



Performance Audit of the Nashville Municipal Auditorium

Final Report
February 2003



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1	Report Letter	1
2	Performance Audit of the Nashville Municipal Auditorium	3



February 2003

Ms. Kim McDoniel
Audit Manager
Metropolitan Government of Nashville and Davidson County
222 3rd Avenue North, Suite 401
Nashville, Tennessee 37201

Dear Ms. McDoniel:

Per our agreement dated April 12, 2002, we have completed our performance audit of the Nashville Municipal Auditorium (NMA). The report presented herein includes the summary of findings and principal conclusions from our procedures related to the NMA.

The accompanying report was prepared for use by the Metropolitan Government of Nashville and Davidson County (Metro) for its consideration of plans to improve the overall efficiency of operations of the NMA. Notwithstanding these limitations, it is understood that this document is subject to public information laws and, as such, can be made available to the public. Neither this report, nor any portion thereof, may be used for any other purpose without the prior written consent of KPMG LLP.

The findings contained in the report reflect analysis of primary and secondary sources of information. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. Moreover, estimates and analysis regarding the project are based on trends and assumptions and, therefore, there will usually be differences between the estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no obligation, unless subsequently engaged, to update this report or revise this analysis as presented due to events or conditions occurring after the date of this report.

We have enjoyed working on this engagement and our relationship with Metro and look forward to the opportunity to provide you with continued service.

Sincerely,

KPMG LLP



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1	Report Letter	1
2	Performance Audit of the Nashville Municipal Auditorium	3



Performance Audit of the Nashville Municipal Auditorium

The Metropolitan Government of Nashville and Davidson County (Metro) currently owns several public assembly facilities including the Nashville Municipal Auditorium (NMA), Greer Stadium, the Nashville Convention Center (Convention Center) and the Tennessee State Fairgrounds. In addition, Metro, through its component unit, the Metro Sports Authority, also owns the Gaylord Entertainment Center (GEC) and the Nashville Coliseum.

Like many governmentally owned and operated facilities, the issues associated with market opportunities, competition regionally and nationally, changing economics of various touring products, age of facilities and user needs/requirements dictate an ever evolving set of operating conditions and approaches. When these market concerns are coupled with financial obligations for operations, capital debt and on-going need for improvements and repairs to facilities, many organizations and business models are stressed.

KPMG LLP was retained by the Internal Audit Section of the Finance Department of Metro to conduct a performance audit of several of its public assembly facilities including the NMA, the GEC, and the Convention Center. In addition, a performance audit of the Nashville Convention and Visitors Bureau was conducted.

This report provides an analysis of the current operations at the NMA including a summary of the following:

- Key conclusions and recommendations
- Description of facility
- Commission structure
- Organizational structure and staffing levels
- Mission statement and booking policy
- Facility rental rates
- Major third party contracts
- Marketing efforts
- Utilization
- Financial performance
- Capital improvement planning

As part of the evaluation, various operational characteristics for the NMA including staffing levels, utilization and financial performance are compared to other facilities that operate in a similar market and/or have a similar function in order to provide context in key areas of operation.



For purposes of this analysis, comparable facilities to the NMA were chosen based on one or more of the following criteria:

- Located in markets similar in size to Nashville;
- Offer similar components to the NMA in terms of seating capacity and exhibit square footage;
- Host similar event activity; and/or
- Serve as the secondary facility in the market.

Based on this criterion, the following facilities are profiled:

- Hampton Coliseum in Hampton, VA
- Mid-South Coliseum in Memphis, TN
- Mobile Civic Center in Mobile, AL
- Cricket Arena (formerly known as Independence Arena) in Charlotte, NC
- Veterans Memorial Coliseum in Jacksonville, FL
- Bayfront Center in St. Petersburg, FL
- Pershing Auditorium in Lincoln, NE

The table that follows summarizes various facility and market characteristics for the profiled facilities.

Select Facility and Market Characteristics for Peer Facilities

Facility	Nashville Municipal Auditorium	Hampton Coliseum	Mid-South Coliseum	Mobile Civic Center	Cricket Arena	Veterans Memorial Coliseum	Bayfront Center	Pershing Auditorium	Average of Comparables
Location	Nashville, TN	Hampton, VA	Memphis, TN	Mobile, AL	Charlotte, NC	Jacksonville, FL	St. Petersburg, FL	Lincoln, NE	
<i>Facility Characteristics</i>									
Owner	Metro Nashville	City of Hampton	City of Memphis/ Shelby County	City of Mobile	City of Charlotte	City of Jacksonville	City of St. Petersburg	City of Lincoln	
Operator	Metro Nashville	City of Hampton	SMG	SMG	Authority	SMG	City of St. Petersburg	SMG	
Arena Seating Capacity	9,600	12,600	12,000	10,600	10,000	10,000	8,000	8,000	10,200
Total Exhibit SF	63,000	34,300	25,500	68,000	21,000	23,600	23,000	28,600	32,000
<i>Market Characteristics</i>									
MSA Population	1,249,900	1,578,900	1,145,200	545,000	1,524,600	1,115,000	2,420,500	253,000	1,226,000
DMA Population	2,265,000	1,795,500	1,775,300	1,271,600	2,447,100	1,495,200	3,744,000	684,400	1,887,600
Median Hshd EBI	\$44,300	\$36,200	\$37,800	\$33,300	\$40,800	\$39,100	\$34,400	\$46,500	\$38,300

Notes: MSA denotes Metropolitan Statistical Area.
 DMA denotes Designated Market Area which is commonly known as a media market.
 Median Household EBI denotes Median Household Effective Buying Income.
 Numbers are rounded to the nearest hundred.
 Bayfront Center also includes a theater.
 Sorted in descending order by arena seating capacity.
 The average for the comparable facilities does not include Nashville Municipal Auditorium data.

Sources: 2001 Survey of Buying Power; 2002 Aud Arena Guide; Individual facility management.



Like the NMA, all of the profiled facilities are municipally owned. In addition, the Hampton Coliseum and the Bayfront Center are municipally managed. The Mobile Civic Center, the Mid-South Coliseum, Veterans Memorial Coliseum and Pershing Auditorium are privately managed by SMG while the Cricket Arena is operated by the City of Charlotte's Auditorium-Coliseum-Convention Center Authority. In addition to the facilities listed above in Mobile, Memphis and Jacksonville, SMG also manages other public assembly facilities in those markets.

Profiled facilities offer an average seating capacity of 10,200 and 32,000 square feet of exhibit space. The average market population as measured by the Metropolitan Statistical Area (MSA) is approximately 1.2 million people while the average size of the Designated Market Area (DMA) or media market is nearly 1.9 million. The median household Effective Buying Income (EBI) for the profiled markets averages approximately \$38,300, which is less than that for the Nashville MSA (\$44,300).

This benchmarking process, along with other methods used to analyze the NMA's activity and performance, allows for a thorough overview of facility operations which serves as the basis for the key findings and recommendations provided in this report.



Summary of Key Conclusions and Recommendations

The NMA hosts a variety of events that serve the community. However, event activity at the facility has been trending downward the last three fiscal years. This is primarily due to factors outside the control of management such as changes to the competitive supply, changes in the sports and entertainment industry, changes in the convention/meetings industry as well as evolving patron needs and/or expectations. Overall, the NMA is not well-positioned to meet the long-term needs of the community for either sports and entertainment events or convention/meetings business for several reasons which include, but are not limited to, the following:

- Age of the facility
- Arena seating capacity
- Location and geographic orientation of the facility within downtown Nashville
- Amount and configuration of exhibit space
- Lack of adequate meeting space in terms of amount, quality, flexibility and technological capabilities
- Overall lack of patron amenities at the facility that today's consumers have become accustomed to
- Number and location of concession points of sale
- Concourse width

Most of these physical constraints are a result of the facility's age and design which would be cost prohibitive to address. They are not issues that the management team or Metro can effectively change.

In addition to the facility's physical constraints, the size and orientation of the existing local public assembly facilities in the market are limiting factors. Given the current structure of municipal management at the NMA and private management at the GEC, in some instances these facilities may compete for events.

Over the last three fiscal years, the NMA has required an operating subsidy from Metro for approximately \$466,000 in FY 2000, \$411,000 in FY 2001 and \$741,000 in FY 2002. Although the operating loss at the NMA compares favorably with peer facilities and the facility has a capital improvement plan in place, the greater risk for Metro is the unknown expenses that the facility will likely incur in the future given its age.



The following provides a summary of our recommendations regarding the NMA. In order to have a better understanding of the context and information used to develop these recommendations, it is important to read the entire report.

Metro should consider the following options when evaluating the long-term strategy for the NMA:

- Continue to operate the facility status quo as a municipal department understanding that capital improvement needs will likely significantly increase over time in order to keep the facility operational.
- Bundle Metro's arena assets and combine operations of the NMA and the GEC under joint private management with the objective of maximizing resources, enhancing event activity and realizing operating efficiencies. This scenario would allow Metro to explore whether combining these resources improves overall event activity and financial performance at NMA while still meeting the needs of various community and civic events. In addition, it would provide a more cohesive marketing effort of these two facilities than currently exists. Unless the operations and resources of these two arena facilities could be combined, there is no other reason to pursue private management of the NMA.
- Transfer event activity at the NMA to other Metro facilities such as the Convention Center, the GEC and the Fairgrounds over time and explore alternative uses of the site that would be more profitable and/or meet other development initiatives of Metro. This future land use could be incorporated into Metro's overall master planning efforts for downtown.

