



## REPORT TO THE CITY COUNCIL City of Sacramento

915 I Street, Sacramento, CA 95814-2604  
www. CityofSacramento.org

Consent  
February 06, 2007

**Honorable Mayor and Members of the City Council**

**Title:** Approve Sacramento Hotel Corporation 2007 Operating Budget

**Location/Council District:** Convention Center Hotel, Council District 1

**Recommendation:**

Adopt a **Resolution**, approving the Sacramento Hotel Corporation 2007 Operating Budget, attached hereto as Exhibit A.

**Contact:** Nicole York-Johnson, Economic Development, 808-8646; Clark Johnson, Accounting, 808-5058

**Presenters:** None

**Department:** Economic Development

**Division:** Downtown Development

**Organization No:** 4451

**Description/Analysis**

**Issue:** The Sacramento Hotel Corporation's fiscal year is from January 1<sup>st</sup> to December 31<sup>st</sup>. The Corporation's Board of Directors is required to submit an annual budget to the City Council prior to the beginning of each fiscal year.

**Policy Considerations:** The Board of Directors of the Sacramento Hotel Corporation approved the proposed 2007 Operating Budget at its meeting on December 8, 2006.



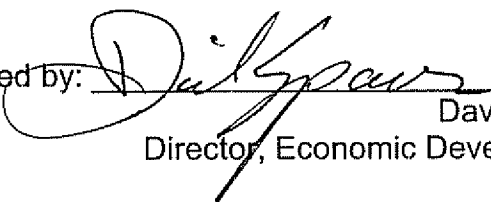
**Environmental Considerations:** This activity is not considered a project as defined by Section 15378 of the California Environmental Quality Act (CEQA) guidelines.

**Rationale for Recommendation:** The Sacramento Hotel Corporation Bylaws state in Section XI, Section (3)(a), that 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.

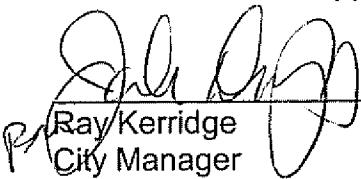
**Financial Considerations:** Approval of the 2007 Sacramento Hotel Corporation Operating Budget or any subsequent amendments does not fiscally impact the City of Sacramento. According to the 2007 budget, the Corporation will be up-to-date on its Series B Bond Debt Service.

**Emerging Small Business Development (ESBD):** Not applicable as no goods or services are being purchased.

Respectfully Submitted by:   
Nicole York-Johnson  
Administrative Officer

Approved by:   
David Spaur  
Director, Economic Development

Recommendation Approved:

  
Ray Kerridge  
City Manager

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**Attachment 1**

**Sacramento Hotel Corporation**

**Background Information:**

1. The Sacramento Hotel Corporation is a nonprofit public benefit corporation. The Corporation was formed in 1999 for the specific and sole purpose of purchasing, owning, operating, financing, encumbering, maintaining, leasing and selling a full-service convention center hotel in the City of Sacramento.
2. Proceeds from the sale of Series 1999A Bonds were used to make a loan to the Corporation to pay the costs of acquiring the real property and planning, designing, developing, constructing, installing, equipping and opening a full-service, first-class convention center hotel.
3. The Corporation has all of the powers of a natural person, including, without limitation, the power to: adopt, amend and repeal bylaws (with the approval of the City Council); assume obligations; enter into contracts, including contracts of guarantee or suretyship; incur liabilities; borrow or lend money or otherwise use its credit; secure any of its obligations, contracts or liabilities by mortgage; and carry on a business at a profit and apply any profit that results from the business activity to any activity in which it may lawfully engage.
4. The Corporation entered into a Qualified Management Agreement with Public Market Building, LLC (PMB) under which PMB was required to delegate the duties and responsibilities of operating the Hotel to a nationally recognized hotel management company having the experience and qualifications to operate an "upscale" hotel. Accordingly, PMB entered into a Hotel Operating Agreement with Sheraton Operating Corporation, a subsidiary of Starwood Hotel & Resorts Worldwide, Inc.
5. The Corporation Bylaws state in Section XI, Section (3)(a), that 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.
6. The Corporation Board is required to submit an annual budget to the City Council prior to the beginning of each fiscal year. On December 8, 2006, the Hotel Corporation Board unanimously approved the proposed 2007 Operating Budget to be presented to the City Council for approval.

**December 2006 Activities:**

The Sheraton is the largest unionized hotel in the Sacramento area. Recently, the Hotel was successful in concluding labor negotiations with its union workers, resulting in a new three-year agreement.

**RESOLUTION NO.**

Adopted by the Sacramento City Council

**APPROVING THE SACRAMENTO HOTEL CORPORATION  
2007 OPERATING BUDGET**

**BACKGROUND**

- A. The Sacramento Hotel Corporation Bylaws state in Section XI, Section (3)(a), that the Sacramento 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.
- B. The Corporation's Board of Directors is required to submit an annual budget to the Sacramento City Council prior to the beginning of each fiscal year. On December 8, 2006, the Hotel Corporation Board unanimously approved the proposed 2007 operating budget to be presented to the City Council for approval.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL  
RESOLVES AS FOLLOWS:**

- Section 1. The Sacramento Hotel Corporation 2007 Operating Budget as presented in Exhibit A is approved for final adoption.

