City of Minneapolis
2012 Budget
Financial Plan

Convention Center Special Revenue Fund

Background

The Convention Center special revenue fund accounts for the maintenance and operation of the City-owned Convention Center and the related sales tax activities. The Convention Center was created to foster and generate economic growth and vitality by providing facilities and services for conventions, trade shows, exhibits, meetings, cultural, religious, and sporting events - all of which benefit and showcase the City, the metropolitan region, and the State of Minnesota. The fund also supports an operating transfer to Meet Minneapolis, an independent, non-profit organization contracted by the City of Minneapolis to market Minneapolis and the Twin Cities as a convention and tourist destination.

Historical Financial Performance

The fiscal year-end 2010 fund balance for the Convention Center Special Revenue Fund was $40.0 million, a decrease of $8.6 million from 2009. The 2010 decrease in fund balance can be largely attributed to increased ongoing equipment and improvement expense and transfers to debt service and to the Parking Fund. Local sales taxes (outlined in the table below) support the Convention Center with approximately $61.4 million collected in 2010. The increase was due largely to the 2010 opening of the Twins Ballpark (Target Field) and to a lesser extent the improved economic condition from 2009. The 2010 local tax revenue increased $6.4 million from 2009. The entertainment tax saw the largest increase from the 2010 opening of Target Field with a $4.1 million increase over 2009. Approximately $19 million was transferred to debt service in 2010 to cover the cost of the building debt, and $11.5 million was transferred to the parking fund to cover costs for Convention Center related parking ramps; an increase of $3.9 million and $1.6 million respectively over the 2009 transfer.

Comparative amounts collected:

Local Sales Taxes (in millions)	2008	2009	2010
0.5% Citywide Sales tax	$29.5	$26.5	$27.3
3.0% Entertainment Tax	$9.6	$9.1	$13.2
3.0% Downtown Restaurant Tax	$10.8	$9.9	$10.5
3.0% Downtown Liquor Tax	$3.9	$3.8	$4.6
3.0% Lodging Tax *	$6.6	$5.7	$5.8
Total Tax Collection	$60.4	$55.0	$61.4

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

The City deposits all of its local tax proceeds (*i.e.*, sales, entertainment, food, liquor, and lodging) 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 operations, marketing and capital improvements.

The entertainment tax, established in 1969, is a revenue source for the general fund to offset additional public safety costs associated with City-wide entertainment activities. A portion of the tax ($706,000 in 2010) was redirected to the Arena Reserve Fund to fully credit the fund for entertainment tax proceeds generated from Target Center activities as required by the Target Center arena finance plan. The entertainment tax is reconciled at the end of the year to the actual entertainment tax the Target Center received. The entertainment tax is deposited into the Convention Center Special Revenue Fund because it is pledged to debt service on outstanding Convention Center bonds in the event other revenue sources pledged to meet Convention Center debt service are insufficient.

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

Funds are transferred annually to the Convention Center reserve fund for major repair or significant improvements to the Convention Center facility. Due to the age of the building and to effectively compete, it is anticipated that the amount of this transfer will increase in future years as the Convention Center implements competitive capital projects. In 2010, a net transfer of $150,000 was made to the reserve fund bringing the balance to $6.1 million.

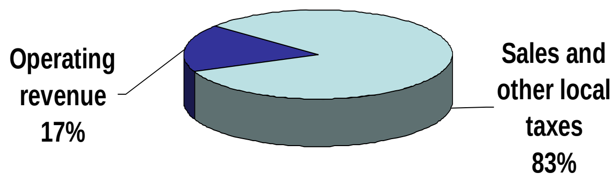
Operating revenues are generated directly from the Convention Center operating activities. Exhibit space rental is the largest source of revenue for the Convention Center. Also included in operating revenues are equipment and space rental of the Tallmadge Building. Charges for services are earned in support of space rent and consist primarily of utility and labor services and ramp parking. Commission sales from food and beverage account for the other miscellaneous operating revenue.

In 2010, total operating revenue was $12.9 million, which was $500,000 lower than 2009 and $1.9 million lower than the 2009 budget.

