

**Hippodrome Theatre
Economic and Fiscal Impact Analysis
Fiscal Year 2019**



Submitted to:

Maryland Stadium Authority

Submitted by:



**Final Report
March 2020**



March 2020

Mr. David Raith, Chief Financial Officer
Maryland Stadium Authority
333 West Camden Street, Suite 500
Baltimore, Maryland 21201

Dear Mr. Raith:

Crossroads Consulting Services LLC has completed its economic and fiscal impact analysis for the Maryland Stadium Authority associated with operations of the Hippodrome Theatre in Fiscal Year 2019. The report presented herein includes the summary of our analysis.

The information contained in the report reflects analysis of secondary sources of information including, but not limited to, data obtained from management at Maryland Stadium Authority and the Hippodrome Theatre. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. All information provided to us by others was not audited or verified and was assumed to be correct. We have no obligation, unless subsequently engaged, to update our report or revise the information contained therein to reflect events and transactions occurring after the date of this report.

In accordance with the terms of our engagement letter, the accompanying report is restricted to internal use by the Maryland Stadium Authority and may not be relied upon by any third party for any purpose including financing. Notwithstanding these limitations, it is understood that this document may be subject to public information laws and as such can be made available to the public upon request.

Although you have authorized reports to be sent electronically for your convenience, only the final hard copy report should be viewed as our work product.

We have enjoyed our ongoing relationship with the Maryland Stadium Authority and look forward to providing you with continued service in the future.

Sincerely,

Crossroads Consulting Services LLC

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EXECUTIVE SUMMARY

Established by the State General Assembly in 1986, the original mission of the Maryland Stadium Authority (MSA) was to build, manage and maintain quality facilities to retain major league baseball, and return NFL football to Maryland. For over 30 years, MSA has completed projects in partnership with local governments, universities and the private sector throughout Maryland. These include convention centers, museums, theaters, parks and campus centers in addition to sports arenas. MSA is committed to enhancing the Maryland experience for those who live, work and visit here. In addition, MSA currently oversees projects such as 21st Century School Buildings Program and Project C.O.R.E (Creating Opportunities for Renewal and Enterprise) which orchestrates the demolition of blighted structures throughout Baltimore City. The sports commission for the State, known as Maryland Sports, is a division of MSA and has been since its existence in 2008.

MSA’s projects promote historic preservation, adaptive reuse, community redevelopment, cultural arts and civic pride. In planning selected projects, the MSA has the latitude to negotiate with other government jurisdictions and other departments within the State. Its mandate includes creating public-private partnerships for financing and operating facilities. The MSA oversaw the design and construction of the renovated Hippodrome Theatre.

The Hippodrome Theatre, which is part of the France-Merrick Performing Arts Center complex, is a unique business entity that generates significant economic activity to downtown Baltimore (City) and the State of Maryland (State). The primary purpose of this study is to estimate the total economic and fiscal impacts associated with Hippodrome Theatre operations in FY 2019 to local and State economies. Total economic impacts are estimated in terms of output, jobs and earnings which create fiscal impacts and are reflected as changes in tax revenues. In addition, this report compares the State tax revenues generated by Hippodrome Theatre operations to the State’s financial investment in the Hippodrome Theatre during Fiscal Year (FY) 2019.

In FY 2019, the Hippodrome Theatre hosted 123 performances that attracted approximately 204,480 in total attendance which represented a 31% decrease in the number of performances and a 15% decrease in total attendance from FY 2018.