The approach that Metro takes related to the long-term strategy for operations of the NMA will impact the recommendations for the facility. Consequently, recommendations that relate to these approaches are discussed as appropriate.

Depending on what approach Metro takes related to the long-term strategy for operations of the NMA, it should reevaluate the role of the Metropolitan Auditorium Commission (Auditorium Commission). For instance, if Metro decides to combine operations of the NMA and the GEC under joint private management, then the Commission would need to work closely with the Metro Sports Authority to focus on any day-to-day matters that arise related to joint management of the GEC and NMA operations.

- A formal system by which the Auditorium Commission periodically engages in self evaluations to facilitate an appropriate level of teamwork, review and clarify Auditorium Commission member roles and responsibilities, measure progress of current goals and objectives and help to shape the vision of future operations should be developed. This type of formal self-assessment would allow Auditorium Commission members an opportunity to provide recommendations and ideas for improvement.



- When compared to peer facilities, the management team is attracting its fair share of event activity, particularly given the age and configuration of the NMA as well as the competitive market which includes the GEC and the AmSouth Amphitheatre. However, marketing efforts at the NMA need to be enhanced. Facility management needs to continue to maximize relationships with local marketing agencies and leverage the marketing dollars that are being spent by other entities to further market the NMA. Metro and/or the Auditorium Commission could play a more active role in trying to make certain that joint marketing and cross-promotional opportunities are being maximized with other Metro-owned public assembly facility assets. For instance, joint advertisements could be run in certain publications that list all of the facilities in the market.
- Facility management should refine its marketing plan annually based on the budget considerations, changes in the Nashville market, the competitive market and the industry as well as any other pertinent issues that could impact the facility. Management needs to monitor the event activity at the NMA and implement a system to measure how well marketing initiatives are succeeding. This should be one of the objectives for the new Marketing Director position.
- Most similar facilities to the NMA operate at a deficit. The potential opportunities to significantly increase operating revenue appear to be relatively limited at the NMA. The rental rates charged at the NMA are consistent with those at other similar facilities. Further, it is not recommended to increase the rental rates given the age and configuration of the facility as well as the State and regional competitive market. The facility's share of concessions and catering appears reasonable based on information from comparable facilities. There are relatively limited opportunities to capitalize on any event services revenue. Previous efforts to sell advertising and naming rights at the facility have been relatively unsuccessful which is likely due to the age of the facility, the relatively limited exposure to advertisers in terms of attendance, other similar opportunities in the market as well as the current economic conditions.
- Management has done a good job of minimizing expenses as demonstrated in the comparison to other similar facilities, particularly in terms of the salary and wage expense. If Metro pursues joint management of the GEC and NMA, some operating expenses such as salaries and wages could potentially be decreased due to shared resources. However, most operating expenses associated with operations and maintenance of the facility will likely remain the same.
- During the study effort, two contracts entered into by Metro on behalf of the NMA had expired. One such contract was renewed and the other currently remains expired. During the time period in which the contracts were expired, the parties operated in "good faith" under the terms of previous contract. Closer attention needs to be placed on contractual terms to ensure compliance in this area in the future.



- As currently reported by the NMA, operating revenue only includes income generated from rental of the arena and the exhibition floor as well as income derived from the rental of forklifts, staging, tables, and chairs. Revenue received from the sale of program souvenirs and merchandise, concessions, and the reimbursement of event related expenses is classified as “other revenue”. The NMA should consider changing its method of accounting to include the line items currently categorized in “other revenue” as operating revenue to be more consistent with industry standards.
- In recent years, Metro has made the financial commitment to capital improvements and on-going repairs and maintenance at the NMA. Consequently, the physical condition of the NMA has been improved through a variety of projects.



Description of Facility

Constructed in 1962 at an approximate cost of \$5 million, the NMA is located in downtown Nashville within walking distance of many entertainment options and lodging alternatives. It was Nashville's first major multi-purpose public assembly facility with the capability to host a variety of events including concerts, sporting events (including a series of minor league professional hockey tenants), conventions, tradeshows, consumer shows as well as community/civic events. Historically, the facility has hosted big name acts and, at its pinnacle, the facility gained national and international recognition as the site for Fan Fair and the Charlie Daniels' Volunteer Jam. The facility does not currently host a primary sports tenant.

The facility is comprised of a 9,600-seat arena positioned at street level and a 63,000 square foot exhibition area that is located below grade. Through the use of a curtaining system, the arena can be reduced to 3,000 seats for a more intimate theatre style setting. The arena floor is approximately 34,000 square feet. It has a 100' ceiling and can seat 1,800 banquet style on the arena floor. The arena has a portable staging system, a portable basketball court, a permanent ice floor, a production/press room, four team locker rooms, and two star dressing rooms.

The exhibition floor space located below the arena can accommodate approximately 170 – 10' by 10' exhibition booths and can serve approximately 3,000 people seated banquet style. Columns in the exhibit area measure 16'' in diameter and are 22' to 24' apart. A large loading dock with two freight doors and an unlimited floor load allow the facility to accommodate a host of potential clients and events. Five meeting rooms, dressing rooms, staging areas and concession areas are located within the facility. There is also a 38,000 square foot open-air, outdoor plaza which can be rented independently or in conjunction with the rest of the venue. Parking at the facility is accommodated by an adjacent 500 car parking garage as well as additional parking in the surrounding area.

Since 1992, Metro has invested approximately \$4 million in the facility to improve its appearance, safety and marketability. Following a \$1.8 million renovation and installation of television lighting, a new sound system, and seat re-coverings, the facility hosted the United States Gymnastics Championship in 1994. This event, coupled with other facility improvements such as the installation of a new ice sub-floor, roof repairs, painting, as well as the purchase of a new dasher system and staging equipment have improved the appearance and functionality of the 40 year old facility. However, when the Nashville Arena (now known as the Gaylord Entertainment Center) opened in 1997, this new state-of-the-art facility proved to be a competitive element which had a negative impact on both the number of events and type of activity that the NMA was able to attract.



Commission Structure

Created through legislation dated June 6, 1963, the Metropolitan Auditorium Commission (Auditorium Commission) oversees the NMA. According to this legislation, it is the Auditorium Commission's responsibility to act as an oversight or advisory body of the NMA by exercising all powers and performing all duties on the Auditorium Commission, as established by Chapter 537 of the Private Acts of Tennessee for 1949, as amended by Chapter 209 of the Private Acts of Tennessee for 1957; and to perform such other duties as may be imposed upon the Auditorium Commission by ordinance.

The Auditorium Commission is comprised of seven members each of who are appointed by the Mayor and confirmed by a majority of the entire Metro Nashville Council. With the exception of the original members' terms which were staggered by design, each Auditorium Commission member serves without compensation for a three-year term. Any vacancy due to any cause will be filled by appointment of the Mayor and confirmed by a majority of the entire membership of the Metro Nashville Council and will be for the remaining portion of the term.

The NMA Commission is comprised of the following people:

- Jane Cleveland
- Allison Cutler
- Elizabeth Seigenthaler Courtney
- Randall T. Pomeroy
- Carol Lawrence Singletary
- Anne-Marie Farmer
- Alfred Haislip

