

D90U00
Canal Place Preservation and Development Authority

Operating Budget Data

(\$ in Thousands)

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$319	\$325	\$308	-\$17	-5.3%
Special Fund	201	200	254	53	26.7%
Reimbursable Fund	<u>0</u>	<u>436</u>	<u>0</u>	<u>-436</u>	<u>-100.0%</u>
Total Funds	\$520	\$962	\$562	-\$400	-41.6%

- The fiscal 2008 allowance is \$561,669, a 41.6% decrease from the fiscal 2007 working appropriation. The primary reason for the decrease is that the fiscal 2007 budget includes \$436,000 in one-time reimbursable funds to support construction of a railroad bridge.
- Fiscal 2008 spending also benefits from use of one-time health insurance surplus funds. Absent the use of these funds, the budget declines by \$386,871, or 40.8%.

Personnel Data

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>
Regular Positions	4.00	4.00	4.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	4.00	4.00	4.00	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	0.00	0.00%
Positions Vacant as of 12/31/06	1.00	25.00%

- Canal Place Preservation and Development Authority (Canal Place) budget data include one vacancy for a public affairs specialist who will handle marketing and promotions. The agency reports recently the position is now filled.

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

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Analysis in Brief

Major Trends

Expected Jump in Visitor Numbers Might Occur in Fiscal 2008: Since fiscal 2005, Canal Place has expected a big jump in visitor numbers but project delays have dampened the visitor count. The increase may occur in fiscal 2008 now that the festival grounds and the Allegheny Highlands Trail connection are complete.

Fundraising May Be Helped by Heritage Grant; Education on Track: Fiscal 2007 private funds may be higher if Canal Place receives, as expected, a \$25,000 grant from the Maryland Heritage Areas Authority to support marketing efforts. Educational programs involving volunteers for interpretive programs and a speakers' bureau are continuing.

Issues

Private Development Parcel Tied Up in Litigation, but Settlement Discussions Are Underway: A portion of the Canal Place site is slated for private development. Canal Place has been negotiating with a developer who wants to put a 100-room hotel and restaurant on the parcel, but now the process is tied up in litigation. As of mid-January 2007, settlement discussions are underway. **The Department of Legislative Services recommends that Canal Place comment on the status of the private development parcel and prospects for achieving self-sufficiency.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

Project Status: 22 Completed; Canal Place Has 3 More to Manage: Since construction efforts began in 1996, 22 projects have been completed and 5 remain to be completed. Of the remaining projects, three will be managed directly by Canal Place and involve a railroad bridge, entrance enhancements, and trail connection improvements.

D90U00

Canal Place Preservation and Development Authority

Operating Budget Analysis

Program Description

In 1993, the Canal Place Preservation and Development Authority (Canal Place) was created by legislation to spur the preservation, development, and management of the Canal Place Heritage Area in downtown Cumberland. Canal Place is charged with transforming the area into a major heritage tourism destination. Its responsibilities are directed by a nine-member commission and include:

- preserve or assist in the preservation of buildings, structures, and settings of historical value;
- conduct activities to educate the public about the history and significance of the heritage area;
- provide recreational uses of the heritage area; and
- facilitate economic development in the heritage area, such as through public and private investment in adaptive reuse, interpretive attractions, or other activities.

When fully developed, Canal Place will feature boat rides along a restored section of the Chesapeake and Ohio (C&O) Canal, which broke ground in Washington, DC in 1828 and reached Cumberland in 1850. Today, visitors can walk or bike along the canal towpath and can benefit from other Canal Place projects that have been completed. A retail marketplace includes nine shops and a plaza that hosts music and festival events. A canal boat replica is on display, and train rides are available from the historic Western Maryland Railway Station.

