

METROPOLITAN EXPOSITION-RECREATION COMMISSION

RESOLUTION NO. 94-20

Adopting the Support Costs Analysis Report dated March, 1994 and establishing guideline parameters as contained in the report.

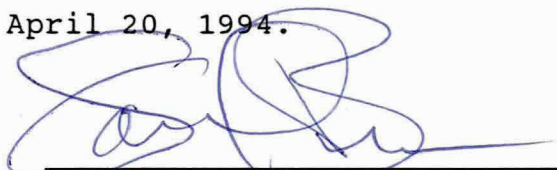
The Metropolitan Exposition-Recreation Commission finds:

1. That Resolution No. 94-15 is hereby revoked and replaced by this Resolution;
2. There has been a shift in support services from MERC to Metro;
3. The support service costs have been analyzed;
4. Concerns have been raised regarding the rate of growth of support costs;
5. Resolution No. 94-10 recommending reallocation of hotel tax funds to support the PCPA requires that guideline parameters for support costs be established;
6. It is prudent to establish guideline parameters for support costs to ensure these costs are consistent with the size of business;
7. These guideline parameters will be used as a benchmark during the annual budget process whereby these parameters will be compared against the proposed budgeted support costs as a function of a facility's overall budget;
8. That if the budgeted support cost amount is within these guideline parameters, the support costs will be deemed reasonable;
9. That if the budgeted support cost amount is outside these guideline parameters, further analysis and discussion of the support costs will be performed;
10. That if after further analysis and discussion, MERC staff still has concerns, the MERC Commission will be informed and they will determine whether the Commission will address the issue with the Regional Facilities Committee and the Metro Council;

Metropolitan Exposition-Recreation Commission
Resolution No. 94-20
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BE IT THEREFORE RESOLVED that MERC Resolution No. 94-15 is hereby repealed; and that the Commission adopts the Support Cost Analysis Report and recognizes the proposed guideline parameters as an administrative standard to be used according to the procedures stated above.

Passed by the Commission on April 20, 1994.



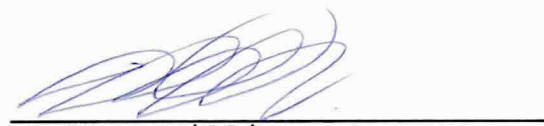
Chairman



Secretary-Treasurer

APPROVED AS TO FORM:
Daniel B. Cooper, General Counsel

By:



Mark B. Williams
Senior Assistant Counsel

M.E.R.C.

SUPPORT BUSINESS PLAN

REPORT 1:

Support Cost Analysis

March 1994

MERC STAFF REPORT
SUPPORT COSTS ANALYSIS
MARCH, 1994

Presented By: Pat LaCrosse and Heather Teed

BACKGROUND

The Stadium, PCPA, OCC and Expo Center pay for support services provided by both Metro and MERC Administration. The types of support services provided to the facilities include general management, finance, accounting, personnel, insurance and legal.

Metro support service costs are charged to MERC, as a whole unit/department based on an elaborate allocation plan. The Metro allocation plan incorporates various factors to determine the allocation percentage applicable to MERC. These factors, which include the number of accounting transactions, number of employees, property values and estimated time based on projects, are intended to reflect the level of support services used by MERC.

Once the Metro charges are calculated for MERC, these charges along with the MERC Administration charges are divided among the facilities via a MERC "internal" allocation plan. This internal allocation plan incorporates some of the same factors as used in the Metro plan. Again, the intent of the internal allocation plan is to charge the facilities based on their respective use of the support services.

HISTORY

When the facilities were transferred to Metro, consolidation of functions did not occur immediately; some duplication of functions occurred during the first few years. However, as Metro and MERC became more familiar with one another, it was clear that some efficiencies could be obtained by consolidating certain functions. Metro conducted several studies to obtain the expertise necessary to decide how best to provide these various support services. The consolidation of the support services met considerable resistance by the MERC Administration department, which resulted in more time involved to streamline the operation than anticipated. Nonetheless, the past two years have seen a hand-off of certain functions to Metro such as personnel and accounting. MERC continues to maintain overall management and industry-specific functions such as event settlements. This overall consolidation has worked well without much duplication of effort by MERC and Metro.

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SUPPORT COSTS ANALYSIS
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From this consolidation, a few complications have arisen in regard to the charges by Metro. The first complication was Metro's decision to become self-insured beginning with fiscal year 91-92. This required a \$1 million investment over two years to build up an insurance fund. However, in the long run, the program will reduce overall insurance costs. A second complication was the loss of the Coliseum. That meant that administrative and support costs had to be spread across a smaller base, thus increasing the cost to each individual facility.

