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# Audit of the Convention Center Authority: Final Report

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

Report No. 99-10  
February 1999



**THE AUDITOR**  
STATE OF HAWAII

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## 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.



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# OVERVIEW

## *Audit of the Convention Center Authority: Final Report*

Report No. 99-10, February 1999

### Summary

This is the second of two reports of an audit conducted by the Office of the Auditor pursuant to Section 12(a), Act 156, SLH 1998, which directed the State Auditor to audit and monitor the progress made by the Convention Center Authority in resolving various outstanding issues on or before the termination date of the authority. The first report was submitted in September 1998. In this report, we examine the function and role of the authority, the need for state oversight of the convention center, how the convention center is marketed and promoted, contracting issues, and the authority's efforts to resolve issues affecting neighborhood residents.

The most pressing issue for the Hawai'i Convention Center is to formulate a specific purpose for the facility. A clear purpose is critical in determining its operating policies, strategies for attracting groups, and mechanisms to ensure that goals are achieved and state interests are protected. The enabling statute addresses only the building of the convention center. Clarifying the center's mandate would assist in answering such questions as whether the center must be self-sufficient.

Revenue projections for the convention center must be realistic, understandable, based on sound methodology, and reflect the current market. These projections should include a reasonable estimate of the events the State can expect to book into the convention center, how many attendees the convention is likely to attract, anticipated revenues for the convention center, and the total revenues to be generated from conventioners.

We also noted that state control over the operations and performance of the convention center is necessary. The Hawai'i Convention Center is owned and operated by the Convention Center Authority. However, the authority, and Chapter 206X, HRS, which established the authority, are scheduled to sunset on June 30, 1999. We believe that the Legislature should postpone the sunset of Chapter 206X and specify the responsibilities of the Convention Center Authority in ensuring the orderly transfer of its functions to another agency. Issues remain from construction and initial operations for which the authority should be held responsible and on which the authority is the most knowledgeable entity.

The Convention Center Authority has generally met its oversight responsibilities. This oversight was appropriately exercised in the design and construction phase of the project. The authority's decision to use a design/build process helped to bring the project in on time. Oversight has continued in the operations phase of the facility. The authority has recently approved rooftop terrace operational guidelines that were developed by a task force composed of neighbors, visitor industry representatives, acoustic experts, and the Department of Health. Adopting these guidelines should help the authority to establish more credibility with



neighborhood residents. However, the authority has not completed all necessary sound tests on the rooftop terrace. At least three additional tests are needed, and no definite dates for these tests have been established.

Finally, the Convention Center Authority had a difficult relationship with some neighborhood residents during the construction phase of the project and in the initial stages of the operation of the convention center. Much of the initial controversy centered around the noise of the pile driving during the center's construction. A primary issue now is the amount of noise that may be generated by gatherings on the rooftop terrace. Formal mechanisms were established to obtain community input and to address community concerns. Despite these mechanisms, some neighborhood residents believe that the authority has not adequately responded to their concerns.

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## Recommendations and Response

We recommended that the Legislature consider amending Chapter 206X, HRS, to clarify the purpose of the convention center, how the convention center should generate tourism revenues for the State, and how the effectiveness of the facility should be assessed. In addition, we also recommended that the Legislature consider extending the sunset of Chapter 206X, determining the agency or department to assume the functions of the Convention Center Authority, and requiring the Convention Center Authority to cooperate to ensure the orderly transfer of its functions. We also recommended that the Convention Center Authority develop clear booking policies in line with the directives of the Legislature. Finally, we recommended that the Convention Center Authority ensure that it runs the necessary additional sound tests and adopts other measures to continue to monitor rooftop noise.

The Convention Center Authority responded that that it appreciated the time and effort spent on the review and the suggestions set forth in the two reports prepared by our office. In addition, the authority provided comments on the marketing and community relations issues that we raised in the report.

The authority commented on a statement in our draft that the convention center should expect no more than 175,000 visitors per year. The authority maintains that the marketing universe for the convention center may be larger than the 2,300 organizations currently used by the Hawaii Visitors and Convention Bureau and that this may result in a larger maximum annual attendance. The authority noted that a private firm has been commissioned to review the market universe. We added this information in our published report.

The authority also identified the four neighborhood boards whose meetings the authority attends each month to receive and respond to the concerns of neighborhood residents and organizations.

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Submitted by

**THE AUDITOR**  
STATE OF HAWAII

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February 1999



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## Foreword

This is the second of two reports of an audit of the Convention Center Authority. The audit was conducted pursuant to Section 12(a), Act 156, Session Laws of Hawaii 1998, which directed the State Auditor to audit and monitor the progress made by the Convention Center Authority in resolving various outstanding issues on or before the termination date of the authority. Our first interim report was submitted in September 1998.

We wish to express our appreciation for the cooperation and assistance extended by officials and staff of the Convention Center Authority and SMG, the convention center management, during the course of this audit.

Marion M. Higa  
State Auditor





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# Chapter 1

## Introduction

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Section 12(a), Act 156, Session Laws of Hawaii (SLH) 1998, asks the State Auditor to audit and monitor progress made by the Convention Center Authority (authority) in resolving various outstanding issues to assure the Legislature that these issues will have been addressed on or before the termination date of the authority. The authority's termination date was extended by one year to June 30, 1999 in Section 8 of Act 156. Issues to be examined by the Auditor include the authority's effectiveness in resolving traffic, noise, and other outstanding claims as well as any financial issues that the Auditor deems appropriate.

In this report—the second of two required by the Legislature—we examine the function and role of the authority, the need for state oversight of the convention center, how the convention center is marketed and promoted, contracting issues, and the authority's efforts to resolve issues affecting neighborhood residents.

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## Background

The Legislature asked for an interim report by September 30, 1998 on the progress being made by the authority and a final management audit report by February 28, 1999. Our interim report, *Audit Report of the Convention Center Authority: First Report—Design and Construction of the Convention Center*, Report No. 98-16, found that the authority had generally assured that the newly constructed convention center meets or will meet contract and government requirements. However, we noted that the authority will need to resolve potentially costly problems. We also found that confusion over noise limits for events on the rooftop terrace hinders the identification and resolution of a possible flaw in the rooftop design.

