

**City of Minneapolis
FY 2004
Financial Plan**

Convention Center Special Revenue Fund

Background

The Convention Center Special Revenue Fund accounts for the maintenance and operation of the City owned Convention Center and the related sales tax activities. The Minneapolis Convention Center was created as an investment to foster and generate economic growth and vitality by providing facilities and services for conventions, trade shows, exhibits, meetings, cultural, religious, and sporting events, all of which benefit and showcase Minneapolis, the metropolitan region, and the State of Minnesota.

Historical Financial Performance

The fiscal year-end 2002 fund balance for the Convention Center Special Revenue Fund was \$24.2 million. Local taxes support the Convention Center with \$47.6 million being collected in 2002, similar to 2001 totals. Approximately \$24.4 million was transferred for debt service obligations or enterprise related debt.

Comparative amounts collected were as follows:

<u>Local Taxes (in millions)</u>	<u>2001</u>	<u>2002</u>
0.5% Citywide Sales tax	\$27.4	\$25.3
3.0% Entertainment Tax	\$7.0	\$7.5
3.0% Downtown Restaurant Tax	\$7.6	\$7.7
3.0% Downtown Liquor Tax	\$2.7	\$2.9
<u>2.0% Lodging Tax*</u>	<u>\$2.9</u>	<u>\$4.2</u>
Total Tax Collection	\$47.6	\$47.6

* Effective April 1, 2002, the Lodging Tax increase to 3%, a 1% increase.

Neighborhood Early Learning Centers (NELCS) were funded from sales taxes, with special legislative action. The total amount spent was \$7.2 million.

In 2002, the City collected \$7.5 million of entertainment tax. Traditionally this tax has been a funding source to the General Fund. In 2002, \$5.8 million of the tax was transferred to the General Fund and \$1.7 million to the Target Center Arena Reserve fund. The Target Center Arena Reserve transfer represents the estimated amount of entertainment tax generated from Target Center activities. In addition, the Block E finance plan includes a provision to similarly direct a portion of the entertainment tax generated by the Block E complex to fund that facility's debt service requirements if it should become necessary. The revenues are otherwise directed to the General Fund.

Funds are transferred annually to the Convention Center Reserve Fund for major repair or equipment replacement for the Convention Center facility. Due to the age of the building, it is anticipated that the amount of this transfer will increase in future years as specific needs are identified. In 2002, \$1.1 million was transferred to the Convention Center Reserve Fund.

Operating Revenues are revenues generated directly by the Convention Center. Space rent is the largest source of revenue for the Center. Also included in this line item are equipment rental and space rental of the Tallmadge Building. Charges for Services are earned in support of space rent and consist primarily of utility and labor services and ramp parking. Commission sales of food and beverage account for most of the Other Miscellaneous Operating Revenue line item. In 2002 total operating revenue generated by the Center was \$11.2 million, a gain of 22% from 2001 due primarily to the opening of the expansion in April 2002.

2003 Financial Projections

Due to the national tragedy of September 11, 2001 and the recession, the hospitality industry has been negatively affected. The ending fund balance in the Convention Center Special Revenue Fund is projected to be \$19.4 million, a 20% reduction from the prior year. Event operating revenues while projected to exceed 2002 levels are also projected to be 13% below budget. Tax proceeds are projected to be within 1% of budget and 3% above the 2002 actual totals.

With the new addition to the Convention Center becoming fully operational for an entire fiscal year, operating expenditures for the Center are projected to be 1% under budget, though exceeding their 2002 spending by 17%.

2004 Budget

Revenues

Below is a summary of the estimated local tax revenue increases for 2004 over the 2003 actual totals.

- 2.0% increase in sales tax
- 1.0% increase in Restaurant tax
- 1.0% increase in Liquor tax
- 1.0% increase in Lodging tax
- 1.0% increase in Entertainment tax

The Convention Center annual operating revenue budget increased 12% over projected 2003 revenue totals.

