

**Performance Audit
Starlight Theatre Concession Agreement**

December 2005

**City Auditor's Office
City of Kansas City, Missouri**

December 20, 2005

Honorable Mayor, Members of the City Council, and Members of the Board of Parks and Recreation Commissioners:

This audit focuses on the city's benefits and costs of the Starlight concession and use agreement and the agreement's consistency with the city's concession policy. Goals of the city's concession policy emphasize providing the highest level of service to the public; maximizing revenues; permitting the city the greatest flexibility; and enabling periodic physical changes in concession space. City concession contracts should be awarded following public solicitation and a competitive process.

The Parks Board does not have a concession policy to set goals or priorities for Parks concession agreements. The Parks Board does not, and is not required to follow the City Manager's concession contract policy. However, as custodians of Parks Department assets, the Board of Parks and Recreation Commissioners should adopt a concession policy to establish goals and priorities. Establishing a concession policy would safeguard citizen assets by ensuring the city receives the most benefit from the use of Starlight Theatre and other Parks assets.

Citizens may not be receiving all of the benefits they could from the concession agreement with Starlight Theatre Association (STA). STA pays nominal rent for use of both the theatre and Swope Interpretive Center, even though the facilities combined are worth millions of dollars. The city receives no revenue from theatre operations while providing some maintenance support and money for capital improvements.

STA provides citizens the opportunity to enjoy Broadway musicals and concerts. STA management also reports benefits to the economy, theatre community, and children. Because STA has never had to compete to operate Starlight Theatre, we cannot determine whether the benefits citizens receive reflect the best the city can obtain for exclusive use of the facility. STA raised about \$11 million in private funds for capital improvements during the last five years alone, but we also cannot assess whether another operator could have raised more.

STA has also completed about \$18 million in theatre capital improvements, most recently to the stage house, restrooms, and concession stands. Since completing facility improvements is not required by the concession agreement, Parks cannot guarantee they will continue. Because STA has enjoyed exclusive use of Starlight Theatre since it was built, these improvements may reflect STA's expectation they always will operate it. Finally, because the city receives nothing from Starlight operations, STA receives all revenue increases.

STA has operated the Starlight Theatre since it was built in the early 1950's. The Parks Board did not award the Starlight concession agreement through a competitive process and continues to renew the agreement with STA. Competition helps government obtain the best product or service at the lowest price. Through a competitive process, the city might be able to obtain a share of revenue or other benefits from the operation of the theatre. A competitive process would also help instill citizen trust in city government. The more systematically and fairly contracts are awarded, the more citizens can trust that their tax dollars are not being wasted. We recommend a competitive process to award the next contract to operate Starlight Theatre.

Currently, the city's total subsidy to STA is unknown because Starlight Theatre and the Swope Interpretive Center have not been appraised and the business value of Starlight theatre has not been assessed. We recommend appraising the fair market value of the Swope Interpretive Center before the current agreement ends in 2007. We also recommend appraising the fair market value and determining the business value of Starlight Theatre before the current agreement ends in 2010. This information would assist the Parks Board when evaluating competitive proposals to operate Starlight Theatre.

For citizens to receive the full benefit of the Starlight concession agreement, Parks management should actively monitor the Starlight concession contract, and review and update the contract as needed. Parks management has not ensured that STA and its concessionaires have paid earnings taxes and obtained business licenses. In addition, in June of 2005, when the Parks Board renewed Starlight's concession contract for another five years, management was unaware of all contract provisions.

We provided a draft of the report to the Director of Parks and Recreation and the President of the Starlight Theatre Association on September 28, 2005. A response from the Parks and Recreation Director is included as an appendix. We would like to thank the Starlight Theatre Association and Parks and Recreation Department staff for their cooperation. The audit team for this project was Sue Polys and Gary White.

Mark Funkhouser
City Auditor

Starlight Theatre Concession Agreement

Table of Contents

Introduction	1
Objectives	1
Scope and Methodology	1
Background	2
Starlight Theatre Is a City-Owned Asset	2
Board of Parks and Recreation Commissioners	2
Starlight Theatre Association	3
Findings and Recommendations	5
Summary	5
Starlight Agreement May Not Fully Serve the Public’s Best Interests	6
Starlight Contract Never Competitively Bid	6
City Provides STA Exclusive Use of Theatre and Facilities for Nominal Rent	8
City Subsidizes Starlight Theatre Association with Operational Maintenance and Capital Funding	9
Parks Receives No Revenues from Starlight Operations	10
Similar Venue Provides Opportunity for Comparisons of Costs and Benefits	12
Citizens Should Benefit from Their Asset	13
Starlight Provides Opportunities for the Community to Experience Performing Arts	14
Concession Agreements Need Additional Oversight	16
Starlight Agreement Provisions Have Not Been Monitored	16
Parks and Recreation Commissioners Should Adopt a Concession Policy	18
Recommendations	19
Appendices	21
Appendix A: Starlight Theatre Association Board of Directors	21
Appendix B: Starlight Theatre Association Financial Information and Analysis	25
Appendix C: Director of Parks and Recreation’s Response	31
Appendix D: City Auditor’s Comments Regarding the Parks and Recreation Director’s Response	45

Starlight Theatre Concession Agreement

List of Exhibits

Exhibit 1. Capital Improvement Payments	9
Exhibit 2. Starlight Theatre Association Revenues, 2003 and 2004	10
Exhibit 3. City Revenues from Theater League Productions	11
Exhibit 4. Comparison of Starlight Theatre to St. Louis' Muny Opera	12
Exhibit 5. Starlight Broadway Musicals, 2003 – 2005	14
Exhibit 6. Starlight Event Days, 1993 – 2005	14

Introduction

Objectives

We conducted this performance audit of the Starlight concession and use agreement under the authority of Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the City Auditor's primary duties.

A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making.¹

The City Auditor's Office strategic plan requires audits of financial stewardship. Our goal is to ensure the city spends public funds wisely and safeguards public assets. Because Starlight Theatre is a sizeable asset – one to which the city has continued to provide significant funding – we think it is important to examine the value of the subsidy the city is giving to the Starlight Theatre Association and ensure the agreement provides a reasonable use of tax dollars.

This report is designed to answer the following questions:

- Is the current Starlight Theatre Association concession and use agreement consistent with the city's concession contract policy?
- What subsidy does the city provide the Starlight Theatre Association to manage Starlight Theatre?
- What is the public benefit of Starlight Theatre?

Scope and Methodology

We reviewed the Starlight concession and use agreement and other related contracts to understand their terms.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office 2003), p. 21.

To understand contract benefits and costs, we interviewed Parks and Recreation Department and Starlight Theatre Association management. We tried to quantify the subsidy that Starlight receives from the city through our review of financial records and documents. In addition, we compared the City Manager's concession contract policy to the Starlight concession agreement.

We conducted this audit in accordance with generally accepted government auditing standards. No information was omitted from this report because it was deemed privileged or confidential.

Background

Starlight Theatre Is a City-Owned Asset

The city built the Starlight Theatre in city-owned Swope Park in the 1950's. Swope Park and Starlight Theatre are the responsibility of the Board of Parks and Recreation Commissioners. The Parks Board has an agreement with the Starlight Theatre Association (STA) to operate Starlight Theatre. While the STA manages the facility, the city retains ownership of the buildings and facilities. All improvements and additions to the theatre remain property of the city. The property consists of a climate-controlled stage, an orchestra pit, seating for 8,100 patrons, dressing rooms, concession buildings, public restrooms, storage buildings, and offices.

Patron seating is outdoors and STA holds Broadway shows and concerts during the summer months. STA can close off the stage from the outdoors and use the stage space year round. It is rented for special events such as the Jewel Ball. The Starlight Gala fundraiser is also held there.

STA also rents the Swope Interpretive Center, located in Swope Park, from the Parks and Recreation Department. STA uses the building for administrative offices and ticketing.

Board of Parks and Recreation Commissioners

The Parks and Recreation Department operates under the direction of a five-member board, appointed by the Mayor. Under the city charter, the Board of Parks and Recreation Commissioners is responsible for operating all public playgrounds, swimming pools, grounds for games or sports, and other recreation facilities. The board is also responsible for

managing and maintaining the city's park and boulevard systems. The board appoints the Director of Parks and Recreation. The Parks commissioners are responsible for approving the concession agreement for operation of Starlight Theatre.

Starlight Theatre Association

Starlight Theatre Association is a not-for-profit organization whose mission is:

To present first quality professional entertainment and arts education to diverse audiences, while building an appreciation for the performing arts and preserving, and enhancing, the Starlight venue for future generations. As it carries out this mission, Starlight will remain committed to family oriented entertainment at affordable prices, with a focus on musical theatre.

STA's revenues and other support are derived principally from ticket sales, contributions, production, sponsorships, concessions, and parking. STA is governed by a board of metro-area citizens who oversee the policies and management of the theatre. Appendix A identifies the STA Board members as of June 2004.

STA established a wholly-owned subsidiary, EPIC Entertainment Inc. on October 1, 2002. According to Starlight staff, the subsidiary was created to account for the additional revenues received from providing entertainment at venues away from Starlight Theatre in the off-season. EPIC has a five-member board that includes three STA board members.

Starlight Theatre Association's financial indicators are positive.

From 1996 to 2004, STA received unqualified opinions from their independent auditor. Financial information from STA's 2004 audit is included in Appendix B, along with financial analysis for liquidity, performance, and long term stability and estimated revenues per performance for Broadway shows. Overall, STA's financial condition appears positive.

