



Report to the Legislature

State of Hawaii

Regular Session of 2005

Expenditure Report  
Hawaii Convention Center  
FY 03-04 and FY 04-05  
In response to Act 41, SLH 2004

Prepared by:

Hawaii Tourism Authority  
November 23, 2004

This expenditure report is prepared pursuant to Act 41, SLH 2004, which requests a detailed report for expenditures comparing budget appropriations to actual expenditures for fiscal years 2003-2004 and 2004-2005 (four months actual, eight months forecasted) with accompanying explanations for variances for Hawaii convention center operations.

Hawaii Convention Center/SMG  
Convention Center and Food & Beverage: Analysis of Operating Revenues and Expenses  
Fiscal Year Ending June 30, 2004

	Actual FY 2004		Budget FY 2004		Variance	%	Change
Operating Revenues:							
Food and Beverage	\$ 7,268,933	72.7%	\$ 5,510,724	68.0%	\$ 1,758,209		31.9%
Rental Income	1,591,060	15.9%	1,674,545	20.7%	(83,485)		-5.0%
Event Revenue	1,063,527	10.6%	877,088	10.8%	186,439		21.3%
Other	80,207	0.8%	37,400	0.5%	42,807		114.5%
<b>Total Operating Revenues</b>	<u>10,003,727</u>		<u>8,099,757</u>		<u>1,903,970</u>		<u>23.5%</u>
Cost of Goods Sold	1,430,435	19.7%	1,175,974	21.3%	254,461		21.6%
Direct F&B Expenses	<u>2,278,180</u>	31.3%	<u>2,227,336</u>	40.4%	<u>50,844</u>		<u>2.3%</u>
Gross Profit	6,295,112	62.9%	4,696,447	58.0%	1,598,665		34.0%
Operating Expenses:							
Salaries & Wages	3,320,863	33.2%	3,440,820	42.5%	(119,957)		-3.5%
Payroll Taxes & benefits	911,514	9.1%	945,598	11.7%	(34,084)		-3.6%
Contract Labor	1,104,878	11.0%	989,600	12.2%	115,278		11.6%
Travel & Entertainment	32,748	0.3%	69,000	0.9%	(36,252)		-52.5%
Due & Subscriptions	15,259	0.2%	15,550	0.2%	(291)		-1.9%
Employee Training/Relations	25,640	0.3%	28,000	0.3%	(2,360)		-8.4%
Computer Expense	46,178	0.5%	41,600	0.5%	4,578		11.0%
Legal/Professional Fees	58,968	0.6%	59,210	0.7%	(242)		-0.4%
Advertising & Promotion	3,525	0.0%	7,200	0.1%	(3,675)		-51.0%
Repairs & Maintenance	370,005	3.7%	364,700	4.5%	5,305		1.5%
Building Operations	515,976	5.2%	452,940	5.6%	63,036		13.9%
Insurance	159,305	1.6%	154,200	1.9%	5,105		3.3%
General Excise Tax/Use Tax	486,330	4.9%	482,737	6.0%	3,593		0.7%
Printing & Stationary	13,683	0.1%	13,600	0.2%	83		0.6%
Office Supplies	36,847	0.4%	34,200	0.4%	2,647		7.7%
Postage	9,578	0.1%	9,500	0.1%	78		0.8%
Community Relations	-	0.0%	-	0.0%	-		0.0%
Utilities	1,255,449	12.5%	1,269,200	15.7%	(13,751)		-1.1%
Management Fee	374,343	3.7%	375,000	4.6%	(657)		-0.2%
Miscellaneous *	35,037	0.4%	39,195	0.5%	(4,158)		-10.6%
<b>Total Operating Expenses</b>	<u>8,776,126</u>	87.7%	<u>8,791,850</u>	108.5%	<u>(15,724)</u>		<u>-0.2%</u>
Operating Loss	(2,481,014)		(4,095,403)		1,614,389		-39.4%
Interest Income	21,877	0.2%	24,000	0.3%	(2,123)		-8.8%
<b>Net Loss</b>	<u><u>\$ (2,459,137)</u></u>		<u><u>\$ (4,071,403)</u></u>		<u><u>\$ 1,612,266</u></u>		<u><u>-39.6%</u></u>
<b>Total Revenues</b>	10,025,604		8,123,757		1,901,847		23.4%
<b>Total Expenses before Fixed Ass</b>	12,484,741		12,195,160		(289,581)		-2.4%
<b>Fixed Assets Purchase</b>	247,323		200,000		47,323		23.7%
<b>Total Net Cash Flow</b>	<u><u>(2,706,460)</u></u>		<u><u>(4,271,403)</u></u>		<u><u>1,564,943</u></u>		<u><u>-36.6%</u></u>

