



Report to the Legislature

State of Hawaii

Regular Session of 2007

Expenditure Report
Hawaii Convention Center
FY 05-06 and FY 06-07
In response to Act 178, SLH 2005

Prepared by:

Hawaii Tourism Authority
November 30, 2006

This expenditure report is prepared pursuant to Part III, section 4, Act 178, Session Laws of Hawaii 2005, which requests a detailed report for expenditures comparing budget appropriations to actual expenditures for fiscal years 2005-2006 and 2006-2007 (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, 2006

	Actual FY 2006		Budget FY 2006		Variance	%	Change
Operating Revenues:							
Food and Beverage	\$ 7,737,940	64.4%	\$ 5,832,240	61.5%	\$ 1,905,700		32.7%
Rental Income	2,611,400	21.7%	2,439,101	25.7%	172,299		7.1%
Event Revenue	1,544,154	12.9%	1,122,593	11.8%	421,561		37.6%
Other	119,058	1.0%	92,461	1.0%	26,597		28.8%
Total Operating Revenues	12,012,553		9,486,395		2,526,158		26.6%
Cost of Goods Sold	1,585,130	20.5%	1,249,758	21.4%	335,372		26.8%
Direct F&B Expenses	2,806,629	36.3%	2,115,166	36.3%	691,463		32.7%
Gross Profit	7,620,794	63.4%	6,121,471	64.5%	1,499,323		24.5%
Operating Expenses:							
Salaries & Wages	3,792,384	31.6%	3,835,598	40.4%	(43,214)		-1.1%
Payroll Taxes & Benefits	1,148,185	9.6%	1,150,847	12.1%	(2,662)		-0.2%
Contract Labor	1,100,194	9.2%	810,106	8.5%	290,088		35.8%
Travel & Entertainment	36,672	0.3%	47,650	0.5%	(10,978)		-23.0%
Dues & Subscriptions	14,917	0.1%	17,130	0.2%	(2,213)		-12.9%
Employee Training/Relations	58,870	0.5%	35,156	0.4%	23,714		67.5%
Computer Expense	30,441	0.3%	55,370	0.6%	(24,929)		-45.0%
Legal/Professional Fees	44,054	0.4%	48,600	0.5%	(4,546)		-9.4%
Advertising & Promotion	30,865	0.3%	7,200	0.1%	23,665		328.7%
Repairs & Maintenance	436,695	3.6%	370,800	3.9%	65,895		17.8%
Building Operations	579,862	4.8%	553,300	5.8%	26,562		4.8%
Insurance	197,376	1.6%	194,092	2.0%	3,284		1.7%
General Excise Tax/Use Tax	556,960	4.6%	504,493	5.3%	52,467		10.4%
Community Relations	53,918	0.4%	-	0.0%	53,918		-
Printing & Stationary	10,557	0.1%	13,900	0.1%	(3,343)		-24.1%
Office Supplies	31,428	0.3%	28,800	0.3%	2,628		9.1%
Postage	4,619	0.0%	8,700	0.1%	(4,081)		-46.9%
Utilities	1,686,817	14.0%	1,212,300	12.8%	474,517		39.1%
Management Fee	394,817	3.3%	394,817	4.2%	0		0.0%
Miscellaneous	117,707	1.0%	44,635	0.5%	73,072		163.7%
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Total Operating Expenses	10,327,338	86.0%	9,333,494	98.4%	993,844		10.6%
Operating Loss	(2,706,545)		(3,212,023)		505,478		-15.7%
Interest Income	231,357	1.9%	36,000	0.4%	195,357		542.7%
Net Loss	\$ (2,475,187)		\$ (3,176,023)		\$ 700,836		-22.1%
Total Revenues	12,243,910		9,522,395		2,721,515		28.6%
Total Expenses before Fixed Assets	14,719,098		12,698,418		2,020,680		15.9%
Fixed Assets Purchase	66,431		200,000		(133,569)		-66.8%
Total Net Cash Flow	(2,541,618)		(3,376,023)		834,405		-24.7%

Hawaii Convention Center
Convention Center and Food & Beverage: Analysis of Operating Revenues & Expenses
Fiscal Year Ending June 30, 2006

The Hawaii Convention Center experienced record results during the fiscal year ending June 30, 2006. Operating revenues reached an all time high in excess of \$12 million, surpassing the previous record of \$10 million set during the fiscal year ended June 30, 2004. This enabled the Center to post a net operating loss of \$2,475,187 for the fiscal year ending June 30, 2006, which was \$700,836 better than budgeted net loss of \$3,176,023.

The positive results were due to the successful mix of off-shore, both national and international, and local market events and the type of programs hosted. Large off-shore events typically produce better operating results due to lower indirect expenses due to economies of scale and efficiencies of labor.

Hawaii Convention Center
Convention Center and Food and Beverage: Analysis of Operating Revenues and Expenses
Actual vs. Budget
Fiscal year ending June 30, 2006

The net operating loss for the fiscal year ended June 30, 2006 was \$2,475,187 which is \$700,836 (22.1%) better than the budgeted loss of \$3,176,023. The Hawaii Convention Center experienced its second most successful year since it opened its doors over eight years ago.