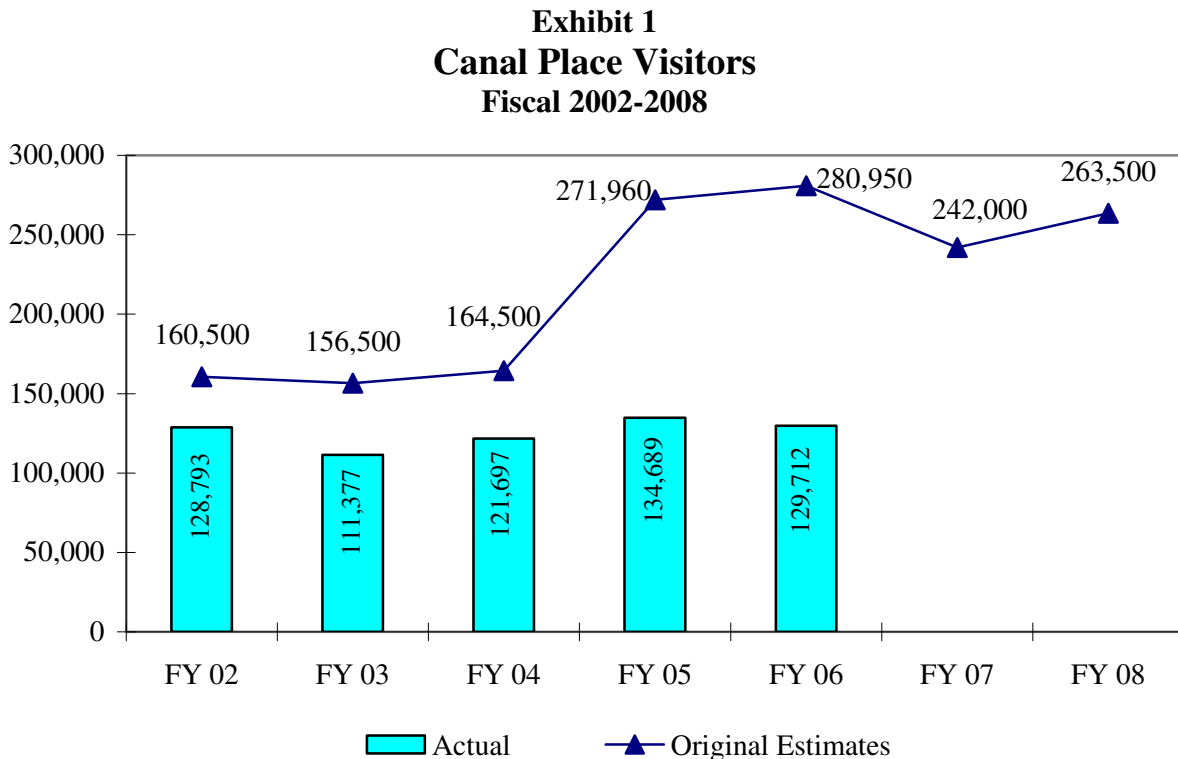
Major festival grounds have been completed and are a focal point of the area. A link that connects the interstate Allegheny Highlands Trail to Canal Place was completed in December 2006. When fully completed, this trail will stretch from Pittsburgh to Washington, DC; the Maryland portion measures about 22 miles. Other projects at Canal Place include expanding the visitor center, overseeing private development of a hotel and restaurant, and improving parking and access for vehicles and pedestrians.

Performance Analysis: Managing for Results

Canal Place reports that the historic downtown Cumberland area is newly revitalized, helped by its own efforts and those of the Main Street program and other interests. According to representatives from Canal Place, property values have risen and downtown events are drawing increasing numbers of people. The agency's Managing for Results data reflect its efforts to develop a successful tourist destination and economic engine for the city of Cumberland.

Anticipated Jump in Visitor Numbers Might Occur in Fiscal 2008

Exhibit 1 shows that actual visitor numbers for Canal Place have been steady since fiscal 2002, averaging 125,000. Beginning with the original fiscal 2005 estimate, which was published as part of the fiscal 2005 budget allowance, Canal Place expected to have about 250,000 visitors to all attractions. However, each year there have been project delays and the expected big jump in visitors has not occurred. The current budget allowance data predicts the large increase will occur in fiscal 2008, which may be realistic now that the festival grounds and the Allegheny Highlands Trail connection are complete.



