

# Performance Audit of the Nashville Convention Center and the Nashville Convention & Visitors Bureau



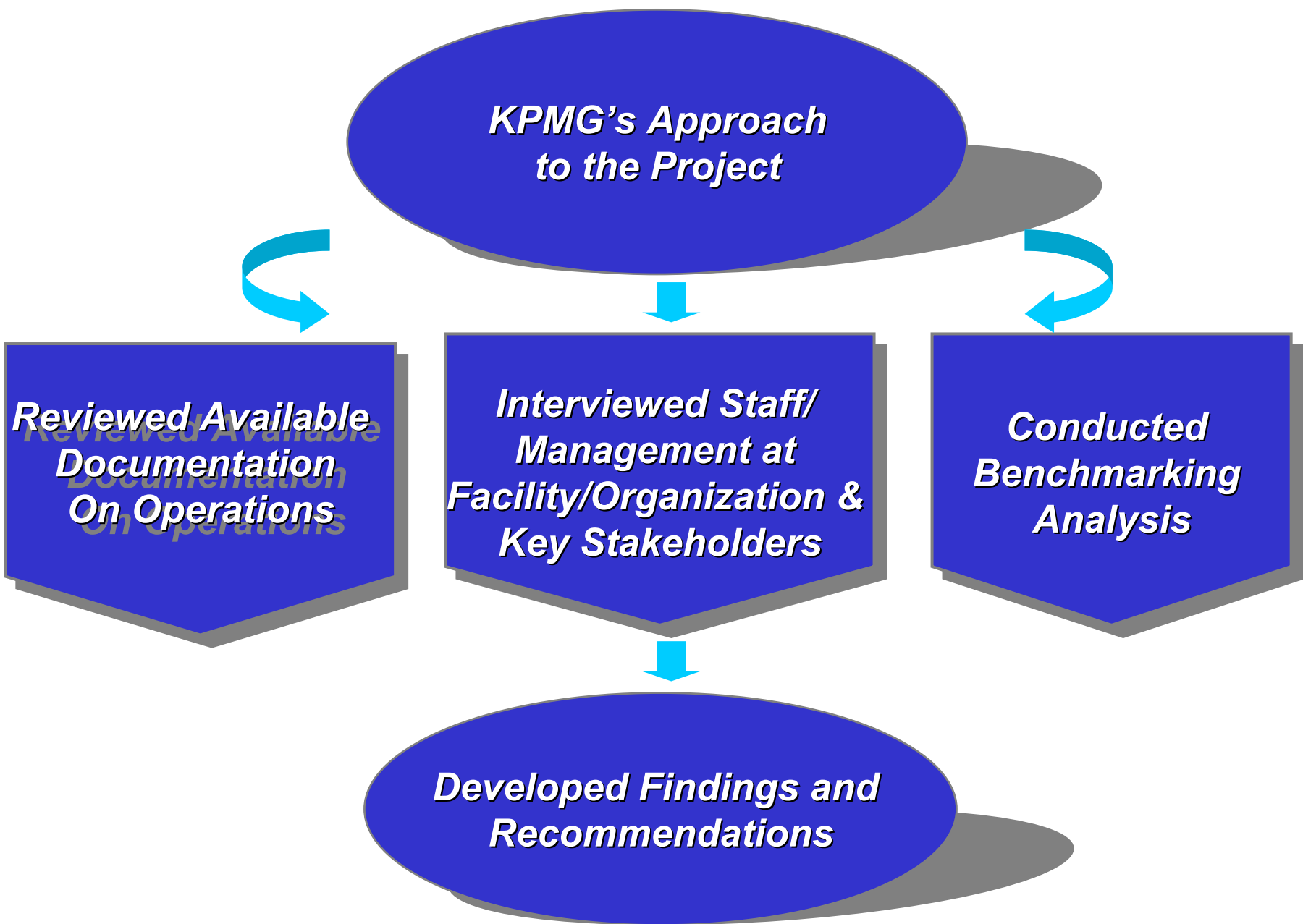
**Presentation**  
**February 2003**

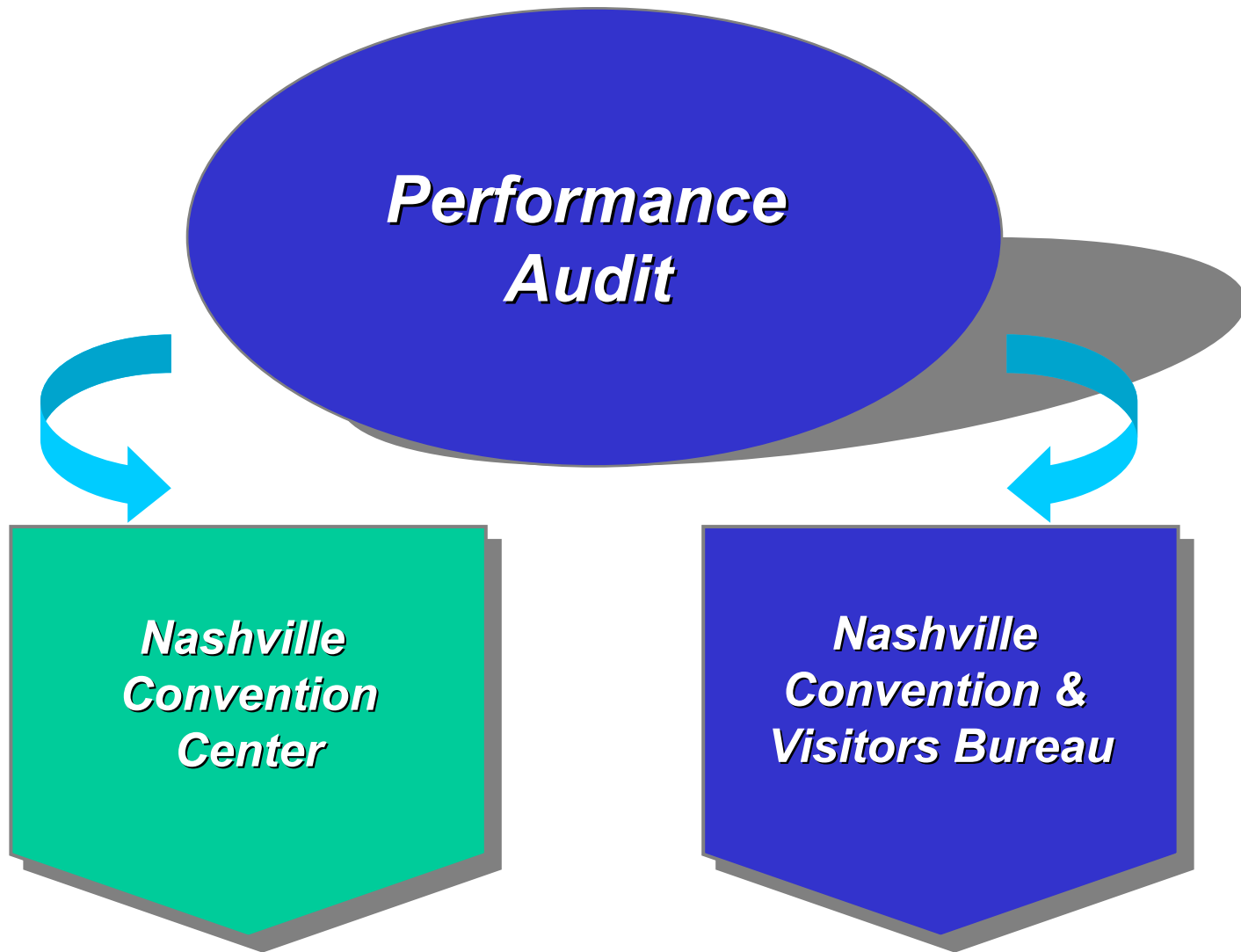
# Outline of the Presentation

- Purpose of the Performance Audit
- Approach to the Project
- Nashville Convention Center (NCC)
  - Description of the Facility
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# Purpose of the Performance Audit

- KPMG LLP's Convention, Sports and Entertainment Practice was retained by the Internal Audit Section of the Finance Department of Metro to conduct a performance audit of several entities including:
  - the NCC which Metro owns and operates
  - the Nashville CVB which is largely funded by a portion of the 5% hotel/motel tax and plays an integral role in marketing the City as a destination
- Both audits included jointly designed tests and procedures and utilized KPMG's specialized industry experience and knowledge





# Description of the NCC

- Opened in January of 1987, the facility hosts a variety of events including conventions, trade shows, corporate meetings and consumer shows
- Convention Center contains more than 190,000 s.f. of rentable space
  - Exhibit hall - 118,675 s.f.
  - Meeting rooms – 30,000 s.f.
  - Lobbies – 41,000 s.f.
- Facility is connected to the GEC via a climate controlled walkway
- Facility is connected to the Renaissance Nashville Hotel which offers various meeting/ballroom space including an 18,000 s.f. ballroom
- The NCC is a Metro enterprise fund governed by the Metropolitan Convention Center Commission

# Review and Analysis of NCC Operations in the Following Areas Served as the Basis for the Findings and Recommendations of the Performance Audit

- Commission structure
- Organizational structure and staffing levels
- Mission statement and booking policy
- Marketing efforts
- Facility rental rates
- Utilization
- Financial performance
- Economic impact
- Major third party contracts
- Capital improvement planning

# Analyzing Peer Facilities Offered a Frame of Reference for Key Performance Indicators

Peer facilities were chosen based on one or more of the following criteria:

- Located in markets similar in size to Nashville
- Offer similar components to the NCC in terms of exhibit and meeting/ballroom square footage
- Host similar event activity and/or
- Availability of information (i.e. privately owned and operated facilities are not required to disclose any information relative to their business operations)

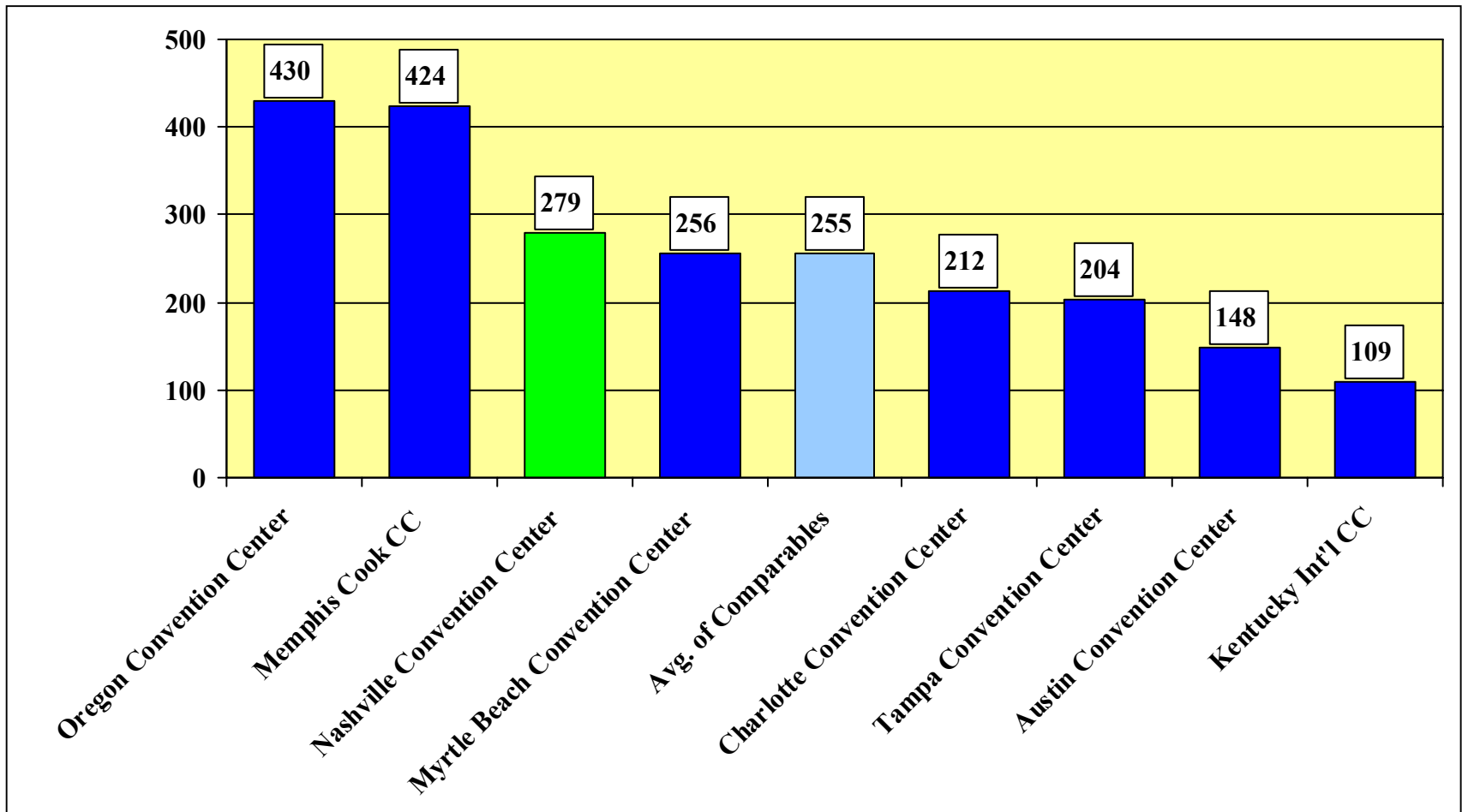
# Key Characteristics for the Peer Facilities Used in the Benchmarking Analysis

Facility	Nashville Convention Center	Charlotte Convention Center	Tampa Convention Center	Kentucky International Convention Center	Oregon Convention Center	Austin Convention Center	Memphis Cook Convention Center	Myrtle Beach Convention Center	Average of Comparables
Location	Nashville, TN	Charlotte, NC	Tampa, FL	Louisville, KY	Portland, OR	Austin, TX	Memphis, TN	Myrtle Beach, SC	
<b>Number of Hotel Rooms</b>	<b>32,400</b>	22,700	19,500	14,200	17,500	17,500	20,500	30,000	<b>20,300</b>
<b>Building Program</b>									
Exhibit Space (SF)	<b>118,700</b>	280,000	200,000	191,000	150,000	126,000	125,000	100,800	<b>167,500</b>
Meeting/Ballroom Space (SF)	<b>48,000</b>	92,200	79,400	95,200	53,200	49,400	38,700	31,300	<b>62,800</b>
Breakout Rooms	<b>25</b>	45	36	50	28	29	21	17	<b>32</b>
<b>Market Characteristics</b>									
MSA Population	<b>1,249,900</b>	1,524,600	2,420,500	1,031,400	1,948,300	1,280,000	1,145,200	200,600	<b>1,364,400</b>
DMA Population	<b>2,265,000</b>	2,447,100	3,744,000	1,549,800	2,786,300	1,403,800	1,775,300	651,100	<b>2,051,100</b>
Median Household EBI	<b>\$44,300</b>	\$40,800	\$34,400	\$39,100	\$43,000	\$43,400	\$37,800	\$31,100	<b>\$38,500</b>

Notes: Building program for Nashville Convention Center includes the ballroom space at the Renaissance Nashville Hotel which is connected. Because 2001 data was used in the comparative analysis, building programs shown above for the convention facilities in Austin and Memphis are prior to expansions which occurred in May 2002 and January 2003, respectively.

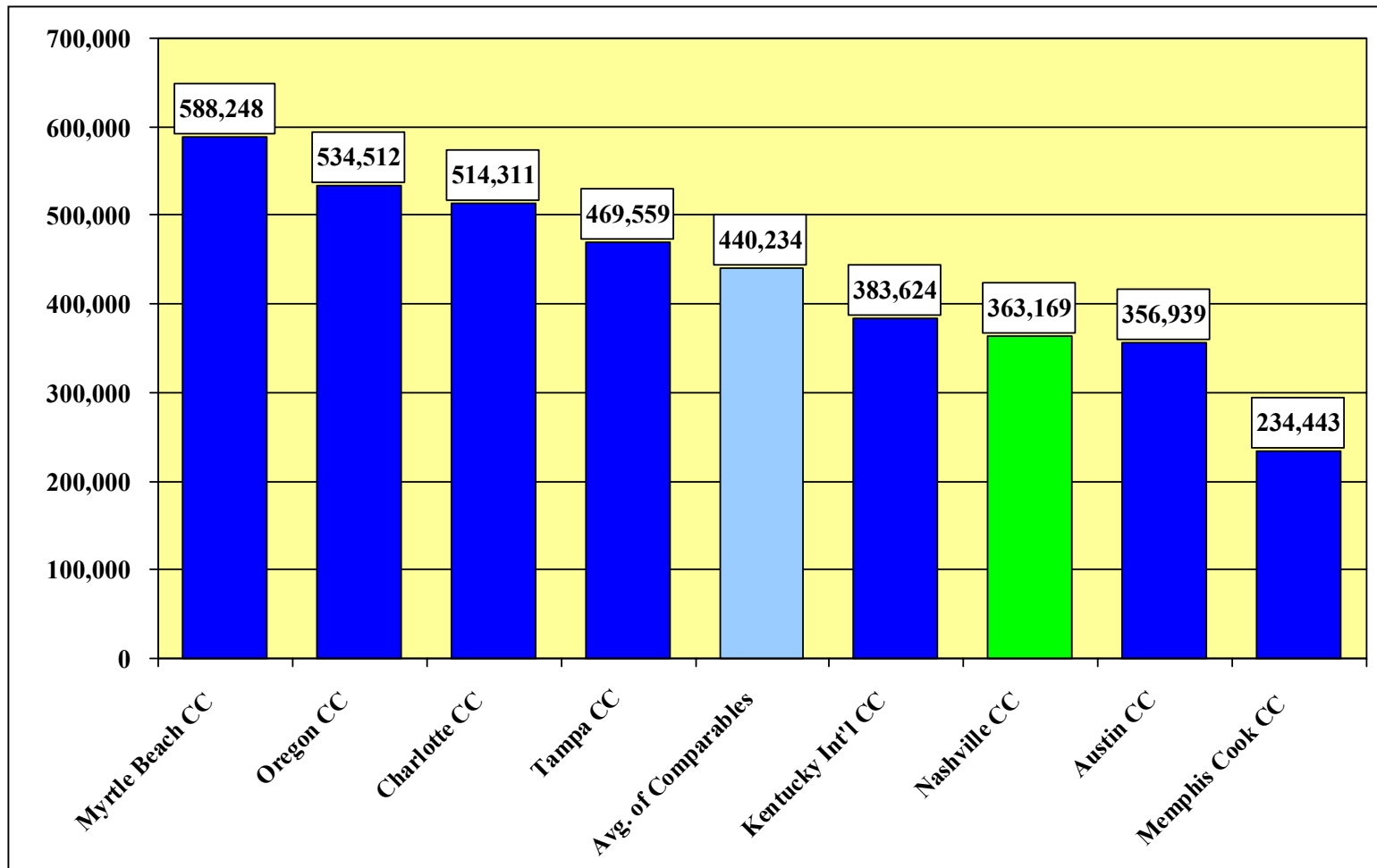
The NCC is unique among its peers because it serves as the secondary convention facility in the market. The Gaylord Opryland Resort and Convention Center (Opryland Hotel) offers 289,000 s.f. of exhibit and 192,000 s.f. of meeting and ballroom space.