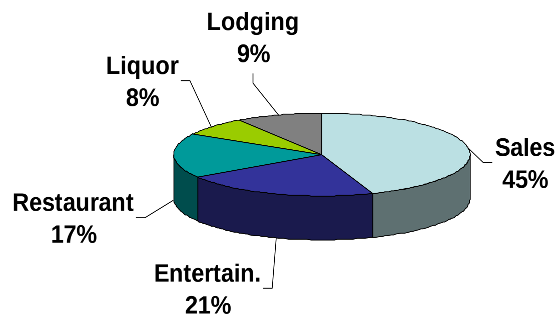
2012 Budget

Revenues
The 2012 revenues for the Convention Center have been adjusted to reflect the actual historical receipts and anticipated event activity. Total operating revenue for 2012 is expected to be $14.1 million which is a slight decrease of 0.3% from 2011 projected. The Convention Center continues to discount rents heavily to be competitive and operational changes made in the beginning of 2011 are starting to see results, particularly in charges for services and equipment. Meet Minneapolis sales and marking initiatives include a rebranding of the City and continued efforts of bringing local business into the Convention Center via the “Meet in Minneapolis” campaign. The convention and meeting industry continues to face significant challenges in controlling costs as centers discount heavily to remain competitive.

Convention Center Revenues



Sales and Other Taxes



Convention Center Special Revenue Fund Predicted Revenue Growth	
Tax Type	**Current Growth Assumption 2012-2015**
0.5% Sales	2.9% 2012, 2.5% 2013-2015
3.0% Entertainment Tax	2.9% 2012, 3.0% 2013-2015
2.625% Lodging Tax	3.0% 2012, 3.0% 2013-2015
3.0% Other Tax	2.9% 2012, 3.0% 2013-2015

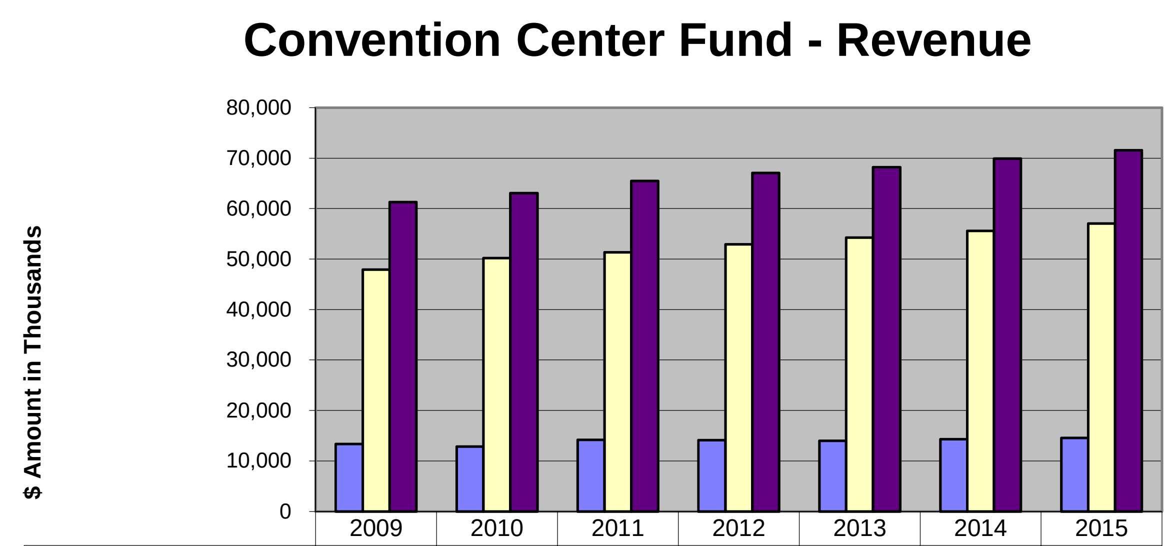
Note: the growth assumption percentages above reflected to anticipated change from the 2011 adopted budget

From 2011 projected, sales tax revenue is expected to increase 3% in 2012, 3.2% for entertainment, 5.7% for restaurant, and 3.8% for lodging. Entertainment, lodging, and restaurant taxes are expected to increase 3% annually from 2013-2015, and sales tax is expected to increase 2.5% over the same period. A $1.5 million entertainment tax increase (offset by a corresponding increase to the transfer to the General Fund) was factored into the budget beginning in 2010 with the opening of the new Target Field to fund public safety services. This estimate was increased by $300,000 to $1.8 in 2011 based on actual receipts.

The 2012 operating revenue and expenses excluding ongoing equipment/improvement and projected revenue are $14.1 million and $26 million respectively, resulting in a $11.8 million operating subsidy; a reduction of $600,000 from the 2011 projections.