### ***The Convention Center Authority***

The Waikiki Convention Center Authority was established in 1988 under Act 96, SLH 1988. The seven-member authority was to develop a convention center originally at the International Market Place. However, when the selected private developer withdrew its plan to build a convention center in 1992, it became apparent that the authority would not accomplish its mission before its scheduled sunset in 1992. Act 159, SLH 1992, changed the name of the Waikiki Convention Center Authority to the Convention Center Authority and extended its duration with instructions to do a statewide convention center site-selection survey. Under Chapter 206X, Hawaii Revised Statutes (HRS), the authority is responsible for overseeing the development, management,

operations, and maintenance of a convention center. The Legislature designated the authority as the owner and operator of the facility. The authority, placed under the Department of Business, Economic Development and Tourism, was also given considerable independence and powers to accomplish its objectives. Currently, there is no plan or provision for state oversight of the convention center after the authority expires in June 1999.

The convention center has officially opened for business. Goals for the authority include, but are not limited to:

- minimizing the convention center's annual operating loss;
- increasing convention center bookings;
- improving community relations;
- resolving the punch list/warranty items; and
- settling operational guidelines for the rooftop terrace.

### **The authority has oversight over the convention center operator**

The Convention Center Authority, State of Hawaii, entered into a contract in June 1996 with Spectacor Management Group (now known as SMG), a Pennsylvania-based company, to operate and manage the convention center. SMG currently has 67 full-time employees. SMG's contract expires on June 30, 2001, but the Convention Center Authority, designated as the State in the contract, has the sole option of extending the period of services to June 30, 2005. SMG currently earns an annual management fee of \$350,000. It is also compensated and reimbursed for costs or expenses that have been approved by the Convention Center Authority.

### **Funding for the authority and convention center operations**

The authority currently administers two special funds. The Convention Center Capital Special Fund, established under Section 206X-10.5, HRS, receives revenues from the transient accommodations tax and proceeds from revenue bonds issued by the authority. Legislative appropriations may also be placed in this fund. Currently, the Convention Center Capital Special Fund is used to cover interest on the debt service on the bonds that funded the construction of the convention center. Projected debt service for FY1999-2000 is \$28 million and is expected to rise to \$40 million by FY2001-02.

The Convention Center Operations Special Fund, established by Section 206X-10.6, HRS, receives all money derived from the operations or use of the convention center. Revenues from parking and garage facilities, other concessions at the convention center, and appropriations from the Legislature may also be deposited into this fund. Money from this special fund is to be used for the operation, maintenance, and improvement of the convention center. The Convention Center Operations Special Fund is used to pay SMG for the cost to operate and maintain the convention center.

### ***Expectations of the convention center***

Hawaii's Legislature has acknowledged the State's heavy dependence on tourism by highlighting the need for further development of this industry. An important component in expanding and strengthening the visitor market is attracting more conventioners to Hawaii through the convention center.

Although the center had a formal grand opening in June 1998, several pre-opening events were held as early as January 1998. The convention center reports hosting 20 major events in 1998 including 2 major conventions each with attendance over 5,000—the American Federation of State, County, and Municipal Employees convention in August 1998; and the Oracle Applications Users Group convention in October 1998.

A recent convention center newsletter reports that the economic impact of the convention center has been significant. It states that the American Federation of State, County, and Municipal Employees convention generated over \$22 million in estimated visitor spending while Oracle Applications Users Group attendees spent over \$44 million.

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### **Objectives of the Audit**

1. Assess the effectiveness of the Convention Center Authority and its contracted operational manager in resolving traffic, noise, and other issues that affect neighboring communities.
2. Assess the effectiveness of the process for marketing, promoting, and booking events at the Hawai'i Convention Center.
3. Evaluate the management controls of the Convention Center Authority and assess the provisions for future state oversight of the Hawai'i Convention Center.
4. Make recommendations as appropriate.

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## Scope and Methodology

Our audit reviews the time period from 1994 to the present. We obtained information and data from an extensive review of documents including statutes, laws, regulations, correspondence, organizational materials such as meeting minutes and convention center policies, contracts, and contract-related documents. We interviewed staff and members of the authority, Hawai'i Convention Center, Hawaii Visitors and Convention Bureau, the Moscone Convention Center in San Francisco, and local community leaders. We attended authority meetings and conducted inspections of the convention center facility during day and evening events.

We requested access to the minutes of executive sessions of the authority. But most of the minutes had not yet been completed. Moreover, a representative of the Department of the Attorney General has indicated that our access to the minutes may have to be significantly restricted on the grounds of attorney-client privilege. The issue remains unresolved.

Our work was performed from June 1998 to January 1999 in accordance with generally accepted government auditing standards.

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# Chapter 2

## The Specific Purpose of the Convention Center Needs To Be Clarified

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The Convention Center Authority was confronted with the challenge of selecting a developer and constructing a “world-class” convention center to strengthen Hawaii’s economy. This facility is now in operation, and the authority, having completed its initial mandate, faces its own sunset. However, a more pressing issue exists. Although a promising role for the convention center in stimulating the economy has been broadly outlined, the center’s specific purpose has not been formulated.

The principal task before the Legislature is to establish the specific purpose of the convention center. Following completion of this task, other issues regarding the facility and the Convention Center Authority should be addressed. The convention center serves a public purpose and the State has a prime interest in ensuring that this purpose is served. Therefore, another important task before the Legislature is to determine how the State should maintain its oversight of the facility.

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### Summary of Findings

1. The purpose of the Hawai‘i Convention Center needs to be clarified.
2. Continued state oversight of the convention center is needed.
3. The Convention Center Authority has exercised oversight responsibilities.
4. The Convention Center Authority had a difficult relationship with some neighborhood residents.

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### The Purpose Needs To Be Clarified

The Hawai‘i Convention Center’s economic mandate to broaden the tourism market is apparent from statute. However, other questions about the specific purpose of the facility are still unanswered. The convention center has been in operation since January 1998 and inaugural events of the past year have received positive local and national attention. Despite the commendatory regard for the center’s attractions and the success of its early events, some see the center as a waste of public moneys. More importantly, the specific purpose of the convention center is unclear.

The Legislature can address this argument by establishing a concise statutory mandate for the facility. The mandate should answer three fundamental questions:

- Whose money is being sought?
- Should the convention center be self-sustaining?
- How can the success of the convention center be measured?

***The specific purpose of the convention center is unclear***

The convention center is fully operational but still lacks a clear detailed purpose. The types of groups that can use the facility is open to debate; however, this issue cannot be resolved until the purpose of the convention center is established. A budget document submitted to the Legislature contends that the goal of the convention center is to maximize “offshore” bookings, especially during slow hotel periods; bring new money to the State; and increase tax revenues. The 1995 environmental impact statement for the convention center states:

“The goal of the Hawai‘i Convention Center is to serve people of the State of Hawaii by offering a world-class facility that will secure Hawaii’s future as a leading destination for business and leisure travelers. In fulfillment of this goal, the immediate objective of the convention center is to strengthen Hawaii’s economy by expanding its visitor market to include convention-going visitors.”<sup>1</sup>

An official of the authority argues that the purpose of the convention center is to attract “offshore dollars” to Hawaii. A tourism professional charged with marketing the convention center describes the convention center as an “economic magnet for the whole State,” but acknowledges that the convention center will never cover its costs. These statements broadly define the convention center as an economic stimulant, however, none of them clarify how the convention center is to be used, which types of conventions or events are to be booked into the facility, or the priority of those bookings.

