

ECON Committee #4
May 1, 2023
Worksession

M E M O R A N D U M

April 26, 2023

TO: Economic Development Committee
FROM: Dr. Costis Toregas, Council IT Adviser
SUBJECT: **FY24 Operating Budget: Conference Center Non-Departmental Account (NDA)**
PURPOSE: Review and make recommendation to the Council

Those expected for this worksession:

Jake Weissman, Assistant Chief Administrative Officer (CAO)
Gene Smith, Business Center Manager
Dereese Bikila, Program Manager, Economic Development Programs
Julie Knight, Office of Management and Budget (OMB_

Attachments

- ©1 FY24 Recommended Budget for Conference Center NDA
- ©2 CY23 Conference Center budget

Summary of FY23 Recommended Budget – Conference Center NDA

	FY23 Approved	FY24 CE Recommended	Change from FY23 Approved
General Fund	\$525,895	\$602,195	14.5%
Personnel Costs	\$110,158 1.00 FTEs	\$136,458 1.00 FTEs	21.1% 0%
Operating Costs	\$415,737	\$465,737	12.0%
Total Expenditures (All Funds)	\$525,895 1.00 FTEs	\$602,195 1.00 FTEs	14.5% 0.0%

See the Executive’s recommendation on ©1. The FY24 budget is expected to increase by \$76,300 compared to FY23. This increase is made of the following elements:

1. The County requires a biennial management audit, which increases or decreases the budget by \$50,000 every other year; FY24 is an “on year” to conduct the audit which is required, so it shows as an increase. As it is part of the overall management needs of the Conference Center and happens on a biannual cycle, it should not be seen as an increase but an annual requirement that is enforced and paid every other year.
2. Compensation adjustment of \$5,416
3. Multi-program adjustments of \$20,884

Since comp adjustments and multi-program adjustments are dealt across the board as enterprise adjustments, the budget for the Conference Center can be seen as a same services budget including the required biannual audit.

Council staff recommends **approval of this Recommended NDA at the level of \$602,195** as recommended by the Executive.

Background and Analysis

Marriott is the manager of the Conference Center per the County’s Management Agreement, and Marriott operates the center on a calendar year basis, not the County’s fiscal year. Marriott provides financial and operational updates on a quarterly basis to the Management Committee, which includes the County (both Executive and Council staff). In order to understand the expectations of our private sector partner in FY24, a request was made for the CY23 proposed budget for the Conference Center; this budget is provided as ©2.

The NDA funds expenditures for:

- One full-time position to manage the operation and fiscal oversight of the Conference Center;
- Non-routine repairs, alterations, improvements, renewals, and replacements; and

- The designated reserve required by the management agreement.

Funding is also included to reimburse the contractor (Marriott) for costs not covered by operations during accounting periods where losses occur. These costs are offset by contractor payments to the County during accounting periods with operating gains.

A. Expenditures

Previous fiscal year expenditures for this NDA have fluctuated based on the County’s personnel costs and the management audit. During the pandemic, there was also little fluctuation in the annual appropriation through the operating budget for this NDA. The Council, however, did approve several special appropriations during the pandemic. The additional appropriation was required to cover operating deficits, as required by the management agreement.

The Council provided a special appropriation of \$1.92m in 2020 to help balance the Covid impacts on the Conference Center. The entire amount has been disbursed, per the management agreement, to address operating losses during 2020-2022.

B. Revenue

Revenues consisting of net operating income from the Conference Center and land rent from the hotel (net of contributions to the capital reserve) are deposited into the general fund. Twenty percent of the County's net proceeds from Conference Center operations is retained for investment in marketing and facility improvements to increase Conference Center usage. All proposed investment expenditures are reviewed and approved by the Conference Center Management Committee.

The table below details these revenues and debt service payments for the Conference Center and was last updated for the FY23 budget review. Debt payments include bond series for purchasing the site and construction; final payment date is in FY23. Table 1 below details the debt service payments, operating profit (loss), and ground lease payments since inception. This table does not include \$5.92 million in special appropriations in FY21 and FY22.

Table 1: Conference Center – Select County Transactions FY99-FY23 Rec.

	Debt Payments	Profit	Ground Lease
FY99-04	\$5,629,096	-	-
FY05	\$1,904,509	\$1,946,519	\$125,000
FY06	\$1,901,051	\$1,605,167	\$125,000
FY07	\$2,211,269	\$1,159,812	\$125,000
FY08	\$2,216,061	\$1,660,900	\$319,100
FY09	\$2,490,519	\$903,362	\$319,104
FY10	\$1,903,289	\$1,081,182	\$319,103
FY11	\$1,901,647	\$1,268,712	\$319,104
FY12	\$1,903,886	\$1,038,635	\$319,100
FY13	\$309,649	\$1,247,374	\$345,692
FY14	\$645,334	\$1,257,918	\$319,100

FY15	\$981,134	\$1,688,878	\$319,100
FY16	\$985,034	\$1,815,026	\$319,100
FY17	\$988,534	\$1,553,311	\$319,100
FY18	\$986,634	\$2,185,367	\$319,100
FY19	\$989,434	\$2,441,577	\$319,100
FY20	\$991,834	\$1,365,219	\$319,100
FY21	\$987,709	(\$2,579,691)	\$345,692
FY22 Est.	\$991,000	(\$108,673)	\$319,100
FY23 Rec.	\$991,000	\$1,000,000	\$319,100
Total	\$31,908,623	\$22,530,595	\$5,533,795

Source: OMB, FY01-FY23 Budget books; Finance.