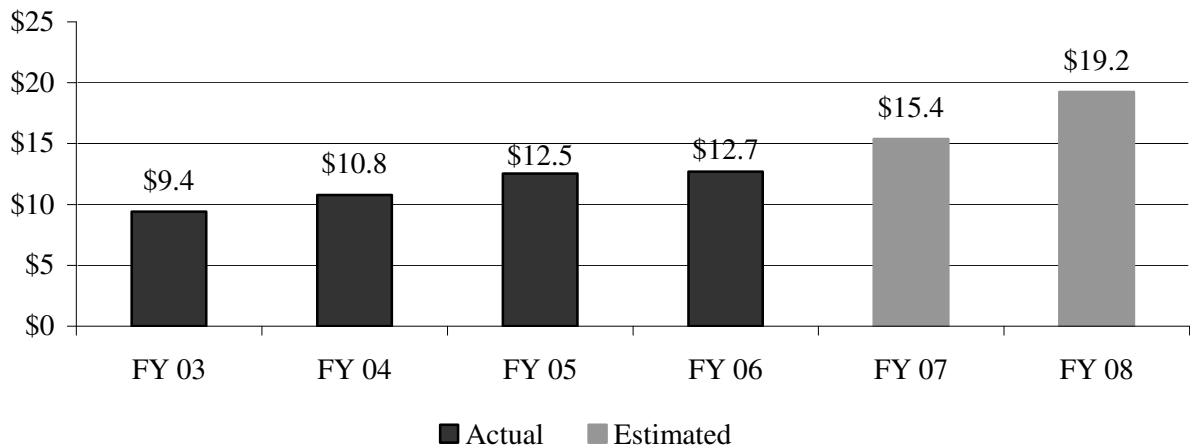
Note: The most recent estimate of fiscal 2007 visits is 192,300.

Source: Maryland State Budget Books, Fiscal 2002-2008

The most recent visitor estimate for fiscal 2007 is 192,300. This is lower than the original estimate of 242,000 because the completion and opening of the Allegheny Highlands Trail Connection was pushed back to December 2006. The new trail is expected to draw 75,000 visitors in its first year, but only about 50,000 of these visits now are expected to occur in fiscal 2007. Although project delays have dampened overall visitor numbers, the three-day CanalFest/RailFest summer event and the Summer in the City music series held on weekend nights have drawn more visitors each year.

The lower than expected visitor count affects the economic impact of Canal Place. Still, **Exhibit 2** shows that the economic impact is expected to be \$15.4 million in fiscal 2007, which would be higher than the previous two years. Hikers and bicycle riders are expected to make up a larger proportion of visitors once the Allegheny Highlands Trail Connection is complete (26% of visitors in fiscal 2007 and 38% in fiscal 2008).

Exhibit 2
Canal Place Economic Impact
Fiscal 2003-2008
(\$ in Millions)



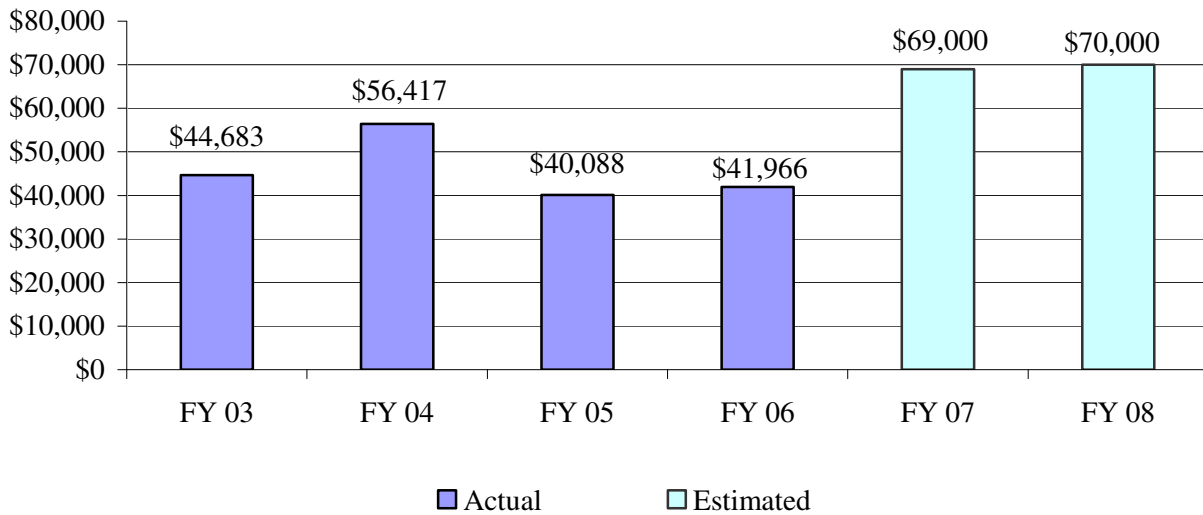
Note: Data are based on the Travel Industry of America’s calculation of the average dollars spent per visitor. The estimated fiscal 2007 amount spent per heritage visitor is \$103. Beginning in fiscal 2007, visitors will include hikers and bicycle riders for the Allegheny Highlands Trail, and they will spend an estimated \$15 each. The spending estimates increase by 5% each year.

