
The Case for Private Management

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If you are involved with and generally responsible for a municipally operated public-assembly facility, chances are good that you have heard one or more of the following complaints from your facility director:

- “Our salaries are too low and lack the necessary incentives to recruit and retain top professionals.”
- “Our job classifications are too restrictive.”
- “The personnel department is insensitive to our unique needs and requires a time-consuming and cumbersome process to fill simple part-time vacancies. Do you realize how much revenue we are losing?”
- “I need more flexibility to wheel and deal in rental contract negotiations!”
- “You don’t understand—Prince doesn’t care about our charter, he wants his money tonight!”
- “Would you walk up and down the arena steps a hundred times a night wearing a striped vest and funny looking cap, carrying a heavy container, and yelling ‘Getcha Cold Beer’ for \$4.50 per hour? Of course we have to pay commissions!”

Financing for Public Facilities

How many times and in how many ways have you heard about the uniqueness of your facility’s needs in comparison to other city departments? Public assembly facilities are, in fact, proprietary governmental functions that require different rules and regulations to operate efficiently and economically. These facilities often defy a municipality’s inherent tendency to impose one set of guidelines for all of its departments.

Many governmental systems in areas such as accounting, auditing, financial manage-

ment and reporting, personnel, and purchasing were designed initially to ensure compliance and financial control, not necessarily to support, facilitate, and evaluate performance. Here’s why public assembly facilities need more operating flexibility:

1. They serve the public as businesses. Tenants and patrons can decide not to do business with a facility. Citizens and taxpayers, on the other hand, have no choice but to utilize police and fire departments, trash collection, and other basic municipal services.
2. Facilities must spend money to make money, even when this requires exceeding the approved annual appropriation. Strict adherence to council appropriations—and especially to blanket hiring freezes—can force a facility to violate contracts with tenants, which usually results in financial losses. City departments spend within preapproved limits, usually with the overriding goal of minimizing tax increases. Facilities focus more on the bottom line, the year-end results. They sometimes have to spend money to minimize contributions from the city’s general fund or to increase its annual net operating surplus.
3. They compete with other facilities, not with other city departments. Their operation, therefore, needs to be conducted in a manner consistent with well-established nationwide industry practices rather than by local governmental controls.
4. They need high-powered sales and marketing professionals capable of advertising and promoting the facility and its events on national, regional, and local levels. Many local governments are not in a position to pay the price for such talent.
5. They need to transcend their own immediate market area and tap into a network that provides the leverage and buying power necessary to attract a diversified and profitable schedule of events.

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The Solution

Private management has become a popular and effective alternative for governments and institutions owning or running public assembly facilities. The conditions that prompt consideration of private management vary from city to city, but most share the following characteristics.

1. Bureaucratic controls over the budget that are contrary to free-market thinking.
2. Financial losses caused by local economic problems; intense competition from new, larger facilities in the area; mismanagement; customer and tenant dissatisfaction; physical deterioration of the plant and equipment; and onerous labor agreements.
3. The demand for more event activity, especially for facilities in secondary and tertiary markets.
4. The need for investment dollars for renovation, expansion, and/or equipment purchases.
5. The simple desire for a clean sweep and a new beginning.

Whatever the reasons for considering private management, many local governments have, unfortunately, never evaluated the possibility because of the fear of losing control. I believe the importance of this issue is exaggerated. In a private-management relationship, a city need only give up as much control as it desires. Virtually every private management contract I have reviewed provides the city with continued ownership, approval of operating and capital budgets, direction and supervision of policy, regular financial and management reports, and the ability to terminate for cause.

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Hiring approval for the director and determining whether facility employees should remain on the city payroll or be transferred to the contractor's payroll are ultimately decided by the city. The private management contractor is simply an agent of the city authorized to manage and promote a municipal resource. The private management contractor is usually compensated with a flat annual fee, plus, in some cases, incentive payments designed to reward the contractor for producing the city's desired results.

