

Hawaii Tourism Authority

2003 Annual Report to the Hawaii State Legislature

October 31, 2003



Letter from the Hawaii Tourism Authority

We are pleased to present the Hawaii Tourism Authority's (HTA) Annual Report for Calendar Year (CY) 2003 which covers the Authority's activities, challenges and accomplishments over the first ten months of 2003.

Over the past year, we've continued to experience how vulnerable Hawaii's tourism industry can be to crises like terrorism, world politics, economic downturns, and health disasters. However, it is now easier to see that the changes that have occurred because of these crises have not always been negative. On the positive, we've learned much by living through these challenges and without a doubt, we have much for which to be thankful.

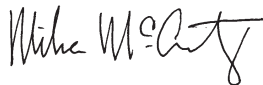
In terms of learning, certainly the importance of tourism to our state has been heightened through this period. Over the past two years, Hawaii's visitor industry has been shaken to its core. First came the terrorist attacks of September 11th when the absence of visitors in our hotels and shops in the days and months following this event provided everyone in the state with a dramatic illustration of tourism's value. And just when recovery seemed assured, we were faced with the impact of the Iraq War and then the SARS outbreak.

But the industry, as well as the HTA responded to these challenges by creating new programs, developing stronger partnerships and learning new ways to be flexible and responsive. For the HTA, flexibility was the cornerstone of the recovery programs that were developed for the Iraq War including programs with airlines and wholesalers who could help get immediate results from Hawaii's marketing efforts. The recent performance in Hawaii's domestic markets is a good indicator that this sort of flexibility has paid off. In addition to flexibility, HTA continues to learn and evolve, making improvements within its organization to better manage how tourism funds are spent and better service the people of the State of Hawaii.

And speaking of things to be thankful for, although Hawaii's tourism has been hit very hard over the last two years, it continues as an important contributor to Hawaii's economy. According to the latest research, tourism in 2003 remains Hawaii's economic engine, providing more than one fifth of the State's total jobs and about 24 percent of total tax revenues for the State. That revenue supports and enables the operations of other state and county programs—like education, public safety, health and natural resources—that improve the quality of life for all residents throughout the state.

In closing, we'd like to thank all of our partners in the public and private sectors—from legislators, state and county officials, to industry partners including wholesalers and those in the lodging, activities, retail and transportation sectors, to most importantly, our residents. We look forward to continuing our partnerships with each and every one of you to make Hawaii the best place to live, visit and work.

Mahalo,



Mike McCartney
HTA Chair



Rex D. Johnson
HTA President & CEO

Hawaii Tourism Authority

(as of October 31, 2003)

Members	Representation
Mike McCartney, Chair President & CEO Hawaii Public Television	At-Large
Ron Wright, Vice-Chair Managing Director Sales and Marketing - Hawaii Continental Airlines	At-Large
Vernon Char Attorney at Law Char Sakamoto Ishii Lum & Ching	At-Large
Rodney Haraga Director, State of Hawaii Department of Transportation	Ex-Officio
Lawrence M. Johnson Chairman of the Board and Chief Executive Officer (retired) Bank of Hawaii	At-Large
Kyoko Kimura President & General Manager Diamond Resorts Hawaii	County of Maui
Nadine Nakamura Principal NKN Project Planning	County of Kauai
Lorrie Lee Stone Attorney at Law Rohlfing and Stone	At-Large
John J. Toner Executive Vice President Ko Olina Resort	At-Large

Members (continued)

Representation

Keith Vieira

Senior Vice President
Director of Operations - Hawaii
Starwood Hotels & Resorts Worldwide, Inc.

At-Large

Sharon Weiner

Group Vice President, Business Development
Public Relations and Government Affairs
DFS Hawaii

City & County of Honolulu

Marsha Wienert

Governor's Tourism Liaison

Ex-Officio, At-Large

Stephen Yamashiro

Consultant

County of Hawaii

Peter Young

Chair, State of Hawaii
Board of Land and Natural Resources

Ex-Officio

HTA Management

Rex D. Johnson

President & Chief Executive Officer

Lloyd I. Unebasami

Chief Administrative Officer

Muriel A. Anderson

Director of Tourism Programs

Frank Haas

Vice President and Director
of Tourism Marketing

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I. Overview of the Hawaii Tourism Authority

Background

The Hawaii Tourism Authority (HTA) was established by Act 156, Session Laws of Hawaii 1998 (Chapter 201B, HRS), as the lead tourism agency for the State of Hawaii. As a cabinet-level agency, the HTA reports directly to the Governor and to the Legislature and is attached to the Department of Business, Economic Development and Tourism (DBEDT) for administrative purposes.

As the lead entity and advocate for the tourism industry, the HTA:

- formulates short- and long-range tourism policy;
- develops and implements the state's tourism marketing plan and efforts.
- administers programs and activities to foster and sustain a healthy tourism industry for the state;
- develops and monitors implementation of the Tourism Strategic Plan; and
- coordinates tourism-related research, planning, developmental and promotional activities with the public and private sectors.

Mission

To strategically manage the growth of Hawaii's visitor industry in a manner consistent with our economic goal, cultural values, preservation of natural resources, and community interests.

II. Organization of the HTA

The HTA Board of Directors is a policy-making board that is guided by a Chair and Vice-Chair who are elected by their peers for a one-year term of leadership. The HTA Board of Directors has fifteen members who represent the visitor industry, business community, community-at-large, and government, as well as Hawaii's four counties. Both the private and public sectors are also represented.

The primary purpose of the Board is to set broad policies and directions for the HTA's activities, as a means of fulfilling its statutory authority as mandated by Chapter 201B, HRS. This is accomplished primarily through the development and implementation of the State's Tourism Strategic Plan—*Ke Kumu: Strategic Directions for Hawaii's Visitor Industry*. *Ke Kumu* outlines eight initiatives for the industry under which the HTA develops and implements its tactical programs and activities throughout the year.