In order to understand the support service costs and their relationship to the MERC facilities, staff reviewed and analyzed these costs along with all other facility costs. From a historical perspective, the Metro and MERC charges were reviewed for fiscal years 90-91 through the current projected budget for 94-95. The costs were detailed by the type of functions and analyzed in relation to the business for the respective year (see Exhibits 1 & 2).

As can be seen in Exhibits 1 & 2, the combined Metro and MERC support costs historically have been reasonable. Exhibit 2 graphically shows the hand-off of support services from MERC to Metro in FY 93-94 and the fairly steady combined support services costs over the five years.

After four years' experience, overall support and administrative costs have declined from a high of \$2.2 million in FY 92-93 to a proposed \$1.8 million in the FY 94-95 budget. Significant decreases are shown in MERC Administration, insurance and information systems; increases have been experienced in accounting, procurement and personnel charges.

While some of the increase reflects a transfer of functions to Metro, continued increase in light of the loss of the Coliseum and other business is of some concern. Looking at these costs as a percentage of the total MERC budget, they have remained between 8% and 11% during the entire period. In fiscal year 90-91, they were at a low of 8.3% and rose to 10% in fiscal year 93-94. This increase was primarily due to the loss of the Coliseum's \$9 million budget. A loss of that size dramatically reduces the base upon which to spread fixed costs.

In the upper half of Exhibit 2, the loss of the Coliseum in FY 93-94 is evident from the sharp decline in total MERC costs. Overall support costs did decrease with the loss of the Coliseum, but not at the same level. The total budget decrease from fiscal year 92-93 to 93-94 was -28.9% while Metro support service charges went down 15.3% and MERC Administration decreased by 20.8%.

CURRENT STATUS

Since the loss in July 1993 of the Memorial Coliseum (or the "cash cow" as it was called), MERC recognized a need to evaluate the remaining facilities and set a course for the future to better manage costs. The Business Plan project, which is in the final phase, has done this.

One issue that has been raised in the Business Planning process is the need to have the support service costs more closely reflect the business needs and, in turn, the changes in business. Furthermore, there needs to be a way to manage these costs, rather than simply budget for them without control. This same issue has been raised in various meetings by the PCPA Advisory Committee, the Tri County Lodging Association and MERC facility management, as well as by others.

CONCLUSION & ESTABLISHING GUIDELINE LIMITS

The need for cost containment leads staff to propose that guideline limits be established for managing Metro and MERC support costs.

Staff proposes establishing separate guideline limits for Metro support and insurance charges and MERC support charges. During the annual budget process, these guideline limits would then be applied to the proposed total facility budgeted expenditures less transfers and reimbursements to determine if support costs are reasonable as compared to the projected business.

Staff has calculated the guideline limits using the fiscal year 93-94 budget (see Exhibit 3). Fiscal year 93-94 was used since it is the most recent fiscal year, it does not include the Memorial Coliseum and it was presumed to be a reasonable financial indicator of an average/usual year for each facility. The initial guideline limits were determined by taking the MERC and Metro transfers (separately) as a percentage of total facility budgeted expenditures less transfers and contingency.

Once staff determined the initial percentage guideline limits, we prepared an analysis which applied the limits back historically to fiscal years 90-91, 91-92 and 92-93 (see Exhibit 4). The purpose of this analysis was to determine if the initial percentage guideline limits were indeed reasonable and within the general range of where actual transfer costs were historically.

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SUPPORT COSTS ANALYSIS
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After analysis, discussion and some minor adjustments, staff proposes the following percentage guideline limits for each facility:

	<u>MERC Support</u>	<u>Metro Support</u>
Stadium	3.7%	6.0%
PCPA	3.7%	7.0%
OCC	3.5%	7.0%

An analysis of these proposed guideline limits compared to the proposed fiscal year 94-95 budget is attached (see Exhibit 5).