# Comparable Facilities Analysis – Number of Events



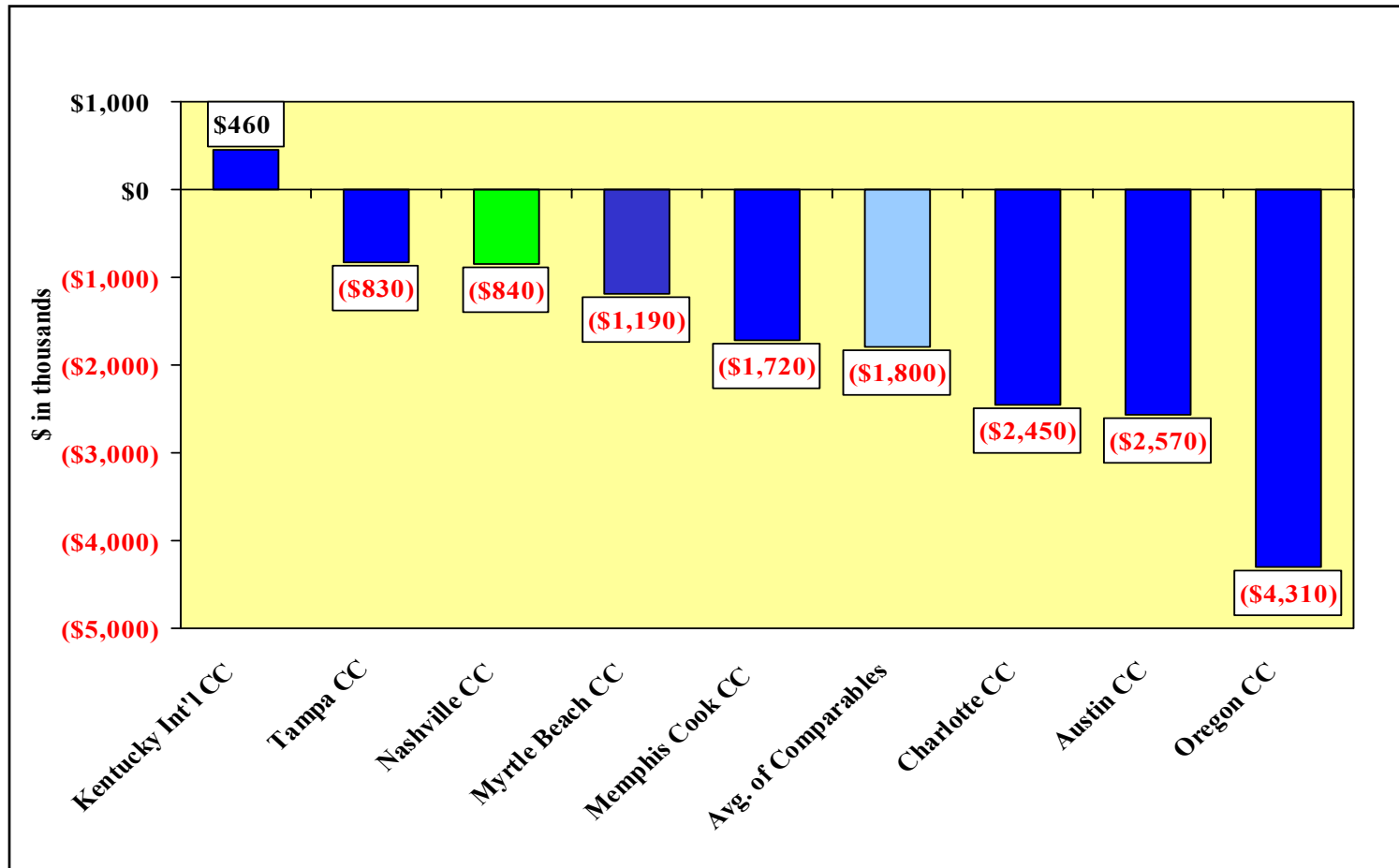
The NCC compares favorably to peer facilities in terms of number of events.

# Comparable Facilities Analysis – Total Attendance



Five of the seven peer facilities had higher total attendance than the NCC.

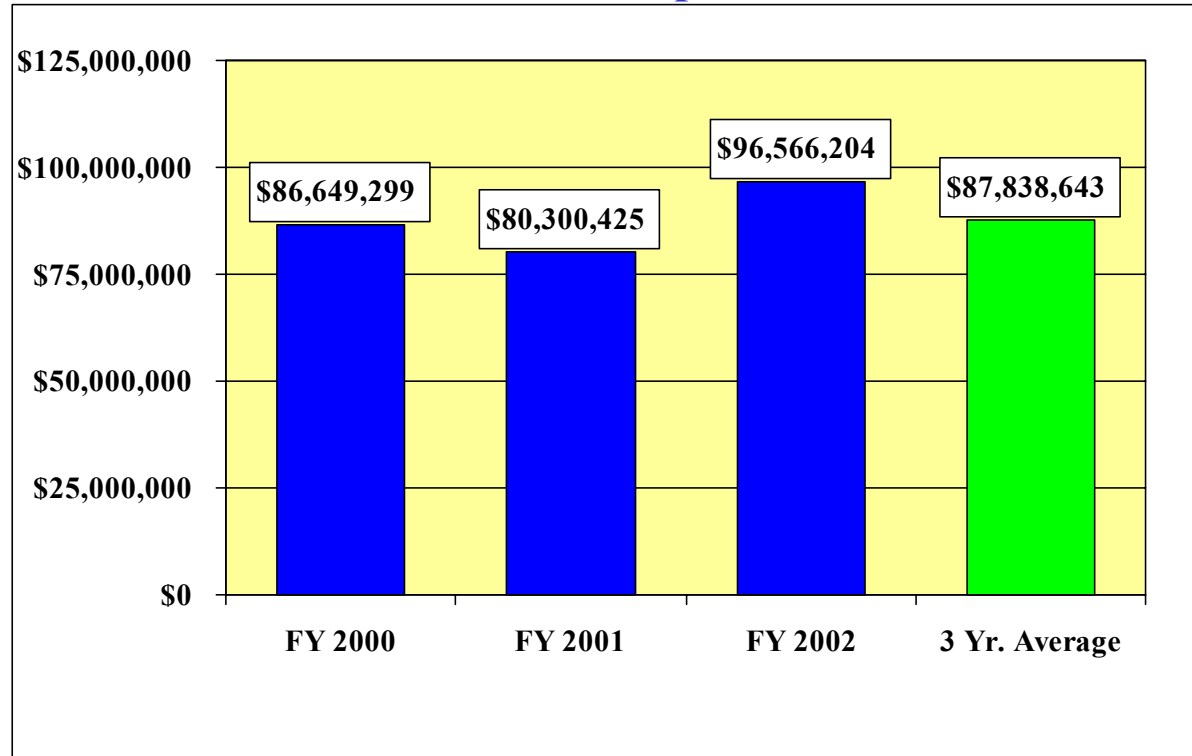
# Comparable Facilities Analysis – Financial Performance



The majority of stand-alone convention centers typically realize an operating deficit, few realize an operating profit. The NCC's deficit compares favorably with peer facilities, particularly since it does not realize revenues from the ballroom.

# Economic Impact Is One of the Primary Reasons That Convention Centers Are Developed

## Historical Economic Impact at the NCC



Source: NCC management

Based on spending information from the International Association of Convention and Visitors Bureau (IACVB), these estimates prepared by facility management may be conservative.