\* includes license & fees, bank service charge, credit card discount, FFE expense, HTA constructive credit and other miscellaneous

Hawaii Convention Center  
Convention Center and Food & Beverage: Analysis of Operating Revenues & Expenses  
Actual vs. Budget  
Fiscal Year Ending June 30, 2004

The net operating loss for the fiscal year ending June 30, 2004 is \$2,459,137, which is \$1,612,266 (39.6%) better than the budgeted loss of \$4,071,403. The Hawaii Convention Center experienced its most successful year since the Center opened its doors six years ago mainly in part to record breaking room rental and food and beverage revenues. There were 192 events in fiscal year 2004 compared to the budget of 183 events.

The total revenues for the fiscal year ending June 30, 2004 (including interest income) are \$10,003,727 which is \$1,903,970 (23.5%) better than the budget of \$8,099,757. The reason for the increase in revenues were a result of better than expected food & beverage revenues for various corporate events for the fiscal year such as the National Sales Meeting, Cisco, and Sonic. Food and beverage revenues were \$1,758,209 (31.9%) better than budget with event revenues of \$186,439 (21.3%) and other revenues of \$42,807 (114.5%) also exceeding budget.

**OPERATING REVENUE:**

- Food & Beverage Revenue had a positive variance of \$1,758,209 or 31.9% higher than budget. Three corporate events, National Sales Meeting, Cisco, and Sonic alone were \$1.3 million better than budget.
- Rental Revenue had a negative variance of \$83,485 or 5% less than budget. While there were slightly more events at 192 compared to the budget of 183, there were several conventions that did not materialize including Unicity, Department of Defense, Herbalife, and Asia Pacific Congress.
- Event Revenue which includes in-house services billed such as labor, utilities, telephone, equipment, and other ancillary revenues such as audio visual, internet, and electrical had a positive variance of \$186,439 or 21.3% better than budget. The primary reason for the increase in revenue is parking. As of January 1, 2004, the parking fee had increased from \$3.00 to \$5.00. In addition, other event charges such as utilities, cleaning, and police/fire services that were billed back to the client were better than budget as a result of the type of programs the client's had.
- Other Revenue which includes employee parking, business center rent, contractor phone rentals, and security commissions had a positive variance of \$42,807 or 114.5% better than budget. The increase in employee monthly parking fee went up as of January 1, 2004. In addition, the \$1.00 in commission for each hour that our security provider and first aid provider is hired by the client were better than budget. Miscellaneous revenues from payphone usage, recycling, and vending machines were not budgeted.

## **FOOD & BEVERAGE:**

- Cost of Goods Sold had a negative variance of \$254,461 or 21.6% higher than budget. This is a result of the cost associated with the higher food and beverage revenue.
- Direct Food & Beverage Expenses had a negative variance of \$50,844 or 2.3% higher than budget. Although there was a negative variance, direct food & beverage expense as a percentage of revenue was better than budget at 31.3% compared to the budget of 40.4%. Normally larger conventions and banquet events have lower direct expenses due to the efficiency of labor cost.

## **OPERATING EXPENSES:**

- Salaries & Wages had a positive variance of \$119,957 or 3.5% better than budget. The cost savings were a result of an Assistant General Manager position that was not filled.
- Payroll Taxes & Benefits had a positive variance of \$34,084 or 3.6% better than budget as a result of the savings related to the AGM position.
- Contract Labor had a negative variance of \$115,278 or 11.6% higher than budget. The increase in contract labor is mainly a result of the types and complexity of the events. The National Sales Meeting, Coors, Cisco, Honolulu Festival, and Jehovah Witness were more complex in their needs and programs and all required more labor than anticipated mainly as a result of bleacher set-ups. In addition, as the building is now in its sixth year, extensive cleaning was completed such as the stripping and sealing of the slate tiles, cleaning of the escalators and restroom tiles, as well as the power washing of the exterior of the building.
- Travel & Entertainment had a positive variance of \$36,252 or 52.5% better than budget. There were travel savings as a result of the annual SMG Corporate meeting not being held this year. In addition, due to scheduling conflicts with in-house events, Events was unable to attend the annual food & beverage show and several association meetings.
- Dues & Subscriptions had a positive variance of \$291 or 1.9% better than budget.
- Employee Training/Relations had a positive variance of \$2,360 or 8.4% better than budget. We have established an ongoing training with NaHHA to educate employees on Hawaiian culture and values. In addition, employees have had certification training on the forklift and reachmaster as well as first aid and CPR.
- Computer Expense had a negative variance of \$4,578 or 11.0% higher than budget. We have upgraded the infrastructure for the accounting system and purchased Windows 2003 software.
- Legal/Professional Fees had a positive variance of \$242 or .4% better than budget.
- Advertising & Promotion had a positive variance \$3,675 or 51.0% better than budget. We had budgeted for three client food and beverage taste tests, but only one had materialized