Expenditures
In 2012, the Convention Center operating expenditure budget excluding ongoing equipment/improvement is anticipated to decrease by nearly $700,000 from the 2011 projected. The Convention Center was able to capture expense savings through a number of cost containment measures.

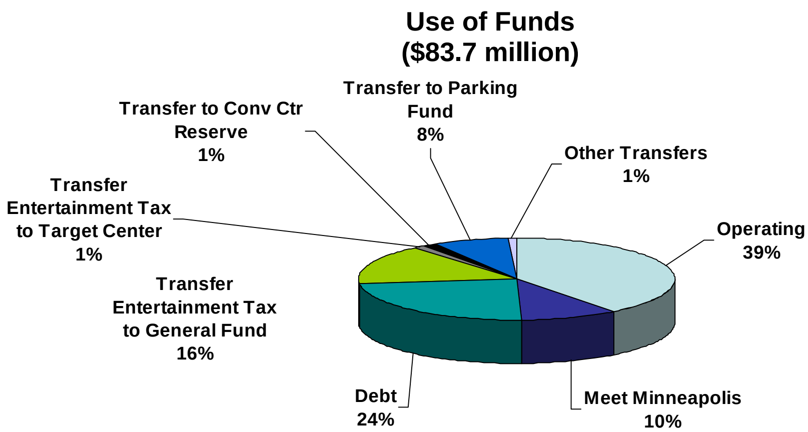
- Reduction of energy consumption
- Reprioritizing capital expenditures
- Identifying and implementing more efficient operations
- Realignment of the Convention Center workforce
- Managing overtime



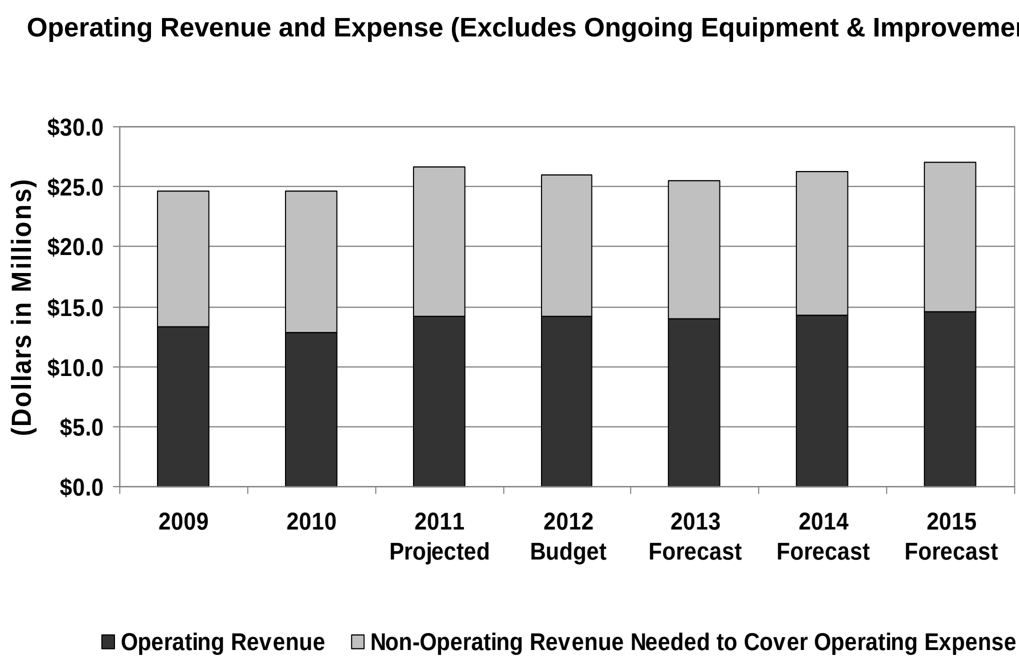
	2009	2010	2011	2012	2013	2014	2015
Operating Revenue	13,360	12,866	14,180	14,141	14,000	14,280	14,566
Non-Operating Revenue	47,900	50,206	51,309	52,888	54,224	55,600	57,013
Total Revenue	61,260	63,072	65,489	67,029	68,224	69,880	71,579