Private management of arenas, convention and civic centers, stadiums, and theaters has been restricted to privately owned facilities in North America until the past few years. Starting in the late 1970s, however, this alternative form of administration began attracting the attention of civic leaders when the Louisiana Superdome turned to private management. There and elsewhere, almost without exception, introduction of private management has resulted in lower operating costs, increased revenues, and, perhaps most important, better services to tenants and the ticket-buying public and a greater overall impact on the local economy.

Private Management Gaining

Today, four firms are providing management services to owners of public assembly facilities:

- Ogden Allied Leisure Services (New York)
- Centre Management (Landover, Maryland)
- Spectacor Management Group (Philadelphia)
- Leisure Management International (Houston)

These organizations manage more than 50 U.S. facilities, and this number is increasing rapidly. Ogden Allied's research shows that private contractors now manage approximately 11 percent of the total number of U.S. facilities, and the company continues to receive inquiries from local governments that are already aware of or interested in learning about the advantages and opportunities for the increased activity private management can offer.

The private management firms are finding that a growing number of major international cities are becoming increasingly interested in developing U.S.-type multipurpose facilities and involving private management from the feasibility and design stage right through and including ongoing operations.

Making the Transition

The need to evaluate the viability of private management usually becomes obvious when owners realize that the characteristics of the public assembly facility are unique among their operations. It is difficult, if not impossible, to run a sales- and marketing-oriented business within the context of strict governmental policies. Hence, the more bottom-line conscious the governing entities become, the greater the need for a viable alternative arrangement. Private management allows

governments and not-for-profit institutions to operate their facilities as commercial enterprises while still maintaining ownership and broad policy control.

Many local governments have already begun to do business with a variety of private management contractors in the areas of food and beverage concessions, catering, merchandising, security, ushering and ticket taking, parking, advertising and public relations, housekeeping, box office operations, and group sales. A comprehensive private management arrangement essentially can consolidate these services and allow a government to deal with a single manager.

Solving Personnel Problems

Another problem solved by private management is that of locating appropriately trained and experienced managers to assume responsibility for administering multimillion-dollar facility budgets, dealing with complicated personnel matters, directing national sales and promotional efforts, negotiating with la-

bor unions, and booking a heavy and diversified schedule of events. Fortunately, the industry is in the beginning stages of providing a formal system for the education and development of individuals interested in pursuing careers in managing public assembly facilities. For example, the International Association of Auditorium Managers (a professional organization for the industry) restricts its membership to only those persons already employed in the public assembly facility industry. This makes direct recruitment difficult for owners and administrators who are not active in public assembly facility management.

Thus, most management recruitment takes place through owners or governing bodies who lure young managers from one job to another. Facility managers may make several such moves until reaching a facility of a desired size and scope of responsibility. In most instances, however, the volunteer or ad hoc committee supervising the performance of these managers is not in a position to evaluate a manager's performance in accordance with

industry standards. Private management eliminates this concern because it is grounded in supervision and training by corporate professionals. These individuals have strong vested interests in ensuring the highest quality performance by the on-site managers at each of the facilities they oversee.

Attractiveness to Managers

Private management can also offer salaries and other incentives that are not affected or limited by normal governmental constraints. A private management company is able to provide incentive compensation systems that reward top performance. This type of compensation plan is a key factor in enhancing the overall programmatic and financial viability of a public assembly facility. Ultimately, it significantly influences the degree to which the facility is perceived as a valuable asset by the community at large.

Private management companies can also risk venture capital in the development or promotion of events and activities that might not otherwise be presented in facilities oper-

ated by government managers. The fact that private management firms operate multiple facilities creates a synergy and leverage whereby the individual facilities operate much more successfully and gain access to more events as part of a private management network than they could achieve as independent venues.

In conclusion, private management firms offer government an effective and proven alternative to the operation of their own facilities. This option eliminates a variety of operating, sales, and political problems and creates a more active and financially viable source of entertainment for the marketplace. Private management will provide the owner with a team of highly trained, profit-oriented specialists who are knowledgeable and capable of responding effectively to continually changing and increasingly competitive market conditions. Private management ultimately offers owners the peace of mind that comes from having full-time professionals operating their facilities and achieving the objective for which these facilities were built—to be first-class showcases and valued community assets. **PM**