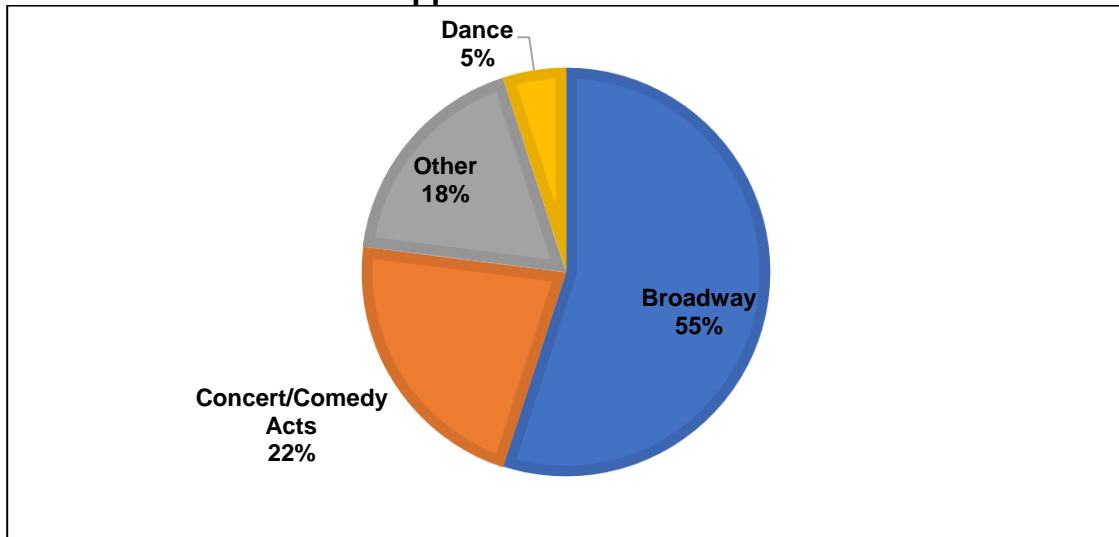
Summary of Utilization at the Hippodrome Theatre - FY 2019			
Event Type	Performances	Total Attendance	Average Attendance
Broadway	68	150,360	2,210
Concerts/Comedy Acts	27	34,020	1,260
Other	22	12,860	580
Dance	6	7,240	1,210
Total	123	204,480	

Note: Other events include private events.

Source: Hippodrome management.

Broadway performances accounted for 55% of total performances at the Hippodrome Theater in FY 2019. Between FY 2018 and FY 2019, the number of Broadway performances, concerts/comedy acts, dance and other events decreased by 19%, 29%, 40% and 51%, respectively.

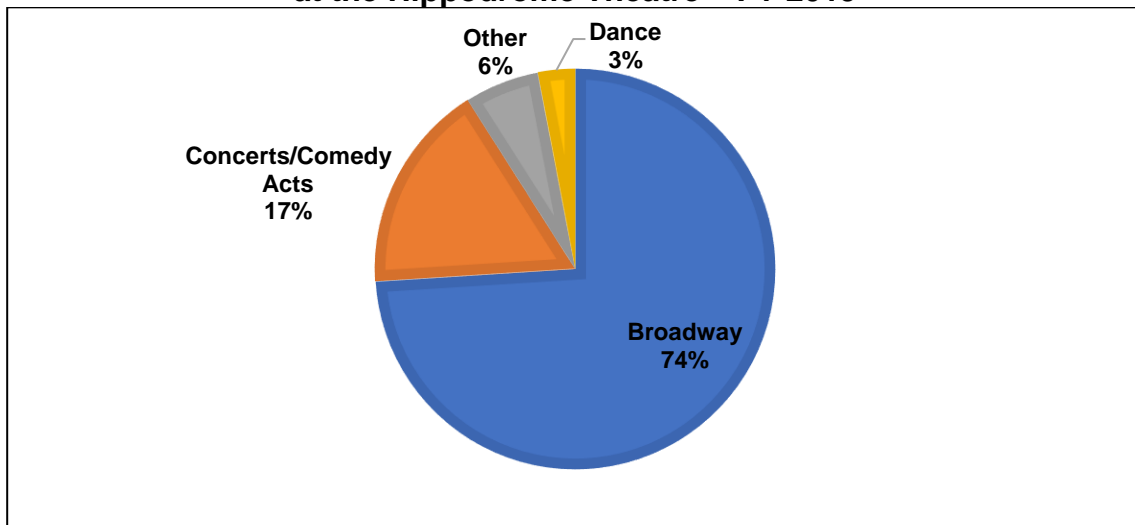
Distribution of Performances by Type of Activity at the Hippodrome Theatre – FY 2019



Source: Hippodrome management.

Broadway performances accounted for 74% of total attendance and concerts/comedy acts comprised 17% of total attendance in FY 2019. Between FY 2018 and FY 2019, total attendance experienced a relatively significant decrease in all event types with the exception of Broadway performances which remained relatively consistent.

