

Michael Williams
Chair



COST OF GOVERNMENT COMMISSION

COUNTY OF MAUI
2145 WELLS STREET, SUITE 303
WAILUKU, MAUI, HAWAII 96793

April 9, 2020

Honorable Alice L. Lee, Chair
and Members of the Maui County Council
200 South High Street
Wailuku, Hawaii 96793

OFFICE OF THE
COUNTY CLERK

2020 MAY -8 PM 3:15

RECEIVED

Dear Chair Lee and Members:

**SUBJECT: COST OF GOVERNMENT COMMISSION REPORT ON COUNTY OF MAUI GRANT
TO MAUI VISITORS BUREAU**

The Cost of Government Commission is transmitting for your review its report on the County of Maui's Grant to the Maui Visitors Bureau (MVB).

This report is the culmination of a two-year investigation of the County grant. Based on a 5-2 vote (with two excused), the Commission recommends that for Fiscal Year 2021, the County reduce its grant to the MVB to zero, and that future grants to MVB be limited to no more than \$500,000.

The Commission requests that its report be referred to the Economic Development and Budget Committee for its consideration.

To further improve the Commission's effectiveness, we welcome your feedback on the report and would be happy to meet with you. Should you have any questions or comments, feel free to contact Michael Williams, Chair of the Commission, at (808) 264-4883, or Shelley Pellegrino, Technical Writer for the Commission, at (808) 344-3348. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to be "Michael Williams", is written over the word "Sincerely,".

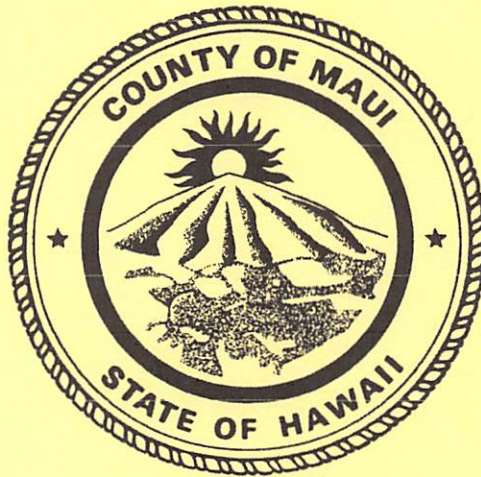
MICHAEL WILLIAMS
Chair

Attachment

cc: Stephanie Chen, Deputy Corporation Counsel

COUNTY COMMUNICATION NO. 20-291

COUNTY OF MAUI



COST OF GOVERNMENT COMMISSION

REPORT ON COUNTY OF MAUI GRANT TO THE MAUI VISITORS BUREAU

April 2020

COST OF GOVERNMENT COMMISSION COUNTY OF MAUI

Report on County of Maui Grant to the Maui Visitors Bureau

April 2020

*The Commission shall have the power and duty to:
Study and investigate the organizations and methods of operations of all departments,
commissions, boards, offices, and other instrumentality of all branches of the county government
and determine what changes, if any, may be desirable to accomplish the policy set forth herein.¹*

COMMISSIONERS

Michael Williams, Chair
Michelle Del Rosario, Vice Chair
Noemi Barbadillo, Member
Paula Heiskell, Member
Lu-Ann Lankford Faborito, Member
Barbara Mattson, Member
Patrick O'Neil, Member
Hannah Werth, Member

¹ Charter, County of Maui, Section 3-9.3 (2019 Edition)

COST OF GOVERNMENT COMMISSION

Report on County of Maui Grant to the Maui Visitors Bureau

INTRODUCTION

The Cost of Government Commission (Commission) is tasked with studying and investigating “the organizations and methods of operations of all departments, commissions, boards, offices, and other instrumentality of all branches of the county government” as it strives to support the County’s policy to “promote economy, efficiency and improved service in the transaction of the public business.”¹ The Commission carried out a two-year review of the County’s \$4 million line-item grant (reduced to \$3 million in Fiscal Year 2020) to the Maui Visitors Bureau (MVB). The MVB grant is administered by the Maui County Office of Economic Development (OED), and is reviewed annually by the County Council during its budget deliberations, with Council members having the final decision on the amount awarded. It has been a County Budget line-item grant since the early ’90s, and over the past 30 years, the MVB grant award increased incrementally to \$4 million. In Fiscal Year 2020, the County Council reduced MVB’s grant to \$3 million. Mayor Victorino recently released his proposed budget and recommended that MVB receive \$3.5 million in Fiscal Year 2021. The Mayor has also proposed \$200,000 for visitor education.