Clearly identifying that purpose is critical for the center and the entities concerned with its operation. Operating policies, strategies for attracting groups, and mechanisms to ensure that goals are achieved and state interests are protected can only be derived only when a clear and specific mandate for the facility is in place.

A major issue confronting the Convention Center Authority and SMG is the current “no local events” policy. In addition, booking local events may help the convention center increase revenues, particularly during

slow operating periods. The convention center lacks adequate parking for events requiring more than 800 stalls. In such cases, the convention center operator must arrange to use outlying parking facilities that may be available and/or provide parking at host hotels for local attendees who would be transported by shuttle bus to and from the convention center.<sup>2</sup> Restricting convention center bookings to larger regional, national and international groups or associations may offend some segments of the community at a time when public support for the convention center may be needed.

A second concern is the convention center's potential to be self-sustaining. A 1985 report on the market feasibility of a convention center in Hawaii estimated that the convention center would have an annual operating deficit of \$426,000 which translates into approximately \$687,000 in 1998 dollars. The report also contends that a convention center in Honolulu should not be expected to earn an operating profit due to its somewhat limited ability to draw large, high revenue trade shows.<sup>3</sup>

Although a separate 1992 report projected that a Hawaii convention center could operate at a profit by its fifth year of operation, a marketing official contends that revenues will never cover costs. To compete with other convention centers, the authority may need to keep rental rates in line with or below the fees imposed by other centers. A Hawaii Visitors and Convention Bureau staff member believes that self-sufficiency is a secondary concern for the center. The primary concern is that the convention center has as much economic impact on the State as possible.

An official from the Moscone Convention Center in San Francisco also provides a cautionary note. He states that it is typical for a new convention center to experience a three to four year lag between its opening and the advent of major bookings coming into the facility. He also asserts that most convention centers do not make money in and of themselves. He states that it is unrealistic for a convention center to be self-sufficient.

The decision as to whether the convention center should strive to be self-sufficient is dictated by its purpose. In addition, the issue of self-sufficiency potentially influences the policy on local events. If the agency responsible for managing the convention center is charged with the responsibility of ensuring self-sufficiency, it may find it fiscally prudent to book local events when they do not interfere with larger off-shore bookings.

The lack of clear statutory guidance on these issues contributes to the difficulty in resolving them. Providing a definitive and specific purpose to the center in state law would help to promote a resolution. Such guidance is also likely to contribute to the ultimate success of the



convention center. An official responsible for the Moscone Convention Center agrees that a clear facility purpose is critical. He believes that convention centers with the cleanest mission statements are the most successful.

### **Chapter 206X, HRS, does not provide sufficient guidance**

Chapter 206X, Hawaii Revised Statutes (HRS), does not specifically address the mission and purpose of the convention center. Although it establishes and identifies the objective of the Convention Center Authority, it does not provide a clear, succinct statement of the purpose of the facility itself.

The statute contains an opening statement which declares that a world-class convention center would strengthen Hawaii's economy by expanding the tourism market to include convention-going visitors. It also states that existing convention facilities in Hawaii are inadequate for the needs of many convention groups and that so far, Hawaii has not been able to attract the convention market. However, the statute does not clarify the following issues:

- (a) Whether the convention center is to be dedicated for only out-of-state conventions;
- (b) Whether the convention center should be self-sustaining;
- (c) The role that hosting local events could play, if at all, in meeting the objectives of the convention center; and
- (d) How the performance of the convention center should be measured.

Most of Chapter 206X is devoted to addressing the functions of the Convention Center Authority. It gives the authority the responsibility of managing, operating, and maintaining the facility on behalf of the State. The chapter further indicates that the fundamental objective of the Convention Center Authority is to supervise and regulate the development of a convention center facility. Section 206X-4, HRS, states that the primary purpose of the Convention Center Authority is to review for approval the developer's proposed convention center development plan and to supervise all development within the convention center district, including that of a convention center facility.

Although the statute provides guidance on the initial mandate of the authority to build the convention center, it leaves other important questions about the facility open. Answers to these questions would dictate how the convention center should be marketed, how State and private resources should be used to promote the convention center, which types of groups use the facility, and how the State can measure the success of the convention center.

Without sufficient guidance on the purpose of the convention center, public and private efforts to promote the center may be fragmented and marketing and booking policies are open to question. Most importantly, the success of the convention center cannot be adequately measured. Without a clear purpose there is no benchmark against which to measure success.

### **Other documents leave questions unanswered**

Other documents, such as the convention center's final environmental impact statement, the administrative rules of the Convention Center Authority, and the authority's annual reports, provide some direction but still leave fundamental issues unresolved. For example, although the environmental impact statement refers to expanding the visitor market to include convention-going visitors, the statement does not address who should use the facility or whether the facility is designed to be self-sustaining.

The authority's administrative rules for the management, operation, and maintenance of the convention center also fail to sufficiently clarify the purpose of the convention center. General operating objectives under Section 15-110-4 of the Hawaii Administrative Rules include, but are not limited to:

- enhancing the State of Hawaii as a convention destination;
- positioning the convention center to effectively compete in the international, Pacific rim, national, and regional marketplace;
- generating a broad mix of events including conventions, new trade shows, and selected civic events;
- maximizing economic impact to all islands in the State; and
- maximizing the utilization of the convention center and its revenue generating capacity while minimizing the cost of operating the convention center to the State.<sup>4</sup>

Administrative rules do not specifically indicate whether a mix of out-of-state and local events is permitted. The rules speak to the issue of economic impact but do not indicate whether that impact comes from the infusion of out-of-state dollars only, or can include spending by local residents. Finally, the rules identify the need to maximize the use of the convention center, which could imply that the facility should be open to all types of events that generate revenues for the convention center.

In its 1997 annual report, the Convention Center Authority “recognizes its responsibility to ensure that the Hawai‘i Convention Center (HCC) plays a major role in the revitalization of the State’s visitor industry while being sensitive to competition with the hotels and Blaisdell Center.”<sup>5</sup> However, this document is simply a chronology of significant events and milestones in 1997 and does not specify the purpose of the facility beyond its revitalization role. Prior annual reports from the authority are equally vague.