Distribution of Total Attendance by Type of Activity at the Hippodrome Theatre – FY 2019



Source: Hippodrome management.

As shown in the table below, event activity at the Hippodrome Theatre was estimated to generate approximately \$26.4 million in total output which supported 220 total jobs and approximately \$10.8 million in total earnings at the State level in FY 2019.

Estimated Total Economic Impacts Generated from Hippodrome Theatre Operations - FY 2019		
Category	City of Baltimore	State of Maryland
Output		
Direct Spending	\$13,333,000	\$14,435,000
Indirect & Induced Spending	\$6,692,000	\$11,988,000
Total Output	\$20,025,000	\$26,423,000
Total Jobs (Full-Time & Part-Time)	170	220
Total Earnings	\$8,628,000	\$10,751,000

Note: Local and State amounts are not additive.

Tax revenues generated from Hippodrome Theatre-related activities were estimated to be approximately \$2.1 million in FY 2019, of which approximately \$1.7 million (or 81%) was estimated to occur at the State level.

Estimated Tax Revenues Generated from Hippodrome Theatre Operations - FY 2019	
Entity	Amount
City of Baltimore	\$388,000
State of Maryland	\$1,683,000
GRAND TOTAL	\$2,071,000

In FY 2019, the State's investment in the Hippodrome Theatre was approximately \$1.8 million which included contributions towards debt service and utilities. The estimated tax revenues generated from Hippodrome Theatre operations at the State level resulted in a nearly break-even ratio of fiscal benefits to costs for the State.

GENERAL METHODOLOGY OVERVIEW

This analysis estimates the total economic contribution generated from Hippodrome Theatre operations in FY 2019 including facility operations as well as spending by attendees on items such as lodging, restaurants, retail, entertainment/recreation, transportation and business services. Once the amount for direct spending is quantified, a calculated multiplier is applied to generate the indirect and induced effects. The sum of direct, indirect and induced effects equals total economic impact which is expressed in terms of output (spending), employment (jobs) and personal earnings. This analysis also estimates tax revenues generated from operations of the Hippodrome Theatre.

Methodology – Economic Impact Analysis

Regional input-output models are typically used by economists as a tool to understand the flow of goods and services among regions and measure the complex interactions among them given an initial spending estimate.

Direct Spending

Estimating direct spending is the first step in calculating economic impact. Direct spending represents the initial change in spending that occurs as a direct result of Hippodrome Theatre operations including annual capital improvements. Direct spending occurs both inside and outside of the facility by both local and out-of-town attendees. It is reasonable to assume that a portion of spending from attendees originating in the region is displaced or would have occurred somewhere in the regional economy if the event had not been held. On the other hand, attendees from outside the area may not have made purchases in the local economy if the event had not occurred.

No intercept surveys with attendees were conducted as part of this study. Spending estimates are based on data provided by facility management and other secondary industry research from sources that are deemed to be reliable, but accuracy cannot be guaranteed.

Multiplier Effect

Additional economic impacts are produced through the re-spending of direct spending. To quantify the inputs needed to produce the total output, economists have developed multiplier models. The estimation of multipliers relies on input-output models, a technique for quantifying interactions between firms, industries and social institutions within a local economy. This analysis uses IMPLAN software and databases which are developed under exclusive rights by the Minnesota IMPLAN Group, Inc. IMPLAN, which stands for Impact Analysis for Planning, is a computer software package that consists of procedures for estimating local input-output models and associated databases. The IMPLAN software package allows the estimation of the multiplier effects of changes in final demand for one industry on all other industries within a defined economic area. Its proprietary methodology includes a matrix of production and distribution data among all counties in the U.S.

As such, the advantages of this model are that it is sensitive to both location and type of spending and can provide indirect and induced spending, employment and earnings information by specific industry category while taking into account the leakages associated with the purchase of certain goods and services outside the economy under consideration.

Once the direct spending amounts are assigned to an appropriate category, the IMPLAN model estimates the economic multiplier effects for each type of direct new spending attracted to or retained in the local area and the State resulting from Hippodrome Theatre operations.

