

**RECOMMENDATIONS OF THE ERIE REGIONAL CHAMBER  
AND GROWTH PARTNERSHIP REGARDING THE  
DISTRIBUTION OF GAMING REVENUES IN ERIE COUNTY**

**I. PRELIMINARY STATEMENT**

It is projected that Erie County and Summit Township will receive approximately \$12,000,000 to \$13,000,000 annually in gaming revenues.<sup>1</sup> This revenue stream represents a "once in a lifetime" opportunity for the community to fund transformational projects that will impact the quality of life in the community for decades to come, to stabilize, preserve and grow regional assets that are vital to the community, and to address major community needs in the areas of education and economic development.

Nevertheless, the projected gaming revenues are not unlimited. They cannot address every need in Erie County, however worthy and important each of those needs may be. Of necessity, decisions regarding the distribution of gaming revenues will require a careful weighing of priorities by County Council.

This task is made all the more difficult by the widely disparate nature of the many needs which have been brought to the attention of County Council during the past few months. To take just three of the more prominent examples, how does one weigh and compare the need to stabilize the Zoo against the need to extend the airport runway? How does one compare these immediate needs against the possible, and yet to be fully determined, need for a community college?

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<sup>1</sup> Of this amount, approximately \$1,100,000 will be paid directly to Summit Township. The remainder will be paid to Erie County.

Over the past six months, the Erie Regional Chamber and Growth Partnership ("ERCGP") has worked closely with representatives of Erie County government, economic development groups, The Erie Community Foundation, the Regional Assets Task Force, and others, to develop a set of recommendations to County Council regarding the distribution of gaming revenues. Taken together, these recommendations are intended to provide County Council with a comprehensive, flexible and, most importantly, fair means of carrying out the difficult and complex task of allocating gaming revenues.

There are twenty-four recommendations set forth below. Certain of these recommendations are simply procedural in nature. Certain of these recommendations are substantive in nature, in that they recommend percentage allocations for certain broad categories of projects or organizations. There are, however, five fundamental principles which lie at the core of all of these recommendations.

First, gaming revenues must not be dissipated and diluted to such an extent that they will have no discernible impact on the community's quality of life and its economic vitality. We as a community must resist the temptation to distribute gaming revenues in so broad and diffuse a manner that they will have no material impact on the community as a whole. Put differently, ten years from now, when over \$120,000,000 of gaming revenues will have been spent in Erie County, we must not find ourselves in a position where we cannot easily and readily identify how those gaming revenues made a difference in the community.

Second, a reasonable amount of the gaming revenues should be allocated for municipal grants<sup>2</sup> to Erie County, Summit Township and/or the townships which are contiguous to Summit

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<sup>2</sup> The gaming statute authorizes the County to make "municipal grants" from restricted funds (one-half of the overall gaming revenues) to Erie County, the township in which the gaming facility is located (Summit Township) and/or townships contiguous to the township in which the gaming facility is located (Millcreek,

Township to address problems which are directly related to the presence of gaming in Summit Township. Municipal grants should be made pursuant to an application process wherein the merits of the proposed grant are explained and it is demonstrated that the grant addresses a problem directly created by the presence of the gaming facility in Summit Township. Municipal grants should not be made to supplement general municipal budgets or to fund projects which have little or no logical connection to gaming or the gaming facility itself.

Third, a reasonable portion<sup>3</sup> of the gaming revenues should be used to fund projects which are truly transformational. Any such project should be permanent in nature, first in class for a community of our size, be highly visible, and should impact the lives of a large number of Erie County citizens.

Fourth, the first rule of economic development is to preserve and grow those assets which the community already possesses. Accordingly, the recommendations suggest that a reasonable portion of the gaming revenues be used to stabilize, preserve and grow existing regional assets, both governmental (the Zoo and Library) and non-governmental.

Lastly, a reasonable portion of the gaming revenues should be reserved on an annual basis for discretionary County uses, so as to enable County Council to address one-time needs throughout Erie County.

In sum, the recommendations contained in this document are simply intended to aid County Council in approaching this difficult and complex task. We recognize that these

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McKean, Waterford and Greene Townships). Municipal grants, as defined by the gaming statute, are intended to alleviate problems created by the presence of the gaming facility.

Restricted funds not used for municipal grants are to be paid over to the County's economic development authority or redevelopment authority to be used for economic development purposes.

<sup>3</sup> Erie County will receive about \$13,000,000 a year in gaming revenues, including those received directly by Summit Township. The recommendations suggest that approximately 50% of that amount be spent on transformational projects. This amount would be a mix of both restricted and unrestricted funds.

*Recommendations of the Erie Regional Chamber & Growth Partnership (ERCGP) Regarding the  
Distribution of Gaming Revenues in Erie County  
Adopted by the ERCGP Board of Directors June 5, 2007*

recommendations represent a collective judgment on the part of many people, and that others may, reasonably, reach different judgments as to various issues which are addressed by these recommendations. We welcome that dialogue. It is our hope, however, that all concerned will find these recommendations to be a useful framework for approaching this subject and, ultimately, a basis upon which a community-wide consensus can be reached.

## **II. RECOMMENDATIONS**

### *A. Conceptual Framework*

**Recommendation No. 1: It is recommended that County Council adopt the Proposed Conceptual Framework for Distribution of Gaming Revenues in Erie County dated June 5, 2007.**

*Comments:* The Framework is the building block upon which all of the remaining recommendations rest. It is a more detailed, conceptual presentation of the five fundamental principles discussed in the Preliminary Statement, above. A copy of the Framework is attached.

