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# Halifax Regional Municipality

## Operations Review – Halifax Metro Centre

May 14, 2013

# Contents

# Introduction

### Background

This report is provided in response to the Request for Proposal, RFP #P12-070, Comprehensive Review of the Operations of the Halifax Metro Centre (HMC) issued by the Halifax Regional Municipality (HRM). The RFP was issued to address recommendations from HRM's Auditor General who issued a report in July, 2012 entitled "*Review of the Transfer of Box Office Operations from the Halifax Metro Centre to Trade Centre Limited.*

The Halifax Metro Centre (HMC) opened in 1978 and is a multi-purpose indoor arena located in downtown Halifax, Nova Scotia. Since 1978 the HMC has been the home to many sports teams and has hosted hundreds of events and gatherings. The building is adjacent to the World Trade and Convention Centre, and is located at the foot of the historic Citadel Hill. The HMC was initially configured with seating arrangements including a lower bowl and partial upper bowl. Since opening, the facility has undergone significant renovations over the years resulting in the addition of premium seating and luxury skyboxes. The HMC serves as the Atlantic region's premier venue for concerts, sports and special events. The HMC is home to the Halifax Mooseheads, the Halifax Rainmen, and the Royal Nova Scotia International Tattoo. The HMC has the capacity to seat between 10,000 and 13,000 people, depending on the sport or production being hosted.

The HMC business model is based on earning revenue from facility rental with event organizers and promoters paying a fee for use of the venue. Event revenues are the largest revenue stream followed by the lease and rental of Executive Suites & Skyboxes. In addition the HMC generates additional revenue from commissions on the sale of tickets, concessions and souvenirs. The HMC's revenue model is driven by the number and quality of events the facility hosts. The number of events directly contributes to facility rental while high quality events support the sale of Executive Suites & Skyboxes. Commission revenue is related to the level of attendance at events with higher attendance events resulting in higher sales and commission payments.

### Purpose/Objective

The purpose or main objective of this engagement was to ensure that the Metro Centre has been managed in a manner that benefits the citizens of the HRM and that decisions have been made with their best interest in mind.

# Scope of engagement

The scope of work for this project focused on three key issues:

1 Financial Review of the HMC

2 Operations of the box office

3 Value added concepts

The work programme for this engagement was completed in two parts, including the following:

### Part I – Financial review – HMC

The scope of work for **Part I** focused on the financial performance of the HMC since 2004/2005. The review process included the following:

- A trend analysis on the HMC's costs and revenues
- Review of the means of allocating costs between the Trade Centre Limited (the TCL) and HMC to determine if reasonable, appropriate and adequately supported
- For salaries charged to the HMC, a review of the compensation packages for key employees of the TCL to determine if levels are appropriate for a facility of this type, as compared to compensation packages within the Halifax Regional Municipality (HRM) as well as the private and MUSH sectors.
- A comparison of the operating costs for HMC, with comparable Canadian facilities

### Part II – Box Office operations

The scope of work for **Part II** concentrated on a review of box office operations which included:

- Identification of revenue and costs, both direct and allocated, and calculation of a contribution margin for each year for the box office and for Ticket Atlantic operations;
- Identification of the portion of the contribution margin applicable to sales of tickets for HMC events;

- Identification of the distribution of gross ticket revenue by event type, the number of tickets which were complementary and policies supporting complimentary tickets;

- Estimation of the contribution margin the HMC would have realized from box office operations if the transfer of box office operations had not taken place;

- A review of the risks versus return the HMC would have assumed if the transfer of the box office had not taken place;

- A determination if compensation paid to HRM and the vendor under the current ticketing arrangement was/is appropriate;

- A determination if the contract to purchase the new ticketing system was good value for money; and

- Identification of costs allocated to the HMC for the new ticketing system and an assessment of whether the costs were appropriately and properly calculated.

## Methodology

Our methodology for conducting this review included the following:

- Review of documents, financial statements and related reports for HMC

- Review of general industry trends—operations of sports and entertainment venues

- Interviews with representatives of HRM, HMC and TCL

- Detailed interviews with representatives of comparable facilities across Canada

- Analysis of comparable facility operating results, ticketing systems, management and organizational structure

- Assessment of the key success factors for comparable facilities and comparison to the operations of HMC

# Part I – Financial review – HMC

## Introduction

During the financial review of the HMC's operations, we have analysed the revenue and costs at a financial statement level as well at an event type level. In addition the HMC's operating and financial results were benchmarked against six other mid-size Canadian arenas/entertainment centres that also offer premium seating and luxury skyboxes. The HMC has a March 31 financial year end and information has been presented on this basis.

## Industry trends

The Canadian Sport Tourism Alliance regularly reports on the Value of Sport Tourism and, although the focus of their reporting is on individuals who travel for sporting events, the trends are reflective of facility demand, in total, in Canada.

In a February, 2012 report, spending associated with the Canadian sport tourism industry reached $3.6 billion in 2010, which was an increase of 8.8% from 2008; the increase in sport tourism spending was driven by domestic sport travellers.

In the Maritimes, sport tourism visits increased by 27% between 2008 and 2010.

As a result, the following points highlight the relevance and impact of these national trends:

- Growth in sport tourism revenues is fuelled by the number of large sporting events, such as the IIHF World Men's Championships.

- Growth rates, in terms of sport tourism spending, have declined since 2010; however, they are still positive.

- The economic impact of larger sporting events for a community or regional area is significant.

- Competition for these large events is intense, within Canada and/or North America, as many facilities are competing for a portion of this market.

To establish specific industry trends for Sports and Entertainment Centres, we reviewed the operating performance and financial results for a group of comparable facilities across Canada, including:

| | |
|---|---|
| Abbotsford Sports & Entertainment Centre, Abbotsford, BC | Hershey Centre, Mississauga, ON |
| Centre 200, Sydney, NS | K-Rock Centre, Kingston, ON |
| Harbour Station, St. John, NB | Moncton Coliseum, Moncton, NB |

This group of facilities was considered to be comparable to HMC due to the following:

- Size of facility – seating capacity
- Anchor tenant – Junior/AHL Hockey team
- The range of events hosted
- Ownership model (city owned)

In addition, we interviewed representatives for larger facilities such as General Motors Place and BC Place in Vancouver and Rexall Place in Edmonton.

Table 1 below highlights some of the key operating metrics for the six comparable facilities identified. Mix of event percentages are based on the 2012 calendar year, while all other information is based on the 2012 fiscal year.

**Table 1: Operating Metrics**

| Operating Metrics | | | | |
|---|---|---|---|---|
| | | HMC | Comparables | |
| | | | ***Average*** | ***Range*** |
| 1. | Capacity (Hockey) | 10,600 | 6,050 | 6,000 – 8,500 |
| 2. | Total Event Days / Year | 128 | 84 | 45-127 |
| 3. | Event Days (Anchor Tenant) | 34 | 36 | 22 – 41 |
| 4. | Mix of Events (Ice & Concerts) | 37% / 12% | 48% / 15% | 32 – 56% / 6 – 22% |
| 5. | Total Revenue (2012) | $7,021,000 | $4,712,000 | $3,500,000 to $7,505,000 |
| 6. | Operating Income (2012) | $565,000 | ($212,000) | $975,000 to ($3,100,000) |
| 7. | Revenue / Event Day | $54,852 | $56,095 | |
| 8. | Income / Event Day | $4,414 | ($2,524) | |

## Trend analysis (HMC)

Based on a review of the HMC's audited financial statements the venue has been profitable on an operating basis in seven of the last eight years. Event revenue has ranged from a low of $6.3 million in fiscal 2011 to $8.9 million in fiscal 2006. The sole operating loss for the period occurred in fiscal 2011 when the HMC recorded $360k as an allowance for an uncollectible amount in relation to an outside concert on the Halifax Commons where funds were advanced by HRM through the HMC to a concert promoter. Recording this allowance resulted in an operating loss of $252k for fiscal 2011. The expense was repaid by HRM in fiscal 2012 and should not be considered a normal expense of the HMC. There had been a pattern of funds being advanced to concert promoters through the HMC accounts to be repaid from ticket sales. In the case of the summer 2010 Halifax Rocks concert the sum of $359,550 was never repaid. After adjusting to remove the effect of this expense and subsequent recovery HMC had operating income of $107,425 for fiscal 2011 and $206,166 for fiscal 2012 on a normalized basis.

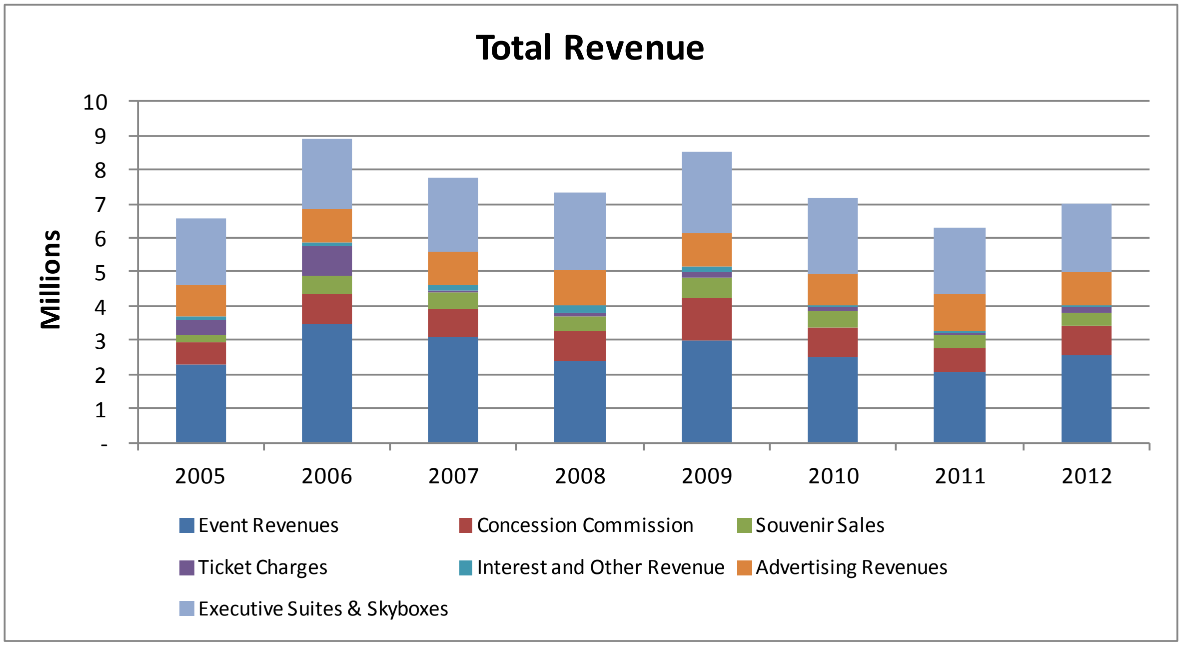
This information is summarized in a table found in *Appendix A, Schedule 1*.

## Revenue and expense analysis

### Total revenue

Over the period of investigation from 2005 to 2012 HMC's total revenue has ranged from a low of $6.3 million in 2011 to a high of $8.9 million in 2006. In recent years there has been a slight downward trend in overall revenue as shown in Chart 1.

**Chart 1: Total Revenue**

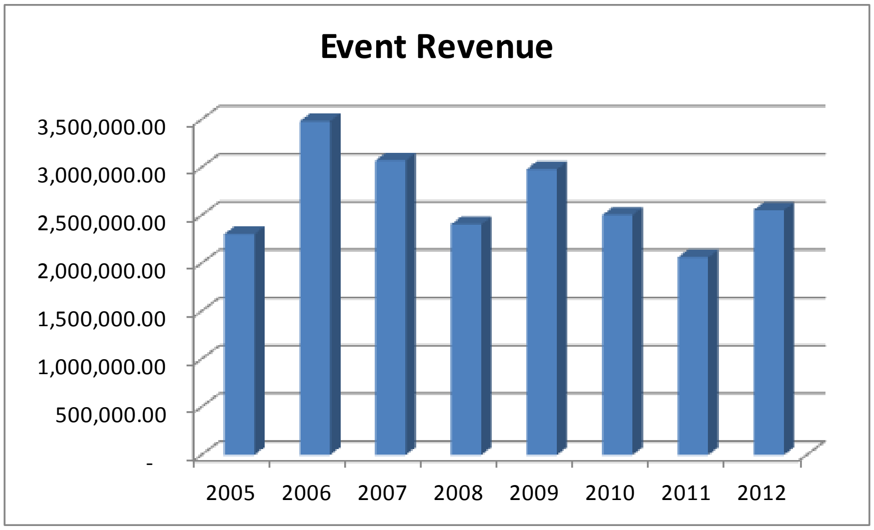



Grant Thornton performed a regression analysis on the total revenue of HMC against the population level of the HRM as well as GDP per Capita for HRM. The result of the regression analysis against these economic variables did not indicate a meaningful relationship. From our review of the revenue data the most important variable in driving event and other revenue is the quality or perceived quality of events. For example, the IIHF Worlds Men's Hockey Championships in fiscal 2009 resulted in $756k in revenue with $340k of that coming from Food & Beverage Commission ("F&B") Revenue. We also noted a strong relationship between total revenue for HMC and the prior year success of the Halifax Mooseheads. If the Mooseheads have a strong record in the prior year, HMC tends to experience an increase in revenue during the following year. If the Mooseheads have a poor year, HMC revenue will tend to decrease in the following period.

### Event revenue

The event revenue stream has represented an average of 35.6% of total revenue over the period under review and is the most important source of revenue as events directly influence most of the other significant revenue streams. Executive Suites may be an exception to this relationship as this is the most stable source of revenue due to the lease commitments entered into by suite-holders; however, a weak line up of event programming could be detrimental to suite rentals. The event revenues are shown in Chart 2.

