

Michael P. Victorino  
Mayor

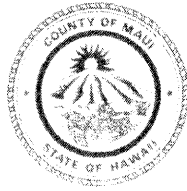
Sananda K. Baz  
Managing Director

Kay S. Fukumoto  
Economic Development Director

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OFFICE OF ECONOMIC DEVELOPMENT

COUNTY OF MAUI  
2200 MAIN STREET  
ONE MAIN PLAZA, SUITE 305  
WAILUKU, MAUI, HAWAII 96793  
[www.mauicounty.gov](http://www.mauicounty.gov)

April 24, 2019

Honorable Keani Rawlins-Fernandez  
Chair, Economic Development & Budget Committee  
And Council Members  
Maui County Council  
200 South High Street  
Wailuku, HI 96793

APPROVED FOR TRANSMITTAL

 4/24/19  
Acting Mayor Date

Dear Chair Rawlins-Fernandez:

**SUBJECT: REQUESTS/QUESTIONS FROM THE APRIL 17, 2019  
BUDGET MEETING (Office of Economic Development)**

The following are answers to your requests/questions to me during the April 17<sup>th</sup> Office of Economic Development Budget meeting.

**1) What would be the impacts of a reduction in the Maui Visitor's Bureau (MVB) line item budget if it went from \$4 million to \$2 million?**

The tourism industry is the most stable contribution to Maui County's economy today. With it supporting over 50% of our resident population and it's trickle down effects to encompass 75% of our economy, we need to keep this industry strong as we stabilize agriculture and look into creating another economic driver. With looming concerns over an economic downturn and changes in global economies, shifting gears drastically with a reduction in support to our most stable industry, adds a level of risk. We cannot immediately shift into another economic driver to mitigate that risk and would like to request a period of transition.

Regarding proviso's to the MVB funding, the organization does not administer grants and does not typically get involved with event management in Maui County. If they did administer a grant, an administrative fee to handle such grant management would leave less funding to go to the respective projects. The MVB are brand and marketing

experts whose primary purpose is to bring visitors to Maui County so any proviso's that do not fit within their organizational purpose should be left in the Office of Economic Development as a grant. Proviso's also limit their flexibility if changes are needed due to changing market conditions (ie. natural disasters or global market changes).

a) Direct reduction in staffing at the MVB

There are currently 12 individuals accomplishing the work of the current \$4 million in funding. The staffing costs at the MVB are currently paid by the HVCB (Hawaii Visitor and Convention Bureau). County funds are leveraged by the HVCB investment in personnel needed to implement the marketing plan. A drastic reduction in the County budget means a reduction in work and will also mean a cut in the current staff with Molokai staff cuts imminent. There will be a loss of talented people who made up a team that achieved their performance measures of targeted marketing noted below.

b) Changes in target market

As Sherry Duong mentioned in testimony, their target market is long stay visitors (8 days +) with a higher per person spending level to minimize the "footprint" of the visitor in the County and maximize the gain in the economy. They are currently hitting a 9.3 day stay with a \$434 per day spending target – an increase from 8.1 days and \$385 level a year ago. In comparison, Kauai is the next highest ranked island at 6<sup>th</sup> with a daily spending of \$291. With over ten years of branding "Maui" and our status as the third top global destination, a decrease in funding will surely affect this target and our status negatively.

c) Ripple effect in economy

Visitor spending has a ripple effect on many industries, not just those that are directly sustained through tourism (restaurants, small businesses, product manufacturers, etc.). When visitor counts are down, many industries are negatively impacted, resulting in layoffs and a shrinking local economy. The contraction results in diminished resident's incomes further depressing the local economy.

Charitable organizations also lose directly when tourism is depressed. The tourism industry is one of the largest donors on Maui as evidenced by over \$1 million in annual Maui Visitor Industry Charity Walk contributions. Another example is the Kapalua golf tournaments which have received funding through MVB television media buys. Over the last 30+ years, they have contributed over \$6.6 million dollars to charitable organizations in Maui.

d) Less resilient Maui economy - Is Maui's economy stable?

i. Agricultural economy

There was the largest shift in our ag economy with the closing of HC&S and the purchase by Mahi Pono of the majority of the ag lands on Maui. Mahi Pono is currently rolling out their ag plan however, it is too soon to tell how this will add to our economy in terms of jobs. With looming water issues, is ag stable in Maui?