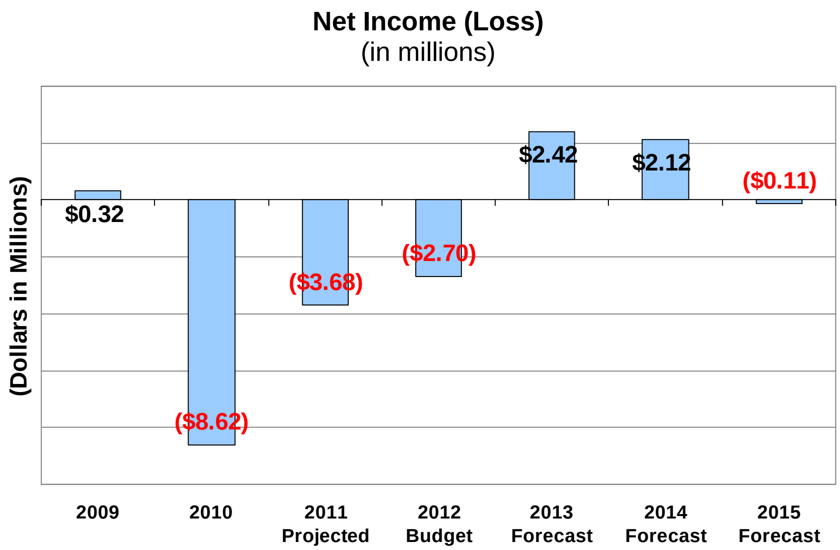
In 2004, Meet Minneapolis, the primary sales and booking agent of the Convention Center, entered into a $2.5 million loan agreement with the City for its joint venture Internet Destination Sales System (iDSS). In 2005, Meet Minneapolis requested that the Council advance an additional $2.5 million for the project. In August 2005, the loans were rolled together and a promissory note was issued for $5 million. In April of 2006, the City entered into a 3rd loan agreement of $5 million for additional iDSS start-up capital. The three loans were consolidated for a total of $10 million.

The $10 million consolidated loan has a 10-year amortization of principal (2008-2017) to be repaid in full in 2017 at a 5% interest rate. The note repayment for the loan is pledged against assets, future appropriation from City funding, and profits from the iDSS. The City began collecting loan interest each quarter in 2008, in addition to a $500,000 payment of loan principal. The principal payments increased to $704,011 in 2009 and $908,022 in 2010 and 2011 before capping at $1.01 million in 2012 and beyond. Loan interest and principal payment coincide with Meet Minneapolis's Sales and Marketing payments from the City. In 2012, $8.2 million is budgeted for City support of Meet Minneapolis.



The fund balance is projected to decline compared to the 2011 projected budget as total revenues are not projected to increase sufficiently enough to produce net income.





Cash Position Changes

The Convention Center Special Revenue Fund's 2011 projected cash balance, exclusive of loans to other funds, is expected to fluctuate relative to fund equity. Most operating revenues and expense transactions are cash transactions. The Convention Center has a policy of requiring exhibitors to pay in advance for space rent and services, which has historically contributed to a healthy cash position. The 2010 year-end client advances, sometimes received over two years in advance of the event, were $1.2 million. Outstanding client receivables excluding collections were $512,000.

Transfers

Total transfers to other funds in 2012 are budgeted at $42.4 million, including a transfer to the Parking Fund. The transfer to the Parking Fund totals $6.6 million which supports operating expenses and current year debt service obligations for Convention Center related parking ramps. Other transfers include $13 million entertainment tax transfer to the General Fund, $250,000 to the General Fund to fund Mounted Patrol Officers, $900,000 entertainment tax transfer to the Target Center, $1.2 million to the Convention Center reserve, and $20 million to debt service. In addition, the final MERF debt service payment will be made in 2012 totaling $400,000.

Debt Service

The 2011 budget includes full funding to meet the annual debt service payments. Outstanding debt for the Convention Center was approximately $192 million in total at the 2010 year-end and will be approximately $173.5 million at the 2011 year end. Debt service for the Convention Center is projected to be $22 million in 2011 and decreases to $20 million in 2012. 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 bonds and the budget assumption of 5%.

Mayor's Recommended Budget

The Mayor recommended no changes.

Council Adopted Budget

The Council adopted the Mayor's recommendations.

