

SPORTS AUTHORITY OF THE METROPOLITAN GOVERNMENT OF NASHVILLE & DAVIDSON COUNTY
Minutes of December 15, 2016 Meeting of the Finance & Audit Committee
First Tennessee Park
9:00 a.m.

Board Members: Margaret Behm (Chair), Ralph Perrey, Dudley West, Kim Adkins, Emmett Wynn, Christie Wilson, Khalat Hama, Lisa Howe, Bob Obrohta, Catana Starks, Rip Ryman

Staff: Monica Fawknorton, Ilesha Montesrin, Quinton Herring, Margaret Darby (Legal)

Titans/ Nissan Stadium: Jenneen Kaufman

Predators/ Bridgestone Arena: Kyle Clayton, Michelle Kennedy, Keith Hegger, Beth Snider

Visitors: Bob Lackey (Metro Finance), Brasher Burbank (Stewart Logistics), Vikki Gray (Kraft CPA's), Kristina Kirby (Kraft CPA's)

Chairwoman Margaret Behm called the meeting of the Sports Authority Finance & Audit Review Committee to order at 9:00 a.m. and welcomed all in attendance. **Upon a motion duly made and seconded, the Sports Authority unanimously voted to approve the minutes of the May 10, 2016 meeting, with the correction of one sentence.**

Executive Director's Report

Chairwoman Behm then recognized Ms. Monica Fawknorton to give the Executive Director's Report. Ms. Fawknorton reported that several action items would come before the Finance Committee in the first quarter of 2017, including the Sports Authority's FY18 budget and Public Investment Plan(s), the Titans' Capital Expense Reimbursement request, and the parking Request for Proposal (RFP) for Nissan Stadium. Ms. Fawknorton also noted that the committee had three items to consider that morning- the FY16 Stewart Logistics, Inc. audit, the FY16 Bridgestone Arena audit, and the FY18 Operating Budget for Bridgestone Arena.

Consideration of FY16 Bridgestone Arena Audit

Chairwoman Behm recognized Ms. Vikki Gray of Kraft CPAs to walk the board through the FY16 Arena audit. Ms. Gray began by noting that, in accordance with the Second Amended and Restated Operating and Management Agreement, Powers Management is entitled to receive an annual Management Fee in the amount of \$1 million (base fee), and may also earn an the Incentive Fee which caps at \$2.7 million until 2018. The Operating and Management Agreement additionally provides a Net Operating Loss Cap. The Loss Cap, created to limit Metro's exposure to what was an ever- increasing subsidy, is equal to \$4,419,808.00 (base year) and adjusted annually at the beginning of each operating year by a percentage equal to the percentage change in the Consumer Price Index the preceding year. The Net Operating Loss Cap for FY16 was \$5,185,007. The second component of the "Loss Cap" includes an estimate (\$720,000) of the total amount of Seat Use Fee which is paid to Powers Management over 12 months. At the end of the year when the audited financials are received, a "true up" is done and any underpayment is paid by Metro with any overpayment returned from Powers Management. The Seat Use Fee (or ticket surcharge) totaled \$765,199 for FY16. In response to a question from Mr. Dudley West on Metro Government's total contribution for the operation of the arena, Mr. Bob Lackey stated

that Metro pays the Loss Cap, Management Fee, and Incentive Fee which, for FY2016, totaled approximately \$8,650,000.

In addition to the Management Fee and Incentive Fee (which Bob Lackey also calculates to verify its accuracy), Powers Management may also receive a Performance Bonus in the event that the Adjusted Net Operating Loss is less than the Net Operating Loss Cap. The amount of the Performance Bonus is the difference between the two, or \$287,199 for 2016.

With regards to the audit's Statement of Assets, Liabilities, and Fund Balance related to the operations of the Arena, Mr. West asked how Metro would pay the \$2,772,658.00 it owes Powers Management for capital improvements (up from \$1,282,048 in FY15). Mr. Lackey responded that while the Predators have advanced the cost of some of their large capital projects (i.e. seat replacement) approved by the Authority, they will be reimbursed by Metro through the Capital Improvements Fund (CIF) since borrowing ability increases as the loan is paid down monthly. Currently the CIF has roughly \$1.9 million. Ms. Behm noted that Mr. Kyle Clayton provides detailed CIF reports to the Authority each month behind the Bridgestone Arena income statement.

