

**City of Minneapolis
2011 Budget
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 Convention Center was created 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 the City, the metropolitan region, and the State of Minnesota. The fund also supports an operating transfer 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 2009 fund balance for the Convention Center Special Revenue Fund was \$48.6 million, an increase of \$318,000 from 2008. Local sales taxes (outlined in the table below) support the Convention Center with approximately \$55 million collected in 2009. Due to economic conditions and consumer spending habits, the 2009 local tax revenue was \$5 million less than 2008 which was \$4.4 million under budget. Approximately \$10 million was transferred to the parking fund to cover costs for Convention Center related parking ramps, an increase of \$100,000 over the 2008 transfer.

Comparative amounts collected:

<u>Local Sales Taxes (in millions)</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
0.5% Citywide Sales tax	\$29.5	\$29.5	\$26.5
3.0% Entertainment Tax	\$9.9	\$9.6	\$9.1
3.0% Downtown Restaurant Tax	\$10.3	\$10.8	\$9.9
3.0% Downtown Liquor Tax	\$3.8	\$3.9	\$3.8
3.0% Lodging Tax *	\$6.6	\$6.6	\$5.7
Total Tax Collection	\$60.1	\$60.4	\$55.0

* Lodging Tax was reduced to 2.625% effective 07/01/2009

The City deposits all of its local tax proceeds (*i.e.*, sales tax, entertainment tax, food tax, liquor tax, and lodging tax) in the Convention Center Special Revenue Fund. All the tax proceeds, with the exception of the entertainment tax, are Convention Center related and are used primarily to fund the debt related to the construction of the Convention Center and related facilities, as well as to fund the operating deficit.

The entertainment tax, established in 1969, is a revenue source for the general fund to offset additional costs associated with City-wide entertainment activities. A portion of the tax (\$1.5 million in 2010) 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 reconciled at the end of the year to the actual entertainment tax the Target Center received. The entertainment tax is deposited into the Convention Center Special Revenue Fund because it is pledged to debt service on outstanding Convention Center bonds in the event other pledged revenue sources are insufficient.

With the new state sales tax increase of 0.375% effective July 1, 2009 the lodging tax was reduced from 3% to 2.625%. The law provides that when the general sales tax rate is combined with any other taxes on lodging within the City of Minneapolis, the total tax amount may not exceed 13%.

Funds are transferred annually to the Convention Center reserve fund for major repair or significant improvements to 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 2009, nearly \$1.2 million was transferred to the reserve fund bringing the balance to \$5.9 million.

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 equipment, 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 from food and beverage account for most of the other miscellaneous operating revenue.

In 2009, total operating revenue was \$13.4 million, which was \$2.2 million lower than 2008 and \$1.6 million lower than the 2009 budget.