# NCC Operations Assessment

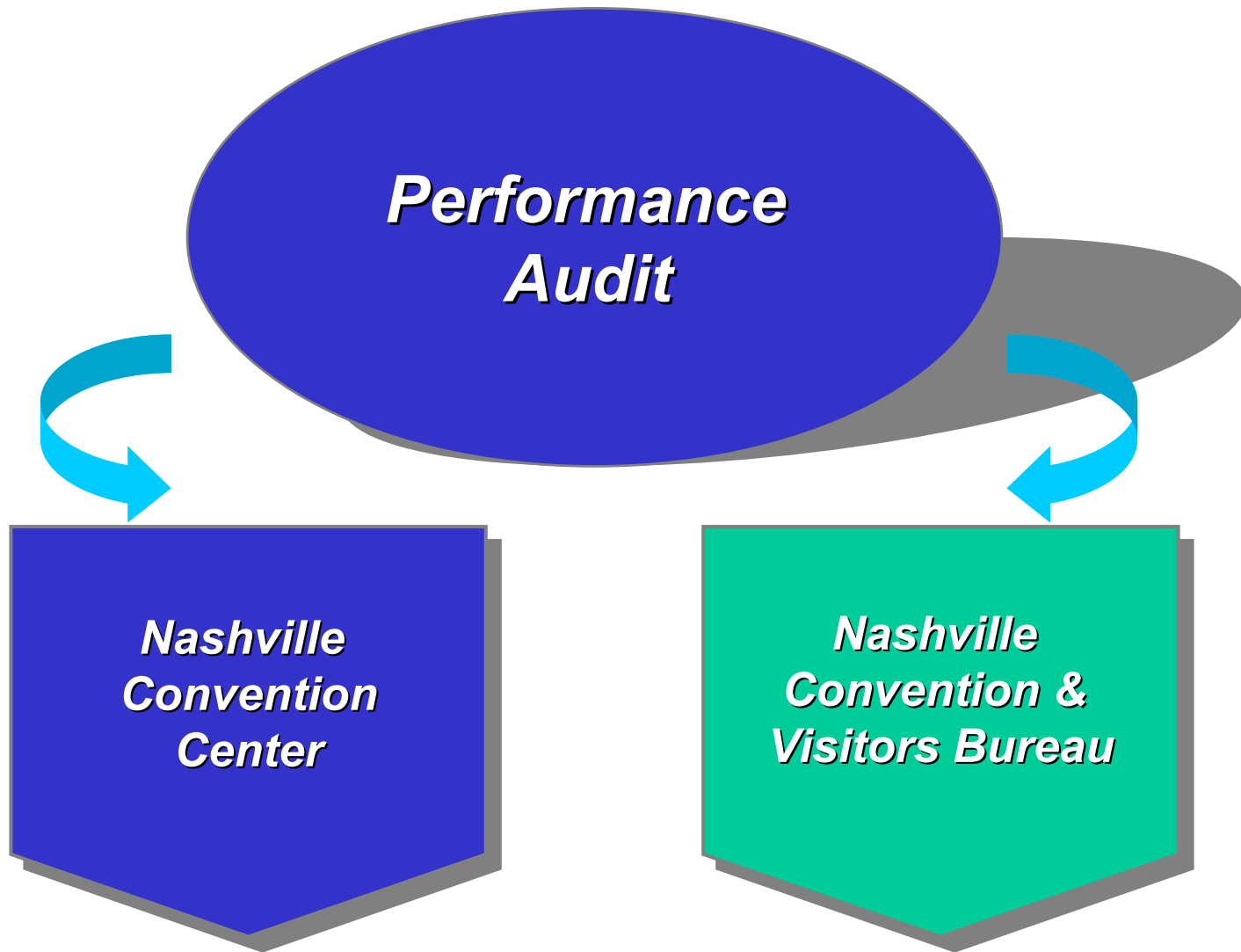
- Overall, the NCC is a well-operated facility. The facility hosts a variety of events and compares favorably with its peers, especially in terms of the total number of events.
- The performance indicators for the NCC are particularly positive given the direct competition from the Opryland Hotel and a larger amount of exhibit and meeting/ballroom space in the Nashville market than in the peer cities.
- The mission statement of the NCC focuses on generating economic impact to Nashville and the surrounding region, which is supported by the booking policy's prioritization of events. The MCCC also focuses on the NCC's financial performance.
- The operating loss at the NCC is one of the lowest among peers, which compares particularly favorably when considering that the Renaissance Hotel owns and receives the revenue from the ballroom, unlike the peer facilities that include ballrooms.
- Although aesthetic improvements could be made, there do not appear to be any physical or structural limitations that limit the marketability of the NCC.

# Summary of Key Recommendations

- The MCCC should evaluate its focus to ensure consistency with the mission statement and operating objectives to maximize events at the facility that generate economic impact to the region, even if the events do not result in a financial profit to the NCC.
- The NCC should evaluate, refine, and improve its system for tracking lost business to provide the tools necessary to better understand whether the reasons for lost business are controllable or non-controllable factors.

# Although No Specific Facility Analysis Was Done, We Noted Several Matters That Metro Should Consider If Evaluating Expansion or Construction

- Expanding the NCC or constructing a new facility would create greater competition with the Opryland Hotel. An expanded or new facility would need to be significantly larger than the Opryland Hotel in order to change the mix of business in Nashville.
- Nashville's current infrastructure would be challenged to adequately accommodate a major expansion or new facility and it is likely that a new convention hotel would need to be built in conjunction with any new or expanded space.
- Prior to considering expansion or construction of additional space, Metro should conduct a comprehensive cost/benefit analysis that would include an estimate of the incremental new economic benefits to the community compared to the anticipated capital cost and on-going operating expenses.
- It is unlikely that the Nashville market can adequately support three convention facilities. Consequently, Metro would need to consider the costs of discontinuing use of the existing facility as well as the impact on the attached Renaissance Hotel.



# Overview of the Nashville CVB

- The Nashville CVB is an affiliate organization of the Nashville Area Chamber of Commerce which is a 501(c)(6) organization.
- It receives the vast majority of its funding from two-fifths of the Metro hotel/motel tax proceeds - \$7.3 million for FY 2002 - which is administered through a contract with Metro.
- The Nashville CVB's mission is to maximize the economic contribution of the convention and tourism industry to the community by developing and marketing Nashville as a premier destination.
- Consequently it markets Nashville's two primary convention facilities – the Opryland Hotel and the NCC – as well as other hotel properties.
- The Nashville CVB has 40 full-time and 14 part-time budgeted positions (47 full-time equivalents) and its annual budget was approximately \$8 million in FY 2002.

# Review and Analysis of the Following Served as the Basis for the Findings and Recommendations of the Nashville CVB Performance Audit

- Market characteristics
- Governance
- Mission statement
- Organizational structure and staffing levels
- Marketing and promotional efforts
- Client satisfaction
- Hotel inventory and related characteristics
- Financial information
- Tourism and convention booking activity

# Comparing the Nashville CVB to other CVBs Offers a Frame of Reference for Key Performance Indicators

It is important to recognize that there are market attributes that a CVB does not control such as hotel supply and accessibility that impact the achievable performance levels of any CVB.

Based on input from the Nashville CVB management and additional research which considered factors such as lost business, geography, meeting facility(s) size and the organization's annual budget, the following CVBs represent the competitive set used in this analysis:

- Atlanta Convention & Visitors Bureau
- Charlotte Convention & Visitors Bureau
- Dallas Convention & Visitors Bureau
- Denver Metro Convention & Visitors Bureau
- Greater Minneapolis Convention & Visitors Bureau
- Indianapolis Convention & Visitors Bureau
- Orlando Convention & Visitors Bureau
- San Antonio Convention & Visitors Bureau
- Tampa Bay Convention & Visitors Bureau
- New Orleans Metropolitan Convention & Visitors Bureau

# Total Space at Primary Convention Facilities in the Competitive Set's Marketplace

Location	MSA Population	Exhibit Space	Ballroom/ Meeting Space	Total
<b>Cities with Multiple Convention Facilities</b>				
Atlanta/College Park, GA	4,198,700	1,622,000	379,748	2,001,748
Orlando, FL	1,676,100	1,282,038	433,850	1,715,888
Dallas/Ft. Worth, TX	3,582,300	975,726	170,967	1,146,693
Minneapolis/St. Paul, MN	3,001,200	620,341	157,518	777,859
<b>Nashville, TN</b>	<b>1,249,900</b>	<b>407,647</b>	<b>239,689</b>	<b>647,336</b>
<b>Cities with Only One Convention Facility</b>				
New Orleans, LA	1,341,700	1,069,237	339,173	1,408,410
San Antonio, TX	1,612,400	440,000	206,509	646,509
Indianapolis, IN	1,624,500	303,851	136,805	440,656
Denver, CO	2,145,800	292,000	100,000	392,000
Charlotte, NC	1,524,600	280,000	92,242	372,242
Tampa, FL	2,420,500	200,000	79,355	279,355

Nashville has a smaller population than all of the cities in the competitive set. Five of the 10 cities in the competitive set have less total convention space than Nashville.

# Competitive CVB Set – Cost of Visiting

CVB Location	Average Food Costs	Average Daily Travel Costs	Average Hotel Costs	Total Cost
New Orleans, LA	\$70	\$305	\$166	\$541
Atlanta, GA	\$73	\$290	\$153	\$516
Denver, CO	\$71	\$267	\$138	\$476
Indianapolis, IN	\$73	\$259	\$135	\$467
Minneapolis, MN	\$56	\$253	\$137	\$445
Dallas, TX	\$56	\$254	\$130	\$440
San Antonio, TX	\$55	\$238	\$129	\$422
Orlando, FL	\$48	\$241	\$133	\$422
Tampa, FL	\$60	\$236	\$114	\$409
<b>Nashville, TN</b>	<b>\$54</b>	<b>\$231</b>	<b>\$120</b>	<b>\$406</b>
Charlotte, NC	\$54	\$217	\$104	\$375