Starlight Theatre Concession Agreement

Findings and Recommendations

Summary

Citizens may not be getting all of the benefits they could from the current concession agreement with the Starlight Theatre Association (STA). The city receives no rent or revenue from Starlight's operation, while still subsidizing the theatre.

STA provides Broadway musicals and concerts, has renovated Starlight facilities, and reportedly benefits the economy, theatre community, and children. Because the Parks Board never awarded the Starlight Theatre concession agreement through a competitive process, we cannot determine whether the benefits citizens receive represent the best the city can obtain for exclusive use of the facility. We also cannot determine whether the capital improvements reflect STA's expectation they will always operate it.

Parks management should obtain an appraisal of the market value of Swope Interpretive Center before the agreement expires in 2007. Management should have Starlight Theatre's fair market value and business value appraised before the next competitive process to award operation of Starlight in 2010. The appraisals will provide a better estimate of the city's subsidy to STA and the Board will better be able to evaluate competitive proposals. To ensure citizens are getting the best service at the best price, we recommend the Parks Board use a competitive process to award the next contract to operate Starlight Theatre.

The Board of Parks and Recreation Commissioners should establish a concession contract policy. Having a concession policy would allow the Board to establish goals and priorities of what it is trying to achieve with concession agreements. Without a policy, the Board risks not getting the most benefit for citizens from Starlight Theatre or other Parks Department assets.

Parks management has not ensured that STA and its concessionaires have paid earnings taxes and obtained business licenses. Parks management needs to monitor compliance with contract provisions, and review and update the contract as needed.

Starlight Agreement May Not Fully Serve the Public's Best Interests

The public may not be receiving all of the benefits it could from the concession agreement with the Starlight Theatre Association. The city never competitively bid the Starlight agreement. Having competition for contracts is one way government can ensure the best product at the best price. The current Starlight concession contract yields no city revenues through rent, percentage of concessions, or parking. Additionally, the Parks and Recreation Department provides operational maintenance for the theatre and the city contributes money to the theatre's capital improvements.

Starlight Contract Never Competitively Bid

According to the Parks and Recreation Department and Starlight Theatre Association management, the Association did not bid the concession agreement to operate Starlight Theatre. The Board of Parks and Recreation Commissioners approved the current agreement in 1996 for five years without a competitive process. The Parks Board subsequently renewed the agreement for two consecutive five-year terms, most recently soon after we notified the Parks and Recreation Director we were starting this audit. The current extension goes through October 31, 2010.

Goals for public procurement include fostering competition.

Because government resources are limited, it is important that goods and services are procured in an efficient and effective manner. Effective procurement is obtaining goods and services at a fair and reasonable price.² Using competition is an opportunity for government to obtain the best services at the best price. Contractors compete by trying to offer better services at a lower price in order to win the contract. Without competition a contractor does not have that same incentive.

The City Manager's concession agreement policy includes a competitive process. According to the City Contract Guidebook, the City Manager's concession policy is to award contracts after public solicitation and a competitive process. The guidebook bases the solicitation requirements on the length of the agreement and revenue to the city. The applicable policy, if applied to the Starlight concession agreement, would be to solicit bids publicly for the contract and perform a formal RFP process each time the contract comes up for renewal.

² International City/County Management Association, *Management Policies in Local Government Finance*. (Washington, D.C.: ICMA, 2004), p. 421.

**National Park Service Concession Agreements
Modified to Fund Parks Upkeep**

The National Park Service (NPS) has been facing budget shortfalls of \$11.1 billion in recent years, which resulted in deteriorating roads, buildings, sewers, and other infrastructure in the parks. Congressional appropriations are not anticipated to increase sufficiently to address the deficit, so new sources of revenue have been sought, including higher concessionaire fees.

In 1965, Congress adopted the Concession Policy Act to entice businesses to provide lodging and services in National Parks. To compensate for the risk of these ventures, they gave exclusive rights, long-term contract terms, preferential right of renewal, and the opportunity to earn a profit. In 1996, these concessionaires grossed over \$714 million while the Park Service received an average 2 percent return.

Efforts are underway to reform the concessions policy and increase the revenues concessionaires provide to the parks. For example, one bill would require concessionaires to enter a competitive bid process if the operation grossed over \$2 million. Contract terms would be reduced from 30 to 10 or 15 years. Concessionaires would pay royalty fees to the parks. States that utilize these techniques have higher returns (12.7% versus 2%).

Source: "Our National Parks – Overcrowded, Underfunded, and Besieged with a Myriad of Vexing Problems: How Can We Best Fund Our Imperiled National Park System?," by Richard J. Ansson, Jr., 1996 Journal of Land Use & Environmental Law, found at www.law.fsu.edu/journals/landuse/Voll41/anss.htm.

The Parks Board should use a competitive process to select a contractor to operate Starlight Theatre. The Parks and Recreation Department would have until October 31, 2010 to prepare for a competitive process. Having the extra time before the contract is up for renewal will allow Parks and Recreation management to solicit interest in the contract and develop criteria for evaluating bids or proposals. With competition for exclusive use of Starlight Theatre, the city would be in a better position to negotiate revenue from rent, concessions, and/or parking or other benefits for citizens.

Recommending the Board use a competitive process is likely to meet with opposition. STA's operation of Starlight is a long-standing tradition. In fact, the Starlight Theatre Association formed at the same time the city built the theatre, with the expressed purpose of operating Starlight Theatre. STA has developed an extensive organization, with a board of many of Kansas City's business and community leaders. However, goals for public procurement include fostering competition.

Using a competitive process is one way Kansas City government can obtain the best service at the best price for its citizens.

City Provides STA Exclusive Use of Theatre and Facilities for Nominal Rent

Starlight Theatre Association pays virtually no rent for exclusive use of Starlight Theatre and non-exclusive use of the Swope Interpretive Center. The book value of the Theatre is estimated at \$11.5 million by the city and \$18 million by STA. Planned improvements will increase that amount. The Parks Board should consider the fair market value of both facilities and the business value of the Theatre when evaluating competitive proposals.

STA pays nominal rent for city facilities. The Starlight Theatre Association paid \$1 at the execution of the concession agreement for exclusively operating Starlight. Starlight's value is substantial. The city's book value of Starlight was estimated at \$11.5 million in April 2005.

STA also pays \$1 per year for the Swope Interpretive Center, a separate building in Swope Park that STA non-exclusively uses as an administrative headquarters and ticketing operation. The book value of the building is zero, as it is considered fully depreciated. The appraised value of the interpretive center is currently unknown.

Appraisals are needed. City Development's procedures include appraising city property when considering nominal rent lease renewals. In our follow-up audit, *Real Estate Lease Agreements*,³ we recommended that the City Council be informed of the estimated fair market value of real estate leases and that all leased properties be appraised periodically. We also said that properties that are most likely to be of interest to more than one entity should always be initially awarded by competitive bid. Nominal-rent leases to existing tenants should be subjected to a competitive bid process periodically. The Parks Director should obtain an independent appraisal of Starlight Theatre just before a competitive process to award the Starlight concession agreement begins in 2010.

STA's agreement for use of the Swope Interpretive Center expires in 2007. We recommend the Parks Director obtain an independent appraisal of the center, and provide the information to the Parks Board when they consider renewal of the lease agreement.

³ *Follow-up Audit: Real Estate Lease Agreements*, Office of the City Auditor, Kansas City, Missouri, April 1997, p. 8.

Business value of the theatre should also be determined. Parks management should also determine the business value of Starlight Theatre. Business value focuses on operating factors such as sales and profits, capitalized value, expected return on investment, and the value of established goodwill.⁴ This information will help the Parks Board evaluate competitive proposals to operate Starlight Theatre.

City Subsidizes STA with Operational Maintenance and Capital Funding

The Parks and Recreation Department provides some operational maintenance services at Starlight Theatre. In addition, over the past five years, the city has contributed almost \$3 million to the theatre's capital improvements. The city is subsidizing Starlight Theatre operations, while not receiving any operational revenue.

Parks and Recreation provides operational maintenance to Starlight. Parks and Recreation removes trash at the theatre, cleans two ornamental fountains on theatre grounds, and mows around the perimeter of the theatre weekly during Starlight's season while only mowing the rest of Swope Park bi-weekly. According to Parks staff, these efforts cost \$13,580 annually. Parks staff said that these costs used to be higher before STA took over some of the ground maintenance efforts.

Capital improvement contributions for Starlight are slightly lower than capital spending for community centers. STA received almost \$3 million in capital improvement payments from the city during the last five years. During the same period, Parks staff report spending \$3.1 million on capital for its 10 community centers. (See Exhibit 1.)

Exhibit 1. Capital Improvement Payments

Fiscal Year	Starlight	Community Centers
2001	\$ 1,185,930 ⁵	\$ 712,502
2002	0	256,380
2003	594,000	867,851
2004	600,000	657,425
2005	594,000	610,133
Total	\$2,973,930	\$3,104,291

Sources: AFN and PeopleSoft.

The fact that the city is spending almost as much for Starlight Theatre that it is spending on 10 community centers combined suggests that the

⁴ Determining the Value of a Business. Downloaded 7/25/05 from www.zeromillion.com/business/buying/business-valuation.html.

⁵ Does not include \$600,000 identified as a Starlight Theatre grant.

city has placed a higher priority on Starlight than on the neighborhood community centers. The ten community centers are open 5-7 days per week year round while Starlight has about 46 public event days per year at its one facility.