Total revenues for the fiscal year ended June 30, 2006 was \$12,243,910 which is \$2,721,515 (28.6%) better than the budget of \$9,522,395, and the highest in our history. There were 190 events, including 19 conventions, compared to a budget of 161 events. Revenues increased due to hosting a successful mix of off-shore, domestic and international, and local market events and as a result of hosting 29 more events than budgeted

The total expenses for fiscal year ended June 30, 2006 was \$14,719,098 which is \$2,020,680 (15.9%) more than the budget of \$12,698,418. The variance is the result of additional expenses directly related to the increase in revenues.

Operating Revenue

- ***Food & Beverage Revenue*** achieved a record breaking high of \$7,737,940 resulting in a positive variance of \$1,905,700 or 32.7% more than budget. In three separate months, Food & Beverage revenue exceeded \$1 million. As mentioned above, the mix in type of events as well as improvements in our Concession Program yielded positive results.
- ***Rental Revenue*** also achieved a record breaking high of \$2,611,400 and had a positive variance of \$172,299 or 7.1% more than budget. This was due to certain events utilizing more space than originally planned plus the addition of 29 more events than budgeted. There were 190 events compared to the budget of 161 events.
- ***Event Revenue*** which includes in-house services billed such as labor, utilities, telephone, equipment, and other ancillary revenues such as audio visual, internet, electrical and business center reached \$1,544,154 and had a positive variance of \$421,561 or 37.6% more than budget. Event charges were better than budget as a result of the type of programs the clients required and increased demand for internet and audio-visual services.
- ***Other Revenue*** which includes employee parking, business center rent, contractor phone rentals, and security commissions had a positive variance of \$26,597 or 28.8% better than budget.

Food & Beverage

- ***Cost of Goods Sold*** had a positive variance of \$335,372 or 26.8% more than budget. The variance is directly related to the increase in food and beverage revenues.

- ***Direct Food & Beverage Expenses*** had a positive variance of \$691,463 or 32.7% more than budget. The variance is directly related to the increase in food and beverage revenues. Normally large conventions and banquet events have lower direct expenses due to the efficiencies in labor and economies of scale. Direct food & beverage expenses as a percentage of revenue was as budgeted at 36.3%.

Operating Expenses

- ***Salaries & Wages*** had a positive variance of \$43,214 or 1.1% better than budget. There were several unfilled positions during the year resulting in a cost savings.
- ***Payroll Taxes & Benefits*** had a positive variance of \$2,662 or 0.2% better than budget.
- ***Contract Labor*** had a negative variance of \$290,088 or 35.8% more than budget. The increase in contract labor is directly related to the increase in revenues and their related labor requirements as well as increase in number of events.
- ***Travel & Entertainment*** had a positive variance of \$10,978 or 23% better than budget. Less than anticipated travel by Events staff for sites and Association meetings.
- ***Dues & Subscriptions*** had a positive variance of \$2,213 or 12.9% better than budget.
- ***Employee Training/Relations*** had a negative variance of \$23,714 or 67.5% more than budget. Managers attended *Managing with Aloha* workshops facilitated by Rosa Say.
- ***Computer Expense*** had a positive variance of \$24,929 or 45% better than budget. Microsoft software and other upgrades of approximately \$20,000 did not take place as planned.
- ***Legal/Professional Fees*** had a positive variance of \$4,546 or 9.4% better than budget.
- ***Advertising & Promotion*** had a negative variance \$23,665 or 328.7% higher than budget. Client taste testing was higher than anticipated.
- ***Repairs & Maintenance*** had a negative variance of \$65,895 or 17.8% more than budget. The negative variance was due to a combination of higher use requirements than expected and normal wear and tear with the building aging.
- ***Building Operations*** had a negative variance of \$26,562 or 4.8% more than budget. This is due to the increase in number of events and attendees which contributed to higher janitorial, electrical and trash removal requirements.
- ***Insurance*** had a negative variance of \$3,284 or 1.7% more than budget. General liability insurance expense is based on attendance in the building.

- **General Excise Tax/Use Tax** had a negative variance of \$52,467 or 10.4% 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 Hawai'i general excise tax.
- **Community Relations** had a negative variance of \$53,918 and 100% more than budget. Building related public relations was allocated to the Facility this fiscal year.
- **Printing & Stationary** had a positive variance of \$3,343 and 24.1% better than budget.
- **Office Supplies** had a negative variance of \$2,628 or 9.1% more than budget.
- **Postage** had a positive variance of \$4,081 or 46.9% better than budget.
- **Utilities** had a negative variance of \$474,517 or 39.1% higher than budget. This is directly related to the increase in revenues as well as the increase in the cost of oil yet we continue our efforts in energy conservation.
- **Management Fee** had a zero variance. The management fee is determined by the management contract between the State of Hawai'i 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 includes license & fees, bank service charge, credit card discounts and FFE expense had a negative variance of \$73,072 or 163.7% higher than budget. This was due to FFE expenses for additional tables and water coolers.