with the Cisco tasting. Normally, clients have one free taste test and anything after that is charged to the client.

- Repairs & Maintenance had a negative variance of \$5,305 or 1.5% higher than budget. As the building gets older, there is a need for more repairs on the structure as well as on machinery & equipments.
- Building Operations had a negative variance of \$63,036 or 13.9% higher than budget mainly as a result of the increase in janitorial supplies. As we are now completely touch less in the restrooms with both the towel dispensers and hand soaps, the cost of these supplies has increased. In addition, the increase in the number of attendees as well as the number of event days from budget contributed to the higher cost.
- Insurance had a negative variance of \$5,105 or 3.3% higher than budget. The general liability insurance expense is based on the number of attendance in the building. The overall attendance was more than budget as a result of the increase in the number of events as well as the number of events days.
- General Excise Tax/Use Tax had a negative variance of \$3,593 or .7% higher than budget. HCC/SMG pays general excise tax on reimbursements of expenditures incurred. Use tax is paid on items bought out-of-state from vendors who do not charge or collect State of Hawaii general excise tax.
- Printing & Stationary had a negative variance of \$83 and .6% higher than budget.
- Office Supplies had a negative variance of \$2,647 or 7.7% higher than budget.
- Postage had a negative variance of \$78 or .8% higher than budget.
- Utilities had a positive variance of \$13,751 or 1.1% better than budget. We are continuing our efforts in energy conversation and have bought a jockey chiller that will be installed by the fall of 2004.
- Management Fee had a positive variance of \$657 or .2% better than budget. Total management fee is determined by the management contract between the State of Hawaii and SMG which states that the management fee is a base amount with an annual increment of 4% or the percent increase in the consumer price index (CPI) whichever is lower.
- Miscellaneous expense which includes license & fees, bank service charge, credit card discounts, FFE expense, and HTA constructive credit had a positive variance of \$4,158 or 10.6% better than budget.

#### **INTEREST INCOME:**

- Interest income had a negative variance of \$2,123 or 8.8% less than budget as a result of lower interest rates. We are currently investing in Bank of Hawaii's Pacific Capital U.S Government Trust Fund in order to maximize our investment.

Hawaii Convention Center/SMG  
Rolling Forecast - Convention Center Operations  
Fiscal Year Ending June 30, 2005