Source: Maryland State Budget Books, Fiscal 2002-2008

Fundraising May Be Helped by Heritage Grant; Education on Track

Canal Place also has a goal to secure funding through corporate sponsorships, community membership, and other private donations. Private fundraising averaged \$45,800 from fiscal 2003 to 2006, but it actually was lower in fiscal 2006 than in 2003, as shown in **Exhibit 3**. However, fiscal 2007 private funds may be higher if Canal Place receives, as expected, a \$25,000 grant from the Maryland Heritage Areas Authority to support marketing efforts. Fundraising campaigns by other local groups have presented major competition for private funds, Canal Place reports, but more funds are raised each year for the CanalFest/RailFest and Summer in the City Music series events.

**Exhibit 3
Canal Place Private Funding
Fiscal 2003-2008**



Note: Private funds are from corporate sponsorships, community memberships, donations, and grants.

Source: Maryland State Budget Books, Fiscal 2004-2008

Canal Place is generally on track with its objectives to develop educational programs. Volunteers are coordinated with the C&O Canal National Historical Park to assist with interpretive programs. One or two student interns from business, marketing, or hospitality programs at Allegheny College and Frostburg State University help Canal Place with its activities. A speakers' bureau gives presentations on Canal Place's history and current events to local civic and social organizations, high school classes, and upper level college classes.

Governor's Proposed Budget

Highway Funds Account for Most of Budget Change

Exhibit 4 shows that the fiscal 2008 Canal Place operating allowance totals \$561,669. This represents a significant decrease from the fiscal 2007 working appropriation of \$961,565 primarily because the 2007 budget includes \$436,000 in one-time reimbursable funds. The reimbursable funds were transferred from the State Highway Administration and were left over from the canal parkway project. The funds are being used to support construction of a railroad bridge over the canal. Among other nonpersonnel changes, the fiscal 2008 allowance includes \$30,000 for a marketing and strategic planning study; the agency plans to apply for a grant from the Maryland Heritage Areas Authority to help support the cost.

Exhibit 4
Governor’s Proposed Budget
Canal Place Preservation and Development Authority
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2007 Working Appropriation	\$325	\$200	\$436	\$962
2008 Governor's Allowance	<u>308</u>	<u>254</u>	<u>0</u>	<u>562</u>
Amount Change	-\$17	\$53	-\$436	-\$400
Percent Change	-5.3%	26.7%	-100.0%	-41.6%

Where It Goes:

Personnel Expenses

Increments	\$7
Health insurance costs decline due to one-time savings	-3

Other Changes

Maryland Heritage Area Authority grant to support marketing and planning	30
Insurance coverage.....	6
Other	3
State Highway Administration funds used in fiscal 2007 for bridge construction	-436
Telecommunications paid by Department of Budget and Management	-7

Total **-\$400**

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

Regular personnel expenses increase \$6,466 in fiscal 2008 as compared to 2007. Salary increments are set to increase by 4.2%, which is higher than the statewide average of 2.3%. Health insurance costs are set to decline at Canal Place, as with all State agencies, because of one-time savings. These one-time savings represent use of fund balance because the State has overbudgeted health insurance costs in recent years; at Canal Place, costs decline by a net \$3,344.

