
A Review of Sports Promotion Activities of the Department of Business, Economic Development and Tourism

A Report to the
Governor
and the
Legislature of
the State of
Hawaii

Report No. 95-33
December 1995



THE AUDITOR
STATE OF HAWAII

The Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



THE AUDITOR STATE OF HAWAII

Kekuanao'a Building
465 South King Street, Room 500
Honolulu, Hawaii 96813

OVERVIEW

THE AUDITOR
STATE OF HAWAII

A Review of Sports Promotion Activities of the Department of Business, Economic Development and Tourism

Summary

Act 149 of the 1995 legislative session directed the Auditor to conduct a review of sports promotion activities performed by the Department of Business, Economic Development, and Tourism (DBEDT) to determine: (1) whether the transfer of some or all of those activities to the Stadium Authority, another existing agency, or a separate sports authority would promote efficiency or cost effectiveness; (2) what measures will be necessary to avoid commingling of funds between the stadium special fund and the general fund, and (3) how the general fund would be affected by such a transfer. This report responds to the request of Act 149.

Sports is a big dollar industry—estimated at \$50 billion worldwide. The industry is a significant vehicle for economic growth and diversity of cities, regions, states and even nations. Cities and states realize that hosting sporting events will boost the local economy, create additional jobs, attract new corporate investments and enhance their image as a host site. Fierce competition exists between states and municipalities to host major sporting events. Presently, DBEDT conducts sports promotion activities for the State, excluding the University of Hawaii. The Hawaii Visitors Bureau also conducts sports promotion activities through a contract with the department

We looked at four alternative sport promotion strategies for the State. The first alternative considered was the transfer of sports promotion activities to the Stadium Authority. The Stadium Authority's main purpose is to operate and maintain Aloha Stadium and its related facilities for the benefit of the community. This differs from the predominantly economic and tourist industry orientation of DBEDT. In addition, for the first time Act 149 authorizes the Stadium Authority to promote the stadium and its related facilities. The Stadium Authority has not yet developed a strategic plan for promoting the stadium. As a result, we believe that the transfer of sports promotion activities to the Stadium Authority at this time is not appropriate. The Stadium Authority should continue its focus on Aloha Stadium and be given time to develop its promotional program.

Act 149 also requested that we examine the issue of commingling special and general funds if sports promotions were transferred to the Stadium Authority. We conclude that it should not be a problem. A separate account would need to be established to account for the general funds and sufficient control mechanisms can be implemented to ensure separation of funding.

The second alternative considered was the transfer of sports promotion activities to another state agency. We found that sports promotional activities do not fit within

the functions of other principal state agencies. It would be inappropriate to effect such a transfer.

The third alternative considered was the establishment of a separate sports authority. We reviewed information from previous studies and other sports commissions and found that several issues must be addressed before a decision is made on whether to establish a sports authority. Some issues that need to be considered are: 1) the type of organization to create - an authority or a commission; 2) a public or private organization; 3) a county or statewide organization; 4) the governing and staffing structure of the organization; and 5) the source of funding of the organization. We conclude that the establishment of a separate sports authority would be premature at this time.

The fourth alternative considered was the status quo - everything remains the same. After reviewing the previous three alternatives, we concluded that the present situation of the Department of Business, Economic Development and Tourism and the Hawaii Visitors Bureau promoting sports events for Hawaii is appropriate and that no change was warranted at this time.

Recommendations and Response

We recommended that the Stadium Authority be allowed to develop its promotional capabilities before considering any additional use of the authority to promote sports generally in Hawaii. We also recommended that Hawaii's sports promotion activities remain with the Department of Business, Economic Development and Tourism and the Hawaii Visitors Bureau.

We recommended that, should the creation of a sports authority or commission be considered again, the issues to be integrally considered include the organization type, funding, scope, and logistics. Also, the Stadium Authority could then be re-evaluated for the appropriateness of having a facility-based organization assume promotion for sports events.

The Department of Business, Economic Development, and Tourism concurred with the recommendation to retain the sports promotion activities within the department and the Hawaii Visitors Bureau. In addition, the department will continue to evaluate the sports promotion program in order to upgrade and strengthen its efforts. Also, the department recognizes that the formation of a sports authority or commission will remain an issue for the State and the department will continue to explore this issue.

The Stadium Authority did not respond to the specific recommendations but did clarify specific monetary figures in the draft report. We changed these figures in the final report.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830

A Review of Sports Promotion Activities of the Department of Business, Economic Development and Tourism

A Report to the
Governor
and the
Legislature of
the State of
Hawaii

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 95-33
December 1995

Foreword

This report was prepared in response to Act 149, 1995 legislative session that requested the State Auditor to conduct a review of sports promotion activities at the Department of Business, Economic Development and Tourism to determine: 1) whether the transfer of some or all of those activities to the Stadium Authority, another existing agency, or a separate sports authority would promote efficiency or cost effectiveness; 2) what measures will be necessary to avoid commingling of funds between the stadium special fund and the general fund; and 3) how the general fund would be affected by such a transfer.

We wish to express our appreciation for the cooperation and assistance extended to us during the course of our review by the Director and staff of the Department of Business, Economic Development, and Tourism; Stadium Authority members; and the management and staff of Aloha Stadium.