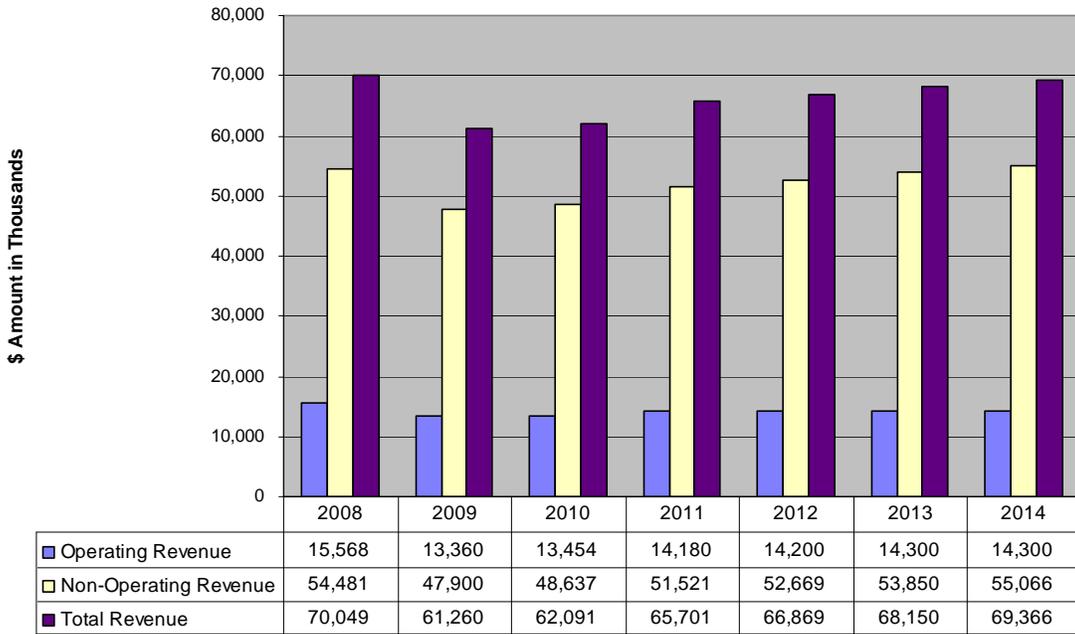
2011 Budget

Revenues

The 2011 revenues for the Convention Center have been adjusted to reflect the actual historical receipts. Total operating revenue in 2011 is expected to increase approximately \$700,000 from \$13.5 million projected in 2010 to nearly \$14.2 million. The Convention Center anticipates a modest increase in 2011 operating revenues as the economy slowly recovers. Meet Minneapolis sales and marketing initiatives include a focus on the auditorium and continued efforts of bringing local business into the Convention Center via the "Meet in Minneapolis" campaign. The convention and meeting industry continues to face significant challenges in controlling costs as centers discount heavily to remain competitive.

Meet Minneapolis is locking in 2010 sales contracts earlier than in previous years, but there is concern about the amount of tentative space the Convention Center is holding for public shows and large national conventions. In addition, there has been a noticeable decline in the use of some exclusive services, which has forced the Convention Center to reevaluate its service offerings for relevancy and value. Moving forward, it is critical to identify clients who use a full range of ancillary services, including food and beverage. Through efforts to promote the Convention Center's ancillary services via Meet Minneapolis initiatives (like promotional sales calls to current clients to promote the Convention Center's services and targeting local food and beverage events), the Convention Center is hopeful that strategic marketing combined with a stronger economy will generate increased revenues.

Convention Center Fund - Revenue

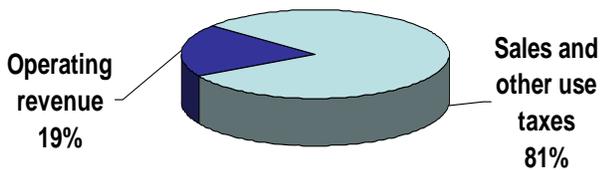


Years (2008-2014)

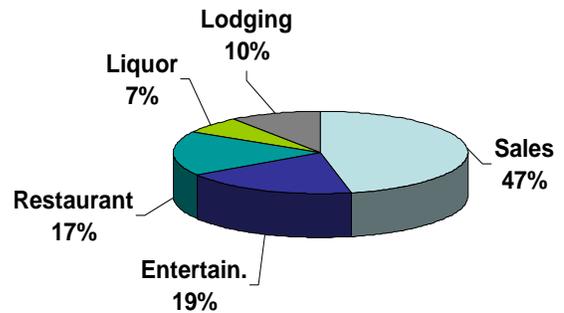
Convention Center Special Revenue Fund Predicted Revenue Growth

Tax Type	Current Growth Assumption 2011-2014
0.5% Sales	-8.7% 2011, 2.5% 2012-2014
3.0% Entertainment Tax	-3.9% 2011, 3.0% 2012-2014
2.625% Lodging Tax	-4.3% 2011, 3.0% 2012-2014
3.0% Other Tax	-0.2% 2011, 3.0% 2012-2014

Convention Center Revenues



Sales and Other Taxes



Tax revenue is expected to decrease 5.4% in 2011 from the 2010 budgeted revenue and increase 3% annually from 2012-2014. A \$1.5 million entertainment tax increase (offset by a corresponding increase to the General Fund) was factored into the budget beginning in 2010 with the opening of the new Target Field to fund public safety services.

