

D28A03
Maryland Stadium Authority

Operating Budget Data

(\$ in Thousands)

	FY 02-04				FY 04-05	
	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>Change</u>	<u>FY 05</u>	<u>Change</u>
Operations	\$24,747	\$64,067	\$75,801	\$51,054	\$35,589	-\$40,212
Contractual Services	15,120	13,357	14,633	-487	14,891	258
Grants	30,055	25,171	24,987	-5,068	26,077	1,090
Adjusted Grand Total	\$69,922	\$102,594	\$115,421	\$45,500	\$76,557	-\$38,864
General Funds	\$9,532	\$9,934	\$10,498	\$966	\$13,428	\$2,930
Special Funds	\$27,230	\$21,949	\$22,000	-\$5,230	\$22,000	\$0
Nonbudgeted Funds	\$33,160	\$70,712	\$82,923	\$49,763	\$41,128	-\$41,794
Adjusted Grand Total	\$69,922	\$102,594	\$115,421	\$45,499	\$76,557	-\$38,864
Annual % Change		46.7%	12.5%		-33.7%	

- The 2002 cost containment included \$2.7 million in reductions including a general fund reversion of \$1,537,139 to support the operating deficit for the Baltimore City Convention Center (BCCC), a special fund embargo of \$170,000 in lottery proceeds, and a special fund cancellation of \$1.0 million to reflect the reduction in funds needed for emergency care to Camden Station. 2003 cost containment included a \$513,000 general fund reduction to support the Maryland Stadium Authority's (MSA) operating deficit contribution to BCCC. No cost containment actions to date in fiscal 2004.
- Between fiscal 2004 and 2005, the decrease in nonbudgeted funds is principally due to a reduction of \$40.3 million in bond proceed expenditures relating to the following three projects: development of Camden Station, Montgomery County Convention Center (MCCC), and Hippodrome.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	79.5	83.5	83.5	4	83.5	0.0
Contractual FTEs	0.0	0.0	0.0	0	0.0	0.0
Total Personnel	79.5	83.5	83.5	4	83.5	0.0

Vacancy Data: Regular Positions

Turnover Expectancy	0.00	0.00%
Positions Vacant as of 12/31/03	9.00	11.00%

- **2002 Cost Containment:** MSA is not subject to the statewide hiring freeze. However, the Department of Budget and Management has reduced MSA's fiscal 2002 appropriation of lottery proceeds by \$170,000 to reflect cost savings.
- Actual position count from fiscal 2003 through 2005 is 82.8 positions, which is 0.7% less 83.5 positions. The increase from 82.8 to 83.5 positions in each of the corresponding years is due to double counting 0.7% of one position that is allocated to MCCC.

Analysis in Brief

Major Trends

MSA in Search of Projects: At the close of fiscal 2005, the number of projects MSA is participating in is expected to decline. **MSA is advised to brief the committees concerning its efforts to find new projects and on the likelihood of receiving construction management fees from the two outstanding projects they are currently pursuing.**

Issues

Lottery Proceeds and Cash Flow Analysis for the Maryland Stadium Authority Financing Fund: Revenues obtained from the operations of the Camden Complex will not cover MSA's expected associated operating costs in fiscal 2005 as it did not in fiscal 2004. **The Department of Legislative Services (DLS) recommends that MSA comment on why the operation of Camden Yards is not able to fully cover operating expenses without the inclusion of admissions taxes which are levied by the State.**

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Convention Center Operating Deficits Continue to Grow: According to projections by BCCC, the center’s two-year loss for fiscal 2004 and 2005 will be \$10.6 million. The fiscal 2005 deficit is expected to be \$5.4 million, and the State’s two-thirds share – should this projection come to fruition – will be \$3.6 million. The Ocean City Convention Center’s deficit is expected grow by 8% from fiscal 2004 to 2005. **DLS recommends MSA brief the committees on the ongoing declining economic performance of BCCC.**

Committee to Study the Structure and Efficiency of State Government Recommends the Maryland Stadium Authority Manage Public School Construction Projects: In an effort to make the school construction process more efficient and more cost effective, the Report of the Commission on the Structure and Efficiency of State Government (Mandel Commission) released on December 8, 2003, recommended that the Inter-agency Committee for Public School Construction (IAC) should be merged into MSA and be renamed the Maryland Construction Management Authority. This issue will highlight the recommendations of the Mandel Commission as well as the issues raised by the Taskforce to Study Public School Facilities. **DLS recommends that MSA comment on the Mandel Commission recommendations and on its ability to bring efficiencies, economies of scale, and expertise to the Public School Construction program.**

Recommended Actions

	<u>Funds</u>
1. Reduce special funds for grants in the Facilities Fund.	\$ 672,000
Total Reductions	\$ 672,000

Updates

Current MSA Project Update: This update summarizes some of the projects that MSA is currently working on during fiscal 2004 and 2005.

BCCC Update: During fiscal 2003 BCCC experienced its lowest number of events since the center's expansion in 1997.

Camden Station Project: On December 3, 2003, the Board of Public Works approved MSA's Comprehensive Plan of Financing for the Camden Station Project.

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Operating Budget Analysis

Program Description

The Maryland Stadium Authority (MSA) was established in 1986 as an independent unit in the Executive Department to be responsible for the construction, operation, and maintenance of facilities for use by professional baseball and/or football teams. In 1992 legislation was enacted which assigned to the authority the responsibility for expansion of the Baltimore City Convention Center (BCCC). The authority's responsibility was further extended in 1995 when legislation was enacted to have the authority participate in and manage construction of an expansion of the Ocean City Convention Center (OCCC). Legislation enacted in 1996 authorized the authority to participate with Montgomery County in the construction of a conference center. Legislation enacted in 2000 authorized the authority to participate in the construction of the Hippodrome Performing Arts Center. Authorizing language in the capital budget bill of 1998 allows MSA to contract with local governments and State agencies to manage construction projects, provided that the contracting agency can fund the project and the budget committees have 30 days to review and comment on the proposed work.

