



Committee: Directly to Council
Committee Review: N/A
Staff: Gene Smith, Legislative Analyst
Purpose: Final action – vote expected
Keywords: Economic Development, Conference Center

AGENDA ITEM #5
January 19, 2021
Action

SUBJECT

Special appropriation to the County Government's FY21 Operating Budget, Conference Center Non-Departmental Account, \$2,500,000

EXPECTED ATTENDEES

None

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- N/A

DESCRIPTION/ISSUE

The Executive requests this special appropriation to support operating expenses of the Montgomery County Conference Center (see ©1-4). The Council previously approved a \$1.5 million appropriation to address any revenue shortfalls in July 2020. Due to the pandemic, another appropriation is required. The County owns the property jointly with the State, and the management agreement with Marriott requires that the County cover operating losses in an event the property does not generate a profit.

SUMMARY OF KEY DISCUSSION POINTS

- Since its opening in 2004, the County has received a profit from the center's operations. Most years, the profit is in the range of \$1.4 million to \$1.9 million per the Executive's transmittal.
- The Conference Center's operations are restricted due to State and County health regulations. Based on the current health conditions, the Conference Center continues to estimate a loss through the first half of 2021 (see ©4).
- The PHED Committee reviewed the first appropriation in July 2020 (see ©5-7).
- This item is going directly to the Council because the PHED Committee reviewed similar materials in July 2020. Most of these materials are unchanged, expect for the need of the County to continue to meet its obligations.

This report contains:

Executive transmittal	© #1
Proposed resolution	© #2-3
Conference Center Budget Forecast 2021 Q1 and Q2	© #4
Council staff memo for July 2020 appropriation	© #5-7

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OFFICES OF THE COUNTY EXECUTIVE


Marc Elrich
County Executive

Richard S. Madaleno
Chief Administrative Officer

MEMORANDUM

December 3, 2020

TO: Tom Hucker, Council President

FROM: Marc Elrich, County Executive 

SUBJECT: Special Appropriation #21-506 to the FY21 Operating Budget
Montgomery County Government
Office of the County Executive, Business Advancement Team
Montgomery County Conference Center Non-Departmental Account, \$2,500,000

I am recommending a special appropriation to the Fiscal Year 2021 Operating Budget of the Conference Center Non-Department Account, administered by the Business Advancement Team in the Office of the County Executive, in the amount of \$2,500,000 to support the working capital needs of the Montgomery County Conference Center, from the general fund. These funds will provide for nominal essential operating expenses for the Conference Center until it can re-open, return to profitability and resume contributing its net profits back to the County's general fund.

The Conference Center has been closed due to the COVID19 pandemic and has no revenue due to the cancellation of events through December 2020 and well into 2021. The Conference Center currently has sufficient cash on hand to cover expenses through December 31, 2020.

I recommend that the County Council approve this special appropriation in the amount of \$2,500,000 and specify the source of funds as general funds. This special appropriation will reduce County General Government Fund Reserves by \$2,500,000 and is consistent with the fund balance policy for tax supported reserves. These funds were assumed in my March transmittal of the FY21 budget.

I appreciate your prompt consideration of this action.

ME:rs

Attachment: Special Appropriation #21-506

c: Tina Benjamin, Director, Business Advancement Team
Jennifer Bryant, Acting Director, OMB
Dave Kunes, Chief of Staff to Council President

Resolution No.: _____
Introduced: December 8, 2020
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: Council President at the Request of the County Executive

SUBJECT: Special Appropriation to the FY 2021 Operating Budget, Montgomery County Government, Conference Center Non-Departmental Account, \$2,500,000

Background

1. Section 308 of the Montgomery County Charter provides that a special appropriation: (a) may be made at any time after public notice by news release; (b) must state that the special appropriation is necessary to meet an unforeseen disaster or other emergency or to act without delay in the public interest; (c) must specify the revenues necessary to finance it; and (d) must be approved by no fewer than six members of the Council.
2. The County Executive has requested the following FY21 special appropriation for the Conference Center Non-Department Account:

<u>Personnel Services</u>	<u>Operating Expenses</u>	<u>Capital Outlay</u>	<u>Total</u>	<u>Source of Funds</u>
\$0	\$2,500,000	\$0	\$2,500,000	General Fund Undesignated Reserve