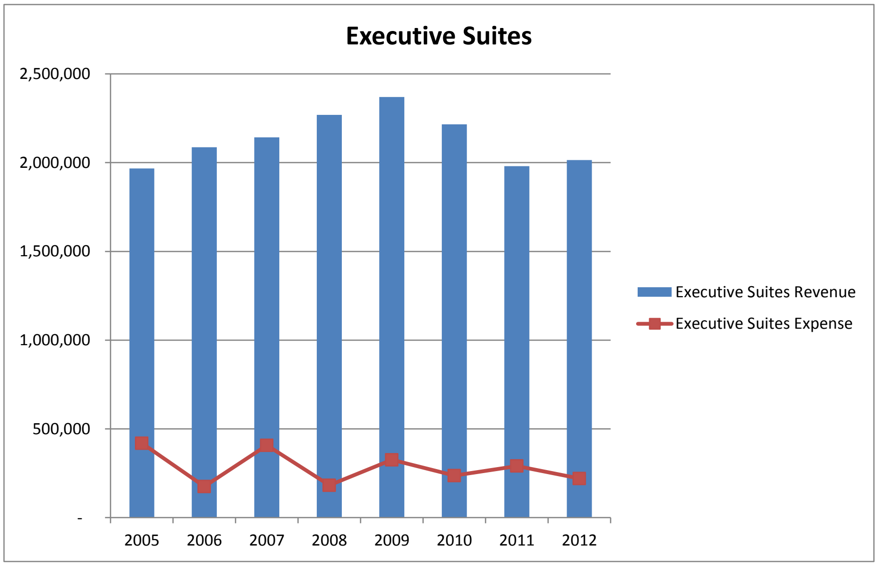
**Chart 2: Event Revenue**




### Executive suites

As shown in the graph below, the Executive Suites are an extremely important revenue stream representing stable guaranteed revenue due to the long term nature of the rental agreements. The rental agreements range in length between 1 to 5 years with the suites representing an average of 28.8% of HMC's total revenue during the period under review. The suites are also a high margin product with low variable costs averaging only 13.5% of suite revenue as shown in Chart 3.

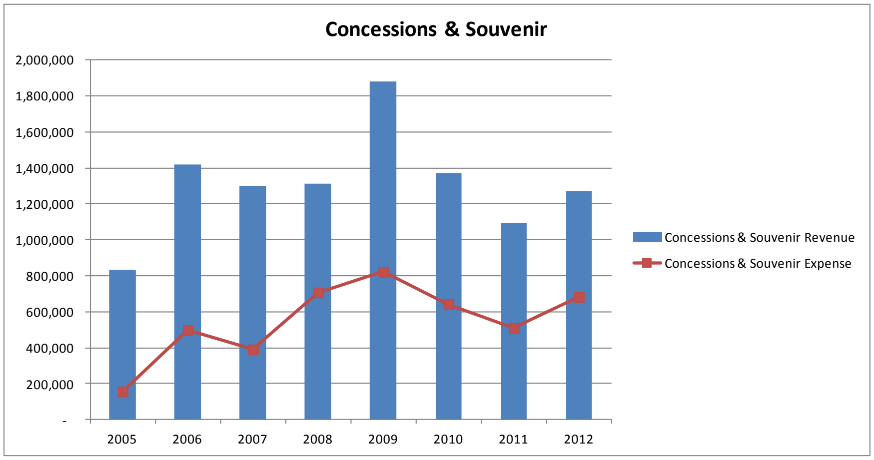
**Chart 3: Executive Suites**




### Concession & souvenir sales

Commissions on concession and souvenir sales are another high margin revenue stream as shown in Chart 4 below. These revenue streams are directly related to event revenue with concessions averaging 32.5% of event revenue and souvenir sales averaging 16.8%. A spike in concession and souvenir revenue during the IIHF World Men's Hockey Championships in 2009 can be seen clearly in Chart 4.

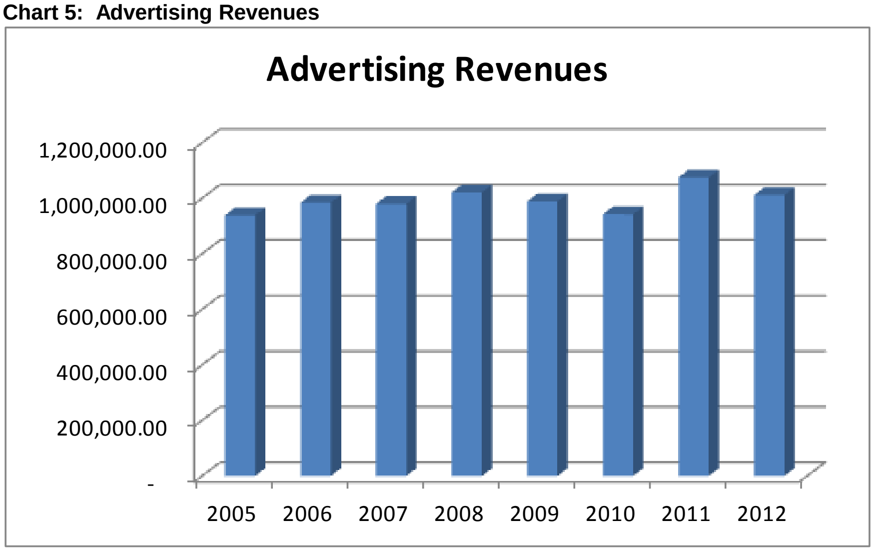
**Chart 4: Concession and Souvenir Revenue**




### Advertising revenue

HMC's advertising revenue has been stable over the period, generally staying below $1 million per year, as shown in Chart 5.

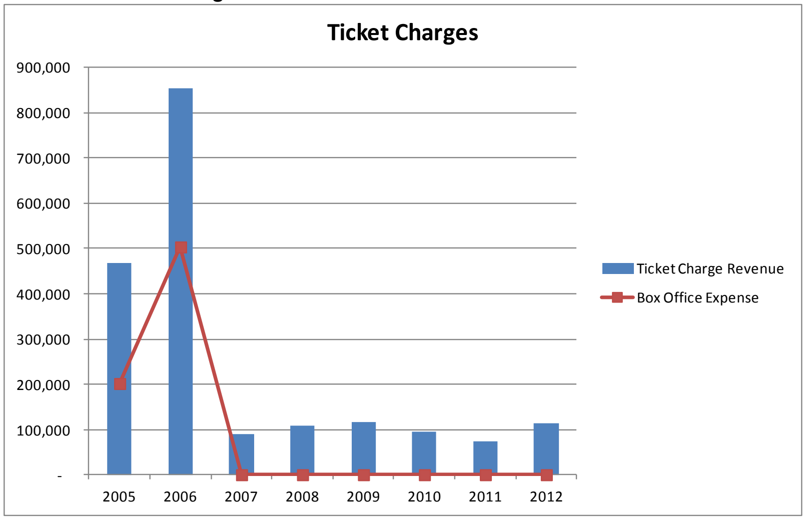
**Chart 5: Advertising Revenues**




### Ticket charges

Prior to the transfer of box office operations from HMC to Ticket Atlantic, ticket charges represented a more significant revenue stream. Following the transfer, HMC no longer incurs box office expenses. As can be seen in Chart 6, in 2005 and 2006, the difference between ticket charge revenue and box office expenses averaged $300k of positive earnings. Subsequent to the transfer, HMC has received an average of $100k in commissions from Ticket Atlantic.

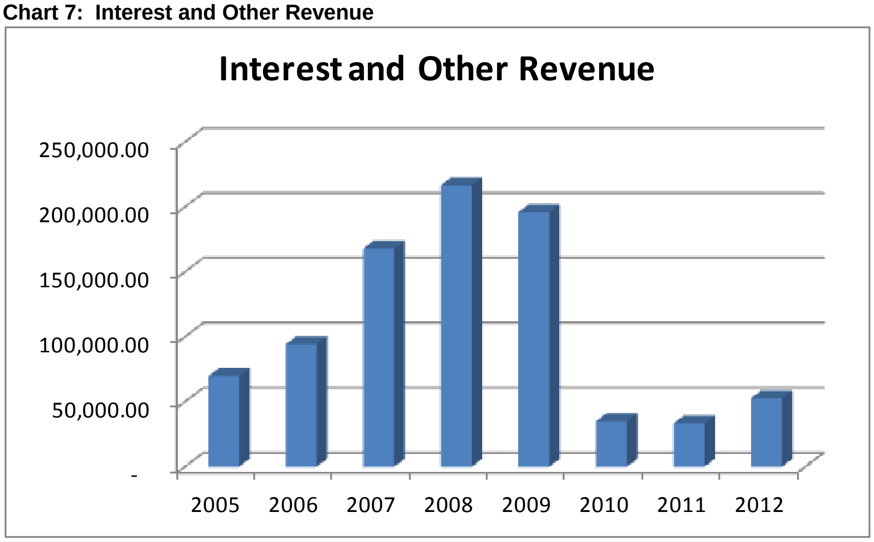
**Chart 6: Ticket Charges Revenue**




### Interest and other revenue

Interest and other revenue peaked in 2007-2009 and have since fallen to less than $50k per year, as can be seen in Chart 7. This decrease in interest revenue is attributable to the current low interest rate environment. The level of interest revenue earned by HMC has followed the path of the Bank of Canada reference rate from 2005 to 2012.

**Chart 7: Interest and Other Revenue**




### Contribution margin

The contribution margin is shown in Chart 8 below. During the period 2005 to 2012, HMC's contribution margin has averaged 56.6%. The contribution margin ranged from 55.0% to 60.7% with the exception of 2006 when the contribution margin was only 49.4% due to significantly higher event expenses. During 2006 event expenses included an offsite CFL game where only minimal revenue was attributed to HMC as a management fee. These additional costs can be seen in the Chart 9 below. In addition, the merchant discount on ticket sales was included in event expenses in 2005-2006, before being transferred to Ticket Atlantic.

**Chart 8: Contribution Margin**

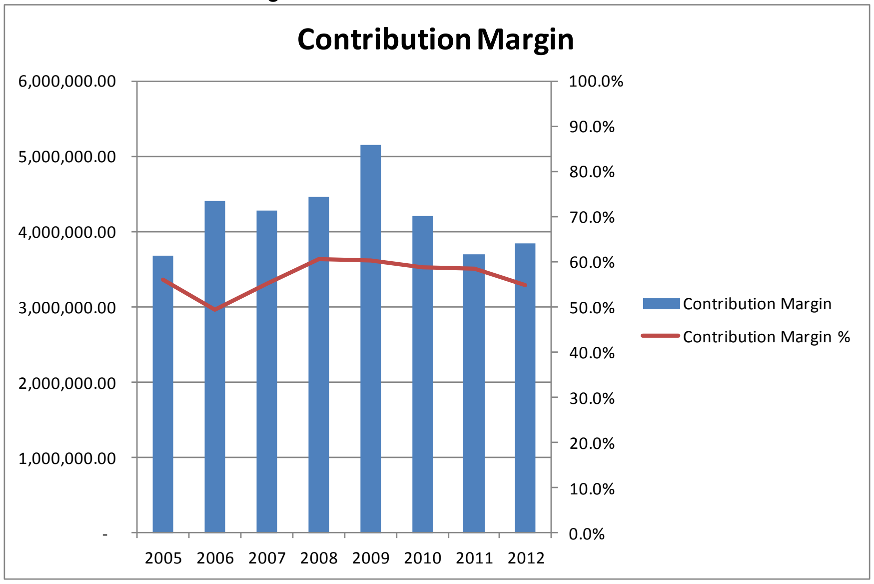
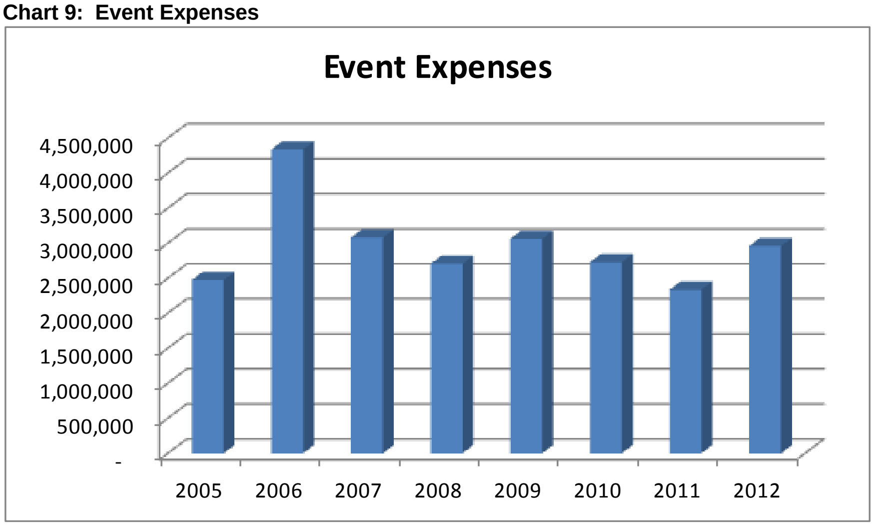


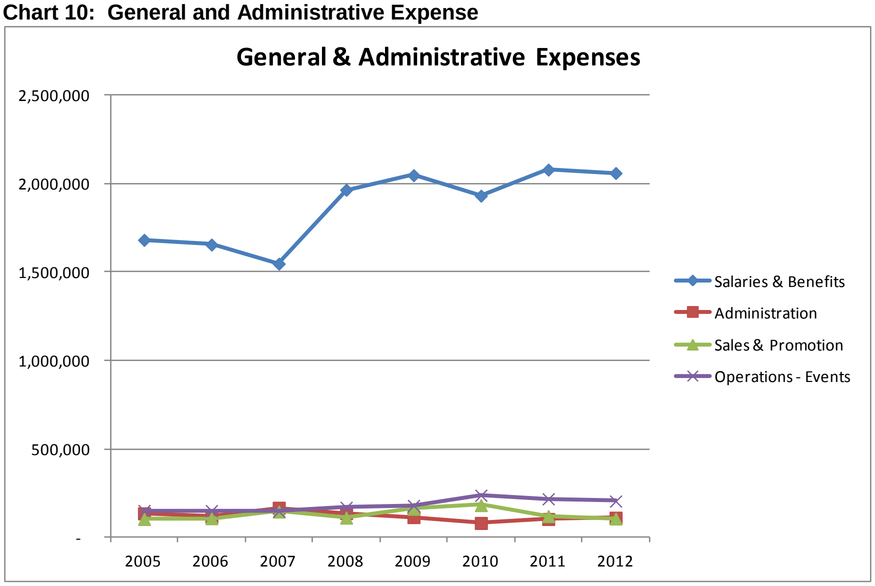

**Chart 9: Event Expenses**




## General and administrative expense

HMC's administrative expense has remained stable during the period, except for salaries and benefits which increased significantly after fiscal 2007. During 2005-2007, salaries and benefits were $1.6 million on average before increasing to just over $2 million on average for the 2008-2012 period, as shown in Chart 10. The increase in salaries and benefits is attributable to a reclassification of certain human resources costs from event expense to salaries and benefits. These costs are considered to be fixed and will not vary with the number of events that are presented at HMC.

