

Item No.
Audit & Finance Standing Committee
September 18, 2013

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: Original Signed

Richard Butts, Chief Administrative Officer

DATE: August 30, 2013

SUBJECT: Operational Review – Halifax Metro Centre

ORIGIN

July 18, 2012 Auditor General Report “Review of the Transfer of Box Office Operations from the Halifax Metro Centre to Trade Centre Limited”

Motion of the Audit and Finance Standing Committee of July 18, 2012 to “Undertake a comprehensive review of the operations of the Halifax Metro Centre, including a specific review of the box office operations, the commission structure and the cost allocation process in place.”

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, including Section 79 1(k) and (x).

RECOMMENDATION

It is recommended that Halifax Regional Council direct staff to enter into negotiations with TCL regarding the commission received from Ticket Atlantic.

BACKGROUND

On July 18, 2012, the Auditor General presented a report entitled “Review of the Transfer of Box Office Operations from the Halifax Metro Centre to Trade Centre Limited” to the Audit and Finance Standing Committee. The report raised concerns regarding the creation of Ticket Atlantic, and the outsourcing of the Metro Centre box office to Ticket Atlantic. Related to this, the report also questioned the calculation of the commission paid to Metro Centre by Ticket Atlantic.

The Committee moved that an independent review of Metro Centre operations be commissioned

to address some of these concerns. The specific recommendations from the report to be addressed by the review are:

2.4.1	HRM Administration review all existing contracts for services provided to the Halifax Metro Centre to determine if there are other instances where Trade Centre Limited is named on an agreement for services normally associated with the Halifax Metro Centre. If so, these agreements should be amended so the Halifax Metro Centre is named after the appropriate approvals are obtained.
3.2.1	Based on the lack of clarity regarding previous and current financial contributions of the box office operations business line, the OAG recommends HRM undertake a full and detailed review of the financial reporting of Halifax Metro Centre results, with specific emphasis on box office contributions.
3.2.2	HRM undertake a full and detailed review of the financial results of operations of the Halifax Metro Centre from 2004/05 to current to gain a more complete understanding of costs actually incurred as well as allocated, and the overall results and various trends in operations. The work should be completed by an individual with specific expertise in these types of analysis.
3.2.4	When completing Recommendations 3.2.1 and 3.2.2, HRM also confirm the amounts Halifax Metro Centre was charged in relation to the Vendor X system and the expanded business model. If there were, in fact, any duplicate or non-specific charges incurred by Halifax Metro Centre, HRM should seek to recover these from Trade Centre Limited.
3.3.1	HRM negotiate a contract with Trade Centre Limited governing commission payments for tickets to Halifax Metro Centre events. This negotiated commission structure should follow from a full and robust assessment of all possible structures (i.e. including possibilities such as minimum charges or profit sharing, with the best value to HRM being the goal) and reflect the substantive business received from the Halifax Metro Centre. It should not simply be an exercise in documenting the current arrangement.
3.3.2	Given the circumstances which gave rise to the existing arrangement, the OAG recommends any revised commission calculation be applied, to the extent possible, retroactively to April 1, 2006.
3.3.4	HRM investigate all ticketing options available to the Halifax Metro Centre. On the basis Trade Centre Limited is a supplier in or of this business, the OAG recommends their participation be minimal in order to ensure impartiality and transparency.
3.5.1	HRM agree, as part of the ongoing changes to the Memorandum of Understanding governing Trade Centre Limited's management of the Halifax Metro Centre, which specific costs incurred by Trade Centre Limited can be allocated to the Halifax Metro Centre and the calculation to be used to arrive at the amount. HRM's Legal Services should be fully involved in this negotiation so any resulting agreement is properly documented in such a way as to ensure HRM's interests are protected.
4.0.3	Although outside the scope of this project, the following recommendation arises due to work done within the scope of the project. Given many of the issues raised during the preparation of this report, the OAG recommends HRM Administration consider engaging an external review of Halifax Metro Centre operations to ensure it is being managed to derive the greatest return for HRM.

We engaged Grant Thornton through an RFP process. Their report is attached.

DISCUSSION

Specific Recommendations

2.4.1 Halifax Metro Centre (HMC) is not a legal entity, and is not named as a party to any contracts. Trade Centre Limited (TCL) is responsible for the operations of the Metro Centre as per agreement, currently being renewed. All contracts of an operational nature, including contracts with clients, are in the name of TCL. The HRM is not a party to any of these. Since the audit, the reserve for capital maintenance has been moved to the HRM, and contracts are managed through the HRM procurement processes. New procedures put in place since the audit and documented in the draft MOU, are in place for major agreements, such as the upcoming naming rights process.

3.2.1 Part II of the report contains the review of the box office operation.

- With the exception of the 2009 year when the World Juniors were hosted, the arrangement seems to be a reasonable tradeoff between forgone revenue and risk transfer.
- The commission formula reduces HMC commissions in high attendance years, yielding the significant forgone revenue in 2009.

