

# DISSOLVING THE HAWAII TOURISM AUTHORITY



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By Paul Brewbaker, Frank Haas, and James Mak

State lawmakers in the 2023 state legislature are bashing the Hawaii Tourism Authority (HTA)...again! This year, the existence of HTA is at stake.<sup>1</sup> Two bills (Senate Bill SB 1522 SD2<sup>2</sup> and House Bill HB 1375 SD3<sup>3</sup>) propose to repeal the HTA although they differ in the entity that would replace it. At issue is finding the most effective governance system for managing Destination Hawaii. In this essay we argue that neither bill would improve tourism governance over what is in place today despite HTA's well-known flaws. We begin with a brief history of HTA. Why was it created and why key state lawmakers are now clamoring for its repeal.

## A BRIEF HISTORY OF HTA<sup>4</sup>

HTA was established in 1998 during Governor Benjamin Cayetano's second term in office in response to the state's nearly decade-long economic stagnation. In his book (2002)—*Hawaii Becalmed, Economic Lessons of the 1990s*—Christopher Grandy described Hawaii's economy in the 1990s as “unhappily becalmed” for seven years, and “unprecedented in the state's economic history.”<sup>5</sup> The dire situation, and resultant fiscal crisis, cried out for major policy changes in the state. An Economic Revitalization Task Force (ERTF) comprising of 26 high profile citizens (assisted by 5 working groups) was formed in late 1997 to look for bold solutions to bring the economy out of its doldrums. The ERTF came up with a number of recommendations, among them was the establishment of HTA. As the “main driver” of Hawaii's economy, task force members felt that a separate tourism authority with substantial autonomy would bring tourism more visibility and attention than when it was just another responsibility assigned to DBEDT. More urgently, destination tourism promotion needed more funding from a reliable source. Act 156 created the Hawaii Tourism Authority (attached to DBEDT for administrative purposes) with dedicated funding from the transient accommodation tax (TAT). Grandy opined (p. 54) that “this is one of the areas in which the Cayetano administration can claim to have successfully enacted economic reform.” In his 2008 book (p. 132), *Developing a Dream Destination, Tourism and Tourism Policy Planning in Hawaii*, James Mak agreed with Grandy. So what has gone wrong with HTA since it was established?

HTA's organizational structure, powers and duties are described in detail in Hawaii Revised Statutes HRS 201B.<sup>6</sup> HRS 201B requires HTA to “have a permanent, strong focus on Hawaii brand management [i.e. destination marketing].” But its mandate went well beyond tourism marketing and promotion. HTA was also charged to “develop, coordinate, and implement state policies and directions for tourism and related activities taking into account the economic, social, and physical impacts of tourism on the State, Hawaii's natural environment, and areas frequented by visitors.” Further, it was directed to “coordinate all agencies and advise the private sector in the development of tourism-related activities and resources.” And also to “establish a program to monitor, investigate, and respond to complaints about problems resulting directly or indirectly from the tourism industry and take appropriate actions as necessary.” Thus, HTA was established as a destination *management* organization and not just a destination *marketing* organization.

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1 <https://www.civilbeat.org/2023/02/the-end-of-the-hawaii-tourism-authority-lawmakers-may-pull-the-plug/>

2 [https://www.capitol.hawaii.gov/sessions/session2023/bills/SB1522\\_SD2\\_.PDF](https://www.capitol.hawaii.gov/sessions/session2023/bills/SB1522_SD2_.PDF)

3 [https://www.capitol.hawaii.gov/sessions/session2023/bills/HB1375\\_HD3\\_.PDF](https://www.capitol.hawaii.gov/sessions/session2023/bills/HB1375_HD3_.PDF)

4 <https://uhero.hawaii.edu/wp-content/uploads/2021/07/DevelopingADreamDestination.pdf>

5 Christopher Grandy, *Hawaii Becalmed, Economic Lessons of the 1990s*, Honolulu, University of Hawaii Press, 2002, p.1.

6 [https://www.capitol.hawaii.gov/hrscurrent/vol04\\_ch0201-0257/HRS0201B/HRS\\_0201B-.htm](https://www.capitol.hawaii.gov/hrscurrent/vol04_ch0201-0257/HRS0201B/HRS_0201B-.htm)

As a quasi-government entity, HTA is governed by its Board of Directors, a policy-making body currently comprised of 12 members appointed by the governor for a term of four years (but not to exceed eight consecutive years). Board members serve as volunteers and meet monthly to guide the agency's work on behalf of the State of Hawai'i. The Board hires a president and CEO (not a director as in executive departments like DBEDT) to run the agency. The CEO is supported by a staff numerically set by the legislature.