Marion M. Higa
State Auditor

Table of Contents

Chapter 1 Introduction

Sports - a Big Dollar Industry	1
Objectives of the Review	2
Scope and Methodology	3

Chapter 2 The Role of the State in Sports Promotion

Department of Business, Economic Development and Tourism Promotes New Events	5
Hawaii Visitors Bureau Promotes Larger Events	6
The Stadium Authority's Recent Role in Sports Promotion	9
Alternate Organizations for Sports Promotion	11
Organizational Issues to Consider	14
Conclusions	17
Recommendations	18

Notes	19
-------------	----

Responses of the Affected Agencies	21
--	----

Exhibits

Exhibit 2.1 Sporting Events Promoted by the Department of Business, Economic Development and Tourism	7
Exhibit 2.2 Sporting Events Promoted by the Hawaii Visitors Bureau	8

Chapter 1

Introduction

Pursuant to Act 149 of the 1995 legislative session, the State Auditor conducted a review of sports promotion activities being performed by the Department of Business, Economic Development and Tourism to determine:

1. Whether the transfer of some or all of those activities to the Stadium Authority, another existing agency, or a separate sports authority would promote efficiency or cost effectiveness,
2. What measures will be necessary to avoid commingling of funds between the stadium special fund and the general fund, and
3. How the general fund would be affected by such a transfer.

Sports - a Big Dollar Industry

Sports is a big dollar industry today—estimated at \$50 billion worldwide. The industry is a significant vehicle for economic growth and diversity of cities, regions, states and even nations. The dollar impact represents not only large salaries for professional players but also economic benefits for cities and states which attract and host sporting events. Cities and states realize that hosting sporting events will boost the local economy, create additional jobs, attract new corporate investments, and enhance their image as a host site¹. Sporting events, as well as training programs for event competitors, are held statewide, nationally, regionally, or internationally. Events and training programs attract professional as well as amateur competition.

Growth of sports commissions

Today, fierce competition exists between states and municipalities to host major sporting events as a means of boosting their economies. To enhance their chances to attract sporting events to their locale, cities and states have established sports authorities, commissions or other similar organizations (sports commissions) to competitively bid for the many available sporting events. Thus, the main mission of a sports commission is to attract major sporting events, both professional and amateur, to its respective state, city or area.

Most major communities have some type of sports commission related to their economic development efforts. A rapid growth in the number of sports commissions has accompanied the hosting of major professional and amateur sporting events. For example, in 1980, there were about 10 sports commissions in the United States. By 1991 the number of

commissions was estimated to be 58.² Currently, the National Association of Sports Commissions estimates that there are about 100 commissions in its association.

Sports in Hawaii

Certainly in terms of its natural advantages, Hawaii ranks among the world's best places for sports in general and outdoor sports specifically. Hawaii's natural environment supports many sporting events such as surfing, canoeing, kayaking, sailing, fishing, and beach volleyball. The state's year around temperate climate supports sporting events throughout the year. Hawaii also has a proven track record for hosting large numbers and varieties of major sporting events, including the National Football League (NFL) Pro Bowl, Hula Bowl, Aloha Bowl, Professional Golf Association (PGA) golf tournaments, and the Honolulu Marathon.

As a major tourist destination, Hawaii has many advantages in hosting sporting events. There are ample visitor accommodations, good air transportation, a well developed tourist/visitor support network and a convenient time zone for Pacific basin activities, especially for television broadcasts. For example, a live telecast of an afternoon event in Honolulu would be shown in prime time on the U.S. mainland and during the daytime in most of Asia. However, Hawaii as a host site also has disadvantages. Travel to and from Hawaii is costly and time consuming. The number of island spectators is limited and Hawaii lacks large sporting facilities capable of supporting such major activities as the Super Bowl. Sports promotion in Hawaii should emphasize the advantages that Hawaii offers for sporting events such as the environment and our existing accommodations and facilities.

Sports promotion in Hawaii

The state's Department of Business, Economic Development and Tourism has the primary responsibility for the State's sports promotions excluding the University of Hawaii's own sports program. The department's sports unit supports smaller dollar sports events, ranging from \$5,000 to \$100,000 in promotional costs. Currently, the department contracts the larger dollar sports and/or established event promotions, those ranging from \$10,000 to \$1.4 million, to the Hawaii Visitors Bureau. In addition, Act 149, Session Laws of Hawaii 1995, authorized the Stadium Authority to plan, promote, and market Aloha Stadium and its related facilities.

Objectives of the Review

The objectives of this review were to:

1. Identify the sports promotion activities conducted by the Department of Business, Economic Development and Tourism, their costs and source of funding.

2. Determine the efficiency, cost effectiveness, and fiscal impact of transferring these activities to another organization.
3. Make recommendations as appropriate.

Scope and Methodology

This review examined the Department of Business, Economic Development and Tourism's sports promotion program. We examined this program to assess the funds expended for sports promotions and the outcomes achieved. We also examined the functions of the Stadium Authority and other principal state agencies to determine the feasibility of transferring all or some of the department's sports promotion program to another agency. In addition, we contacted successful sports commissions in other jurisdictions to identify factors that contribute to their success.

