

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 the 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.

This packet contains:

Executive memorandum
Proposed resolution

Circle #

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OFFICES OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

Andrew Kleine
Chief Administrative Officer

MEMORANDUM

July 1, 2020

TO: Sidney Katz, President, County Council

FROM: Marc Elrich, County Executive 

SUBJECT: Special Appropriation #21-473 to the FY21 Operating Budget
Montgomery County Government
Office of the County Executive, Business Advancement Team
Montgomery County Conference Center Non-Departmental Account, \$1,500,000

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 \$1,500,000 to support operational needs of the Montgomery County Conference Center. 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 was jointly financed, developed, and is owned by the County and the State of Maryland. The State's ownership interest in the facility will revert to the County when its debt is retired; however, its operating costs and profits have always rested with the County. The Conference Center is managed on behalf of Montgomery County by Marriott Hotel Services Inc., pursuant to a Management Agreement. Since opening in 2004, the Montgomery County Conference Center has always generated an annual profit, funds that have flowed into the General Fund. Historically, the Conference Center has earned an annual profit for Montgomery County of \$1.4 million - \$1.9 million.

Due to the COVID19 pandemic, the Conference Center has been closed (along with the adjoining hotel) and unable to generate revenue. Currently all meetings in the facility have been cancelled through August. During this time, Conference Center operating expenses have been and are being paid from its Reserve Fund which is projected to last through July 31, 2020.

Sidney Katz, President, County Council
July 1, 2020
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The \$1.5 million Special Appropriation will provide for an infusion of working capital to cover minimal expenses for a continued worst-case scenario through the end of the calendar year. Currently, the Conference Center is projected to return to normalcy in October, assuming the events currently on the books for September and October are not cancelled. The \$1.5 million will be disbursed to Marriott for Conference Center operations on a monthly or quarterly basis, as needed, until normal operations return. It is important to note that these funds will be repaid to the County through monthly operating revenues when ultimately earned. Both the provision of operating funds and the repayment of these funds are incorporated in the existing Management Agreement.

Conference Center expenses have been curtailed to a bare minimum and staff has been significantly reduced. All non-essential operating expenses have also been suspended.

The current closure of the Conference Center/Hotel and its resulting cash-flow needs is not unique. Thirteen of fifty-four hotel properties in the County are currently closed. The Conference Center, being a site for large group gathering at a time when group size is limited, is being particularly negatively impacted. The federal government's moratorium on travel and meetings is also affecting the facility.

As the largest meeting facility in our community, the Montgomery County Conference Center serves our business community and hosts many groups from outside the County. It is an essential component of our tourism program and events (meetings) industry. We are confident its profitability will resume as the local and national economic condition improves. The Special Appropriation requested is critical to the maintenance and preservation of this highly successful County asset that provides revenue to the County, supports the local and visiting business community, supports the federal meeting and travel industry and is a valuable economic development tool.

I recommend that the County Council approve this special appropriation in the amount of \$1,500,000 and specify the source of funds as General Fund Undesignated Reserves. This special appropriation will reduce County General Government Fund Reserves by \$1,500,000 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 #21-473

c: Tina Benjamin, Director, Business Advancement Team
Richard S. Madaleno, Director, Office of Management and Budget
Lisa Mandel-Trupp, Chief of Staff, Council President's Office

Resolution No.: _____
Introduced: July 7, 2020
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

Lead Sponsor: 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, \$1,500,000

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	\$1,500,000	\$0	\$1,500,000	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 August 2020. The Conference Center currently only has sufficient cash on hand to cover expenses through July 31, 2020.
4. The County Executive has requested a special appropriation to the FY 2021 Operating Budget in the amount of \$1,500,000 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. The public was notified by a news release.

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	\$1,500,000	\$0	\$1,500,000	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