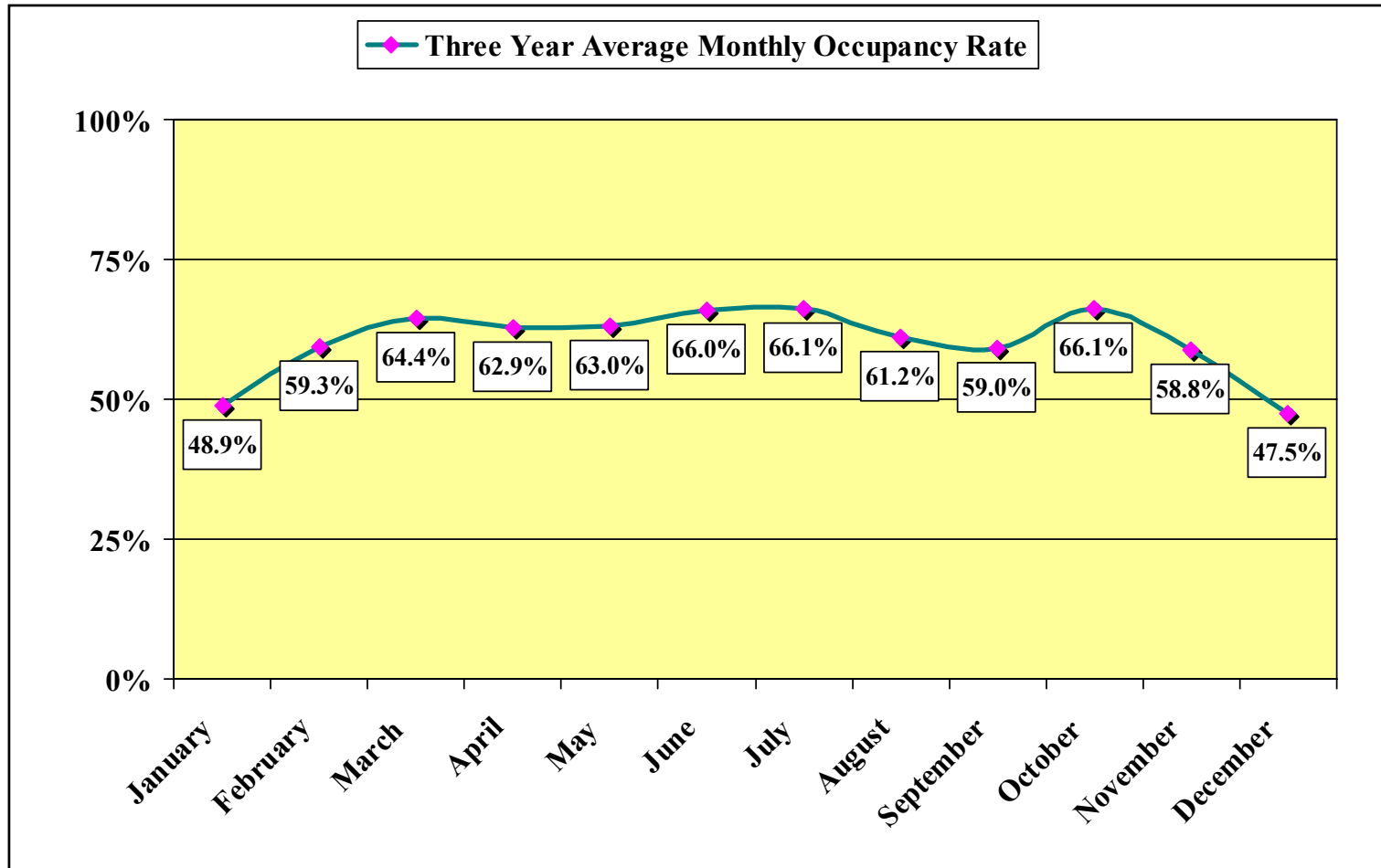
Source: 2002 Corporate Travel Index

Nashville's affordability as a destination is a strong marketing tool for many groups.

# Governance of the Nashville CVB

- Essentially, the CVB is governed by two separate entities:
  - The Nashville Area Chamber of Commerce, its parent organization, which distributes the hotel/motel tax funding and has ultimate authority over the Nashville CVB staff
  - The Metropolitan Tourism and Convention Commission which is responsible for providing recommendations, advice and assistance to the Mayor concerning service agreements (i.e. Metro hotel/motel tax contract) related to direct promotion of tourism and tourist related activities within Metro including the Nashville CVB
- Most CVBs, including those in the competitive set, have a governing body, typically a Board of Directors, that determines the direction and performance of the organization

# Throughout the Year, Nashville Experiences Relatively Similar Demand for Hotel Rooms

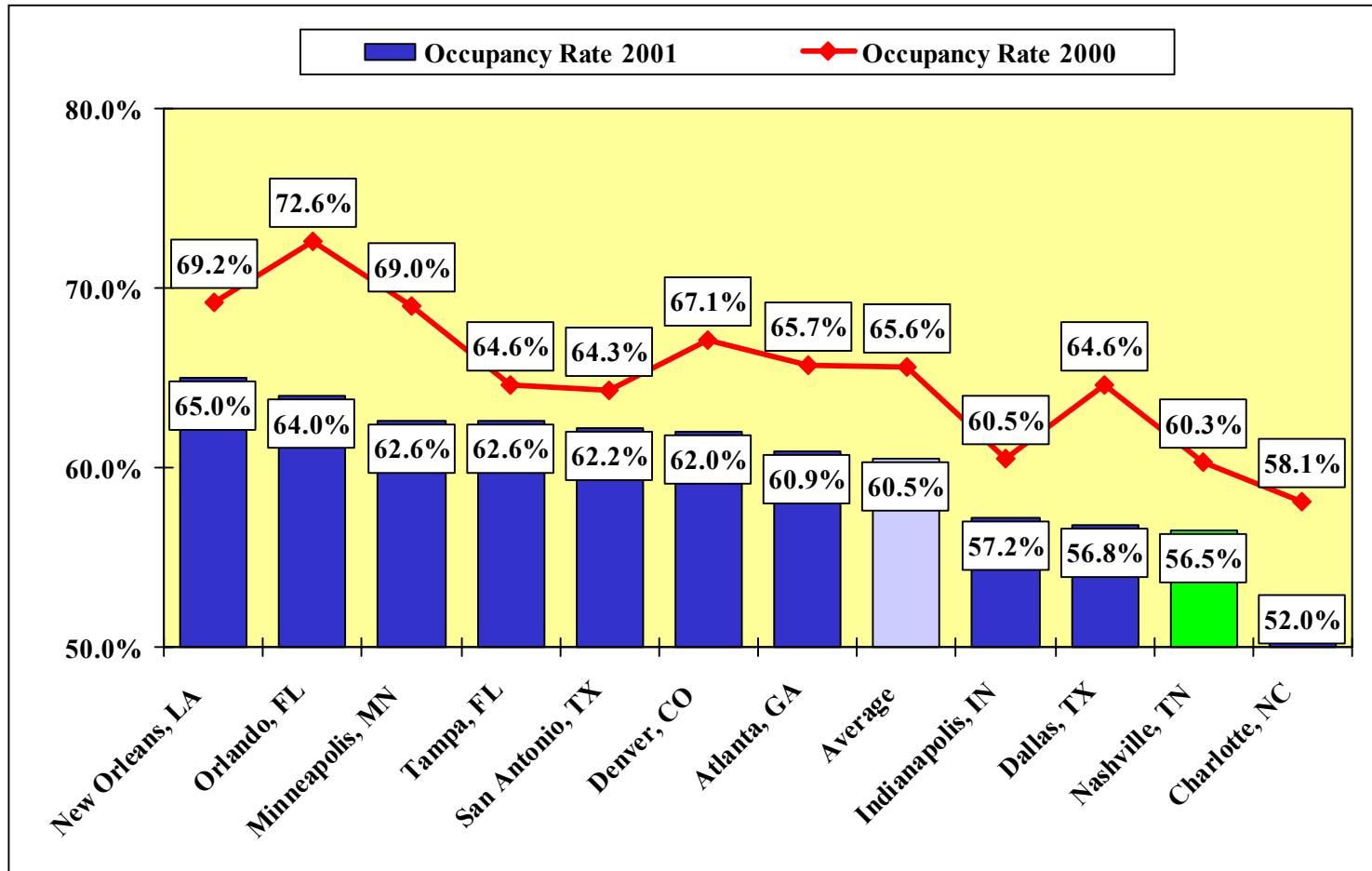


# Competitive CVB Set - Hotel Supply and Committable Room Block

CVB Location	Total Hotel Supply	Committable Rooms	% Committable
Orlando, FL	106,083	40,000	38%
Atlanta, GA	89,000	45,000	51%
Dallas, TX	63,000	16,318	26%
Denver, CO	36,246	12,000	33%
New Orleans, LA	34,000	21,000	62%
<b>Nashville, TN</b>	<b>32,400</b>	<b>12,830</b>	<b>40%</b>
Minneapolis, MN	30,000	18,000	60%
San Antonio, TX	27,500	10,000	36%
Charlotte, NC	22,661	15,000	66%
Indianapolis, IN	21,028	12,000	57%
Tampa, FL	19,512	17,000	87%
<b>Median</b>	<b>32,000</b>	<b>16,659</b>	<b>54%</b>

Although the total hotel supply in Nashville is similar to that of the median, the committable room block is 23% below the median of the competitive set.