Indirect and Induced Impacts

Indirect impacts reflect the re-spending of the initial or direct expenditures, or the business-to-business transactions required to satisfy the direct effect (e.g. impacts from non-wage expenditures). For example, an attendee's direct expenditures at a restaurant require the restaurant owner to purchase food and items from suppliers. The portion of these restaurant purchases that are spent within the area economy are indirect impacts.

Induced impacts reflect changes in local spending by households on goods and services that result from income changes in the directly and indirectly affected industry sectors (e.g. impacts from wage expenditures). For instance, a waitress at a restaurant could have more personal income due to an attendee's visit to the restaurant. The amount of increased income that the employee spends in the community is an induced impact.

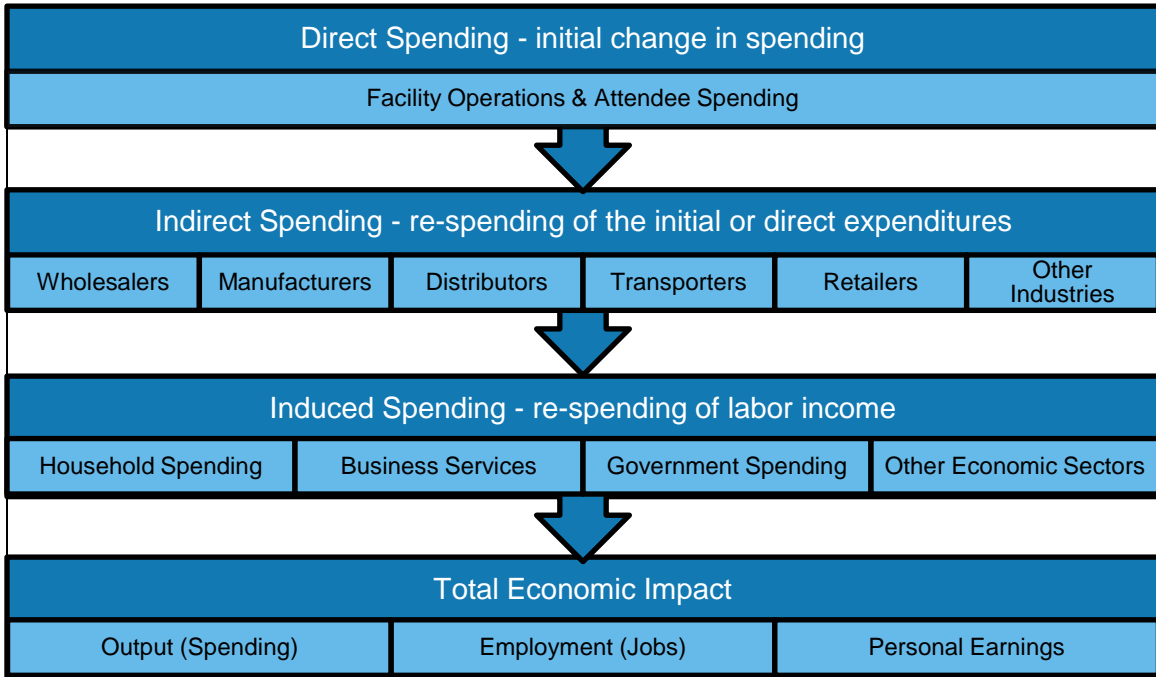
The model generates estimates of these impacts through a series of relationships using average wages, prices and transportation data, considering commute patterns and the relative interdependence of the economy on outside regions for goods and services.

Total Economic Impact

The calculated multiplier effect is then added to the direct impact to quantify the total economic impact in terms of output, employment and earnings which are defined below:

- *Total Output* represents the total direct, indirect and induced spending effects generated by Hippodrome Theatre operations. This calculation measures the total dollar change in spending (output) that occurs in the local economy for each dollar of output delivered to final demand.
- *Employment (Jobs)* represents the number of full-time and part-time jobs supported by Hippodrome Theatre operations. The employment multiplier measures the total change in the number of jobs supported in the local economy for each additional \$1.0 million of output delivered to final demand.
- *Personal Earnings* represent the wages and salaries earned by employees of businesses associated with or impacted by Hippodrome Theatre operations. In other words, the multiplier measures the total dollar change in earnings of households employed by the affected industries for each additional dollar of output delivered to final demand.

The following graphic illustrates the multiplier effects for calculating total economic impact.