BACKGROUND

During the course of its two-year investigation, the Commission reviewed the three most recent MVB annual grant applications and reports, transaction detail reports (by account), University of Hawai’i Economic Research Organization (UHARO) working papers, and reports by the Hawai’i Tourism Authority (HTA) and the Department of Business, Economic Development, and Tourism. The Commission also conducted phone interviews with representatives from the Counties of Kaua’i, Hawai’i, and the City and County of Honolulu who were familiar with grant funding for their respective visitor bureaus. MVB Executive Director Sherry Duong and former OED Director Teena Rasmussen also appeared before the Commission to provide an overview of the grant and MVB’s work. Current OED Director Kay Fukumoto has provided timely responses to the Commission’s many questions and requests for information.²

¹ Charter, County of Maui, Sections 3-9.3(1), 3-9 (2019).

² The Commission reviewed many facets of the MVB grant over the course of its investigation, including reviewing advertising expenditures, analyzing marketing tools, and evaluating oversight of companies contracted by MVB. Excel reports were generated. In the end, the Commission decided that it is not equipped to attempt to micromanage the MVB. Instead, the Commission deemed it more prudent to simply look at the big picture — as reviewed in this report.

At its February 20, 2020 meeting, the Commission reviewed its first set of draft recommendations related to the grant. Following the meeting, Terryl Vencel, Office of the Mayor Community Liaison for Tourism, contacted Commission Chair Michael Williams to request an opportunity to discuss the recommendations with representatives from the MVB and Hawai'i Visitors and Convention Bureau (HVCB). On March 6, 2020, Chair Williams and the Commission's Technical Writer, Shelley Pellegrino, met with the following individuals:

John Monahan, President and Chief Executive Officer, HVCB
Tom Mullen, Senior Vice President and Chief Operations Officer, HVCB
Jay Talwar, Senior Vice President of Marketing, Chief Marketing Officer, HVCB
Sherry Duong, Executive Director, MVB
Kay Fukumoto, Director, Office of Economic Development
Terryl Vencel, Community Liaison (Tourism), Office of the Mayor
Gladys Baisa, COGC Ex-Officio Member, Office of the Mayor

The following insights and information were offered by MVB and HVCB representatives:

- All of the island visitor bureaus and their respective employees are connected to / employed by HVCB.
- HVCB is contracted by Hawai'i Tourism Authority (HTA) to market the islands as a tourist destination for the U.S. leisure market, and also has a global contract to market the State for meetings and conventions.
- HVCB markets each island separately. There is no statewide brand.
- HVCB officials stated they are unable to produce an objective and verifiable method of the marginal effect of the Maui County grant on total visitors and spending.

DISCUSSION

Transient Accommodations Tax (TAT) & Program Funding

Maui County resorts, hotels, and its 11,000 condos that are legal transient accommodations generated over \$180 million in Transient Accommodations Tax (TAT) in both 2018 and 2019,³ and yet Maui County received back just \$23.4 million in TAT dollars from the State of Hawai'i.⁴ Of that \$23.4 million, Maui County grants \$3–\$4 million to the Maui Visitors Bureau.

³ See State of Hawai'i Department of Taxation, "Transient Accommodations Tax Liabilities Incurred in Calendar Year 2018," located at http://files.hawaii.gov/tax/stats/monthly/2018cy-liab-by-d_tat.pdf (accessed on April 1, 2020). For the 2019 TAT liabilities, see State of Hawai'i, Full Monthly Reports by Year," located at https://tax.hawaii.gov/stats/a5_3txcolrptarchive/ (accessed on April 1, 2020), and review monthly reports of TAT Liabilities (e.g., http://files.hawaii.gov/tax/stats/monthly/201912liab-by-d_tat.pdf for "Transient Accommodations Tax Liabilities Incurred in the December 2019 Filing Period").

