



Report to the Legislature

State of Hawaii

Regular Session of 2006

Expenditure Report
Hawaii Convention Center
FY 04-05 and FY 05-06
In response to Act 178, SLH 2005

Prepared by:

Hawaii Tourism Authority
November 30, 2005

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 2004-2005 and 2005-2006 (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, 2005

	Actual FY 2005		Budget FY 2005		Variance	%	Change
Operating Revenues:							
Food and Beverage	\$ 4,830,444	60.8%	\$ 5,604,857	65.0%	\$ (774,413)		-13.8%
Rental Income	1,937,550	24.4%	1,908,613	22.1%	28,937		1.5%
Event Revenue	1,071,220	13.5%	1,037,950	12.0%	33,270		3.2%
Other	104,611	1.3%	76,404	0.9%	28,207		36.9%
Total Operating Revenues	7,943,825		8,627,824		(683,999)		-7.9%
Cost of Goods Sold	1,027,235	21.3%	1,088,368	19.4%	(61,133)		-5.6%
Direct F&B Expenses	1,673,448	34.6%	2,047,830	36.5%	(374,382)		-18.3%
Gross Profit	5,243,142	66.0%	5,491,626	63.7%	(248,484)		-4.5%
 Operating Expenses:							
Salaries & Wages	3,369,116	42.4%	3,544,332	41.1%	(175,216)		-4.9%
Payroll Taxes & Benefits	937,997	11.8%	1,030,816	11.9%	(92,819)		-9.0%
Contract Labor	739,974	9.3%	914,015	10.6%	(174,041)		-19.0%
Travel & Entertainment	25,303	0.3%	60,896	0.7%	(35,593)		-58.4%
Dues & Subscriptions	12,429	0.2%	15,204	0.2%	(2,775)		-18.3%
Employee Training/Relations	20,809	0.3%	24,196	0.3%	(3,387)		-14.0%
Computer Expense	43,955	0.6%	60,250	0.7%	(16,295)		-27.0%
Legal/Professional Fees	46,294	0.6%	59,700	0.7%	(13,406)		-22.5%
Advertising & Promotion	12,580	0.2%	4,596	0.1%	7,984		173.7%
Repairs & Maintenance	314,115	4.0%	351,850	4.1%	(37,735)		-10.7%
Building Operations	420,937	5.3%	456,340	5.3%	(35,403)		-7.8%
Insurance	171,115	2.2%	178,272	2.1%	(7,157)		-4.0%
General Excise Tax/Use Tax	412,159	5.2%	476,126	5.5%	(63,967)		-13.4%
Printing & Stationary	2,215	0.0%	11,600	0.1%	(9,385)		-80.9%
Office Supplies	22,126	0.3%	31,200	0.4%	(9,074)		-29.1%
Postage	2,170	0.0%	9,000	0.1%	(6,830)		-75.9%
Utilities	1,219,739	15.4%	1,159,884	13.4%	59,855		5.2%
Management Fee	382,204	4.8%	382,248	4.4%	(44)		0.0%
Miscellaneous	22,844	0.3%	38,599	0.4%	(15,755)		-40.8%
Total Operating Expenses	8,178,084	102.9%	8,809,124	102.1%	(631,040)		-7.2%
Operating Loss	(2,934,942)		(3,317,498)		382,556		-11.5%
Interest Income	68,373	0.9%	18,000	0.2%	50,373		279.9%
Net Loss	\$ (2,866,568)		\$ (3,299,498)		\$ 432,930		-13.1%
Total Revenues	8,012,198		8,645,824		(633,626)		-7.3%
Total Expenses before Fixed Assets	10,878,766		11,945,322		(1,066,556)		-8.9%
Fixed Assets Purchase	60,976		200,000		(139,024)		-69.5%
Total Net Cash Flow	(2,927,544)		(3,499,498)		571,954		-16.3%

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

The net operating loss for the fiscal year ending June 2005 is \$2,866,568, which is \$432,930 better than the projected loss of \$3,299,498.

Budget reforecasts for the fiscal year ending June 2005 projected a revenue shortfall as a result of some large offshore conventions and other tentative bookings not materializing. There were 155 events in fiscal year ending June 2005 compared to the budget of 181 events. In anticipation of the revenue shortfall, expenses were closely monitored. Delays in expenditures and cost cutting measures occurred, but at no detriment to operations. In June 2005 operating results were better than budget by \$312,700 due to higher than expected food and beverage revenues from offshore Asian market events which improved our net loss for the fiscal year ending June 2005 to \$2,866,568.

Hawaii Convention Center
Convention Center and Food & Beverage: Analysis of Operating Revenues & Expenses
Actual vs. Budget
Fiscal Year Ending June 30, 2005

The net operating loss for the fiscal year ending June 30, 2005 is \$2,866,568 which is \$432,930 (13.1%) better than the budgeted loss of \$3,299,498.