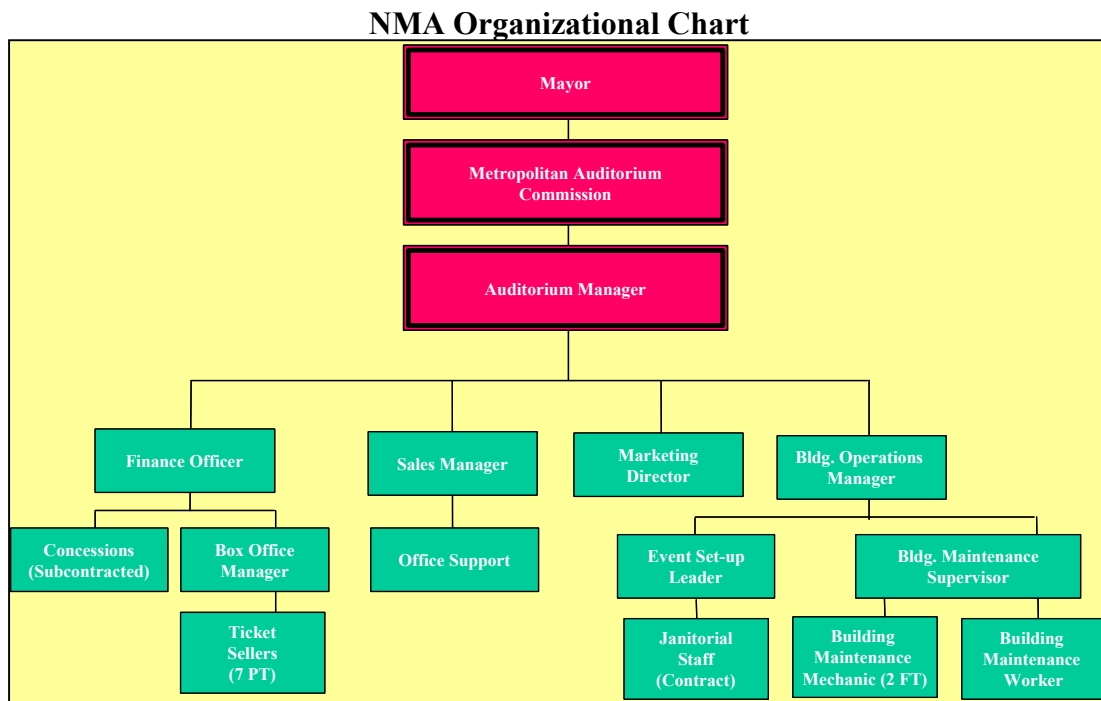
Key Findings

- The purpose and role of the Auditorium Commission is to serve as an oversight and advisory body for the NMA. Due to changes that have occurred in the competitive market as well as in the sports and entertainment industry, the NMA's role within the community has changed since the Auditorium Commission was originally formed. Consequently, the Auditorium Commission's role has become more reactive over time.
- Although the Auditorium Commission receives monthly updates from facility management on various operational issues such as event activity and financial performance, it does not serve as an active advisor to facility management on most matters. In addition, there appears to be relatively limited involvement by the Auditorium Commission in formulating a strategic plan for the facility.
- Currently there is relatively limited Auditorium Commission involvement in reporting to the Metro Nashville Council and other appropriate parties.
- Oversight bodies should periodically engage in self assessment to look at their own performance and review their primary roles and responsibilities. This process has not been completed recently by the Auditorium Commission.



Organizational Structure and Staffing Levels

The organizational structure and staffing levels at the NMA were reviewed to determine if the facility is appropriately organized and staffed to accomplish its mission and meet the needs of its customers in the most effective and efficient manner. The chart below illustrates the organizational structure for the NMA.



Note: PT denotes part-time employee and FT denotes full-time employee.
Source: NMA management.

As depicted in the organizational chart, the Auditorium Manager oversees all aspects of the facility including 11 full-time employees and additional part-time staff. All NMA personnel are employees of Metro. The Auditorium Manager is primarily charged with directing staff, booking events, as well as negotiating event-related needs and financial arrangements with perspective clients. The Auditorium Manager has four direct reports; the Finance Officer, the Sales Manager, the Marketing Director, and the Building Operations Manager. The NMA uses third party vendors to provide janitorial services, concession services, house staff (ticket sellers, ticket takers, usher door guards, security, etc.) and stagehands.



The Finance Officer manages all of the facility's financial operations including budget preparation, payroll and account auditing which consists of reviewing food & beverage reports, ticket sales and invoices/billings. In addition, this position oversees the Box Office Manager as well as transactions with the concessionaire contractor. The Box Office Manager has oversight of seven part-time employees. This position is also responsible for selling tickets and overseeing the day-to-day and event specific activity at the box office.

The primary duties of the Sales Manager are to book events, administer contracts and perform other general administrative functions under the direction of the Auditorium Manager. In addition, this position oversees the office support position, which provides administrative support to the other personnel.

The Marketing Director is primarily responsible for developing, planning, budgeting and implementing a marketing plan. This position is also responsible for recruiting new business particularly in the area of concert events, while improving, through various avenues such as the web page and marketing materials, the image of the facility.

Management of events, oversight of contracted janitorial services and supervision of the maintenance staff is performed by the Building Operations Manager. This position supervises the Event Set-up Leader and the Building Maintenance Supervisor. The Event Set-up Leader is responsible for the supervision of the janitorial staff that is contracted out. The Building Maintenance Supervisor oversees the Building Maintenance Worker position that primarily maintains the heating and cooling systems at the facility as well as the two Building Maintenance Mechanics.

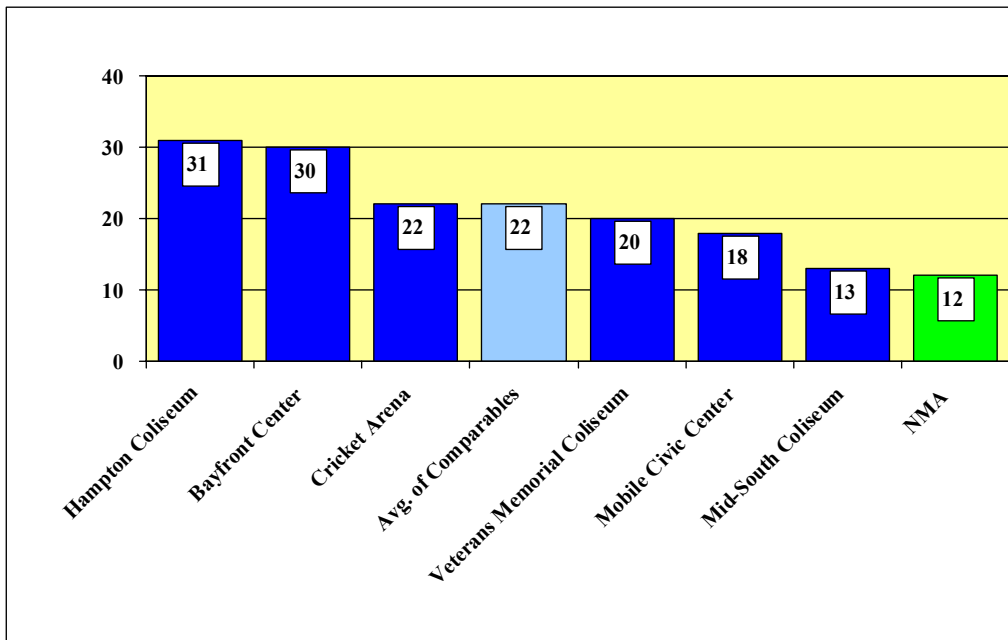
Variance in staffing levels is generally attributed to four major factors. The first relates to the management philosophy of maintaining event-related personnel as full-time or part-time staff. The second major factor relates to the management and physical relationship the facility might have to other public facilities. For example, the staffing requirement for a stand-alone arena is different than for an entire complex. The third major influence to the staffing plan and management is the union labor atmosphere, including current contract agreements and strength of the management's bargaining position in labor negotiations. Finally, the last determinant of staffing requirements is the extent of contract services versus providing services such as concessions, janitorial cleaning and security in-house.

Key Findings

- The existing management structure is provided through a traditional municipal department approach where the Auditorium Manager reports to the Auditorium Commission.
- The existing organizational structure conforms to industry practices and allows for segmentation of key operational functions.
- The concessions and janitorial functions are outsourced at the NMA which typically results in less full-time staff.

- In addition to the Auditorium Manager, only one other staff member is dedicated to marketing and promoting the facility.
- An analysis of comparable facilities throughout the country indicates that the permanent full-time staffing plans can vary greatly. Staffing levels at the NMA are lean when compared to other similar facilities.

Full-Time Staffing Levels at Selected Peer Facilities



Notes: Staffing levels reflect the number of budgeted, full-time equivalent positions and are sorted in descending order.
 Staffing information was not available for Pershing Auditorium.
 The average of comparable facilities does not include the NMA.
 Source: Individual facility management.

The staffing levels at NMA are similar to the Mid-South Coliseum but significantly lower than most of the other comparable facilities. This disparity in staffing levels is attributable to several factors. For instance, several of the comparable facilities perform many functions in-house that the NMA outsources. Consequently, the staffing levels at these facilities would be higher. The functions that the NMA outsources to a third party are discussed later in this report. In addition, some of the peer facilities experience greater activity levels which likely requires more staffing.



Mission Statement and Booking Policy

The mission statement is an important element in any facility's operation because it dictates the booking policy, utilization and financial performance of that facility. Clearly defining a mission statement that reflects community consensus and primary goals can allow a facility to set forth an operating and marketing strategy that is consistent and long-term in implementation.

The mission statement for the facility clearly outlines the goals of the facility and the expectations of facility management.

“The goal of the Nashville Municipal Auditorium is to provide the highest degree of tenant and patron services in a cost effective manner while recognizing its obligations to the citizens of Nashville by developing maximum use of the building to provide diverse, enjoyable, regional business and family events...and to encourage and to partner with corporate and community promotions and events.”

The booking policy of the NMA is generally defined by the Auditorium Manager who has the authority to modify the application of the facility's stated policies as deemed necessary in furthering the objectives of the NMA's mission. To book an event at the NMA, the prospective client must submit a rental application which places a “hold” in the booking system for the requested date. The hold can be in place until such time as agreed upon on a pre-determined basis or until another potential client requests the same date thus challenging the hold. Upon receipt of a hold challenge, the initial party requesting the date must submit a signed contract and non-refundable deposit within 72 hours, or the hold will be rescinded. The NMA does not typically enter into contracts more than 12 months in advance of the event date and a deposit must be submitted with all executed contracts. However, management does have flexibility in issuing contracts outside of 12 months when it deems appropriate. In addition, users must submit a certificate of insurance when requested.

Key Findings

- The mission statement for the NMA focuses on:
 - Providing quality service to its users in a cost effective manner
 - Maximizing facility usage
 - Offering diverse event programming for use by Nashville's citizens
 - Encouraging partnership effort with corporate and community promotions and events
- For any facility to be successful it is important for the booking policy to appropriately support and implement the mission statement. The current booking policy allows the Auditorium Manager the discretion to modify the application of the policies as necessary in order to meet the objectives of the NMA's mission.



