

ECONOMIC DEVELOPMENT DEPARTMENT

CITY OF SACRAMENTO

June 8, 2005

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Approval of the amended 2005 Sacramento Hotel Corporation budget

LOCATION AND COUNCIL DISTRICT: Council District 1

RECOMMENDATION:

Staff recommends that the Sacramento City Council approve the attached Resolution that authorizes the Sacramento Hotel Corporation (SHC) to adopt the amended 2005 budget (Attachment 1). The City Council has the authority to approve the adoption of the SHC budget on an annual basis.

CONTACT PERSON: Micah Runner, Economic Development, 808-5448

FOR COUNCIL MEETING OF: June 21, 2005

SUMMARY: On December 7, 2004 staff presented the 2005 SHC budget for approval. In January of 2005 the Sheraton Grand amended its budget for the 2005 year per a request from the Parent company, Starwood Inc., and on March 1, 2005 the City Council approved the amended budget. In the SHC's monthly review of operations there were some conflict between the budget approved on March 1, 2005 and the budget provided by the Management team (PMB LLC). To make sure the Sacramento Hotel Corporation uses the most accurate budget, the Board recommended that staff resubmit the 2005 SHC budget to City Council for approval of the amended budget.

In the approved budget the hotel net operating income was \$7,255,736 while the amended budget has a net operating income of \$7,046,463. The approved

budget for the garage net operating income was \$1,702,661 and the amended budget is \$1,713,571. This is a decrease in the overall income for the SHC of approximately \$200,000, however this does not substantially impact operations and the Sheraton Grand is projected to meet its debt coverage ratio requirement for the first time since opening.

COMMITTEE/COMMISSION ACTION: None

BACKGROUND INFORMATION:

In the Corporation Bylaws, section XI, Section (3) (a), the City Council is responsible for two items: (1) Approving appointees to the Sacramento Hotel Corporation Board and (2) Approving the Hotel Corporation Budget on an annual basis.

The SHC fiscal year is January to December. The Corporation Board is required to submit the annual budget to the City Council prior to the beginning of each fiscal year. On November 18, 2004 the Hotel Corporation Board unanimously approved the 2005 budget to be presented to the City Council for approval. On January 27, 2005 the Board of Directors learned there were changes to the 2005 budget by the Sheraton Grand the Board then directed staff to submit the amended 2005 SHC budget to the City Council for approval. On March 1, 2005 the City Council approved the amended budget. The proposed budget is less than the cash flow outlined in the Offering Memorandum.

The Sacramento Hotel Corporation continues to contract with PKF Consulting to provide us with the most current hotel industry analysis. According to PKF, 2005 is expected to be a down year for group business because of the low booking numbers for the Sacramento Convention Center for the 2005 operating year. However, some of the shortfall in group business is expected to be made up by additional transient business. Management is pleased with the increase in the transient business in 2005 compared to 2004. The Manager (PMB LLC) is confident that the 2005 budget represents a realistic budget for the 2005 operating year.

Upon Council approval of the Resolution to approve the 2005 Hotel Corporation budget, the Corporation Board will adopt the City Council approved 2005 budget at the next SHC Board Meeting.

FINANCIAL CONSIDERATIONS:

Approval of the Amended 2005 SHC budget does not fiscally impact the City of Sacramento. Based upon this budget, the SHC will continue to make all required debt service payments.

ENVIRONMENTAL CONSIDERATIONS:

This activity is not considered a project as defined by Section 15378 of the California Environmental Quality Act (CEQA) guidelines. The activity involves no physical construction of commitment to particular projects and has no potential to cause a significant impact on the environment (CEQA Section 15061 (b)(3)).

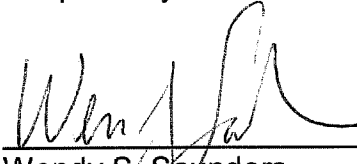
POLICY CONSIDERATIONS:

The Board of Directors of the Sacramento Hotel Corporation approved the proposed 2005 budget at their meeting on November 18, 2004. On January 27, 2005 the Board of Directors directed staff to submit the amended 2005 SHC budget to the City Council for approval.

ESBD CONSIDERATIONS:

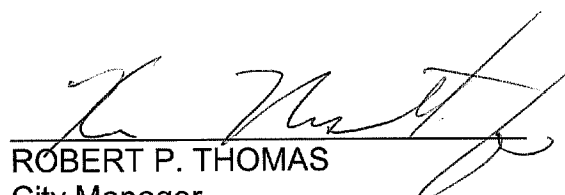
Not applicable as no goods or services are being purchased at this time.

Respectfully submitted,



Wendy S. Saunders
Economic Development Director

RECOMMENDATION APPROVED:



ROBERT P. THOMAS
City Manager

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RESOLUTION NO. _____

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON THE DATE OF _____

**AUTHORIZING THE ADOPTION
OF THE 2005 HOTEL CORPORATION BUDGET**

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO THAT:

The proposed 2005 operating budgets, as presented (Exhibit A), are approved for the final adoption of the Sacramento Hotel Corporation Board of Directors

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

**Sacramento Hotel Corporation
2005 Operating Budget**

Exhibit A

	<u>Budget</u>	<u>Offering Memorandum</u>
Hotel operations		
Net operating income	<u>7,046,463</u>	<u>7,785,000</u>
Garage operations		
Net operating income	<u>1,713,571</u>	<u>1,186,000</u>
Administration		
Total costs	<u>(177,800)</u>	<u>(106,000)</u>
Debt service payments		
Total Principal and Interest	<u>(6,000,000)</u>	<u>(6,000,000)</u>
Misc reserve transactions		
Garage lease payment	<u>(250,000)</u>	<u>(250,000)</u>
Subordinate management fee	<u>(584,430)</u>	<u>(595,000)</u>
Emergency expense	<u>(1,925,491)</u>	<u>(1,724,208)</u>
Cash Trap Fund	<u>(2,759,921)</u>	<u>(721,017)</u>
	<u>(2,759,921)</u>	<u>(3,290,225)</u>
Debt reserves transactions		
Supplemental senior debt reserve	<u>(387,501)</u>	<u>(387,500)</u>
Interest earnings	<u>565,188</u>	<u>812,725</u>
	<u>177,687</u>	<u>425,225</u>
Net activity	<u>0</u>	<u>0</u>
 Debt Service Coverage		
Total debt service coverage	<u>1.52</u>	<u>1.61</u>
Requirement	<u>1.30</u>	<u>1.30</u>
 Hotel debt service coverage	<u>1.17</u>	<u>1.30</u>
Requirement	<u>1.15</u>	<u>1.15</u>