We interviewed sports promotion personnel from the Department of Business, Economic Development and Tourism, Stadium Authority members, and stadium management personnel. We interviewed these personnel to determine their involvement in sports promotion activities and their views on transferring sports promotion activities, as well as the advantage or disadvantage of such a transfer. We also interviewed executive personnel from other sports authorities/commissions to determine how they operate and the keys to their success.

Our work was performed from June 1995 to October 1995 in accordance with generally accepted government auditing standards.

Chapter 2

The Role of the State in Sports Promotion

In this chapter we describe the State's involvement in sports promotion and examine four alternate sports promotion scenarios. Three of the alternatives were requested by the Legislature in Act 149, Session Laws of Hawaii 1995 as follows: Transfer some or all of the sports promotion activities to (1) the Stadium Authority, (2) another existing agency, or (3) an independent, separate sports authority. The objective of such a transfer would be to promote efficiency or cost effectiveness. The fourth alternate scenario was the status quo—no transfer. We conclude that sports promotion activities should presently maintain their status quo.

Department of Business, Economic Development and Tourism Promotes New Events

Currently, sports promotion is planned and funded by the Department of Business, Economic Development and Tourism's Sports Unit and the Hawaii Visitors Bureau. The former supports new and smaller funded activities while the latter supports larger events. Originally attached to the department's Business Development and Marketing Division, the Sports Unit was transferred to the department's State Tourism Office during our review. The transfer of the Sport Unit reflects the department's change in focus from economic development to tourism. Locating sports promotion under the tourism office is intended to maximize the tourist promotional benefits of the sporting events by bringing participants, attendees, and other spectators to Hawaii. The move also reflects that the linkage between the department and private industry is primarily tourism related.

The Sports Unit's primary activity is to provide financial support to qualifying sports events. To qualify for financial support, proposed sporting events should:

1. Be for new and developing activities, rather than established events which already have a solid sponsorship base;
2. Attract people to the State and enhance the efforts of tourism marketing;
3. Be able to match funds granted by the Department of Business, Economic Development and Tourism; and,
4. Display the capability to provide media exposure.¹

With this criteria, the department generally supports new events that are seeking establishment in Hawaii. The State's financial support provides supplemental assistance for such events for a limited time period.

For FY1994-95, the department's Sports Unit promotion budget was approximately \$232,000. The department's Sports Unit supports events that generally require smaller dollar amounts. Exhibit 2.1 lists the sports events that received direct financial support from the department for the period FY1992-93 to FY1994-95. While the largest contract issued during this period was for \$100,000, most of the contracts involve financial support for \$25,000 or less. The contracts totaled \$517,900.

The department is planning a two-pronged approach for financing future sporting events. The first approach is to provide funding (under \$25,000) to support and to help establish emerging sporting events. The department's sports promotion program would determine the level of funding for events through a request for proposals process. The second approach would involve the department contracting with the Hawaii Visitors Bureau for major, well established sporting events over \$25,000, which also have tourism promotion value.

Hawaii Visitors Bureau Promotes Larger Events

Currently, the department contracts with the Hawaii Visitors Bureau to administer sports promotion activities of larger dollar amounts than those promoted directly by the department. It is part of the new two-pronged approach to sports promotion endorsed by the department. The bureau selects and coordinates sporting events strategically to achieve targeted markets, ensure the highest return on the State's investment, and properly represent Hawaiian culture and a sense of place. Established programs which have previously demonstrated the ability to enhance economic and tourism development are also supported through the bureau.

Most of the bureau's sports promotion events were funded through specific legislative provisos. Exhibit 2.2 lists the events supported by the bureau since FY1993-94, which total \$3,676,328. For FY1994-95, the State allocated \$2.7 million to the bureau for special projects, which included sports promotions. This represented approximately 10 percent of all State funds allocated to the bureau.

The two-pronged approach to sports promotion is designed to promote Hawaii's existing sports activities as well as develop new events. The department's goal is also to promote Hawaii as both a visitor destination as well as a center for health and fitness with expectant increased revenues for the State. The department estimated that state sponsored sports promotions for FY1993-94 resulted in more than \$320 million in additional state revenues.

Exhibit 2.1

**Sporting Events Promoted by the Department of Business,
Economic Development and Tourism
For the Period FY1992-93 to FY1994-95**

Contract No.	Year	Description of Event	DBEDT Amount	Location of Event
38914	1995	Great Aloha Fun Run	\$ 40,000	Oahu
38317	1995	Hula Bowl	100,000	Oahu
37575	1994	Tour O' Hawaii Cycling	30,000	Oahu
37561	1994	Hawaii International Baseball Championships	40,000	Oahu
37263	1994	Professional Volleyball	20,000	Kauai
37226	1994	Aloha State Games	34,700	Oahu
37095	1994	Triple Crown Surfing	25,000	Oahu
36332	1993	Aloha Bowl	30,000	Oahu
36263	1993	Tour O'Hawaii Cycling	75,000	Oahu
35363	1993	Admin. Hawaii Canoe/Kayak Team	10,000	See Note #1
35286	1993	Bid for 1997 World Police and Fire Games	15,000	Oahu
35284	1993	Cycle to the Sun	5,000	See Note #2
34958	1993	Cricket Championship	5,000	Oahu
34915	1993	Aloha State Games	13,200	Oahu
34707	1993	Maui Triathlon	15,000	Maui
34091	1992	Master Rugby Festival	20,000	Oahu
34089	1992	World Wavesailing Championship	8,000	Maui
34077	1992	Hawaii International Rugby Tournament	20,000	Oahu
33563	1992	Cricket Championship	12,000	Oahu