Facility Rental Rates

The NMA has a standard set of fees for the arena and the exhibit space as well as for the use of equipment, labor and services. However, actual contract terms are subject to negotiation which is standard in the industry. The stated rental rates for the NMA are as follows:

- Arena floor (non-ticketed event): \$5,000 per day
- Arena floor (ticketed event): Greater of \$3,000 per day/performance or 12.5% of gross box office receipts
- Exhibit floor: Greater of \$2,000 per day/performance or 12.5% of the gross box office receipts
- Move-in/out: 50% of the base per day rental
- Labor charge: \$20.00 per hour per worker
- Stage rental: \$0.50 per square foot
- Curtain rental: \$1,500 per event plus labor for set-up fee
- Clean up charge: \$500 per day (exhibit hall only)
- Spotlight: \$100 per spotlight
- House sound: \$500 per day/performance
- Chair rental: \$1.00 per chair per event
- Table rental: \$5.00 per table per event
- Ice removal and replacement: \$4,500
- Novelties: 25% of gross (net of tax) sales
- City Terrace rental: \$100 per day
- Meeting rooms: \$100 per room per day

Key Finding

- Rental rates at the NMA are consistent with those at other comparable/competitive facilities.



Major Third Party Contracts

The following section of this report summarizes the major third party contracts that Metro has entered into with vendors providing services to the NMA.

Ticketing

Ticketmaster - On July 20, 1998, Metro entered into an agreement with Ticketmaster-Nashville (Ticketmaster). The original term of this agreement expired on April 30, 1999 with annual renewals that could be extended to April 30, 2003. Through the provisions of the contract, this agreement has been extended to April 30, 2003. The contract allows for Ticketmaster to be the exclusive provider of ticketing services to the NMA. The provisions of the contract provide that Ticketmaster receives a \$0.10 fee for each ticket sold at a Ticketmaster outlet or sold over the telephone for an event to be staged at the NMA. Additionally, Ticketmaster receives a fee of \$0.06 for each ticket printed or sold at the facility box office and \$0.06 for each complimentary ticket printed. A per ticket customer convenience charge ranging from \$2.25 to \$5.00 per ticket is assessed against all purchasers of tickets at a Ticketmaster outlet and at telephone sales. In addition, Ticketmaster is also entitled to receive a \$2.05 handling charge for each order processed via telephone. Both of these charges are included in the total price for the ticket and are paid by the customer.

In exchange for the exclusive right to provide ticketing services to the NMA and collect the fees as outlined above, Ticketmaster provides Metro with the use of the Ticketmaster ticketing system and a portion of the customer convenience charge collected by Ticketmaster. Royalties payable to Metro from tickets sold at Ticketmaster outlets whereby the convenience charge retained by Ticketmaster is \$2.50 or greater equal \$0.45. Royalties payable to Metro from tickets sold via the Ticketmaster phone system whereby the convenience charge retained by Ticketmaster is \$3.50 or greater equal \$0.70.

Security

Rock Solid Security, Inc. - On December 3, 1996, Metro entered into an exclusive agreement with Rock Solid Security, Inc. (RSS) whereby in exchange for payment of services, RSS is to provide event services and security for events staged at the NMA. The original term of this agreement was for 12 months beginning on January 1, 1997 and expiring on December 31, 1997. Per the provisions of the agreement, the contract was extended but expired again on December 31, 2001. While NMA and RSS negotiated the terms of a new agreement, both parties operated without a signed contract, in good faith, under the provisions of the expired agreement. On March 12, 2002, Metro and RSS entered into an agreement, the term of which commenced on April 1, 2002 and expires on March 31, 2007.

According to the agreement, RSS is paid on an event by event basis. The hourly rate paid by Metro for labor charges varies per the type of labor being provided on increases by a fixed percentage each year ranging from 5% to 3%. Hourly rates for 2002 range from \$12.50 to \$63.00. There is a four hour minimum call for all services.



Heating and Cooling

Nashville Thermal Transfer Corporation - On June 7, 1971, Metro entered into an exclusive agreement with Nashville Thermal Transfer Corporation (Nashville Thermal) whereby in exchange for payment of services, Nashville Thermal is to supply chilled water and steam to NMA. The original term of this agreement was for 30 years. Metro has the option to extend the contract for an additional 10-year period. On June 7, 2001, the contract between Nashville Thermal and the NMA expired. As of the date of this report, a new contract between the parties has not been executed. The parties are currently operating in good faith under the terms of the expired agreement.

Concession Services

Volume Services America - On August 11, 2000, Metro entered into an agreement with Volume Services America (Volume Services) whereby in exchange for payment of services, Volume Services agrees to make an initial capital investment towards the purchase of food service equipment and improvements as well as provide and operate concession and catering services for the NMA. The initial term of the contract began on September 1, 2000 and expires on August 31, 2005. The terms of the concession services contract allow the NMA to receive the following percentages of revenue generated from the sale of concessions during NMA events:

<u>Commission Schedule – Incremental</u>			
	<u>Gross Receipts</u>		
	<u>From</u>	<u>To</u>	<u>Rent %</u>
Concessions food and beverage	\$0	\$500,000	40.0%
	\$500,001	\$750,000	42.5%
	\$750,001	& Greater	45.0%
Subcontractor			
Percentage of net amount received by Volume Services			50.0%
Catering food and beverage			15.0%
Candy			15.0%
Vending			15.0%

Source: NMA management.

Key Findings

- The services that the NMA contracts out to third party vendors, the rates charged for ticketing services and the percentage of concession gross receipts received by the NMA appear reasonable when compared to those at other similar facilities.
- During the study effort, two contracts entered into by Metro on behalf of the NMA had expired. One such contract was renewed and the other currently remains expired. During the time period in which the contracts expired, the parties operated in “good faith” under the terms of the previous contract.



Marketing Efforts

The marketing and booking function is perhaps the most important aspect of facility operations because it drives utilization and ultimately financial performance. Currently, there is one full-time dedicated marketing person at the NMA. The Auditorium Manager also assists in the marketing efforts of the facility. According to NMA management, the facility positions itself in the market as an affordable family venue that has more available dates than other competing Nashville venues.

Based on information provided by facility management, the NMA adopted the following six operating objectives in August of 2000 that it believes will increase utilization and improve operating performance in the long-term:

- 1) Sell naming rights to the facility
- 2) Seek indoor/outdoor signage revenue
- 3) Seek sponsors for public events to be held on the plaza
- 4) Market the facility to surrounding communities
- 5) Partner with other local venues to exchange sales leads and provide cross referrals between facilities
- 6) Keep the venue well-maintained, clean and updated

Recent discussions with facility management indicate that intentions to sell naming rights and seek indoor/outdoor signage opportunities have been temporarily suspended until certain of the facility's pending capital improvement projects are completed. Although the NMA was unsuccessful in attracting a naming rights buyer, it continues to focus on the above stated approach in an effort to fill open days on the facility calendar.

Representatives of several groups who interact with the NMA in some capacity related to marketing were interviewed. These comments are summarized on the pages that follow.



- *Nashville Convention and Visitors Bureau* – Representatives were interviewed to obtain information about the Nashville CVB’s marketing efforts as it relates to the NMA. The Nashville CVB actively markets Nashville as a destination including all of Nashville’s public assembly facilities and hotel properties. The Nashville CVB works in conjunction with the Nashville Sports Commission, the Downtown Nashville Convention Collection and other facilities to attract various events to the Metropolitan Nashville area. Nashville CVB representatives indicated that several limitations associated with the NMA such as its age, configuration, size and physical appearance inhibit the ability of both facility management and the Nashville CVB to effectively sell events at the NMA.
- *Tennessee State Fairgrounds* – Prior to the opening of the GEC and the Convention Center, the Tennessee State Fairgrounds (Fairgrounds) and the NMA hosted the majority of the public shows in the Nashville market. Event activity at the Fairgrounds includes the State Fair, the flea market, consumer/public shows, sporting events and various other civic/community activities. Representatives at the Fairgrounds indicated that cross-referrals of potential clients do currently exist between the Fairgrounds and the NMA albeit on a relatively limited basis. Typically Fairgrounds representatives only refer potential clients to the NMA when dates are not available at the Fairgrounds and/or the configuration at the Fairgrounds is not desirable. Fairgrounds representatives indicated that its business has been adversely affected by the GEC and the Convention Center. Consequently, it actively focuses on seeking clients that are not likely interested in hosting events at those two facilities because of size, cost or location. The number of on-site parking spaces is an advantage to holding events at the Fairgrounds.
- *Nashville Convention Center* – Although there are meetings between representatives of Metro’s public assembly facilities and appropriate hotel properties to coordinate marketing efforts, Convention Center management indicated that there are limited opportunities to jointly host events with the NMA. When appropriate, Convention Center management does try to utilize the NMA but the size and orientation of Convention Center events as well as the geographic distance between the two facilities makes it difficult to do so on a regular basis.
- *Gaylord Entertainment Center* - Currently there are relatively limited shared or joint marketing efforts underway between the GEC and the NMA. As with the Fairgrounds, management at the GEC typically only refers events to the NMA if dates are not available and/or if the client desires a smaller and/or less expensive facility. Due to the size, configuration and orientation of the two facilities, management at the NMA does not view the GEC as a major competitor for events. However, GEC representatives did mention that several events historically held at the NMA are potential clients for the GEC.
- *Nashville Sports Council* – The Nashville Sports Council (Sports Council) works actively to promote the City of Nashville and attract various sporting events to Nashville as well as to attract events at non-peak times when the hotel and convention business in Nashville is typically slower. However, Sports Council representatives mentioned that the NMA’s age, size and configuration are limiting factors in attracting certain events that the Sports Council targets. Consequently, many of the events attracted by the Sports Council are hosted at the GEC and/or the Nashville Coliseum rather than at the NMA.



