

**City of Minneapolis  
2014 Budget  
Financial Plan**

**Arena Reserve Special Revenue Fund**

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**Background**

The Arena Reserve Special Revenue Fund accounts for the maintenance and operation of the City-funded portion of the Target Center. The day to day operations are managed by AEG, one of the leading sports and entertainment presenters in the world. The City provides support for the operation of the Arena and pays AEG a revenue sharing fee, if available, for contracted services for operating and promoting the Target Center.

The entertainment tax directed to the Arena Fund reflects entertainment tax proceeds generated from Target Center activities. Also, the Arena Fund is credited with a transfer from the Parking Fund, per Council action and the long-term Target Center finance plan. This transfer reflects the estimated parking revenue received from events at the Target Center.

The Arena Reserve Fund also receives financing from three Tax Incremental Financing (TIF) sources: The Arena TIF District, the Consolidated TIF District and the Common Project. These revenues are segregated and restricted to specific purposes, including debt service and capital expenses.

**2013 Projections**

In 2013, the unrestricted Arena revenue, before the balance of the \$2.0 million capital contribution from AEG, is projected to finish at \$4.484 million which is slightly below the \$4.577 million budget. In 2012, the Target Center had a good year with a large increase in Timberwolves event attendance and several large concerts and events. As a result, the entertainment tax was over budget. For 2013, it is projected that entertainment tax collections will be closer to prior years. For the year, total capital investments are projected at \$5.88 million, including the balance of the capital contribution from AEG, as well as \$1.6 million that was carried forward for completion in 2013.

**2014 Budget**

*Revenues*

Revenues from the TIF sources are budgeted to be \$6.7 million, a reduction of \$670,000 from 2013 projections. Entertainment tax revenues are budgeted at \$1.275 million, slightly less than 2013 budgeted levels and the parking revenue transfer is budgeted at \$3.1 million. The property taxes paid by the primary tenant of the Arena have not been included and are being replaced by a rent payment from the primary tenant. In addition \$3.7 million in public payments, along with \$3.7 million from private payments will be capitalized from bonds issued to finance the renovation project

The Cumulative TI Balance for 2009 Bonds is to be maintained solely to pay future debt service on the 2009 Bonds. Based on current tax increment projections, when combined with the cumulative balance, sufficient revenue will be available from the tax increment sources to make principal and interest payments on the 2009 Bonds as they are due. Any residual TI Balance available after the 2009 Bonds have been paid in full may be used to finance capital improvements of the Arena.

*Expenditures*

The only expenditure funded with the TIF revenue in the 2014 budget is \$5.1 million of existing debt service. Budgeted expenditures funded with non-TIF sources include \$5.2 million in capital improvements, \$259,000 in administrative costs and a \$1.44 million operator reimbursement, as well as an anticipated debt service payment of \$7.4 million on new debt to finance the renovation project

### *Renovation project*

The 2014 budget contemplates a significant renovation project for the Arena and the public realm surrounding it. To finance the City's share of the project, it is likely that the City will issue taxable general obligation bonds, with local sales tax revenues being the primary revenue source for debt service on these bonds. Negotiations have commenced with AEG, the Timberwolves/Lynx and LifeTime Fitness to discuss each party's contribution to the overall project. As a result of these negotiations, it is possible that certain of the financial inter-relationships among the parties may change. The current 2014 budget includes a placeholder to reflect the financial impact of the renovation within the Arena Reserve Fund. Beginning in 2015, \$3.7 million in annual local sales tax revenues has been identified to fund an estimated \$7.4 million in new debt service obligations on an annual basis which will be reflected in the budget as an expense. As negotiations progress, and the sizing and timing of any new debt issuance and revised financial ramifications become more certain, the information in the financial schedule for the Arena Reserve Fund will be revised.

### **Mayor's Recommended Budget**

The Mayor recommended no changes to this fund.

### **Council Adopted Budget**

The Council adopted the Mayor's recommendation.