Note #1 = Contract terminated, \$2,500 returned to general fund

Note #2 = Contract terminated, \$2,000 returned to general fund

Exhibit 2.2

**Sporting Events Promoted by the Hawaii Visitors Bureau
For the Period FY1992-93 to FY1994-95**

Description of Event	Fiscal Year	Amount
Pro Bowl	1995	\$1,582,113
Pro Bowl	1994	1,447,215
Kaanapali Classic (p)	1994	200,000
Great Aloha Run (p)	1994	25,000
Honolulu Marathon (p)	1994	100,000
Aloha Bowl (p)	1994	50,000
Hula Bowl (p)	1994	72,000
Hawaii Pro Bowl (p)	1994	60,000
PGA Grand Slam (p)	1994	75,000
Royal Hawaiian Masters Rugby (p)	1994	25,000
World Cup Youth Soccer	1994	10,000
AYSO World Games	1994	10,000
World University Rowing Assoc. (p)	1994	20,000

(p) = Legislative Proviso
No projects or provisos administered for FY1992-93.

Note: For FY1992-93 all sporting event promotions were administered directly by the Department of Business, Economic Development and Tourism.

The Stadium Authority's Recent Role in Sports Promotion

The Stadium Authority, initially known as the Stadium Board, was established in 1970 under Chapter 109, Hawaii Revised Statutes. The authority is responsible for maintaining, operating, and managing the Aloha Stadium and its related facilities (principally the stadium parking lot). The authority is composed of nine members appointed by the governor with the advice and consent of the Senate. In addition, the president of the University of Hawaii and the superintendent of education serve as ex-officio, nonvoting members. The authority appoints a stadium manager who is responsible for administering the operations of the stadium.

The authority is administratively attached to the Department of Accounting and General Services. Its operations are supported by a special fund that receives revenues collected from the stadium's activities. However, major capital expenditures have required additional funding from the State. For FY1994-95, the authority collected approximately \$6.7 million in rental and related revenues compared to expenses of approximately \$4.5 million (excluding major capital expenditures).

While it may first appear that the Department of Business, Economic Development and Tourism's sports promotion is similar to the Stadium Authority's functions, a closer examination shows significant differences. The authority is just now formally considering promotional activities. In addition, the authority's promotional effort will be facility based rather than event based.

Stadium's purpose is community, not economy, oriented

Aloha Stadium was built for the benefit of Hawaii's people. This purpose is reflected in the administrative rules of the Stadium Authority which state that:

- "(a) The stadium is operated for the recreational and entertainment needs of the people of Hawaii and provides a place where large gatherings of people may assemble. The character and nature of events at the stadium shall be in the public interest.
- (b) The facility shall be open to performances, programs, exhibitions, athletic events, and other activities that are in the interest of the members of the community."²

In keeping with this purpose, the stadium is used for community based sporting events such as high school football and baseball games. In addition, non-sports related community activities such as graduation ceremonies are also supported. These events are often scheduled for "prime-time" use—Fridays and weekends. These events meet the

stadium's community oriented purposes and differ significantly from the Department of Business, Economic Development and Tourism's purpose, which targets economic growth and development.

***Stadium Authority's
new formal
promotional role***

With the enactment of Act 149 during the 1995 legislative session, the Stadium Authority was given formal authority to engage in promotional activities. Act 149 authorizes the Stadium Authority to formally plan, promote, and market Aloha Stadium and its related facilities. Prior to this, some stadium personnel engaged in "informal" promotion as part of their normal duties, but the Stadium Authority never formally established any promotion program or efforts.

The Stadium Authority members whom we contacted felt that the new promotional responsibilities would benefit the operations of the stadium. However, they cautioned that the authority has no experience or knowledgeable personnel in sports promotion. Because Act 149 was only recently enacted, the authority has not yet identified how the stadium should be promoted or developed a promotional strategic plan. It was noted that their promotion strategy will most likely differ from the Department of Business, Economic Development and Tourism's type of promotion due to their different orientations.

The Stadium Authority considers its primary promotional responsibility to be the facility per se. Some authority members and staff noted that promoting sports events could actually be detrimental to the stadium. By promoting events under its expanded new role, the authority would be directly competing with private promoters. As a result, the stadium could lose promoters as clients.

Necessary skills for sports promotion

To promote sports events, the stadium staff needs to have sufficient promotional experience. Some authority members and management personnel noted that the current stadium staff does not possess the necessary promotional skills. Promotion of current stadium events has generally been left to the event sponsors. Experienced promoters may be able to execute more cost-effective promotions than the stadium staff, based on the experience factor.