# Competitive CVB Set - Occupancy Rates



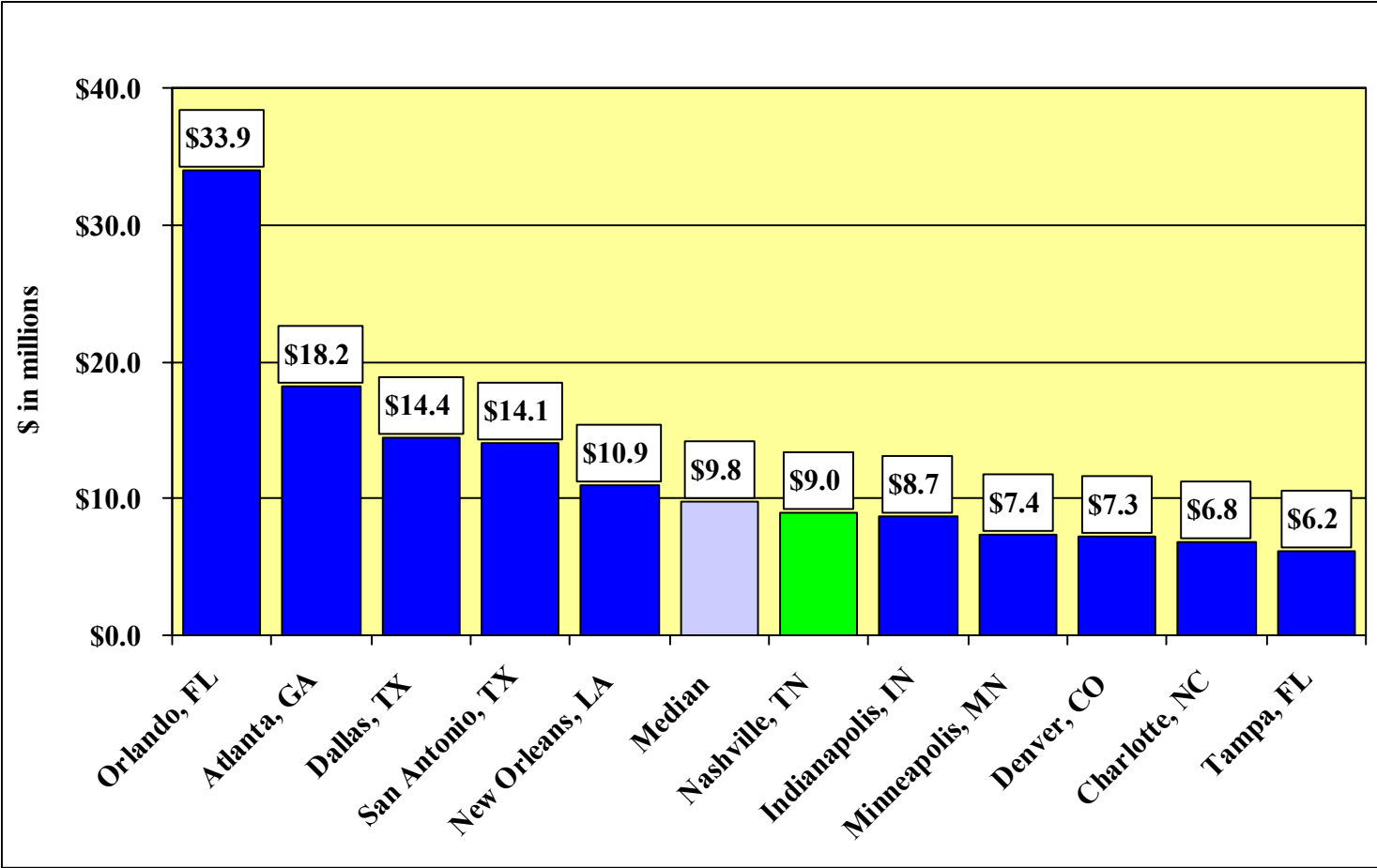
Although Nashville's occupancy rate was below the average of the competitive set, it experienced one of the lower declines between 2000 and 2001.

# Summary of Historical and Budgeted Revenues and Expenses for the Nashville CVB

	FY 2000	FY 2001	FY 2002	Budget FY 2003
<b>Revenues:</b>				
Metro Hotel Tax Contract	\$ 7,881,999	\$ 7,927,941	\$ 7,293,154	\$ 7,691,000
Other Revenues	1,119,274	886,089	719,072	675,000
<b>Total Revenues</b>	9,001,273	8,814,030	8,012,226	8,366,000
<b>Total Expenses</b>	8,880,940	8,943,090	7,977,621	8,366,000
<b>Net Income (Loss)</b>	\$120,333	(\$129,060)	\$34,605	\$0

The current budget for FY 2003 is approximately \$8.4 million. CVBs typically receive the majority of private funds through membership dues. However, the Nashville CVB is not a membership organization. Based on available information, revenue derived from membership fees ranged from approximately \$250,000 to \$1.6 million for CVBs in the competitive set.

# Competitive CVB Set - Total CVB Funding



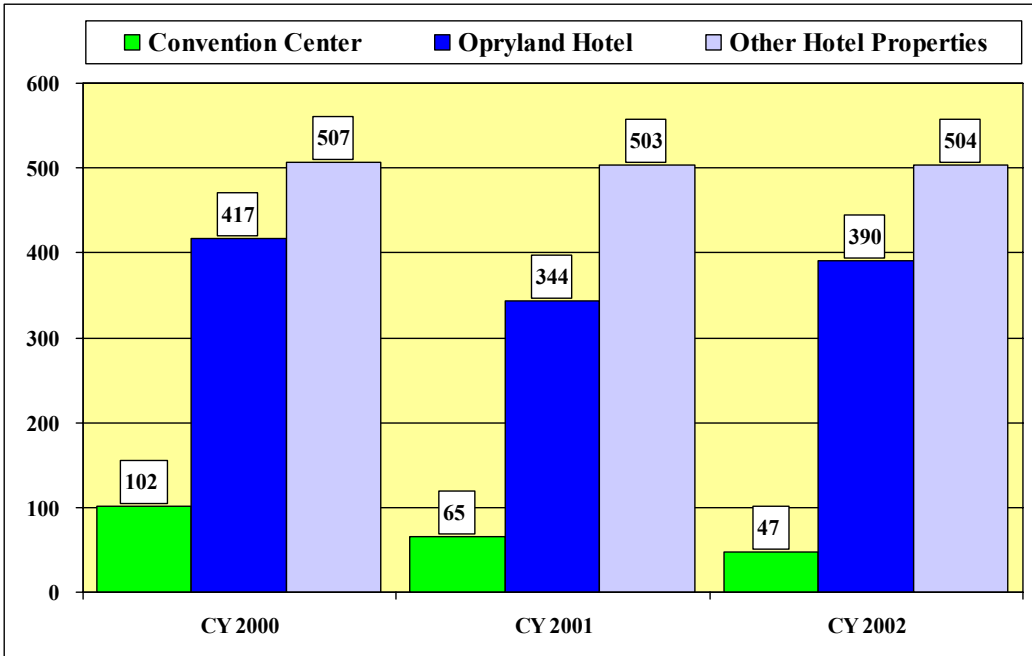
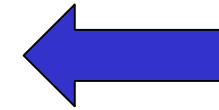
Based on the competitive set, it appears that the Nashville CVB's funding is consistent with other similar CVBs.

# Competitive CVB Set - Comparison of CVB Budget to Total Hotel Supply

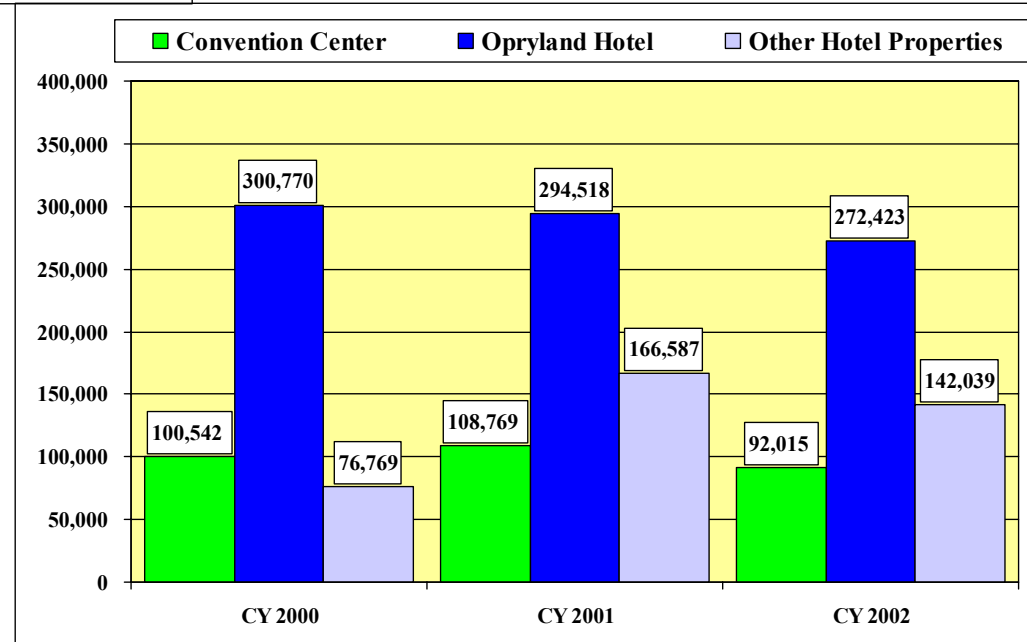
CVB Location	Budget	Total Hotel Supply	Budget to Hotel Supply
Orlando, FL	\$33,900,000	106,083	\$320
Atlanta, GA	\$18,200,000	89,000	\$204
Dallas, TX	\$14,400,000	63,000	\$229
San Antonio, TX	\$14,100,000	27,500	\$513
New Orleans, LA	\$10,900,000	34,000	\$321
<b>Nashville, TN</b>	<b>\$9,000,000</b>	<b>32,400</b>	<b>\$278</b>
Indianapolis, IN	\$8,700,000	21,028	\$414
Minneapolis, MN	\$7,400,000	30,000	\$247
Denver, CO	\$7,300,000	36,246	\$201
Charlotte, NC	\$6,800,000	22,661	\$300
Tampa, FL	\$6,200,000	19,512	\$318
<b>Median of Comps</b>	<b>\$9,800,000</b>	<b>32,000</b>	<b>\$309</b>

Nashville's ratio of \$278 per hotel room is \$31 below the median of the competitive set. Thus, Nashville has to stretch its dollars further to fill hotel rooms.