Interest Income

- **Interest income** had a positive variance of \$195,357 or 542.7% better than budget. Interest rates have improved and 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, 2007

	Actual Year to Date as of 10/31/06	Projected from 11/01/06 to 6/30/07	Rolling Forecast FYE 6/30/07	Approved Budget FYE 6/30/07	Variance	Actual Prior Year FYE 6/30/06
Operating Revenues:						
Food and Beverage	\$ 3,041,886	\$ 3,240,217	\$ 6,282,103	\$ 6,276,886	5,217	\$ 7,737,940
Rental Income	1,001,266	1,263,436	2,264,702	2,489,922	(225,220)	2,611,400
Event Revenue	568,605	666,619	1,235,224	1,121,452	113,772	1,544,154
Other	48,204	69,762	117,966	94,342	23,624	119,058
Total Operating Revenues	4,659,960	5,240,034	9,899,994	9,982,602	(82,608)	12,012,553
Cost of Goods Sold	625,203	663,956	1,289,159	1,288,130	1,029	1,585,130
Direct F&B Expenses	1,053,809	1,183,436	2,237,245	2,292,408	(55,163)	2,806,629
Gross Profit	2,980,947	3,392,642	6,373,589	6,402,064	(28,475)	7,620,794
Operating Expenses:						
Salaries & Wages	1,300,429	2,768,982	4,069,411	4,099,416	(30,005)	3,792,384
Payroll Taxes & benefits	354,665	824,891	1,179,556	1,237,337	(57,781)	1,148,185
Contract Labor	392,154	478,764	870,918	733,546	137,372	1,100,194
Travel & Entertainment	18,593	22,088	40,681	43,630	(2,949)	36,672
Due & Subscriptions	6,973	10,698	17,671	16,496	1,175	14,917
Employee Training/Relations	15,495	23,740	39,235	34,396	4,839	58,870
Computer Expense	15,818	33,440	49,258	50,160	(902)	30,441
Legal/Professional Fees	9,587	33,132	42,719	49,700	(6,981)	44,054
Advertising & Promotion	7,434	10,000	17,434	15,000	2,434	30,865
Repairs & Maintenance	136,333	261,634	397,967	392,450	5,517	436,695
Building Operations	201,373	351,008	552,381	515,604	36,777	579,862
Insurance	(18,212)	136,528	118,316	204,792	(86,476)	197,376
General Excise Tax/Use Tax	193,564	349,112	542,676	531,724	10,952	556,960
Community Relations	18,140	38,000	56,140	57,000	(860)	53,918
Printing & Stationary	917	9,650	10,567	14,600	(4,033)	10,557
Office Supplies	7,713	20,800	28,513	31,200	(2,687)	31,428
Postage	2,944	6,200	9,144	9,300	(156)	4,619
Utilities	613,501	1,062,000	1,675,501	1,326,000	349,501	1,686,817
Management Fee	136,607	273,208	409,815	405,530	4,285	394,817
Miscellaneous	23,390	29,719	53,109	42,405	10,704	117,707
Total Operating Expenses	3,437,417	6,743,594	10,181,011	9,810,286	370,725	10,327,338
Operating Profit/(Loss)	(456,470)	(3,350,952)	(3,807,422)	(3,408,222)	(399,200)	(2,706,545)
Interest Income	92,672	100,000	192,672	108,000	84,672	231,357
Net Profit/(Loss)	\$ (363,798)	\$ (3,250,952)	\$ (3,614,750)	\$ (3,300,222)	\$ (314,528)	\$ (2,475,187)
Total Revenues	4,752,632	5,340,034	10,092,666	10,090,602	2,064	12,243,910
Total Expenses before Fixed Ass	5,116,430	8,590,986	13,707,416	13,390,824	(316,592)	14,719,098
Fixed Assets Purchase	25,106	74,894	100,000	200,000	100,000	66,431
Total Net Cash Flow	(388,904)	(3,325,846)	(3,714,750)	(3,500,222)	(214,528)	(2,541,618)

Hawaii Convention Center
Convention Center and Food & Beverage: Analysis of Operating Revenues & Expenses
Fiscal Year Ending June 30, 2007 Reforecast

The net operating loss for the first four months ending October 31, 2006 is \$363,798 which is \$573,390 better than the budgeted net operating loss of \$937,188. The operating results are better than anticipated primarily due to the materialization of an unanticipated large offshore corporate event in October which yielded a net income of \$435,000.

Although the operating results through the first four months ending October 31, 2006 is better than anticipated, the reforecast for the fiscal year ending June 30, 2007 has been revised to a net loss of \$3,614,750, which is \$314,528 more than the budgeted loss of \$3,300,222. The reforecast is based on the result of a cancellation of a budgeted large offshore corporate event that was projected to yield a net income of \$500,000 and the increased cost of electricity. We have also cut our fixed assets budget by \$100,000 which will result in a reforecast net cash flow of \$3.7 million, \$200,000 more than planned, for the fiscal year ending June 30, 2007.