Another necessary skill for successful promotion is good communication and mutual support between the authority and the professional promoters, as well as the authority and other state agencies. Stadium authority personnel noted that in the past, good communication between the authority and the Department of Business, Economic Development and Tourism has sometimes been lacking. While communications have improved, a consistent level of good communications is needed to ensure

successful promotion of sports events. For example, good communications would avoid scheduling conflicts—commitments for stadium use made by the department in conflict with commitments made by the authority. Such conflicts reflect negatively upon the State's efforts and discourage potential sports events from being scheduled in Hawaii.

A revised funding structure

As previously noted, the Stadium Authority uses its special fund to be self-supporting. Revenues generated from stadium events, rentals, and concessions are deposited into the special fund and used to support these activities. The stadium special fund is used for the payments of:

1. The expenses of the operation, maintenance, promotion, and management of the stadium; and,
2. The total or partial costs of financing any capital improvement projects for the stadium and its related facilities.³

However, should sports promotions be assumed by the authority, additional general fund appropriations may be necessary to support the expanded responsibilities. Act 149 directed the Auditor to determine what measures would be necessary to avoid commingling of funds between the existing stadium special fund and any general funds appropriated to support the expanded responsibilities. We found that commingling of funds should not be a problem.

The general funds that would be appropriated to the authority for promotional use would be deposited into a separate account established for these funds. Clear purposes and uses of both the existing special fund and a newly established general fund account would prevent commingling and conflicts over uses. Sufficient control mechanisms can be implemented to ensure the separation of funding and their uses.

Alternate Organizations for Sports Promotion

The feasibility of other state agencies

In considering other alternatives for sports promotion, we found that other state agencies or an independent sports authority were not feasible and prudent.

To transfer sports promotion activities, along with the general fund appropriations, from the Department of Business, Economic Development and Tourism to another existing state agency would be inappropriate. Upon examining the functions of other principal state departments, we found that sports promotion activities do not fit within the functions of any other state agency. Sports promotions are presently

identified as either supporting new economic development opportunities or continuing to support existing successful activities which have a demonstrated positive effect upon Hawaii's economy. Sporting activities are supported when shown to have specific benefits for tourism. Using this interpretation, we found no other state agency with appropriate authority and responsibility to assume sports promotion activities. As a result, it would be inappropriate to transfer the present program to another state agency. Should the purpose of sports promotion be changed from economics and/or tourism development to another purpose, it may be feasible for another agency to assume this role.

The feasibility of an independent sports authority

To consider the establishment of a separate sports authority (sports commission) that would oversee and promote some or all of the sporting events in Hawaii is another alternative. As noted in Chapter 1, the use of sports commissions has grown rapidly as a mechanism to recruit and promote sporting events throughout the United States. In Hawaii, the use of a sports commission has been suggested several times in the past few years.

Recommendations of prior studies

Between 1987 and 1991, four studies addressing the State's involvement with sports promotion were done. Each study addressed Hawaii's potential for supporting, attracting, and enhancing sports events and programs.

The Department of Planning and Economic Development contracted with Coopers & Lybrand to complete a study entitled *A Master Plan for the Continued Development of Hawaii as a Sports Center*, in response to Act 261, 1986 legislative session. This study concluded that some form of central leadership, promotion, coordination, and focus was needed in order to concentrate the sports development energies of the State into a form which can have productive results. It recommended that a nonprofit corporation be formed to promote Hawaii as a sports center. The corporation would be a separate entity, performing a combination of visitor promotions and economic development.

In 1989, a privately commissioned study completed by Don Smith Consultants, Inc., entitled *A Long-Term Sports Development Program for the State of Hawaii*, also recommended the immediate formation of a nonprofit corporation to coordinate and direct development of a major sports industry in Hawaii. The nonprofit corporation would provide a central focus for all elements of a sports program and was considered essential to the successful development of a sports industry in Hawaii. This study proposed that the nonprofit corporation supersede and encompass other sports organizations in the State.

In 1990, the Office of State Planning conducted a comprehensive study on the feasibility of establishing a Hawaii sports authority with jurisdiction over Aloha Stadium and other facilities of the State, other than those of the University of Hawaii. In response to Act 179 of the 1990 Legislature, the Office of State Planning contracted with KPMG Peat Marwick, which issued a final report in April 1991 entitled *Assessment for a Hawaii Sports Authority*.

This study concluded that a sports authority was necessary to provide Hawaii with the leadership, planning, and coordination of Hawaii's sports activities required to effectively compete in the national and international environment for major sports events and programs. The study also noted that an authority would provide clear purpose and direction that could not be achieved as a division of an existing department. It further recommended that a public authority was preferred over a private, nonprofit organization because the State could ensure that it remained responsive to the public sector's needs.

The fourth study, completed by Hill and Knowlton in 1991, entitled *A Sports Plan for Hawaii: 1992 and Beyond*, was contracted for by the Department of Business, Economic Development and Tourism. Using the prior three studies as its basis, Hill and Knowlton proposed a plan that would identify potential new sporting events that could be held in Hawaii. These events would enhance the state's status in the sports events market, strengthening its position and ability to attract new events. While this study did not specifically recommend the creation of a sports authority, it did state that the "creation of a sports authority appears to be a long term goal."⁴ Working on this premise, the report outlined strategies needed for the Department of Business, Economic Development and Tourism to initiate an aggressive marketing and publicity effort. The study also noted that strengthening the department's sports promotion activities could enhance the State's efforts to attract new sporting events to Hawaii. However, the study did note that success also depends on strong commitments from the city, state, and private industry.