Key Findings

- Compared to other public assembly facilities in Nashville, the NMA presents an affordable, customer service oriented, family entertainment alternative. In its marketing efforts to attract new events and maximize the amount of repeat business, NMA management appropriately focuses on these strengths.
- Although the marketing approach adopted by NMA management is comprised of goals and objectives that would maximize marketing of the facility and potentially increase revenue, to date, facility management has been relatively unsuccessful achieving some of these goals such as selling naming rights to the facility, seeking indoor/outdoor signage revenue and obtaining sponsors for public events to be held on the plaza. This is likely due to factors such as the facility's location, the facility's age, curb appeal, the level of event activity at the facility, the marketing/sponsorship opportunities available at other area public assembly facilities and the economy.
- Currently facility management is not allowed to co-promote events. Co-promotion is when the facility and the event promoter share the financial risk in hosting an event. Currently many acts that currently play at the NMA pay a flat rental rate for use of the facility. In co-promoting an event, the facility operator and promoter would customarily agree to terms that might include a lower rental rate for use of the facility, but provide the facility operator the potential upside of sharing in the profits generated from the event. The premise is that co-promotion encourages promoters to hold acts at the facility that may otherwise not play at the venue. While there may be an increase in the number of events that the NMA could potentially attract if allowed to co-promote, there is also additional risk to Metro if events do not meet projected attendance levels and/or revenue goals. This policy for management not to co-promote events is an appropriate fiscally conservative approach for the NMA.
- NMA management has been successful in meeting with other local venues and marketing agencies such as the Convention Center and the Downtown Nashville Convention Collection (DNCC) to exchange sales leads and provide cross referrals between facilities in an attempt to generate potential leads. The DNCC is a group of Nashville downtown area businesses whom all are impacted by convention business and meet regularly to share leads and strategize about potential convention and meeting activity for Nashville. Although the NMA is somewhat limited due to its geographical constraints, it has been able to attract a small portion of its business from the "overflow" or referral from other local area public assembly facilities including the Convention Center, the GEC and the Fairgrounds.
- Although Metro is impacted by the financial success of both the NMA and the GEC, there is no incentive for either management team to cross-market with each other. Consequently, there are some instances where similar event types (i.e. family shows) held at both facilities within a relatively short timeframe negatively influenced attendance at both events. For instance, in February 2002, a family show called *Dragon Tales* performed at the NMA while during that same month the Circus performed at the GEC. Common management of the two facilities could alleviate this problem and potentially result in more total event activity. Because one entity would control the scheduling of both facilities, it would also provide the capability to shift events from one venue to another if required and approved by the event producer.



- Although the Nashville CVB participates in marketing the NMA when appropriate, its primary objective is to market Nashville as a destination.
- The NMA’s age and size limits its ability to host many of the events that the Sports Council attracts to the community.
- The NMA has a good website that offers browsers access to a significant amount of information regarding the NMA.
- The NMA operates in a competitive market. As shown in the table that follows, there are several facilities in Tennessee with a seating capacity of more than 9,500 that compete with the NMA for events. In addition, there are several other smaller entertainment facilities in Nashville that likely compete for some of the same events as the NMA including the Grand Ole Opry House, Ryman Auditorium, Tennessee Performing Arts Center, and the War Memorial Auditorium.

Public Assembly Facilities Located in the State of Tennessee

Facility	Location	Capacity	Tenant(s)
Thompson-Boling Assembly Center & Arena	Knoxville	24,451	Collegiate
The Pyramid	Memphis	21,000	Collegiate, NBA (Grizzlies)
Gaylord Entertainment Center	Nashville	20,000	NHL (Predators)
AmSouth Amphitheatre	Antioch	16,500	n/a
Mini Dome East Tennessee State University	Johnson City	16,000	Collegiate
Vanderbilt University-Memorial Gym	Nashville	15,317	Collegiate
Freedom Hall Civic Center	Johnson City	13,260	n/a
Monty Hale Arena-Middle TN State University	Murfreesboro	13,000	Collegiate
UTC McKenzie Arena	Chattanooga	12,000	Collegiate
Mid-South Coliseum	Memphis	12,000	n/a
Gentry Complex Tennessee State University	Nashville	10,500	Collegiate
Tennessee Tech Univ.-Hooper Eblen Center	Cookeville	10,149	Collegiate
Nashville Municipal Auditorium	Nashville	9,600	n/a

Notes: Sorted in descending order by capacity.
n/a denotes not applicable.

Sources: *AudArena 2002; 2002 IAAM Guide.*

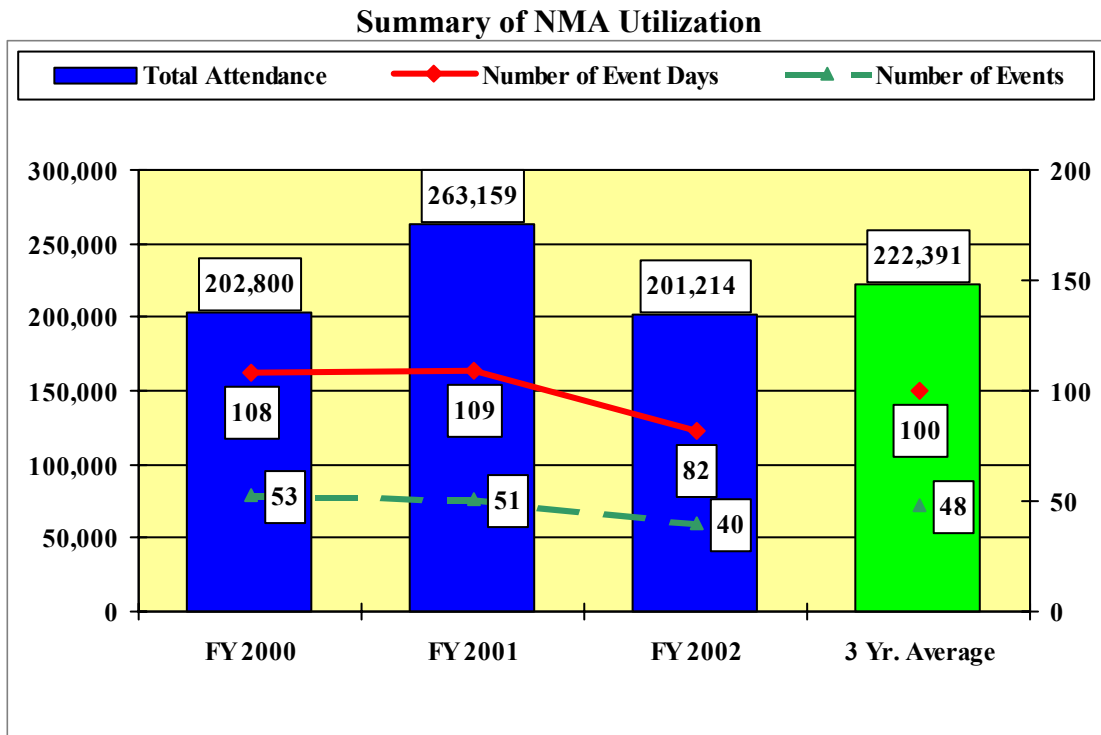
- The reason for the decline in event activity at the NMA over the last few years is not largely due to the marketing efforts at the facility. The decrease in activity is likely due to several factors that are outside the control of management such as:
 - the age and configuration of the facility
 - the attrition of events to other State and regional facilities
 - the cyclic nature of the concert business
 - the strong competition from competitive facilities in both the State and the region

In order to increase marketing efforts the NMA has recently hired a Marketing Director.



Utilization

In order to gain an understanding of the efficiency and effectiveness of the facility it is useful to analyze its historical utilization. Utilization can be measured by the number of events, the number of event days and total attendance. The following graph illustrates utilization at the NMA for the three most recent fiscal years.



Source: NMA management.

The number of events and event days remained relatively constant between FY 2000 and FY 2001 but experienced a significant decrease in FY 2002. As shown in the graph above, total attendance at the NMA has fluctuated during the last three fiscal years. Total attendance was approximately 203,000 in FY 2000 increasing by 30% to more than 263,000 in FY 2001 before decreasing by approximately 25% to a three-year low of 201,000 in FY 2002. The higher total attendance in FY 2001 was primarily attributable to significant increases in attendance compared to the prior fiscal year at concerts, family shows, convention/trade shows and other events which includes religious events, graduations, dances, rehearsals and private parties. During FY 2002, the facility was closed for approximately three months for construction, which included installation of sprinklers. This temporary closure as well as the events of September 11, 2001, likely had a negative impact on the overall event activity at the NMA.



The table below illustrates a more detailed analysis of the event activity at the NMA during the last three fiscal years.