At least one board member is appointed to represent the four island counties. At least six board members must have knowledge, experience and expertise in the area of visitor industry management, marketing, promotion, transportation, retail, entertainment or visitor attractions. At least one board member shall have knowledge and expertise in the area of Hawaiian cultural practices. No more than three members shall represent, be employed by, or be under contract to any sector of the industry represented on the board.<sup>7</sup> With no government members, HTA's Board of Directors resembles a trade association. The membership does not include an environmentalist. Ostensibly, it is very much a pro-tourism and pro-development group.

Despite its broad mandate, until recently, HTA has focused its efforts and resources primarily on marketing Hawaii as a tourist destination. HTA acknowledges in its (latest) 2020-2025 Strategic Plan that it "...is the first strategic plan developed while HTA is re-balancing our attention from mainly marketing to greater emphasis on destination management."<sup>8</sup> In the years between the creation of HTA in 1998 and the 2020-2025 Strategic Plan, HTA has responded to community concerns about tourism only on an "informal basis."

One might excuse HTA for focusing its attention primarily on destination marketing when the economy was in a rut. However, times have changed. Since 1989 tourist numbers continued to trend upward while visitor spending (adjusted for inflation) lagged behind. In 2019 (the year before the onset of the coronavirus pandemic) Hawaii received over 10 million visitors—4 million more than in 1989—but less total (inflation-adjusted) visitor spending. In other words, tourism's negative impacts on the community have been rising but its economic benefits have not. As public sentiment toward tourism waned, pressure mounted on HTA to focus more on managing Destination Hawaii. In 2018, as the legislature threatened drastic budget cuts for HTA, the HTA board fired its CEO without cause stating that the unanimous move by the board was to "go in a new direction." The departing CEO opined in parting remarks that "the challenge for the next CEO will be how to balance the [tourist] numbers with managing the destination."<sup>9</sup>

A new president and CEO (Chris Tatum) was hired in November 2018. Under Tatum, a new strategic plan 2020-2025 with greater emphasis on destination management was crafted but Tatum retired abruptly less than two years after his appointment as president and CEO leaving the strategic plan's implementation to his successor, John De Fries, a native Hawaiian "steeped in Hawaiian culture."<sup>10</sup> Under De Fries, HTA produced a Destination Management Action Plan (DMAP) for each island to "rebuild, redefine and reset tourism's direction" over a three-year period.<sup>11</sup> The DMAPs lay out specific actions—consistent with the broad goals established in the 2020-2025 Strategic Plan—for HTA to undertake in collaboration with other tourism stakeholders. HTA calls it a regenerative model of tourism.

To assist in the implementation of the DMAPs, HTA solicited request for proposals (RFP) for a single contractor to manage U.S. marketing (HTA's largest marketing contract) and destination management. The marketing part of the RFP aimed to overhaul Hawaii's brand to attract a different type of visitor from the U.S. mainland to Hawaii; the destination management part aimed to mitigate the negative spillover effects of tourism on the community. The contract was first awarded to the Hawaii Visitors and Convention Bureau (HVCB)—DBEDT's long-time marketing contractor—on December 2, 2021. The competing bidder—the Council on Native Hawaiian Advancement (CNHA)—protested the award. Director of DBEDT, Mike McCartney, acting as HTA's head of procurement (because HTA is administratively attached to DBEDT), rescinded the award to HVCB "in the best interest of the State of Hawaii."<sup>12</sup> HTA, then, issued a second RFP, with new specifications and a revamped selection committee. The second round resulted in the selection of CNHA.

