City of Minneapolis
FY 2010 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, formerly called the Greater Minneapolis Convention and Visitors Association (GMCVA). Meet Minneapolis is 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 2008 fund balance for the Convention Center special revenue fund was $48.3 million, an increase of $2.4 million from 2007. Local sales taxes (outlined in the below table) support the Convention Center with approximately $60.4 million collected in 2008. Due to economic conditions, including the Republican National Convention and consumer spending habits, the 2008 local tax revenue was $2.6 million greater than budget and $300,000 greater than 2007. Approximately $9.6 million was transferred to the parking fund to cover costs for on Convention Center parking ramps, which was nearly the same as the 2007 transfer.

Comparative amounts collected:

Local Sales Taxes (in millions)	2006	2007	2008
0.5% Citywide Sales tax	$27.9	$29.5	$29.5
3.0% Entertainment Tax	$9.2	$9.9	$9.6
3.0% Downtown Restaurant Tax	$10.0	$10.3	$10.8
3.0% Downtown Liquor Tax	$3.6	$3.8	$3.9
3.0% Lodging Tax	$6.0	$6.6	$6.6
Total Tax Collection	$56.7	$60.1	$60.4

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 police and fire department costs associated with City-wide entertainment activities. A portion of the tax ($1.5 million in 2009) is being 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 into the general fund because it is pledged revenue on the outstanding Convention Center bonds in the event other revenue sources pledged to meet Convention Center debt service are insufficient.

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. However, the plan keeps the amount flat until an analysis is completed and needs are identified. In 2008, nearly $1.2 million was transferred to the reserve fund.

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

In 2008, total operating revenue was $15.6 million, which was $1.3 million higher than 2007 and $36,000 lower than the 2008 budget

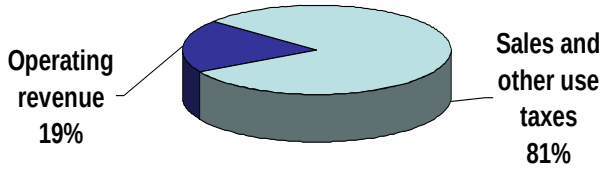
2010 Budget

Revenues

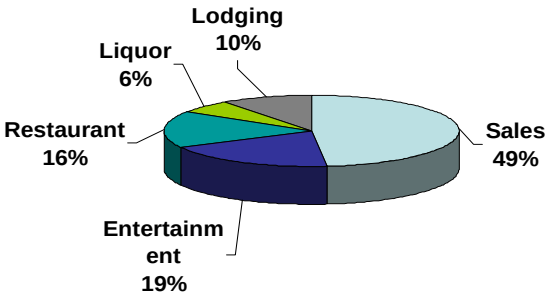
The 2010 projected revenues for the Convention Center have been adjusted to reflect the actual historical receipts. Total operating revenue in 2010 is expected to increase nearly $1.8 million from $13 million projected in 2009 to nearly $14.8 million. The weak economy is taking a toll on the sale of ancillary services, public show attendance, food and beverage concession spending, and on bookings reducing 2009 earnings. There is some hope that the proposed concession stand remodel along with a new branded concession stand will boost 2010 catering revenue. In addition, there are some potentially profitable national events booked for 2010 that should boost ancillary revenue through large catering purchases and a higher meeting room rate which should help rental revenue.

Meet Minneapolis is locking in 2010 sales contracts earlier than in previous years, but there is concern about the amount of tentative space the Center is holding for public shows and large nationals. Another concern is the noticeable decline in the use of some exclusive services forcing the Convention Center to reevaluate its service offerings for relevancy and value. Moving forward it's critical to identify clients who use a full range of ancillary services, include food and beverage. Through efforts like *Meet in Minneapolis*, the Convention Center is hopeful that strategic marketing combined with a stronger economy will bring back corporate business in 2010.

