

CONVENTION CENTER

Mission Statement:

The Minneapolis Convention Center is the national convention and trade show venue of the State of Minnesota. By hosting events and offering a variety of services, the Minneapolis Convention Center showcases and provides economic benefit to Minneapolis and the surrounding region.

We will provide an exceptional product, in a safe environment, while maintaining the integrity and financial health of the facility.

Primary Businesses:

- Event Services
- Facility Services
- Sales and Marketing Services

Key Trends and Challenges Impacting the Department:

The following is a summary of the Trends and Challenges which have changed substantially since the development of the 2003-2008 Convention Center Business Plan. Areas which have not changed dramatically since the development of our 2003-2008 Business Plan have been included but marked as not having changed significantly. All other trends and challenges have been modified over the last year.

1. Supply and Demand/Competitiveness – FY 05 Update

As identified in the 2004 Business Plan, there are still many underlying factors that remain in place since September 11, 2001. Our competitors are now experiencing many of the same negative factors that are facing the Convention Center. We must continue to develop new lines of revenue production and further reduce the facilities reliance on rental income.

New items of concern have developed and the Minneapolis Convention Center (MCC) Management must expand their efforts to address the past and present risks. These new risks include the following: shrinking state and regional shows, fewer attendee's and exhibitors, a decreasing number of shows, last minute planning/uncertainty, improved inspections process, potential loss of a Minneapolis professional sports team, and increased expectations from our clients and guests.

There is a national trend for National Tradeshows to downsize or merge with other associations/shows with similar interests. The MCC must now face losing shows not due to competition, but due to a merge between competing shows. The potential loss is not only in rental revenue, but the City of Minneapolis Hotels will experience lost revenue based on a decreased number of guests to the Minneapolis area. Additionally, companies are spending less money on marketing their products. Tradeshow participation is down and many companies are combining product lines within the display area to lower their overall costs. There is a similar trend in relationship to attendees. Many companies are reducing costs and limiting the number of employees who can attend tradeshows. This further decreases the overall revenue impact to the City of Minneapolis. We need to continue efforts to increase our revenue potential for each show and attendee that visits the City of Minneapolis.

While there is a trend to merge between shows, there are also a large number of industrial shows that have cancelled. This trend is concerning in relationship to revenue development in the Exhibitor Services area. These shows were the primary revenue generator for this department. With the demise of many of these shows, the Exhibitor Services department is generating revenue at levels well below

those prior to the September 11th and the expansion of the MCC. These Industrial shows provide little profit to the MCC, but the overall economic benefit to the City of Minneapolis is extensive. Additionally, there is a greater amount of uncertainty by event planners. Due to cutbacks and last minute registration by exhibitors and members, tradeshow managers must wait until the last minute with planning details. This places greater stress on the staff of the Convention Center and local businesses. Scheduling of employees and the ability to have flexibility in the workforce are essential to remaining competitive. The MCC must always be in a position to obtain labor at any time with little or no notice.

With the increased demand on our clients and exhibitors, it is essential to streamline the Licensing and Inspections processes. There is a need to have a "One Stop Shop" at the Convention Center in relationship to Regulatory Services. Many exhibitors are traveling from areas around the world and to have a lengthy process to obtain a permit and receive an inspection prior to a show is a competitive disadvantage. There is a need to have an on-site inspector to provide oversight in the regulatory process. The ability to provide a complete licensing and inspection process while on-site at the facility could provide a value-added service to our guests.

The loss of one of the City of Minneapolis' professional sports teams could have a dramatic impact on the facility. Not only could there be a loss of tax revenue to the fund, but an overall lack of entertainment for visitors will have a negative impact on the facility and City as a whole. Having a sufficient amount of tax revenues to the fund to maintain the overall health of the facility is critical. The reduction in entertainment related purchases in the City would have a dramatic effect on the facilities long-term health. The MCC and all the local business would be dramatically affected by the loss of the Twins or Vikings.

"Customers Demand More and Expect to Pay Less." This common theme is being seen throughout the entertainment and convention industries. Clients, Guests and Exhibitors are finding unique ways to reduce their costs and rely less on local services to be competitive. The MCC Management must continue efforts to develop new sources of revenue production. While it is important to develop these revenue sources, it is also important for the cost of these services to remain competitive. Prices must be at or below the competitive market levels. MCC Management must strive to obtain pricing from vendors (Service providers) that are competitive and affordable.

2. Funding

In 2003 and early 2004, we continued to see pressure placed on our funding streams. While significant time has passed since the tragedies of 9/11/01 and the impact continues to diminish for our industry, some of the fallout from the economic downturn which followed is still prevalent.

We continue to see Sales Tax returns to the facility fund, which are far below not only expansion projections, but actual figures from the late 1990's. Additionally, we are just beginning to approach first year post-expansion production for space rental and facility revenue. We continue to attempt to offset these shortfalls through the development of revenue streams and cost containment.

The City of Minneapolis continues to shoulder the full cost of operations and current debt service on the Convention Center while the economic impact extends far beyond its boundaries. Most specifically, the state sees six cents of sales tax return for each dollar spent on Convention Center related activities while one-half cent is returned to the Convention Center fund.

Financial data provided on the Convention Center Fund shows diminishing balances over the next four years. Decreased spending by consumers has provided less revenue than originally projected. As a result of the steps taken by the MCC management to contain costs and cut unnecessary spending, and sound financial decisions by the Minneapolis Finance Department, the budgeted operating loss of the

facility has been minimized. Refinancing our debt service and responsible spending resulted in a small surplus in 2003. While this is very positive in the short term, we cannot rely on interest rates to create surpluses in future years. We must continue to increase revenue and/or further cut costs, to prevent the Fund from diminishing to a dangerous level.

While the Convention Center was originally developed under the direction of being a loss leader, the long-term financial health of the City and the Convention Center Fund forces us to look critically at the overall health of the fund. Future Convention Center financial planning must continue to consider the overall, long-term health of the Convention Center Fund versus the short-term limited view of an operating subsidy. The City of Minneapolis is not in a position to provide operating revenue to the facility now, or in the foreseeable future.

3. Security - No significant changes from 2003-2008 Business Plan

As international tensions continue and the potential for terrorism grows the need for security increases particularly in a public assembly facility with national and international exposure. The response to these potential threats continues to impose additional security costs. This will happen at the same time that revenue may dip due to the current economic slump and widespread travel fears.