General Funds Set to Decline

In looking at the budget by fund source, general funds decrease by \$17,380. The Department of Budget and Management reports that general funds are lower to be consistent with the intent, as stated in budget bill language from the 2004 legislative session, that State support for Canal Place be phased out when State funded capital projects are complete. All originally planned State supported projects are substantively complete, and a newly added bridge project is expected to be completed by summer 2008. The fiscal 2008 Capital Improvement Program includes some funds for improvements

D90U00 – Canal Place Preservation and Development Authority

(\$1.25 million for entrance enhancements and \$500,000 for signage, brickwork, and landscaping for the Allegheny Highlands Trail connection) to be spent in 2011. Canal Place reports that it needs at least level general funds through fiscal 2010.

Canal Place is expected to increase its special funds to compensate for the general fund decrease. Most special funds come from lease payments from the retailers and other organizations that rent space in Canal Place buildings. A boathouse for the National Park Service was completed as a part of the Crescent Lawn project completion, and this adds about \$15,000 to annual lease revenues. Special funds also come from parking fees, rental of the stage and other areas of the Crescent Lawn festival grounds, and grants.

Issues

1. Private Development Parcel Tied Up in Litigation, but Settlement Discussions Are Underway

A portion of the Canal Place area next to the festival grounds is slated for private development. Canal Place has been negotiating with a developer who wants to put a 100-room hotel and restaurant on the parcel, but now the process is tied up in litigation.

The developer exercised the option to lease the parcel in July 2006, but Canal Place believes the developer's documentation is inadequate and filed a lawsuit for declaratory judgment (where the court determines the rights of the parties without ordering anything to be done). The developer must present documentation from a franchise hotel and hotel management company, as well as proof of permanent financing. Canal Place reports that the developer said it might file a restraining order to prevent Canal Place from placing the parcel back on the market to solicit other offers.

The developer and Canal Place also disagree about whether to save a deteriorating part of the historic structure on the site. The Footer's Dye Works building is a four-story, 32,000 gross square foot historic structure with a one-story, 13,500 square foot building attached. The attached building has a distinctive saw tooth roof design. The roof is dilapidated and other work is needed, and the developer wants Canal Place to replace the attached building. At the urging of many community residents, the Canal Place board of directors decided that the structure should be preserved. Canal Place reports that it is hopeful that settlement discussions begun in mid-January 2007 will result in resolution of these issues and moving forward with the development plans.

Lawsuit and Roof Dispute Are Latest Challenges to Self-sufficiency

The lawsuit and roof dispute are the latest challenges for the private development parcel. In 2002, Canal Place purchased a 3.3 acre property adjacent to the original 1 acre parcel to make it more attractive to developers, but the agency did not get clear title to the new property until fall 2005. Also, the initial intended use for the Footer's Dye Works building was to house the Allegheny County visitors center and a city of Cumberland transportation related museum, but the county and city decided not to proceed with their projects.

The private development parcel represents an important revenue source for Canal Place to achieve self-sufficiency for operations. After the site is leased and developed, there will be a four-year stabilization period. In year 5, Canal Place would receive 1.5% of gross hotel room sales revenues, and beginning in year 11 the Canal Place share would increase to 3.5%.

In the 2004 legislative session, the General Assembly added budget bill language expressing the intent that State support for Canal Place should end when the State funded capital projects are complete. All State supported projects are substantively complete except for the railroad bridge over the canal. Although the bridge is a new project for Canal Place (it was expected to be completed by the Army Corps of Engineers), the agency is using State funds it already received and other fund

D90U00 – Canal Place Preservation and Development Authority

sources to complete the project. Summer 2008 is the expected completion date. The fiscal 2008 Capital Improvement Program includes some funds (\$1.75 million) for improvements in 2011. **The Department of Legislative Services recommends that Canal Place comment on the status of the private development parcel and prospects for achieving self-sufficiency.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Project Status: 22 Completed; Canal Place Has 3 More to Manage

Since construction efforts began in 1996, 22 projects have been completed and 5 remain to be completed. Canal Place managed 19 of the finished projects, 1 was managed by the city of Cumberland (a sewer line project), and 2 were managed by the National Park Service (an exhibit center and wayside exhibits).