Convention Center Revenues



Sales and Other Taxes

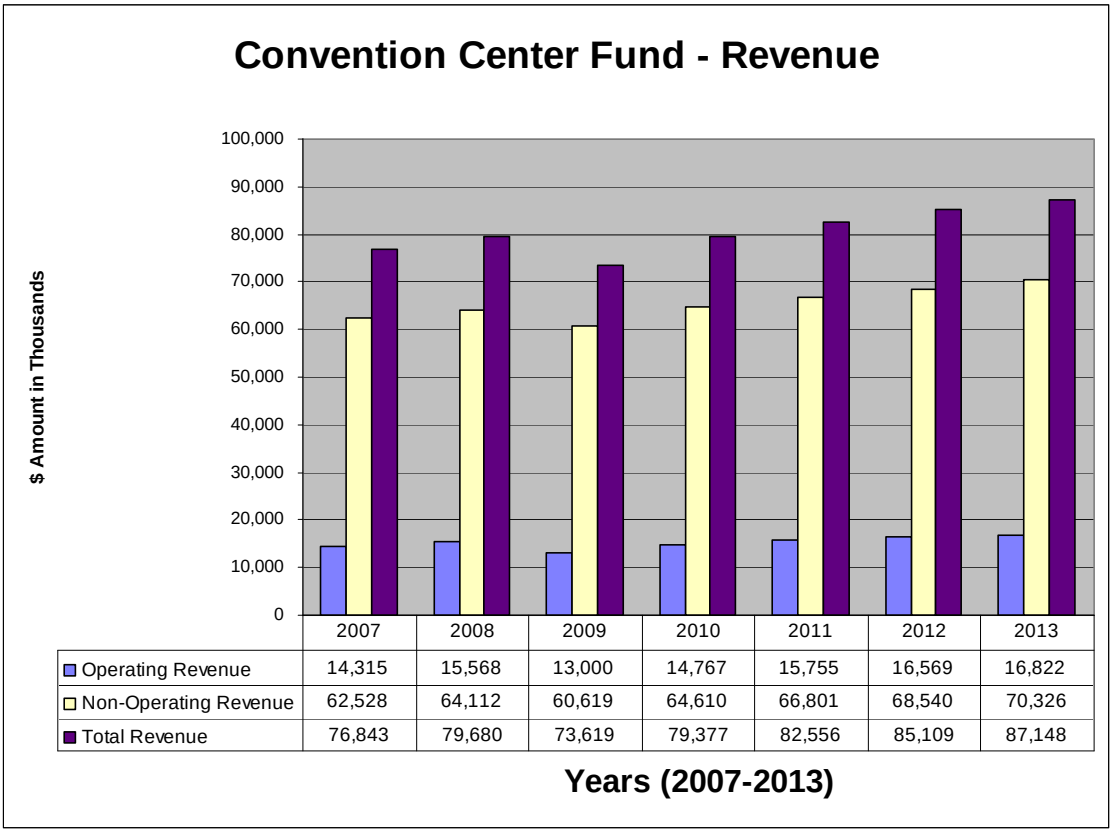


Convention Center - Predicted Revenue Growth	
Tax Type	**Current Growth Assumption 2010-2013**
0.5% Sales	2.5%
3.0% Entertainment Tax	3.0%
3.0% Other Tax	3.0%

Tax revenue is expected to increase 2.5% to 3% annually from 2010-2013. A $1.5 million entertainment tax increase (offset by the increase to the General Fund) was factored into the budget beginning in 2010 with the opening of the new Twins Ballpark. Operating revenue is projected to increase by nearly $1 million from 2010 to 2011, $814,000 from 2011 to 2012 and $253,000 from 2012 to 2013. The 2010 operating expense and revenue projections are $38.1 million and $14.8 million respectively, resulting in a $23.3 million operating shortfall.

Expenditures
In 2010, the Convention Center operations expenditure budget including Ongoing Equipment/Improvement is anticipated to increase $54,000 from the 2009 budget. The Convention Center was able to minimize its expenditure growth from 2009 to 2010 through a number of cost containment measures.

- Reduction of energy consumption
- Identifying and implementing more efficient operations
- Improving risk management (right sizing event staffing)
- Realignment of the Convention Center workforce
- Managing overtime and instituting a hiring freeze

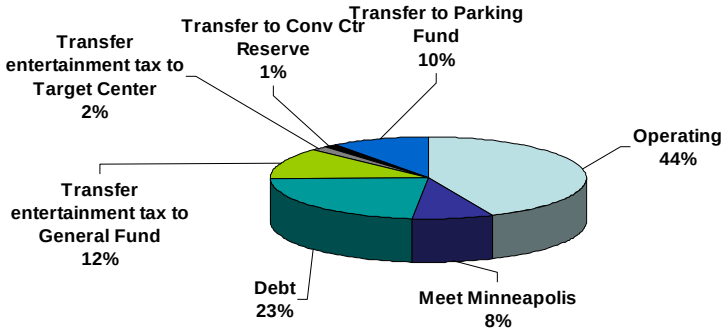


	2007	2008	2009	2010	2011	2012	2013
Operating Revenue	14,315	15,568	13,000	14,767	15,755	16,569	16,822
Non-Operating Revenue	62,528	64,112	60,619	64,610	66,801	68,540	70,326
Total Revenue	76,843	79,680	73,619	79,377	82,556	85,109	87,148

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.