**Marketing efforts need reassessment**

Marketing responsibilities, strategies, and policies need to be reassessed, particularly within the context of a legislatively-specified purpose for the convention center. The Hawaii Visitors and Convention Bureau is the primary entity that markets the convention center. A clearer purpose would dictate how much responsibility SMG, the convention center operator, and the agency charged with center oversight have over marketing. We also note that the authority’s current responsibilities for marketing are clouded.

A private consulting firm identified five basic types of events or meetings in the market for a world-class convention center:

**Conventions** — Private meetings of large organizations for the purpose of convening, sharing information, updating members on new developments, etc.

**Association meetings** — Similar to conventions, but limited to associations organized around academic disciplines, professional interests, or technical fields.

**Incentive meetings** — Events sponsored by corporations or associations in order to acknowledge performance of members or employees.

**Corporate meetings** — Private meetings other than corporate conventions sponsored by corporations.

**Trade shows** — Usually fairly large-scale events requiring substantial exhibit space, at which members of associations or industries exhibit their products.<sup>6</sup>

**Booking, revenue, and cost projections must be realistic**

Revenue projections for the convention center must be realistic, understandable, based on sound methodology, and reflect the current market. These projections should include a reasonable estimate of events the State can expect will be booked into the convention center, how many attendees those conventions are likely to attract, anticipated revenues for the convention center, and a realistic estimate of the total revenues generated from conventioners.

We noted in our first report that convention center advocates saw the facility as a key ingredient for the state's economic security. Expectations about the positive impact of the center have been high. A 1995 official meeting guide published by the Hawaii Visitors Bureau said that the center was expected to generate about \$300 million per year in revenues.<sup>7</sup> The convention center's environmental impact statement was even more optimistic, projecting \$500 to \$800 million in delegate/exhibitor spending in 1998.<sup>8</sup>

Prior projections of bookings and revenues were overly optimistic and have led the public and the Legislature to expect more from the convention center than it can provide. Projections from the 1995 final environmental impact statement (EIS) are now hard to defend. The EIS anticipated that in the sixth year of operation, the convention center would attract approximately 52 events with average attendance ranging from 6,200 to 7,500 out-of-state persons for a projected total of 322,400 to 390,000 attendees. A joint estimate of the Convention Center Authority and the Hawaii Visitors and Convention Bureau used the same figures as the EIS, but such figures were unrealistic.

Realistically, fewer than 52 events can be booked per year. A typical convention lasts about one week from set-up to clean up. Certain holiday periods such as Christmas and Thanksgiving reportedly are not used, and a marketing official notes that vacant periods between some events are unavoidable.

According to a marketing official from the Hawaii Visitors and Convention Bureau, as a mid-sized facility, the Hawai'i Convention Center meets the needs of up to 5,000 attendees. The official also asserts that 30 to 35 events per year can be booked into the convention center with an average of 5,000 attendees per event. This would bring a total of approximately 150,000 to 175,000 attendees to the state. According to the authority, a private firm has been commissioned to review the market universe of the convention center.

In FY1999-00, revenues are expected to total approximately \$8 million while expenses are expected to be over \$12 million, giving the center an estimated net loss of over \$4 million. The goal for FY1999-00 is to book 25 events into the facility; however, only 12 events have been booked.

### **Marketing responsibilities are clouded**

The Convention Center Authority's role in marketing the convention center is clouded. When the authority goes before the Legislature, the authority claims a mission or role to market the convention center. However, an official of the Convention Center Authority says the authority does not have any authority over marketing efforts initiated by the Hawaii Visitors and Convention Bureau.

Documents submitted to the Legislature state that the authority is responsible to develop, market, and operate a convention center. In the justification for a bill submitted this year to extend the Convention Center Authority, the authority contends that its mission of developing, constructing, and operating the facility does include the task of marketing.

The Convention Center Authority also reports that the responsibility for marketing rests with the Hawaii Visitors and Convention Bureau (bureau) which has been retained by the Department of Business, Economic Development and Tourism to promote tourism in the State. A Hawaii Visitors and Convention Bureau marketing plan asserts that the bureau has the sole responsibility for this task. A bureau representative also says that the bureau does 100 percent of the marketing of the convention center and that the Convention Center Authority does not have a direct marketing responsibility.

The bureau representative also claims that the Convention Center Authority's role in marketing the convention center is limited to reviewing the reports submitted by the bureau. We found at the Moscone Convention Center that it was standard practice to have a separate tourism bureau obtain funding and handle the marketing responsibilities.

### **The convention center's purpose dictates the marketing strategy**

The marketing strategy for the convention center should be dependent upon the purpose of the center. If the convention center is required to be self-sustaining, then its marketing strategy should be to book as many events as possible, both local and offshore, and at the highest possible fees. In this scenario, competition with hotels and the city's Neal Blaisdell Center for local events and other relatively small off-shore conventions would be irrelevant; the object would be to generate enough revenues to fully cover operating costs. However, if the purpose of the convention center is to generate offshore dollars without regard to self-sustainability, then its strategy should be primarily focused on bringing in convention groups from out-of-state.

### **The booking policy needs to be revisited**

The Convention Center Authority needs to revisit its booking policy in which local events are essentially barred from using the convention center and the off-shore market may be reduced. According to convention center booking policies, conventions and trade shows which are international, national, or regional in nature and have a significant impact in terms of hotel tax generated, are given first priority in

scheduling dates. Currently, organizations using the convention center must occupy a minimum of 500 hotel rooms on their peak night. The peak night refers to the night during the event when the organization and its attendees have booked the maximum number of hotel rooms. Exhibit 2.1 displays minimum hotel room requirements in the booking policy.

**Exhibit 2.1  
Minimum Hotel Room Requirements in the Booking Policy**

Hotel Rooms Required on Peak Nights	Booking Timeframe
500	July 1, 1998 through June 30, 1999
1,000	July 1, 1999 through June 30, 2000
2,000	July 1, 2000 through June 30, 2002
2,500	July 1, 2002 through June 30, 2003
3,000	July 1, 2004 and beyond

Under this policy, the minimum room night requirement is progressively raised until the year 2004. A Convention Center Authority official stated that the minimum room night requirements were developed to help ensure that as the convention center became more attractive to meeting planners, it would give priority to larger and more lucrative bookings.

The authority has used the hotel room booking policy as a way to ensure that event attendees will be primarily non-local. Booking requests that appear to be primarily for local events are referred to hotels and the Neal Blaisdell Center.<sup>9</sup>

A review of the booking policy would need to examine the lack of adequate parking for local events and the need to use outlying parking facilities that may be available and/or to provide parking at host hotels. The convention center has used parking facilities at the University of Hawai'i and shuttled event attendees from the university to the convention center.

