

D90U00
Canal Place Preservation and Development Authority

Operating Budget Data

(\$ in Thousands)

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$352	\$211	\$240	\$29	14.0%
Special Fund	225	254	286	32	12.7%
Reimbursable Fund	<u>436</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Total Funds	\$1,013	\$465	\$526	\$62	13.3%

- The underlying fiscal 2009 budget increase, absent health insurance and Other Post Employment Benefits funding which distort year-to-year comparisons, is \$47,719, or 11.3%.
- Additional funds are mostly for fuel and utilities, certain contractual services, and personnel related changes.

Personnel Data

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</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 12/31/07	1.00	25.00%

- The Canal Place Preservation and Development Authority (Canal Place) has one vacancy for a senior administrator position. However, there is insufficient funding in salaries and wages to fill the position.

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

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Analysis in Brief

Major Trends

Visitors Increased by One-third in 2007: Visitor numbers increased in fiscal 2007 by 45,636 over fiscal 2006, totaling 175,348. Final completion of the Crescent Lawn festival grounds in fiscal 2007 represented an important step in the agency's efforts to attract more visitors.

Private Fundraising Is Level; Agency Hopes to Collaborate on Marketing with Local Chamber of Commerce: Private fundraising has averaged about \$45,000 annually from fiscal 2003 to 2007. The agency intends to work out a shared funding arrangement with the Allegany County Chamber of Commerce so the chamber would handle marketing and private fundraising for Canal Place.

Agency Is Pursuing City and County Support: The chair of the Canal Place board has met with the Cumberland mayor and city administrator to discuss instituting local government financial support for Canal Place. Local support seems to hinge on development of the proposed hotel at Canal Place.

Issues

Lease Agreement for Private Development Parcel Is Imminent, Agency Reports: Canal Place has been negotiating with a developer interested in building a 100-room hotel and restaurant on the Canal Place parcel that is slated for private development. Numerous issues, including whether to demolish a historic structure and whether the developer's hotel and financing documentation were adequate, have held up a lease agreement. The agency reports that the issues are resolved. **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

	<u>Funds</u>
1. Reduce general funds to fulfill legislative intent.	\$ 140,210
Total Reductions	\$ 140,210

Updates

Project Status: 22 Completed; Canal Place Has 2 More to Manage: Since construction began in 1996, 22 projects have been completed and 4 remain to be completed. Of the remaining projects, 2 will be managed directly by Canal Place and involve a railroad bridge and entrance enhancements.

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 currently 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.

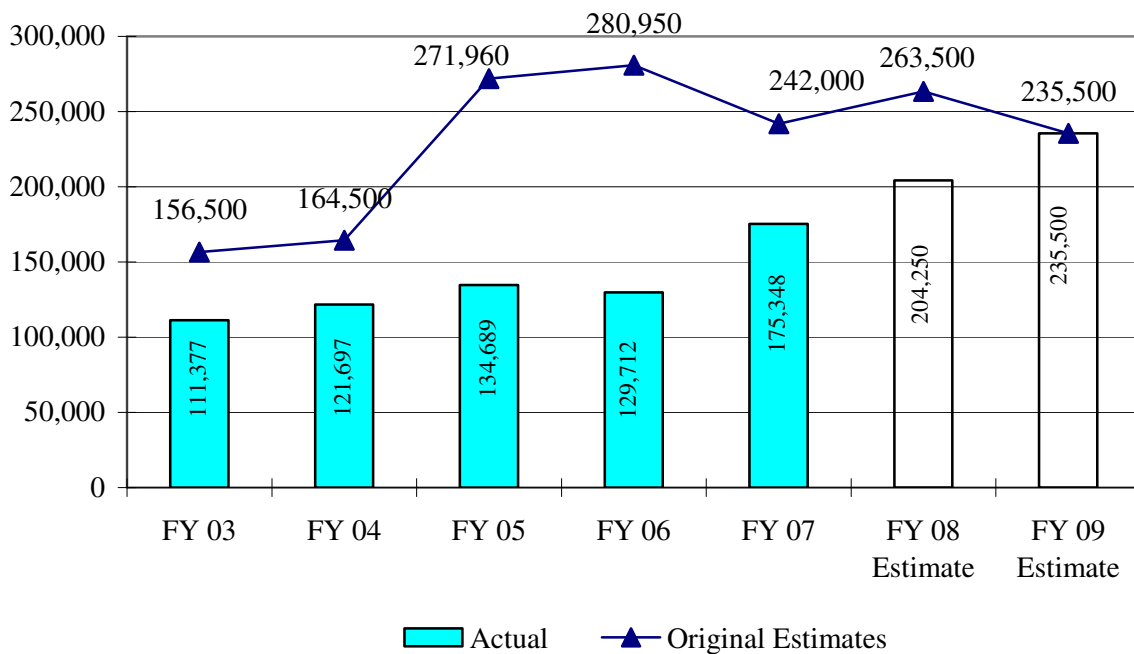
Performance Analysis: Managing for Results

