooms are available on each island, but the original intent was to make sure that the contractors are focused on sending people not only to O'ahu, but to the neighbor islands as well.

Mr. Nāho'opi'i stated that the other table he was going to put together was for the ADRs in the Japan market with their competitive set. He explained that he was going to put it in yen, so that the conversion changes are eliminated and the perspective would be that of the market.

Mr. Kimura stated that he applauds the efforts of Mr. Uchiyama and his team, but wants to ensure that what we present to the public is a true representation of what has been accomplished as a result of all that effort. He said that if it is skewed, then it needs to be footnoted, with same-store base being one example and currency conversion being another.

## **5. Action to Approve HTA's Financial Reports for March 2012**

Before he presented the financial reports, Mr. Togashi stated that this is the second consecutive month that the reports were ready a month before they normally are and thanked staff for all their efforts and hard work to accomplish this.

Mr. Togashi presented an Executive Summary of the reports that cover both the HTA Special Fund and the Convention Center Enterprise Special Fund (CCESF). He began with

the HTA Special Fund, stating that as of March 31<sup>st</sup>, we have \$4.4 million in prior year encumbrances that have not been spent as compared to \$31 million that was encumbered at the beginning of the year. He said that payments made during March totaled \$250,000 from prior years, bringing the total YTD to \$26.3 million. He also said that \$7.9 million in payments were made from the FY 2012 budget, bringing our total to \$30.2 million YTD.

He said that for FY 2012, we had a budget of approximately \$75 million, of which approximately \$72 million has been contracted YTD and there is approximately \$43 million in liquid assets on our balance sheet, in addition to the \$5 million that we hold in trust for emergency purposes. He pointed out that within this fund, we also hold a reserve of approximately \$2.3 million, which is unchanged from the prior month. He said that outside of the \$2.3 million is a reserve for accrued vacation and reiterated from a previous meeting that approximately \$420,000 was reserved at the beginning of the year to pay for things such as accrued vacation and potential cash-outs to departing employees. He said that during March, we paid out approximately \$40,000 to a recently retired employee and noted for the board's purposes that this reserve that is specific to accrued vacation provides for payouts such as those without having any impact on the current and future budget.

He reported that the fund has received \$65.8 million in TAT revenue YTD, out of the \$69 million forecast for the fiscal year and explained that this \$65.8 million is approximately \$3.8 million greater than what we had received at this point in time last year.

Mr. Togashi reported that the Convention Center operating loss is currently \$4.3 million YTD, out of a projected \$4.7 million operating loss that had been budgeted for the fiscal year and that we are spending according to our budget. He noted that as of March 31<sup>st</sup>, the fund has \$18.8 million in liquid assets, to be used primarily for upcoming bond payments. He explained that we hold off on our bond payments until we have a sufficient amount of cash to make those payments toward the end of the fiscal year, so incrementally, month-over-month, as we collect more and more TAT revenue, there will be larger and larger amounts of cash flow coming in throughout the year until such time a payment is made toward the majority of our expenditures, which is the bond payment itself of \$26 million.

He pointed out that what is not reflected in these financial statements is the \$13.4 million in cash that is either earmarked for transfer to SMG; currently sitting with SMG; or currently sitting with the Department of Accounting and General Services (DAGS) for upcoming Repair and Maintenance projects that we are looking to undertake in the very near future. He said that of that \$13.4 million, \$2 million is reserved for emergency and the remainder is earmarked for such capital projects.

Mr. Togashi said that the CCESF has about \$8 million in reserves which is earmarked for future operations. He reported that through March, we have received \$24 million in TAT YTD, which is about \$750,000 more than what we had received at this point in time last

year. He explained that this is due particularly to stronger market conditions in the first quarter of CY 2012 and that it is partially offset by the fact that we reached the \$33 million cap earlier this fiscal year than last year.

Mr. Fitzgerald made a motion to approve the Financial Reports for March 2012. Ms. Ewing seconded the motion which was unanimously approved without objection.