3. The special appropriation is needed to fund essential costs of the Conference Center until it can reopen. It has been closed due to the COVID19 pandemic and has no revenue due to the cancellation of events through December 2020. The Conference Center currently only has sufficient cash on hand to cover expenses through December 31, 2020.
4. The County Executive has requested a special appropriation to the FY 2021 Operating Budget in the amount of \$2,500,000 for the Conference Center Non-Departmental Account, administered by the Business Advancement Team in the Office of the County Executive. The source of funds will be the General Fund Undesignated Reserves.
5. Notice of a public hearing was given and a public hearing was held.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

A special appropriation to the FY 2021 Operating Budget for the Conference Center Non-Departmental Account is approved as follows:

<u>Personnel Services</u>	<u>Operating Expenses</u>	<u>Capital Outlay</u>	<u>Total</u>	<u>Source of Funds</u>
\$0	\$2,500,000	\$0	\$2,500,000	General Fund Undesignated Reserve

The County Council declares that this action is necessary to meet an unforeseen disaster or other emergency and that this appropriation is needed to meet that emergency.

This is a correct copy of Council action.

Selena Mendy Singleton, Esq.
Clerk of the Council

2021 Q1 and Q2 Forecast (Worst Case Scenario)

	2021						
	Opening Bal.	Jan	Feb	Mar	Apr	May	Jun
	as of 1.1.2021	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Hotel and Conference Center Status							
Total Revenue		\$10,000	\$10,000	\$17,305	\$60,872	\$75,000	\$77,500
Payroll Expenses		\$160,367	\$160,367	\$165,367	\$162,440	\$165,367	\$165,350
Other Expenses		\$135,250	\$135,250	\$145,290	\$155,500	\$155,500	\$155,500
Gross Operating Profit		-\$285,617	-\$285,617	-\$293,352	-\$257,068	-\$245,867	-\$243,350
Other Deductions - Land Lease & Equipment Lease							
Net House Profit		-\$285,617	-\$285,617	-\$293,352	-\$257,068	-\$245,867	-\$243,350
Accounts Receivable Balance (AR Aging)	\$2,000.00	\$2,000	\$2,000	\$3,000	\$5,000	\$5,000	\$5,000
Net impact to Cash				-\$1,000	-\$2,000		
Accounts Payable (AP Trade Balance)	\$15,000.00	\$15,000	\$15,000	\$20,000	\$20,000	\$20,000	\$20,000
Net impact to Cash				\$5,000			
Advance Deposit	\$450,000.00	\$50,000	\$50,000	\$50,000	\$50,000	\$25,000	\$25,000
Net impact to Cash		-\$400,000				-\$25,000	
Management Fees *Prior Month		\$300	\$300	\$519	\$1,826	\$2,250	\$2,325
Funding to FF&E Reserve *Prior Month					\$3,044	\$3,750	\$3,875
Property/Real Estate Taxes							
Insurance Expense - Prior Month		\$5,783	\$3,925	\$1,403	\$4,027	-\$1,000	\$87
Other 0480 Department Deductions (permits, licenses, etc)		\$1,067	\$1,069	\$1,099	\$941	\$1,099	\$1,099
Sales/Use Tax Payment		\$600	\$600	\$1,038	\$3,652	\$4,500	\$4,650
Cash Flow from Other Deductions		\$7,749	\$5,894	\$4,059	\$13,490	\$10,599	\$12,036
Net Change in Cash		-\$693,366	-\$291,511	-\$293,411	-\$272,558	-\$281,466	-\$255,386
Beginning Operating Cash - Excludes FFE Cash Includes Safe Cash		\$50,000	-\$718,366	-\$1,059,877	-\$1,453,289	-\$1,775,847	-\$2,157,313
Net Change in Cash		-\$693,366	-\$291,511	-\$293,411	-\$272,558	-\$281,466	-\$255,386
Available Operating Cash		-\$643,366	-\$1,009,877	-\$1,353,289	-\$1,725,847	-\$2,057,313	-\$2,412,699
Major Repairs Expenses/ FF&E Expenses		\$75,000	\$50,000	\$100,000	\$50,000	\$100,000	\$100,000
Intercompany Impact		\$0	\$0	\$0	\$0	\$0	\$0
Distributions		\$0	\$0	\$0	\$0	\$0	\$0
Working Capital funding from Ownership		\$0	\$0	\$0	\$0	\$0	\$0
Ending Cash Balance		-\$718,366	-\$1,059,877	-\$1,453,289	-\$1,775,847	-\$2,157,313	-\$2,512,699