Performance Analysis: Managing for Results

Exhibit 1 provides selected performance measures included in MSA's fiscal 2005 Managing for Results submission.

- **MSA in Search of Projects:** The authority is currently involved with the construction of three projects: the Hippodrome, Montgomery County Conference Center (MCCC), and Camden Station.

<u>Project</u>	<u>Scheduled Completion Date</u>
Hippodrome	February 2004
MCCC	Fall 2004
Camden Station	April 2005

The authority has received approval from the policy committees to discuss the construction of a minor league stadium in Charles County and the construction of a Special Olympics Training Center. The authority is also investigating the potential of building a racetrack in downtown Baltimore. **The Department of Legislative Services (DLS) recommends that MSA brief the committees on construction projects they are currently investigating and on their continuing effort to find projects.**

Exhibit 1
Program Measurement Data
Maryland Stadium Authority
Fiscal 2001 – 2005

	<u>Actual</u> <u>2001</u>	<u>Actual</u> <u>2002</u>	<u>Actual</u> <u>2003</u>	<u>Est.</u> <u>2004</u>	<u>Est.</u> <u>2005</u>	<u>Ann.</u> <u>Chg.</u> <u>01-03</u>	<u>Ann.</u> <u>Chg.</u> <u>03-05</u>
Projects completed	0.00	3.00	2.00	1.00	2.00	n/a	0.0%
Warehouse rental income (\$ in millions)	\$2.90	\$3.00	\$3.10	\$3.25	\$3.50	3.4%	6.3%
Average square foot cost of warehouse rental space	\$18.13	\$18.42	\$19.38	\$20.31	\$21.88	3.4%	6.3%
Number of seating bowl events	5	3	6	1	2	9.5%	-42.3%
Revenue for seating bowl events (\$ in thousands)	\$200	\$38	\$250	\$250	\$250	11.8%	0.0%
Number of catered events	210	230	240	230	230	6.9%	-2.1%
Revenue from catered events (\$ in thousands)	\$400	\$515	\$468	\$440	\$440	8.2%	-3.0%

Source: Maryland Stadium Authority

- Seating Bowl and Catered Events:** In order to increase the use of the Camden Sports Complex and generate additional revenues, MSA attempts to book nonprofessional sporting events and catered events at the Camden Yards site. Seating bowl events dropped from six in fiscal 2003 to one in fiscal 2004 yet revenues from these events stayed the same. According to MSA, the six events in fiscal 2003 were small events as compared to the revenue for 2004 which was generated from the National Collegiate Athletic Association final four lacrosse tournament. The authority is projecting to remain at the current level of revenue over the next several years. **DLS recommends that MSA brief the committees on why they feel they will be unable to increase seating bowl revenues over the next several years.**
- Use of \$10 Million Parity Suit Fund:** MSA was required to deposit \$10 million one-time into a capital improvement account provided for under the lease with the Orioles. As of June 30, 2003, none of the \$10 million has been expended. **DLS recommends that MSA comment on why no projects have been started utilizing the funds from the parity suit.**

Governor's Proposed Budget

Major changes to MSA's activities for fiscal 2005 are presented in **Exhibit 2**. The authority's activities are supported by a combination of general, special, and nonbudgeted funds. The total allowance for fiscal 2005 is \$76,557,048, consisting of \$13,428,270 in general funds, \$22,000,000 in special funds, and \$41,128,778 in nonbudgeted funds. Due to the manner in which lottery proceeds are credited to the Maryland Stadium Authority Financing Fund (MSAFF) as special funds and then expended for MSAFF as nonbudgeted funds (State Finance and Procurement Article, Section 7-312 and Financial Institutions Article, Section 13-715), the special fund lottery proceeds are double counted in the authority's consolidated accounting activities. Adjusting for this double count, MSA's total fiscal 2005 allowance is \$54,557,048 and represents a \$38.8 million dollar decrease, or 42% below the fiscal 2004 adjusted working appropriation of \$93,421,376. Adjustments to MSA's nonbudgeted expenditures activities for fiscal 2005 accounts for virtually all of the \$38.8 million decrease. Funding changes to the individual fund categories are discussed below.

Exhibit 2
Governor's Proposed Budget
Maryland Stadium Authority
 (\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
General Funds	\$9,934	\$10,498	\$13,428	\$2,930	27.9%
Special Funds	21,949	22,000	22,000	0	0.0%
Nonbudgeted Funds	70,712	82,923	41,129	-41,794	-50.4%
Adjusted Grand Total	\$102,595	\$115,421	\$76,557	-\$38,864	-33.7%

Where It Goes:

General Funds

BCCC operating support.....	\$903
BCCC debt service	-5
OCCC operating support.....	185
OCCC debt service	-3
Debt service for Hippodrome Bonds	94
MCCC debt service	1,753

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Where It Goes:

Nonbudgeted Funds

MSA general administration budget.....	-14
Capital programs – Camden Station Project – bond proceed expenditure	-9,000
Facilities Management – Deposit into Capital Improvement Account	2,000
MCCC – bond proceed expenditure	-12,503
MCCC – architects and engineers	-1,705
Hippodrome Performing Arts Center – bond proceed expenditure	-18,770
Hippodrome architects and engineer fees	-1,350
Other	-449
Total	-\$38,864

Note: Numbers may not sum to total due to rounding.

General Funds

The allowance for general funds is \$13.4 million which is an increase of \$2.9 million above the adjusted fiscal 2004 working appropriation. General funds support the State’s contribution to the operating deficits for BCCC and OCCC, as well as the debt service on the bonds issued by MSA for those projects. The fiscal 2005 allowance also provides funds to support the debt service on MSA revenue bonds sold to support the construction of the Hippodrome Performing Arts Center.