Methodology - Fiscal Impact Analysis

The estimated spending generated by Hippodrome Theatre operations also produces tax revenues for the City and State. Experience in other markets suggests that while a significant portion of the direct spending likely occurs near the facility, additional spending occurs in other areas within the State, particularly spending on items such as business services and everyday living expense of residents. Major tax sources impacted by facility operations were identified and taxable amounts to apply to each respective tax rate were estimated. Although other taxes, such as property taxes, may also be positively impacted by Hippodrome Theatre operations, this analysis estimated the revenues generated from hotel tax, local personal income tax and parking tax at the City level as well as sales and use tax, ticket surcharge and income tax at the State level.

In general terms, all State tax proceeds are collected in the State’s General Fund and then allocated to variety of program areas such as education, transportation, public safety and others. As such, individual revenue sources, such as the sales and use tax, are not designated to fund specific programs. As a result of this process, municipalities and counties may benefit from a variety of State and locally administered programs. For purposes of this analysis, only collections have been quantified, without regard as to how these funds are ultimately spent through the individual State departments/funds.

ECONOMIC AND FISCAL IMPACT ANALYSIS

General Overview of the Hippodrome Theatre

Originally designed by Thomas W. Lamb, the historic Hippodrome Theatre was built in 1914. After being abandoned for 10 years, the Hippodrome Theatre underwent a \$70 million renovation which included the absorption of two banks and other property on the block bordered by Fayette, Eutaw, Paca and Baltimore Streets. Reopened in February 2004 and reborn as the France-Merrick Performing Arts Center, this complex encompasses three restored historic landmark buildings (the Western National Bank, the Eutaw Savings Bank and the original Hippodrome Theatre) as well as the Constellation Energy Pavilion. The Western National Bank is now the grand north lobby of the Hippodrome Theatre; the Eutaw Savings Bank is the M&T Bank Pavilion, a multi-purpose space used for receptions and special events; and the Hippodrome Theatre currently seats 2,280 people. The Hippodrome Theatre is currently managed by Broadway Across America, a promoter and producer of live theatrical events in the United States and Canada with over 30 years of experience in the entertainment industry. The Hippodrome Theatre employs approximately 23 full-time and 650 part-time employees.

The City and the State benefit from the facility's operations in several ways, including such tangible and intangible benefits as:

- Supporting the vibrancy of the City of Baltimore by attracting residents and visitors to business establishments;
- Contributing to arts educational institutions;
- Generating public awareness and funding of arts organizations;
- Providing an alternative entertainment option for both residents and visitors;
- Attracting in-kind and cash contributions from local arts supporters;
- Serving as a catalyst for further urban redevelopment initiatives; and
- Generating additional economic activity and enhanced fiscal revenues.

Each of these benefits is important in assessing the overall impacts of Hippodrome Theatre operations to the region. While the value of many of these benefits is difficult to measure, the economic activity can be quantified. Based on information from a variety of sources including, but not limited to, representatives from area governmental agencies, Hippodrome Theatre management and secondary research, this report summarizes the estimated total economic and fiscal impacts to the City of Baltimore and the State of Maryland as a result of Hippodrome Theatre operations and other business activity that supported the facility in FY 2019.

Summary of Event Activity at the Hippodrome Theatre

The following table summarizes the event activity at the Hippodrome Theatre for FY 2019.

Summary of Utilization at the Hippodrome Theatre - FY 2019			
Event Type	Performances	Total Attendance	Average Attendance
Broadway	68	150,360	2,210
Concerts/Comedy Acts	27	34,020	1,260
Other	22	12,860	580
Dance	6	7,240	1,210
Total	123	204,480	

Note: Other events include private events.

Source: Hippodrome management.

According to information provided by management, the Hippodrome Theatre hosted 123 performances that attracted approximately 204,480 in total attendance. Approximately 74% of total attendance was attributable to Broadway shows which generate economic impact by attracting overnight attendees as well as cast, crew, and production members from out-of-town that generate spending on items such as lodging, restaurants, entertainment and transportation.

Estimated Total Economic Impacts from Hippodrome Theatre Operations

The table below summarizes the estimated total economic activity generated from Hippodrome Theatre operations in FY 2019 in terms of output, jobs and earnings and is followed by a discussion of each component.