Board Committees

To develop policy recommendations on tourism matters, the Board utilizes a standing committee. For 2003, the following four standing committees held meetings as outlined below:

- The **Marketing Committee** developed policy recommendations related to the following HTA program areas: Leisure and Business Marketing and Sporting Events. Committee members: Sharon Weiner (Chair), Kyoko Kimura, Lorrie Lee Stone, and John Toner.
- The **Strategic Planning Committee** efforts focused on the review, evaluation and update of *Ke Kumu* which is due January 2005. Committee members: Nadine Nakamura (Chair), Marsha Wienert (Vice Chair), Rodney K. Haraga, Keith Vieira, and Peter T. Young.
- The **Budget Committee's** work related to the development of policies to ensure the financial integrity of the HTA through the proper allocation and expenditure of funds in a manner consistent with the Board's policies and objectives. Committee members: Stephen Yamashiro (Chair), Larry Johnson, and Marsha Wienert.
- The **Administrative Committee** served as a resource for findings and policy recommendations related to the evaluation of the executive director, major contractors, community relation initiatives, and communications to the public and all governmental and private sector entities. Committee members: Mike McCartney (Chair), Ron Wright and Larry Johnson.

The Board also established the Ke Kumu Investigative Committee to assist the Strategic Planning Standing Committee to review and provide feedback on the proposed revisions to the tourism strategic plan and to collect and analyze information from the community.

HTA Staff and Operations

The HTA's President and Chief Executive Officer reports directly to the HTA Board of Directors and is responsible for assisting the Board in its responsibility to execute the mandates of Chapter 201B, HRS. This includes carrying out board policies, HTA programs and overseeing the HTA office's day-to-day operations. To accomplish these tasks, the President and Chief Executive Officer is supported by a staff that perform work in-house. In addition, HTA worked with various professionals in their respective fields to accomplish work in various program areas, as outlined below:

- Tourism marketing in the leisure and business segments: Hawaii Visitors and Convention Bureau (HVCB);
- Management and marketing for the Hawai'i Convention Center: SMG;
- Research and accountability studies: Research and Economic Analysis Division (READ) of the State Department of Business, Economic Development & Tourism (DBEDT), NFO PLOG Research, PBR Hawaii, SMS Research, Market Trends, Hospitality Advisors, OmniTrak and UH-TIM; and
- Stryker, Weiner & Yokota Public Relations for communication services.

III. HTA Program Areas

A brief narrative of the HTA's programs and activities from January 1, 2003 through October 31, 2003, is presented over the following pages.

A. Leisure and Business Marketing

This program area relates to the HTA's primary responsibility to oversee the efforts to market Hawaii to the world in both the leisure and business markets, and represents a significant portion (73%) of the HTA's budget. Marketing categories under this heading are as follows:

Marketing Categories	
	Budget (in \$ millions)
Leisure Marketing	\$33.15
Corporate Meetings & Incentives	\$2.0
Hawaii Convention Center	\$4.0
Marketing Flexibility Fund	\$2.0
TOTAL	\$41.15

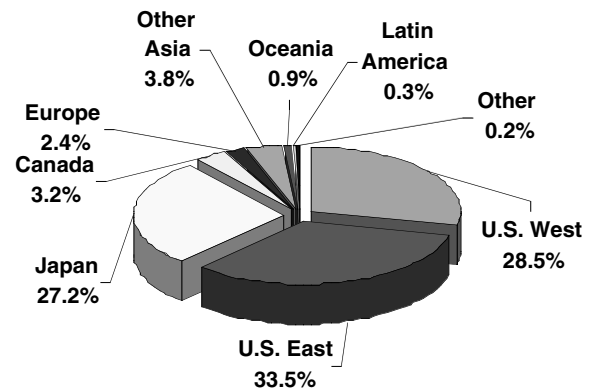
- 1. Leisure Marketing.** The HTA's leisure marketing strategy is to promote Hawaii as a preferred destination for leisure travelers by increasing promotional presence and brand identity to more globally competitive levels that optimize performance in each Major Market Area (MMA). In 2003, HTA focused on four major areas in Leisure Marketing:
 - Monitoring of the HVCB's contract;
 - Development of the accountability measurement system with NFO PLOG Research;
 - Creation of the 2004 Hawaii Arts Season; and
 - Selection of contractors for the 2004 leisure and corporate meetings and incentives contracts.

HVCB Marketing Efforts. For CY 2003, the HTA contracted with HVCB to provide global leisure marketing services for \$33.15 million. Nearly 90% of these funds were dedicated to Hawaii's three largest source markets (or major market areas - MMAs): U.S. West, U.S. East and Japan, which account for 85.2% of total visitor days.

2003 Budget

MMA	\$\$\$
US West	\$ 9,448,061
US East	\$ 11,100,021
Japan	\$ 9,001,603
Canada	\$ 1,074,075
Europe	\$ 789,825
Other Asia	\$ 1,259,363
Oceania	\$ 313,433
Latin America	\$ 98,739
Other	\$ 64,880
TOTALS	\$ 33,150,000

MMA Allocations for CY 2003

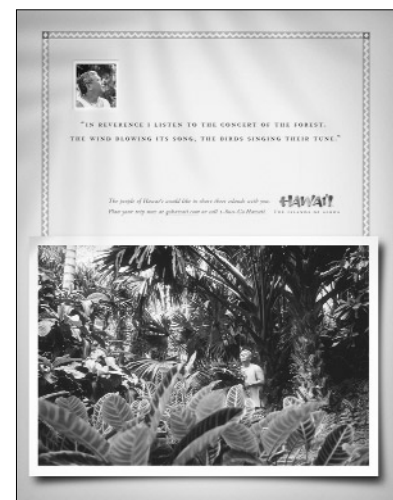
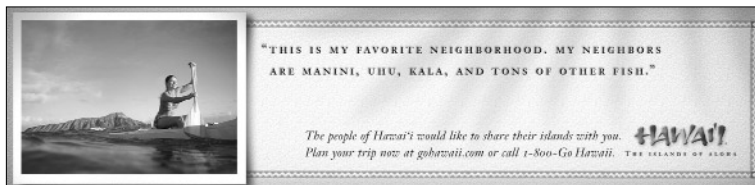


