

**City of Minneapolis
FY 2005
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 2003 fund balance for the Convention Center Special Revenue Fund was \$24.4 million. Local taxes support the Convention Center with \$48.9 million being collected in 2003, similar to 2002 totals. Approximately \$25.5 million was transferred for debt service obligations or enterprise related debt.

Comparative amounts collected were as follows:

<u>Local Taxes (in millions)</u>	<u>2002</u>	<u>2003</u>
0.5% Citywide Sales tax	\$25.3	\$25.6
3.0% Entertainment Tax	\$7.5	\$7.8
3.0% Downtown Restaurant Tax	\$7.7	\$7.9
3.0% Downtown Liquor Tax	\$2.9	\$3.0
<u>2.0% Lodging Tax*</u>	<u>\$4.2</u>	<u>\$4.6</u>
Total Tax Collection	\$47.6	\$48.9

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

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 2003, \$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 2005 the Convention Center will be opening a Business Service center and offer wireless and internet services to its customers generating additional revenue in their Charges for Services line item. In 2003 total operating revenue generated by the Center was \$12.2 million, a gain of 9% from 2002.

2004 Financial Projections

The hospitality industry appears to be rebounding from the effects of the national tragedy of September 11, 2001 and the recession. Event operating revenues are projected to exceed 2003 levels by 14% and meet budgetary goals. Tax proceeds are projected to be within budget and 2% above the 2003 actual totals. However due to spending increases, the ending fund balance in the Convention Center Special Revenue Fund is projected to be \$21.5 million a 12% reduction from the prior year.

Operating expenditures for the Center in 2004 are projected to be 3% under budget, though exceeding their 2003 spending by 18%.

2005 Budget

Revenues

Below is a summary of the estimated local tax revenue increases for 2005 over the 2004 actual totals.

- 2.5% increase in sales tax
- 2.5% increase in Restaurant tax
- 2.5% increase in Liquor tax
- 2.5% increase in Lodging tax
- 2.5% increase in Entertainment tax

The Convention Center annual operating revenue budget increased 6% over projected 2004 revenue totals.

Expenditures

In 2005, the Convention Center operating budget, including capital expenditures, will increase 14% over the 2004 current service level. The increase is due to additional capital outlays to replace aging and obsolete parts and systems of the facility. \$2.5 million for 2005 capital replacements will be funded from the Convention Center Reserve Fund. It budget also includes \$1.18 million in General Fund overhead charges.

In 2005, the transfer of revenue to the Greater Minneapolis Convention & Visitors Association (GMCVA) will remain the same as its 2004 level except for variances in lodging tax proceeds. Also in 2004 the City entered into a \$2.5 million loan agreement with the GMCVA for the association's joint venture Internet Destination Sales System (IDSS). The loan is pledged against future City's appropriations to the Association. 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 2005 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 2003, client advances sometimes received years in advance of the event were \$1,729,000 and outstanding client receivables were \$649,000. 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.

Debt Service and Transfers

Debt Service

The recommended 2005 budget includes full funding to meet the annual debt service payments. Outstanding debt for the Convention Center is approximately \$310 million in total. In addition to the to the annual debt service payments for the Convention Center, commencing in 2004 all savings on the variable rate bond interest rates are transferred to the Parking Fund as part of the parking Fund Workout Plan.

Transfers to Other Funds

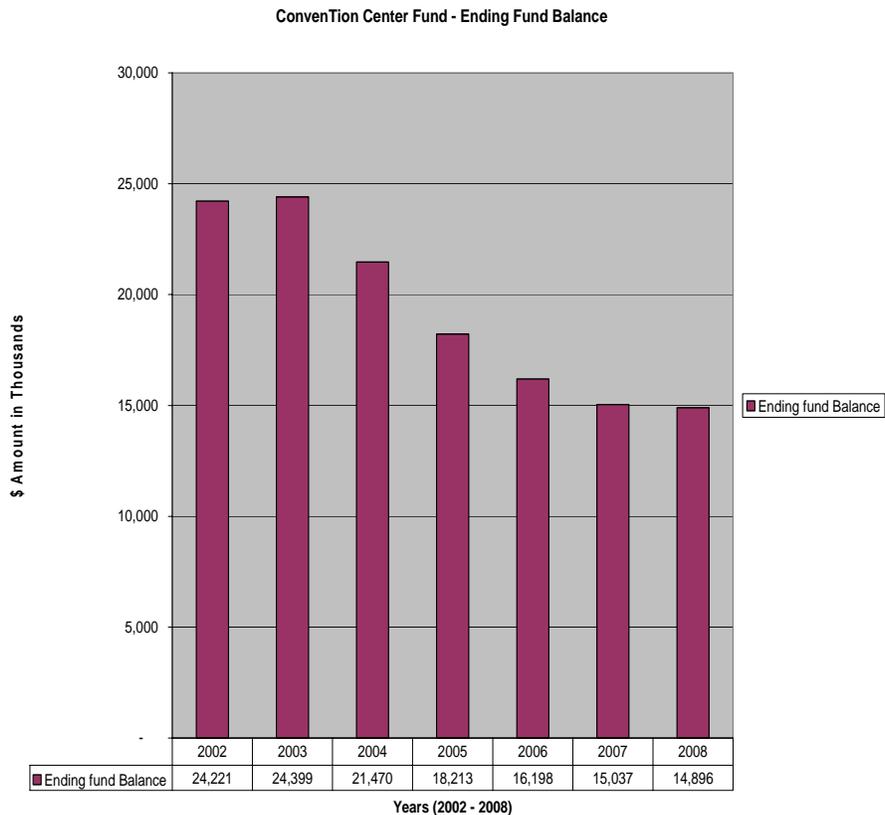
Total transfers to other funds in 2005 are budgeted at \$37.8 million, approximating 2004 levels.