Estimated Total Economic Impacts Generated from Hippodrome Theatre Operations - FY 2019		
Category	City of Baltimore	State of Maryland
Output		
Direct Spending	\$13,333,000	\$14,435,000
Indirect & Induced Spending	\$6,692,000	\$11,988,000
Total Output	\$20,025,000	\$26,423,000
Total Jobs (Full-Time & Part-Time)	170	220
Total Earnings	\$8,628,000	\$10,751,000

Note: Local and State amounts are not additive.

Direct Spending

Attendee/Event-Related Spending Outside the Facility – Utilization at the Hippodrome Theatre was used to calculate attendee spending. Daily spending amounts were assigned to local attendees, who likely originate from the area, and overnight attendees, who were estimated to stay overnight, based on information from various secondary resources.

The *Arts & Economic Prosperity Report 5* (the most recent report available) commissioned by Americans for the Arts collected 212,700 surveys from attendees at a range of arts events nationwide, including the City of Baltimore, to gain an understanding of where they were from, their level and distribution of spending. Approximately two-thirds of respondents indicated they were residents of the county where the event was taking place while the remaining 34% were considered non-residents (which could include surrounding counties).

The Broadway League's *Economic Impact of Touring Broadway Report*, which included 58,694 completed surveys of individual audience members at performing arts venues in 38 cities, was also reviewed with regard to Broadway audience spending. For markets similar in size to Baltimore, this study cites that touring Broadway shows' audiences travel an average of 47 miles to the theatre and nearly two-thirds responded that the theatre event was a very important reason they came to the area.

Resident performing arts organizations and other show producers make substantial investments in the events that they host. These organizations purchase goods and services from either the Hippodrome Theatre or from outside sources. Items such as facility rental and various event services are typically provided by the Hippodrome Theatre which is reflected as revenues for the venue. Since this spending is eventually reflected in the budgetary spending by the Hippodrome Theatre, these amounts are excluded from event producer spending to avoid double counting. Further, producer spending with external vendors that takes place before or during a show such as advertising, printing, security, transportation, etc. is considered part of the indirect and induced spending that is generated by Hippodrome Theatre operations.

In addition, cast and crew members involved in various productions from out-of-town generate spending on lodging, food/beverage, retail, entertainment, and transportation. As with attendee spending, the estimated event producer spending amounts reflect those items assumed to be purchased outside the Hippodrome Theatre. Based on data from various primary and secondary research including surveys with production companies representing Broadway shows, an estimate of producer personnel per event attendee was calculated. Different spending amounts were allocated to local and overnight cast and crew members and producer personnel spending.

Hippodrome Theatre Operations – This category refers to operating expenses generated by Hippodrome Theatre operations such as salaries, wages and labor, other personnel costs, contractual services, materials and supplies, equipment, etc. as well as capital outlay. Based on information provided by facility management, Hippodrome Theatre operating expenses and capital outlay combined were approximately \$16.3 million. Estimates were also made regarding the percentage of these expenditures that occurred in the local and State economies.

Summary of Direct Spending Inputs – Based on this information, the direct spending related to attendees, event producers and cast/crew as well as facility expenditures (including capital outlay) at the Hippodrome Theatre was estimated to be \$14.4 million at the State level, of which \$13.3 million was estimated to occur in the City. These direct spending estimates were applied to the multipliers previously discussed to calculate estimates for total output, total jobs, and total earnings.

Indirect and Induced Impacts

Based on the IMPLAN model, indirect and induced spending generated by Hippodrome Theatre operations was estimated to generate \$12.0 million at the State level, of which \$6.7 million was estimated to occur in the City.

Total Output

Outputs from the IMPLAN model indicate that total spending (i.e. direct, indirect and induced) from Hippodrome Theatre operations in FY 2019 was estimated to be \$26.4 million at the State level, of which \$20.0 million was estimated to occur in the City.

Total Jobs

Based on the IMPLAN model, which calculates the number of jobs per \$1.0 million in direct spending, the economic activity associated with Hippodrome Theatre operations in FY 2019 was estimated to generate 220 total jobs at the State level, of which 170 jobs were estimated to be at the City level. These jobs are created in many sectors of the economy, which both directly and indirectly support the increased level of business activity in the area.