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7 <https://www.hawaiitourismauthority.org/who-we-are/board-of-directors/>

8 <https://www.hawaiitourismauthority.org/media/4286/hta-strategic-plan-2020-2025.pdf>

9 Allison Schaefer, "Tourism authority board fires CEO," Honolulu Star-Advertiser, June 29, 2018, p. A8.

10 <https://www.hawaiitourismauthority.org/news/news-releases/2020/new-president-and-ceo-of-the-hawai-i-tourism-authority/>

11 <https://www.hawaiitourismauthority.org/what-we-do/destination-management/>

12 <https://dbedt.hawaii.gov/blog/21-48/>

HVCB protested the award. Efforts at mediation between the two parties failed as there were questions raised about the legality of an agreement to split the contract.<sup>13</sup> In his final hours as DBEDT director, McCartney rescinded the award to CNHA, explaining that it is “no longer in the best interest of the State and the people of Hawaii to enter into one single RFP.”<sup>14</sup> He expressed his preference for two separate RFPs, one for U.S. marketing and the other for destination management. McCartney took responsibility for mishandling the procurement process.<sup>15</sup> This meant that a third round of RFP would be required. The sequence of events is nothing short of bizarre. At this point it is appropriate to raise the question: Who is actually running HTA? Is it the HTA Board of Directors or the director of DBEDT? Despite the temporary setback, HTA is forging ahead with implementation of the DMAPs to the best of its capacity.

SB 1522 SD2 proposes to “dissolve” the Hawaii Tourism Authority and create a new tourism agency because some state lawmakers claim that HTA has “failed to effectively execute its duties to manage the tourism marketing plan for the State.” The bill cites as evidence “mismanagement” by the HTA in the failed award of the \$34 million dollar U.S. marketing contract. It demonstrates HTA’s “noncompliance with the Hawaii public procurement code.” (In 2021, the Legislature repealed HTA’s exemption from the Hawaii public procurement code.) (House Bill 1375 SD3 doesn’t give a reason for the proposed repeal of HTA.)

It is hard to believe that one misstep in procurement (for which DBEDT director McCartney took full responsibility) could mean the abrupt end of HTA which began with high expectations. From the very beginning, HTA at times has had a difficult relationship with the Legislature. More recently, frictions have become more intense. HTA has also been audited several times by the State Auditor since 2002; the latest audit was conducted in 2018. Each time the Auditor issued scathing criticisms of HTA for poor accountability and failure to demonstrate its effectiveness.<sup>16</sup> The failed U.S. marketing contract provides lawmakers a convenient excuse to make a change in tourism governance.

## WHAT WILL REPLACE HTA?

If passed, SB 1522 SD2 would establish an Office of Tourism and Destination Management [OTDM] within DBEDT (for administrative purposes).<sup>17</sup> It would be governed by a nine-member (unpaid) Board of Directors appointed by the governor. The board membership would include a member from each of the 4 counties who reside in the respective counties, a member who represents the hospitality industry, a member who represents the airline industry, a member who represents the retail industry, and a member with a background in Hawaiian culture, and a member with background in agriculture. (Presumably, the county representatives are not county government executives acting in their official capacities.) It would essentially do what HTA is presently doing plus tourism research (which is currently housed in DBEDT). SB 1552 SD2 would require OTDM to implement the Hawaii Tourism Authority’s Destination Management Action Plans. It would have an executive director, appointed by the OTDM Board of Directors, who would be responsible for its day-to-day operations. Funding for OTDM would come from the general fund (around \$50 million for fiscal year 2023-2024 and the same sum for 2024-2025). This means that there will be no dedicated stream of revenues (i.e. the transient accommodation tax) that OTDM can count on; instead it would have to fight for its funding every year at the legislature. (The funding link between HTA and the transient accommodate tax has already been severed.<sup>18</sup>)