MEMORANDUM

July 22, 2020

TO: Planning, Housing, and Economic Development (PHED) Committee

FROM: Gene Smith, Legislative Analyst

SUBJECT: Special appropriation for the Conference Center

PURPOSE: Make recommendation for the Council

Those expected for this worksession:

Tina Benjamin, Office of the County Executive (CEX)
Ruth Semple, CEX
David Childs, General Manager, Bethesda North Marriott Hotel and Conference Center
Anjan Kar, Finance Director, Bethesda North Marriott Hotel and Conference Center

The PHED committee will review and make a recommendation on the special appropriation introduced on July 7, 2020 to provide funding for the operations of the Bethesda North Marriott Conference Center (the “Conference Center”) (see ©1-4). A public hearing was held on July 21, 2020 for this appropriation.

Background

The Conference Center was created to drive local economic development by creating a venue for large gatherings. It is a public-private partnership that includes the County, State, and Marriott. The County is a co-owner of the property with the State – the State purchased the bonds to finance the project. Marriott manages the operations of the Conference Center.

The Conference Center opened in 2004. The County, as an owner, is responsible for addressing the financial obligations of the Conference Center’s operations. The result of this obligation is that the County receives the Conference Center’s profit in years one is generated and must cover operating losses in the years it is unable to produce a profit. **The Conference Center has generated a profit every year, except the current one since it opened.** The table below details the transfers to the County, net any contributions to the Conference Center’s

reserves, from FY05-FY20. The actual loss is displayed for FY20, not the amount that was deposited into the County’s General Fund.

	Profit	Ground Lease	
FY05	\$1,946,519	\$125,000	
FY06	\$1,605,167	\$125,000	
FY07	\$1,159,812	\$125,000	
FY08	\$1,660,900	\$319,100	
FY09	\$903,362	\$319,104	
FY10	\$1,081,182	\$319,103	
FY11	\$1,268,712	\$319,104	
FY12	\$1,038,635	\$319,100	
FY13	\$1,247,374	\$345,692	
FY14	\$1,257,918	\$319,100	
FY15	\$1,688,878	\$319,100	
FY16	\$1,815,026	\$319,100	
FY17	\$1,553,311	\$319,100	
FY18	\$2,185,367	\$319,100	
FY19	\$2,133,024	\$319,100	
FY20	(\$74,646)	\$292,508	Total
Total	\$22,470,541	\$4,523,311	\$26,993,852

The Conference Center closed in March 2020 per the State’s health regulations to prevent the spread of COVID-19. **The management team immediately addressed the shutdown by reducing expenses to only those necessary to maintain the property.** The Conference Center remains closed because the County’s phased reopening has not progressed to the point that would allow it to reopen. The Conference Center’s business model is based on gathering large groups of individuals in-doors. Based on the guidance of health officials for in-door gatherings, businesses like the Conference Center will be some of the last to reopen.

The Conference Center will continue to operate at a loss until it reopens, and there are enough bookings (i.e., customers) to offset operating expenses. **Based on the County’s reopening progress in early-July, the management team estimates that the Conference Center will begin generating a profit in fourth quarter of 2020.** The Conference Center contributes 20% of any monthly profits to a reserve fund to cover operating expenditures for the occasional lean month. The management team has already drawn \$1.2 million from those reserves to cover current operating losses through the summer.

FY21 Special Appropriation

The Executive requested that the Council approve a \$1,500,000 special appropriation for the Conference Center to address the operating losses through the first and second quarter of FY21. **The appropriation will be disbursed to the Conference Center based on actual losses, and disbursements may be on a monthly or quarterly basis.** Any funding that is not used this fiscal year will return to the General Fund at the beginning of FY22. Executive staff notes that the appropriation request is for the remainder of the calendar year 2020. A continuation of the

gathering restrictions or tightening of restrictions if there is a surge in the fall may require another appropriation because the Conference Center remains closed longer than anticipated.