⁴ See Hawai'i Tourism Authority, 2018 Annual Report to the Hawai'i State Legislature, p. 9, located at <https://www.hawaiitourismauthority.org/media/2912/2018-annual-report-to-the-hawaii-state-legislature.pdf> (accessed on April 1, 2020). See also Hawai'i Tourism Authority, 2019 Annual Report to the Hawai'i State

In 2018, the HTA received \$82 million in TAT funds⁵ and, of that amount, the HTA distributed a total of **\$29,346,212** to the four island county visitor bureaus to highlight and promote each individual island's uniqueness.⁶

HAWAII TOURISM AUTHORITY PROGRAM FUNDING BY ISLAND

Maui Visitors Bureau	\$3,736,732	
Moloka'i Visitors Bureau	\$934,183	
Lana'i Visitors Bureau	\$934,183	
Community Enrichment Programs	\$1,598,500	Total = \$7,203,598
O'ahu Visitors Bureau	\$3,736,732	
Community Enrichment Programs	\$5,489,895	Total = \$9,226,627
Hawaii Island Visitors Bureau	\$6,000,916	
Community Enrichment Programs	\$1,628,445	Total = \$7,629,361
Kaua'i Visitors Bureau	\$4,725,916	
Community Enrichment Programs	\$560,710	Total = \$5,286,626

Return on Investment Per Grant Dollar Awarded

The Commission also reviewed the return on investment per grant dollar awarded. Maui County awards its visitors bureau more than ten times what neighbor island counties award to their visitors bureaus. In Fiscal Year 2018, Maui County awarded \$4 million, Hawai'i County awarded \$325,000, Kaua'i County awarded \$215,000, and the City and County of Honolulu awarded \$0.⁷

To determine the return on investment per grant dollar awarded, the Commission divided the total visitor spending by the total grant amount awarded for the fiscal year. The table below sets forth the revenue per grant dollar by county in Fiscal Year 2018.

Legislature, p. 52, located at <https://www.hawaii tourism authority.org/media/4052/2019-annual-report-to-the-hawaii-state-legislature.pdf> (accessed on April 1, 2020).

⁵ See Hawai'i Tourism Authority, 2018 Annual Report to the Hawai'i State Legislature, p.8.

⁶ See Hawai'i Tourism Authority, 2018 Annual Report to the Hawai'i State Legislature, pp. 20–23.

⁷ Phone conversation on 7/2/19 with Nalani Brun, Program Administrative Officer, Office of Economic Development Program Administrative Officer, County of Kaua'i (July 2, 2019), Diane Ley, Director, Department of Research and Development, County of Hawai'i (July 5, 2019), and Yazmyn Rodriguez, Secretary, Office of Economic Development, City and County of Honolulu (July 8, 2019).

RETURN ON INVESTMENT PER GRANT DOLLAR AWARDED (FISCAL YEAR 2018)

COUNTY	GRANT AWARD	NUMBER OF VISITORS	VISITOR SPENDING	REVENUE PER GRANT DOLLAR
Maui	\$4,000,000	2.2 million	\$3.9 billion	\$975
Hawai'i	\$325,000	1.3 million	\$1.84 billion	\$5,662
Kaua'i	\$215,000	1.1 million	\$1.55 billion	\$7,209
City and County of Honolulu	\$0	4.5 million	\$6.21 billion	NA

If one were to add in the marketing expenditures of large hotels and resorts — \$43.5 million⁸ — to the Maui Visitor Bureau grant of \$3–4 million, the return on investment is further reduced to \$84.87 per dollar spent on marketing. Additionally, if the \$7.2 million HTA allocates to MVB to promote Maui,⁹ as well as all the other marketing dollars expended by other entities in the tourism industry (e.g., airlines, tour companies, travel sites, cruise lines, activities, sports and cultural events), were figured in, the return on marketing investment would decline even further.

Questions to Consider

During the Commission's investigation, questions emerged. First, is it prudent, efficient, or necessary for Maui County to grant \$3–\$4 million of its \$23.4 million TAT dollars to the Maui Visitors Bureau, particularly when the HTA already allocates more than \$7 million to Maui County for tourism promotion? Second, does the County's return on investment per grant dollar justify the \$3–\$4 million grant award? Based on the information set forth above, the Commission asserts that the answer to both questions is no.

But could Maui County reduce its grant award to zero — as O'ahu does — and still realize as many visitor dollars spent in the islands? In Fiscal Year 2020, Maui County reduced MVB's grant by \$1 million (from \$4 million to \$3 million). Did Maui County see less spending or fewer visitors? No. In fact, in January 2020 (compared to the year prior), visitor spending on Maui increased by 7.7% to \$510.7 million, boosted by a 3.6% increase in visitor arrivals to 242,472 and an increase of 6.3% in daily spending.¹⁰ This is no correlation between what Maui County grants to MVB and the number of visitors or

⁸ Maui Visitors Bureau Grant Application Packet, FY2020, p. 33.