ID cards/badges are the most basic and necessary security tool in the struggle against terrorism. Properly managed, this one item can greatly reduce the risk of unwanted access to our facility. The strict enforcement of this procedure and the resultant visible increase in security preparedness will help increase the perception that the facility is a 'hard target' and much less accessible to potential terrorists.

In addition to mechanical access control, there is a significant and more important aspect in human intervention. The number of security employees necessary to respond to the increased threats escalates in proportion to reported terrorist activity and credible threats present. Client and guest service is an essential element of our mission and these expectations require officers in very visible locations as deterrents. Additionally, the judgement and intelligent decision processing with human observation is key and cannot be achieved with equipment alone.

The front of the building (glass wall and lobby areas along Grant Street) is particularly vulnerable to threats from ready vehicular access. Client requests for use of the Plaza together with large multi-site events utilizing the plaza and Grant streets for large number of pedestrians to move freely "within their event" presents a concern for public safety. At times, regulating access to Grant Street from 1st Avenue to 12th Street would enhance security and provide a higher level of service to meet our client's needs.

4. Technology

One of the fastest moving and least predictable issues the MCC faces is technology. Fast-paced innovation in both our industry and business in general has resulted in greatly heightened customer awareness of leading edge technologies. The effect on the MCC is two-fold – demand for older technologies decrease while highly demanded newer technologies need careful examination.

This customer awareness of fast paced innovation in communication technologies has greatly increased their expectations. The advances in internet/intranet and global telecommunications have affected the corporate world as much or more than any other segment in society. Our core customers are often leaders in advancing technologies and their increased expectations are changing service demands. These changes may have a negative impact on our existing revenue streams. The MCC must consider implementing newer technologies to capture new revenue streams. Increasing cell phone usage drastically decreases demand for our landline telephone service while opening opportunities to examine offering other, cell-0related, support services. When the Convention Center

was conceived, the Internet was not a business concern. It has now greatly changed the way our customers communicate. With increasing high bandwidth technology, huge quantities of data in all forms including audio and video can be transmitted throughout the world with simply a keystroke. Although these innovations are becoming the customers' expectations, these technologies are advancing so fast that they can often be obsolete before they have returned their capital investment.

The line between corporate presentation and concert production technologies is blurring. Realizing the increasing customer demand for concert level production technologies, the MCC is continuing to incorporate them not only in our new, state-of-the-art auditorium but also throughout the rest of the facility.

In order to offer services that will be utilized and create a satisfactory return on investment, we must continue to carefully examine new technologies in all of these fields, as they become available. There are options as to how we ensure these services are available to our customers – by providing them internally, through partnership with vendors or allowing the use of outside providers. The decision as to the course we take with each technology has to be driven by the balance of potential revenue versus installation, maintenance and personnel training costs while factoring in the overriding concern of providing convenience and service to our customers.

Technology concerns impact our clients not only directly through their expectations of available services, but indirectly through our ability to provide good service of all types. During 2004, we have identified some weaknesses in our technology systems infrastructures that will need to be addressed. These include our internal radio system which has become congested with increased staff and contract vendor personnel. The fiber-optic capabilities of the existing structure need to be upgraded to equal the expansion. This now includes our internal LAN network which will shortly be out-paced by the upgrades to our desktop PC's, switches and hubs over the next 2 years; all of which will operate at higher speeds than the existing internal LAN structure is capable.

5. Customer Service Expectations

The MCC continues to face a major challenge as the increased surplus of rentable space and the increased expectations of clients, demand the MCC to be more responsive to remain competitive in the convention center market. The major question is how can the MCC distinguish itself from the other venues and provide added value to the customer. The continuing glut of Exhibit Space combined with increasing expectations has begun to cause some of our competitors to fall behind and while this remains a threat to our facility, it may also present opportunities.

In 2003 and early 2004 we have seen the development of several new trends. Perhaps the most significant change is the diminishing lead-time for decision-makers at all levels. Shows are booking much closer to the date of their event, and still demanding a high level of service and responsiveness.

We continue to see increased demand to modify Permits for Occupancy as show management companies become more intertwined with associations and we pursue more corporate business. The same factors are also driving higher expectations for service at a lower price. Within our industry, there is a growing feeling that everything is negotiable which has made diversity of services even more important. As we have begun to assume more connection to our customers on ancillary services such as event security, police, A/V, and a variety of labor, we are pushed to continue to distinguish our product from our from that of our customers.

The growth of corporate customers as a market segment will continue to drive greater expectations and demands for responsive service.

Our push towards one-stop shopping has allowed us to meet the needs of many more corporate clients as we continue to see this segment of our business grow. We started this push to consolidate billing and services several years ago, but are now seeing this evolve into an expectation of customers through association educational sessions and communication with fellow facilities. By assuming the responsibility for a wider portion of our customer experience, our team has become more intertwined with our customers which is leading to stronger relationships, but increasing demands on our staff to provide exceptional service and to take responsibility for the overall product.

6. Revenue Development - No significant changes from 2003-2008 Business Plan

As referenced in the Economic Environment Section, beginning with the Terrorist attacks on September 11, 2001, the convention industry has suffered greatly. Additionally, there continues to be an increasing glut of exhibit space available due to the ongoing expansion and construction of competing facilities. As a result we have not seen the increase in events that was expected when planning began for an expanded Convention Center. In order to support the long-term health of the Convention Center fund, our business plan must recognize the need to proactively develop new revenue sources and maximize our use of existing revenue streams in order to capture revenue which is currently going to other vendors or facilities.

The Convention Center has an abundance of capacity in its main commodity: space. In 2002, only 992 days out of 1645 potential use days were utilized in the exhibit halls. As space rental continues to account for approximately 50% of all revenue generated by the facility, we must develop a plan that provides solutions that increase occupancy. We will look to explore ways to attract more local and regional business and place a greater emphasis on short-term bookings (those events booked less than 18 months out.) Some potential areas to increase bookings include, increasing our flexibility in making deals, utilizing space for non-traditional events such as concerts or festivals.

In addition to increasing our bookings, we have the opportunity to increase the amount of revenue derived from each event. The Minneapolis Convention Center has traditionally, limited the number of revenue generating opportunities it actively pursues. Many opportunities could be harnessed as part of this business plan including the development of exclusive and preferred relationships that provide revenue to the facility in return for providing additional services. We have begun to exploit these areas through the development of exclusives for event security and medical services. Other known potential sources include a business center, Internet Services Providers, Ticketing Services, and Audio/Visual Services. As part of our business plan, we should also continue to look for new sources. Technology will play a role in revenue generation as we look at revenue streams such as advertising panels and broadband services. In order to help create additional revenue we must continue to look for creative methods for packaging specific services at competitive prices for specific targeted customers.