Parks Receives No Revenues from Starlight Operations

A component of the City Manager's concession policy is that concession agreements should maximize revenues to the city. The city currently receives no revenue from the concession agreement with the Starlight Theatre Association. Parks might be able to negotiate that a portion of revenue be returned for other expenses.

STA derives revenue from ticket sales, concessions, parking charges, productions, and sponsorships. The city receives none of these revenues, although the contract requires STA to set aside 5¢ per refreshment, beverage and food item sold for future capital improvements. Exhibit 2 shows STA revenues by category.

Exhibit 2. Starlight Theatre Association Revenues, 2003 and 2004

Revenue Description	9/30/2003	9/30/2004
Ticket Sales	\$5,570,241	\$5,659,968
Parking and concessions	907,227	928,709
Productions	212,213	367,023
Sponsorships	284,960	300,939
Other (includes EPIC revenues)	1,591,951	1,492,860
Total Revenues	\$8,566,592	\$8,749,499

Source: Starlight Theatre Association Accountants' Report and Consolidated Financial Statements, September 30, 2003 and September 30, 2004.

Theater League agreement provides city revenues. In comparison to STA's exclusive use of Starlight Theatre, the Theater League has non-exclusive use of city facilities. It shares city entertainment facilities with other tenants and pays for facilities usage by performance. The city receives revenues from charges including facility rental, catering, concessions, user fees, box office charges, and utility charges for Broadway shows staged by the Theater League in the Music Hall. The League also recently committed funds to assist the city in renovating the Music Hall.

The city currently receives \$1,400 per day for a single performance and \$1,800 on days with two performances for using the Music Hall. The city also receives all concession revenues for food and beverages sold, and 60 percent of souvenir and novelty concessions.

Exhibit 3 identifies the revenues the city received from the Theater League at the Music Hall during the last three years.

Exhibit 3. City Revenues from Theater League Productions

Fiscal Year	Show	City Revenues
2003	Beauty and the Beast	\$ 22,496
	Rent	15,180
	Cats	28,671
	Saturday Night Fever	24,270
	Momma Mia	84,947
	Miss Saigon	29,062
	Spiderman	18,253
2004	Full Monty	26,875
	Dora the Explorer	20,315
	Kiss Me Kate	20,862
	Urinetown	23,572
	Stomp	30,928
	The Producers	64,030
2005	Rent	10,363
	Jesus Christ Superstar	28,142
	Contact	20,908
	Momma Mia	46,816
	Hairspray	46,659
	Aida	26,363
Total		\$588,712

Source: Convention and Entertainment Department staff.

It is important to note that the city is responsible for maintaining the Music Hall. Convention and Entertainment Centers (CEC) staff report it costs \$365,000 annually for utilities, labor, and supplies to maintain the facility. For a Broadway musical, 5 day show, CEC staff estimate maintenance costs at \$11,400. Finally, the Theatre League contract provides them with office space in the Municipal Auditorium Building. CEC staff estimate it costs \$32,000 annually to maintain these offices. The Starlight Theatre Association provides cleaning and maintenance of Starlight Theatre in accordance with the contract. According to STA staff, they spend \$600,000 annually. This figure includes 6 to 7 full-time staff, utilities, maintenance supplies, etc.

The Theater League committed funds for Music Hall renovations.

The Theater League has committed to partnering with the city on the upcoming renovations of the Music Hall. According to CEC staff, the Theater League has pledged to contribute 25 percent or \$2.5 million to the renovation project.

Starlight Theatre Association has exclusive use of the parking lots.

On performance nights, the association has exclusive use of three

parking lots and non-exclusive use of Park roads located within the quadrant of Swope Park. The concession agreement authorizes the Association to impose a \$3 parking fee for Broadway shows and \$5 for other events. The city does not receive any of these revenues.

Similar Venue Provides Opportunity for Comparisons of Costs and Benefits

The St. Louis Muny Opera (Muny) is also a municipally owned outdoor theatre that stages Broadway musicals. The Muny is run by the Municipal Theatre Association of St. Louis, a non-profit similar to the Starlight Theatre Association. Both organizations have operated the theatres for their cities virtually since the theatres were built. Both the Municipal Theatre Association and the Starlight Theatre Association are subsidized by their city and pay their President over \$250,000. Starlight’s concession agreement and the Muny’s contract with the City of St. Louis were not competitively negotiated. Exhibit 4 compares Starlight and Muny operations.

Exhibit 4. Comparison of Starlight Theatre to St. Louis’ Muny Opera

Description	Starlight Theatre	The Muny Opera
Owner	City of Kansas City, MO	City of St. Louis, MO
Operator	Starlight Theatre Association	Municipal Theatre Association
Inaugural Season	1951	1919
# of Seats	8,105	9,000
# of Free Seats	364/night	1,500/night
# of Plays (2003-05)	5, 5, 5	6, 7, 7
President Salary (2003/2004)	\$312,964/\$252,684	\$265,000/\$275,208
Total Revenue (2004)	\$14,892,064	\$11,861,987
Total Expenses (2004)	\$8,238,599	\$11,262,999
Excess/(Deficit) (2004)	\$6,653,465	\$598,988
Rent for Facilities	\$1 at execution of agreement	\$1/annually
Rent for Parking facilities	\$0	\$25,000 annually ⁶
Parking Charge	\$3-5	Free
Ticket Prices	\$9 to \$75	\$8 to \$58
Performance Reporting	None	Annual report due March 31
Revenue	STA keeps most revenue from ticket and concession sales. ⁷	Muny keeps all revenue from ticket and concession sales.
Contract Term	2001 – 2005	1996 – 2031

Sources: Starlight Theatre Association and Municipal Theatre Association 990’s years ending 9/30/03 and 9/30/04; Starlight Theatre concession agreement; Municipal Theatre Association of St. Louis lease agreement.

⁶ Parking facility rental payments increase by \$5,000 annually every sixth year of the lease. The rate reported above is through 2005.

⁷ STA sets aside 5¢ per refreshment, beverage, and food item for capital.

There are some benefits that the city of St. Louis and Muny patrons receive from the Municipal Theatre Association's agreement to operate the Muny that Kansas City does not receive from the STA's agreement to operate Starlight.

The Municipal Theatre Association produced seven shows in each of the last two years while STA produced five. In addition to providing more Broadway shows, the Muny provides more free seats per performance night than Starlight. The Muny has about 1,500 free seats per night located in the last nine rows of the theatre. The seats are offered on a first come, first serve basis. Anyone wanting to attend the Muny for free is able to do so. Starlight has 364, located near the back of the theatre. Starlight distributes its 364 free tickets to non-profit organizations who apply based on set criteria for the tickets in advance.

Muny ticket prices are lower than Starlight ticket prices. Patrons at the Muny also enjoy free parking while Starlight patrons pay \$3-5. The City of St. Louis is paid \$25,000 annually for use of their parking lots by the Municipal Theatre Association. STA has exclusive use of parking lots on show nights, but pays no revenue to the city for this use.

The Municipal Theatre Association has also committed, as part of the agreement, to complete specific capital projects by 2011. For example, they have agreed to restore or replace the concrete auditorium surface, replace seats, increase seating capacity for the disabled, and restore the East and West pergolas. STA's agreement does not require any capital improvements although STA has completed some in recent years using public and private dollars.

Citizens Should Benefit from Their Asset

The public may not be receiving all of the benefits it could from the concession agreement with the Starlight Theatre Association. The public costs and benefits of Starlight Theatre must be determined on a regular basis to ensure citizens get the best value for their tax dollars.

A competitive process would allow the Board of Parks and Recreation Commissioners to choose among interested agencies based on who can benefit citizens the most. Competition also helps avoid the impression that a contractor obtained a contract solely by virtue of political relationships. Parks management should identify areas of the contract that they want to revise at the next renewal or new contract opportunity. For example, revenues could be renegotiated so that the city receives a portion of concession proceeds. Capital improvements could also be required.

Starlight Provides Opportunities for the Community to Experience Performing Arts

Benefits of the city’s agreement with STA include musical productions and concerts for the public, fund raising efforts for theatre capital improvements, and economic and educational opportunities.

Starlight Theatre Association provides Broadway musicals and concerts in Starlight Theatre. For the past 13 years, the Theatre Association has produced 4 to 5 Broadway shows and staged between 7 to 22 concerts annually. See Exhibit 5 for the Broadway shows presented at Starlight the last three seasons.

Exhibit 5. Starlight Broadway Musicals, 2003 – 2005

2003	2004	2005
Will Rogers Follies	Cats	Disney’s On the Record
Disney’s Beauty & the Beast	Annie	Footloose
Thoroughly Modern Millie	The King & I	Jesus Christ Superstar
Starlight Express	Camelot	Singin’ In the Rain
The Sound of Music	Chicago	Hello, Dolly!

Source: Starlight Theatre Association.

Exhibit 6 identifies the number of event days for concerts and shows at Starlight, since 1993.

Exhibit 6. Starlight Event Days, 1993 – 2005

Period	Broadway		Total Event Days ⁸
	Shows	Concerts	
1993	34	7	41
1994	28	10	38
1995	28	6	34
1996	28	12	40
1997	28	19	47
1998	28	14	42
1999	28	9	37
2000	38	10	48
2001	39	23	62
2002	33	23	56
2003	31	39	70
2004	32	10	42
2005	34	9	43

Source: Starlight Theatre Association.