Total Earnings

Outputs from the IMPLAN model indicate that Hippodrome Theatre operations in FY 2019 were estimated to support \$10.8 million in total earnings at the State level, of which \$8.6 million was estimated to occur in the City.

Estimated Tax Revenues from Hippodrome Theatre Operations

As summarized in the table below, total tax revenues related to Hippodrome Theatre operations in FY 2019 were estimated to be \$0.4 million at the City level and \$1.7 million at the State level. Approximately 81% of estimated tax revenues occur at the State level which was primarily driven by sales and use tax.

Estimated Tax Revenues Generated from Hippodrome Theatre Operations - FY 2019	
Entity	Amount
City of Baltimore	\$388,000
State of Maryland	\$1,683,000
GRAND TOTAL	\$2,071,000

The following provides a description of the taxes estimated in this analysis.

City of Baltimore Taxes

Hotel Room Tax – The City of Baltimore levies a hotel tax of 9.5% on all gross amounts of money paid to the owners or operators of hotels in the City by transient guests or tenants for renting, using or occupying a room or rooms in those hotels for sleeping accommodations. The hotel room tax does not include State sales tax.

Local Personal Income Tax – The City of Baltimore imposes a local personal income tax of 3.2% which is calculated as a percentage of taxable income. For purposes of this analysis and based on information provided by the Comptroller of Maryland, an effective tax rate was calculated and applied to a portion of total earnings at the local level. Because local income tax is based on where a person lives, not where a person works, only a portion of the personal income taxes generated by operations of the Hippodrome Theatre occurs in the City of Baltimore.

Parking Tax – The parking tax is a local tax collected by the State Comptroller’s Office for local municipalities based on the gross amount paid for occupying a parking space. The parking tax rate is currently 20% in the City of Baltimore.

State of Maryland Taxes

Corporate Income Tax – A corporate income tax of 8.25% of corporate federal taxable income adjusted by State modifications is also levied by the State of Maryland on corporations. For purposes of this analysis and based on information provided by the Comptroller of Maryland, an effective tax rate was calculated and applied to a portion of total output at the State level.

Personal Income Tax – The State of Maryland imposes a personal income tax assessed against personal income earned in the State. The State income tax is a graduated rate ranging from 2.0% to 5.75% of taxable income. Non-residents are subject to a special nonresident tax rate of 1.75% in addition to the State income tax rate. For purposes of this analysis and based on information provided by the Comptroller of Maryland, an effective tax rate was calculated and applied to a portion of total earnings at the State level.

Sales and Use Tax – The State of Maryland collects 6% sales and use tax from sales and leases of tangible personal property and services throughout the State and a 9% tax on alcoholic beverages. For purposes of this analysis, the 6% tax rate is applied to estimated taxable spending at the State level generated by Hippodrome Theatre operations which represents a conservative estimate relative to the sale of alcoholic beverages.

Ticket Surcharge – The MSA imposes a \$2 statutory ticket surcharge on each paid admission to Hippodrome Theatre events. The surcharge is remitted to the State and used for bond repayment. For purposes of this analysis, the ticket surcharge reflects the actual amount paid based on data provided by the MSA.

Summary

The Hippodrome Theatre is a unique business entity that generates significant economic activity to downtown Baltimore and the State of Maryland. In FY 2019, the Hippodrome Theatre hosted 123 performances that attracted 204,480 in total attendance which was estimated to generate direct spending of approximately \$13.3 million in the City and \$14.4 million in the State (including the City). Outputs from the IMPLAN model indicate that Hippodrome Theatre operations in FY 2019 generated total output (i.e. direct, indirect and induced impacts) of approximately \$20.0 million in the City and \$26.4 million in the State (including the City). This spending was estimated to support approximately 220 total jobs and \$10.8 million in total earnings in the State. In addition, these transactions were subject to taxes that were estimated to generate \$2.1 million in FY 2019 including \$1.7 million at the State level.

In FY 2019, the State's investment in the Hippodrome Theatre was approximately \$1.8 million which included contributions towards debt service and utilities. The estimated tax revenues generated from Hippodrome Theatre operations at the State level resulted in a nearly break-even ratio of fiscal benefits to costs for the State.