⁹ See Hawai'i Tourism Authority, 2018 Annual Report to the Hawai'i State Legislature, p. 21.

¹⁰ Hawai'i Tourism Authority, Hawai'i Visitor Statistics Released for January 2020, HTA Release (20-05), (February 27, 2020), located at <https://www.hawaiitourismauthority.org/news/news-releases/2020/hawai-i-visitor-statistics-released-for-january-2020/> (accessed on April 4, 2020).

spending by them. It provides no evidence to support MVB's claimed beneficial effect from receiving Maui County's extra grant dollars.

Effects of COVID-19

The Commission's two-year investigation of MVB grant took place during a continued time of growth in Maui County tourism. That growth came to a grinding halt last month with the unprecedented change and uncertainty caused by the COVID-19 pandemic. With the slowdown in the economy and near zero visitor arrivals, Maui County faces new and pressing priorities to ensure that its residents remain safe, healthy, housed, and fed. This is also an opportunity for Maui County to decide how it will welcome visitors once again. Balance is key to managing both. Maui County's resources are limited and any TAT funds it receives in the near term will be needed to assist our residents and local businesses to get back on their feet. It also is an opportune time to investigate other sustainable options to maintain our island economies, should another catastrophic event occur in the future.

Recapping the Facts:

- The Hawai'i State Legislature awards \$79 million in TAT money annually to market the entire State of Hawai'i to visitors worldwide.
- The Hawai'i Tourism Authority awards more than \$29 million to HVCB's island visitors bureaus, with more than \$7 million of that annually going to support Maui County's visitor industry and community events.
- Coupled with over \$44 million in marketing dollars spent in Maui County by the visitor industry (e.g., large resorts and hotels, tour companies, airlines, activities, sporting events), there is more than enough money spent on marketing Maui as a destination.
- There is no clear connection between Maui County's grant to MVB and additional visitor arrivals or visitor spending. Despite a reduction in MVB's grant from \$4 million to \$3 million in Fiscal Year 2020, visitor numbers and spending increased. Visitors and visitor spending are multi-contextual and thus depend upon many different factors in the economy.
- Hawai'i Island and Kaua'i County granted only \$325,000 and \$215,000 respectively to their visitors' bureaus in Fiscal Year 2018. The City and County of Honolulu granted \$0.
- Maui County's \$975 return on investment per MVB grant dollar awarded is significantly lower than that of neighbor island counties (\$5,662 and \$7,209 respectively for Hawai'i Island and Kaua'i).
- The Maui Visitors Bureau will not cease to operate, even with a reduction in Maui County grant funds. MVB will still receive its share of HTA funds just as the other

island visitor bureaus do and they will continue to market the uniqueness of Maui County just as the other island visitor bureaus do with their counties.

- Given the current COVID-19 pandemic, with visitor arrivals at a standstill and a shifting of priorities to ensure the health and welfare of Maui County's residents in the near term, TAT funds should be used to assist our residents and local businesses through this tenuous situation so they may once again thrive and be ready to receive visitors.

RECOMMENDATION

Based on the findings set forth above, the Cost of Government Commission recommends that the County reduce its grant to the Maui Visitors Bureau to \$0 for Fiscal Year 2021. The Commission also recommends that future County grants to the Maui Visitors Bureau be limited to between \$0 and \$500,000.

ACKNOWLEDGMENTS

The Commission would like to thank the members of the Arakawa and Victorino Administrations, as well as the members of the Maui County Council, who have continued to support and consider the Commission's work.


The Commission also thanks First Deputy the Corporation Counsel Edward Kushi and Department of the Corporation Counsel attorneys Gary Murai, Jerrie Sheppard, and Stephanie Chen for their guidance, advice, and assistance in ensuring that the Commission is adhering to all legal matters correctly and efficiently.

The Commission would like John Buck, Mike Molina, and Gladys Baisa, who have served as Ex-Officio Members of the Commission. Their time, attention, and assistance in communicating our concerns and questions to the Mayor are greatly appreciated.

The Commission would like to thank Commissioner Barbara Mattson, whose work has been central to this report. She exemplifies public service and care for our community.

Finally, the Commission would like to thank the Office of the County Auditor and Shelley Pellegrino, Technical Writer to the Commission, for their professionalism and support.

Respectfully Submitted:



MICHAEL WILLIAMS, CHAIR

April 9, 2020

DATE