The HVCB's 2003 marketing plan is designed to implement the *Ke Kumu* initiatives and, specifically, to:

- Differentiate the Hawaii brand and efficiently target marketing programs;
- Over time, attain optimal balance in key drivers of visitor expenditures:
 - Attain first-time visitor rate of 40% or higher;
 - Maintain or grow length of stay for each MMA;
 - Optimize peaks and grow shoulder periods;
- Create marketing programs with investment opportunities for partners to close the sale; and
- Support the achievement of all HTA strategic initiatives, including the promotion of events, festivals, and other tourism activities.

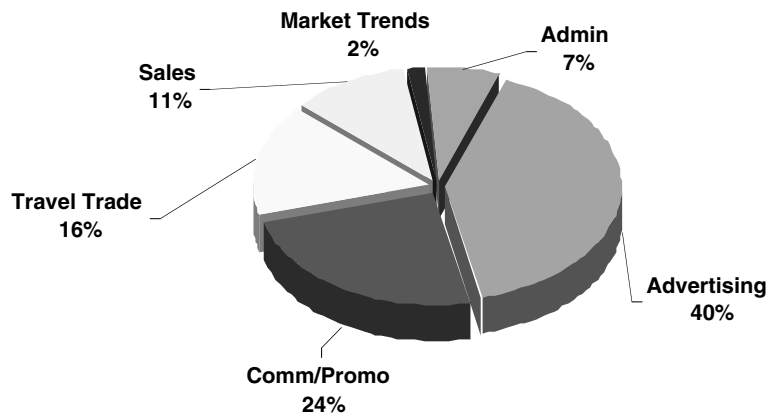
Leisure marketing highlights by MMA are provided below:

- *North America*
 - In the U.S. West, the marketing message was to convey "new discoveries" to be found in Hawaii (no matter how many times one visits Hawaii).



- In the U.S. East, the marketing message was to reinforce that there is only one Hawaii— and that Hawaii is different from the closer competition (like the Caribbean).
 - National cable TV program was advertised on channels such as the Travel Channel, Discovery Channel, TLC, Animal Planet, Food Network, Home & Garden, and A&E.
 - On-line advertising was increased on sites such as Travelocity, Expedia, Orbitz, AOL, Yahoo, National Geographic, The Knot, Wedding Channel, and iExplore.
 - Con Agra *Healthy Choice* inserts in consumer magazines coordinated with retail supermarket promotions
 - The *www.gohawaii.com* website was upgraded.
 - Travel agent training and familiarization was supported.
- *Japan*
 - New marketing message initiative—“What’s New in Hawaii.”
 - Co-op campaign with Japan Airlines—“Feel New Hawaii”—focused on new events, new products and services, new attractions, and improvements.
 - Pure brand/image TV was shifted to more co-op newspaper and magazine.
 - Participation in the Sapporo Snow Festival, JATA World Travel Fair, and Bridal and Honeymoon fairs.
- *Developing International Markets (Other Asia, Europe, Oceania, Latin America)*
 - Participation in major consumer trade shows and familiarization tours.
 - Co-operative campaigns with airlines in the Oceania and European markets.

Below is the HVCB’s marketing plan budget breakout by major category:



The HTA continued its oversight of the HVCB marketing programs, with a “360°” evaluation of the HVCB’s performance and programs which incorporated a self-assessment as well as comments by the industry and community. The results of this evaluation will lead to continuous improvement of HVCB programs and reporting.

NFO Plog Research. New this year, the HTA began an accountability measurement system through a contract with NFO PLOG Research to track the effectiveness of the HVCB’s marketing programs in the major market areas of U.S. West, U.S. East, and Japan. Self-administered questionnaires are mailed weekly to a sample of qualified households. The information is collected and analyzed each quarter. Specifically, the study examined:

- Intention to travel to Hawaii;
- Brand valuation (positive impressions of the Hawaii brand overall and relative to competitors); and
- Measurements of specific marketing attributes of Hawaii in three MMAs.

The HTA will use the 2003 information as baseline data in order to gauge consumers’ perceptions about Hawaii as a destination.

Development of a Hawaii Arts Season. In efforts to promote Hawaii as a place with a countless variety of things to see, do and experience, the HTA collaborated with a cross section of cultural and arts organizations and the HVCB to develop and promote the first Hawaii Arts Season program. The concept of the program aims to:

- Consolidate existing art and cultural events into a defined time period;
- Explore “marquee” events to generate additional publicity; and
- Market the “season” using leisure marketing budgets and with the support of travel wholesalers.

Slated for the spring of 2004 (February 27–May 2). The Hawaii Arts Season will be promoted in the North America and Japan markets. This time period will allow the travel industry to incorporate events that showcase arts and culture into their collateral and product offerings.

A strategic plan for the Hawaii Arts Season was prepared under contract with the Hawaii Consortium for the Arts (HCA) and Tim Bostock Productions. HTA accepted the plan and is contracting with HCA again for Tim Bostock Productions to implement and manage the program in 2004.

New Marketing Partners for Hawaii. In May 2003, the HTA issued its second Request for Proposals (RFP) for 2004 leisure and corporate meetings and incentives marketing

contracts. The previous RFP, issued in 1999, was constructed so that organizations could only bid on the entire contract. In 2003, the RFP was revised to allow organizations to bid on a specific MMA or group of MMA's for the first time.