Survey of organizations

In addition to reviewing the four sports promotion studies, we contacted the National Association of Sports Commissions and were referred to a number of individual commissions that appeared to have successful sports promotions records. We contacted four of these sports commissions for general information on their organizational structure and funding. We identified elements they attributed to their success. The four commissions were: 1) The Greater Kansas City Sports Commission/Foundation, 2) The Detroit Sports Commission, 3) The

Dallas International Sports Commission, and 4) The Greater Chattanooga Sports and Events Committee. Their common characteristics include:

1. Each commission has been in existence between three to six years.
2. The main goal or mission of each commission is the economic development or enhancement of the city or region in which the commission operates. This is accomplished by attracting new sports events to that city.
3. The number of full-time staff ranged from three to five employees.
4. All the commissions were private, nonprofit organizations.
5. Annual budgets of the commissions ranged from \$180,000 to \$300,000 a year.
6. The authorities or commissions were financed through private corporations, membership dues, city and county funds, and private sector "value in-kind" services. ("Value in-kind" services include office space, telephone services, computers, etc.)
7. None of the authorities or commissions were directly connected to a sports facility.

In addition to the general characteristics of a successful sports commission, these interviews identified a number of important issues to be considered before a sports authority is established in Hawaii.

Organizational Issues to Consider

After reviewing previous studies and information from other organizations, we conclude that several issues must be addressed before a decision on whether to establish a sports authority or commission is made.

An authority or a commission

One of the issues is the type of organization to create. Webster defines an *authority* as "a public administrative agency or corporation having quasi-governmental powers and authorized to administer a revenue-producing public enterprise."⁵ Also, an authority is usually associated with a facility or private sector enterprise, such as the Stadium Authority, Convention Center Authority, or the New York Port Authority. Webster also defines a *commission* as "a group of persons directed to perform some duty or execute some trust" or "a government agency having administrative, legislative, or judicial powers," such as the Hawaiian Home Lands Commission.

Two of the three previous studies, the 1987 Coopers & Lybrand and 1989 Don Smith Consultants, Inc. studies, recommended the nonprofit corporation. The 1991 KPMG study recommended the authority structure. None of the four sports organizations that we contacted was called an authority. Three were called commissions and one was titled a committee. If a decision is made to create a sports organization in Hawaii, the kind of organizational structure would therefore depend upon the powers and duties assigned and be named accordingly.

A public or private organization

Another issue is to determine if the sports promotion organization should be a public or private venture. All the commissions that we interviewed were private, nonprofit corporations, although some were affiliated with their respective city or county. This affiliation, usually through the Chamber of Commerce or a visitors bureau, helped in funding some of the commissions. For example, the Detroit Sports Commission formed a partnership with the Metropolitan Detroit Visitors Bureau to aid in their commission's funding.

As previously noted, two of the three reports recommend a nonprofit organization and one recommended a public entity. There are advantages and disadvantages to each type of organization. Some considerations are: (1) the State's capacity to financially support a sports authority or commission, (2) the level of local or private sector support for a sports authority or commission, (3) the private sector's willingness to establish a sports authority or commission, and (4) which entity might be more responsive to public needs—public or private. All these considerations require thoughtful and careful debate.

A county or statewide authority

Another decision to be made is whether a sports promotion organization for Hawaii would be a county or statewide organization. Most of the sports commissions tend to have a county or regional orientation. For example, all four of the commissions contacted were affiliated with a city or municipality. If Hawaii's sports promotion organization has a regional or statewide orientation, it must be determined if the region has adequate facilities and will be able to attract a sufficient amount of sporting events, participants, attendees, and spectators to the area. The organization must also coordinate its facility among the different jurisdictions.

For a Hawaii sports authority or commission to successfully attract sports events, the organization must coordinate state, city and county, federal, and private facilities, as well as the University of Hawaii's facilities. In addition, the statewide authority or commission will also have to consider overseeing the use of neighbor island facilities. However, other jurisdictions may be reluctant to give up control of their facilities, especially if they are already successful.

For example, two major sports facilities, the Neal S. Blaisdell Arena and the university's Special Events Arena on Oahu, are controlled by the City and County of Honolulu and University of Hawaii, respectively. Both facilities operate successfully, producing revenues for their operators. The University of Hawaii in particular uses its new arena to support its own sports activities. Both the university and the City and County may be reluctant to coordinate with a statewide authority or commission if that could result in either a loss of revenue or difficulties in scheduling their own events.

Governing and staffing structures

Before an authority or commission is established, it must be determined how the organization will be governed. All four commissions we contacted were governed by a board, each with wide ranging numbers of members. For example, the Greater Chattanooga Sports and Events Committee had a 23 member board with a 7 member executive committee. The Detroit Sports Commission had a 48 member board with a 13 member executive committee.

Before an authority or commission is established, it must be determined how the organization will be staffed. The four commissions that we contacted had full-time staffs ranging from three to five employees. Also, what type of experience the employees should possess would need to be settled.