In order to understand FY23 performance and expectations for FY24, Council staff asked the following questions:

1. With Covid impacts on conferences receding nationally, has there been a residual stress on the profit potential of the Conference Center? In FY23, the estimated revenue expectation was a net \$1m operating profit.

The Executive response is as follows:

The Conference Center operations continue to improve as individuals and corporations increase booked events post-pandemic. The previous net operating profit is still reasonable. Based on current trends, the net operating profit is likely it will be greater than estimated in FY23.

2. The Conference Center bond payments are now completed. In order to clarify the situation and its long-term impact, Council Staff asked the Executive to confirm that the bond payments are finished, as they were expected to be paid off in FY23. Does this mean that next year's budget will have a significant reduction?

The Executive response is as follows:

Yes, the bonds are paid off for the Montgomery County Revenue Authority. The expenditures for these bonds are included in the Debt Service budget as Long-term expenditures. The repayment of these bonds will not impact the recommended appropriation in this NDA.

Maryland Tourism Development Board. The CVB operates on contract with the Department of Finance. Funding is based on seven percent of the total hotel/motel tax revenues.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	2,132,834	0.00
Increase Cost: Three Percent Inflationary Adjustment for Conference and Visitors Bureau	63,985	0.00
FY24 Recommended	2,196,819	0.00

☼ Conference Center

Prior to FY06, the Conference Center NDA primarily provided for pre-opening expenses. Since the Conference Center opened in November 2004, the NDA has expanded its scope to fund:

- a full-time position to manage the operational and fiscal oversight of the Conference Center complex;
- non-routine repairs, alterations, improvements, renewals, and replacements; and
- the designated reserve required by the management agreement with Marriott International, Inc.

Funding is also included to reimburse the contractor for costs not covered by operations during accounting periods when losses occur. These costs will be offset by contractor payments to the County during accounting periods with operating gains. To ensure fiscal and operational accountability, a management audit is conducted every two years and the program budget is increased by \$50,000 during the year such audit is scheduled. Revenues consisting of net operating income from the Conference Center and land rent from the hotel are deposited into the general fund. Twenty percent of the County's net proceeds from Conference Center operations is retained for investment in marketing and facility improvements to increase Conference Center usage. All proposed investment expenditures are reviewed and approved by the Conference Center Management Committee.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	525,895	1.00
Increase Cost: Conference Center - Biannual Management Audit	50,000	0.00
Increase Cost: FY24 Compensation Adjustment	5,416	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	20,884	0.00
FY24 Recommended	602,195	1.00

☼ Consolidated Retiree Health Benefit Trust - College

This NDA provides consolidated funding for Montgomery College's contribution to the Retiree Health Benefits Trust.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	1,704,000	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	(1,704,000)	0.00
FY24 Recommended	0	0.00

☼ Consolidated Retiree Health Benefit Trust - MCPS

This NDA provides consolidated funding for Montgomery County Public Schools' contribution to the Retiree Health Benefits Trust.

FY24 Recommended Changes	Expenditures	FTEs
FY23 Approved	57,424,677	0.00
Multi-program adjustments, including negotiated compensation changes, employee benefit changes, changes due to staff turnover, reorganizations, and other budget changes affecting multiple programs.	4,826,795	0.00
FY24 Recommended	62,251,472	0.00

☼ County Associations

This NDA funds Montgomery County membership dues to the National Association of Counties (NACo) and the Maryland Association of

2023 Budget - MoCo (David/Kevin)

Budget P&L -MoCo 2023	2023 Budget	2022	2019	Var. ('23 vs '22)	Var. ('23 vs '19)
Revenue					
Restaurants	\$2,452,297	\$1,919,013	\$2,300,595	\$533,284	\$151,702
Event Technology	\$2,011,346	\$1,307,347	\$3,808,077	\$703,999	(\$1,796,731)
Banquets	\$12,613,319	\$10,489,126	\$14,753,945	\$2,124,193	(\$2,140,626)
Garage & Misc. Income	\$770,182	\$617,029	\$539,452	\$153,153	\$230,730
Total Sales	\$17,847,144	\$14,332,515	\$21,402,069	\$3,514,629	(\$3,554,925)
Gross Operating Profit	\$3,955,953	\$3,382,443	\$5,849,314	\$573,510	(\$1,893,361)
GOP%	22.2%	23.6%	27.3%	-1.4%	-5.2%
Fee To Marriott	\$1,028,177	\$834,307	\$1,534,018	\$193,870	(\$505,841)
Other Owner Expenses	\$60,693	\$75,416	\$68,832	(\$14,723)	(\$8,139)
FF&E Reserve 5%	\$892,357	\$716,626	\$1,070,103	\$175,731	(\$177,746)
20% Reserve	\$382,452	\$384,507	\$682,470	(\$2,055)	(\$300,018)
Net distribution to MoCo	\$1,592,274	\$1,371,587	\$2,493,890	\$220,687	(\$901,617)