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. Twenty-five new businesses opened in downtown in 2007, 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.

Visitors Increased by One-third in 2007

Exhibit 1 shows that visitor numbers increased in fiscal 2007 by one-third (45,636) over fiscal 2006, totaling 175,348. Approximately 10,000 of the additional visitors were generated by the National Park Service Canal Museum and the canal boat replica. The remainder of the increase was generated mostly by the Summer in the City music series at the Crescent Lawn festival grounds, the Allegheny Highlands Trail connection, and the Greenway Sojourn overnight biking trip.

Exhibit 1
Canal Place Visitors
Fiscal 2003-2009



Note: The most recent estimate of fiscal 2008 visits is 204,250.

Source: Governor's Budget Books, Fiscal 2003-2009

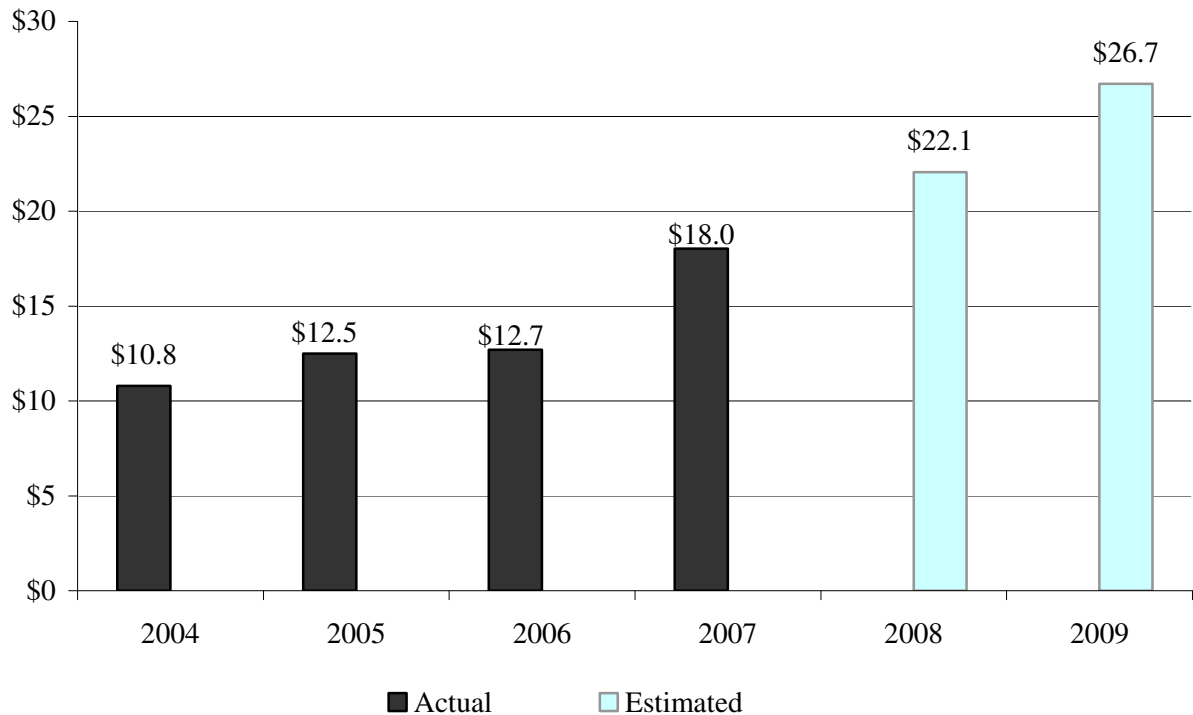
Final completion of the Crescent Lawn festival grounds in 2007 represented an important step in the agency's efforts to attract more visitors. Thirty events occurred at the festival grounds in fiscal 2007, which is comparable to the 2006 level, but the agency hopes to add new events each year. The grounds may be rented for events ranging from musical performances to craft shows to outdoor weddings. CanalFest/RailFest is a major Crescent Lawn event that is organized by the agency. Attendance at CanalFest/RailFest dropped from an estimated 25,000 visitors in fiscal 2006 to 17,500 in fiscal 2007 because the festival was shortened from three to two days after a major corporate sponsor declined to participate.