Of the five remaining projects, one is a new Canal Place managed project that involves constructing a railroad bridge over the canal. The need for this bridge was identified early and was to be completed by the U.S. Army Corps of Engineers, but recently this agency said it could not undertake the project. Current estimates indicate that the bridge project will cost \$2.5 million. Canal Place is not asking for new State funds but is using State Highway Administration funds of \$436,000 that were left over from the canal parkway project, Transportation Enhancement Program funds (federal funds allocated to the State Highway Administration), and Appalachian Regional Commission funds. A local match is also expected.

Two more Canal Place managed projects are included in the fiscal 2008 Capital Improvement Program to receive funding in 2011. The Allegheny Highlands Trail connection would receive \$500,000 for signage, brickwork, landscaping, and safety feature improvements. The entrance to the Canal Place area would receive \$1.25 million for enhancement of a bridge structure and addition of parking spaces and signage.

The other remaining projects are the C&O Canal project, which is managed by the U.S. Army Corps of Engineers and the private development parcel to be managed by a private developer. **Exhibit 5** shows the status of recent and future projects. **Exhibit 6** shows the total capital investment amounts from fiscal 1995 projected through 2008.

**Exhibit 5
Summary of Current and Future Canal Place Projects**

	Funding	Start Date	Completion/ Expected Completion	Comments
Site Signage Program	\$38,402	January 2001	September 2006	Includes all directional, informational, parking lot, entrance marquee, and archway signs.
Rewatered C&O Canal Basin and ¼ mile canal prism	\$15,000,000	1999	May 2006	Federal project including units 1 and 2 pump station, piping, basin, and ¼ mile prism. This project provides waterfront space for the Crescent Lawn festival area. It enables canoes and kayaks to go on the canal and, with the water drained down to one foot deep, wintertime ice skating if it is cold enough.
Parking lot construction	\$214,185	February 2006	July 2006	Parking for Crescent Lawn festival events and other Canal Place attractions.
Crescent Lawn festival grounds	\$5,978,000	January 2000	Functional in July 2006	Phase I completed May 2003. Phase II includes boathouse, plaza extension, and performance stage. Phase II elements were functional for the July 2006 CanalFest/RailFest; final details complete December 2006.
Private development	\$16,000,000	January 2001	Unknown	Hotel, restaurant, and parking. Project is in litigation.
Rewatered one mile canal prism	\$10,000,000	Spring 2006	Spring 2009	Federal project – Units 3 and 4; this project has to be completed before boat rides can begin. Design work has begun.
Railroad bridge over canal	\$2,500,000 (estimated)	Fall 2007	Summer 2008	New Canal Place project. This bridge is required for the canal one mile prism to be completed.
Entrance enhancements	\$1,250,000	2011	Unknown	Enhancements of a bridge structure and addition of parking spaces and signage.
Allegheny Highlands Trail connection	\$500,000	2011	Unknown	Brickwork, landscaping, and safety feature improvements.

Note: Project status as of January, 2007.

Source: Canal Place Preservation and Development Authority

Exhibit 6
Capital Investment Summary
Funding Received Fiscal 1995 – Projected 2008

State Funds

Canal Place Preservation and Development Authority (State Bond and PAYGO)	\$14,378,000
Maryland Heritage Areas Authority	153,000
Program Open Space	1,300,000
State Highway Administration	436,000
Subtotal State Funds	\$16,267,000

Federal Funds

Intermodal Surface Transportation Efficiency Act	\$2,900,000
Appalachian Regional Commission	1,050,000
National Park Service	1,213,000
U.S. Army Corps of Engineers	21,425,000
Environmental Protection Agency	5,000,000
Other (related to railroad bridge)	3,000,000
Subtotal Federal Funds	\$34,588,000

Private Funds (related to the hotel and train station) \$10,100,000

Total \$60,955,000

Source: Canal Place Preservation and Development Authority

Crescent Lawn Completed in Summer 2006

Crescent Lawn is the major public recreational area for Canal Place. The project was functional for the July 2006 CanalFest/RailFest, and final details were complete in December 2006. The project features festival grounds, an amphitheater, canal basin plaza, interpretive entryway, and a complex of three retail buildings. **Exhibit 7** shows the total funding for Crescent Lawn.