In response to questions about Food and Beverage Revenues listed in the Agreed Upon Procedures, Ms. Beth Snider noted that the top line, "Total Food & Beverage Revenues" includes food and beverage from both hockey and non-hockey events and totals \$7,436,667. The second line backs out retail and concessions (including that from the All-Star Game) owed to the Nashville Predators (\$3,228,260). Bridgestone Arena total food and beverage for FY16 was \$3,436,854 and includes food and beverage from the SEC Service Charge and the All-Star Game. Ms. Behm requested that the future audits add "hockey and non-hockey" to the top line.

Ms. Gray noted that over the last year both assets and liabilities have increased due to capital improvements made throughout the year. FY16 assets totaled \$18,945,117; FY16 liabilities totaled \$20,968,838. Ms. Gray additionally reported that she picked three months at random (July 2015, November 2015, and February 2016) to perform several calculation checks. During her checks she concluded that rent escalation tiers had not been appropriately applied to the calculation. When Powers Management reviewed the calculation they found it to have affected December 2015 through March 2016, for a net difference of \$2,425.86, which they will capture in next year's report. No issues were found with any other calculations. Mr. Lackey reported that he was comfortable with the audit and, **upon a motion duly made and seconded, the Sports Authority Finance Committee unanimously voted to recommend approval of the FY16 Audit of Bridgestone Arena to the full Board.**

Consideration of the FY18 Bridgestone Arena Operating Budget

Chairwoman Behm stated that Powers Management is required to present the Operating Budget to the Authority no later than December 1st of each year. She recognized Mr. Kyle Clayton, Director of Operations, to summarize the FY18 Operating Budget, noting that the previous year's budget and actuals were provided. Mr. Clayton stated that while building the budget, Powers Management took results from the previous year's actuals and added room for growth, creating a very aggressive budget. Mr. Clayton noted that the maintenance line item increased drastically in FY16, the result of

management's additional investments in, and capital improvements to, the building. Chairwoman Behm thanked Powers Management for the investments made and for their stewardship of the building. In response to Mr. West's question regarding the substantial increase in the number of budgeted events, Mr. Clayton responded that management is tracking events differently with a focus on the number of actual event days for multi-day events. **Upon a motion duly made and seconded, the Sports Authority unanimously voted to recommend approval of the FY18 Bridgestone Arena Operating Budget to the full Board.**

Consideration of the FY16 Stewart Logistics, Inc. Audit

As legal counsel for Stewart Logistics, Inc., Chairwoman Behm recused herself from discussion of the FY16 Stewart Audit and recognized Mr. Ralph Perrey to lead the discussion. . Mr. Perrey recognized Kraft CPA s auditor Ms. Kristina Kirby to walk the committee through the audit. Ms. Kirby stated that Stewart Logistics, Inc. is in its fourth year of a five year contract with the Sports Authority. The Sports Authority is guaranteed to receive a minimum \$117,700.00 in revenues each year. The contract's revenue structure is a split tier based on the following breakdown in favor of the Sports Authority:

- 50% of the first \$60,000 in gross revenues
- 60% of \$60,000-\$100,000in gross revenues
- 65% of gross revenues over \$100,000

Ms. Kirby stated that revenue is recognized when the event takes place and/or parking is utilized and disbursements are made once revenue has been remitted to Stewart. Sales tax is the sole responsibility of Stewart Logistics, Inc. and is paid by means of their share of revenues. Ms. Kirby reported that total revenue collected from the automated machine in Lot E was \$133,928 in FY16. Total Special Event Revenue for FY16 was\$244,047, for a grand total of \$377,975. \$218,308 of that was remitted to the Sports Authority through its monthly disbursements throughout the year. Mr. Brasher Burbank, Vice President of Stewart Logistics, stated that revenues have consistently grown by about 15-20% year over year. He stated that, halfway through FY17, revenue is up 30% over FY16. Ms. Fawknotson stated that the contract with Stewart Management expires this spring and that the Sports Authority is in the process of drafting a new Request for Proposal (RFP) for management of the Sports Authority lots at Nissan Stadium. **Upon a motion duly made and seconded, the Sports Authority unanimously voted to recommend approval of the FY16 Audit of Stewart Logistics, Inc. to the full board. Margaret Behm abstained.**

There being no other business, the meeting was adjourned.