⁸ Event days include each day of a production or concert. These figures do not include rehearsal days.

STA has improved the facility. During the last five years, STA has been pledged about \$11.3 million from private donors for Starlight Theatre improvements. STA's 2004 tax returns include about \$18 million in assets for land, buildings, and equipment. According to STA staff, this number represents the cumulative impact of all STA completed capital improvements and equipment purchases. Capital projects STA recently completed include the new stage house, restrooms, and concession stands. STA is preparing for another phase of improvements, which includes a renovated rehearsal space and dressing rooms.

The concession agreement does not require STA to raise funds or to complete any capital projects and all fixed improvements to the concession facilities and theatre become city property. However, because STA enjoyed exclusive use of Starlight Theatre since it was built, these improvements may reflect STA's expectation they will always operate it. Because the city receives nothing from Starlight operations, STA also receives all revenue increases.

STA provides complimentary tickets to qualifying non-profit organizations. Non-profit agencies can apply annually for free tickets to Starlight's Broadway shows from the STA. As part of their contract with the Board of Parks and Recreation Commissioners, STA is required to provide 364 free tickets per performance. The contract requires that the Parks Board agree to the method of free ticket distribution. STA's policy is to provide free theatre tickets to non-profit agencies in the bi-state area in order to provide professional theatre to groups who would otherwise be unable to attend Starlight due to economic, medical, or other restrictive causes. Agencies that have received tickets include KCKS Housing Authority, Comprehensive Mental Health Services, and Center for Developmentally Disabled.

Starlight management reports benefits to local economy, theatre community, and children. Starlight management reports the city's economy benefits from the economic impact of STA's 40 year-round employees and 600 seasonal employees. Production tours that start in Kansas City require additional rehearsal time here, which means more economic impact to the city.

Starlight management reports that locally produced touring productions are good for Kansas City's theatrical industry because it gives Kansas City national industry recognition and gives local performers exposure in other cities. Performances at Starlight attract patrons from outside the city. Management states that 20-24 percent of the Starlight audience is from outside of Kansas City, Missouri, and it has had visitors from all 50 states.

STA management also reports benefits to children through opportunity and education. Children from the community perform in Starlight productions. STA also has a program called the Blue Star Awards where high school students chosen from the metropolitan area receive awards for performances in school productions. STA holds an awards ceremony and recipients give acceptance speeches similar to the Tony Awards.

Some city officials and city management receive complimentary tickets to all Starlight shows and concerts. The Mayor, City Council members, Parks Board Commissioners, the City Manager, Parks Director, and some members of Parks and Recreation management receive 2 to 4 complimentary tickets for each Starlight show or concert. Depending on their location, season tickets for Starlight shows range from \$235 to \$285 per seat. The city's Code of Ordinances requires staff report gifts of \$200 or more to the City Auditor within 30 days.⁹ No one has reported receiving these tickets, although the Mayor, Council, Parks Board, and some city management staff are exempt from this requirement.¹⁰ Starlight Theatre Association Board members do not receive complimentary tickets.

Concession Agreements Need Additional Oversight

The Parks and Recreation Department does not actively enforce Starlight concession agreement provisions, threatening collection of city taxes and recovery of electricity costs connected with Starlight activities. The Parks Board is not required to follow the city's concession policies, but should develop their own policy to guide Parks staff in future concession contract negotiations.

Starlight Agreement Provisions Have Not Been Monitored

Parks Department management has not ensured that Starlight and its concessionaires have paid earnings taxes and obtained business licenses. The Starlight Theatre Association agreement states that no agreement will be approved unless the Association and its concessionaires are current with earnings tax payments to the city or unless satisfactory arrangements have been made for payment with the city's commissioner

⁹ Code of Ordinances, Kansas City, Missouri, Sec. 2-1017.

¹⁰ The Mayor, City Council, City Manager, and Parks and Recreation Director are excluded from this reporting requirement. Instead, they must file annual disclosure statements with the City Clerk and Missouri Ethics Commission in accordance with the Code of Ordinances, Kansas City, Missouri, Sec. 2-1020 and Chapter 105 of the Revised Statutes of Missouri. However, state statutes specifically exclude admission tickets from the gift reporting requirement.

of revenue. The agreement also states that STA and its concessionaires must obtain all city licenses and permits as required by the city. City ordinance requires businesses, corporations, companies, and associations doing business in Kansas City, Missouri, to acquire a business license.¹¹

Parks and Recreation Department management stated that they operate under the assumption that Starlight would not be able to acquire their business license unless they were current with the payment of their earnings tax. Therefore, they have not checked the status of Starlight's earnings tax payments. Parks management does not monitor whether Starlight concessionaires pay earnings taxes. They also do not monitor whether Starlight or its concessionaires obtained their business licenses.

According to the city's Revenue Division management, organizations do not have to be current on earnings taxes prior to issuance of a business license. Therefore, there is no assurance that Starlight Theatre Association or its concessionaires are current with earnings taxes, based on whether they have a business license. Starlight Theatre Association management stated that it does not have any procedures in place to check concessionaire's business licenses, earnings tax, or profits taxes.

The Director of the Parks and Recreation Department should include in the next concession agreement to operate Starlight that the operator informs service providers, concessionaires, and entertainers of the taxes and filing requirements and should check to ascertain whether the businesses and entertainers have a business license. All contracts should include obtaining a tax clearance. Parks management should also consider requiring that the contracts withhold a percentage of payments to entertainers to be applied to estimated wage or profit taxes.

Parks renewed Starlight agreement without awareness of reimbursement provision. The concession agreement states that the city will pay the cost of all electricity used to light the Starlight Theatre parking lots. The Association is supposed to reimburse the city for the cost of all electricity used to light the parking lots during June, July, and August. After some research, Parks and Recreation and Starlight Theatre Association management determined that the Kansas City Zoo was paying for parking lot lighting and billing STA. STA has been reimbursing the Zoo about \$3,100 annually.

At the time we asked for documentation to confirm that they follow this provision, both the Starlight Association and the Parks and Recreation Department management were unaware of this contract requirement. The

¹¹ Code of Ordinances, Sec. 40-61.

Parks Board had just renewed the concession agreement earlier in the week of our request, so the department should have been well versed on contract provisions and revised any they saw as unnecessary before contract renewal.

Contract monitoring needs improvement. Parks and Recreation management needs to improve its monitoring of the Starlight concession agreement. Management needs to be aware of all contract provisions and monitor them to ensure that the service is provided as intended, and provisions are revised and updated before a new or renewed contract is approved.

The current agreement does not require performance reporting. An effective monitoring system could include contractor reports, inspections, complaint tracking, and user satisfaction surveys.¹² The contract should require clear and specific performance standards that Parks management tracks. For example, contract provisions Parks management should monitor include distribution of free seats, perimeter fund accounting, meeting affirmative action and MBE/WBE requirements, and adequate maintenance of the theatre.

Management should review reports submitted by the contractor carefully, verify information where appropriate, and compare with the written contract. The Parks and Recreation Department should take action if contract terms are not fulfilled. The key to effective contract administration is to identify and address all problems before they become unmanageable.¹³

Parks and Recreation Commissioners Should Adopt a Concession Policy

The charter grants broad powers to the Parks Board to lease any land, building or part of any park and the Board may grant concessions in city parks. The City Manager established the city's Contract Guidebook for the standardization of contracts within his authority. Only those city departments that are required to adhere to the City Manager's direction must follow the Guidebook. Because the Parks Board is outside of the City Manager's authority, it is not subject to the Contract Guidebook requirements and the City Manager's concession policy. The Parks and Recreation Board's Philosophy and Policies does not include a concession policy.

¹² *Special Report: A Model for Public Private Competition*, Office of the City Auditor, Kansas City, Missouri, August 1996, p. 13.

¹³ Donald F. Harney, *Service Contracting, A Local Government Guide*. (Washington, D.C.: ICMA, 1992), p. 150.

Establishment of a concession policy will help the Parks and Recreation Department focus future contracting efforts on achieving Board directed goals. For example, the City Manager's concession contract policy focuses on providing high service levels, maximizing revenues, permitting flexibility for the city, and enabling periodic physical changes to the concession space. If the Parks Board chooses to adopt the methods proposed in the Contract Guidebook, it may do so.

The Parks Commissioners, as stewards of Kansas City Parks and Recreation assets, have a fiduciary responsibility to act in citizens' best interests. A concession policy could focus the Parks and Recreation Department on getting the highest level of services at the best price. We recommend the Parks Board adopt a concession policy to guide department staff when developing future concession agreements.

Recommendations

1. The Director of Parks and Recreation should develop a competitive process to award the Starlight concession contract for adoption by the Board of Parks and Recreation Commissioners.
2. The Director of Parks and Recreation should develop a concession policy for adoption by the Board of Parks and Recreation Commissioners.
3. The Director of Parks and Recreation should determine the market value of the Swope Interpretive Center and the market and business value of Starlight Theatre prior to the competitive contracting process and communicate this information to the Parks Board.
4. The Director of Parks and Recreation should ensure that Starlight Theatre's operator, its service providers, concessionaires, and entertainers have business licenses and provide a tax clearance. The Director should consider requiring that the contracts provide for a percentage of the payment to be applied to estimated wage or profit taxes.
5. The Director of Parks and Recreation should establish a monitoring system to ensure contract provisions are enforced.

