

**City of Minneapolis
FY 2013 Budget
Financial Plan**

Convention Center Special Revenue Fund

Background

The Convention Center Special Revenue Fund accounts for the maintenance, operation and marketing of the City-owned Convention Center and related facilities, as well as various local sales tax activities. The Convention Center was created to foster and generate economic growth and vitality by providing facilities and services for conventions, trade shows, exhibits, meetings, and cultural, religious, and sporting events - all of which benefit and showcase the City, the metropolitan region, and the State of Minnesota. The marketing of the Convention Center, as well as the City overall, is supported by providing funding to Meet Minneapolis, an independent, non-profit organization contracted by the City of Minneapolis to market Minneapolis and the Twin Cities as a convention and tourist destination.

Historical Financial Performance

The fiscal year-end 2011 fund balance for the Convention Center Special Revenue Fund was \$43.9 million, an increase of \$3.9 million from 2010. The cash balance in the fund grew by approximately \$4.3 million. In addition, the Convention Center Facilities Reserve Fund had a 2011 year-end fund balance of \$5.75 million. The 2011 increase in fund balance can be largely attributed to an increase in operating and local tax revenue, coupled with lower capital investment and operating expenses.

For 2011, the operating deficit (operating revenue less operating expenses) dropped to \$(9.7) million from \$(11.8) million in 2010.

The increase in local sales taxes was largely due to increases in consumer spending within the City of Minneapolis, in addition to summer events such as the U2 concert at TCF Stadium. Details of recent history for the local sales taxes are provided below:

Comparative amounts collected:

<u>Local Sales Taxes (in millions)</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>% chg.</u>
0.5% Citywide Sales tax	\$26.5	\$27.3	\$29.9	9.5%
3.0% Downtown Restaurant Tax	\$9.9	\$10.5	\$11.0	4.8%
3.0% Downtown Liquor Tax	\$3.8	\$4.6	\$4.6	0.0%
<u>2.625% Lodging Tax *</u>	<u>\$5.7</u>	<u>\$5.8</u>	<u>\$6.3</u>	<u>8.6%</u>
Total Tax Collection	\$45.9	\$48.2	\$51.8	7.5%

* Lodging Tax was reduced from 3% effective 07/01/2009

Until 2012, the entertainment tax of 3.0% flowed through the Convention Center Fund, though it was ultimately transferred to the General Fund to offset additional public safety costs associated with City-wide entertainment activities. Starting in 2012, the entertainment tax is credited directly into the General Fund. A history of recent collections of the entertainment tax is provided at the top of the following page:

<u>Entertainment Taxes (in millions)</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>% chg.</u>
3.0% Entertainment Tax	\$9.1	\$13.2	\$14.1	6.8%

Operating revenues are generated directly from the Convention Center operating activities. Exhibit space rental is the largest source of revenue for the Convention Center. Also included in operating revenues are 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. Food and beverage commission sales account for the other miscellaneous operating revenue.

In 2011, total operating revenue was \$14.7 million, which was an increase of \$1.8 million from 2010 and nearly \$500,000 over the 2011 budget.

2012 Projections

Operating revenue is currently projected to come in at approximately \$15.1 million, which would be up \$0.7 million from 2011 results. With operating expenses projected to be approximately \$24.0 million, a decrease of \$0.4 million from 2011, the operating deficit is projected to be \$(8.9) million. The ongoing management of operating expenses includes a variety of cost containment activities:

- Reduction in energy consumption
- Identifying and implementing operating efficiencies
- Realignment of the workforce
- Managing overtime

Capital investments for equipment, maintenance and improvements are projected at \$5.2 million, but the budget has been encumbered and the Convention Center anticipates submitting a rollover request for the obligated, but unspent funds. In addition, \$4.2 million in bonds were issued this year to finance the replacement of the domes. Debt service for this bond issue will commence in 2013, with all of the bond debt retired by 2017.

City funding of Meet Minneapolis is projected to be approximately \$8.1 million, \$300,000 under budget and approximately \$500,000 above 2011.

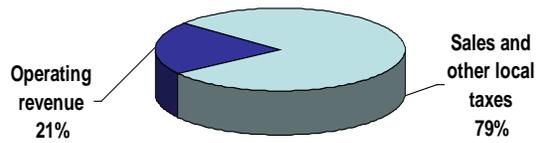
Local sales taxes are projected to be \$55.0 million in 2012, a 6% increase from 2011 actuals. Although no longer booked into the Convention Center Fund, entertainment taxes are estimated at \$14 million, which is near 2011 levels.