Thirteen companies submitted proposals which were reviewed and evaluated by the HTA marketing committee, staff, and a visitor industry advisory committee. In addition oral presentations were conducted the week of June 16, 2003. On July 24, 2003, the HTA marketing committee made recommendations to the HTA Board on the following organizations to market to the respective MMA:

- HVCB: North America and worldwide Corporate Meetings and Incentives (CMI);
- Dentsu Inc.: Japan;
- Marketing Garden, Ltd.: Asia (outside Japan);
- The Mangum Group: Europe; and
- The Walshe Group: Australia and New Zealand.

The board approved the committee's recommendations. The selection of multiple marketing firms was based upon an assessment of their ability to draw on their market knowledge and the nuances of the marketing programs in their respective areas.

Following the July board meeting, staff went to Japan during the week of August 4 to meet with the Japan visitor industry community and inform them of the new change in Hawaii's destination marketing. During the first week of September, the four new international marketing partners came to Hawaii to meet with key visitor industry representatives and the Island Chapters, in addition to meeting with HVCB to begin the transition of the HVCB's developing international marketing and Japan offices.

On October 20, 2003, the HTA received the annual tourism marketing plans for each MMA. Advisory committees were formed to review the marketing plans for North America, Japan and the remaining MMAs. The Board will be meeting to approve the tourism marketing plans for each MMA and subsequently, meetings will be held throughout the state to present the 2004 marketing plans to the public.

2. **Business Marketing.** The strategy for business marketing is to promote Hawaii as a preferred destination for business tourism (to attend a meeting, convention or incentive conference) by increasing promotional presence and brand identity on a global basis. In 2003, there were three areas of focus for HTA in business marketing:

- HCC Sales and Marketing;
- Corporate Meetings and Incentives; and
- Business Branding Project.

HCC Sales and Marketing. Overall, the main change in the HTA’s business marketing efforts was the marketing of the Hawaii Convention Center (HCC). The passage of Act 253, SLH 2002, specified that the contract for management of the HCC shall include marketing for all uses of the facility, effective January 1, 2003. As such, the HTA worked with SMG and the HVCB for a smooth transition of the HCC marketing to SMG. The HTA met on a regular basis with SMG in designing and evaluating their marketing performance and targets. With the responsibility for marketing HCC, SMG undertook the following activities:

- Developed new goals and indicators (outlined below) in conjunction with the industry, based upon a review of the past years’ booking pace and a forecast of future booking activity that includes aggressive target marketing.

Hawaii Convention Center Goals and Indicators

Bookings (as of September 2003)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Final/ Definite	17	31	30	28	38	26	17	14	12	3
Goal	15	24	22	30	35	40	40	40	40	40

Delegate Count (as of September 2003)

	1999–2002*	2003	2004	2005	2006	2007	2008
Final/ Definite		132,356	100,885	94,600	75,500	49,900	17,500
Goal		122,500	122,500	122,500	122,500	122,500	122,500

*Note: Information was not collected previously.

- Placed a new focus on the Japan market for conventions.
- Created new collateral material for sales efforts.
- Redeveloped its website to allow for more interaction.
- Revitalized the Industry Advisory Board by splitting it into two separate market segments (Association and Corporation markets).

For the first six months of 2003, SMG received \$1.815 million for its marketing efforts. In FY 2004, which includes the last six months of 2003, the HTA budgeted \$3.8 million for SMG to market the HCC.

Corporate Meetings and Incentives. The HTA continued to contract with the HVCB for marketing to the corporate meetings and incentives (CMI) market. Their CMI division focuses on direct selling, lead generation and client services for corporate meetings and

incentives for hotels/ resorts on all islands. The leads generated are selling opportunities for the hotel/resort properties to convert into definite business, which in turn create business for Hawaii’s companies, from restaurants to transportation companies, retailers, activities and attractions. The 2003 CMI marketing plan included the following goals:

Indicator	Goal	Y-T-D
Leads	945	84% of goal as of Sept.
Room nights (Leads)	630,000	88% of goal as of Sept.
Bookings	258	75% of goal as of August*
Room nights (Bookings)	178,500	76% of goal as of August*

CMI marketing highlights for the year are:

- Maintained a dominant presence in trade shows such as the American Society of Association Executives (ASAE), California Society of Association Executives, Meetings Professionals International, and Incentive Travel & Meetings Executives.
- Placed targeted advertising in trade publications such as *Incentive Magazine*, *Meetings West*, *Successful Meetings*, and *Meetings & Conventions* to develop a strong position among business executives, meeting planners and ultimate decision makers.
- Conducted site inspections to enable potential clients to experience the diversity of Hawaii as a CMI destination.



American Society of Association Executives Annual Meeting, Hawai'i Convention Center, Oahu.

Business Branding Project. The HTA’s mission is to increase visitor expenditures in Hawaii—and one important component of that mission is to increase the proportion of business visitors as a part of the visitor mix. On August 31, the HTA issued an RFP for the development of a marketing program to create a marketing message and establish a brand for Hawaii to convince key decision makers that Hawaii is a dynamic

business destination, where meetings, conventions and other business activities can be productive and effective because of Hawaii's unique attributes.

The branding campaign will support Hawaii's overall business image. Specifically, it will facilitate HVCB and SMG efforts to sell meetings in the state, but also support other business organizations within the state that can utilize the same positive business brand that the HTA seeks to establish. In 2004, the HTA will test market the branding program in a limited regional area, with possible future expansion.

Nine proposals were received in response to the RFP and are currently being reviewed by an evaluation committee. After a contractor is selected, the Business Branding Project is set to begin in 2004.