Operationally, every funding request received by County Council should be classified as falling within one of the five categories identified in the Framework.<sup>4</sup> The merits of the request in question can then be measured against: (1) the relative merits of other requests in that category; and (2) the amount of funds available in that category. In this manner, to the extent reasonably possible, apples-to-apples comparisons can more effectively be made and the overall impact of the funding limitations can properly be weighed.

This recommendation suggests that County Council adopt the five categories shown in the Framework, along with the subcategories designated by the letters “A”, “B” and “C” in the Framework. The *examples* shown in the Framework are for illustrative purposes only, to demonstrate the types of projects that could be funded under each category and/or subcategory. At this time, ERCGP is not specifically endorsing the examples listed on the Framework.

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<sup>4</sup> The five categories are:  
Category I - Municipal Grants  
Category II - Transformational Projects  
Category III - Governmental Regional Assets  
Category IV - Non-Governmental Regional Assets  
Category V - Discretionary County Uses

B. Allocation of Funding

1. Restricted Funds<sup>5</sup>

**Recommendation No. 2: It is recommended that County Council adopt the following allocation formula for Restricted Funds:**

<b>Category I - Municipal Grants</b>	<b>20%</b>
<b>Category II - Transformational Projects</b>	<b><u>80%</u></b>
	<b>100%</b>

*Comments:* As will be discussed below in greater detail, ERCGP is aware of only one specific, quantified proposal which could be classified as qualifying for a "municipal grant." However, a number of uses have been discussed or mentioned which might qualify for municipal grants, but which have not been quantified or formally presented.

Similarly, with respect to potential transformational projects, there are some which appear to be very well quantified and ready to go (such as the Cultural and Entertainment District), some which are somewhat less completely quantified and ready to go (the airport runway extension), and some which are still under study and at best several years away (the community college).

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<sup>5</sup> One-half of the gaming revenues received by Erie County must be used for "municipal grants" and/or must be paid over to the County's "economic development authority or redevelopment authority." These monies are referred to herein as "Restricted Funds." The other one-half of the gaming revenues are referred to herein as "Unrestricted Funds." As the name implies, there are no restrictions on the use of these funds.

Municipal grants are grants made by Erie County to Erie County itself, Summit Township, or any township which is contiguous to Summit Township (McKean, Millcreek, Waterford and Greene Townships) to alleviate the negative impacts, if any, of the presence of the gaming facility in Summit Township.

Any restricted funds not allocated to municipal grants must be paid over to the County's "economic development authority or redevelopment authority." The gaming statute does not define how those authorities may use such money. Presumably, at a minimum, such funds would need to be administered in accordance with the statute under which the authority was organized. Erie County does not presently have a general purpose economic development authority. It does have a redevelopment authority which is organized under the Urban Redevelopment Law. Under that statute, the monies in question would probably have to be used primarily for bricks and mortar type projects.

The suggested allocation is ERCGP's best estimate and judgment as to what would be a fair and reasonable allocation of restricted funds between municipal grants and transformational projects. These percentages can be reviewed and adjusted when specific proposals are made for the funding of municipal grants and transformational projects.

2. *Unrestricted Funds*

**Recommendation No. 3: It is recommended that County Council adopt the following allocation formula for Unrestricted Funds:**

<b>Category II -Transformational Projects</b>	<b>35%</b>
<b>Category III - Governmental Regional Assets</b>	<b>30%</b>
<b>Category IV - Non-governmental Regional Assets</b>	<b>25%</b>
<b>Category V - Discretionary County Uses</b>	<b><u>10%</u></b>
	<b>100%</b>

*Comments:* There are three separate comments on this recommendation.

First, it was strongly felt by the ERCGP that a sufficient allocation of funds should be reserved in Category II, at the outset, for the operation of a community college. This is not intended to be taken as a pre-judgment that a community college should be established. The study of that issue should be continued, and a reasoned, well-deliberated decision regarding a community college should ultimately be made. This recommendation is merely a recognition of the political reality that if these funds are allocated to other organizations or budgetary items before a decision is made with respect to a community college, it may be most difficult, if not politically impossible, to re-allocate sufficient gaming revenues three or four years in the future to fund the community college. If it is ultimately decided that a community college should not be created, this allocation can then be re-purposed to another transformational project.

Second, it is at best doubtful that restricted funds could be used to fund the operating costs of a governmental entity. Accordingly, it was felt that the operational side of the community college should be reserved from unrestricted funds.

Third, these recommendations were developed in close consultation with the Regional Assets Task Force (which membership includes the Zoo). The Regional Assets Task Force supports this recommended allocation.

*C. Municipal Grants (Category I of the Framework)*

**Recommendation No. 4: It is recommended that County Council establish an application process for municipal grants whereby the applicant will establish: (1) the justification for the project and the amount of funding requested; and (2) the direct connection between the proposed project and the presence of the gaming facility.**

*Comments:* There are four comments on this recommendation.

First, the issue of municipal grants is clouded by the fact that there is a separate gaming revenue fund at the state level which is also intended to address problems created by the presence of gaming facilities. At present, there is no clear cut delineation of what the state will cover and what the local municipalities will be expected to cover.

Second, as to the Erie County gaming facility, it is located on a state-maintained highway in a township where police protection is provided by the state police. This practical reality again clouds the line between what burdens will fall upon the state and what burdens will fall upon the local municipalities.

Third, as a matter of equity and in the best interests of the community as a whole, municipal grants should be limited to addressing problems which are created by the presence of the gaming facility and which fall on the shoulders of the local municipality in question.

Municipal grants should not be used as subsidies for the general operating and capital budgets of those municipalities which happen to be located in proximity to the gaming facility.