- **Baltimore City Convention Center:** Section 13-712.1 of the Financial Institutions Article requires MSA contribute two-thirds towards the annual operating deficit of BCCC through the fiscal 2008 budget. The fiscal 2005 general fund allowance for MSA’s contribution to the BCCC operating deficit is \$2,890,948 which is a \$903,948 increase over the adjusted fiscal 2004 working appropriation. The fiscal 2005 allowance represents a funding level 13% higher than actual fiscal 2003 expenditures. Debt service costs for the authority’s revenue bonds issued for the BCCC construction accounts for \$4,883,510 in general funds which is a \$4,884 decrease from the adjusted fiscal 2004 working appropriation. The allowance also provides \$200,000 for MSA’s statutorily required contribution to a BCCC capital improvement fund.
- **Ocean City Convention Center:** MSA is also required under Section 13-712.1 of the Financial Institutions Article to contribute one-half of the annual operating deficits of OCCC through fiscal 2008. The allowance provides \$1,185,721 for this expenditure, which is an \$185,721 increase from the fiscal 2004 adjusted working appropriation. Debt service costs for the authority’s revenue bonds issued for the OCCC construction accounts for \$1,480,984 in general funds which is a \$3,278 decrease from the adjusted fiscal 2004 working appropriation. The allowance also provides an additional \$50,000 for MSA’s statutorily required contribution to the OCCC capital improvement fund.

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- ***Hippodrome Performing Arts Center:*** The allowance provides \$890,187 to fund fiscal 2005 debt financing costs for MSA revenue bonds sold to fund a portion of the Hippodrome construction project. This represents a \$94,034 increase over the adjusted fiscal 2004 working appropriation.
- ***Montgomery County Conference Center Expansion Project:*** At the December 18, 2002, meeting of the Board of Public Works (BPW), MSA was authorized and proceeded to issue \$23.185 million of tax supported debt of the State of Maryland. The debt is financing the construction costs, capitalized interest, and closing costs of the expansion project. Montgomery County is responsible for the purchase of the convention center land and for all operating expenses and capital improvements and is entitled to retain all operating revenues. The fiscal 2005 allowance provides \$1,752,700 for the debt service costs for the authority's revenue bonds and \$94,220 to support MSA's administrative oversight of the project.

Special Funds

The fiscal 2005 allowance for special funds is \$22.0 million. This is the same funding level as was appropriated in the fiscal 2004 budget. MSA receives an annual appropriation of special funds from the State Lottery Agency to fund the financing costs of any element of the Camden Yards facilities. Historically, the lottery proceeds have been used to make debt service payments on the MSA bond issues.

Nonbudgeted Funds

The allowance for nonbudgeted funds, after accounting for the double counting of lottery proceeds explained above, is \$19,128,778, or \$41,794,323 less than the fiscal 2004 appropriation. Adjustments in MSA's nonbudgeted fund expenditures reflect the varying construction schedules for projects funded in part with MSA revenue bonds, as well as the other source revenues. Adjustments include:

- ***Hippodrome Performing Arts Center:*** MSA is expected to utilize \$1.0 million in funds from the Hippodrome Performing Arts Center Fund, a special revolving fund that receives the State, local, and private source proceeds for the Hippodrome construction, during fiscal 2005. This represents an \$18.8 million reduction from the \$19.7 million drawn from the fund for fiscal 2004 construction costs. The estimated cost of the Hippodrome project is \$60 million excluding capitalized interest expenses. Funding for the project is provided by the State, Baltimore City, Baltimore County, Stadium Authority revenue bonds, historic tax preservation credits, private contributions, and the performing art's center's operator. **Exhibit 3** shows a breakdown of the source of funding for the Hippodrome which is expected to open in February 2004.

Exhibit 3
Hippodrome Performing Arts Center Funding Sources
(\$ in Millions)

Sources

Maryland Stadium Authority Revenue Bonds	\$17.4
State General Fund PAYGO	16.5
Theatre Operations Contribution	8.0
Private Contributions	6.9
City of Baltimore	6.0
Historic Tax Credit	5.2
Total	\$60.0

Source: Maryland Stadium Authority: Hippodrome Project – Financing Plan for the Maryland Stadium Series 2002 Taxable Bonds – May 17, 2002

On July 10, 2002, the Stadium Authority issued \$20.25 million in taxable lease revenue bonds for a portion of the proceeds that will be used to renovate the Hippodrome Performing Arts Center. According to the Comprehensive Plan of Financing, required under Section 13-701 of the Financial Institutions Article, the bonds were issued with an average taxable coupon rate of 7.66% for a term of 20.43 years. MSA will utilize \$17.4 million of the bond proceeds to pay for capital construction associated with the development of the project. Other than issuance and underwriting costs, the remaining bond proceeds will be used to pay capitalized interest. The capitalized interest period is 1.43 years, consequently the State will be required to make a general fund appropriation to pay the annual debt service averaged at \$2.1 million annually for the term of the bonds beginning in fiscal 2004. As discussed above, the fiscal 2005 allowance provides \$890,187 in general funds representing approximately one-half of the annual debt service requirements after deducting for estimated ticket surcharge revenues. The legislation authorizing the project requires the theatre operator to collect a \$2.00 ticket surcharge on each ticket sold for events held at the Hippodrome. It is estimated that the ticket surcharge revenue will be approximately \$890,187 in fiscal 2005.

- **Montgomery County Conference Center:** MSA expects to utilize \$8,083,401 in nonbudgeted funds during fiscal 2005 for the construction of MCCC. This is approximately \$15.1 million less than MSA expects to utilize during fiscal 2004. The project is currently projected to cost \$34 million excluding the cost of capitalized interest, issuance, and underwriting costs. At the December 18, 2002, meeting of BPW, MSA was authorized and proceeded to issue \$23.185 million of tax supported debt of the State of Maryland for the project. Of this amount, \$20.3 million constitutes the State's contribution to the construction costs. Montgomery County is contributing \$13.7 million for construction and another \$2.25 million for project related

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enhancements. Debt service beginning on June 15, 2003, and through December 15, 2004, consists entirely of interest payments funded by the capitalized interest account established as part of the financing plan. Payments from June 15, 2005, and continuing through June 15, 2024, will be paid from funds subject to appropriation by the State. Construction began in February 2003, and is expected to be completed by fall 2004.