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**Arena Reserve Special Revenue Fund**

	2011	2012	2013	2013	2014	% Chg	2015	2016	2017
	Actual	Actual	Budget	Projected	Budget	From 2013 Projected	Forecast	Forecast	Forecast
<b>Source of Tax Increment Funds:</b>									
Common Project TIF Contribution (01CPK)	1,989	2,073	1,438	1,438	1,474	2.5%	1,515	1,556	1,586
Arena Tax Increment (01CPK)	953	930	949	907	-	-100.0%	-	-	-
Consolidated TIF District (01CON)	5,282	5,064	4,955	5,018	5,149	2.6%	5,265	5,396	5,539
Interest Earnings (01CPK & 01CON)	80	51	101	101	134	32.7%	168	200	231
Sub-Total	8,304	8,118	7,443	7,464	6,757	-9.5%	6,948	7,152	7,356
<b>Use of Tax Increment Funds:</b>									
Transfer to Debt Service (01CPK)	1,157	0	-	-	-	-100.0%	-	-	-
Transfer to Debt Service (01CON)	2,529	4,956	5,272	5,272	4,250	-19.4%	4,492	4,740	5,003
Capital Improvements/Admin	1,759	2,038	3,864	3,864	-	-100.0%	-	-	-
Sub-Total	5,445	6,994	9,136	9,136	4,250	-40.4%	4,492	4,740	5,003
<b>Net Available After 2009 Debt</b>	<b>2,859</b>	<b>1,124</b>	<b>(1,693)</b>	<b>(1,672)</b>	<b>2,507</b>		<b>2,456</b>	<b>2,412</b>	<b>2,353</b>
<b>Cumulative TI Balance for 2009 Bonds (see note)</b>	<b>10,950</b>	<b>12,074</b>	<b>10,381</b>	<b>10,402</b>	<b>12,909</b>		<b>15,365</b>	<b>17,777</b>	<b>20,130</b>
<b>Source of Non-Restricted Funds:</b>									
Estimated Local Option Taxes	-	-	-	-	3,700*	0.0%	3,700	3,700	3,700
Estimated Private Debt Payments	-	-	-	-	3,700*	0.0%	3,700	3,700	3,700
Event Parking	2,758	2,941	3,129	3,129	3,323	6.2%	3,523	3,728	3,940
Rent	-	-	-	-	1,350	0.0%	1,377	1,405	1,433
Entertainment Tax (Arena Events Only)	80	1,295	1,300	1,200	1,275	6.3%	1,300	1,339	1,379
Arena Base Tax	89	92	92	92	-	-100.0%	-	-	-
AEI Capital Investment	-	1,681	-	319	-		-	-	-
Interest Earnings (01260)	13	35	56	63	63	0.0%	67	62	66
Sub-Total	2,940	6,044	4,577	4,803	13,411	205.0%	13,667	13,934	14,218
<b>Use of Non-Restricted Funds:</b>									
Estimated New Debt Service	-	-	-	-	7,400	0.0%	7,400	7,400	7,400
Capital Improvements	1,312	3,181	1,791	2,110	5,234	148.1%	2,605	2,220	2,222
Administration	228	23	22	22	259	1077.3%	264	269	275
Operator Reimbursement (see note)	1,563	1,483	1,470	1,470	1,441	-2.0%	1,412	1,384	1,356
Sub-Total	3,103	4,687	3,283	4,055	14,334	253.5%	11,681	11,273	11,253
<b>Net Income for Operations</b>	<b>(163)</b>	<b>1,357</b>	<b>1,294</b>	<b>748</b>	<b>(923)</b>	<b>-223.4%</b>	<b>1,986</b>	<b>2,660</b>	<b>2,965</b>
<b>Cumulative Operations Fund Balance</b>	<b>2,772</b>	<b>2,610</b>	<b>3,904</b>	<b>4,844</b>	<b>2,532</b>		<b>4,518</b>	<b>7,178</b>	<b>10,143</b>
<b>Total Anticipated Capital Expenditures</b>	<b>3,071</b>	<b>5,074</b>	<b>5,557</b>	<b>5,876</b>	<b>5,234</b>		<b>2,605</b>	<b>2,220</b>	<b>2,222</b>

**Notes:**

- Common Project Tax Increment (01CPK) May only be used for debt service and capital costs
- Arena Tax Increment (01CPK) May only be used for debt service, certain administrative costs, and capital costs
- Consolidated TIF District (01CON) May only be used for debt service
- Cumulative TI Balance for 2009 Bonds, beginning in 2014 this balance is being maintained and reserved to pay debt service on the 2009 Bonds.
- Operator Reimbursement shows maximum amount, except in 2012 which was the actual reimbursement.
- 2012 Maximum Operator Reimbursement was \$1,500,000.
- \*Revenue source in 2014 for new debt service is from capitalized bond proceeds