Starlight Theatre Concession Agreement

Appendix A

Starlight Theatre Association Board of Directors

Starlight Theatre Association Board of Directors as of June 2004

Person/Position Description	Company
Peggy J. Dunn, Chairperson	
John A. Wilgers, Treasurer	Ernst & Young, LLP
Joseph T. Fahey, Vice Chair Theatre Plant	J. M. Fahey Construction Co.
John Goodman, Vice Chair Strategic Planning	
Robert M. Rohlf, President & Executive Producer	Starlight Theatre
Steve Doyal, Vice Chair Public Affairs	Hallmark Cards, Inc.
Gregory A. Reid, Vice Chair Marketing	Yellow Roadway Corporation
Frank J. Ross, Jr., Secretary	Polsinelli, Shalton & Welte
Michael L. Carter	Carter Broadcast Group, Inc.
Raymond L. Dowell	
Warren K. Erdman	Kansas City Southern
Sherry Forsee	
Kirk Gastinger	Gastinger Walker Harden Architects
Adele Hall	
Lloyd Hill	Applebee's International, Inc.
Gayle P. Holliday	G&H Consulting, LLC
Joan Horan	DST Systems, Inc.
August L. Huber, III	A.L. Huber Construction, Inc.
Howard T. Jacobson	Paragon Capital Mgmt., LLC
Jeffrey J. Jernigan	Union Bank
Shane Jones	The Astra Group
John W. Kennedy	Blue Cross Blue Shield
Diana S. Kline	
Siobhan McLaughlin Lesley	Walz Tetrick Advertising
Catherine A. Lewis	KPMG LLP
David R. Morris	ZuPreem
Alan L. Salts	Lockton Companies
Robert A. True	Fleishman- Hillard, Inc.
Ex-Officio - Past Chairmen - Voting Members	
Charles W. Battey	Sprint
Robert A. Bernstein	Bernstein Rein Advertising
Dianne Cleaver	KCMO School District
James D. Dawson	John Knox Village
Shirley Bush Helzberg	
Robert A. Kipp	Hallmark Cards, Inc.
Michael F. Morrissey	
Marty D. Nichols	
Jack W. Steadman	Kansas City Chiefs/Hunt Midwest
Ex-Officio - City Officials - Non-Voting	
Wayne Cauthen	City Manager, Kansas City, Missouri
Board of Parks and Recreation Commissioners	Kansas City, Missouri
Kay Barnes	Mayor, Kansas City, Missouri
Carol Marinovich	Mayor, Unified Gov. of Wyandotte County/KCKS
Mark McHenry	Kansas City, Missouri, Parks and Recreation
Ex- Officio Members - Civic Organizations – Non Voting	
Cindy Cash	Kansas City, Kansas, Chamber of Commerce
Peter Levi	Greater Kansas City Chamber of Commerce

Starlight Theatre Concession Agreement

Appendix B

Starlight Theatre Association Financial Information and Analysis

Starlight Theatre Association Consolidated Statements of Financial Position, 2002 – 2004

Description	2002	2003	2004
Current assets:			
Cash/cash equivalents	\$1,427,653	\$1,940,312	\$6,589,352
Investment – government security	139,935		
Accounts receivable	593,813	61,350	196,612
Prepaid expenses and other	172,239	46,691	34,321
Pledges receivable	21,000	76,750	1,888,158
Total current assets	\$2,354,640	\$2,125,103	\$8,708,443
Noncurrent assets:			
Investments – other	\$22,500	\$24,900	\$38,300
Pledges receivable	20,000	55,000	737,143
Plant and equipment (net of depreciation)	11,674,122	11,183,326	10,359,821
Total noncurrent assets	\$11,716,622	\$11,263,226	\$11,135,264
Total assets	\$14,071,262	\$13,388,329	\$19,843,707
Current liabilities:			
Accounts payable and other	\$362,342	\$255,916	\$128,804
Accrued expenses	446,353	207,331	311,274
Deferred revenue	86,002	88,864	30,904
Total current liabilities	\$894,697	\$552,111	\$470,982
Net assets:			
Unrestricted	\$13,139,745	\$12,190,353	\$11,672,450
Temporarily restricted	36,820	645,865	7,570,275
Permanently restricted			130,000
Total net assets	\$13,176,565	\$12,836,218	\$19,372,725
Total liabilities and net assets	\$14,071,262	\$13,388,329	\$19,843,707

Sources: Starlight Theatre Association Annual Audits for 2003 and 2004.

Starlight Theatre Association Consolidated Statement of Activities, 2002 - 2004

Description	2002	2003	2004
Revenues and Other Support			
Contributions:			
General	\$104,364	\$753,656	\$105,881
Capital campaign		112,750	7,104,817
Contributed services	1,716,440	1,582,077	782,299
Annual gala	523,350	346,444	372,300
Educational programs	14,000	60,498	45,199
Total contributions	\$2,358,154	\$2,855,425	\$8,410,496
Revenues from operations:			
Ticket sales	\$6,547,245	\$5,570,241	\$5,659,968
Parking and concessions	1,058,590	907,227	928,709
Production revenue	888,361	212,213	367,023
Sponsorships	258,000	284,960	300,939
Outside events ¹⁴	1,537,793	1,511,432	1,470,360
Interest and intercompany income	\$47,242	80,519	22,500
Total revenue from operations	\$10,337,231	\$8,566,592	\$8,749,499
Total contributions and revenue from operations	\$12,695,385	\$11,422,017	\$17,159,995
Expenses:			
Operations, including administration	\$5,455,602	\$4,484,824	\$4,547,367
Tickets and marketing	1,309,007	1,488,288	1,567,491
Production	3,487,185	3,165,792	2,673,410
Annual gala		102,825	107,913
Contributed services	\$1,716,440	1,582,077	782,299
Total expenses	\$11,968,234	\$10,823,806	\$9,678,480
Change in net assets before depreciation	\$727,151	\$598,211	\$7,481,515
Depreciation expense	\$875,731	\$938,558	\$945,008
Change in net assets	(\$148,580)	(\$340,347)	\$6,536,507
Net assets, beginning of year	\$13,325,145	\$13,176,565	\$12,836,218
Net assets, end of year	\$13,176,565	\$12,836,218	\$19,372,725

Sources: Starlight Theatre Association Annual Audits for 2003 and 2004.

¹⁴ Starlight Theatre Association established a wholly-owned subsidiary, EPIC Entertainment Inc. on October 1, 2002. According to Starlight staff, these revenue are derived from providing entertainment at venues away from Starlight Theatre in their off-season.

Financial Analysis for Liquidity, Performance, and Long Term Stability

As part of our *Review of Audits of Outside Agencies*,¹⁵ we complete a financial analysis of agencies that receive more than \$1 million in city funding. We completed a similar analysis for the Starlight Theatre Association, because they receive city subsidies and also operate in Starlight Theatre, a sizeable city asset. Our financial analysis measured five financial ratios measuring liquidity, performance, and long term stability:

Liquidity Indicators

- **Current Ratio** $\frac{\text{Current assets}}{\text{Current liabilities}}$
- **Days of Cash on Hand** $\frac{\text{Cash + marketable securities}}{(\text{Operating expenses} - \text{bad debt expense} - \text{depreciation}) / 365}$

Performance Indicators

- **Change in Unrestricted Net Assets** Contributed amounts earned and retained over time after liabilities are subtracted from assets.
- **Operating Margin** $\frac{\text{Change in unrestricted net assets}}{\text{Total unrestricted revenues and other support}}$

Long Term Stability

- **Debt to net assets** $\frac{\text{Total debt (total liabilities)}}{\text{Total Net assets}}$

Criteria for assessing Starlight Theatre Association's financial condition

In the outside agencies audit, we established evaluation criteria to determine whether an agency's financial condition was positive, mixed, or needed to be watched. Our criteria for a positive financial condition are:

- a current ratio above one;
- more than 30 days of cash on hand;
- an increase in unrestricted net assets;
- a positive operating margin; and,
- a debt to net assets ratio below 50 percent.

If ratios for all three indicators (liquidity, performance, and long-term stability) met our criteria, we considered the agency's financial position to be positive. If criteria for one of the indicators was not met, we considered the agency's financial position to be mixed. If two indicators were not met, the agency should be watched.

Using annual audits, we calculated the ratios for 1998 through 2004. The results are shown on the next page. Overall, the financial condition for the Starlight Theatre Association is positive.

¹⁵ *Review of Audits of Outside Agencies*, Office of the City Auditor, Kansas City, Missouri, February 2005.

Starlight Theatre Concession Agreement

Starlight Theatre Association Financial Ratio Results

Ratio	1998	1999	2000	2001	2002	2003	2004	Conclusion
Liquidity Ratios								
Current ratio	15.1	17.1	2.2	2.0	2.6	3.8	18.5	Positive
Days of cash on hand	164.3	191.7	39.8	93.5	47.8	65.4	248.5	Positive
Performance Indicators								
Change in unrestricted net assets	\$113,981	\$895,970	\$9,084,938	(\$237,908)	(\$148,580)	(\$340,347)	\$6,536,507	Positive ¹
Operating margin	2.1%	14.0%	46.9%	(2.1%)	(1.2%)	(3.0%)	38.1%	Positive ¹
Long Term Stability								
Debt (liabilities) to net assets	.0427	.042	.0752	.01134	.0679	.043	.0243	Positive

¹ Positive in 4 out of 7 years.

Source: Starlight Theatre Association Annual Audits, 1998 – 2004.