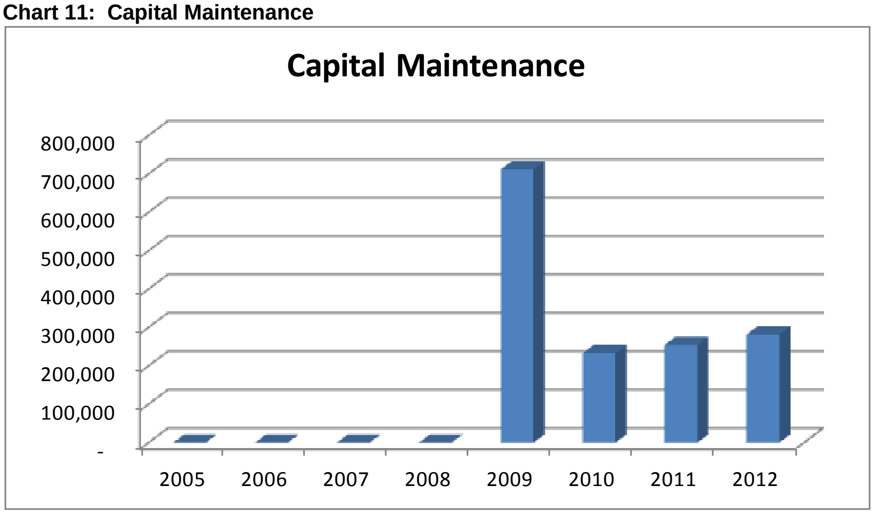
**Chart 10: General and Administrative Expense**




Capital maintenance & HRM debt repayments

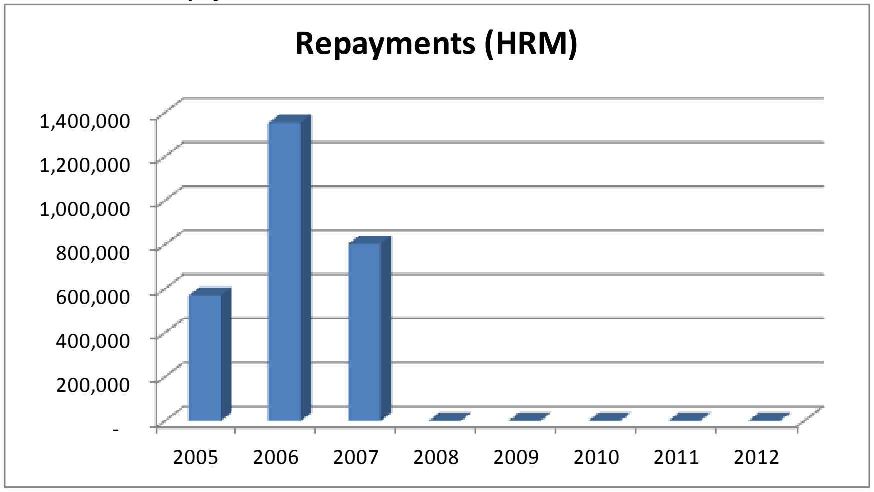
Prior to 2009, HRM directly funded any significant repairs or facility upgrades. The large expense in 2009 is related to the conversion of the facility to natural gas costing $200k, and the upgrade of the Silvervision scoreboard system costing $340k.

**Chart 11: Capital Maintenance**




HMC's debt repayments to HRM are related to the construction of the executive suites and boxes. HRM borrowed the funds for the construction of the premium seating and HMC repaid the debt out of available cash flow ending in 2007.

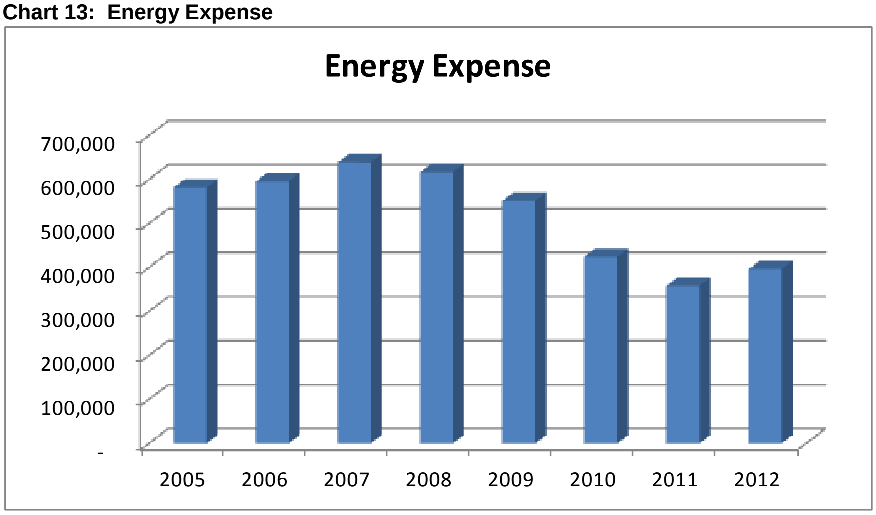
**Chart 12: Debt Repayments**




Energy expense

Following the conversion to natural gas in 2009, energy costs for HMC have decreased significantly, as shown in Chart 13. In addition, HMC has benefitted from other energy efficiency initiatives within the shared physical plant that have been paid for by the Province of Nova Scotia.

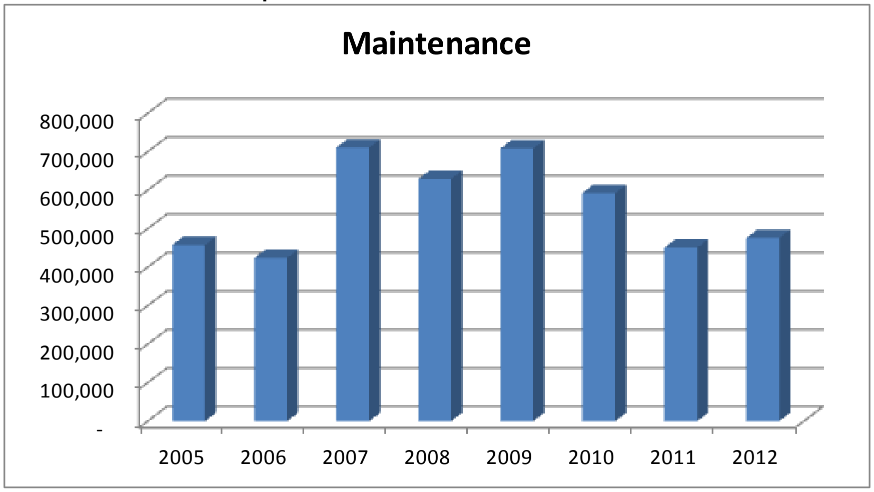
**Chart 13: Energy Expense**




Maintenance expense

HMC's maintenance costs have averaged $556k per year during the period. The period from fiscal 2007 to fiscal 2010 saw an elevated level of expense which has moderated recently reflecting a return to levels experienced prior to 2007.

**Chart 14: Maintenance Expense**




## Cost allocations

TCL manages the HMC and incurs certain operating expenses that are shared between the two organizations.  TCL manages the Convention Centre, the Office Tower and the HMC. The basis for allocating expenses is based on specific expenses that can be attributed to HMC, or based on estimates and judgement where an allocation of the expense is necessary.  Invoices from suppliers are billed directly to either TCL or HMC and they are paid directly by that organization.  The allocation of expenses is only necessary when the invoices or expenses are for the benefit of both organizations.

A high level summary of TCL's and HMC's revenues and expenses are provided in *Appendix A, Schedule 2.*  TCL's expenses excluding amortization for the fiscal years ended 2005 to 2012 range from $11.8 million to $15.4 million.  Allocated expenses to HMC from TCL for the same fiscal years range from $2 million to $2.5 million, which combine for total TCL expenses, before allocation, in the range of $13.8 million to $17.9 million.  The percentages of allocated expenses to total TCL expenses (before allocation) are calculated in the range of 14% to 15%.

We reviewed memorandums prepared by TCL staff dated May, 2011, October, 2012, and February, 2013 that discussed the allocation of expenses between the TCL and HMC.  They described the basis for allocating costs between the organizations.  Allocation calculations were more refined in the February, 2013 memo which was presented to the TCL Audit Committee and Board.  This memo established protocols for calculating estimates for determining allocations. Prior to 2011 there was no documentation of the process for allocating costs.

Shared costs that are allocated include the following three general areas:

1 Shared plant

2 Employee compensation (other than shared plant

3 Other expenses

## Shared plant

The shared plant consists of costs for heating and fuel, staff salaries, HVAC compressors, electricity, air conditioning, and ice making compressors. The operating costs to run the heating, ventilating, and air conditioning equipment are allocated to HMC as follows:

**Table 2: Shared Plant Operating Costs**

| Operating cost | Allocation methodology | HMC allocation |
|---|---|---|
| Heating – natural gas (post July 2009) and oil (pre July 2009) | Based on fuel consumption and estimated usage; in July 2009 the shared plant was converted to natural gas from oil. Allocation is based on pre or post 2009 estimates. | Post 2009: costs are allocated at 50%, based on the Chief Engineer's estimation of usage;<br>Pre 2009: costs were allocated at 55% HMC/45% TCL; based on historical consumption by MC prior to the Convention Centre construction (1978 to 1984). |
| Salaried plant staff | Based on estimated time spent on plant activities. | Includes salaries and benefits at estimated % for work attributable to either TCL or HMC. |
| HVAC air compressors | Maintenance and repairs expensed based on estimated useage. | Allocation based on 4 year average electricity consumption for 2008 to 2012 – currently at 37% HMC and 63% TCL. |
| Electricity | Electricity is now metered by the "Total meter" in the main electrical room serving both facilities; a meter ("Main meter") in the Convention Centre/Office Tower measures TCL useage. The difference between the meters less HVAC/air cost (estimated by the Electrical Engineer) provides a theoretical consumption used to allocate costs to TCL. | Based on historical %'s when MC was stand alone prior to construction of the Convention Centre/Office Tower. Allocation at 38% HMC and 62% TCL based on historical allocation plus increase when CC began operating. HMC pays and invoices TCL. |
| Air conditioning chillers | Maintenance and repairs expensed based on estimated useage. | Allocation based on 4 year average electricity consumption for 2008 to 2012 – currently at 37% HMC and 63% TCL. |
| Ice making compressors | Mycom compressors are not part of the shared plant. | 100% allocation to HMC for repairs and maintenance and electricity. |
| Water | Separately metered for each. | Paid by HMC and TCL directly. |

## Employee compensation (other than shared plant)

Payroll and staffing costs for services, other than salaries and benefits for staff who work on the shared plant, are allocated to TCL or HMC based on the percentage of work attributable to each organization. The estimated percentages are determined by the TCL CEO and CFO during the annual TCL budget process. TCL invoices HMC each pay period for their share of the salary and benefits.

A summary of the overall amounts for each fiscal year and percentages of the total for each year is summarized in Table 3.

**Table 3: Allocated Salaries and Benefits**

| Year Ended March 31, | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| Salaries | Halifax Metro Centre | $ 1,471,434 | $ 1,403,282 | $ 1,516,682 | $ 1,629,798 | $ 1,852,388 | $ 1,902,175 | $ 2,025,825 | $ 1,988,339 |
| | TOTAL | 4,269,203 | 4,550,270 | 3,974,374 | 5,583,674 | 5,953,770 | 5,795,075 | 6,586,608 | 6,454,829 |
| | HMC % | 34% | 31% | 38% | 29% | 31% | 33% | 31% | 31% |

The allocated salaries and benefits as a whole have been fairly consistent within a range of 29 per cent to 38 per cent with the largest change from 38 per cent in fiscal 2007 to 29 per cent allocated in fiscal 2008.