Expenditures

In 2004, the Convention Center operating budget, including capital expenditures, will increase 11% over the 2003 current service level. Increased utility rates and higher than anticipated utility usage of the expanded area contributed to this increase as well as additional security requirements due in part to the Convention Centers commitment to fund police officers and fire fighters.

In 2004, the transfer of revenue to the Greater Minneapolis Convention & Visitors Association (GMCVA) will be increased by approximately 1.3% from its 2003 level. Included in the transfer are proceeds from the 1% citywide lodging tax increase effective last year. The GMCVA functions as the primary sales and booking agent of the Convention Center.

Cash Position Changes

In the Convention Center Special Revenue Fund except for loans to other funds, the projected cash balance in 2004 will fluctuate relative to the fund equity. Most operating revenues and expenditure transactions are cash transactions. Attributing to a healthy cash position is the Convention Center policy of requiring cash advances for space rent and services to exhibitors. At the end of 2002, client advances sometimes received years in advance of the event were \$1,395,000 and outstanding client receivables were \$730,000. In 2000, the Convention Center, as part of the Intergovernmental Services Fund (internal service fund) workout plan, advanced \$12,800,000 to the fund as a long-term loan. While this does not impact the fund balance, cash balance is reduced.

City tax revenue is collected by the State of Minnesota and remitted to the City twice a month. \$3.5 million is advanced to the City one month in arrears and followed up by a month end remittance detailing tax revenue types and amounts.

Debt Service and Transfers

Debt Service

The recommended 2004 budget includes full funding to meet the annual debt service payments. Outstanding debt for the Convention Center is approximately \$323 million in total.

Transfers to Other Funds

Total transfers to other funds in 2004 are budgeted at \$37.6 million, a 3.3% reduction from 2003 levels.

- General Fund - \$7.3 million – funded by entertainment tax proceeds, historically a revenue source to the General Fund since 1969
- Arena Reserve - \$1.2 million – that portion of the entertainment tax estimated to be derived by Target Center activities
- Convention Center Reserve - \$1.1 million for future major Convention Center repairs or replacement
- Convention Center Debt Service - \$19.5 million – current year debt service liability for the Convention Center bond issue
- Parking Fund - \$8.4 million - funding for the current year debt service obligation for the Convention Center related parking ramps and facilities
- Intergovernmental Services Fund - \$.07 million – funding for current year ITS Workout plan
- Self Insurance Fund - \$.02 million - funding for current year self insurance liability pertaining to Convention Center activity
- MERF Pension Fund - \$.02 million - additional funding necessary meet MERF pension plan obligations

The City of Minneapolis deposits all of its local tax proceeds (i.e., sales tax, lodging tax, etc.) in the Convention Center Special Revenue Funds. All the tax proceeds except for the entertainment tax are Convention Center related and are used primarily to fund the debt related to the construction of the Convention Center and other related facilities, as well as to fund operating deficit projected to be \$9 million for 2004. Operating revenues are not sufficient to cover operating expense.

The entertainment tax, established in 1969, is a revenue source for the General Fund to offset additional police and fire department costs associated with citywide entertainment activities. A portion of the tax is redirected to the Arena Reserve fund to fully credit the fund for entertainment tax proceeds generated from Target Center activities, as required by the Target Center Arena finance plan. The entertainment tax is not deposited directly in the General Fund because it is a pledged revenue on the outstanding Convention Center bonds in the event that other revenue would not be sufficient to meet debt service obligations, which has never happened.

The Intergovernmental Services workout plan approved by the City Council requires annual transfers to the internal service fund through 2012.

The Convention Center transfers funds to the Self-Insurance Fund to reimburse the Human Resources department for personnel benefits administration at the Convention Center.