Average ticket revenues per performance, 2001 through 2004

	2001	2002	2003	2004
Total Broadway ticket sales	\$5,347,564	\$5,331,881	\$4,764,455	\$5,223,001
Number of performances	39	33	31	32
Average ticket sale revenue per performance	\$137,117	\$161,572	\$153,692	\$163,219

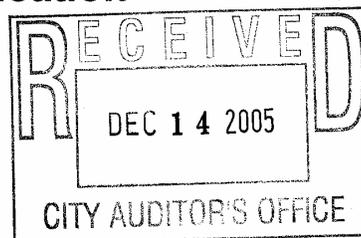
Source: Starlight Theatre Association Annual Audits, 2001 – 2004; Starlight Theatre Association records.

Appendix C

Director of Parks and Recreation's Response



Inter-Departmental Communication



Date: December 13, 2005
 To: Mark Funkhouser, City Auditor
 FROM: Mark L. McHenry, Director, Parks and Recreation
 SUBJECT: Departmental Response to the Starlight Theatre Second Revised Draft Report

This memorandum is in response to the Second Revised Draft Report that you provided to Parks and Recreation on December 1, 2005 related to the agreement presently in place between Parks and Recreation and the Starlight Theatre Association. After months of cooperating with your office and team, the Parks & Recreation Department is pleased that your audit showed nothing improper regarding the Concession and Use Agreement with the Starlight Theatre Association and nothing improper about the operations or records of the Starlight Theatre. An uninformed reading of your Second Revised Draft Report, however, might allow a reader to draw a very different conclusion. In hopes of helping to avoid such confusion, allow us to offer some corrections and pertinent facts and information.

The City does not provide any operational subsidy to the Starlight Theatre Association

The Starlight Theatre Association does not receive nor use any city funding in its own operation and/or programming of the Starlight Theatre complex. A review of the report of the Starlight Theatre Association's independent auditors clearly shows that subsidy from the City for operations is not received, and that Starlight Theatre supports its operations using only revenue earned from its operations, making it one of the most stable and successful not-for-profit performing arts organizations in the United States.

See Comment No. 1, Page 47.

The benefits to the citizens of the agreement with Starlight Theatre is extraordinary

The benefits to the citizens of our community, on both sides of the state line, from the Concession and Use Agreement with the Starlight Theatre Association is extraordinary. We have attached a list of the benefits as our **Attachment A**, which follows our audit response. We have also attached in **Attachment B** a list of the charitable organizations that have received complimentary reserved-seating tickets, with an unobstructed view of the stage, for performances at the Starlight Theatre. Complimentary tickets for performances at similar venues are often subject to impediments to the site line of the stage. For example, the seats in the free section of the Muny Theatre in St. Louis which are sited in the Draft Report are situated behind a chain-link fence. **Attachment C** contains letters expressing gratitude from organizations who have received complimentary tickets to the Starlight Theatre productions.

See Comment No. 2, Page 47.

The information in the report concerning "Nominal Rent" ignores The Starlight Theatre Association's significant capital investment in the complex

The Draft Report overlooks the actuality of the substantial investment in the Starlight Theatre complex by the Starlight Theatre Association, which is subsequently donated to the City. The report states that Starlight raised about \$11 million in capital improvements in the past five years. We don't consider \$11 million a nominal amount. The actual dollar amount of improvements

See Comment No. 3, Page 47.

from private funds was over \$19 million, for an average of \$3.8 million per year. Again, we don't consider that amount nominal. In fact, an examination of the past 25 year history of the Concession and Use Agreement with the Starlight Theatre Association will substantiate an average of \$1.2 million annually of improvements to the city-owned Starlight complex by the Starlight Theatre Association, significantly more than any other Concession and Use Agreement enjoyed by the city, and certainly not a nominal figure.

See Comment
No. 4, Page 47.

The information in Exhibit 1 of the Draft Report on the amount expended on Starlight is inaccurate.

Exhibit 1 on page ten of your audit states that we spent \$2,973,930 on capital over the past five fiscal years Starlight. In actuality, we spent \$2,379,930 on capital during this time period on the Starlight Theatre complex.

See Comment
No. 5, Page 48.

The statement in the audit report which reads "City Receives No Revenues from Starlight Operations" overlooks important facts

The comparisons to the agreement with the Theater League grossly miscalculate the benefits to the city of the Starlight agreement. The Draft Report gives figures stating that the city received about \$196,000 per year over a three year period from the Theater League agreement. The report states the costs to the City for the operation, maintenance and cleaning of the convention facilities used by the Theatre League, but only for one week's worth of use. The total annual cost for the facility usage by the Theatre League would be somewhere between \$100,400 and \$111,800 per year over the past three years, using the cost estimates given in the report. While the City does not receive cash from the Starlight Theatre Association, the Association assumes and pays for virtually all maintenance costs of the Starlight Theatre complex. This saves the city almost \$600,000 per year, per audited financial statements of the Starlight Theatre Association.

The audit included five recommendations to which we would like to respond.

1. *The Director of Parks and Recreation should develop a competitive process to award the Starlight concession contract for adoption by the Board of Parks and Recreation Commissioners.*

See Comment
No. 6, Page 48.

We disagree with this recommendation. The value of the fifty-five year relationship with the Starlight Theatre Association seems to have been lost or underappreciated in this audit. In addition, any arrangement with the Starlight Theatre Association that would reduce the confidence level of potential donors in the management of the theatre would have potentially devastating effects on fund-raising for the facility and on the professional management of this property. Inconsistency in management of a professional theatre could have a detrimental effect on its ability to solicit the high quality tours and productions that our citizens have come to expect in our theatre. The negotiations and booking arrangements are of necessity made years in advance. If a management group can only expect to be in the facility for five years, the ability to successfully negotiate for these national touring productions is made much more difficult, if not impossible.

2. *The Director of Parks and Recreation should develop a concession policy for adoption by the Board of Parks and Recreation Commissioners.*

We disagree with this recommendation. As a result of your audit recommendation, we have reviewed the Concession Contract Policy of the City of Kansas City. We

believe the department has traditionally met or exceeded the goals contained in the City Manager's policy. We have followed, and will continue to follow, the solicitation for bids process in private management situations where we believe it will provide the best benefit to our citizens.

See Comment
No. 7, Page 49.

Through the years the Parks and Recreation Department has established hundreds of partnerships through concession and use agreements that have benefited the citizens of Kansas City. These partnerships resulted in part from the Board's ability to maximize benefit to the City when dealing with a wide spectrum of very unique circumstances. Our need for successful partnerships will increase in the years ahead as resources continue to dwindle and creative solutions to providing services to our citizens become even more important.

3. *The Director of Parks and Recreation should determine the market value of the Swope Interpretive Center and the market and business value of Starlight Theatre prior to the competitive contracting process and communicate this information to the Park Board.*

We disagree with this recommendation. We believe the business value of the Starlight Theatre operation does not lie in the buildings, but in the professional management of the operation by the Starlight Theatre Association. As stated earlier, the Starlight Theatre Association donates an average of \$1.2 million in improvements to the Starlight complex annually to the City. To suggest we should then spend City dollars to pay for an appraisal of the capital improvements the Starlight Theatre Association has made to the complex and charge them rent on the enhanced City facility would have the effect of penalizing them for their success in garnering private donations to improve the complex for our citizens.

See Comment
No. 8, Page 50.

4. *The Director of Parks and Recreation should ensure that Starlight Theatre's operator, its service providers, concessionaires, and entertainers have business licenses and provide a tax clearance. The Director should consider requiring that the contracts provide for a percentage of the payment to be applied to estimated wage or profit taxes.*

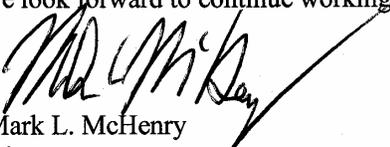
We agree in part with this recommendation. According to our research with the Revenue Division, providing the tax clearance letter will have the effect of ensuring all obligations to the City have been met. Future agreements will place the burden for obtaining the tax clearance letter on the Starlight Theatre Association.

See Comment
No. 9, Page 50.

5. *The Director of Parks and Recreation should establish a monitoring system to ensure contract provisions are enforced.*

We agree with this recommendation.

We appreciate the opportunity to respond to the Second Revised Draft Report on the Concession and Use Agreement with Starlight Theatre. We look forward to continue working with you to improve services to our citizens.