- General Fund - \$7.5 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 - \$1.2 million for future major Convention Center repairs or replacement
- Convention Center Debt Service - \$19.7 million – current year debt service liability for the Convention Center bond issue

- Parking Fund - \$8.2 million - funding for the current year debt service obligation for the Convention Center related parking ramps and facilities and Parking Fund Workout Plan.
- 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 \$11.5 million for 2005. 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 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.



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

	2002	2003	2004	2004	2005	% Chg	2006	2007	2008
	Actual	Actual	Current Budget	Projected	Budget	From Budget	Forecast	Forecast	Forecast
Operating Revenues:									
Charges For Services	3,249	3,720	4,740	4,740	5,230	10.3%	5,500	5,763	6,050
Rents	5,737	6,194	6,765	6,765	7,063	4.4%	7,525	7,902	8,431
Other Miscellaneous Operating	2,208	2,321	2,405	2,405	2,505	4.2%	2,630	2,761	2,899
Total	11,194	12,235	13,910	13,910	14,798	6.4%	15,655	16,426	17,380
Non-Operating Revenues:									
Sales Tax	25,283	25,562	26,047	26,504	26,698	2.5%	27,365	28,050	28,751
Entertainment Tax	7,488	7,779	8,470	8,127	8,682	2.5%	8,899	9,122	9,350
Restaurant Tax	7,754	7,907	7,754	7,661	7,948	2.5%	8,147	8,350	8,559
Liquor Tax	2,871	3,065	2,843	3,294	2,914	2.5%	2,987	3,062	3,138
Lodging Tax	4,166	4,595	4,545	4,500	4,658	2.5%	4,774	4,894	5,016
Contributions	600	367	0	0		0.0%			
Interest	346	265	160	160	215	34.4%	215	215	215
Transfer From Facility Reserve	0	0	0	0	2,531	0.0%	3,599	500	1,000
Total	48,508	49,540	49,819	50,246	53,646	7.7%	55,987	54,192	56,029
Total Revenue	59,702	61,775	63,729	64,156	68,444	7.4%	71,642	70,618	73,409
Expenditures									
Convention Center Operations	16,983	18,542	21,910	21,300	22,908	4.6%	23,824	24,777	25,768
Ongoing Equipment and Improvement	900	703	1,387	1,387	3,667	164.4%	4,810	1,760	2,310
Bad Debt Expense		213	0	0	0		0	0	0
Finance	225	307	302	302	319	5.6%	325	332	339
Convention Related Police Service					100	0.0%			
Human Resources	51	54	59	59	62	5.1%	63	65	66
GMCVA	7,002	7,230	6,655	6,655	6,930	4.1%	7,171	7,314	7,460
Neighborhood Early Learning Centers	0	0	-	-	-	0.0%	-	-	-
Convention Center Completion Project	93	0	-	-	-	0.0%	-	-	-
Transfer To Genl Fund - Entert Tax	5,841	6,480	7,270	6,927	7,482	2.9%	7,699	7,922	8,150
Transfer To Target Ctr Reserve	1,647	1,299	1,200	1,200	1,200	0.0%	1,200	1,200	1,200
Transfer To Conv Center Reserve	1,100	1,150	1,150	1,150	1,150	0.0%	1,150	1,150	1,150
Transfer To Capital Improvements	1,560	60	-	0	-	0.0%	-	-	-
Transfer To Debt Service	16,205	16,876	19,493	17,351	19,725	1.2%	19,142	18,810	18,796
Transfer To Parking Fund	8,235	8,598	8,365	10,646	8,243	-1.5%	8,359	8,539	8,402
Transfer to BIS	71	66	66	66	-	0.0%	0	0	0
Transfer to MERF pension	-		23	23	15	-34.8%	15	15	15
Transfer to Self Insurance	17	19	19	19	-	0.0%	0	0	0
Total Expenditures	59,930	61,597	67,899	67,085	71,801	5.7%	73,759	71,883	73,656
Net Income	(228)	178	(4,170)	(2,929)	(3,357)	-19.5%	(2,117)	(1,265)	(247)
Fund Balance/Retained Earnings:									
Beginning Balance	24,449	24,221	24,399	24,399	21,470	-12.0%	18,113	15,996	14,731
Ending Balance	24,221	24,399	20,229	21,470	18,113	-10.5%	15,996	14,731	14,484

Notes:

As part of the Council approved work-out plan, an advance of \$12.8 million was made to BIS 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.

Beginning in 2005, the Transfer to BIS is reflected in the Convention Center's Operating Budget based on the BIS Rate Model.

In 2004 the GMCVA entered into a \$2.5 million loan agreement with the City for its joint venture Internet Destination Sales System (IDSS). The loan is to be repaid in full in 2009 at a 5% interest rate. Repayment of the loan is pledged against future City funding considerations of the GMCVA commencing with the 2007 appropriation.