Historical Event Activity at the NMA

Event Type	FY 2000			
	Number of Events	Event Days	Total Attendance	Avg Attendance Per Event Day
Sporting Events	17	37	65,605	1,773
Concerts	13	13	30,430	2,341
Family Shows	3	9	26,900	2,989
Conventions/Trade Shows	4	15	19,356	1,290
Consumer Shows	5	15	26,659	1,777
Other Events	11	19	33,850	1,782
Total	53	108	202,800	
Event Type	FY 2001			
	Number of Events	Event Days	Total Attendance	Avg Attendance Per Event Day
Sporting Events	7	17	44,420	2,613
Concerts	15	15	44,342	2,956
Family Shows	4	14	45,047	3,218
Conventions/Trade Shows	6	16	37,400	2,338
Consumer Shows	4	13	26,000	2,000
Other Events	15	34	65,950	1,940
Total	51	109	263,159	
Event Type	FY 2002			
	Number of Events	Event Days	Total Attendance	Avg Attendance Per Event Day
Sporting Events	11	25	57,686	2,307
Concerts	10	10	32,307	3,231
Family Shows	4	15	42,499	2,833
Conventions/Trade Shows	2	6	5,872	979
Consumer Shows	3	9	14,600	1,622
Other Events	10	17	48,250	2,838
Total	40	82	201,214	
Event Type	Three Year Average (FY 2000 - FY 2002)			
	Number of Events	Event Days	Total Attendance	Avg Attendance Per Event Day
Sporting Events	12	26	55,904	2,123
Concerts	13	13	35,693	2,818
Family Shows	4	13	38,149	3,012
Conventions/Trade Shows	4	12	20,876	1,693
Consumer Shows	4	12	22,420	1,818
Other Events	12	23	49,350	2,115
Total	48	100	222,391	

Note: Avg. attendance per event day = total attendance/event days.

Sources: NMA management; KPMG research.



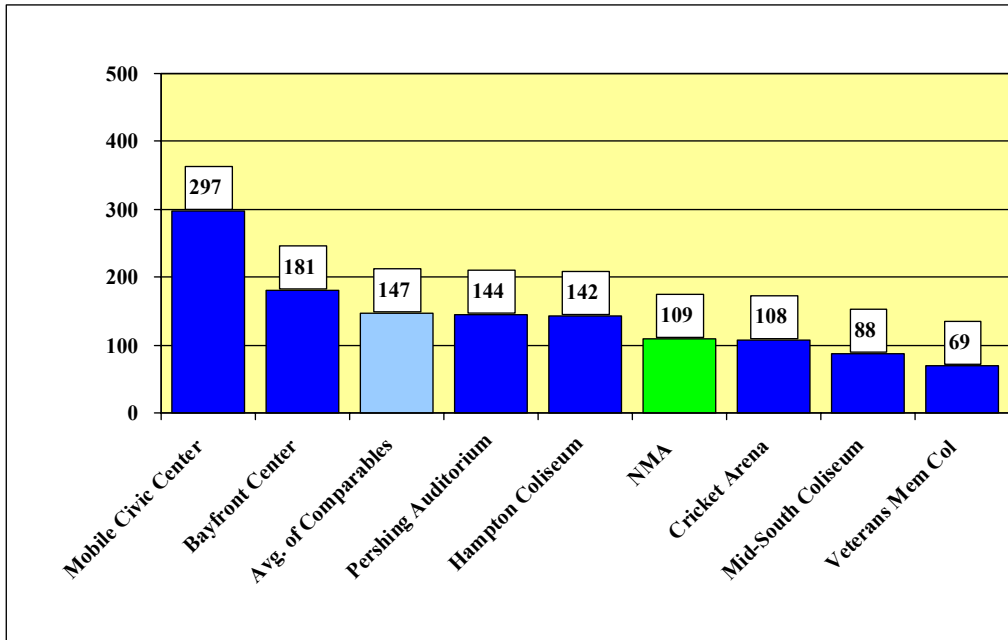
The following summarizes the NMA's event activity over the last three fiscal years.

- With respect to sporting events, the number of events, number of event days and total attendance all experienced a decrease between FY 2000 and FY 2001.
- The number of concerts has fluctuated over the last three fiscal years from a high of 15 in FY 2001 to a low of 10 in FY 2002. Concert activity is typically dependent on the number of touring acts in any given year as well as other factors such as seating capacity, competitive market and the financial terms offered. Total attendance for concerts held at the NMA decreased by nearly 12,000 between FY 2001 and FY 2002. However, the average attendance per concert of approximately 3,200 in FY 2002 was the highest during the profiled three-year period.
- Total attendance for family shows increased between FY 2000 and FY 2001 and remained relatively constant for FY 2002. Family shows have averaged approximately 3,000 people over the last three fiscal years.
- The number of and total attendance at convention/trade shows experienced a significant decrease in FY 2002 when the NMA hosted only two conventions/trade shows for a total of less than 6,000 attendees.
- Activity levels for "other events" have fluctuated over the last three fiscal years. This category experienced the largest increase in total attendance between FY 2000 and FY 2001, which was primarily attributable to an increase of 30,000 people at religious events. However, total attendance at other events decreased by approximately 18,000 in FY 2002.
- The temporary closure of the NMA for approximately three months for construction in FY 2002 negatively impacted its utilization numbers.

Key Findings

- Overall, the NMA is a very active facility that hosts a variety of events which is consistent with its mission statement.
- An analysis of utilization at comparable facilities in other markets is a useful step in measuring the overall performance of the NMA. Analyzing similar facilities can offer a good frame of reference as to performance indicators such as the number of event days and attendance at those events as well as financial performance. The graphs that follow illustrate the number of event days and total attendance at the peer facilities described earlier in this section of the report.

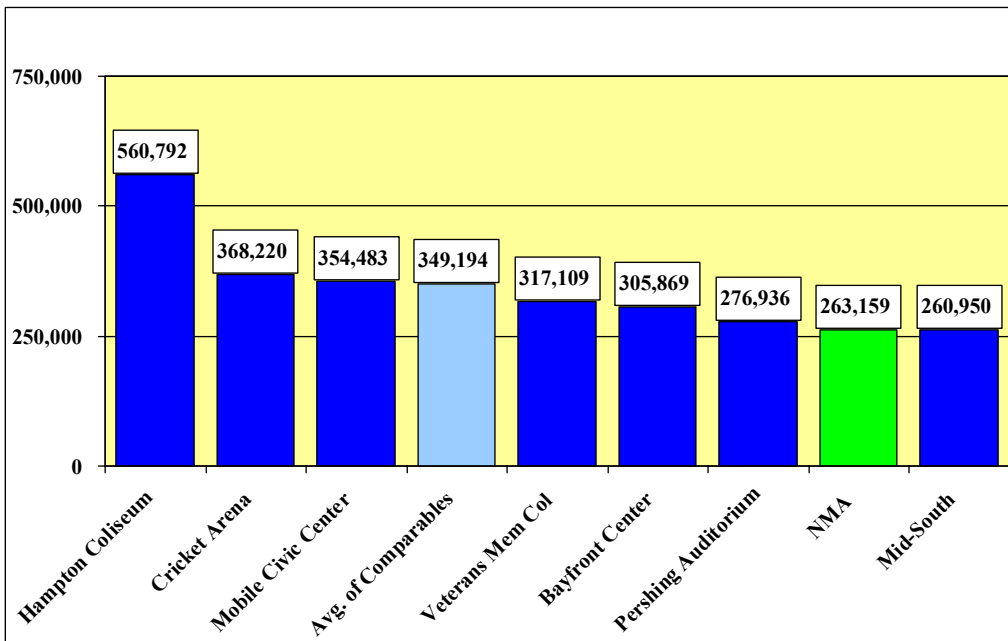
Number of Event Days at Peer Facilities



Notes: The number of event days at the Mobile Civic Center excludes 365 event days resulting from the temporary rental of exhibit space by the Mobile Museum of Art.
 In order to be consistent, information above represents 2001 data.
 Average does not include the NMA.

Sources: Individual facility management; KPMG research.

Total Attendance at Peer Facilities



Notes: In order to be consistent, information above represents 2001 data.
 Average does not include the NMA

Sources: Individual facility management; KPMG research.



- Similar to the NMA, profiled peer facilities hosted a variety of events including sporting events, concerts, family shows and other community/civic oriented events. These facilities hosted an average of 147 total event days and averaged approximately 349,200 in annual attendance. The average number of event days is somewhat skewed by activity at the Mobile Civic Center (297). In addition, the number of event days at the Mobile Civic Center excludes 365 events resulting from the temporary rental of exhibit space by the Mobile Museum of Art. The event activity for the Mobile Civic Center and Cricket Arena include a minor league hockey tenant. Total event days hosted at these arenas ranged from 297 at the Mobile Civic Center to 69 at the Veterans Memorial Coliseum in Jacksonville. Annual total attendance ranged from approximately 561,000 at the Hampton Coliseum to approximately 261,000 at the Mid-South Coliseum.
- The NMA compares favorably to several of the peer facilities in terms of the number of event days but draws significantly less in total attendance. Both the Cricket Arena and the Mobile Civic Center hosted a professional minor league hockey sports tenant which accounted for approximately 125,000 and 71,000, respectively, of the attendance at those facilities. Excluding the attendance from these teams would yield total attendance figures comparable to NMA. The Hampton Coliseum's attendance is positively influenced by family shows and concerts which generated approximately 137,000 and 113,000 patrons, respectively.
- There is competition from local, State and regional facilities for sports and entertainment events as well as exhibit oriented events. From a broader perspective, the number of facilities in the region provides more options for event producers. Regional arena supply in conjunction with the NMA's age, size and proximity to the GEC likely limits the potential number of events that can be held at the facility.
- The consolidation of venues and live entertainment has changed the composition of the industry, especially with respect to the concert market. In general, consolidation has dictated fewer touring acts and fewer stops on a tour. In addition, the guarantees paid to artists has increased substantially making it more difficult for smaller facilities to aggressively compete in the concert business. This trend does not favor the NMA given its age, seating capacity and competitive market.