Mark L. McHenry
Director

Attachment A, Benefits of the Starlight Theatre Association Agreement

- 364 free tickets to each and every Broadway musical performance since their first season in 1951 has enabled literally millions of citizens served by eleemosynary organizations to enjoy the thrill of live performances, which they otherwise would have never had the opportunity to experience.
- Presenting nationally touring product (something impossible at The Muny in St. Louis), including megahits directly from Broadway, at prices as low as \$9 per ticket. There is not another theatre in the United States that offers these quality productions at this low price.
- Producing revivals of traditional American musical theatre, incorporating talented Kansas Citizens (both professional and non-professional) in each production, thereby giving these citizens the opportunity to showcase their talents alongside professionals from New York City and elsewhere. Many of these productions tour to other cities, thereby giving important extended employment opportunities to Kansas City area citizens.
- Concerts of virtually every music category, serving the broadest possible segments of the community, thereby offering “something for everyone” in a beautiful, safe and comfortable environment.
- The largest contemporary Christian music festival in the Midwest, collaborating with churches of every denomination and bringing over 15,000 young people together every year with a positive message that resonates throughout the community.
- A college internship program attracting students from colleges and universities from the area and nationally, giving them the opportunity to further their knowledge in their craft associated with musical theatre, including directing, choreography, music direction, lighting design, sound design, scenic design, costume design, stage management, production coordination, marketing, public relations, accounting, development and operations. This incredibly important program gives students the opportunity to work at an extremely high level within the industry, and prepares them well for their future in the performing arts or other selected fields of endeavor.
- The Starlight STARS program, a performance based program for high school students from the metropolitan area, gives young people the opportunity to work with seasoned professional directors, music directors and choreographers, attend master classes on voice, movement and acting, and learn from the very best in the industry.
- The Blue Star Awards program, which is Starlight’s version of the Tony Awards for high school musical theatre. Recognizing the outstanding work of high school students in metropolitan Kansas City and surrounding communities, the Blue Star Awards puts the spotlight on our young people, recognizing them for the outstanding accomplishments in theatre and is the only program in the community that accomplishes this feat.
- College scholarship programs, giving \$2,500 college scholarships to outstanding students of theatre, whether they are pursuing a theatre degree or some other degree of their choosing, thus further encouraging young people to seek higher educations and enhancing their chances for success in a competitive world.
- Collaborations with other not-for-profit organizations, including the Kansas City Symphony, Friends of Alvin Ailey, the Lyric Opera, and the Boys & Girls Clubs of Greater Kansas City, helping them to attract new audiences while supporting their efforts to improve their organizations.
- The Business Simulation program, a curriculum based program inserted into the curriculum of high school freshman classes of Introduction to Business. Incubated for four semesters at Liberty High School, this program is now being finalized for rollout to every high school in our community.

- Tickets as low as \$9 to each and every Broadway musical performance. Whether a nationally touring product direct from Broadway or a locally produced revival of traditional music theatre, Starlight's \$9 tickets enable every segment of the community to enjoy top quality performances.
- A commitment of the entire Starlight organization to create a beautiful, comfortable and safe environment at Starlight Theatre, as evidenced by the scores of millions of private dollars invested in the Starlight Theatre complex over the years, thereby also tremendously expanding the value of this city-owned asset.
- The economic contributions made to our community are substantial as measured by the Economic Development Corporation of Kansas City, Missouri, which calculated the fiscal impact of cumulative benefits to Kansas City of \$9,673,506; to Jackson County of \$1,319,423; and to the State of Missouri of \$18,361,145.

See Comment
No. 10, Page 50.

Attachment B, Charitable Organizations that have Received Complimentary Tickets

2005 Community Ticket Program Participants.

Group	Total Per Org
Alphapoint Association for the Blind	375
American Red Cross - Wyandotte County Chapter	250
Ark of Friends	48
Ashton Court Care & Rehab Ctr.	50
Andrew Drumm Institute	35
Bates Residential Care Facility	45
Benton Group Home	65
Big Brothers Big Sisters	210
Boys & Girls Clubs of Greater Kansas City	30
Butterfield Youth Services	70
Butterfly Haven	150
Camp Fire USA Heartland Council	150
Cedar Lake Village	165
Cedars of Liberty	50
Center for Developmentally Disabled	216
Chelsea Plaza Homes, Ltd.	200
Cola's Place	125
Community Access	225
Community LINC	150
Community Living Opportunities	240
Community of the Good Shepherd	40
Community Recreation & Resocialization, Inc.	165
Crittenton Ctr.- Carrier House	150
Crossroads Residential Facility	70
Don Bosco Senior Center	150
Esperanza House	20
Friendship House / Catherine's Place	100
Gregory Ridge Homeowners Association	125
Haniel's Home of Hope	100
Housing Authority of Independence	250
ICAN	176
Johnson County Board of Services	70
Johnson County Mental Health	30
Joliettes Senior Citizens	20
Kansas City Kansas Housing Authority	120
Kansas City Neighborhood Alliance	250
Kansas State School for the Blind	60
KC Urban Youth Center	140
KCMO Parks & Rec - Kansas City North Community Center	250

Attachment B, Charitable Organizations that have Received Complimentary Tickets

Lakeland Residential Facility	60
Leatherwood Matters	150
Little Sisters of the Poor	110
Mothers Refuge	48
New Horizons- MI Dept.	220
New Horizons- MRDD	225
Niles Home for Children	50
North Land Drop In Center	65
Northeast High School Alumni Association	30
Northwest Communities Development Corp.	125
Our Lady of Mercy Country Home	110
Ozanam	100
Pacific Intercultural Exchange	69
Palestine Senior Center	250
Pathways Community Behavioral Healthcare, Inc.	110
People First of Missouri - Region I	50
Phoenix Family Housing Corporation	330
Project Teach	250
Rainbow Mental Health Facility	80
Redemptorist Seniors Club	116
ReDiscover - Adult & Family Services	220
ReDiscover - Community Psychiatric Rehabilitation Services	190
ReDiscover - Substance Abuse Services	202
Rose Brooks Center, Inc.	90
Salvation Army - Bellefontaine Corps.	25
Salvation Army Arts & Music Program	80
Salvation Army Children's Shelter	48
Salvation Army Community Center	40
Shepherds Center Northeast	200
Special Neighbors, Inc.	226
Steppingstone	90
Strokes of Support	200
Sunshine Center	250
Swope Health Services	120
Swope Ridge Geriatric Center	36
TLC for Children & Families Inc.	170
Tracy Crisis Support Home	60
Truman Behavioral Health - Drop In Center	70
Turning Point - Comprehensive Mental Health Services	95
Univ. of KS -- Center for Economic Education	40
Univ. of KS -- Exchange Students	50
UMKC - Upward Bound Program	120
Visible Horizons	150
Whatever Community Center	65
Windemere Residential Care Facility	60
Wyandotte Center for Community Behavioral Healthcare	300
Youthbuild KCK	100

Attachment C, Letters from Organizations Who Have Received Complimentary Tickets



AUG 30 2005

Swope Ridge Geriatric Center

August 26, 2005

Starlight Theatre
Community Ticket Program
6601 Swope Parkway
Kansas City, Missouri 64132

Attention: Kelli Jackson
Director of Community Relations

Dear Ms. Jackson:

On behalf of the staff and residents of Swope Ridge Geriatric Center, I wanted to thank you for providing free tickets for our residents to three of your performances this summer. They truly enjoy the opportunity to come to Starlight Theatre.

One gentleman who attended was so excited because, as a long-time employee of the Kansas City Parks and Recreation department, he helped to build Starlight Theatre. He had never been able to attend a performance there and was so pleased to finally be able to go this summer.

Many of our residents would not be able to attend such events if it were not for your generosity. It means so much to them to be able to continue to attend and be a part of events in the community where they lived and worked most of their lives.

Also, thank you for accommodating our special seating request. We look forward to working with you next year.

Sincerely,


Rita Young,
Activity Coordinator



5900 Swope Parkway • Kansas City, Missouri 64130 • (816) 333-2700 • FAX (816) 333-3438

Attachment C, Letters from Organizations Who Have Received Complimentary Tickets



August 22, 2005

AUG 29 2005

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Debra Y. Johnson
Cathy Goodger

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Jane Fifield Flynn
Shelley Gebar
Carleane Hawkins
A. L. Huber III
Shanna Kimmis
Janice Z. Kinney

Ms. Kelly Jackson
Starlight Theatre Association of Kansas City
6601 Swope Parkway
Kansas City, MO 64132

Re: Friendship House/Catherine's Place

ADVISORY BOARD

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Judy Kosloff
Dana Letts
Albert Mauro
Karen McCarthy
Ann Nichols
James B. Nutter, Sr.
Kelly Perkins
James D. Rice
Dalyn Schmitt
Pauline Squillace
Lou Jane Temple

Dear Ms. Jackson:

I would like to thank your organization for the tickets to Starlight for the women and children at Friendship House/Catherine's Place. The women enjoyed the plays very much and are very appreciative of your wonderful gift.

We are hopeful that you will again consider our organization as one of your benefactors for the next Starlight season.

Yours very truly,

Carla S. Essay, M.C.
Adult Counselor

PRESIDENT/CEO

Molly O'Neill

P.O. Box 10025
Kansas City, Missouri 64171
816/531 7788
friends@friendshiphousekc.org
www.friendshiphousekc.org

Where strength is built and hope resides

Attachment C, Letters from Organizations Who Have Received Complimentary Tickets



Andrew Drumm Institute

Since 1929...building brighter futures

Rufus Little
EXECUTIVE DIRECTOR

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Richard A. King

Kennerth B. McClain

Dr. Michele McIntosh

Richard Rhodes

3210 Lee's Summit Rd.
Independence, MO
64055

Phone:
816.373.3434

Fax:
816.373.3939

Website:
www.drummyfarm.org

August 8, 2005

AUG 11 2005

*Kelli Jackson, Director Community Relations
Starlight Theatre
6601 Swope Parkway
Kansas City, MO 64132*

Dear Kelli:

On behalf of the board of trustees and the staff of Drumm Farm, we'd like to thank you for your generous donation for the children who live at Drumm Farm.

We acknowledge receipt of the following donated items:

15 Tickets "Singin' In The Rain"

19 Tickets "Hello, Dolly!"

DONOR STATED VALUE OF ITEMS DONATED \$ _____

Your kind contribution will help us to continue providing a happy and supportive environment for the children we serve. We are fortunate that there are caring, community minded people like you who make it possible for Drumm Farm to fulfill its mission of offering a long-term home for kids in need.