2013 Budget

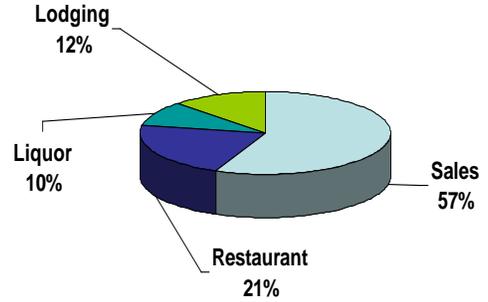
Operating Revenues

The 2013 revenues for the Convention Center have been adjusted to reflect the actual historical receipts and anticipated event activity. Total operating revenue for 2013 is budgeted to be \$14.8 million which is approximately \$300,000 lower than the most recent 2012 projection. The Convention Center is doing better in 2012 than originally projected when the 2013 budget was developed and adopted. Though the Convention Center continues to discount rents heavily to be competitive, operational changes made in the beginning of 2011 generated positive results in all operational areas, particularly in rental revenue along with charges for services and equipment. The 2013 budget projections will be reviewed and adjusted after the first quarter.

Convention Center Fund Revenues



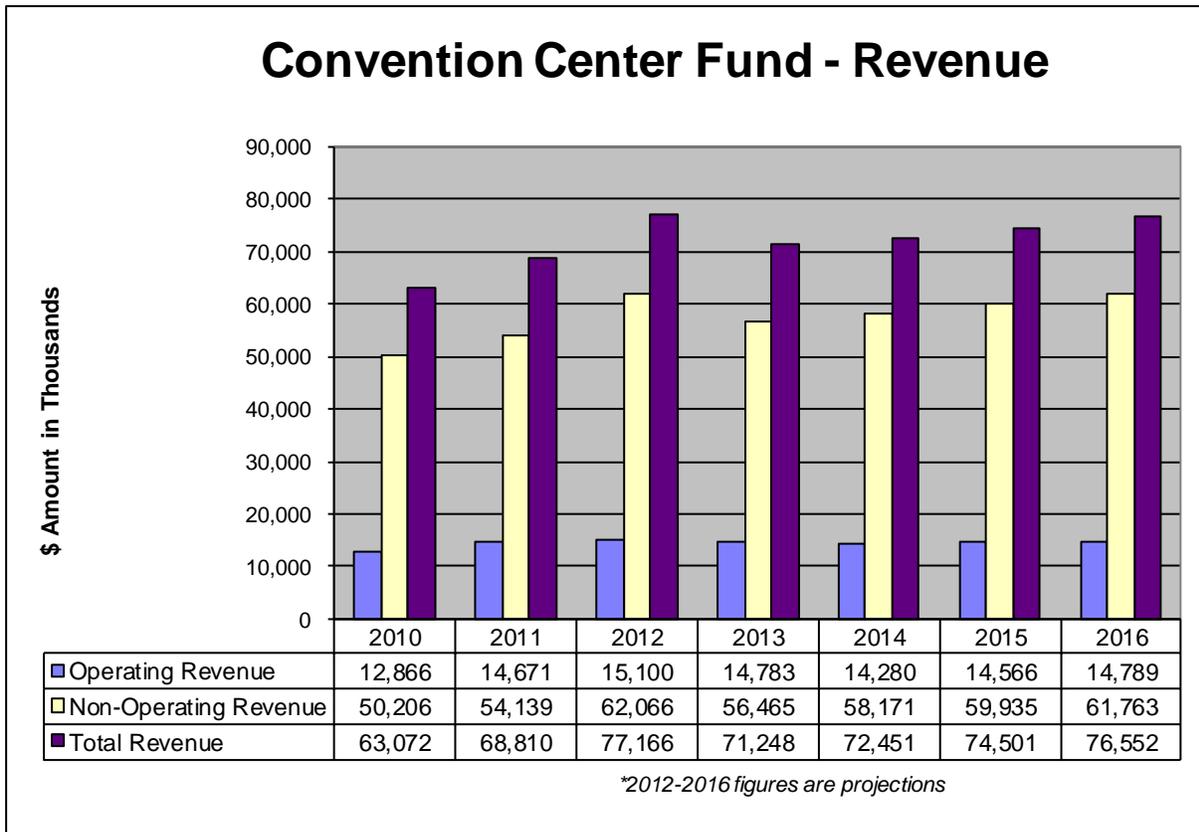
Sales and Other Taxes



Convention Center Special Revenue Fund Predicted Revenue Growth	
Tax Type	Current Growth Assumption 2013-2016
0.5% Sales	2.6%
2.625% Lodging Tax	3.0%
3.0% Restaurant Tax	3.4%
3.0% Liquor Tax	5.6%