B. Sporting Events

The HTA recognizes the value of sporting events in providing the state with worldwide media coverage and creating significant economic impact through the direct spending of those involved in the event. As such, the purpose of this program is to invest in a comprehensive portfolio of sporting events for the State that:

- Generates awareness of the Hawaii brand and establishes Hawaii as the preferred destination for high-profile, quality sports events through national and international media exposure,
- Attracts visitors to Hawaii as participants, spectators, and operators; and
- Provides residents with opportunities to attend or participate in activities which add to Hawaii's quality of life.

Activities for the Year

In 2003, the HTA continued its partnerships with the NFL and PGA Tour. Highlights of those events are:

- **NFL Pro Bowl.** The 2003 NFL Pro Bowl brought in 18,000 visitors (compared to 16,000 in 2002), which accounted for \$28.07 million in visitor spending and \$2.72 million in state taxes. The household rating for the Pro Bowl was 5.9 (5.9% of all U.S. television households watched the game) with a total household viewing audience of 6,295,300. The 5.9 rating in 2003 represents a 37 percent increase over 2002.



- PGA Tour.** The HTA’s contract with the Professional Golfers’ Association (PGA) supports six Hawaii-based tournaments and provides for marketing support for destination golf programs. In 2003, HTA, HVCB and SMG worked to increase the effectiveness of the PGA Tour contract through programs designed to reach both corporate and consumer customers. Highlights of the consumer programs include co-op programs with travel wholesalers.
- Field Turf.** On April 1, a groundbreaking and blessing ceremony was held at the Aloha Stadium to mark installation of the new Aloha Stadium FieldTurf, which players say is easier on bodies than AstroTurf. The decision to use the FieldTurf was included in a contract between the HTA and the National Football League. In August, the installation of the FieldTurf was successfully completed.
- Other Sporting Events.** In addition to the NFL Pro Bowl and PGA Tour events, the HTA also invested a total of \$585,000 in other sporting events for 2003, as listed below:

 - June–December Maui Jim Marlin Tournament
 - August 16–24 43rd Annual Hawaiian International Billfish Tournament
 - September 21 Maui Marathon
 - Sept 24–Oct 4 “King of the Air” Kite Surfing contest
 - October 18 Ironman Triathlon
 - Oct 28–Nov 10 XCEL Pro Surf contest
 - Nov 24–26 EA Sports Maui Invitational Basketball tournament



Hawaiian International Billfish Tournament, Hawaii Island.



Maui Marathon, Maui.

The HTA will continue to evaluate its sporting events program including:

- The process by which the HTA selects sports events to invest in each year;
- The actual selection of sports events to insure that the HTA receives the maximum marketing benefits for its investment;
- The allocation of sports assets that HTA receives for its investment; and
- Its long-term contracts with the NFL for the Pro Bowl, and the PGA Tour for the *Aloha Season*.

C. Product Development

The major strategies under which the HTA's Product Development Program (PDP) is developed, are *Ke Kumu* Strategic Initiative E. "Tourism Product Enrichment and Diversification" and *Ke Kumu* Strategic Initiative G. "Advocacy and Representation for Tourism."

Under Initiative E, the primary objective is:

"to diversify and enrich Hawaii's tourism product by developing new and enhancing existing community-based tourism events, experiences, attractions and projects related to the niches of agriculture, culture, education, health and wellness, nature and technology to complement Hawaii's traditional resort product and assist in overall economic diversification."



Mokihana Festival, Kauai.

To achieve this objective, the PDP supports a **Product Enrichment Program (PEP)** and **Major Festivals Program**.

Under Initiative G, the primary objective is:

"to provide advocacy and representation for the natural environment and public recreational areas, tourism investment, tourism-related infrastructure, and tourism support services for the purpose of strengthening the industry, enhancing the Hawaii visitor experience and enriching residents' quality of life."

As part of the HTA's efforts to address Initiative G, the PDP focuses on the **Greetings Program**, **Visitor Assistance Program**, **Natural Resources Program** and other critical issues as they arise.



International Festival of Canoes, Maui.

Additionally, much of the work of the PDP supports *Ke Kumu* Strategic Initiative A: “Communication and Community Relations” by providing and supporting “communication, education and outreach efforts to enhance the understanding of, support for, and participation in tourism by residents, the business community, visitor industry, and government agencies.”

Overall, the work of the PDP has made significant progress in following the mission statement of the HTA:

To strategically manage the growth of Hawaii’s visitor industry in a manner consistent with our economic goal, cultural values, preservation of natural resources, and community interests.

Activities for the Year

HTA’s activities within PDP can be broken down into six major areas for the year, as follows:

- **Product Enrichment Program (PEP).** The County PEP (CPEP) involves partnerships between the HTA and each of the four counties of Hawaii. This year’s program is a continuation of the program begun in 2002, with HTA providing \$400,000 to each county to support tourism activities on their respective islands in the niche areas of agritourism, cultural tourism, ecotourism, health and wellness tourism, edutourism, and technotourism. Overall, HTA’s partnership with the counties has been invaluable, resulting in more flexibility for funding, decreased duplication of funding by the county and state, expanded community input, increased community-based activities for the visitors, and increased effectiveness and efficiency in the use of both county and state funds and resources.

As part of HTA’s program management responsibilities, staff has headed quarterly meetings with the county representatives to review progress on the program, gather and share feedback on the program, and explore improvements to the program on a collective basis. To date, over 90 projects for 2003 will receive support from the CPEP, with three additional projects supported with a total of \$85,000 under the Statewide PEP (SPEP) for projects covering multi-county activities. (Lists of all county projects supported through the CPEP are available on the HTA website at www.hawaii.gov/tourism.)

For the 2004 PEP, work with the counties has begun, with public workshops held in August on each major island to announce the application periods and to answer

questions about the program. As of October 15, the City and County of Honolulu, the County of Kauai and the County of Maui had completed their application process and begun the review, evaluation and awarding procedures with their respective community committees. The County of Hawaii will be accepting applications until December 30, 2003 and in 2004, will conduct a monthly review process for the year.