Sources of funding

How the authority or commission is funded is a key issue. Funding for the commissions that we contacted came from private corporations, membership dues, city and county funds, etc. For example, the Greater Chattanooga Sports and Events Committee receives funding from the city and county, the private sector and "value in kind services" such as office space, telephone service, and computers.

Two of the three previous studies recommended that funding be a combination of state funds and private funds. Private funds would come from private contributions, sponsor fees, event revenues, etc. The third study recommended that all funding be public. The third study estimated that in 1989, start-up costs of a sports authority would be about \$1 million. It also estimated that future operating costs would be between \$1.8 million and \$3.8 million. If only start-up funds are to be provided by the State, it must be determined how long the state funds will support a sports authority and when private funds will take over. Another funding issue must address the problem of sports events that do not generate sufficient revenues to continue unless state funds provide supplemental support.

The 1991 KPMG report recommended that if Hawaii were to establish a sports authority, the authority must be ensured of dedicated funding. An authority would need a period of stable funding to give it time to develop an ongoing sports program. Funding can be from private, public, or some combination of both sources. If funding comes from private sources, a determination is needed on whether Hawaii has the corporate base and sponsorship to fund an authority. If funding comes from the Legislature, a determination is needed as to whether the State can afford to fund the authority on a yearly basis. If combined private and public funds are used, guaranteed public and private funding levels must be determined.

These are just a few of the issues to consider, and consider in depth, before a Hawaii sports authority can be established.

Conclusions

Attracting sporting events to Hawaii offers a potential source of additional income and growth to the state's economy. However, in view of the growing competition, as shown by the growing number of sports commissions, it is important that the State's efforts be well planned and coordinated. At present, the Department of Business, Economic Development and Tourism continues to be the logical agency through which sports promotion activities are supported.

The Stadium Authority, with its recent authorization to engage in promotional activities, has yet to develop a promotional arm to its operations. However, the authority's primary mission is to operate and manage Aloha Stadium and its related facilities, and no other sports facility. In promoting sporting events at the stadium, the stadium management noted they are directly competing with private promoters. We conclude that transferring sports promotion activities to the Stadium Authority, at this time, would not be beneficial. The Stadium Authority should continue its focus and promotion of Aloha Stadium.

A review of other state agencies showed that sports promotion activities do not fit within their functions. As a result, sports promotion activities should not be transferred to another state agency.

The use of sports commissions in other jurisdictions has proven to be a successful vehicle for expanding and competing for sporting events. However, after reviewing the information from previous studies and other sports commissions, and considering the organizational issues, our conclusion is that a separate sports authority would be premature at this time. The present situation with the Department of Business, Economic Development and Tourism and the Hawaii Visitors Bureau promoting

sporting events for Hawaii is appropriate. However, if a separate sports authority is considered in the future, we recommend that consideration be given the issues presented before a decision is made.

Recommendations

1. We recommend that the Stadium Authority be allowed to develop its promotional capabilities before considering any additional use of the authority to promote sports generally in Hawaii.
2. We recommend that Hawaii's sports promotion activities remain with the Department of Business, Economic Development and Tourism and the Hawaii Visitors Bureau.
3. We recommend, upon considering the creation of a sports authority or commission, that issues of the organization type, funding, scope, and logistics be included as an integral part of the decision-making process. Also, the Stadium Authority could be re-evaluated for the appropriateness of having a facility-based organization assume promotion for sports events.

Notes

Chapter 1

1. Hawaii, The Department of Business, Economic Development and Tourism, *A Sports Plan for Hawaii, 1992 and Beyond*, Honolulu, December 1992, p. 62.
2. Hawaii, Office of State Planning, *Assessment for a Hawaii Sports Authority*, Honolulu, April 1991, Volume 1, p. 1-13.

Chapter 2

1. Letter to Michael Yamashita, Analyst, from Larry Conley, Department of Business, Economic Development and Tourism, September 26, 1995.
2. Chapter 70, Rules of the Stadium Authority, Title 3, Department of Accounting and General Services, p. 70-3.
3. Section 2, Act 149, Session Laws of Hawaii, 1995.
4. Hawaii, The Department of Business, Economic Development and Tourism, *A Sports Plan for Hawaii: 1992 and Beyond*, Honolulu, December 1991, p. 63.
5. *Webster's Third New International Dictionary of the English Language, Unabridged*, Chicago, 1966, p. 146.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted a draft of this report to the Department of Business, Economic Development and Tourism and the Stadium Authority on December 7, 1995. A copy of the transmittal letter to the Department of Business, Economic Development and Tourism is included as Attachment 1. A similar letter was sent to the Stadium Authority. The department's response is included as Attachment 2. The response from the Stadium Authority is included as Attachment 3.

The Department of Business, Economic Development and Tourism concurred with our recommendation to retain the sports promotion activities within the department and the Hawaii Visitors Bureau. In addition, the department will continue to evaluate the sports promotion program in order to upgrade and strengthen their efforts. Also, the formation of a sports commission or authority as a feasible alternative for the State will remain an issue, and the department will continue to explore this area as they move forward with their sports development and promotion program.