Fourth, we are currently aware of only one specific, quantified proposal which might qualify for a municipal grant. That proposal has been made by the Erie Metropolitan Transit Authority ("EMTA"). Under that proposal, EMTA would run shuttle bus service between the gaming facility and the hotels on the I-90/Peach Street corridor. The service would also connect into EMTA's regular service on Peach Street, thus making it possible to reach the gaming facility from any point in the EMTA system. The estimated cost of the proposal is \$350,000 annually.

ERCGP makes no recommendation with respect to this proposal, except to state that it would appear to qualify for a municipal grant, and would be worthy of consideration by County Council in conjunction with other applications for municipal grants.

*D. Transformational Projects (Category II of the Framework)*

*1. Regional Assets/Infrastructure/Economic Development*

**Recommendation No. 5: It is recommended that County Council establish a reasonable time frame and process in which proposals for transformational projects relating to regional assets, infrastructure and/or economic development shall be reviewed and approved for funding by County Council.**

*Comments:* There are a number of important projects of a transformational nature which may be suitable for funding, in whole or in part, from restricted funds. Clearly, only a fraction of these projects can be funded through the limited amount of funding available. Likewise, there are a wide variety of factors which must be considered in evaluating such projects, including (but not limited to): (1) the importance of the project to the community; (2) the extent to which the project achieves multiple objectives (such as, for example, improving quality of life for people

living in Erie County while also attracting outside visitors); (3) the economic development impact of the project; (4) the risks/rewards associated with the project; (5) whether the project is ready to go; (6) whether there an institution/mechanism in place to properly maintain/operate the project over time; and (7) the degree to which the project could attract additional state and/or federal funding.

Similarly, the cash flow requirements for any given project would need to be given consideration, *i.e.*: (1) whether the project could be funded on a one-time basis; (2) whether sufficient restricted funds could be accumulated over a period of time to pay for the project; (3) whether the project is of such a magnitude that it would require a bond issue (and, concomitantly, a long-term commitment of gaming revenues to support the debt service thereon).

It is recommended that County Council establish a reasonable period of time (perhaps through the end of 2007) and a process to evaluate and determine which transformational projects in Category II of the Framework should be funded from restricted funds. ERCGP would also suggest that, to the extent that restricted funds are received during this evaluation period, that such funds be accumulated and applied to whatever projects are ultimately approved by County Council.

At this time, ERCGP has no recommendations with respect to specific Category II projects. We would note, however, that the following projects have been suggested for funding from gaming revenues, and would appear to be worthy of consideration for funding from restricted funds under Category II of the Framework: (1) Cultural & Entertainment District (Tullio Arena renovation and/or performing arts center); (2) airport runway extension; (3) bricks and mortar component, if any, of a community college; (4) acquisition, demolition and cleaning up of GAF property; (5) acquisition of necessary land for, and construction of, additional parking

for the Library; (6) an economic development revolving loan fund; and (7) indoor recreational/ice hockey complex (*i.e.*, the ice hockey/figure skating equivalent of Family First).

2. *Community College*

**Recommendation No. 6:** It is recommended that: (1) County Council allocate sufficient unrestricted funds to properly plan for the organization and operations of the community college if warranted; and (2) County Council reserve a sufficient allocation of unrestricted funds to fund the operational costs of a community college, should the determination ultimately be made that a community college should be established in Erie County.

*Comments:* The creation of a community college has been the subject of debate since the issuance of the Bosworth report in October 2001. However, this issue is highly complex and the need for a community college has not yet been established. This issue should not be pre-judged, but rather should be addressed, debated and resolved. For the reasons stated in the comments to Recommendation No. 3, above, ERCGP recommends that, pending resolution of this question, a funding allocation from unrestricted funds be reserved in an amount sufficient to cover the planning for and operational costs of a community college, should Erie County ultimately decide to create a community college.

E. *Governmental Regional Assets (Category III of the Framework)*

**Recommendation No. 7:** It is recommended that the allocation of 30% of unrestricted funds for governmental regional assets be allocated between the Zoo and the Library as follows:

<b>Zoo</b>	<b>18%</b>
<b>Library</b>	<b><u>12%</u></b>
	<b>30%</b>

*Comments:* This recommended allocation is based upon information presented by the Regional Assets Task Force with respect to the needs for the Zoo. This allocation would be sufficient to: (1) replace all existing municipal subsidies to the Zoo; (2) restore program cuts made over the past five years; (3) keep the Zoo open on a year round basis; and (4) provide for some (though not complete) capital replacement.

The balance of the amount allocated for governmental regional assets is allocated as supplemental funding for the Library.

**Recommendation No. 8: It is recommended that ownership and responsibility for the Zoo be transferred from the City of Erie to the County, and that the County enter into a relationship with the Erie Zoological Society that is similar to the relationship between the City of Erie and the Erie Zoological Society.**

*Comments:* The Zoo is currently owned by the City of Erie and managed by the Erie Zoological Society. With but minor exceptions, municipal support for the Zoo (about \$502,000 annually) comes entirely from the City of Erie.

It is universally recognized that the Zoo is the quintessential example of a regional asset. Nevertheless, the Zoo's primary source of municipal support comes from a single municipality, and arguably the municipality least capable of providing that support. The result has been a steady diminution of that support to the point where programs are being cut and the Zoo is closed for several months at a time. To illustrate further, zoos in the Zoo's peer group receive, on average, municipal support equaling 50% of their operating budget. In contrast, our Zoo receives only 10% of its operating budget in municipal support.

Also, the City of Erie has indicated that it will terminate its financial support of the Zoo if County Council makes gaming revenues available to the Zoo.

ERCGP strongly believes that the Zoo is an irreplaceable regional asset. It is one that few communities of our size possess, and one that truly distinguishes Erie from other communities. ERCGP also strongly believes that as a governmental regional asset, it is only logical that Erie County be the municipal entity which has responsibility for this asset. In this respect, in order to assure the proper governance and management of the Zoo, it is essential that ownership and ultimate operational responsibility be aligned with financial responsibility for the Zoo.