Local sales tax revenue

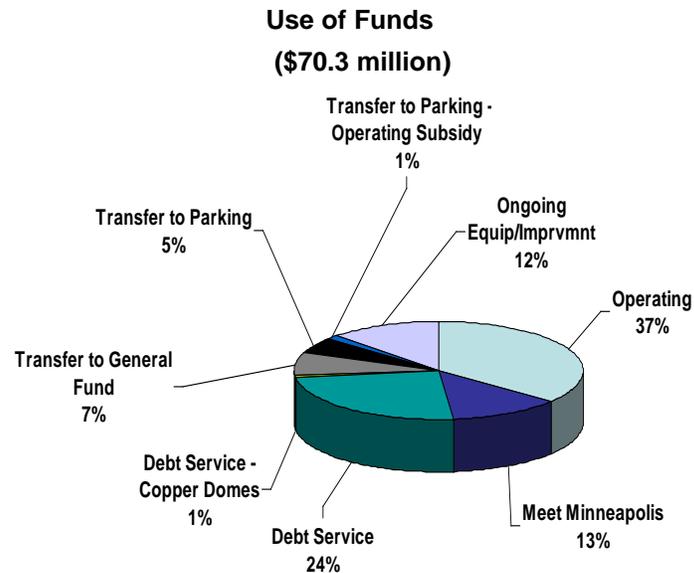
Local sales tax revenue is budgeted to increase 2% in aggregate for 2013, compared to projected full-year 2012 with the largest increases seen in restaurant, liquor, and lodging taxes. The entertainment tax (no longer booked in the Convention Center Fund), is budgeted at \$15 million, a 2.0% increase from projected 2012 levels.



Note: Non-operating revenue includes bonds issued, transfers in and local taxes through 2012; after 2012, there is no revenue from bonds or transfers.