In the House of Representatives, HB No. 1375 SD2, if passed, would replace HTA with a destination management agency (DMA) that’s attached to DBEDT for administrative purposes only.<sup>19</sup> The agency would be headed by a commission (akin to the Public Utilities Commission<sup>20</sup>) that would consist of 3 paid members appointed by the governor (not subject to Senate confirmation); members would serve terms of 4 years (but not to exceed 8 consecutive years). Commissioners will appoint an executive director (who has knowledge, experience and expertise in all of the

13 <https://www.civilbeat.org/2022/11/hawaii-economic-chief-start-over-on-the-states-big-tourism-marketing-contract/>

14 <https://www.hawaiipublicradio.org/local-news/2022-12-07/mccartney-cancels-major-tourism-contract-in-final-minutes-as-director>

15 <https://www.hawaiipublicradio.org/local-news/2022-11-29/mccartney-i-take-responsibility-for-mishandling-hta-contract-award>

16 <https://uhero.hawaii.edu/hawaii-tourism-authority-and-sustainable-destination-management-in-hawaii/>

17 [https://www.capitol.hawaii.gov/sessions/session2023/bills/SB1522\\_SD2\\_.PDF](https://www.capitol.hawaii.gov/sessions/session2023/bills/SB1522_SD2_.PDF)

18 <https://www.hawaiipublicradio.org/local-news/2021-07-07/lawmakers-override-gov-iges-veto-on-tourism-funding-bill>

19 [https://www.capitol.hawaii.gov/sessions/session2023/bills/HB1375\\_HD3\\_.PDF](https://www.capitol.hawaii.gov/sessions/session2023/bills/HB1375_HD3_.PDF)

20 <https://puc.hawaii.gov/about/history/>

represented industries) to be in charge of the day-to-day operations of the office and its staff. Thus, the current 12-member HTA unpaid citizen board will be replaced by a (paid) 3-person commission; all the powers and duties conferred on HTA by HRS Chapter 201B will be transferred to the commission.

### **WILL THE REPLACEMENTS BE MORE EFFECTIVE THAN HTA?**

Honolulu Star-Advertiser editors opine that creating a new agency while tourism is moving in a new direction is not a good idea. A better idea is to fix HTA.<sup>21</sup> The editors offer no recommendations on how HTA should be fixed. So what is not working at HTA that requires fixing so it can better carry out its mandate to manage Destination Hawaii?

In a white paper that we wrote in 2019 (*Charting a New Course for Hawaii Tourism*<sup>22</sup>), we argued that HTA “has faced chronic structural challenges” which have prevented it from fully taking on the role as the lead agency for destination management. Hence, “achieving HTA’s mission was never realistic given the limitations of the governance model under which it has operated.” The lack of effective management is the root cause of the growing resident dissatisfaction with tourism. On the surface it appears that HTA has authority to “coordinate all agencies and advise the private sector in the development of tourism-related activities and resources;” in reality HTA’s statutory authority lacks force. HRS 201B-13 states, “Any state or county agency may render services upon request of the authority.” May is not shall. And even if other government agencies and stakeholders are willing to co-operate, where will the resources come from? Significant improvements in tourism destination management will require a new management model that will address the current structural deficiencies.

That Hawaii has not had (and still does not have) an effective governance system in tourism was publicly acknowledged in HTA’s FY2015 *Annual Report to the Hawaii State Legislature*<sup>23</sup>: “In 2015, the HTA developed a new 5-year strategic plan to replace the previous 10-year plan adopted in 2004. The Hawai’i Tourism Strategic Plan 2005-2015 was organized as an overall “state” plan for tourism that designated government agencies or various private-sector groups as the lead agencies responsible for some of the plan’s key initiatives. In reality, the HTA did not have sufficient authority or resources to require others to help carry out that plan, or to constantly monitor and oversee what was being done by others. Therefore, the new Hawai’i Tourism Authority Strategic Plan (HTASP) is an “HTA” plan only, though it recognizes the need to work with partners and stakeholders.”