The total revenues for the fiscal year ending June 30, 2005 (including interest income) are \$8,012,198 which is \$633,626 (7.3%) less than the budget of \$8,645,824. Revenues were less than budget due to a fewer large offshore events and tentative bookings that were included in the budget that did not materialize. There were 155 events in fiscal year 2005 compared to the budget of 181 events.

The total expenses for fiscal year ending June 30, 2005 are \$10,878,766 which is \$1,066,556 (8.9%) better than the budget of \$11,945,322. The variance is mainly a result of less expense related to the shortfall in revenues and lower operating expenses.

OPERATING REVENUE:

- Food & Beverage Revenue had a negative variance of \$774,413 or 13.8% less than budget. As mentioned above, several tentative events that were included in the budget did not materialize, including eight convention events accounting for \$693,000 in gross revenues.
- Rental Revenue had a positive variance of \$28,937 or 1.5% more than budget. While overall there were fewer events than budgeted, several trade shows, meetings and banquets generated more rental revenue than expected.
- 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 \$33,270 or 3.2% more than budget. Event charges for utilities, cleaning, police/fire services and audio visual were better than budget as a result of the type of programs the clients had.
- Other Revenue which includes employee parking, business center rent, contractor phone rentals, and security commissions had a positive variance of \$28,207 or 36.9% better than budget. Rent from Network Media was not budgeted and more contractors purchased monthly parking.

FOOD & BEVERAGE:

- Cost of Goods Sold had a negative variance of \$61,133 or 5.6% less than budget. Due to the overall client mix, cost of goods sold was slightly worse than budget.

- Direct Food & Beverage Expenses had a negative variance of \$374,382 or 18.3% less than budget. Due to events that did not materialize as well as the overall client mix. Normally large conventions and banquet events have lower direct expenses due to the efficiency of labor cost. Although there was a negative variance, direct food & beverage expense as a percentage of revenue was slightly better than budget at 34.6% compared to budget of 36.5%.

OPERATING EXPENSES:

- Salaries & Wages had a positive variance of \$175,216 or 4.9% better than budget. The annual increase was 1% less than budgeted and there were several unfilled positions during the year resulting in a cost savings.
- Payroll Taxes & Benefits had a positive variance of \$92,819 or 9% better than budget as a result of the savings related to annual increase being less than expected and the unfilled positions.
- Contract Labor had a positive variance of \$174,041 or 19% better than budget. The decrease in contract labor is mainly a result of the labor associated with events that did not materialize.
- Travel & Entertainment had a positive variance of \$35,593 or 58.4% better than budget. The annual SMG Corporate meeting did not take place resulting in a savings of \$11,000 and travel was also suspended due to a higher projected net loss.
- Dues & Subscriptions had a positive variance of \$2,775 or 18.3% better than budget.
- Employee Training/Relations had a positive variance of \$3,387 or 14% better than budget.
- Computer Expense had a positive variance of \$16,295 or 27% better than budget. Microsoft software upgrades of \$15,000 were postponed due to a higher projected net loss.
- Legal/Professional Fees had a positive variance of \$13,406 or 22.5% better than budget. Legal fees for the review of the license agreement were budgeted under Operations, however this expense was charged to Sales & Marketing.
- Advertising & Promotion had a negative variance \$7,984 or 173.7% higher than budget. Client taste testing was higher than budgeted.
- Repairs & Maintenance had a positive variance of \$37,735 or 10.7% better than budget. Major repairs were postponed due to a higher projected net loss.
- Building Operations had a positive variance of \$35,403 or 7.8% less than budget. The positive variance is related to hosting less events and attendees than anticipated.

- Insurance had a positive variance of \$7,157 or 4% better than budget. The general liability insurance expense is based on the number of attendance in the building. The overall attendance at the Center was greater than budgeted, however this was offset against a refund received on our workers compensation policy.
- General Excise Tax/Use Tax had a positive of \$63,967 or 13.4% better 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.
- Printing & Stationary had a positive variance of \$9,385 and 80.9% better than budget. The printing of the event planners handbook did not occur, and, in addition, we purchased less business cards and letterhead items than budgeted.
- Office Supplies had a positive variance of \$9,074 or 29.1% less than budget. Office supplies were allocated to Sales & Marketing this fiscal year.
- Postage had a positive variance of \$6,830 or 75.9% better than budget. Postage was allocated to Sales & Marketing this fiscal year.
- Utilities had a negative variance of \$59,855 or 5.2% higher than budget. The increase in the cost of oil negatively impacted our business yet we are continuing our efforts in energy conservation.
- Management Fee had a positive variance of \$44. Total 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 which includes license & fees, bank service charge, credit card discounts, FFE expense, and HTA constructive credit had a positive variance of \$15,755 or 40.8% better than budget. Credit card usage was controlled to decrease fees and FFE purchases were suspended due to a higher projected net loss.