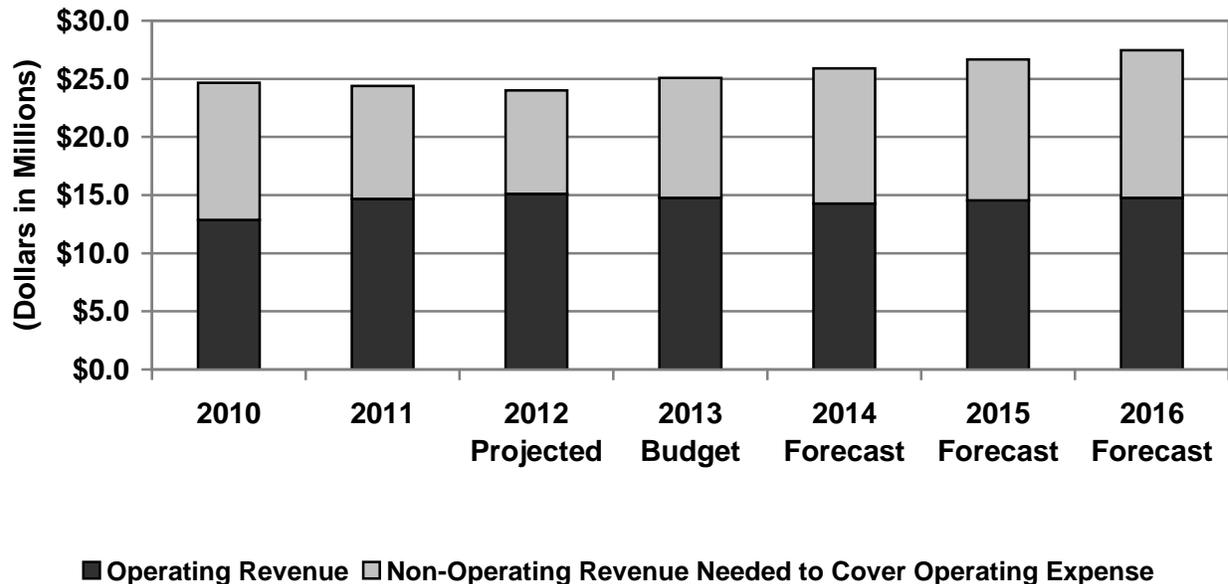
Expenditures

Operating expenses are budgeted at \$25.1 million, up slightly from a projected \$24.0 million in 2012. At this level, the operating deficit is budgeted to be \$(10.3) million. The budget for Meet Minneapolis is \$8.9 million, up \$750,000 from projected 2012. Capital investments for 2013 are budgeted at \$8.9 million, per the long-term capital plan previously adopted by City Council. Beginning in 2013, \$5.0 million in sales tax revenue will be transferred to the General Fund from the Convention Center in addition to the \$250,000 that has historically been transferred for public safety purposes in conjunction with activities at the Convention Center.



* Entertainment tax and Target Center transfers are reported below the Use of Funds total

Operating Revenue and Expense (Excludes Ongoing Equipment & Improvement)



Cash Fund Balance

Between the Convention Center Special Revenue Fund and the Facility Reserve Fund the ending 2013 cash balance is budgeted at approximately \$35 million.

Debt Service

The 2013 budget includes full funding to meet the annual debt service payments of both \$20.7 million for the outstanding debt and \$600,000 for the anticipated new debt to be issued for the dome replacement.

Forecasts for 2014-2016

Operating revenue is currently forecasted to range between \$14.3 million and \$14.8 million, based on already booked events and projections for additional bookings. For planning purposes, operating expenses are forecasted to increase 3.0% annually from budgeted 2013 levels, though cost containment efforts should lead to lower actual operating costs. The 2014 forecast for Meet Minneapolis is roughly flat to 2013, with 2.8% annual inflators thereafter.

Capital investments are forecasted to rise to \$9.1 million, \$9.5 million and \$10.6 million over this period, all in line with the long-range capital plan.

No new debt service is forecast and all existing debt service (including the projected debt service from the anticipated debt for the dome replacement) is fully funded.

Local sales tax revenues are forecast to continue to increase by 2.6% annually. The \$5.25 million annual transfer from local sales taxes to the general fund is funded in each year of the forecast period.

Due to conservative forecasting on future operating deficits (2016 operating deficit of \$(12.7) million), forecasted cash balances drop from \$31.6 million to \$29.9 million in 2016.

Convention Center Related Programs

The Convention Center Department has three programs:

MCC Events Program

The Convention Center Events Program provides sales, event coordination, delivery of audio visual, utility, security, and guest services to international, national, regional, state, and local clients and other attendees. Events drive economic impact into the City and these clients and attendees purchase goods and services from local businesses contributing to a vibrant downtown.

MCC Facility Program

The Convention Center Facility Program provides the physical building and grounds of the Convention Center, as well as the building trades and grounds staff who maintain this City asset. The MCC Events Program uses the building.

MCC Tallmadge Program

The Convention Center Tallmadge building is currently operating as an office building that is leased to local businesses. Within the next several years, as lease contracts expire, the Convention Center will implement their long-term strategy to repurpose the building into a visitor center and restaurant to provide amenities and access to cultural/recreational activities for visitors. This asset is attracting national and economic impact to the City.

Mayor's Recommendation

The Mayor recommends no changes to this fund.

Council Adopted Budget

Council approved the Mayor's Recommendations

City of Minneapolis
FY 2013 Council Adopted Budget
Financial Plan (in thousands of dollars)