ERCGP would point out that this recommendation is not without precedent. The Library, a regional asset, was formerly funded and controlled by the Erie School District. It was chronically under-funded and the library building fell into a severe state of disrepair.

The Library was transferred to the County approximately twenty years ago. It has since been managed and operated as a true regional asset. The County has made substantial capital investments in the Library and has created a first-class facility of which the entire community can rightfully be proud.

This is not to say, of course, that Library funding has been free of controversy and debate. That is as it should be. The key point, however, is that the debate took place in the proper forum, before the elected representatives of the entire County. When we look at the Library twenty years ago, and look at the Library today, the results, we think, speak for themselves.

**Recommendation No. 9: It is recommended that the funding for the Library from gaming revenues be in addition to, and not in lieu of, existing County funding for the Library.**

*Comments:* As noted above, the first rule of economic development is to preserve and grow the assets which you already have. ERCGP believes that the gaming revenues which are allocated to the Library should be used to enhance this truly wonderful regional asset, rather than simply maintaining the status quo.

*F. Non-Governmental Regional Assets (Category IV of the Framework)*

**Recommendation No. 10:** It is recommended that, among non-governmental regional assets, County Council establish a category of "Dedicated/Major Regional Assets" that would be eligible for: (1) multi-year (3 to 5 years) funding commitments; and (2) endowment funding.

*Comments:* It is the belief of ERCGP and the Regional Asset Task Force that there are certain non-governmental regional assets which, by virtue of their nature, size, national reputation, and so forth, truly help to distinguish Erie from communities of a similar size. For planning and stability purposes, these regional assets need a multi-year commitment of funding. This approach is used by the Regional Assets District in Pittsburgh for certain major regional assets.

It is assumed that the multi-year funding commitment would be structured so that it would either be a rolling commitment subject to review annually or would have a renewal review timetable sufficiently in advance of the expiration of the multi-year commitment to facilitate long term planning for the organization in question.

**Recommendation No. 11:** It is recommended that the term "Dedicated/Major Regional Asset" be defined as any non-governmental regional asset which meets each of the following criteria:

- A. Existence of year-round programming, with substantial annual attendance/participation at the organization's programs and/or events. "Substantial" annual attendance/participation normally means 20,000 or more individuals.**
- B. Long term history of service, which normally means at least ten years or more of substantial service.**
- C. Demonstrated impact on the economic vitality of the region, as measured by any combination of the following:**
  - Impact on tourism, attracting audience from outside Erie County**
  - Impact on local quality of life, attracting audience from within Erie County**
  - Impact on business/employee attraction and retention**
  - Dollars spent in Erie County by audience base**
- D. Demonstrated financial need for multi-year local funding commitments to either achieve fiscal stability, support programmatic growth that will enhance the organization's economic impact, or both. "Fiscal stability" includes, but is not limited to, annual revenues exceeding expenses, positive cash flow, and funded depreciation, etc. "Enhanced economic impact" can be measured through improvements to metrics listed in Item C.**
- E. Substantial annual operating budget that is not supported by extensive federal, state or local government funds.**

*Comments:* These criteria were developed by the ERCGP in close conjunction with the Regional Assets Task Force.

**Recommendation No. 12:** It is recommended that the Erie Philharmonic, the Erie Playhouse and the Erie Art Museum be recognized initially as Dedicated/Major Regional Assets.

*Comments:* It was the broad consensus of the ERCGP and the Regional Assets Task Force that each of these three organizations qualified as a Dedicated/Major Regional Asset. This list is not intended to be exclusive, as there was considerable debate (but not consensus) as to whether other non-governmental regional assets should be classified as "Dedicated/Major." Any such determination should ultimately be made or recommended by the funding board or similar mechanism established by County Council for funding non-governmental regional assets (see Recommendation No. 16, below).

**Recommendation No. 13:** It is recommended that, initially, the allocation of 25% of unrestricted funds for non-governmental regional assets be allocated between Dedicated/Major and Community/Other as follows:

Dedicated/Major	10%
Community/Other	<u>15%</u>
	25%

*Comments:* This allocation has been endorsed by the ERCGP and the Regional Assets Task Force on the assumption that Recommendation No. 12 is accepted. If a Community/Other regional asset is subsequently classified as Dedicated/Major or *vice versa*, this allocation would need to be adjusted accordingly. In either event, the overall allocation of 25% of unrestricted funds to non-governmental regional assets would remain the same.

2. *Community/Other Regional Assets*

**Recommendation No. 14:** It is recommended that non-governmental regional assets other than Dedicated/Major regional assets, *i.e.*, regional assets classified as Community/Other, be required to apply for grants on an annual basis.

*Comments:* This approach is similar to that employed by the Regional Asset District in Pittsburgh, and is endorsed by ERCGP and the Regional Assets Task Force.

**Recommendation No. 15:** It is recommended that no more than 10% of the unrestricted funds allocated in any given year for Community/Other regional assets be used to support one-time and/or annual events such as parades, festivals, etc.

*Comments:* This limitation is recommended by the Regional Assets Task Force.

3. *Administration of Grants to Non-Governmental Regional Assets*

**Recommendation No. 16:** It is recommended that County Council establish a regional asset funding board or designate an existing organization which is representative of the County as a whole to perform the following functions:

1. Recommend to County Council on an ongoing basis which regional assets should be classified as Dedicated/Major.
2. Recommend to County Council the allocation of funding between Dedicated/Major regional assets and Community/Other regional assets whenever an organization is added to, or removed from, the Dedicated/Major regional assets subcategory.
3. Recommend to County Council funding levels for each grant applicant.
4. Monitor the performance of Dedicated/Major regional assets under multi-year grants and Community/Other regional assets under annual grants.
5. Perform such other tasks as may be delegated by County Council.