Exhibit 7
Crescent Lawn Festival Grounds Funding

<u>Project Phase</u>	<u>Funding</u>	<u>Amount</u>
Crescent Lawn Design	State Bond Funds	\$286,325
Crescent Lawn Phase I	Fiscal 2001 PAYGO	2,000,000
Crescent Lawn Phase I	Fiscal 2002 PAYGO	1,895,564
Crescent Lawn Phase II	Fiscal 2002 PAYGO	370,455
Crescent Lawn Archeology	Appalachian Regional Commission	150,000
Subtotal		\$4,702,344
Crescent Lawn Phase II	State Bond Funds	\$1,253,000
Total		\$5,955,344

Source: Canal Place Preservation and Development Authority

Current and Prior Year Budgets

Current and Prior Year Budgets Canal Place Preservation and Development Authority (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2006					
Legislative Appropriation	\$262	\$225	\$0	\$0	\$487
Deficiency Appropriation	50	0	0	0	50
Budget Amendments	7	0	0	0	7
Reversions and Cancellations	0	-24	0	0	-24
Actual Expenditures	\$319	\$201	\$0	\$0	\$520
Fiscal 2007					
Legislative Appropriation	\$321	\$200	\$0	\$0	\$522
Budget Amendments	4	0	0	436	440
Working Appropriation	\$325	\$200	\$0	\$436	\$962

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

Fiscal 2006

Canal Place finished fiscal 2006 at \$32,609 above its legislative appropriation. General funds increased by \$56,970 during the year. Of this amount, \$50,000 was a deficiency appropriation needed largely because a grant from the Maryland Heritage Areas Authority was not awarded as expected. Also, \$2,751 in general funds was for the State employee cost-of-living adjustment and \$4,219 was for the reallocation of health insurance funds from the Department of Budget and Management to State agencies. Special funds of \$24,361 were cancelled to align budgeted amounts with actual expenditures.

Fiscal 2007

In fiscal 2007, general funds increase \$4,071 due to the State employee cost-of-living adjustment. Reimbursable funds increase \$436,000, which represents a transfer from the State Highway Administration to support construction of a railroad bridge.

**Object/Fund Difference Report
Canal Place Preservation and Development Authority**

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	4.00	4.00	4.00	0	0%
Total Positions	4.00	4.00	4.00	0	0%
Objects					
01 Salaries and Wages	\$ 200,350	\$ 240,839	\$ 247,305	\$ 6,466	2.7%
03 Communication	17,941	22,411	13,242	-9,169	-40.9%
04 Travel	109	200	200	0	0%
06 Fuel & Utilities	76,060	70,458	71,321	863	1.2%
07 Motor Vehicles	1,298	1,500	1,300	-200	-13.3%
08 Contractual Services	188,091	165,602	194,934	29,332	17.7%
09 Supplies & Materials	22,674	15,000	17,400	2,400	16.0%
13 Fixed Charges	6,104	6,555	12,967	6,412	97.8%
14 Land & Structures	7,456	439,000	3,000	-436,000	-99.3%
Total Objects	\$ 520,083	\$ 961,565	\$ 561,669	-\$ 399,896	-41.6%
Funds					
01 General Fund	\$ 319,198	\$ 325,265	\$ 307,885	-\$ 17,380	-5.3%
03 Special Fund	200,885	200,300	253,784	53,484	26.7%
09 Reimbursable Fund	0	436,000	0	-436,000	-100.0%
Total Funds	\$ 520,083	\$ 961,565	\$ 561,669	-\$ 399,896	-41.6%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.