Other adjustments to the authority's nonbudgeted fund allowance include the following:

- MSA's fiscal 2005 budget for the Camden Station renovation project decreases the amount of nonbudgeted funds by \$9.0 million below the fiscal 2004 level of funding.
- MSA's fiscal 2005 budget for Capital Improvements Fund increases the amount of nonbudgeted funds by \$2.0 million above the fiscal 2004 level of funding.

Impact of Cost Containment for Fiscal 2005

MSA, exempt from the provisions of the State Personnel and Pensions Article that govern the State Personnel Management System, administers its own personnel system. Consequently, the reduction to the matching employee deferred compensation contribution included in the Governor's budget plan and contingent upon enactment of a provision in the Budget Reconciliation and Financing Act (BRFA) of 2004 does not apply to MSA. MSA's budget plan for administration includes \$35,000 for the deferred compensation match which is funded with nonbudgeted funds. **As an equity issue, DLS recommends that MSA voluntarily comply with any reduction in the State's funding for the deferred compensation match for fiscal 2005 that may result from the actions of the General Assembly.**

Issues

1. Lottery Proceeds and Cash Flow Analysis for the Maryland Stadium Authority Financing Fund

MSAFF receives all revenues associated with Camden Yards – bond proceeds, lottery revenues, admissions taxes, rent payments from the Baltimore Orioles and tenants in the warehouse, parking fees, maintenance payments from the Baltimore Ravens, and the annual \$1 million payment from Baltimore City. All the expenses associated with the general administration of the authority and the operation of the facilities at Camden Yards is paid from this nonbudgeted fund account. The cash flow analysis provided in **Appendix 4** presents MSA's actual fiscal 2003 and estimated fiscal 2004 through 2006 revenues and expenditures.

Analysis of Revenue and Expenditure Trends

Based upon the \$22 million in lottery proceeds included in the fiscal 2005 allowance, estimated revenues generated at the Camden Sports Complex of \$23.7 million, Baltimore City's annual \$1 million contribution, combined MSA administrative costs and Camden Yards facilities operating costs of \$23.0 million, estimated capital project costs of \$4.4 million, debt service costs of \$21.3 million, and the statutorily required \$2.4 million payment to the Public School Construction Fund (PSCF) MSA is projecting a fund balance in the MSAFF of \$1.2 million at the close of fiscal 2005. DLS makes the following observations.

- **Camden Yards Operating Costs Exceed Rent and Lease Revenue:** As shown in **Exhibit 4**, the income derived from operating revenues are projected to be less than what MSA estimates it will spend for operations in each of fiscal 2003 through 2006. Consequently, MSA must apply the admissions tax receipts to make up the difference, which prohibits their use for other projects such as the renovation of Camden Station where special funds transferred from the lottery will be used to repay the debt service on the bonds. **DLS recommends MSA comment on why the operation of Camden Yards is not able to fully cover operating expenses without the inclusion of admissions taxes which are levied by the State.** Not included in the total revenue is an additional \$250,000 in football admission taxes collected due to the Ravens making the playoffs in fiscal 2004.
- **Fiscal 2004 Lottery Proceeds Exceed What Is Needed for Debt Service:** Each year the lottery transfers special funds to MSA to pay for the debt service on the bonds issued by MSA. In fiscal 2005 lottery proceeds of \$22 million will exceed the bond debt service of approximately \$21.3 million by an estimated \$672,000. According to the fiscal 2005 cash flow projections, MSA will be able to cover all expenses including its contribution to the public school construction

Exhibit 4
Lease Revenue and Camden Facilities Operating Expenditures
Fiscal 2003 – 2006
(\$ in Thousands)

	FY 2003	FY 2004	FY 2005	FY 2006	Ann.
	<u>Actual</u>	<u>Est.</u>	<u>Est.</u>	<u>Est.</u>	<u>Chg.</u>
					<u>03-05</u>
Misc. Income	\$277	\$120	\$120	\$125	
Catering Events	469	440	440	480	
Baseball Rent	6,044	6,000	6,000	6,250	
Baseball Suite Amortization	835	860	830	800	
Football Rent	5,984	6,035	6,498	6,693	
Seating Bowl Events	250	250	250	300	
Warehouse Rent	3,308	3,300	3,500	3,650	
Construction Management Fees	120	100	50	881	
Total Operating Revenues	\$17,287	\$17,105	\$17,688	\$19,179	1.2%
Camden Yards Operating Exp.	\$19,236	\$18,725	\$20,117	\$20,461	2.3%
Total Variance	-\$1,949	-\$1,620	-\$2,429	-\$1,282	
Non-Operating Revenues					
Baseball Admissions Tax	4,423	4,000	4,000	4,250	
Football Admissions Tax	3,227	2,000	2,000	2,150	
Baltimore City Payment	1,000	1,000	1,000	1,000	
Total	\$8,650	\$7,000	\$7,000	\$7,400	

Source: Maryland Stadium Authority

fund of \$2.4 million and still have an ending balance of \$570,000 to carry forward into fiscal 2006 if its lottery proceeds are reduced by \$672,000. Although the Facilities Management Fund balance carried into fiscal 2006 will be less, the State may be in a stronger fiscal condition next year.

2. Convention Center Operating Deficits Continue to Grow

Exhibit 5 shows the annual revenue and expenditures and the level of State operating deficit support budgeted from fiscal 1999 through the 2005 allowance for BCCC and OCCC. The revenues, expenditures, and State's contribution towards annual operating deficits are discussed below.