*Comments:* A mechanism is required for assuring that an orderly, transparent and fair process is implemented for the allocation of funds among non-governmental regional assets.

There is no "correct" process *per se*, and certainly different approaches to this subject could be taken. Given the possible number of applicants annually, and the need to develop uniformity, the normal appropriation process followed by County Council in the annual budget process does not appear, at first blush, to be workable. Accordingly, it is suggested that County Council consider establishing a funding board or designate an existing organization to help focus and clarify the process.

**Recommendation No. 17:** It is recommended that County Council consider enlisting the assistance of one or more existing community organizations in handling the purely administrative aspects of the grant-making process for non-governmental regional assets.

*Comments:* Given the potential volume of applicants, it would appear to be advisable to create a standardized grant application and review process. In this way, each application could be evaluated, to the maximum extent possible, on an apples-to-apples basis. It is intended that the functions performed by any such organization be purely administrative in nature, with no substantive decision-making authority as to actual funding.

Certain organizations in the community, such as The Erie Community Foundation and the United Way, have considerable experience in administering grant programs, and may be very helpful in this process.

G. *Endowments*

1. *Creation of Endowments*

**Recommendation No. 18:** It is recommended that the following six permanent endowments be created for governmental and non-governmental regional assets:

- 1. Zoo Endowment**
- 2. Library Endowment**
- 3. Erie Philharmonic**
- 4. Erie Playhouse**
- 5. Erie Art Museum**
- 6. Community/Other Regional Assets**

*Comments:* The concept of creating permanent endowments for the Zoo, the Library, each Dedicated/Major Regional Asset and Community/Other Regional Assets as a whole is in itself a truly transformational use of gaming revenues.

Almost without exception, our regional assets have been living a hand-to-mouth existence. As the corporate sources from which contributions can be sought have diminished, and municipal budgets are increasingly squeezed, our regional assets have experienced a funding crisis. This funding crisis has not been cataclysmic in nature, but rather has been more akin to a slow, painful death by a thousand cuts.

The creation of permanent endowments with substantial initial and ongoing funding hold out the real prospect of making these beloved and essential institutions financially stable and independent of the vagaries of corporate philanthropy and governmental budgeting processes. Quite literally, by investing a substantial (but reasonable) amount of gaming revenues in permanent endowments, we can do more to ensure the long-term viability of these regional assets than by any other immediate expenditure of those funds.

2. *Annual Funding of Endowments*

**Recommendation No. 19:** It is recommended that County Council require that 20% of monies allocated annually from gaming revenues to the Zoo, the Library, each Dedicated/Major Regional Asset and Community/Other Regional Assets as a whole be deposited into their respective permanent endowments.

*Comments:* ERCGP and the Regional Assets Task Force believe that a savings rate of 20% is aggressive, but reasonable. In order for an endowment strategy to be effective, it is important that there be a firm commitment to fund the endowment annually at a substantial level.

3. *Transitional Years Funding of Endowments*

**Recommendation No. 20:** It is recommended that unrestricted funds which would otherwise be allocated for the funding of a community college in years 2007, 2008 and 2009, but which are not so used because the community college is not yet operational, be allocated to the six endowments created pursuant to Recommendation No. 18.

*Comments:* The need to preserve a potential allocation of funds for a community college, and the fact that these unrestricted funds will not be needed until the community college is operational (or a decision is made not to pursue a community college, in which case that allocation of funding would need to be reconsidered by County Council), creates a unique opportunity to "front-load" the permanent endowments. The front loading will have an immediate impact on annual funding for each regional asset. To illustrate, in the case of the Zoo, the front-loading would equal approximately \$2,050,000 over three years if the funding recommendations below are followed.<sup>6</sup> That alone would produce roughly an additional \$102,500 per year in programmatic funds for the Zoo.

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<sup>6</sup> See Chart B, which is attached.

**Recommendation No. 21:** It is recommended that transitional years funding of the endowments be allocated 2/3 to governmental regional assets and 1/3 to non-governmental regional assets. As to governmental regional assets, it is recommended that the transitional years funding of the endowments for the Zoo and the Library be allocated in the same proportion as the allocation of annual funding for such assets. As to non-governmental regional assets, it is recommended that transitional years funding of the endowments be allocated in the same proportion as the allocation of the annual funding for such assets.

*Comments:* Of necessity, this allocation formula is somewhat arbitrary, and simply reflects a general sense of what is fair and reasonable. There is also some thought that the governmental regional assets, which are most affected by governmental budgeting processes, are relatively more in need of the baseline support provided by a substantial endowment.

#### *4. Administration of Endowment Funds*

**Recommendation No. 22:** It is recommended that the terms of each permanent endowment provide that no more than 5% of the balance of the endowment may be accessed on an annual basis by the beneficiary of the endowment.

*Comments:* This is essentially the disbursement formula used by The Erie Community Foundation for disbursing monies to the beneficiaries of named endowments.<sup>7</sup> The underlying concept is to provide a reasonably predictable amount of annual funding to the beneficiary of the endowment without fluctuations caused by investment performance from year-to-year, and without permitting any invasion of principal beyond the 5% cap.

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<sup>7</sup> The Erie Community Foundation does, of course, use a different formula if the donor who created the endowment in question specified a different formula. The recommendation is essentially the formula used by the Erie Community Foundation in the absence of a donor directed formula.

Since investment returns have, on average, significantly exceeded 5% plus inflation over the years, this distribution formula contemplates that the overall principal balance will continue to grow in perpetuity, even as the 5% distributions are made annually.