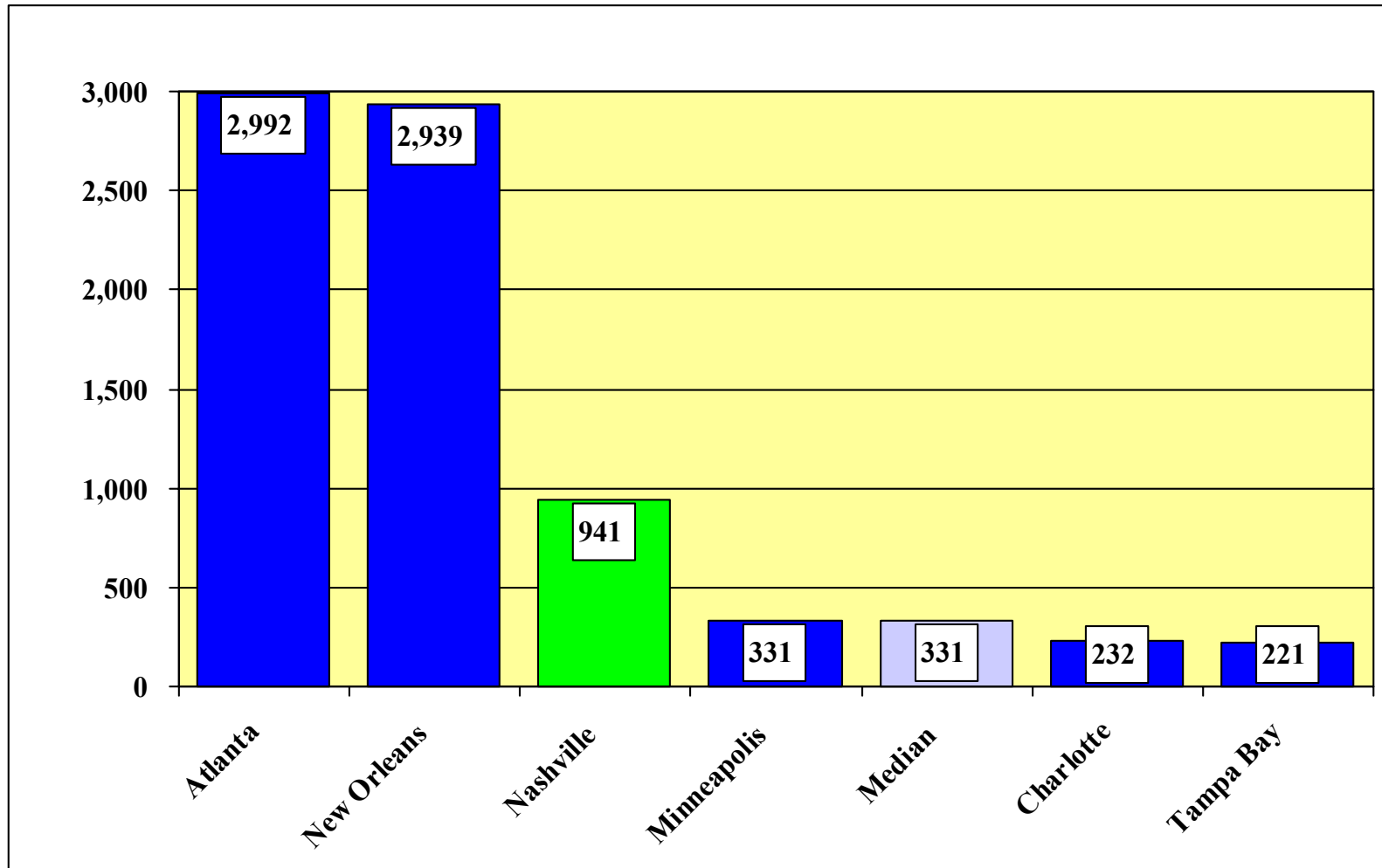
## Number of Conventions in Nashville by Location that Involved the Nashville CVB



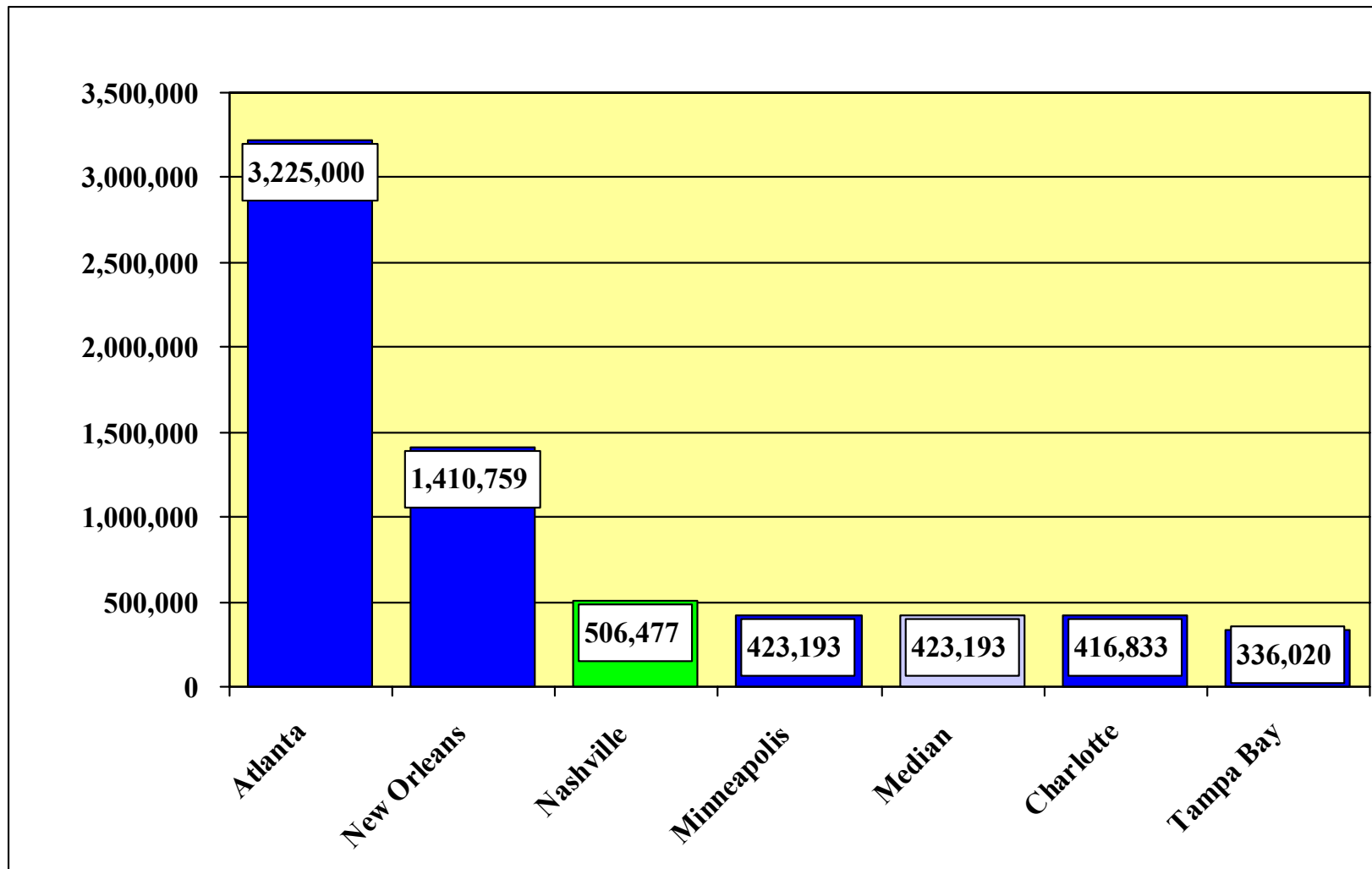
## Number of Attendees at Conventions in Nashville by Location that Involved the Nashville CVB