Exhibit 5
Convention Center Operating Deficit Support
Fiscal 1999 – 2005
(\$ in Thousands)

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>Ann. %</u>	<u>Ann. %</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Est.</u>	<u>Est.</u>	<u>99-03</u>	<u>03-05</u>
Baltimore City Convention Center									
Revenues	\$7,450	\$8,339	\$9,941	\$11,063	\$10,613	\$9,935	\$10,171	9.2%	-2.1%
Operating Expenses	11,431	12,282	12,699	13,432	15,596	15,207	15,564	8.1%	-0.1%
Operating Deficit	-3,981	-3,943	-2,758	-2,369	-4,983	-5,272	-5,393		
State's Share (two-thirds)	-2,655	-2,629	-1,838	-1,579	-2,557	-3,515	-3,595		
Budgeted by MSA	3,519	3,566	3,811	2,502	1,862	1,987	2,891		
Balance Due BCCC							-\$704		
Ocean City Convention Center									
Revenues	1,203	1,162	1,352	1,305	1,468	1,497	1,570	5.1%	3.4%
Operating Expenses	2,774	3,116	3,454	3,451	3,764	3,746	4,002	7.9%	3.1%
Operating Deficit	-1,570	-1,954	-2,102	-2,146	-2,116	-2,249	2,432		
State's Share (one-half)	-785	-997	-1,051	-1,073	-1,058	-1,125	-1,215		
Budgeted by MSA	808	956	943	898	1,370	1,000	1,186		
Balance Due OCCC							-\$29		

Source: Maryland Stadium Authority

Baltimore City Convention Center

Section 13-712.1 of the State Finance Procurement Article requires MSA to contribute two-thirds toward the annual operating deficit for BCCC through fiscal 2008. The City of Baltimore is responsible for the remaining one-third share. As shown in Exhibit 5, State operating deficit support for BCCC was consistently over budgeted in each of fiscal 1999 through 2002. Over this period, convention revenues increased at an annual rate of 14.1% compared to annual growth in expenses of 5.5%. While still operating at a deficit (convention centers by nature operate at a loss), the disparity

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between revenues and expenditures shrank. This reduced the total annual operating deficit and the State's annual contribution declined accordingly. However, the trend reversed in fiscal 2003, revenues decreased 4.1% from \$11.1 million in fiscal 2002 to \$10.6 million in fiscal 2003 and expenses increased 16.1% from \$13.4 million in fiscal 2002 to \$15.6 million in fiscal 2003. According to MSA the increase results from increased security costs related to the September 1, 2001, terrorist attacks. The estimated data from fiscal 2004 and 2005 shows a continuation of this trend. Revenues and expenses are expected to increase at roughly the same rate, the overarching theme being that the operating deficit is continuing to grow. If the 2004 and 2005 estimates hold true, MSA's fiscal 2005 allowance of \$2.89 million will fall short of fulfilling the estimated \$3.6 million State statutory required contribution. Currently, the State's contribution to the BCCC deficit is short by \$704 thousand dollars, which is comprised of a \$191,000 carryover shortfall from fiscal 2003 and a \$513,000 appropriation shortfall in fiscal 2004. **DLS recommends MSA brief the committees on the ongoing declining economic performance of the BCCC and why they believe the convention center has consistently overstated operating deficits. DLS also recommends that MSA brief the committees on the steps BCCC and Baltimore Area Convention and Visitors Association (BACVA) are taking to increase revenues, decrease operating expenses, and prepare for the scheduled 2008 conclusion of the State deficit subsidy.**

Ocean City Convention Center

Section 13-712.1 of the State Finance Procurement Article also requires MSA to contribute one-half towards the annual operating deficit for OCCC through fiscal 2015. The fiscal 2005 allowance provides \$1.186 million to support the State's one-half share of OCCC's operating deficit. Unlike the funds budgeted for the BCCC support, the amount budgeted for support of OCCC's operating deficit has been consistently under budgeted. MSA usually makes up for this under budgeting by requesting additional funds in the following year, as was the case in fiscal 2003 where additional appropriated funds made up for a shortfall experienced in fiscal 2002. For fiscal 2005 the \$1.186 million appropriation is expected to be \$29,000 short of the State's one-half share. Other than the fiscal 2005 \$29,000 shortfall, no balance from previous years is carried forward. In 2002 Ocean City requested that MSA oversee a study to determine the feasibility of expanding OCCC. The study focused on estimating the architectural services needed and included the expansion of the exhibit hall by 30,000 square feet and adding approximately 12 meeting rooms. **DLS recommends that MSA brief the committee on the results of the feasibility study and if there are any plans to go forward with the OCCC expansion.** Additionally, construction for a new \$62 million, 4 Star Hilton Resort and 300 room conference center located in Virginia Beach began in the summer of 2003 and is expected to complete the hotel and a portion of the convention center by summer 2005. The full convention center is expected to be open by January 2007. **DLS recommends that MSA brief the committees on the potential impact on OCCC's revenues with a new state of the art Convention Center located within four hours of Washington, DC. DLS also recommends MSA brief the committees concerning the estimated fiscal 2005 revenues and expenditures for OCCC.**

3. Committee to Study the Structure and Efficiency of State Government Recommends the Maryland Stadium Authority Manage Public School Construction Projects

In an effort to make the school construction process more efficient and more cost effective, the Report of the Commission on the Structure and Efficiency of State Government (Mandel Commission) released on December 8, 2003, recommended that the Inter-agency Committee for Public School Construction (IAC) should be merged into MSA and be renamed the Maryland Construction Management Authority. It is believed the name change will more accurately reflect the authority's activities.

Over the past 17 years, MSA has developed an expertise in managing large construction projects successfully. However, to date the only contribution MSA has made to public school construction has been the annual \$2.4 million contribution to the Public School Construction Fund (PSCF). Since MSA has little if any school construction experience, the Mandel Commission has recommended that IAC who is currently administering the Public School Construction Program (PSCP) be merged with MSA. It is believed that the merger would create a synergic relationship designed to bring MSA's expertise in construction to school facilities. It is hoped that the consolidation would bring improvements in design and execution, as well as the realization of economies in planning, design, and construction costs. It is also hoped that the combined agency would allow for the statewide coordination of the public school construction process, providing a forum for interaction and consultation while at the same time helping the local education agencies (LEAs) to optimize their school construction funding.