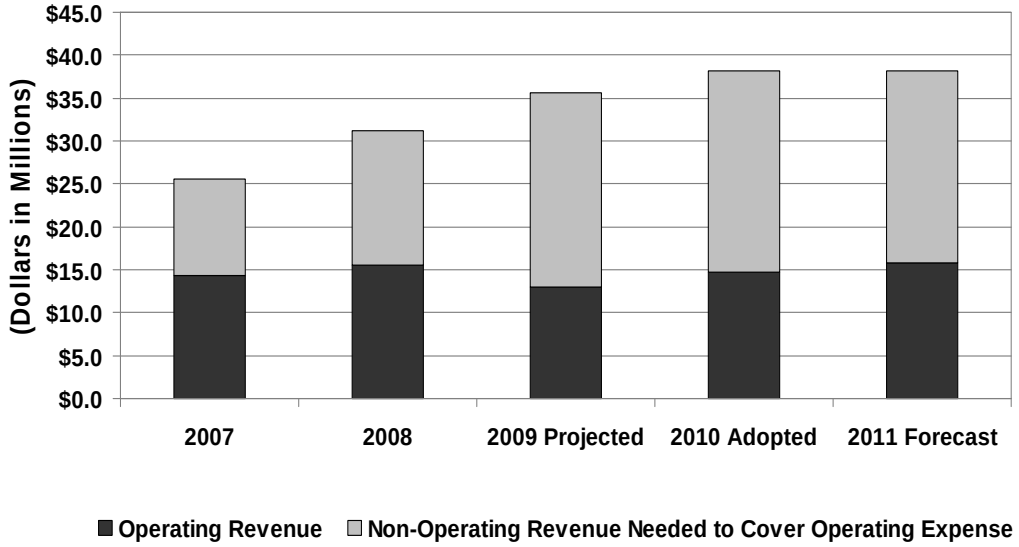
The $10 million consolidated loan has a 10-year amortization of principal (2008-2017) to be repaid in full in 2017 at a 5% interest rate. The note repayment for the loan is pledged against assets, future appropriation from City funding, and profits from the iDSS. The City began collecting loan interest each quarter in 2008, in addition to a $500,000 payment of loan principal. Loan interest and principal payment coincide with their Sales and Marketing payments from the City. In 2010, nearly $7.3 million is budgeted for City support of Meet Minneapolis.

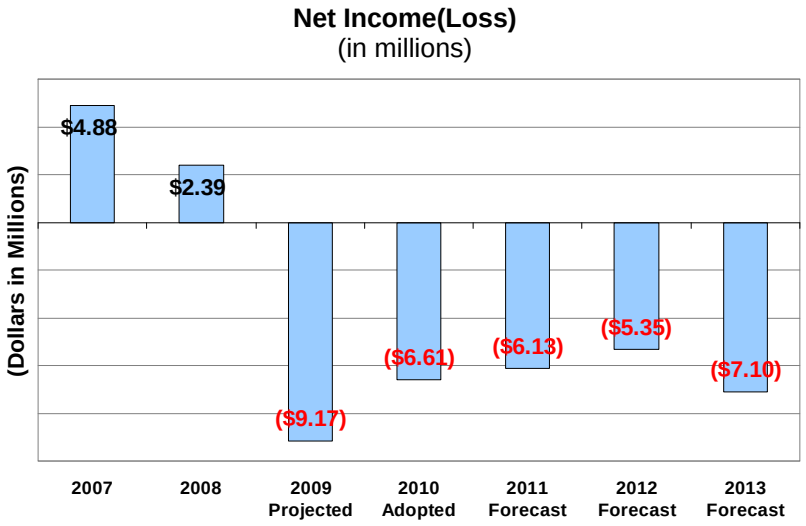
Use of Funds
($86 million)



The projected reduction in the ending fund balance from 2009 to 2010 is due primarily to higher budgeted overall operating expenses and transfers.

Operating Revenue and Expense





Cash Position Changes
The Convention Center special revenue fund's 2008 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 contributes to a healthy cash position. The 2008 year ending client advances, sometimes received over two years in advance of the event, were $1.5 million and outstanding client receivables were $562,000.

Transfers
Total transfers to other funds in 2010, excluding Meet Minneapolis, are budgeted at $42 million, including a transfer to the Parking Fund. The transfer to the Parking Fund totals $8.9 million which funds current year debt service obligations related parking ramps and facilities and the parking fund long-term financial plan.

Debt Service
The 2010 budget includes full funding to meet the annual debt service payments. Outstanding debt for the Convention Center was approximately $214 million in total at the 2008 year-end. Debt service for the Convention Center totals $20.2 million in 2010. 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%.

Original Budget
The Mayor recommended a reduction of $1.5 million in this department's operating budget. The Mayor further recommended an increase in the transfer from this fund to the parking fund of $2 million to fund improvements to Convention-related parking ramps. This transfer was adjusted to accommodate debt service on these ramps from prior-year capital projects ($1.4 million).