The Stadium Authority did not directly respond to the recommendations in the report. But they did clarify specific monetary figures given in the report. Based upon their clarification, changes were made to the final report.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

December 7, 1995

COPY

The Honorable Seiji Naya, Director
Department of Business, Economic Development
and Tourism
Central Pacific Plaza
220 South King Street
Honolulu, Hawaii 96813

Dear Dr. Naya:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *A Review of Sports Promotion Activities of the Department of Business, Economic Development and Tourism*. We ask that you telephone us by Monday, December 11, 1995, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Monday, December 18, 1995.

The Aloha Stadium, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

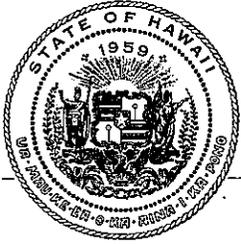
Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Marion M. Higa'.

Marion M. Higa
State Auditor

Enclosures



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

BENJAMIN J. CAYETANO
GOVERNOR
SEIJI F. NAYA
DIRECTOR
RICK EGGED
DEPUTY DIRECTOR

Central Pacific Plaza, 220 South King Street, 11th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804

Telephone: (808) 586-2355
Fax: (808) 586-2377

December 18, 1995

Ms. Marion M. Higa
State Auditor
State of Hawaii
Office of the Auditor
465 S. King St., Room 500
Honolulu, Hawaii 96813-2917

RECEIVED

Dec 19 9 38 AM '95

OFF. OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa:

Thank you for the opportunity to comment on your Office's draft report, *A Review of Sports Promotion Activities of the Department of Business, Economic Development and Tourism.*

A major function of the Department of Business, Economic Development & Tourism (DBEDT) is to market Hawaii as a desirable visitor destination. In an effort to diversify our visitor mix, however, we need to look toward new and developing markets. Sports is one of those areas that is an important element in our overall marketing strategy, has tremendous potential, and ties in with DBEDT's long-term goal to develop Hawaii as a major sports center. Undoubtedly, the benefits that can accrue to the state from such diversification efforts can have significant positive economic and social impacts on our community.

We concur with your recommendation to retain the sports promotion activities within DBEDT and the Hawaii Visitors Bureau at this time. As such, please be assured that we will continue to evaluate our sports promotion program in order to continue to upgrade and strengthen our efforts in accordance with the recommendations of the audit. Undoubtedly, the formation of a sports commission or authority as a viable and feasible alternative for the State will remain an issue, and we will continue to explore this area as we move forward with our sports development and promotion program.

Sincerely,

Seiji F. Naya

BENJAMIN J. CAYETANO
Governor



ALOHA STADIUM

EDWIN K. HAYASHI
Stadium Manager

MILTON HIROHATA
Deputy Manager

RECEIVED

DEC 19 9 26 AM '95

An Agency of the State of Hawaii

OFF. OF THE AUDITOR
STATE OF HAWAII

December 11, 1995

Via Fax/587-0830
(Hard Copy to follow)

TO: Mike Yamashita, Office of the Auditor

FROM: Stadium Authority

SUBJECT: COMMENTS AND RECOMMENDATIONS ON
"A REVIEW OF SPORTS PROMOTION ACTIVITIES OF THE
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND
TOURISM"

The staff has reviewed the draft copy of "A Review of Sports Promotion Activities of the Department of Business, Economic Development and Tourism" and generally agrees with the draft report. However, the figure (\$9.7 million) used for revenues (page 9, second paragraph) collected by the Stadium Authority (Authority) is extremely misleading and should be corrected. The inflated \$9.7 million in revenues cited in your draft report reflect one-time-only settlements (\$3.6 million) from corrosion litigation. On the average, the Authority collects approximately \$6.7 million in revenues. The bulk of which is generated by an exiting swap meet concession contract with the Aloha Flea Market. Unfortunately and due to depression in the retail market, the Authority does not expect the next swap meet bid contract to be as lucrative. In addition, the figure cited is for FY 1993-94 and not FY 1994-95.

Therefore and in the interest of clarity, the Authority recommends that the sentence "For FY 1994-95, the authority collected approximately \$9.7 million in revenues compared to expenses of approximately \$4.2 million (excluding major capital expenditures)." be replaced with "For FY 1994-95, the authority collected approximately \$6.7 million in rental and related revenues compared to expenses of approximately \$4.5 million (excluding major capital expenditures)." For your convenience, we have attached a summary sheet FY 1994-95.

Your consideration of this recommendation is greatly appreciated. Please contact Administrative Services Officer Deborah Ishihara at 486-9503 if you have any questions or require more information.

Sincerely,

Edwin K. Hayashi
EDWIN K. HAYASHI
Stadium Manager

Attachment
c: Stadium Fiscal & ASO

Revenue and Expenditure
 FY 1994-95

Prepared By	Initials	Date
Approved By		

	1	2	3	
Revenue				
Rent				4259763
Commissions from Admanu				1,156,683
Parking				583,867
Advertising				230,971
Interest				503,353
Other				18,383
				<u>6,753,020</u>
				\$
Total Revenue				
Expenditure				
Payroll				2,390,225
Others				2,111,300
				<u>4,501,525</u>
				\$
Total Expenditure				