A large potential revenue stream is available through the development of partnerships. In 2003, we have seen a significant contribution by a local partner in the funding of the art wall. This major contribution driven by one of our long-term partners, the Greater Minneapolis Convention and Visitors Association saved the facility \$300,000. Other potential partnership opportunities exist in facility naming rights, finishing of two large unfinished event spaces on the mezzanine level, and advertising signage/informational displays.

7. Cost Containment - No significant changes from 2003-2008 Business Plan

With the expansion of the Convention Center bringing our total square footage from 800,000 to 1.5 million (an increase in size of 80%), our maintenance and labor costs to service the facility have increased significantly. Through prudent hiring, restructuring efforts and efficiencies of scale, we have contained the initial increases in expenditures, excluding new services, to 40% for labor and 22% for maintenance and utilities.

Over the next 5 year period, the Convention Center will be impacted by a changing labor market, fluctuations in the economy at the local/state/US & international levels, the geo-political climate with resultant effects on travel, potentially increasing concerns with security of facilities and uncertain futures for energy costs. These factors directly drive expenditures for the Facilities department and influence the ability to generate revenue on the Events side.

Regardless of revenue opportunities, cost containment strategies will be needed to manage the subsidy of the facility and contribute to the health of the Convention Center Fund. We will need to track and analyze the labor market to manage changing employee expectations, recruit and screen for successful candidates, and provide proper training with the goal of improving retention of qualified, trained employees. The single largest limitation to controlling labor costs is our inability to adapt our workforce to changing business cycles of the convention industry. We need to develop a large part-time labor force to accommodate the “feast and famine” nature of the business.

Depending on market conditions and economics, we will need to accommodate either a great many more clients with proper maintenance of a heavily used facility or develop plans to accommodate significantly fewer clients and save wear and tear on sections of the facility that are not needed. Careful analysis will need to be done to determine the feasibility of closing-off sections of the facility during potential major down turns in the business cycle. We also need to manage the increasing need for maintenance and repair of the existing facility (which will age from 13-18 years during this period) along with the appropriate capital planning for the expansion which will age from 1-6 years. The capital cost per square foot for the existing facility has risen from \$.18/sq foot in 1993 to \$.66/sq foot in 2003. Prudent preventive maintenance will be required to contain long-term deferred maintenance costs which can escalate unnecessarily with ‘minimal maintenance’ schemes.

Prudent stewardship of this facility and the Convention Center Fund will drive policy decisions over a wide basis that impact cost containment in many areas other than maintenance of the structure itself. Examples of this include:

- How well we operate and control risks will affect our property insurance rates.
- How well we manage client expectations and utilization of the diverse areas of the facility will affect our energy usage.
- How well we train and develop our workforce will impact the wear and tear and subsequent maintenance costs of our equipment.

8. Economic Environment - No significant changes from 2003-2008 Business Plan

As part of our environmental scan, the Convention Center staff identified the need to look at the effect of the economy on our facility. We currently face many external variables that are impacting our business.

The stagnant economy has impacted the percentage of occupancy for similar facilities since the fourth quarter of 2001. While September 11th pushed the economy strongly downward, many indicators showed that the rate of growth had already begun to shrink during the second and third quarter of the year. The convention and trade show business is directly impacted by the overall confidence that corporations display at any point in time. During periods when confidence is low, we see a decrease in the amount of authorized travel. As corporations have become skittish, we have seen many shows request smaller space. In some cases, we have experienced the cancellation of long-running shows. Overall, the struggling economy has created some facilities to change the competitive landscape by reducing rates or waiving charges for some services.

As unemployment rates have risen, and many companies have tightened their belts, our customers have seen a steady decrease in their disposable income. This tends to directly impact our public

shows and was directly demonstrated in slightly decreasing public show attendance in the first quarter of 2003.

The best way to describe the economy since 2001 is uncertain and nervous. This uncertainty is manifested in the delayed decisions of many show managers. The unabashed optimism that drove the dot.com boom has swung to a lingering uncertainty fueled by the long running war on terrorism and the Iraq Conflict.

The target customers of the Convention Center are deeply affected by local, national, and in some cases, international economic trends. We continue to see their uneasiness manifested in shorter-term decisions, and need for flexibility.

9. Labor Workforce

In 2004, we have continued to see progress in the area of working with our workforce. Over the last several years, significant improvements have been achieved in the area of employee turnover. Through the process of our reorganization from 2000 to 2003, we modified department structures, and shifts. In the process we eliminated a problematic swing shift used by the non-defunct Housekeeping Department. Early in 2004, we reached goal numbers for span of supervision developed in our Workforce planning project at 6.0. These gains are reflected in two major areas, turnover and employee satisfaction. The gap between employee expectations and performance has been cut in half over the last six years as measured by our annual employee survey. In 1997 the gap between expectation and reality for the statement "The MCC is a good place to work" was 0.97. In 2003, the gap for the same statement was 0.40. The facility Turnover Rate in 2000 was 28.3%. In 2003, the number was 15.1%. Perhaps most significantly within our OMS classification, the single largest classification of employees at the Convention Center, we have seen turnover drop from 116.7% in 1999 to 22.8% for 2004. Against this backdrop, we still face determined resistance from a small group of disgruntled employees. We have faced several Affirmative Action and EEOC complaints through 2003 and 2004. As of June 2004, we have eleven open or recently closed non-grievance complaints. Seven of those were by or on behalf of three individuals. Five have recently been returned as unsubstantiated with the rest at various stages of investigation.

Flexibility in the workforce continues to be a challenge as we adapt to changing event cycles and the inevitable ups-and-downs of the event-driven staffing. Continuing to cover all flexible staffing needs with the existing labor model is resulting in excessive overtime. This is difficult for our workforce and expensive. In 2004, we began utilizing more intermittent employees within our custodial operation. Through May 2004 our overtime was down by approximately 291 hours total compared to the same period last year. This figure includes an additional 556 hours in show production overtime which is necessitated by customer demands and equipment specialization and is largely billable at a profit center to the facility.