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Exhibit A – 2007 Operating Budget

Sacramento Hotel Corporation  
 Operating Budget - Summary  
 For the Year Ended 12/31/07

	2007 Offering Memorandum	2006 Estimated Year-End	2007 Proposed Annual Budget	Increase/ Decrease Over 2006	Percent Increase/ Decrease Over 2006
Hotel Net Operating Income	\$ 8,263,000	\$ 8,578,062	\$ 9,825,880	\$ 1,247,818	14.55%
Garage Net Operating Income	\$ 1,221,000	\$ 1,462,091	\$ 1,557,380	\$ 95,289	6.52%
Administration Costs	\$ (112,000)	\$ (181,820)	\$ (188,920)	\$ (7,100)	3.90%
Interest Earnings	\$ 913,760	\$ 807,374	\$ 800,360	\$ 7,014	0.87%
Debt Service	\$ (6,262,500)	\$ (5,993,750)	\$ (6,262,500)	\$ 268,750	-4.48%
Reserve Transactions:					
Garage Lease Payment			(250,000)		
Supplemental Senior Debt Service Reserve			(243,750)		
Subordinate Management Fee			(625,000)		
Subordinate Debt Service Fund			(3,210,210)		
Cash Trap Fund			(1,403,240)		
<b>Net Activity</b>			-		
<b>Debt Service Coverage Ratios:</b>					
<b>Total Debt Service Coverage</b>	1.64	1.78	1.92	0.14	7.60%
<b>Required</b>	1.30	1.30	1.30	-	-
<b>Hotel Debt Service Coverage</b>	1.32	1.43	1.57	0.14	9.72%
<b>Required</b>	1.15	1.15	1.15	-	-

**Sacramento Hotel Corporation  
Operating Budget - Detail  
For the Year Ended 12/31/07**

	2007 Offering Memorandum	2006 Estimated Year-End	2007 Proposed Annual Budget	Increase/ (Decrease) Over 2006	Percent Increase/ Decrease Over 2006
<b>Hotel Operations:</b>					
Revenue	\$ 34,825,000	\$ 33,451,932	\$ 35,252,000	1,800,068	5.38%
Expenses:					
Operating Costs	15,005,000	13,192,150	13,679,000	486,850	3.69%
Administrative expenses and fees	7,699,000	6,515,873	6,608,000	92,127	1.41%
Management Fees	1,313,000	1,279,242	1,269,000	(10,242)	-0.80%
Total Expenses	24,017,000	20,987,265	21,556,000	568,735	2.71%
Available Revenue before Reserves	10,808,000	12,464,667	13,696,000	1,231,333	9.88%
Less Amounts Deposited to Reserves For:					
Hotel Taxes and Insurance	1,152,000	2,544,629	2,460,000	(84,629)	-3.33%
Hotel Replacement FF&E Fund	1,393,000	1,341,976	1,410,120	68,144	5.08%
<b>Hotel Net Operating Income (NOI)</b>	<b>\$ 8,263,000</b>	<b>\$ 8,578,062</b>	<b>\$ 9,825,880</b>	<b>1,247,818</b>	<b>14.55%</b>
<b>Garage Operations:</b>					
Revenue	\$ 2,066,000	\$ 2,569,868	\$ 2,704,140	134,272	5.22%
Expenses:					
Operating Costs	453,000	703,819	682,050	(21,769)	-3.09%
Management Fees	158,000	106,832	149,720	42,888	40.15%
Total Expenses	611,000	810,651	831,770	21,119	2.61%
Available Revenue before Reserves	1,455,000	1,759,217	1,872,370	113,153	6.43%
Less Amounts Deposited to Reserves For:					
Garage Taxes and Insurance	172,000	214,578	233,870	19,292	8.99%
Garage Repair and Replacement	62,000	82,548	81,120	(1,428)	-1.73%
<b>Garage Net Operating Income</b>	<b>1,221,000</b>	<b>1,462,091</b>	<b>1,557,380</b>	<b>95,289</b>	<b>6.52%</b>
Lease Payments	250,000	250,000	250,000		0.00%
<b>Garage NOI After Lease Payments</b>	<b>\$ 971,000</b>	<b>\$ 1,212,091</b>	<b>\$ 1,307,380</b>	<b>95,289</b>	<b>7.86%</b>
<b>Administration Expenses:</b>					
Legal		\$ 5,000	\$ 10,000	5,000	100.00%
Hotel Consultant		26,000	27,000	1,000	3.85%
Accounting		34,320	34,320	-	0.00%
Administrator		60,000	60,000	-	0.00%
Board Stipends		20,000	20,000	-	0.00%
Trustee Fees		12,000	12,000	-	0.00%
Insurance Expenses		9,000	9,000	-	0.00%
Audit Expenses		12,500	13,600	1,100	8.80%
Other Expenses		3,000	3,000	-	0.00%
<b>Total Administrative Expenses</b>	<b>\$ 112,000</b>	<b>\$ 181,820</b>	<b>\$ 188,920</b>	<b>7,100</b>	<b>3.90%</b>