City of Minneapolis
Convention Center Special Revenue Fund 0760
Financial Plan (in thousands of dollars)

	2001	2002	2003	2003	2004	% Chg	2005	2006	2007
	Actual	Actual	Current Budget	Projected	Budget	From Budget	Forecast	Forecast	Forecast
Operating Revenues:									
Charges For Services	2,507	3,249	4,743	4,590	4,740	-0.1%	4,977	5,226	5,487
Rents	4,921	5,737	7,090	5,700	6,765	-4.6%	7,103	7,458	7,831
Other Miscellaneous Operating	1,718	2,208	2,433	2,110	2,405	-1.2%	2,525	2,652	2,784
Total	9,146	11,194	14,266	12,400	13,910	-2.5%	14,606	15,336	16,103
Non-Operating Revenues:									
Sales Tax	27,379	25,283	28,166	25,536	26,047	-7.5%	26,567	27,365	28,185
Entertainment Tax	6,963	7,488	7,194	8,387	8,470	17.7%	8,640	8,899	9,166
Restaurant Tax	7,599	7,754	7,892	7,677	7,754	-1.7%	7,909	8,146	8,391
Liquor Tax	2,729	2,871	2,822	2,815	2,843	0.7%	2,900	2,987	3,076
Lodging Tax	2,934	4,166	3,065	4,500	4,545	48.3%	4,636	4,775	4,918
Contributions	51	600	301	301					
Interest	1,005	346	1,146	350	160	-86.0%	160	160	160
Total	48,660	48,508	50,586	49,565	49,819	-1.5%	50,812	52,332	53,897
Total Revenue	57,806	59,702	64,852	61,965	63,729	-1.7%	65,418	67,667	69,999
Expenditures									
Convention Center Operations	12,409	16,983	20,021	19,823	21,911	9.4%	22,787	23,699	24,647
Ongoing Equipment and Improvement	619	900	1,151	1,091	1,120	-2.7%	1,165	1,211	1,260
Finance	242	225	309	250	302	-2.3%	314	327	340
Human Resources	45	51	57	55	59	3.5%	61	64	66
GMCVA	6,595	7,002	6,730	6,730	6,480	-3.7%	6,610	6,742	6,877
Neighborhood Early Learning Centers	122	-	-	-	-		-	-	-
Convention Center Completion Project	393	93	-	-	-		-	-	-
Transfer To Genl Fund - Entert Tax	5,968	5,841	6,313	7,187	7,270	15.2%	7,440	7,699	7,966
Transfer To Target Ctr Reserve	994	1,647	881	1,200	1,200	36.2%	1,200	1,200	1,200
Transfer To Conv Center Reserve	1,047	1,100	1,150	1,150	1,150		1,150	1,150	1,150
Transfer To Capital Improvements	-	1,560	60	60					
Transfer To Debt Service	16,457	16,205	20,854	20,854	19,493	-6.5%	19,501	19,316	19,071
Transfer To Parking Fund	8,757	8,235	8,301	8,301	8,365	0.8%	8,254	8,391	8,594
Transfer to Information Technology	61	71	66	66	66		71	74	77
Transfer to MERF pension	-	-	-	-	23		23	23	23
Transfer to Self Insurance	19	17	18	18	19	5.6%	18	18	18
Total Expenditures	53,728	59,930	65,911	66,784	67,458	2.3%	68,594	69,914	71,288
Net Income	4,078	(228)	(1,059)	(4,819)	(3,730)	252.2%	(3,177)	(2,246)	(1,289)
Fund Balance/Retained Earnings:									
Beginning Balance	20,371	24,449	24,221	24,221	19,402	-19.9%	15,672	12,496	10,250
Ending Balance	24,449	24,221	23,162	19,402	15,672	-32.3%	12,496	10,250	8,960

Notes:

As part of the Council approved work-out plan, an advance of \$12.8 million was made to ITS in 2000. While this did not affect the Convention Center total fund balance, this transaction decreased cash and increased due from other funds.

A State grant for \$3.288 million was received in 2001 and \$81 million was received in 2002. These grants will be used to reduce the principal outstanding debt and the amount of transfers to debt service.