INTEREST INCOME:

- Interest income had a positive variance of \$50,373 or 279.9% better than budget. Due to an additional \$2 million received for Capital Improvements and higher 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, 2006

	Actual Year to Date as of 10/31/05	Projected from 11/01/05 to 6/30/06	Rolling Forecast FYE 6/30/06	Approved Budget FYE 6/30/06	Variance	Actual Prior Year FYE 6/30/05
Operating Revenues:						
Food and Beverage	\$ 3,132,893	\$ 3,670,344	\$ 6,803,237	\$ 5,832,240	970,997	\$ 4,830,444
Rental Income	999,241	1,651,783	2,651,024	2,439,101	211,923	1,937,550
Event Revenue	574,720	749,433	1,324,153	1,122,593	201,560	1,071,220
Other	35,049	58,359	93,408	92,461	947	104,611
Total Operating Revenues	4,741,903	6,129,919	10,871,822	9,486,395	1,385,427	7,943,825
Cost of Goods Sold	634,909	791,620	1,426,529	1,249,758	176,771	1,027,235
Direct F&B Expenses	1,158,519	1,330,417	2,488,936	2,115,166	373,770	1,673,448
Gross Profit	2,948,475	4,007,882	6,956,357	6,121,471	834,886	5,243,142
Operating Expenses:						
Salaries & Wages	1,249,744	2,557,064	3,806,808	3,835,601	(28,793)	3,369,116
Payroll Taxes & benefits	370,489	767,227	1,137,716	1,150,847	(13,131)	937,997
Contract Labor	373,802	544,848	918,650	810,106	108,544	739,974
Travel & Entertainment	12,258	27,784	40,042	47,650	(7,608)	25,303
Due & Subscriptions	4,867	10,818	15,685	17,130	(1,445)	12,429
Employee Training/Relations	12,846	23,440	36,286	35,156	1,130	20,809
Computer Expense	13,092	36,914	50,006	55,370	(5,364)	43,955
Legal/Professional Fees	29,392	32,400	61,792	48,600	13,192	46,294
Advertising & Promotion	8,835	4,800	13,635	7,200	6,435	12,580
Repairs & Maintenance	125,814	247,200	373,014	370,800	2,214	314,115
Building Operations	200,488	384,472	584,960	553,300	31,660	420,937
Insurance	65,397	137,834	203,231	194,092	9,139	171,115
General Excise Tax/Use Tax	201,700	328,999	530,699	504,493	26,206	412,159
Printing & Stationary	2,241	9,018	11,259	13,900	(2,641)	2,215
Office Supplies	11,113	19,200	30,313	28,800	1,513	22,126
Postage	3,459	5,800	9,259	8,700	559	2,170
Utilities	583,240	1,156,800	1,740,040	1,212,300	527,740	1,219,739
Management Fee	131,606	263,213	394,819	394,817	2	382,204
Miscellaneous	10,138	28,743	38,881	44,635	(5,754)	22,844
	-	-	-	-	-	-
Total Operating Expenses	3,410,520	6,586,574	9,997,094	9,333,497	663,597	8,178,084
Operating Profit/(Loss)	(462,045)	(2,578,692)	(3,040,737)	(3,212,026)	171,289	(2,934,942)
Interest Income	71,476	80,000	151,476	36,000	115,476	68,373
Net Profit/(Loss)	\$ (390,569)	\$ (2,498,692)	\$ (2,889,261)	\$ (3,176,026)	\$ 286,765	\$ (2,866,568)
Total Revenues	4,813,379	6,209,919	11,023,298	9,522,395	1,500,903	8,012,198
Total Expenses before Fixed Assets	5,203,948	8,708,611	13,912,559	12,698,421	(1,214,138)	10,878,766
Fixed Assets Purchase	124,558	75,442	200,000	200,000	-	60,976
Total Net Cash Flow	(515,128)	(2,574,134)	(3,089,261)	(3,376,026)	286,765	(2,927,544)

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

The net operating loss for the first four months ending October 2005 is \$390,569, which is \$379,076 better than the projected loss of \$769,645.

The better than anticipated net loss is due to the large offshore conventions and Asian market events held during the first four months which generated more food and beverage revenue than budgeted. Large offshore events typically have lower direct expenses due to efficiencies of labor and economies of scale and are therefore able to produce better operating results.

As a result of the better than anticipated first four months performance and future event bookings from the Asian market, the forecast for fiscal year ending June 2006 has been revised to a net loss of \$2,889,261, which is \$286,765 lower than the budgeted loss of \$3,176,026.