Employee training and development programs for annual and topic-specific issues are underway. Future training and development programs will need to shift focus to the role of employees within the business plan to help them share in the larger vision for the Convention Center. Employees at the line level interact with and make decisions that directly impact our customers every minute of every day. The many small impacts of those decisions and actions speak volumes to our customers on what the perceived mission of this facility is.

10. Regulatory Environment

We are continuing to work to develop long-term relationships with partner departments in the City to meet the unique business needs of the Convention Center in the areas of Information Services, Police and Fire, Human Resources and Traffic Control. We will continue to work with these areas as well as

Public Works Transportation & Parking Services, Finance and Procurement on future initiatives to enhance our competitive abilities.

In 2003 and early 2004, we have been able to initiate efforts to bring a higher level of service to our clients by developing stronger partnerships with our fellow city departments while simplifying billing processes for those departments. We are continuing to see issues with shaping life safety policies related to the changing nature of our exhibits. We have also experienced several issues in providing banner opportunities to our customers on the face of the facility. We are currently receiving strong cooperation from the agencies responsible for these areas as we work towards solutions which meet the interests of the city and our clients.

11. Branding/Identity/Image - No significant changes from 2003-2008 Business Plan

The brand is a set of facts or beliefs that are perceived in the mind of the targeted customer. The Minneapolis Convention Center needs to develop and establish its brand, communicate who we are and strategically position ourselves competitively in the marketplace. The brand position is a specific description of how the marketer (Minneapolis Convention Center) wants the customer to identify and define the brand -- how the Convention Center would want its customers to feel and think about the Center. Brand awareness establishes a familiarity in the customer's eyes.

- What would be accomplished by a branding study?
- Identifying the leverageable assets
- grasping brand opportunities
- mapping out a competitive landscape
- understanding key target audiences
- preliminary positioning direction

With the recent completion of the MCC's expansion, a concerted effort will take place among the City of Minneapolis, Minneapolis Convention Center Management, and GMCVA to develop a new logo for the Center that will embody the new colors and décor of the Center. The new "look" will be incorporated into all sales and marketing collateral, building correspondence, facility user's guide, etc. Over the course of time, the current logo will be replaced wherever it appears throughout the building. While the new logo is very important, it is essential that this one component of branding be coordinated with the complete branding process that is being conducted by the GMCVA.

12. Event Infrastructure – FY 05 New Environmental Trend

The need for the Convention Center Management and staff to improve the overall infrastructure of the facility in relationship to how we service our clients is becoming increasingly important. The primary concern in this area is the means and methods in which we communicate with our clients, exhibitors and guests. It is increasingly important for us to provide an exceptional product and develop new and improved ways of providing information on the front and back end of events in a timelier manner. We must move from a reactionary position to a position where we anticipate client and customer needs prior to their arrival.

The need for timely and accurate written estimates prior to an event is essential. Due to uncertainty by show managers, they must have accurate information to make informed decisions on what services are financially possible. The present structure of the MCC billing process does not lend itself to timely/accurate estimates. Also, we need to develop a process for identifying costs that are traditionally not considered by our clients until they receive a bill from us. Costs for items such as phones, electricity, seat removal, cleaning costs and other event related expenses need to be clearly identified prior to a client's arrival. Along with estimates, the need for timely final bills is important to our clients. It is very difficult for associations and show managers to evaluate the success of their show until they

receive a final bill from the Convention Center. We need to continue our efforts in improving this timeliness of this process.

Accurate billing is only successful if information entered into the system is accurate. The MCC must develop improved capability to clarify costs once items are identified. Aggressive attempts to obtain accurate event information are needed to provide a clearer level of knowledge for our departments in preparing estimates and final bills. Changes on the show floor can cause additional problems in the billing process. At times, clients are not effectively communicated with in the costs associated with ads on the show floor. MCC staff must also understand that ads on the show floor are only possible when approved by show management. There are large amounts of lost revenue in relationship to show floor ads. Without proper approval, changes on the show floor could cost the MCC significant amounts of revenue.

The need for improved efforts by the Safety department and Guest Service are needed. Efforts must continue by the staff to improve our communications with our clients on the needs for safety programs and the need for Guest Services staff to ensure the safety of the clients, guests and facility. Also, we see a need for clearer communication between the Safety Dept, MFD and the Guest Services department. When there are communication breakdowns between our clients and any one of these service departments, the client suffers. These communication issues cause lost productivity and additional costs for our clients.

Key Initiatives or Other Models of Providing Service to be implemented in 2005

Following is a summary of planned action items for 2005 based upon our Key Initiatives. We are including only those items which will receive significant action in 2005. Further information on future years and completed projects will be available within our updated 2005-09 Business Plan.

Key Initiatives

1. Completing Competitive Upgrades

Description

One of the MCC Management's initiatives is to complete competitive upgrades on an annual basis to remain competitive with the ever-changing convention industry. While we have made significant steps to complete our short-term planned initiatives, our long-term forecast requires greater investment in new programs and technology. We have broken this initiative into the following subgroups to better identify our goals:

Technology and Equipment Upgrades

- Phone System Upgrades – With the development of Hall A, we have determined that a new phone system for Cell Phones is required. Presently, cell phones and radios do not work effectively within this area. RFPs for this initiative have been received. Three proposers are being interviewed with an expected contract and installation of system by January 1, 2005. At the present time, no costs appear to be associated with this initiative. Revenue potential is part of the negotiation process and is still to be determined.
- Category 5 Cable/Fiber in Old Building – The original structure of the MCC is not equipped with category 5 cable or sufficient fiber optic cable runs. Presently, the MCC operational staff has pulled in minimal amounts of fiber optic cable to meet some of the needs of our clients. Additionally, the category 3 cable that is installed does not meet the technical needs of new Internet technology. Major portions of this initiative have been incorporated into improvements in infrastructure upgrades as part of the system installation for the wireless solution. Remaining portions of the infrastructure

will be re-evaluated during 2005 for potential upgrade or replacement as needed in 2006 to meet current technological requirements.