**Recommendation No. 23:** It is recommended that the terms of the permanent endowments contain the usual and customary protections for the donor (*i.e.*, the County), including, but not limited to, the right to designate a new beneficiary of the endowment if the original beneficiary goes out of existence, ceases to qualify as a governmental or charitable organization, or substantially changes the nature and/or location of its activities.

*Comments:* The County would retain normal and customary rights with respect to the permanent endowments to prevent their diversion to uses other than what was originally contemplated at the time of creation of the endowment.

**Recommendation No. 24:** It is recommended that County Council consider placing the endowments with The Erie Community Foundation solely for administrative and investment purposes.

*Comments:* This is the type of ministerial function which The Erie Community Foundation performs with respect to donor designated endowments, *i.e.*, where the donor specifies the beneficiary for the endowment. Under this arrangement, The Erie Community Foundation would have no discretion or role to play in determining who receives what amount of funds.

### **III. ADMINISTRATIVE COSTS**

Depending on the nature and form of the administrative mechanism(s) used, there will be certain costs associated with administering the distribution of gaming revenues on an ongoing basis. It is important that adequate funds be allocated to perform this function properly. It is recommended that the County reimburse itself for such administrative costs from the funds allocated to the categories for programs being administered and/or from the funds allocated for County discretionary uses.

### **IV. ATTACHMENTS**

There are three attachments to these recommendations.

The first attachment is a copy of the Proposed Conceptual Framework for Distribution of Gaming Revenues in Erie County. This Framework was endorsed by the Board of the ERCGP on June 5, 2007.

The second attachment is identified as "Chart A." Chart A reflects the recommended percentage allocations by each Category of the Proposed Conceptual Framework.

The third attachment is identified as "Chart B." Chart B shows the projected distribution of gaming revenues for 2007 through 2010 if all of the Recommendations set forth above were to be adopted. Of necessity, there are a number of assumptions built into Chart B. The actual distributions would vary to the extent that there were variations from the assumptions. The assumptions are explained in the explanatory notes to Chart B.

**Recommended Percentage Allocation of Gaming Revenues**  
 Adopted by the Erie Regional Chamber & Growth Partnership Board of Directors  
 June 5, 2007

**Chart A**

Project/Activity	Projected Dollar Allocation in Year 2010 and beyond		Percentage by Line Item		Percentage by Category	
	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted
<b>Municipal Grants</b>						
<b>I. Erie County, Summit Township et al. Discretionary Uses</b>	1,165,000		20%		20%	
<b>II. Transformational Projects</b>	↑ 4,660,000 ↓					
<b>A. Regional Assets</b> (Cultural and Entertainment Dist. or other)						
<b>B. Infrastructure/Economic Development</b> (Acquisition of GAF Property; Library Parking Land & Const.; Revolving Loan Fund; Future Projects; Municipal Grants; or other)				80%		Transform. 80%
<b>C. Education</b> (Community College or other)		2,038,750		35%		Transform. 35%
<b>III. Governmental Regional Assets</b>						
<b>A. Zoo</b>						
1. Programmatic (80%)		838,800				
2. Annual Endowment (20%)		209,700		18%		Governmental Regional Assets
<b>B. Library</b>						
1. Programmatic (80%)		559,200				Zoo 18%
2. Annual Endowment (20%)		139,800		12%		Library <u>12%</u> 30%
<b>IV. Non-Governmental Regional Assets</b>						
<b>A. Dedicated/Major Philharmonic, Playhouse, Art Museum</b>						
1. Programmatic (80%)		466,000				
2. Annual Endowment (20%)		116,500		10%		Non-govt. Regional Assets
<b>B. Community/Other</b>						
1. Programmatic (80%)		699,000				Major 10%
2. Annual Endowment (20%)		174,750		15%		Other <u>15%</u> 25%
<b>V. Discretionary County Uses</b>		582,500		10%		
<b>Totals</b>	5,825,000	5,825,000				Discretionary 10%
	11,650,000		100%		100%	

# Recommended Distribution of Gaming Revenues For Years 2007-2010 (Projected) <sup>1</sup>

Chart B

Adopted by the Erie Regional Chamber & Growth Partnership Board of Directors June 5, 2007

Project/Activity	2007 <sup>13</sup>		2008		2009 <sup>14</sup>		2010 and beyond <sup>15</sup>	
	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted
<b>Municipal Grants<sup>2</sup></b>								
<b>I. Erie County, Summit Township et al.</b>	825,000		1,100,000		1,165,000		1,165,000	
<b>Discretionary Uses<sup>3</sup></b>								
<b>II. Transformational Projects <sup>4</sup></b>	↑		↑		↑		↑	
<b>A. Regional Assets</b> (Cultural and Ent. Dist. or other) <sup>5</sup>	↑		↑		↑		↑	
<b>B. Infrastructure/Economic Dev.<sup>6</sup></b> (Acquisition of GAF Property; Library Parking Land & Const; Airport Runway; Revolving Loan Fund; Future Projects; Municipal Grants; or other)	3,300,000		4,400,000		4,660,000		4,660,000	
<b>C. Education</b> (Community College or other) <sup>7</sup>	↓	75,000	↓	100,000	↓	100,000	↓	2,038,750
<b>III. Governmental Regional Assets</b>								
<b>A. Zoo</b>								
1. Programmatic <sup>8</sup> (80%)		594,000		792,000		838,800		838,800
2. Annual Endowment <sup>9</sup> (20%)		148,500		198,000		209,700		209,700
3. Transitional Years Endowment		547,800		730,200		775,500		-0-
<b>B. Library</b>								
1. Programmatic (80%)		396,000		528,000		559,200		559,200
2. Annual Endowment (20%)		99,000		132,000		139,800		139,800
3. Transitional Years Endowment		365,200		486,800		517,000		-0-
<b>IV. Non-Governmental Regional Assets (Philharmonic, Playhouse, Art Museum)</b>								
<b>A. Dedicated/Major<sup>10</sup></b>								
1. Programmatic (80%)		330,000		440,000		466,000		466,000
2. Annual Endowment (20%)		82,500		110,000		116,500		116,500
3. Transitional Years Endowment		182,300		243,200		258,500		-0-
<b>B. Community/Other<sup>11</sup></b>								
1. Programmatic (80%)		495,000		660,000		699,000		699,000
2. Annual Endowment (20%)		123,750		165,000		174,750		174,750
3. Transitional Years Endowment		273,450		364,800		387,750		-0-
<b>V. Discretionary County Uses<sup>12</sup></b>		412,500		550,000		582,500		582,500
<b>Totals</b>	4,125,000	4,125,000	5,500,000	5,500,000	5,825,000	5,825,000	5,825,000	5,825,000
	8,250,000		11,000,000		11,650,000		11,650,000	