The first priority for the Convention Center Authority should be to ensure that the booking policy reflects the purpose of the convention center. Currently, the authority's policy is consistent with an effort to generate strictly offshore dollars for the State. However, if the Legislature mandates a different purpose for the facility, the policy should be revised accordingly.

**The authority has not consistently followed its own policy**

The Convention Center Authority has not consistently followed its own booking policy. The authority has allowed some events to be booked into the convention center that did not meet minimum hotel room requirements. By doing so, the authority is open to accusations that it has violated its own policy. An official for the convention center maintains that the policy needs to be flexible because there may be times when bringing a local event to the center may help to book more offshore conventions; however, it is not clear how this would be so.

**The current policy can contravene marketing efforts**

Minimum hotel room requirements will increase to 3,000 hotel rooms on the peak night for events booked after July 1, 2004. However, a Hawaii Visitors and Convention Bureau marketing official indicates that only 417 of the target organizations hold yearly meetings that require over 3,000 hotel rooms on the peak night. Implementing this policy in its current form will limit the center's potential to secure bookings and will therefore reduce revenue for the convention center and the State.

**Community groups want to use the convention center**

Individuals contend that local groups should be able to use the convention center for the following reasons:

- the center should be open to the public if general fund moneys are used to operate it; and
- opening the convention center to local events is a good way to maximize revenues for the facility.

These are convincing arguments that should be considered by the authority if a change in policy were to match the specific purpose of the convention center as identified by the Legislature. In addition, resolving the issue may help to build good community relations. An official of the Convention Center Authority contends that there is no need to modify the statute to change the booking policy and that the Convention Center Authority is currently considering a draft proposal to change the booking policy. This proposal would allow local groups to hold conventions in the center if the facility has not been booked for a national or international gathering. Local groups would therefore have to reserve the space no more than six months in advance and would be subject to being bumped in favor of an out-of-state group. This proposal is expected to be discussed at an upcoming meeting of the authority's board of directors.

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## **State Oversight Is Needed**

State control over the operations and performance of the convention center is necessary. The Hawai'i Convention Center is owned and operated by the Convention Center Authority. However, the authority, and Chapter 206X, HRS, which established the authority, are scheduled to sunset on June 30, 1999. Unless specific provisions are made to transfer the Convention Center Authority's funds and functions to another state agency, state control over the convention center will cease with the expiration of the authority.

We noted in our September 1998 report that there were no plans or provisions for state oversight of the facility after the authority expires in June. The authority still has no plans for dealing with the actual sunset of the authority. Instead, it is seeking to extend the sunset date. At least one bill has been introduced to extend the Convention Center Authority until June 30, 2000 and another bill makes the convention center law permanent. The authority is seeking to continue its role in being responsible, through its contractor SMG, for the operations and maintenance of the convention center.

### ***The Convention Center Authority has met its initial mandate***

The mandate given to the authority to supervise the development of a convention center facility has been achieved. With the exception of the final resolution of "punch list" items, the convention center has been developed and constructed. Punch list items include outstanding construction repairs or incomplete items. The authority anticipates completing the punch list items by December 1999.

### ***The Convention Center Authority currently has oversight responsibilities***

Oversight responsibilities are currently exercised by the Convention Center Authority. Section 206X-13, HRS, states that the powers and functions granted to and exercised by the Convention Center Authority are declared to be public and governmental functions, exercised for a public purpose, and matters of public necessity. Under the direction of Chapter 206X, the authority has established administrative rules for managing, operating, and maintaining the convention center.

### ***A decision on how to ensure continuation of oversight functions is needed***

Although the Convention Center Authority is scheduled to sunset on June 30, 1999, there are no provisions for state oversight of the convention center after the sunset of the authority. Consequently, the Legislature will need to decide in short time how to ensure that state oversight of the facility continues. Three options are discussed below.



### **Option 1 – Postpone the sunset of Chapter 206X, HRS**

The first option is to postpone the sunset of Chapter 206X, the Convention Center Authority, and to plan for the transfer of the authority's functions at some point in the near future (one or two years hence) to some other state agency. One argument in favor of this option is that it gives the authority time to complete the punch list/warranty items. In addition, the Convention Center Authority reportedly has specialized knowledge of convention center issues and day-to-day operations. We noted in our September 1998 report that the authority must remain vigilant in monitoring the facility because new and potentially costly problems may arise. A few of the items on the punch list remained outstanding at the time of our first report.

A second argument for extending the sunset for one or two more years is that it allows for a more orderly transfer of the authority's functions to another state agency or department. Postponing the sunset also gives the Legislature time to initiate the transfer of the two special funds from the Convention Center Authority to another agency. The authority would also have time to continue making investments and to develop procedures to have its accounts reconciled and ready for transfer.

### **Option 2 – Repeal the sunset of Chapter 206X, HRS**

The second option is to repeal the sunset of Chapter 206X and allow the Convention Center Authority to retain control over the convention center indefinitely. As noted above, the Convention Center Authority reportedly has a knowledge and understanding of the operations of the convention center. An official of the authority contends that any agency charged with oversight responsibilities must be focused on the facility. There is no guarantee that transferring the functions of the authority to another state agency would retain that focus.

### **Option 3 – Transfer functions to the Hawaii Tourism Authority**

The third option is to transfer the functions of the Convention Center Authority to the newly created Hawaii Tourism Authority. In 1998, the Legislature created the Hawaii Tourism Authority and placed it within the Department of Business, Economic Development and Tourism for administrative purposes. The powers of the Hawaii Tourism Authority include, but are not limited to: engaging the services of qualified persons to implement the State's tourism marketing plan, and creating a vision and developing a long range plan for tourism in Hawaii.

The primary argument for placing the Convention Center Authority's functions within the Hawaii Tourism Authority is that the authority is

responsible for setting policies regarding tourism marketing and promotion in the State. However, the tourism authority has not been given specific responsibilities for the convention center.

Presently, transferring the Convention Center Authority's functions to the Hawaii Tourism Authority may not be a viable option. However, this option should be given serious consideration after the Tourism Authority evolves and it becomes clear whether the authority has the staff and resources to specifically oversee the convention center.

***The Legislature should postpone the sunset of Chapter 206X***

We believe that the Legislature should postpone the sunset of Chapter 206X and specify the responsibilities of the Convention Center Authority in ensuring the orderly transfer of its functions to another agency. If no state agency is involved in ensuring the proper management of the convention center, the State cannot be assured that its interests in the center are protected. Postponement of the sunset helps to ensure that those interests are protected; that necessary oversight functions are not lost; and that the authority's functions may be transferred in an orderly manner.

