

D90U00
Canal Place Preservation and Development Authority

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$0	\$0	\$116	\$116	
Adjusted General Fund	\$0	\$0	\$116	\$116	
Special Fund	610	658	436	-222	-33.7%
Contingent & Back of Bill Reductions	0	0	-2	-2	
Adjusted Special Fund	\$610	\$658	\$434	-\$224	-34.0%
Adjusted Grand Total	\$610	\$658	\$550	-\$107	-16.3%

- The fiscal 2015 allowance includes a fiscal 2014 general fund deficiency of \$62,723 to supplement flagging special fund revenue.
- The fiscal 2015 allowance declines by approximately \$107,000, or 16.3%. The allowance includes general funds for the first time since fiscal 2011. The inclusion of general funds mitigates the significant decline of special funds. Special funds decline by approximately \$224,000, or 34%.

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

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Personnel Data

	<u>FY 13 Actual</u>	<u>FY 14 Working</u>	<u>FY 15 Allowance</u>	<u>FY 14-15 Change</u>
Regular Positions	3.00	3.00	3.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	3.00	3.00	3.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/13	0.00	0.00

- The number of authorized positions remains constant at 3 positions. There are currently no vacancies.

Analysis in Brief

Major Trends

Visitors for Events Decline; Visitors for Attractions Constant: Canal Place coordinates with local tourism officials to promote its attractions. The Allegheny Highlands Trail and the National Park Service Canal Museum and Canal Boat remained popular attractions. However, the number of special events have declined.

Reliance on Grants Increases: Canal Place has a goal to ensure public and private support through corporate sponsorships, community membership, private donations, and grants. As revenue from events has declined, the authority has relied more heavily on grant support.

Issues

Questions on Long-term Financial Sustainability: In 1993, the State created the Canal Place Preservation and Development Authority through legislation to oversee the preservation, development, and management of the Canal Place Preservation District. The level of State financial commitment to the authority has evolved over time. The latest policy direction is that, although the authority is a State entity, it should strive for self-sustainability, which includes no reliance on general funds. However, this has proved difficult as special fund revenues have been constrained due to a variety of reasons. **The Department of Legislative Services (DLS) recommends that Canal Place comment on its current financial condition and on the likelihood that local governments will renew the agreement to share the hotel tax revenue. Additionally, DLS recommends that**

narrative be adopted that asks for a comprehensive report on how to transfer the authority from State ownership to some other entity, whether public or private.

Recommended Actions

1. Adopt narrative that requests a comprehensive report on the issues related to the transition to non-State ownership.

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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:

- preserving or assisting in the preservation of buildings, structures, and settings of historical value;
- conducting activities to educate the public about the history and significance of the heritage area;
- providing recreational uses of the heritage area; and
- facilitating economic development in the heritage area, such as through public and private investment in adaptive reuse, interpretive attractions, or other activities.