## Explanatory Notes to Chart B

<sup>1</sup> Chart B shows the projected dollar distribution of gaming revenues based upon: (1) the recommended percentage allocation set forth in Chart A; and (2) the recommended allocation of unrestricted monies to fund endowments in the "transitional" years 2007, 2008 and 2009. (See notes 7 and 9, below, for an explanation of the Transitional Years Endowment). Obviously, actual distributions will be dependent upon the actual amount of gaming revenues received.

Chart B assumes that restricted funds which are uncommitted to municipal grants **may** be spent on bricks and mortar economic development projects anywhere in Erie County. This chart also assumes that uncommitted restricted funds will be administered through the Erie County Redevelopment Authority, which is the only entity currently in existence which is authorized to administer these funds. The activities of the Redevelopment Authority are limited by statute to primarily bricks and mortar projects. A somewhat broader use of these funds for economic development purposes might be achieved if a separate authority were formed solely for the purpose of administering these funds.

It is estimated by the PA Gaming Board that restricted funds will initially equal \$5,500,000 annually, and will grow to \$5,825,000 when the casino reaches "stabilization." This analysis assumes stabilization will occur in year 2009.

It should be noted that any allocation of restricted funds to Summit Township for municipal grants would be **over and above** gaming revenues which Summit Township will receive directly. Summit Township may use such revenues for any purpose. Those revenues are initially expected to be approximately \$1,100,000 annually, or roughly one-half the Summit Township operating budget.

<sup>2</sup> "Municipal grants" are grants which are authorized to be made by Erie County to Summit Township and its adjoining townships (Millcreek, McKean, Waterford and Greene) and Erie County itself, for the purpose of alleviating any adverse impacts of the presence of the casino upon those townships and/or the County. Chart B assumes 20% of the Restricted Funds will be allocated to municipal grants on an annual basis.

<sup>3</sup> Unrestricted funds may be used for any purpose whatsoever by the County. It is anticipated that unrestricted funds will equal \$5,500,000 per year initially, and will grow to \$5,825,000 when the casino reaches stabilization. This analysis assumes stabilization will occur in year 2009.

<sup>4</sup> Chart B assumes that 80% of the restricted funds shall be used to support transformational projects in the form of regional assets, infrastructure and education (community college). As discussed in Note 1, above, it is assumed that these monies would be limited to "bricks and mortar" type projects.

No recommended allocations are made as between projects or categories. It is contemplated that County Council will determine which specific projects should be funded and the manner in which that funding will be made available (one-time grant, multi-year commitment and/or dedication of a portion of the revenue stream to support the debt service on a bond issue).

It is contemplated that the projects chosen will be relatively few in number and will be of a nature so as to have a truly transformative impact upon the community.

## Explanatory Notes to Chart B (continued)

<sup>5</sup> The Cultural and Entertainment District ("CED") Project has three components: (1) the Tullio Arena/Jerry Uht Park renovation; (2) a performing arts center; and (3) a parking garage. The parking garage portion would be undertaken by the Parking Authority, and would probably be done at the same time as the performing arts center because the two facilities are intended to be adjoining to one another.

The arena/ballpark renovations and the performing arts center could be constructed independently of one another. The arena/ballpark renovations are of such a nature as to make phasing of that component of the CED Project most difficult, if not entirely cost prohibitive. The performing arts center should be amenable to being broken down into phases, as it contains several fairly discrete components.

The CED Project is used as the example in this analysis for the following reasons: (1) it is a transformational project that would enhance two existing regional assets (Tullio Arena and Jerry Uht Park); (2) it is likewise transformational in that it would create a new performing arts center for arts and cultural groups; (3) it would create a parking deck which would serve an existing downtown anchor (Erie Insurance) by day, and patrons of the CED by night; (4) the project qualifies for Redevelopment Assistance Capital Project funds (if approved by the Governor, the state could match local funds up to dollar for dollar); (5) the governance structure for this project is currently in place (the same as the Convention Center and Hotel); (6) this project would qualify for funding from the economic development fund created at the state level from gaming revenues; and (7) the CED Project, particularly the Tullio Arena/Jerry Uht Park component, is completely ready to go.

The CED Project is listed here for illustrative and discussion purposes only. Obviously, transformational projects relating to regional assets could be substituted for this particular project. However, for the reasons stated above, it seems logical to consider this project for discussion purposes. Also, it is worth noting that the use of gaming funds in this manner would be precisely the same as the manner in which gaming funds are being use to fund the Penguins' new arena in Pittsburgh.