- **Major Festivals Program.** Like PEP, the Major Festivals Program addresses *Ke Kumu's* Strategic Initiative E: "Tourism Product Enrichment and Diversification." This initiative states that the strategy should include "those major festivals which portray the diversity and culture of Hawaii and engender significant attendance and marketing activity within and outside the state." Major festivals have proven to be an excellent way to offer both economic and social benefits to our state. These events engender



Aloha Week Festivals, Oahu.

significant attendance from visitors who come to Hawaii specifically to attend the event, as well as providing on-island visitors and residents with unique, cultural experiences that are intended to drive their desire to return to Hawaii for future visits. In particular, these festivals:

- Provide opportunities for significant national and/or international marketing support;
- Allow Hawaii to take full advantage of its heritage and community pride; and
- Support HTA's overall goal of focusing on visitor industry expenditures and contributing to the average length of stay for the visitor.

For 2003, the \$1.1 million allocated to Major Festivals supported 10 events with funds ranging from \$50,000 to \$300,000. (A list of the 2003 Major Festivals is available on the HTA website at www.hawaii.gov/tourism.) Overall, the attendance at these events is expected to exceed 1.1 million and the total projected budget for all 10 festivals exceeds \$13 million. As "significant national and/or international media coverage/marketing" is one of the criteria for this program, all of the Festivals conduct extensive marketing campaigns to attract both participants and attendees to their events. A pilot program to objectively survey the impacts of the Major Festivals began in July 2003. Results from this initial accountability measurement effort are expected in Spring 2004.

HTA staff has coordinated quarterly meetings with representatives from all of the major festivals funded by the HTA. These meetings have provided an avenue for networking, ongoing assessment and improvement of the program, and problem-solving on a collective basis.

- **Greetings Program.** *Ke Kumu* Strategic Initiative G: "Advocacy and Representation for Tourism" states that "the HTA will also advocate for further development of island cruise facilities as well as support programs that enhance visitors' arrival and departure experiences at those points." This directive has led to the support of Greetings Program that provide our visitors with an enjoyable first and, sometimes, last experience of Hawaii as a destination.



Lahaina Harbor Greetings Program, Maui.

The Greetings Program attempts to enhance these experiences to develop positive memories of Hawaii. Primarily a harbors' greetings program, the program is also currently open to airport activities. Thousands of visitors are given a special greeting welcoming them to our islands. In general, the greeting includes live entertainment such as Hawaiian musical groups and hula performances, lei or flower presentations, visitor information, refreshments, and rest areas.

Each county program received \$75,000 to cover efforts in 2003. In addition, the County of Kauai was awarded \$20,000 as part of the effort to address the cancellation of this year's Quarterback Challenge event. The program budget is matched on a one-to-one basis by the Greetings providers in each county and together the program is estimated to greet over 1.3 million passengers in 2003. HTA staff has convened quarterly meetings with representatives of the counties as well as the providers of these greetings services for each county in an effort to monitor the program, share ideas, develop new programs, and address issues and concerns relating to the cruise industry and transportation services in general.

- **Visitor Assistance Program.** The Visitor Assistance Programs provide a much needed service to our visitors who become victims of accidents or crimes, often turning a very negative experience into a positive memory of Hawaii. While it is important to work to ensure the safety and security of our visitors and residents, it is impossible to prevent all accidents and crimes from occurring. It becomes equally important, therefore, to address the needs of those who become victims of crime or who experience other hardships while in Hawaii. The Visitor Aloha Society of Hawaii (VASH) and its

counterparts in each county provide this service to our visitors for a combined funding award from the HTA of \$200,000 for 2003. In addition, the programs receive significant in-kind services and donations from island businesses and residents. Over 3,000 visitor victims are expected to be assisted statewide in 2003. The program continues to provide a wide variety of services to our visitors ranging from financial aid and transportation services, to general assistance with challenges such as ticket changes and funeral arrangements. Quarterly meetings are also held with the providers of this program for each county to monitor the contractors' progress; get feedback from the contractors; share ideas, successes and challenges; and conduct problem-solving on a collective basis.

In October 2003, the HTA coordinated meetings with the police chiefs of each county to discuss ways that the HTA and the police departments could work together to address visitor safety and security, from a more proactive vs. reactive position. Some of the ideas coming out of these meetings were to: 1) have the HTA advocate for the police departments in their requests for additional funds and personnel to address crime in their communities; 2) have the HTA work with the Law Enforcement Coalition to lobby for improved laws, stiffer penalties, and additional rehabilitation efforts; 3) work together to support programs such as the Visitor Aloha Society of Hawaii (VASH) which receives the majority of their operational funding through the HTA; and 4) work with the industry (car rental agencies, airlines, hotels) to develop educational programs that will get the word out to visitors to be aware and to be cautious. The HTA will continue to work on these recommendations into 2004.

- **Natural Resources Program.** HTA's plan for the first year of this program consisted of several elements as follows:

- Overall assessment of Hawaii's natural resources (final reports expected in early 2004);
- State parks survey (final reports expected in early 2004); and
- Five county-specific projects, totaling approximately \$600,000. (The list of county projects and more information about the Natural Resources Assessment effort are available on the HTA website at www.hawaii.gov/tourism.)



Kipahulu Ohana Kapahu Living Farm Project, Maui.

The immediate goal of the program's first year was to initiate those activities that would help the HTA to develop a roadmap to expend the \$1,000,000 allocated for this program

annually in future years. It is important to note that the HTA is being assisted in this area by a group of experts in the environmental and natural resource management fields. This Natural Resources Advisory Group includes representatives of the Sierra Club, The Nature Conservancy, the Hawaii Ecotourism Association, a native Hawaiian cultural expert, the Department of Land and Natural Resources (DLNR) and DBEDT. Proposals for 2004 are scheduled to be considered in November 2003 by the HTA staff and Advisory Group.