Current procurement law provides an exclusion in Section 11-203 of the State Finance and Procurement Article (SFPA) to MSA. This exclusion is provided to enable the authority to more efficiently manage construction budgets and to expedite projects. The only exception to the exclusion is that MSA must adhere to procurement from minority business laws as well as all State ethic laws. Included in the MSA's exemption, by the same statute, is an exclusion from the prevailing wage law, which is defined in Title 17, subtitle 2 of the SFPA and applies to any public works contract when State funds are used to finance at least 50% of the construction costs and when the project funding exceed \$500,000. As current law stands, the IAC is required to abide by the prevailing wage law. If Public school construction (PSC) is folded into MSA, the State must decide if the authority should be able to finance PSCP's utilizing its current exemption from the State Procurement Laws. The State has three options:

- Retain MSA and the IAC in their current roles.
- Merge MSA and IAC; however, allow MSA to retain its exemption from the State procurement and prevailing wage laws and continue to finance all construction projects including PSC with the full exemption.

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- Merge MSA and IAC; however, only allow MSA to retain its exemption from the procurement and prevailing wage laws for all non-public school construction projects but require MSA to follow State procurement and prevailing wage laws for all public school construction projects.

The taskforce to study Public School Facilities has discussed the recommendations of the Mandel Commission and has raised the following concerns:

- The independence of the IAC from any specific agency allows it to maintain a focus on providing school facilities that support the education programs of the State and the needs and desires of the local school districts.
- School planning, design, and construction is a highly specialized domain within the facilities field, and requires focused attention and specialized skills. The taskforce questions MSA's ability to provide specialized knowledge in this area.
- The taskforce is disputing the efficiencies that the Mandel Commission claims would be achieved through the consolidation. The taskforce believes that the IAC works efficiently and does not believe a reduction in staff would occur without a significant reduction in the number or size of programs administered by PSCP. The taskforce believes that such a reduction is not in the best interest of the State.
- The Mandel Commission believes that the projected new growth of PSC will compromise the ability of PSCP to carry out its work. The taskforce does not believe this to be the case.
- Statewide coordination of school construction activities is not desirable if it means a reduction in local control over educational matters. The taskforce believes that the decentralization of the school construction process reflects the traditional deference paid to the local jurisdictions in defining and executing the facilities that support their educational programs, which are unique to their demographics, their cultures, and their local priorities.

The taskforce is expected to recommend against the Mandel Commissions recommendations in its final report.

DLS recommends that MSA comment on the Mandel Commissions recommendation to consolidate with the IAC and be renamed the Maryland Construction Management Authority. DLS requests that MSA comment on its ability to bring efficiencies, economics of scale, and expertise to PSCP.

Recommended Actions

	<u>Amount Reduction</u>
1. Reduce special funds for grants in the Facilities Fund. The Facilities Fund receives a yearly transfer of special funds from the lottery. These funds are used to pay the debt service and financing costs of the bonds that the Maryland Stadium Authority (MSA) issues on behalf of the State. A reduction of \$672,000 will still allow MSA to make all debt service payments and conclude the fiscal year with a fund balance in excess of \$500,000.	\$ 672,000 SF
Total Special Fund Reductions	\$ 672,000

Updates

1. Current MSA Project Update

The authority is currently involved with the construction of three projects: the Hippodrome, the MCCC, and Camden Station. The authority has received permission from the policy committee to have discussions with the respective parties for the construction of both a minor league stadium in Charles County and a Special Olympics training facility in Anne Arundel County. If these projects are able to secure financing, MSA will manage the construction of the projects and receive a fee.

2. Baltimore City Convention Center Update

Convention Center Bookings

During fiscal 2003, BCCC experienced its lowest number of events since the center's expansion in 1997. According to BCCC, 114,430 people attended 24 conventions in fiscal 2003, 150,000 less than what was projected. As is shown in **Exhibit 6**, BCCC achieved a high of 41 conventions in fiscal 1998 and dipped to a low of 24 in fiscal 2003.

Exhibit 6 Conventions Bookings Fiscal 1997 – 2003

<u>Fiscal Year</u>	<u>Number of Events</u>	<u>Attendance</u>
1997	30	74,105
1998	41	146,325
1999	30	99,050
2000	26	110,750
2001	39	183,294
2002	40	147,105
2003	24	114,430

Source: Baltimore City Convention Center

The lackluster performance of the convention center may have roots in various issues such as the national recession, the post September 11, 2001, terrorist attacks, competition from a proliferation of new convention centers across the country, a lack of leadership, aggressive marketing and a lack of accountability from BACVA – which is responsible for marketing and promoting the convention center, and the absence of a convention center headquarters hotel.

In addressing at least one of the above mentioned problems, BACVA underwent a comprehensive examination of its operations in the fall 2002. The examination was completed by Performance Management, Inc. and released in February 2003. **Exhibit 7** presents the major finding and selected recommendations of the report.

Exhibit 7
Baltimore Area Convention and Visitors Association Performance Report

Leadership	The feedback from stakeholders (hotels, the Convention Center, businesses, community leaders, and Mayor's office) is that BACVA has not been effective in taking the lead to market the city effectively.
Performance Management	Internally, the bureau has been deficient in terms of long- and short-term planning, goal setting, performance reporting and accountability, performance evaluation and development of staff.
Management Practices	The following areas need improvement: internal communications, coordination between departments, planning and coordination of activities, performance tracking, internal controls, management infrastructure, senior management working as a team, efficient and effective decision-making, allocation of resources and efforts, and recruiting and retention procedures.
Sales	The sales effort has not been well managed and is plagued by high turnover at head of sales and sales manager levels.
BCCC Bookings	BACVA is not held accountable for convention center bookings.
Organizational Structure	Too many layers of management and unclear definition of roles and responsibilities.
Performance Reporting	Lacks proper reporting procedures and controls.

Selected Recommendations:

1. Strengthen leadership and management team.
2. Build collaboration and teamwork both internally between departments and throughout community.
3. Develop full partnering relationship with the convention center with common and mutually supportive goals.
4. Closely monitor and manage key marketing issues affecting the destination such as the presence of a downtown headquarters hotel.

Source: Performance Management, Inc.