Projected operating revenue changes over each prior year:

2011: -\$587,000

2012: +\$20,000

2013: +\$100,000

2014: Flat revenue projection

Expenditures

In 2011, the Convention Center operating expenditure budget including Ongoing Equipment/Improvement is anticipated to decrease by \$4.2 million from the 2010 budget. The Convention Center was able to capture expense savings in 2009 and 2010 through a number of cost containment measures.

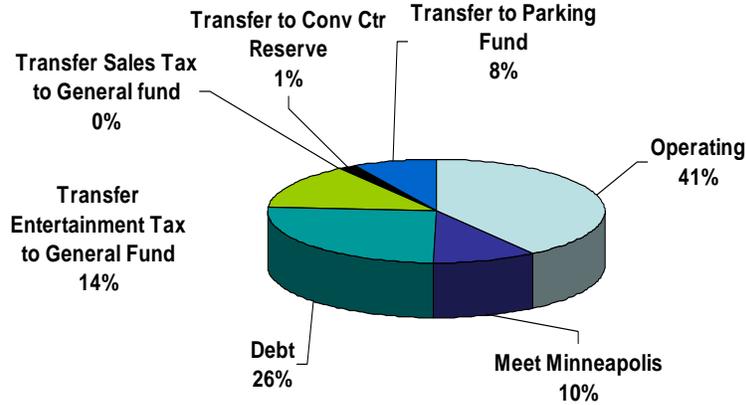
- Reduction of energy consumption
- Reprioritizing capital expenditures
- Identifying and implementing more efficient operations
- Realignment of the Convention Center workforce
- Managing overtime

The 2011 operating expenses, including Ongoing Equipment/Improvement and projected revenue are \$32.2 million and \$14.2 million respectively, resulting in an \$18 million operating subsidy.

In 2004, Meet Minneapolis, the primary sales and booking agent of the Convention Center, 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 of \$5 million for additional iDSS start-up capital. The three loans were consolidated for a total of \$10 million.

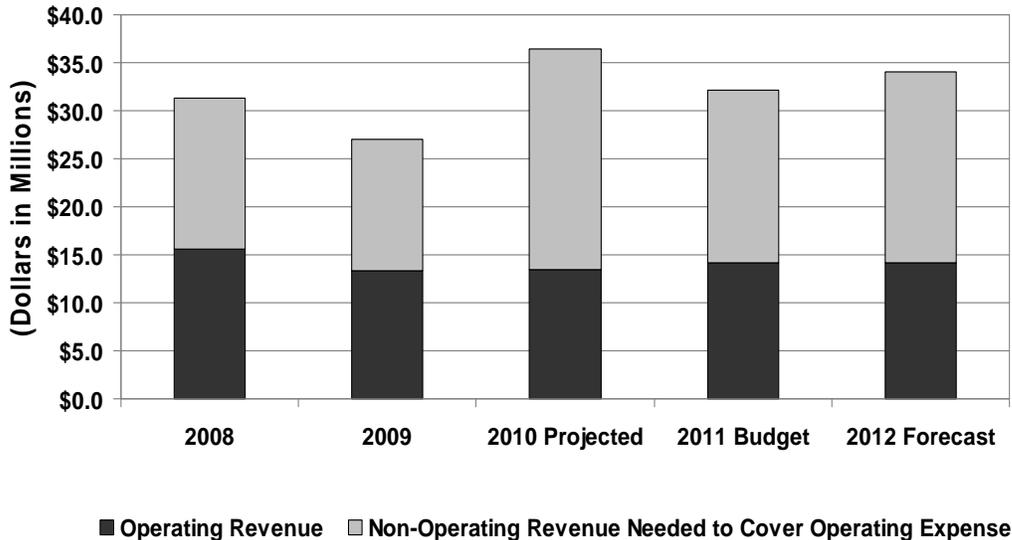
The \$10 million consolidated loan has a 10-year amortization of principal (2008-2017) to be repaid in full in 2017 at a 5% interest rate. The note repayment for the loan is pledged against assets, future appropriation from City funding, and profits from the iDSS. The City began collecting loan interest each quarter in 2008, in addition to a \$500,000 payment of loan principal. The principal payments increased to \$704,011 in 2009 and \$908,022 in 2010 and 2011 before capping at \$1,010,028 in 2012 and beyond. Loan interest and principal payment coincide with Meet Minneapolis's Sales and Marketing payments from the City. In 2011, \$8 million is budgeted for City support of Meet Minneapolis.