- Digital Wall/Marquee's – The MCC has a limited Marquee display system. The existing marquees are 15 years old and do not represent present technology. With the invention of Digital Technology, one initiative will be to obtain new digital wall panels to provide advertising and marquee space for our clients within the facility. In conjunction with the digital wall, the MCC would install digital marquees on the exterior of the facility to advertise and provide useful information to our clients and guests. The initial phase of project has been completed and monitors replaced with digitally controlled video flat panels in the interior North concourse of the facility. The remainder of the interior monitors is funded in the 2005 capital request with an anticipated completion of 3rd Quarter 2005. Development of plans for exterior marquees and digital advertising walls will be included in development of a naming rights proposal for the Auditorium and associated spaces.
- Theatrical Lighting/Audio Visual Equipment/Ballroom Sound System. With the addition of the Auditorium, the MCC has a new area to generate additional revenue for our bottom line through rental of A/V and Lighting Equipment. Lighting and A/V technology changes yearly and we will need to purchase new products on an annual basis to remain competitive. Additionally, the Ballroom sound system is 15 years old and has started to fail and become unreliable. We have received numerous complaints about the sound quality from the system. We are making attempts to make temporary fixes on the system, but an overhaul will be required in the short-term future. This initiative was addressed with the FY 03 capital and the final FF& E purchases for the building expansion. We are projecting annual Repair and Maintenance (R&M) money to maintain state of the art systems within our operating and capital budgets.

Security Upgrades

- Proximity Card Readers – Since 9/11/01, there has been an increased need for greater security within the MCC. Presently, we have been using staffing to assist us in covering vulnerable areas of the facility. This provides great visibility in public spaces. There is still a critical need to secure back-of-house areas from unwanted access. Card readers are needed on the pantries and elevators that access service areas of the facility. The card reader units have been acquired for these areas and installation is currently in progress, to be completed during 3rd quarter 2004. Following the research for this initiative, it has become apparent that card readers should be utilized in most applications for mechanical rooms, pantries, service corridors and storage areas throughout the facility and not limited to the service elevators. The card reader program has been expanded accordingly and these areas will begin to change out in 2005. Capital funding has been designated.
- Additional Cameras – Operating the expanded facility has shown the need for additional coverage in critical areas. This project is currently funded for fiscal year 2005 with an anticipated completion during 3rd quarter 2005.
- Replace old technology cameras in existing facility - The MCC presently uses outdated equipment in the original portion of the facility. This equipment was not upgraded during the construction of the addition to the facility. Many of these cameras are out of date and provide poor picture quality. Furthermore, the visible mounting hardware and cameras allow the potential to track camera movements. This project is currently funded for fiscal year 2005 with an anticipated completion during 3rd quarter 2005.
- Upgrade Parking control equipment to accommodate public sales – Parking equipment was installed during fiscal year 2003. Public parking has been on sale in our ramp since then. Following a year of public sales, we are expanding the sale to automated attendants to cover off-hours. This equipment will be installed 1st quarter of 2005 and funding has been included as part of 2005 capital requests.

Lobby D Escalator removal

- The lobby space located in Lobby D is limited greatly by the need for escalators. We would like to remove the existing escalators to provide greater lobby space. This will allow our clients to have a large, centrally located, registration lobby. Many of our National Clients are used to this setup in other facilities. We believe this will be one more additional sales item to attract customers to the Minneapolis Convention Center. Initial discussions with building architects have taken place. Further analysis will continue in 2005.

2. Actively Move Towards Stabilizing the Operating Subsidy for the Facility and Ensuring the Long-Term Health of the Convention Center Fund

Description

The debt service associated with the expanded facility combined with uncertain economic times continues to place pressure on the Convention Center Fund. One of the ongoing key initiatives for the Convention Center will be to aggressively look for untapped sources of revenue and unseen potential cost savings. Many items have already been actively pursued in recent years. Exclusive Security and Medical Services, development of a full-service auditorium package, partnership with GMCVA to secure sponsorship for the Art Wall, Equipment Rental Package development, competitive cooperation on contracted hard to attract clients, internalization of Police, and Fire Watch Services are some of the revenue generating approaches, we have initiated in recent years. Looking forward we will continue to look at a variety of options for expanding services, building partnerships, and containing cost based upon our stated initiative of ensuring the long-term health of the Convention Center fund. Some identified areas are within our short-term plans including the development of an exclusive ticketing service, build out of unfinished room L101, naming rights, and partnering with the GMCVA to combine our concierge, restaurant booth, TC Tix, and Welcoming functions into one centrally located permanent Convention Center location. Long-term plans will include thorough ongoing reviews of service and equipment offerings, new-business development and active pursuit of partnerships.

Short-Term Initiatives

- Ticketing – Originally Convention Center Staff anticipated issuing a Request for Proposal for Ticketing Services with planned implementation in early 2005. We experienced unexpected delays in hiring the manager overseeing this area. We anticipate developing a ticketing RFP as a primary responsibility of this individual in FY2004 and early FY2005. The majority of this project will be completed in FY 2005. It is anticipated that ticketing services will begin January 1, 2006. The addition of an exclusive ticketing agency will provide a new revenue stream, while allowing better control of our public shows and concerts and improving audit controls.
- Combining Visitor Services with the GMCVA – While the cash impact of this move will be not be as substantial as some earlier proposals, it will allow some economies of scale and help us provide a more desirable level of service to building patrons. By partnering on these services, we will remove some duplication between our organizations. By locating TC Tix in the Convention Center, we will help the GMCVA provide the service to a large group of potential users. Initial joining of operations has taken place in temporary facilities in the lobby of the Convention Center. We are currently working with the building architect to finalize the Visitor Information Center design. Construction should begin 4th Quarter 2004. This project will be completed in early 2005
- Naming Rights – Due to poor general market conditions over the last few years, we placed naming rights research on low priority. As economic conditions began to improve this year, we feel the time is right to pursue naming rights options. We anticipate these discussions beginning in 2005 and have set aside operating funds to explore this item.

3. Shaping Customer Experience

Description

Paramount to the success of the MCC is for the planner and attendee to have an enjoyable experience at the MCC. The ease of conducting business and ultimately the success of each event is our number one priority. The following activities will be pursued to help improve the ease of conducting business, and shape a positive customer experience.

- **Maximizing Parking at the Plaza Parking Ramp**

For many customers of the MCC, parking or the lack of parking (perceived or otherwise) is the number one issue affecting their ability to host an event. Limited parking immediately adjacent to the MCC is at times quickly filled with MCC customers, but also individuals that work in the downtown Minneapolis corridor. In discussion with customers, we have found that in many instances, exhibitors take a majority of the close parking locations and provide limited turnover during events. There are currently no plans to build significant parking ramps near the MCC. Also, given the location of the MCC, there are very few parcels of land available on which to build.