Allocations of salaries and benefits for key positions for each year are as follows:

**Table 4: Percentage Allocation by Position**

| Business Line | Key Positions | Year Ended March 31, 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| Executive | President & CEO | 40% | 40% | 40% | 50% | 51% | 50% | 50% | 50% |
| Finance | Chief Financial Officer | 40% | 40% | 40% | 50% | 51% | 45% | 45% | 50% |
| Finance | Controller | 60% | 60% | 60% | 50% | 51% | 45% | 45% | 50% |
| Human Resources | Vice President | 30% | 30% | 30% | 30% | 31% | 35% | 35% | 50% |
| Operations | Director | 30% | 30% | 100% | 90% | 92% | 100% | 80% | 70% |
| Events | Director | 95% | 100% | 100% | 50% | 51% | 45% | 45% | 50% |
| Business Development | Director | 97% | 100% | 100% | 70% | 51% | 100% | 100% | 100% |
| Marketing & Communications | Director | 25% | 35% | 35% | | 36% | 35% | 35% | 45% |
| Operations | Vice President | 40% | 40% | 40% | 48% | 51% | | | |
| All Other Positions | | *32%* | *27%* | *33%* | *25%* | *27%* | *28%* | *27%* | *26%* |

**Note:** in 2010-2009 there was an 'Acting CEO'

While you can see that there is some fluctuation in the percentages of salaries allocated to HMC, most stay fairly consistent over time. The biggest changes are:

- Director of Operations – allocation of 30 per cent in 2005 and 2006 to 100 per cent in 2007. This salary allocation has fluctuated each year, dropping down to 70 per cent in 2012.
- Director of Events – allocation in the range of 95 to 100 per cent for 2005 to 2007, but then dropped to an allocation in the 45 per cent to 51 per cent range for 2008 to 2012.
- Director of Business Development – allocation in the range of 97 to 100 per cent for 2005 to 2007 as well as 2010 to 2012. The 2008 year end had an allocation of 70 per cent, while the 2009 year end had an allocation of just 51 per cent.

### Other expenses

All other expenses that are identified in addition to shared plant and salaries include the following items and allocation methodology as indicated or proposed in the internal allocation memorandums prepared by TCL:

- Public Service Awards – allocated based on salary allocation percentages
- Communications (cell, phone and data costs) - allocated based on salary allocation percentages

- Garbage contract – allocated based on historical volumes

- Salt and sand – purchased from HRM by TCL and allocated based on historical experience and sidewalk and parking lot space

- Snow removal – allocated based on share of building perimeter size

- Building cleaning – billed directly to TCL or HMC for each specific event or service

### Summary

The allocation of expenses between TCL and HMC was based on estimates of TCL management on a basis related to either estimated usage and experience, or specific applicability to each organization. The methods of allocation were recently documented in the memorandums noted above. The basis for allocation was based on reasonable assumptions and applied consistently during the period under review. The February, 2013 memorandum prepared by TCL provides a detailed description of the policies and protocols for the allocation of shared services going forward.

A summary of the allocated expenses is presented in *Appendix A, Schedule 3*.

The percentage allocation for electricity ranges from 36 per cent to 39 per cent each year. The amount allocated for fuel has declined over the years, with the high of 59 per cent allocated in 2006 and 50 per cent allocated for both 2011 and 2012. The public service award allocation is the most inconsistent with a low of 29 per cent allocated in 2008 and a high of 50 per cent allocated for each year from 2010 to 2012. Honeywell's performance contracting allocation has remained consistent at 49 to 50 per cent each year up until the end of 2010.

### Employee compensation - payroll and staffing costs TCL comparison

Financial operations of HMC were compared against similar facilities across the country where data was available. Financial statement information was obtained from Complex 1 (C1) and Complex 2 (C2), and informational interviews were conducted with C1, C2, Complex 3 (C3), Complex 4 (C4), Complex 5 (C5), and Complex 6 (C6).

In *Appendix A, Schedule 4*, we provide a financial comparison of HMC with C1 and C2. The total revenue of HMC in fiscal 2012 is more than two times C1's fiscal 2011 revenue, while C2's fiscal 2011 revenue is approximately $500K more. The total salaries and benefits for HMC and C1 are both 29 per cent of revenue, while the total salaries and benefits for C2 are significantly lower at 16 per cent of revenue.

Including additional information obtained from informational interviews, Table 5 depicts other operating information for each facility.

**Table 5: Operating Information of Other Facilities**

| *Year Ended* | Halifax Metro Centre *31-Mar-12* | Complex 1 *31-Dec-11* | Complex 2 *31-Dec-11* | Complex 3 | Complex 4 | Complex 5 | Complex 6 |
|---|---|---|---|---|---|---|---|
| Total revenues | $ 7,021,440 | $ 2,955,051 | $ 7,504,653 | | | | |
| Total salaries | 2,060,629 | 865,814 | 1,178,255 | 1,100,000 | N/A | 1,400,000 | 875,000 |
| Salaries as a % of revenues | 29% | 29% | 16% | | | | |
| Income before special items | 487,790 | 320,278 | (3,096,032) | | | | |
| Income before special items as a % of revenues | 7% | 11% | -41% | | | | |
| Operating income | 206,116 | 320,278 | (3,096,032) | | | | |
| Operating income as a % of revenues | 3% | 11% | -41% | | | | |
| Maximum Capacity | 10600 to 13000 | 5700 to 7000 | 7000 to 8500 | 5400 to 6000 | 6554 to 7700 | 6200 to 7205 | 5000 to 6500 |
| Number of Events | 128 | 81 | 66 | 45 | 127 | 82 | 100 |
| Number of FT Employees | 28.5 | 15 | 15 | 25 | 10 | 14 | 9 |
| Number of PT Employees | 135 | 400 | 140 | 400 | 55 | 250 | 80 |

*Note: Number of events for HMC is from TLC's 2012 annual report.*

As shown in the table above, the HMC has the largest capacity of the facilities with a maximum of 13,000, while C2 is the next largest facility with a maximum capacity of 8,500. The number of part time employees varies dependent on what events are held at the facility. HMC hires their part time staff, whereas other facilities often have volunteers.

## Review of compensation and job titles

### Key employees

There are nine key employment positions that we identified for HMC. These key employees are officially employed by TCL with a portion of their salaries allocated to HMC. The total salary and benefits paid for these positions for the 2011-2012 fiscal year and their percentage allocation is as follows:

1 President & CEO – $196,874, with 50% allocated to HMC

2 Chief Financial Officer –$160,545, with 50% allocated to HMC

3 Controller – $99,015, with 50% allocated to HMC

4 Vice President of Human Resources – $135,311, with 50% allocated to HMC

5 Director of Operations – $110,017, with 70% allocated to HMC

6 Director of Events – $99,015, with 50% allocated to HMC

7 Director of Business Development – $110,017, with 100% allocated to HMC

8 Director of Marketing & Communications – $99,876, with 45% allocated to HMC

9 Vice President of Operations – position existed only until the end of 2008 – 2009

We compared these levels of compensation to other publicly available information including HRM, FNS, NSBI, WDCL, and GASHA as shown in Table 6 and Table 7. The salary levels are similar to amounts paid by these organizations. A comparison to the salary ranges of general managers and accounting directors at sports complexes in HRM is shown in Table 8. The salaries paid are within the ranges paid for similar positions in HRM.

**Table 6: Salary Comparison with Outside Organizations**

| | Salaries (excluding benefits) | | | | |
|---|---|---|---|---|---|
| Key Positions | Trade Centre Limited | Film Nova Scotia | Nova Scotia Business Inc. | Waterfront Development Corporation Limited | Guysborough Antigonish Strait Health Authority |
| President, CEO, General Manager | $ 171,195 | $ 153,510 | $ 225,000 | $ 151,834 | $ 125,766 |
| Chief Financial Officer/ Director of Finance | 139,604 | | | | |
| Controller | 86,100 | | | | |
| Vice President/ Director of Human Resources | 117,662 | | 101,000 | | |
| Director/ Vice President of Operations | 95,667 | | | | 119,288 |
| Director of Events | 86,100 | | | | |
| Director of Business Development | 95,667 | | | 115,134 | |
| Director of Marketing & Communications | 86,100 | | | | |
| Vice President | | | 135,000 | | |
| Directors, various positions | | | 101,000 to 121,000 | | |

**Table 7: Salary Comparison with Halifax Regional Municipality**

| | Salaries (excluding benefits) | | |
|---|---|---|---|
| Key Positions | Trade Centre Limited | Halifax Regional Municipality | |
| | Actual | Low | High |
| Director Human Resources/ Vice President | 117,662 | 135,000 | 165,000 |
| Director Community Development/ Business Development | 95,667 | 135,000 | 165,000 |
| Director Metro Transit Services | N/A | 135,000 | 165,000 |
| Municipal Auditor General | N/A | 135,000 | 165,000 |
| Director Finance & Info Technology/ CFO | 139,604 | 135,000 | 165,000 |
| Director Administrative Service/ Operations | 95,667 | 135,000 | 165,000 |
| Director Infrastructure Asset Management | N/A | 135,000 | 165,000 |
| Director Transportation & Public Works | N/A | 155,000 | 190,000 |
| DCAO Administrative Office Operations/ President & CEO | 171,195 | 175,000 | 210,000 |

**Table 8: Salary Comparison with Local Sports Complexes**

| | | Salaries (excluding benefits) | | | | | |
|---|---|---|---|---|---|---|---|
| Key Positions | Range | Trade Centre Limited | Cole Harbour Place | Dartmouth Sportsplex | Halifax Forum Commission | HRM - Sackville Sports | St. Margarets Community Centre |
| General Manager | | 171,195 | | | | | |
| | Low | | 60,000 | 69,915 | 96,000 | 91,703 | 64,969 |
| | High | | 90,000 | 104,872 | 144,000 | 137,554 | 97,453 |
| Chief Financial Officer | | 139,604 | | | | | |
| Accounting Director/ Controller | | 86,100 | | | | | |
| | Low | | N/A | 59,200 | N/A | N/A | N/A |
| | High | | N/A | 88,800 | N/A | N/A | N/A |

## Operating cost comparison

HMC was benchmarked against six other sports and entertainment facilities in Canada. In alphabetical order they are:

- Abbotsford Entertainment & Sports Centre – Abbotsford, British Columbia
- Centre 200 – Sydney, Nova Scotia
- Harbour Station – Saint John, New Brunswick
- Hersey Centre – Mississauga, Ontario
- K-Rock Centre – Kingston, Ontario
- Moncton Coliseum - Moncton, New Brunswick

Interviews were conducted with management of these facilities to collect information to compare with HMC.

As shown in *Appendix A, Schedule 5*, the total number of full-time employees varies from 9 at C6 to 28.5 at HMC, while the employee compensation expense information provided varies from $875,000 to $2,061,000. Per full-time employee, the actual employee compensation averages $72,300 per employee for HMC. This average places HMC's average full-time salary below that of C1, C3, and C6, and above the average full-time salaries of C2 and C3.

We also calculated full-time employee compensation on a per event basis. Using this approach HMC averages approximately $16,100 per event while the other facilities range from $8,750 to $24,444 per event. Given the number of events and the ice arena capacity, HMC's employee compensation per available seat at events held was $1.52. This was the lowest of any of the facilities. Others ranged from $1.75 to $4.21.

Other operating costs were compared based on financial information provided by C1 and C2, as shown in *Appendix A, Schedule 4*. Comparisons were made on a percentage basis given the differences between the complexes total revenues.

There was a wide variance in variable expenses for each facility. C1 was the lowest at 27 per cent of revenues, while HMC's were in the middle at 45 per cent, with C2 having variable expenses that were 105 per cent of revenues.

HMC's administration expenses were the lowest at 2 per cent of revenues, while C1 and C2's administration expenses were 4 per cent and 8 per cent, respectively. Sales and promotions were relatively small for each facility, staying in the range of 1 to 2 per cent of total revenues. Operations were 3 per cent of revenues for HMC, 4 per cent of revenues for C1, and 0 per cent of revenues for C2.

Maintenance expenses for HMC are slightly higher than C1's at 7 per cent of revenues compared to C1's 6 per cent, but is double C2's 3 per cent of revenues. The energy expenses for HMC is 6 per cent, while C1 spends a total of 14 per cent of their revenues on energy, and C2 spends only 4 per cent.

HMC also has capital maintenance expenses totalling 4 per cent of revenues.

Overall, HMC's expenses are reasonable when compared to other facilities.

# Part II – Box Office operations

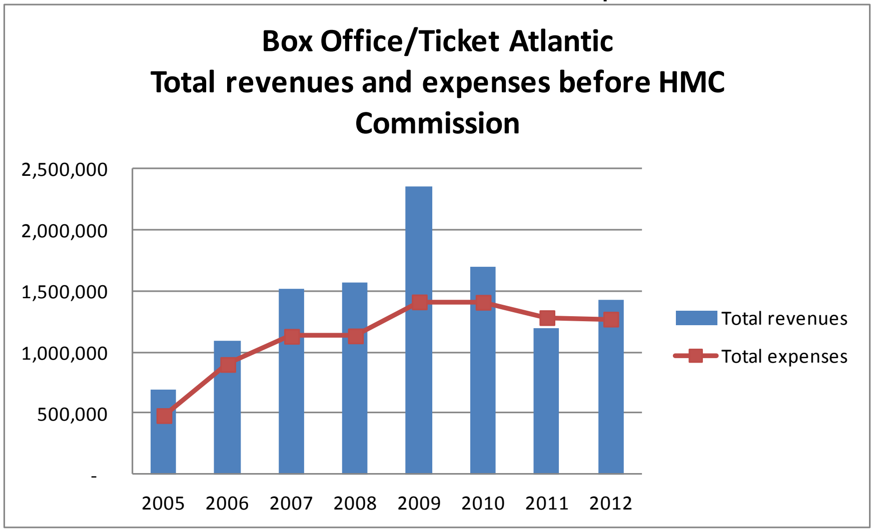
## Introduction

As required in the Scope of Work for this assignment, we have reviewed the impact of the transfer of Box Office Operations from HMC to TCL. In addition, we have reviewed the purchase of the new ticketing system and the financial impacts on HMC.