Use of Funds (\$80 million)

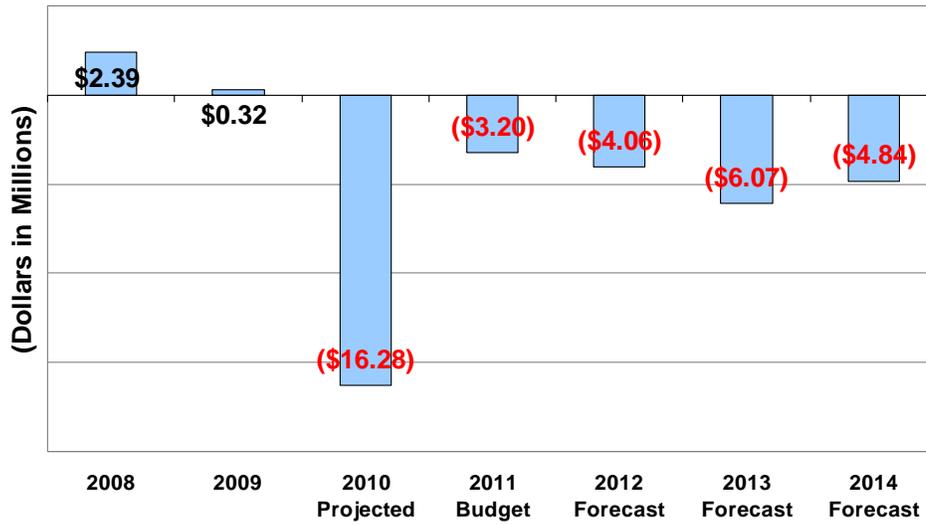


The projected reduction in the ending fund balance from 2010 to 2011 is due primarily to the overall softening of operating and tax revenue coupled with relatively flat expenses, including transfers which results in negative net income. While 2011 – 2014 projected expenses remain relatively flat, revenues are not projected to increase sufficiently enough to produce net income.

Operating Revenue and Expense



Net Income (Loss)
(in millions)



Cash Position Changes

The Convention Center Special Revenue Fund’s 2010 projected cash balance, exclusive of loans to other funds, is expected to fluctuate relative to fund equity. Most operating revenues and expense transactions are cash transactions. The Convention Center has a policy of requiring exhibitors to pay in advance for space rent and services, which has historically contributed to a healthy cash position. The 2009 year-end client advances, sometimes received over two years in advance of the event, were \$1.1 million; outstanding client receivables were \$535,000.

Transfers

Total transfers to other funds in 2011 are budgeted at \$40 million, including a transfer to the Parking Fund. The transfer to the Parking Fund totals \$6.4 million which supports operating expenses and current year debt service obligations for Convention Center related parking ramps. Other transfers include \$11.2 million entertainment tax transfer to the General Fund, \$250,000 to the General Fund to fund Mounted Patrol Officers, \$1.2 million to the Convention Center reserve, \$20.7 million to debt service, \$80,000 to the Target Center, and \$153,000 to fund MERF.

Debt Service

The 2011 budget includes full funding to meet the annual debt service payments. Outstanding debt for the Convention Center was approximately \$204 million in total at the 2009 year-end. Debt service for the Convention Center is projected to be \$21.8 million in 2010 and decreases to \$20.7 million in 2011. Part of the debt is in variable rate mode, and it is likely that total debt service payments will be less than budgeted due to the difference between interest on variable rate and the budget assumption of 5%.

Mayor’s Recommended Budget

The Mayor included a wireless commitment charge of \$69,062 which is offset by healthcare savings.

Council Adopted Budget

The Council adopted the Mayor’s recommendations.