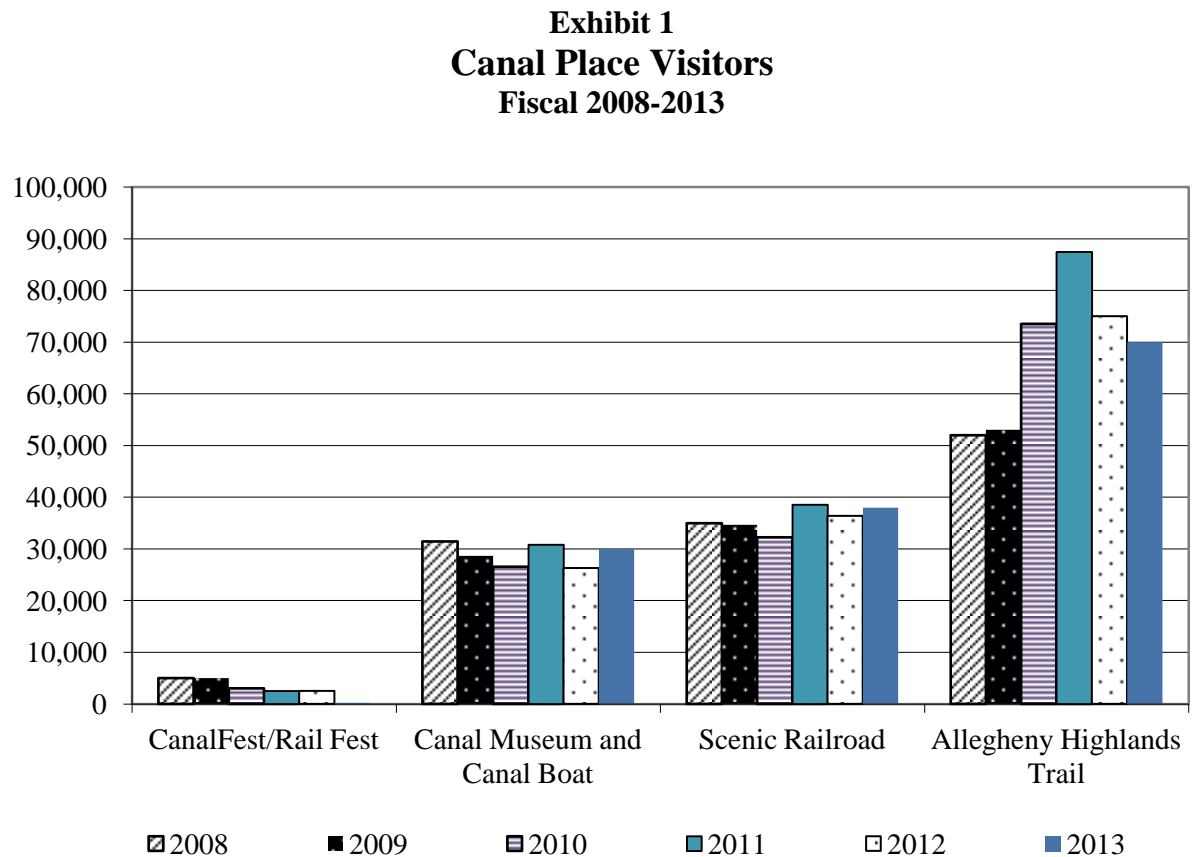
When fully developed, Canal Place will feature boat rides along a restored section of the Chesapeake and Ohio (C&O) Canal, which broke ground in Washington, DC in 1828 and reached Cumberland in 1850. Today, visitors can walk or bike along the canal towpath and can benefit from other Canal Place projects that have been completed. A retail marketplace includes nine shop locations and a plaza that hosts music and festival events. Currently, all shops are occupied and are open for business. 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. The interstate Allegheny Highlands Trail was linked to Canal Place in December 2006. This trail stretches from Pittsburgh to Washington, DC; the Maryland portion of the Allegheny Highlands Trail currently measures about 22 miles. Other planned projects at Canal Place include the opening of a privately developed restaurant and improving parking and access for vehicles and pedestrians.

Performance Analysis: Managing for Results

1. Visitors for Events Decline; Visitors for Attractions Constant

In order to gauge the popularity of each attraction at Canal Place, the authority began to measure visitor attendance separately in 2007. **Exhibit 1** shows total Canal Place visitors for the attractions where visitor count is quantifiable.



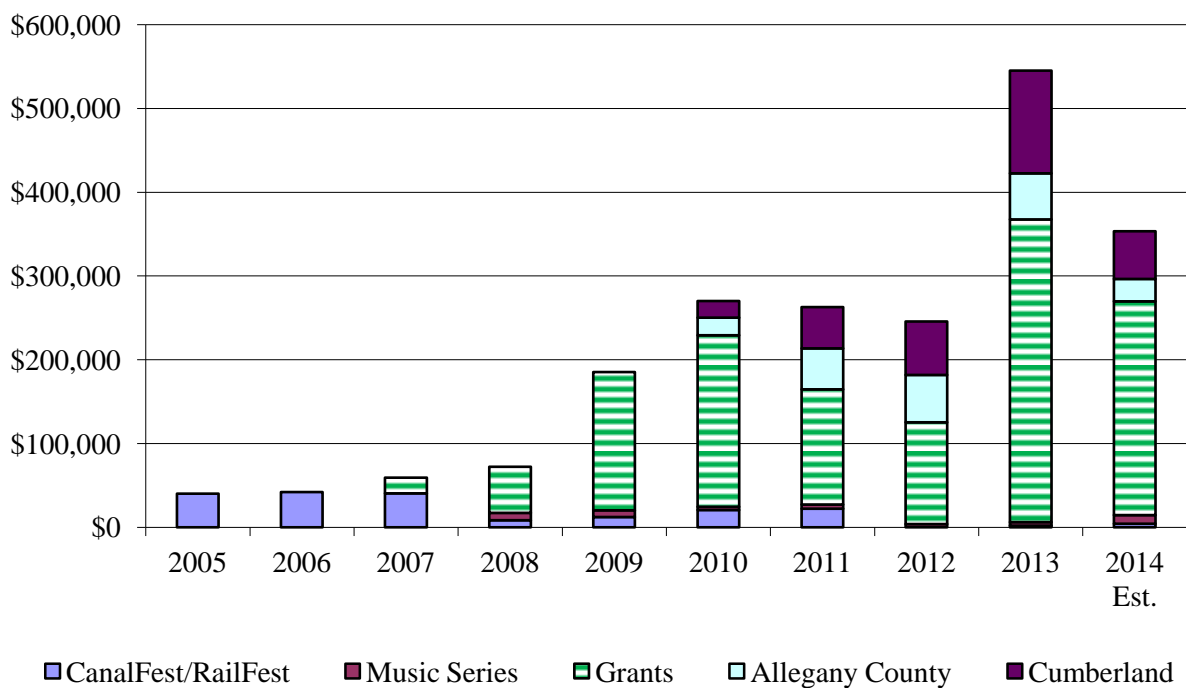
Source: Governor's Budget Books, Fiscal 2015