## Financial analysis

We reviewed the internal financial statements of the HMC Box Office and Ticket Atlantic. In general, revenue and expenses are directly related to the number of events held and the popularity of those events. During a normal year, HMC will host a variety of sporting and non-sporting events. As mentioned previously, the success of the Halifax Mooseheads hockey team is very important for the overall revenue of HMC; however, sporting events are less important in relation to Box Office and Ticket Atlantic financial results. Both Ticket Atlantic and the HMC Box Office (before 2007) obtain their revenue from the service charge paid on single tickets. If tickets are sold in a package, the service charge is not applied and there is no revenue. A large portion of total tickets sold for Sporting events is in packages and this results in no revenue. The service charge for single tickets sales creates income as reported for the 2008 IIHF World's Men's Hockey Championships (the Hockey Championships) that were held at HMC during fiscal 2009. The Hockey Championships were a large marquee event that dwarfed any other events in recent years in terms of size and scale. In excess of 200,000 people attended the Halifax portion of the event. The impact of the Hockey Championships can be seen in the chart below:

**Chart 15: HMC Box Office/ Ticket Atlantic Revenues and Expenses**




We can see from Chart 15 that an outlier event in terms of scale or a combination of events must be held at HMC for ticket revenues to significantly exceed the associated expenses. This occurred in fiscal 2009 with the Hockey Championships and to a lesser extent in fiscal 2007, 2008 and 2010 with the above average results being attributed to the following:

2007 – 3 NHL Preseason Games & Canadian Figure Skating Championships
2008 – Cirque du Soleil
2009 – Hockey Championships
2010 – Cirque du Soleil & 2010 Brier Curling Championships

In fiscal 2005, HMC hosted the IIHF World Women's Hockey Championships and the Roar of the Rings Curling trials the following year. Ticket Atlantic has attributed the weaker results in fiscal 2011 and 2012 to the lack of such marquee events and the erosion of net service charge revenue due to increasing promoter rebate levels. In recent years, the promoters for in demand acts have requested a larger share of overall ticket revenue in the form of increased rebates, reducing service charges on ticket sales.

### Contribution margin

During 2005 and 2006 tickets for events at HMC were sold through the Box Office before responsibility for sales was transferred to Ticket Atlantic in 2007. The contribution margin generated by the Box Office and Ticket Atlantic has averaged $711k per year; however, the contribution margin varies depending on the events that were presented during the year. During 2005-2012, contribution margins ranged from $381k in 2011 to $1.34 million in 2009. The noticeable peak in 2009 is related to the success of the Hockey Championships. The summary financial information for the Box Office and Ticket Atlantic (including offsite events) is shown in *Appendix A, Schedule 6*.

As the financial information for Ticket Atlantic includes non-HMC tickets sales it is important to isolate the financial information that relates to on-site ticket sales. Excluding off-site events, the contribution margin for Ticket Atlantic and the box office has averaged $532k per year. The lowest level of contribution margin was in 2011 at $277k and the highest in 2009 at $1.08 million. These results are consistent with the prior analysis that included offsite events. The significantly higher than average contribution margin in 2009 is attributable to the IIHF World Men's Hockey Championship which resulted in higher than average ticket sales for the year as over 200, 000 people attended the games. The contribution margin generated from onsite events is shown in *Appendix A, Schedule 7*.

In general, the contribution margin generated by ticket sales has decreased in recent years with the decrease attributed to increasing promoter rebates and increased costs for box office operations. Cost for box office operations include a combination of fixed or baseline costs to have a box office open and variable costs that are driven by the number of events hosted at the HMC. When an event is to be held the majority of ticket sales will occur in a short period of time after tickets go on sale. This period is referred to as the event open and additional staff is employed during the period to handle the additional volume of transactions during each open.

## Halifax Metro Centre ticket sales

### Event settlement

We have reviewed the ticket sales process for HMC and the settlement policy for ticketed events. In its role as operator and ticket agent (through Ticket Atlantic or the Box Office) TCL executes Event Settlement as a normal course of business to reconcile financial obligations with event organizers at the close of all events. The following procedures are in place for event settlement:

1. A contract between event organizers and TCL will be in place for all ticketed events detailing the financial terms for the services to be provided.

2. Prior to an event a preliminary event settlement estimate is prepared by TCL and reviewed with the event organizer.

3. On the date of an event an event settlement will be produced by TCL listing all actual event revenues and expenses as per the event contract.

4. Event revenues are supported by a box office settlement report with actual ticket sales including HST collected.

5. Recoverable expense amounts are provided by TCL with supporting backup documentation.

6. Facility rental and other event contract expenses are to be incorporated based on the signed contract amounts.

7. Any accounts receivable due from the event organizer will be incorporated into the Event Settlement.

8. On the date of the event the event settlement is reviewed by TCL and the organizer, with agreement being evidenced by authorized signatories.

9. TCL will make payment to the event organizer within 72 hours of the close of the event.

### Nil face value/complimentary tickets

The HMC business model is based on earning revenue from facility rental with event organizers and promoters paying a fee for use of the venue. The gross value of tickets sold per event does not directly affect the HMC's revenue stream as the HMC only receives a $0.40 commission out of the service charge on single tickets sold. In fact the HMC may actually benefit from nil face value tickets based on the commissions generated by concession and souvenir sales associated with those tickets.

Ticket Atlantic is the ticketing agent for each event and is responsible for the reconciliation of all tickets that are distributed for the event through Ticket Atlantic. The number of paid tickets and nil face value tickets are provided as part of the event audit used in the event settlement process.

Nil face value tickets include the following:

1 Premium seating - executive suites and skybox passes

2 Complimentary tickets for the venue (HMC)

3 Nil face value tickets received by the event organizer for their use – "Complimentary" tickets

In order to gain access to the HMC executive suites or skyboxes, a ticket or pass is required for all customers. HMC controls this access by issuing nil face value passes through Ticket Atlantic. These are not "complimentary" as they are paid for via lease or rental revenue for the premium seating. Tickets issued for premium seating at nil face value are excluded from the ticket audit and event settlement process.

In certain cases an event contract will detail that a certain number of tickets will be made available for the venue to use at no cost. In these cases, TCL as operator of HMC will ensure that such tickets are used for business purposes only and are subject to the TCL Ticket and Event Hosting Policy and Protocol. This protocol states that when complimentary tickets are made available, they will only be used for charitable requests, stakeholder relations, business development, client recognition, employee recognition, or for the Board of Directors who are mandated to attend events from time to time.

Event organizers, as owners of events at HMC, will receive complimentary tickets from Ticket Atlantic. They print and track the number of complimentary tickets provided to organizers and this is included in the event settlement amount paid. The number and use of complimentary tickets are at the sole discretion of the event organizers. Organizers of events follow general industry practices for the distribution of complimentary tickets as follows:

- Artist or player's guest lists
- Media
- Event sponsors
- Community relations programs
- Goodwill

Unless specifically addressed in an event contract, Ticket Atlantic does not receive any fees for complimentary tickets provided to an event organizer. If a fee is specified, it is typically a nominal processing fee to cover costs only.

### Estimate of contribution margin for HMC based on retention of the Box Office

Starting in fiscal 2007, there was a transfer of responsibility for ticket sales from the HMC Box Office to Ticket Atlantic. Contribution margin is based on the ticket sales revenue and the variable costs of ticket sales. Based on our analysis of the results, we believe that these two elements would not be materially different if the Box Office had been retained. One position is that overall ticket sales would be lower if the transfer had not taken place as a result of the economies of scale in marketing that Ticket Atlantic enjoys from selling at multiple locations. We expect that the majority of ticket sales are for events at HMC, and the increasing use of online internet sales and promotion would allow the HMC Box Office to increase their sales level. We believe that variable costs would be the same under both scenarios.

If the HMC had retained Box Office operations from 2007-2012, the contribution margin on ticket sales would have averaged $545k per year. Since the transfer to Ticket Atlantic, average commission on ticket sales has been around $100k per year as shown in Table 9. Therefore, the contribution margin retained by TCL is greater than the commission paid to HRM. Using the fixed costs attributed to Ticket Atlantic as an estimate of the fixed costs if the HMC had retained control of Box Office operations indicates that the HMC has foregone an estimate of $84k per year in Box Office income over the six years since the transfer of operations occurred. It should be noted that this amount is positively affected by the significantly higher than average results for 2009. Eliminating the significantly higher than average results from 2009, when the HMC hosted the Hockey Championships, the average commissions received by HMC have exceeded our estimated Box Office income by $23k per year.

**Table 9: Estimate of Contribution Margin Compared to Ticket Commissions**

| Year Ended March 31, | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Contribution margin | $ 575,945 | $ 306,491 | $ 1,081,612 | $ 499,476 | $ 277,369 | $ 534,406 |
| Estimated Fixed Costs | (291,785) | (374,304) | (345,847) | (386,128) | (388,598) | (387,807) |
| Est. Box Office income/(loss) after fixed costs | **284,160** | **(67,813)** | **735,765** | **113,348** | **(111,229)** | **146,599** |

| Year Ended March 31, | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Est. box office income/(loss) after fixed costs | **284,160** | **(67,813)** | **735,765** | **113,348** | **(111,229)** | **146,599** |
| Less commissions received | (89,624) | (108,135) | (115,414) | (95,412) | (73,938) | (114,664) |
| Income foregone/(Excess of commissions) | 194,536 | (175,948) | 620,351 | 17,936 | (185,167) | 31,935 |

| Year Ended March 31, | '07-'12 | Excluding '09 | |
|---|---|---|---|
| Total Box Office income forgone '07-'12 | 503,644 | (116,707) | Indicates an excess of commissions received over estimated Box Office income |
| Average Box Office income foregone '07-'12 | 83,941 | (23,341) | Average excess of commissions |

## Risk and return of HMC retaining Box Office

Since the transfer of box office operations to Ticket Atlantic the cumulative impact on revenue and foregone contribution margin until the end of fiscal 2012 has been in excess of $6.8 million and $3.2 million respectively as shown in Table 10.

**Table 10: Cumulative Foregone Revenue and Contribution Margin**

*Estimated $*

| Year Ended March 31, | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Revenue | *$ 1,099,132* | *$ 1,678,510* | *$ 3,582,758* | *$ 4,725,723* | *$ 5,597,954* | *$ 6,826,473* |
| Contribution Margin | *$ 575,945* | *$ 882,436* | *$ 1,964,049* | *$ 2,463,525* | *$ 2,740,894* | *$ 3,275,300* |
| Margin % | **52.4%** | **52.6%** | **54.8%** | **52.1%** | **49.0%** | **48.0%** |

As discussed previously, there has been a trend in recent years towards a lower level of contribution margin. This has resulted in a decreasing cumulative contribution margin percentage following the peak in fiscal 2009 when the Hockey Championships led to significantly above average results.

With the transfer of box office operations, HMC effectively transferred most of the risk in the ticket sale process to Ticket Atlantic but has given up a significant percentage of the revenue generated by ticket sales. Subsequent to transfer, HMC earns a straight commission only on the sale of single tickets.

HMC no longer benefits from a spike in average sales such as in 2009; however, HMC is still guaranteed a commission even in years such as 2011 when Ticket Atlantic generated a loss of $7k before paying commission of $74k to the HMC. In 2011, Ticket Atlantic's total loss was $81k while the HMC received the benefit of the fixed commission rate on ticket sales.

As HMC's management was already outsourced to TCL, the risk transferred from HMC in relation to the Box Office was primarily financial. HMC is no longer responsible for the fixed costs of operating a stand alone box office and ticketing network. During the period since the transfer of operations, the fixed costs related to the box office have averaged $362k per year before capital expenditures. It should be noted that the financial information for Ticket Atlantic and the Box Office before that, does not reflect the full cost of operations. The income statements prepared in relation to the box office operations include the variable cost of ticket sales that have averaged $842k per year since the transfer and the fixed costs discussed above. These costs do not reflect the actual cost that would be incurred if

Ticket Atlantic were a standalone business unit without the benefit of operating within the TCL structure or the full cost of running the Box Office if it had been retained.

By transferring ticket sales to Ticket Atlantic, HMC avoids bearing the financial and operational risk related to staffing and training, along with any capital requirements for new equipment and upgrades. By foregoing the possibility of participating in any upside from ticket sales beyond the commission earned under the agreement with Ticket Atlantic, HMC is partially insulated from a decline in revenue from ticket sales. HMC is fully insulated from the loss that Ticket Atlantic may experience if contribution margins are not sufficient to cover fixed costs, as was the case in 2011. In addition Ticket Atlantic through its ability to sell tickets across multiple venues is better able to absorb the fixed costs. As shown in the estimates in Table 9, fixed costs have remained stable for the past five years.

### Purchase of the new ticketing system

We have reviewed the process that was followed in relation to the acquisition of a replacement system for HMC's Select A Seat system. The replacement of the Select A Seat system was necessitated by the decision of Tickets.com to discontinue support for the system at the end of 2004. In addition to the lack of continuing support from Tickets.com, there was a desire to move to a move modern system to support additional ticketing options on a regional basis to increase overall sales.

### Halifax HMC ticketing software background and timeline

- 1998 – HMC's incumbent ticketing software provider Select A Seat was purchased by Tickets.com.
- 2000-2002 – TCL began a preliminary review of ticketing software options.
- 2002 – Tickets.com notified TCL that the current software used for the HMC would be discontinued and support for the software would end in 2004.
- March 2003 – TCL issued a RFP for ticketing software for the HMC.
- April 2003 – The RFP closed with 3 qualified proposals received.
- May 2003 – RFP evaluation was completed with Paciolan being selected as the preferred software provider by Board and Management.
- November 2003 – TCL received an unsolicited proposal from AudienceView a newly formed Canadian software provider. TCL evaluated the proposal but decided not to reopen the original RFP.
- Fall of 2004 – TCL begins negotiations with Paciolan.
- December 29, 2004 – TCL signs a five year contract with Paciolan effective May 31, 2005.
- January 2005 – TCL presented the final details of the software solution to the Board.
- July 2005 – Paciolan system goes live.
- May 2010 – 2 year contract extension with Paciolan.
- May 2012 – 3 year contract extension with Paciolan.