D. Hawai'i Convention Center

On January 1, 2003, SMG's contract to manage the Hawai'i Convention Center (HCC) was expanded to include the marketing of the center for citywide conventions. As information on the Center's marketing was reported in an earlier section of this report, this section will focus only on management and operations of the center.



Hawai'i Convention Center, Oahu.

Management and Operations of the Center

The management team of SMG continues to explore and enhance the attributes of the HCC to benefit the Center's users and the community at large.

Operational highlights:

- Relocation of the HCC security office and employee entrance has enhanced relations with the neighborhood and immediate community; less traffic and ambient noise have been reduced as a result of this relocation.
- In accordance with the American Disability Act (ADA), two automatic doors have been installed into the Lobby from the Porte Cochere.
- SMG identified a cost-effective solution for the Center's contractor to resurface the Rooftop Terrace which when done, will result in the completion of all punchlist items.
- New contracts were awarded for some of the Center's major suppliers resulting in financial improvements for the operation of the facility.
- The Hawaii Convention Center was awarded the PRIME SITE AWARD (convention facility industry standard) in 2003, making the Center the recipient for the 6th year in a row.

The HTA continued its oversight of SMG's management of the center which included the Client Survey Evaluation by users of the center. While overall the Customer Satisfaction Ratings have ranged between 95 to 97% in all service categories, operations have consistently been ranked excellent and exceeding user expectations. In addition, food and beverage continues to be a point of distinction for the Center.

IV. Other Efforts

Other efforts for the year are detailed below:

- *Ke Kumu: Strategic Directions for Hawaii's Visitor Industry* is the tourism strategic plan for the State of Hawaii developed by the HTA. Last updated in 2002, this plan provides the framework under which the HTA develops and implements its tactical programs throughout the year. The HTA Strategic Planning Committee, with help from a 30-member Stakeholder Advisory Group representing the industry, community, government, and with representation from all counties, has begun work to review, evaluate and update the current plan by January 2005 as required by law. In addition to the Committee efforts and monthly meetings begun in 2003, the update process includes plans for a Tourism Leadership Forum, neighbor island stakeholder focus groups, and statewide community hearings.
- **Outreach and Communication.** In 2003, HTA stepped up its efforts to communicate, conduct outreach and collaborate with stakeholders on its in-house programs such as marketing and product development, as well as facilitate discussion on broader issues such as the golf market, legislative issues, and the cruise industry.

- For the first time since its inception, HTA held its board meetings on islands other than Oahu (Kauai, Maui and Big Island);
- HTA staff and board delivered over 40 presentations to groups including the Caribbean Tourism Organization, Travel Weekly (in Mexico), Quarterback Club, Hawaii Business Roundtable, Chamber of Commerce, Department of Education, Hawaii Hotel & Lodging Association, and University of Hawaii;
- 12 press releases on HTA programs and plans were distributed to stakeholders;
- A first-ever HTA Email Update was created in August 2003 to keep stakeholders informed about HTA programs and plans. This monthly update is distributed to industry, community, government and media throughout the state; and
- Meetings with government, industry and community officials on the islands of Oahu, Maui, Kauai, Hawaii (Hilo and Kona) were held to discuss legislative and island issues, as part of HTA's advocacy and outreach efforts.



Island Meeting, Kona, Hawaii Island.

- **Legislative Audit.** In June 2003, the Legislative Auditor issued “Report 03-10: Financial and Management Audit of the Hawaii Tourism Authority’s Major Contracts.” This report focused on the HTA’s 2000–2002 contract with the HVCB. Overall, the audit pointed out problem areas regarding HVCB policies and procedures (e.g., HVCB not complying with its own internal policies or the lack of current written policies), the weakness of HTA’s contract with HVCB, and issues relating to accountability, oversight and communications.

In response to the audit, the HTA noted that it had already been working to address many of the issues cited in the report, including incorporating stronger control systems into its contract language and management efforts, including those related to the Hawaii Visitors and Convention Bureau (HVCB). Nevertheless, the HTA was extremely concerned about some of the instances cited in the audit report and as a result, took the following steps:

- Held HTA board meetings to discuss the Auditor’s findings and recommendations, met several groups including the State Auditor’s Office, Attorney General’s Office, the HVCB Board of Directors, HVCB’s Auditor (KPMG), and the Governor’s Office, and participated in legislative hearings to discuss issues raised in the audit.
- Hired a CPA firm to conduct a more thorough investigation of the financial and contract compliance findings made by the Auditor of HVCB for the years 2001 and 2002; and
- Contracted with John Candon Consulting Group LLC, to review HTA and HVCB operations and to make recommendations for business systems for both entities to address issues brought forth in the audit to assure seamless operations between organizations (e.g., accountability, communications, organizational structures, policies and procedures).

At the time of this printing, HTA is still reviewing this matter, but hopes to have closure on the issues or present next steps by year-end.

- **2004 Efforts.** Moving forward into 2004, HTA’s focus will include the following:
 - Continue improving accountability process and communicate results to the public;
 - Increase collaboration and partnerships with industry, community, legislature, administration and others; and
 - Continue strategic planning process for the sustainability and long-term health of the industry.

V. Hawaii's Travel and Tourism Industry

The purpose of these next two pages is to share some information on how the industry did for the year and to demonstrate how tourism contributes to Hawaii's economy. Below are some of the industry indicators for the year, based on the latest data available.

Visitor Industry Planning Targets for 2003

The industry's targeted and projected performance for visitor expenditures, visitor days, and visitor arrivals is listed in the table below:

Table 1: Targeted and Projected Performance for 2003

Visitor Statistics	2003 Targets	2003 Projections*
Visitor Expenditures	\$10.2 billion	\$10.5 billion
Visitor Days	60.5 million	63.2 million
Visitor Arrivals	6.5 million	6.4 million

*Projections are based on DBEDT statistics using actual information from January–September and projections for the months of October, November and December.