3.2.4 The costs for acquiring and maintaining the ticketing system were not charged to HMC, but were paid by TCL.

Findings

Financial review

1. **Industry trends** – the financial performance of sports and entertainment centres is driven largely by the mix of user groups, including an anchor tenant, and by large events. Over the past five years, sport tourism revenues in Canada have grown; however, competition for the large events is intense. As a result, the financial performance of individual facilities has been challenged.
2. **Trend analysis** – our analysis of the financial results indicates that the gross revenue has ranged from \$6.3 M to \$8.9 M between 2005 and 2012. Revenue fluctuated depending on the number and nature of events hosted. For example, the Men's World International Ice Hockey Tournament resulted in facility rentals, event recoveries, and food and beverage commission income of \$756,000 in the 2009 fiscal year. Special events and longer Moosehead playoff runs increase revenue in any given year. Expenses have been in the range of \$2.9 M to \$3.7 M, including salaries and benefits of \$1.5 to \$2.1 M. HMC has

shown a profit in each year (after normalizing for the bad debt for an unrecoverable advance to a concert promoter funded by HRM) in the range of \$2,717 to \$821,142. **The fact that the HMC is profitable makes it unique when compared to other public comparable facilities where operating losses are common.**

3. **Allocation of costs** – our review of the methodology and types of expenses allocated by TCL to HMC indicated that there was consistency in the types and amounts of expenses allocated. The property managed by TCL includes the Office Tower and Convention Centre (276,270 square feet) and the Metro Centre (205,000 square feet) for total square feet of 481,270. The HMC portion by Halifax Regional Municipality square feet is 42.6% and allocations are based more on usage or estimates than actual square feet pro rata shares. Several of the employees of TCL have worked there since the construction of the Metro Centre and the Convention Centre and estimates of cost allocations were based on reasonable assumptions and calculations. Major expenses for the shared plant (energy, salaries, repairs, etc.) were based on experience and shared on a basis that was felt to be fair and equitable. Salaries and benefits were shared on the basis of time spent working on either HMC or TCL activities. These estimates were determined after consultation and discussions by the management team. There were no indications that these estimates were not felt to be reasonable by TCL staff. Prior to 2011 there was no documentation of the allocation methodology or how the policy was applied. Since 2011 the allocation of expenses has been documented in more detail by TCL staff. There have been no significant changes in the amounts or types of expense allocated in the period under review. Based on our review the major expense categories (shared plant costs, salaries and benefits, and other) have been allocated on a consistent basis. We do believe that there are likely some other overhead costs (technology costs – cell phones, and administrative overhead) that could have been allocated as proper business expenses in addition to the expenses already allocated.
4. **Salaries** – the total amount of salaries allocated (plant and administrative) for a facility the size and nature of HMC is comparable to other venues reviewed, on the basis of total salaries to total revenue. While the number of employees varies compared to the other facility information we obtained, the resulting costs when viewed on a total basis compared to the revenue generated are comparable. TCL tends to hire more part time employees on a paid basis whereas other facilities operate with volunteers for their part-time staff. While it is difficult to compare the exact role and responsibilities for TCL to other comparable facilities in respect of the size and scale of the operations and events hosted, the level of salaries for key management positions is comparable for similar responsibilities in other segments of the Nova Scotia market place.
5. **Comparison to other facilities** – HMC financial results compare positively to other facilities we reviewed. As illustrated in Part I of this report, HMC realized revenue per

event day and income per event day above that realized by the six comparable venues, on average. In fact, three of the six venues reviewed had operating losses in 2011/2012.

Box Office review

1. The Box office was operated by HMC up until 2007 when responsibility for ticket sales was transferred to Ticket Atlantic. As reported by the HRM Auditor General, neither TCL nor HRM were able to provide documentation to support the approval for the transfer of the Box Office from HMC to the rebranded Ticket Atlantic operation. There is also no support for the determination of the pricing on a per ticket basis for the commission paid to HMC on the sale of individual tickets. Our financial analysis shows that there were profits reported by Ticket Atlantic in excess of the amount of Commissions paid to HMC in each year since 2005, except for 2011. The Box Office Income foregone since the transfer of operations has averaged \$84k per year, but this is driven by strong financial results for Ticket Atlantic in 2009. The average results for years other than 2009 is that the HMC has received \$23k more through commissions than would have been generated if the Box Office had been retained, assuming the fixed costs for a retained Box Office would be equal to the actual fixed costs incurred by Ticket Atlantic.
2. We reviewed the process and policies for issuing Complimentary tickets for HMC events. There are policies in place that require these tickets to be used appropriately for bona fide purposes. These tickets are for Premium Box seating (included in annual contract fees), HMC use, and Promoter use only. Based on our review we believe that Complimentary tickets are issued as a normal business practice for events and the venue. Tickets issued to Promoters of events are the result of negotiations for the event itself and are included in the total package deal for each event.
3. Ticketing software was purchased as a result of a normal RFP process. It was necessary to purchase new software in order to replace an older system. Based on the selection criteria and process, the purchase of the software provided good value for the money spent. The capital costs for the ticketing software were paid for by Ticket Atlantic and no portion of the cost was allocated to HMC.

FINANCIAL IMPLICATIONS

There are no direct financial implications associated with this report. A negotiation of the commission received from Ticket Atlantic may result in an increased surplus in future years.

COMMUNITY ENGAGEMENT

Not applicable

ENVIRONMENTAL IMPLICATIONS

None

ALTERNATIVES

None

ATTACHMENT

Grant Thornton Operational Review – Halifax Metro Centre

A copy of this report can be obtained online at <http://www.halifax.ca/boardscom/SCfinance/index.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Original Signed

Report Prepared and Approved by:

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