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Convention Center Special Revenue Fund

	2008 Actual	2009 Actual	2010 Budget	2010 Projected	2011 Budget	% Chg From 2010 Budget	2012 Forecast	2013 Forecast	2014 Forecast
Source of Funds:									
<i>Operating Revenues:</i>									
Charges For Services	6,062	4,583	5,585	4,990	5,280	-5.5%	5,200	5,200	5,200
Rents	6,705	6,410	6,432	6,214	6,400	-0.5%	6,500	6,600	6,600
Other Miscellaneous Operating	2,801	2,367	2,750	2,250	2,500	-9.1%	2,500	2,500	2,500
Sub-Total	15,568	13,360	14,767	13,454	14,180	-4.0%	14,200	14,300	14,300
<i>Non-Operating Revenues:</i>									
Sales Tax	29,502	26,470	30,238	27,026	27,593	-8.7%	28,283	28,990	29,715
Restaurant Tax	10,789	9,887	10,300	10,095	10,307	0.1%	10,616	10,934	11,262
Liquor Tax	3,939	3,769	3,966	3,848	3,929	-0.9%	4,047	4,168	4,293
Lodging Tax	6,619	5,671	6,180	5,790	5,912	-4.3%	6,089	6,272	6,460
Meet Mpls Donations	510	75	-	-	-	0.0%	-	-	-
Meet Minneapolis(iDSS) Loan Interest	1,278	435	403	403	360	-10.7%	314	265	215
Interest	836	401	750	445	400	-46.7%	300	200	100
Revenue from Trusts	-	160	-	-	-	0.0%	-	-	-
Other Misc Non Operating	8	32	20	30	20	0.0%	20	20	20
Transfer From BIS - BIS Loan	-	-	-	-	1,500	0.0%	1,500	1,500	1,500
Transfer From Facility Reserve	1,000	1,000	1,000	1,000	1,500	50.0%	1,500	1,500	1,500
Sub-Total	54,481	47,900	52,857	48,637	51,521	-2.5%	52,669	53,850	55,066
Total	70,049	61,260	67,624	62,091	65,701	-2.8%	66,869	68,150	69,366
Entertainment Tax	9,631	9,072	11,753	11,066	11,299	-3.9%	11,638	11,988	12,347
Use of Funds:									
Convention Center Operations	25,938	24,617	29,130	27,388	26,803	-8.0%	27,000	26,000	25,000
Ongoing Equipment/Improvement	5,316	2,450	7,292	9,034	5,376	-26.3%	7,076	8,765	9,115
Meet Minneapolis	8,046	7,507	7,300	7,300	8,005	9.7%	8,230	8,462	8,701
Transfer To Gen Fund - Sales Tax	-	-	250	250	250	0.0%	250	250	250
Transfer To Conv Ctr Reserve	1,150	1,150	1,150	1,150	1,150	0.0%	1,150	1,150	1,150
Transfer To Debt Service	16,560	15,174	20,151	21,834	20,744	2.9%	20,571	24,897	24,772
Transfer to Other Debt Serv Fund	68	75	73	73	153	109.6%	80	80	69
Transfer To Parking Fund	9,832	9,969	8,886	11,342	6,420	-27.8%	6,574	4,617	5,151
Transfer To City Capital	750	-	-	-	-	0.0%	-	-	-
Total	67,660	60,942	74,232	78,371	68,901	-7.2%	70,931	74,221	74,208
Transfer to the Gen Fund - Ent. Tax	8,366	8,034	10,253	9,966	11,219	9.4%	10,520	10,870	11,229
Transfer to the Target Center - Ent. Tax	1,265	1,038	1,500	1,100	80	-94.7%	1,118	1,118	1,118
Net Income	2,389	318	(6,608)	(16,280)	(3,200)	-51.6%	(4,062)	(6,071)	(4,842)
Fund Balance/Retained Earnings:									
Beginning Balance	45,918	48,307	48,625	48,625	32,345	-33.5%	29,144	25,082	19,011
Ending Balance	48,307	48,625	42,017	32,345	29,144	-30.6%	25,082	19,011	14,168
Ending Cash Balance	27,418	27,777	21,169	11,497	8,296	-60.8%	4,234	(1,837)	(6,680)

Notes:

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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.