### Ticket system selection process

During the RFP process for HMC's new ticketing system, there were three qualified proposals submitted by Paciolan, Tickets.com and Xwave. The proposals were evaluated against six weighted criteria as follows:

- System Quality (20%)
- Service/Maintenance (15%)
- Regional Abilities (20%)
- Software Abilities (15%)
- Product Flexibility (10%)
- Cost (20%)

The above evaluation criteria and weights appear to be a reasonable approach to selecting the replacement system for Select A Seat. We do note that the regional abilities criteria was included due to TCL's long term objective to establish a regional ticketing system as this does not appear to have been a capability of the existing Box Office ticketing system.

Based on the evaluation criteria under the RFP, the Paciolan system was considered to be the best solution in all categories with the exception of cost. The results of the evaluation process are included as Appendix B with the following summary results:

- Paciolan 88%
- Tickets.com 46%
- Xwave 36%

At the time of the RFP Paciolan had been in business for over 20 years with 25% of all North American tickets sold annually being sold via Paciolan systems. TCL presented Paciolan as the best option for the RFP due to its better scoring and concerns in relation to the other systems capabilities to support regional ticketing.

After the formal RFP process ended, the unsolicited submission from AudienceView was evaluated against the same criteria and was rated at 68% as shown in the January 2005 presentation to the TCL Board which is included as Appendix B. We were not able to review the specific assessment of the AudienceView system. In Appendix B, TCL staff's board presentation described AudienceView as a young company that was unproven in relation to the sports arena market, large volume sales, regional ticketing and interacting with other sales outlets.

### System cost

In terms of upfront and ongoing costs of the potential replacement ticketing systems we were unable to review the projected cost of the AudienceView system as this was evaluated outside the RFP and the documentation in relation to cost was not available. For the three systems that qualified under the RFP the following costs were noted:

**Table 11: Ticketing System Costs per RFPs**

| | Paciolan (USD) | Tickets.Com (USD) | Xwave (CDN) |
|---|---|---|---|
| Upfront Cost | $ 299,848 | $ 69,041 | $ 613,146 |
| Annual Fixed Cost | 32,000 | 23,640 | 65,750 |
| Variable Charges | 7% of Service Charges | 2.6% for Credit Card Charges | n/a |
| Other Items | Minimum charge of $24,000 | Weekly Settlement with a rebate set by Tickets.Com | n/a |
| Additional Costs | 29 PCs not included | 29 PCs not included | 29 PCs included |

Other than the information on the three systems the initially qualified under the RFP, we were unable to obtain contemporary cost information on any other ticketing systems. We also note the contract for the Paciolan system selected under the RFP took a different form than proposed above.

Upon implementation of the system $178,734 was capitalized as an upfront cost to TCL through Ticket Atlantic. Ongoing fees include an $88,000 per year annual hosting service fee for five years as well as a fee of $0.40/ticket for the first 350,000 tickets and $0.25/ticket for sales above 350,000. The costs of the Paciolan system were fully expensed to Ticket Atlantic, without an allocation to HMC.

### Ticket sales commission paid to HMC

Following the transfer of Box Office operations to Ticket Atlantic in fiscal 2007, HMC now receives a commission on the sale of individual single tickets to events. In the case of package or complimentary tickets, no commission is paid to HMC as Ticket Atlantic does not receive a service charge on these types of tickets. The commission paid to HMC mirrors the commission structure that was originally put in place with Paciolan.

We were unable to find documentation supporting the determination of the compensation structure for ticket sales. In the course of discussions with TCL staff members regarding the origin of the $0.40/ticket charge, we were unable to find any TCL employees who were aware of the rationale for the selection of the current charge other than it matched the level paid to Paciolan. In a successful year with over 350k single ticket sales, the terms of the Paciolan contract allow for Ticket Atlantic to benefit from a reduction in the fee paid per ticket from $0.40 to $0.25. For payments to HMC the reverse is currently in place. In a successful year, HMC will receive only $0.25 per ticket once sales of single tickets exceed 350k in ticket sales.

HMC was benchmarked against terms with other venues. Venues with outsourced ticket sales typically pay a commission to the service provider, and retain the difference between the service charge and commission. During our review of HMC's Maritime peer group (C2, HS & MC), it was noted that on average the commission paid to AudienceView is $1.50 per ticket. This is greater than the amount paid to HMC under the current arrangement.

# Findings

### Introduction

This section will summarize the findings from our review. In our dealings with TCL staff we were granted access to all documentation requested and answers were provided to all of our questions. We found TCL staff to be helpful and dealt with us in a professional manner at all times. HMC is Atlantic Canada's premier venue for major public events. There are no other comparable facilities in Atlantic Canada that offer office space, convention hosting, and entertainment events on the same scale. TLC believes they operate in a market that includes clients who deal directly with other major venues in Canada for conventions, concerts and events which makes them unique here in the Atlantic Canada market place. HMC has operated on a profitable basis for much of the period under review. This provides an important contribution to the Nova Scotia and Halifax community without financing operating losses or injecting working capital to sustain the business.

### 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

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.

# Recommendations

We were awarded the RFP for the review of the HMC in October, 2012. Since then we are aware that TCL and HRM have had discussions concerning the operation of the HMC. We have not been made aware of any decisions or agreements. TCL has also written more detailed policies for the arrangements, for example a policy for the allocation of costs to HMC.

Based on our review we offer the following recommendations:

1 A regular and transparent process should be implemented to enable HRM to monitor the operation of the HMC by TCL. This should include regular financial reporting, discussions on annual budgets, and approval for major investments or abnormal expenditures. Regular meetings should be scheduled with an appropriate representation of TCL and HMC officials. Minutes should be documented and all important decisions should be approved or rejected by the designated representatives. Significant decisions should be further approved by the appropriate level of HRM and TCL (e.g., Council or Board or management as agreed).

2 In designing a compensation structure for ticket sales there are three options that could be used by Ticket Atlantic and HMC:

- Use of the current system where the majority of the risk and upside return has been transferred to Ticket Atlantic with HMC being guaranteed a minimum return on single tickets sales.

- A cost matching approach where service charges are set at a minimum level to cover the cost of box office operations. Under this approach the box office is not viewed as a profit centre rather the cost of tickets are lowered by reducing the service charge. The goal of this approach is to stimulate demand for tickets and increase attendance to drive other revenue and ultimately increase the number of events hosted each year. If events are viewed as being more successful due to greater attendance then it should follow that the demand from promoters to stage events at HMC should increase. This approach requires that the box office management have the ability to adjust service charges to match the cost of operations in the aggregate. It will also only be of benefit if the HMC has capacity to increase the number of events that are held during the year.

- A partnership approach where Ticket Atlantic and HMC share in the upside return from successful events. A formula could be developed to support this approach that would likely require the HMC to forgo its currently guaranteed minimum commission level in years such as 2011 where Ticket Atlantic operates at a loss.

3 Currently group and package ticket sales are not subject to a service charge, however there are costs associated with the issuance of all tickets sold. Ticket Atlantic's cost structure is being solely support by the service charges on single ticket sales. Ticket Atlantic and HMC could consider if there is the ability and scope to institute a service charge or cost recovery fee on group and package ticket sales.

# Appendix A: Schedules

# Schedule 1: Trend Analysis

**Trade Centre Limited**
Internal Financial Statement Trending

| Halifax Metro Centre | Year End Actual Mar - 2005 | | Year End Actual Mar - 2006 | | Year End Actual Mar - 2007 | | Year End Actual Mar - 2008 | | Year End Actual Mar - 2009 | | Year End Actual Mar - 2010 | | Year End Actual Mar-11 | | Year End Actual Mar-12 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Event Revenues | $ 2,304,858 | 35.0% | $ 3,483,169 | 39.0% | $ 3,071,766 | 39.6% | $ 2,406,443 | 32.8% | $ 2,981,820 | 34.7% | $ 2,504,787 | 35.0% | $ 2,062,528 | 32.6% | $ 2,555,280 | 36.4% |
| Concession Commission | 627,998 | 9.5% | 839,229 | 9.4% | 859,405 | 11.1% | 851,430 | 11.6% | 1,256,427 | 14.8% | 840,838 | 11.7% | 726,715 | 11.5% | 882,838 | 12.6% |
| Souvenir Sales | 205,178 | 3.1% | 580,516 | 6.5% | 443,874 | 5.7% | 463,074 | 6.3% | 622,253 | 7.3% | 531,309 | 7.4% | 364,546 | 5.8% | 389,576 | 5.5% |
| Ticket Charges | 467,226 | 7.1% | 854,347 | 9.6% | 89,624 | 1.2% | 108,135 | 1.5% | 115,414 | 1.4% | 95,412 | 1.3% | 73,938 | 1.2% | 114,664 | 1.6% |
| Interest and Other Revenue | 69,661 | 1.1% | 94,216 | 1.1% | 168,022 | 2.2% | 216,726 | 3.0% | 196,011 | 2.3% | 34,909 | 0.5% | 33,367 | 50.0% | 52,728 | 0.8% |
| Advertising Revenues | 936,726 | 14.2% | 983,764 | 11.0% | 979,935 | 12.6% | 1,021,206 | 13.9% | 988,827 | 11.6% | 942,652 | 13.2% | 1,075,135 | 17.0% | 1,011,373 | 14.4% |
| Executive Suites & Skyboxes | 1,967,608 | 29.9% | 2,086,550 | 23.4% | 2,142,732 | 27.6% | 2,269,735 | 30.9% | 2,369,583 | 27.9% | 2,216,049 | 30.9% | 1,980,860 | 31.4% | 2,014,981 | 28.7% |
| | 6,579,255 | 100.0% | 8,921,791 | 100.0% | 7,755,358 | 100.0% | 7,336,749 | 100.0% | 8,530,335 | 100.0% | 7,165,956 | 100.0% | 6,317,089 | 100.0% | 7,021,440 | 100.0% |
| Event Expenses & Operations | 2,473,012 | 37.6% | 4,317,494 | 48.6% | 3,079,400 | 39.7% | 2,704,232 | 36.9% | 3,061,619 | 35.7% | 2,726,518 | 38.0% | 2,334,790 | 37.0% | 2,958,676 | 42.1% |
| Exec Suites | 419,453 | 6.4% | 195,440 | 2.2% | 407,184 | 5.3% | 182,200 | 2.5% | 325,745 | 3.8% | 237,029 | 3.3% | 290,630 | 4.6% | 220,188 | 3.1% |
| | 2,892,465 | 44.0% | 4,512,934 | 50.8% | 3,486,584 | 45.0% | 2,886,432 | 39.3% | 3,387,364 | 39.5% | 2,963,547 | 41.4% | 2,625,420 | 41.6% | 3,178,864 | 45.3% |
| Contribution Margin | 3,686,790 | 56.0% | 4,408,857 | 49.4% | 4,268,774 | 55.0% | 4,450,317 | 60.7% | 5,142,971 | 60.3% | 4,202,409 | 58.6% | 3,691,669 | 58.4% | 3,842,576 | 54.7% |
| Salaries & Benefits | 1,682,454 | 25.6% | 1,655,839 | 18.6% | 1,547,940 | 20.0% | 1,965,779 | 26.8% | 2,046,144 | 24.1% | 1,932,246 | 27.0% | 2,079,939 | 32.9% | 2,060,629 | 29.3% |
| Administration | 135,310 | 2.1% | 117,347 | 1.3% | 167,107 | 2.2% | 137,030 | 1.9% | 114,184 | 1.3% | 81,007 | 1.1% | 462,995 | 7.3% | (248,844) | -3.5% |
| Sales & Promotions | 103,562 | 1.6% | 107,733 | 1.2% | 145,514 | 1.9% | 111,246 | 1.5% | 163,201 | 1.9% | 183,267 | 2.5% | 120,009 | 1.9% | 106,261 | 1.5% |
| Operations - Events | 44,658 | 0.7% | 45,269 | 0.5% | 49,089 | 0.6% | 39,803 | 0.5% | 179,914 | 2.1% | 236,657 | 3.3% | 217,706 | 3.4% | 204,846 | 2.9% |
| Contract Services | 106,607 | 1.6% | 105,440 | 1.2% | 98,468 | 1.3% | 129,632 | 1.8% | - | 0.0% | 1,198 | 0.0% | - | 0.0% | | 0.0% |
| Maintenance | 457,998 | 7.0% | 424,208 | 4.8% | 710,874 | 9.2% | 629,520 | 8.6% | 708,718 | 8.3% | 592,561 | 8.3% | 450,882 | 7.1% | 476,100 | 6.8% |
| Energy | 581,714 | 8.8% | 595,804 | 6.7% | 638,705 | 8.2% | 616,165 | 8.4% | 551,288 | 6.5% | 423,665 | 5.9% | 358,096 | 5.7% | 396,244 | 5.6% |
| | 3,112,303 | 47.3% | 3,051,640 | 34.2% | 3,357,697 | 43.3% | 3,629,175 | 49.5% | 3,763,449 | 44.3% | 3,449,601 | 48.1% | 3,689,627 | 58.4% | 2,995,236 | 42.7% |
| **Income (Loss) before Special Items** | **574,487** | **8.7%** | **1,357,217** | **15.0%** | **911,077** | **11.7%** | **821,142** | **11.2%** | **1,379,522** | **16.2%** | **752,808** | **10.5%** | **2,042** | **0.0%** | **847,340** | **12.1%** |
| Capital Maintenance | - | | - | | - | | - | | 712,229 | | 233,167 | | 254,167 | | 281,674 | |
| Debt Repayments (HRM) | 570,000 | | 1,354,500 | | 805,070 | | | | | | | | | | | |
| **Operating Income (Loss)** | **4,487** | | **2,717** | | **106,007** | | **821,142** | | **667,293** | | **519,641** | | **(252,125)** | | **565,666** | |
| Adjustment for allowance for uncollectible amount from HRM | - | | - | | - | | - | | - | | - | | 359,550 | | (359,550) | |
| **Normalized Operating Income** | **$ 4,487** | **0.1%** | **$ 2,717** | **0.0%** | **$ 106,007** | **1.4%** | **$ 821,142** | **11.2%** | **$ 667,293** | **7.8%** | **$ 519,641** | **7.3%** | **$ 107,425** | **1.7%** | **$ 206,116** | **2.9%** |