**6. Action Amending the HTA FY 2012 Budget to Increase the Allocation to the North America Meetings, Conventions & Incentives Expense Category by the Amount of Funds Unspent by the Corporate Meetings & Incentives Contractor in CY 2011**

Mr. Togashi referenced the discussion and information provided earlier in the meeting by Mr. Pong regarding rollover monies. He explained that this agenda item is a result of having unspent funds in CY 2011 and having issued a new contract for CY 2012. He said that staff is requesting an amendment to the FY 2012 budget to increase the budget by \$887,386.00.

He explained that the FY 2011 budget funded the CY 2011 Global MCI contract with the Hawai'i Visitors and Convention Bureau (HVCB). He said that for this year, staff noted that there is \$887,386.00 in unspent FY 2011 funds under that contract and requested that HVCB utilize those funds in CY 2012. He said that a new contract was awarded in CY 2012 via RFP to HVCB for services related to North America – MCI and in order to properly reflect the execution of this new contract, the unspent funds will be returned to the reserves in the HTA Special Funds, which will then reflect an increase to the HTA's FY 2012 budget in the amount of \$887,386.00. He assured the board members that the increase will not have an impact on the projected FY 2012 reserves because it is purely a function of taking the unspent FY 2011 monies, returning it to the HTA Special Fund Reserve, and then reallocating it to the FY 2012 budget. He said that there are no financial implications and that it is more of a formality that we are requesting the board to approve an increase in the budget.

Mr. Williams asked if the contractor has committed any of the funds. Mr. Togashi replied that a portion of the \$887,386.00 has already been committed and spent.

Mr. Fitzgerald asked what would happen if we do not do this. Mr. Togashi replied that he is not sure how far HVCB has gone with these funds with regard to contracting, so they may be able to cancel any arrangements or buys that they have made.

Mr. Uchiyama offered some clarification. He explained that the board approved \$900,000 for Global CMI efforts in relation to APEC and that the money was given to the HVCB for execution. He said that the plan was laid out and presented and we approved the plan. He explained that the HVCB, under our direction, is not going to pay for media purchases until the actual insertions go in and are run. He explained further that approximately \$735,000.00 of the \$887,386.00 is that plan. He said that while the actual contractor

remained the same, the contract changed, so now we are in a situation where we have to move that money to the new contract, but usage of those funds was previously approved.

Mr. Fitzgerald asked why there is a new contract. Ms. Ewing replied that we went out for RFP and Mr. Williams explained that if the contractor remained the same, this action would have been called a rollover; however, since the contractor is different, but the plan was already put into play, what we are looking to do is to reallocate those funds into the new contract to keep the plan moving forward.

Mr. Kimura asked if the goods and services were actually purchased in 2011. Mr. Williams responded that they were. Mr. Kimura then asked Mr. Uchiyama if invoices are arriving now. Mr. Uchiyama replied that the contract for media was signed in 2011, but HVCB has been told to not remit payment until the actual insertions are placed. Mr. Kimura asked if the insertions were placed. Mr. Uchiyama replied that insertion orders were placed, but not yet consumed. He said that some have been consumed because they were on a schedule, while some of the insertions carry into 2012. Mr. Kimura asked if a provision was made for accrual of these monies last year. Mr. Togashi replied that the entire contract was encumbered last year, so the unspent funds were accrued via encumbrance.

Mr. Fitzgerald made a motion to approve an amendment to the FY 2012 budget to increase the allocation to the North America MCI expense category by the amount of funds unspent by the HVCB in CY 2011. Ms. Ewing seconded the motion which was unanimously approved without objection.

The meeting was recessed at 11:18 a.m.

The meeting was reconvened at 11:29 a.m.

## **7. Discussion Regarding the FY 2013 Budget Planning Process**

Mr. Togashi presented an FY 2013 budget process contained in a document that was distributed to the board. He explained that this document basically offers two (2) things: staff's desire to present to the board thoughts on an anticipated timeline for rolling out the FY 2013 budget as well as to walk through the method by which the projected funds that will be available for the FY 2013 budget for the HTA Special Fund was determined.