Financial Performance

Operating revenues, operating expenses and operating income(loss) are indicators of financial performance. The table below summarizes the historical operating revenues and operating expenses before general fund support for the NMA for the last three fiscal years.

Summary of Financial Operations at the NMA for the Last Three Fiscal Years

	Fiscal Year Ending			
	Jun-00	Jun-01	Jun-02	3-yr. average
Operating Revenues	\$553,023	\$539,431	\$405,382	\$499,279
Operating Expenses	1,505,738	1,554,083	1,602,391	\$1,554,071
Operating Profit (Loss)	(952,715)	(1,014,652)	(1,197,009)	(\$1,054,792)
Other Revenue/(Expense)	487,024	604,034	456,286	\$515,781
Net Profit (Loss)	(\$465,691)	(\$410,618)	(\$740,723)	(\$539,011)
Before General Fund Support				

Note: Amounts are shown as they appear on the unaudited financial statements provided by NMA management. Based on Metro's general ledger, the final audited net losses were \$463,947 in FY 2000, \$414,758 in FY 2001 and \$738,133 in FY 2002.

Source: NMA management.

As reported by the NMA, operating revenue only includes income generated from rental of the arena and exhibition floor as well as income derived from the rental of forklifts, staging, tables, and chairs. Revenue received from the sale of program souvenirs and merchandise, concessions, and the reimbursement of event related expenses is classified as "other revenue". Although there are several methods of accounting for operating revenue, many public assembly facilities typically include these line items in operating revenue.

Gross operating revenue (including revenue classified as "other revenue") accounted for approximately \$1.0 million to \$1.1 million for FY 2000 and FY 2001. For FY 2002, revenue decreased to approximately \$862,000, which is primarily attributable to the decline in event activity due in part to the temporary closure of the facility for construction for three months. The operating expenses at the NMA have remained relatively constant over the past three fiscal years averaging approximately \$1.6 million. Because of the 25% decrease in operating revenue between FY 2001 and FY 2002, the operating deficit increased to a three-year high of approximately \$741,000 in FY 2002. The operating deficit at the NMA has averaged approximately \$539,000 during the last three fiscal years.

Because management at the NMA does not directly control the surrounding parking inventory, any revenue attributable to parking from attendance at events hosted at the NMA is not reflected in the NMA's financial statements. However, from a broader perspective, Metro still realizes event related parking income through its parking agreement with Central Parking. NMA management indicated that the operating deficit would be greatly reduced if parking were included in the facility's financial statements. While parking revenue associated with events at the NMA would positively influence its financial performance, an order of magnitude estimate indicates that it is unlikely that this revenue stream alone would have generated enough funds for the facility to break-even financially for the last three fiscal years. This is particularly true for FY 2002 when the operating deficit was nearly \$741,000 and total attendance, which is a key driver for parking revenue, was at a three-year low (201,200).



The budgeting process is an important aspect of the planning process, particularly for municipally owned facilities. The following table summarizes the total actual operating expenses compared to budgeted operating expenses for the last three fiscal years.

Summary of Actual Versus Budgeted Operating Expenses at the NMA

	Fiscal Year Ended			Fiscal Year Ended			Fiscal Year Ended		
	Actual June-00	Budget June-00	Variance June-00	Actual June-01	Budget June-01	Variance June-01	Actual June-02	Budget June-02	Variance June-02
Personal Services	\$452,764	\$506,408	(\$53,644)	\$444,794	\$466,602	(\$21,808)	\$465,013	\$488,401	(\$23,388)
Communications & Transportation	1,117	849	268	502	1,049	(547)	\$565	\$1,049	(484)
Printing & Duplication	1,957	2,717	(760)	1,408	2,717	(1,309)	\$11,619	\$12,749	(1,130)
Publicity, Subscription & Dues	21,276	11,626	9,650	21,108	12,871	8,237	\$19,647	\$12,871	6,776
Utility Service	354,558	444,196	(89,638)	395,051	434,095	(39,044)	\$424,374	\$539,139	(114,765)
Professional Services	257,353	300,157	(42,804)	277,225	290,814	(13,589)	\$242,721	\$290,814	(48,093)
Travel	6,092	15,763	(9,671)	8,195	10,263	(2,068)	\$12,312	\$9,468	2,844
Repairs & Maintenance	271,306	333,111	(61,805)	280,082	340,260	(60,178)	\$306,954	\$340,260	(33,306)
Supplies	15,098	19,701	(4,603)	11,982	20,159	(8,177)	\$10,181	\$20,159	(9,978)
Materials	2,174	784	1,390	1,092	333	759	\$1,534	\$333	1,201
Insurance	1,000	0	1,000	1,000	1,000	0	\$1,000	\$1,000	0
Matching Funds Expense	121,043	136,555	(15,512)	111,644	121,003	(9,359)	\$106,471	\$123,913	(17,442)
Total Operating Expenses	\$1,505,738	\$1,771,867	(266,129)	\$1,554,083	\$1,701,166	(\$147,083)	\$1,602,391	\$1,840,156	(\$237,765)

Notes: The personal services line item reflects salaries and wages expenses for the NMA.
Account classifications are as they appear on the financial statements prepared by the NMA management.
Source: NMA management.

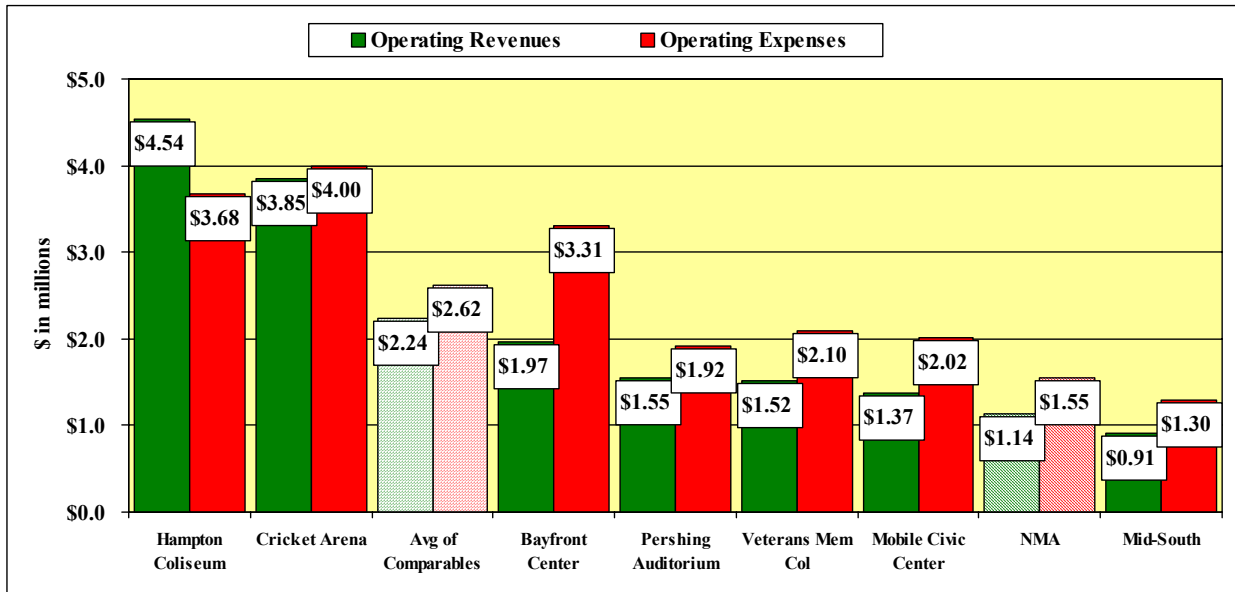
As the table above illustrates, total actual operating expenses have been lower than budgeted each of the last three fiscal years. Actual expenses associated with repairs and maintenance were more than \$60,000 below budgeted amounts for FY 2000 and FY 2001 and \$33,300 under budget for FY 2002. The utilities expense has also been a large contributing factor to the NMA incurring less total expenses than originally budgeted for the last three fiscal years including FY 2002 where actual utility expense was approximately \$115,000 less than budgeted.

Key Findings

- The NMA has experienced an operating deficit each of the last three fiscal years ranging from a low of approximately \$411,000 in FY 2001 to a high of nearly \$741,000 in FY 2002. Although operating expenses at the NMA remained relatively constant over the last three fiscal years, gross operating revenues experienced a 25% decrease between FY 2001 and FY 2002 which resulted in a significantly higher operating deficit. The decrease in revenue was partially due to the facility's closure for three months during FY 2002.
- As a point of comparison, the graph that follows shows the operating revenue and expenses for the comparable facilities. It is important to recognize that facilities vary in their methods of financial reporting. Consequently, for purposes of this analysis, adjustments have been made to the financial information as reported by the facilities in order to try to make the data as consistent as possible for comparative purposes. For instance, operating revenues do not include any public funding or tax revenue such as hotel/motel tax collections for any of the profiled facilities. Operating expenses include all governmental expenses and exclude any large asset purchases and expenses related to capital improvements when applicable. Operating expenses also exclude debt service.