# Competitive CVB Set - Number of Conventions That Involved the CVB



# Competitive CVB Set - Total Attendance at Conventions That Involved the CVB



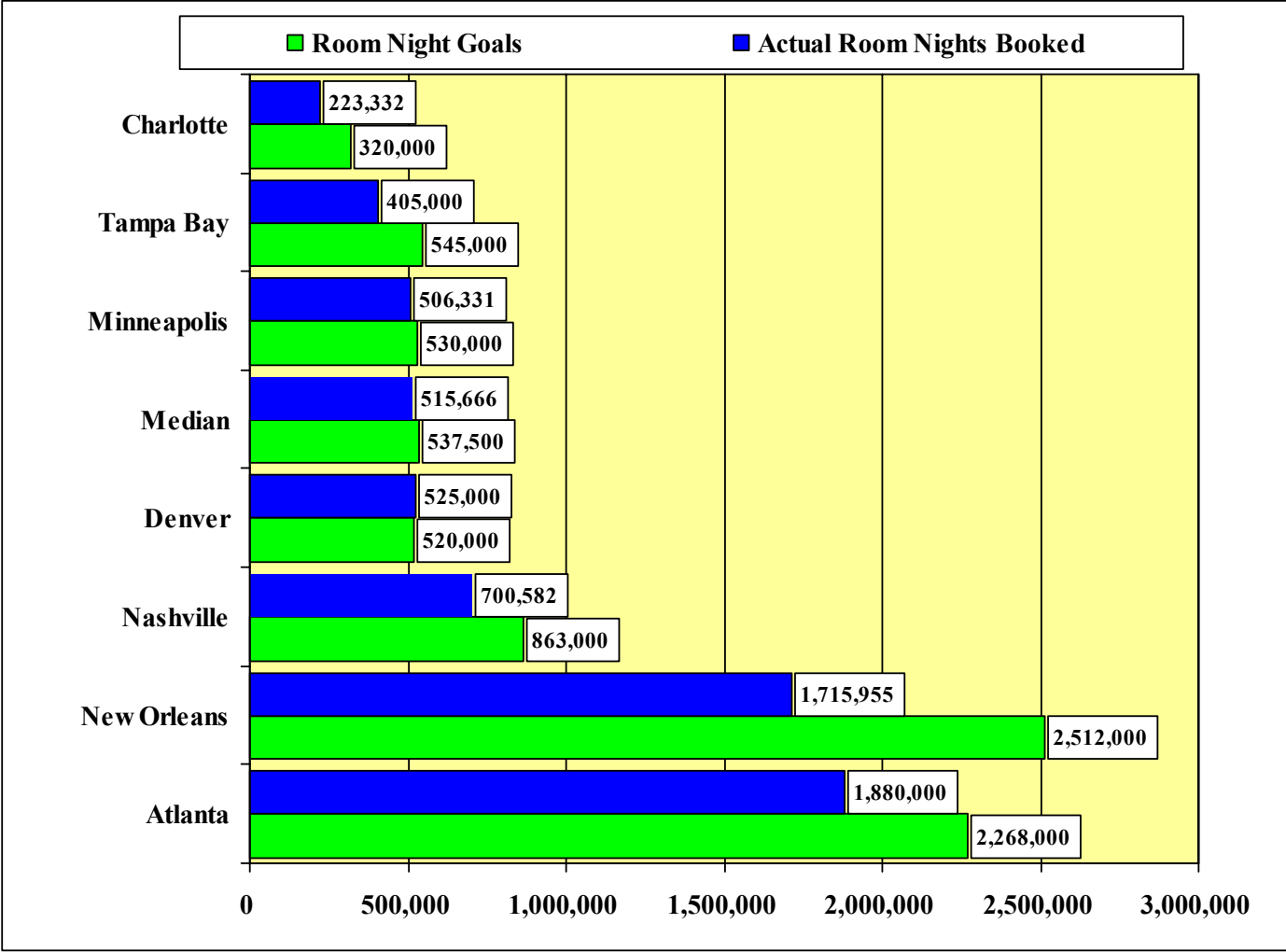
# Summary of Historical Room Nights Generated from Tourism Sales and Convention Sales by the Nashville CVB

Year	Tourism Sales		Convention Sales		Total Room Nights	% Change
	Room Nights	% of Total	Room Nights	% of Total		
FY 1998	141,346	26%	410,307	74%	551,653	-
FY 1999	151,293	22%	549,163	78%	700,456	27%
FY 2000	176,624	23%	586,111	77%	762,735	9%
FY 2001	237,702	27%	637,832	73%	875,534	15%
FY 2002	230,036	33%	470,546	67%	700,582	-20%

Over the last five fiscal years, room nights generated from tourism sales have ranged from 22% to 33% of the total room nights book by the Nashville CVB.

In aggregate, the total number of rooms booked by the Nashville CVB increased in three of the last four fiscal years.

# Competitive CVB Set - Actual Room Nights Booked Compared to Room Night Goals



# Competitive CVB Set - Actual Room Nights Booked Compared to the Total Potential Supply in the Market

CVB	Actual Room Nights Booked	Total Hotel Supply	Total Potential Room Nights	% of Actual Room Nights Booked
Charlotte	223,332	22,661	8,271,265	3%
Denver	525,000	36,246	13,229,790	4%
Minneapolis	506,331	30,000	10,950,000	5%
Tampa Bay	405,000	19,512	7,121,880	6%
Atlanta	1,880,000	89,000	32,485,000	6%
<b>Nashville</b>	<b>700,582</b>	<b>32,400</b>	<b>11,826,000</b>	<b>6%</b>
New Orleans	1,715,955	34,000	12,410,000	14%
<b>Median</b>	<b>515,666</b>	<b>32,000</b>	<b>11,680,000</b>	<b>5%</b>

Note: Information on the other competitive CVBs previously analyzed was not available.

The actual room nights booked by the Nashville CVB represented approximately 6% of the total potential room nights, which compares favorably with that of the competitive set and is slightly higher than the median.

The room nights booked by the Nashville CVB relative to its hotel supply are consistent with other CVBs in the competitive set.

## Competitive CVB Set - Actual Room Nights Booked Compared to the Total CVB Budget

CVB	Actual Room Nights Booked	Total CVB Budget	Ratio of CVB Budget to Actual Room Nights Booked
New Orleans	1,715,955	\$10,900,000	\$6
Atlanta	1,880,000	\$18,200,000	\$10
<b>Nashville</b>	<b>700,582</b>	<b>\$9,000,000</b>	<b>\$13</b>
Denver	525,000	\$7,300,000	\$14
Minneapolis	506,331	\$7,400,000	\$15
Tampa Bay	405,000	\$6,200,000	\$15
Charlotte	223,332	\$6,800,000	\$30
<b>Median</b>	<b>515,666</b>	<b>7,350,000</b>	<b>\$14</b>

Note: Information on the other competitive CVBs previously analyzed was not available.

On average, it costs the Nashville CVB approximately \$13 per room night booked which is consistent with the median for the competitive set.

## Competitive CVB Set - Actual Room Nights Booked Compared to the Total FTEs

CVB	Actual Room Nights		Actual Room Nights Booked Per FTE
	Booked	Total FTEs	
Charlotte	223,332	44.0	5,076
Minneapolis	506,331	54.0	9,377
Denver	525,000	55.0	9,545
Tampa Bay	405,000	42.0	9,643
<b>Nashville</b>	<b>700,582</b>	<b>47.0</b>	<b>14,906</b>
New Orleans	1,715,955	79.0	21,721
Atlanta	1,880,000	84.0	22,381
<b>Median</b>	<b>515,666</b>	<b>54.5</b>	<b>9,594</b>

Note: Information on the other competitive CVBs previously analyzed was not available.

On average, there are approximately 14,900 room nights booked per FTE at the Nashville CVB. Based on the information, it appears that the CVB is very efficient in terms of the number of room nights it is involved in booking relative to the number of FTEs in the organization.

# Summary of Key Findings

- Overall and relative to peer cities' budgets, the CVB is effectively executing its mission to market Nashville as a premier destination.
- The CVB is an affiliate of the Chamber and its Executive Vice-President reports to both the President of the Chamber and to the Tourism Commission. This dual oversight structure does not appear to be the most efficient way to govern the CVB. This structure creates inefficiencies and an overall lack of accountability and strategic guidance for the organization. The current governance structure of the CVB does not allow for effective oversight or timely input on the CVB's operations.
- The CVB and the tourism and meetings industry in Nashville do not use a consistent methodology to estimate the economic impact of events.
- The CVB produces numerous reports that summarize various components of its operations and that contain data that the CVB could use to better communicate its results and performance to stakeholders.

# Summary of Key Recommendations

- Metro should create a Board of Directors (Board) as a single governing body that is exclusively responsible for the overall conduct and operation of the CVB. In addition, the Board should be charged with monitoring the CVB's use of revenue from the hotel/motel tax.
- Major duties of the Board should include: (1) Ensuring the development of a well-defined mission statement, (2) Developing performance measures for the CVB, (3) Monitoring achievement of the performance measures, (4) Hiring, in conjunction with the Mayor, the Executive Director of the CVB, and (5) Establishing committees to advise the leadership of the CVB on all major areas of operations, strategic planning and financial matters.
- The Board should substantially improve the level of oversight and accountability of the CVB. Under the Board, the CVB could continue to contract with the Chamber for certain administrative services but should obtain its own appropriate designation as a non-profit organization.

# Summary of Key Recommendations

- The CVB should take the lead in developing a consistent methodology to estimate the economic impact of events. The CVB should work to create a consensus with Metro and industry representatives on the approach to monitor and document reported economic impact and more actively communicate the information to stakeholders and the community.
- The CVB should improve and increase communication with the community and stakeholders regarding its activity and performance. To help accomplish this, the CVB should develop a convention calendar that includes contact information for groups coming to the city. Additionally, the CVB should conduct monthly or bi-monthly informational forums open to all stakeholders and the public.
- Most peer CVBs outsource their publications and advertising sales. The Nashville CVB should explore the merits of outsourcing its publications by completing a cost/benefit analysis to determine if it could realize additional revenue from advertising.

**In Order to Have a Better Understanding of the Context and Information Used to Develop These Recommendations, It Is Important to Read the Full Audit Report Which Can Be Found at**

**[WWW.NASHVILLE.GOV](http://WWW.NASHVILLE.GOV)**