The Plaza Parking Ramp near the MCC needs to be managed in such a way to make parking available for customers of the MCC. Switching from an event rate to an hourly rate will help ensure a quicker turnover of spots and ultimately increase revenues to the City. Working with show management to develop plans for alternative exhibitor parking could provide greater levels of close parking for customers and deliver additional revenue. Beginning 4th quarter FY03, MCC management met with Public Works Parking staff to explore parking services options to better serve the MCC needs. Initial discussions did not reveal any better solutions. MCC management will implement new hourly rate structures for our parking ramp on 3rd avenue during FY2004 to evaluate alternate rate plans. Data from this research will drive further discussions with Ramp operating personnel during FY2005.

- **Skyways**

One of the most valued assets to the MCC is the Minneapolis skyway system. The MCC is connected to virtually all the downtown hotels, parking ramps, restaurants, nightclubs and shopping areas giving the attendees access to all these areas in the ease of the climate-controlled skyway. However, the skyway system does have its challenges. Skyway hours vary from building to building, signage is inconsistent and is not international and security issues are always of concern.

Maximizing the usability of the skyway system could have a significant financial impact as it may assist in booking additional clients that recognize the value of a climate-controlled skyway system that provides them with access to all downtown amenities.

Developing uniform hours or at the very least, developing a system where extended hours could be implemented when needed, is crucial to the success of a meeting or convention. Also, informative signage will reduce the attendees frustration by providing them an "easy to understand" means to navigate the skyway. During 2005, we will work to gain a more representative voice with the skyway committee.

- **Plaza/Grant Street**

The outdoor plaza in front of the MCC is unique to most Convention Centers. Typically, centers are landlocked with very few open areas. The MCC's plaza is over 70,000 sq. ft. of space that may be utilized for receptions, lunches or dinners and entertainment. The plaza can be a highly valued space when clients are determining locations for special events.

In order to make the plaza a more attractive site, the MCC must add better lighting, have electricity available in more locations, invest in more outdoor equipment, update or replace the landscape area and repair any defects in the sidewalk and other structures. Several improvements are being completed in 2004. Additional improvements have been identified and budgeted for FY05 for completion by 2nd quarter FY05.

- **Labor Flexibility/Structure**

Virtually all events that take place in the MCC depend on the use of labor from nearly every department within the building. However demands for labor vary greatly from group to group and the clients for each event rely on the MCC to provide appropriate labor to meet those variable demands.

Because every event presents variable workloads, it is advantageous to have a more flexible labor model than now exists.

The MCC is studying the concept of utilizing part-time staff in order to meet the peaks and valleys of the labor demand. This system would be based on client driven needs rather than predetermined scheduling.

In 2004, we had begun increasing the usage of intermittent employees in the Facility Services Department with some positive impacts on overtime. The MCC will continue working with the Teamster Local #320 Labor Management Committee during FY 2005 to develop better labor model proposals for partial/part-time staffing.

4. Addressing Infrastructure Shortcomings

Description

The Convention Center's primary product is the facility itself, the space that clients rent. The maintenance to preserve its reliability, appearance and functionality is of primary concern. As such, capital expenses along with repair and maintenance comprise 25% of the Convention Center's operating budget on an annual basis. As the facility ages, some systems will require outright replacement while others will simply continue with routine maintenance, perhaps on an increased basis.

The existing technology infrastructure was designed in 1986 and opened for operation in 1991. With the rapid pace of advances in the data world, this infrastructure is now in need of substantial upgrades to maintain a competitive advantage. Today's technology was designed into the client spaces of the expansion but existing areas of the building require upgrades to provide a seamless facility with uniform customer service.

- **Project Management**

As part of our ongoing business plan, our annual capital expenditures will increase markedly over the next several years. The bidding and project management requirements of this work requires substantial oversight. In 2005, we have budgeted for a new position in the Facility Services Department. The position will be created from funded but unused FTE positions and will be responsible for many of the duties previously assigned to an outside consultant.

- **Study Major Finishes**

Publicly visible major finish elements will need to be addressed over the next five years. In spite of routine maintenance, the terrazzo floor system throughout the building is deteriorating in the convention environment at an unacceptable rate and will require extensive renovation or replacement to avoid an unsightly lobby space. Carpet throughout the facility was replaced in 2000

to match the expansion. This carpet was trouble-prone during installation and appears it will require replacement in 3-5 years. There is the possibility of changing to a new carpet system, which would require aesthetic study. Walls, structural steel elements and ceilings of the 4 upper exhibit halls continue the pink color from the original construction on 1989. A major cleaning and repainting with a potential color change to coordinate with the new colors needs to be examined.

Studies of these systems began in 2003 and have continued during 2004. We expect to see the development of a draft comprehensive plan in 2005 with initial funding requests for 2006 and beyond for detailed work involving outside agencies and architects.

- **Telecomm and Data Infrastructure**

The original low-voltage data and telecommunications cable-plants are obsolete. Updated versions of these elements have been incorporated into the expansion spaces and customer usage demands updates to the existing spaces. Other systems suffer similar fates. Our inside event monitors and radio communication systems are due for an update. Pay phone usage has dwindled markedly; cell phone usage is dramatically increased. There are resultant impacts on our infrastructure, which must be accommodated.

In 2004 we began to address a very visible system with an upgrade to the event monitors in public spaces. This upgrade has been started in 2004. The project will be completed during 2005. Radio communications are vital to convention operations. Additional radio channels and equipment will be added to the existing system to accommodate these needs. Additional radios were purchased in 2004. A larger program of radio equipment replacement will take place in 2005, capital funds have been designated.

- **Sound and Lighting**

Audio recording is being enhanced in 2004 with \$52,000 of additional client equipment and upgrades to some of the existing sections with the least options for customer service at this time. This is a portion of a \$1,000,000 multi-year effort to complete the integration of the sound system following construction. The major portion has been budgeted for and will be completed by 4th quarter 2005.

Additionally, \$300,000 has been allocated to capital funding for FY 2005 to upgrade the lighting systems in the existing facility to match the expansion space. This is a continuation of an ongoing effort to remove discrepancies in our ability to serve our customers in different parts of the facility.

Primary Business: Event Services

Description of Primary Business:

This business line encompasses the majority of the interaction with three distinct customer groups; show management, exhibitors, and guests. Event Services includes our in-house and contracted services in three major activities: Show/Client Services, Guest Services, and Exhibitor Services. This primary business is responsible for providing an exceptional product through the coordinated delivery of services. They work with our clients, guests, and exhibitors to ensure that all facets of each show work to perfection.