We deeply appreciate your faith and support.

Sincerely,

Rufus Little
Executive Director

Karen Flattery
Director of Development

For your records, no goods or services were received for this donation.

Attachment C, Letters from Organizations Who Have Received Complimentary Tickets

Research Mental Health is now

ReDiscover

Mental Health & Substance Abuse Services

August 22, 2005

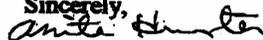
AUG 03 2005

Kelli J. Jackson
Starlight Theatre
6601 Swope Parkway
Kansas City, MO. 64132-1276

Kelli J. Jackson,

Thank you so very much for your incredible generosity towards our clients with your gift of Starlight tickets. You have brought many smiles to our client's faces and without your donation of tickets our clients would not have gotten to enjoy your shows. Again thank you and we appreciate your gift of tickets for our clients so much.

Sincerely,



Anita Hunter
Resource Development Office

HOME OFFICE • 901 NF Independence Avenue • Lee's Summit, MO 64086-5544 • (816) 246-8000

SUBSTANCE ABUSE SERVICES • 2940 Baltimore • Kansas City, MO 64108-3413

2980 Baltimore • Kansas City, MO 64108-3413

SOUTH OFFICE • 6801 East 117th Street • Kansas City, MO 64134-3701 • (816) 966-0909

INTAKE/CRISIS • (816) 966-0900

Attachment C, Letters from Organizations Who Have Received Complimentary Tickets

JUN 14 2005



STEPPING STONE

5100 Noland Road • Kansas City, MO 64133

(816) 336-0187 • FAX (816) 336-4172

June 14, 2005

Kelli J. Jackson
Director of Community Relations
Starlight Theater
6601 Swope Parkway
Kansas City, MO 64132-1276

Dear Ms. Jackson,

Thank you very much for your contribution of 18 tickets for each of your 5 summer plays. Our young clients and the staff that will accompany them will have a wonderful time I am sure. During the summer, when there is no school we are always looking for activities for our youth. Your gift offers the opportunity to experience the bounty that exists in Kansas City for cultural activities. For many of our kids this will be the first opportunity they will have to experience live theater. We are very grateful for the Community Ticket Program and the opportunity you are affording our Steppingstone youth.

Sincerely,

Michael Brennan
Executive Director

Duane Lewis
Steppingstone Director

A Program of Evangelical Children's Home

BOARD OF DIRECTORS

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Executive Director: Michael P. Brennan Executive Director Emeritus: Dr. Robert A. Baur

Certified by: The Council on Accreditation for Children and Family Services (COA)

Member of: Missouri Alliance for Children and Families, Council for Health and Human Service Ministries Related to the United Church of Christ,
Child Welfare League of America, Missouri Coalition of Children's Agencies

Appendix D

City Auditor's Comments Regarding the Parks and Recreation Director's Response

This appendix is the City Auditor's written comments on the Parks and Recreation Director's written response. The numbers listed for each comment refer to specific passages in the Parks and Recreation Director's response (Appendix C).

Comment 1

The Parks Department provided \$14,000 in annual maintenance costs and almost \$3 million in capital improvement funds during the last five years. We also believe that providing the theatre and parking lots for STA's exclusive use represents an additional operating subsidy to STA. The value of this subsidy is substantial but we were unable to quantify it because the appraised and business value of Starlight is currently unknown. When the Board of Parks and Recreation Commissioners considers whether providing that subsidy to an organization to operate Starlight Theatre is necessary, they should know its worth.

Comment 2

We acknowledge STA's benefits to Kansas City in the audit report on pages 14-16. We have also modified the draft to clarify the location of the free seats in the Muni. However, it is Kansas City government's responsibility to ensure Starlight provides benefits equal to or surpassing citizen's investment. One of the best ways for government to do that is to use competition in the marketplace to get the best value possible for citizens.

Comment 3

The \$11 million figure was based on a contribution summary prepared by Starlight staff and represents private capital donations, not city contributions or total capital improvements received during the last five years. We could not substantiate the \$19 million in donations reported by the Parks Director, but we note capital improvements of \$18 million, based on STA's 2004 tax return on page 8 of the report. Starlight staff identified this number as the cumulative impact of all capital improvements.

Comment 4

Our calculation of city disbursements to Starlight includes a \$594,000 contribution for capital improvements issued during fiscal year 2001, although it was authorized during fiscal year

2000. Because the city maintains its accounts on a cash basis wherein transactions are recognized when cash is received or disbursed, we used this basis to identify annual disbursements to Starlight. In other words, although authorized in fiscal year 2000, the money could not have been spent by Starlight until fiscal year 2001 when the check was issued.

Comment 5

The Parks Department's estimate that the city saves \$600,000 (the annual theatre maintenance costs reported by Starlight staff) from Starlight handling its own maintenance assumes the city would use the same number of staff and incur similar costs for salaries and benefits, and maintenance supplies. Parks staff also overlook the Theatre League's recent pledge of \$2.5 million for the planned renovation of the Music Hall described on page 11 of this report.

An important distinction between STA's and the Theatre League's relationship with the city and use of city facilities is that STA has exclusive use of Starlight Theatre and virtually free use of the Swope Interpretive Center. The Theatre League rents the music hall for specific production dates and as part of the contract, receives some office space in the convention center. The city is free to rent the music hall to other organizations during the period of the Theatre League agreement.

We are not suggesting that the city's agreement with the Theatre League is better than STA, but instead pointing out that there is more than one way to structure the use of city facilities in a manner that derives the greatest city benefit. Ultimately, a competitive process for use of Starlight Theatre would test a market which hasn't been tested in 50 years and provides a basis for assuring citizens they are getting the most for their tax dollar.

Comment 6

Pages 14-16 of our report notes the benefits derived from the city's longstanding relationship with STA. However, in the entire 50-year history of this relationship, it has never been determined whether the agreement as written reflects the best the city can obtain for Starlight Theatre from STA or anyone else. We believe this determination is long overdue.

Longstanding relationships between government and private agencies have both positives and negatives. The positives are

continuity in operations and an ability to plan long term. Negatives can include vendor complacency, relationships that unfairly benefit one organization over another, higher than necessary costs, and a complacent government attitude that trusts the agency and as a result does not monitor or verify that contractual obligations are met.

After 50 years of running Starlight Theatre, STA would be in an excellent position to bid for the opportunity to continue operating it. However, while prior relationships could be a factor when considering alternative proposals it should not be the sole criteria for the contractor selection. STA sought proposals for construction management services in 1999 for its main stage-house renovations. While one bidder noted in its proposal that they were the original builders of Starlight Theatre, STA instead selected another firm for the contract. The prior familiarity with Starlight Theatre may have been considered during the selection process but it apparently was not the sole criteria for the decision.

Rather than seeing the introduction of competition into the city's Starlight contract as a potential for reducing donor confidence, donors may find that this process better ensures their donations will be well spent. Competition is healthy for the marketplace and helps contain costs and improve service. STA itself uses competition to contract for capital improvements and concessionaires.

As for the five-year limitation, we understand an agreement that extends beyond 5 years may be possible under the current city charter. If that is the case, a way to lengthen lease or concession agreements could be explored. However, we are also aware that the city's agreement with Global Spectrum to manage Kemper Arena is only for 3 years with a 2 year extension option. After two years, staff report bookings are up and the facility is operating profitably.

Comment 7

A policy of "no policy" promotes staff dealmaking without the benefit of Parks Board direction. Policies may reduce flexibility but establish accountability, consistency, and equity in contract negotiations. Also, once established, the policy could be routinely reviewed and modified to reflect current conditions.

Creative partnership may splinter your organization away from its mission and goals. A policy should give Parks Department staff guidance and direction towards meeting the Board's mission. This does not limit Parks staff to doing only one type of concession agreement. If Parks staff traditionally meet or exceed the goals contained in the City Manager's policy, formalizing what department staff are already doing should reflect current practices already accomplished, while institutionalizing minimum acceptable standards. As resources dwindle, this becomes even more critical.

Comment 8

As stated on page 8 of our report, appraising city property is routinely performed by City Development's property and relocation services division when considering rent lease renewals. The contract with STA states that all theatre capital improvements become city property. Adequately caring for the city's assets requires knowing their current value, which can often have little relationship to what was spent. Determining the market value of the facilities and the business value of Starlight Theatre provides a basis for the Parks Board to compare proposals submitted to operate Starlight Theatre. The Parks Board and the Parks Department have a fiduciary responsibility to ensure the selected negotiated proposal represents the best value for the citizens. Knowing the value of these public-owned assets aids this effort.

Comment 9

Securing a tax clearance letter only works for those contractors with an on-going relationship with the city. Requiring contracts to include provisions for withholding a portion of payments increases the city's opportunity to receive any taxes owed by Starlight Theatre concert and theatrical entertainers and others that work at Starlight Theatre for a single concert or Broadway show.

Comment 10

Management's response overstates the economic benefits. It does not mention that these are total benefits over a 25-year period. Management does not report that EDC also calculated cumulative costs and net values of benefits (benefits – costs). The analysis then converts those dollars into equivalent values today (net present value). So over 25 years the net cumulative

benefits to Kansas City is \$2,765,467; to Jackson County \$593,816, and to the State of Missouri \$6,658,683 – about a third of what management reported. The EDC analysis also does not consider alternative uses of the facility and what benefits those alternatives would provide.