The Council approved the Mayor's recommendations and further approved a transfer of $250,000 from the Convention Center sales tax to the General Fund for MPD services.

The budget for this fund includes a reduction of BIS charges of $42,100 due to the Council's actions to reduce the BIS budget. This reduction in BIS charges will subsequently reduce the fund's appropriation by the same amount. Additionally, the budget for this fund includes a $9,766 increase to General Fund Overhead charges due to the Council's actions to fund two internal audit positions.

Mayor's Revised Budget
The Mayor recommended no changes.

Council Revised Budget
The Council approves the Mayor's recommendations.

City of Minneapolis
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Financial Plan (in thousands of dollars)

Convention Center Special Revenue Fund

	2007 Actual	2008 Actual	2009 Budget	2009 Projected	2010 Budget	% Chg From 2009 Budget	2011 Forecast	2012 Forecast	2013 Forecast
Source of Funds:									
Operating Revenues:									
Charges For Services	5,251	6,062	5,475	4,700	5,585	2.0%	5,582	5,666	5,723
Rents	6,509	6,705	6,435	5,800	6,432	0.0%	6,972	7,396	7,529
Other Miscellaneous Operating	2,555	2,801	3,000	2,500	2,750	-8.3%	3,201	3,507	3,570
Sub-Total	14,315	15,568	14,910	13,000	14,767	-1.0%	15,755	16,569	16,822
Non-Operating Revenues:									
Sales Tax	29,535	29,502	29,500	29,400	30,238	2.5%	30,994	31,769	32,563
Entertainment Tax	9,880	9,631	9,954	9,600	11,753	18.1%	12,106	12,469	12,843
Restaurant Tax	10,319	10,789	10,000	9,800	10,300	3.0%	10,609	10,927	11,255
Liquor Tax	3,757	3,939	3,850	3,850	3,966	3.0%	4,085	4,208	4,334
Lodging Tax	6,574	6,619	6,000	5,900	6,180	3.0%	6,365	6,556	6,753
Meet Mpls Donations	392	510	-	-	-	0.0%	-	-	-
Meet Minneapolis(iDSS) Loan Interest	-	1,278	429	435	403	-6.1%	360	314	265
Interest	1,544	836	1,300	620	750	-42.3%	761	776	792
Other Misc Operating	27	8	25	14	20	-20.0%	21	21	21
Transfer From Facility Reserve	500	1,000	1,000	1,000	1,000	0.0%	1,500	1,500	1,500
Sub-Total	62,528	64,112	62,058	60,619	64,610	4.1%	66,801	68,540	70,326
Total	76,843	79,680	76,968	73,619	79,377	3.1%	82,556	85,109	87,148
Use of Funds:									
Convention Center Operations	24,560	25,938	29,936	27,554	29,132	-2.7%	31,372	32,941	34,587
Ongoing Equipment/Improvement	1,008	5,316	8,129	8,129	7,292	-10.3%	6,840	6,461	7,900
Human Resources	66	-	-	-	-	0.0%	-	-	-
Meet Minneapolis	7,873	8,046	7,590	7,590	7,300	-3.8%	7,446	7,670	7,719
Transfer To Gen Fund - Ent. Tax	8,762	8,366	8,454	8,100	10,253	21.3%	10,606	10,969	11,343
Transfer To Gen Fund - Sales Tax	-	-	-	-	250	0.0%	250	250	250
Transfer To Target Ctr Reserve	1,118	1,265	1,500	1,500	1,500	0.0%	1,500	1,500	1,500
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	17,539	16,560	18,728	18,728	20,150	7.6%	21,302	22,519	25,180
Transfer to Other Debt Serv Fund	36	68	75	75	73	-2.7%	80	80	80
Transfer To Parking Fund	9,856	9,832	9,858	9,965	8,886	-9.9%	8,140	6,916	4,541
Transfer To City Capital	-	750	-	-	-	0.0%	-	-	-
Total	71,968	77,291	85,420	82,791	85,986	0.7%	88,686	90,456	94,250
Net Income	4,875	2,389	(8,452)	(9,172)	(6,609)	-21.8%	(6,130)	(5,346)	(7,102)
Fund Balance/Retained Earnings:									
Beginning Balance	41,222	45,918	48,307	39,855	30,683	-36.5%	24,074	17,944	12,598
Ending Balance	45,918	48,307	39,855	30,683	24,074	-39.6%	17,944	12,598	5,496

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

Meet Minnepolis budget for 2010-2013 may increase by $500,000 to support a Convention Fund aimed at attracting more national business. Convention Center Executive Director to present to Mayor in July 2009. Meet Minneapolis will be incorporated into the Convention Center in 2010.