Key Performance Measures that are impacted by 2005 resources:

| | 2001 Actual | 2002 Actual | 2003 Actual | 2004 Estimated | 2005 Projected |
|--|-------------|-------------|-------------|----------------|----------------|
| Number of Events | 547 | 542 | 516 | 520 | 525 |
| Total Attendance | 1,000,500 | 1,111,513 | 917,821 | 1,000,000 | 1,100,000 |
| Total Equipment, Labor & Utility Revenue | \$2,632,714 | \$3,404,634 | \$3,786,486 | \$4,755,000 | \$5,020,000 |
| % of Non-Rental Revenue | 51.5% | 53.7% | 53.5% | 55.0% | 56.4% |

Explanation of Key Performance Measures:

Number of Events and Total Attendance: Events and attendance are demand measures that are not directly controlled by the event services business, but drive the use of labor and equipment and can determine the need for appropriation of additional resources.

Total Equipment, Labor, and Utility Revenue: These revenue streams are directly impacted by the efforts of the event services business function through up-selling, creation of new business lines, rate structures, and the development of package sales. This performance measure shows the overall amount derived from the products of the event services department.

% of Non-Rental Revenue: This percentage measurement demonstrates the ratio of revenue from non-rental sources compared to rental revenue. Historically, rent has composed approximately 50% of Convention Center revenue with fluctuation of a few percentage points. While this measure can and will fluctuate due to rate changes, types of shows and other variables, it can be used to judge the effective marketing of Convention Center's event services product lines. The operating subsidy represents our overall target. A central part of our mission is to work towards minimizing the operational subsidy for the facility.

Primary Business: Facility Services

Description of Primary Business: This business line includes all of the support required to ensure that we have sufficient resources and facilities to properly serve our customers. This department provides key services to all events and is responsible for the long-term health of our facility. This primary business includes all of our Internal City of Minneapolis services, our administrative support, facility safety and security, parking and marshaling operations, and custodial operations. One of the major focuses of this department is the upkeep and preservation of the physical structure and all of our building systems.

Key Performance Measures that are impacted by 2005 resources:

| | 2001 Actual | 2002 Actual | 2003 Actual | 2004 Estimated | 2005 Projected |
|---|-------------|-------------|-------------|----------------|----------------|
| Overall Customer Survey Appearance Rating | 4.34 | 4.58 | 4.45 | 4.5 | 4.6 |
| Parking Services Net Profit/(Loss) | -\$201,943 | -\$168,290 | -\$114,291 | -\$55,250 | \$22,650 |
| Tallmadge Building Net Profit/(Loss) | \$65,383 | \$118,702 | \$42,376 | \$89,880 | \$90,000 |

Explanation of Key Performance Measures:

Overall Customer Survey Appearance Rating: This rating is gathered directly from Convention Center service surveys. The facility services business function is primarily responsible for all aspects of the appearance of the facility so this value demonstrates the effectiveness of their efforts.

Parking Services Net Profit/(Loss): These performance measures show the overall financial management of the parking facilities during the fiscal year. The net profit/(loss) is also used to determine if employees of the Convention Center will be required to pay for parking during a fiscal year.

Tallmadge Net Profit/(Loss: These performance measures show the overall financial health of the Tallmadge Building during the fiscal year. The Tallmadge property is not a primary focus of the Convention Center management team as it is managed by a private property manager, but effort is put into ensuring an annual profitable return to justify maintaining ownership of the project for potential future Convention Center related use.

Primary Business: Sales and Marketing Services

Description of Primary Business: This is the first point of contact for all business. This primary business is responsible for providing information about the facility, identifying and attracting events, maintaining relationships, and gathering data on how we serve our customers. Through surveys and client interaction, they help shape the overall Minneapolis Convention Center experience. The

majority of these services are provided through the Greater Minneapolis Convention and Visitors Association in coordination with the Convention Center's Executive Management Team.

Key Performance Measures that are impacted by 2005 resources:

| | 2001 Actual | 2002 Actual | 2003 Actual | 2004 Estimated | 2005 Projected |
|---|---------------|---------------|---------------|----------------|----------------|
| National Growth/(Contraction) Rate | na | na | na | na | na |
| Minneapolis Convention Center Growth/(Contraction) Rate | 1.53% | 22.85% | 2.17% | 2.2% | 1.8% |
| Occupancy - Square Footage | 73.07% | 59.54% | 54.80% | 56% | 57% |
| Convention Center Delegates | 218,100 | 192,300 | 190,925 | 209,400 | 158,900 |
| IACVB Expenditure per Delegate Factor | \$927 | \$962 | \$1075 | \$1075 | \$1075 |
| Delegate Expenditures on Convention Center Events | \$125,545,000 | \$184,992,600 | \$205,244,375 | \$212,630,000 | \$168,237,500 |

Explanation of Key Performance Measures:

National Growth/(Contraction) Rate and Minneapolis Convention Center Growth/(Contraction) Rate

These measures compare the growth or contraction of the volume of Convention Center demand compared to national demand for exhibit space. Please note that we are working with Pricewaterhouse Cooper to gain historical information which we can use to benchmark national growth and contraction. For the time period from 2001 to 2003 our size subset, saw a decrease in occupancy of 10% falling from 61% to 51%.

Occupancy

The occupancy data demonstrates effectiveness in leasing space and the amount of excess inventory available for future years. These measurements are now based on actual use of the space compared to the potential use of the space. Any activity in a space on a given day is considered a single use day. It is assumed that a space is only useable once in a given day. The significant fall off in 2002 relates to the opening of the expansion and is indicative of percentage of space used rather than total space used.

Convention Center Delegates, IACVB Expenditure per Delegate Factor, and Delegate Expenditures on Convention Center Events

These measurements are useful for evaluating the overall economic generation of tradeshow in Minneapolis. Delegates are considered attendees of conferences and trade shows and the figures do not include attendees at corporate, public or ticketed events. The IACVB multiplier is an average cash value spent by each delegate in the market and does not contain any re-circulation multiplier.