**Schedule 2: Summary of TCL's and HMC's revenues and expenses**

*change in acctg policies - restated*

| | Fiscal Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004/ 2005 | 2005/ 2006 | 2006/ 2007 | 2007/ 2008 | 2008/ 2009 | 2009/ 2010 | 2010/ 2011 | 2011/ 2012 |
| **Trade Centre Limited** | | | | | | | | |
| Revenue and other income | $ 10,302,654 | $ 11,115,170 | $ 13,621,802 | $ 12,220,635 | $ 15,311,374 | $ 13,633,692 | $ 19,035,673 | $ 14,158,826 |
| Expenses | | 11,817,172 | 14,037,901 | 14,371,102 | 15,421,343 | 14,256,250 | 14,526,801 | 14,191,161 |
| Amortization expense | | 1,404,989 | 1,506,123 | 1,504,426 | 1,509,800 | 1,515,168 | 2,745,571 | 2,490,043 |
| Net surplus (deficit) | $ 10,302,654 | $ (2,106,991) | $ (1,922,222) | $ (3,654,893) | $ (1,619,769) | $ (2,137,726) | $ 1,763,301 | $ (2,522,378) |
| **Halifax Metro Centre** | | | | | | | | |
| Revenue | $ 6,579,255 | $ 8,921,791 | $ 7,755,358 | $ 7,336,749 | $ 8,530,335 | $ 7,165,956 | $ 6,317,091 | $ 7,021,440 |
| Expenses | 6,574,768 | 8,919,074 | 7,649,351 | 6,515,607 | 7,851,445 | 6,633,621 | 6,584,259 | 6,455,774 |
| Net surplus (deficit) | $ 4,487 | $ 2,717 | $ 106,007 | $ 821,142 | $ 678,890 | $ 532,335 | $ (267,168) | $ 565,666 |
| Trade Centre Limited's expenses | $ - | $ 11,817,172 | $ 14,037,901 | $ 14,371,102 | $ 15,421,343 | $ 14,256,250 | $ 14,526,801 | $ 14,191,161 |
| Expenses allocated to Halifax Metro Centre | 2,080,119 | 2,043,286 | 2,192,799 | 2,362,052 | 2,512,144 | 2,281,279 | 2,372,032 | 2,543,412 |
| Total Trade Centre Limited's expenses | $ 2,080,119 | $ 13,860,458 | $ 16,230,700 | $ 16,733,154 | $ 17,933,487 | $ 16,537,529 | $ 16,898,833 | $ 16,734,573 |
| Percent allocated expenses to total | 100% | 15% | 14% | 14% | 14% | 14% | 14% | 15% |

**Schedule 3: Allocated expenses**

| Expense Category | | Fiscal Year 2004 / 2005 | 2005 / 2006 | 2006/2007 | 2007/2008 | 2008/2009 | 2009/2010 | 2010/2011 | 2011/2012 |
|---|---|---|---|---|---|---|---|---|---|
| Electricity | Halifax Metro Centre | $ 197,394 | $ 223,949 | $ 241,788 | $ 247,103 | $ 265,326 | $ 255,608 | $ 256,087 | $ 273,977 |
| | TOTAL | $ 549,673 | $ 608,670 | $ 661,745 | $ 650,707 | $ 688,314 | $ 705,093 | $ 715,294 | $ 735,922 |
| | HMC % | **36%** | **37%** | **37%** | **38%** | **39%** | **36%** | **36%** | **37%** |
| Fuel -- (Oil / Gas) | Halifax Metro Centre | $ 120,926 | $ 154,654 | $ 147,888 | $ 182,104 | $ 164,816 | $ 89,010 | $ 75,120 | $ 67,409 |
| | TOTAL | $ 227,933 | $ 264,169 | $ 255,489 | $ 328,269 | $ 319,764 | $ 172,050 | $ 150,240 | $ 134,644 |
| | HMC % | **53%** | **59%** | **58%** | **55%** | **52%** | **52%** | **50%** | **50%** |
| SERP (Former CEO) | Halifax Metro Centre | $ 56,676 | $ 80,256 | $ 73,716 | $ 137,735 | $ 137,735 | - | - | - |
| | TOTAL | $ 113,352 | $ 160,512 | $ 147,432 | $ 275,470 | $ 275,470 | - | - | - |
| | HMC % | **50%** | **50%** | **50%** | **50%** | **50%** | | | |
| Public Service Award | Halifax Metro Centre | $ 11,683 | $ 16,185 | $ 14,193 | $ 12,895 | $ 21,064 | $ 10,000 | $ 15,000 | $ 213,687 |
| | TOTAL | $ 33,963 | $ 40,840 | $ 45,343 | $ 45,062 | $ 47,872 | $ 20,000 | $ 30,000 | $ 427,374 |
| | HMC % | **34%** | **40%** | **31%** | **29%** | **44%** | **50%** | **50%** | **50%** |
| Performance Contracting (HONEYWELL) | Halifax Metro Centre | $ 222,006 | $ 164,960 | $ 198,532 | $ 152,417 | $ 70,815 | $ 24,486 | - | - |
| | TOTAL | $ 450,763 | $ 336,674 | $ 403,817 | $ 312,174 | $ 141,630 | $ 48,972 | - | - |
| | HMC % | **49%** | **49%** | **49%** | **49%** | **50%** | **50%** | | |

**Schedule 4: Facility Financial Comparison**

| Operational Review - Metro Centre | Halifax Metro Centre | | | | Complex 1 | | | | Complex 2 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 03/31/2010 | 03/31/2011 | 03/31/2012 | % of Revenues | 12/31/2009 | 12/31/2010 | 12/31/2011 | % of Revenues | 12/31/2010 | 12/31/2011 | % of Revenues |
| **Revenue** | | | | % 2012 | | | | % 2011 | | | % 2011 |
| Event Revenues | 2,504,787 | 2,062,528 | 2,555,280 | 36% | 1,981,293 | 1,939,557 | 1,341,976 | 45% | 3,938,728 | 3,704,621 | 49% |
| *Ice rental* | - | - | - | 0% | 120,758 | 150,850 | 166,173 | 6% | 30,505 | 32,302 | 0% |
| Concession Commission | 840,838 | 726,715 | 882,838 | 13% | 238,984 | 232,972 | 185,144 | 6% | 1,463,928 | 1,168,361 | 16% |
| Souvenir Sales | 531,309 | 364,546 | 389,576 | 6% | - | - | - | 0% | 171,018 | 265,388 | 4% |
| Ticket Charges | 95,412 | 73,938 | 114,664 | 2% | 305,413 | 244,530 | 103,082 | 3% | 297,061 | 425,540 | 6% |
| Interest and Other Revenue | 34,909 | 33,367 | 52,728 | 1% | 46,315 | 55,345 | 30,658 | 1% | 69,520 | 187,704 | 3% |
| Advertising Revenues | 942,652 | 1,075,135 | 1,011,373 | 14% | 338,034 | 316,369 | 409,226 | 14% | 832,474 | 1,023,778 | 14% |
| Executive Suites & Skyboxes | 2,216,049 | 1,980,860 | 2,014,981 | 29% | 721,794 | 824,998 | 718,792 | 24% | 381,093 | 696,959 | 9% |
| *Total revenue* | 7,165,956 | 6,317,089 | 7,021,440 | 100% | 3,752,591 | 3,764,621 | 2,955,051 | 100% | 7,184,327 | 7,504,653 | 100% |
| **Variable expenses** | | | | | | | | | | | |
| Event Expenses & Operations | 2,726,518 | 2,334,790 | 2,958,676 | 42% | - | - | - | 0% | 7,941,036 | 7,869,172 | 105% |
| Exec Suites | 237,029 | 290,630 | 220,188 | 3% | - | - | - | 0% | 18,681 | 19,664 | 0% |
| | 2,963,547 | 2,625,420 | 3,178,864 | 45% | 1,311,850 | 1,159,465 | 812,198 | 27% | 7,959,717 | 7,888,836 | 105% |
| **Contribution Margin** | 4,202,409 | 3,691,669 | 3,842,576 | 55% | 2,440,741 | 2,605,156 | 2,142,853 | 73% | (775,390) | (384,183) | -5% |
| **Operating expenses** | | | | | | | | | | | |
| Salaries & Benefits | 1,932,246 | 2,079,939 | 2,060,629 | 29% | 771,880 | 911,024 | 865,814 | 29% | 1,218,860 | 1,178,255 | 16% |
| Administration | 81,007 | 103,445 | 110,706 | 2% | 118,515 | 155,731 | 120,428 | 4% | 413,318 | 601,784 | 8% |
| Sales & Promotions | 183,267 | 120,009 | 106,261 | 2% | 60,943 | 34,196 | 20,406 | 1% | 92,922 | 159,192 | 2% |
| Operations - Events | 236,657 | 217,706 | 204,846 | 3% | 71,095 | 157,485 | 118,106 | 4% | 14,651 | 10,251 | 0% |
| Contract Services | 1,198 | - | - | 0% | 128,250 | 129,917 | 132,374 | 4% | 290,301 | 289,518 | 4% |
| Maintenance | 592,561 | 450,882 | 476,100 | 7% | 137,700 | 154,775 | 164,227 | 6% | 172,855 | 194,446 | 3% |
| Energy | 423,665 | 358,096 | 396,244 | 6% | 457,986 | 457,164 | 401,220 | 14% | 312,576 | 278,403 | 4% |
| *Total operating expenses* | 3,450,601 | 3,330,077 | 3,354,786 | 48% | 1,746,369 | 2,000,292 | 1,822,575 | 62% | 2,515,483 | 2,711,849 | 36% |
| **Income (Loss) before** | | | | | | | | | | | |
| **Special Items** | **751,808** | **361,592** | **487,790** | 7% | **694,372** | **604,864** | **320,278** | 11% | **(3,290,873)** | **(3,096,032)** | -41% |
| Capital Maintenance | 233,167 | 254,167 | 281,674 | 4% | - | - | - | 0% | - | - | 0% |
| Debt Repayments (HRM) | - | - | - | | - | - | - | | - | - | |
| **Operating Income (Loss)** | **$ 518,641** | **$ 107,425** | **$ 206,116** | 3% | **$ 694,372** | **$ 604,864** | **$ 320,278** | 11% | **$ (3,290,873)** | **$ (3,096,032)** | -41% |

**Schedule 5: Facility Comparison**

| | Halifax Metro Centre | Complex 1 | Complex 2 | Complex 3 | Complex 4 | Complex 5 | Complex 6 |
|---|---|---|---|---|---|---|---|
| Ice Arena Capacity | 10600 | 5700 | 7000 | 5800 | 6554 | 6200 | 5000 |
| Number of Events | 128 | 66 | 81 | 45 | 127 | 82 | 100 |
| Total Revenues | $7,021,000 | $2,955,000 | $7,504,000 | | | | |
| Total Full-Time | 28.5 | 15 | 15 | 25 | 10 | 14 | 9 |
| Key Management (included in Total Full-Time) | 5 | 7 | 7 | 5 | 3 | 5 | 2 |
| Part-Time Staff | 135 | 140 | 400 | 400 | 55 | 250 | 80 |
| Employee Compensation Expense | $2,061,000 | $866,000 | $1,178,000 | $1,100,000 | N/A | $1,400,000 | $875,000 |
| Employee Compensation/ Full-Time Staff | $72,316 | $57,733 | $78,533 | $44,000 | N/A | $100,000 | $97,222 |
| Employee Compensation/ Total Revenues | 29.35% | 29.31% | 15.70% | | | | |
| Employee Compensation/ Number of Events | $16,102 | $13,121 | $14,543 | $24,444 | N/A | $17,073 | $8,750 |
| Employee Compensation/ Capacity | $194 | $152 | $168 | $190 | N/A | $226 | $175 |
| Employee Compensation/ (# Events * Capacity) | $1.52 | $2.30 | $2.08 | $4.21 | N/A | $2.75 | $1.75 |

*Note 1: Total revenues and employee compensation expense from financial statement information for HMC, C1, and C2*

*Note 2: All other information obtained from the centre's websites and from informational interviews with the centre.*