The Legislature must determine the state agency that will assume oversight responsibilities of the convention center. It will need to specify how the two special funds are to be handled. The transfer of functions can be effected with the aid of the Convention Center Authority. Although the authority has not made any specific plans regarding what to do if the sunset occurs as originally intended, it should be directed by the Legislature to assist in the proper and orderly transfer of functions in the future. In the interim, the authority should continue to resolve punch list and warranty items, finish resolving the rooftop noise issue, and clarify the local booking policy.

Currently the Convention Center Authority is charged with the responsibility of contracting for the management, operations, and maintenance of the convention center. Until a state agency is charged with this responsibility, SMG could continue to operate the convention center under contract with the State without any direct oversight.

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**The Convention Center Authority Has Met Its Mandated Responsibilities**

We found that the Convention Center Authority has generally met its oversight responsibilities. This oversight was appropriately exercised in the design and construction phase of the project. The authority's decision to use a design/build process helped to bring the project in on time.

Oversight has continued in the operations phase of the facility. For example, the authority reviews costs and operations of the facility. The authority has also addressed an issue that we identified in our first report by establishing rooftop terrace guidelines.

***The authority decided to use a design/build process***

In January 1994, the Convention Center Authority decided to use a design/build process for constructing the convention center. Under this process, only one developer is selected to both design and construct the project (as opposed to the “traditional” design-bid-build process where one company designs and a second company constructs the project). Guidelines published by the Design-Build Institute of America indicate that for public sector design/build projects the design/build selection process entails a considerable departure from the design-bid-build procedures normally employed by government agencies. However, the guidelines also note that the design/build process offers more flexibility for a public agency in meeting its urgent physical, financial, legal, and political needs than can traditional procurement practices.

An official of the authority stated that the decision to use the design/build process shortened the construction phase of the project by at least one year. We noted in our first report that the design/build selected by the authority designed and constructed the facility within budget and earlier than scheduled. The official also asserts that there was some success in the design/build process used for the University of Hawai‘i’s Special Events Arena and that this was a factor in the authority’s decision.

In 1994, the authority issued a request for proposals (RFP) for the design and construction of the convention center. The authority intended to give complete management of the design and construction of the project to the successful contractor (Nordic/PCL), who in September 1994 was contracted to design, construct, and complete the center.

**Actions were in accordance with general design/build concepts**

The Convention Center Authority’s contract with Nordic/PCL, assigned the design/build the full responsibility for constructing and completing the convention center. Specifically, the contract stipulated that the design/build furnish all labor, materials, machinery, tools, supervision, transportation, and other construction accessories, services (including professional services) and facilities necessary to design, construct, and complete the convention center. Once the State agreed to the design of the project, Nordic/PCL assumed all responsibility for any problems that arose, timely completion of the project, and liability for defects in workmanship. The authority’s deputy attorney general also asserts that the RFP clearly stated that the design/build would assume all

responsibilities and liabilities for the work of the subcontractors. He noted that if the authority became involved with the subcontractors then the State would be exposed to liability risks concerning the subcontractors.

The State may ask for a list of subcontractors on a project to ensure that they have the requisite licenses to do the work. However, this does not constitute approval, control, or direction of subcontractors' work. Thus, there is no direct control by the State over the subcontractors selected for a project, the quality of their work, or the amount they are paid by the prime contractor. In addition, government agencies that become involved in selecting the subcontractor may end up paying for any mistakes made by the subcontractor.

### **The process was monitored**

The Convention Center Authority received advice, consultation, and the legal representation from a deputy attorney general. Although there is no official attorney general policy regarding subcontracting, the state deputy attorney general noted that the authority followed the Department of Accounting and General Services' procedures and the procurement law. The deputy attorney general asserts that the State did not have a right to approve, control, or direct the subcontractors or supplier—this was the sole right of Nordic/PCL.

### ***Necessary management controls are in place***

The Convention Center Authority has addressed its oversight responsibilities. It reviews costs and operations of the facility. In addition, the Convention Center Authority Board reviews the annual budgets prepared by SMG.

We found no inappropriate procurement practices in our review of the authority's contract and procurement records. The authority assigns to a fiscal officer the responsibility of reviewing contracts for compliance with applicable laws, rules, regulations, and policies. The fiscal officer also reviews the contracts that SMG has entered into with vendors and the licensing agreements with associations or groups that use the convention center. The State's interest is also protected by the deputy attorney general who monitors the administration of the Convention Center Authority's contract with SMG and assists in ensuring that SMG is in compliance with contract terms.

### ***Rooftop terrace guidelines have been established***

The Convention Center Authority has recently approved rooftop terrace operational guidelines. The rooftop terrace is a 105,000 square foot open-area on the uppermost level of the convention center on the side fronting Kahakai Drive.

### **Our interim report identified the issues**

In our interim report, we noted that it was too early to say whether events on the convention center rooftop would generate excessive noise for neighboring residents. However, we also stated that it was not too early to define the amount of noise considered to be excessive. We noted that an acknowledgment by the authority that noise standards applied to rooftop events would contribute towards establishing credibility with community leaders.

We recommended that the Convention Center Authority accept Department of Health community noise guidelines as the noise limits for events on the rooftop terrace. We also recommended that if a different noise standard is set for the convention center's rooftop terrace, this standard should be established by the Legislature or by an objective party empowered by the Legislature.

### **Guidelines have been adopted**

The Convention Center Authority adopted rooftop terrace guidelines in December 1998. The guidelines stipulate that noise should be held to a level no greater than 60 decibels by the time it reaches nearby residences. Also, center events on the rooftop terrace must end by 10:00 p.m., sound/level measurements shall be continued, event notices will be distributed to neighboring residential complexes, and designated personnel are to receive noise complaints.

The guidelines were developed by a task force composed of neighbors, visitor industry representatives, acoustic experts, and the Department of Health. Adopting these guidelines should help the authority to establish more credibility and positive public relations with neighborhood residents.

However, we note that the Convention Center Authority has not completed all necessary sound tests on the rooftop terrace. At least three additional tests are needed, and no definite dates for these tests have been established.

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## **Convention Centers Need Good Community Relations**

The Convention Center Authority had a difficult relationship with some neighborhood residents during the construction phase of the project and in the early stages of the operation of the convention center. Much of the initial controversy centered around the noise of the pile driving during the center's construction. A primary issue now is the amount of noise that may be generated by gatherings on the rooftop terrace.

Formal mechanisms were established to obtain community input and to address community concerns. Despite these mechanisms, some neighborhood residents believe that the authority has not adequately responded to their concerns.