Financial Analysis:

EXPENDITURE

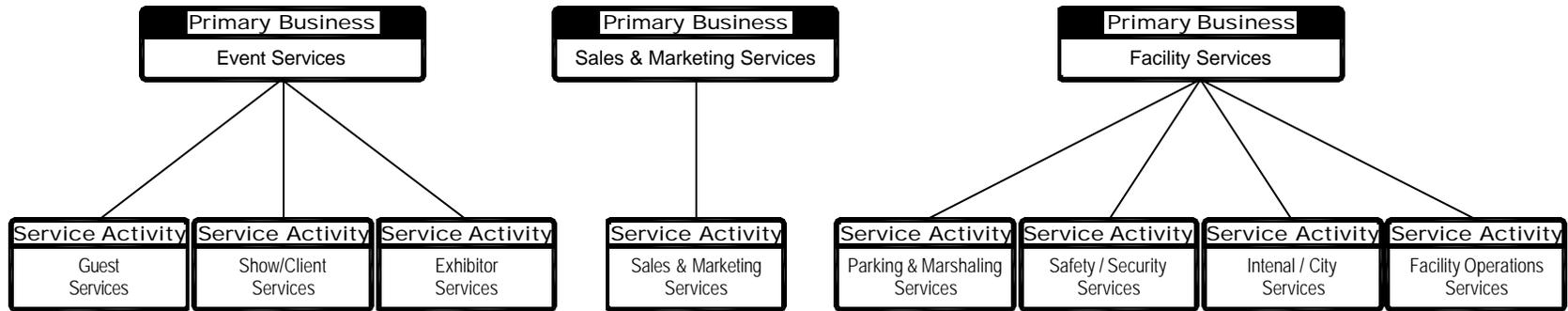
The Convention Center's expense budget will increase by \$1.18 million because of the General Fund overhead rate model developed for 2005. The model replaces various separate charges for indirect costs that were previously budgeted directly in Finance in various funds. It also includes \$239,000 in BIS charges calculated on a city-wide rate model and \$36,100 for benefits administration. Both charges were centrally budgeted in the past. Backing out these charges, the 2005 Convention Center budget is \$26.6 million, a 15.6% increase over the 2004 Adopted Budget.

For further financial analysis, please review the Convention Center financial plan in the Financial Plans section of this book.

**CONVENTION CENTER
Staffing Information**

| | 2002 Adopted Budget | 2003 Adopted Budget | 2004 Adopted Budget | 2005 Adopted Budget | % Change | Change |
|--------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---------------------|---------------|
| Total FTE's | 213.60 | 213.60 | 212.60 | 211.18 | -0.67% | (1.42) |

Minneapolis Convention Center Primary Businesses, Service Activities, and Functions



Functions

Event Security
 Medical
 Concierge
 Coatcheck
 Fire Marshall
 Police
 Concessions
 Lost and Found
 Business Center - 8/04
 *Ticketing Services

Functions

Event Coordination
 Production
 Audio/Visual
 Room Refreshes
 Catering
 Event Set-up

Functions

Electrical
 Plumbing
 Telecommunications
 Cleaning
 Internet/Wireless - 1/05

Functions

Soliciting Clients
 Site Inspections
 Hospitality Relationships
 Booking
 Contracting
 Advertising
 Sales Collateral
 Website Management
 Client Feedback
 Internal Goods and Services

Functions

Vehicle Staging
 Parking
 Parking Facility Mgmt.
 Parking Sales
 Traffic Control
 * Off-Site Marshaling

Functions

Life-Safety Monitoring
 Surveillance Monitoring
 Facility Security
 Building Access
 Shipping & Receiving
 Equipment Issue

Functions

Business Information Services
 Human Resources
 Personnel Records
 Risk Mgmt. Reporting
 Training Coordination
 Finance & Accounting
 Administrative Support

Functions

Preventative Maintenance
 Repairs
 Capital Improvements
 Project Management
 Building Systems
 Structure
 Custodial Services
 Grounds Upkeep

* Denotes current areas under review as additional or expanded services.

as of 07/14/04

**CONVENTION CENTER
Expense Information**

| | 2002 Actual | 2003 Actual | 2004 Adopted Budget | 2005 Adopted Budget | % Change | Change |
|--|------------------------|------------------------|------------------------------------|------------------------------------|-----------------|------------------|
| Special Revenue Funds | | | | | | |
| Contractual Services | 7,662,096 | 7,872,905 | 9,165,696 | 9,919,974 | 8.2% | 754,278 |
| Equipment | 900,009 | 703,376 | 1,120,450 | 3,666,825 | 227.3% | 2,546,375 |
| Equipment Labor | 1,355 | 2,844 | 0 | 3,000 | | 3,000 |
| Fringe Benefits | 1,762,279 | 2,165,875 | 2,760,594 | 2,968,507 | 7.5% | 207,913 |
| Operating Costs | 825,886 | 865,870 | 1,075,296 | 1,171,156 | 8.9% | 95,860 |
| Salaries and Wages | 6,731,235 | 7,633,650 | 8,909,099 | 9,162,327 | 2.8% | 253,228 |
| Total for Special Revenue Funds | 17,882,860 | 19,244,520 | 23,031,135 | 26,891,789 | 16.8% | 3,860,654 |
| Total for CONVENTION CENTER | 17,882,860 | 19,244,520 | 23,031,135 | 26,891,789 | 16.8% | 3,860,654 |

**CONVENTION CENTER
Revenue Information**

| | 2002 Actual | 2003 Actual | 2004 Adopted Budget | 2005 Adopted Budget | % Change | Change |
|--|------------------------|------------------------|------------------------------------|------------------------------------|-----------------|---------------|
| Special Revenue Funds | | | | | | |
| Charges for Service | 3,249,272 | 3,720,144 | 4,740,000 | 5,230,000 | 10.3% | 490,000 |
| Interest | -592 | 10 | 0 | 0 | 0.0% | 0 |
| Other Misc Revenues | 2,207,830 | 2,321,293 | 2,405,000 | 2,505,000 | 4.2% | 100,000 |
| Rents | 5,737,651 | 6,193,637 | 6,765,000 | 7,063,000 | 4.4% | 298,000 |
| Sales and Other Taxes | 47,561,747 | 48,908,092 | 49,659,000 | 50,900,476 | 2.5% | 1,241,476 |
| Total for Special Revenue Funds | 58,755,908 | 61,143,175 | 63,569,000 | 65,698,476 | 3.3% | 2,129,476 |
| Total for CONVENTION CENTER | 58,755,908 | 61,143,175 | 63,569,000 | 65,698,476 | 3.3% | 2,129,476 |