Mr. Togashi explained that what staff is offering is to present draft versions of all three (3) budgets at the May 2012 board meeting, as well as to offer an update of the HTA Strategic Plan that will go hand-in-hand with the building of the budget. He said that the three (3) budgets that will be presented are the FY 2013 budget for the HTA Special Fund; a more detailed component of the HTA Special Fund budget that covers our General and Administrative operating costs; and the FY 2013 budget for the Hawai'i Convention Center. He said that after presenting these budgets at the May 2012 board meeting, staff would then seek the board's approval of these budgets at the subsequent June meeting. He asked if the members of the board are comfortable with that projected timeline.

As a matter of clarification, Mr. Williams asked if the process would be to present the board with drafts, at which time they could ask questions and in addition to that, they would have a month to review it and ask more questions, if necessary; and barring any objections or problems, staff would seek the board's approval at the June board meeting.

Mr. Togashi confirmed his understanding to be correct and further explained that the budget process would take two (2) board meetings and open it up for discussion.

Mr. Williams commented to the board that this process is the same process that was followed last year.

Mr. Williams asked if the draft strategic plan update would be provided to the board members prior to the May meeting. Mr. Togashi replied that yes, the draft of the updated strategic plan would be provided in advance of the May meeting. Ms. Ewing asked when the board members would be receiving a draft of the updated strategic plan. Mr. McCartney replied that the draft would be emailed to the board members three (3) to five (5) days before the May board meeting.

Mr. Togashi pointed out that the second part of the document offers a calculation of the projected available funding for FY 2013; in particular, the HTA Tourism Special Fund, but that it does not take into account the projected funding for the CCESF, nor does it offer an intended use or availability of the \$5 million emergency fund.

Mr. Togashi provided a draft calculation to the board that explained the process by which the recommended projected total budget for FY 2013 was reached. He explained that there was approximately \$8.3 million in unencumbered reserve at the beginning of FY 2012 and out of that amount, about \$6 million was used to fund the FY 2012 budget. He said that we are projecting approximately \$500,000 in unused FY 2012 budget as well as additional interest income, which brings us to about \$2.8 million in projected reserves in FY 2012. He commented that earlier in this fiscal year, \$1.25 million was allocated out of our reserve for post-retirement liability. He went on to explain that after considering our funding needs and the fact that we are capped at \$69 million in TAT revenues, in addition to what we now know about that \$1.25 million liability, we are looking to reallocate that to be used towards the FY 2013 budget. He said that this available amount is reduced by about \$30,000 to accrue additional vacation as mentioned earlier, which brings us to about \$4 million of available reserve for FY 2013's budget. He said that once the \$69 million that we anticipate receiving in projected TAT revenue is added in, that brings the total up to \$73 million for the budget. He pointed out that at this time, we would like to maintain a reserve of about \$1.3 million for future operations and in doing so, a derived recommended projected FY 2013 budget of approximately \$71.7 million.

Mr. Kimura asked if the \$1.25 million reserve for post-retirement liability is from an actuary. Mr. Togashi responded that the \$1.25 million is a shared cost that was derived

from an actuary study paid for by the State and allocated down to the individual departments. He said that it is essentially a very small portion of a very large State obligation, so until the State of Hawai'i comes up with a plan on how this obligation is going to be addressed, we feel that we can defer reserving for that liability at this point in time.

Mr. Kimura asked if he is correct in his understanding that we are not funding any shortage on the pension fund. Mr. Togashi replied that the State has an obligation for all of their employee benefit, including retirement, post-retirement, and health benefits and that there has been acknowledgement from the State that there is a deficit. He explained that what we are proposing is that until such time the State comes up with a solid plan to address that deficit, we would defer holding on to this liability, as we do not anticipate it being called in the near future. He added that we also considered the financial restraints brought about by our \$69 million cap for the next few years – which is, by law, in place until 2015 - so until such time we are in a better position to reserve for that liability, it may not be the proper time to save it for future periods.

Mr. Kimura said he believes that it is a smart idea to allocate or earmark the fund. Mr. Williams said that he thinks that if we had to fund this in any given year, we would have the funds to do it; but based on what we are facing now, he thinks it is a good financial decision.

The meeting was recessed to go into executive session at 11:45 a.m.  
The meeting was reconvened at 12:53 p.m.

## 9. **Adjournment**

The meeting was adjourned at 12:55 p.m.

Recorded:

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