The Allegheny Highlands Trail continues to be the most popular attraction despite a recent decline in visitors. Both the Canal Museum and Boat and the Scenic Railroad saw increases in visitors in fiscal 2013. However, the number of tourists associated with revenue generating events has been in decline. The authority has been unable to attract enough sponsors or musical acts to maintain its annual festival, CanalFest/RailFest. The authority was able to stage a Fall Fest, however, at a greatly reduced scale.

2. Reliance on Grants Increases

Canal Place has a goal to ensure public and private fundraising through corporate sponsorships, community membership, private donations, and grants. As revenue from events has declined as described above, the authority has relied more heavily on grant support. **Exhibit 2** shows that grant reliance has generally been increasing since 2009. Grants reached over \$361,000 in fiscal 2013. The dependence on grant revenue has also coincided with the decline in general funds within the authority's budget. The primary providers of grants are the Maryland Heritage Area Authority and the Maryland Historical Trust.

Exhibit 2
Canal Place Fundraising
Sponsorships and Grants
Fiscal 2005-2014



Source: Governor's Budget Books, Fiscal 2006-2015

Beginning in fiscal 2010, the authority began receiving funds from an agreement with local jurisdictions to share a portion of the local hotel tax generated by the new hotel that opened on the grounds in August 2009. Fiscal 2011 was the first full year of these revenues. The agency received \$98,000 from the agreement. However, this revenue sharing arrangement will be phased out in fiscal 2014. The authority is not scheduled to receive any of these revenues in fiscal 2015.

Fiscal 2014 Actions

Proposed Deficiency

The fiscal 2015 allowance includes a fiscal 2014 general fund deficiency of \$62,723. Absent personnel costs, maintenance and groundskeeping are among the largest cost drivers for the authority. Due to a decline in special fund revenue, notably the elimination of hotel tax revenues, it became necessary for general funds to supplement the authority's maintenance budget in fiscal 2014.

Proposed Budget

The fiscal 2015 allowance totals approximately \$550,000, a decrease of \$107,000. The allowance reflects the inclusion of general funds for the first time since fiscal 2011. The general funds are meant to counteract the loss of special funds primarily income from hotel tax revenue and from event and rental revenue. **Exhibit 3** shows the proposed budget for fiscal 2015.

Exhibit 3
Proposed Budget
Canal Place Preservation and Development Authority
(\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
2014 Working Appropriation	\$0	\$658	\$658
2015 Allowance	<u>116</u>	<u>434</u>	<u>550</u>
Amount Change	\$116	-\$224	-\$107
Percent Change		-34.0%	-16.3%

Where It Goes:

Personnel Expenses

Annualized salary increases	\$6
Employee and retiree health insurance.....	-5
Other fringe benefit adjustments	-8

Other Changes

Communications and travel.....	7
Removal of one-time studies and building repairs	-40
Advertising expenses.....	-23
Maintenance savings	-19
Outside office assistance	-15

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Where It Goes:

Removal of one-time architectural services	-9
Other.....	-1
Total	-\$107

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

Cost Containment

There is one across-the-board reduction and one contingent reduction reflected in the Governor's spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. These actions are fully explained in the analyses of the Department of Budget and Management (DBM) – Personnel and the State Retirement Agency. For Canal Place, these total \$2,197 in special funds.