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During the first quarter of fiscal 2004, BACVA made improvements to its organization. In August 2003 BACVA hired a new Chief Executive Officer and President, Leslie Doggett. Ms. Doggett previously served as a tourism official in New York City under Mayor David Dinkins and in the Clinton Administration. She has put forth several new marketing initiatives which seem to be improving the convention center's outlook. According to BACVA which issued its first quarterly report in November 2003, the convention center booked a strong first quarter. It will host its largest convention to date, the National Baptist Convention, which is expected to bring 50,000 visitors in 2006 and absorb 25,000 hotel rooms. BACVA also estimated that the group will spend approximately \$41 million during the convention. Additionally, during the first quarter, BACVA booked 42 conventions and meetings worth an estimated \$82.7 million in direct spending.

Proposal for a Convention Center Hotel

Prior to and during the construction of the convention center, many key city and State officials expressed concerns that the convention center would not be as successful as projected absent a headquarters hotel located adjacent to or in close proximity to the center. In 1996 the decision was made to not build a new headquarters hotel but to utilize the existing Marriot Waterfront Hotel located one mile from the convention center. The center's failure to attain the projected economic impact has revived discussions of the need for a large hotel connected or adjacent to the convention center. In November 2003, Baltimore Mayor Martin O'Malley awarded the job of constructing the new convention center headquarters hotel to RLJ Development and Quadrangle Development Corporation. The developers will have a six-month exclusive negotiating priority to build a \$200 million, 750-room Hilton on a site just north of Oriole Park at Camden Yards. The goal is to begin the project in 2004 and complete it in 2007. The Mayor as well as the State is hoping that this hotel will maximize the economic success of the convention center. It is anticipated the hotel will be financed with tax-exempt bonds, but the exact obligation of the city is yet to be determined.

3. Camden Station Project

On December 3, 2003, as required under Section 13-712 of the Annotated Code of Maryland, BWP approved MSA's Comprehensive Plan of Financing for the Camden Station Project. MSA will be renovating Camden Station's interior to accommodate two tenants – the Babe Ruth Museum and one or more as yet to be determined commercial tenants.

Camden Station which opened in 1856 is a 44,000 square foot brick building that is located at the northern gateway to Camden Yards. The exterior of the building was stabilized during the construction of Oriole Park in Camden Yards during the early 1990s. However, because the building was in a deteriorating state, additional emergency exterior work to stabilize the building was undertaken utilizing a \$1.0 million fiscal 2002 appropriation. An additional expenditure of approximately \$400,000 will be made before the Series 2004 Bonds are sold for the removal of hazardous material. The interior is substantially gutted. All tenants will be responsible for their costs of tenant improvements.

Tenants

Babe Ruth Museum

The Babe Ruth Birthplace and Museum opened in 1974 with 100 artifacts exhibited. That number has grown to more than 10,000 artifacts today. As the birthplace facility no longer provides sufficient space for the museum to operate at an appropriate level for the size, importance, and scope of its collection, the museum officials have decided to relocate to the historic Camden Station. The museum will rent approximately 22,552 square feet of space. The completion date for the Babe Ruth Museum is estimated to be April 2005.

Second Tenant

An as yet to be determined commercial tenant(s) will rent approximately 17,254 square feet of space.

Financing of the Project

To finance the project, MSA will issue \$8.73 million of Taxable Lease Revenue Series 2004 Bonds to be sold via competitive sale. The annual debt service on the Series 2004 Bonds will be paid from commercial lease and parking revenues to be generated at Camden Station. According to cash flow projections provided by MSA, which assume full occupancy and the utilization of 20 parking spaces daily, rental revenues from The Babe Ruth Museum and from one or more commercial tenants, together with parking revenues, are projected to offset the authority's operating expenses associated with the project and the debt service in each of fiscal 2006 through 2025. Set forth below is a table illustrating the sources and uses of the proceeds of the Series 2004 Bonds.

Sources	Series 2004 Bonds	\$8,730,000
	Underwriter's Discount and Net Original Issue Discount/ Premium	-41,666
	Accrued Interest	29,447
Total Sources		\$8,717,781
Uses	Construction Fund Deposit	7,989,670
	Capitalized Interest Fund Deposit	728,111
Total Uses		\$8,717,781

Of the \$8.7 million in net proceeds, \$8.0 million will be used to pay for capital costs of renovation of the interior of the Camden Station. The remaining proceeds will be used to pay the capitalized interest. Interest payments on the Series 2004 Bonds will begin on June 15, 2004, and continue every six months through December 15, 2024. The Capitalized Interest Fund is funded to provide payments of interest on the Series 2004 bonds through June 15, 2005. Principle payments are structured to begin on December 15, 2006. The construction period is expected to end in March 2005.

Current and Prior Year Budgets

Current and Prior Year Budgets Maryland Stadium Authority (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	\$10,461	\$21,949	\$0	\$0	\$32,410
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	-513	0	0	0	-513
Reversions and Cancellations	-14	0	0	0	-14
Actual Expenditures	\$9,934	\$21,949	\$0	\$0	\$31,883
Fiscal 2004					
Legislative Appropriation	\$10,498	\$22,000	\$0	\$0	\$32,498
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$10,498	\$22,000	\$0	\$0	\$32,498

Note: Numbers may not sum to total due to rounding.

Fiscal 2003

MSA finished fiscal 2003 \$528,000 below the original legislative appropriation. \$513,000 of the general fund reduction was due to 2003 cost containment measures which reduced the authority's contribution to support the annual operating deficit for BCCC.