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The number of visitors in fiscal 2007 came closer to the agency’s estimate for the year than it had since 2004, as shown in Exhibit 1. Delays in completing the festival grounds and the Allegheny Highlands Trail connection had held up an expected jump in visitors. Also, the agency lowered its visitor expectations for fiscal 2007 from the prior year. Since fiscal 2003, Canal Place has averaged about 135,000 visitors annually.

Visitor numbers drive calculations of the economic impact of Canal Place. **Exhibit 2** shows that economic impact grew to an estimated \$18 million in fiscal 2007. Heritage visitors are expected to make up 75% of visitors in fiscal 2008, and hikers and bicycle riders are expected to make up 25%.

Exhibit 2
Canal Place Economic Impact
Fiscal 2004-2009
(\$ in Millions)



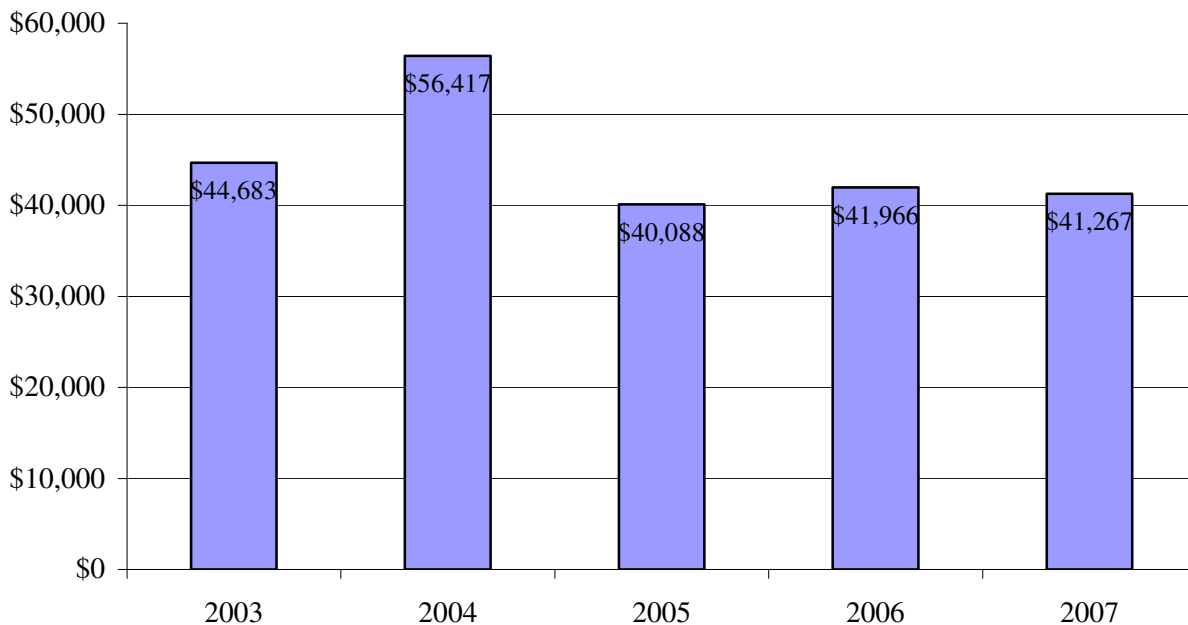
Note: Data are based on the Travel Industry of America’s calculation of the average dollars spent per visitor. The estimated fiscal 2008 amount spent per heritage visitor is \$108. Beginning in fiscal 2007, visitors include hikers and bicycle riders for the Allegheny Highlands trail, and they will spend an estimated \$16 each in 2008. The spending estimates increase by 5% each year.