General Funds Included in the Allowance

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. There is one remaining project that appears to have been eliminated from the *Capital Improvement Program* related to a main entrance to the Canal Place Heritage Area.

Consistent with legislative intent, the General Assembly reduced general funds by \$100,000 in fiscal 2008, bringing the legislative appropriation to \$207,885. Similarly, for fiscal 2009, the General Assembly reduced the general fund support by \$40,000. After cost containment, the fiscal 2009 appropriation was \$165,114. General fund support was further reduced in fiscal 2010 and 2011 when it fell to \$32,962. There were no general funds provided in the fiscal 2012 appropriation through the original appropriation for fiscal 2014.

In that timeframe, Canal Place relied on special funds to compensate for the elimination of general funds. The 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 grants. Beginning in fiscal 2010, special funds also included a share of the hotel tax revenues as per the agreement with the localities. However, this arrangement is expiring in fiscal 2014. The fiscal 2015 allowance includes no funds related to the hotel tax revenues. This equates to a decline of \$83,500 in special funds. Rental income is also expected to decline by about \$138,000, largely due to a long-term vacancy in rentable office space.

Based on the decline in special funds, general funds have been included in the allowance for the first time since fiscal 2011.

General Agency Expenses

As shown in Exhibit 3, the authority, with the encouragement of DBM, is making an effort to reduce costs. For example, the authority is reducing the amount of funds for advertising. This is due, in part, to fewer festivals that will be held on the grounds. The authority is also reducing the amount of funds spent on maintenance of the grounds and facilities. This will be partially accomplished by the closure of a public restroom to save on janitorial expenses. Additionally, some building repairs will be foregone in fiscal 2015.

Issues

1. Questions on Long-term Financial Sustainability

In 1993, the State created the Canal Place Preservation & Development Authority through legislation to oversee the preservation, development, and management of the Canal Place Preservation District, a designated heritage area in Cumberland around the western end of the C&O Canal. The level of State financial commitment to the authority has evolved over time. The latest policy direction is that, although the authority is a State entity, it should strive for self-sustainability, which includes no reliance on general funds.

There has also been some interest in transitioning the authority from State oversight. The 2011 *Joint Chairmen's Report* included committee narrative that requested the authority to submit a report on the feasibility of transitioning the authority to non-State ownership. The narrative asked that the report consider the impact on the operations of the authority and the potential benefits and drawbacks of the transition.

The authority submitted its report on February 1, 2012. At the time of submission, the authority was in a position of transition, including the resignation of the executive director. Also, the authority was in the process of updating the management plan for the heritage area, which incorporated expanded boundaries within Allegany County.

The report concluded that there would be more drawbacks than benefits in a transition to non-State ownership. Further, it concluded that the local jurisdictions would not be in a position to assume responsibility for ownership or maintenance of the property held by the authority. The authority recommended, with the agreement of DBM, that it remain a State agency.

Progress Since Last Report

As mentioned in the budget section of this analysis, the authority is no longer the beneficiary of a portion of the hotel tax revenue. The hotel is located on State property, within the bounds of the heritage area for which Canal Place is responsible. The use of the hotel tax revenue between fiscal 2010 and 2014 allowed Canal Place to eliminate general funds from its budget. However, the agreement with the localities to share the revenue source has expired.

There are some possibilities for future increases in special fund revenue. The authority is in discussions with the City of Cumberland to renew the agreement to share the hotel tax revenue. Additionally, the authority has recently issued a Request for Proposals for a developer to redevelop the Footer Dye Works building on the authority property. The building has recently been named to the National Register of Historic places, which would allow a potential developer to access historic preservation tax credits, thereby making the Footer Dye Works a more viable project. Additionally, the authority has reached out to other major tourist attractions and local institutions to investigate partnership opportunities.

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However, a revenue sharing agreement with the municipality is by no means a certain or permanent solution. Additionally, proposals for the Footer Dye Works building are not due until April 2014. Any ensuing development would likely be years away from fulfillment. Complicating the path to self-sufficiency are issues surrounding the watering of the canal and the completion of a railroad bridge over the canal. The National Park Service is responsible for these projects. Currently, there is a leak in a portion of the canal that may not be corrected until the spring. Additional repairs are needed on a pump that ensures that the canal is watered. Federal funding is limited to make these repairs or to complete the bridge project.

Given the General Assembly's stated intent that general funds should no longer be appropriated to the authority and the expiration of the hotel tax sharing agreement, the likelihood of financial self-sufficiency is minimal. Accordingly, the ongoing structure of Canal Place needs to be re-examined. This includes an examination of the process that is required to fully transition the ownership of the buildings, land, and heritage area designation to another entity, whether private or public.