ii. Economic slowdown – recession

There are signs of an economic slowdown. During the last 50 years, there have been three drastic economic recessions with the last happening in 2008. It is not a question of if but a question of when another downturn is expected. There is much concern over global issues which also affects global tourism markets. The tourism industry is based on discretionary spending and when the economy slows down, tourism will be the first affected. Here were Hawaii-specific recession impacts in the past - according to a March 2009 article by NPR, "Hawaii's Tourism Hurt By Economic Downturn", hotel occupancy statewide dropped to 60 percent at the end of 2008 — the worst level since after the Sept. 11, 2001 terrorist attacks. The article highlights concerns of competition for tourist dollars with other cheaper destinations and decisions in the industry of lowering hotel room rates to be competitive and decreasing costs to stay viable.

<https://www.npr.org/templates/story/story.php?storyId=101986509>

Economies of our global and national visitors affect our tourism industry. If an economic slowdown hits Canada, our industry is affected with less tourists making their annual visits.

After an economic high in 2007 and the recession hitting in 2008, all eyes were on the MVB to bring back tourists. It's been a steady climb since then and a change to "managing tourism" will be initiated. We need their help as branding and marketing experts to help us with this new direction.

Being ready for a downturn should be the County's position to mitigate risks to our community.

iii. Natural disasters affecting tourism

The economies of other islands have been devastated by natural disasters. The Big Island lava flows and Hurricane Iniki hit the Kauai economy. We cannot predict a disaster but we need to keep the economy resilient and strong in order to ride the wave of any disruption.

Natural disasters also are not limited to our locale. Visitor numbers affected the state's tourism industry when 80% of Japanese vacationers cancelled their reservations after the earthquake and tsunami in Japan.

2. **How was the \$200,000 proviso for visitor education in FY2019 encumbered?**

There were two grant applications – one for MVB and the other for Maui Nui Marine Resource Council. The summary of expenses was noted on my April 9<sup>th</sup> ED-3, EDB-1 letter.

3. **What is currently funded through the Environmental Protection \$1.4 million in FY19?**

Attached is a summary of current projects encumbered and earmarked.

4. **What is part of the current FY19 Sister City's budget?**

The following summarizes expenses:

Sister Cities International Dues	\$ 1,000
Insurance	\$ 1,500
Incoming Delegation Hospitality	\$ 5,000
Outgoing Delegation Hospitality	\$ 3,000
SCI Annual Conference	\$ 3,000
CPA	\$ 1,000
Promotional Items	\$ 500
Total budget	\$15,000

5. **Information on Maui Film Festival Line Item Grant for \$25,000**

OED recommends grantees to also request funding from other sources such as the Hawaii Tourism Authority. The Maui Film Festival also receives \$75,000 from HTA.

Please feel free to contact me with further questions at 270-7224.

Sincerely,



KAY S. FUKUMOTO  
Economic Development Director



903288B	Environmental Protection	Total Fund Amount	\$1,416,000
		Amount Encumbered	\$1,416,000
		Remaining	\$0

Index	Grant	Proviso	Organization/(Notes)	Project/Event	Amount
	G4875		University of Hawaii	Maui Invasive Species Committee	\$895,000
	G4811		Maui Nui Marine RC	Coral Reef Health	\$169,000
	G4842		Kaehu	Kaehu Management Project	\$75,000
	G4868		University of Hawaii	Maui Nui Seabird Recovery	\$50,000
	G4798		Maui Huliau Foundation	Environmental Filmmaking	\$15,000
	G4826		Oahu Economic Development Board	Aloha Challenge	\$15,000
	G4832		Tri-Isle RC and D	South Maui Volunteers Dunes Restoration	\$25,000
	G4782		Friends of the DT Arboretum	Seeds of Hope	\$37,000
	G4847		Hawaii Association for Marine	Managing Marine Debris	\$15,000
	G4864		The Nature Conservancy	Coral Reef Protection	\$25,000
				Auwahi Forrest Reserve	\$20,000
	G4853		Na Koa Manu	Pohakuokala Gulch	\$15,000
	G4861		Pangeaseed Foundation	Sea Walls for Maui	\$12,500
			Friends of the Future	Conservation Internships	\$9,000
			University of Hawaii	Maui Nui Seabird Recovery Kam III	\$8,000
			Maui Land & Pineapple Co.	Pu'u Kukui Watershed	\$15,000
			USDN	2019 Urban Sustainability Dues	\$2,900
			Admin	Working Groups, Task Forces, Four County Environmental Work, Travel	\$12,600