Source: Governor’s Budget Books, Fiscal 2003-2009

Private Fundraising Is Level; Agency Hopes to Collaborate on Marketing with Local Chamber of Commerce

Canal Place has a goal to secure funding through corporate sponsorships, community membership, and other private donations. Private fundraising averaged \$44,884 from fiscal 2003 to 2007, as shown in **Exhibit 3**. Private funds have focused on producing the CanalFest/RailFest summer event. In the future, the agency hopes to have marketing and private fundraising handled by Allegany Tourism, which is a division of the Allegany County Chamber of Commerce. The agency has discussed shared funding with Allegany Tourism for such an arrangement, and Canal Place intends to pursue grant funds from the Maryland Heritage Areas Authority to provide its portion of the funds.

Exhibit 3
Canal Place Private Funding
Fiscal 2003-2007



Note: Private funds are from corporate sponsorships, community memberships, donations, and private sector grants. Estimates for fiscal 2008 and 2009 are not available.

Source: Governor's Budget Books, Fiscal 2004-2009

Canal Place recently secured some in-kind and financial contributions to offer ice skating in the canal basin during the 2007-2008 winter season. The C&O Canal National Historical Park built and installed, at no cost to Canal Place, a set of steps to enter and exit the ice skating area. Signage was supported by a \$500 donation from the Cumberland Rotary Club. Volunteers oversee the ice skating area when skating is in progress.

Agency Is Pursuing City and County Support

The chair of the Canal Place board has met with the Cumberland mayor and city administrator to discuss instituting local government financial support for Canal Place. The agency reports that local support seems to hinge on development of the proposed hotel at Canal Place, which is discussed in Issue 1. Allegany County has the Allegany Tourism organization handle all of its marketing activities, and so Canal Place is in effect trying to establish some county support by working with Allegany Tourism on a marketing and fundraising arrangement.

Governor's Proposed Budget

Exhibit 4 shows that the fiscal 2009 Canal Place operating allowance totals \$526,134. This represents a \$61,559 (13.3%) increase over the fiscal 2008 working appropriation. However, the underlying fiscal 2009 budget change, absent health insurance and Other Post Employment Benefits funding which distort year-to-year comparisons, is \$47,719, or 11.3%.

The Canal Place budget includes several personnel related adjustments. Turnover increases by \$30,542 and increments decrease by \$49,105 because no funds are included in the allowance to fill a vacant senior administrator position. Miscellaneous personnel adjustments of \$14,074 include funds for higher compensation of two employees who are acting in higher positions.

Among nonpersonnel changes, fuel and utilities funds increase by \$51,876. Contractual services increase by \$51,065 to accommodate additional janitorial and grounds maintenance and additional advertising. Additional maintenance is needed because the Crescent Lawn grounds are fully completed and more events are expected to be scheduled. Contractual services decrease by \$54,610, which includes reduced legal services and deletion of \$30,000 for a marketing study.

General Assembly Has Expressed Intent for General Funds to Be Phased Out

In budget bill language from the 2004 legislative session, the General Assembly expressed intent that State support for Canal Place be phased out when State funded capital projects are complete. All originally planned State supported projects are complete, and a newly added bridge project is expected to be completed by summer 2009. The fiscal 2009 *Capital Improvement Program* includes some funds for improvements to be spent in 2011.

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

How Much It Grows:	General Fund	Special Fund	Total
2008 Working Appropriation	\$211	\$254	\$465
2009 Governor’s Allowance	<u>240</u>	<u>286</u>	<u>526</u>
Amount Change	\$29	\$32	\$62
Percent Change	14.0%	12.7%	13.3%
 Where It Goes:			
Personnel Expenses			
Turnover adjustments			\$31
Miscellaneous adjustments – funds to compensate two employees acting in higher positions.....			14
Health insurance – reduce long-term OPEB liability			14
Increments and other compensation			-49
Retirement and pension fund.....			-4
Health insurance – pay-as-you-go costs and Social Security contributions			-2
Other Changes			
Fuel and utilities			52
Contractual service increases include additional janitorial and grounds maintenance and advertising.....			51
Building and office supplies			12
Building repairs and improvements.....			12
Contractual service decreases include fewer legal services and deletion of funds for a marketing study			-55
Telecommunications paid by the Department of Budget and Management.....			-7
Insurance coverage			-3
Other			-3
Total			\$62

OPEB: Other Post Employment Benefits

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

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Consistent with legislative intent, the General Assembly reduced general funds by \$100,000 for fiscal 2008, bringing the legislative appropriation to \$207,885. The budget committees adopted narrative expressing intent that Canal Place general funds equal \$100,000 in fiscal 2009 and that general fund support cease at the end of fiscal 2009.