Convention Center Special Revenue Fund

	2010 Actual	2011 Actual	2012 Budget	2012 Projected	2013 Budget	% Chg From 2012 Projected	2014 Forecast	2015 Forecast	2016 Forecast
Source of Funds:									
<i>Operating Revenues:</i>									
Charges For Services	4,501	5,347	5,140	5,405	5,339	-1.2%	5,191	5,294	5,336
Rents	6,203	6,580	6,492	7,006	6,400	-8.6%	6,555	6,688	6,822
Other Miscellaneous Operating	2,162	2,744	2,509	2,689	3,044	13.2%	2,534	2,584	2,631
Sub-Total	12,866	14,671	14,141	15,100	14,783	-2.1%	14,280	14,566	14,789
<i>Non-Operating Revenues:</i>									
Sales Tax	27,266	29,922	28,842	31,700	31,500	-0.6%	32,319	33,159	34,021
Restaurant Tax	10,491	11,032	11,097	11,400	12,000	5.3%	12,408	12,830	13,266
Liquor Tax	4,586	4,599	4,865	5,450	5,700	4.6%	6,019	6,356	6,712
Lodging Tax	5,790	6,300	6,125	6,400	6,800	6.3%	7,004	7,214	7,431
Interest	342	162	145	277	200	-27.8%	206	212	219
Other Misc Non Operating	731	624	314	1,028	265	-74.2%	215	164	114
Bonds Issued - Domes	-	-	5,000	4,200	-	-100.0%	-	-	-
Premiums and Accrued Interest (Bonds)	-	-	-	111	-	-100.0%	-	-	-
Transfer From Convention Facilities Reserve	1,000	1,500	1,500	1,500	-	-100.0%	-	-	-
Sub-Total	50,206	54,139	57,888	62,066	56,465	-9.0%	58,171	59,935	61,763
Total	63,072	68,810	72,029	77,166	71,248	-7.7%	72,451	74,501	76,552
Entertainment Tax	13,176	14,077	-	-	-	-	-	-	-
Use of Funds:									
Convention Center Operations	24,667	24,392	25,968	24,000	25,092	4.6%	25,912	26,689	27,490
Ongoing Equipment/Improvement	7,990	1,612	7,076	5,200	8,765	68.6%	9,115	9,480	10,628
Meet Minneapolis	6,976	7,525	8,388	8,138	8,888	9.2%	8,803	9,052	9,309
Capital Improvements - Domes	-	-	5,000	3,894	-	-100.0%	-	-	-
Transfer To Gen Fund	250	250	250	250	5,250	2000.0%	5,250	5,250	5,250
Transfer To Conv Facilities Reserve	1,150	1,150	1,150	1,150	-	-100.0%	-	-	-
Transfer To Debt Service	19,037	22,214	20,075	19,834	16,947	-14.6%	17,087	23,462	24,092
Transfer to Debt Service - Domes	-	-	-	-	586	0.0%	1,774	1,020	520
Transfer To Other Debt Service Fund	73	153	400	400	-	-100.0%	-	-	-
Transfer for Gen Fund Debt Service (Bonds)	0	0	-	111	-	-100.0%	-	-	-
Transfer To Parking Fund for Debt Service	10,544	6,589	5,580	5,580	3,729	-33.2%	4,195	-	-
Transfer to Parking Fund - Operating Subsidy	1,000	1,000	-	-	1,000	0.0%	1,000	1,000	1,000
Total	71,687	64,885	73,887	68,557	70,257	2.5%	73,136	75,953	78,289
Transfer to Gen Fund - Ent. Tax	12,469	13,997	-	-	-	-	-	-	-
Transfer to Target Center - Ent. Tax	706	80	-	-	-	-	-	-	-
Net Income	(8,615)	3,925	(1,858)	8,609	991	-88.5%	(684)	(1,452)	(1,737)
Fund Balance/Retained Earnings:									
Beginning Balance	48,625	40,009	43,933	43,933	52,542	19.6%	53,533	52,849	51,397
Ending Balance	40,009	43,933	42,075	52,542	53,533	1.9%	52,849	51,397	49,660
Ending Cash Balance	21,079	25,362	23,504	33,971	34,962	2.9%	34,278	32,826	31,089
Convention Center Facility Reserve Fund Balance	6,100	5,750	5,400	5,400	5,400	0.0%	5,400	5,400	5,400

Notes:

In 2004, Meet Minneapolis entered into a \$2.5 million loan agreement with the City for its joint venture Internet Destination Sales System (iDSS). In 2005, Meet Minneapolis requested that the Council advance an additional \$2.5 million for the project. In August 2005, the loans were rolled together and a promissory note was issued for \$5 million. In April of 2006, the City entered into a 3rd loan agreement for \$5 million for additional iDSS start up capital. The three loans were consolidated for a total of \$10 million. The \$10 million consolidated loan will have a 10 year amortization of principle (2008-2017) repaid in full in 2017 at a 5% interest rate. The note repayment for the loan is pledged against assets, future appropriation from the City funding, and profit from the iDSS.

Beginning in 2011, BIS will be transferring \$1.5 million annually to the MCC with a final payment of \$1.75 million in 2016 to repay their loan from the MCC.

The loan is being accounted for on the balance sheet.