***Public trust and confidence is paramount***

Government agencies have a responsibility to engender public trust and confidence in their actions. To increase this feeling through interactions with individuals and groups outside the organization, public agencies should make the following commitments:

- Involve stakeholder groups in discussions before key decisions are made through frequent, open, and prompt contact;
- Carry out agreements in a timely manner unless modified through an open process established in advance;
- Consistently and respectfully reach out to state and community leaders and to the general public to inform, consult, and collaborate with them about the technical and operational aspects of agency activities;
- Maintain a presence of key agency leaders who make themselves visible and accessible to citizens at important field sites; and
- Secure benefits for affected communities and resources that might be needed to detect and respond to unexpected costs arising from actions taken by the agency.<sup>10</sup>

Ala Moana Center is cited by neighborhood residents as a facility that has followed a good neighbor policy. The shopping center has been commended for informing neighbors of events, listening to suggestions for improving life around the shopping center, restricting parking on certain streets, and being responsive about construction issues. A community relations consultant associated with the shopping center confirmed that good community relations begins with an assessment of problems and disruptions that could occur in the community. In addition, listening to suggestions from the community and making feasible changes to accommodate community needs are also important in developing good community relations.

***Neighborhood residents were frustrated***

Some neighborhood residents and community leaders whom we interviewed in both phases of this audit felt that the Convention Center Authority did not involve them in key decisions affecting the community and did not speak to the community with complete candor. Some residents were concerned about the impact of traffic and noise.

The Convention Center Authority was accused of ignoring the rooftop noise issue. It was also accused of being arrogant and having a disregard for the community. Others believe that the authority has been responsive to some issues but was unresponsive to other issues.

Some concerns date back to the site selection. Residents that we interviewed believe that the public's opinion on the site selection was ignored. However, residents failed to note that the Legislature, not the Convention Center Authority, selected the site.

### **Construction issues were a source of frustration**

Neighborhood residents were frustrated when they felt that the Convention Center Authority did not respond to their concerns about construction issues, noise from the rooftop terrace, and traffic. For example, noise from the pile driving was a primary source of irritation for neighborhood residents during construction. In addition, there was a complaint that construction workers started before 7:00 a.m. and finished after 6:00 p.m. There was also an allegation that construction took place on Sundays, in violation of state rules. Finally, there was a complaint that illegally parked construction-related vehicles created a health hazard by blocking the view of oncoming traffic.

However, attempts to address construction and traffic problems are acknowledged. Residents acknowledge that some construction complaints were addressed. When dust became a problem, the developer made greater efforts to water the site and give free car washes. Trucks have reportedly reduced honking their horns and speed bumps were placed on Kahakai Drive.

### **Disputes over the rooftop noise standard exacerbated problems**

Disputes over the 60 decibel standard for the rooftop terrace have been a source of dispute. There were fears that the authority would try to set a higher than 60 decibel standard. However, as we noted above, the authority has adopted a set of guidelines for the rooftop terrace to address the issue.

### **Some residents have other concerns**

Some concerns are ongoing. For example, there was a concern about incidental noise impact on Atkinson Plaza, a neighboring residential building, noise associated with the movement of employees into the convention center, traffic, and the opening and closing of a parking gate. In response, the parking gate was lubricated to reduce its noise, there was increased security in the area, and an arrangement was made to pick up all workers from the Kapiolani Boulevard entrance. In addition, trucks are no longer permitted on Kahakai Drive between 10:00 p.m. and 7:00 a.m.

Other fears were that the adjoining streets would not accommodate additional traffic and excessive noise would be generated by that traffic. These concerns appear to have been mitigated. A convention center official contends that most of the concerns raised in the environmental impact statement have turned out to be minor problems and there have been no problems with traffic yet.

***Some mechanisms are in place***

The Convention Center Authority has mechanisms to receive and respond to the concerns of neighborhood residents and organizations. These mechanisms include, but are not limited to: ensuring Convention Center Authority board meetings are open to the public and that individuals can voice their opinions at the board meetings; attending neighborhood board meetings; and meeting with condominium presidents. Neighborhood residents would like to see an honest effort to resolve problems that affect the community.

A Hawai'i Convention Center Joint Advisory Council (HCCJAC) was formed to review and discuss issues such as the traffic and rooftop noise reports. The authority welcomes community organizations, businesses, neighborhood residents, and other interested parties to council meetings. In addition, there is a 24-hour telephone number that neighborhood residents can call to report issues or register complaints.

Although the Convention Center Authority has overall responsibility for addressing community concerns, SMG also plays a significant role in responding to community issues. For example, the convention center operator has asked employees to use the front entrance of the facility after events and to be picked up on the Kapiolani side of the building to minimize disturbances on Kahakai Drive. SMG also logs complaints from neighborhood residents, most of which in the past year have come from Atkinson Plaza residents.

An official in San Francisco confirms that the Moscone Convention Center deals with the same community issues facing the convention center in Hawaii. In some cases, community residents around the Moscone center tend to blame the center about noise and traffic over which the center has no control. He indicated that the best way to deal with community concerns is to have an outreach staff person attend community meetings and to be honest about what the convention center is trying to accomplish and the issues it is attempting to resolve.

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**Conclusion**

Clarifying and communicating a clear purpose for the convention center are critical to ensuring its success. The center's purpose will largely dictate the policies that are adopted for it, how the entities charged with marketing the convention center go about their work, and who will



assume state oversight over the facility. If the Legislature assigns the task to some other agency or department, a transition period will be necessary. The State must maintain control and review of convention center operations to protect that interest.

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## Recommendations

1. The Legislature should consider amending Chapter 206X, HRS, to clarify the purpose of the convention center, how the convention center should generate tourism revenues for the state, and how the effectiveness of the facility should be assessed.
2. The Legislature should consider extending the sunset date of Chapter 206X, HRS, determining the agency or department to assume the present functions of the Convention Center Authority, and requiring the Convention Center Authority to cooperate in ensuring the orderly transfer of its functions.
3. The Convention Center Authority should develop clear booking policies in line with the directives of the Legislature.
4. The Convention Center Authority should ensure that it runs the necessary additional sound tests and adopts other measures to continue to monitor rooftop noise.