**Object/Fund Difference Report
Maryland Stadium Authority**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	83.50	83.50	83.50	0	0%
Total Positions	83.50	83.50	83.50	0	0%
Objects					
01 Salaries and Wages	\$ 4,727,876	\$ 5,261,636	\$ 5,262,297	\$ 661	0%
02 Technical & Spec Fees	775,599	811,384	822,015	10,631	1.3%
03 Communication	97,998	92,291	95,123	2,832	3.1%
04 Travel	28,783	41,092	41,289	197	0.5%
06 Fuel & Utilities	5,922,362	6,802,158	6,834,928	32,770	0.5%
07 Motor Vehicles	68,297	70,726	72,607	1,881	2.7%
08 Contractual Services	13,356,510	14,633,041	14,891,421	258,380	1.8%
09 Supplies & Materials	576,240	532,367	546,796	14,429	2.7%
10 Equip - Replacement	0	1,000,000	0	-1,000,000	-100.0%
11 Equip - Additional	297,936	102,680	104,220	1,540	1.5%
12 Grants, Subsidies, Contr	25,170,958	24,987,000	26,076,669	1,089,669	4.4%
13 Fixed Charges	24,724,145	29,846,147	18,339,083	-11,507,064	-38.6%
14 Land & Structures	26,847,716	31,240,854	3,470,600	-27,770,254	-88.9%
Total Objects	\$ 102,594,420	\$ 115,421,376	\$ 76,557,048	-\$ 38,864,328	-33.7%
Funds					
01 General Fund	\$ 9,933,575	\$ 10,498,275	\$ 13,428,270	\$ 2,929,995	27.9%
03 Special Fund	21,949,000	22,000,000	22,000,000	0	0%
07 Nonbudgeted Fund	70,711,845	82,923,101	41,128,778	-41,794,323	-50.4%
Total Funds	\$ 102,594,420	\$ 115,421,376	\$ 76,557,048	-\$ 38,864,328	-33.7%

Note: Fiscal 2004 appropriations and fiscal 2005 allowance do not include deficiencies, cost containment, and contingent reductions.

**Fiscal Summary
Maryland Stadium Authority**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
02 Maryland Stadium Facilities Fund	\$ 21,949,000	\$ 22,000,000	\$ 22,000,000	0.2%	\$ 22,000,000	0%
41 General Administration	2,574,344	2,927,739	2,930,739	13.8%	2,916,370	-0.5%
42 Capital Programs - Baseball/Football Pre-Construction	13,646,643	2,651,481	11,722,081	-14.1%	2,722,081	-76.8%
44 Facilities Management	19,565,802	20,100,676	20,125,676	2.9%	20,516,740	1.9%
48 Facilities Management	0	1,000,000	3,000,000		5,000,000	66.7%
55 Baltimore Convention Center	6,952,756	7,075,394	7,075,394	1.8%	7,974,458	12.7%
58 Ocean City Convention Center	2,886,599	2,534,264	2,534,264	-12.2%	2,716,705	7.2%
59 Montgomery County Conference Center	7,196,636	22,366,698	23,320,664	224.0%	9,930,321	-57.4%
60 Hippodrome Performing Arts Center - Capital Appropriation	27,822,640	16,396,295	22,712,558	-18.4%	2,780,373	-87.8%
Total Expenditures	\$ 102,594,420	\$ 97,052,547	\$ 115,421,376	12.5%	\$ 76,557,048	-33.7%
General Fund	\$ 9,933,575	\$ 10,498,274	\$ 10,498,275	5.7%	\$ 13,428,270	27.9%
Special Fund	21,949,000	21,999,999	22,000,000	0.2%	22,000,000	0%
Federal Fund	0	-\$ 0	0	0.0%	0	0.0%
Nonbudgeted Fund	70,711,845	64,554,272	82,923,101	17.3%	41,128,778	-50.4%
Total Appropriations	\$ 102,594,420	\$ 97,052,547	\$ 115,421,376	12.5%	\$ 76,557,048	-33.7%

Note: Fiscal 2004 appropriations and fiscal 2005 allowance do not include deficiencies, cost containment, and contingent reductions.

MSA Financials

	<u>Actual</u> <u>FY 2002</u>	<u>Actual</u> <u>FY2003</u>	<u>Est.</u> <u>FY2004</u>	<u>Est.</u> <u>FY2005</u>	<u>Est.</u> <u>FY2006</u>
Beginning Balance	-\$4,164	\$3,261	\$3,782	\$5,715	\$1,242
Lottery Proceeds					
Lottery Proceeds	27,230	21,949	22,000	22,000	22,000
Net Bond Proceeds	10,250	10,250	7,989	0	0
Subtotal: Lottery/Bond	\$37,480	\$32,199	\$29,989	\$22,000	\$22,000
Revenues					
Misc. Income	-235	277	120	120	125
Catering Events	515	469	440	440	480
Baseball Admission Tax	4,313	4,423	4000	4,000	4,250
Baseball Rent	6,510	6,044	6,000	6,000	6,250
Baseball Suite Amortixation	992	835	860	830	800
Football Admission Tax	2,000	3,227	2,000	2,000	2,150
Football Operations	6,581	5,984	6,035	6,498	6,693
Seating Bowl Events	0	250	250	250	300
Parking	0	0	0	0	0
Warehouse Lease	2,994	3,308	3,300	3,500	3,650
Construction Mang. Fee	0	120	100	50	0
Camden Station Revenues	0	0		0	881
Ravens Payment	1,109	0	0	0	0
City of Baltimore	1,000	1,000	1,000	1,000	1,000
Total Revenues	\$25,779	\$25,937	\$24,105	\$24,688	\$26,579
Total Funds Available	\$59,095	\$61,397	\$57,876	\$52,403	\$49,821
Disbursements					
MSA Administration	2,099	2,454	2,930	2,916	2,900
Camden Yards Operations	15,113	19,236	18,725	20,117	20,461
Subtotal MSA/Camden	\$17,212	\$21,690	\$21,655	\$23,033	\$23,361
Equipment Leases	7,904	0	0	0	0
Capital Imp. Funds	10,400	400	400	400	400
Camden Station Project	5	1,036	4,500	4,000	0
Baseball Suite Renovate	0	0	1,000	0	0
Replacement of PAT	0	0	0	0	0
Subtotal MSA/Camden	\$35,521	\$23,126	\$27,555	\$27,433	\$23,761
Debt service and Financing	20,313	32,089	22,206	21,328	22,193
School Construction	0	2,400	2,400	2,400	2,400
Total Uses	\$55,834	\$57,615	\$52,161	\$51,161	\$48,354
Ending Balance	\$3,261	\$3,782	\$5,715	\$1,242	\$1,467