Canal Place is expected to increase its special funds to compensate for the general fund phase out. Most special funds come from lease payments from the retailers and other organizations that rent space in Canal Place buildings. Special funds also come from parking fees, rental of the stage and other areas of the Crescent Lawn festival grounds, and grants. The \$32,140 increase in special funds in fiscal 2009 is expected to be generated by additional lease revenues, parking fees, and the CanalFest/RailFest event. Canal Place began fiscal 2008 with a \$4,300 special fund balance; as of January 18, 2008, the balance was \$82,719, and the agency intends to spend down this amount during the remainder of the year.

Issues

1. Lease Agreement for Private Development Parcel Is Imminent, Agency Reports

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. The agency reports that outstanding issues have been resolved and that a lease agreement is imminent.

Among the issues to be resolved was 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 major work is needed, and the developer wants to replace the attached building. At the urging of many community residents, the initial plan to demolish the structure was reconsidered last year by the board. However, the board decided to follow the original plan to demolish the saw tooth structure after the developer exercises the option to lease that portion of the property.

Another issue that needed resolution was related to the documentation provided by the developer when exercising the option to lease the private parcel in July 2006. Canal Place believed that the developer's documentation was 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, in order to exercise the lease. The agency reports that this issue has been resolved. Canal Place accepted the initial documentation, and the developer agreed to the lease terms that were in negotiation before the lawsuit was filed.

Documentation and Roof Dispute Were Latest Challenges to Leasing the Parcel and Achieving Self-sufficiency

The documentation lawsuit and roof dispute were only 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 Allegany 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 4-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%.

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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 sources to complete the project. Summer 2008 is the expected completion date. The fiscal 2009 *Capital Improvement Program* includes \$2.1 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

	<u>Amount Reduction</u>	
1. Reduce funds to fulfill General Assembly intent that Canal Place general funds should be phased out. A reduction to the fiscal 2008 appropriation represented the first step in the phase-out and narrative was adopted indicating that 2009 general funds should equal \$100,000.	\$ 140,210	GF
Total General Fund Reductions	\$ 140,210	

Updates

1. Project Status: 22 Completed; Canal Place Has 2 More to Manage

Since construction efforts began in 1996, 22 projects have been completed and 4 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 four 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.

One more Canal Place managed project is included in the fiscal 2009 *Capital Improvement Program* to receive funding in 2011. The entrance to the Canal Place area would receive \$2.1 million for enhancement of a bridge structure, demolition of a building that blocks Crescent Lawn from the entranceway, and new parking spaces and signage.

The other two 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 2009.

Exhibit 5
Summary of Recent and Future Canal Place Projects

	<u>Funding</u>	<u>Start Date</u>	<u>Completion/ Expected Completion</u>	<u>Comments</u>
Crescent Lawn festival grounds	\$ 5,914,073	January 2000	Completed May 2007	Phase I completed May 2003. Phase II including boathouse, plaza extension, and performance stage completed May 2007.
Railroad bridge over canal	\$2,500,000 (estimated)	Fall 2008	Summer 2009	This bridge is required for the canal 1.2 mile prism to be completed. Option for tunnel versus bridge currently under review by National Park Service.
Rewatered 1.2 mile canal prism	\$10,750,000	Fall 2008	Spring 2011	Federal project – Units 3 and 4. This project has to be completed before boat rides can begin. Design work has begun, but is on hold awaiting decision on bridge project.
Private development	\$16,000,000	January 2001	Anticipate hotel to open Spring 2009	Hotel, restaurant, and parking. Project was in negotiation with a developer but contingencies appear to have been settled. Awaiting execution of lease.
Entrance enhancements	\$2,090,000	2011	Unknown	Building acquisition and demolition, new entrance, enhancements to I-68 bridge piers, landscaping, and addition of parking spaces and signage.

Note: Project status as of December 2007.