The Department of Legislative Services (DLS) recommends that Canal Place comment on its current financial condition and on the likelihood that local governments will renew the agreement to share the hotel tax revenue. Additionally, DLS recommends that narrative be adopted that asks for a comprehensive report on how to transfer the authority from State ownership to some other entity, whether public or private.

Recommended Actions

1. Adopt the following narrative:

Report on Ownership Options: The budget committees request that the Canal Place Preservation and Development Authority submit a report on alternatives to State ownership of authority's property. As currently constructed, the authority is facing difficulties achieving financial self-sufficiency. It is therefore worth examining if there is another ownership structure that would allow for greater success. The authority should prepare the report in consultation with the Department of Budget and Management (DBM), the Maryland Heritage Area Authority, and the Department of General Services (DGS).

The report should examine options that include (1) enveloping the property into another State agency; (2) transitioning the property to the county or city government; (3) transitioning the property to the National Park Service; or (4) ceasing operations. The report should consider the value of the current property and any costs that would accrue to the State to dispose of the property. Implications related to any historic sites should also be considered. The report should also examine any impacts on control of the current heritage area and on current State employees and the level of support of the local governments.

Information Request	Authors	Due Date
Report on ownership options	Canal Place Authority, in consultation with DBM, the Maryland Heritage Area Authority, and DGS	December 31, 2014

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 2013					
Legislative Appropriation	\$0	\$543	\$0	\$0	\$543
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	201	0	0	201
Reversions and Cancellations	0	-134	0	0	-134
Actual Expenditures	\$0	\$610	\$0	\$0	\$610
Fiscal 2014					
Legislative Appropriation	\$0	\$654	\$0	\$0	\$654
Budget Amendments	0	4	0	0	4
Working Appropriation	\$0	\$658	\$0	\$0	\$658

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

The original fiscal 2013 appropriation was increased by a special fund budget amendment that added funds to preserve and protect historic structures on the authority's grounds. Some of these funds remained unexpended at year's end, to be re-appropriated in the current fiscal year. An additional amendment increased the appropriation due to salary adjustments.

Fiscal 2014

The original fiscal 2014 appropriation was increased by a budget amendment that accounts for the cost-of-living adjustment and other salary adjustments.

Audit Findings

Audit Period for Last Audit:	May 19, 2010 – April 8, 2013
Issue Date:	November 2013
Number of Findings:	3
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: The authority did not obtain and review required supporting documentation prior to approving payments to its janitorial and facilities maintenance contractor.

Finding 2: The authority did not obtain supporting documentation to ensure the proper amount of lease and tax revenue was received in accordance with related agreements with a hotel located on the property.

Finding 3: The authority did not engage an independent certified public accountant in a timely manner to conduct annual audits of its financial statements.

*Bold denotes item repeated in full or part from preceding audit report.

Object/Fund Difference Report
Canal Place Preservation and Development Authority

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	3.00	3.00	3.00	0.00	0%
Total Positions	3.00	3.00	3.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 160,855	\$ 210,154	\$ 204,340	-\$ 5,814	-2.8%
03 Communication	9,699	9,665	13,863	4,198	43.4%
04 Travel	2,582	1,000	4,000	3,000	300.0%
06 Fuel and Utilities	68,088	80,400	71,767	-8,633	-10.7%
07 Motor Vehicles	3,161	2,920	3,670	750	25.7%
08 Contractual Services	280,859	312,364	222,746	-89,618	-28.7%
09 Supplies and Materials	29,167	21,960	23,450	1,490	6.8%
10 Equipment – Replacement	13,600	1,350	2,000	650	48.1%
11 Equipment – Additional	8,819	1,500	0	-1,500	-100.0%
12 Grants, Subsidies, and Contributions	20,000	0	0	0	0.0%
13 Fixed Charges	9,950	6,316	6,474	158	2.5%
14 Land and Structures	3,597	10,000	0	-10,000	-100.0%
Total Objects	\$ 610,377	\$ 657,629	\$ 552,310	-\$ 105,319	-16.0%
Funds					
01 General Fund	\$ 0	\$ 0	\$ 116,211	\$ 116,211	N/A
03 Special Fund	610,377	657,629	436,099	-221,530	-33.7%
Total Funds	\$ 610,377	\$ 657,629	\$ 552,310	-\$ 105,319	-16.0%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.