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Statement of
JOHN DE FRIES

Hawai'i Tourism Authority
before the
SENATE COMMITTEE ON WAYS AND MEANS

Friday, February 26, 2021
9:30 AM
State Capitol, Conference Room #211

In consideration of
SENATE BILL NO. 950
RELATING TO THE HAWAII TOURISM AUTHORITY

Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee on Ways and Means: the Hawai'i Tourism Authority (HTA) would like to **offer comments** on Senate Bill 950, which requires that the 3.5 percent cap on spending from the Tourism Special Fund to also include all governance and employment expenses and organization-wide costs as administrative expenses.

Based upon our consultation with the Department of the Attorney General, HTA has allocated its payroll costs to respective cost centers representing HTA's program costs. This methodology adheres to Financial Accounting Standards Board (FASB), Generally Accepted Accounting Principles (GAAP) and is aligned with Government Accounting Standards Board (GASB) requirements. The use of cost centers provides for greater transparency and clarity of programmatic expenditures. This methodology of utilizing cost centers is common practice in business and Not-for-Profit (NFP) organizations.

The annual budget of HTA is presented, reviewed, and approved by its Board of Directors. As part of that process, the structure of the budget, including program expenditures, is discussed and approved. Generally, HTA's budget is based on our four pillars: Hawaiian culture, natural resources, community, and branding. Additionally, we have sections for sports, safety and security, tourism research, administrative, and governance and organization-wide.

Currently, our "administrative" section includes costs associated with accounting, contracting, communications, maintenance and hosting of our HTA website, general and administrative costs, and state employee administrative salaries – which we understand to mean the salaries of those who work in an administrative role for the agency as a whole. Those who work for a specific

program or department within HTA have their salaries listed under their respective program. For example, there is a budget line item in the “Perpetuating Hawaiian Culture” section for the payroll associated with the staff in that section. Because these staff are working on program-related tasks, the payroll expenses are kept within the program and not considered administrative. Our “governance and organization-wide” section includes organization-wide expenses such as the costs of our annual financial statement audits, HTA Board of Directors expenses, and employee fringe benefits. These expenses are not within the direct control of HTA and therefore should not be considered as “administrative expenses.”

It should be noted that HTA’s finances are subjected to an annual financial audit conducted by the Auditor of the State of Hawai‘i. This audit is subsequently included in the State of Hawaii’s Comprehensive Annual Financial Report (CAFR). HTA had no significant findings in its most recently completed and submitted annual audit.

We wish to share with the committee that HTA’s Board of Directors recently established its Budget Review Investigative Committee. We will be requesting that the committee have additional discussions regarding administrative costs and the way those costs are allocated in the annual budget. It is our understanding that a meeting of the committee will be convened in the next few weeks.

HTA has a significant task ahead in supporting the economic recovery from the COVID-19 pandemic through the recovery of the tourism industry. We appreciate this opportunity to provide testimony and the Legislature’s support in fully enabling HTA’s ability to operate, which includes branding Hawai‘i throughout the world as the preferred tourism destination.