<sup>6</sup> There are numerous infrastructure projects which could be considered under this item. The items mentioned are only for illustrative purposes. Some projects could be funded as a one-time expenditure. Other projects, because of their nature or size, may require a multi-year commitment of funds, either for direct capital expenditures or to fund the debt service on a bond issue.

These monies could also be used to fund municipal grants of the type described in Note 2, above, as well as an economic development revolving loan fund to finance business expansion and retention.

<sup>7</sup> The costs for a community college are the softest of all the numbers here presented. Insufficient information is currently available to confidently forecast what the ultimate costs will be. There has been some suggestion, however, that roughly \$3,000,000 per year of a local contribution would be necessary to maximize the annual state contribution of a like amount.

This analysis assumes that the community college would not be up and running until 2010. The allocations in 2007, 2008 and 2009 are simply intended to provide some funds for study and planning functions. The allocation for 2010 assumes that 35% of the unrestricted funds

## Explanatory Notes to Chart B (continued)

would be available to underwrite the operating costs of the community college. To the extent that a community college had a bricks and mortar component, restricted funds would also be available to support the community college.

Obviously, this allocation could be re-purposed in 2010 if: (1) a decision were made in the interim not to create a community college; (2) the start of the community college was delayed beyond 2010; and/or (3) the ultimate cost of the community college were less than the amount allocated.

<sup>8</sup> The "programmatic" numbers for the Zoo and the Non-Governmental Regional Assets are based, in part, on figures generated by the Regional Assets Task Force. The term "programmatic" is not intended to be limiting. These funds could be used in an unrestricted way, *i.e.*, for operating activities, programs, overhead and/or capital.

<sup>9</sup> There are two ideas upon which the concept of creating and funding endowments is based.

First, although gambling revenues may continue into the indefinite future, there is no guarantee that they will exist forever. It is important, therefore, that these regional assets build up a source of funding that will not be subject to future funding curtailments that are outside their control. In a real sense, the achievement of such independence, even to a limited extent, would be transformational in its own right.

Second, this chart is constructed so that the level of programmatic funding in years 2007, 2008 and 2009 does not exceed the level of funding that can reasonably be expected when "steady state" funding levels are achieved in 2010. Moreover, because certain of the transformational projects (*i.e.*, the community college) do not come on line until 2010, there are some additional funds that are available on a one-time basis in the "transitional years" (2007, 2008, 2009) to "front load" these endowments.

The one-time endowment funding is set forth as a separate line item which is denominated as "Transitional Years Endowment." This funding item reduces to -0- in 2010.

It is assumed that these endowments would be permanent in nature and that the terms of the endowment would prohibit invasion of principal to fund operating expenses.

Using the Erie Community Foundation funding formulas, it is reasonable to expect that about 5% of the principal balance of these endowments would be available each year to support those assets, while maintaining some annual appreciation in the principal balance of the endowments.

The following assumptions are used in Chart B with respect to endowments:

## Explanatory Notes to Chart B (continued)

1. For each year's regular funding (programmatic and annual endowments), 80% of the entity's total funding amount is allocated to programmatic, and 20% is allocated to annual endowments.
2. With respect to transitional years (2007, 2008 and 2009) endowments, two-thirds of the available funds are allocated to governmental regional assets (Zoo and Library). One-third of the available funds are allocated to non-governmental regional assets.
3. With respect to the Zoo and Library, the transitional years endowment is allocated equally.
4. With respect to the non-governmental regional assets, the transitional years endowment is allocated proportionately as between dedicated/major assets and community/other assets.

Obviously, the subject of endowments could be approached in any number of ways. However, it is believed that the creation of endowments, and the requirement that some portion of the allocations made to regional assets on an annual basis go into endowments, are valid and highly desirable uses of the gaming revenues.

<sup>10</sup> It is assumed that the dedicated/major regional assets would receive a multi-year (3-5 years) funding commitment in an amount determined by the funding mechanism established by County Council. It is assumed that the multi-year funding commitment would be structured so that it would either be a rolling commitment subject to review annually or would have a renewal review timetable sufficiently in advance of the expiration of the multi-year commitment to facilitate long term planning for the organization in question. The dedicated/major regional assets would also have separate endowments.

Chart B assumes that there are three dedicated/major regional assets (the Philharmonic, Playhouse and Art Museum) which would receive approximately forty percent of the overall amount allocated for non-governmental regional assets. This list is not exclusive. To the extent that a regional asset was subsequently classified as a dedicated/major regional asset, the relative allocation of funds as between dedicated/major regional assets and community/other regional assets would need to be adjusted accordingly. Such internal adjustments would not affect the overall allocation of 25% of unrestricted funds to non-governmental regional assets.

<sup>11</sup> It is assumed that the funding mechanism established by County Council would distribute these funds on an annual basis to various arts and cultural organizations, other than the three major regional assets which would have separate, multi-year commitments.

<sup>12</sup> This line item is intended to enable the County, in its discretion, to respond to one-time requests for funding on an annual basis.

<sup>13</sup> It is assumed that 2007 will produce gaming revenues at about 75% of the projected amount of \$11,000,000 for a full year of operation. Accordingly, the 2007 figures are simply 75% of the figures given in the 2008 column.

## Explanatory Notes to Chart B (continued)

- <sup>14</sup> It is assumed that the casino will reach stabilization in 2009. Based on the PA Gaming Board revenue projections, gaming revenues will increase from approximately \$11,000,000 per year to \$11,650,000 per year upon stabilization. This amount would be equally divided between unrestricted and restricted funds, or about \$5,825,000 per year each.
- <sup>15</sup> Year 2010 is assumed to be the first "steady state" year, *i.e.*, when all transformational projects come on line and gaming revenues have reached stabilization.