01/26/94
 02/04/94 REVISED
 02/15/94 REVISED

METRO SUPPORT SERVICES, INSURANCE AND MERC ADMIN CHARGES

DESCRIPTION	BUDGET FY 90-91	BUDGET FY 91-92	BUDGET FY 92-93	BUDGET FY 93-94	PROPOSED FY 94-95
SUPPORT SERVICES:					
FINANCE	\$64,756	\$60,472	\$74,539	\$50,140	\$63,964
LEGAL	51,618	55,155	62,892	37,766	39,638
ACCOUNTING	159,304	192,521	233,604	287,913	298,403
OFFICE SERVICES	0	3,038	11,009	0	1,583
PERSONNEL	152,033	185,813	211,379	195,086	203,036
PROCUREMENT	6,901	587	19,144	27,130	13,278
PUBLIC AFFAIRS	18,248	4,688	6,578	2,110	406
INFORMATION SYS	90,101	144,903	129,234	94,084	99,032
CONSTR/CODE SUPP	21,756	7,019	18,026	0	0
GRAPHICS	0	0	0	0	514
GENERAL EXPENSES	0	0	0	0	21,356
INDIRECT/POOLED	17,857	100,072	83,267	48,770	85,198
FACILITIES MGMNT	0	507	0	0	0
SUPPORT SERVICES	582,574	754,775	849,672	742,999	826,408
OTHER:					
INSURANCE	185,976	510,177	535,611	327,068	236,703
EXPO CENTER ALLOC	0	0	0	103,331	108,521
TOTAL METRO CHRGS	768,550	1,264,952	1,385,283	1,173,398	1,171,632
MERC ADMIN	976,725	832,999	782,191	619,740	633,612
TOTAL ALL CHARGES	\$1,745,275	\$2,097,951	\$2,167,474	\$1,793,138	\$1,805,244

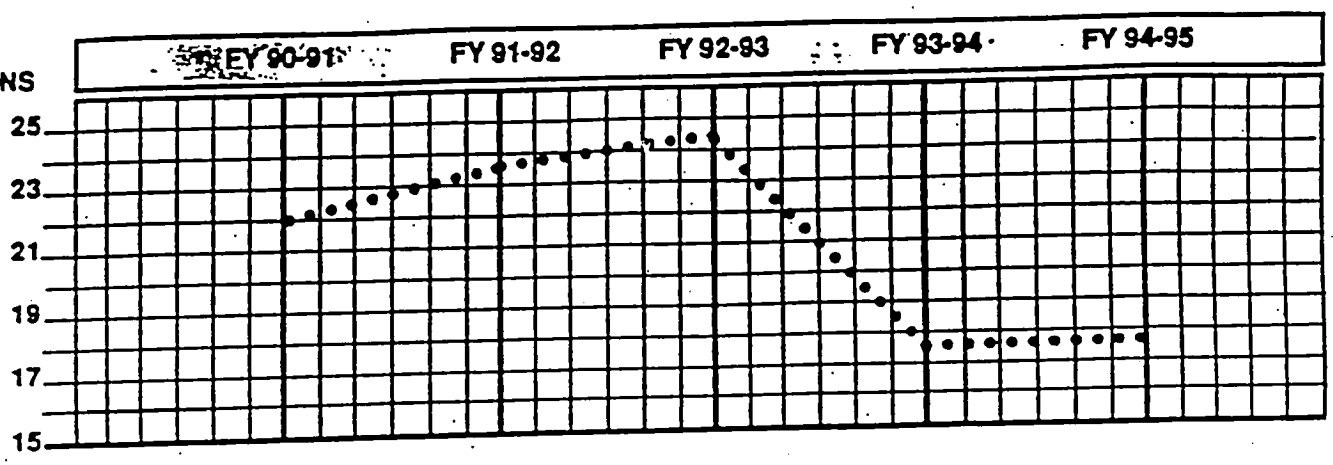
ALLOCATION OF CHARGES BY FACILITY

DESCRIPTION	ACTUAL 90-91	ACTUAL 91-92	ACTUAL 92-93	BUDGET 93-94	PROPOSED 94-95
PERFORMING ARTS	\$288,001	\$391,066	\$413,770	\$443,213	\$476,164
STADIUM	133,463	180,958	195,207	224,944	145,757
MEMORIAL COLISEUM	478,040	656,501	693,137	0	0
CONVENTION CENTER	559,279	692,432	753,222	951,642	1,001,302
EXPO CENTER	0	0	0	173,339	182,021
TOTAL ALLOCATION	\$1,458,783	\$1,920,957	\$2,055,336	\$1,793,138	\$1,805,244