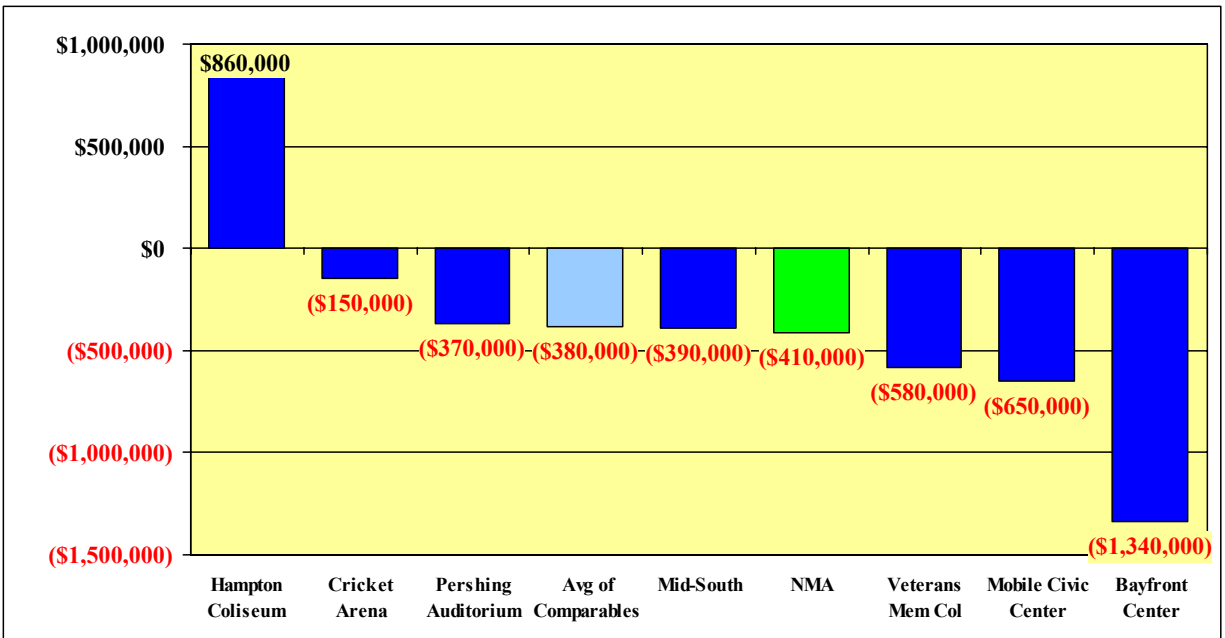


Operating Revenues and Expenses at Peer Facilities



Notes: Operating revenues shown for NMA includes "other revenue" in order to be consistent with comparable facilities.
 Average does not include amounts for NMA.
 In order to be consistent, information above represents 2001 data.
 Sorted in descending order by operating revenues.
 Source: Individual facility management.

Operating Profit/(Loss) at Peer Facilities

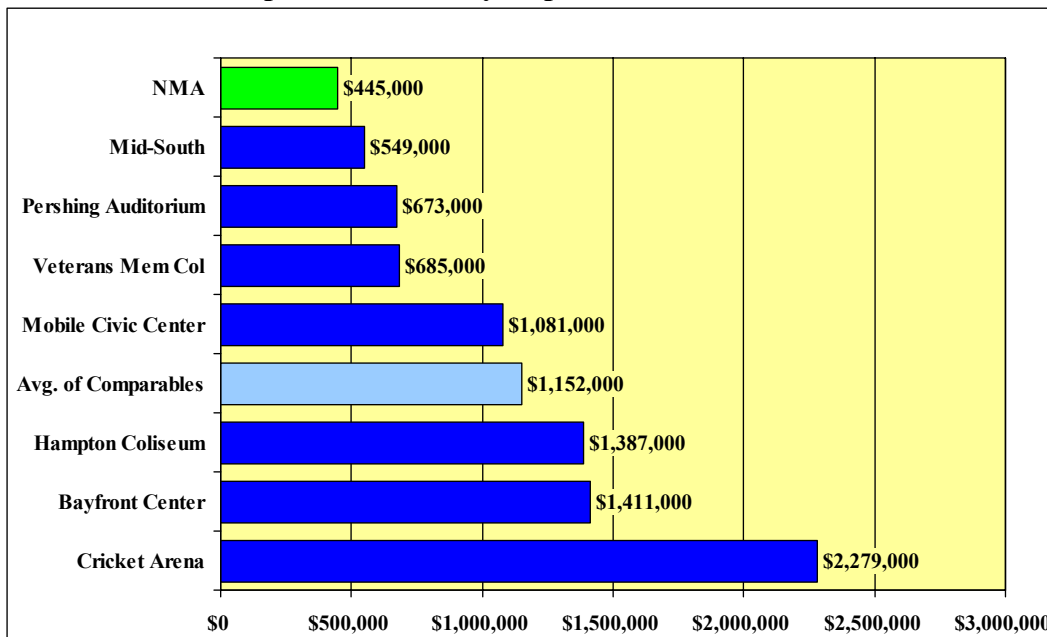


Notes: Average does not include amounts for NMA.
 In order to be consistent, information above represents 2001 data.
 Source: Individual facility management.



- As with the NMA, most of the profiled peer facilities operate at a deficit. The average operating deficit for the select comparable facilities was approximately \$380,000.
- Overall, the operating deficit at the NMA is consistent with comparable facilities.
- With the exception of the Mid-South Coliseum, all of the profiled facilities generated more revenue than the NMA which is partially influenced by event activity. In addition, the financials for many of the facilities include parking revenue. As mentioned previously, revenue generated at the NMA does not include any parking revenue associated with its events.
- Operating expenses at the NMA appear reasonable when compared to profiled facilities. Only the Mid-South Coliseum experienced lower operating expenses than the NMA.
- A significant portion of a facility's operating expenses is typically captured in salary and wage expenses. The NMA's salary and wage expense represents approximately 29% of the total operating expenses of the facility. The following graph compares the NMA to profiled facilities in terms of total salary and wage expenses.

Comparison of Salary Expenses at Peer Facilities



Notes: Amounts are rounded to the nearest thousand.
In order to be consistent, information above represents 2001 data.
Source: Individual facility management.

- The NMA has the lowest salary and wage expense among the profiled peer facilities. Consequently, there does not appear to be an opportunity to realize any cost savings at the NMA in this expense line item.



Capital Improvement Planning

Capital improvement planning (CIP) and appropriate funding of projects is a critical aspect of keeping a public assembly facility competitive in the marketplace. Because such facilities are frequently utilized, these assets can physically deteriorate quicker than many other municipal assets if not properly maintained. It is typical for local governments to struggle with adequately maintaining and improving their public assembly facilities at a level that allows them to remain functional and competitive.

The following table illustrates the capital improvement plan for the NMA.

NMA Management's Recommendations for Capital Improvements	
Project	Amount
FY 2001-2002	
Installation of a fire alarm and sprinkler system	\$1,000,000
Replace emergency lights, spotlights, cup holders, trash cans, computers, tables, doors & locks	\$198,000
Installation of a new chiller for air conditioning purposes	\$650,000
FY 2002-2003	
Interior and exterior painting, seat renovations in balcony and mezzanine levels of arena	\$750,000
Electrical and plumbing repairs	\$200,000
Replace front doors, windows, and roll up doors	\$145,000
FY 2003-2004	
Replace marquee and install new scoreboard	\$500,000
Renovation of box office, concession stands, backstage room, ADA access doors & seating, and ice pit	\$200,000
Total	\$3,643,000

Source: NMA management.



Key Findings

- The process of forecasting capital repairs and improvement projects for NMA is conducted on an annual basis. Through Metro’s CIP process, various projects are identified and cost estimates assigned along with timing considerations.
- The NMA management team regularly participates in the CIP process and consistently identifies and puts forth projects it considers necessary to keep the asset maintained and competitive.
- Beginning in FY 2002, management estimates approximately \$3.64 million is needed in capital improvements for the NMA through FY 2004.
- Capital improvement projects approved and funded at the NMA over the last few years include:

2000	\$1,000,000 - Fire Alarm/Sprinkler System Installation
2001	\$60,500 - Elevators – Code Compliance \$91,000 - Ice Rink – Upgrade Seal Lining
2002	\$1,480,000 - Replace Outdoor Marquees, Interior Renovations and ADA Compliance
- Facility management indicated that a new scoreboard and other aesthetic improvements to the interior and exterior are necessary to enhance the facility’s competitiveness.
- Historically the NMA did not receive the appropriate funding needed to adequately maintain the facility in a first class manner. As a result, the condition of the facility deteriorated and public perception of the facility suffered.
- Despite Metro’s recent commitment to capital improvements and facility repairs, the age of the facility is still apparent. If Metro chooses to continue to operate the NMA as a multi-purpose facility, it is likely that the amount of unexpected capital expenditures for equipment replacement and building repair and maintenance will increase in the future given the age of the facility.