Tourism is a complex sector that involves many different types of actors and stakeholders, both private and public. An effective tourism governance system is one that is able to pull together all the diverse stakeholders to work together to achieve a common goal using the least amount of resources. A United Nations World Tourism Organization (UNWTO) report defines tourism governance as “a practice of government that is measurable through forms of coordination, collaboration and/or cooperation that are efficient, transparent and subject to accountability, that help to achieve goals of collective interest shared by networks of actors involved in the [tourism] sector, with the aim of developing solutions and opportunities through agreements based on the recognition of interdependencies and shared responsibilities.”<sup>24</sup> Maria de la Cruz Pulido-Fernandez and Juan Ignacio Pulido-Fernandez put it more succinctly by defining governance in tourism as “...the coordinated participation of all stakeholders in the tourist destination with a view to achieving shared goals...This involves dialogue and the on-going involvement of all destination stakeholders, which fosters negotiation, consensus, commitment, knowledge exchange and agreement between all public and private stakeholders.”<sup>25</sup>

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21 Honolulu Star-Advertiser, “Keep, fix HTA; add ‘green fees,’” March 19, 2023, p. E2 at <https://www.staradvertiser.com/2023/03/19/editorial/our-view/column-keep-fix-hta-add-green-fees/>

22 <https://uhero.hawaii.edu/wp-content/uploads/2019/08/ChartingANewCourseForHawaiiTourism.pdf>

23 <https://www.hawaiitourismauthority.org/media/1653/2015-annual-report-to-the-legislature.pdf>

24 Citlalin Duran Fuentes, Governance for the Tourism Sector and its Measurement, UNWTO Statistics and TSA Issue Paper Series, STSA/IP/2013/01 at <https://www.mlit.go.jp/kankocho/naratourismstatisticsweek/statistical/pdf/Governance%20for%20the%20Tourism%20Sector%20and%20its%20Measurement.pdf>

25 [https://www.researchgate.net/publication/333840335\\_Is\\_There\\_a\\_Good\\_Model\\_for\\_Implementing\\_Governance\\_in\\_Tourist\\_Destinations\\_The\\_Opinion\\_of\\_Experts](https://www.researchgate.net/publication/333840335_Is_There_a_Good_Model_for_Implementing_Governance_in_Tourist_Destinations_The_Opinion_of_Experts)

Thus, an effective tourism governance system in Hawaii is one that is able to provide horizontal coordination (i.e. coordination across state agencies), vertical coordination (i.e. coordination between state and county agencies) and interaction with the industry, the community and all other tourism stakeholders. This suggests a need for a new model of tourism governance in Hawaii which is able to manage tourism across jurisdictions, agencies, functions, and stakeholder groups. It can be a revamped HTA—a super-HTA—that is endowed with the authority to marshal the expertise and resources of other agencies in addressing tourism’s challenges.

Another suggestion is to look at the composition of the board. The Hawaii Tourism Authority board was designed to have a balance of industry, community, Hawaiian culture and other diverse representatives. The reality has been that this diversity hasn’t always been represented on the HTA board. The long term solution for sustainability will require buy in and participation from a broad range of experts and stakeholders.

The current bills at the Legislature don’t adopt the two suggested changes. In each case, a new governing board/ commission moves into the building replacing the old board that’s moving out. The same structural deficiencies remain. Hence, there is no assurance that the proposed HTA replacement agencies will be able to manage Destination Hawaii any better than HTA. Co-ordination problems will continue.<sup>26</sup>

Instead of rushing into a decision that holds little promise of success, what is needed is a cool-headed look at how Hawaii can craft a new tourism governance system that will actually work. Hawaii is not alone in trying to fix its destination governance system; other destinations are doing the same, and some—especially in Europe—have a head start on us. We can benefit from studying what other destinations are doing. There is a bill (HB1381) at the Legislature that proposes to do just that, but it didn’t get a hearing and, thus, died during the session.<sup>27</sup> Repealing HTA without an improved replacement is unwise.

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<sup>26</sup> See also <https://www.civilbeat.org/2023/02/managing-tourism-requires-more-than-a-change-of-organization/>

<sup>27</sup> [https://www.capitol.hawaii.gov/sessions/session2023/bills/HB1381\\_.PDF](https://www.capitol.hawaii.gov/sessions/session2023/bills/HB1381_.PDF)