	Actual Year to Date as of 10/31/04	Projected from 11/01/04 to 6/30/05	Rolling Forecast FYE 6/30/05	Approved Budget FYE 6/30/05	Variance	Actual Prior Year FYE 6/30/04
<b>Operating Revenues:</b>						
Food and Beverage	\$ 1,228,288	\$ 3,239,734	\$ 4,468,022	\$ 5,604,855	(1,136,833)	\$ 7,268,933
Rental Income	673,703	1,229,146	1,902,849	1,908,609	(5,760)	1,591,060
Event Revenue	344,264	667,674	1,011,938	1,037,950	(26,012)	1,063,527
Other	38,568	53,200	91,768	76,404	15,364	80,207
<b>Total Operating Revenues</b>	<b>2,284,823</b>	<b>5,189,754</b>	<b>7,474,577</b>	<b>8,627,818</b>	<b>(1,153,241)</b>	<b>10,003,727</b>
Cost of Goods Sold	251,309	631,401	882,710	1,088,368	205,658	1,430,435
Direct F&B Expenses	452,841	1,182,944	1,635,785	2,047,830	412,045	2,278,180
<b>Gross Profit</b>	<b>1,580,673</b>	<b>3,375,409</b>	<b>4,956,082</b>	<b>5,491,620</b>	<b>(1,770,944)</b>	<b>6,295,112</b>
<b>Operating Expenses:</b>						
Salaries & Wages	1,133,816	2,364,066	3,497,882	3,544,333	46,451	3,320,863
Payroll Taxes & benefits	315,682	641,783	957,465	1,030,816	73,351	911,514
Contract Labor	287,392	390,117	677,509	914,014	236,505	1,104,878
Travel & Entertainment	16,788	20,618	37,406	60,896	23,490	32,748
Due & Subscriptions	5,842	8,238	14,080	15,204	1,124	15,259
Employee Training/Relations	4,679	23,496	28,175	24,196	(3,979)	25,640
Computer Expense	24,195	39,968	64,163	60,250	(3,913)	46,178
Legal/Professional Fees	19,297	22,750	42,047	59,700	17,653	58,968
Advertising & Promotion	1,297	1,600	2,897	4,596	1,699	3,525
Repairs & Maintenance	101,156	248,065	349,221	351,850	2,629	370,005
Building Operations	133,513	311,268	444,781	456,340	11,559	515,976
Insurance	56,659	118,848	175,507	178,272	2,765	159,305
General Excise Tax/Use Tax	132,194	317,023	449,217	476,126	26,909	486,330
Printing & Stationary	498	7,550	8,048	11,600	3,552	13,683
Office Supplies	5,880	16,900	22,780	31,200	8,420	36,847
Postage	(442)	6,250	5,808	9,000	3,192	9,578
Utilities	423,421	765,336	1,188,757	1,159,884	(28,873)	1,255,449
Management Fee	127,401	254,832	382,233	382,248	15	374,343
Miscellaneous *	9,373	23,200	32,573	38,599	6,026	35,037
<b>Total Operating Expenses</b>	<b>2,798,641</b>	<b>5,581,908</b>	<b>8,380,549</b>	<b>8,809,124</b>	<b>428,575</b>	<b>8,776,126</b>
<b>Operating Profit/(Loss)</b>	<b>(1,217,968)</b>	<b>(2,206,499)</b>	<b>(3,424,467)</b>	<b>(3,317,504)</b>	<b>(2,199,519)</b>	<b>(2,481,014)</b>
Interest Income	9,329	17,500	26,829	18,000	8,829	21,877
<b>Net Profit/(Loss)</b>	<b>\$ (1,208,639)</b>	<b>\$ (2,188,999)</b>	<b>\$ (3,397,638)</b>	<b>\$ (3,299,504)</b>	<b>\$ (2,190,690)</b>	<b>\$ (2,459,137)</b>
<b>Total Revenues</b>	<b>2,294,152</b>	<b>5,207,254</b>	<b>7,501,406</b>	<b>8,645,818</b>	<b>(1,144,412)</b>	<b>10,025,604</b>
<b>Total Expenses before Fixed Assets</b>	<b>3,502,791</b>	<b>7,396,253</b>	<b>10,899,044</b>	<b>11,945,322</b>	<b>1,046,278</b>	<b>12,484,741</b>
Fixed Assets Purchase	1,656	98,344	100,000	200,000	100,000	247,323
<b>Total Net Cash Flow</b>	<b>(1,210,295)</b>	<b>(2,287,343)</b>	<b>(3,497,638)</b>	<b>(3,499,504)</b>	<b>1,866</b>	<b>(2,706,460)</b>

\* includes license & fees, bank service charge, credit card discount, FFE expense, HTA constructive credit and other miscellaneous

Hawaii Convention Center  
Convention Center and Food & Beverage: Analysis of Operating Revenues & Expenses  
Fiscal Year Ending June 2005 Reforecast

The net operating loss for the first four months ending October 2004 is \$1,208,639, which is \$71,982 better than the projected loss of \$1,280,621. Although there is a shortfall in year to date revenues as a result of events that were budgeted not materializing and food & beverage revenues not meeting the expected numbers, we have managed to closely watch our expenditures and also put a freeze on open positions.

The forecast for fiscal year ending June 2005 has been revised to a net loss of \$3,397,638, which is \$98,134 more than the budgeted loss of \$3,299,504. This forecast is based on the future unspecified events which, at of the end of the first four months, has not yet materialized. Although we are projecting a revenue shortfall of \$1,144,412, there will be a \$1,046,278 savings in expenditures mainly as a result of the savings in direct expenses associated with the shortfall in revenues. We have also cut our fixed assets budget by \$100,000 in order to meet our net cash flow of \$3.5 million at the end of the fiscal year.