Source: Canal Place Preservation and Development Authority

Exhibit 6
Capital Investment Summary
Funding Received Fiscal 1995 – Projected 2009

State Funds

Canal Place Preservation and Development Authority (State Bond and PAYGO)	\$14,379,000
Maryland Heritage Areas Authority	153,000
Program Open Space	1,300,000
State Highway Administration	436,000

Subtotal State Funds **\$16,268,000**

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	16,737,500
U.S. Army Corps of Engineers in-kind contribution of staff time	9,012,500
Environmental Protection Agency	5,000,000
Other (related to railroad bridge)	3,000,000

Subtotal Federal Funds **\$38,913,000**

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

Total **\$65,281,000**

PAYGO: Pay-as-you-go

Source: Canal Place Preservation and Development Authority

Crescent Lawn Was Functional in Summer 2006; Final Work Complete in May 2007

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 May 2007. The project features festival grounds, an amphitheater, a canal basin plaza, an 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	1,886,072
Crescent Lawn Phase II	Fiscal 2002 PAYGO	369,901
Crescent Lawn Archeology	Appalachian Regional Commission	150,000
Subtotal		\$4,692,298
Crescent Lawn Phase II	State Bond Funds	\$1,221,775
Total		\$5,914,073

PAYGO: Pay-as-you-go

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</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2007					
Legislative Appropriation	\$321	\$200	\$0	\$0	\$522
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	30	26	0	436	493
Reversions and Cancellations	0	-1	0	0	-1
Actual Expenditures	\$352	\$225	\$0	\$436	\$1,013
Fiscal 2008					
Legislative Appropriation	\$208	\$254	\$0	\$0	\$462
Cost Containment	0	0	0	0	0
Budget Amendments	3	0	0	0	3
Working Appropriation	\$211	\$254	\$0	\$0	\$465

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

Fiscal 2007

Canal Place finished fiscal 2007 at \$491,469 above its legislative appropriation. General funds increased by \$30,000 to cover annual leave payout following the unexpected retirement of a long-term employee and to supplement electric utility costs. The funds were available from the State's Contingent Fund as approved by the Board of Public Works on June 20, 2007.

Other general fund changes included a \$4,071 increase for the State employee cost-of-living adjustment, a \$3,704 decrease related to statewide cost containment in February 2007, and a \$55 decrease representing the agency's share of funds to support a statewide salary study.

The special fund appropriation increased \$26,301 to cover higher utility costs. The funds were available from fiscal 2007 special fund revenues. Reimbursable funds increased \$436,000, which represents a transfer from the State Highway Administration to support construction of a railroad bridge.

Fiscal 2008

In fiscal 2008, general funds have increased \$2,906 due to the State employee cost-of-living adjustment.

Audit Findings

Audit Period for Last Audit:	December 14, 2004 – July 8, 2007
Issue Date:	October 2007
Number of Findings:	0
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

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

<u>Object/Fund</u>	<u>FY07 Actual</u>	<u>FY08 Working Appropriation</u>	<u>FY09 Allowance</u>	<u>FY08-FY09 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	\$ 235,298	\$ 191,432	\$ 193,387	\$ 1,955	1.0%
03 Communication	9,353	13,242	5,500	-7,742	-58.5%
04 Travel	46	200	200	0	0%
06 Fuel and Utilities	105,332	60,700	112,576	51,876	85.5%
07 Motor Vehicles	460	1,300	575	-725	-55.8%
08 Contractual Services	188,603	172,634	169,089	-3,545	-2.1%
09 Supplies and Materials	19,536	9,100	21,000	11,900	130.8%
11 Equip. – Additional	2,390	0	0	0	0.0%
13 Fixed Charges	6,547	12,967	9,272	-3,695	-28.5%
14 Land and Structures	445,453	3,000	14,535	11,535	384.5%
Total Objects	\$ 1,013,018	\$ 464,575	\$ 526,134	\$ 61,559	13.3%
Funds					
01 General Fund	\$ 351,561	\$ 210,791	\$ 240,210	\$ 29,419	14.0%
03 Special Fund	225,457	253,784	285,924	32,140	12.7%
09 Reimbursable Fund	436,000	0	0	0	0.0%
Total Funds	\$ 1,013,018	\$ 464,575	\$ 526,134	\$ 61,559	13.3%

Note: The fiscal 2008 appropriation does not include deficiencies.