The above information is further broken down by the following Major Market Areas (MMA) and by business segment as listed below:

Table 2: Targeted and Projected Performance for 2003 by MMA

	Visitor Expenditures		Visitor Days		Visitor Arrivals	
	Targets (\$billion)	Projections* (\$billion)	Targets (million)	Projections* (million)	Targets (million)	Projections* (million)
US West	\$3.7362	\$3.844	25.6	26.6	2.58	2.6
US East	2.8980	3.087	17.3	18.6	1.64	1.6
Japan	1.9709	1.825	8.3	7.6	1.40	1.3
Canada	0.3153	0.325	2.7	2.8	.22	0.2
Others	0.9975	1.142	6.6	7.6	.68	0.7
Business supplement	0.3017	0.296	N/A	N/A	N/A	N/A
Total	\$10.2196	10.519	60.5	63.2	6.5	6.4

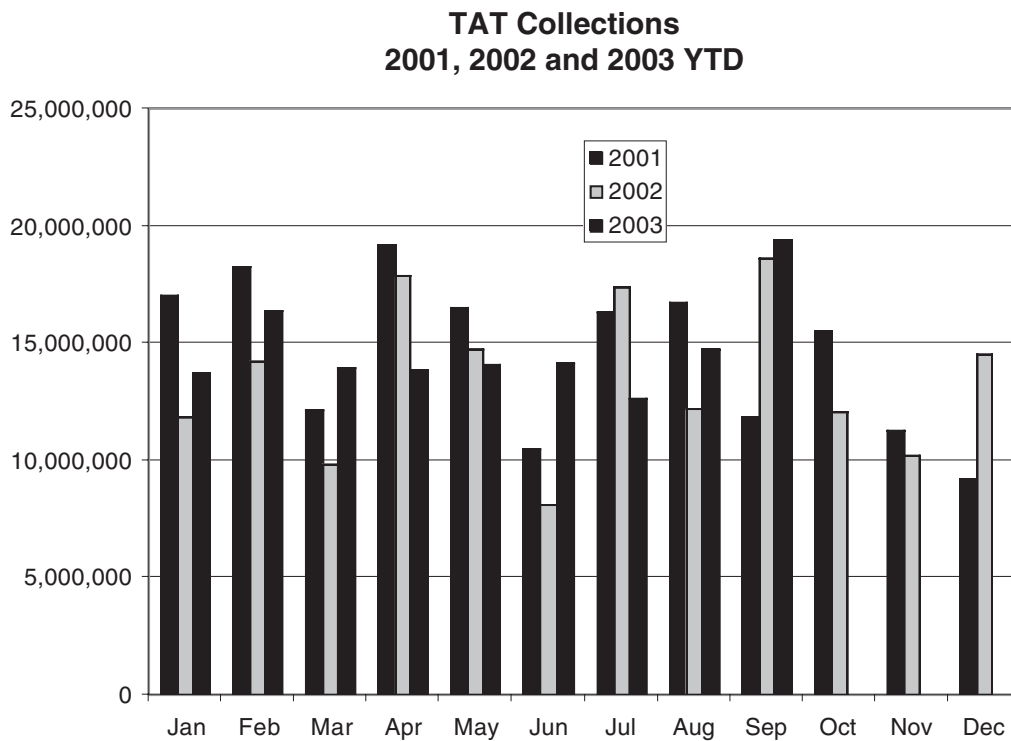
*Projections are based on DBEDT statistics using actual information from January–September and projections for the months of October, November and December.

Transient Accommodations Tax (TAT) Collections

Another measurement of the industry's performance is the amount of TAT collections that the state receives each month. The more TAT collected, the more benefits that are accrued to the state as a whole and to the individual counties, which therefore benefits Hawaii's residents. As of July 1, 2002, the TAT revenues collected are broken down as follows:

- 17.3 percent is deposited into the convention center enterprise special fund;
- 32.6 percent is deposited into the tourism special fund (HTA's fund);
- 5.3 percent is deposited into the transient accommodations tax fund; and
- 44.8 percent is distributed to the counties (14.5 percent to Kauai, 18.6 percent to Hawaii, 22.8 percent to Maui and 44.1 percent to Honolulu).

Year-to-date 2003 (through September), show TAT collections to be at \$132.9 million, a 6.4 percent increase over the same time period last year as show below:



Source: Department of Taxation

Contributions of Hawaii's Travel & Tourism's Economy in 2003

- Hawaii's Travel & Tourism Economy is expected to produce \$10.7 billion or 22.4% of Gross State Product;
- Hawaii's Travel & Tourism Economy is estimated to account for approximately 171,200 jobs or 21.7% of total employment for the state; and
- Hawaii's Travel & Tourism Economy taxes are expected to contribute \$1,076 million tax dollars to the state and county government or 24.1% of total state and county tax revenue.

Source: DBEDT

Hawaii Tourism Authority
Fiscal Year 2003 Actuals
 (\$000)

REVENUES

Tourism Special Fund	\$62,292
Investment Pool Interest/Miscellaneous Receipts	<u>471</u>

TOTAL REVENUES

\$62,763

APPROPRIATIONS

FY 2003	<u>\$56,069</u>
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TOTAL APPROPRIATIONS

\$56,069

HTA EXPENDITURES

Administrative Costs	2,038
Sports & Festival Events (Includes Pro Bowl/PGA)	10,308
Community & Special Events	1,025
Product Development	3,535

HAWAII VISITORS & CONVENTION BUREAU (Includes Island Chapters)

Leisure Marketing	31,037
Meetings, Conventions & Incentives Costs	<u>8,123</u>

TOTAL HTA EXPENDITURES

\$56,066