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Convention Center Special Revenue Fund

	2009 Actual	2010 Actual	2011 Budget	2011 Projected	2012 Budget	% Chg From 2011 Projected	2013 Forecast	2014 Forecast	2015 Forecast
Source of Funds:									
Operating Revenues:									
Charges For Services	4,583	4,501	5,280	5,280	5,140	-2.7%	5,089	5,191	5,294
Rents	6,410	6,203	6,400	6,400	6,492	1.4%	6,427	6,555	6,688
Other Miscellaneous Operating	2,367	2,162	2,500	2,500	2,509	0.4%	2,484	2,534	2,584
Sub-Total	*13,360*	*12,866*	*14,180*	*14,180*	*14,141*	*-0.3%*	*14,000*	*14,280*	*14,566*
Non-Operating Revenues:									
Sales Tax	26,470	27,266	27,593	28,000	28,842	3.0%	29,563	30,302	31,060
Restaurant Tax	9,887	10,491	10,306	10,500	11,097	5.7%	11,430	11,773	12,126
Liquor Tax	3,769	4,586	3,929	4,600	4,865	5.8%	5,011	5,161	5,316
Lodging Tax	5,671	5,790	5,911	5,900	6,125	3.8%	6,309	6,498	6,693
Meet Mpls Donations	75	-	-	-	-		-	-	-
Contributions Private Donantions	-	-	250	250	-		-	-	-
Meet Minneapolis(iDSS) Loan Interest	435	403	360	360	314	-12.8%	265	215	164
Interest	401	342	400	184	145	-21.2%	146	150	154
Revenue from Trusts	160	-	-	-	-		-	-	-
Damage Claims	-	282	-	-	-		-	-	-
Other Misc Non Operating	32	46	20	15	-	-100.0%	-	-	-
Transfer From Facility Reserve	1,000	1,000	1,500	1,500	1,500	0.0%	1,500	1,500	1,500
Sub-Total	*47,900*	*50,206*	*50,269*	*51,309*	*52,888*	*3.1%*	*54,224*	*55,600*	*57,013*
Total (excluding Entertainment Tax)	61,259	63,072	64,449	65,489	67,029	2.4%	68,224	69,880	71,579
Entertainment Tax	9,072	13,176	11,299	13,500	13,936	3.2%	14,354	14,785	15,228
Total (including Entertainment Tax)	70,331	76,248	75,748	78,989	80,965	2.5%	82,578	84,664	86,807
Use of Funds:									
Convention Center Operations	24,616	24,667	26,803	26,640	25,968	-2.5%	25,500	26,265	27,053
Ongoing Equipment/Improvement	2,450	7,990	5,376	3,200	7,076	121.1%	8,765	9,115	9,480
Meet Minneapolis	7,507	6,976	8,025	8,025	8,228	2.5%	8,460	8,699	8,945
Transfer To Gen Fund - Sales Tax	-	250	250	250	250	0.0%	250	250	250
Transfer To Conv Ctr Reserve	1,150	1,150	1,150	1,150	1,150	0.0%	1,150	1,150	1,500
Transfer To Debt Service	15,174	19,037	22,221	22,163	20,075	-9.4%	16,947	17,087	23,462
Transfer to Other Debt Serv Fund	75	73	153	153	400	161.4%	-	-	-
Transfer To Parking Fund	9,969	11,544	6,589	7,589	6,580	-13.3%	4,729	5,195	1,000
Total (excluding Entertainment Tax)	60,941	71,687	70,567	69,170	69,727	0.8%	65,801	67,761	71,690
Transfer to the Gen Fund - Ent. Tax	8,034	12,469	11,219	13,420	13,036	-2.9%	13,427	13,830	14,245
Transfer to the Target Center - Ent. Tax	1,038	706	80	80	900	1025.0%	927	955	983
Total (including Entertainment Tax)	70,013	84,862	81,866	82,670	83,663	1.2%	80,155	82,546	86,918
Net Income	318	(8,615)	(6,118)	(3,681)	(2,697)	-26.7%	2,423	2,119	(111)
Fund Balance/Retained Earnings:									
Beginning Balance	48,307	48,625	40,009	40,009	36,328		33,631	36,054	38,172
Ending Balance	48,625	40,009	33,891	36,328	33,631		36,054	38,172	38,061
Ending Cash Balance	27,777	21,079	14,961	20,722	19,525		23,448	27,066	28,455

Notes:
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.

Beginning in 2011, BIS will be transferring $1.5 million annually to the MCC with a final payment of $1.75 million in 2016 to repay their loan from the MCC. The loan is being accounted for on the balance sheet.