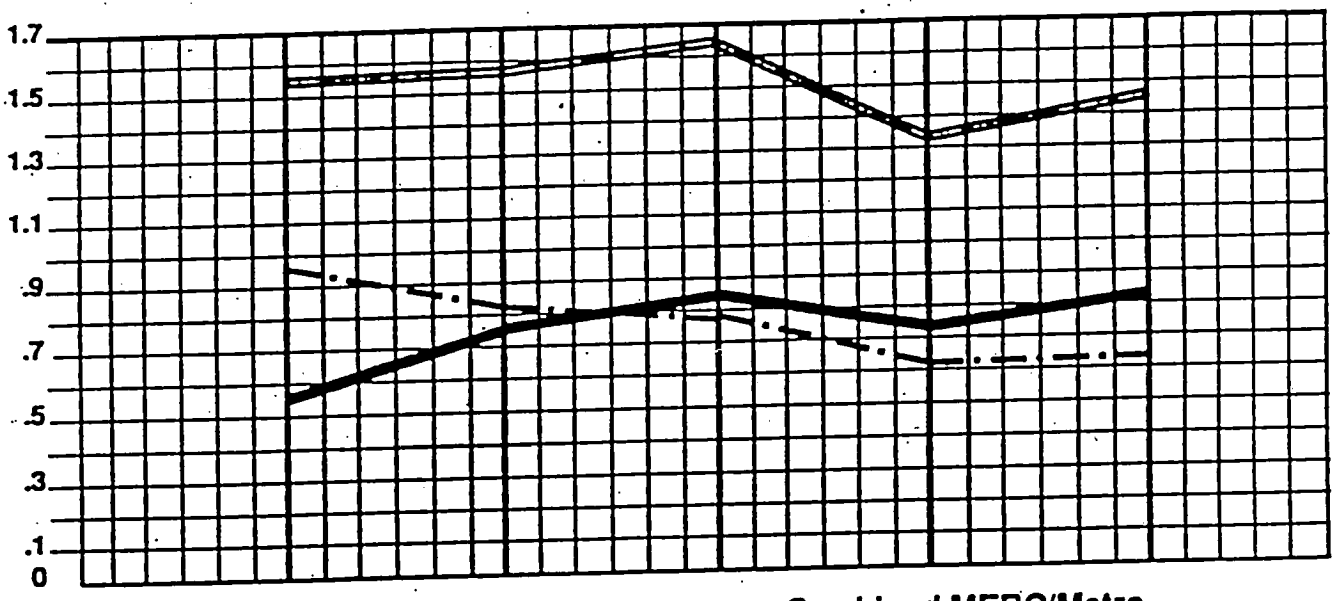
TOTAL MERC EXPEND.
 LESS METRO TRNSF
 I S RENEWAL/REPLAC
 LESS CONTINGENCY \$22,087,200 \$23,470,850 \$24,379,367 \$17,402,154 \$17,744,431

IN MILLIONS

Expenditures (1)



Budgeted Support Costs(2)



Metro
 MERC
 Combined MERC/Metro
 MERC Expenditures

- (1) MERC Expenditures are total expenditures less Metro transfers, renewal & replacement transfers and contingency.
- (2) Budgeted Metro support costs exclude insurance and Expo Center allocation.

MERC
 CALCULATE GUIDELINE LIMITS FOR SUPPORT COSTS
 BASED ON FY 93-94 BUDGET
 PREPARED FEBRUARY 15, 1994

FACILITY	TOTAL EXPENDITURES LESS TRNSF & CONTINGENCY	MERC SUPPORT TRANSFERS	% LIMIT	METRO SUPPORT TRANSFERS	% LIMIT	COMBINED SUPPORT TRANSFERS	% LIMIT
Stadium	\$2,404,291	\$82,736	3.4%	\$142,483	5.9%	\$225,219	9.4%
PCPA	\$4,466,833	\$153,653	3.4%	\$289,285	6.5%	\$442,938	9.9%
OCC	\$8,795,463	\$313,351	3.6%	\$638,291	7.3%	\$951,642	10.8%

MERC
HISTORICAL COMPARISON OF
CALCULATED GUIDELINE LIMITS
PREPARED FEBRUARY 15, 1994

COMPARED TO ACTUAL FY 92-93:

FACILITY	TOTAL EXPENDITURES LESS TRNSF	MERC SUPPORT TRANSFERS	ACTUAL %	% LIMIT	\$ DIFF FROM ACTUAL TO LIMIT	METRO SUPPORT TRANSFERS	ACTUAL %	% LIMIT	\$ DIFF FROM ACTUAL TO LIMIT	COMBINED SUPPORT TRANSFERS	ACTUAL %	% LIMIT	TOTAL \$ DIFF FROM ACTUAL TO LIMIT
Stadium	\$1,710,223	\$74,817	4.4%	3.4%	\$16,669	\$120,390	7.0%	5.9%	\$19,487	\$195,207	11.4%	9.4%	\$36,156
PCPA	\$4,585,666	\$164,715	3.6%	3.4%	\$8,802	\$249,055	5.4%	6.5%	(\$49,013)	\$413,770	9.0%	9.9%	(\$40,211)
OCC	\$7,850,345	\$232,036	3.0%	3.6%	(\$50,576)	\$521,186	6.6%	7.3%	(\$51,889)	\$753,222	9.6%	10.8%	(\$102,465)

COMPARED TO ACUTAL FY 91-92:

FACILITY	TOTAL EXPENDITURES LESS TRNSF	MERC SUPPORT TRANSFERS	ACTUAL %	% LIMIT	\$ DIFF FROM ACTUAL TO LIMIT	METRO SUPPORT TRANSFERS	ACTUAL %	% LIMIT	\$ DIFF FROM ACTUAL TO LIMIT	COMBINED SUPPORT TRANSFERS	ACTUAL %	% LIMIT	TOTAL \$ DIFF FROM ACTUAL TO LIMIT
Stadium	\$1,777,991	\$72,996	4.1%	3.4%	\$12,544	\$107,962	6.1%	5.9%	\$3,061	\$180,958	10.2%	9.4%	\$15,605
PCPA	\$3,621,363	\$155,783	4.3%	3.4%	\$32,657	\$235,283	6.5%	6.5%	\$0	\$391,068	10.8%	9.9%	\$32,657
OCC	\$6,878,551	\$229,665	3.3%	3.6%	(\$17,963)	\$462,767	6.7%	7.3%	(\$39,367)	\$692,432	10.1%	10.8%	(\$57,330)

COMPARED TO ACTUAL FY 90-91:

FACILITY	TOTAL EXPENDITURES LESS TRNSF	MERC SUPPORT TRANSFERS	ACTUAL %	% LIMIT	\$ DIFF FROM ACTUAL TO LIMIT	METRO SUPPORT TRANSFERS	ACTUAL %	% LIMIT	\$ DIFF FROM ACTUAL TO LIMIT	COMBINED SUPPORT TRANSFERS	ACTUAL %	% LIMIT	TOTAL \$ DIFF FROM ACTUAL TO LIMIT
Stadium	\$1,467,380	\$68,651	4.7%	3.4%	\$18,761	\$64,812	4.4%	5.9%	(\$21,763)	\$133,463	9.1%	9.4%	(\$3,002)
PCPA	\$4,124,133	\$146,709	3.6%	3.4%	\$6,488	\$141,292	3.4%	6.5%	(\$126,777)	\$288,001	7.0%	9.9%	(\$120,289)
OCC	\$6,436,494	\$281,217	4.4%	3.6%	\$49,503	\$278,062	4.3%	7.3%	(\$191,802)	\$559,279	8.7%	10.8%	(\$142,299)

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MERC
 COMPARISON OF PROPOSED GUIDELINE LIMITS
 TO PROPOSED FY 94-95 BUDGET
 PREPARED FEBRUARY 15, 1994
 (Revised 2/24/94)

FACILITY	TOTAL EXPENDITURES LESS TRNSF & CONTINGENCY	MERC			\$ DIFF FROM PROPOSED TO LIMIT	METRO			\$ DIFF FROM PROPOSED TO LIMIT	COMBINED			TOTAL \$ DIFF FROM PROPOSED TO LIMIT
		SUPPORT TRANSFERS	PROPOSED %	% LIMIT		SUPPORT TRANSFERS	PROPOSED %	% LIMIT		SUPPORT TRANSFERS	PROPOSED %	% LIMIT	
Stadium	\$1,869,616	\$50,295	2.7%	3.7%	(\$18,881)	\$95,462	5.1%	6.0%	(\$16,715)	\$145,757	7.8%	9.7%	(\$35,596)
PCPA	\$4,112,038	\$164,306	4.0%	3.7%	\$12,161	\$311,858	7.6%	7.0%	\$24,015	\$476,164	11.6%	10.7%	\$36,176
OCC	\$9,934,371	\$345,511	3.5%	3.5%	\$0	\$655,791	6.6%	7.0%	(\$39,615)	\$1,001,302	10.1%	10.5%	(\$39,615)