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## Notes

### Chapter 2

1. Hawaii, Convention Center Authority, Department of Business, Economic Development & Tourism, *Hawai'i Convention Center, Honolulu, Hawaii: Final Environmental Impact Statement, Volume I*, Honolulu, July 1995, p. 2-4.
2. Attachment, to the Executive Director, Convention Center Authority, from the Governor, regarding mitigation measures in the Hawai'i Convention Center's final environmental impact statement, August 8, 1995.
3. Pannell Kerr Forster, *Report on the Market Feasibility of a Proposed Convention Center, State of Hawaii*, Honolulu, March 22, 1995, p. X-1.
4. Section 15-110-4, Hawaii Administrative Rules.
5. Hawaii, Convention Center Authority, Department of Business, Economic Development & Tourism, *Convention Center Authority: 1997 Annual Report*, Honolulu, December 1997.
6. SMS Consulting, *The Opportunity for a World-Class Convention Center in Hawaii: A Technical Report*, Honolulu, Updated January 25, 1993, p. 4.
7. Hawaii Visitors Bureau, *Discover Hawaii '95*, Honolulu, p. 11.
8. Hawaii, Convention Center Authority, Department of Business, Economic Development & Tourism, *Hawai'i Convention Center, Honolulu, Hawaii: Final Environment Impact Statement, Volume I*, Honolulu, July 1995, pp. 4-7.
9. Hawaii Visitors and Convention Bureau, *FY1998-99 Annual Tourism Marketing Plan*, Honolulu, July 1, 1998. p. C-3.
10. Cited in Todd R. La Porte and Daniel S. Metlay, "Hazards and Institutional Trustworthiness: Facing a Deficit of Trust," *Public Administration Review*, Vol. 56, No. 4, July/August 1996, p. 344.



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## Response of the Affected Agency

### Comments on Agency Response

We transmitted a draft of this report to the Convention Center Authority on February 19, 1999. A copy of the transmittal letter to the authority is included as Attachment 1. The authority's response is included as Attachment 2.

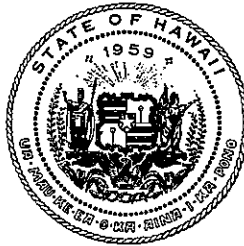
The Convention Center Authority responded that it appreciated the time and effort spent on the review and the suggestions set forth in the two reports prepared by our office. In addition, the authority provided comments on the marketing and community relations issues that we raised in the report.

The authority first directed its comments to a caution to the statement that the convention center should expect no more than 175,000 visitors per year. The authority noted that the marketing universe for the convention center may be larger than the 2,300 organizations currently used by the Hawaii Visitors and Convention Bureau and that this may result in a larger maximum annual attendance than the 175,000 figure quoted in the report. In addition, the authority stated that a private firm has been commissioned to review the market universe and that a definite statement on the maximum attendees per year may need to be deferred until the firm's marketing report has been completed. Consequently, we made a few minor revisions to the report.

Also, the authority identified the four neighborhood boards whose meetings the authority attends each month to receive and respond to the concerns of neighborhood residents and organizations.

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

February 19, 1999

*COPY*

Mr. Alton K. Kuioka, Chair  
Convention Center Authority  
1833 Kalakaua Avenue, Suite 800  
Honolulu, Hawaii 96815

Dear Mr. Kuioka:

Enclosed for your information is a copy number 6 of our draft report, *Audit of the Convention Center Authority: Final Report*. We ask that you telephone us by Monday, February 22, 1999, 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 Wednesday, February 24, 1999.

The 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,

Marion M. Higa  
State Auditor

Enclosures



# Convention Center Authority

1833 KALAKAUA AVENUE, SUITE 800 HONOLULU, HAWAII 96815  
 TELEPHONE: (808) 973-9790 FAX: (808) 973-9794

February 24, 1999

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OFF. OF THE AUDITOR  
 STATE OF HAWAII

Ms. Marion M. Higa  
 State Auditor  
 Office of the Auditor  
 465 S. King Street, Suite 500  
 Honolulu, Hawaii 96813

Dear Ms. Higa:

Subject: Audit of the Convention Center Authority: Final Report (February 1999)

Thank you for a draft copy of the final report to the Governor and Legislature regarding your audit of the Convention Center Authority (CCA). The CCA has two suggestions, of minor nature, that may help clarify the respective issues. The areas involved are marketing and community relations.

## Marketing

On page 11, paragraphs two and four, of the report, definitive statements are made that the current projections are unattainable and unrealistic and that 175,000 is the maximum attendee count attainable. The CCA, SMG, and HVCB convened a group of the same individuals who gave input to the EIS document and discovered a large divergence in the current market assumptions used by HVCB and that assumed by the original group. The marketable universe is assumed as 2,300 organizations by HVCB, while the original EIS assumptions used a universe of 97,000 organizations. An agreement was made to explore this issue further by the efforts of an independent group. Subsequently, meetings with Price Waterhouse commissioned, by the Hawaii Tourism Authority (HTA), to review this issue of market universe for meetings, conventions and incentive groups (MCI), have been held to further explore the matter. I personally believe the Hawai'i Convention Center (HCC) marketing universe may be larger than the 2,300 organizations currently utilized by the HVCB and may result in a larger maximum than the 175,000 attendees, assuming multiple events may be held in the HCC, simultaneously. The HCC was designed with a capability to hold simultaneous events. This concurrence of events may change the 175,000 number, as a limiting factor. The report also infers that the HCC is at a 5,000 maximum capacity, which may not be entirely accurate because it depends on the

Ms. Marion M. Higa  
February 24, 1999  
Page Two

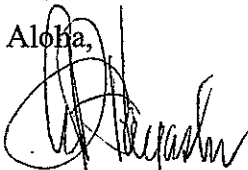
usage requirements of the different events. As examples, the American Dental Association and International Lions will bring approximately 30,000 and 35,000 to Honolulu, with respective delegate counts, at the HCC, of 15,000 and 17,000. It may be more appropriate to defer on the certainty of the 175,000 as the maximum, until the HTA marketing report, which is in process, is completed.

### Community Relations

On page 23, "Some mechanisms are in place", the report lists some of the community-related activities in which the CCA participates. Additionally, the CCA attends four neighborhood board meetings per month, of the surrounding area boards. They are as follows: Ala Moana/Kakaako; Waikiki; McCully/Moiliili; and Kapahulu/Diamond Head.

These suggestions are meant to be constructive and to assist in the presentation to the Governor and the Legislature. The CCA appreciates the time and effort spent on the review and the suggestions set forth in the reports prepared by the Office of the Auditor. Your staff was professional, courteous, and thorough, and we hope they were treated in a corresponding manner by the CCA and SMG staffs. Thank you for the opportunity to comment on the draft of the Final Report of the Audit of the Convention Center Authority.

Aloha,



Alan S. Hayashi  
Executive Director

ASH/lg:3836.AUDITCM2

c: All CCA Board Members

Alton Kuioka  
Guy Fujimura  
Jeff Coelho  
Tony Rutledge  
Jenai Wall  
Mark Fukunaga  
Richard Humphreys