*Note 3: The information provided may not be comparable across facilities.*

**Schedule 6: Ticket Atlantic Contribution Margin**

***Ticket Atlantic (Box Office)***

***Contribution Margin***

| Period ended or ending March 31 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| *Service charges & order fees* | $ 467,226 | $ 854,347 | $ 1,213,573 | $ 1,379,036 | $ 1,872,647 | $ 1,477,321 | $ 974,652 | $ 1,276,651 |
| *Expense recovery* | 88,614 | 69,053 | 115,071 | 95,504 | $ 258,958 | 117,187 | 153,410 | 83,182 |
| *Credit card charges* | 133,935 | 168,692 | 184,323 | 93,012 | $ 228,646 | 97,967 | 70,195 | 57,584 |
| Other income 1 | - | - | - | - | 378 | - | - | 11,665 |
| *Total revenue* | *689,775* | *1,092,092* | *1,512,967* | *1,567,552* | *2,360,629* | *1,692,474* | *1,198,257* | *1,429,082* |
| **Variable costs** | | | | | | | | |
| Merchant discount | 107,829 | 144,029 | 255,014 | 217,972 | 478,790 | 389,972 | 233,261 | 254,782 |
| Box office operations 2 | 175,705 | 250,110 | 323,698 | 306,908 | 353,471 | 375,458 | 406,731 | 376,880 |
| Paciolan - base fee 3 | - | 120,990 | 140,000 | 136,488 | 140,000 | 136,765 | 156,936 | 168,633 |
| Marketing services | - | - | - | 76,102 | 27,165 | 50,954 | 19,799 | 7,109 |
| Paciolan - excess fee | - | - | - | - | 18,714 | - | - | - |
| *Total variable costs* | *283,534* | *515,129* | *718,712* | *737,470* | *1,018,140* | *953,149* | *816,727* | *807,404* |
| **Contribution margin** | **406,241** | **576,963** | **794,255** | **830,082** | **1,342,489** | **739,325** | **381,530** | **621,678** |
| *Contribution margin %* | *59%* | *53%* | *52%* | *53%* | *57%* | *44%* | *32%* | *44%* |
| **Fixed costs** | | | | | | | | |
| Salaries | 172,000 | 175,000 | 171,102 | 184,215 | 182,584 | 222,667 | 274,343 | 285,771 |
| Paciolan - connectivity | - | 77,685 | 120,683 | 144,544 | 119,829 | 142,659 | 106,473 | 92,968 |
| Allocated: head office salaries and benefits | - | - | - | 41,349 | 43,434 | 20,802 | 7,782 | 9,068 |
| Computer expenses | 25,977 | 54,916 | - | - | - | - | - | - |
| Allocated: sales and promotions | - | - | - | 4,196 | - | - | - | - |
| *Total fixed costs* | *197,977* | *307,601* | *291,785* | *374,304* | *345,847* | *386,128* | *388,598* | *387,807* |
| **Capital expenditures** | - | - | 178,734 | | - | - | - | 44,290 |
| **Earnings before HMC commissions** | **208,264** | **269,362** | **323,736** | **455,778** | **996,642** | **353,197** | **(7,069)** | **189,581** |
| *Earnings before HMC commissions %* | *30%* | *25%* | *21%* | *29%* | *42%* | *21%* | *-1%* | *13%* |
| **Halifax Metro Centre commissions** | - | - | 89,624 | 108,135 | 115,414 | 95,412 | 73,938 | 114,664 |
| **Net Income** | **208,264** | **269,362** | **234,112** | **347,643** | **881,228** | **257,785** | **(81,007)** | **74,917** |
| *Net Income %* | *30%* | *25%* | *15%* | *22%* | *37%* | *15%* | *-7%* | *5%* |
| HMC Other income 1 | *51,653* | *82,657* | *144,958* | *177,320* | *172,016* | *19,031* | *19,887* | *29,332* |

**Notes**

**1** Other income is interest earned from monies held in a bank account resulting from pre-sales of events

**2** Box office operations include wages; as per Robert Kanchuk wages are a variable cost driven by events.

**3** Paciolan - base fee: this is a negotiated ageement between TCL and Paciolan

### Schedule 7: Box Office HMC Contribution Margin

| | Actual | | | | Estimated | | | |
|---|---|---|---|---|---|---|---|---|
| **Period ended or ending March 31** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| **Revenue** | | | | | | | | |
| Service charges & Order fees | $ 467,226 | $ 854,347 | $ 841,684 | $ 448,144 | $ 1,485,923 | $ 1,003,108 | $ 721,354 | $ 1,126,894 |
| Expense Recovery | 88,614 | 69,053 | 85,733 | 54,678 | 223,204 | 65,739 | 106,760 | 58,913 |
| Credit card charges | 133,935 | 168,692 | 171,715 | 76,557 | 195,120 | 74,118 | 44,116 | 42,713 |
| Other income **1** | - | - | | | | | | |
| *Total revenue* | *689,775* | *1,092,092* | *1,099,132* | *579,379* | *1,904,247* | *1,142,966* | *872,230* | *1,228,519* |
| **Variable costs** | | | | | | | | |
| Merchant discount | 107,829 | 144,029 | 185,753 | 80,534 | 386,562 | 262,882 | 170,085 | 218,676 |
| Box office operations **2** | 175,705 | 250,110 | 235,214 | 113,558 | 285,637 | 253,738 | 295,686 | 324,329 |
| Paciolan - base fee **3** | - | 120,990 | 102,219 | 50,406 | 112,351 | 92,580 | 114,262 | 144,965 |
| Marketing services | - | - | - | 28,390 | 22,851 | 34,289 | 14,828 | 6,143 |
| Paciolan - excess fee | - | - | - | - | 15,234 | - | - | - |
| *Total variable costs* | *283,534* | *515,129* | *523,187* | *272,887* | *822,635* | *643,490* | *594,861* | *694,113* |
| Contribution margin | 406,241 | 576,963 | 575,945 | 306,491 | 1,081,612 | 499,476 | 277,369 | 534,406 |
| ***Contribution margin %*** | ***59%*** | ***53%*** | **52%** | **53%** | **57%** | **44%** | **32%** | **44%** |

# Appendix B: Ticket System Evaluation Process Results

May 2003

ABO Ticketing Solution

The following is a summary of the evaluation of ticket solutions presented through RFP 16503. This evaluation is based on quantifiable indicators and represents the best solution for Trade Centre Limited, Halifax Metro Centre, and its new business venture, Atlantic Box Office (ABO).

Paciolan provides a far superior product and is in line with our business strategies right now and as we move forward with ABO. The solution provided by Tickets.com and Xwave are clearly inferior and would not support our immediate and future needs.

The decision was based on six weighted evaluation criteria. Each of these criteria was ranked according to specific information laid out in the RFP.

The following is a summation:

| | Pacaiolan | Tickets.com | Xwave |
|---|---|---|---|
| System Quality (20) | 19 | 10 | 5 |
| Service/ Maintenance (15) | 15 | 10 | 3 |
| Regional Abilities (20) | 19 | 0 | 0 |
| Software abilities (15) | 14 | 12 | 7 |
| Product Flexibility (10) | 10 | 9 | 5 |
| Cost (20) | 11 | 5 | 16 |
| Total | 88% | 46% | 36% |

The following pages summate the results

# RFP COMPARISON

## PART A – ADMINISTRATION INFORMATION

| CATEGORY | PACIOLAN | | TICKET.COM | | XWAVE | |
|---|---|---|---|---|---|---|
| PROFILE | Founded 1980<br>25% of all tickets sold annually in North America by paciolan systems | | Newly formed company acquiring small ticketing companies including Select-A-Seat | | Canadian owned IT Company. Wholly-owned subsidiary of Aliant Inc. Alliance SRO founded 1996 | |
| REFERENCES | Yes<br>Regional Ticketing Consortiums | | No<br>Did not provide any | | Yes<br>Performing Arts Center<br>General Admission Bldg. | |
| SOLUTION POSITION | Mission is to empower venues to grow their businesses, their way | | Front office ticketing, in conflict with our goal to be the regional ticketing provider | | No current sport facilities<br>No regional ticketing clients. | |

## PART B – APPLICATION AND TECHNICAL REQUIREMENTS

| CATEGORY | PACIOLAN | score | TICKET.COM | score | XWAVE | score |
|---|---|---|---|---|---|---|
| HARDWARE | | | | | | |
| • Work Stations | Specs provided<br>Costs not included | na | Specs Included<br>Costs not included | Na | Specs provided<br>Costs included | na |
| • Peripheral | Specs / costs included | 0 | Omitted | -2 | Specs & costs provided | 0 |
| TECHNICAL REQUIREMENTS | | | | | | |
| • Auto back-up | Yes | 0 | Yes | 0 | Yes | 0 |
| • Restrictions | Yes | 0 | Yes | 0 | Omitted | -2 |
| • Remote Outlet Set-Up | Complete Information | 0 | Incomplete Information | -1 | Omitted | -2 |
| **Score** | | **0** | | **-3** | | **-4** |
| INTERNET COMPONENT | | | | | | |
| • Sub/Renewal on-line | Yes | 0 | Yes | 0 | NO | -2 |
| • Internet Revenue Collection | HMC | 0 | Tickets.com | -2 | Misunderstood question | -2 |
| • Ability for customer to update profile | Yes | 0 | Yes | 0 | No | -2 |
| • Promoter Access | Yes | 0 | Yes | 0 | Misunderstood question | -2 |
| • Best availability seating (by | Yes | 0 | Yes (ambiguous) | -1 | Yes | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| customer) | | | | | | |
| • Site Requirements | WAN (incomplete info) | -1 | WAN (incomplete info) | -1 | Dial-up (incomplete info) | -1 |
| **Score** | | **-1** | | **-4** | | -9 |

0 = Acceptable
-1 = Partially Acceptable
**-2 = Unacceptable**

| CATEGORY | PACIOLAN | Pts | TICKET.COM | Pts | XWAVE | Pts |
|---|---|---|---|---|---|---|
| FUNCTIONALITY | | | | | | |
| • Interface with other software | ODBC | 0 | ODBC | 0 | Development necessary | -1 |
| • Ability to sell other venue tickets | Yes | 0 | Yes | 0 | Development necessary | -1 |
| • Quick Sales (walk-up) | 2 clicks | 0 | 4 clicks | -1 | Yes – no details | -1 |
| • Wait list capabilities (e.g. subscribers) | Yes | 0 | Yes | 0 | No | -2 |
| • Pick-ups Vs batch mailing | Yes | 0 | Yes | 0 | Incomplete answer | -1 |
| • Postal code Vs zip code | Yes | 0 | Yes | 0 | Complicated method | -1 |
| • Source coding (e.g. sobeys) | Yes | 0 | Yes | 0 | Custom development | -1 |
| • Single seat restrictions | Yes | 0 | Yes | 0 | One time configuration<br>Not regional compliant | -1 |
| • Kiosks (etc) capability | Researching new provider | -1 | Yes – no details provided (we have reservations) | -1 | Yes – no details provided (We have reservations) | -1 |
| **Score** | | **-1** | | **-1** | | **-10** |
| INTERFACE/EXPORT/IMPORT | | | | | | |
| • Mail Merges | Yes | 0 | Yes | 0 | Excel to word | -1 |
| • ACII Format | Yes | 0 | Yes | 0 | Partial | -1 |
| • Email Report/merge | Partial (in dev) | -1 | Yes | 0 | Yes | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| • Accounting Software | Yes (in-house) | 0 | Interface to accpac | 0 | Interface to accpacc | 0 |
| **Score** | | **-1** | | **0** | | **-2** |

| CATEGORY | PACIOLAN | Pts | TICKET.COM | Pts | XWAVE | Pts |
|---|---|---|---|---|---|---|
| SOFTWARE FLEXIBILTY | | | | | | |
| • # standard plans | Yes | 0 | Yes | 0 | One time configuration<br>Custom coding | -2 |
| • create user defined fields | Yes | 0 | Incomplete | -1 | Yes | 0 |
| • store/select/sort all fields | Yes | 0 | Incomplete | -1 | Yes | 0 |
| • Global update | Yes | 0 | Yes | 0 | No | -2 |
| • Automatic acct. Duplicate checks | Yes | 0 | No | -2 | Yes | 0 |
| • Interactive help screen | Yes | 0 | Yes | 0 | In development | -1 |
| • Unlimited email addresses | Yes | 0 | Yes | 0 | Omitted | -2 |
| • Track current/lapsed seasons | Yes | 0 | Yes | 0 | Omitted | -2 |
| • User friendly manuals | Yes | 0 | Yes | 0 | Omitted | -2 |
| Score | | **0** | | **-4** | | -11 |
| DATA ENTRY | | | | | | |
| • Consistent data format | Yes | 0 | Yes | 0 | One time configuration | -1 |
| Score | | **0** | | **0** | | **-1** |

| | | | | | | |
|---|---|---|---|---|---|---|
| MARKETING FUNCTIONALITY | | | | | | |
| • Ability to pull frequency stats etc | Yes | 0 | Yes, but no accompanying detailed information | -1 | Yes, but no accompanying detailed information | -1 |
| • Annual report by tickets etc | Yes | 0 | " | -1 | " | -1 |
| • Geographical breakdown | Yes | 0 | " | -1 | " | -1 |
| • Average # of tickets | Yes | 0 | " | -1 | " | -1 |
| • Customer households | Yes | 0 | " | -1 | " | -1 |
| • % occupancy per event etc | Yes | 0 | " | -1 | " | -1 |
| • Crossover attendance | Yes | 0 | " | -1 | " | -1 |
| **Score** | | 0 | | -7 | | -7 |
| MAIL LIST MANAGEMENT | | | | | | |
| • Create/export/import | Yes | 0 | Yes | **0** | To excel to word | **-1** |
| BIOGRAPHICAL INFORMATION | Yes | 0 | Yes | **0** | Creation required, doesn't Answer completely or correctly | **-1** |
| CUSTOMER SUPPORT | | | | | | |
| • Training/customer support | 24/7 & online | 0 | 24/7 & online | 0 | One individual assigned | -2 |
| • Local support | Toronto | 0 | Syracuse | 0 | Washington | 0 |
| • Support delivery method | Yes | 0 | Yes | 0 | Not online | -1 |
| **Score** | | **0** | | **0** | | **-3** |

## FINANCIAL

| CATEGORY | PACIOLAN | | TICKET.COM | | XWAVE | |
|---|---|---|---|---|---|---|
| Hardware<br>Software<br>Professional Services<br>Less Discount | $ 72,489<br>$ 91,140<br>$152,000 (25 days)<br>($ 15,781) 5% | | $ 20,141<br>$118,555<br>$ 46,200 (20 days)<br>($115,855) 100%<br>5yr license | | Included<br>Included<br>Included (9 days) | |
| TOTAL | $299,848 US | | $69,041 US | | $613,146 CAN | |
| YEARLY SUPPORT | $32,000 US | | $23,640 US | | $65,750 CDN | |
| INTERNET CHARGES | • 7% of service charge<br>• minimum guarantee of $24,000 US + restrictions | | • Third party transaction<br>• Ticket.com will process settlement payments of gross ticket receipts with HMC on a weekly basis. They rebate us at a charge set by them<br>• Ticket.com will charge HMC 2.6% for credit card transactions | | none | |
| ADDITIONAL COSTS<br>• PC's | 29 PC's not included | | 29 PC's not included | | 29 PC's included in price | |

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